

Joint Meeting with SEC Staff Held Virtually on July 29, 2020

NOTICE:

The Center for Audit Quality (CAQ) SEC Regulations Committee meets periodically with the staff of the SEC to discuss emerging financial reporting issues relating to SEC rules and regulations. The purpose of the following highlights is to summarize the issues discussed at the meetings. These highlights have not been considered or acted on by senior technical committees of the AICPA and do not represent an official position of the AICPA or the CAQ. As with all other documents issued by the CAQ, these highlights are not authoritative and users are urged to refer directly to applicable authoritative pronouncements for the text of the technical literature. These highlights do not purport to be applicable or sufficient to the circumstances of any work performed by practitioners. They are not intended to be a substitute for professional judgment applied by practitioners.

These highlights were prepared by a representative of CAQ who attended the meeting and do not purport to be a transcript of the matters discussed. The views attributed to the SEC staff are informal views of one or more of the staff members present, do not constitute an official statement of the views of the Commission or of the staff of the Commission and should not be relied upon as authoritative. Users are urged to refer directly to applicable authoritative pronouncements for the text of the technical literature.

As available on this website, highlights of Joint Meetings of the SEC Regulations Committee and the SEC staff are not updated for the subsequent issuance of technical pronouncements or positions taken by the SEC staff, nor are they deleted when they are superseded by the issuance of subsequent highlights or authoritative accounting or auditing literature. As a result, the information, commentary or guidance contained herein may not be current or accurate and the CAQ is under no obligation to update such information. Readers are therefore urged to refer to current authoritative or source material.

I. ATTENDANCE

SEC Regulations Committee	Securities and Exchange Commission	Observers and Guests
Steven Jacobs, Chair Jonathan Guthart, Vice-Chair Todd Castagno Rich Davisson Kendra Decker Fred Frank Marie Gallagher Paula Hamric John May Lisa Mitrovich Dan Morrill Steve Neiheisel Mark Shannon Mary Stone Greg Wright	<i>Staff from the Division of Corporation Finance (Division) and Office of the Chief Accountant</i>	Polia Nair, EY Annette Schumacher Barr, CAQ Observer Carolyn Hall, CAQ Observer

II. ORGANIZATIONAL, PERSONNEL AND PROJECT UPDATES

A. Committee Update

Steven Jacobs announced the following changes to the Committee's membership:

- Mark Shannon will replace Brad Davidson at Crowe's representative.
- Scott Wilgenbusch will replace Rich Davisson as RSM's representative.

Steven acknowledged and thanked Brad and Rich for their many years of dedicated service to the Committee.

B. Financial Reporting Manual (FRM) Update

The staff expects to issue an updated FRM that reflects some recent rulemaking, including the updated definitions of a smaller reporting company (SRC) and large accelerated filer/accelerated filer, the disclosure update and simplification amendments, as well as to update the FRM for the FASB adoption dates for certain new standards and certain other questions that have come up over the last year at the Committee meetings. For example, the FRM will include the staff's expectation as to the professional standards to be applied in issuing the audit opinion on target company financial statements included in filings of special purpose acquisition companies (SPACs). However, the update will not reflect recent amendments to Regulation S-X, including Rules 3-05, 3-10, 3-16, 3-14 and Article 11.

III. CURRENT FINANCIAL REPORTING MATTERS

A. Topic 842 adoption date for a non-emerging growth company in an initial registration statement

The FASB recently issued [Accounting Standards Update \(ASU\) 2020-05, Revenue from Contracts with Customer \(Topic 606\) and Leases \(Topic 842\): Effective Dates for Certain Entities](#), deferring the effective date for *Topic 842* for non-public business entities (non-PBEs) to fiscal years beginning after December 15, 2021. This deferral expands the time period between adoption by public business entities (PBEs) and non-PBEs to three years.

The Committee asked the staff for its views regarding *Topic 842* adoption dates for a company that does not qualify as an emerging growth company (EGC) and completes its initial public offering (IPO) in the second year, or beyond, after the PBE adoption date (e.g., 2020 or later for a calendar year-end company).

The staff indicated their view that an IPO registration statement of a non-EGC should apply the PBE adoption dates for all standards that apply the PBE definition, including *Topic 842*. However,

if an entity believes it has a reasonable basis to support an alternative conclusion under GAAP and SEC rules and regulations, the staff is available for consultation.

B. Financial statement requirements in an S-4 and/or merger proxy for a non-reporting target merging with a public operating company, shell company or SPAC in a reverse merger

The Committee noted that it has observed an increase in the volume of reverse merger transactions where a non-reporting operating company (non-reporting target) merges with a shell company or SPAC. In many of these transactions, the non-reporting target is deemed to be the accounting acquirer. As stated in FRM 2200.1, the determination of the target company follows the legal form of the transaction irrespective of the accounting for the transaction and that target's financial statement requirements in Form S-4 are based on factors including whether it is a reporting or non-reporting company.

As it relates to the adoption of new accounting standards, [ASU 2017-13, Revenue Recognition \(Topic 605\), Revenue from Contracts with Customers \(Topic 606\), Leases \(Topic 840\), and Leases \(Topic 842\), Amendments to SEC Paragraphs Pursuant to the Staff Announcement at the July 20, 2017 EITF Meeting and Rescission of Prior SEC Staff Announcements and Observer Comments](#), permits an entity that qualifies as a PBE solely because its financial statements or financial information is included in another entity's filing to adopt *Topic 606* and *Topic 842* using delayed adoption dates. (See Topic III(C) below.)

For these reverse mergers, the Committee and staff discussed whether the private operating company could use adoption dates applicable to non-PBEs for the financial statements of the non-reporting target (accounting acquirer). The staff indicated that if the SPAC or shell company is an EGC that elected to defer accounting standard adoption, the target meets the criteria to be an EGC, and the merged entity will maintain EGC status following the consummation of the transaction, then the target would be able to apply non-PBE adoption dates in its financial statements included in the S-4 filing preceding the merger consummation and in the Form 8-K filed upon consummation of the merger. The staff referred the Committee to the [SEC's JOBS Act FAQ](#) 47 and SEC Staff FRM Section 10120.2 on maintaining EGC status upon consummation of the transaction.

C. Extension of FASB Deferral Dates due to COVID-19

The FASB deferred the effective dates for the new leasing standard for certain entities (such as non-PBEs) as a result of COVID-19. The Committee asked the staff whether it intends to extend similar relief to "other entities" whose financial statements or financial information are included in a filing of a registrant (i.e., Rule 3-05, Rule 3-09, or Rule 4-08(g) financial statements or information). The staff confirmed that its intent is to continue to extend relief based on the principles in the SEC announcement codified in ASU 2017-13. This applies to both the leasing

(Topic 842) and revenue standards (Topic 606) that apply the PBE definition and provide separate transition provision for PBEs and non-PBEs.

D. Accounting standards adoption dates for a company upon becoming an “SEC filer”

The FASB issued [ASU No. 2019-09, Financial Services — Insurance \(Topic 944\): Effective Date](#), and [ASU No. 2019-10 Financial Instruments — Credit Losses \(Topic 326\), Derivatives and Hedging \(Topic 815\), and Leases \(Topic 842\): Effective Dates](#), deferring the effective dates for the standards on long-duration insurance contracts, credit losses, leases, and derivatives and hedging. These ASUs include phased-in adoption dates based on, among other criteria, if the entity providing financial statements is an “SEC filer,” as defined in the FASB Master Glossary.

An entity that has filed an initial registration statement with the SEC would not meet the definition of an SEC filer until that registration statement is declared effective. Accordingly, an entity in the process of an IPO is not an SEC filer, and that entity may follow accounting standard adoption dates in Bucket 2 that are applicable to non-SEC filers during the IPO registration process. However, the entity would immediately become an SEC filer when its IPO registration statement becomes effective. Accordingly, it is the Committee’s understanding that, unless the entity 1) is an EGC that has elected to follow the accounting transition requirements applicable to non-issuers or 2) qualifies to use the adoption dates for an SRC SEC filer (Bucket 2), it would be required to adopt new accounting standards using the non-SRC SEC filer (Bucket 1) adoption dates in its next filing after the IPO effectiveness date (which could be a follow on registration statement or an Exchange Act periodic report).

The Committee asked the staff for its views of the accounting standard adoption provisions for an entity that is not an EGC and does not qualify to use the SRC filer adoption dates, that completes its IPO in the second year, or beyond, after the SEC filer adoption date. Specifically, the Committee asked if that entity would be required to adopt the new accounting standard as of the date an SEC filer should have initially adopted the standard, which would include annual period(s) already audited and reported upon.

The staff indicated their view that a non-EGC (and non-SRC if applicable) registrant must reflect the SEC filer adoption dates (Bucket 1) in the first filing after effectiveness of the IPO registration statement, if not reflected sooner, but encourages adoption reflecting the SEC filer adoption date in the financial statements included in the IPO registration statement. The financial statements included in the first filing after effectiveness of the IPO registration statement should reflect adoption of any applicable accounting standard for all periods affected using the SEC filer adoption date. However, if an entity believes it has a reasonable basis to support an alternative conclusion under GAAP and SEC rules and regulations, the staff is available for consultation.

E. Implementation Questions Regarding Final Rule 3-05 Amendments

The Committee and staff began a discussion on implementation questions regarding the [final amendments to Rule 3-05, Amendments to Financial Disclosures about Acquired and Disposed Businesses.](#)