

# SEC Staff Updates Financial Reporting Manual

**March 22, 2016** — On March 17, 2016, the SEC's Division of Corporation Finance (the "Division") revised certain sections of its [Financial Reporting Manual](#).<sup>1</sup> The changes (1) update the guidance on testing the significance of equity method investments, (2) incorporate certain requirements under the FAST Act,<sup>2</sup> and (3) add guidance on the implementation of the FASB's new revenue standard (ASU 2014-09<sup>3</sup>) as amended by ASU 2015-14.<sup>4</sup> The revisions are discussed below in more detail.

The Division updated paragraph 2410.8 to clarify the application of the significance tests used to determine whether financial statements under Regulation S-X, Rule 3-09,<sup>5</sup> and financial information under Regulation S-X, Rule 4-08(g),<sup>6</sup> related to equity method investments are required in a registration statement, proxy statement, or Form 10-K when the financial statements are recast for a discontinued operation or change in accounting principle.

The Division also updated certain paragraphs in Topic 10, "Emerging Growth Companies" (EGCs), to conform with requirements of the FAST Act. Revised paragraphs include those related to (1) an EGC's loss of eligibility before effectiveness of its registration statement and (2) financial reporting accommodations regarding (a) the omission of financial information for historical periods, (b) the number of periods covered in Management's Discussion and Analysis, and (c) the omission of "financial statements required by either Rule 3-05 or Rule 3-09 of Regulation S-X."

In addition, the Division updated Topic 11, "Reporting Issues Related to Adoption of New Revenue Recognition Standard," to add a summary of the implementation guidance in ASU 2014-09, as amended by 2015-14, as well as questions and answers addressing the effects of implementation on (1) selected financial data, (2) supplementary quarterly financial data for an EGC, (3) the ratio of earnings to fixed charges, and (4) financial statements of other entities (e.g., an equity method investee or significant acquired business).

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<sup>1</sup> The manual includes staff interpretations that, although helpful, are not authoritative. Before reaching any conclusion about appropriate financial reporting, registrants should carefully analyze their specific facts and circumstances, and authoritative accounting literature and SEC requirements.

<sup>2</sup> The Fixing America's Surface Transportation (FAST) Act became law on December 4, 2015, and contains several amendments to the federal securities laws.

<sup>3</sup> FASB Accounting Standards Update No. 2014-09, *Revenue From Contracts With Customers*.

<sup>4</sup> FASB Accounting Standards Update No. 2015-14, *Revenue From Contracts With Customers (Topic 606): Deferral of the Effective Date*.

<sup>5</sup> SEC Regulation S-X, Rule 3-09, "Separate Financial Statements of Subsidiaries Not Consolidated and 50 Percent or Less Owned Persons."

<sup>6</sup> SEC Regulation S-X, Rule 4-08(g), "Summarized Financial Information of Subsidiaries Not Consolidated and 50 Percent or Less Owned Persons."

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