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Automotive

Current developments in SEC reporting

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To Our Clients and Friends:

As 2014 draws near to an end, we know many of you are turning your attention to the preparation of your year-end financial statements. With the continued uncertainties in the economic and regulatory environment, this is a great time to refresh your understanding of the SEC staff's areas of focus when it comes to preparing high quality annual reports.

We have prepared this publication to assist you with identifying and understanding the SEC's recent areas of focus specific to the automotive sector. The topic areas summarized in this publication are based on comment letters issued by the SEC staff to automotive companies and published between October 1, 2013 and September 30, 2014. We have provided relevant examples of recent comments in these topic areas to aid you in ensuring that your disclosures are robust and consistent with relevant accounting and reporting guidance and recent reporting trends. In some instances, we have included relevant examples from other industries but which may be applicable to automotive companies.

We hope you find this summary to be a useful reference tool, and we look forward to working with you through this financial reporting season. Please do not hesitate to reach out to your engagement team or a PwC contact to discuss the information contained in this publication.

Sincerely,

Richard Hanna
Global Automotive Leader

Sharad P. Jain
Global Automotive Assurance Leader

Contents

SEC developments

2014 was a busy year at the SEC. Although there were only a few changes in senior personnel (compared to 2013 when several high profile staff positions were filled and three Commissioners, including a new Chair, were appointed), one notable change was the appointment of Jim Schnurr as the SEC's Chief Accountant. Schnurr joined the SEC staff in October and will play a major role in shaping the SEC's agenda at a time when accounting, auditing, and financial reporting are key areas of focus. This focus reflects a common understanding that transparent, accurate, and reliable financial reporting forms the foundation of trust which allows our capital markets to function properly and provides the transparency and confidence investors need when making decisions.

Following through on initiatives started in 2013, 2014 has seen a high level of activity in the SEC's enforcement program, with renewed attention on financial fraud, issuer disclosure, and gatekeepers. The Enforcement Division's Financial Reporting and Audit Task Force—a small group of experienced attorneys and accountants charged with developing state-of-the art tools to better identify financial fraud and incubating cases to be handled by other groups—is one example of how the SEC has increased its focus. The Task Force monitors high-risk areas, analyzes industry performance trends, reviews restatements, revisions, and class action filings as well as academic research. It is also working on the SEC's Accounting Quality Model—sometimes referred to as Robocop—which is being developed to use data analytics to assess the degree to which a company's financial reporting appears noticeably different from its peers. The Task Force was very busy during 2014 with even more activity expected in 2015.

The SEC staff has continued to focus on internal control over financial reporting, with more attention on how companies evaluate deficiencies relating to immaterial financial statement errors. The SEC staff signaled its intention to increase its focus in this area in late 2013, and this has led to more frequent comments and questions in 2014, with more likely to come in 2015.

Recognizing that full and fair disclosure is a central goal of the U.S. securities laws and is critical to the fulfillment of the SEC's core mission, during 2014 the SEC launched a "Disclosure Effectiveness" initiative. Through this initiative, the SEC is looking for ways to update and modernize its disclosure system and to eliminate duplicative or overlapping requirements, while continuing to provide material information. Trying "to put better disclosure into the hands of investors," the SEC staff is taking a fresh look at the question: what information do investors need to make informed decisions? In addition to looking at the specific disclosures companies provide, the SEC staff is also looking closely at how disclosures are provided, particularly in light of advances in technology and changes in how information is consumed. For instance, the SEC staff might explore a “company file” approach through which investors would access company-specific information on the SEC's website through tabs such as “Business information,” “Financial information,” “Governance information,” and “Executive compensation,” instead of searching for that same information by combing through a reverse chronological list of filings. The SEC staff has been clear that reducing disclosure is not the objective of this important project (indeed, they have said that updating the requirements may well result in additional disclosures), but they have indicated that they believe the initiative can reduce costs and burdens on companies.

Even before any rule changes are adopted (or proposed), companies already have the ability to improve the quality and relevance of their disclosures by reducing redundancy, removing out-of-date, unnecessary information, and refining disclosures to focus on those issues which are truly applicable and material. The SEC staff has been encouraging companies to experiment with the presentation of the information in their filings with the objective of improving the transparency, quality, and relevance of their disclosures.

John A. May
SEC Services Leader

Overview

Last year, the global automotive industry experienced an unusual period of uniform geographic growth. During 2014, however, regional cycles are back, as political, social, and economic instability has led to automotive sector losses within three of the four BRIC markets while the U.S. and EU remain on the path to recovery. These shifts have led to a re-orientation towards individual markets and a renewed focus on product development.

The automotive sector faces a range of factors particular to their individual country market conditions. Even the countries with most pronounced growth in recent years are now experiencing a degree of contraction, including Brazil (-8.9%), Russia (-7.2%), India (-0.8%), Thailand (-23%), and Argentina (-34.3%).

The three largest automotive production regions of the world are still enjoying growth that is keeping the global topline afloat, including NAFTA (+5.1% or 823 thousand units), Europe (+6.7% or 1.1 million units), and China (+10.1% or 1.9 million units).

Accommodating this growth has become a strategic challenge for automotive manufacturers and their suppliers within these regions. These large assembly markets are also the most dominant in terms of sales, where transaction prices remain high. The lure of additional profit through extended retail and service networks, and aftermarket/accessories opportunities highlight the need for sector participants to focus on both emerging areas as well as mature, established markets.

Domestically, a continued stream of recalls continues to dominate automotive headlines in North America; however, sales remain undeterred in the U.S. Monthly sales figures continue to outperform analyst expectations such that 2014 annual total sales (if achieved) could represent the best year for U.S. sales since 2006.

Meanwhile, increasingly connected consumers are changing the way automakers approach sales and marketing and underscoring the need for a focus on product. Market share is no longer primarily based on brand loyalty, but also factors in quality, innovation, and overall appeal. The bottom line is that, even with ever-shifting preferences, automakers need to offer high-quality products tailored to suit consumer tastes. In that respect, the industry may not have changed so much after all.

This is also true of the topics most frequently identified in SEC comment letters this year, which are relatively consistent with those issued in prior years. By far the highest volume of comments related to registrants' discussion of results of operations, liquidity, and capital resources in the MD&A. One area with a noticeable increase in comments relates to how companies assessed the significance of internal control deficiencies in situations where previously issued financial statements were restated or revised.

The full list of "hot topics" is below – based on the order of descending frequency of appearance in the comment letters analyzed for automotive companies. Many of these topics are not limited to automotive companies, but show consistency in the SEC staff's priority areas across a variety of sectors. In some instances we have included relevant samples from other industries.

- Management's discussion and analysis
- Segments
- Impairments
- Income taxes
- Contingencies (recall and warranty reserves and legal contingencies)
- Internal controls and procedures
- Operations in locations identified as state sponsors of terrorism
- Non-GAAP measures
- Compliance
- Other trends (business combinations and indebtedness)

Management's discussion and analysis

Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) is a critical component of registrants' communications with investors and continued to be the top area for comment by the SEC staff in 2014. The key objectives of MD&A are to provide a narrative explanation of the financial statements that enables investors to see the company through the eyes of management, to offer context to the financial statements, and to provide information that allows investors to assess the likelihood that past results are indicative of future performance. We have found that the majority of SEC staff comments in this area are not aimed at meeting specific technical requirements, but rather at enhancing the quality of disclosures to meet these objectives.

The requirements themselves are set forth in Item 303 of Regulation S-K, which identifies five categories of disclosure in MD&A: liquidity, capital resources, results of operations, off-balance-sheet arrangements, and contractual obligations. Additional guidance is also contained in Financial Reporting Release (FRR) 36 and FRR 72. More recently, following the release of its December 2013 Report on Review of Disclosure Requirements in Regulation S-K mandated by the JOBS Act, the SEC has indicated that the Division of Corporation Finance will pursue a project to develop recommendations focused on improving and streamlining disclosure requirements. This project may reduce the costs and burdens on companies and eliminate duplicative disclosures in MD&A, but may also identify opportunities to increase the transparency of information, which could lead to new requirements.

We have found that the majority of SEC staff comments in this area are not aimed at meeting specific technical requirements, but rather at enhancing the quality of disclosures to meet these objectives.

In the meantime, recent comments issued by the SEC staff have reinforced the well-established MD&A objectives that disclosures should be: 1) transparent in providing relevant information, 2) tailored to the company's facts and circumstances, 3) consistent with the financial statements and other public communications, and 4) comprehensive in addressing the many business risks that exist in today's economic environment. Results of operations, liquidity, and capital resources are the categories of MD&A that have received the most attention in SEC comment letters relative to these objectives. We have provided relevant examples of comments issued in each of these areas.

Results of operations

SEC staff comments have reminded registrants that the results of operations section should provide readers with a clear understanding of the significant components of revenues and expenses and events that have resulted in or are likely to cause a material change in the relationship between costs and revenues.

The SEC staff has frequently issued comments specifying that MD&A should not simply repeat information provided elsewhere in the filing; rather, it should explain the underlying drivers behind changes in the financial position, results of operations and cash flows of registrants. Increasingly, registrants are being challenged to quantify the impacts that such factors have had, especially when an account has been impacted by multiple factors. General observations on the population of SEC staff comments include the following:

- Disclosing known trends - The SEC staff has asked registrants to disclose known trends affecting the business, in particular, disclosure of events that have occurred and how those events were a positive or negative indicator of future performance. Examples include loss of a significant customer, development of new products that might impact future revenues or costs, entering a new market, or an acquisition that is expected to impact operating results. In addition, they encourage a discussion of key operating metrics used by management, coupled with an analysis of the relationship between such metrics and GAAP results.

- Drivers behind fluctuations - Many comments relate to improving registrants' disclosures of significant fluctuations between periods, including pricing, volume, the impact of acquisitions, and currency movements. The SEC staff has asked for more detailed descriptions related to the specific factors driving such fluctuations and for registrants to quantify each factor separately, even when they net to an insignificant change overall.

- Consistency of information - The SEC staff continues to review public information for consistency with the information included in a registrant's periodic filings. When management discusses events or trends on earnings calls, social media channels, or the company's website, the SEC staff may question why such events are not also addressed in MD&A.

- Segment discussion - SEC staff comments have also encouraged the use of a segment analysis if such analysis would provide investors with a more in-depth understanding of the consolidated results. The segment analysis may be integrated with the discussion of the consolidated results to avoid unnecessary duplication.

Sample comments

1. Given that a portion of pension costs is allocated to cost of goods sold, quantify how much of your pension costs are capitalized as part of inventory at each balance sheet date. We note your proposed revised disclosure included in your response. Please revise your draft disclosure to include historical information so we may assess the effect of pension costs on cost of goods sold , selling, administrative and general expense and operating income.

2. We note your disclosure that the results for the segment improved by $XX million compared to the prior year. We also note that you have attributed this improvement to several factors. In light of the fact that this change in segment loss is attributable to several factors, please revise to quantify the impact of each of these factors on this segments loss for the periods presented or provide the actual cost figures necessary to put these changes in proper context.

3. In future filings, please provide a more detailed analysis of the factors that impact your operations, including a complete discussion of known or anticipated trends that may continue to have an impact. Your discussion and analysis is to provide investors with sufficient information to understand the historical trends and the expectations for the future as seen through the eyes of management. Refer to Section 501.04 of the Financial Reporting Codification and SEC Release 33-8350 for guidance.

Liquidity and capital resources

A key objective of the liquidity and capital resources discussion is to provide a clear picture of the registrant's ability to generate cash and to meet existing known or reasonably likely future cash requirements. The SEC staff expects companies to discuss material cash requirements, sources and uses of cash, and material trends and uncertainties related to its ability to use capital resources to satisfy its obligations. General observations on the population of SEC staff comments include the following:

- Disclosure of events impacting liquidity - The SEC staff has asked registrants to discuss known trends, events, or uncertainties that are reasonably likely to impact future liquidity. Such events could include entry into material commitments, loss of customers or contracts, treasury stock repurchase programs, or plans for significant capital expenditures.

- Debt agreements and related covenants - Comments from the SEC staff have requested expanded disclosure of the material terms of debt agreements, including an indication of compliance with financial covenants. In situations where there has been or is projected to be a violation with regard to covenant compliance, registrants should provide a detailed description of the covenants, the target and actual covenant measures for the most recent reporting period, and an indication of the sensitivity of those measurements, if applicable. Other items potentially impacting the availability of credit should also be made clear, including limitations on the ability to draw on existing lines of credit, or other borrowing limitations.

- Stranded cash - For companies with foreign operations, the SEC staff has focused on the registrant's ability to permanently reinvest cash outside the United States in light of significant upcoming obligations, such as debt repayments or mandatory pension contributions. Comments have focused on the relationship between liquidity needs and the income tax assertion about management's intent and ability to permanently reinvest foreign earnings. The SEC staff has also asked companies to quantify the amount of cash held overseas and the amount of incremental deferred tax, if any, which would be recorded if cash were to be repatriated. This is also a common topic in SEC staff comments related to income taxes.

- Cash flow analysis - One of the common criticisms in the liquidity analysis is the recitation of information readily found on the face of the statement of cash flows. Instead, registrants should disclose the underlying factors driving changes in operating assets and liabilities and the related cash flows.

Sample comments

1. We note your disclosure that the increase in cash provided by operating activities was primarily attributable to the increase in operating income. Please expand your discussion to disclose the material factors that impact the comparability of operating cash flows in terms of cash and quantify each factor indicated so that investors may understand the magnitude of each. Your discussion should focus on factors that directly affect cash, and not merely refer to operating income, which is recorded on an accrual basis. Refer to Section IV.B.1 of "Interpretation: Commission Guidance Regarding Management's Discussion and Analysis of Financial Condition and Results of Operations" available on our website at http://www.sec.gov/rules/interp/33-8350.htm for guidance.

2. Please tell us, and revise future filings to clarify, how you determined that the sources of liquidity you note will be sufficient for the next 12 months, particularly in light of the significant debt obligations and payables due within 12 months and your existing source of cash. For example, have you historically extended and/or refinanced short-term debt and, if so, do you believe you will be able to continue to do so?

3. Given your foreign operations, please enhance your liquidity disclosures in future filings to quantify the amount of cash and cash equivalents held at foreign locations as of the end of the year, if material, and address the potential impact on your liquidity of holding cash outside the US.

Segments

The purpose of segment disclosures is to provide investors with the ability to see the company through the eyes of management. In particular, it allows investors to assess the financial performance of a company at a disaggregated level.

Segment reporting continues to be a hot topic for comment letters across all industries, including the automotive industry. The most frequent comments issued by the SEC staff have been on the proper identification of operating segments and the aggregation of operating segments into reportable segments. It is not unusual for the SEC staff to request documentation supporting the registrant's identification of operating segments.

The SEC staff has often asked issuers to submit the information given to the chief operating decision maker (CODM) to allow the SEC staff to consider whether the information is consistent with the registrant's identification of its segments (particularly when a company reports only one segment). Such requests can include both the formal reporting package, as well as any other additional information regularly provided to, or discussed with, the CODM. It is important to remember that the SEC staff reviews publicly available information for consistency between segment disclosures and the types of other information provided to the public. For example, the SEC staff may evaluate communications from companies' earnings calls, press releases, investor presentations, and on a company's website to identify inconsistencies.

The SEC staff has also challenged registrants to explain how the operating segments meet the "economic similarities" criterion for purposes of aggregation. Comment letters may request information from registrants to demonstrate that the operating segments exhibit similar long-term financial performance, sometimes requesting an analysis of the historical gross margins for each operating segment.

It is not unusual for the SEC staff to request documentation supporting the registrant's identification of operating segments.

The FASB and SEC have both supported the re-evaluation of segment reporting guidance given changes in technology and how information can be accessed and used. Until and unless changes are made, registrants should assess their segments based on the existing guidance in ASC 280, and continually reassess their segment conclusions, especially when there is a change in the registrant's business and management reporting structure.

Sample comments

1. We note that for several years you have made presentations at conferences in which you provided charts that showed the breakout of a fiscal year's sales by various product groups. In this regard, please provide the disclosure required by ASC 280-10-50-40.

2. We note that, during the second quarter, you changed your segment presentation to reflect the way your Chief Executive Officer now evaluates performance and the way you are organized internally. You now report your activities in two business segments. In this regard, please describe to us in your response the operating segments that aggregate to the two new reporting segments, and why these operating segments meet the aggregation criteria set forth in FASB ASC 280-10-50-11 and 12. Your response should be supported with the reports reviewed by your CODM, as well as any recent material changes to your internal reporting structure.

3. Please explain how you determined your reportable operating segments under FASB ASC 280-10-50. We note from your disclosure that the company has five businesses. Discuss whether each of these businesses is considered a reportable operating segment.

Segments

4. We note your statement that you operate in five business segments. Please tell us and revise your disclosures in future filings to clarify whether these five business segments meet the definition of operating segments, or if the five business segments are reportable segments that are comprised of the aggregation of two or more operating segments. If you are aggregating operating segments into a reportable segment, please also expand your disclosures in future filings to disclose your operating segments that are aggregated into the corresponding reportable segment and confirm that all of the aggregated segments meet all six of the criteria discussed in ASC 280-10-50-11. Please note that to the extent one or more aggregated operating segment has diverged from the reportable segments long-term financial performance for an isolated period, detailed disclosure of this divergence should have been fully discussed and analyzed in your analysis of your segment operating results in MD&A. Please refer to ASC 280-10-50-21.a. for guidance.

Impairments

The SEC staff continues to issue comments on registrants' considerations of disclosures surrounding critical accounting estimates related to goodwill, indefinite-lived intangible assets, and long-lived asset impairment testing.

Even where there is not an impairment being recognized, the SEC staff looks for disclosures that allow an investor to assess the likelihood of a future material impairment charge.

Goodwill

SEC staff comments during the 2014 comment letter cycle reflected themes similar to 2013 and 2012. Comments have requested additional details about impairment tests and the related assumptions. For reporting units whose fair values are not substantially in excess of their carrying amounts ("at risk" reporting units), the SEC staff has asked registrants to disclose:

- The percentage by which the fair value of the reporting unit exceeded its carrying value as of the date of the most recent quantitative analysis
- The amount of goodwill allocated to the reporting unit
- A description of the methods and key assumptions used in the impairment assessment and how they were determined
- A discussion of the degree of uncertainty associated with key assumptions
- A description of potential events and circumstances that could have a negative effect on the reporting unit's fair value

This type of request is consistent with the guidance outlined in the Division of Corporation Finance Financial Reporting Manual Section 9510.3.

The SEC staff has also continued to challenge whether impairment charges were recognized in the appropriate period. In some instances, the SEC staff has requested that registrants provide the current period and historical impairment analyses, accompanied by a comparison of key assumptions underlying each analysis with supporting evidence for changes in those assumptions. Some registrants also received comments from the SEC staff when no impairment charge was recorded during the annual assessment, but other publicly available data indicated the presence of a negative trend that could impact the impairment assessment.

When an impairment charge is recognized, registrants should disclose in the footnotes the events that gave rise to the impairment, such as changes in the underlying business or environment, the amount of the impairment loss, and the method of determining fair value of the reporting unit. Such disclosures should provide sufficient linkage to answer the question of why the charge belongs in the current period.

Sample comment

1. Please expand your disclosure to discuss the significant assumptions you use in your goodwill impairment analysis. In addition, to the extent that any of your reporting units have estimated fair values that are not substantially in excess of their carrying values, and goodwill for your reporting units, in the aggregate or individually, if impaired, could materially impact your results of operations or total shareholders' equity, please identify and provide the following disclosures for each such reporting unit:
    - The percentage by which fair value exceeds carrying value;
    - A description of the material assumptions that drive estimated fair value;
    - A discussion of any uncertainties associated with each key assumption; and
    - A discussion of any potential events, trends and/or circumstances that could have a negative effect on estimated fair value.

Long-lived assets

The SEC staff comments related to long-lived assets were consistent with those presented for goodwill and other indefinite-lived intangible assets. Specifically, the SEC staff scrutinized the timing of when impairment charges were recorded and the sufficiency of disclosures of valuation methodologies.

The SEC staff has also requested that registrants provide additional information about the level of uncertainty and sensitivity of key assumptions related to "at risk" assets or asset groups. In some instances, the SEC staff requested details of the impairment analysis and challenged registrants' conclusions relative to how registrants considered economic challenges, operating losses at a specific segment, or how they defined the lowest level of identifiable cash flows used to identify the asset group.

Long-lived assets are assessed for impairment under two models: (1) assets to be held and used, and (2) assets to be disposed of by sale.

Held and used assets should be tested for recoverability whenever events or changes in circumstances indicate that the carrying amount of the asset or asset group may not be recoverable. An asset group that satisfies all of the held for sale criteria under ASC 360, *Property, Plant and Equipment* should be measured at the lower of its carrying amount or fair value less cost to sell.

Comments from the SEC staff have also focused on the following areas:

- The consideration of economic challenges, operating losses at a specific segment and the impairment of similar assets as a potential triggering event
- The adequacy of foreshadowing disclosures for assets at risk of impairment, including the percentage by which undiscounted cash flows exceed carrying value
- The timing of impairment charges

SEC staff scrutinized the timing of when impairment charges were recorded and the sufficiency of disclosures of valuation methodologies.

Sample comments

1. We note that you recorded fixed asset impairment charges of $XX million. Please describe to us in greater detail the specific fixed assets that were considered at risk for possible impairment and their carrying amount as a result of this draft regulation and, if different, the fixed assets that were eventually impaired. Please describe for us the methodology used for determining the fair value of the fixed assets and the significant assumptions inherent in that model. Refer to FASB ASC 360-10-35 and 360-10-50.

2. We note your disclosure that the $XX million decrease in your revenue for the six months ended June 30, 2013 was primarily due to a XX% decrease in the volume of shipments. We also note that substantially all of your sales are to one customer who has decreased its sales orders with you starting in the second quarter of 2011 and continuing through the first quarter of 2013. Please tell us if this customer is included within the customer list intangible asset which has a net book value of nearly $XX million as of June 30, 2013. If so, please tell us how you considered if the decline in orders from this customer represents a significant adverse change in circumstances which could cause you to evaluate the recoverability of this intangible asset for possible impairment as of June 30, 2013. Please refer to ASC 350-30-35-14, ASC 360-10-35-21 and 35-22.

Income taxes

The accounting for income taxes, including the related disclosure requirements, is often complex and involves significant judgment. SEC staff comments have focused on disaggregation in the income tax provision disclosures, additional detail related to the determination of valuation allowances, and the sufficiency and consistency of indefinite reinvestment disclosures.

Income tax provision disclosures

SEC staff comments frequently asked registrants to enhance their disclosure of how the results of operations are impacted by having proportionally higher or lower earnings in jurisdictions with different tax rates and the extent to which foreign effective tax rates differ from the domestic rate.

The SEC staff also issued comments when it was unclear whether the registrant's effective tax rate reconciliation included each item that exceeded five percent of income tax expense calculated using the applicable statutory tax rate (as required by ASC 740-10-50-12 and Rule 4-08(h) of Regulation S-X).

Valuation allowances

The SEC staff continued to scrutinize registrants' assessments of the realizability of deferred tax assets. These assessments involve significant judgment. In comment letters, the SEC staff asked registrants to explain the nature and weight of the positive and negative evidence considered. When significant changes occurred in the realizability of deferred tax assets, comments often asked registrants to explain the circumstance that lead to the change in the valuation allowance and to justify the timing of when the change was recorded. When changes in circumstances impacting the realizability of net deferred tax assets can be foreseen, registrants should consider foreshadowing disclosures in periods preceding the change.

Indefinite reinvestment assertion and related liquidity disclosures

The SEC staff has frequently asked registrants to explain the factors supporting their indefinite reinvestment assertion, including a description of their plans for reinvestment in each foreign jurisdiction. In addition, the SEC staff has reminded registrants that when an indefinite reinvestment assertion was made, ASC 740-30-50 requires disclosure of the amount of the unrecognized deferred tax liability on undistributed earnings of foreign subsidiaries, or a statement that such determination is not practicable.

As discussed in the MD&A section above, the interplay between a registrant's indefinite reinvestment assertion and liquidity has continued to be an area of SEC staff comment. Registrants have been asked to disclose the amount of cash and cash equivalents in jurisdictions with an indefinite reinvestment assertion, the potential tax consequence of repatriation, and a description of events that may cause such foreign earnings to become taxable. The SEC staff has indicated that highlighting the amount of cash that may not be available to fund domestic operations or obligations without paying a significant amount of taxes upon repatriation is an important element of transparent liquidity disclosures.

The SEC staff may also request further information or disclosure when a registrant asserts indefinite reinvestment for certain foreign jurisdictions, but also discloses amounts repatriated from others.

The interplay between a registrant's indefinite reinvestment assertion and liquidity has continued to be an area of SEC staff comment.

Income taxes

Sample comments

1. We note during this quarter that based upon qualitative and quantitative analysis of current and expected domestic earnings, industry and market trends, and other contributing factors resulted in a more than likely conclusion of being able to realize a significant portion of your U.S. deferred tax assets. To that effect, your valuation allowance decreased by $XX million in the quarter. We also note from your disclosure that you have been able to sustain positive earnings despite low demand for products and services that has occurred in many of your markets during the current and previous three years and that your earnings have become positive on a cumulative basis through this period. In this regard, please reconcile your conclusion with the statements made in your Form 10-K where you disclose you had three years of cumulative domestic losses for continuing operations and in the last 2 years you recorded additional valuation allowances of $X million and $X million against your domestic deferred tax assets. You also indicate that having three years of cumulative losses limits your ability to look to future taxable income as a source for recovering your deferred tax assets. Please explain to us in detail the significant change in events that have occurred which allowed you to conclude in a relatively short timeframe that $XX million of deferred assets would be more than likely realizable. As part of your response, please provide us with your detailed analysis of the positive and negative evidence considered and the weight given to each, commensurate with the extent to which the evidence was objectively verifiable, in determining that the valuation allowance was no longer needed. We may have further comment upon receipt of your response.

2. We note from your disclosure that the company has not recognized a provision for United States income taxes on $XX million of undistributed earnings of international subsidiaries because it is your intention to reinvest those earnings indefinitely and the determination of unrecognized deferred U.S tax liability for the undistributed earnings of such subsidiaries is not practicable. Please revise your discussion in the Liquidity and Capital Resources section of MD&A to discuss the amount of cash held by your foreign subsidiaries at the most recent balance sheet date, the fact that you would be required to recognize U.S. income taxes on such funds if they were repatriated to the United States and a statement indicating that you have no current plans to repatriate such funds.

3. We note that your effective tax rate has had significant variability between periods presented with a continuing reference to changes in the mix of income in tax jurisdictions among other factors. In future filings, please expand upon this disclosure to provide investors with additional insight into the tax jurisdictions materially impacting your effective tax rate for each period presented that includes quantified information. Please refer to Item 303(a)(3) of Regulation S-K and Section 501.12.b. of the Financial Reporting Codification for guidance. Please provide us with the disclosures that you would have included in your first quarter of fiscal year 2014 Form 10-Q in response to this comment.

Contingencies

Recall and warranty reserves

The recent volume of recalls has attracted public attention and press coverage. Recall and warranty reserves are areas that normally involve significant judgment or estimates and may be subject to SEC staff comment. At the 2013 AICPA National Conference on Current SEC and PCAOB Developments in December 2013, the SEC's Division of Enforcement noted that significant reserves were among the focus areas for the newly created Financial Reporting and Auditing Task Force, which uses technological tools and academic studies to identify potential financial accounting fraud.

The SEC staff has asked questions concerning reserve trends over time, as well as increased disclosure related to current period changes or adjustments to provisions. Registrants should ensure they have appropriately considered the implications of the underlying drivers of adjustments on the continued appropriateness of the overall model used to estimate the reserves. Current period adjustments could be taken as an indication that the liabilities and expenses recognized in prior periods may have been incomplete or inaccurate.

ASC 460 details the required footnote disclosures relating to warranties, which includes discussion of the nature of the warranty and how it arose. In addition, Regulation SK 303 (3) requires discussion in MD&A of any unusual or infrequent events materially affecting income, as well as known trends or uncertainties that may reasonably be expected to impact revenues or income.

Sample comments

1. Tell us why accrued warranty expense declined from $XX million at the beginning of 2011 to $XX million at the end of 2013.

2. We note your disclosure that in 2013 you recorded adjustments to pre-existing warranties totaling $404 million, the same amount as the Company recorded in fiscal 2012. We further note, that these adjustments were recorded in each of the quarters during 2013. In light of the significance of your adjustments to pre-existing warranties during 2013, please explain to us in further detail, the nature and specific timing of the events or changes in facts or circumstances that resulted in the significant adjustments for changes in estimates for pre-existing warranties during each of the quarterly periods in 2013.

Legal contingencies

The SEC staff continues to focus on ensuring that registrants comply with the guidance of ASC 450, *Contingencies*. Some registrants are resistant to providing the required disclosures for fear that they may divulge information that could adversely affect the outcome of litigation. To that end, the SEC staff has indicated that they will accept disclosure of estimated exposure on an aggregated basis, rather than requiring separate disclosure for each individual matter.

GAAP requires companies to record an accrual for a loss contingency when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated. Even if the criteria for accrual have not been met, disclosure may still be required if the loss is reasonably possible. For loss contingencies that meet the criteria for disclosure, registrants should disclose the nature of the contingency and an estimate of the possible loss or range of loss (or a statement that such estimate cannot be made).

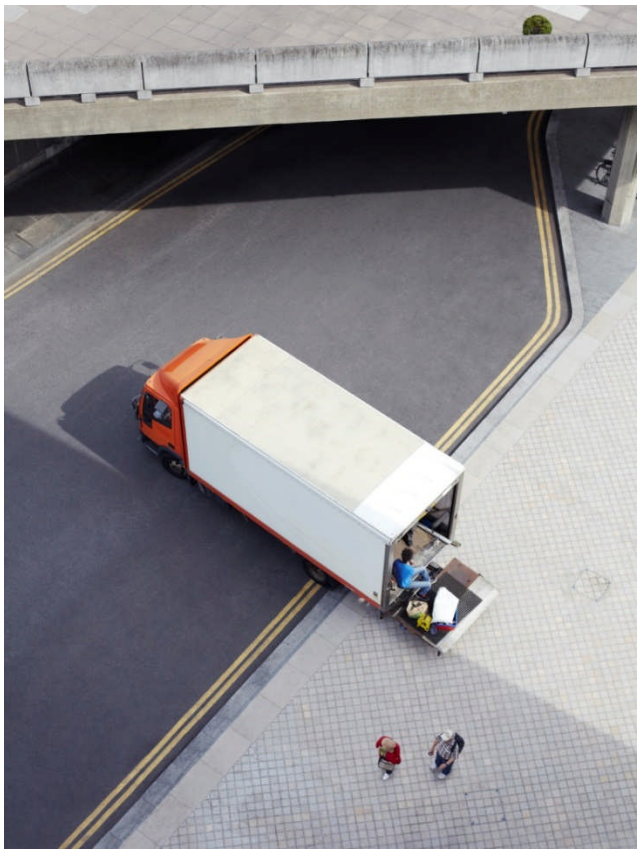
To keep investors apprised of material developments associated with the nature, timing, and amount of a loss contingency, such details should generally not be disclosed for the first time in the period in which they are recorded. The SEC staff has frequently evaluated the disclosures in periods prior to the period in which a loss is recorded and commented on the lack of adequate early-warning or foreshadowing disclosures. Such comments often request additional information to understand the triggering event for recording the loss and whether such losses should have been recorded in an earlier period. The SEC staff expects that loss contingency disclosures will be updated regularly, both qualitatively and quantitatively, for developments in the related matters and as more information becomes available.

Contingencies

Sample comments:

1. You state that, the Company is subject to various claims and legal actions arising in the ordinary course of business, none of which management believes is likely to have a material adverse effect on the Company's consolidated financial position, results of operations or liquidity. With reference to Question 2 of SAB Topic 5Y please note that a statement that the contingency is not expected to be material does not satisfy the requirements of FASB ASC Topic 450 if there is at least a reasonable possibility that a loss exceeding amounts already recognized may have been incurred and the amount of that additional loss would be material to a decision to buy or sell the registrants securities. In that case, the registrant must either (a) disclose the estimated additional loss, or range of loss, that is reasonably possible, or (b) state that such an estimate cannot be made. In future filings, please revise your disclosures accordingly.

2. In future filings, please revise your disclosure to state if the legal proceedings and/or environmental matters are expected to be material to your cash flows in addition to your financial condition and results of operations. Also, if there is at least a reasonable possibility that a loss exceeding amounts already recognized may have been incurred, please either disclose an estimate (or, if true, state that the estimate is immaterial in lieu of providing quantified amounts) of the additional loss or range of loss, or state that such an estimate cannot be made. Please refer to ASC 450-20-50.



Internal controls and procedures

We have heard various members of the SEC staff signal that internal control over financial reporting (ICFR) is an area of increasing interest. At the 2013 AICPA National Conference on Current SEC and PCAOB Developments, several presenters noted that as part of the comment letter process, the SEC staff is looking for potential indicators of material weaknesses, such as corrections of an error or disclosures regarding material changes in internal controls. Presenters also commented that the SEC staff may be interested in a registrant's conclusions regarding ICFR in instances where they do not agree with a registrant's conclusion on an accounting matter. This focus on ICFR has continued to be mentioned in the months since the conference, and we expect it to be discussed again at the 2014 conference. We have begun to see an increasing volume of comments in this area. Registrants should continue to carefully evaluate the ICFR and disclosure controls and procedures (DC&P) implications in responses to the SEC staff and the sufficiency of their disclosures, assessments, and certifications. The SEC staff's comments have increasingly challenged registrants' conclusions regarding the existence or severity of internal control deficiencies.

While the SEC staff is likely to question why a restatement did not result in the reporting of a material weakness, we have also seen comments about the existence of material weaknesses when errors are corrected by means of revision of comparative financial statements.

Companies sometimes assess control deficiencies with a priority focus on the Control Activities component of COSO. It is important to evaluate the implications of control deficiencies on all COSO components. The SEC staff has asked for additional information about the company's consideration of specific components within the COSO framework.

The SEC staff has also questioned registrants when there is no explicit conclusion about the effectiveness of DC&P or when management has concluded that ICFR is ineffective but DC&P is effective. Under Rule 13a-15(b) of the Exchange Act, the registrant's management must evaluate the effectiveness of DC&P as of the end of each fiscal quarter. This evaluation includes assessing the controls and other procedures designed to ensure that information required to be disclosed by the registrant in its filings is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms. Although separately assessed, it is important to remember that there is substantial overlap between the processes considered DC&P and those considered part of IFCR. Nearly all of ICFR falls within the scope of DC&P, whereas there are aspects of DC&P that extend beyond what is considered part of ICFR. As such, it is rare that a material weakness in ICFR would not also result in DC&P being considered ineffective.

Sample comments

1. It appears that your control structure failed, in either design or execution, to prevent an error from being detected before resulting in a material restatement. It remains unclear whether there were no controls in place that would have prevented such an error, or if the controls in place failed. Please clarify. Further, because the control failure resulted in a material restatement, it is unclear why you believe the related weakness is not material. Please explain.
2. We continue to question your evaluation of the deficiencies in ICFR and your determination that it was not reasonably possible that a material misstatement of your financial statements would not be prevented or detected on a timely basis as a result of certain control deficiencies.
3. Please describe in greater detail how you considered the numerous deficiencies in evaluating the monitoring and risk assessment components of COSO. Specifically, we continue to question whether one or more deficiencies exist in the risk assessment or monitoring component and whether one or more such unidentified deficiencies represent a material weakness.

Operations in locations identified as state sponsors of terrorism

As companies continue to expand their operations internationally, some find themselves doing business, directly or indirectly, with countries that have been identified by the U.S. government as state sponsors of terrorism. Countries in this category currently comprise Cuba, Iran, Sudan, and Syria. The U.S. government has imposed sanctions and embargoes restricting commerce and trade with these countries.

The SEC staff regularly asks registrants, particularly global organizations, to provide incremental disclosure about business activities that occur in or with these countries. In addition, they have issued comment letters requesting that registrants discuss qualitative and quantitative factors that a reasonable investor would regard as important in making an investment decision. Comments have requested information or disclosures about:

- The nature and extent of past, current, and any anticipated operations in or with a country designated as a state sponsor of terrorism
- Any agreements, goods, services, technology, or support that registrants have provided for the referenced countries or other contracts that the registrant has had with the governments or entries controlled by the governments in these countries
- Whether there are offices, facilities, equipment, ground services, sales agents, or other employees in such countries
- A quantitative discussion of revenues, assets, and liabilities associated with each of the referenced countries

Sample comments

1. You stated in your letter that two authorized, independent dealers sold your vehicles in Syria, and one of your foreign subsidiaries sold parts to the dealers for vehicle repair in Syria. We note from your Middle East website that your regional office in Dubai continues to cover your operations in Syria. You state on page XX of your Form 10-K that you operate in Africa, a region that includes Sudan. Lastly, we note from the website of XX, with which you have a global strategic alliance, that it operates in Cuba. As you know, Cuba, Sudan, and Syria are designated as state sponsors of terrorism by the State Department and are subject to U.S. economic sanctions and export controls. Your Form 10-K does not include disclosure regarding contacts with Cuba, Sudan, or Syria. Please provide us with information regarding your contacts with Cuba, Sudan, and Syria since your referenced letter. Your response should describe any products, equipment, components, services, or support you have provided into Cuba, Sudan, and Syria, directly or indirectly, since your referenced letter, as well as any agreements, or other contacts you have had with the governments of those countries or entities they control.

2. We are aware of publicly available information indicating that commercial vehicles are manufactured in Iran under license from your significant customer for export to countries including Sudan and Syria. Additionally, in your 10-Q you describe how your net sales were affected by certain events in Latin America, a region that includes Cuba. Cuba, Sudan and Syria are designated by the Department of State as state sponsors of terrorism, and are subject to U.S. economic sanctions and export controls. Please describe to us the nature and extent of your past, current, and anticipated contacts with Cuba, Sudan and Syria, if any, whether through subsidiaries, affiliates, distributors, customers or other direct or indirect arrangements. Your response should describe any services, products, information or technology you have provided to Cuba, Sudan or Syria, directly or indirectly, and any agreements, commercial arrangements, or other contacts you have had with the governments of those countries or entities controlled by their governments.

Non-GAAP measures

Companies often supplement their GAAP financial reporting with non-GAAP information that is intended to provide additional insight into the financial performance of the business. A non-GAAP financial measure is a numerical measure that adjusts the most directly comparable measure determined in accordance with GAAP. Such measures provide supplemental information regarding a company's historical or future financial position, performance, cash flows, or liquidity. They generally convey changes to the business that are organic separate from those that may be considered unusual, infrequent, or not representative of underlying trends. Common non-GAAP financial measures used by automotive companies include earnings before interest, taxes, depreciation and amortization (EBITDA), adjusted EBITDA, adjusted earnings or adjusted earnings per share, free cash flows, and net debt.

A company has flexibility in which non-GAAP financial measures it chooses to report, if any, and how it calculates such metrics, subject to certain prohibitions. Therefore, a limitation inherent in non-GAAP financial measures is that they are subjective and may not be comparable to similarly titled non-GAAP financial measures used by other companies, including peers.

When non-GAAP financial information is presented in periodic reports filed with the SEC, registrants are required by Item 10(e) of Regulation S-K to include:

- The reasons why management believes that the non-GAAP measure is relevant to investors
- The additional purposes, if any, for which management uses the non-GAAP measure
- the most directly comparable GAAP financial measure with equal or greater prominence to facilitate comparability among other registrants
- A reconciliation to the comparable GAAP measure

Regulation G requires a similar reconciliation between the non-GAAP measure and the most comparable financial measure calculated in accordance with GAAP, and is applicable to all public disclosures of non-GAAP measures.

Below are some of the circumstances that generated comment letters reviewed in our analysis:

- Use of terminology that implies a non-GAAP measure is a standard measure, e.g., a measure that includes adjustments to the standard definition of EBITDA should not be labeled "EBITDA"
- Inappropriate use of a non-GAAP measure that excludes normal cash expenses necessary to operate the business, e.g., advertising costs or salaries
- Presentation of non-GAAP liquidity measures that omit items which are cash-settled
- Giving greater prominence to non-GAAP results over GAAP results

When evaluating whether and how to disclose non-GAAP measures, registrants should ensure that they understand and adhere to the applicable rules.

Sample comments

1. We note from the press release furnished in your report on Form 8-K, that you have included a reconciliation of your actual net income to your adjusted net income, a non-GAAP measure, that is essentially in the form of a non-GAAP income statement. As outlined in Question 102.10 of the Compliance and Disclosure Interpretations regarding Non-GAAP measures maintained on the Commission's website, it is generally not appropriate to present a full non-GAAP income statement for purposes of reconciling a non-GAAP measure to most comparable GAAP measure as it may attach undue prominence to the non-GAAP information. Please confirm that you will revise to eliminate this presentation. Refer to the guidance outlined on the Commission's website at http://www.sec.gov/divisions/corpfin/guidance/nongaapinterp.htm.

2. We see that your Statement of Cash Flows presents a measure of operating cash flows before changes in working capital. Please tell us why it is appropriate to present this measure on the face of your Statement of Cash Flows. In this regard, tell us how presentation of the partial measure of operating cash flows is contemplated and

appropriate under FASB Codification Topic 230; and, how you determined that the measure is not a non-GAAP financial measure subject to the guidance from Item 10(e) of Regulation S-K. Please note that under the cited guidance, it is not appropriate to present a non-GAAP financial measure on the face of the financial statements.

3. We note that your discussion and analysis for your consolidated results of operations focuses on sales and adjusted operating profit and adjusted operating profit margin with no discussion and analysis of the U.S. GAAP operating profit and margin. In future filings, please provide a discussion and analysis of U.S. GAAP consolidated profit measures before providing an analysis of any non-GAAP profit measure. In this regard, we note that the adjusted operating profit margin showed an improving trend; whereas, the U.S. GAAP operating profit margin showed a declining trend that has not be explained. Please refer to Item 10(e)(1)(i)(a) of Regulation S-K for guidance S-X.

Compliance

Compliance with the instructions to Forms 10-K and 10-Q, continue to garner comments from the SEC staff. Specifically, there are often errors in the information required to be included as exhibits, which include management's certifications. Guidance on the form and content of exhibits can be found in Item 601 of Regulation S-K.

Comments received in this category often relate to:

- Improper dating of certifications
- Omission of signatures from appropriate officers
- Use of inappropriate language in certifications of the principle executive officer and principle financial officer
- Omission of required exhibits and appendices within the filing

While these comments do not typically require significant effort to address, the resolution of these comments may require a registrant to file an amendment.

Sample comments

1. The certification refers to the Annual Report on Form 10-K for the period ended June 30, 2013 rather than September 30, 2013. Please amend your Form 10-K to provide certifications which refer to the appropriate period. Please refile the Form 10-K in its entirety and ensure that the certifications are currently dated and refer to the Form 10-K/A. In a similar manner, please amend your Form 10-Q for the period ended December 31, 2013 as the certification provided in Exhibit 32.1 also appears to refer to the wrong period.

2. This report does not appear to have been signed by a majority of your directors. Refer to General Instruction D(2)(a) and (b) of Form 10-K. Please advise.

3. We note that your 906 certifications furnished pursuant to Rule 13a-14(b) of the Exchange Act were both signed by your principal executive officer rather than by your principal executive officer and principal financial officer. Please amend your filing to include currently signed and dated certifications that are signed by both your principal executive officer and principal financial officer. The amendment should include the entire filing with the proper certifications.

4. There are a number of exhibits listed in your exhibit index for which it does not appear that you have included the document in the current filing or incorporated the document by reference to a previous filing. To the extent that an exhibit is not relevant to your company, please delete the reference in the exhibit index. Please revise accordingly.

Other trends

Business Combinations

M&A activity is expected to continue to increase in the automotive sector. As registrants prepare disclosures related to acquisitions, the guidance in ASC 805, *Business Combinations*, specifically ASC 805-10-50-1 through 7, should be carefully considered. The acquisition-related accounting and disclosure requirements can be complex, and can vary based on the nature of the transaction and the nature of the assets acquired and liabilities assumed. As companies continue to seek growth opportunities or other means of developing new technologies such as fuel cells, through acquisitions, we expect that the SEC staff will continue to comment on various acquisition accounting and disclosure items.

The SEC staff comments have focused on both the accounting and disclosure requirements of ASC 805, *Business Combinations* with focus on any deficiencies in the required disclosures, including:

- Questions about how fair value was determined and the key assumptions used
- The reasons for significant adjustments to the initial fair values recorded and the reasons why such information was not available at an earlier date
- How goodwill was allocated to reporting units and the interplay with the company's operating segments disclosures
- How the company evaluated whether the acquired set of assets and activities represented an asset or business

Sample comments

1. Please amend to show the pro forma revenues and earnings (losses) of the combined entities as though the business combinations that occurred during 2013 had occurred as of the beginning of 2012, or tell us if it is impracticable to provide this information and why, consistent with FASB ASC 805-10-50-2(h)(3).
2. Please amend to disclose the method you used to determine the acquisition-date fair value of your common stock for each acquisition where the consideration included the issuance of your common stock consistent with FASB ASC 805-30-50-1(b)(4).

Indebtedness

The prolonged period of low interest rates has made debt attractive, although the economic uncertainty in recent years has increased the focus on transparent disclosures of debt covenant compliance and related disclosures. The majority of SEC staff comments request that registrants provide more detail on material financial covenants and to explicitly state whether they are compliant.

If registrants have obtained waivers related to non-compliance with debt covenants, then they need to consider the requirements of Regulation S-K Item 402 and ensure the details of such waivers are disclosed, as well as a statement to the effect that the specific debt covenants were not met.

Sample comments

1. For each class of debt, please ensure that you clearly disclose whether you were in compliance with the covenants as of the reporting date.
2. We note that you received a waiver of events of default for the qualified opinion in your financial statements related to the going concern. In this regard, please tell us the period of waiver and whether you expect to regain compliance at the next measurement date. Refer to ASC- 470-10-45-1.

About PwC's Automotive Practice

PwC's automotive practice leverages its extensive experience in the industry to help companies solve complex business challenges with efficiency and quality. One of our practice's key competitive advantages is Autofacts®, a team of automotive industry specialists dedicated to ongoing analysis of sector trends.

PwC U.S. helps organizations and individuals create the value they're looking for. We're a member of the PwC network of firms in 158 countries with more than 180,000 people. We're committed to delivering quality in assurance, tax and advisory services. Tell us what matters to you and find out more by visiting us at www.pwc.com/US. Gain customized access to our insights by downloading our thought leadership app: *PwC's 365™ Advancing business thinking every day.*

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Appendix

SEC Comment Letter Process

The SEC's Division of Corporate Finance (CorpFin) has a long history of reviewing selected filings made under the Securities Act of 1933 and the Securities Exchange Act of 1934. The intent of the review is to monitor and enhance compliance with applicable disclosure and accounting requirements.

Until Sarbanes-Oxley, these reviews were periodic and not subject to specific intervals. Section 408 of the Sarbanes-Oxley Act requires the SEC to review those who issue Exchange Act reports no less frequently than once every three years. A significant number of companies are selected more frequently.

CorpFin does not publicly disclose the criteria it uses to select companies and filings for review, but Section 408 asks the SEC to consider the following selection criteria:

- Issuers with material restatements of financial results
- Issuers that experience significant volatility in their stock price as compared to other issuers
- Issuers with the largest market capitalization
- Emerging companies with disparities in price to earnings ratios
- Issuers whose operations significantly affect any material sector of the economy
- Any other factors that the SEC may consider relevant

Once a company or filing is selected, the extent of the review may be (1) a full cover-to-cover review, (2) a review of the financial statements and related disclosures (e.g., MD&A), or (3) a targeted review of one or more specific items of disclosure. The identified reviewer concentrates on critical disclosures that appear to conflict with SEC rules or the applicable accounting standards and on disclosure that appears to be materially deficient in explanation or clarity. They evaluate the disclosure from a potential investor's perspective and ask questions that an investor might ask when reading the document.

CorpFin performs its reviews through 12 Assistant Director (AD) offices organized based on specialized industry, accounting, and disclosure expertise. An issuers AD assignment is shown in EDGAR following the basic company information that precedes the company's filing history. This organizational structure can sometimes explain why multiple companies in the same industry receive very similar comments around the same time.

Responding to SEC Comment Letters

The SEC staff's comments are based primarily on a company's disclosure and other public information, such as information on the company's website, in press releases, discussed on analysts calls, etc. (nonpublic information, such as whistleblower tips and PCAOB inspection reports, can also be a source of comments). SEC staff comments reflect its understanding of the applicable facts and circumstances. In comments, the SEC staff may request that a company provide additional supplemental information so the staff can better understand the company's disclosure, or may ask that the company provide additional or different disclosure in a future filing or change the accounting and/or revise the disclosure by filing an amendment.

When responding to the SEC staff, keep these best practices in mind:

- *Own the process*—Companies should leverage the knowledge and experience of their auditors and SEC counsel, but it's important to maintain ownership. As with any project, there should be a clear owner and project manager coordinating the input from various sources and developing a response.
- *Don't rush*—Companies should evaluate how long they believe it will take to respond. Although the letter from the SEC staff will request a response in 10 business days, it is acceptable for management (usually through counsel's call to the SEC staff) to request more time if 10 days is not sufficient. A thoughtful and complete response is better than a quick reply.
- *Think about future filings*—Companies should discuss letters received shortly before it is planning to file a registration statement with its auditors and counsel to determine if there are any implications on the content and timing of the registration statement. Questions about timing can also be discussed with the SEC staff as well as the possibility of an expedited review of the company's response.

Appendix

- *Ask the SEC staff*—Companies can call the SEC staff if they do not understand the comment. The objective should not be for the company to explain their position, but to gain clarification when a comment or aspects of the comment is unclear.
- *Remember that comments become public*—Comments become part of the public domain once submitted and resolved. Comments and the related responses are posted to the SEC's website no earlier than 20 days after the review is completed or the registration statement is declared effective. Even those comment letters related to Emerging Growth Companies that have filed confidentially eventually are made public. CorpFin will redact any information subject to a Rule 83 confidential treatment request without evaluating the substance of that request.
- *Don't rely solely on precedent*—The use of previous comments and responses of other companies may be helpful in responding but should not be the primary basis of the response. Each comment is based on specific facts and circumstances and may involve different levels of materiality. Accordingly, the reason the staff accepted a response for one company may not be applicable in another situation. Make sure the response is appropriate based on the company's specific facts and applicable accounting literature.
- *Address the intent of the question*—Consider, if possible, the objective of the SEC staff comment. Sometimes providing a complete answer that addresses the intent of the question can stave off future comments.
- *Provide planned disclosures*—Many comments will request additional disclosure in future filings. To ensure there is a meeting of the minds, provide the SEC staff with a draft of the applicable disclosure, even if the data used is from a prior period. This will allow the SEC staff to assess whether the narrative sufficiently addresses their comment and may prevent future comments on the same disclosure.

The company or its representatives should feel free to involve the SEC's Office of the Chief Accountant (OCA) (distinct from CorpFin's Office of Chief Accountant) at any stage in this process. Generally, OCA addresses questions concerning the application of GAAP while CorpFin resolves matters concerning the age, form, and content of financial statements required to be included in a filing.

Closing a Filing Review

When a company has resolved all SEC staff comments on an Exchange Act registration statement, a periodic or current report, or a preliminary proxy statement, CorpFin provides the company with a letter to confirm that its review of the filing is complete.

When a company has resolved all SEC staff comments on a Securities Act registration statement, the company may request that the SEC declare the registration statement effective so that it can proceed with the transaction.

A more detailed discussion of the filing review process used by the Division of Corporate Finance can be found on the SEC's website as http://www.sec.gov/divisions/corpfin/cffilingreview.htm