

## Corporate & Financial Weekly Digest

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### **SEC Division of Corporation Finance Issues 10 New C&DIs Regarding Change in Accountants**

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On January 14, the Securities and Exchange Commission's Division of Corporation Finance issued Compliance and Disclosure Interpretations (C&DIs) with respect to Regulation S-K, Item 304 – Changes in and Disagreements with Accountants on Accounting and Financial Disclosure; and Form 8-K, Item 4.01 – Changes in Registrant's Certifying Accountant.

C&DI 111.01 defines "subsequent interim period" under Items 304(a)(1)(iv) and (v) of Regulation S-K as the period from the end of a registrant's most recent fiscal year through the date of the former principal accountant's resignation, declination to stand for re-election or dismissal. This period is not limited to the end of the most recent fiscal quarterly period. The "subsequent interim period" referred to in Item 304(a)(2) of Regulation S-K, which requires disclosure of the engagement of a new principal accountant, is the period from the end of the registrant's most recent fiscal year through the date on which the new principal accountant is engaged.

C&DI 111.02 states that while Item 304(a)(1)(iv) of Regulation S-K requires affirmative disclosure by a registrant if there are no disagreements, a registrant is not, in addition, required to disclose that it has no reportable events under that Item if there are no such reportable events.

C&DI 111.03 states that a registrant is required to disclose pursuant to Item 304(a)(1)(v)(A) of Regulation S-K that during the registrant's two most recent fiscal years and subsequent interim period the registrant's former principal accountant advised it that the internal controls necessary for the registrant to develop reliable financial statements did not exist, even if the remediation of the internal control deficiency or deficiencies occurred before the end of the subsequent interim period.

C&DI 111.04 states that a registrant has a reportable event under Item 304(a)(1)(v)(A) of Regulation S-K if a former principal accountant advised a registrant during its two most recent fiscal years and any subsequent interim period that there was a material weakness because it is the equivalent of advising the registrant that the "internal controls necessary for the registrant to develop reliable financial statements do not exist." C&DI 111.04 further states that a registrant does not have a reportable event under Item 304(a)(1)(v)(A) of Regulation S-K if a former

principal accountant advised the registrant that one or more significant deficiencies in internal control over financial reporting existed, but did not also advise that there was a material weakness. However, the factors that led to a significant deficiency could result in the conclusion that there are other reportable events that require disclosure by the registrant.

C&DI 111.05 states that a registrant has a reportable event under Item 304(a)(1)(ii) of Regulation S-K if the registrant's principal accountant issued an audit report on the registrant's financial statements in the last two fiscal years containing an explanatory paragraph regarding the registrant's ability to continue as a going concern because the explanatory paragraph represents a modification of the principal accountant's audit report for an uncertainty.

C&DI 111.06 states that a registrant does not have a reportable event under Item 304(a)(1)(ii) of Regulation S-K if a registrant's principal accountant issued a report on the registrant's internal control over financial reporting in the last two fiscal years containing an explanatory paragraph, adverse opinion or a disclaimer of opinion, as Item 304(a)(1)(ii) refers only to the principal accountant's "report on the financial statements." Registrants can voluntarily disclose information about reports on internal control over financial reporting; however, a registrant has a reportable event under Item 304(a)(1)(v)(A) of Regulation S-K if such reports contain an adverse opinion with respect to the effectiveness of internal control over financial reporting.

C&DI 111.07 and C&DI 114.01 state that if a registrant's principal accountant resigns, declines to stand for re-election or is dismissed because its registration with the Public Company Accounting Oversight Board (PCAOB) has been revoked, the registrant must disclose this fact under Item 4.01 of Form 8-K to clarify the reason why the principal accountant resigned, declined to stand for re-election or was dismissed.

C&DI 114.02 states that disclosure is required pursuant to Item 4.01 of Form 8-K if a registrant engages a new principal accountant that is related in some manner to the former principal accountant (e.g., the firms are affiliates or are member firms of the same network), and the new principal accountant is a separate legal entity and is separately registered with the PCAOB.

C&DI 114.03 states that disclosure may be required under Item 4.01 of Form 8-K when a registrant's principal accountant enters into a business combination with another accounting firm, depending on the structure of the business combination and other facts and circumstances.

Click [here](#) to read C&DI 111.

Click [here](#) to read C&DI 114.

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