www.pwc.com

Stay informed
2014 SEC comment letter trends
Financial Services

Current developments in SEC reporting

November 2014

To Our Clients and Friends:

The Securities and Exchange Commission ("SEC") continues to emphasize the primary role and responsibility assumed by management and audit committees in providing meaningful and transparent information to investors. The uncertainties in the current economic and regulatory environment make the preparation of high-quality reports increasingly important and challenging.

To help you prepare for your annual reporting, PwC's Financial Services Industry Group has developed the enclosed publication titled Stay informed Financial Services 2014 SEC comment letter trends. In this latest edition of our annual publication we have analyzed SEC staff comment letters issued to registrants across different sectors within the financial services industry, including: banking and capital markets, insurance, asset management, and real estate. We have highlighted the top areas where registrants received the majority of comments and have also provided relevant examples of recent comment letters along with the applicable accounting or reporting guidance.

Understanding the SEC staff's recent areas of focus is an important aspect to consider as part of the year-end reporting process. The SEC staff continues to emphasize the importance of providing information to investors that is reliable, meaningful and transparent, particularly in areas that involve significant judgment. Continuing key themes emphasized by the SEC staff through recent comment letter trends impact both financial and non-financial statement disclosures, with management's discussion & analysis once again being the most frequent area of comment.

We hope that a better understanding of these trends, along with specific examples of comments, will provide you with helpful insights and will aid in your producing high-quality annual reports for investors and other stakeholders. Please don't hesitate to contact your PwC engagement team or me to discuss the information in this publication or to address any questions you may have.

Best regards,

Robert Sands
U.S. Financial Services 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

Overview

To help registrants gain insight into the SEC staff's current areas of interest, PwC analyzed comment letters issued to domestic registrants within the financial services industry. From this analysis, we identified "hot topic" areas, including industry-specific considerations and some other notable trends in comments received across the financial services industry that we believe are relevant and may be of increasing focus in the near term.

The hot topics identified among comments issued to registrants in the financial services industry are somewhat consistent with those in other industries, with management's discussion and analysis disclosures regarding results of operations, liquidity, and capital resources being the most prevalent. Financial services shares a continued focus on loss contingencies and impairments with other industries as well. Other comments specifically impacting the financial services industry relate to valuation and business combinations, among other areas. As in prior years, executive compensation continues to garner a significant number of comments, generally with a focus on the determination, drivers and transparency of executive compensation. In addition, regulatory reporting, primarily as it relates to the insurance sector, was a significant trend, including comments regarding statutory accounting matters.

Our analysis considered the breakdown of the financial services industry into four sectors: banking and capital markets, insurance, asset management, and real estate. All four of the sectors, when analyzed individually, presented substantially similar trends. Significant matters specific to a particular sector are summarized in our "Sector highlights" section.

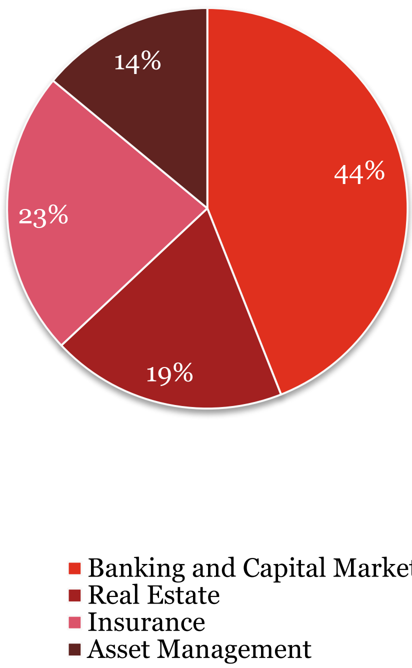
Rank	"Hot topic" financial services reporting areas	%
1	Management's discussion and analysis	28
2	Fair value measurements	11
3	Business combinations	7
4	Regulatory reporting*	4
5	Impairments	3
6	Executive compensation	3
7	Loss contingencies	2
8	Other**	42
Total		100

*See statutory disclosures in the Insurance sector highlights for further detail
**Primarily items covered in sector highlights

Overview

The chart below shows the percentage of total comments by sector included in our analysis of comment letter trends.

Breakdown by sector



Methodology

The analysis of SEC staff comment letter trends was based on comments issued and released by the SEC between November 1, 2013 and October 31, 2014 related to Forms 10-K and 10-Q. For consistency of evaluation, the analysis was based solely on the Standard Industrial Classification (SIC) codes indicated on the SEC EDGAR website for each respective financial services sector, as follows:

- Banking and Capital Markets – 6021, 6022, 6029, 6035, 6036, 6099, 6111, 6141, 6153, 6159, 6162, 6163, 6172, 6189, 6199, 6200, 6211
- Insurance – 6311, 6321, 6324, 6331, 6351, 6361, 6399, 6411
- Asset Management – 6282, 6221, 6799, and Business Development Companies
- Real Estate – 6500, 6510, 6512, 6513, 6519, 6531, 6532, 6552, 6798

Financial Services Comment Letter Trends

Management's discussion and analysis and Risk factors

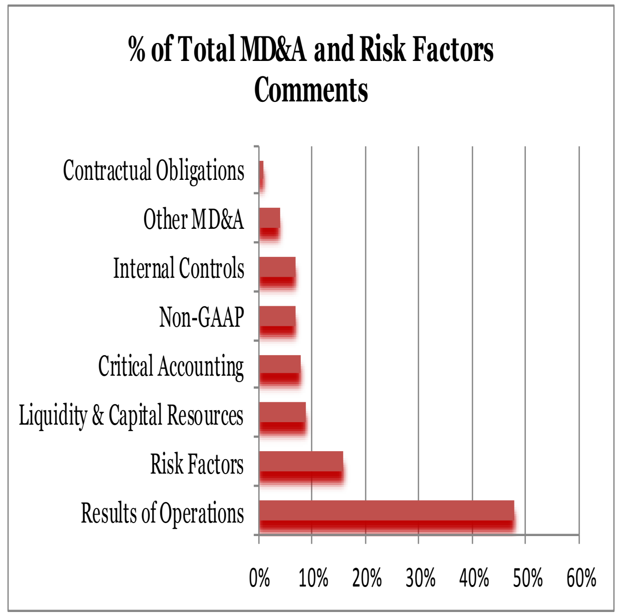
Management's discussion and analysis (MD&A) of financial condition and results of operations is a critical component of registrants' communications with investors and continues to be the top area for comment by the SEC staff in 2014. The key objectives of MD&A are to provide a narrative explanation of 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 performance is 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. Item 503 of Regulation S-K provides the requirements for risk factors. 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 may lead to new requirements.

In the meantime, the comment letter process has 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.

The table below summarizes the percentage of comments received by registrants by topical area of MD&A and risk factors. Results of operations and liquidity and capital resources are the areas of MD&A that have received the most attention in SEC staff comment letters. We provide 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 impact on revenues or income from operations.

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 changes in market conditions, entering a new market or changes in asset classes, or an acquisition that is expected to impact operating results. In addition, they encourage the 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. 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 has been known 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, investor presentations or the company's website, the SEC staff may question why such events are not also addressed in MD&A

Sample comments:

1. We note that your MD&A section is overly brief and does not present all of the information required under Item 303 of Regulation S-K. In future filings, you should provide more analysis of the disclosure you are currently providing. For example, discuss the reasons for the increases or decreases in operating expenses and address the material changes in line items under the "Expenses" section, including general and administrative, and professional fees. Rather than simply repeat information that is contained in the financial statements, you should provide an analysis and narrative disclosure throughout your MD&A section so that investors understand the company's business model and future plans in the context of the financial information provided in this section.

2. You state that the low interest rate environment has impacted earnings and that in addition to continuing spread compression in your interest sensitive product line, there is also potential for interest rate related impacts to amortization and the level of reserves, which could be material. Please provide us proposed disclosure to be included in your future periodic reports (in MD&A) that discloses the expected effects of this known trend or uncertainty on your future financial position, results of operations and cash flows.

3. Please revise your discussion of results of operations to provide your investors with more insight on the causes of increases or decreases in the components of net income. Please include the following:
   - When you identify more than one reason for an increase or decrease in the components of net income, to the extent possible, please quantify the effect of each different reason.
   - When you identify intermediate causes of changes in revenues please provide your readers with insight into the underlying drivers of those changes.

4. We note your disclosure of underwriting and distribution revenues and expenses segregated by distribution channel. In an effort to provide greater transparency into your various revenue sources, please revise your disclosure in future filings to quantify the significant components of your underwriting and distribution revenues (e.g., 12b-1 fees, front-end load sales, fees from asset allocation products, insurance premiums, etc.). Consider providing these disclosures in a tabular format.

5. We note on your website that you issued an overview of the Mortgage Data Program that includes an implementation timeline of the requirements in such program. We were unable to locate disclosures in your Form 10-K and first quarter Form 10-Q on the program and its related requirements. Please tell us and revise future filings to disclose a detailed summary of the program along with the requirements and implementation dates and how it impacts your business. Please ensure your discussion includes detailed information on the program and whether it will impact any of your internal models (i.e., internal price index).

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 the liquidity and capital resource discussion to address material cash requirements, sources and uses of cash, and material trends and uncertainties related to a registrant's ability to use its 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, 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 repatriate cash to the United States in order to meet 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 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, that 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 when registrants simply repeat 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. In future filings please provide a more informative analysis and discussion of changes in operating cash flows for each period presented. In doing so, please explain the underlying reasons for and implications of material changes between periods to provide investors with an understanding of trends and variability in cash flows. Please ensure your discussion and analysis is not merely a recitation of changes evident from the financial statements. Refer to Item 303(a) of Regulation S-K.
2. Please provide us proposed revised disclosure to be included in future periodic reports that quantifies the parent company's short-term and long-term obligations over the next few years and any plans to deploy excess capital, and that quantifies the sources of liquidity to meet these obligations and plans.
3. Please identify and discuss any known trends, demands, commitments, events or uncertainties that will result in or that are reasonably likely to result in your liquidity increasing or decreasing in any material way. In this regard, we note your disclosure that your long-term indebtedness has steadily increased and has more than doubled in five years. Please refer to Item 303(a)(1) of Regulation S-K.
4. We note you have international operations in multiple foreign countries and local taxes and currency controls may impact your ability or willingness to repatriate funds to the United States. Please clarify the amount of cash and cash equivalents held by foreign subsidiaries. To the extent material, please revise future filings to disclose this amount and also provide a statement indicating whether it is your intention to repatriate these funds and that you would need to accrue and pay taxes if repatriated.

Risk factors

Registrants are required by Item 503(c) of Regulation S-K to provide a description of significant risk factors within Item 1A of the Form 10-K. The discussion should include an explanation of the risks that specifically affect the registrant (a summary of generic risks that would apply to all entities is not sufficient). Registrants are also required to address market risks, including credit and interest risks, in Item 7A of the Form 10-K.

In recent months, cybersecurity has become a top concern for many companies, regulators and law enforcement agencies given the impact it has had on companies and other capital market participants. Cyber-attacks aimed at the capital markets can have a devastating effect not only on a company but also on the economy and individual consumers. The SEC staff has continued to focus on cybersecurity-related issues and in 2011 issued guidance to assist public companies with their disclosures of cybersecurity risks and cyber incidents. The guidance reminds companies to disclose the risk of cyber incidents if it is among the most significant factors that make an investment in the company speculative or risky. Registrants should evaluate their cybersecurity risks and take into account all available relevant information, including prior cyber incidents and the severity and frequency of those incidents in determining whether a risk factor is required.

Sample comments:

1. We note that you disclose that you may be vulnerable to breaches, hacker attacks, unauthorized access and misuse, computer viruses and other cybersecurity risks and events. Please tell us whether you have experienced any breaches, hacker attacks, unauthorized access and misuse, computer viruses and other cybersecurity risks and events in the past and, if so, whether disclosure of that fact would provide the proper context for your risk factor disclosures.
2. We note the Company increased its mortgage banking activities during the year and intends to continue to increase its activities in this area going forward. Please tell us and revise future filings to disclose the specific risks involved with this shift in business focus, including the Company's exposure in the event it is unable to sell the mortgages into the secondary market.
3. Please expand the risk factor to explain that adverse market conditions vary with respect to different products and the overall product mix. For example, you noted in your recent earnings call that several of your products generally perform better in down markets and you have experienced net outflows in periods of strong market conditions.

Fair value measurement

The SEC staff has continued to focus on compliance with the financial statement disclosure requirements included in ASC 820, *Fair Value Measurement*, emphasizing both the quantitative and qualitative requirements set forth in the standard. Qualitative comments have placed an emphasis on how the registrant implements its processes and controls to support fair value measurements, while the quantitative comments have focused on significant unobservable inputs for level 3 measurements and how they were used to determine fair value.

Management's process to understand the assumptions used by third-party pricing sources has been a point of focus by the SEC staff. Comments have been focused on ensuring management maintained responsibility for the estimates provided by the pricing service and used in the company's financial statements. Ultimately, management's ownership and understanding will result in more meaningful and reliable information disclosed in the financial statements.

The SEC staff comments have continued to focus on the following disclosures:

- The weighted average of the significant unobservable inputs to supplement any wide ranges and the basis for determining the weighted average
- The amount for each valuation technique used within a class of assets or liabilities when multiple valuation techniques were used
- The factors considered when determining the appropriate weighting to be applied to each valuation technique when multiple valuation techniques are used to determine fair value
- The procedures and controls in place to support the completeness and accuracy of the prices received from third party vendors
- The basis for any adjustments made to the valuations received from third-party vendors

As it relates to the categorization of assets and liabilities within the fair value hierarchy, the SEC staff has requested additional information from registrants supporting their determination of a particular asset or liability's classification. Questions raised by the SEC staff surrounding leveling have been asked about both assets and liabilities measured using valuations provided by third-party vendors and those valuations measured internally. The SEC staff has challenged companies' classification of certain level 2 assets and liabilities whose valuations may include significant level 3 inputs.

Sample comments:

1. We note your disclosure of the range of significant unobservable inputs used in the fair value measurement of level 3 assets and liabilities as well as qualitative information on the sensitivity of the fair value measurements to changes in the significant unobservable inputs. Given the wide range of assumptions for several of the categories, please revise your future filings to also provide a weighted average of the significant unobservable inputs reported, similar to the illustration provided in ASC 820-10-55-103, and state your basis for calculating the weighted average (e.g., weighted average by notional, principal, etc.).
2. Please break out (based on the valuation technique actually used) the dollar figures in the column entitled "Fair Value at December 31, 20XX" among the various valuation techniques set forth in the column entitled "Valuation Technique".
3. We note that you use valuations provided by third-party pricing services as the basis for your fair value measurements for several different types of financial instruments. Please revise your future filings to disclose the procedures you perform to validate the valuations received from such third-party pricing services.
4. We note that the fair values of certain level 3 investment are determined using broker quotes for the subject security and/or similar securities. We also note your disclosures related to the valuation process for fair value measurements categorized within level 3. Please enhance your disclosure in future filings to address the following:
   - Discuss the average number of broker quotes received and whether such quotes are binding or non-binding.
   - Describe the process you undertake to validate the broker quotes received.

Fair value measurement

- Confirm the broker(s) quotes you receive provide you with sufficient detail such that you are able to assess whether the pricing methodology complies with ASC 820.
- Discuss how frequently you adjust the pricing of any particular security you receive from the broker(s).

5. You disclose that in your fair value measurement for collateral dependent loans you discount third-party appraisals based on the historical sales proceeds compared to appraised values. This discount appears to meet the definition of a level 3 input. This input also appears to be significant to the entire measurement and therefore, the entire measurement should be categorized within level 3 of the fair value hierarchy. Refer to ASC 820-10-35- 38A. Please revise your disclosure accordingly or tell us why you do not believe the discount is a level 3 input. Additionally, please disclose the information required by ASC 820-10-50-2.bbb and c.

6. We note that you have classified impaired loans as level 2 in the fair value hierarchy, and have disclosed that the fair value is determined based on quoted prices for similar assets, adjusted for the attributes of the loan, or based on the fair value of the collateral, which is typically estimated based on the quoted market prices if available, appraisals or other internal valuation techniques. Please tell us in more detail how you determined that the techniques used for these impaired loans qualified as level 2 in the fair value hierarchy. For example, describe the types of impaired loans and the market information used in the analysis to support a level 2 classification.

7. It appears from your fair value hierarchy disclosures that the majority of your credit derivatives are level 2. Please address the following regarding your credit derivatives in your synthetic credit portfolio: Tell us the level in which you have classified these instruments in the fair value hierarchy as well as your basis for including the item in that particular level. Tell us if there were any adjustments made for liquidity or any other adjustments made to the fair value of these positions. If so, tell us how you consider whether the adjustment is significant to the overall fair value measurement for purposes of classification in the fair value hierarchy.

Business combinations

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 through acquisitions, the SEC staff continues to comment on various acquisition accounting and disclosure items.

ASC 805, *Business Combinations,* requires extensive disclosures to enable users to evaluate the nature and financial effects of a business combination. Companies should carefully consider all of the disclosure guidance in preparing financial statements, both in the period of the acquisition and in subsequent periods.

For companies in the financial services industry, SEC staff comments have focused on both the accounting and disclosure requirements of ASC 805, including:

- Questions about how fair value was determined and the key assumptions used
- The reasons for significant adjustments to the initial determination of fair values 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

Sample comments:

1. Please provide us proposed revised disclosure to be included in future periodic reports that indicates your accounting policy for business combinations. In your disclosure, please specifically indicate: that you apply the acquisition method; how you record assets acquired and liabilities assumed; how you record contingent consideration; how you determine the value of goodwill; and, how you treat acquisition costs.
2. We noted that the Company recorded a measurement period adjustment during the fourth quarter, based on the receipt of new appraisals, to reflect a change in the estimate of the acquisition date fair value of the loans acquired earlier in the year. Please confirm, if true, that the new information obtained in the fourth quarter was directly related to facts and circumstances that existed as of the acquisition date.
3. Please tell us how you calculated the purchase consideration associated with the contingently issuable shares of the common stock. Please also clarify and disclose in future filings how you intend to account for any changes in the fair value of this consideration prior to resolution of the contingency, as well as the revenue targets that must be achieved to trigger the annual issuances of stock. We refer to ASC 805-30-35-1.

Loss 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.

Sample comments:

1. In future filings, for any contingencies where there is at least a reasonable possibility that a loss or an additional loss may have been incurred, please provide an estimate of the possible loss or range of loss or a statement that such an estimate cannot be made.
2. Although you do not expect the outcome of outstanding legal proceedings to have a material adverse impact on your financial position, the outcome of any such matters could be material to your results of operations or cash flows in a given period. Despite your assertion that it is not presently possible to determine your ultimate exposure to these matters, please tell us if you are able to estimate a loss or a range of losses that are at least reasonably possible, and revise your future filings to provide this disclosure as required by ASC 450-20-50-3 and 50-4.
3. Please tell us and revise future filings, to address whether there is an exposure to loss in excess of the amount accrued and what the reasonably possible loss or additional loss may be.

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 impairments.

Goodwill and indefinite-lived intangible assets

SEC staff comments during the 2014 comment letter cycle reflected themes similar to 2013. Comments have requested additional details about a company's assessment of qualitative factors used to determine whether it is more likely than not that the fair value of the entity (or the reporting unit) is less than its carrying amount (referred to as step zero). Additionally, details surrounding a company's quantitative impairment tests and the related assumptions used have also been requested. 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

These types of requests are consistent with 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.

Long-lived assets

The SEC staff comments related to long-lived assets were consistent with the themes 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, the impairment of similar assets as a potential trigger event, or how they defined the lowest level of identifiable cash flows used to identify the asset group.

Sample comments:

1. We note your on-going losses in the insurance segment. We also note that the goodwill allocated to this segment is not impaired because you state that the estimated fair value of the insurance reporting unit exceeded its carrying value and that, therefore, step two of the impairment analysis was not performed. Please provide us the following information regarding your analyses for each period presented in your Form 10-K and include any available updated information through the fiscal quarter ended June 30, 20XX:
   - Provide us your complete impairment analysis for each of the periods mentioned above.
   - Provide us a complete narrative of your analyses, including all material assumptions and any change in those assumptions between periods.
   - Provide us pricing information of your common stock and market capitalization for each of the periods mentioned above.

Impairments

- Discuss how this information and any other external indicators were considered in your analyses.

2. We note that you elected to perform a qualitative assessment in your evaluation of goodwill impairment and concluded that performance of the two-step test was not required. Please provide us with additional insight into the positive and negative qualitative factors that you considered in concluding that this qualitative analysis was sufficient for each of your reporting units with specific attention to your Insurance reporting unit given the continued net losses generated by the business in recent periods. Please also tell us the date that you last performed Step 1 of the goodwill impairment test for your Wealth Management reporting unit and its fair value as a percentage of carrying value as of that date.

3. We note that based on a review of past filings a significant amount of your indefinite-lived intangible assets relate to management contracts that were obtained in the acquisition. Please tell us and consider revising your disclosure in future filings to address whether the merger-related outflows impact your assessment of whether the values of the management contract intangible assets are impaired and whether the indefinite-life classification is still appropriate. In your response, specifically address whether, and if so, how you determined that there is a high likelihood of continued renewal based on historical experience for these acquired management contracts, which we noted is a key factor in the assignment of indefinite lives to such contracts per your disclosure on page xx.

4. You stated in the 10-K for the year ended December 31, 20XX that your reporting unit indicated the carrying value exceeded fair value by 2% in step 1 of your goodwill analysis. In step 2 the implied fair value was greater than the carrying value by $X million. Please tell us why you believed your assumptions in your goodwill analysis were reasonable. For example, tell us the basis for assuming the 40% control premium disclosed.

5. Please tell us each reporting unit for your goodwill impairment test and the respective goodwill balance at December 31, 20XX. For any reporting unit in which the estimated fair value is not substantially in excess of the carrying amount and therefore is at risk of failing step one of the impairment test, please provide proposed revised disclosure to be included in future filings to include the following:
   - Percentage by which fair value exceeded carrying value as of the date of the most recent test;
   - Amount of goodwill allocated to the reporting unit;
   - Description of how the key assumptions in the impairment analysis were determined;
   - Discussion of the degree of uncertainty associated with the key assumptions. The discussion regarding uncertainty should provide specifics to the extent possible (e.g., the valuation model assumes recovery from a business downturn within a defined period of time); and
   - Description of potential events and/or changes in circumstances that could reasonably be expected to negatively affect the key assumptions.

Executive compensation

The SEC staff continues to focus on registrants' executive compensation disclosures in an effort to establish more direct and transparent disclosures to shareholders. Item 402 of Regulation S-K contains extensive disclosure requirements related to executive compensation. The applicability of these disclosures varies based on each registrant's particular facts and circumstances. SEC staff comments in this area focused on enhancing the disclosures of specific aspects of an employee's performance and/or the criteria used to evaluate and determine compensation awards. Where benchmark or market data, including competitor information, is used in the evaluation the data, its use should be specifically disclosed.

Sample comments:

1. In future filings, please describe in greater detail how you determine the cash bonus and long-term incentive awards granted to your named executive officers on an individual basis. While we note the subjective nature of your compensation decisions, your future disclosure should provide enough information for an investor to understand why you awarded specific amounts to each named executive officer, as well as the reasons why award amounts may have differed significantly among named executive officers.
2. We note your disclosure illustrated that the total compensation targets "generally fall near the median compensation for peers..." Please clarify how you establish and approve the total compensation targets for your named executive officers.
3. We note that individual compensation levels are determined on a discretionary basis. Please expand your disclosure to describe the factors the Compensation Committee considered awarding the revenue productivity, the subsidiary management bonus and the cash bonus. Expand the discussion of the company based goals and individual performance goals to explain which bonuses these goals were designed to affect. Additionally, discuss the level of achievement of these goals and how these achievements impacted the bonuses awarded.

Pay Ratio Disclosure

The SEC has proposed a new rule, as required under the Dodd-Frank Act, that would require public companies to disclose the median annual total compensation of all employees, excluding the chief executive officer; the annual total compensation of the CEO; and the ratio of the two figures. The proposed rule does not require a specific methodology for determining the median employee, but rather allows for flexibility. The selection of a methodology would be based on a company's circumstances, including the size and structure of the company and the way it compensates employees.

The comment period closed in December 2013 and the SEC is currently moving toward a final rule. Although there is no definitive timetable as to when the final rule will be issued, recent comments by the SEC staff indicate that the final rule may yet be issued in 2014. Under the proposed rule, a company would be required to provide the new pay ratio disclosures for its first fiscal year commencing on or after the effective date of the final rule, which if released in 2014, would mean calendar-year registrants would need to calculate the pay ratio based on 2015 compensation.

Internal Control

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 Conference, 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, with the SEC staff challenging registrant's conclusions regarding the existence and severity of internal control deficiencies. 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.

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.

Item 308 of Regulation S-K requires registrants to disclose any change in the company's ICFR that has materially affected, or is reasonably likely to materially affect, the registrant's ICFR each quarter. Changes requiring disclosure include changes in internal control made in the process of remediating previously identified material weaknesses, as a result of the integration of significant acquisitions, or due to the implementation of new information technology systems. The SEC staff often looks to information contained in companies' current reports, on their websites, and in other sources to identify potential changes in ICFR. SEC staff comments in this area have focused on the timeliness and completeness of the disclosures in periodic filings.

If a registrant has identified one or more material weaknesses in its internal control over financial reporting, the SEC staff may ask that the registrant include a risk factor (in accordance with Item 503(c) of Regulation S-K) to explain the potential adverse effects resulting from these circumstances and how it could impact the company's financial reporting, results of operations and market value.

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.

Internal control

3. Tell us why the severity is limited to the specific, individual process-level errors you describe in your response and how you determined that the reasonably possible potential error for each is limited to the various errors identified. For example, how was it determined that the significant deficiency is limited to only being manifested through an immaterial error in a specific type of revenue transaction.

4. 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.

5. In light of the ineffectiveness of your internal controls over financial reporting, it is unclear to us how you determined that your disclosure controls and procedures were effective. Please explain.

6. Exchange Act Rule 13a-15(b) or 15d-15(b) requires that management evaluate, with the participation of the principal executive and principal financial officers, the effectiveness of disclosure controls and procedure as of the end of each fiscal quarter. Please revise to disclose that your principal executive and financial officer participated in the evaluation. Item 308(a) of Regulation S-K.

7. We see you assessed your disclosure controls and procedures as of December 31, 20X1 as "not effective" due to the material weakness that resulted in the restatement of your financial statements. Subsequently, you conclude that as of March 31, 20X2, disclosures controls and procedures are effective and state that there have been no changes in internal control over financial reporting in the fiscal quarter ended March 31, 20X2. Please tell us how disclosure controls and procedures are now effective without any changes in internal control over financial reporting. Please also reconcile the statement that there were no changes in internal control over financial reporting in the quarter ended March 31, 20X2 with the disclosure of the remediation efforts to address the material weakness subsequent to year-end in your Form 10-K.

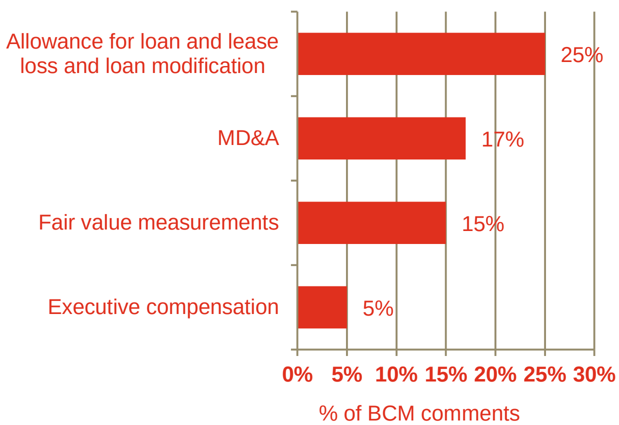
8. In light of the disclosure regarding disclosure controls and procedures in your quarterly reports, please revise this section to provide a risk factor to alert investors to your ineffective controls and procedures. The risk factor should disclose all material risks resulting from these circumstances. In this regard, consider addressing the risk to the Company if it is unable to adequately correct any material weaknesses in its internal controls and procedures. Alternatively, if you have determined that a risk factor is unnecessary, tell us the basis for your conclusion.

Sector highlights

Sector highlights

Banking and capital markets

Most frequent banking and capital market comment letter topics



Allowance for loan and lease losses and loan modifications

The SEC staff continues to focus on the transparency and completeness of disclosures over the allowance for loan and lease losses and modifications. This is an area where significant judgment is required to develop the accounting estimate and continues to be a focus point for investors, regulators and other stakeholders. Comments continue to be focused on changes financial institutions have made to their models and the assumptions used to calculate their allowance. The SEC staff expects disclosures around these changes to be clear and transparent and has requested that registrants quantify the impact of the change.

As the economy continues to stabilize, the focus has shifted slightly to the release of reserves. The SEC staff believes that the investor needs to be able to understand the drivers of changes in the allowance for loan and lease losses ("ALLL") and how they are consistent with the changes to the credit and asset quality indicators. To this end, the SEC staff continues to ask for more robust information, with a focus on the MD&A disclosures regarding economic trends and how they reconcile to the decision to release or increase reserves. Comment letters have also requested additional information about the financial institution's policy of allocating the ALLL to the various pools of assets that are not assessed on an individual basis.

Expressing similar concerns, loan modifications, including troubled debt restructurings ("TDRs"), remains an area of focus for the SEC staff. The staff continues to look for enhanced qualitative and quantitative disclosure around modifications being made and how income accruals are impacted. They have also expressed concern in public statements that they continue to observe a lack of clarity in how banks define payment default and that practices are varied with regard to look back disclosures. In addition, the lack of disclosure around the removal of a TDR designation has been an area of increased comment.

Sample comments:

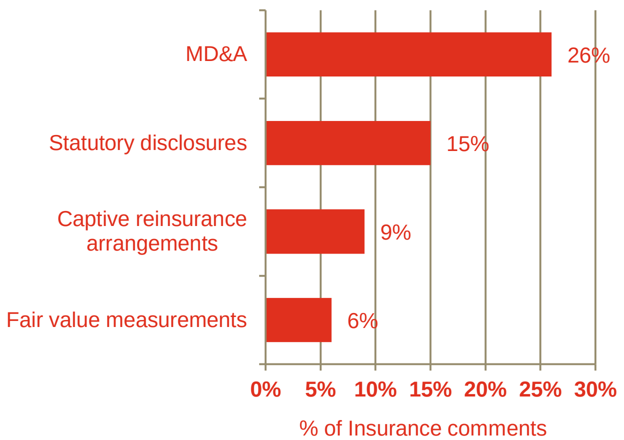
1. Despite the small and decreasing amounts of loan and lease charge-offs and the noticeable improvement in asset quality you have continuously recognized provisions for loan and lease losses over this five year period. Please tell us and revise future filings to provide a more detailed discussion of the changes in your credit quality since your methodology for determining the allowance for loan and lease losses does not appear to capture the apparent improvement in credit quality in your loan portfolio.
2. Please revise the table of non-accruing loans presented in future filings to clearly set forth accruing and non-accruing troubled debt restructurings.
3. Provide a rollforward of the activity in the allowance for loan losses for non-purchase credit impaired loans for each of the periods presented. This will provide the reader with an enhanced understanding of the performance of the non-purchase credit loans given the continued significant growth of these types of loans.
4. You had significant levels of loans classified as delinquent 90 days or more which were accruing/accreting. Please provide us with your analysis that supports the continuing accrual of income on loans that are past due more than 90 days. Please also tell us the fair value of the collateral and the amount of the accretable yield for the non-covered loans that are past due more

than 90 days for which you are continuing to accrue income.

5. Please tell us and revise your future filings to disclose the dollar value and delinquency thresholds for your commercial portfolios (including impaired commercial real estate, construction and land, and large commercial and industrial loans) that are reviewed for impairment on an individual basis.
6. We note that loans individually evaluated for impairment principally include troubled debt restructurings (TDRs). Please address the following for loans that are past due 180 days and individually evaluated for impairment: Tell us whether you believe measuring the incurred losses for loans past due 180 days based on an individual assessment of the most likely outcome, as opposed to a pool basis, is consistent with the guidance in ASC paragraph 310-10-35-21.

Insurance

Most frequent insurance comment letter topics



Statutory disclosures

The SEC staff continues to focus on registrants' statutory and regulatory disclosures as required by ASC 944, *Financial Services-Insurance*, in an effort to establish more direct and transparent disclosures to shareholders. The SEC staff has been consistent with regard to their comments on these disclosures across all types of insurance products. Comments have included requests for information about regulatory requirements of statutory entities and increased disclosure about restrictions on the payment of dividends. The SEC staff also continues to remind registrants that statutory disclosures should not be labelled unaudited.

Sample comments:

1. Disclose the amount of statutory capital and surplus necessary to satisfy regulatory requirements, if significant in relation to actual statutory capital and surplus, as required under ASC 944-505-50-1b. If not significant, please clarify in the disclosure.
2. Disclose the amount of retained earnings or net income that is restricted or free of restrictions for payment of dividends to your stockholders as required by Rule 4-08(e)(1) of Regulation S-X.
3. Regarding your disclosure that statutory amounts for the latest period are unaudited, please represent to us that you will remove this designation in future filings as this information is required by ASC 944-505-50-1a. To the extent you intended to express that the audits of your statutory financial statements were not yet complete at the time you issued your financial statements, we do not believe that the timing of regulatory filings is relevant to disclosures required by GAAP.

Captive Reinsurance Arrangements

Many registrants in the life insurance industry utilize captive reinsurance arrangements to help ease capital strain that can arise under statutory regulations. While the captive reinsurance arrangements are predominately intercompany in nature, the SEC staff has focused on the impact a change in the use of these arrangements may have on the overall business operations of the registrant. Specifically, the SEC staff has asked registrants to disclose the following in MD&A:

- The nature and business purpose of transactions with captives
- Uncertainties associated with the use of captive reinsurance arrangements and the reasonably likely effects on an entity's financial position and results of operations if they discontinued the use of these arrangements
- The extent of reinsurance assumed from third parties
- The amount of assets and other guarantees that secure the captives' obligations

Sample comments:

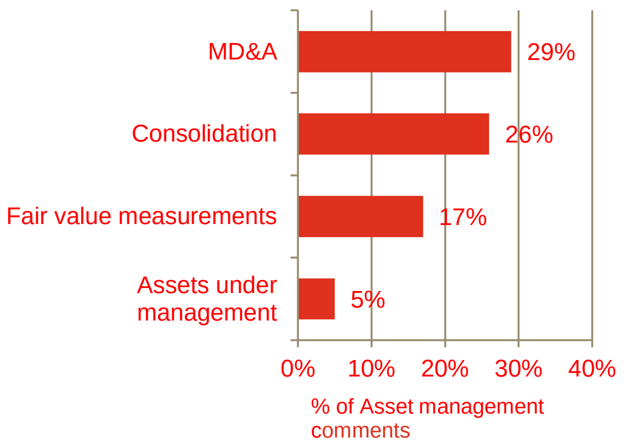
1. Please tell us the nature and business purpose of transaction with captives. Please explain whether and if so, how you reinsure with these captives

including whether, and if so, to what extent, captives assume reinsurance from third parties to whom you ceded policies.

2. Please tell us the amount of captives obligations and the nature and amount of assets, guarantees, letters of credit of promises that secure the captives' obligations.
3. Please tell us the effects in your GAAP consolidated financial statements of transacting with captives directly and, if applicable, indirectly through third parties.

Asset management

Most frequent asset management comment letter topics



Variable Interest Entities (VIE)

Under ASC 810, *Consolidation*, a reporting entity must consolidate any entity in which it has a controlling financial interest. ASC 810 defines a variable interest as investments or other interests that will absorb portions of a VIE's expected losses or receive portions of the entity's expected residual returns. The identification of a variable interest represents one of the more challenging aspects of the VIE model. A VIE is consolidated by the primary beneficiary, which is the party that has the power to direct the entity's most significant economic activities and the obligation to absorb losses or the right to receive benefits that could potentially be significant to the entity. This party could be an equity investor, some other capital provider, or a party with contractual arrangements. Within the asset management sector, VIE's generally include investment companies advised by asset managers and securitization vehicles involving commercial debt obligations and commercial loan obligations.

The VIE model requires that both the primary beneficiary of a VIE and a reporting entity with a variable interest in a VIE disclose key information on their involvement with a variable interest entity. This is in addition to the disclosure requirement that may be required by other accounting topics. Accordingly it is important that companies develop, monitor and maintain systems, processes and internal controls to ensure compliance with these requirements in a timely and complete manner. ASC 810 provides extensive disclosure requirements to enable users to evaluate the nature and financial effects of VIE's.

The SEC staff comments have requested that registrants enhance their disclosures of their accounting policy and the determination of which entities are consolidated and which ones are not. In addition, the SEC staff has requested additional information about registrant's primary beneficiary assessment, focusing on the significant judgments and assumptions, the qualitative factors considered, and the quantitative analysis used, if any, to determine whether the rights to receive benefits could potentially be significant. The SEC staff has also focused on the existence of any control deficiencies relating to a company's consolidation policy and how management determined the severity of the deficiency.

Sample comments:

1. We note your disclosure that many of your funds are considered variable interest entities (VIEs). Given your involvement with a number of entities and the fact that only certain of them are consolidated, please revise your future filings to provide a more specific understanding of the types of entities with which you are involved, why certain entities are considered VIEs vs. voting interest entities, and the key considerations in determining whether such entities should be consolidated. In this regard, we note your accounting policy disclosure discusses your consolidation policy in somewhat general terms but does not provide the reader with a sense of the specific types of entities with which you are involved and how your consolidation determination may vary by entity based on the consolidation model applied.
2. We note your disclosure that for certain asset management funds, you evaluate the rights of the limited partners to determine whether to consolidate the fund in accordance with ASC 810-20-25. Please revise your future filings to disclose, if correct, that first you determine whether these funds are VIEs in accordance with

ASC 810-10-15-14 and you perform the quantitative assessment to determine whether you are the primary beneficiary. For those funds that you determined do not meet the definition of a VIE, disclose that these funds are considered voting interest entities for which you evaluate the rights of the limited partners to determine whether to consolidate the fund.

3. Please provide us with a comprehensive analysis supporting your determination that you are not required to consolidate your CLOs. In this regard, we note that although you have concluded that you have the power (as collateral manager) to direct the activities of the CLO that most significantly impact the entity's economic performance, you do not believe that you have the obligation to absorb losses or the right to receive benefits that would potentially be significant to the VIE. Your disclosure indicates that you performed a quantitative analysis and determined that under various scenarios your fees would not be significant to the CLOs, but it is not clear whether you determined if they could potentially be significant. Furthermore, it is not clear how you considered any seed investments in these CLOs in your analysis.
4. We note that during the third quarter, you deconsolidated a fund and began recognizing your investment in this investment vehicle under the equity method, as your ownership interest declined below 50%. Please provide us with your analysis as to how you determined that you lost control over this investment vehicle and deconsolidation was appropriate, including specific references to the FASB Codification that supports your accounting.
5. We note that you have concluded that no significant deficiencies or material weaknesses (arising from your consolidation policy) existed as of December 31, 20X2 and December 31, 20X1. Tell us whether you identified the existence of any control deficiencies as of either of those dates in relation to consolidation that did not rise to the level of a significant deficiency or material weakness. If so, explain what they are and discuss how you assessed their severity.

As the FASB's consolidation project nears completion, significant changes have been proposed to the principal versus agent model exposed in 2011, making the potential impacts more broad than initially anticipated. The FASB's initial goal was to provide relief to asset managers from consolidating funds they manage; however, the FASB has made decisions that will impact several aspects of the current consolidation guidance and impact all companies. The tentative decisions reached will impact, among other items (1) how to evaluate control for voting entities; (2) when an entity is a variable interest entity (VIE); (3) how to evaluate economics when determining who consolidates a VIE; and (4) when to apply the related party tiebreaker. As a result of the current decisions, both the VIE model and voting model for consolidation are expected to change. The standard is in its final review stages and is expected to be issued in 2015.

Assets under management

The majority of revenues generated by asset management advisors are based on assets under management ("AUM"). Any fluctuations in AUM will generally have a direct impact on revenues and profitability. The AUM disclosures included as part of the results of operations section of MD&A have been a focus of the SEC staff comments for several years. The SEC staff continues to request enhanced disclosures and transparency surrounding the drivers of changes in AUM and how changes to AUM and asset classes impact the registrant's results of operations. They also frequently ask for additional disaggregation of AUM by various distribution channels or investment strategies and how each class of assets under management impacts the results of operations.

Sample comments:

1. We note you present your assets under management (AUM) by channel, asset class, and client domicile and the average mix of active and passive AUM for the last three fiscal years in the tables provided. We also note your discussion states that investment management fees for products offered in the retail distribution channel are generally calculated as a percentage of the daily average asset balances, and for products offered in the institutional and private wealth management distribution channel, fees also vary in relation to the level of client assets managed. Finally, we note that retail products offered outside of the U.S. do not generate a separate distribution fee, as the quoted management fee rate is inclusive of these products. In an effort to provide more transparent disclosures regarding trends in investment management fees, please revise the tables referred to above to include your average AUM by channel, asset class and client domicile.

Sector highlights

2. Please revise your summary of changes in AUM table in your future filings to disaggregate your market and foreign exchange appreciation (depreciation) amounts. In this regard, we also think it would be more useful to provide disaggregated net flows (i.e., inflows and outflows shown separately) in the table, rather than provide this information in narrative format. Provide us with your proposed disclosures.

3. Please provide a reasonably detailed discussion of your roll forward of fee-earning AUM to help readers understand the impact that such performance/activity had on your results of operations and cash flows. Your discussion should include a comprehensive analysis of each of the significant components in your roll forward for each period presented on a consolidated basis as well as by segment, including market appreciation/(depreciation). Please ensure your discussion addresses material contributions or capital commitments, distributions, redemptions and market appreciation/(depreciation), including the identification and quantification of the material underlying sources that drove those activities.

Business Development Companies (BDCs)

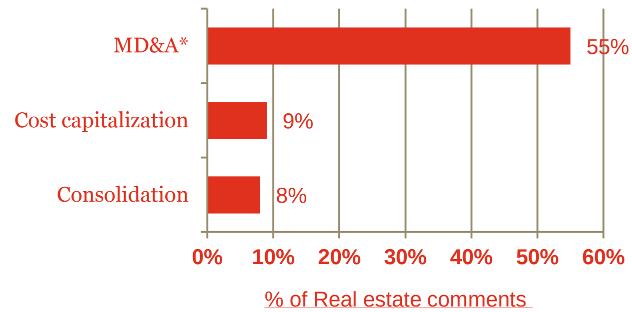
Specific to BDCs, the SEC's Division of Investment Management has issued guidance clarifying the applicability of the rules for presenting separate financial statements and summarized financial information of unconsolidated majority-owned subsidiaries and subsidiaries not consolidated. This guidance has had a significant impact on companies and in some cases, has required BDCs to include the separate audited financial statements of the investee in the Form 10-K or increase disclosures about such investees in the financial statements. The requirement for separate financial statements and/or summarized data with respect to investees is contingent on the significance tests described in Regulation S-X, which determine the financial reporting requirements.

Sample comment:

1. Has the company performed an analysis as to whether the financial statement and disclosure requirements of Rules 3-09 or 4-08(g) of Regulation S-X should be applied? The Staff believes that Rules 3-09 and 4-08(g) of Regulation S-X apply to BDCs and registered investment companies (RICs). Rule 3-09 of Regulation S-X is applicable for a majority owned subsidiary (greater than 50% ownership) which is not consolidated by the Registrant. Rule 4-08(g) of Regulation S-X is applicable for subsidiaries (generally, 25% or more ownership) not consolidated.

Real estate

Most frequent real estate comment letter comments



* Includes "Leasing activities" and "Same property comparison"

Leasing activities

The majority of comments related to MD&A for real estate companies continued to be focused on results of operations and leasing activities. Specifically, the SEC staff has requested enhanced discussion of trends in leasing activities for real estate investment trusts (REITs), including disclosure of average occupancy, average rental rates, comparison of rates of expiring leases vs. current market rents, and costs incurred to obtain new leases.

Sample comment:

1. In future periodic filings please expand your disclosure of your leasing activities for the most recent period, including a discussion of the volume of new or renewed leases, average rents or yields on new and renewed leases, the relationship between new rents and old rents on released space and, where applicable, average tenant improvement costs, leasing commissions and tenant concessions. To the extent you have material lease expirations in the next year, please include trend disclosure regarding the relationship of rents on expiring leases to market rents.

Cost capitalization

Recent comment letters trends show that cost capitalization continues to be an area of focus. The SEC staff has recently asked for disclosure of total soft costs (e.g., interest expense, real estate taxes, payroll, and other general and administrative expenses) capitalized during each period presented. Additionally, the SEC staff has requested further breakout of soft costs capitalized by development, redevelopment, and other capitalized expenditures within MD&A, along with a narrative discussion of fluctuations from year to year. Further, the SEC staff has also requested that registrants disclose in MD&A the anticipated completion date, budgeted costs and costs incurred to date for significant development projects.

The SEC staff has also requested that registrants define when the capitalization period for development begins and ends in their accounting policy footnote and present cash flows used to acquire real estate separate from development costs within the statement of cash flows.

Sample comments:

1. We note that you capitalize soft costs such as interest, payroll and other G&A expenses. In future filings please disclose the amount of these soft costs capitalized that breaks down total capital expenditures between new development, redevelopment and other capital expenditures. Please provide a narrative discussion for fluctuations from year to year.
2. Please tell us, and disclose as part of your significant accounting policies and critical accounting policies in future filings, the capitalization period relating to the other costs associated with your capital projects, including when the capitalization period begins and ends and how that is determined.
3. In future Exchange Act periodic reports, to the extent you engage in development projects or the redevelopment of your properties, and to the extent such development or redevelopment is material, please provide disclosure regarding your anticipated completion date, costs incurred to date, and budgeted costs.

Same property comparison

The SEC staff continues to provide comments on the registrants' explanation of their results of operations, with a focus on same property performance. The SEC staff's comments in this area have focused on providing greater transparency into which properties are included in a registrants' same property portfolio. Specifically, the staff has requested clear disclosure of when development and redevelopment properties are transferred into and out of the same property portfolio and whether acquisitions/dispositions are included. Additionally, the SEC staff has requested enhanced disclosure of the period over period operating performance of the same property portfolio, including the impact of occupancy changes and rental rate changes.

The SEC staff's comments have also focused on registrants providing enhanced disclosure around same property net operating income (NOI). Specifically, the SEC staff has requested that registrants disclose whether management considers same property NOI a key performance measure, define which properties are included in the same property portfolio, and include a clear definition of how same property NOI is computed and a reconciliation to the most directly comparable GAAP measure.

Sample comments:

1. Please tell us if management evaluates the period to period changes in your same store/property performance. If so, please discuss such evaluation and clearly define the same store pool in future Exchange Act reports, as applicable. In addition, within your discussion of the same store performance, please also include disclosure regarding the relative impact of occupancy and base rent and/or management fee changes.
2. In future Exchange Act periodic reports, in order to illustrate for investors your internal earnings growth, please disclose period to period same store net operating income. Additionally, please disclose how you determine the properties that fall within the "same store" pool, including also a discussion of any properties that were excluded from the pool that were owned in all periods compared, and how you determined which revenues and expenses to include in determining NOI. For example, please explain if you include items such as tenant improvement and leasing commissions, ground rent, lease termination fees and marketing costs.

Sector highlights

Consolidation

Consolidation continues to be an area of focus for the SEC staff. Specifically, the SEC staff has focused on investments in which the registrant owns a greater than 50% interest, but accounts for such investment under the equity method of accounting. Registrants should ensure they clearly disclose the provisions of such governing agreement that led the registrant to determine that consolidation was not necessary. For further details on other consolidation issues regarding VIEs, see the VIE section included in the Asset Management sector discussion.

Sample comment:

1. We note that you have a 75% ownership interest in joint venture A. Please provide us with your analysis of how you determined to not consolidate this joint venture. Please cite the applicable guidance in your response.

About PwC's Financial Services Industry

About PwC's Financial Services Industry Group

PwC serves multinational financial institutions across banking and capital markets, insurance, asset management, hedge funds, private equity, payments, and financial technology. As a result, PwC has the extensive experience needed to advise on the portfolio of business issues that affect the industry, and we apply that knowledge to our clients' individual circumstances. We help address business issues from client impact to product design, and from go-to-market strategy to human capital, across all dimensions of the organization.

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 157 countries with more than 184,000 people. We're committed to delivering quality in assurance, tax, and advisory services.

Gain customized access to our insights by downloading our thought leadership app: PwC's 365™ Advancing business thinking every day.

For more information about the Financial Services Industry Group or PwC, please contact:

Robert Sands
U.S. Financial Services Assurance Leader
robert.m.sands@us.pwc.com
(267) 330-2130

Visit our website at:
www.pwc.com/us/en/financial-services

Acknowledgements

This publication represents the efforts and ideas of many individuals within PwC, including members of the U.S. Financial Services Industry Group and the National Professional Services Group. The following PwC personnel contributed to the content or served as technical reviewers of this publication:

Christopher Gerdau
Partner
christopher.gerdau@us.pwc.com
(973) 236-5010

Ravi Rao
Partner
ravi.s.rao@us.pwc.com
(973) 236-7066

Euclid Zurbaran
Partner
euclid.zurbaran@us.pwc.com
(973) 236-7357

Anthony Arrigo
Senior Manager
anthony.arrigo@us.pwc.com
(973) 236-5029

Paul Kolodziej
Senior Manager
paul.j.kolodziej@us.pwc.com
(973) 236-4164

Todd Kosel
Senior Manager
todd.d.kosel@us.pwc.com
(973) 236-5477

Brian Schramm
Senior Manager
brian.c.schramm@us.pwc.com
(973) 236-7720

www.pwc.com