

**SEC Regulations Committee
Center for Audit Quality
October 11, 2007 - Joint Meeting with SEC Staff
SEC Offices – Washington DC**

HIGHLIGHTS

NOTICE: The SEC Regulations Committee of the Center for Audit Quality meets periodically with the staff of the SEC to discuss emerging technical accounting and reporting issues relating to SEC rules and regulations. The purpose of the following highlights is to summarize the issues discussed at the meetings. These highlights have not been considered and acted on by senior technical committees of the AICPA, or by the Financial Accounting Standards Board, and do not represent an official position of either organization.

In addition, these highlights are not authoritative positions or interpretations issued by the SEC or its Staff. The highlights were not transcribed by the SEC and have not been considered or acted upon by the SEC or its Staff. Accordingly, these highlights do not constitute an official statement of the views of the Commission or of the Staff of the Commission.

I. ATTENDANCE

A. SEC Regulations Committee

John Wolfson, Chair
Chris Holmes, Vice Chair
Jack Ciesielski
Michael Cinalli
Brad Davidson
Melanie Dolan
David Follett
Bob Laux
Jeff Lenz
Steve Meisel
Scott Pohlman
Amy Ripepi
Kurtis Wolff

B. Securities and Exchange Commission

Office of the Chief Accountant

Paul Beswick, OCA, Senior Advisor
Adam Brown, Professional Accounting Fellow
Stephen Brown, Academic Fellow
Muneera Carr, Professional Accounting Fellow
Brian Croteau, Associate Chief Accountant

Jonathan Duersch, Assistant Chief Accountant
Julie Erhardt, Deputy Chief Accountant
Bert Fox, Professional Accounting Fellow
Len Jui, Associate Chief Accountant
Jim Kroeker, Deputy Chief Accountant
Jeff Minton, Chief Counsel
Zoe-Vonna Palmrose, Deputy Chief Accountant
K. Ramesh, Academic Fellow
Cheryl Tjon-Hing, Valuation Specialist
Brett Williams, Professional Accounting Fellow

Division of Corporation Finance

Craig Olinger, Deputy Chief Accountant
Louise Dorsey, Associate Chief Accountant
Paula Dubberly, Associate Director (Legal)
Stephanie Hunsaker, Associate Chief Accountant
Todd Hardiman, Associate Chief Accountant
Steven Jacobs, Associate Chief Accountant
Joel Levine, Associate Chief Accountant
Cheryl Linthicum, Academic Fellow
Leslie Overton, Associate Chief Accountant
Michael Stehlik, Staff Accountant
Sondra Stokes, Associate Chief Accountant

Division of Enforcement

Susan Markel, Chief Accountant

C. Center for Audit Quality

Annette Schumacher Barr

D. Guests

Jim Brown, BKD
Nedra Downing, D&T
Bridgette Hodges, Grant Thornton

II. STATUS UPDATE OF PROJECTS/ISSUES

A. Requirement to name valuation specialists as experts and obtain consents

Continuing the discussion from the July, 2007 meeting, the Committee asked the staff for its views regarding the need to name a specialist as an expert and obtain a consent. Particularly, the Committee asked whether a consent is required if the specialist (e.g., a valuation firm) is not specifically named and

if the filing does not contain a statement that the issuer has included information in reliance upon the report of such specialist. The staff stated although this issue has become more prevalent, the staff's position has remained unchanged: If a specialist is named or referred to generically, a consent is required. In response to further detailed questions regarding other types of references (e.g., consultation with legal counsel, actuaries, valuation experts, etc.), the staff replied that if there's a reference in any way, regardless of reliance, the staff will issue a comment requiring the registrant to name the expert and obtain a consent. The Committee and the SEC staff plan to further discuss the topic.

Regarding the wording of the consent, a specialist does not need to admit to being an "expert" but he/she cannot deny it. In addition, it would not be acceptable for the specialist to word the consent in a manner that would limit or disclaim liability.

B. Current Rulemaking Initiatives

- **IFRS acceptance without reconciliation**

Julie Erhardt provided an update on the status of the Commission's recent proposal [Acceptance From Foreign Private Issuers of Financial Statements Prepared in Accordance With International Financial Reporting Standards Without Reconciliation to U.S. GAAP](#). She stated that the staff is in the process of reading and summarizing the comment letter received on the proposing release (to date, 120 comment letters were received). In terms of the comments received, some did not support the elimination but the vast majority supported the elimination. A number of supporters expressed concerns regarding the timing of the elimination (questioning whether the SEC should eliminate the reconciliation now or wait for further convergence). Concerns were also raised regarding the implementation aspects of the proposal. In addition to the SEC's proposed option for an FPI to file based on the English language version of IFRS as published by the IASB, commenters proposed additional reporting options, such as (1) the acceptance of jurisdictional IFRS (e.g., EU IFRS) without reconciliation, (2) the acceptance of jurisdictional IFRS with reconciliation to IASB IFRS, and (3) the acceptance of any local GAAP with reconciliation to IASB IFRS.

Ms. Erhardt stated that the staff has not established a timeline for finalizing the rulemaking process. Any open meetings to discuss final rulemaking will be announced in a Sunshine Act Notice on the SEC website. *[Note: The CAQ comment letter on this proposal can be found on the CAQ website at <http://www.thecaq.org/members/pdfs/CAQ%20CL%20on%20GAAP%20Rec%20Elimination.pdf>]*

- **Small Business Initiatives**

Craig Olinger provided an update on the status of the Commission's Smaller Reporting Company Regulatory Relief and Simplification proposal. He noted that the Commission has received 21 letters responding to the proposal, the majority of which expressed support. A timeline for the finalization of the proposed rules has not been established nor has a determination been made whether all of the small business proposals will be finalized together as a package or independently.

[Note: The CAQ comment letters on the SEC small business initiatives can be found on the CAQ website at <http://www.thecaq.org/members/index.htm>.]

- **Proxy Access**

Craig Olinger provided an update on the status of the SEC Shareholder Proposals and Shareholder Proposals Relating to the Election of Directors rulemakings. The Commission has received over 20,000 comment letters responding to these proposals. Although many of the letters received are form letters, there is significant and varying interest in these proposed rules. Chairman Cox has indicated that he would like the rules finalized in time for the coming proxy season.

C. Future Rulemaking Initiatives

- **Restatements and Item 4.02 of Form 8-K**

Item 4.02 of Form 8-K currently requires that the company file a report within four business days of the triggering event of a decision that its past financial statements should no longer be relied upon. Because the rule does not specifically mention restatements, some issuers have chosen to disclose a determination that investors should no longer rely upon past financial statements into a periodic report rather than filing an 8K. As part of an update to its prior restatement study, the Government Accountability Office issued a recommendation that the Division improve the consistency and transparency of information provided to investors in this area.

In a speech earlier this year, Division Director John White indicated that the Division is considering codifying the SEC staff position expressed in response to Question 1 of the 2004 Form 8-K FAQ in the instructions to Current Report on Form 8K; that is an Item 4.02 8-K must be filed — rather than just including that disclosure in a periodic report — any time a determination is made that the public should not rely on previously filed financial statements. In addition, the Division is also considering whether transparency might be promoted by a rule that required the filing of a Report on Form 8-K any time a company has determined to restate its financial statements.

The staff indicated that no timetable has been set for the SEC's consideration in this area.

Voluntary Filers

The staff is currently looking at this area and considering whether voluntary filers should continue to be allowed to move in and out of the reporting system and whether voluntary filers must fully comply with all SEC disclosure requirements. This is an area of potential rulemaking.

- **XBRL**

The staff reported on the following recent developments relating to XBRL implementation:

Creation of US GAAP Taxonomies. On September 25, Chairman Cox [announced](#) the completion of all work on developing data tags for the entire system of U.S. generally accepted accounting principles. The taxonomies, which were created by the XBRL US Standards Consortium, are currently under review for GAAP compliance by the FAF (Financial Accounting Foundation). Critical stakeholder groups including analysts, public company preparers and software providers will also be reviewing the draft taxonomies before a broad-based public review is initiated.

Formation of Office of Interactive Disclosure. On October 9 the SEC announced the creation of a new office to lead the transformation to interactive financial reporting by public companies. The [Office of Interactive Disclosure](#) will be led by David Blaszowsky, an 11-year veteran of McGraw-Hill, whose career includes seven years with the firm's Standard & Poor's division.

The staff is working to draft a report on the possible mandate of XBRL data tagging in SEC reports. The staff will consider the appropriate scope of data tagging within filings (e.g., primary financial statements, note disclosures), the scope of any initial requirement (e.g., certain large accelerated filers), and effective dates for transition. The SEC is expected to consider its staff's report and potential rulemaking in the spring of 2008.

It was also noted that The XBRL Assurance task force of the AICPA Assurance Services Executive Committee is assessing the assurance implications of reporting in XBRL format. The task force is observed by SEC and PCAOB representatives and has liaisons to both the CAQ Professional Practices Executive Committee (PPEC) and the AICPA Auditing Standards Board (ASB).

- **Climate Change Risk Disclosures**

The Committee asked the staff whether there are any plans to issue guidance in response to a recent [Petition for Interpretive Guidance on](#)

Climate Risk Disclosure. The staff stated that it is currently considering the need for any guidance in this area.

D. Recent/Pending Accounting, Disclosure and SEC Rule Changes

- **FIN 48**

The staff indicated that they were not aware of any new implementation questions or issues.

- **SAB 108**

The staff indicated that they were not aware of any new implementation questions or issues.

- **Executive Compensation/CDA Disclosures**

On October 9 the Commission staff published a report discussing the principal themes that emerged from its initial review of the disclosure of 350 public companies for compliance with the Commission's new and enhanced rules for executive compensation and related disclosure. The staff report is available at <http://www.sec.gov/divisions/corpfin/guidance/execcompdisclosure.htm>.

Paula Dubberly noted that these executive compensation reviews are dialogues in which companies have an opportunity to discuss comments with which they don't agree and/or areas they believe aren't applicable. She also noted that CDA disclosures were addressed in a recent [speech by John White](#) (expressing concern regarding missing analysis in the first year's CD&A) as well as a [speech by Chairman Cox](#) (advocating the use of "plain language").

- **FAS 157 and FAS 159**

Jim Kroeker said that the SEC staff had not yet received many formal consultation requests related to the new fair value standards. He also observed that the detailed nature of questions relating to FAS 157 implementation raised at the initial meeting of the FASB's new Valuation Resource Group indicates that practitioners are still operating with a rule-based mindset. He emphasized that the application of judgment is very important to the proper implementation of the principles in FAS 157.

Mr. Kroeker noted that the FASB has received numerous requests for a deferral of FAS 157 implementation dates and added that any deferral could have implications to the effective dates of other standards such as FAS 159, SOP 07-1, etc. *[Note: On October 17, 2007, the FASB voted NOT to defer FAS 157 in its entirety, but might consider deferring the effective date for specific provisions.]*

- **Foreign Private Issuer Deregistration and Auditor Independence Considerations**

Background: Under the new SEC deregistration rules, a foreign private issuer may apply for deregistration by filing Form 15F. This automatically suspends the registrant's Exchange Act reporting obligations and triggers a 90-day waiting period at the end of which, assuming the SEC has no objections, the registrant's Exchange Act reporting obligation terminates. It is possible that the SEC could object to a registrant's request for deregistration or that the registrant might withdraw its application. In these circumstances, within 60 days of the date of the denial or withdrawal, the issuer must submit all reports that otherwise would have been required. The issuer would then continue as a registrant with the SEC and be subject to the PCAOB independence rules.

Question: What is the SEC's experience and expectations regarding rejecting requests for deregistration? A rejection could affect independence determinations by the auditors and the need to provide further audit services under U.S. GAAS.

Staff Response: Since the new deregistration rules were issued in June, several foreign private issuers have applied for deregistration and none were rejected. Mr. Olinger stated that the intent of the rule is to allow deregistering; the staff does not want to impede this intent by denying applications for deregistration. However, if the Staff sees an inconsistency with an FPI's compliance with the criteria for deregistration, they might question the application.

E. Advisory Committee on Improvements to Financial Reporting

The staff provided an overview of the SEC Advisory Committee on Improvements to Financial Reporting. The advisory committee will focus on the following areas before making recommendations to the Commission:

- the current approach to setting financial accounting and reporting standards;
- the current process of regulating compliance by registrants and financial professionals with accounting and reporting standards;
- the current systems for delivering financial information to investors and accessing that information;
- other environmental factors that drive unnecessary complexity and reduce transparency to investors;
- whether there are current accounting and reporting standards that impose costs that outweigh the resulting benefits, and

- whether this cost-benefit analysis is likely to be impacted by the growing use of international accounting standards.

The advisory committee held its first meeting on August 2 and its next meeting is scheduled for November 2. The meeting will be open to the public and will also webcast on the SEC website at www.sec.gov.

F. Committee recommendations for Staff speech topics at SEC Conference

- The Committee agreed to provide speech topics as soon as practicable.

G. Status of Publication Projects and Other Initiatives

The Committee and staff indicated that there were no developments to update for the following projects/initiatives:

- Staff Training Manual
- Alerts to be issued by the Division of Corporation Finance or Office of the Chief Accountant
- Current Accounting and Disclosures Issues (last update – 11/30/06)
- Compilation of Joint Meeting Highlights

H. Personnel Changes

The staff noted the following personnel changes:

Office of the Chief Accountant

Steven Brown, Academic Fellow

Jeff Minton, General Counsel

Paul Beswick, Senior Advisor

Jeff Ellis, Professional Accounting Fellow

Burt Fox, Professional Accounting Fellow

Adam Brown, Professional Accounting Fellow

Bret Williams, Professional Accounting Fellow

Division of Corporation Finance

Cheryl Linthicum, Academic Fellow

Division of Investment Management

Toai Cheng has left the Commission and the Division of Investment Management will be hiring a replacement this fall.

Division of Enforcement

The Division of Enforcement had one job opening this summer. The posting has now closed and it is expected that the new position will soon be filled.

Office of Interactive Disclosure

David Blaszkowsky will lead this newly created office.

III. SPECIFIC PRACTICE ISSUES – DISCUSSION DOCUMENTS

The following emerging practice issues were addressed at the meeting and discussion documents have been posted to the Center for Audit Quality website at the URL indicated.

Current Practice Issues

- A. Assessing the Age of Financial Statement Requirements Relating to an Acquired/To Be Acquired Business When the Registrant and the Acquiree Have Different Fiscal Year-Ends**
- B. Financial Information Required in Registration Statements When there are Retrospective Accounting Changes as a Result of Eventual Adoption of Proposed FASB Staff Position ABP 14-a**
- C. Application of Rule 3-05(b)(3) of Regulation S-X Regarding Financial Statements Used to Measure Significance When an Acquired or to be Acquired Business Is a Successor to a Predecessor Company**

Committee Documents Previously Provided to the Staff

- D. Application of Rules 3-10 and 3-16 of Regulation S-X to Automatic Shelf Registration Statements (based on November 2006 meeting with the staff; draft sent to staff on December 11, 2006)**
- E. Financial Statements of Credit Enhancers and Related Accountants' Consents in Filings by Asset-Backed Issuers (Sent on July 31, 2006)
*[OPEN ITEM TO ADD URLs AFTER POSTING]***
- F. Application of Rules 3-09 and 4-08(g) of Regulation S-X to Investments Accounted for Using the Fair Value Option under SFAS No. 159 that Otherwise Would be Accounted for Under the Equity Method under APB 18 (Document E from the July 2007 meeting)**