

**SEC Regulations Committee
Center for Audit Quality
April 9, 2008 - 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
Doug Bennett
Leonard Brams
Jack Ciesielski
Michael Cinalli
Brad Davidson
Melanie Dolan
Karin French
Leonard Gatti
Bob Laux
Jeff Lenz
Steve Meisel
Scott Pohlman
Amy Ripepi
Tom Weirich
Kurtis Wolff

B. Securities and Exchange Commission

Office of the Chief Accountant

Paul Beswick, OCA, Senior Advisor
Muneera Carr, Professional Accounting Fellow
Jim Kroeker, Deputy Chief Accountant
Shelly Luisi, Senior Associate Chief Accountant
Jenifer Minke-Gerard, Senior Associate Chief Accountant
Jeff Minton, Chief Counsel

Division of Corporation Finance

Wayne Carnall, Chief Accountant
Craig Olinger, Deputy Chief Accountant
Louise Dorsey, Associate Chief Accountant
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

Division of Enforcement

Susan Markel, Chief Accountant
Charles Wright, Senior Legal Advisor

C. Center for Audit Quality

Annette Schumacher Barr

D. Guests

Nedra Downing, D&T
John May, PwC

II. Commission and Division Organizational and Staff Changes

A. Office of the Chief Accountant (OCA) Update

Mr. Kroeker noted that OCA has announced the names of six new Professional Accounting Fellows (PAFs) that will join the Commission staff in 2008. He added that the Commission's [press release](#) contains more information on the names and backgrounds of the new PAFs.

B. Division of Corporation Finance (Corp Fin) Update

Wayne Carnall was named the Division's new Chief Accountant in December 2007. In addition, Sondra Stokes (Associate Chief Accountant) announced she is leaving the SEC to join D&T. The staff thanked Ms. Stokes for her years of

service to the Commission and stated that individuals have been interviewed to fill her position.

C. Division of Enforcement

Susan Markel noted that her Division is in the process of filling an accounting position created by attrition.

III. Status Update of Projects/Issues

A. Enforcement Concerns

Susan Markel discussed the risk of fraudulent activity in the current economic environment. She stated that with economic downturns comes an increased risk of fraudulent activity motivated by efforts to make things look better than they are. For example, pressure to increase earnings may influence management's decisions on whether to take write-downs or adjust reserves. Liquidity concerns may also lead to increased pressures facing management. Ms. Markel also anticipates an increased volume of "whistleblower" allegations as employees are fired/laid off, especially in the lending industry. She said that the Division will be looking to whether (1) restatements suggest there had been fraudulent financial reporting, (2) write-offs might be excessive, and (3) concerns about compliance with debt covenants during periods of limited credit availability might have led to fraudulent financial reporting.

B. Credit Market Issues/Fair Value Concerns

Enforcement Perspective. In an extension of the discussion of enforcement concerns in the current economic environment, Susan Markel reported that the credit crisis is a very high priority for the Division and work is underway to investigate possible fraud or breaches of fiduciary duty involving collateralized debt obligations. The Division currently has approximately three dozen open investigations in this area. Ms. Markel also stated that a working group dedicated to sub-prime activity has been formed to coordinate Enforcement Division efforts with other Divisions within the Commission (the Division of Trading and Markets, the Division of Corporation Finance, the Office of Compliance Inspections and Examinations, and the Office of the Chief Accountant). This working group also coordinates with other Federal agencies. Areas of focus include (1) mortgage origination and related accounting, (2) mortgage securitization, (3) retail brokerage activities (e.g., disclosure, suitability), and (4) insider trading.

Continued Applicability of FR-61 Fair Value Disclosures. Jim Kroeker said that the staff has received a formal request to reconsider whether the MD&A disclosures recommended in FR-61, regarding trading activities involving non-exchange traded contracts accounted for at fair value, are still needed in light of the disclosure requirements of Statement 157. Kroeker observed that the MD&A disclosures suggested by FR-61 are "more granular" than, and in some cases incremental to, the aggregate disclosures required by Statement

157. While there are no definitive plans for action in this area, it will be considered in the future.

FAS 157 Implementation/Disclosure Concerns. Mr. Carnall discussed the staff's recent [letter](#) sent to approximately 29 financial institutions regarding MD&A considerations about fair value measurements under FAS 157, *Fair Value Measurements*. He noted that it has generated lots of attention from the press and other interested parties. Wayne emphasized that the staff did not suspend, override or amend GAAP or the application of GAAP with the letter. The letter spoke to MD&A disclosure issues and included a list, while not exhaustive, of considerations for disclosure. Mr. Carnall added that the objective of MD&A is to provide insight about the financial statements and not merely repeat disclosures in the financial statements.

Potential Range of Values Disclosed in Financial Statements. The staff observed that if a registrant elects to disclose a range estimate of fair value, the registrant would likely provide such a disclosure in MD&A rather than the financial statements. To the extent that a registrant discloses expectations about the recovery of fair values, or the amount it expects to realize upon disposition, the staff expects the registrant's MD&A to elaborate on the basis for those expectations.

Staff Discussion with Legislative Representatives. Wayne Carnall and Jim Kroeker reported that they have had numerous meetings with Congressional staff to discuss the credit crisis/fair value/FAS 157.

C. IFRS Developments

Mr. Carnall stated that the best source of information on the staff's current direction on international initiatives can be found in [Chairman Cox's speech at SEC Speaks](#) in February. In this speech, Mr. Cox stated "*In 2008, the Division of Corporation Finance and the Office of the Chief Accountant, led by Wayne Carnall and Julie Erhardt, will formally propose to the Commission an updated "roadmap" that lays out a schedule, and appropriate milestones on which the schedule will be conditioned, for continuing the progress that the United States is making in moving to accept IFRS in this country.*"

D. Materiality – Next Steps

Mr. Kroeker noted that the [CIFiR Progress Report](#) focused primarily on the method of correcting material errors. CIFiR clearly provided that (1) errors should be fixed, (2) the passage of time does not mitigate the materiality of an error, and (3) interim materiality assessments also must consider the "total mix" of information relevant to a reasonable investor. [Note: The Center for Audit Quality (CAQ) comment letter responding to the CIFiR Progress Report can be found at <http://thecaq.org/newsroom/pdfs/CAQ%20Comment%20Letter%20-%20File%20No.%20265-24.pdf>] The staff is currently evaluating the recommendations made by CIFiR.

E. XBRL

In [Chairman Cox's speech at SEC Speaks](#) in February, he stated "*In 2008, following years of evaluation and experience through the SEC's voluntary XBRL pilot program, the Commission will consider a rule for the use of interactive data by U.S. reporting companies that will parallel efforts already underway in other countries.*" At the meeting, the SEC staff noted that its work on this rulemaking initiative is progressing "on path." [Note: This proposal has been calendared for May 14.]

F. Staff Communications/Staff Training Manual

Mr. Carnall said that he received numerous suggestions on how the staff can improve their communications with the public. He indicated that there appeared to be strong support among the accounting firms for updating and keeping the staff training manual (Staff Training Manual - Division of Corporation Finance, "Accounting Disclosure Rules and Practices") current. Mr. Carnall stated that the staff is in the process of updating this material with the expectation that it will be made public. In this document, the staff is considering incorporating certain staff positions included in previously issued [highlights and discussion documents of Joint Meetings of the SEC staff and the SEC Regulations Committee](#).

G. Consents of Experts

The Committee and staff discussed requirements for registrants to name third party experts in SEC filings and to provide a consent in connection with Securities Act filings (see the [remarks of Stephanie Hunsaker](#), Division of Corporation Finance Associate Chief Accountant at the December, 2007 AICPA SEC/PCAOB conference). The Committee noted that the SEC staff does not require the consent of a compensation consultant named in the report of the compensation committee as required by S-K Item 407 (see question 5.02 in Corp Fin's interpretations published on the SEC website at <http://www.sec.gov/divisions/corpfin/guidance/execcomp407interp.htm>). The Committee questioned the circumstances in which a consent would be required. Mr. Carnall stated that the staff would consider the views expressed by the Committee and would evaluate if clarification of its views would be beneficial.

H. Impacts of FAS 141R and 160 on Existing SEC Accounting and Disclosure Requirements

Mr. Kroeker acknowledged that there are a number of areas in which published accounting and disclosure positions of the SEC staff might conflict with Statement 141R and Statement 160. The SEC staff is in the process of updating its SEC Staff Accounting Bulletins by the adoption date of the new

standards. In the meantime, registrants should follow the provisions of the FASB Statements when lower level GAAP is in conflict.

IV. 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.

- A. **Impacts of FAS 141R and 160 on existing SEC filing and disclosure requirements**
- B. **Application of new accounting standards with different transition provisions for public and nonpublic companies in connection with an initial public offering**
- C. **Pro Forma MD&As**