SEC REGULATIONS COMMITTEE
Joint Meeting with SEC Staff
June 11, 2003
SEC Headquarters - Washington, D.C.

HIGHLIGHTS

NOTICE: The AICPA SEC Regulations Committee 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

Jay Hartig, Chair
Gerard Brinkman
Jack Ciesielski
David Follett
John Gerdener
Chris Holmes
Gary Illiano
Jim Ledwith
Jeff Lenz
Scott Pohlman
Sam Ranzilla
Ted Stalick
Leonard Weinstock
Tom Weirich
John Wolfson

B. Securities and Exchange Commission

Office of the Chief Accountant

Scott Taub, Deputy Chief Accountant
Douglas Alkema, Professional Accounting Fellow

Jack Albert, Associate Chief Accountant
Cathy Cole, Associate Chief Accountant
Gregory Faucette, Professional Accounting Fellow
Shelly Luisi, Associate Chief Accountant
Paul Munter, Academic Fellow
Eric Schuppenhauer, Professional Accounting Fellow

Division of Corporation Finance

Carol Stacey, Chief Accountant
Craig Olinger, Deputy Chief Accountant
Louise Dorsey, Associate Chief Accountant
Todd Hardiman, Associate Chief Accountant
Joel Levine, Associate Chief Accountant

Division of Enforcement

Greg Scates, Associate Chief Accountant

C. AICPA

Jennifer Roddy, SECPS
Annette Schumacher Barr

II. PERSONNEL CHANGES

A. Office of the Chief Accountant (OCA)

Scott Taub provided the following update of personnel changes in OCA:

- Four new Professional Accounting Fellows began a two-year term with the SEC in April: Robert J. Comerford, Russell P. Hodge, John M. James and Chad A. Kokenge.
- Edmund Bailey, Daniel Dodson, and Marilyn Thaemert have been hired as Assistant Chief Accountants to work on independence issues, audit standards, and standard setting activities, respectively.
- Jackson Day has left the Commission and Sam Burke will be leaving the Commission in June.
- The search for the new Chief Accountant is ongoing. The Chairman's office is actively involved in the search.
- OCA has been authorized to hire 22-24 additional staff members. Certain job positions are posted on the web and qualified candidates are encouraged to apply.

B. Division of Corporation Finance

Carol Stacey provided the following update of personnel changes in the Division of Corporation Finance:

- The Division is in the process of doubling its accounting staff. Right now the Division has 120 accountants. In addition, the Division hopes to fill 6 open PAF positions.
- David Lynn has rejoined the Commission as Chief Counsel.
- Mary Kosterlitz will head the newly-created Office of Enforcement Liaison. This office will staff approximately 5-6 people.
- Brian Breheny will head the Office of M&A.
- Amy Starr and Consuela Hitchcock have been hired as Special Counsels in the Division.

C. Division of Enforcement

Gregory Scates stated that the Office of Enforcement will also be increasing the size of its accounting staff to approximately fifty in the next few years.

III. ENFORCEMENT UPDATE

Mr. Scates provided the following Enforcement Division Update:

Increase in Fortune 500 Investigations. The staff is troubled by the fact that the number of fraud investigations involving Fortune 500 companies has increased from 4 in 1998 to 29 in 2002. The staff hopes this disturbing trend does not continue.

Journal Entries. Several of the Division's recent investigations involve the inadequate review of journal entries. Experienced auditors with a solid knowledge of the client should review journal entries. This review should include top-side and year-end entries. He encourages auditors to refer to the Practice Alert on Journal Entries recently issued by the AICPA SEC Practice Section for useful guidance in this area.

IV. DIVISION OF CORPORATION FINANCE UDPATE

Ms. Stacey provided the following Division of Corporation Finance Update:

Critical Accounting Policies. The staff hopes to have final rules issued before the next MD&A season.

MD&A Interpretive Release. Division Director Alan Beller has stated that MD&A disclosures is an area of Registrant filings that needs improvement. As a result, the staff is working on an interpretive release addressing various MD&A issues with the objective of improving the quality of information provided.

Non-GAAP Financial Measures. The Division is close to issuing its responses to frequently asked questions (FAQ) regarding the use of non-GAAP financial measures. The purpose of the FAQ document will be to assist market participants in understanding the Commission's new rules on non-GAAP financial information. In addition to the FAQ document, the following issues relating to non-GAAP financial measures were discussed:

- Although the new rules regarding non-GAAP financial measures in Item 10(e) of Regulation S-K are consistent with prior staff practice as reflected in Topic 8 of the Staff Training Manual, the Committee has noted a number of aspects in which the requirements are slightly different. The staff stated that it plans on eliminating these differences by either amending Topic 8 or removing it entirely from the Staff Training Manual.
- Registrants are cautioned against including non-GAAP measures as covenants in debt agreements for the sole purpose of disclosing them. Registrants should follow the guidance in the staff's FAQ document regarding this issue.
- The Committee asked whether certain non-GAAP measures that were disclosed by registrants and approved by various staff in previous filings would be accepted in the future. Carol Stacey stated the staff sometimes had varied views regarding the disclosure non-GAAP measures. Now that final rules are in place, however, the staff hopes to have a more consistent approach in its reviews of these disclosures.

Note: Subsequent to the meeting, the FAQ document was issued. The document can be obtained from the SEC website at http://www.sec.gov/divisions/corpfin/faqs/nongaapfaq.htm.

V. OCA UPDATE

Mr. Taub provided the following OCA Update:

Sarbanes-Oxley Act (S-O) Section 404 Rules. The final rules related to S-O Section 404 were issued on June 5. After the Commission's open meeting discussing the final rules, numerous follow-up questions surfaced regarding the role of the auditor in internal control attestation engagements. Specifically, there were questions regarding which services can or should be provided to fully implement Section 404 rules while adhering to the Commission's independence rules. Mr. Taub noted that many of these questions were addressed in a speech he made at the University of Southern California Leventhal School of Accounting

SEC and Financial Reporting Conference on May 29. The speech can be obtained from the SEC website at http://www.sec.gov/news/speech/spch052903sat.htm. Any other questions relating to attestation and auditing issues should be directed to Edmund Bailey, Randolph P. Green or Paul Munter in the Office of the Chief Accountant.

The Committee asked whether 11-K filings are covered under S-O Section 906. Carol Stacey stated that this determination would likely be made by the Department of Justice. *[Note: Subsequent to the June meeting, the Department of Justice and the Commission staff jointly concluded that Section 906 does not apply to Form 11-K. .]*

SAB 103. On May 9, OCA issued SAB No. 103, *Update of Codification of Staff Accounting Bulletins.* This staff accounting bulletin revises or rescinds portions of the interpretive guidance included in the codification of staff accounting bulletins in order to make this interpretive guidance consistent with current authoritative accounting and auditing guidance and SEC rules and regulations. The principal revisions relate to the rescission of material no longer necessary because of private sector developments in U.S. generally accepted accounting principles, as well as Commission rulemaking. The staff hopes to update the SAB codification each time a new FASB standard is issued. The SAB is available on the SEC website.

Study on Principles-Based Accounting Standards. The staff expects to complete the study by the July 30 legislative deadline. Paul Munter stated that the results of the study will focus on the "optimal" form of standard-setting as well as the costs and benefits of changing the current standard-setting process.

FIN 46. The staff is concerned, based on the quantity and nature of questions received, that registrants are not ready to adequately and timely implement the guidance provided in FIN 46. The Committee stated that the staff's concerns are well-founded; many registrants have underestimated the magnitude of the scope and the complexity of FIN 46. As a result, it is likely that there will be 10-Qs filed in the third quarter that will need to be amended in the year-end audit process. The staff is also concerned that registrants are engineering financial partnerships in an attempt to circumvent FIN 46. He cautioned auditors to look closely at this area.

Staff Concerns Regarding Justification for Following "Industry-Wide Practice." Scott Taub described a number of situations recently where transactions have not been brought to the SEC staff when they first occur. Companies then adopt practices that the SEC staff subsequently determines to be incorrect and these companies later argue that the accounting has become common industry practice. Mr. Taub indicated that companies should not assume that the SEC staff will agree that prospective treatment is appropriate just because the practice extends beyond one or a few companies.

Pre-Clearance Inquiries. The staff continues to encourage the discussion of issues on a pre-clearance basis. Questions should be directed to Shelly Luisi or Jack Albert, staff members responsible for managing the process of pre-clearance inquiries.

VI. CURRENT PRACTICE ISSUES

A. Issues Arising from a Registrant's Change in Date for Performance of its Annual Goodwill Impairment Test under Statement 142

Background:

- Paragraph 26 of Statement 142 provides that goodwill of a reporting unit shall be tested for impairment on an annual basis and between annual tests in certain circumstances. The annual goodwill impairment test may be performed any time during the fiscal year provided the test is performed at the same time every year. Different reporting units may be tested for impairment at different times.

- Paragraph 7 of APB 20 provides that a change in accounting principle results from adoption of a generally accepted accounting principle different from the one used previously for reporting purposes. The term accounting principle includes "not only accounting principles and practices but also the methods of applying them."

- Prepared remarks by an SEC staff member at the AICPA National Conference on Current SEC Developments in December 2002 indicated that the SEC staff does not view the requirements of Statement 142 as so rigid that an entity could not change the annual date for the performance of the goodwill impairment test. The SEC staff member indicated the SEC staff generally believes that companies should be able to change so long as (1) no more than a 12 month period of time exists between the original annual impairment testing date and that subsequently selected and (2) the change in testing dates was not made with the intent of accelerating or delaying an impairment charge. Additionally, it was noted that triggering events would always result in an interim impairment test and frequent changes in annual testing dates might raise SEC staff concerns.

- At the March 11, 2003 SEC Regulations Committee meeting the SEC staff reiterated the comments made at the AICPA National Conference on Current SEC Developments in December 2002, but clarified their view that a change in the annual goodwill impairment testing for a reporting unit would constitute a change in the method of applying an accounting principle, as discussed in paragraph 7 of Opinion 20. Accordingly, such a change would be subject to the guidance in paragraph 15 and 16 of Opinion 20, which requires justification of the change on the basis of preferability. Furthermore, Rule 10-01(b)(6) of Regulation S-X requires that a registrant who makes a material change in its method of accounting disclose the date of and the reason for the change. Under the applicable SEC regulations, the registrant must also include as an exhibit in the first Form 10-Q filed subsequent to the date of an accounting change a letter from the registrant's independent accountants indicating whether or not the change is to an alternative principle, which in the independent accountant's judgment, is preferable under the circumstances. Staff Accounting Bulletin Topic 6G.2.b. provides additional interpretive guidance for independent accountants in evaluating the preferability of a registrant's accounting change.

- Paragraph 2 of AU Section 420 notes that the objective of the consistency standard is to ensure that if the comparability of financial statements between periods has been materially affected by changes in accounting principles, there will be appropriate reporting by the independent auditor regarding such changes. Paragraph 5 of AU Section 420 requires that changes in accounting principles having a material effect on the financial statements require recognition in the independent auditor's report through the addition of an explanatory paragraph. Paragraph 20 of AU Section 420 notes that if an accounting change has no material effect on the financial statements in the current year, but the change is reasonably certain to have a substantial effect in later years, the change should be disclosed in the notes to the financial statements whenever the statements of the period of change are presented, but the independent auditor need not recognize the change in his report.

Question 1: Assume a registrant has changed its annual date for testing of goodwill for impairment concluding the change is preferable. In reaching its conclusion, the registrant considered all factors including those raised by the SEC staff member in remarks made at AICPA National Conference on Current SEC Developments in December 2002. If the registrant determines that the change in accounting has no material effect, is the registrant's independent auditor required to issue a preferability letter?

View A – No. The requirements of Rule 10-01(b)(6) of Regulation S-X pertain only to a registrant who makes a material change in its method of accounting. Since the change in accounting has been determined to not be material (principally because the change will not trigger, delay or avoid an impairment charge) no preferability letter is required in the first Form 10-Q filed subsequent to the date of the accounting change. If a registrant voluntarily makes disclosure in its financial statements, or in the accompanying footnotes, of the existence and/or impact of the change, there is a rebuttable presumption that the registrant regards the change as material.

View B – Yes. The views of the SEC staff as communicated at the March 11, 2003 SEC Regulations Committee were intended to indicate that a preferability letter should be filed in connection with all changes in the date of the annual impairment test for goodwill regardless of the assessment as to materiality of the change.

Staff Position: The staff believes View B to be the appropriate view. Carol Stacey stated that anytime an annual impairment test date is changed, a preferability letter should be filed. Scott Taub added that the only justification for not filing a preferability letter would be if goodwill is immaterial.

Question 2: If the change in the annual impairment testing date is determined by the registrant to have no material effect on the financial statements in the current year but a preferability letter is filed, should the independent auditor's report include the addition of an explanatory paragraph (following the opinion paragraph) which discusses the change?

View A – Yes. If a preferability letter is filed, the independent auditor's report should include the addition of an explanatory paragraph.

View B **–** No. The addition of an explanatory paragraph is required only in situations where the change in accounting principle has a material effect on the financial statements in the current year. If a preferability letter is filed but the registrant concludes that the change in accounting principle has no material effect on the financial statements in the current year, the addition of an explanatory paragraph is not required.

Staff Position: The staff believes View B to be the appropriate view.

B. Topic: SAB 103: Topic 12:D.3b - Full Cost Ceiling Test

Background: In November 2001, the SEC Staff informed the members of the AICPA SEC Regulations Committee that the SEC Staff agreed not to object to the appropriate use of hedge-adjusted prices (i.e., the net realized price after considering the cash flow hedge), rather than the current market price, for purposes of performing a full cost ceiling test as of September 30, 2001. Implicit in the SEC staff's determination not to object was the recognition that other companies in similar fact patterns may elect not to use hedge-adjusted prices. Hence, the SEC Staff accepted that the use of hedge-adjusted prices in the full cost ceiling test was an accounting policy election.

In that regard, the Committee was cautioned that the SEC Staff planned to address the question more formally. Further, if the SEC Staff ultimately were to object to an accounting policy that included hedge-adjusted prices in the full cost ceiling test, registrants that had followed the policy in good faith would not be required to restate prior financial statements but would be required to change their policy prospectively.

In May 2003, the SEC Staff issued SAB 103, including Topic 12.D.3b, *Use of cash flow hedges in the computation of the limitation on capitalized costs,* in which the Staff codified that the full cost ceiling test should include prices adjusted for the effects of qualifying cash flow hedging instruments, i.e., those that meet the requirements of SFAS 133 for a cash flow hedging instrument, that are designated as cash flow hedges. However, the SAB does not allow for an accounting policy election and transition guidance is not provided.

We understand that it was the Staff's intent that hedge-adjusted prices be used in the full cost ceiling test whenever the requisite conditions for cash flow hedge accounting under GAAP are met and not provide an accounting policy election. Further, the SEC Staff expected that registrants would follow the Staff's previous communication that changes to the Staff's views on the use of hedge-adjusted prices in the full cost ceiling test should be accounted for prospectively. Assuming prospective application, for registrants adopting an accounting policy change to include hedge-adjusted prices in the full cost ceiling test, when is the effective date of the change?

Transition considerations

New impairment standards are generally adopted prospectively. For example, the Financial Accounting Standards Board's Statement No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets,* allowed for initial application for fiscal years beginning after December 15, 2001, and interim periods within those years. Restatement of previously issued annual financial statements was not permitted, although early application was permitted.

The SEC Staff should consider allowing for a transition similar to that included in Statement 144. Specifically, registrants should be allowed to initially apply the guidance in SAB 103 in fiscal years beginning after May 9, 2003. A prospective transition date would provide registrants time to assess the impact of the new rule on their accounting calculations and on the systems and processes used to accumulate data and calculate the full cost ceiling test. Similarly, because the Staff's guidance requires only the effect of qualifying cash flow hedges under Statement 133 to be included in the full cost ceiling test, some registrants may choose to reconsider their Statement 133 derivatives accounting. For example, due to the rigors and effort necessary to comply with Statement 133, we understand that some registrants may have chosen to account for derivatives as trading instruments in lieu of undertaking the initial and ongoing documentation and tracking required to establish qualifying cash flow hedging relationships under Statement 133. These registrants should be provided sufficient time to modify their arrangements and accounting methods and systems prior to adoption of the requirements of SAB 103.

Question: Staff Accounting Bulletin 103, "Update of Codification of Staff Accounting Bulletins," Topic 12.D.3b, *Use of cash flow hedges in the computation of the limitation on capitalized costs*, discusses the use of hedge-adjusted prices in the full cost ceiling test. We understand that the SEC Staff intended to eliminate the accounting policy election that was previously allowed with respect to use of hedge-adjusted prices. Because many registrants' accounting policy was not to include hedge-adjusted prices in their full cost ceiling test, these registrants will need to adopt the newly required method. What transition methods are acceptable and when is the required effective date for the change?

Staff Position: Jack Albert indicated that the new guidance in SAB 103 (Topic 12:D.3b) on using hedge adjusted prices in the full cost ceiling test should be applied prospectively at the time of the company's next impairment assessment after SAB 103 was issued. Scott Taub added that registrants wishing to defer implementation of this guidance past their next ceiling test should have a pre-clearance meeting with the staff to discuss the reasons for the delay.

Additional Considerations

Statement 69, *Disclosures about Oil and Gas Producing Activities*, requires disclosures of "future cash inflows" in the standardized measure of discounted future net cash flows relating to proved oil and gas reserve quantities (SMOG). The Statement 69 guidance with respect to future cash inflows indicates "that future price changes are considered only to the extent provided by contractual arrangements in existence at year-end." In light of the SEC Staff's conclusions regarding the use of hedge-adjusted prices in the full cost ceiling test, does the Staff also expect that hedge-adjusted prices will be included in the SMOG disclosures?

We understand the Staff intended for its SAB 103 guidance to be limited to the application of the full cost ceiling test. Nevertheless, the basis for the Staff's conclusions regarding the use of hedge-adjusted prices can be equally applied to the SMOG disclosures.

In describing the basis for their Topic 12.D.3b position, the Staff noted, "while the SEC Staff has objected to previous proposals to consider various hedging techniques as being equivalent to the contractual arrangements permitted under the existing rule, the Staff's objection was based on concerns that the lack of clear, consistent guidance in the accounting literature would lead to inconsistent application in practice…. However, the Staff believes that Statement 133 and related guidance…provides sufficient guidance so that comparable financial reporting in comparable factual circumstances should result." This description implies that the SEC Staff views qualifying cash flow hedge relationships as an equivalent to a contractual arrangement. That view could be equally applicable to the "contractual arrangements in existence at year-end" as considered under Statement 69.

The Statement 69 disclosures are required for all registrants engaged in oil and gas producing activities, including those that follow the successful efforts method of accounting prescribed by Statement 19, *Financial Accounting and Reporting by Oil and Gas Producing Companies*. Under current practice, we understand that the majority of registrants disclose future net cash flows based on year-end prices for proved oil and gas reserves and also disclose the impact of hedging instruments on cash flows. Accordingly, extension of the Staff's views to the SMOG disclosures would represent a significant change in practice.

Arguably, it is not necessary to mandate that all registrants apply the same policy for incorporating hedge-adjusted prices in the SMOG disclosures. Because registrants disclose whether the SMOG disclosures are inclusive or exclusive of hedging arrangements and also separately disclose the impact of hedging arrangements on those cash flows, the financial statement user is able to obtain comparable information from the financial statements of registrants with different policies for inclusion of hedge-adjusted prices. Under this view, it does not appear necessary to require that the Staff's SAB 103 full cost ceiling test guidance also be applied to SMOG disclosures.

Staff Position: The staff did not believe that the method of computing the standardized measure disclosures (SMOG) provided under SFAS 69 should be changed by analogy to the SAB. Companies should provide additional information about the effects of the hedging contracts on such disclosures in MD&A, if material.

C. SAB 103 and Original SAB Topic 5:P, Question 15 (Restructuring Charges)

Background: We note that SAB 103 includes a revision to original SAB Topic 5:P, Question 15 that is not discussed in the summary of revisions. The question and interpretive response have been modified to omit any reference to presentations in MD&A of what net income and earnings per share would have been without a restructuring charge. The response was also modified to delete language that specifically prohibits "discussions and/or graphic presentations which focus solely on pre-charge amounts or which intimate that pre-charge amounts are a more meaningful indicator of the results of operations are inappropriate." Finally, the last paragraph of the response was deleted that previously indicated that discussion of pre-charge earnings and earnings per share, and the per share effect of the charge was acceptable in MD&A but not on the face of the income statement or in selected financial data or other summaries of financial data.

Question : Based on informal discussions with the Staff, we understood that the SEC's new rule "Conditions for Use of Non-GAAP Financial Measures" was not intended to override the original guidance in SAB Topic 5P, Question 15. In that regard, we understood that narrative MD&A presentations allowed in the past by the Staff that discuss what earnings and earnings per share would have been without a restructuring charge, and that are balanced within the context of a GAAP discussion of earnings, will continue to be acceptable. Companies can, and should, identify material items that affect GAAP earnings. Should the SAB 103 changes be interpreted to mean that any presentation of earnings before restructuring charges is no longer acceptable in MD&A unless the conditions in Regulation S-K Item 10 for a performance measure are met and required disclosures and reconciliation are included? Further, is discussion of the per-share effects of a particular charge now prohibited as well? We don't believe that the new rule covers per-share effects and thus the presentation would still be acceptable in MD&A as part of a balanced discussion.

We would appreciate any clarification of the changes made to Topic 5P in SAB 103 and the interrelationship with the new non-GAAP measure rule.

Staff Position: The guidance from the SAB was deleted because the new rules on non-GAAP financial measures now apply and take precedence over guidance previously contained in SAB Topic 5:P. Registrants should not use the SAB to circumvent the final rules.

D. SAB 103: Topic 5:Z.4 and 5:Z.5 – Statement 144 Discontinued Operations with a Retained Interest

Background: In Topic 5:Z.4, the Staff noted that Statement 144 precludes reporting discontinued operations in circumstances where the seller has "significant continuing involvement with the component after the disposal transaction." The Staff also indirectly equates the seller's significant influence over the component/buyer to having significant continuing involvement under Statement 144. The Staff noted that because the seller has significant influence, it accounts for its residual investment on the equity method.

The facts and Question 2 of Topic 5:Z.5 were also updated to conform to the accounting prescribed by Statement 144. The circumstances included in Topic 5:Z.5, Question 2, are that the seller retains an investment in the component or receives an investment in the buyer of the component; the retained investment is not accounted for under the equity method due to lack of significant influence; and, the retained investment is material to the seller's financial statements.

In the SAB 103 update, the facts described in the Topic 5:Z.5 were modified to change "this financial interest does not enable the Company to exercise significant influence over the buyer" to "this financial interest is not sufficient to enable the Company to apply the equity method..." This modification appears to have been made to clearly illustrate the different levels of influence discussed in Topic 5:Z.4 (significant influence/equity method) and Topic 5:Z.5 (no significant influence/no equity method).

Question: Collectively, Topic 5:Z.4 and Topic 5:Z.5 could be interpreted as indicating that the Staff has concluded that a retained interest in a component, even when the retained investment is material, does not represent a "significant continuing involvement with the component after the disposal transaction" provided that the investment is *not* accounted for under the equity method. Is this an appropriate interpretation of the Staff's conclusions?

Staff Position: No. The revised answer in SAB Topics 5:Z.4 and 5:Z.5 in SAB 103 should not be read to imply that a company that retains a cost rather than equity method investment in a disposed business could, without further analysis, receive discontinued operations treatment for the disposed business. Under the SAB, the company must still address whether it has significant continuing involvement in the operations of the disposed business. Recently in Issue 03-13, the EITF has had preliminary discussions on how to apply paragraph 42 of SFAS 144. The question is specifically what cash flows should be considered in determining whether cash flows from the component have been or will be eliminated after the disposal and what types of continuing involvement would constitute significant continuing involvement in applying SFAS 144. A consensus on this EITF issue may affect the application of these SAB topics.

E. FAS 142, Paragraph 45 Disclosures in Interim Financial Statements

Background: Paragraph 45 of Statement 142 requires companies to disclose information about the carrying amount, accumulated amortization and current and future amortization expense for intangible assets, as well as other information about goodwill. A literal read of paragraph 45 of Statement 142 indicates that this information shall be disclosed in the financial statements or the notes to the financial statements for each period for which a statement of financial position is presented. However, the FASB has traditionally included specific interim disclosure requirements in pronouncements when it was their intent that such disclosures be made in the interim financial statements. There are no such specific interim disclosure requirements with respect to the information required by paragraph 45 of Statement 142.

Question: Does the Staff expect registrants to interpret paragraph 45 of Statement 142 literally and include such disclosures in their interim filings on Form 10-Q?

Staff Response: Generally no. The staff believes that the disclosures required in SFAS 142 regarding intangibles amortization and carrying value generally would not be required in interim financial statements filed with the commission on Form 10-Q because such financial statements are condensed rather than full financial statements. As discussed in further detail in Article 10 of Regulation S-X, the condensed financial statements included in 10-Qs generally do not require the same level of footnote disclosure as full financial statements since registrants are permitted to assume that users have read or have access to the audited financial statements of the previous year. See Article 10-01-(01)(a)(5) for further details.