



SEC and PCAOB

Update on Regulator Activity

SEC Update

- International Financial Reporting Standards (IFRS) Roadmap
- XBRL Filing requirement
- Fair Value and the credit crisis

IFRS Roadmap

- IFRS are the international accounting standards in contrast to US GAAP
- Issued November 19, 2008, comment deadline April 20, 2009
- Potential SEC decision in 2011 to make IFRS mandatory for financial reporting
- No date certain set but earliest would be 2014 for implementing IFRS

IFRS Roadmap

- Over 175 comment letters received - almost half from preparers with the remaining from auditors and analysts
- Varying views
 - Ranging from opposition to adamant support
 - Auditors very supportive - preparers not as supportive
- Common view across all responders is that single set of global standards should be the ultimate goal
 - IFRS? This is the rest of the globe
 - US GAAP? American capitalists
 - A convergence of the two? Globally-minded American business community

IFRS Roadmap

- Reason for support
 - Possibility of reducing compliance costs for multinationals where IFRS can allow one GAAP for foreign subsidiaries (Consolidated reporting and Stat Reporting)
 - Globalization (capitalism without borders) can be better enhanced with a single set of financial reporting standards
 - IFRS is a quality set of standards desired by investors around the world and can facilitate comparable financial information for their decisions

IFRS Roadmap

- Reasons for opposition
 - Bad timing with global economic crisis
 - Protectionism (US GAAP should be the single set of standards)
 - Costs for convergence too high
 - US litigation environment does not correlate well with principled-based standards; relies on rule-based standards as protection

IFRS Roadmap

- Suggested Roadmap to implementation
 - Establish a “Date Certain”
 - Converge US GAAP and IFRS and then adopt IFRS
 - Set five year transition period from “Date Certain” (beginning in 2011 or later?)
 - Present two years of financial statements instead of three years of financial statements upon transition to IFRS

XBRL

- XBRL – Extensible Business Reporting Language
- **XBRL** is a language for the electronic communication of business and financial data which makes data highly interactive
- Financial information is not treated as a block of text - as in a standard internet page or a printed document – and is instead identified with a tag for each individual item of data

XBRL

- Timing for XBRL submissions:

Greater than \$5 Billion in public float	June 15, 2009
All other large accelerated filers	June 15, 2010
All other	June 15, 2011

- Submit both EDGAR filing and XBRL filing (same due dates for both)
- Must post XBRL filing to company web-site

XBRL

- The first year
 - The face of the financial statements needs to be tagged (balance sheet, income statement, SOCF)
 - The financial statement footnotes and schedules need to be tagged in block text only.

XBRL

- Subsequent years
 - Financial statements and schedules tagged (first year requirement)
 - Each complete footnote tagged as a single block of text
 - Each significant accounting policy within the significant accounting policies footnote tagged as a single block of text
 - Each table within each footnote tagged as a separate block of text
 - Each amount within each footnote is (e.g., monetary value, percentage, number) separately tagged

XBRL

- Companies required to tag data based on defined SEC taxonomies, such as cash for cash accounts etc.
- XBRL submission will be an exhibit to the public filing and no change to EDGAR filing
- How to create the submission
 - Outside - Printer
 - Internal - Software

Fair Value

- Mark to Market (MTM) study – Six key issues:
 - The effect of fair value accounting standards on financial institutions' balance sheets
 - The effect of fair value accounting on bank failures in 2008
 - The effect of fair value accounting on the relevance of financial information available to investors
 - The process the FASB follows to develop accounting standards
 - Alternatives to fair value accounting standards
 - The advisability and feasibility of modifications to fair value accounting standards

Fair Value

- Recommendations:
 - “[Statement] 157 should be improved, but not suspended”
 - “Existing fair value and mark-to-market requirements should not be suspended”
 - “Additional measures should be taken to improve the application of existing fair value requirements”
 - “The accounting for financial asset impairments should be readdressed”

Fair Value

- Recommendations (cont.):
 - “Implement further guidance to foster the use of sound judgment”
 - “Accounting standards should continue to be established to meet the needs of investors”
 - “Additional formal measures to address the operation of existing accounting standards in practice should be established”
 - “Address the need to simplify the accounting for investments in financial assets”

Fair Value

- FASB Proposes to Improve Guidance on Other Than Temporary Impairment (OTTI) and Fair Value Measurements in Inactive Markets and on Distressed Transactions: FSP FAS 157-e and FSP FAS 115-a, FAS 124-a, and EITF 99-20-b
- FSP FAS 157-e provides guidance on whether a market for a financial asset is inactive and, if so, whether transactions in that market are distressed
- FSP 115-a provides guidance on OTTI — it seeks to identify whether an OTTI has occurred and, if so, where to record the OTTI (i.e., in the income statement or in other comprehensive income)

PCAOB

- Auditing Internal Controls over Financial Reporting (ICFR) for small public companies
- Engagement Quality Review (EQR)
- Audit Confirmations

Audits of ICFR for small public companies

- Guidance to help auditors of small or less complex companies comply with the ICFR requirements of AS 5
- “provides insights and examples” but does not change the compliance requirements of the standard

Audits of ICFR for small public companies

- Advocates use of entity-level controls to achieve control objectives
- Risk of management override
- Implementation of segregation of duties and alternative controls
- Use of information technology (IT)
- Maintenance of financial reporting competencies
- Nature and extent of documentation

Engagement Quality Review (EQR)

- Proposed audit standard on engagement quality reviews, issued March 2009
- The proposal intends to “strengthen the existing requirements for an [engagement quality review] and lead to a more meaningful [engagement quality review] process.”

Engagement Quality Review (EQR)

- *Applicability.* requires an EQR for audits and interim reviews
- *Objective.* Guidelines for performing an evaluation of the significant judgments made by the engagement audit team
- *Reviewer qualifications.* only partners or the equivalent should be the reviewer
- *Scope.* revises the description of the procedures that would be required in an EQR, and, recognizes the differences between an audit and an interim review
- *Concurring approval of issuance.* revises the proposed provision on concurring approval by replacing the "knows, or should know based upon the requirements of this standard" with a formulation grounded in the auditor's duty to exercise due professional care.
- *Documentation.* clarifies the scope of the documentation requirements.

Audit Confirmations

- Proposed standard out for comment
- Concept Release seeks input regarding:
 - impact of significant advances in technology
 - new methods of communication since the current standard was written over 15 years ago
- Comments due by May 29

Audit Confirmations

- Definition of confirmation: should it be expanded to include direct access to information held by a third party.
- Requirement to confirm: including whether the presumption to request confirmation of accounts receivable should be expanded
- Reliability of confirmation responses: including factors to consider when evaluating the reliability of confirmation responses in paper, electronic, or other forms.
- Management requests not to confirm: including procedures to perform when management makes such requests.
- Disclaimers and restrictive language: including whether to perform procedures to evaluate the effect of such disclaimers and restrictive language on confirmation responses.