

Insights

A biweekly publication from the National Office of Audit and Accounting

September 2, 2008

By clicking on a heading in the Bookmark section on the left, you will go directly to that subject.

SEC

SEC Approves New and Amended PCAOB Independence Rules

The SEC recently approved Public Company Accounting Oversight Board (PCAOB) Rule 3526, *Communication with Audit Committees Concerning Independence*. Rule 3526 requires a registered public accounting firm, before accepting an initial engagement pursuant to the standards of the PCAOB, to describe in writing to the audit committee all relationships between the firm or any of its affiliates and the issuer or persons in a financial reporting oversight role at the issuer that may reasonably be thought to bear on the firm's independence. Registered firms will also be required to discuss with the audit committee the potential effects of any such relationships on the firm's independence. Further, the Rule requires firms to make a similar communication annually for continuing engagements. Rule 3526 will become effective on September 30, 2008, and will supersede Independence Standards Board Standard No. 1, *Independence Discussions with Audit Committees*, and two related interpretations.

The SEC also approved an amendment to PCAOB Rule 3523, *Tax Services for Persons in Financial Reporting Oversight Roles*. As originally adopted, Rule 3523 provided that a registered public accounting firm is not independent if it or any of its affiliates provides any tax service to a person in a financial reporting oversight role or an immediate family member of such a person during the audit and professional engagement period. The term "audit and professional engagement period" includes both the audit period (the period covered by any financial statements being audited or reviewed) and the engagement period (the period from the time the initial arrangement letter is signed or our procedures begin until the firm resigns or is terminated). The PCAOB has since determined that providing tax services to such a person during the portion of the audit period preceding the beginning of the professional engagement period does not necessarily impair a firm's independence, and therefore amended the Rule to exclude from its scope tax services provided during the portion of the audit period that precedes the beginning of the professional engagement period. The amendment to Rule 3523 became effective immediately upon approval by the SEC on August 22, 2008.

The SEC's approval of these Rules is available in full at <http://www.sec.gov/rules/pcaob/2008/34-58415.pdf>.

SEC Announces Successor to EDGAR Database

Recently the SEC announced the successor to its 1980s-era EDGAR database, which will result in a fundamental change in the way the SEC collects and publishes company and fund information. The new system is called IDEA - short for Interactive Data Electronic Applications. Based on a completely new architecture being built from the ground up, it will at first supplement and then eventually replace the EDGAR system.

The decision to replace EDGAR marks the SEC's transition from collecting forms and documents to making the information itself freely available to investors. With IDEA, investors will be able to instantly collate information from thousands of companies and forms using financial information presented in interactive data format. Interactive data relies on computer "tags," which are similar to bar codes that identify individual items in a company's financial disclosures.

Companies' interactive data filings are expected to be available through IDEA beginning late this year. Investors and others who currently use EDGAR will be able to continue doing so for the indefinite future. During the transition to IDEA, investors will be able to take advantage of new interactive, IDEA-like features that will be grafted onto EDGAR in the short run. This will make it possible for investors to tap IDEA's advanced search capabilities, and to use the information from EDGAR within spreadsheets and analytical software. The EDGAR database also will continue to be available as an archive of company filings for past years.

More information about IDEA is available at <http://www.sec.gov/news/press/2008/2008-179.htm>.

Financial Institutions

Liquidity Risk Management

On August 26, 2008, the Federal Deposit Insurance Corporation issued guidance to highlight the importance of liquidity risk management at financial institutions. Financial Institutions Letter FIL-84-2008 is available in full at <http://www.fdic.gov/news/news/financial/2008/fil08084.pdf>.

International

A Closer Look at the Convergence Process

This article is the third in a series of articles that takes our readers on a journey through International Financial Reporting Standards (IFRS) with a special focus on the standards' quintessential feature: they are principles-based. This article provides an overview of the convergence process between IFRS and U.S. generally accepted accounting principles (GAAP).

In October 2002, the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) issued a memorandum of understanding, known as the Norwalk Agreement, in which the two standard setters agreed to start a convergence process. Since that time, the FASB and the IASB have reaffirmed their commitment to the convergence process with two other memorandums of understanding signed in 2005 and in 2007.

Convergence is seen by many as a monumental task. The volume of literature to be converged is overwhelming – approximately 2,500 pages of IASB official literature and 500,000 pages of U.S. GAAP. Also, as discussed in our previous article, "Principles vs. Rules," the two standard setters use diametrically opposite approaches. On these bases, we should first ask ourselves if and how it is possible to converge a set of principles and a set of rules.

Philosophically, with these two intrinsically antithetical approaches, it can be implied that the purpose of the convergence process is primarily to reduce the distance between the two frameworks rather than getting to a point where the two sets of standards are identical. It is likely that the convergence process may reach a time when the two roads stop converging and can only run parallel to one another. When that happens, a decision may need to be made to choose one of the two approaches over the other. This is possibly the

best way to visualize the convergence between IFRS and U.S. GAAP, as well as what kind of goals convergence can reasonably achieve.

Practically, in the convergence process the IASB and the FASB analyze the literature existing in the two sets of standards. In situations where the IASB considers one approach to be superior to the other, the IASB uses the best approach – regardless of whether this is U.S. GAAP or IFRS - as a starting point to develop a new IFRS principles-based standard. For example, International Accounting Standard (IAS) 14, *Segment Reporting*, was replaced by IFRS 8, *Operating Segments*, which, with a few minor differences, is a replica of FASB Statement No. 131, *Disclosures about Segments of a Business Enterprise*. Initially, IFRS 8 was severely criticized by the European Union (E.U.), which feared that this would represent the beginning of the “Americanization” of IFRS. Eventually, IFRS 8 has been endorsed by the E.U.; however, doubts still remain about how an almost identical standard can result in an identical application when it has to be practically applied from two totally different perspectives. Moreover, uncertainty surrounds the specific guidance and interpretations that over time develop under U.S. GAAP and how such guidance has to be considered under IFRS, where it theoretically has no jurisdiction.

Another significant joint project conducted by the IASB and the FASB has been the revision of IFRS 3, *Business Combinations*, and FASB Statement No. 141, *Business Combinations*. Interestingly, both standards have an appendix of approximately a dozen pages listing the differences between them.

In general, from the U.S. GAAP perspective, doubts still remain about how principles-based standards are going to be practically applied when incorporated in a rules-based system. One answer may be adding more guidance to IFRS to accommodate the needs of U.S. constituents. This might be a sort of compromise. However, this would mean that the convergence process would stop, and both the FASB and the IASB would then just focus on making IFRS “The” global set of standards.

For further information, please contact Bob Dohrer (robert.dohrer@rsmi.com) or Marco Marcellan (marco.marcellan@rsmi.com) in our International Assurance Services Group.

Insights is a biweekly publication of McGladrey & Pullen, LLP and should not be construed as accounting, auditing, consulting, or legal advice on any specific facts or circumstances. The contents are intended for general information purposes only, and you are urged to consult your McGladrey & Pullen, LLP service provider concerning your situation and any specific questions you may have. You may call 1.888.214.1416 for a contact person in your area.

For further information about McGladrey & Pullen or to retrieve archived issues of *Insights*, visit our Web site: <http://www.mcgladrey.com/>. If you do not wish to continue receiving *Insights*, or if you wish to place another person on the distribution list, please contact mpinsights@rsmi.com.