

# Insights

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## Accounting

### Probable Delay of FIN 48

FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, (FIN 48) was issued in July 2006. The original stated effective date was to be for fiscal years beginning after December 15, 2006. For a calendar year-end company, the effective date was the beginning of 2007.

At its meeting on November 7, 2007, the Financial Accounting Standards Board (FASB) voted to delay the effective date for one year for private companies. The FASB staff was directed to prepare a draft "FSP" (FASB Staff Position) document, which will be exposed for public comment for 30 days. *Insights* will cover the proposed FSP when it is issued. The FASB will consider comments received on the exposure draft and then make a final decision on the delay. Since the delay is not "official" until the final Board vote, which will not likely occur until early January, 2008, any financial statements issued before then for periods that began after December 15, 2006 must include the adoption of FIN 48.

The primary reason discussed by the Board for the delay was the lack of communication and training for many private companies and their auditors on the Interpretation, which has left many companies unprepared for the adoption. The other reason cited was misunderstanding in how the Interpretation might be applied to pass-through entities such as S-Corporations and partnerships. The definition of "private companies" for this deferral is expected to be the same as the definition in FASB Statement No. 109, which are entities other than (a) those with debt or equity securities that trade in a public market, (b) those who are filing to register securities, and (c) conduit bond obligors such as entities responsible for industrial revenue bonds. Subsidiaries of entities that meet the definition of a public company would also be considered to be public companies.

The delay will only be for those non-public entities that have not yet adopted the Interpretation. We believe that entities with regulatory requirements to file quarterly or other interim statements prepared in accordance with generally accepted accounting principles were required to adopt FIN 48 in accordance with the original effective date and, therefore, do not qualify for the proposed deferral. Banks were required to adopt FIN 48 for their Call Reports earlier this year. Accordingly, we believe that banks do not qualify for the proposed deferral. Early adoption continues to be permitted.

### Probable Partial Deferral of Statement No. 157

On November 14, 2007, the Financial Accounting Standards Board (FASB) reaffirmed its decision to grant a partial deferral and not grant a blanket deferral of FASB Statement No. 157, *Fair Value Measurements*. For fiscal years beginning after November 15, 2007, companies will be required to adopt the standard for financial assets and liabilities, as well as for any other assets and liabilities that are carried at fair value on a recurring basis in financial statements. The FASB did, however, vote to defer for one year the implementation of Statement No. 157 for nonfinancial assets and nonfinancial liabilities that are recognized

or disclosed at fair value in the financial statements on a nonrecurring basis. Any entity that has early adopted Statement No. 157 may not reverse that adoption. The FASB staff was directed to prepare a draft FASB Staff Position (FSP) about the deferral, which will be exposed for public comment for 30 days. The Board will consider comments received on the exposure draft and then make a final decision on the partial deferral. *Insights* will cover the proposed FSP when it is issued.

### **FSP Proposed for SOP 07-1 Deferral**

The Financial Accounting Standards Board has issued a proposed FASB Staff Position (FSP) that formally recommends the indefinite deferral of AICPA Statement of Position (SOP) 07-1, *Clarification of the Scope of the Audit and Accounting Guide, "Investment Companies," and Accounting by Parent Companies and Equity Method Investors for Investments in Investment Companies*. The proposed FSP, if finalized, would also prohibit the adoption of SOP 07-1 by an entity that has not early adopted the SOP before issuance of the final FSP. An entity that early adopts SOP 07-1 before issuance of the final FSP would be permitted, but not required, to continue to apply the provisions of the SOP. The deferral is intended to allow the FASB time to consider a number of issues related to the implementation of SOP 07-1.

The proposed FSP is available for comment until December 17, 2007 at [http://www.fasb.org/fasb\\_staff\\_positions/prop\\_fsp\\_sop07-1-a.pdf](http://www.fasb.org/fasb_staff_positions/prop_fsp_sop07-1-a.pdf).

## **Public Sector**

### **AICPA Single Audit Quality Task Forces**

In June 2007 the President's Council on Integrity and Efficiency (PCIE) issued a report that made recommendations to address the quality of single audits. Recently, the Government Audit Quality Center of the American Institute of Certified Public Accountants established several task forces to specifically address issues raised in the PCIE report and to consider other ways to improve audit quality. McGladrey & Pullen, LLP's Director of Services to the Public Sector, Brian Schebler, and partners Sarah Bohnsack and Mia Frommelt have accepted appointments to the following five task forces:

- Sampling/Materiality Issues In A Single Audit Environment
- Internal Control and Compliance Responsibilities In A Single Audit Environment
- Schedule of Expenditures of Federal Awards Reporting Issues
- Reporting Audit Findings In A Single Audit
- Single Audit Training Needs and Continuing Professional Education Evaluation

The Single Audit Training Needs and Continuing Professional Education Evaluation Task Force will be chaired by Mr. Schebler.

The PCIE report is available in full at <http://www.ignet.gov/pande/audit/NatSamProjRptFINAL2.pdf>.

## **SEC**

### **Smaller Reporting Company Regulatory Relief**

The SEC recently decided to simplify its disclosure and reporting requirements for smaller companies by replacing the current "small business issuer" category with a new expanded category of "smaller reporting companies" having less than \$75 million in public equity float or, if a company does not have a calculable

public equity float, having revenues of less than \$50 million in the last fiscal year. To further simplify its disclosure and reporting requirements for smaller reporting companies, the SEC also has:

- Moved 12 non-financial scaled disclosure item requirements from Regulation S-B into Regulation S-K, noting that the scaled disclosure requirements will only be available to smaller reporting companies;
- Moved the scaled financial statement requirements in Item 310 of Regulation S-B into new Article 8 of Regulation S-X, and amended these requirements to provide a scaled disclosure option for smaller reporting companies, but requiring two years of balance sheet data instead of one year;
- Permitted smaller reporting companies to elect to comply with scaled financial disclosure and non-financial disclosure on an item-by-item basis;
- Eliminated current SB forms, such as Forms 10-QSB and 10-KSB, allowing a phase-out period for current small business issuers transitioning to smaller reporting company status; and
- Permitted all foreign companies to qualify as smaller reporting companies if they choose to file on domestic company forms and provide financial statements prepared in accordance with U.S. Generally Accepted Accounting Principles.

The effective date for these rules will be 30 days after their publication in the Federal Register.

The SEC also decided to shorten the holding periods under Securities Act Rule 144 for restricted securities of public companies from one year to six months and to revise the resale provisions of Rule 145(d), among other related changes. Further, the SEC created two new exemptions for compensatory employee stock options so that the Exchange Act registration requirements will not be triggered solely by a company's compensation decisions. The exemptions will apply only to an issuer's compensatory employee stock options and will not extend to the class of securities underlying those options.

### **Foreign Private Issuers May Use IFRS or U.S. GAAP**

For many years SEC rules required foreign private issuers that prepare their financial statements in accordance with International Financial Reporting Standards (IFRS) to provide a reconciliation of those financial statements to U.S. generally accepted accounting principles (GAAP). Recently, the SEC approved changes to these rules whereby foreign private issuers now may choose between the use of IFRS and U.S. GAAP in the preparation of their financial statements. Therefore, financial statements from foreign private issuers in the U.S. will be accepted by the SEC without reconciliation to U.S. GAAP, but only if they are prepared using IFRS. The rule amendments will take effect 60 days after they are published in the Federal Register and apply to financial statements covering years ended after November 15, 2007.

Because the elimination of the reconciliation requirement will permit some, but not all, registrants to have a choice between IFRS and U.S. GAAP, the SEC has proposed a concept release to seek comment on whether U.S. issuers should be allowed to file financial statements prepared in accordance with IFRS. The SEC is seeking feedback from the public on the issue of giving U.S. domestic issuers the same option that foreign issuers have to use either IFRS or U.S. GAAP.

## International

### Dohrer Elected to Transnational Auditors Committee

Robert Dohrer, practice leader for the McGladrey International Assurance Service Group, has been elected to a two-year term on the Transnational Auditors Committee (TAC) of the International Federation of Accountants (IFAC) beginning January 1, 2008. The TAC is an executive committee of the IFAC that encourages members of the international Forum of Firms to meet high standards in the auditing of financial statements that may be used across national borders. Responsibilities of the 22-member TAC include:

- Identifying audit practice issues and recommending review of such issues, as necessary, to the appropriate IFAC standard-setting board, such as the International Auditing and Assurance Standard Board.
- Providing a forum for discussion of best practices in quality control, auditing, training, maintaining independence, and other areas.
- Identifying candidates to serve on IFAC standard-setting boards.
- Acting as a formal conduit for interaction among transnational auditing firms, international regulators, and financial institutions with regard to audit quality, systems of quality control, and transparency of international networks.

Mr. Dohrer is a partner in the National Office of Audit and Accounting for McGladrey & Pullen, LLP and will represent RSM International on the TAC. He currently is a member of the Auditing Standards Board of the American Institute of Certified Public Accountants (AICPA) and several AICPA task forces. Mr. Dohrer earned his Bachelor of Science in Accounting from Black Hills State University and his Master of Professional Accountancy from the University of South Dakota.

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