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## How Imminent is IFRS?

Speculation abounds regarding the Securities and Exchange Commission's (SEC) much-anticipated announcement about whether and when U.S. companies will make the switch from generally accepted accounting principles (GAAP) to international financial reporting standards (IFRS). As of this printing, industry experts are predicting an SEC announcement this summer.

Nearly every industry segment involved with finance and accounting will be affected by the implementation of IFRS – ranging from companies to audit firms and academic institutions. The amount of retraining required is expected to inject a significant degree of challenge for these industries.

The timeline and specifics are unknown to date, but industry observers predict that a measured and sustainable transition to an IFRS reporting structure could take until 2012. Many factors are involved, including comparative financial statements, historical review during implementation, and defining structures companies will need to set up to implement IFRS.

### IFRS Roundtable Deepens Discussion

On August 4, the SEC hosted the *2008 SEC Roundtable on International Financial Reporting Standards*. Primary topics covered were consolidation, fair value accounting, inventory, revenue recognition and the maturity of IFRS.

The event was organized as two panels comprised of investors, issuers, auditors, and others with experience in considering or evaluating company financial statements that are prepared in accordance with IFRS or U.S. GAAP. One panel focused on financial reporting in the

financial services industry sector, and the second panel covered financial reporting in other industry sectors.

- According to the panelists, IFRS has performed well during the recent economic downturn. One strength of IFRS is its increased disclosure and transparency, in comparison with U.S. GAAP. This improves investors' decision making process.
- Panelists delved into disclosures, discussing the continuum of accuracy and timeliness. There was agreement that timely information is of primary importance, as long as the data is accurate. Panelists felt that U.S. GAAP should align with the disclosure requirements of IFRS.
- The panelists agreed that improvement is needed in the area of fair value accounting – there are challenges under both U.S. GAAP and IFRS.
- Panelists pointed to a concern over revenue recognition. U.S. GAAP and IFRS may result in incongruent accounting outcomes when similar companies report different revenue amounts. Panelists concurred that the use of XBRL (eXtensible Business Reporting Language) will drive further comparability among companies within similar industries. The FASB and IASB plan to release a discussion document proposing a revenue recognition model that blends the best aspects of U.S. GAAP and IFRS.

### How IFRS Has Fared So Far

The roundtable panelists also looked at the maturity of IFRS and whether it was providing

## 2008 *ComplianceAlert* Published

The Securities and Exchange Commission staff has released a new *ComplianceAlert* letter (July 2008), which identifies common deficiencies and weaknesses that SEC examiners have been finding during compliance examinations of SEC-registered firms.

The SEC's Office of Compliance Inspections and Examinations conducts compliance examinations of investment advisers, investment companies, broker-dealers, transfer agents and other types of SEC-registered firms to determine whether they are in compliance with the federal securities laws and regulations. The SEC staff issued its first *ComplianceAlert* letter last year to encourage firms to be proactive in addressing compliance risks.

"Our June 2007 *ComplianceAlert* was very well received by industry compliance and legal professionals," said Lori Richards, Director of the SEC's Office of Compliance Inspections and Examinations. "Many industry compliance staff told us that, after reading it, they reviewed their firms' practices in the areas we noted and took steps to ensure that their firms' practices were fully compliant."

The most recent *ComplianceAlert* describes examination findings in several areas:

### I. Investment Advisers/Mutual Funds

- Personal Trading by Advisory Staff
- Proxy Voting and Funds' Use of Proxy Voting Services
- Valuation and Liquidity Issues in High Yield Municipal Bond Funds
- Soft Dollar Practices of Investment Advisers

### II. Broker-Dealers

- Examinations of Securities Firms Providing "Free Lunch" Sales Seminars
- Valuation and Collateral Management Processes
- Broker-Dealers Affiliated with Insurance Companies
- Supervision of Solicitations of Advisory Services
- Mortgage Financing as Credit for the Purchase of Securities
- Office of Supervisory Jurisdiction Supervisory Structure

### III. Transfer Agents

- Practices with Respect to "Lost Securityholders"

Link to actual letter: [www.sec.gov/about/offices/ocie/complialert0708.htm](http://www.sec.gov/about/offices/ocie/complialert0708.htm).

## SEMINAR

Save the Date!

Thursday October 2, 2008

Tauber & Balsler is hosting an all-day seminar, which will include:

**Legal Update** from Rogers & Hardin

**141(R), Fair Values**, and other topics presented by

Ray G. Stephens, D.B.A., C.P.A., C.M.A., Professor of Accountancy, Ohio University.

The Ashford Club

5565 Glenridge Connector, Suite 100

Atlanta, Georgia 30342

Full details will be available shortly. For more information and to register, contact:

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# SEC Issues Guidance on Use of Corporate Web Sites

The Securities and Exchange Commission has voted unanimously to provide new guidance to public companies about how to comply with the securities laws while developing their Web sites to serve as an effective means for disseminating important information to investors.

Issued in the form of an interpretive release, the SEC's guidance provides helpful information for companies considering providing investors with interactive content on their Web sites, as well as summary information and links to third-party information.

The guidance addresses a recommendation made by the SEC's Advisory Committee on Improvements to Financial Reporting in its February 2008 Progress Report for the Commission to provide clarity on issues and questions that arise in connection with SEC rules against selective disclosure of material nonpublic information.

## Keeping Up With Technology

The Internet has changed significantly since 2000, when the SEC last issued extensive guidance on the use of Web sites and electronic media.

"The last time the SEC issued guidance in this area, the idea of 'social networks' hadn't yet been developed, and creating a social network where shareholders could meet and exchange views was barely imaginable," said SEC Chairman Christopher Cox. "Ongoing developments in technology have increased both the markets' and

investors' demand for more timely company disclosure on the Web, and in turn, raised new securities law issues for public companies to consider."

## Areas of Clarification and Guidance

The new guidance has four parts:

1. It provides guidance to help companies comply with public disclosure requirements under Regulation FD (Fair Disclosure).
2. The guidance clarifies the liability framework for companies to provide access to archived data and link to third party Web sites. It also clarifies antifraud provisions that apply to statements made by the company in blogs and electronic shareholder forums.
3. The guidance clarifies that information posted on company Web sites would not generally be subject to rules under the Sarbanes-Oxley Act relating to a company's "disclosure controls and procedures."
4. The guidance clarifies that information need not satisfy a "printer-friendly" standard, unless other rules explicitly require it, which could restrict creative Web enhancements that incorporate interactive and dynamic design features.

The SEC's interpretive release will be effective upon its publication in the *Federal Register*. The full text will be posted to the SEC Web site as soon as possible.

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adequate information to investors. It was noted that European IFRS conversion had taken place with no loss of investor confidence. As standard setters resolve application and technical issues, comparability issues should diminish over time, according to the panelists.

The panelists agreed on the strength of IFRS, and that conversion to this system will give

companies a fresh approach to financial reporting. They agreed that transitioning from U.S. GAAP to IFRS will present numerous challenges, but would have great benefit ultimately. The key will be having a comprehensive plan for the transition, with firm dates along the timeline.

The full webcast of the roundtable can be accessed on the SEC Web site: [www.sec.gov](http://www.sec.gov).

## TAX TIP

**Executive Compensation and Deduction Limitations.** The IRS is placing more attention on the deduction limit under IRC Section 162(m), which establishes a \$1,000,000 cap on deductible compensation for CEOs or one of the other four highest paid officers in public companies. Compensation strategies to avoid this limit include:

1. Deferred compensation, which is counted in the year received
2. Contributions to qualified pension and profit sharing plans and benefits paid under health and welfare plans
3. Commission based compensation
4. Qualified performance based compensation

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# FASB Amends Statement No. 128

The Financial Accounting Standards Board (FASB) has issued a revised Exposure Draft (ED) of a proposed Statement of Financial Accounting Standards, *Earnings per Share* – an amendment of FASB Statement No. 128.

## Promoting Convergence of Accounting Standards

The proposed Statement seeks to improve financial reporting by clarifying and simplifying the method of calculating earnings per share (EPS), while promoting the international convergence of accounting standards by eliminating major differences that currently exist between FASB Statement No. 128, *Earnings per Share*, and International Accounting Standard (IAS) 33, *Earnings per Share*.

The ED is intended to amend Statement 128 in a way that simplifies and converges the computation of the denominator of EPS with proposed amendments to IAS 33, issued

separately by the International Accounting Standards Board (IASB).

"In addition to improving financial reporting, the proposed amendment to Statement 128 is an important step in the international convergence process," states FASB practice fellow Sheri Wyatt. "By eliminating the differences between Statement 128 and IAS 33, the proposed amendment will enhance the comparability of EPS reported under U.S. GAAP and IFRS."

Entities would apply the proposed requirements as of the beginning of a fiscal year, and interim periods within those fiscal years, generally through retrospective application to prior periods. Earlier application is prohibited. The proposed ED does not include a specific effective date for a final Statement. The FASB will determine the effective date when it approves the final amendments to Statement 128.

Comments on the proposed guidance must be submitted in writing by December 5, 2008 to: [director@fasb.org](mailto:director@fasb.org), File Reference No. 1240-001.

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