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## Chamber Makes Recommendations for U.S. Capital Markets

In early 2006, the U.S. Chamber of Commerce initiated a bipartisan, independent Commission on the Regulation of U.S. Capital Markets in the 21st Century to examine the current legal and regulatory landscape of the U.S. capital markets and to propose changes to bolster the system and ensure a solid future.

The need for the study was clear: The competitive position of U.S. capital markets has been in a decline, which ultimately threatens the nation's economic health. International markets are booming, meanwhile the U.S. operates under a regulatory framework that is "deeply rooted in the reforms put in place in the 1930s, a period that was closer in time to Civil War than it is today," the Commission's report states.

The Commission's report, released March 2007, includes six specific recommendations for improving the U.S. position in the global markets. According to the report, "these recommendations can be implemented quickly and without overly burdensome costs."

### Principal Recommendations

1. Reform and modernize the federal government's regulatory approach to financial markets and market participants.

Specifically, the Commission's report offers four operational and organizational changes to the U.S. financial regulatory structure, including reorganizing the SEC to improve its efficiency and to "mirror the contours of the current capital markets."

2. Give the Securities and Exchange Commission (SEC) the flexibility to address issues relating to the implementation of the Sarbanes-Oxley Act of 2002 (SOX) by making it part of the Securities Exchange Act of 1934.

The Commission sees this step as a way of increasing certainty in the marketplace "by ensuring that the SEC has the clear authority to issue rules on important aspects of SOX."

3. Convince public companies to stop issuing earnings guidance or, alternatively, move away from quarterly earnings guidance with one earnings per share (EPS) number to annual guidance with a range of EPS numbers.

The Commission believes "there is too much focus on the short-term performance of U.S. companies," and points to the pressure for businesses to reach financial targets as "overwhelming" and creating "adverse incentives to forgo value-added investments in long-term projects."

4. Call on domestic and international policymakers to seriously consider proposals by others to address the significant risks faced by the public audit profession from catastrophic litigation, as well as the Commission's suggestion that national audit firms be allowed to raise capital from private shareholders other than audit partners.

The Commission credits independent auditing firms with playing a "critical role in

# FASB Establishes Fair Value Option

The Financial Accounting Standards Board (FASB) has issued a new standard that provides companies with an option to report selected financial assets and liabilities at fair value. The Standard aims to reduce both complexity in accounting for financial instruments and the volatility in earnings caused by measuring related assets and liabilities differently.

Generally accepted accounting principles have required different measurement attributes for different assets and liabilities, which can create artificial volatility in earnings. The new Standard, *Statement of Financial Accounting Standards No. 159, The Fair Value Option for Financial Assets and Financial Liabilities*, mitigates this accounting-induced volatility by allowing companies to report related assets and liabilities at fair value, which should reduce the need for companies to comply with detailed rules for hedge accounting.

Statement No. 159 also establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities.

The standard requires companies to provide additional information that will help investors

and other users of financial statements to more easily understand the effect of the company's choice to use fair value on its earnings. It also requires entities to display the fair value of those assets and liabilities for which the company has chosen to use fair value on the face of the balance sheet. The new Statement does not eliminate disclosure requirements included in other accounting standards, including requirements for disclosures about fair value measurements included in FASB Statements No. 157, Fair Value Measurements, and No. 107, Disclosures about Fair Value of Financial Instruments.

"We believe that this standard will simplify accounting and encourage the display of more relevant and understandable information for investors and other users of financial statements," said Robert Wilkins, FASB senior project manager.

Statement No. 159 is effective as of the beginning of an entity's first fiscal year beginning after November 15, 2007. Early adoption is permitted as of the beginning of the previous fiscal year provided that the entity makes that choice in the first 120 days of that fiscal year and also elects to apply the provisions of Statement 157. To access the full text of the new standard, go to: [www.fasb.org](http://www.fasb.org).

## SEMINAR

### Accounting and Auditing Standards Update-2007

This one-day seminar will provide guidance and insight with respect to the practical application of recent auditing and accounting developments, including:

- Recent FASB statements and interpretations
- Hot EITF issues
- Exposure drafts and ISA issues
- Recently issued auditing standards
- Other AICPA initiatives
- Sarbanes-Oxley update

**Designed for:** Accounting professionals, compliance officers, risk managers, enrolled agents, business owners and managers, CEOs, financial analysts, CFOs, attorneys.

**Featuring:** J. Marc Welch, CPA, Tauber & Balsler, P.C.'s partner-in-charge of Accounting and Audit. Marc is one of four faculty members for this seminar.

**Presented by:** Lorman Education Services

**Date:** June 13, 2007, 8:00 a.m. - 4:30 p.m.

**Location:** Cobb Galleria Centre

**Continuing education credit:** Bankers (pending); Enrolled Agents 8.0; IACET 0.65; GA CLE 6.7; CPE 8.0; AIPB 8.0

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# Senators Push for Section 404 Extension for Small Firms

Senators John Kerry (D-Mass.) and Olympia J. Snowe (R-Maine) have called for a delayed implementation of the Sarbanes-Oxley Section 404 requirements for small public firms to ease the burden on complying with the expected new auditing standards. The Senators' request would mean that smaller companies that are calendar-year filers would have until their 2008 10-Ks to file their management internal controls reports and until their 2009 10-Ks to file their auditors' attestation reports.

In their February 23<sup>rd</sup> letter to SEC Chairman Christopher Cox, Kerry and Snowe referenced the recent U.S. Government and Accounting Office study, which showed that the cost of compliance and the time needed for small public companies to comply with the Sarbanes-Oxley regulations has been disproportionately higher than for large public companies. The report found that firms with less than \$75 million in market capitalization were spending 877 percent more than larger counterparts; \$1.14 in audit fees per \$100 of revenue, compared to just \$.13 per \$100 for firms with greater than \$1 billion in market capitalization.

"Requiring small public companies to institute strong internal controls to ensure the accuracy of their financial reporting is appropriate," Snowe said. "At the same time it is also

prudent to allow small companies a year to work with the SEC and PCAOB guidelines before they are evaluated on the effectiveness of these controls. The delay in issuing final guidance to small public companies has created substantial hardships. Senator Kerry and I believe we should allow the necessary time for small companies to understand the rules by which they will be evaluated."

Kerry and Snowe, the Chairman and Ranking Member of the Committee on Small Business and Entrepreneurship also urged the panels to carefully consider all comments from small public companies, especially those worth less than \$75 million.

Last year, Senator Kerry introduced the Small Business Sarbanes-Oxley Compliance Assistance Act (S. 3919) to authorize the Small Business Administration (SBA) to award grants to small public companies and small businesses to help lessen the burden of the cost to comply with Sarbanes-Oxley. Kerry's bill also creates a task force, to be assembled by the SBA Chief Counsel for Advocacy, which would be comprised of representatives from the SEC and other appropriate bank regulatory agencies and report semi-annually on how to assist small public companies in complying with Sarbanes-Oxley. He intends to reintroduce similar legislation again this year.

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**CHAMBER** continued from page 1

our capital markets by providing reasonable assurance on the financial statements of public companies." Therefore, the Commission asserts that a strong public company audit profession is vital to our capital markets, both domestically and globally.

5. Increase retirement savings plans by connecting all employers of 21 or more employees without any retirement plan to a financial institution that will offer a retirement arrangement to those employees.
6. Encourage employers to sponsor retirement

plans and enhance the portability of retirement accounts through the introduction of a simpler, consolidated 401(k)-type program.

The Commission, lead by Arthur B. Culvahouse, chairman of O'Melveny & Meyers law firm, asserts that their most pressing recommendation is that "policy-makers and thought-leaders address these problems now before a crisis arises."

Download the Commission's full report: [www.uschamber.com/publications/reports/0703capmarketscomm.htm](http://www.uschamber.com/publications/reports/0703capmarketscomm.htm).

## TAX TIP

**For purposes of the regular income tax, the exercise of an incentive stock option is a non-event. However, the exercise of an ISO does result in an alternative minimum tax (AMT) adjustment. The adjustment is equal to the amount by which the fair market value of the stock exceeds the amount you paid for the option. The stock's AMT basis will be increased by the amount of the AMT adjustment. A failure to report the proper stock AMT basis in the year of sale could result in an unnecessary increase in AMT.**

# XBRL: Stepping Toward Enhancing Financial Reporting Credibility

The adoption of Extensible Business Reporting Language (XBRL) continues to be touted as the best means for creating a seamless audit trail for financial reporting, tax reporting, statutory and statistical reporting, and management reporting.

SEC Chairman Christopher Cox, speaking at the 14<sup>th</sup> International XBRL Conference, said, "XBRL-US intends to document every taxonomy that's necessary to produce financial statements for any industry using U.S. GAAP by no later than mid-year 2007."

Cox emphasized that the development and implementation of XBRL taxonomies is an international issue and he also pointed to the impact interactive data will have on auditing, including reduced audit costs and increased quality. SEC studies have shown that more than half of recent public company restatements were the result of misapplying basic accounting

rules. "So there is an enormous opportunity for automation to help corporate finance staffs and auditors avoid simply missing things – and to avoid the kinds of unintentional mistakes that can have big consequences," Cox said.

## Learn More in Munich

The 15th XBRL International Conference will be held in Munich, Germany, June 4-6, 2007. The conference theme is, "Integrating Business Reporting Worldwide – From SMEs to Large Companies."

The conference is expected to attract 450 or more attendees coming from all over the world, including: Finance executives (CFOs, CAOs, etc.), regulators and government administrators, accounting professionals, tax authorities, bankers and financial analysts, investors and market makers, corporate managers, and others responsible for improving their company's business reporting processes.

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