NASBA 103rd Annual Meeting

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Discussion Topics

♦ What We’ve Been Working On
  ✓ IFRS Work Plan Overview and Update
  ✓ Major Convergence Projects
  ✓ Dodd-Frank and Related Rulemaking

♦ How We Think and What We Expect
  ✓ Accounting and Reporting Topics
IFRS Work Plan
Issued February 2010

Explains history of Commission’s steps to foster a single set of high-quality globally accepted accounting standards

Summarizes feedback on proposed “Roadmap”

Provides an approach forward for U.S. capital markets

Directs staff of the Office of the Chief Accountant, in consultation with other Divisions and Offices of the Commission, to develop and carry out a work plan
Key Areas of the Work Plan

- Sufficient development and application of IFRS for the U.S. financial reporting system
- The independence of standard setting for the benefit of investors
Key Areas of the Work Plan

- Investor understanding and education regarding IFRS
- Examination of the U.S. regulatory environment that would be affected by a change in accounting standards
- The impact on issuers, both large and small, including changes to accounting systems, changes to contractual arrangements, corporate governance considerations, and litigation contingencies
- Human capital readiness
Sources of Information

- Investors
- Issuers (both U.S. and foreign)
- Auditors
- Attorneys
- Other regulators
- Standard setters
- Academics

Methodology

- Staff research
- Survey of academic research
- Outreach through:
  - Comment letter requests
  - Roundtables
  - Targeted interviews

Status Report – October 2010
Requests for Comment – Work Plan

Aspects of the impact on U.S. investors (Release 33-9133)

- U.S. investors' current knowledge of IFRS and preparedness for IFRS
- How investors educate themselves on changes in accounting standards
- The extent of and time needed to undertake changes to improve investors' understanding of IFRS and the related education process.

Aspects of the impact to issuers (Release 33-9134)

- Compliance with contractual arrangements based on U.S. GAAP (e.g., financial covenants)
- Compliance with corporate governance requirements (e.g., audit committee financial expert and other stock exchange listing requirements)
- Application of certain legal standards tied to amounts determined for financial reporting purposes.

Comments on both releases are requested by October 18
Monitoring Major Convergence Projects
Commission Statement in Support of Convergence and Global Accounting Standards

Recognizes ongoing convergence process between FASB and IASB

♦ Financial crisis has underscored importance of convergence
  ✓ Responses to crisis have been global
  ✓ Companies and their investments are globally interconnected

♦ Focus on quality of standards

♦ Challenges

♦ FASB / IASB Memorandum of Understanding
Selected Convergence Projects

Financial Instruments
- FASB published its Exposure Draft
- FASB / IASB conducting outreach

Insurance Contracts
- IASB published Exposure Draft
- FASB is preparing a Discussion Paper

Leases and Revenue Recognition
- IASB / FASB published joint Exposure Drafts
Dodd-Frank and Related Rulemaking
Dodd-Frank and Related Rulemaking

SEC’s approach to regulatory reform rulemaking

♦ Invitation to provide preliminary comments on (see links on SEC website):
  ✓ OTC derivatives
  ✓ Hedge funds
  ✓ Corporate disclosure
  ✓ Credit rating agencies
  ✓ Other areas

♦ Comments posted on website

Financial Stability Oversight Council

PCAOB oversight of Broker Dealer Audits

404(b)

GASB Funding and Municipal Securities
Accounting and Reporting Topics
Accounting assumptions in the current environment

- Preparation of financial statements requires preparers to make assumptions about the future
  - E.g. fair value measurements, impairment assessments

- Reminders
  - Identify and follow objectives of the accounting standards
  - Base assumptions on reasoned analysis and available information
    - Current market data; expert forecasts
  - Do not manipulate models or assumptions to achieve a desired outcome
Accounting Judgments

Start with faithful application of accounting literature
Where accounting literature does not address the situation:

♦ Provide information useful to investors and creditors in their decision-making processes

♦ Professional judgment
  ✓ SEC staff will accept reasonable differences in judgment, coupled with transparent disclosure
  ✓ Concurrent documentation enhances credibility of judgment

♦ Economic substance
  ✓ Problems arise when transactions are designed around accounting literature
  ✓ Often not consistent with principles of standard

♦ Transparent disclosures
Questions