

**In This Issue:**

**Annual Audit Committee Symposium: Highlights and Insights** (Page 1)

**SEC Provides Guidance on Executive Compensation Disclosures** (Page 2)

**Questions Audit Committees Might Ask Concerning IFRS** (Page 2)

**SEC Clarifies Shareholder Access Rule** (Page 3)

**Major Changes to Business Combination Accounting as FASB and IASB Substantially Converge Standards** (Page 3)

**The State of the Credit Market and the Role of the Audit Committee** (Page 4)

**SEC Continues Focus on XBRL Data Tagging** (Page 4)

**What's New at Deloitte's Center for Corporate Governance?** (Page 5)

**Deloitte Dbriefs Webcasts** (Page 5)

The purpose of this publication is to summarize key regulatory, technical, and professional developments in the corporate governance and accounting fields and to provide links to additional information. Readers seeking a more in-depth analysis of a topic should review the information referenced in the hyperlinks and not rely on the descriptions included in this communication. Deloitte & Touche LLP ("Deloitte & Touche") is not, by means of this publication, rendering accounting, business, financial, investment, legal, tax, or other professional advice or services. This publication is not a substitute for such professional advice or services, nor should it be used as a basis for any decision or action that may affect your business. Before making any decision or taking any action that may affect your business, you should consult a qualified professional advisor. Deloitte & Touche is not responsible for any loss sustained by any person who relies on this publication.

## Annual Audit Committee Symposium: Highlights and Insights

Leading governance experts convened in New York City for Deloitte & Touche USA LLP's annual Audit Committee Symposium to share their insights on important topics with audit committee members. This event attracted audit committee members from Fortune 500 companies and featured keynote remarks from Dr. Alan Greenspan, former chairman of the Board of Governors of the Federal Reserve.

### A Conversation with Dr. Greenspan. Dr.

Greenspan commented that the subprime situation was an "accident waiting to happen," adding that "if it weren't subprime, it would be something else." Dr. Greenspan cautioned that there is a long way to go before the credit crunch is solved, but said his main concern for the future is the growing Medicare liability that will impact the future of the U.S. economy. He noted that in 20 years, there will be twice as many retirees as there are now, and at current funding and eligibility levels, benefits would need to be cut in half to support the population and maintain Medicare solvency.



### How the Audit Committee Should Interact with the Compensation Committee.

Robert J. Stucker, chairman of Vedder Price, and Michael S. Kesner, principal with Deloitte Consulting LLP, shared recommendations for interactions between the audit committee and the compensation committee. Both agreed that executive compensation will continue to be a hot issue for shareholders. They suggested several steps every board should consider to help restore investor confidence in corporate governance:

- Talk to major investors
- Phase out severance for top executives
- Eliminate supplemental executive retirement plans
- Set rigorous incentive targets
- Emphasize long-term performance
- Award performance-vested equity such as stock options or shares
- Require senior executives to hold stock until retirement
- Add clawback provisions
- Tighten compensation controls.

### Enterprise Risk Management: The Role of the Audit Committee.

Rolf A. Classon, chairman of Hillenbrand Industries and a recognized authority on enterprise risk management, discussed the increased focus on risk oversight and risk management processes and identified the responsibilities of the audit committee:

- Oversee management processes to identify and mitigate risk
- Understand the full board's approach to risk
- Ensure the full board understands the enterprise risks and risk management processes.

*(continued on page 2)*

Mr. Classon emphasized that discussions about risk should include non-balance-sheet assets such as talent, values, execution, and strategy, in addition to financial reporting and compliance. He advised audit committee members to follow an 80-20 rule, with 80 percent of their time spent on the top 20 percent of risks, allowing sufficient time to focus on strategic issues.

**Focusing on Long-Term Corporate Performance.** Robert J. Kueppers, deputy chief executive officer of Deloitte & Touche USA LLP, moderated this panel discussion featuring William H. Donaldson, trustee and chairman of the Committee for Economic Development's Subcommittee on Corporate Governance and former chairman of the U.S. Securities and Exchange Commission; Dean W. Krehmeyer, executive director of the Business Roundtable Institute for Corporate Ethics; and Judith F. Samuelson, executive director of the Aspen Institute. The panelists discussed how concerns about long-term value creation cause companies to do things differently. For additional information on long-term corporate performance considerations, go to the [Board Governance](#) section of Deloitte & Touche's Center for Corporate Governance Web site.

**Audit Committee Best Practices Panel.** Moderated by Geoffrey Colvin, *Fortune* magazine's senior editor-at-large, this panel featured Sharon L. Allen, chairman of the board of directors for Deloitte & Touche USA LLP; Dennis R. Beresford, professor at the J.M. Tull School of Accounting at the University of Georgia and former chairman of the FASB; and Barbara Hackman Franklin, president and CEO of Barbara Franklin Enterprises and former U.S. Secretary of Commerce. They discussed the roles and trends of audit committees, and provided the following recommendations:

- Have business-unit leaders be present and accountable to the committee
- Shift to a more productive discussion regarding risk, fraud, and accountability by keeping a 12-month rolling agenda to prioritize topics appropriately
- Ensure that everyone is comfortable and understands the issues; sometimes the committee needs more time
- Ask the auditors if any issues have been referred to the national office
- Treat boards as a lifetime-learning experience, and learn about the business while taking the opportunity to coach management
- Be involved in talent/succession planning for all key finance personnel, including the controller
- Allocate time during the meetings for self-assessment. •

## SEC Provides Guidance on Executive Compensation Disclosures

The SEC provided guidance to registrants regarding executive and director compensation disclosures in a report and in speeches by SEC Chairman Christopher Cox and John W. White, director of the Division of Corporation Finance, in October 2007.

The [report's](#) comments focused on the following aspects of the revised executive and director compensation disclosures:

- Materiality of disclosures to investors
- Manner of presentation, format, and clarity of the disclosures
- Compensation discussion and analysis (CD&A)
- Other topics, including corporate governance. •

The SEC indicated that CD&A should have a stronger focus on analyzing material principles and on important factors influencing the registrant's executive compensation policies and decisions. Companies should provide more focused disclosure of how and why they made specific executive compensation decisions; such disclosures should be concise, written in plain English, and should have more tables and graphs.

**More Information.** Deloitte & Touche LLP's *Heads Up: "SEC Feedback on Executive Compensation Disclosures: 'Where's the Analysis?'"* is available on Deloitte & Touche's Center for Corporate Governance Web site. The [press release](#) is available on the SEC's Web site. •

### Recommendations Audit Committees Might Consider

- Work in tandem with the compensation committee to assist with the oversight of compensation programs, focusing on incentive criteria and disclosures
- Ask management about disclosure plans for future filings
- Consider whether input from SEC counsel should be sought regarding disclosures. •

### Questions Audit Committees Might Ask Concerning IFRS

Thousands of companies have moved to International Financial Reporting Standards (IFRS) in the past year as a basis of financial reporting. Nearly every country has embraced IFRS in some way.

- Has the company inventoried its current IFRS reporting requirements, if any?
- What is the level of IFRS knowledge within the company, both domestically and globally?
- Are the company's competitors already reporting under IFRS, or is there an expectation that they would switch to IFRS, if given the choice?
- What would be the impacts on the company of a possible IFRS requirement in the U.S.?
- Has the company assessed the cost and benefits of adopting IFRS?
- **More information.** Join the upcoming Deloitte Dbriefs Webcast, *International Financial Reporting Standards: Strategies for Adopting a Single Set of Standards*, on February 20, 2008, at 2 p.m. EST. •

## SEC Clarifies Shareholder Access Rule

The SEC ruled against shareholders nominating candidates to the board of directors in proxy materials. Rule 14a-8(i)(8) sets forth one of several cases in which a company may exclude a shareholder proposal from its proxy materials. Specifically, a company can omit from its proxy materials any proposal that “relates to an election for membership on the company’s board of directors or analogous governing body.”

Chairman Cox said a definitive rule was needed to alleviate legal uncertainty before the 2008 proxy season, and promised to revisit the issue next year. •

***“Now that we have accomplished our investor-protection objectives, I believe we can move forward and reopen this discussion in 2008 to consider how to strengthen the proxy rules to better vindicate the fundamental state law rights of shareholders to elect directors.”***

***- SEC Chairman Christopher Cox***

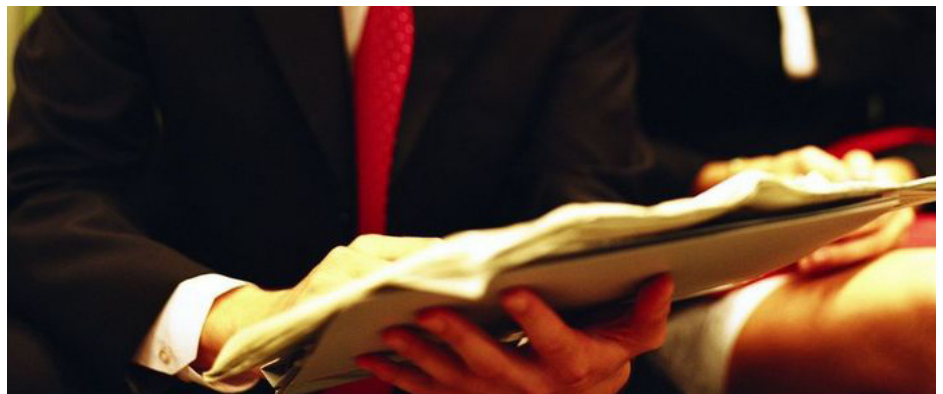
## Major Changes to Business Combination Accounting as FASB and IASB Substantially Converge Standards

The Financial Accounting Standards Board (FASB) recently completed the second phase of a project to reconsider the accounting for business combinations. Two accounting standards that were issued in December 2007 represent the most significant convergence effort with the International Accounting Standards Board (IASB) to date. These new standards are:

- Statement No. 141(R), *Business Combinations*
- Statement No. 160, *Noncontrolling Interests in Consolidated Financial Statements*, an amendment of ARB No. 51.

These statements elevate the role played by fair value and change the way companies account for business combinations and noncontrolling interests, such as minority interests. Compared with their predecessors, these statements require:

- More assets acquired and liabilities assumed to be measured at fair value as of the acquisition date
- Liabilities related to contingent consideration to be measured again at fair value in each subsequent reporting period



- An acquirer to expense acquisition-related costs, including deal fees for attorneys, accountants, and investment bankers
- Noncontrolling interests in subsidiaries to be measured initially at fair value and classified as a separate component of equity.

Statements 141(R) and 160 continue the FASB’s push toward more fair value in financial statements. Underlying statement 141(R) is the fundamental principle that an acquirer should measure all assets acquired and liabilities assumed at fair value as of the acquisition date. The FASB

has generally provided for prospective application in fiscal years beginning on or after December 15, 2008.

**More Information.** Deloitte & Touche’s [\*Heads Up: “Major Changes to Business Combination Accounting as FASB and IASB Substantially Converge Standards”\*](#) is available on the Center for Corporate Governance Web site. •

## The State of the Credit Market and the Role of the Audit Committee

Many audit committees will be challenged in executing their oversight responsibilities during the next annual reporting season. They should discuss the effect of the volatile credit market with management and external auditors. Audit committees should further understand management's:

- Process to understand and inventory the potential impact of the credit market on assets, obligations, and valuation allowances
- Resources and expertise to address additional considerations related to the current credit environment
- Consideration of internal controls regarding fair-value measurements
- Consideration of the entity's ability to continue as a going concern
- Review of specific accounts impacted by fair value, such as pension assets, investments, goodwill, loans, mortgage servicing rights, foreclosed assets, guarantees, potential covenants, and other contractual triggers.

Audit committees may want to ask management about fair-value measurements and related processes:

- How has management identified all assets that should be reviewed for other-than-temporary impairment?
- How has that process been affected by the illiquidity in the market?
- How did the company compensate for the lack of observable data in making investment valuations compared to periods when there were more stable markets and more liquidity?
- Has management provided expanded disclosures in financial statements and Management Discussion and Analysis, including exposure to credit risk and potential losses?

To help auditors understand the application of GAAP in the context of illiquid market conditions, the Center for Audit Quality recently published three white papers that discuss GAAP requirements in

several specific areas. The papers, *Measurements of Fair Value in Illiquid (or Less Liquid) Markets*; *Evaluation of Commercial Paper Conduits*; and *Accounting for Underwriting and Loan Commitments*, are available on the Center for Corporate Governance Web site.

**More Information.** Deloitte & Touche LLP's *Financial Reporting Alert 07-4: Key Accounting Issues and the Current Credit Environment* and a Deloitte Dbriefs Webcast, *The State of the Credit Market and Its Impact on Financial Reporting*, are available on the Center for Corporate Governance Web site. •



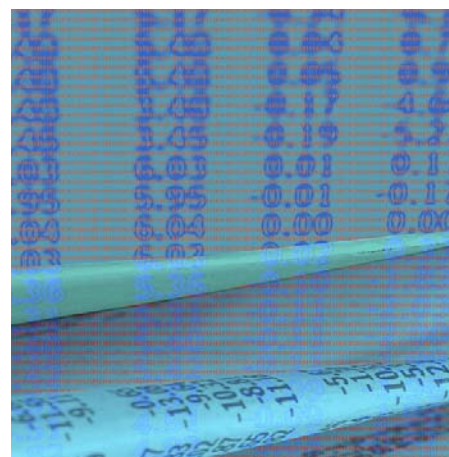
## SEC Continues Focus on XBRL Data Tagging

Data tags, referred to as extensible business reporting language (XBRL), have been developed for U.S. GAAP. The widespread use of XBRL will make it possible for investors, analysts, and others to download financial reports filed with the SEC directly into spreadsheets in Excel and other software, allowing for the comparison of financial information across companies and industries. The SEC has committed to transform its vast EDGAR database into an XBRL format.

The SEC's Office of Interactive Disclosure is encouraging public comment on the standard list of terms, or taxonomy, used for the creation of a financial statement in XBRL. The public comment period ends April 4, 2008.

David Blaszkowsky, director of the Office of Interactive Disclosure, said, "With the release of this taxonomy today, investors can now begin to visually see the progress being made, and so will every public company that uses GAAP. Interactive data is no longer merely an up-and-comer, it's becoming reality. We encourage both users and preparers of financial information to participate in this public review so we can advance interactive data to be recognized as not only amazing technology, but a superior way of doing business and making faster, cheaper, and more informed investment decisions." •

**December 21, 2007** – Chairman Christopher Cox launches an online tool, the executive compensation reader, available at [www.sec.gov/xbrl](http://www.sec.gov/xbrl), that enables investors to compare what 500 of the largest American companies are paying their top executives.



## What's New at Deloitte's Center for Corporate Governance?

Register at [www.corpgov.deloitte.com](http://www.corpgov.deloitte.com).

### Audit Committee

**2007 Audit Committee Research Report** – This report, issued by the Huron Consulting Group, identifies characteristics of audit committee composition and analyzes significant trends based on the audit committees studied.

### Ten Things about Fraud Control: How Executives View the "Fraud Control Gap" –

This Deloitte Financial Advisory Services LLP booklet highlights the key ways in which companies differentiate themselves in their approach to fraud control.

### Board Governance

**Key Issues for Directors** – Martin Lipton, senior partner in the law firm of Wachtell, Lipton, Rosen & Katz, provides insight into the major governance issues likely to confront organizations in 2008.

### Compensation Committee

**The Compensation Committee: The Impact of New Disclosure Rules and Investor Activism** – This NACD article discusses how corporate boards and compensation committees are responding to increased scrutiny regarding executive pay.

### Deloitte Periodicals

**Accounting Roundup** – A monthly newsletter that focuses on the activities of accounting standard-setters and regulators:

- *FASB Proposes to Partially Defer Fair-Value Statement 157, Considers Implementation Issues* – Refer to November 2007 issue

**Heads Up** – A periodic analysis of new or proposed accounting guidance that may have a significant impact on practice:

- *SEC Holds Roundtables on IFRSs* – Refer to December 18, 2007 issue

### Nominating/Corporate Governance Committee

**SEC Amends Proxy Rules to Clarify Shareholder Access, Facilitate Shareholder Electronic Forums** – This Weil, Gotshal & Manges LLP article summarizes the rule amendment approved by the SEC regarding shareholder access to corporate proxy materials, as well as the new rules adopted to facilitate the operation of electronic shareholder forums.

To access these and other resources on the Center for Corporate Governance Web site, visit [www.corpgov.deloitte.com](http://www.corpgov.deloitte.com). •



## Deloitte Dbriefs Webcasts

Dbriefs webcasts feature Deloitte & Touche professionals and other professionals discussing issues that affect many companies. The 50- to 60-minute live sessions are archived for replay. Continuing professional education credit is available for most Dbriefs webcasts. Upcoming Dbriefs include:

- **Improving Internal Controls: Management's Process and Auditing Standard No. 5**  
January 31, 2008, at 2 p.m. EST
- **FIN 48: What the Audit Committee Should Know**  
February 6, 2008, at 2 p.m. EST
- **The Credit Crunch: Why Now and Where Do We Go From Here?**  
February 13, 2008, at 2 p.m. EST
- **International Financial Reporting Standards: Strategies for Adopting a Single Set of Standards**  
February 20, 2008, at 2 p.m. EST
- **The Board's Role in Risk Oversight**  
March 5, 2008, at 2 p.m. EST

For a complete list of upcoming Dbriefs and to register to participate, please visit <http://www.deloitte.com/us/dbriefs>. •

### About Deloitte

Deloitte refers to one or more of Deloitte Touche Tohmatsu, a Swiss Verein, its member firms, and their respective subsidiaries and affiliates. Deloitte Touche Tohmatsu is an organization of member firms around the world devoted to excellence in providing professional services and advice, focused on client service through a global strategy executed locally in nearly 140 countries. With access to the deep intellectual capital of approximately 150,000 people worldwide, Deloitte delivers services in four professional areas—audit, tax, consulting, and financial advisory services—and serves more than 80 percent of the world's largest companies, as well as large national enterprises, public institutions, locally important clients, and successful, fast-growing global companies. Services are not provided by the Deloitte Touche Tohmatsu Verein and, for regulatory and other reasons, certain member firms do not provide services in all four professional areas.

As a Swiss Verein (association), neither Deloitte Touche Tohmatsu nor any of its member firms has any liability for each other's acts or omissions. Each of the member firms is a separate and independent legal entity operating under the names "Deloitte," "Deloitte & Touche," "Deloitte Touche Tohmatsu," or other related names.

Deloitte & Touche USA LLP is the U.S. member firm of Deloitte Touche Tohmatsu, and services are provided by the subsidiaries of Deloitte & Touche USA LLP (Deloitte & Touche LLP, Deloitte Consulting LLP, Deloitte Financial Advisory Services LLP, Deloitte Tax LLP, and their subsidiaries) and not by Deloitte & Touche USA LLP. The subsidiaries of the U.S. member firm are among the nation's leading professional services firms, providing audit, tax, consulting, and financial advisory services through nearly 40,000 people in more than 90 cities. Known as employers of choice for innovative human resources programs, they are dedicated to helping their clients and their people excel. For more information, please visit the U.S. member firm's Web site at [www.deloitte.com/us](http://www.deloitte.com/us).

Member of  
Deloitte Touche Tohmatsu