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## Deloitte Dbriefs Webcasts

Dbriefs webcasts feature Deloitte 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:

- **Effective Corporate Governance: Subsidiary Considerations**  
May 7, 2008, at 2 p.m. EDT
- **Sarbanes-Oxley Optimization: Improving Compliance Efficiencies**  
May 29, 2008, at 2 p.m. EDT
- **The Latest Trends in Corporate Governance**, June 4, 2008, at 2 p.m. EDT
- **Moving Beyond Sarbanes-Oxley: The Risk Intelligent Enterprise**  
June 26, 2008, at 2 p.m. EDT

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## The PCAOB Proposes New Auditing Standard

The Public Company Accounting Oversight Board (PCAOB) has proposed Auditing Standard No. 7, *Engagement Quality Review*. If approved by the Securities and Exchange Commission (SEC), the proposed standard would be effective for reports issued on or after December 15, 2008. Although this date is based on the timing of when the final standard may be approved, it is uncertain whether the standard will be effective for 2008 audits.

The proposed standard requires:

- That the engagement quality reviewer (i.e., a second partner, also known as the concurring reviewer) approve the issuance of the audit report
- That the engagement quality reviewer must not approve the issuance of the audit report if he or she knows or should know that:
  - The engagement team failed to obtain sufficient competent evidence in accordance with the standards of the PCAOB
  - The engagement team reached an inappropriate overall conclusion on the subject matter of the engagement
  - The firm's report, if a report is to be issued, is not appropriate in the circumstances
  - The firm is not independent of its client.

It also requires additional and more in-depth procedures by the concurring reviewer, a more detailed review of audit documentation in areas subject to review, and more extensive documentation of the concurring review process. While we support the improvement of audit quality, we are concerned that the proposed standard increases the scope of the engagement quality review without a commensurate improvement in audit quality.

Interested parties may submit written comments to the PCAOB at [www.pcaobus.org](http://www.pcaobus.org). All comments should refer to PCAOB Rulemaking Docket No. 025 in the subject line and are due by May 12, 2008.

The text of the proposed auditing standard and related amendment are available on the PCAOB's Web site at [www.pcaobus.org/Rules/Docket\\_025/2008-02-26\\_Release\\_No\\_2008-002.pdf](http://www.pcaobus.org/Rules/Docket_025/2008-02-26_Release_No_2008-002.pdf). •

## IFRS: What Should U.S. Companies Do?

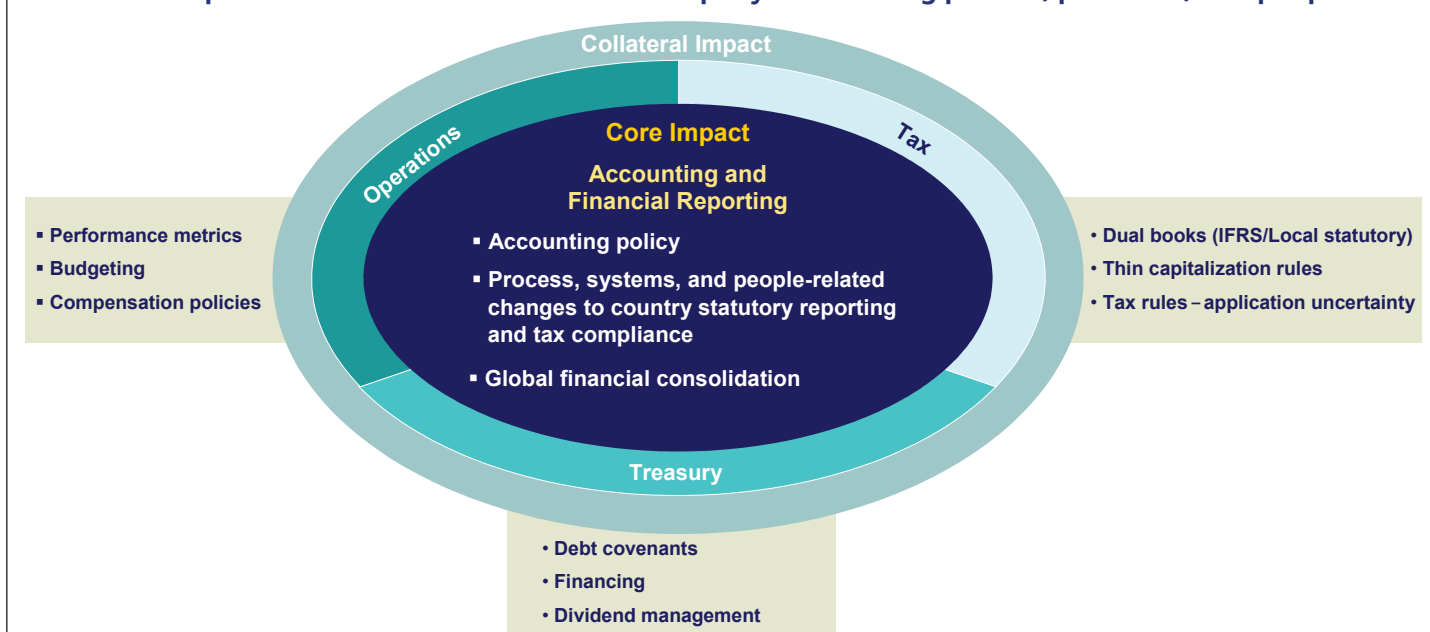
The movement toward International Financial Reporting Standards (IFRS) as a single set of globally accepted accounting standards is gathering momentum. IFRS is gaining acceptance rapidly around the world, spurring U.S. companies to assess the potential implications of adopting the most widely used global accounting framework. Last year, the SEC solicited comments on a concept release asking whether U.S. companies should be permitted to use IFRS. Later this year, the SEC is expected to issue a roadmap that would discuss next steps in allowing U.S. companies the ability to use IFRS in U.S. filings. By 2011, almost every country, including the United States, could be using IFRS to some extent.

Given the heightened interest and activity around IFRS, U.S. companies would be well served by taking action now to develop a greater understanding of IFRS. This involves assessing the implications of current and potential SEC developments on their organiza-

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# IFRS: What Should U.S. Companies Do? (Continued from page 1)

The adoption of IFRS affects more than a company's accounting policies, processes, and people.



tions and determining an appropriate course of action for responding to a shift toward IFRS.

CFOs, CEOs, and audit committee members should consider the following in an effort to understand the impact of IFRS on their company:

- Assess how the organization is currently exposed to IFRS.
- Evaluate how IFRS reporting would affect the organization.

- Analyze the costs and benefits of global IFRS adoption.

- If IFRS implementation is considered beneficial, develop a plan for an effective conversion.

The adoption of IFRS affects many aspects of a company, including financial reporting, internal controls, taxes, treasury, cash management, and legal matters. Conversion requires a transformation that involves employees, pro-

cesses, and systems. If management decides to convert, it is important to plan and prepare properly to achieve the maximum benefit and lowest cost.

**More Information.** Deloitte's *International Financial Reporting Standards for U.S. Companies: Implications of an Accelerating Global Trend* is available on Deloitte's Center for Corporate Governance Web site. •

## What an XBRL Mandate Means to You

Recent regulatory and market developments indicate that the SEC may soon begin to phase in a mandate for the submission of XBRL (eXtensible Business Reporting Language) financial reports by U.S. public companies. It is expected that the SEC will propose a rule to establish such a mandate this spring, to be finalized by fall 2008. This rule could take effect for certain filers shortly thereafter.

SEC Chairman Christopher Cox has been a vocal advocate of the value of interactive data to investors, analysts, and other market participants. XBRL is the tool registrants will use to make their financial filings interactive. In February 2008, the SEC Advisory Committee on Improvements to Financial Reporting (CIFIR) made a preliminary recommendation that the SEC require the 500 largest accelerated filers to furnish XBRL-tagged financial statements beginning with either Form 10-K filings for the year ended December 31, 2008, or with first-quarter 2009 10-Q filings, including the face of financial statements and associated notes. A requirement for the remainder of public registrants would be phased in subsequent to this initial period.

Seventy companies, representing more than \$2 trillion of market value, have participated in the SEC's XBRL Voluntary Financial Reporting Program, submitting annual, quarterly, and other reports with interactive data in addition to their conventional filings. Current program participants include 3M, Bristol-Myers Squibb, Comcast, The Dow Chemical Company, Ford, General Electric, Microsoft, PepsiCo,

United Technologies, and Xerox. For additional information on this program or to view XBRL filings, go to the SEC's Web site at [www.sec.gov/spotlight/xbrl/xbrl-vfp.shtml](http://www.sec.gov/spotlight/xbrl/xbrl-vfp.shtml).

Beyond its domestic efforts, the SEC is working with key regulators and standard setters around the world to begin aligning their XBRL initiatives. Longer term, XBRL may also play a significant role in the global movement to IFRS. The SEC, and Chairman Cox in particular, have drawn an explicit link between the SEC's XBRL initiative and its growing support for IFRS and convergence. In addition to financial reporting, the SEC has stated that "as with any conversion from manual to automated processes, replacing document-based reporting with data-based reporting also promises tremendous cost savings to any company that undertakes it."

**Expected Timeline.** The SEC will need to follow its customary rule-making process before it can approve a final rule mandating the use of XBRL in SEC filings. In recent speeches and informal discussions, the SEC and its staff have indicated there is a reasonable chance that rules initiating the phased-in adoption of mandatory XBRL reporting will be finalized and approved during calendar year 2008. To do this, the SEC most likely would follow a rule-making timeline similar to the following:

- Spring 2008 – Rule-making recommendations drafted by SEC staff for review by the commission.

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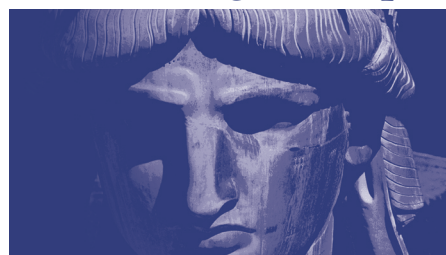
## SEC Advisory Committee Releases Progress Report

The SEC Advisory Committee on Improvements to Financial Reporting (CIFIR) released a progress report in February that summarized the committee's proposals and preliminary ideas for reducing complexity in financial reporting and increasing the usefulness of the financial information provided to investors.

CIFIR's proposals cover a variety of processes that affect U.S. public companies, including standard setting, regulatory oversight, and the delivery of financial information. Overarching themes of the progress report include:

- Investors should have more influence and involvement in the financial reporting system.
- Preparers should communicate useful and timely information to investors.
- Regulators should consider adopting a judgment framework.
- The SEC and Financial Accounting Standards Board (FASB) should further improve the current processes for setting standards and issuing implementation guidance.
- The number of restatements that do not provide information useful to investors for decision-making should be reduced.

In future deliberations, the committee will consider the responses submitted during the comment period that ended March



31, 2008, and will also discuss areas not yet covered in detail such as (1) international convergence; (2) the ideal design of standards, that is, principles-based versus rules-based and fair value versus historical cost; and (3) the interaction among companies, auditors, the SEC, and the PCAOB. The committee will hold public meetings until early August 2008, when its charter expires. A final report is expected to be issued to the SEC chairman in August 2008.

The committee is led by Robert C. Pozen, chairman of MFS Investment Management, and James H. Quigley, chief executive officer of Deloitte Touche Tohmatsu, is a committee member. The additional 15 members include corporate directors, attorneys, investors, corporate executives, and representatives of the auditing profession.

**More Information.** Deloitte's *Heads Up*, February 19, 2008, "DeCIFIRing Complexity: SEC Advisory Committee Releases Progress Report," is available on Deloitte's Center for Corporate Governance Web site. •

## Hot Topic from the Center for Corporate Governance

### *The Board's Role in Risk Oversight*

The subprime lending turmoil and related events have led activist shareholders to question the risk monitoring activities of boards. *Read more* on the Center for Corporate Governance Web site.

**Have you registered yet?** Visit the Center for Corporate Governance Web site at [www.corpgov.deloitte.com](http://www.corpgov.deloitte.com) and click Register at the top right of the screen.

### *Corporate Governance Monthly*

The latest information for boards of directors and their committees from the Center for Corporate Governance Web site.

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## The Center for Audit Quality Releases Audit Committee Survey Results

The Center for Audit Quality has released the results of an audit committee survey on significant issues such as the quality of

the audit process since the passage of the Sarbanes-Oxley Act; the risk of material misstatements and fraud; the value of the

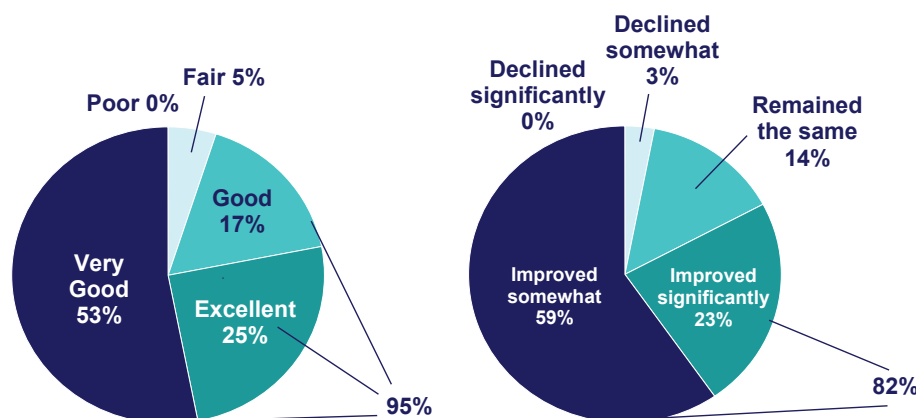
changes mandated under Sarbanes-Oxley; and areas of needed improvement to the audit process.

Participants in this survey represented more than 250 audit committee members, including committee chairs and financial experts, from a broad range of public companies. All served on at least one audit committee in 2007. Six of 10 served on two or more audit committees, and half were committee chairs.

Respondents indicated that even in the face of market turbulence, they have high confidence in the quality of audited financial statements and consider Sarbanes-Oxley a positive influence.

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### Perceptions of the Current State of Audit Quality



Source: The Center for Audit Quality's Report on the Survey of Audit Committee Members: March 2008, page 4

## Spotlight on Pension Plan Assets

Pension plan assets have been receiving more scrutiny, particularly in light of the current turmoil in the credit and financial markets. The proposed FASB Staff Position (FSP) No. FAS 132(R)-a, *Employers' Disclosures about Postretirement Benefit Plan Assets*, would require more disclosure regarding what plan assets are invested in, the concentration of risk in the plan asset portfolio, and how the fair value of plan assets is measured.

The FASB has proposed significantly increasing the categories of assets that companies must disclose, including expansion of the categories of debt securities and the addition of asset-backed securities, derivatives, hedge funds, private-equity funds, and venture capital funds. FSP No. FAS 132(R)-a would also require companies to disclose concentration of risk in or across categories of plan assets, including significant investments in an entity, industry, country, commodity, or investment fund.

One of the most significant proposed changes relates to disclosures that categorize plan assets based on how a company

measures fair value. Plan assets are divided into three categories: observable inputs from quoted market prices, other observable inputs, and unobservable inputs. For assets valued using unobservable inputs, which are the most challenging to value, a company is required to provide a table reconciling the beginning and ending asset balances. Returns, net purchases, sales, settlements, and transfers must be disclosed separately in the table. Also, companies would be required to provide information about valuation techniques and inputs used to measure the fair value of plan assets.

The disclosure requirements in the proposal would be applied prospectively and would be effective for fiscal years ending after December 15, 2008.

**More Information.** Deloitte's *Heads Up*, March 21, 2008, "FASB Proposes New Disclosures for Defined Benefit Plans," is available on Deloitte's Center for Corporate Governance Web site. •

### Questions Audit Committees Might Ask Management

- What types of investments are the company's pension or postretirement plan assets invested in?
- Has the company assessed the level of risk associated with its investments in light of current market conditions?
- Does company management understand how the fair value of plan assets is determined?
- Will the company be prepared to adopt these disclosure requirements in 2008 if the FSP is issued?
- Is the company's trustee or investment manager able to provide the information necessary to provide the disclosures included in the FSP?



## XBRL Mandate

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- Spring/summer 2008 – Proposed rule issued for public comment.
- Fall 2008 – SEC redeliberation and issuance of final rule requiring certain registrants to furnish XBRL-tagged financial statements.
- Year-end 2008/first quarter 2009 – Anticipated effective date if the SEC adopts the CIFI's recommendation or a similar rule. Implementation of the rule might be phased in beginning with either Form 10-K filings from the 500 largest domestic accelerated filers for the year ended December 31, 2008, or with their first-quarter 2009 10-Q filings.
- If the SEC chooses to adopt the CIFI recommendation, the initial phase described above would be expanded about one year later to include all accelerated filers, and, ultimately, would include all other public registrants.

**More Information.** Deloitte's *Why You Need to Know about XBRL* is available on Deloitte's Center for Corporate Governance Web site. •

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.

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## Center for Audit Quality

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Key findings include:

- Audit committee members have experienced many changes in their role since Sarbanes-Oxley, including a significant increase in required time commitment.
- Confidence in markets and audited financial information is high.
- Audit quality is viewed as high and has improved.
- Audited financial statements are viewed as relevant and accessible, but overly complicated.
- Most Sarbanes-Oxley-related changes are seen as having a positive impact.

The survey and complete results are available at [www.theca.org/newsroom/pdfs/audit-survey.pdf](http://www.theca.org/newsroom/pdfs/audit-survey.pdf). •

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