U.S. Securities and Exchange Commission

# SEC's Office of the Chief Accountant and Divisions of Corporation Finance and Investment Management Release Staff Accounting Bulletin 108

**FOR IMMEDIATE RELEASE**
**2006-153**

*Washington, D.C., Sept. 13, 2006* — The U.S. Securities and Exchange Commission's Office of the Chief Accountant and Divisions of Corporation Finance and Investment Management announced today the release of a Staff Accounting Bulletin that provides interpretive guidance on how the effects of the carryover or reversal of prior year misstatements should be considered in quantifying a current year misstatement.

There have been two common approaches used to quantify such errors. Under one approach, the error is quantified as the amount by which the current year income statement is misstated. The other common approach quantifies the error as the cumulative amount by which the current year balance sheet is misstated. Exclusive reliance on an income statement approach can result in a registrant accumulating errors on the balance sheet that may not have been material to any individual income statement, but which nonetheless, may misstate one or more balance sheet accounts. Similarly, exclusive reliance on a balance sheet approach can result in a registrant disregarding the effects of errors in the current year income statement that result from the correction of an error existing in previously issued financial statements.

The SEC staff believes that registrants should quantify errors using both a balance sheet and an income statement approach and evaluate whether either approach results in quantifying a misstatement that, when all relevant quantitative and qualitative factors are considered, is material.

Chief Accountant Conrad W. Hewitt stated, "Consistent application of the guidance in this Staff Accounting Bulletin will result in more accurate financial reporting for investors." Hewitt also stated, "The staff will not object if a registrant records a one-time cumulative effect adjustment to correct errors existing in prior years that previously had been considered immaterial – quantitatively and qualitatively - based on appropriate use of the registrant's previous approach." The Staff Accounting Bulletin describes the circumstances where this would be appropriate as well as the required disclosures to investors.

The statements in Staff Accounting Bulletins are not rules or interpretations of the Commission, nor are they published as bearing the Commission's official approval. They represent interpretations and practices followed by the Office of the Chief Accountant and the Divisions of Corporation Finance and Investment Management in administering the disclosure requirements of the Federal securities laws.

- Additional materials: Staff Accounting Bulletin No. 108

*http://www.sec.gov/news/press/2006/2006-153.htm*