

MEMORANDUM FOR FILE

DATE: November 2, 2006

FROM: Susan Koski-Grafer

SUBJECT: Meeting with Organization for International Investment (OFII) to discuss issues of concern to foreign private issuers

ATTENDEES: From SEC – Conrad Hewitt, John White, Paul Dudek, Susan Koski-Grafer
From OFII – Todd Malan, Kevin Gundersen, Mark White, Janice Lucchesi, Robert Stien

SUBJECTS DISCUSSED:

SOX 404 / AS-2

OFII members expressed concern that the costs of 404 and AS 2 have been excessively high and impair the competitiveness of the U.S. capital market. OFII members cite a focus by auditors on coverage and annual testing regardless of the risk involved. They also cite a negative impact on the relationships between auditors and audited companies. Based on their experiences, they believe that auditors have changed their views on materiality, despite statements of some authorities who have said that 404 was not intended to change materiality. They state that auditors seem to be seeking achievement of zero risk. Revenue recognition and reserve accounting are the most frequent subjects of discussion between management and auditors. OFII commented that the proposed rules changes to defer 404 implementation for non-accelerated filers were welcome, but some of their members in larger companies were disappointed that they have had to incur costs of implementation under the current set of rules, when changes are underway to improve those rules and make application more cost-effective.

ACCOUNTING STANDARDS

OFII expressed concerns about a movement to increase the use of fair values in accounting, and about the inconsistencies that are arising in companies reporting results on a “pro-forma / non-GAAP” basis.

DEREGISTRATION

OFII urged prompt action on deregistration, said how this was handled would send a signal to FPIs as to how they are cared about in U.S. Asked about QIBs and urged that exception be made for QIBs. Said that some overseas parties will read into SEC requirements implications for regulatory reach based on (or disregarding) where securities are purchased.