to the series. In addition, the amended order deletes a condition relating to future relief in the Prior Order.

On July 27, 2007, a notice of the filing of the application was issued (Investment Company Act Release No. 27916). The notice gave interested persons an opportunity to request a hearing and stated that an order disposing of the application would be issued unless a hearing was ordered. No request for a hearing has been filed, and the Commission has not ordered a hearing.

The matter has been considered and it is found, on the basis of the information set forth in the application, as amended, that granting the requested exemptions is appropriate in the public interest, and consistent with the protection of investors and the purposes fairly intended by the policy and provisions of the Act.

In addition, it is found that the terms of the proposed transactions, including the consideration to be paid or received, are reasonable and fair and do not involve overreaching on the part of any person concerned, and that the proposed transactions are consistent with the policy of each registered investment company concerned and with the general purposes of the Act.

Accordingly, in the matter of HealthShares, Inc., et al. (File No. 812–13358),

It is ordered, under section 6(c) of the Act, that the requested exemption from sections 2(a)(32), 5(a)(1), 22(d) and 24(d) of the Act and rule 22c–1 under the Act are granted, effective immediately, subject to the conditions contained in the application, as amended.

It is further ordered, under sections 6(c) and 17(b) of the Act, that the requested exemption from sections 17(a)(1) and 17(a)(2) of the Act is granted, effective immediately, subject to the conditions contained in the application, as amended.

The exemption from section 24(d) of the Act does not affect a purchaser’s rights under the civil liability and anti-fraud provisions of the Securities Act. Thus, rights under section 11 and section 12(a)(2) of the Securities Act extend to all purchasers who can trace their securities to a registration statement filed with the Commission, whether or not they were delivered a prospectus in connection with their purchase.

For the Commission, by the Division of Investment Management, under delegated authority.

Florence E. Harmon, Deputy Secretary.

[FR Doc. E7–16762 Filed 8–23–07; 8:45 am]

BILLING CODE 8010–01–P

SECURITIES AND EXCHANGE COMMISSION

[Release Nos. 33–8836; 34–56293; File No. 265–24]

Discussion Paper for Consideration by the SEC Advisory Committee on Improvements to Financial Reporting

AGENCY: Securities and Exchange Commission.

ACTION: Request for comments.

SUMMARY: The Advisory Committee is soliciting public comment on a discussion paper prepared by the Committee Chairman, Robert Pozen. The discussion paper provides a working outline, including a discussion of issues, views and potential consideration points that the Committee may evaluate.

DATES: Comments should be received on or before September 24, 2007.

ADDRESSES: Comments may be submitted by any of the following methods:

Electronic Comments

• Use the Commission’s Internet comment form (http://www.sec.gov/rules/other.shtml); or

• Send an e-mail message to rule-comments@sec.gov. Please include File Number 265–24 on the subject line.

Paper Comments

• Send paper comments in triplicate to Nancy M. Morris, Federal Advisory Committee Management Officer, Securities and Exchange Commission, 100 F Street, NE., Washington, DC 20549–1090.

All submissions should refer to File No. 265–24. This file number should be included on the subject line if e-mail is used. To help us process and review your comments more efficiently, please use only one method. The Commission will post all comments on its Web site (http://www.sec.gov/rules/other.shtml). Comments also will be available for public inspection and copying in the Commission’s Public Reference Room, 100 F Street, NE., Washington, DC 20549, on official business days between the hours of 10 a.m. and 3 p.m.

Whether or not they were delivered a prospectus in connection with their purchase.

For the Commission, by the Division of

Investment Management, under delegated authority.

Florence E. Harmon, Deputy Secretary.

[FR Doc. E7–16762 Filed 8–23–07; 8:45 am]

BILLING CODE 8010–01–P

SECURITIES AND EXCHANGE COMMISSION

[Release Nos. 33–8836; 34–56293; File No. 265–24]

Discussion Paper for Consideration by the SEC Advisory Committee on Improvements to Financial Reporting

AGENCY: Securities and Exchange Commission.

ACTION: Request for comments.

SUMMARY: The Advisory Committee is soliciting public comment on a discussion paper prepared by the Committee Chairman, Robert Pozen. The discussion paper provides a working outline, including a discussion of issues, views and potential consideration points that the Committee may evaluate.

DATES: Comments should be received on or before September 24, 2007.

ADDRESSES: Comments may be submitted by any of the following methods:

Electronic Comments

• Use the Commission’s Internet comment form (http://www.sec.gov/rules/other.shtml); or

• Send an e-mail message to rule-comments@sec.gov. Please include File Number 265–24 on the subject line.

Paper Comments

• Send paper comments in triplicate to Nancy M. Morris, Federal Advisory Committee Management Officer, Securities and Exchange Commission, 100 F Street, NE., Washington, DC 20549–1090.

All submissions should refer to File No. 265–24. This file number should be included on the subject line if e-mail is used. To help us process and review your comments more efficiently, please use only one method. The Commission will post all comments on its Web site (http://www.sec.gov/rules/other.shtml). Comments also will be available for public inspection and copying in the Commission’s Public Reference Room, 100 F Street, NE., Washington, DC 20549, on official business days between the hours of 10 a.m. and 3 p.m.

Whether or not they were delivered a prospectus in connection with their purchase.

For the Commission, by the Division of

Investment Management, under delegated authority.

Florence E. Harmon, Deputy Secretary.

[FR Doc. E7–16762 Filed 8–23–07; 8:45 am]

BILLING CODE 8010–01–P

SECURITIES AND EXCHANGE COMMISSION

[Release Nos. 33–8836; 34–56293; File No. 265–24]

Discussion Paper for Consideration by the SEC Advisory Committee on Improvements to Financial Reporting

AGENCY: Securities and Exchange Commission.

ACTION: Request for comments.

SUMMARY: The Advisory Committee is soliciting public comment on a discussion paper prepared by the Committee Chairman, Robert Pozen. The discussion paper provides a working outline, including a discussion of issues, views and potential consideration points that the Committee may evaluate.

DATES: Comments should be received on or before September 24, 2007.

ADDRESSES: Comments may be submitted by any of the following methods:

Electronic Comments

• Use the Commission’s Internet comment form (http://www.sec.gov/rules/other.shtml); or

• Send an e-mail message to rule-comments@sec.gov. Please include File Number 265–24 on the subject line.

Paper Comments

• Send paper comments in triplicate to Nancy M. Morris, Federal Advisory Committee Management Officer, Securities and Exchange Commission, 100 F Street, NE., Washington, DC 20549–1090.

All submissions should refer to File No. 265–24. This file number should be included on the subject line if e-mail is used. To help us process and review your comments more efficiently, please use only one method. The Commission will post all comments on its Web site (http://www.sec.gov/rules/other.shtml). Comments also will be available for public inspection and copying in the Commission’s Public Reference Room, 100 F Street, NE., Washington, DC 20549, on official business days between the hours of 10 a.m. and 3 p.m.

Whether or not they were delivered a prospectus in connection with their purchase.

For the Commission, by the Division of

Investment Management, under delegated authority.

Florence E. Harmon, Deputy Secretary.
recommendations and to test the application of proposed recommendations by commenting on the manner in which such standards could be improved); and

- Whether the growing use of international accounting standards has an impact on the relevant issues relating to the complexity of U.S. accounting standards and the usefulness of the U.S. financial reporting system.

The charter also directs the Committee to conduct its work with a view to enhancing financial reporting for the benefit of investors, with an understanding that unnecessary complexity in financial reporting can be harmful to investors by reducing transparency and increasing the cost of preparing and analyzing financial reports.

Committee Chair Robert Pozen has drafted the discussion paper for consideration by the Committee. The Committee considered the discussion paper at its first public meeting held on August 2, 2007 and agreed to publish the discussion paper for public comment at that meeting. The full text of the discussion paper is attached as an Appendix and also may be found on the Committee’s Web page at http://www.sec.gov/about/offices/oca/acift-shtml. The discussion paper identifies in general terms the issues, views and consideration points that the Committee may evaluate. All interested parties are invited to submit their views, in writing, on any or all of the subjects identified, whether some subjects identified should not be considered for any reason (such as to conserve resources, to focus resources on other, more critical subjects, or because of the limited length of the Committee’s term) or on any other matter relating to the current U.S. financial reporting system that the Committee should consider addressing.

General Request for Comment: Any interested person wishing to submit written comments on any aspect of the discussion paper, as well as on other matters relating to the Committee’s work, is requested to do so.

Authority: In accordance with Section 10(a) of the Federal Advisory Committee Act, 5 U.S.C. App. 1, 10(a), James L. Kroeker, Designated Federal Officer of the Committee, has approved publication of this release at the request of the Committee. The solicitation of comments is being made solely by the Committee and not by the Commission. The Commission is merely providing its facilities to assist the Committee in soliciting public comment from the widest possible audience.

Nancy M. Morris,
Committee Management Officer.

Appendix—Discussion Paper for Consideration by the SEC Advisory Committee on Improvements to Financial Reporting
By Committee Chair Robert Pozen
Draft dated July 31, 2007

Introduction
This white paper is provided as an outline for consideration and discussion by the Securities and Exchange Commission’s Advisory Committee on Improvements to Financial Reporting (CIFIR). The purpose of the document is to provide a working outline, including a discussion of issues, views and potential consideration points that the Committee could evaluate. Additionally, the outline is structured in 5 key areas that could serve as a model for organizing the work of the Committee into subcommittees.

Background
The U.S. capital markets are the deepest and most liquid in the world. The acknowledged success of the U.S. capital markets, and their contribution to the nation’s economic vitality, has been due in no small measure to the availability of relevant, reliable, readily understandable, and timely financial information. However, while the U.S. financial reporting system has become the most complete and well developed in the world, some parts of the system may not be fully aligned with changes in the economy, business operations, technology and investor needs, leaving room for improvement.

The strength of the U.S. financial reporting system lies in no small part in its inherent checks and balances, including the different perspectives of participants in the markets—direct participants (e.g., companies and investors), regulators, independent standard setters, and other third parties (e.g., attorneys, accountants and auditors). But these different and sometimes conflicting perspectives have contributed to some of the problems in the system, including its extreme complexity and the resulting need to consider how the usefulness of reported financial information can be improved.

The SEC has charged the Committee with examining the U.S. financial reporting system to identify ways to improve the system of financial reporting. In considering this mandate, the Committee will consider ways to both reduce unnecessary complexity and make information more useful and understandable for investors. More specifically, the Committee’s charter identifies the following as areas of inquiry for the Committee:

- The current approach to setting financial accounting and reporting standards, including (a) The principles-based vs. rules-based standards, (b) the inclusion within standards of exceptions, bright lines, and safe harbors, and (c) the process for providing timely guidance on implementation issues and emerging issues;
- The current process of regulating compliance with accounting and reporting standards;
- The current system for delivering financial information to investors and accessing that information;
- Other environmental factors that drive unnecessary complexity, including the possibility of being second-guessed, the structuring of transactions to achieve an accounting result, and whether there is a hesitance by professionals to exercise professional judgment in the absence of detailed rules;
- Whether there are current accounting and reporting standards that do not result in useful information to investors, or impose costs that outweigh the resulting benefits; and
- Whether the growing use of international accounting standards has an impact on the relevant issues relating to complexity of U.S. accounting and reporting standards and the usefulness of the U.S. financial reporting system.

As the Committee proceeds with its evaluation, it may wish to consider the financial reporting system in light of the needs of two primary groups—those who prepare the financial information and those who use the information—while taking into account the overall environmental impact of two secondary groups—those who opine on the information being presented and those who regulate our financial reporting system.

Those who prepare financial information generally want:
- Clear instructions on what subjects to cover in financial reports;
- Not to be later second-guessed by regulators, litigants, etc. in situations where reasonable/good faith judgments were made;
- Financial reports to reflect the economic realities of the business, with enough flexibility to reflect the special situation of both the company and the industry;
- To reduce period-to-period volatility of earnings to the extent feasible (for example, in situations where the volatility is driven by changes in estimates but where such volatility has not resulted in a “realized” gain or loss); and
- To prepare required financial information at a reasonable cost, in terms of dollars and management time.

Those who are users of financial information generally want:
- To understand the financial reports, at the level of detail that is desired by each type of user;
- To be able to rely on the integrity of the financial reports (and not be told later they were incomplete, misleading or actually wrong);
- The financial reports to reflect the economic substance of the business, regardless of technical rules;
- Financial reports to reflect, to the extent feasible, actual changes in market values from period to period; and
- The reports to be delivered in a format that makes it easy to compare one company to another.

Those who opine on the specific financial information presented generally want:
- Clear instructions on what subjects to cover in financial reports;
- Not to be later second-guessed by regulators, litigants, etc. in situations where reasonable/good faith judgments were made;
- The financial reports to reflect the economic substance of the business; and
- To make a reasonable profit opining on financial information at a reasonable cost.

Those who regulate the system generally want:
- A financial reporting system that provides protection to investors, promotes market efficiency and facilitates capital formation;
- Clear instructions on what subjects to cover in financial reports;
- To be able to rely on the integrity of the financial reports;
- The financial reports to reflect the economic substance of the business; and
- All of the above to be accomplished at a reasonable cost to society in relation to the benefits to be achieved.

While the list of objectives above is only illustrative and certainly not all inclusive, one can observe that the objectives of those involved in our financial reporting system are consistent in many respects. All participants want clear guidelines that allow financial reports to be prepared and presented in a straightforward fashion, do not want financial reports to be subsequently deemed to be incorrect, want the financial reports to reflect the economic substance of the business, and do not want companies to spend too much money and management time on preparing financial reports.

However, the Committee should recognize that some of the goals of participants within our financial reporting system may conflict. For example, preparers often want less volatility in earnings implying less fair value measures, while users generally prefer that more assets and liability reflect their current values. This places tension on the desire to have financial reports that reflect the economic substance of the entity. Further, users may prefer a uniform format that makes comparisons easy, while preparers may want special rules that allow them to present what they believe are the unique aspects of their industry or company.

Upon conclusion of the Committee’s work, the Committee will provide written recommendations to the Chairman of the SEC on how to improve the financial reporting system in the U.S. These recommendations may cover many aspects of the financial reporting system for the Commission to consider, including recommendations that involve the Financial Accounting Standards Board (FASB), the Public Company Accounting Oversight Board (PCAOB), and other appropriate organizations. In order to facilitate the Committee in forming these recommendations, the Committee will create subcommittees. The subcommittees will report their recommendations and advice to the Committee for full discussion and deliberation. The proposed subcommittees are listed below.

Following that listing of proposed subcommittees is a proposal regarding their objectives and some preliminary topics the subcommittees may wish to consider.

I. Substantive Complexity

This subcommittee will study the causes and impact of complexity on financial accounting and reporting standards, including: (1) Principles-based vs. rules-based standards; (2) inclusion within standards of exceptions, bright lines and safe harbors; and (3) the concerns of fair value measurement attributes and related earnings volatility. This subcommittee may wish to consider the following:

Principles-Based Standards

Some commentators have suggested that the U.S. should adopt more principles than detailed rules as a way to reduce complexity. However, other commentators have argued that both preparers and users may prefer bright line rules to avoid second guessing in the U.S. regulatory and litigation environment. In considering the need for principles and rules, the subcommittee may wish to evaluate the recent efforts of the FASB to move to a more principles-based approach while retaining implementation guidance. As a reference point, the subcommittee may wish to begin with the SEC staff’s 2003 report to Congress mandated by the Sarbanes-Oxley Act of 2002 on a principles-based approach to standard setting in the U.S., and the FASB’s related response.

Competing Principles

Complexity may be created not by the adoption of principles versus rules, but rather as a result of competing principles. For example, U.S. GAAP is not consistent on the appropriate measurement attribute to use for valuing financial assets and liabilities. In areas like financial assets and liabilities, there are two basic principles: Lower of cost or market, and fair value. The appropriate method to use in U.S. GAAP may be based on a specific industry, a specific transaction, a registrant expectation, or a registra nt choice. To many it would be less complex to choose one approach, but many disagree which approach is most appropriate considering both relevance and reliability. More and more compromises are made, and these compromises lead to greater complexity as lines are drawn or judgments are made to delineate when one approach applies and the other does not. This subcommittee may wish to consider to what extent mixed measurement attributes (fair value versus historical cost) have increased complexity and reduced transparency, and what changes should be made within our capital markets to allow for more consistent measurement attributes.

Preparers vs. Users

Complexity also may result from conflicts between the objectives of preparers and users. From the perspective of sophisticated users, financial reports would be more useful if they contained more segment information in multi-line businesses. However, more companies have been reluctant to have more reporting segments because this may involve the disclosure
of competitively sensitive information. This subcommittee may wish to consider whether enhanced information would improve the usefulness of financial reporting in our capital markets.

**Industry Specific Exceptions**

Many industries have successfully obtained special treatment or exemptions from general accounting standards from the FASB or the SEC. While such exemptions or special treatment increase complexity, they, in many cases, may help preparers within these industries present their financial reports in ways that, in their view, better reflect the economic substance of their businesses than the general standards. This subcommittee may wish to consider whether industry specific accounting or disclosure is useful to our capital markets.

**Alternative Accounting Policies**

Currently, GAAP allows for entities to elect alternative accounting treatment for various transactions that may be economically similar. Most recently, the FASB issued SFAS 159, Fair Value Option, that allows companies to irrevocably elect to record certain types of assets and liabilities at fair value. This election is an instrument by instrument election. Other explicit options are currently present in U.S. GAAP. Providing companies with options may be a useful compromise when there are acceptable alternatives, but it makes it more difficult for users to compare companies. The subcommittee may wish to consider whether alternative accounting policies are useful to our capital markets.

**Sensitivity Analysis**

Financial reports are currently presented in a way that may oversimplify an issue with a complex range of results. In certain areas of accounting, the assumptions drive the results—for example, accounting for unfunded liabilities of defined benefit funds. Yet the range of permissible assumptions—for example, discount rates and mortality experience—is quite large. While sensitivity analyses are utilized to some degree, the subcommittee may wish to consider whether further sensitivity analyses would reduce complexity.

**II. Standard Setting Process**

This subcommittee will study the standard setting process and may wish to consider the following:

**U.S. GAAP Hierarchy**

Presently, all U.S. public companies must follow U.S. GAAP to be in compliance with applicable securities laws and regulations. Over the years, U.S. GAAP has been developed by many different recognized and unrecognized organizations. In the most recent past, these recognized organizations have included the SEC, the FASB, the Emerging Issues Task Force (EITF), and the American Institute of Certified Public Accountants (AICPA) Accounting Standards Executive Committee (AcSEC). For public companies, the authority to set GAAP resides with the SEC. The SEC has historically looked to private sector bodies to provide standards for financial reporting by public companies, and since 1973 the FASB has been recognized by the Commission for this role, absent any contrary determination by the Commission. In addition, the SEC at times will develop interpretive application and disclosure guidance for public companies. The FASB also allows for the EITF, which is subject to its own oversight by the FASB and the SEC, to develop interpretive application guidance to existing U.S. GAAP.

The FASB has undertaken a significant project to develop a comprehensive and integrated codification of all existing accounting literature organized by subject matter that would become an easily retrievable single source for all of U.S. GAAP. This project may provide a useful roadmap for identifying those areas in U.S. GAAP that could be simplified.

**Characteristics of the FASB**

Currently in the U.S., accounting standards for public companies are established by the FASB, absent any contrary determination by the Commission, and the FASB is subject to oversight by the SEC. The Board consists of three members from public accounting, two from preparers, one from academia, and one user. While each member of the Board brings different experiences and perspectives, they are selected based on their expertise in financial reporting and are expected to make decisions based on what they believe will improve financial reporting rather than representing any one constituent group. All members of the Board must sever all ties and remain independent. The subcommittee may wish to consider the characteristics of Board members and the Board selection process.

**FASB Standard Setting Process**

The FASB has an open due process through which the Board obtains input from many constituents, issues proposals and receives extensive further input in the format of comment letters and holds public meetings with constituents. The Board makes all decisions on its accounting standards in public through open debate prior to reaching conclusion. This process can take many years, but was designed to provide constituents maximum input into the decisions of the Board. Currently, a simple majority vote is needed to complete projects. The Board publishes all decisions via board minutes on its Web site and as a basis for conclusions within all significant standards.

The FASB develops major standards based on a conceptual framework. This conceptual framework was designed by previous Boards to act as fundamentals on which future financial accounting and reporting would be based. The conceptual framework, however, is not complete and is not consistent with all of existing U.S. GAAP. To address these issues, the FASB currently has a major project on its agenda jointly with the International Accounting Standards Board (IASB) to improve the conceptual framework and to readdress some major accounting standards where the application is not consistent with the conceptual framework or does not provide sufficiently transparent financial reporting. Areas being considered in this joint project include pensions, leasing, liabilities and equity, revenue recognition, and financial statement presentation.

Accounting standards resulting from the FASB process often leave open many questions of interpretation. The underlying reason for the need for interpretation generally results from either a misunderstanding of the stated principle or rule, or a concern that others will express a different view of the application of the principle or rule within the standard. The FASB staff offers a service to respond to inquiries, but exercises caution in answering some inquiries due to the establishment of precedent. Sometimes the FASB or FASB staff is asked to formally amplify or clarify a set of interpretive issues within an accounting standard. These interpretations were previously published as FASB staff question and answer documents with little Board oversight and no public comment period. Currently, these interpretations are primarily done through FSPs (FASB staff positions), which are discussed and
Interpretive Guidance

The SEC’s Division of Corporation Finance reviews and comments on financial reports filed by public issuers that are not investment companies. The Division has a process for making its comment letters public upon completion of the review process. Through the Division’s filing review process and its now more transparent process making comment letters publicly available on the SEC’s Web site, the staff of Corporation Finance can have a significant influence on how accounting standards are interpreted.

The SEC’s Division of Enforcement, in the course of its investigatory and settlement negotiation processes, often explains the staff’s views of a registrant’s accounting conclusion. The Division’s communications in this regard have been viewed by some as representing views applicable to all companies and not just with respect to the individual facts and circumstances involving the party involved in the particular enforcement investigation.

This subcommittee may wish to consider the extent to which the SEC should publish interpretive guidance, as well as the communication methods used to describe the activities of the SEC or the SEC staff.

Interpretive Guidance—Other

Many organizations, including large accounting firms and the AICPA, publish detailed educational material regarding accounting. These publications are widely used and presumed to be correct by their readers, but may turn out to be not always consistent or accurate. When an inconsistency or inaccuracy is discovered, the authors of the education material often seek clarity from the FASB or SEC staff. This subcommittee may wish to consider whether the FASB or SEC should be involved reviewing or providing this type of guidance.

The Use of Cost-Benefit Analysis in Standard Setting

Determining the costs and benefits of a new accounting standard or rule involves difficult predictions. Often, the true costs and benefits may not be able to be fully known or understood until after the new standard or rule is fully implemented. The processes and practices both pre- and post-issuance may differ among organizations that set accounting standards and rules. The subcommittee may wish to review the existing cost-benefit analysis practices of appropriate organizations to determine if changes should be recommended.

Financial Restatements

A significant number of restatements have occurred in the U.S. financial markets over the past few years. Some have attributed these restatements to more rigorous interpretations of accounting and reporting standards by preparers, outside auditors, the SEC, and the PCAOB, while others believe the concept of materiality (and discussions regarding materiality in SEC Staff Accounting Bulletins 99 and 108) is applied too broadly. Many believe that this increased volume of restatements makes it more difficult for securities analysts and other users of financial information to determine the significance of a restatement. Further, some have expressed concern that the high volume of restatements could lead to an environment where users of financial reports begin discounting the significance of a restatement. Further, some have expressed concern that the high volume of restatements could lead to an environment where users of financial reports begin discounting the importance of restatements (for example, if restatements are viewed to be routine).

The U.S. Treasury has announced it is commissioning a study to determine why the volume of financial restatements has risen so sharply, and
this subcommittee should monitor the U.S. Treasury’s work in this regard. This subcommittee also may wish to consider the reasons for an increase in restatements. For example, the subcommittee might consider whether the increase is a result of: (1) A broad application of the definition of materiality (including the application of materiality guidance in situations where errors do not impact the “bottom line”); (2) more rigorous auditing or enforcement; (3) second guessing by the SEC, the PCAOB, or outside auditors; (4) increasingly detailed accounting standards; or (5) inappropriate application of standards by preparers/auditors. Further, the subcommittee may wish to consider whether there are alternative methods to communicate with the capital markets for certain types of accounting errors (including consideration of the potential for prospective methods to deal with making changes to historical accounting practices).

Use of Judgment

Any move toward reducing complexity and increasing transparency should consider the role of preparer and auditor judgment as it relates to the reduction of prescriptive application guidance. For example, one approach to consider could be whether to expand the use of accounting and auditing standards that allow for more judgment in application. The subcommittee should also consider the role of disclosure in such an environment. For example, some have suggested that more latitude should be provided in standards, with the caveat that more disclosure is provided about the alternative(s) that were considered and why the selected alternative was applied. This subcommittee may wish to consider whether an increase in the use of judgment (elimination of bright lines and detailed application guidance) would result in increased usefulness of financial reports, including the potential impact on comparability. Furthermore, the subcommittee may wish to consider whether an increase in judgment on the part of preparers and auditors is impacted by not knowing or understanding how these groups will be judged by the SEC, the PCAOB or others.

PCAOB

The PCAOB is required to inspect annually all registered public accounting firms that provide audit reports for more than 100 public companies, and at least triennially registered public accounting firms that provide audit reports for fewer than 100 issuers. Reports on these inspections have been produced in many cases more than one year after the completion of the inspections. Pursuant to the Sarbanes-Oxley Act, a portion of the results of the inspections are made available publicly, and certain nonpublic portions of the reports may remain nonpublic if the firm responds to the criticisms to the Board’s satisfaction within a given time period.

Similar to the FASB, the PCAOB receives requests for guidance on how audits should be carried out. In the case of internal control reviews, the PCAOB issued a series of questions and answers, which were generally well received. Nevertheless, these questions and answers were issued without advance notice or public comment, despite the fact they were intended to have general applicability.

This subcommittee may wish to consider the PCAOB’s inspection process and how the process impacts registrant and auditor behavior. The subcommittee may also want to consider whether this creates the need for additional auditing and accounting interpretive guidance, as well as the process on how such guidance is issued.

SEC—Corporation Finance

The SEC is required to review filings by listed public issuers on a regular and systemic basis, as well as review all public companies required to file reports at least once every three years. These reviews may be time consuming and are conducted by the SEC Division of Corporation Finance. A perception may exist that consultation with the OCA does not generally occur unless the registrant requests such consultation. This subcommittee may wish to understand the process the SEC uses to review registrants’ public filings, including the process for providing comments and the level of review and coordination with the various departments of the SEC. Furthermore, the subcommittee may wish to consider whether and how the process impacts registrant and auditor behavior and creates the need for additional auditing and accounting interpretive guidance.

SEC—Division of Enforcement

The Division of Enforcement has broad authority to open an informal inquiry into a registrant’s financial reporting or an auditor’s application of professional standards with respect to a registrant reporting. Formal investigations that provide subpoena authority are made only after approval by the SEC OCA. The OCA is generally consulted before consideration by the Commission of a recommendation by the Division of Enforcement involving financial reporting or auditor misconduct. This subcommittee may wish to understand the process the SEC uses to open an enforcement investigation, including the level and timing of coordination with the various departments of the SEC. Furthermore, the subcommittee may wish to consider whether the process impacts registrant and auditor behavior and affects the need for additional auditing and accounting interpretive guidance.

Audit Firms

This subcommittee may wish to consider whether the behavior of audit firms creates or results in unnecessary complexity. For example, to promote efficient and effective audits, audit firms have created various tools and controls so that a uniform policy is applied throughout their organizations. These include checklists, audit programs, training, and networks of subject matter experts. These subject matter experts tend to view their particular issue as very important and may insist on a uniform national policy, even if the recommended approach is not applied uniformly in practice by others outside the firm. This subcommittee may wish to consider the impact that these practices have on promoting judgment and transparent reporting in the capital markets.

Sustainability of the Audit Profession

Legal risks faced by audit firms and registrants clearly influence their behavior in preparing and auditing financial reports, including their willingness to exercise judgment and to show flexibility in applying accounting rules. With respect to audit firms, the U.S. Treasury has announced its intention to establish an advisory committee to study the sustainability of a strong and vibrant public company auditing profession. Treasury has announced that the committee is to study, among other things, the ability to attract and retain the human capital necessary to meet developments in the business and financial reporting environment; audit market competition and concentration; and the financial resources of the auditing profession, including the effect of existing limitations on auditing firms’ structure. This subcommittee should be aware of how litigation and potential litigation influence behavior and may wish to consider the work of the Treasury’s committee but should not attempt to develop proposals that duplicate the work of that committee.
IV. Delivering Financial Information

This subcommittee will study the current system for delivering financial information to investors and accessing that information. This subcommittee may wish to consider the following:

Tiering of Information

Different groups of investors exist in our capital markets and may have different needs for information from financial reports. The individual investor may be interested mainly in a journalistic outline of the key points about the progress of the business. By contrast, a sophisticated investor may be interested in a full discussion of management’s choice of assumptions underlying the financial reports as well as a comparative analysis of particular financial indicators versus a peer universe. Many have suggested tiering the information with a journalistic summary at the beginning and more detailed analyses as the reader continues to read. Within the context of the Internet, this could mean a summary page, together with hyperlinks to more detailed information on particular topics.

Tagging of Information

The SEC is engaged in a major project to introduce interactive data tagging technology for the informational content of financial reports, such as through the use of XBRL, so that users have the ability to quickly and easily focus on the important information they desire in these reports. Moreover, tagging of information may allow investors to customize their needs based on their desired level of detail. The tagging of information can be focused on performance metrics for carrying out the strategy of a specific company and could be designed along the lines of a balanced scorecard. The tagging of information can be organized into a variety of standard formats for key performance indicators (KPIs) organized by industry. An existing project for the development of these KPIs is being undertaken by a non-profit consortium on enhanced business reporting (originally started under the AICPA). The subcommittee may wish to study these developments and consider whether additional recommendations can be made to improve the usefulness of financial reporting in these areas.

Press Releases and Web Site Disclosure

Press releases and corporate Web sites have become important forms of communication for many public companies. For example, some companies post or issue press releases to report interim and annual results and in doing so often release non-GAAP financial measures. These operating results are often issued well before the formal operating results and disclosure are required to be filed with the SEC, and they may contain additional information that is not required to be filed. Recently as a result of implementing the Sarbanes-Oxley Act, the SEC revised its rules and regulations concerning the public disclosure of non-GAAP financial measures, including in press releases and earnings webcasts, and whether press releases also must be filed versus furnished with the SEC. This subcommittee may wish to consider the underlying reasons why press releases and web disclosures—and the information contained in them—are used by our capital markets in order to determine if additional performance indicators would be useful for our capital markets. In addition, the subcommittee may wish to consider the experience of issuers with disclosure of non-GAAP information and the use of press releases and corporate Web sites in connection with their financial reports. The continued demand for these disclosures by issuers may suggest that the required formats for reporting financial information are not serving all the needs of preparers and users.

Legal Issues

To provide various forms of communications that meet the needs of different investor groups, there may be a need to consider the legal liabilities for different types of information—e.g., MD&A versus audited income statements—and for the different communication methods used to provide them. For example, this subcommittee may wish to look at the experience with “free writing” in public offerings whereby issuers can communicate new developments or pieces of information that may not be included in the formal prospectus. Further, this subcommittee may wish to look at the various attempts to provide a summary prospectus in the mutual fund industry.

V. International Coordination

This subcommittee should consider whether the growing use of international accounting standards has an impact on the relevant issues relating to complexity of U.S. accounting standards and the usefulness of the U.S. financial reporting system (for example, by identifying best practice employed internationally). As it relates to the acceptance of International Financial Reporting Standards, or IFRS, in the U.S. capital markets, the SEC has issued a proposing release to permit the use of IFRS by foreign private issuers without a U.S. GAAP reconciliation. In addition, the SEC has voted to issue a concept release on whether U.S. issuers should be allowed the choice to use IFRS to satisfy their SEC reporting requirements. The SEC expects to receive important feedback on these initiatives that could be considered by this subcommittee. Each of the four other subcommittees should consider whether there are areas or international best practice that should be evaluated by the international subcommittee for implementation in the U.S. financial reporting system. Given the timing of the expected comment letter process on the Commission’s initiatives, and in order for the other subcommittees to identify areas of focus, the substantive research and analysis of this subcommittee will not begin until early 2008. While the nature of the items considered by this committee has not been fully developed, the subcommittee may wish to consider the following:

Standard Setting Approach

This committee should consider whether there are “best practices” employed by the IASB in the standard setting process. For example, many believe the IASB takes an approach based more on principles rather than detailed rules, but the FASB, like the FASB, nevertheless does have conflicting principles and controversies based on volatility and the increased use of fair value. Many have observed that the accounting standards promulgated by the FASB are too lengthy. This is partly because the FASB includes in its standards not only the text, but also its history and the responses to significant comments on the initial proposal and implementation guidance. By contrast, IFRS generally include only the text in its accounting standards. The FASB has already started to work together with the IASB in formulating new accounting standards or revising existing standards in the hopes that future standards will be converged. The subcommittee may wish to consider a few examples where the FASB and the IASB are working together to determine if the process is effective and efficient to meet the needs of our capital markets.

Regulation

The enforcement of accounting standards outside the U.S. may be quite different depending on the particular jurisdiction from the enforcement policies and practices within the U.S. The subcommittee may wish to consider these differences and determine whether the U.S. system could benefit.
from any lessons from the foreign experience.

[FR Doc. E7–16772 Filed 8–23–07; 8:45 am]

SECURITIES AND EXCHANGE COMMISSION


Self-Regulatory Organizations; American Stock Exchange LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change Relating to Elimination of the Short Sale “tick” and Price Tests

August 17, 2007.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934, as amended (the “Act”), notice is hereby given that on July 6, 2007, the American Stock Exchange LLC (the “Amex” or the “Exchange”) filed with the Securities and Exchange Commission (“SEC” or the “Commission”) the proposed rule change as described in Items I and II below, which items have been substantially prepared by the Exchange. The Exchange has designated the proposed rule change as a “non-controversial” rule change under paragraph (f)(6) of Rule 19b–4 under the Act, which renders the proposal non-controversial.

The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. Self-Regulatory Organization’s Statement of the Terms of Substance of the Proposed Rule Change

The Exchange proposes to amend various Amex rules to conform to recent Commission amendments to Rule 10a–1 under the Act and Regulation SHO, that will eliminate Commission and self-regulatory organization (“SRO”) short sale “tick” and price tests.

The text of the proposed rule change is available at Amex, the Commission’s Public Reference Room, and http://www.amex.com.

II. Self-Regulatory Organization’s Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, the Exchange included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The Exchange has prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of such statements.

A. Self-Regulatory Organization’s Statement of the Purpose of, and the Statutory Basis for, the Proposed Rule Change

1. Purpose

On June 13, 2007, the Commission voted to adopt amendments to Rule 10a–1 under the Act and Regulation SHO to remove the “tick” test of Rule 10a–1 and any short sale price test of any SRO. As a result of the Commission’s action, the Exchange is seeking to conform its rules accordingly by rescinding Amex Rule 7, which contains a “tick” test applicable to short sales effected on the Exchange, as well as to make conforming and “housekeeping” changes to certain other rules.

Amex Rule 30A requires members and member organizations to submit periodic reports with respect to short positions in Amex listed securities. However, the rule excludes certain short positions pursuant to exemptions that are specified in Rule 200 of Regulation SHO and Rule 10a–1(e) (1), (6), (7), (8) and (10) under the Act, which are incorporated by reference. Because the Commission’s recent rule-making will change the rule references incorporating these exemptions, the Exchange is proposing to amend Rule 30A to conform to these changes.

In addition, the Exchange proposes to make certain other conforming and “housekeeping” changes necessary to conform to the Commission’s rulemaking.

2. Statutory Basis

The Exchange believes the proposed rule change is consistent with Section 6(b) of the Act 3 in general and furthers the objectives of Section 6(b)(5) of the Act 4 in particular in that it is designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in regulating, clearing, settling, processing information with respect to, and facilitating transactions in securities, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general, to protect investors and the public interest; and is not designed to permit unfair discrimination between customers, issuers, brokers, or dealers, or to regulate by virtue of any authority conferred by the Act matters not related to the purpose of the Act or the administration of the Exchange.

B. Self-Regulatory Organization’s Statement on Burden on Competition

The proposed rule change does not impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act.

C. Self–Regulatory Organization’s Statement on Comments on the Proposed Rule Change Received From Members, Participants or Others

No written comments were solicited or received with respect to the proposed rule change.

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

The foregoing rule change has become immediately effective pursuant to Section 19(b)(3)(A) 5 of the Act and Rule 19b–4(f)(6) 6 thereunder because it does not: (i) Significantly affect the protection of investors or the public interest; (ii) impose any significant burden on competition; and (iii) become operative for thirty (30) days after the date of the filing, or such shorter time as the Commission may designate.

The Exchange has asked the Commission to waive the 30-day operative delay. The Commission believes such waiver is consistent with the protection of investors and the public interest because it would allow the proposed rule change to be effective on July 6, 2007, the compliance date for the amendments to Rule 10a–1 and Regulation SHO. 7 For this reason, the Commission designates the proposal to be operative upon filing with the Commission.

At any time within sixty (60) days of the filing of the proposed rule change, the Commission may summarily abrogate such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing.

7 For purposes only of waiving the 30-day pre-operative period, the Commission has considered the proposed rule change’s impact on efficiency, competition and capital formation. 15 U.S.C. 78c(f).