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March 31, 2008

Nancy M. Morris, Federal Advisory Committee Management Officer
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

Re: File Reference No. 265-24, *Progress Report of the SEC Advisory Committee on Improvements to Financial Reporting*

Dear Ms. Morris:

Deloitte is pleased to comment on the *Progress Report of the SEC Advisory Committee on Improvements to Financial Reporting* (the "Committee" or CIFiR).

We strongly support CIFiR's goal of reducing the complexity of financial reporting and increasing the usefulness of financial information provided to investors. It is clear that CIFiR's "developed proposals" are broad-based and cover a variety of areas that would affect investors, preparers, auditors, standard setters, and regulators.

Generally, we agree with the Progress Report's developed proposals because, if implemented, they collectively would help improve the financial information provided to investors and reduce complexity in financial reporting. Below are additional comments on some of the Progress Report's most significant proposals.

Industry-Specific Guidance (Chapter 1 — Developed Proposal 1.1)

The Committee believes that GAAP should be based on business activities and that industry-specific guidance often contributes to avoidable complexity in financial reporting. However, the Committee also recognizes that industry-specific guidance may alleviate complexity by allowing financial reporting that better meets specific investor needs and better depicts the economics of an industry's business activities. The goals of improving the usefulness of financial information to investors and reflecting the underlying economic substance of a company's transactions may be jeopardized by a categorical abandonment of industry-specific guidance. We agree that industry-specific accounting guidance that is not directly related to the economic effects of the business activity are unnecessary and contributes to complexity. However, accounting guidance that is designed to reflect the economic impacts of an entity's industry business activity does help achieve the Committee's goals of improving usefulness without adding unnecessary complexity by assuring that financial statements reflect any unique industry-specific economic impacts. Such guidance would need to be authoritative in order for the financial statement users to have confidence that the accounting principles are being widely applied by industry participants.

Finally, we understand that convergence with IFRS may be complicated as a result of industry specific accounting guidance. However, we think the debate will be healthy and serve to unearth important issues, especially concerning revenue recognition, that might aid standard setters in developing more objective-based guidance.

Alternative Accounting Policies (Chapter 1 — Developed Proposal 1.2)

We generally agree that GAAP should be based on the tenet that formally promulgated alternative accounting policies should not exist or should exist only in extremely limited circumstances. Certainly, eliminating alternative accounting options in new standards reduces avoidable complexity in GAAP. However, as the marketplace moves to more objective-based accounting standards, implicit optionality will inherently exist. That is, unlike rules-based standards, objective-based guidance may open up the possibility of diverse accounting conclusions for a given fact pattern.

Further, standard setters will need the firm and unwavering support of a broad range of its constituents — preparers, auditors, regulators, and lawmakers — if Developed Proposal 1.2 is to persist over the long run. Alternative accounting treatments usually represent compromises that standard setters make to satisfy one or more constituent groups' strongly held concerns with a recommended single answer.

Investor Representation in Standard Setting (Chapter 2 — Developed Proposal 2.1)

As the primary beneficiaries of the financial statements of public companies, investors are uniquely positioned to provide input to standard-setting bodies on what information is useful to them in making investment decisions. Therefore, we agree with the Committee that investors should have greater input into the standard-setting process. However, we suggest that CIFiR temper its overall recommendation that the perspectives of investors should have preeminence. Contrary to the overall recommendation, CIFiR's detailed recommendations do not overemphasize investors' input. For example, Developed Proposal 3.1 indicates that CIFiR supports the Financial Accounting Foundation's recently approved change to decrease the size of FASB members from seven to five. While the reduction in the size of the FASB will provide investors with greater representation than exists today, it would not make investors preeminent.

Because all stakeholders, such as investors, regulators, preparers, and auditors, provide a meaningful and unique perspective to the complex issues involved in financial reporting, a balanced approach to standard-setting goes a long way in ensuring that all valid views are considered and provides the greatest opportunity for a conclusion that is decision-useful, practical, and implementable. Giving preeminence to any one set of stakeholders could ignore the valid concerns or perspectives of other stakeholders in the standard setting process.

We encourage the Committee to explore feasible ways to "attract meaningful investor participation" in the standard-setting process to ensure that a balanced prospective is achieved from all stakeholders. The FASB has attempted to obtain meaningful input and representation from investors in the past; however, investors have often not provided a clear mandate or direction. Therefore, the FASB and the Financial Accounting Foundation should carefully evaluate why they have been less successful in this regard and seek alternative ways of obtaining investor input.

Interpretive Implementation Guidance (Chapter 2 — Developed Proposal 2.4)

We agree with the Committee's proposal that a single standard setter ideally should be responsible for authoritative accounting standards and interpretative implementation guidance within the standard setter's jurisdiction. The Progress Report indicates that "actions taken by the SEC and FASB have not sufficiently curbed the creation of other non-authoritative interpretive implementation guidance, such as that from audit firms, preparers and industry groups, academia, the Center for Audit Quality (CAQ), and other regulators." However, unless authoritative bodies charged with interpreting accounting standards issue timely formal implementation guidance, we envision a continued need for non-authoritative implementation guidance. Both authoritative and non-authoritative implementation guidance serve a valuable role assisting constituents in applying complex accounting standards in a consistent manner that ultimately improves the quality of financial reporting.

Materiality (Chapter 3 — Developed Proposal 3.1)

We applaud the Committee's efforts to develop recommendations aimed at reducing the level of restatements that do not provide useful information to investors. While we generally support CIFiR's recommendations on materiality, we believe that the proposal should be further developed in order to be practical to implement. For example:

1. What is "the perspective of a reasonable investor"?

2. What should be included in the "total mix of information available to a reasonable investor"?

3. How would one weigh the qualitative and quantitative considerations in a sliding scale?

Guidance in this area is particularly appropriate because it involves judgments that extend beyond matters in which accountants, as preparers and auditors, have specialized expertise. For example, econometric evaluations and an understanding of likely investor behavior seem to be a necessary underpinning of successfully executing this proposal. We understand that the materiality of an error is facts and circumstances based; however, the additional clarification on these questions will provide both preparers and auditors a proper framework to apply reasonable judgment in evaluating the materiality of an error.

Correction of Errors (Chapter 3 — Developed Proposals 3.2 and 3.3)

As previously mentioned, we support the Committee's efforts to develop recommendations aimed at reducing the level of restatements that do not provide information that is useful to investors. We believe that the Progress Report's proposals on correcting errors will reduce the number of unnecessary restatements. The excessive level of immaterial restatements may be supported by the lack of a market impact as of the date of their announcement, as evidenced by an October 11, 2007, study by the PCAOB, "Changes in Market Response to Financial Statement Restatement Announcements in the Sarbanes-Oxley Era." This study indicated that the negative market reactions to restatement announcements have decreased by 71 percent post-Sarbanes-Oxley (through the end of the period of the study in 2005). At the same time, according to a published report, "Audit Analytics, 2007 Financial Restatements — A Seven Year Comparison," overall restatements have increased from 709 in 2002 to 1,545 in 2005.

While we generally agree with the overall direction of proposed comments, we offer the following items for the Committee’s consideration:

- Understanding that each situation is facts and circumstances based, further guidance may be necessary for the requirement to correct a material error based on the “needs of current investors.” Without additional clarification on this notion, errors may not be corrected on a consistent basis.

- In certain situations, it is necessary to amend a previously filed annual or interim report to reflect restated financial statements, even if the next annual report or interim period report is being filed in the near future and would contain all relevant information. For example, there is increased legal risk in connection with new securities offerings when there are known immaterial errors, which will be corrected in the future, but are not corrected for purposes of the offering. CIFiR should research alternatives that would allow these securities offerings to be filed without the need to first restate prior-period financial statements.

- For previously known errors that become material for the first time under the “dual approach,” SEC Staff Accounting Bulletin No. 108, codified as SAB Topic 1.N, “Considering the Effects of Prior Year Misstatements When Quantifying Misstatements in Current Year Financial Statements,” requires the “immaterial restatement approach.” This approach requires restatement of prior periods even though the error is immaterial to those prior periods. In addition, after the adoption of SAB 108, newly discovered errors may be material to previously issued financial statements under the “iron curtain” approach even though the correction of such errors (which correction would be recorded using the rollover method) is not material to the previously issued financial statements. The guidance in SAB 108 requires restatement in accordance with FASB Statement No. 154, *Accounting Changes and Error Corrections*, for previously issued financial statements for these errors even though the adjustments are immaterial. The Committee should recommend that the SEC staff amend SAB 108 to require that the iron curtain approach only be applied to financial statements that have not yet been issued. This would likely reduce the number of restatements that do not provide useful information to investors.

- The method for which certain errors are corrected could help eliminate uncertainty in understanding the error’s impact to the financial statements. For example, a material error in the current year that was related to an accumulation of immaterial errors in the prior years, if corrected, would distort current-year net income. We propose that such errors be made through an adjustment to equity instead of being reported through the income statement. This would avoid distortion of the current-year income statement.

Professional Judgment Framework (Chapter 3 — Developed Proposal 3.4)

We support the continued development of a professional judgment framework that will improve the environment toward reaching accounting and auditing judgments. In today’s environment, reasonable professional judgments exercised by preparers and auditors may be challenged through what some might argue is the use of hindsight. This environment inherently leads preparers and auditors to request more detailed guidance from the standard setters, which requires less judgment. As we move toward convergence to a global set of accounting standards that is less rules-based and more objectives-based, it will be critical for preparers and auditors to be free to exercise reasonable professional judgment. A professional judgment framework would recognize that reasonable judgments are an integral part of preparing financial statements and would provide professionals a thoughtful process to follow when exercising and documenting such judgments.

Based on a recent meeting of the Standing Advisory Group of the PCAOB, comment letters submitted to CIFiR about the Progress Report, and testimony before CIFiR on March 13, 2008, we are aware that some investors are critical of the professional judgment framework. Specifically, these investors are concerned that the framework would foster an environment that could lead to lower-quality financial statements, and possibly more fraud. We do not agree with these concerns. CIFiR's professional judgment framework would increase the quality of financial statements because it should promote that professional judgments are reasonable, exercised in good faith and well-documented at the time the judgment is made. In fact, the framework would provide additional clarity around many of the judgments that already occur in today's environment.

Finally, we suggest the Progress Report emphasize the importance that the professional judgment frameworks from both the SEC and PCAOB are developed concurrently. If a judgment framework for preparers were adopted before a framework for auditors, it could impede the audit process.

We appreciate the opportunity to comment on the Progress Report. If you have any questions concerning our comments, please contact Bob Kueppers at (212) 492-4241 or Jim Schnurr at (203) 761-3539.

Yours truly,

/s/ Deloitte & Touche LLP

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