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USA

By E-mail: [rule-comments@sec.gov](mailto:rule-comments@sec.gov)

June 16, 2008

Dear Ms. Morris

**Re: File No. 265-24  
Release Nos. 33-8918; 34-57819  
Subcommittee Reports of the SEC Advisory Committee on Im-  
provements to Financial Reporting**

The Institut der Wirtschaftsprüfer in Deutschland [Institute of Public Auditors in Germany] (IDW) is pleased to have the opportunity to comment on the above-mentioned Subcommittee Reports of the SEC Advisory Committee on Improvements to Financial Reporting.

The IDW has previously submitted comments on the Progress Report issued by the SEC Advisory Committee on Improvements to Financial Reporting on February 14, 2008 in a letter to you dated March 26, 2008. Today's letter is intended as a supplement to that letter, and therefore concentrates on what we view to be the more significant changes resulting from further deliberations on the part of the various Subcommittees. As we explained previously, we wish to contribute to the discussions since our members will be directly affected by developments in financial reporting in the US to the extent that they perform or are involved in audits of U.S. issuers or their subsidiaries. Furthermore, the discussions and proposals detailed in the Progress Report are likely to have an impact not only on financial reporting in the U.S., but also at an international level.

We raise particular issues dealing with those we consider most significant first, noting, for your convenience, to which Subcommittee each issue relates.

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## **General Support**

The IDW continues to support the SEC Advisory Committee's initiative for the reasons explained in our previous letter. We would also like to express our support for the transparent manner in which the Advisory Committee and its Subcommittees have revealed the development of their lines of thought, and for the fact that they continue to remain open to issues raised in ongoing discussions and comments submitted to them.

## **Significant changes**

### *Judgment – Subcommittee III*

In our previous letter, we enclosed the IDW Concept Paper: "Additional Issues in Relation to a Conceptual Framework for Financial Reporting" for the Advisory Committee's consideration. As we had explained, this Paper examines various issues relating to the impact of preparation in the financial reporting process, discussing the inter-relationship between accounting (i.e., what preparers must do to be able to report) and financial reporting (i.e., what is required to be reported).

We had also expressed our support for the suggestions and proposals in the Progress Report regarding professional judgment and the necessary documentation, which to a large extent are in line with the IDW Concept Paper's deliberations in relation to the need for adequate justification of accounting measurements and the collation of accounting evidence. In this context, we had also suggested that these aspects be expanded upon in the Advisory Committee's ongoing deliberations.

We are, however, disappointed that Subcommittee III plans to move away from the suggestion that a framework for accounting judgments be developed, suggesting instead that the SEC and the PCAOB should make a Statement of Policy as to how they evaluate accounting judgments. We note that Subcommittee III argues that a framework would encourage a checklist approach to making accounting judgments. Whilst we agree that principles-based approaches are generally preferable to rules-based approaches, we do not share the Subcommittee's view that a framework would necessarily cause preparers to adopt a checklist mentality. Likewise, we fail to appreciate how a framework along the lines outlined in the IDW issues Paper could potentially be "used as a shield to protect unreasonable judgments". On the contrary, if carefully thought through, we contend that such a framework would result in considerable benefits – ultimately for investors.

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Policy Statements by the SEC and PCAOB, respectively, as how they evaluate judgments, including the factors used in such evaluation would not, in our view address this issue adequately.

#### *Mixed Attribute Model – Subcommittee I*

We note that certain tentative ideas or considerations discussed in the Progress Report have, in the meantime, been subject to further consideration leading, in many cases, to firmer proposals. For example, Subcommittee I now states that it believes the SEC should advise the FASB to exercise caution about expanding the use of fair value until a systematic measurement framework is developed, and in this regard, that phase two of the FASB's fair value option project, which will consider permitting fair value measurement for certain nonfinancial assets and liabilities, should not be finalized prior to completion of a measurement framework. In addition, Subcommittee I preliminarily believes the Committee should recommend that the FASB consider deferring provisions of new standards that are issued, but not yet effective, which expand the use of fair value measurement where it has not been previously required.

Given the widespread controversy surrounding the issue of fair value and, in particular, recently, in relation to the role requirements of various financial reporting frameworks around the world to measure certain items at fair value may have played in the downward spiral currently experienced in the "credit crunch" or "liquidity crisis", we welcome this call for a cautious approach. In our opinion, there is a distinct need at an international level to reconsider the mechanics of the calculation of fair values, in particular in those situations where market prices either do not exist or, even when they exist, where they become subject to short-term volatility attributable to psychological impacts such as those recently observed within capital markets. Alternative measurement methods to arrive at fair value, such as discounted cash flow methods might be worthy of consideration in these situations.

#### *Investor Perspective – Subcommittee II*

We had previously commented on the need to achieve an appropriate balance within standard setting in terms of representation by various parties as opposed to striving to increase investor representation per se. Consequently, we welcome the fact that whilst investor representation in standard setting continues to feature as a significant issue in the Report presented by Subcommittee II, the

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relevant section now appears, to some extent, to reflect the need for a more balanced representation.

In this context, we are however concerned that the wording of the Preliminary Hypothesis set forth on page 4 of 5 of Exhibit B does not reflect the fact that standard setting must not only be responsive to investors' needs for clarity, transparency and comparability but also to preparers' ability to comply therewith. The inclusion of such factors would also be in line with certain deliberations on the part of Subcommittee III.

*Financial Restatements – Subcommittee III – Materiality*

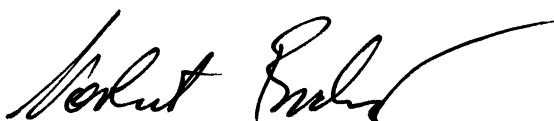
We appreciate the fact that Subcommittee III recognizes the need to clarify the term "investor" in the context of materiality and also that it proposes to delete references to "sliding scale" as we had commented on both these aspects previously. We continue to believe that a robust definition of the term "the perspective of a reasonable investor" will be needed.

We would be very pleased to be of further assistance if you have any questions or comments about the contents of our letter.

Yours truly,



Klaus-Peter Naumann  
Chief Executive Director



Norbert Breker  
Technical Director  
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