

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**  
**ADVISORY COMMITTEE ON IMPROVEMENTS TO FINANCIAL REPORTING**

**CHARTER**

*Preamble*

In accordance with Section 9(c) of the Federal Advisory Committee Act, 5 U.S.C. App. 2 §§ 1-16, as amended, the Chairman of the Securities and Exchange Commission ("Commission") establishes an advisory committee and adopts the following articles to govern the advisory committee.

*Articles*

**A. Official Designation.** The official designation of the advisory committee is "Securities and Exchange Commission Advisory Committee on Improvements to Financial Reporting" (the "Committee").

**B. Objective and Scope of Activity.** The Committee's objective is to examine the U.S. financial reporting system, with a view to providing specific recommendations as to how unnecessary complexity in that system could be reduced and how that system could be made more useful to investors. The Committee should consider the following areas of inquiry:

- the current approach to setting financial accounting and reporting standards, including (a) principles-based vs. rules-based standards, (b) the inclusion within standards of exceptions, bright lines, and safe harbors, and (c) the processes for providing timely guidance on implementation issues and emerging issues;
- the current process of regulating compliance by registrants and financial professionals with accounting and reporting standards;
- the current systems for delivering financial information to investors and accessing that information;
- other environmental factors that may 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 of professionals to exercise 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 (the Committee could use one or two existing accounting standards as a "test case," both to assist in formulating 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 Committee should 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.

**C. Duration.** The Committee shall operate until the earlier of the termination date set forth in Article J below or the date on which the Commission determines that its continuance is no longer in the public interest.

**D. Official to Whom Committee Reports.** The Chairman of the Commission, or his designee, shall receive the advice of the Committee on behalf of the Commission.

**E. Responsibility for Support.** The Commission shall provide any necessary support services for the Committee.

**F. Committee Membership.** The Committee shall be composed of not more than 18 Committee Members who can effectively represent the varied interests affected by the range of issues to be considered. The Committee's membership may include officers of public companies; board and audit committee members of public companies; accountants and securities lawyers who provide professional services to public companies; and investors, among others. The Committee's membership will be fairly balanced in terms of points of view represented and the functions to be performed.

**G. Duties of Committee.** The Committee shall function as an advisory body according to the procedures set forth in the Federal Advisory Committee Act, 5 U.S.C. App. 2 §§ 1-16, as amended. Its duties shall be solely advisory and shall extend only to the submission of advice or recommendations to the Commission. Determinations of action to be taken and policy to be expressed with respect to matters within the Commission's authority upon which the Committee provides advice shall be made solely by the Commission.

The Chairman of the Commission will appoint the Designated Federal Officer ("DFO"). The DFO or her/his designee shall approve or call committee meetings, approve meeting agendas in consultation with the Chairperson, attend all committee or subcommittee meetings, adjourn any meeting when the DFO determines adjournment to be in the public interest, and chair meetings in the absence of the Chair or Vice Chair or as directed by the Chairman of the Commission.

**H. Operating Costs.** The estimated annual operating costs of the Committee in dollars and staff-years are as follows:

- (1) dollar cost: \$1,100,000 per year, for travel, per diem, miscellaneous expenses of Committee members and Commission personnel, and webcasts or other

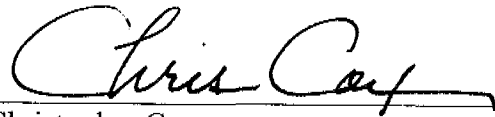
means of making meetings publicly available (this estimate does not include the cost of staff years below); and

(2) staff years: five (5) staff years per year of Commission personnel time.

**I. Meetings.** The Committee shall meet at the call of the Designated Federal Officer, in consultation with the Chairperson. A simple quorum is required for these meetings. The estimated number of Committee meetings is 12 per year. The Committee shall be authorized to establish subcommittees, as necessary, to fulfill its mission, and these subcommittees shall operate under the provisions of the Federal Advisory Committee Act of 1972, as amended. Such subcommittees shall report their recommendations and advice to the Committee for full deliberations and discussion. Subcommittees or working groups have no authority to make decisions on behalf of the chartered Committee nor can they report directly to the Commission or any Federal officers or employees.

**J. Termination Date.** The termination date of the Committee shall be August 2, 2008, which may be extended by amendment of this Article and renewal of this Charter in accordance with the Federal Advisory Committee Act before the termination date.

**K. Filing of Charter.** The Committee is authorized to meet and take action as of the date of the filing of this Charter on July 17, 2007 with the Chairman of the Commission, the Committee on Banking, Housing and Urban Affairs of the United States Senate, and the Committee on Financial Services of the US House of Representatives.



Christopher Cox  
Chairman

July 17, 2007