

# Insights

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## Accounting

### Accounting for Certain Loan Commitments

SEC Staff Accounting Bulletin (SAB) No. 105, *Application of Accounting Principles to Loan Commitments*, provides the views of the SEC staff regarding derivative loan commitments that are accounted for at fair value through earnings pursuant to FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*. SAB 105 states that in measuring the fair value of a derivative loan commitment, the staff believed it would be inappropriate to incorporate the expected net future cash flows related to the associated servicing of the loan. On November 5, 2007, the SEC issued SAB No. 109, *Written Loan Commitments Recorded at Fair Value Through Earnings*, to supersede SAB 105.

SAB 109 expresses the current view of the staff that, consistent with the guidance in Statements No. 156, *Accounting for Servicing of Financial Assets*, and No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*, the expected net future cash flows related to the associated servicing of the loan should be included in the measurement of all written loan commitments that are accounted for at fair value through earnings. However, in accordance with Statement No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, a separate and distinct servicing asset or liability is not recognized for accounting purposes until the servicing rights have been contractually separated from the underlying loan by sale or securitization of the loan with servicing retained. The SEC staff also cautions that this view is not intended to be applied by analogy to any other instrument that contains a nonfinancial element.

SAB 105 also indicated that the SEC staff believed that internally-developed intangible assets, such as customer relationship intangible assets, should not be recorded as part of the fair value of a derivative loan commitment. SAB 109 retains that staff view and broadens its application to all written loan commitments that are accounted for at fair value through earnings.

The SEC staff expects registrants to apply the guidance in the second preceding paragraph on a prospective basis to derivative loan commitments issued or modified in fiscal quarters beginning after December 15, 2007. SAB 109 is available in full at <http://www.sec.gov/interps/account/sab109.htm>.

Our firm believes the views expressed in SAB 109 may also be applied by non-SEC registrants.

## Auditing

### Webcast on Understanding Internal Control

Due to the issuance of the risk assessment auditing standards by the AICPA Auditing Standard Board, it will be more important than ever before for all companies to be educated about internal control over financial reporting and management's responsibilities for implementing and maintaining internal control. As such, McGladrey & Pullen, LLP has arranged for AuditWatch, an audit training and consulting firm, to present a 75-minute webcast, *Understanding Internal Control*. The webcast is designed to help participants have a working knowledge of the COSO framework

for understanding and analyzing internal control and a better understanding of management's responsibilities for internal control. This will allow companies to be more prepared to respond to auditor requests for information and documentation about internal control.

The Webcast will be broadcast at 10:30 a.m. EDT and 1:30 p.m. EDT on both November 13 and 14, 2007. AuditWatch is offering this webcast at a discounted rate of \$49.95 per person for up to four participants and \$224.77 for a total of five to ten participants.

To enroll, follow the instructions below:

- Go to the McGladrey & Pullen Client University web page at <https://www.societyinsight.com/mp>. Confirm that the McGladrey & Pullen logo appears in the upper left-hand corner of the page.
- Click on "New Student" and complete all the registration fields to create an account for each person who would like to attend, using "784512" as the Company Pass Code.
- Click on "Catalog" and enroll in the webcast of your choice.
- Follow the payment instructions to enroll in the webcast.
- Return to the McGladrey & Pullen Client University web page at <https://www.societyinsight.com/mp> on the date and time of the webcast in which you enrolled and login to your account.
- Click LAUNCH next to the Webcast you have enrolled in.

If you have any questions or if you have difficulty enrolling, contact [webcast@auditwatch.com](mailto:webcast@auditwatch.com) or call 1.800.775.9866, ext. 303.

### **SOP 07-2 Released**

In December 2003, the SEC adopted Rule 38a-1 under the Investment Company Act of 1940 and Rule 206(4)-7 under the Investment Advisers Act of 1940. Among other provisions, these rules require funds (investment companies and business development companies) and investment advisers to:

- Adopt and implement written policies and procedures reasonably designed to prevent violation of, in the case of funds, federal securities laws and, in the case of investment advisers, the Investment Advisers Act of 1940, including SEC rules issued thereunder;
- Review those policies and procedures at least annually for their adequacy and the effectiveness of their implementation; and
- Designate a chief compliance officer (CCO) to be responsible for administering the policies and procedures.

Many operations of funds and, in some instances, operations of investment advisers are carried out by service providers. Service providers have their own compliance policies and procedures that may affect or be part of a fund's or investment adviser's compliance or internal control over compliance with federal securities laws, individual statutes or provisions thereof, or corresponding SEC rules. It may be impractical for a fund or its CCO to directly review all of its service providers' policies and procedures. In these circumstances, the SEC considers the fund to have satisfied the requirements of Rule 38a-1 if the fund's board of directors, in evaluating whether to approve the service provider's compliance program, uses a third-party report on the service provider's policies and procedures.

The American Institute of Certified Public Accountants therefore has released Statement of Position (SOP) No. 07-2, *Attestation Engagements That Address Specified Compliance Control Objectives and Related Controls at Entities That Provide Services to Investment Companies, Investment Advisers, or Other Service Providers*. This SOP is an interpretive publication regarding the application of Statements on Standards for Attestation Engagements primarily to examination engagements in which a practitioner reports on the suitability of the design and operating effectiveness of a service provider's controls in achieving specified compliance control objectives. The objective of an examination

engagement performed under AT section 101, *Attest Engagements*, would be for the practitioner to report on the suitability of the design (at the end of a specified period) and the operating effectiveness (during the specified period) of the service provider's controls in achieving the compliance control objectives specified by management of the service provider. A practitioner may also perform agreed-upon procedures related to compliance control objectives and related controls in accordance with AT section 201, *Agreed-Upon Procedures Engagements*.

## Financial Institutions

### Proposed Amendments to Part 363 of FDIC Regulations

The Federal Deposit Insurance Corporation (FDIC) has proposed amendments to Part 363 of its regulations, which sets forth annual independent audit and reporting requirements for insured institutions with \$500 million or more in total assets. Among other provisions, the FDIC's proposal would:

- Require disclosure of the internal control framework used and material weaknesses identified;
- Require management's assessment of compliance with laws and regulations to disclose any noncompliance;
- Clarify the independence standards applicable to accountants;
- Require certain communications by the accountant to audit committees;
- Extend the annual report filing deadline for non-public institutions and include a late filing notification requirement;
- Specify the audit committee's duties regarding the independent public accountant, require audit committees to ensure that audit engagement letters do not contain unsafe and unsound limitation of liability provisions, and require boards of directors to apply written criteria for evaluating audit committee members' independence; and
- Revise the criteria for institutions to comply with Part 363 at a holding company level.

The proposal is available for comments until January 31, 2008 at <http://a257.g.akamaitech.net/7/257/2422/01jan20071800/edocket.access.gpo.gov/2007/pdf/E7-21168.pdf>.

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