

Off-Balance-Sheet Arrangements and Other Disclosures

It is important that the audit committee understand the nature and the reason for off-balance-sheet arrangements, and ensure that any such relationships are adequately disclosed. This tool is intended to assist audit committee members in gaining an understanding of management's use of off-balance-sheet arrangements so they may weigh in on the appropriateness of the treatment and whether it will meet regulatory requirements.

An area that has come under scrutiny, and one where the company may be at risk, is off-balance-sheet arrangements. Generally accepted accounting principles (GAAP) permit certain kinds of transactions to be accounted for off the company's balance sheet, and many companies, as a means of managing risk and/or taking advantage of legitimate tax minimization opportunities, create off-balance-sheet arrangements.

It is important that the audit committee understand the nature and the reason for off-balance-sheet arrangements, and ensure that any such arrangements are adequately disclosed. This tool is intended to assist audit committee members in gaining an understanding of management's use of off-balance-sheet arrangements so they may weigh in on the appropriateness of the treatment and whether it will meet regulatory requirements.

Furthermore, the audit committee should ensure that, in addition to fulfilling the disclosure requirements of GAAP, the Management's Discussion & Analysis (MD&A) disclosure requirements have been met with respect to any off-balance-sheet arrangements.

It is imperative that the audit committee has a healthy and continuing dialogue with management about off-balance-sheet arrangements. In doing so, here are some questions that should be regularly asked of management:

Audit Committee Questions of Management

1. Please describe the company's process for identifying off-balance-sheet arrangements (e.g., qualified special purpose entities and variable interest entities, securitized assets and liabilities, etc.) and the process for disclosing them for disclosures in the financial statements and MD&A.
2. Please describe the company's process for identifying and valuing direct or indirect guarantees (i.e., surety, loans, etc.).
3. Please describe how any recognized guarantee liabilities, including related charges, have been accounted for and how they will be accounted for in the future.
4. Has the company entered into any transactions that, when viewed individually, do not result in the recognition of a liability but that,

AUDIT COMMITTEE BRIEF

From the Audit Committee Effectiveness Center

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if viewed together, might be deemed to result in a liability or obligation? If so, please provide details.

5. Has the company solicited or received advice from or given advice to any outside party on how to structure any transaction to produce a desired financial statement effect? If so, please provide details.
6. What is the process between the audit committee and the disclosures committee (if one exists) for ensuring disclosures are reviewed?

At the December 2008 AICPA SEC and PCAOB Conference, the SEC staff stated areas for improvement in MD&A to reflect the current economic environment is on liquidity analysis (cash and credit facility), debt covenants, impairments and pensions. Also, the SEC staff mentioned that the MD&A guidance released in 2003 contained the principles to be followed (below is website link).

For further information on disclosure guidance, go to the following websites:

FASB Issues FSP FAS 140-4 and FIN 46(R)-8, *Disclosures about Transfers of Financial Assets and Interests in Variable Interest Entities*, by December 15, 2008. For more information go to fasb.org

In September 2008, the SEC sent a sample letter to Public Companies on MD&A Disclosure Regarding the Application of SFAS 157 (Fair Value Measurements) and is accessible at this link: sec.gov/divisions/corpin/guidance/fairvalueltr0908.htm

On December 2, 2008, the Securities and Exchange Commission's Office of Compliance Inspections and Examinations issued an open letter to chief executives of SEC-registered firms, to remind them of the critical role played by their firms' compliance programs in assuring that their operations comply with the law and rules for industry participation and to ensure that the interests of customers or clients are protected. It is accessible at this link: sec.gov/about/offices/ocie/ceoletter.htm

Interpretation: Commission Guidance Regarding Management's Discussion and Analysis of Financial Condition and Results of Operations – sec.gov/rules/interp/33-8350.htm

The AICPA is developing a Financial Reporting Alert, *Current Accounting Issues and Risks 2009*, for those in business and industry, that focuses on the current economic situation. It is designed to be used by members of an entity's financial management and audit committee to identify and understand current accounting and regulatory developments affecting the entity's financial reporting in light of the current economic situation and will be available at cpa2biz.com

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