



REGULATORY UPDATE – January 2007

SEC: Further Relief From The Section 404 Requirements For Smaller Companies And Newly Public Companies

The Commission is adopting an extension proposed in August to further postpone the date by which smaller public companies must comply with the internal control reporting requirements mandated by Section 404 of the Sarbanes-Oxley Act of 2002. Previously, non-accelerated filers (companies that do not meet the Exchange Act definition of either an accelerated filer or a large accelerated filer) were scheduled to begin including both management's assessment and an auditor's attestation to management's assessment on the effectiveness of the filers' internal control over financial reporting in their annual reports for fiscal years ending on or after July 15, 2007. The Commission is extending the date so that a non-accelerated filer will provide management's assessment regarding internal control over financial reporting in its annual reports for fiscal years ending on or after December 15, 2007.

<http://www.sec.gov/news/press/2006/2006-210.htm>

Internal Market: European Commission Issues Communication On Investment Research.

The European Commission has adopted a Communication providing stakeholders with practical guidance on the provisions of recent European legislation relating to investment research and financial analysts.

Since the collapse of the 'new economy' bubble in 2000 and several subsequent high-profile corporate collapses, the value and integrity of investment research, has been under increased regulatory scrutiny globally. In Europe, the informal meeting of Economics and Finance Ministers in Oviedo in April 2002 discussed policy issues related to the Enron collapse in particular, and among other initiatives asked the Commission to consider possible regulatory action on investment research.

For the most part, this Communication deals with the issue of conflicts of interest, and describes the main European legislation specifically addressing that topic. However in the final section (see 4.3), other issues are addressed including issuer relations with analysts.

http://ec.europa.eu/internal_market/securities/analysts/index_en.htm

Securities And Exchange Commission To Consider Recommendation To Repropose Deregistration Rules For Foreign Private Issuers

The Securities and Exchange Commission today announced that it will consider a staff recommendation to repropose new rules governing when a foreign private issuer may deregister its securities under the Securities Exchange Act of 1934 and cease making filings with the Commission.

The staff intends to recommend deregistration thresholds based solely on trading volume. The original proposal had used thresholds based primarily on the percentage of U.S. holders, as well as trading volume.



"We believe that the new proposal will better serve the needs of both U.S. investors and foreign issuers by providing a clear, consistent, easy-to-apply, and fair standard pursuant to which foreign registrants may withdraw from our capital markets and end their obligations to comply with our rules," commented John White, Director of the Commission's Division of Corporation Finance. "The Commission remains committed to investor protection as well as sensitive to the opportunities and challenges of increasing globalization and cross-border regulatory cooperation. This proposal should continue to provide appropriate protections for U.S. investors while promoting capital formation in the U.S. and making our markets more attractive to foreign companies." <http://www.sec.gov/news/press/2006/2006-207.htm>

The Use Of Non-EU Accounting Standards On EU Stock Markets Is Extended For Two More Years

Following a positive vote of the European Securities Committee and a strong endorsement from the European Parliament on 24 October 2006, the European Commission has adopted measures extending by two years the transitional exemption granted to foreign companies presenting financial statements prepared in accordance with national accounting standards for the issuing of securities on EU stock markets. A decision on the equivalence of third-country Generally Accepted Accounting Principles (GAAPs) with International Financial Reporting Standards (IFRS) is expected to take place before the end of 2009. http://ec.europa.eu/internal_market/securities/prospectus/index_en.htm

SEC Amends Executive Compensation Disclosure To More Closely Align With FAS 123R

The SEC has adopted, effective upon its publication in the Federal Register, an amendment to its executive and director compensation disclosure rules to more closely conform the reporting of stock and option awards to Financial Accounting Standards Board Statement of Financial Accounting Standards No. 123 (revised 2004) Share-Based Payment (FAS 123R). On July 26, 2006, the Commission adopted enhanced executive compensation disclosure requirements for proxy statements, registration statements, and annual reports filed by public companies. The purpose was to provide investors with more complete and useful disclosure about executive and director compensation. The amendment to these rules that the Commission is announcing today will align the reporting of equity awards in the Summary Compensation Table and the Director Compensation Table to the amounts that are disclosed in the financial statements under FAS 123R. FAS 123R requires recognition of the costs of equity awards over the period in which an employee is required to provide service in exchange for the award. Using this same approach in the executive compensation disclosure will give investors a better idea of the compensation earned by an executive or director during a particular reporting period, consistent with the principles underlying the financial statement disclosure.

"The new disclosure requirements will be easier for companies to prepare and for investors to understand," said SEC Chairman Christopher Cox.

<http://www.sec.gov/news/press/2006/2006-219.htm>

PCAOB's Proposed Section 404 Auditing Standard

PCAOB has proposed for public comment a new standard on auditing internal control over financial reporting and other related proposals. The proposed standard would replace the Board's existing internal control standard, Auditing Standard No. 2.



The proposed new standard on internal control is a principles-based standard designed to focus the auditor on the most important matters, increasing the likelihood that material weaknesses will be found before they cause material misstatement of the financial statements. The proposed standard also eliminates audit requirements that are unnecessary to achieve the intended benefits, provides direction on how to scale the audit for a smaller and less complex company, and simplifies and significantly shortens the text of the standard.

http://www.pcaobus.org/News_and_Events/News/2006/12-19.aspx

Only a third of the largest companies claim full compliance with the UK's Combined Code, according to a report released by Grant Thornton.

The code, which was introduced in 2003 after a series of corporate scandals, sets out standards of good practice on issues such as board composition, pay and relations with shareholders.

The remaining two-thirds of the FTSE 350 companies still do not claim to be in full compliance with the provisions and are obliged under the code to justify where and why they diverge from it. However, only 30 of the top 350 companies do so, says Grant Thornton.

http://www.grant-thornton.co.uk/pages/publications_and_events-publications-corporate-governance-review-2006.html

There had been no serious academic studies to measure the link in this country between activism and improved returns. But now a paper published by a London Business School team, including Professors Julian Franks and Colin Mayer, has tracked the investments of the Hermes Focus Fund in the half-dozen years to 2004. It finds the results are startlingly good - an annual excess return after fees of 4.9% a year above the FT All-Share over the six-year period.

http://www.london.edu/researchnews_11942.html

Shareholder access takes step forward under SEC internet decision

Companies in the US will soon be able to make proxy materials available over the internet.

www.sec.gov/rules/proposed/34-52926.pdf

Eighty four percent of FTSE All-Share companies currently reporting have not yet disclosed in their annual report and accounts their environmental performance, in accordance with the Department for the Environment, Food and Rural Affairs guidelines. This is despite the fact that according to the new company reporting laws all FTSE All-Share companies producing annual report and accounts must disclose environmental key performance indicators where relevant.

The study reviewed the annual report and accounts of the first 100 companies to report the financial year ending March 31, 2006, onwards, when the EU directive came into affect. Carried out by Trucost, this is a follow up report to the environmental disclosures of FTSE All-Share companies study we published in 2004.

<http://www.environment-agency.gov.uk/business/444255/887223/1252022/?lang=e>