

such an expert serves on the audit committee;⁶⁸

- Reorganization of the components of the definition of audit committee financial expert to make it easier to read and to emphasize, by including them in the first part of the definition, the attributes that an audit committee financial expert must possess;⁶⁹

- Revision of the second attribute to state that the audit committee financial expert must have the ability to assess the general application of generally accepted accounting principles in connection with the accounting for estimates, accruals, and reserves, rather than stating that the expert must have experience applying these principles;⁷⁰

- Broadening of the third attribute by requiring an audit committee financial expert to have experience "preparing, auditing, analyzing, or evaluating" financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of issues that can reasonably be expected to be raised by the registrant's financial statements, or experience actively supervising a person who prepares, audits, analyzes or evaluates financial statements;⁷¹

- Modification of the fourth attribute to require understanding of, rather than experience with, internal controls and procedures for financial reporting;⁷²

- Modification of the definition to state that a person must have acquired the five necessary attributes through any

one or more of the following: (i) Education and experience as a principal financial officer, principal accounting officer, controller, public accountant, or auditor or experience in one or more positions that involve the performance of similar functions; (ii) experience actively supervising a principal financial officer, principal accounting officer, controller, public accountant, auditor, or person performing similar functions; (iii) experience overseeing or assessing the performance of companies or public accountants with respect to the preparation, auditing, or evaluation of financial statements; or (iv) other relevant experience.⁷³

- Elimination of the requirement that an audit committee financial expert must have gained the relevant expertise with a company that was required to file reports pursuant to Section 13(a) or 15(d) of the Exchange Act;⁷⁴

- Addition of a requirement that if a person qualifies as an audit committee financial expert by virtue of possessing "other relevant experience," the company's disclosure briefly list that person's experience;⁷⁵

- Elimination of the list of factors that a company's board of directors should consider in evaluating the education and experience of an audit committee financial expert candidate;⁷⁶ and

- Addition of a safe harbor in the audit committee disclosure requirements.⁷⁷

We wish to emphasize that, as with an operating company, the board of an investment company must ensure that it names an audit committee financial expert who embodies the highest standards of personal and professional integrity. In this regard, a board should consider any disciplinary actions to which a potential expert is, or has been, subject in determining whether that person would be a suitable audit committee financial expert.⁷⁸

The disclosure requirements that we are adopting will apply to all registered management investment companies, regardless of whether they are required to file reports under Section 13(a) or 15(d) of the Exchange Act. Several commenters objected to our proposal to require a registered management investment company to provide disclosure about audit committee financial experts serving on its audit committee. They argued that investment companies should be excluded entirely from any disclosure requirement relating to audit committee financial experts, because the nature of investment company accounting is such that investment company audit committees rarely are required to apply complex accounting principles. These commenters stated that the preparation of investment company financial statements is straightforward and does not present the types of circumstances that require the exercise of judgment, such as selection of accounting policies, that preparation of the financial statements of operating companies would.

We continue to believe, however, that the rule should apply with equal force to investment companies and operating companies, and we note that the Sarbanes-Oxley Act does not distinguish between them with respect to the financial expert disclosure requirements. In addition, while investment company financial statements may, in many cases, be simpler than those of some operating companies, the underlying financial systems, reporting mechanisms, and internal controls are sufficiently complex that an investment company's audit committee would benefit from having one or more members who meet the definition of audit committee financial expert. Finally, we note that the modifications that we have made to the definition of an audit committee financial expert should address the concerns of commenters that the definition was too narrowly drawn to apply in the context of investment companies. The commenters argued, in particular, that the second, third, and fourth required attributes were too restrictive, and that experience as a public accountant or auditor, or principal financial officer, controller, or public accounting officer of a company should not be the exclusive means for acquiring the attributes. As described above, we have made changes that are responsive to these concerns.

"Financial Expert," in Section 406/407 Adopting Release, *supra* note 8.

⁶⁸ Instruction 2 to Item 3(a) of Form N-CSR; Instruction 102P3(b)(5) of Form N-SAR; Section II.A.2, "Disclosure of the Number and Names of Audit Committee Financial Experts," in Section 406/407 Adopting Release, *supra* note.

⁶⁹ Items 3(b) and 3(c) of Form N-CSR; Instructions 102P3(b)(6) and (b)(7) of Form N-SAR; Section II.A.4.d., "Discussion of Significant Modifications to the Proposed Definition of 'Financial Expert,'" in Section 406/407 Adopting Release, *supra* note 8.

⁷⁰ Item 3(b)(2) of Form N-CSR; Instruction 102P3(b)(6)(ii) of Form N-SAR; Section II.A.4.d.(ii), "Discussion of Significant Modifications to the Proposed Definition of 'Financial Expert,'" in Section 406/407 Adopting Release, *supra* note.

⁷¹ Item 3(b)(3) of Form N-CSR; Instruction 102P3(b)(6)(iii) of Form N-SAR; Section II.A.4.d., "Discussion of Significant Modifications to the Proposed Definition of 'Financial Expert,'" in Section 406/407 Adopting Release, *supra* note 8. By active supervision, we do not simply mean that a traditional hierarchical reporting relationship exists between supervisor and those being supervised. Rather, we mean that a person engaged in active supervision addresses, albeit at a supervisory level, the same general types of issues regarding preparation, auditing, analysis, or evaluation of financial statements as those addressed by the person or persons being supervised.

⁷² Item 3(b)(4) of Form N-CSR; Instruction 102P3(b)(6)(iv) of Form N-SAR; Section II.A.4.d., "Discussion of Significant Modifications to the Proposed Definition of 'Financial Expert,'" in Section 406/407 Adopting Release, *supra* note 8.

⁷³ Item 3(c) of Form N-CSR; Instruction 102P3(b)(7) of Form N-SAR; Section II.A.4.d., "Discussion of Significant Modifications to the Proposed Definition of 'Financial Expert,'" in Section 406/407 Adopting Release, *supra* note 8.

⁷⁴ Item 3(c) of Form N-CSR; Instruction 102P3(b)(7) of Form N-SAR; Section II.A.4.d., "Discussion of Significant Modifications to the Proposed Definition of 'Financial Expert,'" in Section 406/407 Adopting Release, *supra* note 8.

⁷⁵ Instruction to Item 3 of Form N-CSR; Instruction 102P3(b)(9) of Form N-SAR.

⁷⁶ Section II.A.4.d., "Discussion of Significant Modifications to the Proposed Definition of 'Financial Expert,'" in Section 406/407 Adopting Release, *supra* note 8.

⁷⁷ Item 3(d) of Form N-CSR; Instruction 102P3(b)(8) of Form N-SAR; Section II.A.5, "Safe Harbor from Liability for Audit Committee Financial Experts," in Section 406/407 Adopting Release, *supra* note 8.

⁷⁸ Section II.A.4.d., "Discussion of Significant Modifications to the Proposed Definition of