



U.S. Securities and Exchange Commission

Speech by SEC Chairman: "International Business — An SEC Perspective" Address to the American Institute of Certified Public Accountants' International Issues Conference

by

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U.S. Securities and Exchange Commission

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Thank you, Larry [Gill], for that kind introduction. And thank you for the outstanding work you've done as conference chairman, and as Chairman of the Steering Committee.

It's a pleasure to be here this morning to kick off this International Issues Conference — on the anniversary, as it happens, of the publication of Thomas Paine's "Common Sense." Paine's essay reminds us that "Society is produced by our wants, and government by our wickedness; the former promotes our happiness... by uniting our affections, the latter... by restraining our vices." When we think about what we loosely call "international issues" in business and accounting, we're really talking about this essential duality. It's the impulse of trade to satisfy human wants, and thereby to bring different peoples and cultures together. And it's the job of government to establish rules that keep things from running off the rails.

The pressures of globalization constantly work to break down barriers between nations, which is all to the good. But increasing investment among nations also makes it more difficult for those in different cultures to understand the rules of the road. And it makes it easier for the unscrupulous to exploit the seams in legal systems and enforcement among different nations. That's creating a growing need for governments and regulators around the world to harmonize our differing sets of rulebooks.

In a few months, I'll begin my fourth year as Chairman of the SEC. And in that brief span of years, I've seen the international work of the Commission grow vastly in importance and in volume. Today it easily comprises over half of my time and responsibilities. During the last year, I executed agreements with the College of Euronext Regulators, the German Federal Financial

Supervisory Authority, the United Kingdom's Financial Services Authority and the United Kingdom's Financial Reporting Council — all directed to enhancing information-sharing to strengthen our enforcement and supervisory responsibilities. And with cross-border markets such as NYSE Euronext, ISE Eurex, and Nasdaq OMX having appeared on the scene, the SEC and our counterpart regulators overseas can say confidently that we've negotiated our jurisdictional hurdles, and managed an international regulatory integration that extends to both ownership and governance.

We're deeply engaged with our regulatory colleagues not just in Europe but all around the world. In 2007, the SEC conducted securities regulatory training sessions at our Washington headquarters and in other nations for more than 1,000 foreign regulators from over 100 countries.

Enforcement, of course, has always been the bread and butter of international securities regulatory cooperation, because the seas of global finance are even more shark-infested than anyone's relatively placid safe harbors at home. Increasingly, not just two or three, but a half dozen or more countries can be involved in a securities fraud. Many of our international cases start out as messy as a CSI crime scene. But as Gil Grissom might say, "It's our job to know stuff." And each of us knows that we can't get the job done without the other's help. During the last fiscal year, the SEC brought more than fifty enforcement cases involving foreign individuals, firms, and markets, and in which we worked with regulators from abroad.

One obvious sign of how the quickening pace of global integration since 2005 has so transformed the nature of our work at the SEC is that in Tokyo last year, at the international conference of the IOSCO Technical Committee, I took on the role of Vice Chairman for this international organization of securities commissions. And following the spring meeting this year, with the assent of the other members, I will become the Chairman.

It's no wonder that global accounting, auditing, and tax issues are at the forefront of your agenda today, because doing business abroad is no longer just the province of large, multinational companies. It's now a commonplace for almost everyone — for businesses and consumers of all kinds and sizes. Whether in Asia, the European Union, or the NAFTA countries, cross-border business and investment activity is at an all-time high. Today, the S&P 500 now generate nearly half their revenues from abroad. That's a 27% increase in five years. And we see this trend in small capital businesses as well, which increasingly are looking to international markets in their business plans and their sales objectives.

Most significantly, there's been a remarkable growth in U.S. investor interest in foreign securities. I came to Washington with President Reagan. When he was first elected, U.S. gross trading activity in foreign securities was \$53 billion. Today it's over \$7.5 trillion. That's more than the GDP of Japan and China combined. And this isn't just institutional trading. Roughly two-thirds of American investors own securities of non-U.S. companies. That's a 30%

increase from just five years ago.

Foreign trading activity in U.S. securities has truly exploded during this period. Today, it's over \$33 trillion. That's more than twice the GDP of the European Union.

One reason for this remarkable trend is that the nations of the world have increasingly embraced capitalism over the past decade and a half. Securities exchanges, which used to be restricted to countries with golf courses, have proliferated around the world so that today more than 112 nations have active securities markets.

Even in Baghdad, the Iraq Stock Exchange now operates under the oversight of the Iraq Securities Commission, an independent agency modeled after the U.S. Securities and Exchange Commission. And the Iraq exchange was just recently opened to foreign investors this past summer. So today, you can diversify your portfolio to include issues such as the Bank of Baghdad, or the Baghdad Soft Drinks Company, or the Iraqi Tufted Carpets Company.

But even though equities in developing markets rose 32% on an annualized basis during the past five years, the people of those nations have also learned that just having a securities exchange doesn't mean investors from all around the world will beat a path to their door. The lack of transparency and reliable financial information that are often associated with these markets has made emerging-market stocks one of the most volatile asset classes in the world.

It has also meant that securities exchanges have been no panacea for many of their host nations' economies. As so many of their citizens have learned, sometimes the hard way, what matters most is the rule of law that backs up markets, and the timeliness and quality of financial information and other disclosure that makes comparability possible. Without these essential ingredients, global investors sometimes find it difficult to overcome the "foreign" part of foreign markets. Simply put, it's hard to invest in what you don't understand.

Fifty-five miles south of the Iraq Stock Market, along the Euphrates River, lie the ruins of the ancient city of Babylon — or Babel, as it's called in the Book of Genesis and the Koran. The name Babel is said to come from the Hebrew verb *balal*, "to confuse or confound." The Tower of Babel is an archetypal symbol of how the world is harmed by the lack of a common language of mutual understanding. In the Biblical story, the confusion of many languages was a punishment, deliberately designed to make everyone worse off.

Each of us knows from our own experience that a common language promotes communication and understanding — not just in our personal lives, but in international business transactions, as well. Markets, which thrive on information, are really just aggregations of people, who of course communicate better and more efficiently if they speak the same language. Margaret Mead found that among the two million aborigines in New Guinea,

there were seven hundred and fifty different languages spoken in seven hundred and fifty villages. Not coincidentally, each of the villages was in a state of permanent war with the others.

One of the great contributions that the world of business and commerce has made to global peace and understanding is that it has constantly worked to establish smoother, faster, and better means of communication across cultures and national boundaries. By breaking down barriers between nations, regions, and social classes, trading and markets have advanced the cause of civilization. But today there is a risk that the rapid increase in global trading and investment is getting ahead of the ability of accounting standards and financial analysis to provide investors with comparable information in a form they can readily use and understand.

That's why it's so important, in order to help investors make sense of this dramatically different world of global investing, that we do everything within our power to ensure that financial reporting information from different countries is comparable and reliable. This is the imperative behind the SEC's cooperative initiatives with the International Accounting Standards Board, and with authorities in nearly 100 nations, on International Financial Reporting Standards. The latest important step on the road to international convergence was the decision we recently made to permit foreign private issuers to submit to the SEC the same financial statements prepared in accordance with IFRS that they file in their home countries.

And just as important as this work on the development of truly global, high-quality accounting standards is achieving international agreement on a common computer language for the exchange of this financial information. The two go hand in hand. That's why the global movement to interactive data and the standardized use of XBRL is so important. For our part in this international movement, we've invested in a thorough remodeling of the Commission's financial reporting database, EDGAR, which will soon become interactive and compatible with similar systems under development in leading markets around the world. This is bringing us closer to the widespread use of XBRL data tagging for financial reporting in the United States.

But even though technology can do a great deal to improve life for investors, there will always be a need for human regulators to smooth the rough edges of international regulatory problems.

There's one futurist who thinks technology can do it all, who says the SEC of the future will have only two employees — a man and a dog. The man will be there to feed the dog. The dog will be there to keep the man from touching the equipment.

Don't believe that for a minute. At the SEC, we put our greatest emphasis on our relationships with our fellow regulators. And we're intently focused on working with them toward harmonizing the overarching goal of international regulatory harmonization.

Instead of competitors, the world's securities regulators have got to see one another as partners, working together for the good of investors to ensure the sound regulation of efficient global markets. This will require a concerted effort. It'll be a difficult journey, and a long road. But we've got to keep in mind the old proverb, "The journey of a thousand miles begins with one step, and a lot of complaining." (I think we can all recognize we're at that stage now.) There truly is a great deal that we can do to help investors navigate this increasingly complex terrain, by reducing duplicative and overlapping regulation. And to that end, we've opened a public dialogue on the subject of mutual recognition by high-standards countries.

This conference is focused on what you need to know if you practice and work in the international arena. So to sum up, this is what you need to know from the SEC's standpoint: IFRS is coming. XBRL is coming. And mutual recognition is coming.

Let me outline briefly what you can expect on each of these three fronts.

Our policy work on IFRS is currently focused on evaluating its potential role in the U.S. capital markets. This is the logical culmination of work the Commission has been doing ever since we tackled the problem of the divergence of national accounting standards in 1981, by instituting the U.S. GAAP reconciliation requirement in the first place. At the time, the Commission thought the reconciliation requirement was a temporary solution, while the real solution lay in reducing the divergence itself. We've carried the mantle of convergence ever since.

That's why our recent decision to accept IFRS financial statements in SEC filings was crafted in such a way as to support the efforts of the IASB, and many other nations, to establish IFRS as a single, global set of standards, and not so many national flavors.

Reporting by foreign private issuers using a single IFRS platform will help American investors analyze and get more readily comparable information from the U.S.-registered foreign companies in which they invest. That's precisely what the Commission in 1981 cited as our objective. So now, a quarter century later, we've succeeded. We may not work fast, but we're incredibly persistent.

In the past few months, the Commission has received helpful feedback on the possible use of IFRS by U.S. issuers. We've received some 80 comment letters on our Concept Release, and heard from 25 expert participants at our roundtables. That's given us a lot to chew on. As we open the new year, I look forward to the staff's recommendations based on everything we've learned.

It's difficult to overstate the potential upside for investors of the growing consensus behind IFRS. Whereas just a few years ago the planet truly was a Babel of different of accounting languages, today we're on the threshold of an authoritative *lingua franca* that could be used throughout the world's

developed and developing markets. The adoption of IFRS throughout the European Union in 2005, and similar decisions by Australia, Hong Kong, and South Africa, led the way in a process that has since resulted in over 100 countries now requiring or permitting the use of IFRS. Canada, India, and Korea will each adopt IFRS by 2011. In Brazil, listed companies will have to comply with IFRS from 2010. And convergence between Japan GAAP and IFRS is expected by 2011

At the beginning of this year, China introduced a completely new set of accounting standards that are intended to produce the same results as IFRS. This represents a significant step toward convergence with the IASB standards.

This very same trend can be seen with XBRL, which will do for information sharing what IFRS will do for financial reporting. XBRL is on the threshold of becoming the universal language of business information, and certainly of accounting information.

The Trustees at the IASC Foundation see the adoption of IFRS and of XBRL as mutually reinforcing. Both the IASC and the IASB are very active in encouraging that trend. Last year, the IASC Foundation approved their plan for providing an XBRL taxonomy for the consistent adoption and implementation of IFRS. And with funding from the World Bank, they're going to deliver guidance for using the IFRS taxonomy in all of the same languages in which the IASB provides accounting standards. Within the next few months, the IASC Foundation plans to release their updated IFRS Taxonomy as an "exposure draft." And they plan to publish the final version by the end of June. The SEC is strongly supportive of these efforts.

Perhaps most importantly of all, the SEC, the IASB, and the Japan FSA recently announced a joint initiative to support a multi-national architecture for XBRL. This will increase interoperability among XBRL databases for U.S. GAAP, IFRS, and Japan GAAP.

Just as with IFRS, the number of countries that are now moving toward adopting XBRL is truly impressive.

The Chairman of the Australian Securities and Investment Commission, Tony D'Aloisio, tells me that he's very keen on XBRL financial reporting — and it shows in their schedule for adoption. Australia's implementation of interactive data for financial reporting is scheduled for mid-2010, with pilots and proof-of-concepts beginning in 2008.

In Belgium, the Banking, Finance, and Insurance Commission requires all banks to file their periodic returns in XML and XBRL. These returns are similar to the "call reports" that U.S. banking supervisors currently require U.S.-registered banks to file in XBRL.

In China — which was the first country in the world to mandate XBRL reporting — they're already requiring interactive data filing for the full

financial statements of all listed companies in quarterly, half-year, and annual reports. XBRL filing is required under the rules of both the China Securities Regulatory Commission and the Shanghai Stock Exchange. China started with 50 companies that voluntarily reported using XBRL in 2003, and now their program has grown to include more than eight hundred companies. In addition to the XBRL taxonomy for listed companies, there is also a taxonomy for fund companies in China. Both Shanghai and Shenzhen exchanges are planning to extend their existing taxonomies for listed companies, and they're also working on transferring previously-filed reports into XBRL to enable more efficient access to historical information.

In Israel, beginning with year-end 2007, public companies are preparing their financials using IFRS. And at the same time, the Israeli Securities Authority has updated their electronic filing system, called MAGNA, so that it will be able to automatically generate XBRL files for the accounting data that's prepared in accordance with IFRS.

In Japan, the FSA is making XBRL mandatory for all financial statement filings, beginning next April. Japan already has over one thousand companies in its voluntary XBRL filing program, and they're right on schedule for requiring everyone to report using XBRL in just three months. When I recently met in Tokyo with Japan's Minister of Financial Services, Yoshimi Watanabe, and with the Commissioner of the Japan Financial Services Agency, Takafumi Sato, they told me that XBRL will also be required for the full financial statements by the Tokyo Stock Exchange at the same time.

In South Korea, they're also taking big steps towards adopting XBRL. The Chairman of Korea's Financial Supervisory Commission, who is also the Financial Supervisory Service Governor, Kim Yong-Duk, recently told me that what started as a voluntary XBRL filing program in 2006 has already developed into a full-fledged mandatory filing program beginning last month. Today, all publicly held companies in Korea are required to file financial statements using XBRL on the FSS electronic filing system. And not only will this permit investors to easily analyze the XBRL data of these companies, but if you don't speak Korean, the system lets you view and analyze a company's financial statements in English.

In the Netherlands, since January 2007, Dutch companies and financial institutions have been able to report their financial data to dozens of Dutch government authorities using the same XBRL-tagged data. This XBRL project is expected to save reporting companies 25% of their compliance costs. And it's already succeeded in cutting the number of reporting elements that companies have to keep track of from 200,000 to 4,500.

In New Zealand, in August of last year, the government directed the development of a detailed Business Case and Implementation Plan for Standard Business Reporting, to be completed in early 2008. This should create significant momentum for using XBRL there.

In Singapore, there's now mandatory XBRL tagging for the financial

statements of both listed and unlisted domestic companies, under new rules from the Accounting and Corporation Regulatory Authority.

In Spain, XBRL adoption was led by the Bank of Spain and the Spanish Securities Commission. The CNMV began a voluntary program in 2005 that currently allows XBRL reporting by any listed company there.

In the UK, beginning in 2006, HM Revenue and Customs began to accept corporate tax submissions using XBRL. That follows the official action by the UK Companies House to accept company filings using XBRL.

And in Canada, the securities regulators have launched their own voluntary XBRL filing program.

That may seem like a long list, but in reality it's much longer.

In the U.S., just a few weeks ago, XBRL US released to the public the completed taxonomies for all financial statements and notes using U.S. GAAP. So for the first time, every U.S. reporting company can now begin to use it. It's already been vetted by the top accounting and technology firms, and now it's the public's turn. This is a landmark, which has brought us to the point in the U.S. where the Commission can this year consider whether to require public company reporting to include XBRL data tags.

To that end, the SEC's Office of Economic Analysis, together with the Office of Interactive Disclosure, the Division of Corporation Finance, the Office of Information Technology, and the General Counsel, are conducting an analysis of the SEC's over two-year pilot program for XBRL filing. We expect to receive the results of this analysis, including cost data, by the end of February.

The third major international initiative the SEC is undertaking is our reexamination of how we regulate cross-border activities of broker-dealers and markets. Our exploration of mutual recognition is helping us focus on areas where regulatory friction from different, but not necessarily superior, regulatory approaches doesn't provide investors with significant benefits.

Mutual recognition would in theory allow U.S. investors to have the benefit of direct access to foreign markets, or possibly foreign broker-dealers, provided those entities are supervised in a foreign jurisdiction with high standards under a securities regulatory regime that is substantially comparable (though not necessarily identical) to that in the United States. Of overarching importance in any such arrangement would be the maintenance of investor protections, market integrity, and enforcement standards, so that the purposes of the U.S. regulatory regime aren't compromised. To explore these concepts, in June the Commission hosted a roundtable discussion on the topic of mutual recognition.

Each of these three initiatives represents an important step toward

addressing the rapid convergence of trading and investment in the world's capital markets. Together, they offer the prospect of the development of a truly global approach to the many financial and regulatory challenges we face. These efforts toward the development of a common language for international investing are vitally important if we're to avoid the risks of friction and misunderstanding and conflict that will inevitably arise if we persist in using different systems.

In my private business life, I co-founded a company that translated the Soviet Union's daily newspaper, *Pravda*, into English. We employed dozens of translators and sold the English version to customers in 26 countries around the world. Through that experience I learned firsthand how, even with the best of intentions, language barriers can create problems. For example, the phrase "the spirit is willing but the flesh is weak," translated into Russian, can give back: "the liquor is favorable but the meat is poor."

We'd all be better off in a world of investing if we speak a common language.

This is a keynote address, and so it's my role here this morning to focus on the overarching themes of this conference. You'll hear later today from other experts, such as Paul Munter of KPMG on IFRS, and Chairman Bob Herz on the FASB/IASB convergence project. Ultimately, these are complex subjects and, as always, the devil is in the details. But that doesn't mean we should get caught up in the detail. Because there's something much bigger, much more important, going on here.

The continued integration of the world's capital markets isn't just an interesting development for accountants, lawyers, brokers, bankers, and investors. It is bringing the world's nations together like no other development in history. It is building wealth for billions of people for whom, just a few years ago, a seemingly endless poverty was the only certainty.

Every one of you here this morning, through your work every day, is building stronger markets, better protection for investors, and closer international integration of securities trading. It has been your vocation and your great calling to play a part in forging the global economic bonds that will be so essential to peace and freedom in the coming century. Your work in breaking down barriers to international communication and understanding is, as Tom Paine, so elegantly put it, promoting the happiness of all the world's citizens, "by uniting our affections."

If you've read a newspaper on your way here this morning, you learned about President Bush's warning to Iran, the continued horrible strife in Darfur, and the latest news from the ongoing offensive against al-Qaeda in the ancient land of Babel. The nations of the world seem to be in constant conflict with one another on matters of moral importance — and these disagreements often lead to bloodshed. All too often, we fail even to understand what others are saying to us. We don't speak the same moral language. Ultimately, our capacity to live peaceably with each other depends upon our ability to communicate intelligibly and reason coherently. In every

case, to succeed, we need to first construct a language of mutual understanding. Throughout the world, there is no better opportunity to do this than through commerce.

The fact that today over 100 nations are working on the introduction of IFRS and XBRL offers great hope that, in markets at least, most of the world's people may soon speak the same language. That is progress we very badly need.

We face threats and risks to this work-in-progress every day. It's not easy, and there is no guarantee of success. But there is no undertaking, no vocation more important, than the work you are doing.

So on behalf of the thousands of men and women of the SEC whose daily work is to promote healthy markets, thank you for what you do. We're proud to be your partners.

Congratulations, and best wishes for a very successful conference.

<http://www.sec.gov/news/speech/2008/spch011008cc.htm>