



U.S. Securities and Exchange Commission

Speech by SEC Staff: 2004 AICPA National Conference on Current SEC and PCAOB Developments

by

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Introduction

Good morning. I appreciate the opportunity to meet with you today. I am new to the SEC-having joined the Commission's staff six weeks ago-so let me begin by introducing myself.

I come to the Commission from the Graduate School of Business at Stanford University, where for the past year I was a student. I was joined there by 53 other mid-career professionals from around the world. As students, the 54 of us donned bikes and backpacks and sharpened our skills by working through a classic business school curriculum. We learned both in the classroom-writing papers and taking bluebook exams-and out of the classroom; traveling to meet with business and public policy leaders in the United States, Japan, China and India. At the end, we were rewarded with our Masters' degrees and, equally important, with 53 new friends.

Jumping back to the beginning of my career, I actually started in the profession at the age of 16. At that time I went to work in the accounting department of a manufacturing plant of the-then ITT Corporation, working every day after school and in the summers until I went to college. To this day, I appreciate the fact that the controller of that plant was willing to take a chance on me and give me my start in the profession. To this day, I think

he appreciates the fact that I was willing to steadfastly calculate all the plant's standard costs and related variances.

After college I continued in the profession as an auditor in the Detroit office of Arthur Andersen. While in Detroit, I apparently showed some promise for policy matters as I served on a Task Force of the Auditing Standards Board. From Detroit I moved into consultative and policy roles as a partner in the national technical office of Arthur Andersen, and as a practice fellow at both the Financial Accounting Standards Board in Norwalk and the International Accounting Standards Board in London. And then I went on to Stanford University.

So that, in a nutshell, is my story. I am also very interested in your stories; however, you are a little too big of a group to do personal introductions right now. I therefore hope to meet each of you in due course.

International Financial Reporting Matters

I would like to take our ten minutes together today to discuss one thing: namely, my aspirations for our respective work on international financial reporting matters. By use of the phrase "our respective work" I mean both my work and your work.

My Aspirations

Let me begin with my work. I did not come to the Commission to hide my light under a bushel. Rather, I aspire to serve the public interest by working toward the day when investors and creditors can evaluate opportunities from any capital market in the world side-by-side, without needing to contort the numbers to do so.

Luckily, this "side-by-side" environment I aspire to is not an all or nothing proposition. Investors and creditors are starting to see it already as some national jurisdictions adopt International Financial Reporting Standards (IFRS) as their own, and as the accounting and disclosure standards of other jurisdictions converge with International Financial Reporting Standards. This "side-by-side" environment is coming to life.

Longer term, I think a thriving "side-by-side" environment needs as its underpinnings an international financial reporting system that is sustainable. I think a sustainable system has five individually strong underpinnings. Those five underpinnings are:

- Standard Setting,
- Education,
- Application,
- Interpretation, and

- Regulation.

Let me briefly describe what I think of when I consider each of these underpinnings.

Standard Setting means accounting, auditing and disclosure standards that are produced by standard setters who commit to the highest quality in their standards, who have the requisite expertise and independence to do their work, and who use an open deliberative process.

Education means a profession composed of people who are trained in understanding and applying the standards before they need to apply them.

Application means rigorous application of accounting and disclosure standards by management and rigorous application of auditing standards by auditors. Said more colloquially, in the environment I am working toward, there is no place for acting like a weasel. (With that comment I apologize to the small, long-bodied, carnivorous mammals we know as "weasels".)

Interpretation means a standards interpretive mechanism that is staffed by individuals with the requisite expertise and independence. This mechanism should also provide for high quality interpretations that are reached via an open deliberative process.

Regulation means oversight regimes among the various national regulators that include cooperation with each other and consistency in their regulatory review of the financial reporting work of preparers and auditors.

I realize that today each of these five underpinnings is at a different stage of development. Furthermore, future decisions and progress on some of these infrastructure issues may be independent of decisions and progress on others. For example, International Financial Reporting Standards are developing to the point that some inquire of the SEC staff as to its considerations regarding eliminating the US GAAP reconciliation requirements for companies from outside the US who prepare their financial statements under International Financial Reporting Standards. On eliminating the US GAAP reconciliation requirement for these registrants I offer optimism, but not a date certain. This is because I cannot predict the exact rate of progress on building, for example, the education and application underpinnings of the international financial reporting system.

Take application. During 2006 the SEC staff will have the opportunity to review how European and other registrants applied International Financial Reporting Standards to their 2005 financial statements and how they prepared the US GAAP reconciliation from an IFRS starting point. From this review the SEC staff will have evidence, and hopefully positive evidence, about the strength of the application. Rigorous preparation of these 2005 US GAAP reconciliations will also give the SEC staff a complete and accurate

picture of the remaining differences between International Financial Reporting Standards and US GAAP. This complete and accurate picture is important. It is important to the quality of the SEC staffs' considerations regarding eliminating this reconciliation requirement. It is also important to the SEC staffs' work to identify areas for which it wants to encourage the prioritization of the convergence work between IFRS and US GAAP. Good application will also tell the SEC staff something about the extent of practitioners' knowledge, and by extension the quality of their education, about IFRS.

The Roles of Practitioners

Now that I have described what I aspire to do on international financial reporting matters, let me ask the question, "What do you aspire to do?" In anticipation of your asking me for some suggestions, let me offer some that are centered on your essential roles with respect to the five underpinnings.

On standard setting and interpretation, please participate in the standard setters' working groups, task forces and field tests. Also, comment on their proposals.

On education, I would like each of you to personally take charge of your own situation. Let me offer three comments on doing so. First, peek ahead. Second, practice makes perfect. And third, yours is not a job, it's a profession. Let me elaborate on those points.

First, peek ahead. Under this notion you will educate yourself about international standards because that is the direction in which the world of financial reporting is headed. For many of you there is also a shorter term payoff from your efforts, in that today some of the flavor of International Financial Reporting Standards is entering, via convergence work, the national standards that you continue to use.

Second, practice makes perfect. I do not think that anyone can pick up a different set of standards-in this case international standards-the night before they need to apply them, read them once and then declare victory with respect to their knowledge about them. Building your knowledge base instead takes time, and practice. You can start to build your understanding of International Financial Reporting Standards over time, and fairly painlessly at that, by studying the International Accounting Standards Committee Foundation's Executive Briefing publication or something like it from another source. Conquering one page a day, and then going back through the materials again and again, is one way you may lead yourself to declaring that victory.

Third, yours is not a job, it's a profession. Bringing to life this "side-by-side" environment I describe for the benefit of preparers, investors, creditors and the capital markets as a whole is one of the significant issues in your profession today. As a professional, it is incumbent upon you to be engaged in such a significant issue, even if it does not affect your life tomorrow

morning.

Moving on to what you may aspire to do on the application underpinning, I suggest following the mantra that quality in application yields confidence in the capital markets; confidence by investors, creditors and regulators that companies' financial information is complete and reliable. This confidence fosters the corresponding efficient allocation of capital. So, do not worship the "it doesn't say I can't" approach to preparing financial statements and the "it doesn't say they can't" approach to auditing financial statements. In applying an accounting or disclosure standard to a particular fact pattern, ask yourself whether you have thought about the intent of the standard, the economics of the transaction, and what you would need to know about the matter if you were the company's investor or creditor. For those companies applying International Financial Reporting Standards in 2005, also consider whether your application would inspire confidence in the reported IFRS results, absent the backdrop of a US GAAP reconciliation.

Closing

So, we just met about ten minutes ago and here I am already asking you to do things. This is because building a sustainable international financial reporting system depends on how each of us carries out our responsibilities. Our respective roles are not divorced from each others'; your role is as important as mine. Given this mutual importance, I want our working relationship to be robust, straightforward, honest and enduring. Hopefully, we will find our relationship as enduring as my relationship with that controller who hired me when I was 16 years old. Despite the fact that it has now been more than 20 years since he and I worked together, he and his wife and I still talk on a regular basis.

Thank you very much for your attention.

<http://www.sec.gov/news/speech/spch120604jae.htm>