



## U.S. Securities and Exchange Commission

### **Speech by SEC Commissioner: Remarks Before SEC Speaks**

*by*

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*U.S. Securities and Exchange Commission*

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Thank you, John. Good afternoon. It is a great pleasure to appear before you today. Before I begin, I would like to note that the views that I express here are my own and are not necessarily those of the SEC or my fellow commissioners.

As the newest member of the Commission, I thought I might use this opportunity to introduce myself and, in some cases, reintroduce myself to many of you. Having worked for many years on Capitol Hill dealing with the financial services community and our capital markets, I see many familiar, friendly faces here today.

As with any transition to a new position, change can be a challenge. But I am finding that my congressional background has proven an excellent foundation for my new role as a Commissioner.

The issues, the people, the process, and yes, the politics — are all very similar and relevant.

While serving on the Senate Banking Committee for Senator Richard Shelby, much of our agenda was focused on the capital markets and the work of the SEC. Addressing such issues as Sarbanes-Oxley, hedge funds, mutual funds, SRO regulation, credit rating agencies, Reg. NMS, and accounting convergence, to name a few, the Committee regularly engaged with many of the same stakeholders and interests, both domestic and international, that I now have the pleasure of continuing to work with at the SEC.

I come to the Commission placing a high value on process. A transparent, deliberative and considered process that actually informs policy-making is vital, in my view, to building credibility for the policy result, even if you don't necessarily agree with that result at the end of the debate.

And it also often helps build consensus, where consensus is possible. I know that this will be of particular salience as the Commission continues to wrestle with many difficult and controversial issues that have challenged it in the past.

At the same time, however, I believe it is incumbent upon the Commission in fulfilling its responsibilities to the marketplace to provide clarity and certainty as to the application of our rules. We simply do not have the luxury of avoiding the tough issues, particularly in today's competitive environment. The consequences for investors and our markets are too great, and our credibility as a regulator too important. In any event, these issues always seem to find their way back to us sooner or later.

Finally, say what you will about the divisiveness and partisanship in Congress, but my experience on the Hill, in particular my work on the Senate Banking Committee, has been that it is possible to maintain strong, principled convictions and still operate in a spirit of bipartisan cooperation. Indeed, our effectiveness as a Committee was marked by the ability of people with honest philosophical differences to work together toward shared objectives. This is an approach that I bring with me to the Commission.

I also bring with me a strong belief in the power and ingenuity of free markets, and I generally favor market solutions over government intervention. However, market forces are not always sufficient to properly regulate conduct that can harm investors and the market as a whole. And that is where we at the SEC come in.

Charged with a broad mission, the SEC stands on the front line of protecting investors and ensuring transparent, efficient, and competitive capital markets. While I have always had a high regard for the SEC and its staff, my experience in these seven months on the job has only elevated that regard.

The Commission has a tough and challenging job. Oftentimes, when things go right, we don't make headlines. But when things go wrong, even when the SEC may be doing its job well, we do make headlines.

In light of this, I believe it is important that the SEC seek to do what is right, regardless of the prevailing winds. Determining what is "right", in my view, is a function of the credibility and effectiveness of how we make our decisions.

In our rulemaking, this requires a process that ensures a full appreciation of the economic implications of various policy choices and fully estimates the costs and benefits associated with our actions.

The SEC has been criticized for its perceived failure to analyze the economic impact of its decisions and has been checked by recent court decisions for failing to engage in adequate cost/benefit analysis as is required under the law.

While such rebukes harm the credibility of the SEC, I believe that they also offer an opportunity to more fully incorporate economic analysis into our decision making, rather than simply viewing it as a purely mathematical exercise or a postscript to a predetermined policy outcome.

Investors and our markets deserve a more rigorous analysis than merely following gut instincts or embracing the "it feels good, so it must be right" approach.

I find no greater irony, which comes at a cost to the market and to investors, than when a popular end ignores economic reality and drives adverse policy results.

Our mission of protecting investors and maintaining the integrity of our capital markets relies heavily on investor confidence in the markets' fairness and transparency. Our enforcement of the securities laws, of course, is vital to sustaining that confidence.

In our enforcement activities, it means that we must be vigorous and firm in our pursuit of investor protection, ferreting out fraud and punishing fraudsters, but also judicious and fair in the cases we bring and the sanctions we impose.

I like to think that the vast majority of companies, mutual funds, broker-dealers, investment advisers and regulated entities, and the people who work for them, want to do the right thing. Indeed, they spend a considerable amount of money and time trying to comply with our rules and the law, particularly in today's environment of heightened legal and reputational risk.

As much as we expect a high level of compliance from the industry, I believe it also incumbent upon the Commission to seek to help market participants understand our expectations so that they can quickly cure deficiencies before they become problems that harm investors.

Such an approach would, it seems to me, achieve a higher level of overall compliance than the current environment in which there is fear that every deficiency will result in an enforcement action.

The more effective we are in improving compliance — that is, the better we are able to communicate our expectations to all of you that seek to do the right thing — the better equipped the Commission will be to pursue through our Enforcement program those who seek to do the wrong thing.

Our success as an effective market regulator and watchdog will also derive from several other important Commission initiatives in the months and years ahead in which I have a particular interest.

We need to fix 404. No other issue in recent times has come to symbolize regulation gone awry than this relatively modest-looking provision of the

Sarbanes-Oxley Act. While the spirit and letter of the law never contemplated the costly and burdensome result that this provision has generated, the law's implementation undoubtedly facilitated such a result.

The Commission and the PCAOB are now faced with attempting to undo the regulatory framework and consequent market behavior that has driven this costly compliance regime. I believe proposals by the Commission and the PCAOB on management guidance and revisions to AS2, respectively, are positive efforts to adopt a more principled, risk-based approach that should help ease the burdens and costs we see today, particularly for smaller companies.

I look forward to considering the comments that I hope we will receive on these proposals. I am committed to fine tuning these proposals to ensure that we achieve the results we all hope for.

In the end, however, I believe we will only be able to measure our success by whether our reforms are sufficient to alter the behavior our policies have driven. And that will require an ongoing assessment and determination by the Commission of whether we have achieved our goals.

Likewise, as you have just heard from the prior panel, the Commission is committed to the roadmap announced in 2005 that sets out a timeline for the Commission's consideration of the various steps necessary to make a determination on the elimination of the reconciliation requirement for foreign private issuers that use International Financial Reporting Standards ("IFRS"). As we begin Year 2 of IFRS, we are working through application issues with foreign issuers and continue dialogue with international regulators to analyze the faithfulness and consistency of the application and interpretation of IFRS in financial statements.

We also continue to monitor the progress of the IASB and FASB in their convergence projects. I strongly support these efforts and am committed to identifying issues and obstacles early in order to move toward our goal in a timely manner.

Finally, as markets and products continue to evolve in today's increasingly competitive climate, the Commission needs to continue its efforts to engage cooperatively with other regulators, both domestically and internationally. While the Commission has a long history of working with other regulators in this regard, market convergence and innovation will challenge us even more to be responsive and thoughtful in adjusting market regulation to market needs and realities.

I feel fortunate to be able to join the Commission at such an important time, and I am enjoying getting to know and working with all of the Commissioners and staff of the SEC under the leadership of Chairman Cox. I also look forward to meeting with and hearing from many of you in the years to come.

Thank you again for the chance to speak to you today.

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