Speech by SEC Chairman: 
Remarks at CFA Institute 2010 Annual Conference

by

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U.S. Securities and Exchange Commission

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Good morning, it’s a pleasure to be here today, if only electronically. I apologize for not being with you in person but, unfortunately, work related to our investigation into the causes of the market disruption nearly two weeks ago is keeping me here in Washington.

I thought it was important to speak to you, however, because I wanted to update you on our efforts to improve the quality of the financial information on which you base your advice and your careers — the information that is the lifeblood of your work.

And I especially wanted to re-affirm our dedication to developing a single set of high-quality, globally-accepted accounting standards which will benefit U.S. investors and investors around the world, as part of our commitment to better visibility and information.

Over the course of the last 10 years, we have had a number of painful reminders of just how important good information — from accurate accounting by individual businesses to aggregate information on trades and positions — is to investors, to markets and to regulators.

We have seen that individual securities or entire markets that rise without the corrective hand of either investor insight or regulatory review are far more likely to crash — and to cause significant collateral damage when they do.

In the early part of the last decade, shares of several companies soared to extraordinary heights on the backs of falsified books — and then fell hard. More recently, it was the overheated market for mortgage-backed securities — fueled by poor lending decisions, opacity into the risk of underlying assets and blind faith in triple-A ratings — that collapsed, causing serious damage to the entire economy.

And so, a focus of the SEC in the post-crisis world is — just as it has been in our most productive periods for 76 years — increasing the ability of investors, their advisors, and ourselves to get the kind of information we need to make rational economic and regulatory decisions.

Part of this mission involves re-energizing, re-structuring and refocusing the SEC itself, so that we have the tools and skills necessary to analyze the data filed with us, and the resources and the will to punish those who provide false or misleading information.

Part of it is our work with Congress towards comprehensive reform that brings sunshine to opaque markets.
And a lot of it involves attention to the vital but sometimes overlooked field of accounting.

Accounting has been referred to as the "blocking and tackling" of financial reporting. I don't think I am offending many accountants by saying it's often an unglamorous exercise. But, as legendary football coach Vince Lombardi said over and over again, it is the team that blocks and tackles best that wins.

And, so while the SEC is working on "big play" efforts — that is, major rule changes and an internal restructuring — we're not neglecting our blocking and tackling.

We're protecting investors from accounting fraud and overseeing both FASB and the PCAOB.

We're working to see that reporting standards are consistent with current accounting practices.

And, in one of our most important and large-scale efforts, we are overseeing FASB's convergence efforts to facilitate a single set of high-quality international accounting standards, as we prepare for possible incorporation of international standards into the U.S. reporting structure for U.S. issuers.

Maybe it's because other SEC actions and the prospect of truly historic financial reform crowd out coverage, but these "blocking and tackling" efforts generally don't make much news. And, from that news void, myths are emerging which suggest that the SEC has lost its commitment to ensuring the high quality and integrity of the financial reports filed by U.S. issuers — and, especially, that our commitment to international standards has flagged.

My goal today is to put those myths to rest. Comprehensive and neutral accounting standards are the bedrock upon which our securities laws are based — standards that generate accurate, consistent, comparable, relevant, and reliable information for investors, lenders, creditors, and all others who make capital allocation decisions. We have not, cannot, and will not lose sight of that fundamental principle.

But, before I go into detail about all that we're doing to apply this principle to the writing of effective, international, accounting rules, let me touch briefly on some of our other activities.

**Strengthening the SEC**

The initial focus of my time at the SEC has been re-energizing the agency itself. We've changed our internal structure, breaking down silos that limited communications between and among offices and divisions and which contributed to missteps in the past.

For the first time in years, our budget allows us to begin investing significantly in new technology. Our priority has been to create a system that can track, classify and correlate the thousands of tips and investigative leads we receive every month, and which are often the first step towards preventing or punishing fraud.

We brought in new leadership, and they're bringing in new talent, across the organization.

And we've initiated one of the most significant investor-focused rulemaking agendas in decades, such as:

- Adopting rules and proposing others to create a stronger, more robust regulatory framework for credit rating agencies.
- Adopting rules that will help keep money market funds from "breaking
the buck,” by requiring greater credit quality, improved liquidity, shortened maturities and by requiring stress testing and disclosure of funds’ actual "mark-to-market" net asset value.

- Adopting a rule that will provide greater protections to investors who entrust assets to investment advisers by requiring that independent, third-party accountants confirm client assets and review custody controls in situations where the possibility for misappropriation is acute.

- Adopting rules which make companies more accountable to shareholders by requiring them to provide information about the leadership structure of boards, the qualifications of board nominees and the relationship between a company’s overall compensation policies and risk taking. And we proposed rules to facilitate the effective exercise of shareholders’ rights to nominate directors to the boards of the companies they own.

- Proposing rules that will bring unprecedented visibility into the assets underlying all varieties of asset-backed securities.

- And, issuing a concept release on market structure issues including high-frequency trading, co-locating trading terminals and markets that do not publicly display price quotations. We are also attempting to determine the extent to which the interests of short-term professional traders may diverge from those of longer-term investors. These issues will also be at the center of a Market Structure Roundtable, which we will be hosting in several weeks.

Comprehensive Financial Reform

As we move forward within the SEC, Congress is debating comprehensive reform that will affect not only the SEC but the other major financial regulators. The result will be a significant milestone in the effort to minimize systemic risk and to bring transparency and investor protection standards into the 21st Century.

A key provision in the legislation would provide independent funding for the SEC. It’s a provision that guarantees independence, enables us to engage in long-term planning, and helps us to close the resource gap between us and the Wall Street firms we regulate.

Most every other federal financial regulator is independently funded and I believe the one agency that is charged with protecting investors should be independently funded as well.

I hope that Congress resists efforts by those in the financial world who would rather see us weakened, than strengthened.

We are working with the Senate to strengthen the bill now before it. Our goal is to close what appear now to be minor gaps but which may become conduits for major market disruptions.

Among our priorities are:

- Strengthening over-the-counter derivatives legislation, to eliminate regulatory gaps and arbitrage opportunities.

- Improving the standard of conduct for securities professionals providing investment advice by lifting broker-dealer duties to clients to the same fiduciary level required of registered investment advisors — just as the CFA’s own standards of conduct require that "members and candidates ... act for the benefit of their clients and place their clients' interests before their employer's or their own …"

- Ensuring that oversight of smaller investment advisors is only transferred to states that require registration and will provide
oversight standards comparable to the SEC's standards.

This is a tremendous opportunity to bring important and needed improvements to the financial markets. We are looking forward to reform that truly increases transparency and levels the playing field for investors and the professionals who advise them.

Even as we've worked to upgrade the agency and engage on regulatory reform, we've kept our focus on the basics of financial transparency. Investors deserve an honest, unvarnished accounting of a company's finances — and we will challenge anything less when we find it.

As an example, in March 2010, the Division of Corporation Finance sent letters to the CFOs of large financial institutions seeking detailed information about repurchase agreements, securities lending transactions, or other transactions involving the transfer of financial assets — that is, transactions that may be comparable to Lehman Brothers' "repo 105" transactions.

We will use the responses to help determine whether changes in accounting, disclosure, or to the underlying standards themselves, are needed to ensure that investors have accurate information about a firm's leverage and risk. You can expect more of these "Dear CFO" letters, as our disclosure staff reviews the filings of financially significant companies more deeply and consistently, and seeks to identify and address significant trends across companies.

**GAAP to IFRS**

Major financial reform legislation occasionally leads the national news. SEC re-organizations and rulemaking and issues like Repo 105, can make headlines in the business press or on CNBC.

But a discussion of accounting standards — and the global convergence of those standards — is often limited to specialized journals and a handful of websites for the kind of people that can tell a repo 105 from a 401(k).

Perhaps because of this lack of coverage, and because of the complexity of a comprehensive accounting review and the resulting deliberate pace, a number of myths have sprung up, many suggesting that that our commitment to a single set of high quality accounting standards is not particularly strong.

So today, I'd like to look at a few of the myths and let you know why you can't always believe what you hear.

**Myth #1: The SEC's commitment to global accounting standards is not as strong as it should be.**

Let's put this one to rest, right away. And, I can do that by citing the official text of our Commission Statement in Support of Convergence and Global Accounting Standards. In February we clearly stated:

"The Commission continues to believe that a single set of high-quality globally accepted accounting standards will benefit U.S. investors and that this goal is consistent with our mission of protecting investors, maintaining fair, orderly, and efficient markets, and facilitating capital formation. As a step toward this goal, we continue to encourage the convergence of U.S. GAAP and IFRS and expect that the differences will become fewer and narrower, over time, as a result of the convergence project."

That should be clear. So let's move on.

**Myth #2: The U.S. may be committed, but it's dragging its feet regarding adoption of IFRS**
This too is wrong. To be clear, while I strongly believe in our commitment to high quality accounting standards, I believe just as strongly that this commitment is only the beginning of the discussion, not the end.

The convergence process is critical to the incorporation of IFRS into the U.S. market. The IASB and FASB must remain vigilant that investors needs and protection remain paramount throughout the process.

While the FASB and the IASB have been working diligently to reach common solutions to difficult financial reporting issues, U.S. GAAP and IFRS are currently not converged in a number of key areas. These include the accounting for financial assets (the very types of securities at the center of the financial crisis), revenue recognition, consolidation principles, and leases.

While redoubling efforts to achieve the goal of convergence in a timely manner is important, a convergence effort that fails to take into account the due processes of the standard setting bodies will not serve investors well in the long run.

It is important that we take the time to solicit, receive and analyze input from companies, investors and other stakeholders who will ultimately have to put into practice and make use of new standards.

In addition, processes put in place by the FASB and the IASB to ensure the integrity of the final standards should be respected in both spirit and letter. Giving short shrift to process and testing, would increase the risk of poor decisions. We are committed to convergence. But we are committed, above all, to a convergence exercise that yields high-quality improvements to accounting standards.

And the fact is, we are moving forward. We are executing on a comprehensive work plan, dedicating significant resources to it and providing periodic progress reports on it. Our next report will be released in October of this year.

This leads naturally to:

**Myth #3: The United States is fixated on process.**

Inaccurate. The United States understands the importance of process to a successful conclusion. We will not accept shortcuts that undermine our larger goals or risk compromising the achievement of high quality global standards.

A critical part of the standards-setting process is ensuring that the IASB and the FASB are shielded from undue political or commercial pressure, particularly now, as they work to finalize a number of their current joint projects.

Like the FASB, the IASB has in place structural safeguards designed to withstand commercial, political, and other influences that might obscure the goal of high-quality, neutral accounting standards. Among these safeguards is a Monitoring Board comprised of public capital market authorities, and of which I am a voting member.

The Monitoring Board creates an oversight relationship between the standard-setting organization and governmental authorities. It allows regulators to ensure that the mandate to protect investors, market integrity, and capital formation are discharged as convergence moves forward, and enhances that credibility further.

Although it makes the process of agreeing on global standards more complicated, the presence of the Monitoring Board — as well as other procedural safeguards — is critical to achieving the best possible results.

**Myth #4: America is protecting its parochial interests.**
No. What we are protecting are the interests of the investors in our markets, and we always will — that's what the Securities and Exchange Commission does. When investors — from anywhere across the globe — participate in our markets, they come under the SEC's umbrella of protection.

But even with this protection, we can and must continue working together across borders. The global economy is too intertwined and too interdependent to tolerate parochial interests. Our goal is to ensure a neutral process that results in rules that give capital market participants everywhere access to information on the financial performance and position of companies, so that they are able to make informed economic decisions.

Accounting standards must provide transparency for investors, and must not obscure the truth, even if the truth is painful.

**Conclusion**

A process that began in the wake of the accounting frauds early last decade has become even more important and relevant in the wake of the global financial crisis. Experience has shown that markets need regulators to function effectively.

But they need investors as well — investors who have the information they need to compare performance, evaluate risk, and make rational decisions.

Dramatic efforts to bring light to dark corners of the markets will help prevent the kind of irrational exuberance and harsh corrections that have caused so much damage in recent years. But so will attention to fundamentals, including the "blocking and tackling" of financial reporting within the U.S., and around the world.

Creating a system of high-quality, globally accepted accounting standard that benefits American investors and investors around the world is a detailed and challenging task. But it is a task we have been eager to embrace, and to which we remain fully committed.

Thank you.