



U.S. Securities and Exchange Commission

SEC Advisory Committee Makes Recommendations to Improve Financial Reporting for Investors

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Washington, D.C., Aug. 1, 2008 — Securities and Exchange Commission Chairman Christopher Cox today received [the final report of an SEC advisory committee](#) containing 25 recommendations to make financial information more useful and understandable to investors.

Last year, Chairman Cox announced the creation of the SEC Advisory Committee on Improvements to Financial Reporting, comprised of members representing investors and other key constituencies in America's capital markets. Chairman Cox asked the Advisory Committee for recommendations on reducing unnecessary complexity in the U.S. financial reporting system and making financial reports clearer and more understandable to investors. Today, the chairman of the Advisory Committee, Robert C. Pozen, presented Chairman Cox with a final report containing recommendations that can be implemented by the SEC, the Financial Accounting Standards Board (FASB), and the Public Company Accounting Oversight Board (PCAOB).

Chairman Cox said, "I commend the Advisory Committee and Chairman Pozen for their work to make financial reporting less complex and more useful to investors. I have asked the Commission staff to immediately begin analyzing these recommendations, and to prepare regulatory actions based on them wherever appropriate."

Chairman Pozen said, "Our recommendations would make financial reports more useful to investors — with clearer guidelines, fewer exceptions and

Video: Chairman Cox Receives Final Report from SEC Advisory Committee on Improvements to Financial Reporting



(L to R) FASB Chairman Robert Herz, Advisory Committee Chairman Robert Pozen, SEC Chairman Christopher Cox, and PCAOB Chairman Mark Olson

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greater focus on really important information."

The SEC already has taken steps to benefit investors based on two earlier recommendations made by the Advisory Committee. On May 14, the Commission formally proposed using new technology to get important information to investors faster, more reliably, and at a lower cost by requiring all U.S. companies to provide financial information using interactive data beginning as early as next year. And on July 30, the SEC approved new guidance to public companies to address their concerns about how to comply with the securities laws while developing their Web sites to serve as an effective means for disseminating important information to investors.

The Committee's report provides practical proposals to improve financial reporting in five main areas:

- | Increasing the usefulness of information in SEC filings
- | Enhancing the accounting standards-setting process
- | Improving the substantive design of new standards
- | Delineating authoritative interpretive guidance
- | Clarifying guidance on financial restatements and accounting judgments

Among other things, the Committee noted in the first area that many individual investors find company filings with the SEC to be overly complex and detailed. Thus the Committee recommended the inclusion of a short executive summary at the beginning of a company's annual report that would describe concisely the main aspects of its business and its key performance metrics.

In the second area, the Committee called for more investor participation in accounting standard setting by increasing investor representation on the FASB and Financial Accounting Foundation (FAF).

In the third area, the Committee noted that the underlying objectives of certain accounting standards are sometimes obscured by dense language, detailed rules, and numerous exemptions. The Committee recommended a different approach to the substantive design of standards. For example, the Committee called for improved rules on off-balance sheet accounting and fewer situations where alternative accounting standards exist for the same transaction. The Committee recommended that companies provide better disclosure to investors about what portion of their earnings constitutes cash or accrued income based on historic cost accounting and what portion represents unrealized gains or losses based on fair value estimates.

To reduce the proliferation of U.S. GAAP, the Committee said it strongly supports FASB's efforts to complete the codification of all authoritative accounting literature into one document. The Committee said that others such as audit firms may still publish their views on accounting issues, but they should be labeled as non-authoritative. In this fourth area, the Committee also called for a clearer delineation of functions on interpreting accounting standards — with the FASB taking the lead on broad issues and the SEC on registrant-specific issues.

In the fifth area, the Committee recommended increased correction of

accounting errors and more disclosures about those corrections to investors. However, the Committee warned that the correction of every accounting error should not automatically result in a lengthy process of restating financial statements for several prior years. The Committee said that in the "dark period" during restatements when companies generally cease filing current financial reports, companies usually do not provide investors with much information. Thus, the Committee said it believes that restatements of prior years should be undertaken for the correction of accounting errors that are material to current investors.

FASB Chairman Robert Herz and PCAOB Chairman Mark Olson were official observers to the Advisory Committee and joined Chairman Cox and Chairman Pozen at the SEC today to release the final report. They have committed to continue working together with the SEC to increase the usefulness of the financial reporting system.

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