



U.S. Securities and Exchange Commission

Speech by SEC Chairman: Welcoming Remarks to the Advisory Committee on Improvements to Financial Reporting

by

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U.S. Securities and Exchange Commission

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Good morning, and welcome to the SEC.

I'm pleased to be here for this first meeting of the Advisory Committee on Improvements to Financial Reporting. I want to thank the members and observers of the Committee for agreeing to serve. I particularly want to thank the Committee's Chairman — Bob Pozen — for his leadership.

Earlier this week, we celebrated the five-year anniversary of the Sarbanes-Oxley Act. The stated purpose of that Act was to "protect investors by improving the accuracy and reliability of corporate disclosures." Among its many provisions, the Act presciently called for examination of ways to combat growing complexity in financial reporting, including calling for studies on the use of principles-based accounting systems and disclosures regarding off-balance sheet transactions.

These resulted in well-thought-out reports to Congress on ways financial reporting could be improved — many of which have already been implemented or are being implemented. But this work was only a beginning. We have continued our efforts by joining with the FASB and the PCAOB in an all-out War on Complexity in accounting.

When it comes to giving investors the protection they need, information is the single most powerful tool we have. And surely we can't say we've achieved our investor protection objective if the information is provided in a way that isn't clearly understandable to the men and women for whom it is intended.

The truth is, financial reporting has become overly complex. That means not only are financial statements difficult for investors to understand, but also

companies incur excessive costs as a result of complying with voluminous and overly prescriptive accounting and reporting rules.

Your job is to help end this destructive cycle and get our financial reporting system back to first principles. We're asking you to help us reduce complexity and all its costly burdens. When it comes to financial statements, most investors today probably feel the way Mark Twain did when he said, "The more you explain it, the more I don't understand it." That is why we've called on leaders from the private sector to advise us on what really helps.

Empowering investors doesn't just mean better access to information — it also means access to better information. Simply put, the question is: Once that SEC-mandated information is available, is it understandable? The answer all too often is a resounding and frustrated "no," particularly among individual investors at a time when over half of U.S. households invest in stocks.

This is even more frustrating when the process of preparing that information by issuers involves unnecessary costs and procedures and uncertainty about what is required. That's why I'm pleased to have chartered this Committee.

The Committee on Improvements to Financial Reporting already has a catchy acronym — CIFI^R, which brings to mind the cryptographic tools of the intelligence community. Well, it shouldn't require a secret decoder ring to decipher today's financial reporting. So, with your help, today we're opening up another front in our War on Complexity.

By gathering the views of a wide variety of constituents including preparers, users, and those who assist and advise them, we look forward to this Committee providing specific recommendations on how unnecessary complexity in the financial reporting system can be reduced and how the system can be made more useful to investors.

Your enabling charter describes several areas that the Committee will focus on, including:

- the current approach to setting financial accounting and reporting standards;
- the current process of regulating compliance with those standards;
- factors that may drive unnecessary complexity and reduce transparency; and
- any lessons that can be learned from growing use of international accounting standards.

I've also asked the Committee, as part of its consideration of the U.S. financial reporting system, to focus on how technology can help address accounting complexity by making financial information more useful to a

greater number of investors. Through the power of interactive data, the opportunity exists to redesign the financial reporting system to deliver precisely the type and level of information that each individual investor needs.

I want to thank the members and observers again for their participation on the Advisory Committee. I look forward to your work and your thoughtful recommendations on this vitally important mandate.

I now turn it over to our Chief Accountant, Conrad Hewitt, to make a few remarks before the Committee officially gets under way.

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