Speech by SEC Chairman: Opening Remarks at SEC Roundtable on Mark-to-Market Accounting

by

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U.S. Securities and Exchange Commission

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Good morning, and welcome to today's roundtable on mark-to-market accounting. On behalf of the other Commissioners—Kathy Casey, Elisse Walter, Luis Aguilar, and Troy Paredes—I'd like to extend our appreciation to our distinguished panelists and observers who are with us to share their insights and advice on this important topic.

This is the second roundtable held recently by the Commission on fair value accounting. And it is the first of two that the Commission will hold specifically in connection with the Congressionally-mandated study on the use of mark-to-market accounting by financial institutions. Our next roundtable to be held as part of this study will be on November 21, 2008. These roundtables serve as public hearings to provide us with valuable insights from investors, companies, and other market participants who are affected by the current market conditions.

Our ongoing study on mark-to-market accounting is mandated by the Emergency Economic Stabilization Act, signed into law earlier this month. Under the terms of the Act, it will be completed by January 2, 2009. We are working on this study, as the statute requires, in close consultation with the Secretary of Treasury and the Board of Governors of the Federal Reserve System, whose representatives are with us today as observers. This 90-day study is being directed by Jim Kroeker, the Deputy Chief Accountant at the SEC, and the work is being conducted in several of our Divisions.

As we begin our panel discussions, it is important to keep firmly in mind the primary role of financial reporting as a direct communication with investors. Financial reporting serves several other purposes as well, including its use by safety and soundness regulators of financial institutions. Because of the many uses of financial information, today's topic is not simply an accounting matter. It is important that these differences between the uses of financial information by investors, regulators, and businesses themselves, among others, be recognized and appreciated.

As we have learned, illiquid markets bring new challenges to the measurement of fair value that may not have been fully appreciated in past years. These challenges have brought into focus the need for further work on improving the tools that companies have at their disposal to achieve transparent, decision-useful financial reporting.

Transparency is the cornerstone of world class financial reporting. Transparent and unbiased financial reporting allows investors to make informed decisions based upon a company's financial performance and disclosures. A clear, concise, and balanced view into the companies that participate in our capital markets is fundamentally important to those who choose to invest in our markets. Informed decision making results in efficient capital allocation.

Regulators and accounting standard setters have been hard at work to address the challenging issues we are facing today. In my role as Chairman of the IOSCO Technical Committee, I am working with our fellow regulators throughout the world's major capital markets to support accounting standards which afford investors transparency, maintain market integrity and facilitate capital formation. We are also supporting the work of the IASB and FASB as they work jointly to address these accounting considerations in an independent and deliberative manner. Their objective is, as it should be, to develop and maintain high quality standards that provide transparency to investors. I am pleased that members of each of these Boards have joined us this morning as observers to our panel discussions.

While July's roundtable addressed fair value generally, today's roundtable will be focused specifically on fair value as it is used by financial institutions. This focus is important because Congress has provided that our study will address the effects of accounting standards on the balance sheets of financial institutions, as well as the impact accounting standards have had on bank failures.

In these roundtables and throughout our study, the SEC will also be considering the impact fair value accounting standards have on the quality of financial information provided to investors, the FASB's process for developing accounting standards, and whether modifications to existing fair value measurement guidance is necessary or should be replaced by an alternative approach.

As we conduct this study, the SEC will continue to welcome and solicit the views of investors, financial institutions, auditors and others. It is easy to submit comments through our website, and I encourage interested parties to do so. The comment period will extend until November 13, 2008.

Today we have a wonderful opportunity for the Commission, the staff and the public to learn more about the implications of mark-to-market accounting. We have brought together two distinguished panels to share their perspectives, which I anticipate will be varied and expertly presented. I am confident that we will all learn much today.

This roundtable was organized by Bert Fox, Jim Kroeker, Liza McAndrew Moberg, Jenifer Minke-Gerard and Nili Shah from the SEC's Office of the Chief Accountant, to each of whom we owe a special thank you. The moderators of our first panel will be John White, the Director of the Division of Corporation Finance, and Jim Kroeker, Deputy Chief Accountant in the Office of the Chief Accountant, and also Staff Director for our study on mark-to-market accounting. John and Jim, the floor is yours.

http://www.sec.gov/news/speech/2008/spch102908cc.htm
