



Speech by SEC Commissioner: Remarks Before the AICPA National Conference on Current SEC and PCAOB Developments

by

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Washington, D.C.
December 9, 2009

Good morning, and thank you, Melanie, for that wonderful introduction. It is a pleasure to join you at this conference. For the past two days, you have heard from many accounting and other experts — among them staff from the Commission's Office of the Chief Accountant, Division of Corporation Finance, and Division of Enforcement. Today, that discussion of the many current accounting, auditing, and disclosure issues will continue. You will hear about what the staff observed in recent reviews of registrant filings as well as observations on how to improve communications with investors. You will also continue to learn about projects on the staff's 2010 agenda. I'm certain that you will benefit from your participation in this conference.

I am delighted to be your keynote speaker this morning. Of course, let me first remind you that my remarks today represent my own views, and not necessarily those of the Commission, my fellow Commissioners, or members of the staff.¹

My appearance here today is special to me for a number of reasons. First, I will confess not only to being a math major who once dallied with the thought of accounting as a career, but also to being the daughter of a CPA who, for many years, served as the CFO of a publicly-held company. Perhaps that is one of the reasons I believe so strongly in the role your profession plays. In addition, I served as Deputy Director, as Melanie noted, of the Division of Corporation Finance for eight years in the late 1980s and early 1990s. One of my favorite aspects of that job involved working closely with the Division's Office of Chief Accountant on a variety of accounting issues. And, I commenced my term as an SEC Commissioner at the exact time the Commission was considering the proposal for the IFRS Roadmap.

Your profession and your organization have played, and continue to play, critical roles in the U.S. markets. Until 1887, when several accountants founded and incorporated the American Association of Public Accountants, the profession was only vaguely defined. The founding members of the Association, which would later be renamed the American Institute of Certified Public Accountants, set out to ensure that accountancy gained respect as a profession through practicing accountants who acted competently and professionally. In the first year, membership grew to around 30 active members. Today, the AICPA boasts a membership of more than 350,000 CPAs strong.

In 1934, the AICPA worked with the New York Stock Exchange to define for the first time six accounting principles that companies listed on the stock exchange would be required to follow. It was in that same year that the SEC was created with jurisdiction over the financial reporting of public companies, including the power to define generally accepted accounting

principles. Since 1938, the SEC has looked to the private sector for accounting research and assistance in defining accounting principles, culminating in the formation of the FASB, whose crucial role continues to this day. And, that role comes with significant responsibility for the integrity of financial information provided by companies to U.S. investors and U.S. markets.

I. Introduction

All of us involved in supervising our financial reporting system — the accounting profession, standard setters, and regulators — are faced with increased and — in my view — appropriate scrutiny. We are expected to, and we must, improve that system by assuring that the information provided is timely and useful, both to sophisticated experts and to ordinary investors. We are challenged to meet the demands placed on our system by the constant advancements in globalization, consolidation within and among financial sectors, and convergence of institutional roles and products, coupled with financial innovation. You, in the accounting profession, and we, at the SEC, must meet those challenges.

Let me remind everyone about the philosophy that shapes the SEC's approach to regulatory issues. As most of you know, the SEC's foundation was laid in an era that was ripe for reform. When the stock market crashed in 1929, public confidence in the markets also plummeted. Out of that turmoil, the SEC was created to restore investor confidence in our capital markets by providing investors and the markets with more reliable information and clear rules of honest dealing.

The SEC does not regulate by passing on the merits of securities or securities offerings. Rather, SEC regulation aims to foster investor confidence with two common-sense notions. One, companies financed by the investing public must tell the public the truth about their businesses, the securities they are selling, and the risks involved in investment. Two, people who sell, trade, and provide advice about securities must treat investors fairly and honestly, putting investors' interests first. The quality and credibility of disclosure documents filed with the SEC by public companies are at the heart of this approach.

As we saw in the recent market crisis, investors lose confidence when markets are, or are perceived to be, unstable. And, markets are generally viewed as more safe and stable if investors trust and understand the underlying financial reporting structure. The stability of a market is based, in large part, on the quality of the information underlying the market, and credible information requires high-quality standards governing how that information is prepared and reported to investors.

With that general background in mind, I would like to focus today on the importance of the overall quality of the financial reporting process. In particular, I would like to address three important issues that relate to the quality of that process: independent accounting standard setting, convergence in accounting standards, and the possible expansion of the role of public accountants through two recent rule proposals.

II. Independent Accounting Standard Setting

Let me start with independent accounting standard setting. The standard-setting process is critical to all of us at the SEC because we are charged with protecting investors. The principal approach we use to fulfill this mission is full and fair disclosure, so that investors are able to make informed decisions.

Independence in Setting Accounting Standards

As I mentioned earlier, since 1938, we have looked to the private sector to play a leading role in promulgating accounting standards, while the SEC staff monitors and oversees these standard-setting activities.

It was one of the AICPA's predecessor associations of CPAs that created the first body to set accounting standards — the Committee on Accounting Procedures, established in 1939. In creating that body 70 years ago, the accounting profession helped America emerge from the Great Depression. The Committee's work was critical to the credibility of financial reports.

Decades later, we now find ourselves emerging from another economic crisis, and once again the role of accounting standards is being challenged. As we respond to these challenges, we simply must protect the independence of the standard-setting process. One lesson that we have learned through experience is how vitally important it is to ensure that the work of accounting standard setters remains free of distortions from potentially self-serving influences.

Our reasons for protecting independent private sector accounting standard setting should be familiar to you; we want accounting standards to be fair and objective, based on expert analysis and judgment, and free of undue influence, both political and commercial, so that they can be applied consistently across situations involving thousands of different companies. These were among the original reasons for independent private sector accounting standard setting and they remain as relevant and important today as ever before.

Responding to Calls for Change

We are now faced with the important question of regulatory reform as a result of the recent financial crisis.

I believe that any and all regulatory reform measures undertaken by Congress and the Administration must maintain the process for setting accounting standards as an independent function. Oversight of the independent private-sector standard setter should not become entangled with other regulatory priorities, such as addressing systemic risk. Instead, accounting standards should remain a means of producing neutral and objective measures of the financial performance of public companies. This is critical if we are to protect the integrity and credibility of accounting standards, which are the backbone of our financial reporting system.

Some have argued, in effect, that independence should be set aside in extraordinary times like those we have been experiencing. They support different governmental oversight or setting aside the normal process for independent private-sector standard setting, which identifies issues for consideration, gives the public exposure documents, solicits views and comments of constituents on the exposure documents, and considers all of the resulting input before finalizing and issuing new accounting standards. All of that, they say, should be replaced with oversight by varied regulators with competing priorities who can override the independent standard setter's process, whether the independent standard setter agrees or not.

In my opinion, that approach is unwise and short-sighted. It impairs not only the principle of independence but also the credibility of the standard-setting process. I fear the result would destroy investor confidence. The importance of independent standard setting is greatest when the market stresses are at their toughest. The more serious the stresses on the market, the more important it is to maintain investor trust and confidence.

The FASB's deliberative process has fostered strong financial reporting and promoted broad acceptance of our accounting standards. That process includes important safeguards for all users of financial statements, including obtaining feedback from groups such as individual investors, institutional investors, lenders, analysts, auditors, financial statement preparers, regulators, academics, and various other parties. These processes are designed to ensure that the competing interests and demands of the various groups are carefully and independently identified and balanced. Those transparent processes, in turn, are essential to ensuring that accounting standards remain current while promoting credible, comparable

financial information.

Of course the price for independence is that standard setters must be accountable for their work. Accounting standards must keep pace with the real world to stay relevant, must be refined over time to address weaknesses, and must continue to be reviewed to identify improvements.

There is no doubt that the shape of the capital markets has seen a significant amount of change in recent years. And the pace of change seems to be only accelerating as, for example, the emerging economies of the world grow and the use of technology draws people and information instantaneously closer together. It is essential that the body of accounting standards continue to be high-quality and relevant in the face of such an accelerating pace of change. They must meet that challenge with integrity and respond with what is best for investors, not other interest groups.

III. International Financial Reporting Standards

Having addressed the importance of independence in the standard-setting process, let me now turn my attention toward the issue of convergence of U.S. accounting standards with international accounting standards. The goal of convergence, simply put, is to achieve a single set of high-quality global accounting standards. Increasing transparency in the market through a high-quality, global set of standards has also long been recognized by the Commission as an important objective and is a priority.

The recent developments in the global economy demonstrate the need to improve accounting standards in order to assure transparency to investors — so that investors are given the critical information they need to make informed investment decisions. Today, accounting standard setters, including both the IASB and the FASB, are in the process of addressing important issues raised by the financial crisis. And at the same time, those accounting standard setters are continuing to cooperate on the convergence of accounting standards. Several weeks ago, the FASB and IASB issued a joint statement reaffirming their commitment to achieving convergence of U.S. GAAP and IFRS, and announcing plans to intensify efforts to complete several major joint projects. Our Chairman, Mary Schapiro, indicated her support in a public statement issued that same day. These statements reflect the important role that accounting standards play in facilitating well-informed capital allocation decisions among investment opportunities across the globe. I, too, applaud the ambitious timeline that accounting standard setters have laid out to revise the standards in question.

Proposed IFRS Roadmap

With international standards in mind, let me provide an update on the Commission's proposed Roadmap for the use of IFRS by U.S. issuers. As many of you know, the proposed Roadmap sets out milestones that, if achieved, could lead to the use of IFRS by U.S. issuers in their filings with the SEC.

The myriad of issues raised by the comments we received on the proposed IFRS Roadmap are and continue to be a priority for me. I remain committed to striving towards one global set of high-quality accounting standards. I also continue to believe that there are critical issues that still need to be addressed as the Commission moves forward. My views remain the same — I believe that we should move forward with further incorporating IFRS into the U.S. capital markets if, and only if, it is the right thing to do for U.S. investors.

Next Steps

The Commission's staff, in particular the folks in the Office of the Chief Accountant and the Division of Corporation Finance, have been working to help me and my fellow Commissioners evaluate the comments we received on the proposed IFRS Roadmap. In terms of where we are in the process of

moving forward, the comment period ended in April with over 200 thoughtful letters received. We are, as always, carefully reading all of these responses — most of them, more than once. The comment letters raise a number of complex issues, including issues related to the workability of various aspects of the proposed approach. We are very thankful to all who took the time to share their knowledge and experience with us.

Our next steps will, of course, be determined in part by the feedback we received. Commenters appear to generally agree on the benefits of a single set of high quality global accounting standards. Commenters differ, however, and differ strongly, on the best plan for getting there. Reading through many of the comments, I have been struck not only by the diversity, but also by the intensity of opinions on the issues.

As with any important policy question, we are proceeding deliberately and thoughtfully. We are working diligently to make sure we understand all of the advantages and disadvantages. Chairman Schapiro has said that we would soon turn to the proposed IFRS Roadmap, and we are doing just that. At this stage in our review process, I expect we will likely consider further action sometime in early 2010.

Today, I would like to address my current thoughts on one significant issue raised in the comment letters — whether there is a continuing role for the FASB if we move to one set of global accounting standards. FASB has been instrumental in helping to make the vision of global accounting standards start to become a reality. I will, of course, keep an open mind on these issues, but, to say the least, I am eager to explore the continuing role of FASB in the event global standards are adopted.

IV. Accountants as Gatekeepers

Even as the Commission considers these important initiatives intended to improve the nature and quality of financial reporting for investors and the efficiency of our markets, the Commission also remains keenly focused on other needed changes in regulation. Here, too, accountants are front and center because of the role they play as important gatekeepers.

Under the federal securities laws, accountants act as gatekeepers to the public securities markets. These laws require, or permit the Commission to require, that independent public accountants certify financial information filed with the Commission. As we all know, without an opinion from an independent auditor, a company cannot satisfy the statutory and regulatory requirements for audited financial statements.

While the Commission's staff reviews filings, conducts inspections of certain market participants, and performs other oversight activities, these functions do not include a detailed review of all financial information at the level conducted by the accounting profession. The integrity of the financial reporting system, therefore, relies heavily, as it must, on you to be primarily responsible for the large volume of financial information that undergirds the Commission's full disclosure system.

Congress, in creating our system, in which investors and the Commission leverage the accounting profession, also granted the accounting profession an important public trust. The system is predicated upon the responsibility of accountants working within corporations and of independent auditors to adhere to strong ethical standards to ensure the integrity of financial statements filed with the Commission. This trust in public accountants, combined with the vigilance of the Public Company Accounting Oversight Board, forms the foundation of the financial reporting process. And, integrity of the financial information reported under this system is critical to the functioning of our financial markets.

Safeguarding Investors' Assets and an Expanded Role for Independent Public Auditors

Recently, the Commission proposed rules that would enhance the role of independent public auditors as gatekeepers in its steps to deter investment adviser theft and to reduce the chance of abuse occurring without timely detection.

In the wake of recent Ponzi schemes and other abuses — most particularly the massive fraud by Bernard Madoff — the Commission has proposed significant changes to the asset custody requirements for investment advisers. Under these proposals, advisers who maintain custody or control of customer assets would have to engage an independent public accountant to conduct an annual "surprise exam" to verify that those assets exist. This surprise examination would provide another set of eyes on client assets, thereby offering additional protection against the theft or misuse of funds.

In addition, advisers whose client assets are not held by a custodian truly independent of the adviser would be subject to even more stringent review and testing of custody controls. Such advisers would be required to obtain a third party written report assessing safeguards that protect the clients' assets. The report — prepared by an accountant registered and inspected by the PCAOB — would, among other things, describe the controls the affiliated qualified custodian has in place to protect the assets, the tests performed on the controls, and the results of those tests.

These rules, which were proposed this past May, are intended to better protect clients of investment advisers from theft and abuse. The rules, which prominently include a role for the independent auditors as gatekeepers, are intended to provide assurance to these clients that their accounts have been subject to testing by an independent reviewer. These proposals are yet another example of how critical a role accountants play in the capital markets. We have tools to pursue those who fail to live up to their obligations, but pursuing those after-the-fact remedies is not the ideal; we look to you not only to help detect problems, but also to deter problems from occurring in the first instance.

V. Conclusion

Each of you, and the important profession you represent, are much needed pillars of strength for our economy and for investors in our marketplace. Thank you for what you do, and for continuing to place the interests of investors first. Please keep in mind that every day of your professional lives we are looking to you to deter and detect problems in our marketplace. Thank you again for allowing me to join you today and my best wishes for an informative and successful conference.

ENDNOTES

¹ The Securities and Exchange Commission, as a matter of policy, disclaims responsibility for any private publications or statements by any of its employees. The views expressed herein are those of the author and do not necessarily reflect the views of the Commission, other Commissioners, or the staff.

<http://www.sec.gov/news/speech/2009/spch120909ebw.htm>