Testimony Concerning Accounting and Auditing Standards:
Pending Proposals and Emerging Issues

by

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Chairman Kanjorski, Ranking Member Garrett, and Members of the Subcommittee:

I am Jim Kroeker, Chief Accountant of the Office of the Chief Accountant (OCA), and I serve as the principal advisor to the Securities and Exchange Commission on accounting and auditing matters. Thank you for the opportunity to testify today on behalf of the Commission regarding Accounting and Auditing Standards: Pending Proposals and Emerging Issues.

Financial Reporting and the Commission

It is clear that financial reporting plays a critical role in establishing, maintaining, and in certain cases, rebuilding the confidence of the investing public. The objective of financial reporting is to provide information useful to providers of capital in their decision-making processes. Participants in our capital markets must have confidence that the information provided to them is neutral, reliable, and portrays economic results in an accurate and faithful manner.

The U.S. system of financial reporting has long been considered a major asset of our capital markets. The prominence and reputation of the U.S. capital markets is directly linked to our system's ongoing commitment to fairness, transparency, and objectivity in financial reporting. This provides investors with confidence, helping to minimize the cost of capital from uncertainty or suspicion as to an issuer's true economic fundamentals and prospects. Financial reporting becomes even more important in the height of a financial crisis, when concern about a company's fundamentals is most acute.

As the agency empowered by the federal securities laws to be the investor's advocate, the Commission has the authority and responsibility to prescribe the methods to be followed in the preparation of issuer accounts and the form and content of financial statements to be filed under those laws. The federal securities laws also mandate an independent audit by qualified professionals to provide further assurance as to the faithfulness and integrity of the reporting presented.

The Sarbanes-Oxley Act of 2002 reaffirmed the Commission's historical practice of recognizing the accounting principles of a properly purposed and executed private sector entity as "generally accepted" for purposes of the federal securities laws. For over 35 years, the standards of the Financial Accounting Standards Board (FASB),[1] under Commission oversight, have been recognized by the Commission as "generally accepted."

As to auditing, the Sarbanes-Oxley Act established the Public Company Accounting Oversight Board (PCAOB) under the Commission's oversight to supplement the Commission's role in overseeing the audits of public companies. An oversight model that a number of other jurisdictions have subsequently emulated, the PCAOB registers, inspects, sets standards for, and, where appropriate, disciplines auditors in its singular mission to improve audit quality. In the seven years since the Commission declared the PCAOB operational, the organization has moved from a start-up to a fully functioning regulator. The Commission exercises comprehensive oversight over the PCAOB, including approval of all PCAOB rules and interpretations as well as the PCAOB's budget.

While the oversight structure surrounding accounting standards does not entail direct approval of each standard, the objective is the same, as the Commission retains ultimate responsibility for accounting requirements. We thus closely oversee and work with the FASB to ensure that it:

i. Continues to improve the accuracy and effectiveness of financial reporting and the protection of investors;
ii. Promptly considers changes to accounting principles necessary to address emerging issues and changes in the business environment; and
iii. Considers, to the extent appropriate, international convergence of accounting standards.

As the Commission Office charged with executing oversight responsibilities over the Boards, with a staff of approximately 50 professionals the Office of the Chief Accountant oversees the activities of the Boards on a continuous basis, providing comment and communicating areas for further consideration during the development of standards and when standards are exposed for comment. OCA staff members serve as observers on the Boards' advisory committees, the FASB Emerging Issues Task Force, and on numerous working groups and task forces of the Boards. In addition to day-to-day interaction on specific projects, OCA senior staff meet on no less than a quarterly basis jointly with senior leadership of the PCAOB and FASB to communicate current efforts, discuss the

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[1] The FASB operates under the Financial Accounting Foundation, which is incorporated to operate exclusively for charitable, educational, scientific, and literary purposes within the meaning of Section 501(c)(3) of the Internal Revenue Code. The FASB is funded by an annual accounting support fee established by the Sarbanes-Oxley Act.

effectiveness of recent standards, and share information regarding areas for consideration in advancing investor protection. In discharging these oversight responsibilities, OCA staff also work closely with the other Offices and Divisions of the Commission, to:

i. Monitor existing accounting and auditing standards in practice to determine areas where improvement or new standards may be warranted;
ii. Increase standardization in the application of accounting and auditing standards and related interpretations – working closely with the FASB and PCAOB; and
iii. Coordinate enforcement efforts with the PCAOB.

Accounting

Recently, there has been much discussion regarding the accounting and disclosure issues as a result of the Lehman Brothers Examiner's Report (Examiner's Report). The Examiner's Report highlighted questions as to whether companies structure transactions to obscure transparency and thus threaten investor confidence. Underlying this discussion are two fundamental issues: 1) whether there has in fact been compliance with existing accounting and disclosure requirements; and 2) what should properly be reported on an issuer's financial statements or otherwise disclosed to assure that they reflect the financial condition of that entity.

Repo 105 Transactions

The Examiner's Report highlighted Lehman's use of certain transactions in an attempt to affect liquidity measures, particularly through transactions that were so-called "Repo 105" transactions.[2] A repurchase agreement is a contract to sell a security today and to repurchase that same security at a date in the future for a set price.

U.S. GAAP provides guidance on accounting for transfers of assets. Under that guidance, typical repo transactions are treated as secured borrowings. However, in the case of Repo 105 transactions, Lehman treated the transactions as sales for accounting purposes. According to the Examiner's Report, a careful review of Lehman's Forms 10-K and 10-Q would not reveal Lehman's use of Repo 105 transactions, and internal Lehman officials appear to have indicated that the only purpose or motive for the transactions was reduction in the balance sheet. Nevertheless, in treating these transactions as sales, the securities were taken off of the balance sheet until the securities were repurchased. According to the Examiner's Report, the cash received in the transfers was then used to pay down other liabilities. In accounting for these transactions as sales rather than secured borrowings, Lehman apparently concluded that the transferred securities had been legally isolated and that the collateralization did not provide effective control over the transferred securities.

[2] The Examiner's Report referred to variants of these structures, such as "Repo 108" transactions, although for convenience I refer to them collectively as "Repo 105" transactions.

Serious questions were raised in the Examiner's Report as to whether Lehman complied with existing accounting standards and further, whether it was transparent with its investors about the nature and purpose of the transactions. In addition to questions about the proper accounting for these transactions – that is, whether the Repo 105 transactions should have been recorded on Lehman's balance sheet – there are also questions about whether there was proper disclosure. Lehman did not disclose that it accounted for its repurchase transactions as sales. To the contrary, it reported that it accounted for its repo transactions as financings, the typical accounting treatment for repurchase transactions. There are serious questions about compliance with existing accounting and disclosure requirements related to the Repo 105 transactions.

If entities are using transaction structures solely to achieve an artificial result and mask transparency to investors, this represents a serious threat to investor confidence and the integrity of our financial reporting system. In letters to 19 large public companies, the Division of Corporation Finance requested information regarding their use of repurchase agreements. In response, each company was asked to explain the extent to which, if any, they used repurchase agreements and how they accounted for them in their financial statements. Based on the requests, no information has come to our attention that would lead the staff to conclude that inappropriate practices were widespread. Nevertheless, following our evaluation of these responses, the Division asked several companies to enhance their disclosure about their accounting for repurchase and similar transactions and to expand their discussions of off-balance sheet arrangements in their quarterly reports for March 31, 2010. A number of the companies have already filed the reports with the enhanced disclosure.

We will continue to review companies' accounting and reporting practices to determine if companies are complying with existing requirements and to determine whether changes to those requirements are warranted. As Chairman Schapiro testified in April before the full Committee, we will take appropriate action where we find that companies are not publicly reporting their financial condition consistent with their underlying transactions. We also will continue to consider whether existing disclosure requirements are adequate to provide full and transparent disclosure.

Off-Balance Sheet Accounting

With regard to the broader question of what should be properly reported on an issuer's balance sheet, the FASB has engaged in a broader standard-setting initiative with respect to the recording of assets and liabilities in securitization structures and other special purpose type entities (often referred to as "off balance sheet" accounting) that is now in place to improve financial reporting effective in January for calendar year companies.

As I mentioned before, investors – and the market as a whole – are best served by financial information that is presented fully and clearly. The objective of financial reporting is served by finding the right balance of information to be included in an issuer's financial statements.

Finding that right balance is at the heart of some of the most complex issues in financial reporting. The Commission staff, pursuant to the Sarbanes-Oxley Act, studied and released a report in 2005 that examined a broad range of topics with off-balance sheet implications.[3] That report has served as an important building block in moving toward greater transparency in financial reporting, particularly for structured financing entities.

The market crisis highlighted the type of information that investors, regulators, and other users of financial reports need to see reported on a company's financial statements. Even before the worst of the crisis hit, OCA requested in January 2008 that the FASB improve the accounting and disclosure for many financings, securitizations, and other transactions that had not been previously consolidated on the balance sheet. The existing standards were in need of improvement regarding what companies should be reporting as their own assets and liabilities, and we believed immediate action was needed. The President's Working Group on Financial Markets made similar recommendations in March 2008.

Last year, the FASB completed a major standard-setting initiative for the accounting of financial asset transfers and consolidation. These requirements became effective for reporting this year. A critical component of these reforms was to eliminate the previous exemption for so-called "qualifying special purpose entities." This structure was used for many securitizations. This so-called "scope exception" had grown beyond its original purpose, and the FASB determined to place all securitization structures and other structured entities under a single accounting model.

The new model addressed concerns that accounting and consolidation determinations were too often based on complex mathematical calculations rather than a more qualitative, objectives-based analysis. This was consistent with another Commission staff study in response to the Sarbanes-Oxley Act on appropriate models for accounting.[4] In addition, recognizing that it is not possible to predict each type of structure that could be created to circumvent or otherwise avoid the new consolidation guidance, the FASB included a general protective measure that non-substantive terms, transactions, and arrangements are to be disregarded when applying the consolidation criteria.

The new standards also require a number of new disclosures that are designed to provide better information about a company's exposure to risks, regardless of whether that asset or liability is recorded on the balance sheet. Among other disclosure requirements, companies are required to disclose the significant judgments and assumptions made in forming their consolidation determinations.

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[3] Report and Recommendations Pursuant to Section 401(c) of the Sarbanes-Oxley Act of 2002 On Arrangements with Off-Balance Sheet Implications, Special Purpose Entities, and Transparency of Filings by Issuers, available at http://sec.gov/news/studies/soxoffbalancerpt.pdf.

[4] Study Pursuant to Section 108(d) of the Sarbanes-Oxley Act of 2002 on the Adoption by the United States Financial Reporting System of a Principles-Based Accounting System, available at http://www.sec.gov/news/studies/principlesbasedstand.htm.

These new standards should enhance financial reporting transparency. However, Commission staff will be continually monitoring their effectiveness. This includes not only guarding against attempts to circumvent the new model, but also relaying to the FASB, based on our experience with the resulting reporting, further refinements that may be needed.

There also has been discussion of the effect these changes may have on lending institutions. In the United States, we have historically separated the functions of securities regulation and prudential regulation, as the two types of regulation serve complementary but distinct purposes. Prudential regulation is focused on the safety and soundness of individual institutions and the financial system, while securities regulation is focused on protecting investors and maintaining fair and orderly markets, which includes providing transparent, decision-useful information to protect the investors who participate in the capital markets.

Prudential regulators use the results of general purpose financial reporting as a base for evaluating prudential requirements, such as regulatory capital requirements. The Commission does the same with respect to calculating net capital requirements for registered broker-dealers. However, there are instances in which the prudential banking regulators have determined that adjustments should be made to U.S. GAAP accounting results for regulatory capital purposes, thereby reflecting the potentially important differences between the objectives of U.S. GAAP reporting and the objectives of regulatory capital requirements.

Given the use of accounting standards by prudential regulators, we engage in regular and meaningful dialogue, interaction, and consultation with banking regulators. In the instance of the FASB's new accounting requirements on off-balance sheet accounting, the bank regulatory agencies stated in their recent rulemaking that they believe the effects of these new accounting requirements on banking organizations' risk-based capital ratios will result in regulatory capital requirements that better reflect, in many cases, banking organizations' exposure to credit risk. In this instance, therefore, they have determined not to provide an adjustment, but rather an additional short transition period.

Global Accounting Standards

Another area that has required attention is the Commission's continued consideration of global accounting standards and the continued support of converging U.S. GAAP and International Financial Reporting Standards (IFRS).

Over three decades ago, the Commission outlined the conceptual benefits of a single set of high quality globally accepted accounting standards. These benefits included reduced country-by-country disparity in financial reporting and potentially improved financial reporting within the United States. It could facilitate cross-border capital formation, while also providing investors with the comparable and material information they need to make informed investment decisions.

The Commission also has noted potential challenges in working toward a single set of high quality globally accepted accounting standards. It is true that successfully transforming the concept of such standards into reality involves many important considerations, including not only confidence in the standards themselves, but also confidence in the institutions that make up the financial reporting framework, the long term prospects of these institutions, and the actual uniformity in application of globally accepted standards.

The Commission has engaged in significant efforts to facilitate the development of a single set of high quality globally accepted accounting standards. These efforts are reaching a critical stage. In February, the Commission directed my office to execute a public work plan to evaluate the specific areas and factors relevant to a Commission consideration of:

- "whether to incorporate IFRS into the financial reporting system for U.S. issuers;" and

- "transitional considerations that will enable the Staff to better evaluate the scope of, timing of, and approach to changes that would be necessary to effectively incorporate IFRS into the financial reporting system for U.S. issuers, should the Commission determine in the future to do so."

Incorporation of IFRS into the U.S. financial reporting system would be a significant event for our capital markets, and we received more than 200 comment letters to the Commission's first proposal on this topic, the "Proposed Roadmap," in 2008. Commenters overall supported the long-term goal, but many also clearly expressed views that more thought, study, and time was needed. Accordingly, we developed the work plan to provide action steps to address commenter concerns.

Specifically, the work plan will study the following areas of concern:

i. Sufficient development and application of IFRS for the U.S. domestic reporting system, including enforceability and auditability of the standards, as well as comparability of IFRS reporting across jurisdictions;
ii. The independence of international accounting standard-setting for the benefit of investors;
iii. Investor understanding and education regarding IFRS;
iv. Examination of the U.S. regulatory environment that would be affected by a change in accounting standards;
v. The impact on issuers, both large and small, including changes to accounting systems, changes to contractual arrangements, corporate governance considerations, and litigation contingencies; and
vi. Human capital readiness.

Execution of the work plan will involve significant resources throughout the agency. We are fully engaged in this effort and are proceeding with open minds as to the

Commission's ultimate decision. Indeed, the Commission and the public expect a rigorous review of the issues presented.

In executing this work plan, we will gather information using a variety of methods, including seeking input from U.S. investors, issuers, auditors, and other constituents, evaluating the filings of foreign private issuers that assert compliance with IFRS in their filings with the Commission, and researching the experiences of other jurisdictions that have incorporated IFRS into their financial reporting systems. As we move forward, we are committed to providing public progress reports beginning no later than October 2010 and frequently thereafter until the work is complete.

As noted in the Commission's statement, we anticipate that, following successful completion of the work plan and the FASB-IASB convergence projects according to their current work plan, the Commission will be in a position in 2011 to determine whether and how to incorporate IFRS into the U.S. financial reporting system for U.S. issuers. As part of the work plan, we also will evaluate the time needed, if the Commission were to determine further action, to effectively incorporate IFRS. Of course, consideration of investor needs and protection will be paramount throughout the staff's execution of the work plan, and any eventual recommendation will only be made if it is in the best interest of U.S. investors.

The Commission also noted that the FASB will continue to play a critical and substantive role in achieving the goal of a single set of global accounting standards, and that role would continue even after any incorporation of IFRS. This is consistent with the approach of many developed countries of maintaining a national standard setter or other mechanisms in connection with the incorporation of IFRS into their capital markets.

Convergence

As noted above, a critical component of the evaluation of the use of global accounting standards in the U.S. capital markets is the convergence project between the FASB and the IASB. This effort demonstrates that the United States is willing to consider direct changes to our accounting standards in conjunction with the IASB in areas where both sets of standards are in need of improvement.

The recent financial crisis has highlighted the importance of developing, implementing, and enforcing high quality and consistent accounting standards around the world. The FASB and the IASB have also been committed for many years to improve accounting standards through their convergence efforts. These efforts have been based on the following fundamental principles:

- Achieve convergence by developing high quality, common standards over time;
- Develop new standards to improve reporting to investors instead of eliminating differences between standards in need of improvement; and
- Serve the needs of investors by replacing weaker standards with stronger ones.

In November 2009, the Boards reaffirmed their commitment to improve both IFRS and U.S. GAAP and to bring about convergence. It is important for the FASB to continue to work closely with the IASB to raise the quality of financial reporting standards in the United States and around the world. Efforts are already underway involving monthly joint meetings of the Boards and quarterly progress reports on convergence efforts.

The FASB-IASB convergence projects currently include the accounting requirements for the following:

- *Financial instruments, including the role of fair value for such instruments.* While a highly controversial topic, the existing standards have been criticized for being overly complex and not sufficiently informative.
- *Revenue recognition.* This is an area of financial reporting that has been historically susceptible to fraud. U.S. GAAP consists of numerous pieces of literature often focused on individual industries or arrangements developed over time, while guidance under IFRS may not provide users with sufficient specificity to implement the standard without significant diversity.
- *Leases.* Previous SEC staff and other studies have noted the need for improvement in existing U.S. GAAP. The two Boards are looking at an approach that will require all assets and liabilities from lease contracts to be recognized on the balance sheet.
- *Debt vs. Equity.* The Boards are grappling with a long-standing struggle in financial reporting as to the appropriate characterization of complex instruments on the balance sheet.
- *Financial statement presentation.* The Boards are working together on whether improvements are needed to the existing structure and presentation of financial statements.

The target for the Boards' joint projects is aggressive, reflecting a commitment on both sides to bring about improvements to financial reporting in the United States and abroad. While both Boards share the same mission, they may not agree on every detail of a standard. Although reasonable differences of opinion may exist, we will continue to encourage the two Boards to work closely together. Timing for completion of individual projects may shift as the Boards seek to ensure that their respective and collaborative procedures are rigorous. Standard-setting, like rulemaking by the Commission or legislation by Congress, demands a continual balancing of expedience and thorough analysis. However, the ultimate goal is improved, sustainable standards for investors.

Interactive Data

As part of the ongoing evolution and enhancement of the Commission's disclosure program, the Commission has been implementing the use of interactive data for filings on the EDGAR system. In early 2009, the Commission published three final rules requiring electronic "tagging" of certain disclosure information for operating companies, mutual funds, and credit rating agencies against a standardized list of tags. As evidenced in recent rule proposals for money market funds and asset-backed securities, among others, the Commission continues to move toward a more comprehensive use of interactive data in its disclosure system in service of users of disclosure data.

The interactive data rules for operating companies require the submission of financial statements and notes to the financial statements in a format called XBRL. The rules are being phased in over three years based on company size, and companies also have a phase in to move to full detail tagging for the notes to the financial statements. To date, approximately 500 companies have submitted over 1,500 sets of XBRL-encoded financial statements to the Commission's EDGAR system.

Additional companies will begin complying with the rules in June 2010, with the remainder beginning to comply in June 2011. Based on initial assessments by the Commission staff, the program is operating effectively, and companies have provided high quality submissions.

The FASB, along with its parent organization the Financial Accounting Foundation, has the responsibility for updating the financial statement taxonomy to ensure the taxonomy accurately reflects current accounting standards and practices. The XBRL list of tags has already been integrated into the FASB's Accounting Standards Codification, making it possible to navigate from financial statements filed with the Commission to the underlying accounting standards, or to navigate from an accounting standard to where it has been applied in practice. The integration of the list of tags into the Codification also will enable the FASB, SEC, and others to better monitor how standards are being applied in practice.

In addition to providing direct investor access to the XBRL-tagged data, the Commission staff seeks to apply the benefits of interactive data internally to serve the Commission's mission of protecting investors.

Auditing

An audit by an independent public accountant is critical to investor confidence and the functioning of our capital markets, and it can be one of the most effective deterrents to fraud. Moreover, an independent audit also has long been associated with more accurate reporting. The formation of the PCAOB resulted from the reforms enacted by Congress in the Sarbanes-Oxley Act following the revelation of multiple instances of accounting fraud at prominent public companies, including Enron. The enhanced oversight of the auditing profession has provided tangible benefits to the quality of financial reporting and the protection of investors. The recent financial crisis has once again highlighted both the importance of, and the challenges faced by, those in the auditing profession. There are a number of challenges facing the PCAOB, including a challenge to its constitutionality, difficulties with inspections in foreign jurisdictions, the need for oversight over auditors of broker-dealers, and questions regarding the benefits of Section 404 of the Sarbanes-Oxley Act.

Constitutional Challenge

As you know, a challenge to the PCAOB's constitutionality is currently pending before the U.S. Supreme Court (the Court). We have supported the PCAOB and agree that the claims are without merit due to the Commission's comprehensive oversight over the PCAOB. Hopefully, the Court will uphold the constitutionality of the PCAOB so that the work of improving audit quality continues unabated. However, the Commission stands ready to issue any interpretive guidance that may be necessary to provide continuity and minimize any disruption in the U.S. capital markets. If Congressional action is determined to be necessary after the Court's decision, we will promptly provide technical assistance so that any needed legislative changes may be considered as quickly as possible.

PCAOB International Inspections

When the Sarbanes-Oxley Act created the PCAOB, there were very few countries with similar auditor oversight bodies. Since that time, many countries have established PCAOB-like auditor oversight systems to inspect public accounting firms. The PCAOB's inspection program includes inspections of non-U.S. registered public accounting firms, but one of the more significant challenges facing the PCAOB is gaining access to certain non-U.S. public accounting firms and their audit work papers in order to perform inspections required by the Act. Access to non-U.S. firms and their audit work papers, particularly in the European Union, Switzerland, and China, has been hindered due to the PCAOB's lack of explicit legal authority to share information with its foreign counterparts and other issues related to the coordination of inspections with local authorities and the resolution of potential conflicts of law. As a result, the PCAOB has not been able to perform many of the required inspections of registered firms in those jurisdictions.

The PCAOB and the Commission share a belief that investors would benefit if the PCAOB were to obtain the ability to share information with its foreign counterparts. This information sharing would enhance the Board's ability to effectively oversee firms that audit multi-national public companies. I would like to thank Chairman Kanjorski and this Subcommittee for their leadership in including language in the House version of the regulatory reform bill that would allow the PCAOB to share certain information with audit regulators in other jurisdictions. In the meantime, the Commission will continue to work with the PCAOB and its foreign counterparts to evaluate whether an interim approach to information sharing can be developed pending a permanent legislative solution

PCAOB Oversight of Auditors of Broker-Dealers

An audit performed by a qualified independent public accountant is a powerful component of investor confidence and compliance. Broker-dealer audits have objectives beyond the financial statements that are critical to investor protection, even if these metrics are not directly apparent on the face of the balance sheet or income statement.

For example, an audit could reveal whether the broker-dealer satisfies Commission financial responsibility requirements, such as requirements relating to possession or control of securities and the segregation of customer cash.

It is important that audits of all broker-dealers be conducted by an auditor subject to the oversight regime of the PCAOB. Recent events, including highly publicized accounts of the role of broker-dealer auditors, have highlighted the need for this level of oversight. Clarifying the PCAOB's oversight authority with respect to auditors who perform audits of broker-dealers will improve the quality of broker-dealer audits and strengthen both investor protection and broker-dealer compliance.

The Board's current inspection program takes into account the size and complexity of each issuer when determining the scope of the inspection, and it will be capable of implementing a program for auditors of broker-dealers of varying size and complexity. This inclusion of a provision to clarify the PCAOB's oversight of auditors of all brokers and dealers is a significant improvement and this Subcommittee is to be commended for its leadership on this issue.

The Importance of Effective Internal Control over Financial Reporting

Since the enactment of the Sarbanes-Oxley Act, the Commission and the PCAOB have been committed to a Section 404 process that is both effective and efficient. To ensure confidence and accuracy in the resulting reporting, a company's books and records and internal controls need to be designed and operating effectively. This has been a staple of the federal securities laws since the Foreign Corrupt Practices Act of 1977. One of the objectives of Section 404 was to have companies publicly report on, and an auditor to attest to, the effectiveness of those controls.

Since 2004, filers with a public float greater than $75 million, representing a little over 50 percent of all public companies, have been required to include both a management's assessment of the effectiveness of its internal control over financial reporting and an auditor's independent opinion on such effectiveness. Since 2007, non-accelerated filers – generally those with a public float of less than $75 million – have been required to include only the management assessment. Under current Commission rules, and after significant reform and study, non-accelerated filers will be required to include an auditor's opinion on internal control over financial reporting in annual reports for fiscal years ending on or after June 15, 2010.

Conclusion

One of the most significant lessons from the recent financial crises was the same one that led to the philosophy of this country's commitment to securities regulation over 75 years ago. That is, when pressures are highest, and investor confidence has the greatest potential to be shaken by uncertainty, the importance of transparent, objectively audited financial reporting to investors, and an independent and objective system to establish standards for such reporting, are necessary and critical components to both short term and long term success.