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Remarks of Gregory J. Anton, CPA
Chairman of the Board of Directors, AICPA

ONE WORLD

Good morning. Welcome to the 39th National Conference on Current SEC and PCAOB Developments. It's my pleasure to be here with you this morning in Washington, via satellite with those watching in Chicago, Dallas, New York and San Francisco and online with those participating virtually.

It's interesting being on this side of the conference, having been an attendee from 1999 through 2009. I know from personal experience that the information you'll hear over these three days is important, useful, and in many instances, unique. This conference inspired me many years ago to become an instructor in SEC reporting. Teaching continuing education marked the beginning of my professional involvement with the AICPA, which ultimately led me to where I am standing today.

Let me open this event by thanking the people who have worked so hard to put it together, particularly the AICPA staff and this year's conference chair, Christine Davine, a partner with Deloitte & Touche, and the others who were on the planning committee. In light of the many serious issues our country continues to face, almost all of us in this room are thinking every day about fluid regulatory issues in financial reporting and auditing. During this conference, experts from the SEC, the PCAOB and the AICPA will present the most up-to-date information about regulatory changes and issues. We also will hear about specific initiatives, such as the FASB's and IASB's convergence projects.

For my part, I'd like to briefly explain the AICPA's point of view on some of the critical issues facing us, most of them having to do with the ongoing globalization of business. Accounting is the language of business; the lack of borders in business is having a great impact on accounting. Many of the accounting issues we face today relate to how CPAs, companies and investors can efficiently navigate through the differences in standards and filing rules that still exist among different countries.

So much has happened the past three years in the economic environment that it feels as if we've been living as one world for a long time. But we really haven't. It's only been six years since Thomas Friedman told us the world is flat, and only ten years since the movement began in earnest in this country to harmonize U.S. GAAP with IFRS.

One interconnected world did not happen in a vacuum, of course. The Internet has revolutionized the speed in which information can be communicated. Technology also enabled the globalization of information through XBRL, or eXtensible Business Reporting Language. With the completion of a three-year phase-in period that began in June 2009, the SEC now requires all U.S. public companies to file their financial information using XBRL. Most of Europe and Asia now rely on it too. I proudly mention that it all began with a U.S. CPA who approached the AICPA for support and development. Seeing XBRL's value and benefits for investors and other consumers of business reporting, we gladly championed the technology.

The most prominent international issue on all our minds, of course, relates to the SEC's pending decision on the possible use of IFRS in the U.S. for domestic public companies. During the past few years, there has been a growing consensus around the world, including in the United States, that a single set of high-quality financial reporting standards for use by listed entities around the globe would be beneficial. That's a goal the AICPA has long supported, and one which the SEC embraced in its five-year strategic plan.

More than 120 countries, including Canada, Mexico, Brazil, India and all of the European Union, now use or are about to use IFRS for the preparation of financial statements by publicly held companies. Japan has been moving toward IFRS use and is expected to make an announcement next year. In fact, several major economies are looking to see what happens here regarding IFRS before making their own decisions.

IFRS is already an accepted financial reporting system in the United States. I find it telling that the AICPA's volunteer chairmen over the last four years all say that, without exception, they use IFRS in one way or another in the course of their practice or employment. And we cover a diverse group: a state auditor general, a litigation expert, a banker and now a partner in a midsized CPA firm in Denver.

While most of us may agree that having a single set of high-quality financial reporting standards is desirable, the question remains, how do we get there? In May of this year the SEC issued a staff paper suggesting a concept that would redefine convergence and reaffirm FASB as the endorsement body for IFRS in the United States. We agree with a lot of what is in the SEC's work plan. We recognize the political realities of an endorsement approach, and it makes sense for the FASB to be the U.S. standard setter that will facilitate the incorporation of IFRS into U.S. GAAP.

A few practical challenges, however, must be addressed. For example, the SEC staff paper suggests that the SEC and FASB would have the ability to modify or supplement IFRS, subject to an established protocol. We hope the threshold for modifications to IFRS is set high so that, as stated in the work plan, they would occur only rarely. The goal, as the SEC staff articulates, should be an opinion on both U.S. GAAP and IFRS. Without that high bar, it will be difficult to achieve.

We’ve also recommended an endorsement process that would incorporate specific standards at one point in time, with a date certain for adoption to avoid hardship on smaller issuers. And, we’re gratified that the SEC says it would give companies at least four years to comply if IFRS were mandated.

One final thought about the SEC work plan. Harmonizing U.S. GAAP and IFRS is obviously still going to take a number of years, but we think there is action the SEC can take now to level the playing field between U.S. and foreign private issuers. The SEC currently allows foreign companies raising capital in the U.S. to file financial statements using IFRS without reconciliation to U.S. GAAP. We’ve suggested to the SEC that, as they consider a framework for incorporating IFRS into the U.S. financial reporting system, they also consider allowing U.S. companies the option of using IFRS immediately. This would be an effective way for U.S. companies, if they choose, to present their financial statements on the same basis as their foreign counterparts. It would also open a window to see what the world would look like if the U.S. joins much of the rest of the world by using a converged or endorsed IFRS, rather than exclusively U.S. GAAP.

Now let us look at the auditing side of financial reporting and how it is affected by a one world philosophy. The AICPA’s Auditing Standards Board is nearing the end of the process to converge U.S. generally accepted auditing standards with International Standards on Auditing, which are issued by the International Auditing and Assurance Standards Board. These standards, most of which have been issued although they are not yet effective, used the ISA as a base upon which essential changes for the U.S. were made. As part of this process, the standards have been redrafted to improve auditors’ understanding of them and to enhance audit quality.

While many of the international standards are being used as the foundation of the converged standards, the ASB takes very seriously its responsibility to retain the final decision about auditing, attestation and quality control standards for nonpublic entities so that they continue to inspire public trust here in the United States. The process used for auditing standards is similar to the “condorsement” approach the SEC is contemplating for accounting standards as it relates to the FASB’s possible role in IFRS. So, incorporating international standards into our domestic standard setting is not an entirely new paradigm.

I'd like to make one last point about auditing standards. The AICPA would like to see full convergence of auditing standards and that means we encourage the PCAOB to consider a similar harmonization project for public company audits.

The AICPA's Professional Ethics Executive Committee has a clarity project similar to the ASB's. The committee is in the process of codifying the Code of Professional Conduct as well as converging it with international standards. The primary objective of the project is to enhance compliance with the Code of Conduct by making it topical and easier to use. Similar to the FASB's Accounting Standards Codification effort, the relevant ethics literature will be put into a logically structured, topical format and redrafted using consistent wording. We also want to make certain it covers all foreseeable situations in today's complex global environment.

I would be remiss if I did not mention the great work of the Center for Audit Quality. Cindy Fornelli, the CAQ's Executive Director, will be speaking next and highlighting the CAQ's efforts on investor education, its anti-fraud initiative and its activities related to the evolving role of the public company auditor. I'll leave it to Cindy to tell you much more about the CAQ's endeavors in a few minutes.

Speaking of audits and the auditor’s role, I want to briefly discuss the European Commission’s recent proposal on audit regulation. We support changes that enhance audit quality. However, we are concerned that the proposal could hurt, not help, audit quality. And, we do not see evidence or support linking the proposal to a problem.

For example, the proposal suggests mandatory audit firm rotation to bolster auditor objectivity, yet there has been a significant amount of research indicating that mandatory audit firm rotation increases the propensity for fraud, an unintended consequence. The PCAOB has issued for public comment a concept release with a similar proposal on audit firm rotation.

We caution the EU member states and the European Parliament – as well as the PCAOB – to carefully consider the consequences of such proposals and focus on proven solutions to enhanced transparency, increased objectivity and improved audit quality.

In our increasingly borderless world, the AICPA also supports mutual recognition agreements that recognize the license and certification of accounting professionals around the world. In the U.S., this is done by the International Qualifications Appraisal Board, a joint body of the AICPA and the National Association of State Boards of Accountancy. We now have multilateral agreements with Mexico, Canada, Australia, Ireland, Hong Kong and New Zealand.

We also believe mutual recognition agreements among regulators are critical to facilitate cross-border mobility and applaud the PCAOB's policy of, in certain situations, relying on inspection or enforcement work performed by a home-country regulator. We support PCAOB inspections in other countries, most recently Israel and Taiwan, and commend the board for its persistence in trying to reach an agreement with China.

A strong international element also exists in the work of the International Integrated Reporting Committee to create an evolving, more comprehensive framework for investor information. The AICPA has been an early and strong supporter of efforts to create a globally accepted framework for accounting for sustainability and other non-financial factors. A number of external pressures are pushing companies toward greater engagement with these efforts. They include new regulations, stakeholder and shareholder requests for transparency, and a push for cost reductions through greater operating efficiencies. CPAs can add value to companies by providing services related to the development of sustainable business strategies. Auditors can play an important role in ensuring the reliability of the information companies are reporting in these areas.

Finally, in an effort to elevate the profession of management accounting and reinforce the reputation of the CPA on a worldwide basis, the AICPA has entered into a joint venture with the London-based Chartered Institute of Management Accountants, which operates in 168 countries. The joint venture will leverage the collective power of more than 550,000 members and students to further advance, promote and support management accountants. The alliance will increase advocacy on behalf of the management accounting profession and in the public interest, and ensure a more powerful voice in the global marketplace for the combined AICPA and CIMA memberships. Management accountants and public accountants share responsibility for the transparent financials upon which the markets rely.

In January, the joint venture will launch a new, global designation named CGMA, or Chartered Global Management Accountant. The CGMA aims to deliver opportunity, domestically and globally, to professionals and students and to encourage employers around the world to turn to CGMAs to guide critical business decisions and drive strong business performance.

In closing, I would again like to thank the impressive lineup of speakers and panel members who are about to share their thoughts with us. And while I've focused mostly on international issues today, I want to add that our country obviously faces serious financial issues here at home. But for 125 years the accounting profession has successfully tackled change, and we’re ready to once again use our problem-solving abilities to help come up with innovative, effective solutions for the future.

Thank you very much and enjoy the conference.