

Financial Reporting: A View from the SEC's Chief Accountant
September 1, 2021

Jane Cobb:

Hello, and welcome everyone. My name is Jane Cobb. I'm executive director of the SEC Historical Society. We are a nonprofit organization, dedicated to preserving and sharing the history of the US securities markets. Our museum's numerous programs, oral histories, themed galleries, photos and other items are available to the public in our virtual museum at sechistorical.org.

Jane Cobb:

The webcast we're preserving today is the centerpiece of an exhibit called *Financial Reporting: A View from the SEC's Chief Accountant*. The exhibit is part of a larger gallery being curated by Dave Lynn on the history of the regulation of corporate disclosure.

Jane Cobb:

Dave, who's moderating today's program, is a partner at Morrison & Foerster and from 2003 to 2007, served as chief counsel in the SEC's Division of Corporation Finance. Dave recently served on the Society's Board of Trustees as President and Chairman, and he remains a staunch and loyal supporter of our mission.

Jane Cobb:

I want to thank you, Dave, for your incredible efforts related to curating this exhibit and the overall gallery. Dave is going to provide further introductions for our panelists, but I want to welcome our other guests: Paul Beswick, Joe Ucuzoglu, and Paul Munter.

Jane Cobb:

Like Dave, Joe was a Trustee on the Society's board. Joe, I want to thank you for your prior service and your continued support. Thanks to each of you for agreeing to help with this project and for taking time to prepare for what I expect will be a very informative discussion. With that, Dave, I'll turn it to you.

Dave Lynn:

Great. And thank you, Jane, for that introduction. And thank you to the SEC Historical Society for providing this opportunity to have this webcast focused on the SEC's Office of Chief Accountant and the role that it plays in the regulation of corporate disclosure.

Dave Lynn:

In this webcast, we're going to provide some perspectives on serving in the Office of Chief Accountant, which we'll sometimes refer to as OCA, I'm sure, and serving at the SEC in the world of accounting and financial reporting, and we'll talk about the vital role that the office plays in regulating financial reporting and accounting standards and auditor independence.

Dave Lynn:

And for this purpose, I couldn't think of a better group to talk to. I'm very pleased to be joined by the panel today. Joe Ucuzoglu is chief executive officer of Deloitte US. Previously, Joe served as the leader of Deloitte's audit and assurance practice in the United States. He also served as national managing partner for government, regulatory, and professional matters. He served as a senior advisor to the chief accountant at the Securities and Exchange Commission, and Joe received his BS degree in accounting from the University of Southern California.

Dave Lynn:

I'm pleased that we're joined today by Paul Munter, who's serving now as the Acting Chief Accountant of the SEC. And he's been in that role since February of this year. Since 2019, Paul served as Deputy Chief Accountant, leading the work with SEC's Chief Accountant's office in the international sector. And from 2002 to 2003, Paul was an academic accounting fellow at the SEC. Paul was in practice at KPMG, where he served as lead technical partner within the realm of international accounting and auditing activities, and also established positions of the firm on the application of IFRS. Paul has also done a stint in academia, serving on the faculty at The University of Miami, Texas Tech University, and The University of Colorado. Paul earned his PhD in accounting from the University of Colorado and received BS and MS degrees from Fresno State University.

Dave Lynn:

And Paul Beswick, I'm really happy that Paul's able to join us today. Paul is the EY Americas Deputy Chief Accountant and IFRS leader. He served as chief accountant of the Securities and Exchange Commission from 2012 to 2014. Paul joined the SEC staff in 2007. He served as a senior advisor to the chief accountant, and he also served in the role of deputy chief accountant, both dealing with OCA's accounting group, as well as with the professional practice group. Before joining the staff, Paul was a partner with Ernst & Young LLP. He worked in the firm's professional practice and risk management group. He also served as a practice fellow at the Financial Accounting Standards Board, and Paul's a graduate of Miami University, Oxford OH. Thank you all very much for joining us today.

Dave Lynn:

The first thing I wanted to touch on is really to understand how each of you came to work at the SEC and become a part of OCA because I think many people are often interested in how they can work in an organization like the SEC, and how OCA may attract and bring in talent over the years. Maybe Joe, we could start with you to talk about your experience with OCA.

Joe Ucuzoglu:

I'd love to. And first off, let me just say what a privilege it is to be a part of this esteemed panel. I had the opportunity to participate in the Professional Accounting Fellow Program, which I believe traces its roots all the way back to the 1970s, and was an unbelievable opportunity early in my career to sort of be at the forefront of some of the big issues in the accounting profession, the big disclosure topics that companies and audit firms were wrestling with, the chance to work alongside the incredibly dedicated public servants of the Commission.

Joe Ucuzoglu:

And frankly, to this day, even in my current role, leading Deloitte, many of the foundational experiences from my couple of years at the Commission and the public interest mindset that was instilled in me early on, continue to be incredibly important to everything I do. I look back fondly as two of the most meaningful years of my career.

Dave Lynn:

That's great. Paul Beswick, how about you, what brought you to OCA originally?

Paul Beswick:

So, as you mentioned in my background, I was a FASB fellow. And as I was going through that process, I learned a lot while I was at the FASB. And one of the things that I had the opportunity to do was work directly with the Office of the Chief Accountant on standard setting issues and got to know people like Joe. And when Joe had decided to leave the SEC, the Chief Accountant at the time, Conrad Hewitt, was looking for another Senior Advisor. And it was an opportunity for me to increase my knowledge and serve the public interest and come down to OCA and work as the senior advisor.

Dave Lynn:

That's great. And Paul Beswick, you got to do a couple of tours now through the Office of the Chief Accountant, both as an Academic Accounting Fellow and then later as Deputy Chief Accountant and as Acting Chief Accountant. What brought you in the first time and what brought you back the second time?

Paul Munter:

Yeah. Thanks. Paul Munter. You're going to confuse Paul Beswick and I, I'm sure, another time. Yeah, but no worries. As your introduction indicated, my career path is a little non-traditional for somebody to have ended up in the seat I'm in now. And so my experiences with OCA really began about 25 years ago, when I was still an academic at The University of Miami. And I was asked to come in and do a series of trainings for the staff of OCA on new accounting standards that were going on in the mid-1990s. And I did that for about four years, coming in two or three times a year to provide training for the staff. Obviously, I got to know many of the professionals in OCA through that process. And then, as you said, I had an opportunity to come in as an Academic Fellow.

Paul Munter:

It worked out that I was eligible for sabbatical at the university I was attending at the moment, the University of Miami, so I joined OCA as an Academic Fellow. I came in during Sarbanes-Oxley, Dave. My first day was actually the day after Sarbanes-Oxley was signed. I just had an incredible experience of about a year and a half dealing with a lot of the things that were going on in the aftermath of Sarbanes-Oxley, including obviously the starting of the PCAOB and the oversight of it. The IASB was just in its formative days there. So, I had a lot of interaction with them, which then led me in my role at KPMG to end up doing a lot of international stuff.

Paul Munter:

I retired from KPMG, and was just kind of happily back in academics teaching at the University of Colorado, and got a call that the Deputy position over international activities was coming open, and

would I have an interest in it? And it took me about two thirds of a second to say, "Yeah, of course I would." And so that's what brought me back, and I have been fortunate to now step into the role of the Acting Chief Accountant.

Dave Lynn:

Great.

Paul Beswick:

I think one of the things that's neat is that we've got three different people here, and each of them sort of found their way to the SEC in a different way, and I don't think that's uncommon when I look at other people who worked in OCA. One of the things that's important and that I've always appreciated is the sense of public service that people have adopted when they've gone to OCA. I think that's something that people that do go work in the Office of the Chief Accountant, have a strong passion about -- public service and giving back to the capital markets.

Dave Lynn:

Yeah. I think it's a great testament to the work that OCA does, that it attracts people with such a high caliber and high skill level and folks at the top of their profession who come in and want to be a part of the regulatory process. That was always my experience working with folks from OCA, from the Division of Corporation Finance.

Dave Lynn:

I guess one thing that is also interesting, as I've gone through this project of looking back at the development of OCA over the life of the SEC, is just how much bigger and different OCA is today than it was back in the '40s or '50s. And just how much of a more central role it plays in a lot of the regulatory issues that come up. Paul Munter, perhaps since you had the experience of being there in the early 2000s, and now being back again in the 2020s, how has it changed, and how is OCA structured today as compared to in the past?

Paul Munter:

I think if you go back, and Sarbanes-Oxley is probably a pretty good point of demarcation. There was some evolution in OCA as you go through the 30s, 40s, 50s, 60s, 70s, et cetera. Joe mentioned that the '70s is when the Professional Accounting Fellow program began, which was, I think a very important landmark for OCA, because that is where the really important melding of new talent coming in and bringing in practice experience came from and continues today but combines with the legacy experience and talent that is there for the staff that are there on a longer term basis.

Paul Munter:

So, I think that was an important point in the development of OCA. But it remained pretty flat in terms of its organizational structure. You had the Chief Accountant and then you have the staff for the most part during that period, until you get up to about the point of Sarbanes-Oxley. Shortly before that, a Deputy Chief Accountant role was established in about 2000.

Paul Munter:

And then when you have Sarbanes-Oxley come in and the creation of the PCAOB, a second Deputy was established. So, there's an accounting group that does most of the oversight with respect to the FASB and accounting standard setting, and a professional practice group that does the oversight with respect to the PCAOB and the audit side of the house, was created.

Paul Munter:

So, it took on a bit more of a hierarchical structure from that point, and obviously had to grow quite a bit with the expansion of the responsibilities of OCA with oversight of the PCAOB in related activities. And then the other addition, which is not too much after that, but years later is expansion in the international field. Paul was there as the work of the IASB was going on and permission for foreign private issuers to begin using IFRS. So that's another fairly important landmark in the development of OCA's responsibilities and mission in the creation of the international group. So that now we're an office of roughly 45 people. It's still a small office within the context of the Commission.

Paul Munter:

Dave, you came out of Corp. Fin., which of course is several hundred people in the Division. So, we're a small office. But we touch a lot of different aspects of what goes on in the Commission. And as you noted a moment ago, we engage very regularly with Division of Corporation Finance, of Investment Management, the Division of Trading and Markets, and the Division of Enforcement on matters with respect to accounting, auditing, independence, internal control.

Dave Lynn:

Yes. One of the things that we have collected quite a lot of in the virtual museum and archive at the SEC Historical Society is speeches from Chief Accountants and staff of the Office of the Chief Accountant. And I think that is one of the things that I think I've appreciated from doing this project, is just how important the outbound communications, the sort of outreach that comes out of that office. And I'd be interested in everyone's viewpoints on how that communication takes place and the role that plays in the professional practice and how people operate as a result of the guidance they can get from OCA.

Paul Beswick:

Well, I think ... Go ahead, Joe.

Joe Ucuzoglu:

I'll share a few perspectives, Dave. Paul articulated some of the things that have evolved over the years, but it's also worth noting the bedrock that hasn't changed. And that is the fundamental purpose of why you even have an OCA. And I think it really goes back to the underpinnings of the financial reporting disclosure system, where you have companies that are engaged in incredibly complex economic activity. And you're trying to distill all of that into a two-dimensional portrayal, a balance sheet as of a point in time, an income statement and a cash flow statement relative to what's taken place over the past quarter or year. And you have a set of accounting standards that governs the rules under which you take all that economic activity and distill it into the two-dimensional portrayal, but there's so much that's changing in the corporate world. There's so much complexity.

Joe Ucuzoglu:

The rules have a hard time of keeping up, and they certainly don't encompass every nuance and every permutation. And that's why you have to have an OCA within the regulator, a group of deep experts

who can sit at the intersection of the registrants preparing the financial information, the standard setters putting out the rules, the auditors independently attesting to those financial statements, to be able to look at some of the more complex fact patterns and, on a timely basis, to give interpretations, to share thoughts on issues that are evolving to make sure guidance is out there on a timely basis. And that's persisted through the decades.

Joe Ucuzoglu:

And one of the ways that OCA has tried to be helpful to the broader financial reporting ecosystem is to get thoughts out there that are helpful to those who are trying to do the right thing and trying to put together financial information in a really complicated world. And speeches are one mechanism to do that.

Joe Ucuzoglu:

Now over the years, there has been a tension between on the one hand, you want to get information in the hands of preparers and auditors. On the other hand, you don't want speeches to become a *de facto* rulemaking that doesn't go through due process. And there's probably been periods in the Commission's history where some might've suggested that it veered a little too far in that direction.

Joe Ucuzoglu:

I actually think over the last couple of decades, that the Office of the Chief Accountant has done a beautiful job of balancing those competing objectives and putting out helpful thoughts that enable those responsible in the financial reporting ecosystem for preparing and auditing this information without turning it into each individual creating their own new set of rules without due process.

Dave Lynn:

Great. Thanks very much for that, Joe. I guess I'd be interested in hearing the perspectives of how others perceive OCA and how OCA sort of fits within the sources of information and as a body to be consulted and to be perhaps feared in some cases when you're in the community. And Paul Beswick, obviously you've had time at FASB and in accounting firms, and I'd be interested certainly in your perspectives on sort of the perception of OCA's role and how that working relationship works with other participants.

Paul Beswick:

So, as I look back on my time in the seven years I spent there, and when, as you said, I was at the FASB and then sort of post-SEC time, I think that over that period of time and longer, there has generally been a very positive view of OCA. I think people look to OCA to help lead the accounting profession and really do look to the Office of the Chief Accountant to sort of set the tone, if you will, in terms of accounting standards.

Paul Beswick:

That doesn't mean that everything that OCA has ever done, people have loved. Obviously, you could find bumps in the road, if you will. But generally, I would say people are very positive about OCA. And when you look not only within the Commission, but if you look outside the Commission in other parts of the government, those organizations also look to OCA for accounting advice. And so I think about my time in the Office of the Chief Accountant, we would have regular meetings with bank regulators, where they would really look to us on complex accounting matters that they were dealing with. And so it really is at

the center of the accounting profession. And it's something that people really do look to in terms of setting the tone and the guidance on how to proceed.

Joe Ucuzoglu:

And one of the reasons why I do think OCA is so highly respected is there has been a consistent tone of welcoming engagement. In fact, I know over the years, there's been guidance and instructions on the website, and I'm not sure what the current language is, but it's generally said something to the effect of, "Please feel free to consult."

Joe Ucuzoglu:

And what underpins that is a recognition that you actually get higher quality information in the hands of investors when professionals in the private sector, those who work for companies, those who work for audit firms, are coming forward proactively, sharing what they're seeing, asking for the Commission's guidance through OCA.

Joe Ucuzoglu:

Again, not that OCA is always going to necessarily agree with the perspective that's put forward. OCA has a regulatory responsibility to sit back objectively and ultimately to make a call on behalf of the investing public as to the particular interpretation that's going to be most useful to investors, but there's a universal recognition that OCA wants to listen, wants to understand what's taking place out there, wants to hear the different perspectives. And that welcoming of engagement is, frankly, a big part of why the Office of the Chief Accountant is recognized as a regulator that frankly wants outreach, wants engagement, wants to interact with those who are being regulated to ultimately help arrive at the highest quality answers for the markets.

Paul Beswick:

I'm going to tell you this little story. One time we were consulting on a really complex issue with let's say a Fortune 100 company. And it was really complex. And the company had come in, and I wouldn't say they got everything they wanted. They probably got half of what they wanted, but at the end, the controller called me offline. And he said, "This was a great process." He said, "I didn't get everything I wanted, but I got clarity, and I feel like the information is going to be useful to investors." He said, "The one thing I'll tell you is you guys need to advertise this process better." And I said, "Well, we bring it up in speeches a lot, but I'm going to use you as an example of someone who had a positive experience." And so it is a process where the markets can benefit by getting that clarity and getting that high-quality information out to investors.

Paul Munter:

I do think, admittedly, this is anecdotal, but we have important data points in terms of how the professionals who have been in OCA are perceived. And we've got Joe and Paul here who are both in important leadership roles in their firms. And there are other examples of that in their firms and others. There are people sitting as Chief Accounting Officers and Chief Financial Officers at Fortune 50 companies. There are OCA alum sitting as Chief Investment Officers at some of the very significant investment houses. So, I think that's another useful piece of data in terms of how the marketplace perceives the quality of the professionals that have been in OCA over time.

Dave Lynn:

And I know in my experience, I think one of the areas that it's great that OCA is willing to engage and to provide answers to really hard questions and tough situations is just on topics of accountant independence, because those sometimes present some of the most difficult interpretive issues and very fact-specific circumstances that have to be considered, and having that sounding board and having people that can address that, who have so much deep experience in considering independence issues is important. I don't think people realize that that is something that a lot of folks in the office do. And it's an important function that can help both issuers and auditors navigate some pretty tough situations.

Paul Munter:

Yes. I mean, independence is core to what auditors bring to the process. And high-quality auditing is also integral to high quality financial reporting. As Joe was talking earlier, we want the highest quality information possible in the hands of investors. And having that subject to independent audit is a critical element of that ecosystem.

Joe Ucuzoglu:

And Dave, this is an area where Paul talked earlier about the evolution of OCA and the overall complement of professionals and responsibilities. It's really tracked, in some ways, the evolution of the profession. If you went back in time, there was probably too great an emphasis on the accounting and the technical requirements that govern how the numbers are compiled and presented. And that's really important -- I always like to say getting the numbers right is probably a good idea. But when you look at what Sarbanes brought about in the post-Sarbanes era, there was really a shift in mindset within the broader profession, in terms of reemphasizing the importance of auditing as a profession -- that independent, objective look -- and the skills and the procedures that are necessary to do that with excellence. And that was integrally related to the requirements coming into effect around companies having effective internal controls and auditors attesting to that system of internal controls.

Joe Ucuzoglu:

And as a result, you saw the office of the chief accountant really increase its overall complement of professionals with a background in audit to then in turn engage with the PCAOB. And part and parcel of that is honoring compliance in every way with the independence requirements and ensuring that auditors continue to remain independent, in both fact and appearance, so that those who were relying on this information have a basis upon which to be confident that the audit firms that are attesting to this information that's being relied upon by investors truly are operating with objectivity and impartiality. And more and more, you see these types of very complex fact patterns being presented to OCA to ensure that there is an understanding of OCA's interpretations that can then in turn be complied with consistently across the board.

Dave Lynn:

Definitely, that's really helpful. And I guess one experience that anyone who's spent time at the SEC or in other government agencies, is you're dealing with so many complex issues that cut across so many different areas of expertise and that also have such far reaching implications. Paul Munter, I'm interested in your perspectives on where the sources of information and input from others come from when you're trying to address these issues from the regulatory perspective.

Paul Munter:

So, we were talking a little bit earlier about the output coming from OCA in the form of speeches and statements and the like, sharing experiences and conclusions on complex issues, etc. That's a piece of what I would describe as ongoing engagement with the whole array of stakeholders. What you're talking about, Dave, is the other side of that, is engagement where we're doing more of the listening rather than the disseminating of the information, so that we can understand what are the issues that arise out there. Are there issues that can be dealt with fairly expeditiously? Are there issues that need to be addressed through standard setting? So that means we are very frequently engaged in dialogue with preparers to understand the issues that they are dealing with and the complexity of transactions that they are engaging in, and thinking about whether the existing standards provide sufficient guidance or not.

Paul Munter:

We're certainly engaged with audit firms, both in terms of as Joe rightly describes, the application of accounting on the issue they're seeing, but also what are the challenges that they have from the standpoint of audit execution against the standards and maintaining independence?

Paul Munter:

And obviously, we spent a lot of time in engagement with investors and investor advocates, trying to understand what information is most impactful to them, because ultimately, we're talking about information to benefit capital allocation decisions with a materiality construct attached to that within the confines of the total mix of information. So, we are very actively engaged in outreach. What you're describing is how do we get the information in so that we can process it, evaluate what are the proper steps for resolving it, whether it is OCA reaching a conclusion and communicating it, whether it is standard setting or some other form of guidance. That is, I think, critical to our ability to be the principal advisor to the Commission on matters of accounting, auditing, independence, and internal control.

Dave Lynn:

And when you go through a crisis like the COVID-19 pandemic, for instance, it struck me just how much coordination the Office did with so many other regulatory bodies and other parties out in the marketplace. And then we saw a lot of transparency about that in some of the statements that came out, which helps, I think, to provide people with reassurance that the Office is paying attention and the Commission is paying attention to these issues and trying to adapt as much as possible when you're in the midst of a crisis situation.

Paul Munter:

Yes, it's a real good example to me. In a time of crisis, human nature might be to try to duck and hide from the crisis. But I think experience has shown us that, whether it's in financial reporting or in other crises situation, meeting those crises head on is the best path forward. And in times of uncertainty, investors want more information and greater transparency about those uncertainties so that they can try to price the uncertainties into their capital allocation decisions in as cost-effective a manner as possible.

Joe Ucuzoglu:

And the market's benefited tremendously from the sort of proactive tone that the Office of the Chief Accountant set early in the COVID crisis. You had questions out there given the level of uncertainty

around what would transpire in the broader economy, and how that might impact estimates and forecasts. Some questioned whether the publishing of financial results should be delayed as a result.

Joe Ucuzoglu:

And for OCA to come out and address its communications to both issuers, as well as audit firms, and to reinforce those core principles, that timely transparent disclosure is even more important in times of market uncertainty, and to ask that companies do their best with the information they have available, and so long as they make use of all the information they know, that nobody will hold them in hindsight to a crystal ball. But be neutral, be transparent around what the uncertainties are, share the types of estimates and ranges and what might change going forward. And that the market actually is better off having that, albeit not with any level of certainty as to whether those forecasts will come to fruition, is better than sharing no information with the markets and waiting for absolute certainty. And you saw the markets hold up remarkably well during COVID in part as a result of the continuous flow of high-quality information.

Paul Beswick:

And that's not the first time OCA has had to play that role. If you go back to the previous financial crisis, which was more centered on banks, there were a lot of calls to suspend accounting, suspend fair value. And one of the things I learned was —it's something that Joe had touched on -- investors need transparent information. In the previous crisis, we really emphasized that it wasn't the accounting. There were some underlying economic challenges that were occurring, but investors needed transparency. They needed everyone to basically do their best, to make their best estimates and be forthright about those estimates. And, in my opinion, it allowed the markets to recover quicker than if we had gone down that approach where we were going to just suspend accounting or suspend financial reporting. And so that transparency and that continued communication in my mind is critical with the markets. And that's a role that OCA plays in the capital markets.

Dave Lynn:

Yeah. Because this is an SEC Historical Society program, I feel obligated to ask this question, Joe. What do you think is the role that history and precedent plays in the decision-making process in OCA in your experience?

Joe Ucuzoglu:

Well, this whole topic of the guidance that is set by OCA during crises is one where history is probably a good lesson. Time and time again, when external crises strike, people want to blame the messenger. The accounting might show that things are really bad, there's big losses, there's write downs, there's insolvencies. And that might not be welcome, frankly, in the political arena at times. And there's a tendency to either blame the messenger or, as Paul Beswick just said, sort of suspend the accounting to make things look better because then some would suggest it will help calm everyone and not get everyone too riled up.

Joe Ucuzoglu:

Well, information has consequences. And frankly, if you try to destroy the neutrality objective and paint a rosier picture than reality, that never ends well. That actually destroys credibility, that actually prolongs the crisis. And, sometimes, it's an uncomfortable position to be in if you're sitting there in a regulatory agency and you're getting political pressure to try to change the rules to make things look

better. But this is one where OCA's precedent has been time honored and consistently applied, that we're going to report the truth and we're going to put high-quality information out there in the markets. And if people want to adjust policies in a crisis, that's fine, but we're at least going to do it with full knowledge of reality. We're not going to pretend that less people were unemployed or assets are worth more than they really are, and that's served us incredibly well.

Joe Ucuzoglu:

And you can come up with a multitude of examples like that, but frankly, that consistency in terms of the underlying objective of financial reporting has manifested itself over the decades in ways that have proven now with the benefit of hindsight to absolutely be, not only in the interest of the investing public, but in the interest of society at large.

Dave Lynn:

Absolutely. Paul Beswick, I know one of the areas that you worked on and continue to work on is an area that the Office has dedicated an enormous amount of resources to, and that's coordination with international accounting standards and the development of IFRS and how that fits within the U.S. regulatory system. I'd be interested in your perspectives on how that process played out and continues to play out to this day.

Paul Beswick:

Well, I think it's important to understand that international accounting and auditing standards do play a role in the US capital markets. I think people sometimes get confused and they think that the US has sort of quarantined itself from the rest of the world. And that's just not the case.

Paul Beswick:

In terms of sort of the history, as Paul Munter mentioned this before, but in 2007-ish, the Commission allowed the use of IFRS without reconciliation for foreign private issuers. And if you look at the population of foreign private issuers who list in the U.S., it is a significant population. And from a global perspective, that was viewed as a significant milestone and added credibility to IFRS, that the U.S. would accept it without reconciliation. Up until that point, you had to reconcile back to US GAAP. It was perceived to be very costly, not a lot of benefit.

Paul Beswick:

And the recognition by the Commission that IFRS was high quality was an important thing for the IFRS Foundation and the IASB. But it's not limited to accounting. The Commission, through the Office of the Chief Accountant also plays a role in a group called the Monitoring Group, which is a group that oversees the IAASB and plays an active role in that. In addition, the Office of the Chief Accountant is an active participant in IOSCO and one of the committees there.

Paul Beswick:

So, they're very active on an international perspective and that all started around 2004-2005. And it's something that the Office of the Chief Accountant does devote a significant amount of resources to, and they also get involved in individual registrant matters related to IFRS.

Paul Beswick:

I think sometimes people still don't believe that OCA has IFRS expertise. And they do, and they'll get involved in registrant matters and provide accounting views on registrant matters who are reporting under IFRS. So, there is a lot of international engagement at all levels of the Office of the Chief Accountant.

Paul Munter:

And I think, Paul, the importance of that really cannot be overstated to be real honest with you. You talked about the foreign private issuers in our marketplace that file with the Commission on the basis of IFRS, with no reconciliation to U.S. GAAP. And we are one of the only marketplaces that takes the standards as issued by the IASB without any subsequent endorsement mechanism, which in many other jurisdictions, most have some local endorsement mechanism, which of course runs a risk of some kind of a national carve-out or what have you.

Paul Munter:

Secondly, the size of that. That's six to \$10 trillion of market cap. So, if you just took the foreign private issuer population, and if it were a separate capital market, would be about the fifth largest capital market in the world, just to put it in perspective, in terms of, "why do we engage?" And then the other, Paul mentioned the international audit side of the house. And thank you for the promo, because I'm actually currently the co-chair of Monitoring Group working through those issues.

Paul Munter:

But roughly, one sixth of American investment portfolios are invested abroad. So, you've got direct investment by U.S. investors abroad with respect to financial information that is subject to audit under the international audit standards rather than under PCAOB standards. And then secondly, and Joe and Paul are much more on the front line of this now than I am, but if you think about global U.S. companies where the U.S. auditor is working with a component team abroad, that component team, in all likelihood, is starting from an ISA framework. And obviously, then has to bridge to get to a PCAOB-compliant audit in reporting to the group auditor. But if ISA are not of high quality, it becomes very, very, very difficult to build that bridge from an ISA framework to a PCAOB framework. So, I think both in terms of direct investor protection and indirect investor protection, there is just an enormous case for the amount of resources we devote to international accounting and auditing.

Joe Ucuzoglu:

And this is an area where many have no appreciation for the level of complexity and the level of necessary resources that OCA needs to devote in order to protect investors. I remember when I was at the Commission, I used to get the question all the time, why is this so complicated? Why don't you just get the rules reconciled and everyone can use the same set of requirements. And then we can compare on an apples-to-apples basis?

Joe Ucuzoglu:

And I'd always remind people that we can't even get the whole world aligned around the metric system. And that's just a mechanical translation. Here, we're talking about a set of standards that impacts entire economies, and you have customs and, frankly, national objectives on the line. Which is why, as Paul Munter just articulated, most other jurisdictions still want to maintain some control through the

endorsement process and say, "Well, we're going to follow IFRS, except we don't like this particular provision, and we're going to change that one."

Joe Ucuzoglu:

For the Commission to be able to accomplish its investor protection mandate for U.S. investors, potentially putting trillions of dollars on the line and to satisfy that the information they're getting is a high level of quality that IFRS is in fact a comprehensive basis of accounting that serves those information needs without tweaking it, without layering on things and saying, "we're going to change this sentence and put in a new requirement here," you have to have front-end involvement to ultimately understand the development of that standard and be satisfied that the information that it's going to produce meets the needs of investors who have so much riding on the underlying financial information that ultimately drives the trading of those securities.

Dave Lynn:

Great, thank you. And next, I think one question that I would like to ask is what did you see as the most challenging issues that you dealt with during your time in OCA? And, looking forward, what do you see as the most challenging issues that OCA will be addressing now and in the future? And maybe Joe, we can start with you.

Joe Ucuzoglu:

Well, this is a trip down memory lane. I would say a couple probably rise to the surface. In the aftermath of Sarbanes-Oxley and the institution of the requirement that public companies certify the effectiveness of their internal controls and that auditors independently provide audit assurance, the PCAOB put out an auditing standard, AS2. And fair to say, in the early days, there was noise, and people were questioning whether certain of the requirements met a cost-benefit test, whether the requirements were scalable such that smaller issuers could comply without a crushing burden.

Joe Ucuzoglu:

And so we then, with the PCAOB, undertook the process of gathering a lot of feedback. And ultimately, what came out of that is the PCAOB producing Auditing Standard 5, which took the learnings of the early years, and frankly, kept the investor protection benefits, while making this workable for registrants, workable for smaller issuers. And I'm really proud to see now, sitting here close to 15 years later, the level of noise is low, and it's actually served as a model for the rest of the world where you hear more and more talk about the need to impose SOX-like internal control requirements as part of a high-quality system of financial reporting.

Joe Ucuzoglu:

The other that comes to mind was perhaps a little less pleasant in dealing with the aftermath of the stock option backdating circumstances that came to light in the mid-2000s, where there was some inappropriate behavior. But what was really difficult, where OCA really had to lean in, is companies and auditors coming forward saying, "we're trying to go back and revise the accounting to get this right." But by definition, when people prepare documents with the wrong dates, you might not know what the right dates are. It was designed to sort of circumvent the appropriate controls.

Joe Ucuzoglu:

And so how do you prepare books and records in hindsight, when perhaps some of the people who engaged in that conduct aren't even there? And it's a great example of OCA engaging with registrants and auditors, putting out practical guidance to ultimately get the best possible information in the hands of investors, and at the same time, coordinating closely with Enforcement so that there was an accountability for those who might have engaged in conduct that was inappropriate.

Joe Ucuzoglu:

When you ask about looking forward, the top-of-mind issue right now, and we can certainly spend some time talking about this, is just the evolution of investor needs. And the core financial information prepared in conformity with GAAP is still critically important. It is the foundation upon which the market operates. But you see an expansion in terms of the types of financial information that investors are suggesting may be material to their decision-making, certain non-financial indicators, certain elements that fall within the ESG landscape. And I suspect that over the next several years the real focus is going to be how to bring the same level of consistency and quality that we've, over the decades, been able to bring to the core GAAP financial information to some of those other pieces of information that are now more and more important to the trading prices of securities.

Dave Lynn:

Thank you. Paul Beswick, how about you?

Paul Beswick:

Sure. So, when I think about this in my time at OCA, maybe highlight four things. When I showed up at OCA, they were just kicking off an advisory committee, and they had an advisory committee on improving financial reporting that had dual goals of reducing unnecessary complexity and making information more useful and understandable to investors. And that was a great experience for me because I got to work directly with a lot of investors who I didn't have direct access to, and really understand their needs. And ultimately, the committee put out some recommendations.

Paul Beswick:

As that was wrapping up, we rolled into the financial crisis. OCA did have a very active role. We spent a lot of time educating the Commission on some of the various accounting standards. The Deputy Chief at the time, Jim Kroeker, I think he was Acting Chief also, had to testify before Congress. And there were some rather, I would say, animated discussions about the use of fair value.

Paul Beswick:

I remember at one point during the middle of the crisis, I think we were putting out accounting guidance via press releases, maybe every two weeks. But it goes back to getting that information out to preparers, auditors, and investors so they understand how the accounting standards are supposed to work.

Paul Beswick:

And during the financial crisis, one of the things Congress asked us to do was do a study on fair market value. The Office was able to complete that in 90 days and that was an incredible accomplishment. The entire Office got behind that. And that's one of the things I'm most proud of, is that report that we issued to Congress.

Paul Beswick:

As we were sort of tailing off from the financial crisis, we were completing a work plan on the consideration of the IFRS for U.S. registrants, and whether there should be either an option or requirement for U.S. domestic companies to use IFRS.

Paul Beswick:

I think ultimately, the staff put out over 1,000 pages of materials related to that. In my mind, it was a very thorough and thoughtful analysis. And at the same time, we were starting the post-crisis rulemaking. So, if you think about Dodd-Frank, while OCA didn't have direct rulemaking responsibilities, it really speaks to the testament of the Commission working together. OCA was brought in, in a number of situations, related to things like the credit risk retention rules, the ABS disclosures, issues around the floating NAV.

Paul Beswick:

And so those were some pretty significant issues that OCA played a critical role in during my time while I was there. In terms of issues looking forward, maybe highlight three of them. One, and Joe already touched on this, is the evolving needs of investors and what information do they need to make informed investment decisions? And so ESG is frequently discussed, but there's some really, I would say, interesting policy questions about where that kind of information should be housed, whether there should be auditor involvement with it, and it's something that OCA and the Commission are going to have to wrestle with.

Paul Beswick:

The next one is, I'd say, evolving technology. So that to me is how do companies communicate with investors? Right now, companies produce a 10-K and they also use XBRL to tag the data. But companies are getting, I'll say, more creative and it's raising questions about whether the existing reporting mechanism is fit for purpose. But another aspect of evolving technology is from the auditing side. The accounting firms are spending/investing significant amount of resources into doing better audits using digital auditing techniques, and making sure that the profession moves forward in the right way around those. And finally, sort of looking at the PCAOB's agenda and making sure that the PCAOB's standard setting agenda fits with all of those items that I just mentioned.

Paul Munter:

Yeah. I don't really have a very good answer for what were the biggest issues of my time since I'm still in it and-

Paul Beswick:

Right. Because next week, you're going to be adding to the list, so ...

Paul Munter:

... Yes, I could be. But I think both Joe and Paul did a nice job of summarizing it. But we've certainly dealt with, as we talked earlier, the challenges during the COVID period. But I think both Paul and Joe were touching on a very important aspect of OCA, which is that it has to continue to evolve as investor needs and demands for information grow in helping the Commission think through how can that information be provided in a manner that is cost-beneficial, that has the appropriate rigor around it in terms of its

development by issuers. And, as Paul just mentioned, to what degree should auditor involvement be part of that process?

Paul Munter:

I think ESG is certainly one area where we're spending a lot of time thinking about it, but I fully expect as we peer forward into the future, there will be other new areas that we're going to have to think about as investor needs for information evolve.

Paul Munter:

The other thing I want to mention really quickly is as Joe was describing the process of AS2 leading into AS5, I think that was important not only for the reasons Joe described, but I would actually call that probably the first example of what we now call a post-implementation review, right? That is now ingrained into the standard-setting process. So, I think not only was that extremely important in terms of providing guidance with respect to auditor attestation over internal controls over financial reporting, but really important in terms of bringing another very important step into standard-setters' due process.

Dave Lynn:

Well, I think it's safe to say that the SEC and OCA are going to really continue to play an important role in shaping the future of the regulation of corporate disclosure. And perhaps to close, so I'll just ask if any of you have any closing thoughts about your time in OCA and the role that OCA plays in our overall system.

Joe Ucuzoglu:

Just a lot of pride for the work that OCA does and the tremendous benefit to the markets that results.

Paul Munter:

Yes, I agree. As you have noted, this is my second stint here. And, certainly, my first stint shaped a lot of what I did in between the two stints. And I just am incredibly grateful that, at this point in my career, I'm in a position where I have the opportunity to help ensure that investors get the highest quality information possible.

Paul Beswick:

As I think about it, I look back at my seven years in OCA with a lot of fondness. One, I very much appreciated the public interest aspect of that and serving the investing public. Also, I really enjoyed the people at the Commission. It's a wonderful group of people, and it's nice to be part of an organization that has such an important mission and role in the capital markets. And I look back at my time with a lot of fondness. And anytime someone asks if they should go try a role and work in OCA, I am always very, very, very supportive of them trying to do that. I think it's a wonderful experience, and it's a way to really give back to the capital markets.

Dave Lynn:

That's great. Well, thank you very much, Paul Munter, Paul Beswick and Joe Ucuzoglu. Thank you all for all of those perspectives. This was a great discussion. I appreciate it very much.

Joe Ucuzoglu:

Pleasure.

Paul Munter:

Yes. Thank you for having us.

Paul Beswick:

Thanks for having me.

Jane Cobb:

Thank you so much, Dave. Excellent job. And thank you, Paul Munter, Joe Ucuzoglu, and Paul Beswick for your important insights and recollections. It's great seeing you all again. That was a very good program. Before I conclude, I want to thank Dave Lynn, Meredith Cross, and Deloitte, whose generous support has made this program and the future corporate disclosure gallery, of which this exhibit will be a big part, possible.

Jane Cobb:

I also want to thank John Bogley, of All Ends Meet, for his technical assistance. And I thank all of our viewers for tuning in. Entrance to the many resources in the virtual museum is free, but we greatly appreciate the financial support of viewers like you so we can keep it that way. So, if you appreciate the resources in the Museum, click on the Give Today button at the top of our homepage and make your support count. Thank you again for joining us and have a great rest of your day.