"Investor Data, Policy Insights"

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As prepared for delivery.

Thank you.

I'm very pleased to have the opportunity to join you today.

Being here is all the more pleasurable, given the announcement of Bob Herz’s appointment to SASB’s distinguished Board of Directors.

I know SASB will benefit from his perspective and leadership, and I speak from firsthand experience—not only as Bob's friend, but also in my capacity as Executive Director of the Center for Audit Quality.

The CAQ is dedicated to enhancing investor confidence and public trust in the global capital markets by fostering high quality performance by public company auditors. We pursue this mission on many fronts, including through the development of resources and research; by advocating for policies and standards that promote public company auditors’ independence, objectivity, and skepticism; and, perhaps most importantly, by convening and collaborating with other stakeholders to advance the discussion of critical policy issues in auditing and corporate governance.

In our work, we are fortunate to have Bob provide us guidance. He serves on our Stakeholders Advisory Panel, a group of business leaders and academics who provide us with their counsel.

I offer my sincere congratulations—both to Bob and to SASB—on this wise appointment.

But today I come not just bearing congratulations, but also bearing good news.

Last week, the CAQ released our Eighth Annual Main Street Investor Survey. This survey, which we’ve conducted each year since our inception in 2007, gauges investor confidence in four key areas: U.S. capital markets, global capital markets, audited financial information, and U.S. publicly traded companies.
I'm pleased to report that the findings in all of four of these confidence measures are strong.

As the slide indicates, 73 percent of investors indicated they have confidence in U.S. capital markets. That’s an increase of four percentage points from 2013 and the highest level since 2009.

We're also heartened to see the robust confidence that investors have in U.S. publicly traded companies.

As this slide shows, confidence in public companies has reached 80 percent—that's the highest level recorded since we started polling investors on this question in 2008.

If you read our full survey report—which is available on the CAQ’s website—you'll see it is a trove of information and detail. There is a great deal to digest, and not just regarding these core confidence measures.

So today I'd like to take a closer look at our results, with the objective of framing them in the context of the policy work of the both the CAQ and SASB.

A key point: Disclosure is the foundation of U.S. securities laws, and transparency is the engine that propels our capital markets forward. But as the world continues to evolve—and its economies along with it—our accounting standards have not always kept pace. In today’s world, investors need information to evaluate how companies are managing not only financial risks, but also nonfinancial risks and opportunities.

The CAQ and SASB share the goal of increasing investor confidence in the capital markets. We hope to learn from each other as we both work to improve the usefulness of information made available to investors. As we’ve heard Jean say this morning, we need to provide investors with decision-useful information.

Let's turn back to investor confidence. At the outset, we should acknowledge that a significant factor in investor confidence is market performance.

When the market is up, investors generally feel good and have confidence. When it's down, the reverse is true. And the major market indices have been positive territory over the past 12 months, although so far October has proven to be particularly volatile.

But I submit to you that the CAQ data reveals emerging themes and patterns that go beyond simple market performance.

In my judgment, a key theme is that investors derive confidence from aspects and elements of our market system that reinforce the market's reliability and stability. These are attributes of our market system that provide investors a sense that institutions have developed standardized checks and balances that work to investors' protection and benefit.

SASB knows the importance of reliability. Its standards seek to bring reliability to the quality and comparability of nonfinancial information.
As for our survey, consider our findings on who investors think is most effective in watching out for their interests.

For the four years we’ve asked this question, public company auditors have placed at the top of this list.

This is a great finding for the CAQ's members, and it is a source of pride for the public company auditing profession and for us at the CAQ.

But I think it also says something about investors. It tells us that investors value parties who work independently and whose job it is to verify information in a company’s financial statements.

I'll call your attention to another finding on this slide. Investors also show robust confidence in the stock exchanges, with confidence levels rising substantially from 2013 to 2014.

One key reason for their confidence is the history of the exchanges themselves. Indeed, when we dug deeper and queried investors why they had confidence in the exchanges 58 percent cited the exchanges’ longevity and stability.

Again—reliability, stability, longevity—in my view, these are key themes that pervade our data.

Now, I don't want to suggest here that investors have entered some sort of state of bliss, as recent market gyrations have shown. This year, as part of our Main Street polling we asked investors about their concerns, particularly regarding emerging risks.

The results are very illuminating.

Not surprisingly, given the headlines, investors are worried about geopolitical instability.

Perhaps a bit more surprising: In close second, investors are worried about government regulation.

Indeed, 73 percent of investors say they are concerned about the impact of government regulation on their portfolios. 42 percent describe themselves as "very concerned."

SASB is well aware of such concerns. After all, its standards are voluntary guidelines that help companies comply with existing regulation—Regulation S-K—to disclose all material information in the Form 10-K.

I don't think investors suffer from delusions regarding the risks posed by policy. Regulation can be a source of disruption in the marketplace, as business leaders certainly understand.

Every few months, the CAQ hosts a group of senior executives and thought leaders at a gathering we call "Women in Capital Markets." At our most recent event, several senior executives expressed their concerns that regulation is stifling innovation—to the detriment of their customers and investors.

And yet, I must emphasize that these women were not anti-regulation; many of them are former regulators themselves. Indeed, at our recent event, they recognized the importance of regulation to healthy capital markets.
Interestingly, retail investors also recognize the important role of policymakers, even as they list regulation as a top concern.

In our Main Street survey, a good percentage of those polled cited the U.S. government as a source of their confidence.

And remember that robust confidence in U.S. stock exchanges? Fifty-nine percent of investors cited strong regulatory oversight of the exchanges as a key factor bolstering their confidence.

So let me frame a few of these thoughts in the context of the work of the CAQ and the SASB.

To start, how can we understand this apparent paradox? How can we strike an appropriate balance so we harness the benefits of regulation—without adding to the regulatory burden that is of concern to both Main Street and Wall Street?

I will offer three ideas in response to these questions.

First, key stakeholders and market participants must stay proactive on policy in the face of regulatory and legislative pressure.

We cannot wait for regulators and lawmakers to act—we must take action on items that matter to us. Voluntary efforts are essential, as regulation is often slow and reactive.

With voluntary action, we can proactively address what investors want and what they need in a timely manner, thus improving their situation while decreasing the need for regulatory response.

We know that investor interests change over time. Take sustainability.

As Jean pointed out in a recent white paper with Bob Eccles, in the 1970s, the SEC's view was that investor interest in environmental and civil rights was miniscule.

Today, our Main Street survey data indicates that over one-third of investors now consider a company's track record on social responsibility and environmental issues as "essential" to their investment decision making. That number will no doubt continue to evolve, especially as these issues are understood also to represent the sustainability of the company itself. How a company manages human, social, and environmental capital can impact its revenue and operating expenses.

A voluntary approach is fundamental to SASB and its mission. SASB standards are voluntary sustainability accounting standards that help publicly listed corporations disclose material factors of importance to investors in compliance with current SEC requirements.

A voluntary approach also is a key part of our work at the CAQ. Our Call to Action initiative, for example, urges audit committees to proactively and voluntarily enhance their disclosures to the benefit of investors.

A second idea: We must keep our focus on what works. We must set aside monolithic thinking in favor of focusing on effectiveness in regulation and voluntary efforts.

Fortunately, we do see instances in Washington where regulators are highly attuned to effectiveness.
For example, the U.S. Securities and Exchange Commission has since last January been active on the issue of fundamentally reforming corporate financial disclosure by making it more effective.

How can we pursue effectiveness? There are no doubt myriad ways. But we can make sure that rules are tailored appropriately—"right-sized," if you will—and that they reflect ample stakeholder input. SASB does this by using a rigorous process, rooted in evidence and informed by consensus, to develop its standards. By developing standards at the industry level, SASB is rightsizing.

My final point: We must strive for consistency.

Far from the "hobgoblin" that Ralph Waldo Emerson once derided, consistency in the financial regulatory context produces efficiency. It lowers regulatory burden, which benefits investors. Indeed, again citing Jean and Bob’s paper, two-thirds of global institutional investors say that they would be more likely to consider sustainability information when making investment decisions if common standards were used.

Consistency and comparability are of course at the heart of the SASB's mission on sustainability reporting, including metrics that investors can use to benchmark companies within an industry.

The CAQ also works to enhance consistency in financial reporting. Our membership is very aware that conflicting rules, particularly in a global context, can harm companies and their investors.

I'm out of time. So let me end where I started—with congratulations. I congratulate SASB on the progress it has made as an organization. Since its beginning, it has focused on staying proactive, on being inclusive in the development of processes and frameworks, and on striving for consistency.

It has also kept investors' interests at the forefront. And, as I suggested at the outset, the CAQ and SASB share a mission in that respect.

Our ultimate goal is to help investors and, in doing so, strengthen our capital markets. I am sure we will learn from each other as we each pursue this overarching and worthy goal.

Thank you.