

**REMARKS OF CINDY FORNELLI
AT THE AICPA NATIONAL CONFERENCE
ON CURRENT SEC AND PCAOB DEVELOPMENTS
Marriott Wardman Park Hotel
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8:45 – 9:00 a.m.**

Introduction

Good morning. It's a pleasure to be back at the AICPA National Conference and to be among so many friends and colleagues.

As I look out at the sea of faces, I am reminded that people are the power of the accounting and auditing profession. Attending this event always renews my confidence in the intelligence and diligence of the men and women who are the face of the profession nationwide.

We welcome you back to D.C. and beyond for those of you on the simulcast – and we thank you for your contribution and commitment to audit quality.

Bob Harris, the AICPA's new chairman, is an individual with a lengthy history of service to the Institute and the profession. And it's a pleasure to share the same stage with him.

I also want to thank Barry Melancon, the AICPA's President and CEO. Barry, who is co-vice chair of the CAQ's Governing Board, is such an ardent advocate for all of us.

The Center for Audit Quality

Barry and his fellow CAQ governing board members have presided over a subtle, but meaningful, shift in focus for the Center in 2009.

Created to foster confidence in the public company audit process, we have renewed our dedication to enhancing investor confidence and public trust in the global capital markets in three key areas:

- First, by fostering high quality performance by public company auditors;
- Second, in convening and collaborating with other stakeholders to advance the discussion of critical issues requiring action and intervention; and
- Third, by advocating policies and standards that promote public company auditors' objectivity, effectiveness and responsiveness to dynamic market conditions.

All three areas have been integral to our work on the public company auditing profession's behalf in the last 12 months, amid challenges to – and changes in – the financial regulatory landscape.

Our latest survey of investors

With respect to investor confidence, the CAQ's most recent survey of individual investors, released in late September, found that confidence in U.S. capital markets has leveled off after falling sharply between 2007 and 2008.

The economic crisis had worsened in between our 2008 and 2009 surveys, yet investor confidence appears to have stabilized.

About three-quarters of investors surveyed in late summer expressed confidence in the U.S. capital markets – a three percent increase from last year.

Respondents' confidence in U.S. publicly-traded companies held steady at 75 percent.

And, of special importance to this audience, confidence in audited financial statements released by public companies declined only slightly to 70 percent. That's down three percent from 2008, but within the survey's margin of error.

That this belief in audited financial reporting has been maintained in the teeth of the greatest market correction in recent memory is nothing short of remarkable.

Despite all we've witnessed – a plunging stock market, bank failures and federal bailouts – rank and file investors have retained a basic sense of confidence that the information provided in audited financial reporting is reliable.

Confidence in jeopardy?

But with confidence in audits and confidence in our markets inextricably linked – particularly in such a dynamic economic environment – we must ask ourselves the following question:

If audit reliability is compromised as a result of assaults on the Sarbanes-Oxley Act and threats to the independence of accounting standard setting could it jeopardize investor confidence?

I'm afraid so. And as a result, public company auditors must reaffirm their commitment to audit quality while the CAQ redoubles its efforts to promote sound public policy that puts the profession, investors and the strength of our markets first.

Since our formation in 2007, the CAQ has engaged in a number of important initiatives and projects intended to showcase the public company auditing profession's constructive agenda, with policymakers in our nation's capital the focal point of those efforts.

Regulatory Challenges – The Threat to Audit Quality

Fair Value Accounting

For those of you watching via simulcast, I'll remind you that Washington is often described as 61 square miles surrounded by reality.

During the prolonged assault on mark-to-market, or fair value, accounting, reality indeed seem to be in short supply. We saw fair value accounting characterized as “an accounting gimmick,” blamed for “the destruction of capital” and cited as responsible for “70% of the economic crisis.”

While we worked to dispute these unrealistic claims, we have never disputed that the challenges facing financial institutions were a serious concern. But that is no reason to take aim at accounting standards, or the independence of the standard-setting process.

The CAQ expressed support for the FASB's efforts in responding to the current economic crisis, which highlighted the difficulty in estimating the value of illiquid assets. But we emphasized then, as we have throughout the process, that any changes to financial reporting should enhance the relevance and transparency of financial information that is critical to properly functioning capital markets.

What I hope was one of the final chapters in the ongoing story was written in October, when the University of Chicago issued a working paper by two finance professors which concluded – and I quote – “it is unlikely that fair value accounting added to the severity of the current financial crisis in a major way.” This is following the SEC's Congressionally-mandated study of last year that found that fair value accounting did not play a meaningful role in bank failures, but rather that bank failures were the result of growing credit losses, concerns about asset quality and eroding lender and investor confidence.

Independent standard setting

The debate about fair value accounting also was linked to the role and structure of FASB. Last month, we expanded our circle of stakeholders for a joint letter to congressional leaders discouraging them from taking actions that would impact the independence of accounting standard setting.

Joining forces with the U.S. Chamber of Commerce's Center for Capital Markets Competitiveness, the Investment Company Institute and the Council of Institutional Investors, we expressed concern over an amendment that would have placed FASB under the jurisdiction of a Financial Services Oversight Council tasked with managing systemic risk.

Many journalists and other observers saw this council for what it was: a move to effectively let banks set their own accounting standards in rough economic times. Even

former Federal Reserve Chairman Paul Volcker, no fan of fair value, called it “a terrible idea.”

Shortly before the amendment was to be considered by the House Financial Services Committee, Barry Melancon and I took part in a media briefing to call attention to our view that the SEC continues to be best suited to provide oversight of FASB.

The profession breathed a collective sigh of relief when the amendment’s authors were persuaded to alter the proposal so that the Oversight Council can recommend – but not demand – changes to the accounting standards.

You and I recognize that the accounting standards underlying audited financial statements derive their legitimacy from the confidence they are established, interpreted and, when necessary, modified based on independent, objective considerations that focus on the needs of investors and preparers.

Assault on SOX

We’ve also witnessed attempts to chip away at the Sarbanes-Oxley Act in recent months.

Amendments offered during Congressional consideration of the Investor Protection Act in October sought to exempt non-accelerated filers from compliance with Section 404(b).

Reforms under SOX have helped restore investor confidence since the beginning of this decade. Section 404 has provided significant benefits to investors, companies and the capital markets. And the required independent audit of management’s assessment of the effectiveness of Internal Control over Financial Reporting has been an important safeguard.

Regulators have taken steps to help lower overall Section 404 compliance costs for companies of all sizes. And, as proof, a study by the SEC found that those costs have fallen almost one-third since 2007.

Frankly, I am troubled by the fact that key elements of a law deemed essential in the wake of Enron and Worldcom are now seen as disposable.

No law is perfect. But by any measure, SOX has been a public policy success story. And it should be preserved for all investors’ sake, not just those in large public companies.

The CAQ’s commitment

The CAQ has a variety of ways we strive to honor our commitment to public company audit quality, some of which include our anti-fraud initiative, our support of auditing-related academic research, and our work to inform stakeholders of the challenges and opportunities related to IFRS.

Anti-Fraud initiative

With respect to anti-fraud, we hosted a series of events in the U.S. and the U.K. this year on the topic of detecting and deterring fraudulent financial reporting – which we know is a top priority of investors, company management and the profession.

The goal of the roundtable discussions was to bring together a wide variety of perspectives to identify new ideas about how best to mitigate the problem.

Corporate executives, audit committee members, internal auditors, independent auditors, general counsel, regulators and academics were among those taking part in these candid conversations.

Common themes were sounded at all five venues. As one example, there was widespread acknowledgement that company management has primary responsibility for deterring and detecting fraud, but that all members of what I call the financial reporting supply chain have a role to play.

What we heard in San Francisco, New York City, Chicago, Washington and London has been instrumental in informing the consideration of next steps by the CAQ's anti-fraud working group chaired by CAQ Governing Board Co-Vice Chair Michele Hooper.

Audit research

Another element of our advancement of audit quality is our Research Advisory Board (RAB), which promotes credible and timely research on audit-related topics.

In response to our request for proposals, academics from around the world submitted nearly 50 proposals on topics including audit quality and the value of the audit. After an extensive review, the RAB in July selected five projects for funding totaling \$130,000.

And one month later, senior audit partners and academic researchers participated in a discussion hosted by the CAQ about the link between audit research and practice.

The symposium brought together these audit quality stakeholders to discuss the issues and challenges auditors face in pursuit of quality audits, and how academic research benefits and promotes that practice.

Urton Anderson, who is president of the American Accounting Association's Auditing Section, has credited the CAQ for the effort, noting that research that is current and relevant in today's environment is available to auditors, but they don't always know it's out there.

IFRS

In September, the CAQ released our *Guide to International Financial Reporting Standards*, a balanced overview of the issue of a single set of high-quality global accounting standards.

Developed to help facilitate an informed discussion, the *Guide* has been well received. To date, we've provided 2,500 copies to organizations, including the Outstanding Directors Exchange, the National Association of State Boards of Accountancy and the National Association of Corporate Directors. The *Guide* is also frequently downloaded from the CAQ website.

PCAOB lawsuit

The CAQ's commitment to audit quality is also on display in the pages of the friend-of-the-court brief we submitted to the U.S. Supreme Court in the PCAOB case.

As I'm sure you know, oral arguments are being heard this morning.

Rather than address the constitutional questions about the appointment of the PCAOB Chair, our October brief offered context to help the high court understand the Board's role.

We observed that audit quality and investor confidence have improved since the PCAOB's creation. And we emphasized that stability and predictability in audit regulation provide benefits to investors, preparers and the public company auditing profession.

Conclusion

That's just a thumbnail sketch of some of our initiatives and activities in support of our overarching goal of enhancing investor confidence in the global capital markets.

The public company auditing profession has made great strides in improving audit quality since the Sarbanes-Oxley Act became law.

But we are at a critical juncture, with regulators and standard-setters – if not practitioners themselves – under heightened scrutiny, if not outright criticism, by those who have little awareness or appreciation of all that has been accomplished in the last seven years.

What we've witnessed – in continued attacks on fair value accounting, attempts to weaken SOX safeguards and efforts to let one sector dictate accounting standards – is nothing less than an assault on investors – who are the lifeblood of our financial system.

You have my word that the CAQ will remain active here in Washington, in collaboration with a growing circle of stakeholders – from the investor, academic and business

communities – and in partnership with the AICPA, in speaking out on issues that have a bearing on audit quality.

When I stood before you last year at this time, I spoke of what I called “the opportunity for auditors” to be part of the public dialogue about reform of our financial regulatory structure.

The profession has been an important voice in that debate. A thoughtful, credible, reasonable voice.

With your expertise and support to sustain us, the CAQ will continue to speak out on policies and standards that require the profession’s active involvement. Doing so demonstrates our collective commitment to serve investors and strengthen our capital markets.

Thank you, and a special thanks to Steve Meisel, Chris Holmes, and the rest of the SEC Regulations Committee, all of whom hold a special place in my and the CAQ’s heart.