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*Bullet Points in Response to SEC Transition Team Discussion Request*

12/9/08

Core Principles:

- Investor protection (transparency & disclosure to market participants should remain the first priority in protecting investors; enforcement is after the fact); regardless of how the regulatory landscape ultimately is transformed, there needs to be an agency or division with the primary function of representing investors' interests
- Facilitation of capital formation (e.g., no hiding things off-balance sheet)
- Systemic risk – prioritize the identification and oversight of risk to the overall financial stability of market system
- Independent regulation (as opposed to self-regulation) of *all* market participants with fundamental roles (hedge funds, credit rating agencies)
- Independent standard-setting without undue influence from interested parties
- A strong audit profession, sound regulatory oversight and robust disclosure will provide investors the confidence that professionals are exercising judgment appropriately
- Respect by regulators and inspectors for professional judgment
- Close international coordination of regulatory and enforcement activity
- Highest quality single set of global accounting standards

Specific ideas for SEC Role:

- CFTC-SEC merger – keep investor protection (through transparency & disclosure) at heart of mission; other “cracks” should be identified and addressed to eliminate regulatory arbitrage
- Look to SOx as a model where self-regulation of the auditing profession was replaced with the creation of PCAOB – this model could be used for other professions/industries
- Keep standard setting (PCAOB and FASB) and inspections (PCAOB) independent
- PCAOB board member(s) filling mandated CPA slots should have post-Sox auditing experience
- Explore SEC technological data mining for risk identification and management; SEC cyber-fraud work could be a model
- Act authoritatively with known problems/risks (e.g., hedge funds and credit rating agencies)

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- Consider putting OCIE inspection function back in operating divisions (e.g., Investment Management, Corp Fin, Trading and Markets)
- Re-examine/re-invigorate role for Chief Economist and office
- OCA structure good; have strong, authoritative, experienced Chief Accountant
- Take lead with global coordination of regulators
- Prioritize convergence of accounting standards; begin exploration/focus on auditing standards
- Consider staff pay – competition for best and brightest; while SEC is above most governmental agencies and this is a government wide issue, it does harm agency’s ability to attract the best public company auditors, financial accountants and securities lawyers to the SEC staff
- Explore ways to aerate senior staff (copy OCA’s “fellow” programs? rotate to other divisions?); need a mechanism for bright, younger staff to see room for advancement