

JUNE 9, 2004 OPEN MEETING

Statement of Daniel L. Goelzer

Regarding

Oversight of Non-U.S. Accounting Firms

I want to commend the staff for developing a sensible and workable resolution to a problem that, in March 2003, at the time of our first public roundtable on the oversight of non-U.S. firms, seemed to be nearly insoluble. Also, Chairman McDonough deserves much of the credit for the rules that are before us today. He has devoted a considerable share of his personal talent, experience, and time, including several trips abroad to meet with our European colleagues, to laying the foundation for effective, cooperative oversight of the global accounting profession.

These rules rest on a concept that we have called the "sliding scale". Under that approach, the extent to which the Board will rely on the inspections or investigations of a particular foreign regulator depends on the similarities and differences between it and the Board. We will rely most heavily on foreign accounting regulators that have a high level of rigor and, like the Board, a high degree of independence from the accounting profession. In my view, the sliding scale approach permits us to be both faithful to our Congressional mandate and appropriately deferential to other regulatory regimes.

Our ability to make this approach work is a consequence of two things which have come into focus as a result of the discussions with our foreign counter-parts. The first is that financial fraud does not stop at national borders. Just as the collapse of Enron affected both U.S. and non-U.S. investors, so have revelations concerning companies like Lernout & Hauspie, Parmalat, and Ahold. As a result, accounting regulators in the European Union and its key member states--and in Canada, Australia, Switzerland, Japan, and many other countries as well--share our goal of strengthening public confidence in auditing and financial reporting.

Second, while there are differences in approaches to auditor regulation, those differences are diminishing. In the past year, several countries have adopted or proposed corporate reforms to strengthen oversight of the auditing profession, including new registration, inspection, and disciplinary programs. For example, the European Commission recently unveiled amendments to its 8th Company Law Directive that will direct each EU member state to create external and independent oversight of auditors in a system that is transparent, well-funded, and "free from any possible undue influence by statutory auditors or audit firms."

These developments make me optimistic that the sliding scale approach will work effectively. I fully support the rules the staff is recommending.