

Testimony Concerning
The Implementation of the Sarbanes-Oxley Act and Restoring
Investor Confidence

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Affairs

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Chairman Shelby, Ranking Member Sarbanes, and Members of the Committee:

On behalf of thousands of PricewaterhouseCoopers¹ professionals in the United States (US) and my colleagues from around the world, it is a distinct honor and pleasure to appear before you today. My profession and PricewaterhouseCoopers (PwC) are going through dramatic change, and I do not see this change abating greatly in the foreseeable future. We stand at a crossroads today and have a unique opportunity to redefine our profession, ensure our continued relevance, and, importantly, restore a high level of investor confidence.

Introduction

A Profoundly Different Landscape for the Accounting Profession

Two very significant and interrelated events have created a landscape that is far different today than anything my profession has previously experienced. First, a series of high profile corporate failures raised significant doubts on the part of the investor community as to the reliability of the capital formation process and as to whether auditors deserved the degree of trust historically conferred upon them. This lack of trust, of course, was not just directed at auditors but at all significant players involved in reporting financial information to investors and other stakeholders. As a consequence of these failures and the crisis in confidence that resulted, Congress passed -- and President Bush signed into law -- the Sarbanes-Oxley Act (the "Act") just over one year ago.

Following the Act's passage, the Public Company Accounting Oversight Board (the "PCAOB") established itself as the primary regulator of public company auditors.

¹ "PricewaterhouseCoopers" refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

Using the Act as a guide, the Securities and Exchange Commission (“SEC” or “Commission”) implemented various rules designed to ensure the financial integrity and vitality of our capital markets. We recognize and commend the great effort that the Commission and the PCAOB have made over the last year to enhance investor confidence in the efficacy of our capital markets.

Three Fundamental Areas of Change

The Act created three fundamental areas of change for those with responsibility for protecting the interests of investors. First, there has been a shift of power and governance from the executive suite to the boardroom and, notably, the audit committee. Second, auditors who perform public company audits, like PwC, are now regulated with government oversight, rather than the self-regulatory system that previously existed. Third, public entities and their auditors must be more transparent in the information disclosed to others -- in particular -- information relating to the effectiveness of control systems, a requirement commonly referred to as Section 404, which has not yet been fully implemented but will greatly enhance corporate reporting in the future. Today, I want to concentrate my comments on: 1) what PwC has done to lead change in the new environment; 2) how the new requirements are impacting PwC and the profession; and 3) what needs to be done in the future.

Meeting the Rules in Letter and Spirit

Now, the challenge is for all of the market participants to implement the necessary reforms in a manner that places the interests of investors above all others. The Act

requires participants in the financial reporting process to take responsibility for their actions and every party must play his or her role. For example, managements, boards and audit committees need to carry out their fiduciary responsibilities, investors should research companies prior to investing, underwriters should see that adequate due diligence is performed, lawyers should perform as officers of the court, regulators should enforce the rules, and auditors must provide unbiased opinions on the information that is being provided to investors.

The Act clearly intended that investor interests be the overriding requirement. Therefore, in addition to complying with the letter of law, we must be especially diligent in implementing the spirit of the law.

The Act and the rules adopted by the SEC establish clear lines of accountability. Accountability is an important deterrent to objectionable behavior. Behavior drives many of the areas addressed in the Act (such as executives' compliance with ethical codes), but ethical behavior cannot be legislated. Therefore, public trust will *only* be attained and the goals of the Act achieved if the people with responsibility for implementing the requirements do so with integrity. Where integrity is lacking, neither rules, regulations, laws, concepts, structures, processes, best practices, nor the most progressive use of technology, can ensure accountability or compliance. This will only occur when people of integrity do the right thing, not what is expedient or even necessarily permissible. Ultimately, people's actions are what matter, not what they say or the wording of a particular regulation.

We fully support the PCAOB's mission to refocus the accounting profession to help restore public trust. PCAOB Chairman William McDonough's comments in a

recent speech given at a New York State Society of CPAs conference are hard-hitting and appropriate,

"I expect that you, as members of a regulated profession, know what the rules are. I expect that you are following those rules, both in their letter and their spirit... If you depart from those expectations -- that is, if you break the rules, if you ignore the spirit of the law even while meeting the letter -- woe be unto you."

Embracing Change

Many of the Act's provisions have and will require change in the way we do business. Change can be unsettling but also very positive. At PwC, we are embracing these changes, implementing them both in letter and spirit, and doing everything in our power to regain trust in our profession.

Like any profession, we would have preferred a self-regulatory model that worked. Clearly, the former model did not, and it has been replaced with something far different. The PCAOB is now our independent regulator with responsibility for standard setting, quality control, and discipline. We and others in the profession are committed to the success of the PCAOB. Our profession has a critically important role in the financial reporting supply chain, and given the importance of this role, our regulatory system must be effective in fact and in appearance. As an independent body overseen by the SEC, the PCAOB will promote that effectiveness. And we intend to do our part by working constructively with the PCAOB to restore the public trust.

We are implementing the changes brought on by the Act across our global organization. PwC member firms have approximately 120,000 employees and 8,000

partners worldwide, and operate in more than 140 countries. Our firms are generally organized as separate national partnerships, but share a common strategy, methodology, and quality control system. Many of the provisions of the Act affect our operations outside the US, especially those firms that audit significant numbers of entities registered on US exchanges. The impact of the Act on these non-US operations is especially challenging because of the interplay among different regulatory and legal systems in the various countries.

Examples of Change within PwC

PwC and many of the other large accounting firms are developing new policies, tools, systems, and methodologies for complying with the letter and spirit of the Act. The following section highlights some of the key changes that are being made at PwC.

Audit Methodology

We have updated our audit procedures to ensure we are addressing today's risks and meeting investors' expectations. To that end, recent policy changes and improved guidance focuses on the following key areas:

Helping audit teams develop a better understanding of their clients' businesses and industries, in order to effectively evaluate the risk of material misstatement and the controls that management has in place to mitigate that risk.

PwC Audit, our global audit methodology, sets forth a framework to help audit teams understand their clients' businesses. This framework includes information about the markets in which the companies operate, their strategy for increasing shareholder value,

critical value drivers, and internal performance metrics used by management. Our research shows that this is the type of information investors use to make investment decisions and, therefore, it is an important input for the audit team in forming its point of view on the client's business and risk, including audit risk.

In testing the information that management uses to run and control its business, we reconcile this information with that which management communicates to investors in its external financial reports. This helps us assess the transparency of financial reporting, as well as the risk of material misstatement. We also provide guidance to our teams to use specialists when audit risk is increased by the presence of complex information technology systems, or when the risk of material error due to management fraud exists.

In anticipation of next year's reporting requirements around internal controls under Section 404 of the Act, our public company audit engagement teams have been encouraged to take a greater "controls based" approach to their audits this year. While this level of controls testing is not the same as will be required for an attestation under the Act, it will enable our teams to communicate identified weaknesses in key controls to audit committees in the current year, as part of the financial statement audit process.

Increasing our consideration of the risk of management fraud and our ability to detect a material misstatement in the financial statements due to fraud.

Our audit teams around the world are increasing their emphasis on understanding the risk of fraud in the companies we audit as well as the fraud deterrence controls and procedures within those organizations. They are also performing additional fraud detection procedures as part of the financial statement audit. These procedures include:

- Consideration of key incentives and pressures to commit fraud

- How best to conduct client interviews regarding fraud
- Consideration of five key fraud risk areas: (1) revenue recognition, (2) journal entries and other adjustments, (3) management's accounting estimates, (4) significant unusual transactions and (5) suspense and inter-company accounts.

Engagement teams are required to determine, as part of our annual client acceptance and continuance process, whether heightened fraud risk exists based on specific criteria set forth in our policy. If the team determines that there is a heightened risk of fraud, they should consult with a risk management partner and a fraud detection specialist to determine whether additional procedures should be performed to mitigate the risk of error due to management fraud.

Recognizing our changing relationship with audit committees through increased communication.

Communicating effectively and candidly with audit committees is critical in today's environment. We have implemented a required audit committee communications framework that is used throughout the audit, from planning to completion. The framework covers four specific topics: our audit approach; our views on the company's level of audit risk and management's controls to mitigate key risks; the reliability and transparency of management's financial reporting; and corporate governance. Our public company engagement teams around the world are engaged in a dialogue with audit committees on these topics. This is in addition to the required communications under the Act and US Generally Accepted Auditing Standards (GAAS).

US Partner Compensation System

Many of the key components of our partner compensation system were in place prior to the Act. However, the Act provided the impetus to review the current system to ensure compliance with the rules. The resulting changes have been fully implemented for our current fiscal year.

PwC's reward system is aligned with the behaviors we expect from our partners. Our policy is to reward all partners equitably based upon the partner's responsibilities, role in the firm, and actual performance. The PwC US Partner Income System is primarily based on two components of income: the partner's level of responsibility within the firm (Responsibility Income) and the firm's performance (Equity Share Income). In addition, in a year when a partner delivers outstanding performance, he or she may also receive a performance award. We recognize the potential conflict of interest that can arise when a partner is directly compensated for selling non-audit services, and consistent with the SEC's rule, we do not compensate audit partners for selling non-audit services. Further, our system is not commissions-based, nor is it tied to audit or non-audit service revenue targets. The following is an expanded description of our compensation structure:

- *Responsibility Income.* The responsibility component of a partner's income reflects what the partner does and the degree of complexity inherent in that role. Each partner is assigned an appropriate responsibility level with a fixed level of income.
- *Equity Income.* The equity component of a partner's income is based on how well the overall firm has performed and the assigned number of equity units or shares for the partner's level of responsibility.

- *Performance Income.* Performance income is awarded to a small number of partners each year, based on the partner's individual performance against goals established at the beginning of the year.

In compensating our partners, the firm is mindful and fully supportive of the SEC's public policy goals. Most important, good judgment must be exercised in all cases to comply with both the letter and spirit of the Act.

Compliance and Independence Systems

PwC has made significant investments in state of the art systems for independence compliance. We are committed to continuing to provide the resources, systems, and processes that our firms and people need globally to comply with the rigorous auditor independence standards established by standard-setting bodies and regulators in the many different territories in which we operate.

The compliance framework that we have put in place predated the Act, and we have been able to use this robust framework quite effectively to implement the necessary regulatory changes. PwC member firms operate around the globe. Audit engagements performed in any given country (especially those that span borders) involve a complex -- sometimes overlapping, sometimes contradictory -- web of independence rules. PwC has addressed this challenge by putting in place a global framework of people, policies, processes, and systems to ensure compliance with all standards. Within this framework, PwC firms are responsible for establishing policies and conducting activities to help ensure independence compliance. The global organization establishes baseline standards

and monitors territory² activity to help ensure compliance. Key elements of this framework include a global organization of independence experts, global independence policies, sophisticated compliance monitoring systems, a global database of restricted entities, periodic training programs and technical communications, and substantive disciplinary processes.

PwC's Global Independence Policy sets forth principles and requirements to be followed with regard to all PwC audit clients, with emphasis given to major independence requirements that apply to certain types of audit engagements, for example, SEC audit clients. The global independence policy is based on the International Federation of Accountants (IFAC) Code of Ethics, since the Code is the only recognized worldwide standard for independence with respect to all audit engagements. The policy sets forth basic requirements that apply to all audit clients, and provides for incremental restrictions and processes with respect to SEC audit clients and such other audit clients as necessary³.

In many instances, we have consciously established independence policies that exceed the requirements of IFAC, the SEC, and other standard setters. This remains true even today with all of the additional requirements resulting from the Act. For example, the PwC independence policy generally prohibits partners from investing in any PwC audit client, while the IFAC Code restricts only those partners that have certain direct connections to the audit engagement.

² "Territory" refers to all of the PwC legal entities within a country. In certain instances, the legal entities in multiple countries comprise a territory.

³ As an example, the IFAC Code permits an audit firm to have an immaterial joint business relationship with an audit client as long as certain safeguards are applied. The SEC rules prohibit joint business relationships with SEC audit clients regardless of materiality or safeguards.

While policies, communications, and systems are important components of the compliance framework, we also conduct compliance reviews of our firms and our people. Beginning this year, we have instituted a global process to formally review and test compliance with independence activities in each territory. In conducting these reviews, we focus on the territory's organization, processes, policies, and compliance with PwC, regulatory, and local professional independence rules.

The PwC disciplinary policy holds persons found to have violated the PwC independence policy accountable for their actions, and discipline is based on the severity of the violation. Partners and staff who violate the independence policy are subject to sanctions including written reprimands, suspensions, monetary fines, and termination.

Selectivity Process

Some clients present us with much more risk than others. The riskier clients tend to have poor internal controls and/or an overly aggressive management. These clients generally have more errors and misstatements in their financial statements. This often carries too much risk for us. Accordingly, during the last year, the PwC US firm chose to re-examine its entire client portfolio -- with the primary goal of reducing overall risk. Engagement partners, risk management partners, and firm leadership reviewed all clients that exhibited a higher level of risk as determined by guidelines established by our Risk & Quality Group.

In total, 842 public and non-public clients were selected for such review. In each case, the client's risk factors were carefully evaluated as to whether the audit team could effectively manage the risk. For those clients where it was determined that PwC's risk was too high, the situation was discussed with the client's audit committee and/or management, who were given the opportunity to make the necessary changes within their organizations. If we believed the risk profile was still too high, PwC exited the relationship. The US firm terminated relationships with 159 clients -- representing about 250,000 annual audit hours.

Our actions have sent a strong message to the business community that PwC is standing firm on audit quality. PwC will continue to re-evaluate client relationships in this manner and exit those relationships where the client risk profile is beyond our acceptable limits.

Thought Leadership

When the Act was first passed, many were unclear on how its myriad provisions would impact them from both a technical and practical standpoint. In response, we got out in front of the issues and presented our viewpoints by developing a variety of thought leadership pieces that explored how the Act would impact the various market participants and our profession. These activities included the following:

- Web casts: We held a series of web casts designed to explore the implications of the Act --
 - *Corporate Responsibility under Section 302 of the Sarbanes-Oxley Act*
 - *Discussion on the Hill*

- *Final Rules on Auditor Independence*
- *Web cast Series on Section 302, Section 404, and Auditor Independence*
- White Papers: We produced three white papers that focused on key issues highlighted by the Act --
 - *The Sarbanes-Oxley Act of 2002: Strategies for Meeting New Internal Control Reporting Challenges* -- November 2002
 - *The Sarbanes-Oxley Act of 2002 And Current Proposals by NYSE, Amex and NASDAQ: Board and Audit Committee Roles in the Era of Corporate Reform* -- February 2003
 - *The Sarbanes-Oxley Act of 2002: Understanding the Auditor's Role in Building Public Trust* -- August 2003

Learning and Education

In January 2002, the US firm launched PwC University for its partners. The University provided partners with a forum to discuss our business strategy and reinforce a culture of quality throughout our organization. The design is built around several themes, which include driving quality throughout PwC and living our values of Leadership, Excellence and Teamwork. We also stress the need for personal development and continuous improvement. Since its inception, over 1,700 US partners have attended this program.

In May 2002, we launched the first Quality Lens educational course for our audit partners and 995 partners had completed the course by year-end. Among other things, Quality Lens focused on the underlying behaviors essential for an auditor, including:

professional skepticism, objectivity, and independence. In May 2003, we re-launched Quality Lens for our audit partners and managers to further strengthen our focus on quality. Training included coaching and mentoring; performing investigative interviews; and handling other difficult situations. Lastly, partners and managers participated in an audit simulation, which focused on the application of audit methodology and communications with audit committees and management. To date, over 2,000 partners and managers have attended this three-day program. In addition to the above, we have rolled out training for our partners and staff focusing on the framework for internal controls and testing, business risks, controls that mitigate those risks, fraud, and the use of specialists.

Finally, skills and knowledge related to US Generally Accepted Accounting Principles (GAAP) are critical to our profession and, as such, represent a significant area of training for our partners and staff. A core part of the curriculum comprises just-in-time training on Financial Accounting Standards Board (FASB) releases and implementation guidance from the FASB's Emerging Issues Task Force (EITF). Additional classroom training provides a forum for discussion and guidance on complex accounting issues related to topics such as stock-based compensation, derivatives, affiliated entities, income taxes, and revenue recognition.

Impact On the Way We Do Business

The Act has already had a profound impact on our business -- from our audit and tax practices to our firm's structure and the regulatory environment in which we operate.

Dramatic Changes to the Audit Relationship

One of the most significant changes arising from the Act is our direct linkage to audit committees. The Act now requires all public company audit committees to accept a higher level of responsibility, and we have begun to see the impact of that requirement. Audit committees are meeting much more often. They are more involved. They are probing much more deeply, and they are challenging what they are being told. This is excellent news for the investing public.

This change is significantly enhancing the audit process because the audit committee is much more attuned to investor protection and is actively supporting our audit efforts. All of this comes at a cost, however, and we should recognize this. We are spending more time on our audits as is appropriate. Audit committees are asking us to do more, our audit procedures have been expanded, and we have more senior people spending more time on audits resolving complex accounting questions. Our audit fees reflect this new environment, but it is a cost that is relatively small compared to the benefit -- a greater focus on investor protection.

Another cost is associated with the new Section 404 requirements to attest to the soundness of internal controls. We believe that this is one of the more significant requirements of the Act. When accounting problems occur it is often because the internal controls are weak. I am confident that the benefits of more transparent reporting and improved controls will far outweigh these additional costs.

On average, this expansion in the scope of the audit has increased the time spent on audit engagements by about 10 – 15 percent. This increase does not include the

additional work required for full compliance with Section 404 of the Act. We have invested significant dollars in hiring, training, and retaining highly qualified staff to ensure that the high quality of our audits is maintained. A tight market for auditing professionals has required us to increase compensation more than normal, and we have also spent about 15 percent more in training costs so that our staff has the necessary skills to deal with the new rules and regulations. Lastly, our insurance premiums for practice protection have soared due to increased litigation in the accounting arena, fewer re-insurers, unfavorable investment returns for insurance companies, and large insurance company losses. For our US firm, practice protection costs are now the second largest cost of doing business, second only to the compensation provided to its people.

A Significant Decrease in the Demand for Tax Services

One of the more controversial audit independence issues arising from the Act has been the provision of tax services to audit clients. The SEC largely settled the debate on tax services in the accompanying discussion section to its auditor independence rule, which rightfully acknowledges Congress's intent to expressly permit audit firms to provide tax services to audit clients. This was in recognition that these services are an integral part of the services provided by an accounting firm and that better audits are performed when tax professionals are involved with the complex and difficult judgments that need to be made with regard to a client's tax accruals and expenses.

Nonetheless, there seems to be a continuing drumbeat that auditors who provide tax services to audit clients are not independent -- even though Congress and the SEC carefully considered the issues and concluded to the contrary. As a result, our tax practice has experienced a significant decrease in demand for these services from our

SEC audit clients. The decrease in the US has been around 20 percent and evidence shows that the trend is continuing. One of the great checks and balances built into the Act is the audit committee's pre-approval process. We fully support this process but the continuing rhetoric around tax services may be pushing the pendulum too far from the mark. Precluding accounting firms from rendering tax services to their audit clients and the inevitable long-term consequences of an exodus of tax talent from accounting firms will not serve investors well.

Changes to the Business Model

In recent decades, accounting firms, traditionally providers of audit, tax, and related advisory services, became multi-faceted service providers. This development, in my view, commenced in the 1960's with the dawning of the information technology age, and was further accelerated by the removal of marketing restrictions by the Federal Trade Commission. To meet the demand for a broader array of services, accounting firms began to employ a wide range of professionals with varied backgrounds. Over time, the influence of these professionals grew and, as a result, the cultures within the firms slowly evolved from ones that were built around providing traditional audit, tax, and related advisory services to ones that de-emphasized those areas in favor of consulting services. In the 1990's, these consulting practices grew enormously.

We disposed of our consulting practice in October 2002. In addition, we disposed of certain other businesses such as our human resource consulting group and corporate valuation business.

Today, our practice is made up of three lines of service: audit, tax, and advisory. Our audit practice is focused on providing assurance on financial information. Our tax

practice provides a broad range of tax services from preparing tax returns to providing advice on the optimal treatment of economic transactions. Our advisory practice provides a broad range of services focused in large part on risk assessment and risk management. This practice is built on the core skills found in our audit and tax practices.

New Regulatory Oversight

In August, the PCAOB inspection staff began what they refer to as "limited inspection procedures" for each of the Big Four firms. The first part of the inspection process includes interviews with our national leaders and reviews of internal documents to gain an understanding of our firm's policies and procedures, and gain other insights into our operations. The second part consists of visits to certain practice offices and interviews with professional staff members at all levels. It will also include verification of information accumulated at the national level. Further, the inspection staff has told us that they will perform an in-depth inspection of the working papers in certain areas of selected issuers' audit engagements.

In the letter accompanying their data request, the PCAOB staff confirmed that the procedures they perform this year would focus on behavior, culture and other important processes including: tone at the top; partner evaluation, compensation, promotion, assignment of responsibilities, and discipline; independence implications of non-audit services; business ventures, alliances and arrangements; commissions and contingent fees; client acceptance and retention; our internal inspection program; practices for establishing/communicating audit policies, procedures, and methodologies, including

training; and policies/procedures for work performed by foreign affiliates on foreign operations of US audit clients.

Their data request covered a wide range of items: our values and Code of Conduct; organization charts; agendas for and minutes of management and board meetings; policy materials in the areas listed above; client satisfaction survey forms and summary results; staff survey forms and summary results; lists of public company proposals/re-proposals; public clients we no longer audited in the last year; descriptions of our current business model and strategic business plans, and the financing structure of the firm; descriptions of industry and geographic programs; communications from leadership to partners and staff; and details about our partner evaluation and compensation process and its outcomes, among other things.

We have provided all of the data requested and are responding to follow-up questions and requests for additional details. The interviews with national leaders have all been scheduled and will be completed by October 1. The first office visit is scheduled for October 6. We understand that the PCAOB's goal is to issue their report in December.

Our interactions to date provide us with a glimpse into our future in this new environment. It is clear that the scrutiny will be intense. We have approached our interactions with the PCAOB and its staff with a mindset of cooperation and openness, with the hope that PCAOB will share our goal of continually enhancing our systems and processes. We hope that the foundation of the inspection process will be the shared purpose of rebuilding the public trust in our profession rather than reprimands for unintentional errors.

Future of the Accounting Profession

Entrants into the Profession and Accounting Education

Much has been said about the need for the profession to recruit the best and the brightest. But the issues the profession faces in this area are really two-fold. First, can we continue to attract the right people into the profession and second, is the quality of education today sufficient to properly train these young people?

One has to be concerned, given the events of the last couple of years, about whether the best and the brightest students believe this profession offers them the long-term opportunity they are seeking. With confidence in the profession at a low point, with the media constantly focusing on the negative, and with the example of one of the most prestigious firms -- Andersen -- failing, I am concerned about the appeal of our profession to the next generation.

We cannot fulfill our mission without attracting and keeping the best and the brightest. No profession can. All the best efforts to restore public confidence will fail if independent auditing professionals are not on an equal intellectual and motivational footing with the executives of the companies they audit.

We have some concerns about the curricula. The US firm sponsored a study of the curricula at nine universities that produce a large number of graduates for the large public accounting firms. Completed in late 2002, this research broke new ground in the breadth and depth of its analysis of what is actually happening in the classroom and in understanding the intersection between collegiate education and continuing professional education. To stimulate productive dialogue on the future of accounting education, we

distributed our monograph, *“Educating for the Public Trust: PricewaterhouseCoopers Position on Accounting Education”*, to over 4,000 US accounting faculty and business school deans.

In addition, the firm and its partners and staff commit millions of dollars each year to support various curricula, faculty research, and other accounting educational programs in the US. We also sponsor PwC conferences and training programs for faculty as well as other initiatives that promote our profession among high school and college students.

Not only do we provide significant financial support, but we also spend a significant time and effort attracting top talent. This year alone, 700 partners will spend 35,000 hours on this effort. Our continuing investment and commitment to accounting education is absolutely critical to our future -- it is our future.

The Success of the Profession

The profession is at a critical juncture. We can no longer count on our proud history to speak for our importance. We must stand and be counted; and in doing so, establish a professional reputation that will ensure that we are recognized as leaders in the capital formation process. Our integrity must be beyond question. In addition to simply conducting business in an appropriate manner, a number of matters will need to be addressed by PwC, the profession, regulators, investors, attorneys, underwriters, analysts and others.

The following should be at the forefront of the profession’s agenda:

- *Ensuring that our firms have the right “tone at the top” and commitment to quality, excellence and restoring investor confidence*

- *Recruiting, developing and retaining the best and brightest professionals*
- *Converging systems, standards, and regulatory regimes globally*
- *Making sure that our business model appropriately balances our risks*

I also believe that, for the sake of the investing public, the PCAOB needs to set auditing standards that will enhance investor confidence. The PCAOB should seek the advice of professionals who have the practical experience to effectively develop auditing and other technical standards for the profession.

I invite my colleagues in the profession as well as investors, regulators, attorneys and others to join me in addressing these complex matters. We must remain true to our vision. We must also make sure that we hold one another to the highest possible standard and encourage those seeking entry into the market. Investors will benefit from having a broad range of qualified auditors. In this regard, regulators and others need to recognize how their actions may create barriers to entry.

A Proper Assessment of the Effects of the Act

The Act provides a good roadmap for moving ahead. However, as the most comprehensive piece of legislation affecting corporate governance and financial reporting since the securities laws of the 1930s, the new regulations adopted under the Act must be given ample time to prove their usefulness. It is critically important that we all be patient and not rush to judgment if something does not appear initially to be achieving its goal.

By taking a long-term approach, we will discover the law's true effectiveness in meeting its objectives. Auditors, audit committee members, executives, and others have just begun to work through the many nuances of complying with the new regulations and

some aspects are not yet effective. Additional time must pass before we step back and evaluate the effect of the Act to see whether its key objectives -- to protect investors by improving the accuracy and reliability of financial disclosures and restoring investor confidence -- have been met. It is absolutely critical, however, that we first allow the rules to “sink in” to corporate America’s consciousness and truly have a measurable effect on financial reporting and investor confidence. Only then can we make a valid assessment of the law’s impact. To evaluate too soon and launch further rulemaking projects would layer regulation upon regulation and risk further erosion of the public trust.

A Concerted Effort is Needed

Many parties, including corporate managements, boards of directors, audit committees, auditors, investment banks, attorneys, securities analysts, rating agencies, standard-setters, and regulators were accused of contributing to the string of US corporate failures that shocked the world financial community. As SEC Chairman William Donaldson testified recently before this Committee, “the sweeping reforms in the Sarbanes-Oxley Act address nearly every aspect and actor in our nation’s capital markets.” Because many viewed the corporate failures to be the fault of so many, federal lawmakers adopted a law that was intentionally far-reaching in scope and effect. As mandated by the law, the SEC adopted rules that implement several provisions of the Act, and the General Accounting Office (GAO) and SEC launched various studies. Shortly thereafter, the major US stock exchanges proposed new rules for listed companies. The

PCAOB worked quickly to establish itself and commence rulemaking and registration activities.

The lawmakers and the regulators have responded. Now it is time for groups and individuals who prepare, communicate, or use corporate reporting information to stand and be counted. Clearly, it is not enough that lawmakers and regulators change the rules; the players must be ready, willing, and able to apply them in the spirit in which they were intended. If they do not, then the effect of the Act will be muted and the desired impact lost. As auditors, we stand ready not to let that happen. As a firm, we have championed the cause of the Act by authoring books, white papers, and articles and making those publications widely available. We have taken every opportunity to spread the message of what needs to be done both inside and outside of the accounting profession to strengthen and safeguard our capital markets and restore investor faith in those markets. We will continue these efforts.

Conclusion

In conclusion, let me thank you for your leadership and support to re-establish and strengthen investor confidence and integrity in the capital markets. Rest assured that, at PwC, we understand the importance of the role that we play in the capital formation process. Further, we eagerly look forward to embracing change in the future as well as today. I have great faith in the market and the private sector. This market is the most effective and efficient ever devised.

Thank you again for inviting me to speak on behalf of PricewaterhouseCoopers. I would be happy to answer any questions.