Dear SEC Chairman: Some Suggestions

The changing of the guard in Washington offers a time for new approaches in many areas. Arthur Levitt served as SEC chairman for longer than any of his predecessors. During his tenure, our capital markets and economy experienced huge changes that now require a new agenda. Here's my list of issues that should be at the top of the agenda going forward.

- *The SEC can play a role in moving the markets away from a short-term, quarterly focus,* whereby companies are rewarded for careful attention to quarterly results, often at the expense of long-term investment. While most companies embrace the challenge to perform for their stakeholders, the truth is that this systemic problem has been brought about more by the hype and self-promotion of market-makers that imply some competitive benefit from a short-term information advantage.
- *10-Qs and 10-Ks are obsolete.* The amount of information available to investors is up exponentially over the past decade. User-friendly publications, analyst reports, television and Web sites are now the predominant sources of investor information. During that time, SEC filings have gone the other direction. New disclosure requirements have been piled on top of outdated ones. Boilerplate language abounds, as the governing rules themselves also have gotten more onerous. We need a zero-based look at what will make up a useful and readable set of SEC filings.
- *Don't react to individual problems, only systemic ones.* Too often in the past, a good media story or potential media attention has been a spur to considering new regulation. Let's have a more rational environment where one or two problems, like Orange County's internal control derivative breakdown, doesn't lead to complex, burdensome regulations like FAS 133 that will sap corporate resources without adding to investors' understanding of the company.
- *The media continues to try to reopen stock option accounting.* Options are impossible to measure fairly and are uniquely important to our economy, and the compromise of existing disclosure requirements is confusing and bad enough without further polluting financial statements. The amount of stock options given to employees is a governance matter between shareholders/owners and their managers. They don't need dictums from those not party to the relationship.
- *The marketplace would welcome a transitional plan moving toward acceptance of global accounting standards that are recognized by the SEC.* Today, there are 40 different sets of accounting rules around the world. Also, the required reconciliation of international accounting standards (IAS) to U.S. GAAP in financial filings should be phased out as the two standards converge.
- *Execute a plan to make posting news and material information on corporate Web sites an acceptable — indeed, the preferred — means of public disclosure.* Don't listen to those who claim technology is not pervasive enough to allow this. Try to tell voters in Florida that Internet voting would not be a better platform.
- *Modify the recently adopted SEC rules on auditor independence,* specifically those concerning limits on a company's use of its auditor for internal audit work. This provision detracts from our great system of financial reporting and control. Many companies will choose to have no internal audit program because of the added cost of this provision.
- *Investor protection involves much more than issuer regulation.* Much more money would have been saved for investors in recent periods if the market mechanisms for obtaining the lowest share prices had been regulated as tightly as financial reporting.
- *Encourage best practices among corporate audit committees.* The SEC can use its influence to promote the highest quality of professionalism, financial expertise and ethics for audit committees, who play a pivotal role in corporate governance.
- *Use enforcement of current SEC regulations to a greater extent, rather than add regulations.* Enforcement needs more funding and more emphasis.
- *Allow the FASB to set its own agenda and priorities.* The SEC has delegated the accounting standard-setting authority to the FASB, and it should stick to that principle. The SEC should not make new GAAP through its rulemaking.
- *Modernize the SEC.* It's time to review and update the 1933 and 1934 Securities and Exchange Acts in an effort to streamline regulatory jurisdiction over publicly held companies and work to revamp financial reporting requirements. What was good and sensible 70 years ago may not be the case in 2001.
- *Speak with one voice.* In the past, companies have gotten mixed messages from the SEC, and have sensed differing objectives among SEC staff. It's imperative that the SEC's civil service staff pursues the same agenda as the SEC's appointed leadership.
- *Last, pay your staff more to attract and retain top people.* In today's ultra-tight labor market, the best and brightest have a lot of options. The SEC can do more to make working for the commission attractive. That will require a boost in true incentive pay.

Good luck in the new job!

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