

Independence of Accounting and Auditing Standard Setters

Audited financial statements including related disclosures are a critical source of information to institutional investors making investment decisions. The efficiency of global markets—and the well-being of the investors who entrust their financial present and future to those markets—depends, in significant part, on the quality, comparability and reliability of the information provided by audited financial statements and disclosures. The quality, comparability and reliability of that information, in turn, depends directly on the quality of the financial reporting standards that: (1) enterprises use to recognize, measure and report their economic activities and events; and (2) auditors use in providing assurance that the preparers' recognition, measurement and disclosures are free of material misstatements or omissions. The result should be timely, transparent and understandable financial reports.

The Council has consistently supported the view that the responsibility to promulgate accounting and auditing standards should reside with independent private sector organizations. The globalization of financial markets has brought calls from some regulators, stock exchanges, corporations, auditing firms and other parties for the replacement of U.S. accounting and auditing standards and standard setters with international standards and standard setters.

The Council supports U.S. accounting and auditing standard setters cooperatively working with their international counterparts toward a common goal of convergence to a single set of high quality standards designed to produce comparable, reliable, timely, transparent and understandable financial information that will meet the needs of institutional investors and other consumers of audited financial reports. The Council, however, does not support replacing U.S. accounting or auditing standards or standard setters with international standards or standard setters unless and until all of the following steps have been achieved:

- In the aggregate, the information that results from the application of international accounting and auditing standards is, at a minimum, of the same quality as the information resulting from U.S. accounting and auditing standards;
- The application (by U.S. companies and their auditors) and enforcement (by U.S. regulators) of the international accounting and auditing standards are at least as rigorous and consistent as the application and enforcement of U.S. accounting and auditing standards;
- The international standard setter has sufficient resources—including a secure stable source of funding that is not dependent on voluntary contributions of those subject to the standards;
- The international standard setter has a full-time standard-setting board and staff that are free of bias and possess the technical expertise necessary to fulfill their important roles;
- The international standard setter has demonstrated a clear recognition that investors are the key customer of audited financial reports and, therefore, the primary role of audited financial reports should be to satisfy in a timely manner investors' information needs. This includes having significant, prominent and adequately balanced representation from qualified investors on the standard setter's staff, standard-setting board, oversight board and outside monitoring or advisory groups;
- The international standard setter has a thorough public due process that includes solicitation of investor input on proposals and careful consideration of investor views before issuing proposals or final standards; and

- The international standard setter has a structure and process that adequately protects the standard setter's technical decisions and judgments (including the timing of the implementation of standards) from being overridden by government officials or bodies.

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