Profile: James Kroeker

The Financial Reporting Chain Is Only as Strong as Its Weakest Link

The Chief Accountant of the US Securities and Exchange Commission supports much-needed improvements in various accounting, auditing, and governance matters.

Intro

In his role as the chief accountant of the US Securities and Exchange Commission (SEC), James Kroeker advises the Commission on accounting and auditing matters, so it is especially in those areas that Mr. Kroeker has the strongest opinions about much-needed improvements, some of which have been highlighted by the financial crisis. In this interview, he also shares a few thoughts on corporate governance, as well as several SEC initiatives, from inside and outside the Office of the Chief Accountant (OCA).

James Kroeker: A brief bio

James Kroeker was appointed chief accountant of the US Securities and Exchange Commission (SEC) in 2009. In this capacity, Mr. Kroeker oversees accounting interpretations, professional practice issues, and international accounting matters, and is the principal adviser to the Commission on accounting and auditing matters.

See also www.sec.gov/news/press/2009/2009-187.htm.

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Securities and Exchange Commission

The mission of the US Securities and Exchange Commission (SEC) is to protect investors; maintain fair, orderly, and efficient markets; and facilitate capital formation. The laws and rules that govern the securities industry in the United States derive from a simple and straightforward concept: all investors, whether large institutions or private individuals, should have access to certain basic facts about an investment prior to buying it, and as long as they hold it. To achieve this, the SEC requires public companies to disclose meaningful financial and other information to the public. This provides a common pool of knowledge for all investors to use to judge for themselves whether to buy, sell, or hold a particular security. To help support investor education, the SEC offers the public a wealth of educational information on its website, which also includes the EDGAR database of disclosure documents that public companies listed in the US are required to file with the Commission.

See also www.sec.gov/about/whatwedo.shtml.

Office of the Chief Accountant

The Office of the Chief Accountant assists the Commission in executing its responsibility under the securities laws to establish accounting principles, and for overseeing the private sector standard-setting process. The office works closely with the Financial Accounting Standards Board, whose standards the Commission has recognized as "generally accepted" for the purposes of the federal securities laws, as well as the International Accounting Standards Board and the American Institute of Certified Public Accountants.

In addition to its responsibility for accounting standards, the Commission—with the advice and assistance of the Office of the Chief Accountant—oversees, and approves all auditing standards issued by, the Public Company Accounting Oversight Board (PCAOB), a private sector regulator established by the Sarbanes-Oxley Act to oversee the auditing profession. The office also consults with registrants and auditors on a regular basis regarding the application of accounting and auditing standards and financial disclosure requirements.

See also www.sec.gov/about/offices/oca.htm.

1. Corporate governance

The SEC has undertaken a number of initiatives in the area of corporate governance.

Improving corporate governance

According to many participants in IFAC's earlier research, remuneration for directors and executives is clearly an issue that requires urgent attention. What actions are you taking to improve corporate governance, including remuneration policies for directors and executives?

"The SEC voted in July 2009 on three measures that are intended to better inform or empower investors and to improve corporate governance:

- One proposal related to requiring public companies that receive TARP money to provide shareholders with a vote on executive pay, [1] so in the space of improving corporate governance around pay structures, and providing transparency and access to shareholders, at least in that proposal, [we'll see that from] those receiving TARP funds. That rule became effective in February of this year;
- The Commission also voted to propose better disclosure of executive compensation for companies in their proxy statements; that rule was adopted in February; and
- Finally, the Commission approved the New York Stock Exchange (NYSE) rule to prohibit brokers from voting proxies in corporate elections without the instructions from the ultimate investors."

[1] TARP stands for Troubled Asset Relief Program.

Investor Advisory Committee

"The SEC recently formed an Investor Advisory Committee. This committee has three subcommittees, one of which focuses directly on investors as shareholders. That subcommittee is chaired by Stephen Davis, Executive Director of the Millstein Center for Corporate Governance at the Yale University School of Management, and is going to look at things like proxy solicitation and disclosure; proxy voting, including the role of proxy advisory firms; majority voting; and fair disclosure (Regulation FD). They will also look at a number of other issues, such as executive compensation practices, responsibility of shareholders, international convergence around corporate governance, and corporate governance issues. Last but not less important, they will also look at technology related to shareholder communication. So corporate governance is one of the important focuses of that committee, which will be making recommendations to the Commission."

See also www.sec.gov/spotlight/investoradvisorycommittee.shtml.

Importance of a strong audit committee

What are your views on having/requiring financial competence in boards and having/requiring financial specialism for preparer, CFO, and audit-committee functions?

"I think an important reform coming out of the US Sarbanes-Oxley Act (SOX) and revisions to US listing requirements were provisions to strengthen the audit committee, [2] so that you have a greater linkage with the external auditor at the governance level of the company. The audit committee now has the required expertise to really engage with the auditor and discuss the auditor's assessment of management performance for the year."

Professional competencies of accounting staff

The strength of the financial reporting supply chain is determined by its weakest link. Should regulators focus on professional competencies not only for boards, audit committees, and external auditors, but also for accounting staff and CFOs?

"There is no doubt in my mind that you need professionalism at the senior accounting staff level within corporations. This raises an interesting question about what it means to be a professional. Does that mean that you have a designation behind your name? Having a designation behind your name often means that you are subject to ethical standards and continuing professional education. Maybe you don't always need a professional designation, but you would expect professional behavior!

"Reforms to strengthen professional behavior can be done within the industry itself, or via boards and audit committees challenging the professionalism of their accounting staff. Also, the auditors can play an important role in their discussions with the audit committee on their views of the professionalism of the accounting staff. A chain is only as strong as its weakest link."

[2] SOX was enacted in 2002 "to protect investors by improving the accuracy and reliability of corporate disclosures."

2. Financial reporting

Financial reporting is at the heart of the work of the Chief Accountant of the SEC, who is responsible for establishing and enforcing accounting policy to enhance the transparency and relevancy of financial reporting. His office works closely with domestic private sector accounting bodies, such as the Financial Accounting Standards Board (FASB) in establishing US generally accepted accounting principles (US GAAP).[3]

Balance principles and guidance

One of the reasons that US GAAP has mushroomed over the years has been the attempt to come up with a specific rule or guidance for every specific situation. Wouldn't it be better to return to the underlying generally accepted accounting principles?

"Some have brought that question into our discussion on the potential move to more globally consistent accounting standards, including the Commission's consideration of International Financial Reporting Standards (IFRS). My view is not that IFRS is necessarily principles based and US GAAP is rules based. Almost every standard in US GAAP has principles behind it. US GAAP has been around quite a bit longer and more issues have been addressed, so there are certainly more details in US GAAP.

"Standards should have a clearly articulated principle or objective, but you also need to have sufficient guidance so that you don't get broad ranges of diversity in practice."

"Standards should have a clearly articulated principle or objective, but you also need to have sufficient guidance so that you don't get broad ranges of diversity in practice. I am not arguing for bright lines in all circumstances, but sometimes they can be helpful (see 'Bright lines can be helpful'). So there is a balance to be struck. A while ago, the SEC staff published a report on objectives-based standards,[4] in which it attempted to articulate that balance between where principles or objectives are sufficient and where additional detailed guidance can help."

Bright lines can be helpful

"An interesting example—and this is something that really challenged my thinking—is the US GAAP principle that short-term high-liquidity investments that are readily convertible to cash should be recorded as cash and cash equivalents. All you need to know is that these investments are very short termed in nature. But then, people might be confused about, or have different views about, what 'short-term investment' actually means: maturities of seven days or maturities of less than two years? In US GAAP, there was a bright line drawn that said, 'No maturities over three months.' I actually think, in that example, the bright line provides both preparers and auditors with a pretty clear understanding of the objective."

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[3] Since 1973, the Financial Accounting Standards Board (FASB) has been the designated organization in the private sector for establishing authoritative accounting principles and standards, in the absence of any contrary determination by the SEC.

[4] *Study Pursuant to Section 108(d) of the Sarbanes-Oxley Act of 2002 on the Adoption by the United States Financial Reporting System of a Principles-Based Accounting System*, released July 25, 2003

Focus on the best business deal, and let the accounting chips fall where they fall

“People often hold out the standards for derivative and hedge accounting or lease accounting as the poster child for volume and complexity. Let’s take a step back and ask ourselves what generated such volume and complexity in those standards. In many cases, it can be attributed to requests by a host of people—whether preparers, auditors, or others—for exceptions to the general rule and to the development of practices that push up against the very standard itself. I experienced this as an auditor, and I still see it when people come talking to us about the issues they face: they have a highly structured transaction that is specifically designed to press up against the accounting standards, and then they say, ‘This is very complex to account for!’ Instead, these people should focus on closing the best business deal and then let the accounting chips fall where they fall. That would certainly go a long way in helping to reduce the volume of accounting literature and the complexity of accounting.”

Interactive data, such as XBRL, for increased comparability

“Business is complex. If you take a global business that is managing many complex operations and risks, it is not always going to be an easy task. Then one has to try to fit that on an 8½-by-11-inch sheet of paper. But there are things that we and the financial reporting community can do to help. For example, we can use interactive data, such as the XBRL initiative of the SEC (see also ‘XBRL initiative of the SEC’), as an additional tool to help provide for increased comparability which will, at least, ease the difficulty for investors comparing organizations against one another. And this is an area where the Commission has taken some significant steps over the last several years, leading to the point now where 500-plus companies are within the mandate to provide financial information to the SEC in an interactive format, with more and more companies using this format over time.

“XBRL or, more generally, interactive data, can be even more useful to retail investors than to sophisticated financial analysts, who already have their models and the ability to disaggregate data.”

XBRL initiative of the SEC

The Office of Interactive Disclosure (OID) carries out the SEC's commitment to make financial disclosure accessible and easy to use through the application of interactive data. Starting with fiscal periods ending on or after June 15, 2009, the Commission's rules require some public companies to submit their financial statements in the XBRL interactive data format. The requirement will be phased in for all public companies that file their financial reports with the Commission.

The OID also designs and implements technological processes and tools to support interactive data use, and identifies and researches new uses for interactive data.

See also www.sec.gov/spotlight/xbrl.shtml.

Get closer to the economics of a transaction

“I certainly look at individual standards and see an awful lot of specific disclosure requirements, such as pension disclosures, that are many pages long. Many of these additional disclosure requirements have been developed because they are viewed as being useful to investors. The FASB should not require additional disclosures or information if they do not think it would be relevant to users of financial statements. However, if there are better ways to get closer to the economics of a transaction, or to communicate more transparently, such as by using plainer English, I think that is what the FASB should have in mind when it is setting disclosure requirements.

"The SEC Advisory Committee on Improvements to Financial Reporting (CIFiR,[5] a committee in which Mr. Kroeker was the Designated Federal Officer) had a lot of advice to the SEC and FASB on how to help avoid some of that voluminous disclosure in the future. Interestingly enough, though, the focus of this committee of representatives of the capital markets was not on reducing the overall volume or complexity of accounting standards, but actually to elevate financial reporting: to simplify and improve disclosure, to get closer to the economics of a transaction that you are trying to capture (see also 'CIFiR recommendations')."

CIFiR recommendations

The *Final Report of the Advisory Committee on Improvements to Financial Reporting* (2008) provided a number of proposals to improve financial reporting:

- **Increase the usefulness of information in SEC reports:** (a) include a short executive summary, (b) place summary information on corporate websites, with hyperlinks to more details, (c) tag financial reports using XBRL, and (d) develop key performance indicators on an activity and industry basis.
- **Enhance the accounting standards-setting process:** (a) increase user representation on the FASB, (b) increase the field work for proposed standards, as well as periodic assessments of existing standards, and (c) create a financial reporting forum with key public and private parties.
- **Improve the substantive design of new accounting standards:** (a) divide a company's financial statements into cohesive components, (b) use proportionate recognition, consideration of qualitative factors, and enhanced disclosures, rather than all-or-nothing bright-line tests, and (c) move away from industry-specific guidance and focus on the nature of the business activity itself.
- **Delineate authoritative interpretive guidance:** (a) clearly label such guidance as non-authoritative to avoid confusion, and (b) designate a single standard setter (FASB) for all authoritative accounting standards and interpretive implementation guidance.
- **Clarify financial restatements and accounting judgments:** (a) separate the determination of whether an accounting error is material from the decision on how to correct it, and (b) provide more transparency into how regulators evaluate the reasonableness of a judgment.

See also www.sec.gov/news/press/2008/2008-166.htm.

[5] Also called "Pozen Committee" after its chair, Robert C. Pozen.

Exercise professional judgment

How are the SEC and FASB doing with the implementation of CIFiR recommendations on reducing complexity in financial reporting?

"I see FASB as best positioned to talk about its own work, but I know that the CIFiR recommendations shaped what the Board is doing on a daily basis, starting with recommendations to continue enhancing the input that they receive from investors. And in their standard-setting work they are being very careful not to develop industry-based guidance, always questioning whether a particular activity for XYZ industry is really unique and would require a different accounting treatment.

"In terms of what is going on at the SEC, the staff continue to do a lot of thinking about professional judgment, and judgment in general, in response to the recommendation of CIFiR that articulates how we ought to look at accounting judgments. That is what we are actually asking the preparers and auditors to do."

Consult with the SEC on accounting judgments

Do you think that those people—preparers and auditors—are eager to use professional judgment in the current US environment?

"I would encourage anyone who feels that the information they are required to report does not transparently portray the economics of their business to consult with us. People can actually proactively reach out to their industry group in our Division of Corporation Finance and explain their accounting issues. We are still going to ask them to comply with the standards, but if there is a better way to do that, we are always interested in that. It can tell us of important areas where there are gains to be had, not only with respect to the specific issue, but also with respect to improving disclosure in general.

> "I would encourage anyone who feels that the information they are required to report does not transparently portray the economics of their business to consult with us."

"The types of questions we are likely to ask people that are seeking our advice are, for example:

- Have you identified all authoritative applicable literature?
- Have you thought about how the accounting you are proposing provides transparency to investors?
- Have you looked at practice, and have you seen what others have done in the same situation?

"Not that we don't think about the issue, but I would point out that what people are asking from us is exactly what we are asking from them: to exercise professional judgment."

There isn't a single way to achieve globally consistent accounting standards

In what direction should the US accounting standards go: straightforward adoption of IFRS, or further convergence between US GAAP and IFRS?

"We received a lot of comments from a broad range of stakeholders on the proposed SEC Roadmap on potential incorporation of IFRS, and many of them thought there was a benefit from global consistency in standards. However, there are certainly different viewpoints on how to best accomplish that. A full-blown move to IFRS as issued by the International Accounting Standards Board (IASB) is one end of the spectrum. Some respondents had recommendations we should take pieces of IFRS and move them into US GAAP. For most respondents, however, there was the recommendation that there should be further continuation of the FASB and IASB convergence effort before a final decision is made. And if the FASB would remain the national standard setter, they would continue to work with the IASB for those standards that aren't converged to figure out how to phase in changes for US companies. Even at the end of a convergence effort, you might say that there are some pieces of US GAAP that remain."

Wouldn't small- and medium-sized entities benefit from global accounting standards as well?

"I don't think consistency in standards is just an issue for large US companies. We heard from smaller and medium-sized companies as well that they thought there was a benefit in more consistency—from those that are doing business globally, but even from those that are focused more domestically, because they compete, at various degrees, with other companies that are raising capital and/or have more global operations."

Provide an MD&A so investors can understand the broader picture

A lot of investors have told us in our previous studies that narrative reporting—or Management Discussion and Analysis (MD&A), as it is called in the US—is one of the most important things that they look at when analyzing a company. Do you have any views on how we could further improve the MD&A?

"The financial information provided by US GAAP is an extremely important starting point, but in business reports today, this is not the end of it. Therefore, we have MD&A and other information about the business, so investors can understand the broader picture.

"The use of key performance indicators (KPIs) can be important in the MD&A. I saw some pretty dynamic presentations at CIFiR of how we can use technology to integrate financial information with other aspects of the business, either new customers or new products. I haven't formed a view on whether sustainability, corporate social reporting, financial statements, et cetera, should be all in one big annual report, but how companies could most effectively present this information is certainly something to think about."

Do you think the (KPIs in the) MD&A information should also be tagged in some sort of XBRL format?

"The SEC's current initiative starts with the base financial statements themselves and then phases in financial footnotes. I don't think the idea was that XBRL had to start and end with financial reporting, and MD&A might be a logical candidate to consider in expanding the use of XBRL. Once people get comfortable with using XBRL, it is an idea that that could expand into, for example, the KPIs that are included in the MD&A. Right now, however, we are monitoring the existing financial statement roll-out."

Do you have any suggestions to further ensure that MD&As are balanced in terms of providing both the positive aspects and the challenges a company faces?

"The objective of the MD&A is certainly not just to focus unilaterally on the positive aspects. The objective is to give management's perspective on the operations, but it isn't at all designed to give an opportunity to highlight the good and not disclose the bad. That leads to a lack of compliance. One good reminder is that the SEC has a Division of Enforcement that will certainly be interested. And it is [also] something our Division of Corporation Finance looks at when they are reviewing public company filings, which it does a minimum of once every three years."

3. Financial auditing

The SEC's Office of the Chief Accountant works closely with the Public Company Accounting Oversight Board (PCAOB) to develop auditing policies and procedures that promote the development of reliable financial reporting information. It also manages the resolution of auditor and preparer independence, and ethical matters that have been brought to the attention of the staff of the Commission.

Be conscious of the differences in auditing standards, and be clear about them

In IFAC's earlier studies, respondents were supportive of convergence to one set of global auditing standards, and in particular the alignment of the standards of the [US] Public Company Accounting Oversight Board (PCAOB) and the International Standards on Auditing from IFAC.

"The various auditing standards—for public companies, for private companies, for doing an audit under global auditing standards—continue to be an important area for us. In the recent meeting of the PCAOB Standing Advisory Group, the Chief Auditor of the PCAOB did a good job explaining how they are trying to foster an environment that minimizes the differences between the PCAOB auditing standards and the International Standards on Auditing (ISAs). If the PCAOB is looking at a standard in a certain area, they consider the equivalent or comparable ISA and then determine if that would be the best basis by which to implement a standard in the US. I think that many times, they come to the conclusion that it is.

"And in those cases when they think that differentiations are required for the US market—for investor protection, for additional clarity, or for whatever reason—they are certainly trying to do a good job of clearly explaining the differences. That will then be useful to auditors who do work under the PCAOB standards. So they very well understand the differences—both trying to minimize the differences and also being clear about those situations that, for whatever reason, require differentiation."

Auditors should signal systemic risks at an earlier stage

What should or could accountants do [better] to help prevent crises like this recent one from happening in the future?

"Obviously, the auditor's primary focus is with the risks borne by the individual entities that they are auditing. But if auditors see across the multiple companies that there needs to be improvement in the standards—because they are permitting or encouraging undesirable types of behavior—we would be very happy if they would like to talk to us or make folks aware of that.

"I think off-balance-sheet accounting is an area where accountants and auditors broadly could have done a better job of waving their hands and saying, 'Look, here is the behavior we see occurring.' Maybe accountants and auditors should have realized the systemic risks of the widespread lending behavior where the originators were not necessarily that interested in loan quality, as long as they could (re)package it and put it in a structured investment vehicle (SIV). This is at least an example where accountants and auditors could have done a better job earlier on, raising their hands and saying, 'Look, SEC, look, FASB, look, PCAOB, there is an issue here that needs to be addressed.' I wouldn't just pin that on auditors, though."

Should auditors also look at the broader risk picture of an organization?

"That is another challenging question for me, at least in the role of Chief Accountant: 'What is the role of auditors over business risk?' And that is not entirely distinct, because certain business risks directly merge into financial reporting risks. Look, for example, at the impairment of assets by financial institutions. In this respect, auditors should certainly look at the greater risk picture. I am uncertain, however, about the desirability of auditors being involved in attesting [as to] whether the company has the right business model or strategy. For example, is a pharmaceutical company making the right decision to pursue or to forego investment on some drug development? Obviously, these are business risks that ultimately have an impact on financial reporting, but I am not sure about whether the auditor should have an expanded role."

Auditor choice

Limited choice of audit firms was an issue identified in our previous report. Do you have any views or suggestions on how to increase choice of audit firms?

"This is an area where the Treasury Advisory Committee tried to provide some thoughts in terms of how you foster greater choice in auditors (see also 'Recommendations of the Treasury Advisory Committee'). One of the points is that for many public companies, their choice isn't actually limited to a very small number of audit firms, but that there are a great number of firms that could and would do their audits. And in those situations where companies feel that they effectively do not have a choice—because of, for example, the provision of [advisory] services a number of years ago that would prohibit a change in auditor—I would encourage them to come and talk to us. Obviously, they need to clean up their independence issues themselves first, but if there are real remaining issues that impede them from switching their auditor, they should consult with my office."

Recommendations of the Treasury Advisory Committee

The *Final Report of the Advisory Committee on the Auditing Profession to the US Department of the Treasury* offered 31 recommendations derived from the deliberations of three subcommittees, each focused on one of three key areas—human capital, firm structure and finances, and concentration and competition. Some of the (shortened) recommendations from this committee were:

- Encourage greater regulatory cooperation and oversight of the auditing profession, to improve the quality of the audit and enhance confidence in the auditing profession and financial reporting.
- Explore the possibility and feasibility of independent members to firm boards and/or advisory boards with meaningful governance responsibilities to improve governance and transparency of auditing firms.
- Consider improvements to the auditor's standard reporting model.
- Require that larger auditing firms produce a public annual report.

- Reduce barriers to the growth of smaller auditing firms.
- Monitor potential sources of catastrophic risk faced by auditing firms, and create a mechanism for the preservation and rehabilitation of troubled larger public-company auditing firms.
- Develop key indicators of audit quality and effectiveness, and require auditing firms to publicly disclose these indicators.
- Promote the understanding of and compliance with auditor independence requirements.
- Adopt annual shareholder ratification of public-company auditors by all public companies.
- Enhance regulatory collaboration between the PCAOB and its foreign counterparts.

See also www.ustreas.gov/offices/domestic-finance/acap/docs/final-report.pdf.

Promote better understanding of auditor independence

"The Treasury's Advisory Committee on the Auditing Profession has a number of proposals, which are also related to corporate governance and would be important for us to consider, such as promoting better understanding by those charged with corporate governance of auditor independence requirements. This could be done by making all the auditor independence requirements, such as those established by the SEC and PCAOB, more accessible—for example, by putting them in one place on a website. That would make it easier for those charged with governance—the audit oversight group or the audit committee—to gain a better understanding of the auditor independence requirements, and I think this is a very important step that potentially can be taken."

4. Usefulness of financial reports

The SEC press release on your appointment as Chief Accountant said that investors would benefit from your sound judgment and dedication to making financial information more transparent and understandable. What would be your view on how financial reporting should develop in 5 to 10 years from now?

Continue emphasis on global comparability of standards

"One priority would be the continued emphasis on global comparability, so investors—whether in the US or any other capital market around the world—would benefit from reducing the need to understand or to compare different sets of accounting standards. So I would put continued progress toward eliminating differences in standards globally high on my list."

Tagging accounting treatments in electronic format

"If we could, for example, combine the FASB's project on reporting financial performance with XBRL, maybe that would help to get beyond the accounting debate between the use of cost or fair value information. When both accounting treatments are tagged in an electronic format and provided as interactive data, investors can move very easily between those two and put together the presentation that they think is most relevant to them. The technology already exists, and I don't think it is hard to envision that in 5 to 10 years from now we could that.

"We could do the same thing with other complex accounting issues like off-balance-sheet accounting. If you've got certain types of structured investment products, and there is a close call to whether or not they ought to be on- or off-balance-sheet, someone might say, 'I prefer to see those types of things included in my analysis of balance-sheet exposure,' while somebody else might say: 'As I am doing my financial statement analysis, I look at it differently.' Investors then can slice and dice the information the way they like.

"I realize that also introduces auditing questions that we have to work through. If you start portraying financial information differently, that challenges how an audit opinion should look, because the current audit opinion is focused very much on sheets of paper: the balance sheet and the income statement taken as a whole. So if you push beyond having one prescribed way of providing financial statements, what does that mean for an auditor? That opens up interesting questions on what type of opinion the auditor should provide."

Eliminating unnecessary complexity

"We should also continue our focus on eliminating unnecessary complexity from accounting, which we can take back to the CIFiR objectives (see above). For example, the Microsoft presentation that was done for the CIFiR project showed what could already be done today. They were using interactive data and websites, and if investors want to know more about revenue, they could scroll over the revenue number with their mouse and then drill down to more detailed information, such as revenue by geographical region or by the various products (see also 'Microsoft Investor Central')."

Microsoft Investor Central

The website, Microsoft Investor Central, was developed to demonstrate the potential of using technology and non-financial reporting to provide more relevant information to investors, and Microsoft has continued to maintain it after the work of CIFiR concluded. It takes advantage of new technologies like XBRL and Silverlight that provide an interactive user experience. As you navigate around the site, you'll view financial data presented in graphical forms and find links to useful information, including video and audio presentations.

See also www.microsoft.com/msft/IC/Default.aspx.

Summary of James Kroeker interview

1. An important reform coming out of the US Sarbanes-Oxley Act and revisions to US listing requirements were provisions to strengthen the audit committee, so that you have a greater linkage with the external auditor at the governance level of the company.
2. Accounting standards should have a clearly articulated principle or objective, but you also need to have sufficient guidance so that you don't get broad ranges of diversity in practice.
3. You need professionalism at the senior accounting staff level within corporations. Maybe you don't always need a professional designation, but you would expect professional behavior.
4. Instead of developing highly structured transactions that are specifically designed to press up against the accounting standards, people should focus on closing the best business deal and then let the accounting chips fall where they fall. That would certainly go a long way in helping to reduce the volume of accounting literature and the complexity of accounting.
5. What people are asking from us (the Office of the Chief Accountant of the SEC) is exactly what we are asking from them: to exercise professional judgment.
6. The financial information provided by US GAAP is an extremely important starting point, but in business reports today, this is not the end of it. Therefore, we have MD&A and other information about the business, so investors can understand the broader picture.
7. The objective of the MD&A is certainly not to just focus unilaterally on the positive aspects. The objective is to give management's perspective on the operations, but it isn't at all designed to give an opportunity to highlight the good and not disclose the bad.
8. If auditors see across the multiple companies that there needs to be improvement in the standards—because they are permitting or encouraging undesirable types of behavior—we would be very happy if they would like to talk to us or make folks aware of that.

We welcome your feedback on this interview. To provide us with your feedback, please complete this brief survey.