



Profile: Patricia Cochran
CFO with a Clear Vision

Long-term CFO Patricia Cochran shares her experiences—and sometimes frustrations—in the areas of corporate governance, financial reporting, and auditing, and provides recommendations for further improvement.

Intro

Having worked as chief financial officer (CFO) for the same company, Vision Service Plan (VSP) for more than 30 years—and having contributed to its impressive revenue growth from 30 million US dollars in 1978 to 3.5 billion US dollars in 2009—US-based Patricia Cochran has experienced firsthand the great changes that have taken place in corporate governance, financial reporting, and financial auditing, over time and as a result of the company’s national and international expansion. Overwhelmed with different sets of rules and regulations in every jurisdiction in which the company has pitched its tents, Ms. Cochran is a

Patricia Cochran: A brief bio

Patricia Cochran was the chief financial officer and vice-president of Vision Service Plan (VSP), the largest provider of eye care benefits in the US, from 1990 through 2009. She joined the company in 1978 and currently continues to serve it in a consulting capacity. She also participates on the Boards of Directors of the AICPA, Catholic Healthcare West’s four Sacramento community hospitals, Mercy Investment Services, and Mechanics Bank.

See also “About Vision Service Plan (VSP).”

strong proponent of transition—or at least further convergence—to global rules, regulations, and standards, for corporate governance, financial reporting, and auditing. In her own words, “Getting the whole world to use the same standards would be a big step forward.”

About Vision Service Plan (VSP)

Founded in 1955, VSP is the largest provider of eye care plans in the US, covering over 55 million people throughout the country, which means that about one out of every six Americans has VSP’s vision coverage. It is now a 3.5-billion-dollar company (annual revenue).

A vertically integrated, global company, VSP offers a variety of eye care products, services, and benefits, including eye care coverage (provided mainly through employers) and specialty products and services for eye examinations. It also designs and manufactures (primarily in China) sunglasses and eyeglass frames for optical prescriptions in 80 countries around the world, featuring such brand names as Nike and Calvin Klein. VSP also operates optical laboratories and doctor practice management companies. See also www.vsp.com.

Convergence of governance regulation would take most of the complexity and costs out of compliance

How are the various reporting and governance regulations impacting your company?

“From a corporate governance perspective, for a company like VSP, which operates across state and international borders, compliance with the various corporate governance requirements can be pretty complicated in terms of the (local) regulations and making sure that we remain up-to-date with all the changing requirements. The complexity of compliance requirements and the various overlapping requirements are the main concerns that I have in terms of corporate governance.

“Further convergence of corporate governance and other regulations between states and countries would take most of the complexity and costs out of compliance.”

“I think most companies do want to comply with the various requirements, but often they are ignorant of what the rules are or, perhaps, of the changes in the rules. However, it takes a lot of effort to keep track of all the changes. There are so many regulators and other organizations that are interested in what you do, and they all expect comprehensive reporting across boundaries geographically. The complexity of complying with different standards in different countries makes it very difficult and also very expensive for companies such as ours to be consistent.”

What do you recommend?

“Further convergence of corporate governance and other regulations between states and countries would take most of the complexity and costs out of compliance. And then I think it would be really helpful if we could have standardization, at least to some degree, within compliance-related issues. Everyone is looking at the bottom line to cut expenses. But, if we achieve some degree of standardization, we could take at least some of the expenses, generated by a complex compliance structure, off the table, as the current patchwork of regulation does cost a lot of time and money.”

The number one board responsibility is to hire and, when necessary, to fire the CEO

What specific corporate governance recommendations do you have?

“Corporate governance has become sort of a buzz word. I do think, however, there has been an effort from public companies to get past their system of cronyism or ‘good-old-boys club’ for board members who did not really hold management accountable. This has totally changed, also, due to a number of shareholder lawsuits. Most managers now realize that they have to be accountable to their shareholders for the performance of the company and they cannot neglect their duties there.

“There also have been various attempts through the US [Securities and Exchange Commission](#) (SEC) and the [American Institute of Certified Public Accountants](#) (AICPA) to endorse the breadth and level of experience of the board to ensure that the board has the capacity to evaluate management’s performance. Also, this ensures that management has to answer to a well-qualified, highly experienced board. I serve on the board of a bank, and we always say that our number one responsibility is to hire

and, when necessary, to fire the CEO. And if the CEO can't lead the organization appropriately, then it is our job to get rid of the CEO and replace him. I think most boards take that very seriously. They charge the CEO with running the organization, but they need to make sure that they know enough in order to be able to evaluate the CEO on his performance.

"To some degree, I would say that the changes we have made have improved corporate governance, although we still have a long way to go. A valuable resource for best practices regarding Board governance is the AICPA's [Audit Committee Toolkit](#)."

Separate the positions of CEO and chairman of the board

What else needs to be done to improve corporate governance?

"We need some more independence in boards, to make sure companies don't have board members who are going to support management at the expense of the organization's stakeholders. We need board members who are going to hold management accountable.

How can we make this happen?

"We can achieve greater independence on boards by, for example, adopting an approach in which over half of the board has to be independent non-executive directors. In addition, best corporate governance practice is to separate the positions of CEO and chairman of the board. One person should not hold both those titles. In my company, VSP, no one from the management is on the board. The CEO should understand that his or her boss is the board, led by the chair of the board, so there is not a conflict (of interests). That is certainly not true for most US companies.

"We have even gone to the next level in which the true governing body is comprised of entirely external directors. No one on our board is an employee of the company and both the CEO and the entire management team are accountable to that board."

Consider a degree of protection for those board members who act in good faith

"I've experienced, however, that people often are reluctant to join a board of directors because of the exposure to liability, and they don't need that strife in their life. So, we may have some very qualified and competent people that could help a corporation in its governance, but who are reluctant because of the risk involved in being a board member. Somehow we have set up this bar for corporate governance that everybody has to be perfect and there can be no mistakes, but obviously that isn't true. Sometimes even the people who do their best make mistakes, so there has to be some reasonable prudence standard. Maybe there could be a degree of protection for board members who are prudent, reasonable, and are doing their best, so they no longer have to be worried about the risks that could jeopardize their future. That would be helpful."

Who should take the first step in the direction of limiting board liability?

"It comes down to our litigious system here in the US and the fact that board members need some protection. Most boards have probably adopted the principle that the company should indemnify the board as long as the board is acting in good faith. A lot of boards operate that way because they can't get

people who are willing to serve unless the company indemnifies them. So, adequate coverage under a liability insurance policy for directors and officers should alleviate concerns about potential board liability.”

Getting the whole world to use the same accounting standards would be a big step forward

Based on your long-term CFO experience, what are the main issues that you have experienced with respect to financial reporting and how should they be resolved?

“We are a private company, so we don’t have mandated public company reporting requirements. However, the business we are in is heavily regulated, particularly the medical insurance industry here in the US with lots of reporting requirements on a state-by-state basis. And as VSP is operating in all 50 US states, we have a pretty comprehensive statutory reporting requirement.

“For our global activities, such as our VSP Canada division, as well as our international business of eyewear products, we’ve experienced the complexity involved in each country having its own set of rules, regulations, and expectations about financial and other reporting requirements. As you cross borders, it is also very difficult to understand the nuances and the differences in the various financial reports. It would be helpful if we were all using one set of accounting standards. Getting the whole world to use the same standards would be a big step forward. So, I am actually looking forward to some of the changes that (implementation of) International Financial Reporting Standards (IFRS) in the US promises for us.”

Benefits of transition to IFRS will exceed the costs

What about the costs of transitioning to IFRS?

“With respect to the costs of IFRS, there will be a cost in doing the initial transition. For example, the initial expense of running two reporting systems before companies know that they are ready for the cutover, but I think some of these things are really more in the realm of policy.

“However, once companies get past that, I think it will simplify business and be much more cost effective for multinational corporations, because they would no longer have the separate accounting systems that organizations have to set up to deal with specific issues. It would also make financial statements more useful because there would be standardization across the globe. In short, transition to IFRS would make life much simpler and, hopefully, would also lead to more understanding and transparency across borders than we have today.”

Do you think convergence to IFRS will be beneficial for most (US) companies?

“I think that IFRS is going to be beneficial, even though there are some big hurdles to clear, and many people are throwing up road blocks with questions like, ‘What are we going to do with accounting treatments such as LIFO and leases?’¹ I think we can work through this and once we have passed it and we are on the other side, I think we are going to find a tremendous benefit because even small companies are now acting globally. With the technology we have now to communicate, such as the

¹ LIFO stands for last in, first out, an accounting treatment for inventory.

Internet, it is marvelous what small companies can do to market their products across borders. So we have to work towards one system. It doesn't make sense otherwise.

"Another roadblock is our tax policy on using LIFO for tax reporting only if the company also uses LIFO in its financial reporting. LIFO is not an acceptable inventory valuation method under IFRS. I think we have to get that off the table. The US government has to come in and make a decision about that."

A system of country-specific IFRSs is not the way to go

What are your views of the slightly different route of a gradual convergence between US GAAP and IFRS?

"There is a lot of talk about country-specific IFRS, but that doesn't make sense, because then you have to know what all the different variations are and then we are back at our current position. So, I am really a proponent of 'let's get on with one system.' I definitely think we should all be working toward common standards. Let's work through the relatively few issues that really could be show stoppers—and there are not that many—and find solutions for them."

Even under IFRS, complexity in financial statements would remain

Would transition to IFRS make financial reports less complex?

"One of the remaining issues in financial reporting is the complexity. US GAAP might lead to complex financial statements, but IFRS will likely do the same. We attempt to make our financial statements as simple as possible, but the accounting standards are sometimes so complicated that we often joke that the only ones who actually read the footnotes of our audited financial statements are the accountants who put them together. They are so complicated that I think most people who are using the financial statements—be it investors, regulators, lenders—have difficulty understanding them.

"We often have to provide a lot of detail in our financial reports, while users are really looking for the essence of the transaction and the total economic impact. In our case (being a private enterprise), the readers of our financial statements are predominantly our regulators and our bankers, as well as other constituencies. And, at the end of the day, I am not sure that some of the detail, particularly in tabular form, is really getting to the economics behind the transactions. When I look at some of the tables in our financial report, I think that we include so much detail that the essence of what we are trying to communicate is lost to the reader (see also: 'Some examples from VSP's own financial statements')."

Some examples from VSP's own financial statements

The complexity of financial statements is evident from the footnotes, which often go on for pages, according to Ms. Cochran.

"If I go through our own financial statements, the one footnote that comes to my mind is 'marketable securities,' which goes on for more than three pages. But I am really not sure if the things we are actually disclosing are all that clear to the reader.

Some examples from VSP's own financial statements (*continued*)

"We are also going into a lot of depth with regard to our income taxes, and I know it is intended to communicate information and, yet, at the end of it, I am not so sure that the essence of what we are trying to say comes through: Once again, three pages on income taxes.

"And then the other footnote that I always find baffling is the 'employee benefit plan.' We have one here that goes on for two and a half pages and is trying to communicate information about our obligations to employees in the future and, yet, I am not sure that, at the end of the day, the essence really comes through."

Communicate in plain English instead of jargon

What do you recommend to reduce this complexity?

"I hear a lot about using more plain English in financial reporting, and I am all for that. I know that the issues we are trying to communicate in business reporting are complicated, but we tend to use more jargon than we need to, and we should really try to get to plain English.

"I am actually hopeful that the standards codification that we have gone through here in the US will help because now we can throw out US Financial Accounting Standards Board (FASB) number this and FASB number that. We really have to actually say in plain English what we are trying to communicate, what that standard is trying to get across. We have tried to use more plain English, but I would say, we have a long way to go because some of these financial statements have become very, very complex. Therefore, we need to simplify the underlying financial reporting standards and requirements as well."

US adoption of IFRS has to come together with tort reform

Besides the complexity of the standards, is the litigious environment within the US another roadblock for clearer communication, and what could be done about that?

"In order to really adopt the spirit of IFRS and a more principles-based approach for our accounting standards, we are going to have to take a look at tort reform at the same time. We do have a lot of lawsuits here in the US. In order to really adopt a more straightforward, principles-based approach, we have to do something about making sure that companies are not always afraid that they are going to be sued every time they don't go through a three-page disclosure footnote on marketable securities or the benefit plan!"

Who should take the first step in this tort reform?

"I think the SEC is going to have to lead the way, and say, 'We want US companies to adopt IFRS, and we realize we have to do something about the US litigation system at the same time.' Unless the SEC leads the way, I don't think tort reform will happen. They should create safe harbors. What we are now working with is those checklists and if you don't have everything checked, then your footnote is deemed to be insufficient. That goes beyond what we are trying to communicate, what the principle is behind the disclosure requirement, and what the reader wants/needs to know about that specific topic."

Let's look at the true returns on investments

What are your views on the use of fair value in financial reporting?

“Fair value accounting certainly impacted us during the financial crisis. Like the rest of the world, we had some investments that all of a sudden had no market value because there was no (longer a) market for them, and then it was very difficult to value those. At the beginning of the financial crisis, all of us—preparers and auditors of financial statements—were frightened. The whole world was spinning down in a spiral. Everyone was afraid to overvalue anything. Sometimes it seems like the prescribed checklist approach is not really effective in determining whether the value of an asset is still valid. And we struggle with that a little bit. We really have to ask ourselves, ‘Are we still getting interest payments on these investments?’ or, ‘Has there been a default?’”

Can you recommend any solutions or suggest a way forward?

“The FASB gave us a little bit of relief in terms of giving some guidance around these types of transactions. So, with the revised FASB statement there is a slightly more rational approach in terms of looking at the true return on this investment and how it is producing income, even though you can't go out today and sell it for what you bought it for. It is still producing returns, still making your scheduled payments, etc.

“The valuation [requirements](#) that came out via the FASB, around categorizing these investments in level one, two, and three in the fair value hierarchy, were deemed to give more information. And, yet, when you get into the level three category, valuation is very, very difficult.² Fortunately, our company doesn't have many investments in that category, but I can see why others blame the accounting standard setters for requiring companies to write down valid transactions to bargain prices while they are still paying, while they are still producing income and return.”

Global convergence of auditing standards would also be useful

What issues have you experienced with the audit of financial reports and how can this area be improved?

“At VSP we face a number of the issues as listed in IFAC's previous reports,³ for example, difficulties in working with various sets of auditing standards for multinational clients. We certainly face that. That is why the eventual conversion to IFRS will be beneficial.”

Address liability to increase choice of audit firms

“And then there is the issue of limited choice of audit firms. We are a 3.5 billion-dollar company in annual revenue, and the last time we went out to get bids on our audit, it was really difficult to find auditing firms that were willing to even submit a bid. Part of this was due to their fear of liability. We had one fairly large regional firm that said they could not bid because their insurance company did not

² Level 3 describes fair value measurements using significant *un*observable inputs.

³ See the IFAC reports, [Financial Reporting Supply Chain: Current Perspectives and Directions](#) (2008), and [Developments in the Financial Reporting Supply Chain—Results from a Global Study among IFAC Member Bodies](#) (2009) at www.ifac.org/frsc.

allow them to bid on any insurance industry client. So that is interesting, an (insurance) company that actually thought it was too risky to audit an insurance company!

“I think, once again, it comes back to our US system that is lawsuit happy and suing for everything, which has now really started to limit what your choices are. In our case, we basically had to look to the big four accounting firms, and we even had one of them saying that they could not bid, so we were down to three. What we tried to do next was go with the best practice and separate any consulting or tax services from audit services, so then we were down to two. So there is really not a lot of choice.”

How can we increase the choice of audit firms?

“I would support the movement of some larger local and regional firms toward banding together and operating under an association or franchise—this would help to increase choice. Some of these organizations would have the capacity to audit the larger companies over time. Once again, you really see that how the markets behave is based on lawsuits. It is a shame.”

Audit costs should be measured relative to (societal) benefit

What about audit costs?

“I struggle with that because, as CFO, I always think the audit costs too much, but I just wonder from a societal point of view, if we should measure the audit fees versus what benefits we are getting out of the audit? You would expect in this financial crisis that we went through that, maybe, there should have been more going concern opinions or better disclosure around some of the risky investments or the situations that were happening, and yet, I am not sure that that really was the case. We were all asleep at the wheel. There were lots of dollars paid out for audits and not necessarily a benefit in terms of stopping a catastrophe from happening.”

Should auditors have raised more red flags in the period leading up to the latest crisis?

“That is an interesting question. I don’t know if auditors were the ones who could have blown the whistle or that they saw it coming. It felt like all of us got lured into a false feeling of security in what we were investing in and how we were treating these transactions.”

Business reporting should balance openness with discretion

How can companies make their business reports more useful to investors and other stakeholders?

“In business reporting, there is always an inherent conflict, and, therefore, a tough balance, in terms of disclosure, because you want to communicate useful information and yet, you don’t want to disclose your competitive advantage. I often look at our competitors’ financial statements and wish that they had disclosed more, so that I could better understand their business model, and that is probably likewise in my case.

“For preparers, it is walking a tightrope. You want to provide good information, you don’t want to mislead anyone and, yet, you don’t want to give away your competitive advantages, your strategy, to the point that your competitors can copy you and come after you. I struggle with this tradeoff, ‘How much information is required really to tell our story and be transparent and to make sure that those

who need to know about our business in detail, such as regulators and lenders, get the information that they need?’ Versus, ‘Is this disclosure really not jeopardizing my company competitively?’ It is tough! So, my recommendation here would be: ‘Use plain English disclosures but guard competitive advantages.’”

Consistently tagged XBRL data will facilitate intercompany comparisons

What are your views on further expansion of XBRL?

“XBRL has the greatest promise for making financial statements more useful, because what most people want to do is to compare how a company is performing relative to its competitors in the same in industry. I think it will make it easier to do these comparisons and make sure that the classifications are consistent. A lot of people talk about the use of XBRL in relation to tax filings, which would be a logical next step after XBRL for financial reporting.

“With XBRL, we hopefully will all use the information tags consistently, so when we look at a category, we know that we are looking at apples versus apples and not apples versus oranges. Right now, the classification sometimes makes you think you are making a reasonable comparison, but you are not because the information tagging is not consistent across companies.

“VSP is not subject to the [SEC rules around XBRL](#), because it is not a public company. Private companies will follow suit behind public companies. Private companies are maybe pushed towards XBRL via tax authorities or regulators. Where we have to get on board, is the use of XBRL in the regulatory environment, because at some point, regulators will tell us, ‘You really must use XBRL in order to make it easier for us to take a look at your financials and to enable us to compare your company with other companies in your industry.’ We are not yet there, but I can see the day when this will happen.”

Companies should integrate social, economic, and environmental reporting

How important is sustainability reporting and what could be done to further improve it?

“As more companies adopt sustainable business practices, they will start to incorporate that into their reporting. I really applaud that and I hope that it happens sooner rather than later, because I think there is almost a hunger for reporting on sustainable practices from the various constituencies. Our employees are much engaged in the company’s approach to sustainability and what is happening. What we are also finding is that in requests for proposals from potential clients—as well as clients that would like to continue with us—they want to know what our sustainable business practices are. So, now we are publicizing that information in marketing and other promotional pieces, but I hope we can start integrating some of this information into our financial reports. We have not done this yet, but I know that others are starting to do that and I am hopeful that we can do that soon as well.

“As more companies adopt sustainable business practices, they will start to incorporate that into their reporting.”

“In this respect, I also see an opportunity on the horizon for accountancy firms by providing assurance on such integrated business reports. It’s good for business, our countries, and our world.”

Convert financial information into a more lively and interactive format

How should a business report of the future look?

“With technology and our ability to communicate more effectively, I could see financial information melting more into video format. Everybody now wants to see a video about everything and a lot of companies use their websites to promote their business through video. So I would think at some point—instead of people looking at a dry, static paper format—maybe we can convert this financial information into a more lively and interactive format: more colorful, more interesting. I can see a future for financial statements on YouTube!

“There is also a lot to be gained from hearing the tone and seeing the body language with which a financial report is presented, versus having a document, in which you only read words and numbers. There should be some form of standardization, so that companies cannot omit unpleasant things, which should be mandatory to talk about. To ensure a balance between the positives and negatives, the board of directors and the auditors should hold management accountable.”

Key recommendations from Patricia Cochran

1. To reduce the complexity and costs associated with compliance, states and countries should further converge and standardize their requirements in the areas of corporate governance, reporting, and auditing.
2. Regulators should clear the various tax-related and other obstacles that hinder further global convergence and standardization.
3. For strong corporate governance, we should ensure that our boards have the capacity—the qualifications and breadth and level of experience—to evaluate management’s performance and, when necessary, to fire the CEO.
4. To hold management accountable and avoid conflicts of interest, boards should be sufficiently independent by, for example, requiring over half of the board members to be independent non-executive directors and separating the positions of CEO and board chairman.
5. Board members who are prudent, reasonable, and are doing their best, should be given a degree of liability protection, which may also increase the supply of qualified and competent candidates for board positions.
6. To really adopt the spirit of IFRS and a more principles-based approach to accounting, the more litigious jurisdictions such as the US should consider further tort reforms.
7. To address auditor liability and to increase auditor choice, the uniting of larger local and regional firms to form associations or franchises should be supported.
8. Preparers of business reports should always balance their (external) communications so that they are sufficiently transparent without disclosing too much and jeopardizing their competitive advantage.
9. XBRL data should be tagged consistently (across countries and industries) because only then will reasonable comparisons of companies’ performance across borders be possible.
10. To satisfy various constituencies’ interest in corporate social responsibility, companies should start integrating material social and environmental information into their financial reports. Accountancy firms could provide assurance on such integrated reports.
11. Companies could convert their business reports into a more interesting and interactive format using modern information and communication technologies. However, to ensure well-balanced reporting, some form of standardization will be needed. In addition, boards of directors and auditors should hold management accountable for providing a balanced view in those new reporting formats.

We welcome your feedback on these recommendations. To provide us with your feedback, please complete this [brief survey](#).