

Prepared statement of
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When we discuss auditor rotation, we must remember that auditing is not a mathematic formula where the answers always come out the same. Professional judgment figures deeply into the results.

Investors deserve the perspectives of different professionals every so often, especially when an auditor's independence can be reasonably called into question. I would agree with the Conference Board's discussion of this issue, in which I participated, that there are three primary reasons to mandate auditor rotation.

First, if the audit firm has been employed by the client for a significant period of time – let's say 10 years.

Second, if one or more former partners or managers from the audit firm now work for the client.

Third, if the audit firm performs significant non-audit services, even if approved by the audit committee.

The major criticism of auditor rotation mandates is the damage to institutional memory among the audit teams. But we know that most of the billable work of an audit is done by front-line staff who themselves rotate from audit firm to audit firm.

The only continuity is among the partners and managers who oversee the work. So the concern about lost institutional memory strikes me as misplaced.

And while I would favor auditor rotation provisions, such an improvement to the structure of the auditor-client relationship would be eclipsed by a piece of legislation now being weighed in the Congress. And so I want to take the balance of my time to focus on this more pernicious issue.

The so-called JOBS Act now enjoys significant bipartisan political support. But I would urge supporters to look more closely at the details, some of which are going to either do

nothing for the economy, or actually hurt it. I would focus in particular on proposed rule changes that would lower reporting standards for post-IPO companies.

It would exclude new companies from the internal audit requirements of Section 404b of Sarbanes-Oxley. It would reduce the financial reporting critical to evaluating the health of companies. By some estimates, the new rules would reduce reporting requirements for two-thirds today's public companies. And it would lift the restriction on investment firms issuing research reports on those companies they help to bring to market.

My experience, both as a regulator and a chairman of a public exchange, was that any time basic reporting standards are weakened, investor protections and market transparency are weakened as well.

When I was at the American Stock Exchange, floor brokers tried to persuade me to lower the listing standards so they could trade more companies. For them, it was about increasing the overall volume of potential business.

The problem was the kind of listings we would attract. I had to consider the overall reputation of the institution. The AMEX had previously dealt with significant challenges to our reputation. We had by then recovered from that damage, but I did not want to repeat the mistakes that got us there. I held the line, and I am glad we did.

My fear is that in the current debate, we are experiencing IPO envy. One doesn't measure the strength of a national economy by the number of its public company listings. IPOs and public listings are a lagging indicator at best, merely confirming economic activity which has already occurred. Greater economic growth leads to IPOs, not the other way around. We must not confuse cause and effect. As we know from past experience, when IPO activity is particularly robust, the economic gains are already locked in.

Trying to entice a larger number of IPOs, through a process of watering down the rigorous requirements for public listing, is merely good for the economy of the investment bankers, early stage investors and some high-level employees at the IPO firms.

I cannot emphasize enough the danger of such an ill-advised move, especially given the still bruised reputation of US financial markets. We have seen, and we continue to see, broad distrust of the public markets. Investors have not forgotten the scandals and abuses of the recent past.

I would urge the PCAOB to resist this legislation. A decline in regulatory standards always is followed by damage to public investors.

I will be glad to touch on these issues further during the discussion period.