

Accounting Horizons
Vol. 21, No. 3
September 2007
pp. 313-323

Recent Developments at the Securities and Exchange Commission: Academic Contributions and Opportunities

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SYNOPSIS: In recent years, the Securities and Exchange Commission (SEC) has grown in size and scope. The implementation of Sarbanes-Oxley (SOX) and the globalization of accounting standards have increased the SEC's workload and brought forth important questions regarding the development and application of accounting and auditing standard setting and regulation. This paper identifies key issues of importance to the SEC including record levels of restatements, SOX implementation, the backdating of stock options, increased use of fair-values in financial reporting, adoption of IFRS by numerous non-U.S. registrants, and foreign deregistration. The article highlights the contribution of academic research as it relates to SEC speeches and rulemaking, drawing upon experience of 2005-2006 SEC academic fellows.

Keywords: Securities and Exchange Commission; restatements; Sarbanes-Oxley; IFRS.

INTRODUCTION

In recent years, the Securities and Exchange Commission (SEC) has grown in size and scope. The passage of the Public Accounting Reform and Investor Protection Act, commonly referred to as the Sarbanes-Oxley Act (SOX) of 2002 (U.S. House of Representatives 2002), the globalization of accounting standards, and other important developments have driven changes in the volume and scope of the SEC's work. The purpose of this article is to provide an overview of selected organizational changes at the SEC and to identify key accounting issues within each division of the SEC. These changes and issues are linked to opportunities for SEC academic fellowships for accounting faculty whose current and future research may inform the SEC. The article also highlights the contributions of academic research to the activities of the Commission. From time to time, complaints arise that academic accounting research has lost touch with practice (see the March 1989 issue of *Accounting Horizons* for several commentaries on the issue). However, our experiences

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Accepted: November 2006
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show that the SEC values the rigor and objectivity that academic research brings to the policy arena. Our article demonstrates the contribution of academic research to the SEC activities and its influence on SEC speeches and rule making.

SEC Background

The SEC is organized into four divisions. The Division of Corporation Finance (DCF), the Division of Investment Management, the Division of Market Regulation, and the Division of Enforcement serve to carry out the Commission's mission to protect investors, maintain fair, orderly, and efficient markets, and facilitate capital formation. The Office of the Chief Accountant (OCA) and the Office of Economic Analysis (OEA) provide research and consultation to the four Divisions. Since 2003, OCA has evolved from a single group to three: Accounting ("OCA-Accounting"), Professional Practice ("OCA-Auditing"), and International Affairs ("OCA-International"). Each group is headed by a Deputy Chief Accountant, who reports to the Chief Accountant.

As documented by Linsmeier (1996), academic accountants have served as academic fellows since 1979. For most of the years since inception, one academic fellow served OCA for a one-year term. Over the years, the program has expanded so that in 2005–2006, five accounting academics served various branches within the Commission. Specifically, three academic fellows served OCA, one served DCF, and another served OEA. This article explains some of the issues that the fellows tackled while serving in their academic fellowship positions. To put this in better perspective, we also briefly describe the division or office in which each fellow served.

RECENT DEVELOPMENTS BY FELLOWSHIP

Office of the Chief Accountant—Accounting

The OCA-Accounting group serves an advisory role to the SEC on accounting matters. OCA-Accounting provides oversight for standard setting projects and provides pre-clearance on accounting matters for registrants. The group also serves in an advisory capacity to the DCF and Division of Enforcement on accounting issues.

Teri Yohn served as the academic fellow in OCA-Accounting for the 2005–2006 academic year. OCA-Accounting is organized based on topical standard setting project teams, and Teri contributed to work in business combinations, fair value measurement, financial statement presentation, the conceptual framework, and financial asset transfers. As a team member, Teri helped provide verbal feedback to the FASB on the projects and provide literature reviews on the academic research that related to the topic. Teri also served on registrant topic teams which evaluated the merits of the proposed accounting by registrants and provided verbal feedback to the registrant as to whether OCA would object to the proposed accounting. Finally, throughout the year, Teri carried out special studies and analyses for specific topics of interest to OCA-Accounting.

An important issue faced by OCA during the year was the increased use of fair values and the increased role of valuation professionals in financial reporting. The increased use of fair values in financial reporting is primarily driven by the belief that they provide information that is more relevant to investors than historical costs. On the other hand, a vexing concern with fair values is the reliability of the estimates. Teri presented the SEC's views on valuations for financial reporting at a conference of valuation professionals. The goal of the presentation was to define fair value under U.S. Generally Accepted Accounting Principles (GAAP), to highlight the valuation professionals' role in financial reporting, and

to discuss infrastructure issues surrounding the profession that must be considered with respect to valuations for financial reporting. In particular, valuation professionals must apply fair value measurements as defined by U.S. GAAP and must provide unbiased, neutral, and independent valuations. Furthermore, valuation professionals can help to increase the reliability of fair value estimates by testing and verifying management's inputs into the valuation models. The profession, as a whole, must also consider developing a single set of professional standards and appropriate oversight and disciplinary mechanisms for the industry. Such an infrastructure exists for the auditing profession and is essential given the valuation profession's significant role in financial reporting. The valuation profession can increase the reliability of fair value estimates by addressing these issues.

Another important issue at OCA during the year related to the proliferation of accounting restatements and to the underlying causes of restatements. Glass Lewis & Co. (2006) reported that the number of restatements by U.S. public companies rose from 116 in 1997 to 1,195 in 2005. Potential reasons for the increase in restatements are:

- auditors and managers have an overly conservative attitude following the WorldCom and Enron accounting scandals,
- accounting rules are increasingly complex, and
- SOX reforms caused greater scrutiny of accounting numbers.

Teri designed and coordinated the analysis of registrants' public disclosures in restatements to provide some insights into this issue. Specifically, the analysis was designed to obtain a sense of the underlying causes of the restatements, the accounting literature associated with the restatements, and any factors about the transaction or the associated accounting standard that may have contributed to the restatements. The analysis suggested that over half of the restatements were caused by ordinary books and records deficiencies or by simple misapplications of the accounting standards. The analysis also suggested that only approximately one-third of the restatements related to misapplications of generally accepted accounting principles in which the standards themselves contributed to the misapplication. Factors that were identified as having contributed to the restatements include the use of judgment in applying the standard, the proliferation of the accounting standards, and the lack of clarity in the standards. The analysis also identified the areas of accounting that related to the restatements to aid in assessing whether FASB's agenda for standard setting is consistent with the areas identified via restatements.

Teri, along with the Academic Fellow in OCA-Auditing, Mark Taylor, also analyzed restatements to assist other SEC offices in finding variables that could potentially predict restatements in a way that might be useful to assess the risk profiles of registrants. Teri and Mark first provided a literature review on research related to identifying earnings management and restatements. In addition, they identified potential financial variables and ratios that are likely to predict restatements and tested logistic models to identify variables that were significantly related to restatements.

Teri also investigated the issue of the proliferation of accounting-motivated structured transactions. Accounting-motivated transaction structuring involves companies modifying economic and contractual arrangements in order to achieve specific accounting outcomes (see Nelson et al. 2002). The analysis entailed identifying and classifying the prevalent forms of transaction structuring and reviewing academic research on transaction structuring. The goal was to assess the effects of transaction structuring on shareholders and on financial reporting, to identify the causes and incentives for transaction structuring, and to identify steps that could be taken to reduce or discourage transaction structuring.

Office of the Chief Accountant—Auditing

The OCA-Auditing group serves an advisory role to the SEC on auditing matters. For example, the group supports the auditing standard setting function in OCA's interactions with the Public Company Accounting Oversight Board (PCAOB). Further, the OCA-Auditing staff interacts on a regular basis with the staff members from DCF and the Division of Enforcement on auditing issues. For instance, if the Division of Enforcement proceeds in a matter against independent accountants, members of OCA-Auditing group advise enforcement staff on appropriate auditor conduct based on auditing standards in force at the time, as well as other auditing issues regarding the particular matter.

Mark Taylor served as the academic fellow in the OCA-Auditing group. One of Mark's recurring tasks was to examine *Briefing Papers* issued by the PCAOB prior to each Standing Advisory Group meeting. Each time the PCAOB issued a *Standing Advisory Group Briefing Paper*, the team met to consider the issues covered, deliberate OCA positions on the issues, and prepare summary materials for the OCA staff member who would sit at the table during the Standing Advisory Group meetings.

Mark also provided input to the team that responded to the International Auditing and Assurance Standards Board's clarity project. That project aims to clarify the use of terms imbedded in the Board's standards and to reorganize the format and structure of the standards. In addition, in further responding to the SEC's interest in audit standard setting beyond PCAOB activities, Mark attended the AICPA's Auditing Standards Board meeting held during the year as the SEC observer. The ASB was pleased with the SEC's interest, and Mark provided the SEC Staff with summaries of the content of the meetings to keep the SEC Staff abreast of ASB standard-setting developments; he also provided the Staff with observations of the implications of the ASB's actions as they related to ongoing activities at the SEC. Given the active agendas of the PCAOB, the International Auditing and Assurance Standards Board, and the Auditing Standards Board, current and future SEC academic fellows will have plenty of opportunities to make a contribution in OCA-Auditing with regard to audit standard setting.

Another important development during the year involved the Committee of Sponsoring Organizations (COSO). COSO was in full swing responding to the SEC's invitation to prepare management guidance that would help nonaccelerated filers (i.e., "smaller" public companies) to comply with SOX Section 404. Mark served on the team that reviewed and responded to the COSO guidance drafts.

As compliance with SOX Section 404 continued to be a significant issue during the year, the SEC and the PCAOB hosted a Year 2 SOX Compliance Round Table at SEC headquarters in Washington D.C. in May, 2006. Mark summarized relevant academic research on SOX Section 404 for inclusion in the Round Table Panelists' briefing binders. Subsequent to the Round Table, the SEC advanced a series of initiatives that included the PCAOB's amending Auditing Standard No. 2 and the possibility of the SEC developing management guidance to assist with SOX Section 404 implementation (SEC 2006). Mark served briefly on the OCA-Auditing team that was organized to consider potential changes to Auditing Standard No. 2, deliberate those changes, and prepare recommendations to the PCAOB regarding those suggested changes. Further, as Mark was concluding his fellowship, the OCA-Auditing group had begun developing the management guidance that the SEC would later issue. Subsequently, during an open meeting on December 13, 2006, the SEC approved the release of proposed interpretative guidance and proposed rulemaking regarding management's assessment and reporting of internal control over financial reporting under Section 404 of SOX. In addition, the PCAOB proposed for public comment a

new standard on auditing internal control over financial reporting and other related proposals to supersede the Auditing Standard No. 2. In June of 2007 the SEC released *Commission Guidance Regarding Management's Report on Internal Control over Financial Reporting* (SEC 2007) for immediate use by issuer management teams. Further, in July 2007, the SEC approved the PCAOB's *Auditing Standard No. 5* (PCAOB 2007), superseding *Auditing Standard No. 2*. Audit firms registered with the PCAOB are required to implement the new standard for audits of internal control over financial reporting no later than for fiscal years ending on or after November 15, 2007.

Office of the Chief Accountant—International

Since as early as 1998, international harmonization was an important agenda item in OCA (Lipe 1998). In 2006, the term "convergence" supplanted "harmonization," and the International Accounting Standards Committee is now the International Accounting Standards Board. More than terminology has changed; internationalization has come into its own as a newly formed group within OCA and as a key policy issue for the SEC as a whole.

OCA's increased attention to international issues mirrors the fast-paced changes in the international financial reporting environment. Regulators and standard setters have advanced the development and implementation of IFRS. In 2002, the European Union announced a requirement that all listed European companies adopt International Financial Reporting Standards (IFRS) for fiscal years starting on or after January 1, 2005.

In 2002, the FASB and the International Accounting Standards Board published the Norwalk agreement, pledging an active plan to cooperate in the development of financial accounting standards, and a "commitment to the development of high quality, compatible accounting standards that could be used for both domestic and cross-border financial reporting" (FASB 2002, 1). In early 2006, the two standard setters published a Memorandum of Understanding, reaffirming the boards' shared objective of developing one set of high-quality global accounting standards.

Recognizing the movement toward convergence and calls for the elimination of the reconciliation from IFRS to U.S. GAAP, Don Nicolaisen (then OCA Chief Accountant) authored "A Securities Regulator Looks at Convergence" (Nicolaisen 2005). The SEC staff "Roadmap" outlines a timetable for the SEC's review and potential elimination of the reconciliation from IFRS to U.S. GAAP.¹ Currently, the SEC recognizes only FASB standards as GAAP. The SEC's long-standing rule² allows foreign registrants to report non-U.S. GAAP, but requires reconciliations of net income and stockholders' equity from non-U.S. to U.S. GAAP via Form 20-F. The acceptance of IFRS with no reconciliation requirement would involve a significant departure from past practice. According to SEC Chairman Cox, it also means that the SEC is seriously contemplating a system in which not only foreign issuers, but also domestic issuers will have the choice between IFRS and U.S. GAAP (Cox 2007). Cheryl Linthicum served as the academic fellow in OCA-International. In conjunction with the policy issues raised by the possible elimination of the reconciliation, and as a result of the inflow of IFRS-based filings, Cheryl and the academic fellow in DCF, Andy McLelland, were involved in two projects related to international financial reporting.

¹ As a result, OCA-International has undertaken work to assess the information provided within the reconciliations, and to assess the faithfulness and consistency of the IFRS-based financial statements as filed by foreign SEC registrants.

² SEC Regulation S-X, art. 4, 17 C.F.R. § 210.4-01(a)(1) and (2); SEC Form 20-F, Item 17, *Supra* Note 4; SEC Form 20-F, *Supra* Note 4.

Cheryl planned and organized training on IFRS for SEC staff, and Cheryl and Andy together planned and developed methodologies to perform a first-stage evaluation of 2005 and 2006 IFRS filings. Within OCA-International, Cheryl worked with staff to develop an analysis of 2005 reconciliations from IFRS to U.S. GAAP, as well as an analysis of the application of IFRS in 2005 and 2006 filings. This work continues through 2007 (Erhardt 2006). Cheryl also took part in day-to-day activities such as commenting on International Financial Reporting and Interpretations Committee drafts and providing input on speeches and SEC commentaries.

Division of Corporation Finance

The DCF mission is to see that investors receive material information in order to make informed investment decisions—both when a company initially offers its stock to the public and on a regular basis as its shares continue to trade in the marketplace. The Division also provides guidance to companies on SEC rules and forms, and it proposes new and revised rules to the Commission. While DCF is charged with reviewing registrant filings, DCF staff consults with OCA regarding key accounting policy issues and with OEA regarding economic impacts of proposed rules.

Andy McLelland served as academic fellow in DCF, where he reviewed filings, trained DCF staff, and participated in special projects. DCF includes more than 230 accountants and 100 attorneys organized into eleven industry groups, each supervised by an assistant director. Andy teamed with an Associate Chief Accountant and presented seminars on recent FASB and International Accounting Standards Board developments in accounting for business combinations to the attorneys in the division. In response to international developments and as part of the IFRS training coordinated by OCA-International and DCF, Andy provided IFRS training on the presentation of the Income Statement, Cash Flows, Interim Reporting, and requirements for first-year IFRS adopters.

Andy also worked with a team of accountants in the DCF Chief Accountant's Office to conduct a preliminary review of 2005 Form 20-F first-year IFRS filings. His work, coupled with that of OCA-International, focused on compliance with exemptions, elections, and disclosures.

The DCF reviews all initial public offerings and, as required by SOX, reviews periodic filings of each registrant at least once every three years to determine compliance with GAAP and SEC regulations. Each review is performed by a staff accountant and supervised by a branch chief and/or senior associate chief accountant. Andy worked with DCF staff and branch chiefs to complete the reviews of initial public offerings (Form S-1), annual reports (Form 10-K), and annual reports for foreign private issuers (Form 20-F).

If at any point in the SEC comment process, the registrant does not agree with the senior associate chief accountant or assistant director, an appeal can be made to the associate chief accountants in the DCF Chief Accountant Office. The associate chief accountants in that office provide technical consultations with individual assistant directors. Andy participated in these meetings. Current year interpretive issues included the capitalization of expenses, mandatory dividends, consolidations, pension assumptions, discontinued operations, derivatives, hedge accounting, business combinations, common and preferred stock valuations, and gross versus net income statement presentation. Using his training in financial analysis, Andy was able to contribute to DCF by highlighting inconsistencies with the registrants described accounting policies and the current year implementation of those policies in the accounting reports.

Office of Economic Analysis

While DCF focuses on registrant compliance with securities' laws and related rules, OEA advises DCF and other divisions on the economic implications of present and potential rules. OEA consists of three groups. First, the Office of Litigation Support advises the Commission and Division of Enforcement on issues including the harm to investors from specific violations of the securities laws and the improper benefits to wrongdoers of specific violations. The Office of Markets and Intermediaries advises the SEC on rule making relating to mutual funds, hedge funds, broker dealers, and the regulation of securities markets. Finally, the Office of Corporate Finance and Disclosure advises the Commission on rule making, including cost-benefit analyses.

Bjorn Jorgensen served as the academic fellow in OEA. Bjorn was mainly assigned to the Office of Corporate Finance and Disclosure, working on a variety of topics in a rule-making context. The Securities Exchange Act of 1934 and the Investment Company Act of 1940 provide the framework for the SEC's oversight of the U.S. securities markets. As markets evolve, regulations may be altered and new rules created. Rulemaking can involve three stages: concept release, rule proposal, and rule adoption.³

While rule proposal is often the starting point for rulemaking, the Commission may begin the process by issuing a concept release. The concept release describes the issues inherent in the problem and typically outlines two or more solutions to the problem. Public feedback is solicited and reviewed as the Commission decides on appropriate next steps. DCF generally receives comments from other divisions within the SEC, including OEA and the General Counsel's Office. The rule proposal generally includes sections on cost-benefit analysis, the Paperwork Reduction Act, and a discussion on efficiency, competition, and capital formation. After presentation and discussion of the proposal with the Commissioners, and upon their approval, a proposing release is published in the Federal Register and on the SEC web page available to the public for comment and review. The time period is specified by the rule proposal and is typically 30 to 60 days. Because academics are representative of the general public, they have the opportunity to provide valuable input to the SEC during this comment period.⁴ As appropriate, the comment letters are considered when making revisions to the proposal. The resulting final rule becomes effective once passed by a majority of the SEC Commissioners.⁵ All final rules are published in the Federal Register.

Bjorn worked on teams that provided feedback on rulemaking. One team studied and drafted proposals to change foreign-firm deregistration rules. In December 2005, the SEC issued a proposing release regarding revision of the conditions under which foreign firms should be allowed to deregister.⁶ In preparation of this release, Bjorn worked on a team that collected data to estimate what foreign registrants would be affected by the proposed rule change. Another team on which Bjorn served dealt with the SEC's proposed revision to the current rules regarding compensation disclosures.⁷ The proposed revisions entail disclosure of total compensation in a tabular format. In preparation of both proposing

³ The discussion below applies to "major" rules. A rule is considered "major" under the Small Business Regulatory Enforcement Fairness Act of 1996 when, if adopted, it results in or is likely to result in (1) an annual effect on the economy of \$100 million or more, (2) a major increase in costs or prices for consumers or individual industries, or (3) significant adverse effects on competition, investment or innovation.

⁴ For example, recent academic comment letter writers include James Angel and Joseph Grundfest.

⁵ Major rules may be subject to Congressional review and veto.

⁶ For recent academic papers on deregistration and its economic consequences see Bushee and Leuz (2005) and Engel et al. (2007).

⁷ See Lo (2001) for an analysis of the comment letters submitted for the existing compensation rules.

releases, the team summarized relevant research in accounting, economics, and finance. For the foreign firm deregistration proposing release, papers on reasons why firms go dark and the economic consequences of going dark were reviewed. For the compensation disclosure proposing release, the team reviewed and interpreted research on the economic effects of disclosures regarding compensation.

Bjorn also served on a team that performed analyses on the interaction between regulation by the SEC and regulation by the Commodities Futures Trading Commission. On one hand, the Commodities Futures Trading Commission regulates, among other things, futures on broad-based foreign stock indexes. On the other hand, the Securities and Exchange Act of 1933 requires that securities be registered with the SEC. A conflict could arise for foreign companies, whose stocks are not registered with the SEC but are part of a foreign stock index. Further, since the Commodities Futures Trading Commission and the SEC share jurisdiction for nonbroad based stock indexes, OEA was asked to consider the distinction between broad and nonbroad stock indices.

ACADEMIC RESEARCH AT THE SEC

As is evident from the summaries of the academic fellows' experiences above, academic research is often considered in SEC activities. In addition, academic research is cited on a consistent basis by the Commission in speeches, studies, and even final rules. Such research has helped the SEC find objective, independent, empirical data to determine and support the most appropriate position to be taken by the SEC. This section provides some representative examples of the contributions that academic research has provided in aiding the Commission in its activities.

Academics sometimes help to identify changes in and potential abuses within U.S. securities markets. For example, academic research highlighted the much-publicized practice of backdating stock options; see Lie (2005), Heron and Lie (2006), and Cicero (2006) among others. The backdating scandal has prompted numerous investigations by the SEC's Division of Enforcement.

Academic research is often cited in speeches given by commissioners and staff members. For example, departing Commissioner Cynthia Glassman referenced three academic articles in her May 19, 2006 speech before the Bond Market Association's 30th Annual Conference on bond-trading transactions costs (SEC 2006). She cited studies (e.g., Marquardt and Wiedman 2005) that linked increased transparency in financial reporting to reduced transactions costs for bond trades of all sizes. SEC Staff also cited a variety of academic research at the AICPA's 32nd National Conference (SEC 2004). In discussing the SEC's interest in materiality vis-à-vis the iron curtain versus rollover methods, Russell Hodge, Professional Accounting Fellow, cited the Nelson et al. (2005) study that shows the method used can have a significant effect on the misstatements that auditors require their clients to correct.

In addition to speeches, academic research is often cited in SEC studies. One such instance is the *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* (SEC 2003b). The study cited evidence in Hopkins et al. (2000) that investors' assessments of a hypothetical company differed depending on whether the company used the pooling of interests or the purchase method to effect the business combination.

Another context in which academic research is referenced is in publicly available memoranda. For example, OEA prepared a March 18, 2005 memo to Chief Accountant Don Nicolaisen addressing the economic perspectives on implementing FAS 123(R) regarding employee options (SEC 2005). In the memorandum, OEA cites the Aboody et al. (2004)

study that reports that companies that voluntarily measure stock options expense at grant date fair value generally experienced a positive or neutral stock-price movement at the announcement of the decision to measure stock options expense at grant date fair value. OEA cited this study as supporting improved transparency that results from measuring stock options expense at fair value. The memorandum also cited other research (e.g., Marquardt 2002) to support its conclusions about the economic effects of implementing FAS 123(R).

Interestingly, the SEC final rules also cite academic accounting research. For example, Release No. 33-8182: *Disclosure in Management's Discussion and Analysis about Off-Balance Sheet Arrangements and Aggregate Contractual Obligations* (SEC 2003a) cites the Davis-Friday et al. (1999) study on the value relevance of financial statement recognition versus disclosure of items covered by Statement of Financial Accounting Standard No. 106. Release No. 33-8048: *Disclosure of Equity Compensation Plan Information Costs and Benefits of Final Rules* (SEC 2001) cites the Huson et al. (2001) study that shows the extent of equity compensation used in the market, and estimates that more than 80 percent of the securities reserved for conversion and exercise by U.S. registrants relates to stock options.

These examples of SEC speeches, studies, and final rules that access academic accounting and other research demonstrate the SEC's clear interest in academic research in general, and accounting research in particular. The SEC understands that the rigorous independent analyses academics conduct have value for determining and supporting positions that are taken by the Commission. Therefore, the academic fellows' ability to identify, summarize, and interpret academic research provides a significant contribution to the SEC.

BENEFITS TO THE ACADEMIC

While the academic fellow's expertise of conducting and interpreting research clearly benefits the Commission, the fellows in turn receive great benefits from their experiences. The academic fellows receive excellent technical support through both internal and external training and seminars. Internally, the fellows benefit from SEC training for new accounting staff and from monthly technical updates. They also receive specialized training on current audit and accounting topics, such as IFRS. In addition, the fellows are invited to OEA academic research seminars that focus on investor and market research. Externally, academic fellows have the opportunity to attend nationally recognized seminars such as the AICPA National Conference on SEC and PCAOB Developments, the SEC Institute National SEC Reporting Conference, and the Practicing Law Institute's The SEC Speaks.

The SEC also has excellent data resources available to the academic fellows. In addition to having access to the Wharton Research Data Service (which includes CRSP/Compustat, New York Stock Exchange Trade and Quote, I/B/E/S, Dow Jones, Eventus, etc.), the fellows can access Audit Analytics and Datastream Global Equity Package; in addition, Altvest Hedge Fund Database are available to fellows. Numerous other databases and services are available on stock markets, institutional investors, hedge funds, options, mutual funds, petroleum production, and others.

Perhaps more important, the fellows gain valuable knowledge and insights into the regulatory process as they work alongside SEC staff. In that sense, they take away contextual knowledge of issues that could not be gleaned from databases.

CONCLUSION

This article briefly mentions several current issues facing the SEC. While these issues will likely change over time, our more general observation is likely to persist: the SEC relies on academics and their research. In addition, academics who serve as fellows at the SEC participate directly in projects, activities, and initiatives that provide a wide range of

opportunities to become immersed in SEC matters in areas of the academic fellow's interest. SEC academic fellowships are extremely flexible in allowing the individual to contribute to projects of interest within not only their own group, but also that go beyond their division. The networking opportunities, observation of SEC processes, opportunities to inform SEC staff regarding academic research relevant to particular initiatives, and the opportunity to contribute to the SEC's mission provide a rich and rewarding experience.

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