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NYU Stern Ross Institute Forum Examines the Impact of Corporate Governance on Corporate America

Since its establishment in 2002, the Sarbanes-Oxley Act, commonly referred to as SOX, has significantly affected governance of companies and organizations across the country. To discuss the evolution of SOX and its impact on financial reporting and capital markets, NYU Stern's Ross Institute of Accounting Research recently convened a distinguished forum of academics, practitioners and industry experts. Professor Seymour Jones, associate director of the Ross Institute, challenged attendees to consider the strengths and weaknesses of the act and to think about the future of corporate governance. In true "Late Show with David Letterman" style, co-host Mark S. Lilling, CPA (BS '72), president and chief executive of Lilling & Company LLP and founder of the Audit Committee Consulting Team LLC, revealed the "Top Ten" companies bearing credit losses this year, with Bear Stearns, UBS and Citi topping the list.


(from l to r): Dean Thomas Cooley, Mark S. Lilling and Seymour Jones

Professor Daniel Cohen provided a brief history of SOX, paying close attention to trends in earnings management activities. His research on the topic finds a decrease in accrual-based earnings management after SOX went into effect, which he sees as a result of managers favoring real earnings management strategies to avoid scrutiny. Drawing from his experience on the boards of Boeing and JPMorgan Chase, Executive-in-Residence John Biggs, former chairman and chief executive officer of TIAA-CREF, underlined an increase in sensitivity about compliance among board members since 2002. Michael Babiarz, partner at Clayton, Dubilier & Rice, discussed the differences in management and governance processes between public and private companies, covering hot topics including the separation or combination of chairman and CEO roles.

Joel Levy, CEO of the YAI/National Institute for People with Disabilities, illustrated how governance is essential in any organization. He argued that by fostering good governance, an organization benefits from better long-term performance, improved reputation and an increased competitive advantage. He shared his blueprint for excellent board governance, which includes outsourcing audit firms, developing a culture of excellence, writing a code of ethics, developing a method for self-evaluation, measuring effectiveness and creating opportunities for whistleblowers to speak out.

Several panelists including David Blitzer, managing director and chairman of the Index Committee at Standard & Poor's; and Fred Model, co-founder and president of the Jeffrey Modell Foundation, which is dedicated to fighting immune deficiencies, responded to the presenters, debating the costs and benefits of implementing SOX. Model argued that nonprofits have become transparency experts due to pressure from investors, who demand to know how their money has been spent and will be spent for future projects.

Speaking from firsthand experience, Steven Markovits, partner of Paul Scherer & Company LLP, emphasized the importance of senior management setting the proper tone at the top to inculcate transparency into a company's culture. Arthur Felsenfeld, a senior litigation partner in the New York office of Andrews Kurth LLP, discussed the challenges facing both investors and auditors in valuing financial products that have directly contributed to the current subprime crisis.

Former Chief Accountant for the Securities and Exchange Commission Lynn E. Turner emphasized the importance of accurate valuation in enhancing financial reporting and protecting investors, and inquired as to why analysts can determine valuations during economic upswings, but struggle to do so during downswings.

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