



The Evolving Accounting Regulatory Landscape

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Introduction and Overview

- The new regulatory and public policy landscape for accounting and audit
- Some old issues and some new ones
- Future challenges for the profession

Theme

The Asian Financial Crisis, the Enron scandal, and the recent Global Financial Crisis have fundamentally transformed the regulatory and public policy environment for accounting and auditing and the expectations of accountants and auditors.

The New Landscape

The New Landscape

The global financial crisis and the “great recession” have created a new regulatory and public policy environment for accounting and audit, the firms and the profession.

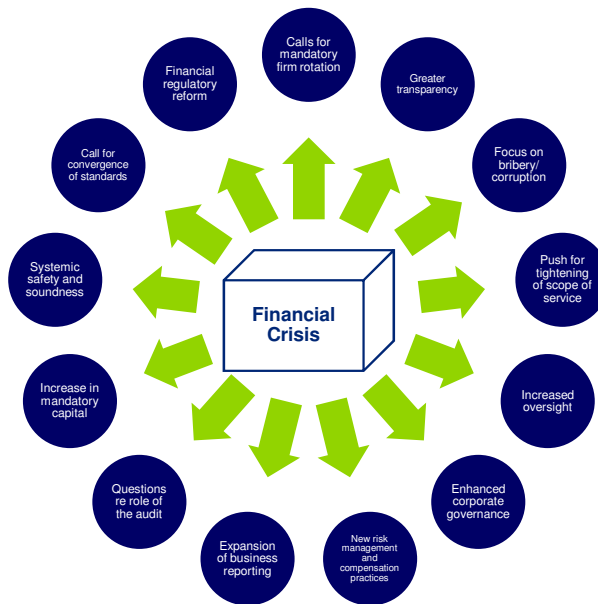
Debate on accounting standards (fair value)

Safety and soundness of the financial system

New stakeholders

Politics and the media

The New Landscape



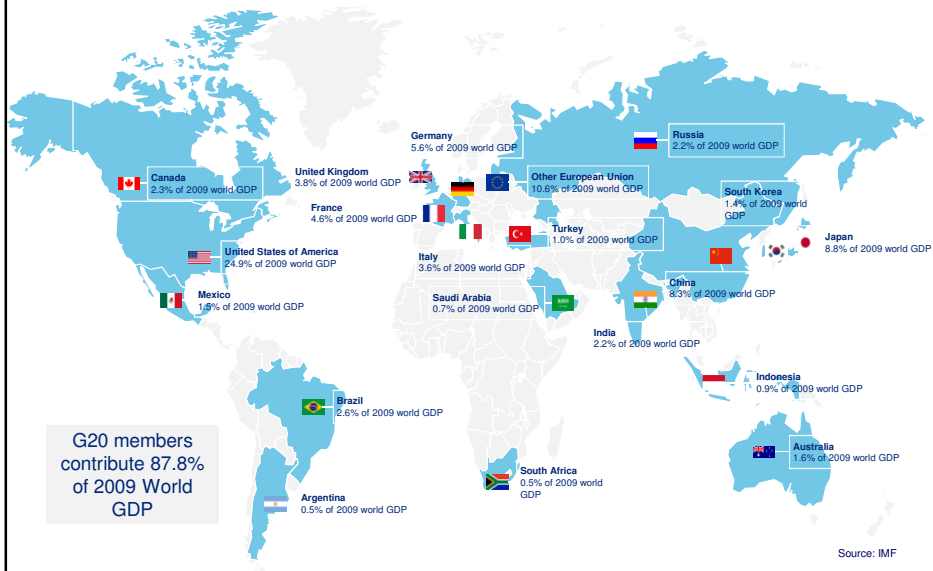
The New Landscape



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The New Landscape – G20



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The New Landscape – G20

Presidents and Prime Ministers are setting the accounting agenda.

- Washington, November 2008
- London, April 2009
- Pittsburgh, September 2009
- Canada, June 2010
- Korea, November 2010
- France, 2011

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The New Landscape – G20

“Strengthening transparency and accountability”

- Enhanced guidance for valuation of securities
- Accounting and disclosure standards for off-balance sheet vehicles
- Required disclosure of complex financial instruments
- Governance of the international accounting standards setting body
- A single set of high-quality global standards
- Consistent application and enforcement of high-quality accounting standards
- Enhanced risk disclosures

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The New Landscape – Financial Stability Board

- London G20 Summit, April 2009, established the Financial Stability Board to replace the Financial Stability Forum
- Central banks and finance ministries from 24 countries, plus six international organizations and six standard-setting bodies
- Focus on
 - Assessment of vulnerabilities to the financial system
 - Supervisory and regulatory cooperation
 - Standards implementation

The New Landscape -- IFIAR

- International Forum of Independent Audit Regulators brings together PCAOB-type oversight bodies from 37 countries and territories
- Mission
 - Share knowledge of the audit market environment and practical regulatory experience
 - Promote collaboration among regulators
 - Provide a focus for contacts with other international organizations interested in audit quality
- Looking into a wide range of issues: revenue recognition, professional judgment, auditor skepticism, group audits, second partner review, governance and transparency of firms and international networks
- Impact on national regulatory systems

Old Issues and New

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Old Issues and New

- International Standards
- Oversight and Inspections
- European Commission Green Paper – “Audit Policy: Lessons from the Crisis”

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Old Issues and New – International Standards

- IFRS
- International Standards on Auditing
- IFAC Code of Ethics for Professional Accountants

Old Issues and New – Oversight and Inspections

- Uneven development of oversight and inspection capacity
- Metrics of audit quality – regulating human judgment
- Multiple inspections
- Conflict of laws
- Reciprocity, mutual recognition, mutual reliance

Old Issues and New – EC Green Paper

“In the wake of the financial crisis, we need to ask the question whether the role of auditors can be enhanced to mitigate any new financial risk in the future.”

“The (European) Commission is keen to assume leadership at the international level on this debate and will seek close co-operation from its global partners within the Financial Stability Board and the G20.”

- Released on October 13, 2010
- Comments due on December 8, 2010
- Conference with Stakeholders on February 10, 2011

Old Issues and New – EC Green Paper

- Communications by auditors to stakeholders
- International Standards on Auditing
- Governance and independence of audit firms
- Audit firm supervision
- Concentration and market structure
- European market for audit
- Small and medium sized enterprises and practitioners

Old Issues and New – EC Green Paper

*“The more things change the more they remain the same” or
“Everything old is new again.”*

- Adherence to international standards
- Auditor remuneration
- Mandatory rotation of audit firms
- Joint audits
- Prohibition on non-audit services
- Disclosure of audit firm finances and governance
- Market concentration and competition

- Debate in the aftermath of the Asian Financial Crisis?
- Sarbanes-Oxley debate?
- EU Directive on Statutory Audit 2006?

Future Challenges

Future Challenges

- Greater expectations of auditors
- Expanded business reporting
- International mobility

Future Challenges – Greater Expectations

- Early warning on systemic risks
- Fraud and bribery
- Internal controls
- Communications with audit committees; communications with stakeholders
- Transparency, governance, quality control, remuneration
- Discipline

Future Challenges – Expanded Reporting

“Information reported under accounting standards and listing rules does not fully reflect non-financial factors that can have a fundamental impact on the current or future performance of a company.”

- Prince of Wales’s Accounting for Sustainability Project
- Conceptual framework for bringing together financial, environmental, social and governance information in a clear, concise, consistent and comparable format
- What are the metrics? How do you audit?

Future Challenges – International Mobility

- Growth of international business and adoption of global standards suggest the need for greater international mobility of professionals.
- Different approaches
 - Mutual recognition
 - National qualifications go international
 - Multinational qualification
- A global passport for accountants?

Conclusion

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- Technical competence is essential, but not sufficient for the future professional
- Today's global environment tells us that the ideal professional is
 - Multicultural (multilingual?)
 - Highly attuned to professional ethics (independence, conflict of interests, professional ethics)
 - A wise (wo)man (judgment)
 - A fortune-teller (early warning)
 - A politician (attuned to public expectations)
- An exciting, rewarding, but highly demanding career

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