

Summary of themes

FROM THE AUDIT COMMITTEE
LEADERSHIP SUMMIT



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Financial crisis dominates third Audit Committee Leadership Summit

On 30 September and 1 October 2008, 17 members of the European and North American Audit Committee Leadership Networks, who are audit committee chairs drawn from leading global public companies typically with over \$10 billion in revenue, met for the third time in London.

In conversations with Philippe Danjou, member of the International Accounting Standards Board (IASB); Sir Callum McCarthy, immediate past chairman of the UK's Financial Services Authority; Charlie McCreevy, European Commissioner for Internal Market and Services; and Ethiopis Tafara, Director of the Office of International Affairs at the US Securities and Exchange Commission (SEC); participating members discussed the current financial crisis and the impact on and response of audit committees. This note contains a summary of themes for all members of both networks:

- **Global financial crisis needs US leadership.** Holding a meeting of European and North American board directors during a financial crisis enabled members to gain a deeper understanding of the interconnected nature of the markets. Audit chairs strongly believe that the US (and its Congress) needs to take the lead on a market rescue plan. European audit chairs believe that the US's future global economic leadership is riding on the outcome.
- **Strong likelihood of more intrusive domestic regulation.** Members want to see better regulation, rather than more regulation. Former and current regulators at the meeting believed that European and transatlantic regulatory reform and coordination is needed, but they predicted that, perversely, when the crisis has subsided, more intrusive, domestic regulation of companies, both financial and non-financial, will be demanded by politicians, in light of the use of taxpayer funds in the US and Europe in addressing the credit crisis.
- **Role of audit committees in the current crisis.** Members said they intend to focus on: (1) understanding and addressing any concerns about the company's liquidity, access to credit, refinancing issues, concentration risks, and counterparty risk (including insurance providers, key customers, key partners, e.g., in the supply chain or joint ventures); (2) continuously reviewing company defined benefit pension fund and treasury investments; (3) the audit firm's likely year-end opinions on pension funds and impairment of intangibles and goodwill.
- **Improving enterprise risk oversight.** Audit committees are watching out for any returns across the company that appear too good to be true (e.g., return on equity above the historic average for the industry is a potential red flag). During the current annual strategic planning, boards need to understand worst-case scenarios and also push management to "imagine the unimaginable." Additionally, audit chairs need to work closely with remuneration committees to ensure that management incentives are not triggering an unhealthy risk appetite. Audit chairs are looking for their audit partners to give them a clear view of a company's enterprise-wide risks, based on what the auditors see in other companies.
- **Future of fair value accounting.** Despite calls by politicians on both sides of the Atlantic for a suspension of fair value accounting, guests at the summit (and a number of members) believed that fair value is an intrinsically better form of accounting, and that it could be dangerous to change accounting practice during the crisis as such a change could significantly unsettle investors and further erode their confidence.

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- **No IFRS 2.0 in Europe in 2009.** Prior to the meeting, EACLN members expressed concern that, following the end of the moratorium on major changes to IFRS in 2009, they faced another round of change in accounting standards. Guests said that any changes in 2009 would mostly be of a technical nature (other than in accounting for new business combinations). Major changes are expected in 2011 when the IASB's long awaited convergence project with the US Financial Accounting Standards Board (FASB) is completed.
- **Few takers for early adoption of IFRS in US.** Few US boards have discussed IFRS conversion, but audit chairs are starting to appreciate that the SEC Roadmap provides a six year window (for accelerated filers) in which to get all the work associated with a conversion completed. There are likely to be few takers for earlier adoption. ACLN members expressed interest in understanding what is involved in the conversion, and audit committees can provide a push for management and boards to start considering what is involved. Given that some companies are considering finance organisation transformation, or making systems changes, six years is just about adequate to avoid both the squeeze on resources and the race to the finish line associated with implementing Sarbanes-Oxley Section 404.

Meeting participants

Audit Committee Leadership Network in North America

- Mr Steve Almassy, Americas Assurance Leader, Ernst & Young
- Mrs Judy Richards Hope, Audit Committee Chair, Union Pacific
- Mr Steve Howe, Americas Managing Partner, Ernst & Young
- Mr Laban Jackson, Audit Committee Chair, JP Morgan Chase
- Ms Marie Knowles, Audit Committee Chair, McKesson
- Mr Oscar Munoz, Audit Committee Chair, Continental Airlines
- Mr Chuck Noski, Audit Committee Chair, Microsoft & Morgan Stanley
- Ms Pam Patsley, Audit Committee Chair, Texas Instruments
- Mr Steve West, Audit Committee Chair, Cisco Systems
- Mr Chris Williams, Audit Committee Chair, Wal-Mart

European Audit Committee Leadership Network

- Dr Werner Brandt, Audit Committee Member, Lufthansa
- Mr Phil Hodgkinson, Audit Committee Chair, BT
- Dr DeAnne Julius, Audit Committee Chair, Roche Holding
- Mr Wim Kok, Audit Committee Chair, ING
- Mr Daniel Lebègue, Audit Committee Chair, SCOR
- Mr Tom McGrath, Managing Partner, EMEA Financial Services, Ernst & Young
- Mr Christian Mouillon, Deputy Area Managing Partner EMEA, Ernst & Young
- Mr Pierre Rodocanachi, Audit Committee Member, Vivendi
- Ms Guylaine Saucier, Audit Committee Chair, Areva
- Mr Kees Storm, Audit Committee Chair, Unilever
- Dr Bernd Voss, Audit Committee Chair, ABB

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