

# Summary of themes

FOR THE AUDIT COMMITTEE  
LEADERSHIP SUMMIT



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## Audit chairs see increased regulation and new risks on the horizon and value the support of their external auditors

On June 30 and July 1, 2009, 23 members of the North American and European Audit Committee Leadership Networks, who are audit committee chairs drawn from leading global public companies typically with over \$10 billion in revenue, met together for the fourth time in Washington, DC.

In conversations with Bob Herz, chairman of the Financial Accounting Standards Board (FASB); John White, immediate past director of the SEC's Division of Corporation Finance (Corp Fin); and Antoine van Aghmael of Emerging Markets Management; members discussed the ramifications of proposed accounting and corporate governance changes on boards and audit committees, and providing oversight of emerging markets' risks and opportunities.

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- **SEC-driven regulation will focus on risk and compensation disclosures.** A significant shift in leadership and focus has taken place at the SEC. New chairman Mary Schapiro has two priorities: enhanced enforcement and a focus on making boards hold management more accountable to shareholders for their actions, particularly on risk and compensation. US audit chairs are concerned about the amount of regulation and legislation that is being pursued in the US. However, they were broadly supportive of what appears to be the SEC's preferred path to reform: increased disclosure on risk oversight and management, directors' credentials, and executive and company-wide compensation. Some European audit chairs were concerned that increased activism by the SEC would further encourage European regulators to increase regulation. In general, audit chairs are looking for more advice and protection from outside experts as they seek to reduce the risk of their companies becoming targets for activist investors testing their new powers.
- **Changes to accounting standards generates need for external auditor support.** Political leaders in the G-20 are committed to a single set of high quality international accounting standards, but significant challenges exist in moving towards that goal. Standard-setters – notably, the FASB and IASB – are under political pressure to adapt standards on fair value and impairment. There is also concern that political interference could extend to other major convergence projects, such as revenue recognition, lease accounting, financial statement presentation, and pension accounting. Audit chairs believe divergence between accounting and bank/insurance regulatory reporting requirements may widen. Audit chairs reemphasized the need for stability in accounting standards, and signaled the importance of the external auditor in navigating increasingly complex accounting pronouncements. There was general support for reviving last years' recommendation by the SEC's advisory committee (CiFIR) for a "judgment framework" to protect companies and their external auditors from being second-guessed by regulators after the event.
- **International cooperation is on the backburner.** At the fall 2008 summit, participants and guests pointed to the pressing need for international cooperation on a host of issues, including bank and capital markets regulation, accounting standards, and economic stimulus efforts. The April G-20 meeting signaled an intent to press for a coordinated response. However, political and public outrage at the extent

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of the failures has necessitated predominantly domestic responses, much to the regret of European audit chairs in particular.

- **Lessons to be learned from the financial crisis.** While audit chairs recognized macro-economic factors and regulatory failures were key causes of the crisis, they want to identify lessons learned by external auditors and audit committee members in the financial institutions’ boardrooms and audit committees. Insights into risk oversight, valuation, and compensation practices would be most useful.
- **Emerging markets offer opportunities but continue to create sources of risk.** There is a significant shift in economic and geopolitical power from the developed world. Increasingly, it is difficult to talk about “emerging markets” as a group although general trends can be identified, including the phenomenal growth of domestic consumers in the emerging markets, and the rise of a new breed of world-class multinationals from these markets that are important competitors and partners for developed markets companies. Audit chairs said boards and audit committees should ensure management evaluates risks (and opportunities) on a country-by-country basis. Many boards are becoming more international in composition, but gains in diversity and expertise are matched by problems with scheduling and an equitable distribution of the workload. There was a major focus on the impact of FCPA cases being pursued by the SEC and the US Department of Justice. Audit chairs rely on internal and external auditors to ensure risks are properly evaluated, compliance programs are effective, and appropriate controls are in place.

## Meeting participants

Audit Committee Leadership Network in North America	European Audit Committee Leadership Network
Denny Beresford, Audit Committee Chair, Kimberly-Clark	Aldo Cardoso, Audit Committee Chair, GDF SUEZ
John Dillon, Audit Committee Chair, Caterpillar	Phil Hodkinson, Audit Committee Chair, BT
Gene Fife, former Audit Committee Chair, Caterpillar	DeAnne Julius, Audit Committee Chair, Roche Holding
Dick Harrington, Audit Committee Chair, Xerox	Daniel Lebègue, Audit Committee Chair, SCOR
Judy Richards Hope, Audit Committee Chair, Union Pacific	Anders Nyrén, Audit Committee Chair, Sandvik and SCA
Labe Jackson, Audit Committee Chair, JPMorgan Chase	Ian Prosser, Audit Committee Chair, BP
Marie Knowles, Audit Committee Chair, McKesson	Pierre Rodocanachi, Audit Committee Member, Vivendi
George Muñoz, Audit Committee Chair, Altria and Marriott International	Guylaine Saucier, Audit Committee Chair, Areva and Danone
Oscar Munoz, Audit Committee Chair, Continental Airlines	Tom de Swaan, Audit Committee Chair, GlaxoSmithKline and Ahold
Pam Patsley, Audit Committee Chair, Texas Instruments	Bernd Voss, Audit Committee Chair, ABB
Sandy Warner, Audit Committee Chair, General Electric Company	Mario Zibetti, Audit Committee Chair, Fiat Group
Chris Williams, Audit Committee Chair, Wal-Mart	
Ernst & Young was represented by at the meeting by:	
Tom Hough, Americas Vice Chair of Assurance Services	Tom McGrath, Managing Partner, EMEIA Financial Services
Steve Howe, Americas Managing Partner	Christian Mouillon, Global Vice Chair Assurance Services

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