

Outline

- the politics of global audit reform
- Canada's response to Sarbanes-Oxley; parallels with the current challenges
- thoughts on the way forward

A Political Bunfight

- auditing profession caught in the cross-fire
- populism
- pandering to perception
- illogical proposals
- not evidence based

21st Century Initiatives to Centralize Standards-Setting

- creation of International Accounting Standards Board (IASB)
- IFAC Reform; auditing standards (IAASB)
- supported by U.S. policy makers
 - means of isolating standards from congressional interference

Replaced by Massive European Political Meddling

- politicking is intense
- final EU Commission proposals still must navigate through the EU Council and Parliament
- UK Government strongly opposed
- political compromise will determine final dictates
- long for "good old days"
 - Auditing and accounting too dull for politicians

Canada is in a familiar position

- events beyond our borders will have profound effects
- no (notorious) Canadian audit failures
- yet Canada must respond

Canada faced a similar dilemma in 2002/2003

- massive failures of Enron, Worldcom, other U.S. icons
- investors lost billions
- howls of outrage, voter anger
 - 11 separate Congressional Committees
- Sarbanes-Oxley

Shockwaves roiled through Canadian markets

- investor confidence plummeted
- markets fell; investors suffered losses
- not surprising
 - markets closely linked to U.S.
 - similar market structures
 - similar corporate models

Yet, at the time, no recent failures in Canada

- reasonable to conclude that our markets had same latent defects
- Canadian media highlighting possible implications for Canada
- erosion of confidence in Canadian markets

Canadian policy makers had to respond

- but how?
- reaction in Canada mixed
 - those who saw similar flaws
 - we need strong reforms mirroring the U.S.
- those who saw the problems unique to the U.S.
 - don't want an additional regulatory burden in Canada

Several complex policy objectives

- calm the markets and restore confidence in our market system
 - investors protected from U.S. type frauds
- preserve the reputation of Canada's capital markets
 - safe place to invest
 - we take these issues as seriously as the U.S.

Three challenges to achieving these objectives

- First – fragmented governmental and regulatory system
 - overlapping federal and provincial authority
- Second – debate about the need for reform in Canada
 - opponents claimed – no failures in Canada – no need for reform
 - proponents of reform couldn't highlight Canadian failures
 - trying to restore – not destroy public confidence
 - built the case without emphasizing the prospect of failures

Third Challenge – managing the politicians

- envious of media attention garnered by U.S. counterparts
- openly talking about some form of Canadian legislation
- SOX badly flawed
- a Canadian version could be worse
- but - likely reforms would require some legislative support

Strategy – Demonstrate to the markets and politicians that the situation was under control

- keep markets and politicians at all levels informed
- launched a very public review of the merits of introducing similar reforms in Canada

Three-pronged approach

- First – needed a strategy to restore confidence in Canadian markets
- Second – critical to gain support from key industry groups
- Third – needed to maintain continuous government support for whatever regulatory reforms emerged

Result

- market participants, professional bodies, governments and regulators responded quickly to SOX with a coordinated response
- forged a unique, Canadian solution

Uniquely Canadian approach

- CICA and Regulators created CPAB - an industry solution
- Law Society – new, clarified code of conduct for lawyers
- Investment Dealers – new standards for analysts
- Ontario Legislature – broader OSC powers in key areas
- Federal Parliament – higher corporate governance standards for federally incorporated companies - amendments to Criminal Code

Uniquely Canadian approach – (*cont'd*)

- OSC – introduced new rules adopting four key features from SOX but adapted to Canada
 - near unanimity among regulators

Canada emerged from the crisis pretty well

- no intrusive, rigid SOX-like legislation
- uniquely Canadian robust regulatory approach
- responded to the external crisis with our own solutions that were compatible with our largest trading partner

Current crisis in the auditing world contains interesting parallels

- largely external to Canada
- few domestic issues
- heavy political involvement
- Canada must respond

Canada has some unique advantages

- profession sets accounting and auditing standards
- oversight by the CPAB is "voluntary"
- culture of finding cooperative solutions among industry and regulators

Need to carefully preserve our strengths in responding to these challenges

- define goals and objectives
- demonstrate that the search for appropriate responses is:
 - in good hands
 - will be conducted fairly
 - will be inclusive
 - will be timely

Questions?