Our Changing Regulatory Environment

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University of Illinois-Audit Symposium
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Concept Release on Mandatory Firm Rotation (Independence, Objectivity and Skepticism)
- Issued August 2011
- Over 600 comment letters were received; > 90% opposed to MFR
- Roundtables held March and June 2012
- Additional roundtables planned in October 2012 and early 2013
- Concept of mandatory re-tendering or similar alternatives being raised

Communications with Audit Committees
- Auditing standard issued in August 2012
- Subject to SEC approval

On August 1, 2012 PCAOB issued a release concerning its inspection process and the information that audit committees should be seeking from their auditors
PCAOB Rule-Making Agenda – Major Projects

- Auditor Reporting Model – 3 separate projects
  - Broad Project
  - Transparency Proposal (Identification of LAEP/Components)
  - Going Concern Responsibilities

- Broad Project on Auditors Report (Broader Auditor Communication)
  - Concept Release issued in 2011
  - Possible proposals
    - Auditor Discussion & Analysis
    - Expanded use of emphasis of matter paragraphs
    - Attestation of information outside financial statements
  - Expect proposed standard in late 2012
  - Profession has met with PCAOB staff – most recent meeting on EOM framework
PCAOB Rule-Making Agenda – Major Projects

- **Transparency Proposal**
  - Proposed standard issued in October 2011
  - Identification of LAEP in auditors’ report and Form 2
  - Identification of component auditors in auditors’ report
  - Expect final standard in 2012

- **Going Concern Responsibilities**
  - Added to agenda in early 2012
  - Proposed standard expected in 2012
  - PCAOB Investor Advisory Group supporting an enhanced standard
  - No visibility yet on expanded auditor performance or reporting responsibilities
  - Coordination with possible FASB project
Adoption of interim inspection program for audits of broker-dealers

- Proposal issued in December 2010
- Comments submitted in February 2011
- Proposal is adopted in June 2011
- Initial report issued by PCAOB in August 2011
EU Audit Reform Update - Background

November 30, 2011 marked an important milestone in the EC’s Audit Reform proposals, which are a key part of Commissioner Barnier’s review of European regulatory infrastructure......

- Nov 2011
  - publication of Commission’s proposals
- Sept/Oct or later... 2012
  - European Parliament first reading
  - Council priorities are set by Presidency which changes every 6 months

- 2013......?
  - EP/Council approvals

- Proposals are in two separate instruments:
  - Directive – binding on Member States as to objectives to be achieved, but provides discretion on how to do so. Requires enactment by Member States before becoming effective
  - Regulation – directly applicable and binding throughout the EU. Equivalent to national law in each Member State

- The radical proposals are included in the Regulation

....and the legislative process will take 18 to 24 months (or may be even longer)
The EU legislative process

**The legislative process is now underway:**

- The European Commission is now less influential (decision making is with EP/Council)
- Reports in preparation by EP / Council Committees – (latest indication is that the timetable is slipping)
- EP and Council both consider proposals – 1st reading (9-18 months from date of publication of Commission’s proposals from Nov 2011)
- If no agreement, proceeds to 2nd reading (18+ months)
- Requires approval of EP (absolute majority) and Council (representing 75% of votes)
- Conciliation process if no agreement on 2nd reading - may result in ultimate agreement or rejection
- Whole process likely to take between 18 to 24 months, potentially longer
- Provisions will apply 2 years after finalization (entry in the Official Journal)