

GLOBAL PUBLIC POLICY SYMPOSIUM –

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London

Ladies and gentlemen,

It is a great honour and pleasure for me to address such a distinguished audience. When you invited me a few months ago, I was merely the Chairman of the French securities regulator. Today, and for the last fortnight, I am also the Chairman of the Technical Committee of IOSCO, the global organisation of securities regulators.

I have therefore decided to give today my personal views without committing IOSCO, although my participation to this Symposium, together with Dogan Cansizlar, Chairman of the Emerging Markets Committee of IOSCO, does illustrate how important it is for securities regulators to be able to rely on a sound and efficient audit profession, and to maintain a confident and fruitful relationship with the leaders of that profession.

We all have in mind the kind of earthquake, which affected the financial markets in the early years of 2000 and the seismic waves which followed, and which have not apparently melted away yet, thus provoking severe and lasting damage to investors' confidence.

We recognise that greed, dishonesty and irrational exuberance were the main causes of those events, but we also have to admit that checks and balances, among which

independent audit plays a leading role, have failed and sometimes took part in those failures.

I do not want to come back to these events and I certainly take stock of the huge amount of reforms and financial legislation, which have been initiated over the past two or three years, nationally and internationally.

I also recognize that market participants, and regulators alike, have to digest these reforms, that there are signs of “regulatory fatigue” and that the time has come for a pause with regard to new developments. As stated by Commissioner McCreevy, and with a few significant exceptions, we should now focus on implementation rather than adding new legislation.

Nonetheless, we also have to recognize that a lot remains to be done and that your profession is still facing a number of structural problems that your panel discussions have or will review.

I would, therefore, like to make three remarks : firstly, with regard to my understanding of your role in the functioning of markets ; then about my expectations regarding the way audits should be performed, and finally, about the international architecture and decision making process which we should improve to cope with a globalised approach of audit issues.

- Point one, markets need you, auditors ; managers of companies need you ; investors need you, financial regulators rely on you. This is obviously good news from a business point of view. But what we expect from you is demanding and not easy to deliver.

All market participants are thriving for accurate, coherent, comprehensive, timely and accessible information. No doubt the quality of this information flow basically relies on the management of listed companies and, more generally, on those who deliver it from the outset.

But we also know that financial information in a complex and globalised world requires high quality standards that provide a fair representation of economic reality in order to determine and compare values, prices, companies and so on. Because you are among the best professionals in the field of accounting, you have clearly to play a leading role in that field.

Secondly, we know that, to be reliable and credible, information has to be verified, through internal and external controls.

This is your major responsibility, your basic added value. No one has yet found a better system than that of an external audit performed by skilled professionals appointed and paid, directly or indirectly, by shareholders. This system, undoubtedly, raises issues of good corporate governance. But we should never lose sight of this fundamental arrangement. May I quote a representative from Calpers who recently contradicted a top level manager who complained on the cost of Sarbanes-Oxley ? He rightly reminded him that this cost, was not paid for by the management but by the shareholders and that it was their choice to support this cost if it were to deliver better governance and management. He also underlined that this cost was nothing compared with the losses investors have suffered recently.

May I add that audit issues should also not merely be debated between auditors and regulators, but that managers should also be part of it and should be happy to rely themselves, for their own sake, on excellent and fully independent audit.

And of course, there should be a better dialogue between auditors and investors so that investors, who are the end users of audits better understand what auditors do think.

My last remark regarding your role deals with the scope of your work. Audit should not be strictly limited to verifying the proper application of accounting standards. Auditors are highly sophisticated people who, well beyond accounting issues, are experts in a number of fields and able to have an integrated understanding of companies.

That is why regulators and investors expect from auditors that they assess the relevance and coherence of prospectuses, annual reports, and alike and reconcile financial and non financial information. This is a dimension of audit which should provide an answer to those who are afraid that merely focusing on accounting may deter the best professionals from joining audit firms because of a too narrow kind of activity.

Information is key to the market. Auditors are best fit to assess information. Auditors are key for the market. This was point one.

- Point two, how should auditors and audit firms deliver what we expect of them ? I have very simple views on that which, as some of you may remember, I presented to the Council of IFAC in Miami, in November 2001, a few days before Enron's debacle. As Edgar Faure, a well known French politician, said, "to be right is extremely wrong". But may be I am lacking modesty. Let me nevertheless quote again my favourite principles.

Firstly, whatever the quality of the standards and methodology, auditing requires a high degree of professional scepticism, served by common sense and clever risk analysis.

Many recent audit failures have raised doubts as to the adequacy of the audit approach that was followed and one has a difficult time to understand how certain basic errors or frauds remained unspotted.

Focusing merely on process and box ticking sometimes prevents us from identifying the real issues. Form should never supersede substance and assessing underlying realities should not be lost of sight.

As an example, why is it that auditors cannot cooperate on a cross firm basis when conducting their audits? Should not confirmations of balances be verified by the counterparty's auditor ? In the recent cases, it might have helped.

Secondly, auditors have to be objective and independent.

This, of course, is above all a state of mind. It is also a matter of perception.

You and your firms should be convinced that your independence is your most valuable asset. There should not be room for compromise with regard to independence.

You act in the interest of the public, you have a responsibility to the public.

If the public has doubts on your independence, it may overreact when crisis comes. This may in turn push the law makers to over react also. And the sanction of errors will not be the same if it is understood, rightly a wrongly, that the audit failure could be linked with a lack of independence.

So please put an end to these everlasting and depressing discussions on authorised non audit activities. Do not spend the best of your energy in developing your activities in the so called grey area. This does not mean that you should not expand your scope beyond accounting issues, and I personally believe you should develop multidisciplinary audit with adequate expertise in taxation, valuation, IT, etc.... But

please, stop trying to reconcile fire and water, audit and consulting or commercial services for the same client.

I believe that the days of the pure audit specialist firms are ahead of us. Markets like pure players.

- Thirdly, good quality audit deserves proper remuneration of the service rendered. Regulators cannot fix the prices. But they should support you if needed. Indeed, the level and quality of controls, be they internal or external, should be part of a rating methodologies as well as one of the criteria used by financial analysts. From that point of view, transparency of the audit fees, which was not widely accepted until recently, should help.

- Finally, the tone at the top of audit firms should determine the individual and collective behaviour of the auditors. Together with internal quality controls, partner's evaluation and incentives, it should enshrine in auditor's minds, to begin with the young ones, that they are, one and all, trustees of the integrity of the market economy.

To my view, this is clear and simple, and as we say in French: "all the rest is literature".

- My third point is related to the complex issue of the standard setting and oversight of audit activities and firms at the global level.

We have to recognise all the complexities of the present situation.

Audit standards, cultures, and traditions differ around the globe and governments wish to defend their sovereignty and systems, while regional organisations, such as the EU, get involved in the debate.

There are a number of global organisations and fora which pretend to have a say in these matters.

Your profession itself is split between a worryingly small number of global firms which are represented here today and audit over 80% of global market capitalisation of listed companies, and a large number of smaller firms, not to mention the fact that audit is not limited to listed companies, but encompasses the private sector, the governmental and local entities and myriads of non for profit entities.

How should we deal with that complexity and avoid overlaps, as well as useless rivalry and possible loopholes ?

Let us be realistic. We are not starting from scratch and a lot has already been done, on which we can build.

For many years now, the professionals, through IFAC and the IAASB, have produced a set of standards of great quality. May be they have to be completed, updated or even adapted according to the lessons of recent crisis. But ISAS are here and we should not reinvent the wheel.

By the way, I believe, and I know that this view is not shared by everybody, that standard setting, as regards the conduct of an audit, is fundamentally a matter for practitioners, even more than for accounting and financial reporting standards where substance can more legitimately be debated by users, preparers and others.

Is not it significant, from that point of view, that the only audit standard which is widely debated publicly is related to independence, which is more of an ethical or commercial nature than of a technical nature? IAS 39, good will accounting, stock options, may oppose accountants, managers, and even politicians. Is there, besides the issue of independence, one similar example in the field of audit? This is why I have personally fully supported the IFAC reform led by René Ricol and Graham Ward.

Another player in the field of standardisation, for more than 20 years, has been IOSCO, through its standing Committees n°1 of both technical and emerging markets committees and, more recently, its chairs committee on audit issues.

And it is quite understandable that securities regulators, dealing with information of the public by listed companies became involved in auditing and accounting issues.

The IOSCO principles for auditors oversight, auditor independence and the role of Corporate Governance in Monitoring Auditor's independence, are the most recent and significant output of IOSCO's commitment in the field of audit. IOSCO is now addressing the issues of non audit services and has set up a special chairs Committee chaired by Jeffrey Lucy. This is clearly because audit failures took place in the field of listed companies.

Other organisations of course have a say :

IFIs, such as the IMF and the World Bank, who check the soundness of national financial systems and structures.

The two sectoral regulators for banks and insurance, the Basle Committee and the IAIS, which have also a great interest in the quality of audit standards and their implementation.

The new oversight bodies established by a number of governments in the aftermath of recent crisis, and which are in the process of building their own network at the regional and at the global level.

In order to progress without loosing the benefit of what has already been achieved, I have the feeling that we should go along the method which has produced its efficient output under the auspices of the Financial Stability Forum, where the major players in charge of the public interest coordinate themselves.

The standard setting process has to be supervised from a public interest point of view. This is the mission of the PIOB chaired by Stravos Thomadakis and recently established by the global regulatory bodies, together with the World Bank, with the support of the FSF and the participation, as an observer, of the European Commission.

These organisations have established a Monitoring Group, now chaired by Roël Campos, Commissioner of the US S.E.C., and Vice Chairman of the Technical Committee of IOSCO, in order to monitor the process. It has to be seen

how this architecture should encompass the new network which will emerge from the cooperation between national supervisors of audit which met here, in London, two days ago, and which have to contribute to the improvement of the standards of audit and of the quality of the audit profession.

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Ladies and Gentlemen, you do represent the most powerful and sophisticated audit firms around the World. But you are also part of a global profession.

It has been a privilege to give you directly, sometimes bluntly, yet with all my heart, my views on the issues of your profession.

I very much hope you will share these views and do your best efforts to improve your standards and their implementation.

Believe me, in many countries, if not in the most advanced market economies, criticism is mounting against some recent developments of market economy and capitalism. This cannot be considered with benign neglect. Scandals and failures, together with flourishing and cynical greed may have profound and prolonged effects on public opinions. It is our collective duty and well understood interest to demonstrate that market economy goes together with integrity and common good.

You have a major responsibility in this endeavour.