



World Federation of Exchanges

Bolsa de Madrid

1st February 2009

Dear Directors,

1. It is a great pleasure and a privilege for me and the PIOB to have the chance to meet officially with the World Federation of Exchanges. I wish to thank Thomas for organizing this meeting so effectively, and to *Bolsa de Madrid* for hosting and organizing this important dialogue.

Allow me to convey to you our greetings from our Chairman, Stavros Thomadakis, and from the rest of the PIOB Board.

2.1 The WFE is close to the PIOB's heart because this body publically endorsed the processes for establishing International Standards on Auditing (ISAs) back in 2006. I want to use this opportunity to thank you for this support. The endorsement of the ISA standard-setting process by the WFE is a significant recognition of the important role they play in ensuring greater comparability of financial information for investors.

2.2 The WFE is also a member of the IAASB CAG, and I also wish to express our appreciation to the Federation for its contribution to the process of standard-setting in the field of ISAs.

2.3 Recently the WFE has contributed a letter to the IAASB on its initiative to develop guidance on *auditing complex financial instruments*. I wish to convey to you our appreciation for this contribution and to encourage you to continue to participate actively in the processes of standard-setting.

3. Against this background of common interests, let me very briefly refresh your minds about what the PIOB does.

A lot has happened since your endorsement of ISAs in 2006 in Brazil. For instance, Arnold Schilder, who was at the time a PIOB Member, is now Chairman of the IAASB.

The PIOB was created in 2005, after the big accounting scandals of Enron and World-com. At that time, the general perception was that these involved very visible audit



failures and that large reforms were needed to rectify the problems that had plunged the world markets into the crisis of 2003. At that time the regulatory community and IFAC worked together to establish a system of safeguards to ensure the effective input of the public interest in the function of standard-setting.

The PIOB was established as a body **independent of the audit profession** to oversee the standard-setting activities of IFACs Standard-setting committees in audit (IAASB), education (IAESB) and ethics (IESBA), as well as their Consultative Advisory Groups and Compliance activities (CAP).

Briefly, **what the PIOB does** is ensuring that due process is followed in standard development; that transparency, inclusiveness and objectivity are embedded into the standard-setting process; that public interest viewpoints are expressed and fully considered; and that all interested stakeholders acquire access to the formulation, or the revision, of international standards. The PIOB further oversees the process of nomination and selection to these Boards and offers its approval to the composition of the relevant bodies. Finally, the PIOB oversees the compliance activities of IFAC (CAP).

Over the last four years this reformed system has achieved some major goals: the standard-setting boards have undergone deep changes in composition and due process, consultative advisory groups have been strengthened, and IFAC has worked to enhance its public interest agenda. Under this new framework, the set of International Audit Standards has undergone major renovation: the **“Clarity project”** was completed last February, and the **Ethics code**, including standards for auditor independence, has also been revised and completed last June.

Clearly, the WFE and the PIOB share a common interest in working towards a world of high quality audit standards that are developed through processes that ensure that the Public Interest is built in them. This is because markets, especially financial markets, conduct transactions on the basis of information. As a general economic principle, the lower the confidence over market information, the fewer the transactions and the higher their price. In the limit, if there is total uncertainty over value, no transactions will take place. This is where Auditors play their role. Auditors verify financial accounts. Their function is one of public certification. Good auditing, therefore, tends to lower uncertainty. By so doing, it tends to increase the number of trades and to reduce prices. In your world of capital markets, it tends to deepen capital markets and to lower the cost of capital. Further, good auditing increases confidence, a necessary condition of financial stability. Both these outcomes are economically efficient and socially beneficial.



4. In the present circumstances of change in the world of financial reporting, I do not want to miss this opportunity to share with you the main points we in the PIOB see looking forward.

4.1 IFAC Reform process: First, as members of the IAASB CAG, the WFE is aware of the current process of review of the 2003 IFAC reform process conducted by the Monitoring Group. This is a major exercise within which both IFAC and the PIOB are conducting their own self –assessments to identify areas of improvement in the world of financial reporting in the field of audit looking forward.

I invite the WFE to contribute to this process through active participation in public consultation process of the PIOB self-assessment report though its participation in the IAASB CAG, where we offer some interesting suggestions for discussion.

4.2 What are some of the PIOB future Directions?

4.2.1.The scope of audits is expanding, and so too is the scope of areas covered by standards setting.

Several of the projects on which the IAASB has embarked respond to requirements beyond what is understood today as a financial audit. For example, the IAASB's project to create a framework for reporting on greenhouse gas emissions breaks new ground. Decisions made in the development of this framework will create precedents for the profession's response to demands for assurance services in other areas such as sustainability, corporate social responsibility and environmental consciousness. The frameworks developed will affect the business models of the firms of professional accountants as well as the public's need and desire for accountability and reliability in all forms of corporate reporting.

The IAASB has also undertaken projects to refine the standards that may, among other things, assist small and medium sized preparers to provide a level of assurance beneficial to the users of their financial statements without incurring the cost of a full audit.

In the field of **Education Standards**, the IAESB strategic plan also includes an ambitious cycle of revision of the eight existing education standards.

4.2.2 Global convergence in standards should be a response to the current global crisis.



Public Interest Oversight Board

The general consensus is that the financial crisis experienced since late 2007 represents a massive failure of private financial markets. Widespread under-pricing of risks is a typical feature of booming markets, as is the weakening of regulatory vigilance.

The response to the crisis has meant a radical change of approach towards regulation. We are witnessing requirements for greater transparency, more rigorous regulation, and more intensive supervision. Let us remember here that the audit process fulfills a regulatory function. This means that it is subject to similar pressures as those faced by other regulatory frameworks. Demand is now pressing for financial reports to offer greater transparency, comparability, rigour, accountability and public interest robustness. If this is right, a unique opportunity presents itself now: the *adoption and effective implementation of global standards*.

Even though the process of adoption is not easy, **adoption** is now quite advanced. International Standards on Auditing (ISAs) have been, or are being, adopted around the world. The EU is currently considering the adoption of ISAs in the EU.

However, the true gain from successful standard-setting will come from the **application** of the new standards. The realization of public benefits will emerge slowly and much later than standard development and publication, as **implementation** takes root and modifies actual practice. This means that the road to the achievement of higher quality financial reporting and higher quality audits is still squarely ahead. The newly revised international audit standards have been completed just in time to offer a valuable tool for the new governance of markets, as the world is looking forward to more stable post-crisis markets.

I would like to end here these briefs remarks on the PIOB and our current perspectives.

I will be delighted to listen to your views.

Thank you very much