

Landmark Corporate Governance Legislation And The Changing Business Landscape

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& Touche**

“The Perfect Storm”

- A climate of dramatic change
 - Changing perceptions
 - Business and the C-suite
 - Accounting profession
 - Intense media and regulator scrutiny
 - Changes in financial reporting SOPs for public companies
- Result: Fundamental change in how we do business in the future

Changing Perceptions



Accounting

The Corporate Scandal Sheet

Penelope Patsuris, 08.26.02, 5:30 PM ET

NEW YORK - With the avalanche of corporate accounting scandals that have rocked the markets recently, it's getting hard to keep track of them all--but our Corporate Scandal Sheet does the job.

Changing Perceptions



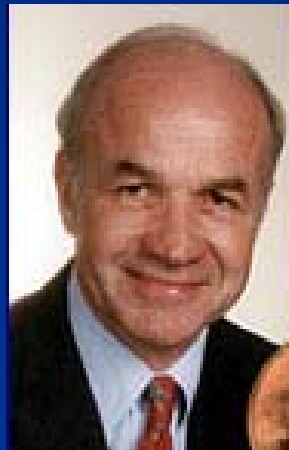
The Kings of Excess, and Other Standouts

By GRETCHEN MORGENSON

Harvey L. Pitt, L. Dennis Kozlowski, Bernard J. Ebbers, Jack B. Grubman. **Their crashing falls from grace helped make 2002 a year for business scandals that may never be topped.**

Changing Perceptions

- From "Captain's of Industry" to "America's Most Wanted"



Changing Perceptions

- The accounting profession: a veil of distrust



Changing Perceptions

- Media has latched onto the issue, propagating coverage
- “Scandals” continue to dominate headlines
- Internet search on “business + scandal”
 - 162,000 hits in the past 12 months!

The Solution?

LANDMARK LEGISLATION: SARBANES-OXLEY ACT



The Solution?

- Restatements jumped 22% from 2001 to 2002
(Huron Group)
- Only 6% of investors are “very confident” senior management engages in ethical practices
(Ratings Research)
- 47% are “not very” or “not at all” confident in senior leadership’s ethical business practices
(Ratings Research)
- 40% of consumers report level of trust has decreased from a year ago! (Golin-Harris International)
- CEOs rank second to last in trustworthiness – beating only used car dealers (Chicago Tribune)

The Landscape Has Changed

- A monumental task ahead of us to restore trust
- Ethical majority has been tarred by misdeeds of a few
- We are at a crossroads where our values are being tested
- Significant impact on how we do business in the future

Sarbanes-Oxley Act of 2002

- Most sweeping financial legislation in 50 years
- Impact on business
 - CEO/CFO certification of SEC filings and internal controls
 - Prohibits loans to executive officers and directors
 - Two-day deadline to report insider trading
 - Prosecution and imprisonment of executives who commit fraud
 - Audit committee approval of audit and non-audit services

Sarbanes-Oxley Act of 2002

- Impact on accounting firms
 - Requires rotation of audit partners after 5 years
 - Codifies non-audit services that are permissible to provide to audit clients
 - Limits non-audit services to audit clients
 - Enhanced relationship with CEO/CFO

Impacts on Business/Accounting

- Impact of loss of investor/public trust
 - Intense scrutiny: no longer have “benefit of the doubt”
 - Increased quality, conservatism and transparency: a “golden age” of financial reporting
 - Heightened interaction with senior management
 - Increased demand for IA and compliance services

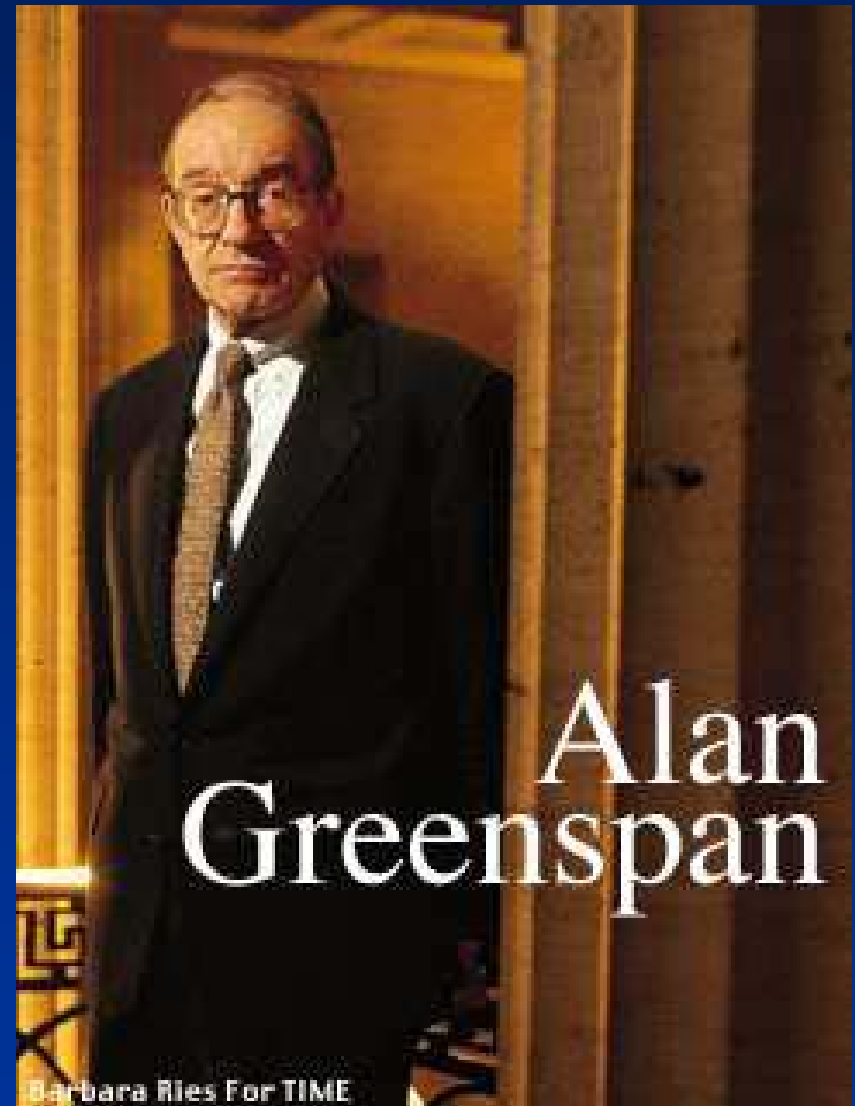
Impacts on Business/Accounting

- Significant increase in cost of doing business
 - Enhanced reporting requirements of SOA
 - Compensation costs for executives and board/audit committee members to offset personal litigation risk
 - D&O insurance premiums
 - Audit fees for more comprehensive audits and increased risk
 - Cost of auditor litigation insurance in 2001 estimated at 14 to 15% of revenues – *before Enron!*

How Did We Get Here?

- Intense pressure to demonstrate continued growth – despite economic downturn
- Enhanced executive compensation packages linked to performance
- Accountability and responsibility open to interpretation
- Simply put....

“a climate
of greed..”

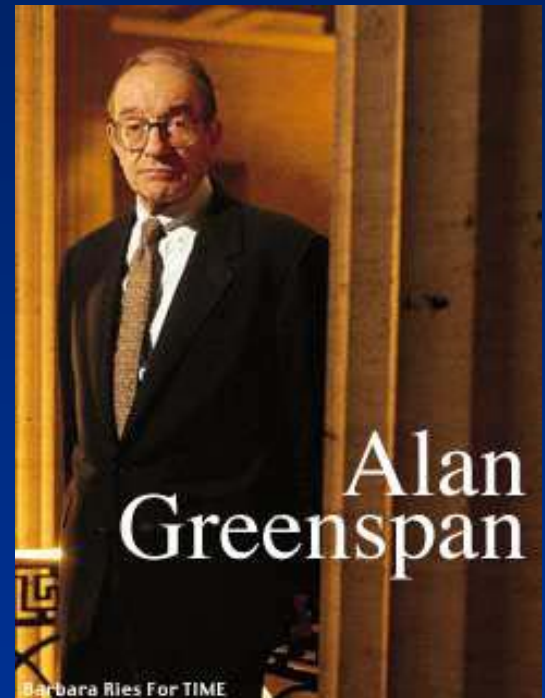


Restoring Trust

- Accounting profession
 - Clarify misperceptions
 - Audits are not “fool-proof,” dependent on information supplied by management
 - Narrow the “expectation gap” between assurance investors expect and what even the best audit can provide

“A CEO must be afforded full authority to implement corporate strategies, but also must bear the responsibility to accurately report the resulting condition of the corporation to shareholders and potential investors.

Unless such responsibilities are enforced with stiff penalties for non-compliance... our accounting systems and other elements of corporate governance will function in a less than optimum manner.”



Restoring Trust

➤ Accounting Profession

– Review processes

- Principals to qualify types of companies we accept as clients
- Increase levels of partner involvement
- National resources in the local office
- Foster a culture of consultation

Restoring Trust

- Deloitte & Touche
 - Comprehensive self-examination of processes
 - Going beyond auditor independence requirements
 - Reinforcing ethics and integrity in future leaders through \$1MM business ethics partnership with Junior Achievement
 - Fine-tuning recruiting and evaluation practices to enhance focus on ethics and integrity

Restoring Trust

➤ Corporate America

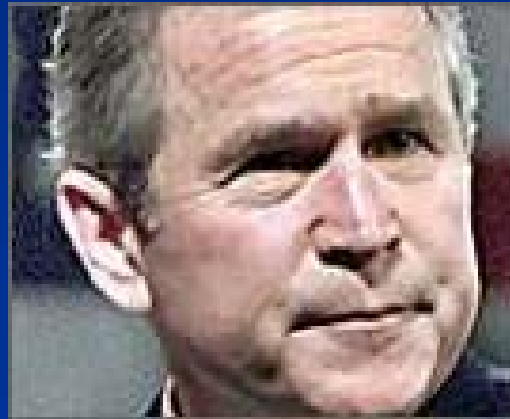
- Continually reassure investors it won't happen in their backyards
 - Annual reports, shareholder meetings, public forums
- Set the right “tone at the top” regarding the significance of ethics and integrity
- Rigorous self-examination to ensure we are motivating ethical behavior and personal integrity
 - Review evaluation and compensation practices to ensure we are encouraging ethical, competent performance in the public interest

In Conclusion

- Laws and regulations can help – but not prevent – future transgressions
- Ultimately, its up to the ethics and integrity of the individual
- It's up to us to restore trust – and a healthy dose of skepticism to our capital market system.

Restoring Trust

“Tougher laws and stricter requirements will help.... Yet ultimately the ethics of American business depend on the conscience of America’s business leaders.”



Thank You