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Legislative and Regulatory update:

The current landscape and the road ahead

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Agenda

- **Legislative Update**
 - Comprehensive Financial Regulatory Reform: Profession issues
 - Liability Exposure
 - Increased Regulatory Oversight
 - Investor Protection
- **The Current Regulatory Landscape**
- **Regulatory Update**
 - SEC Agenda: increase focus on enforcement
 - PCAOB Agenda: constitutionality
- **Questions and Comments**

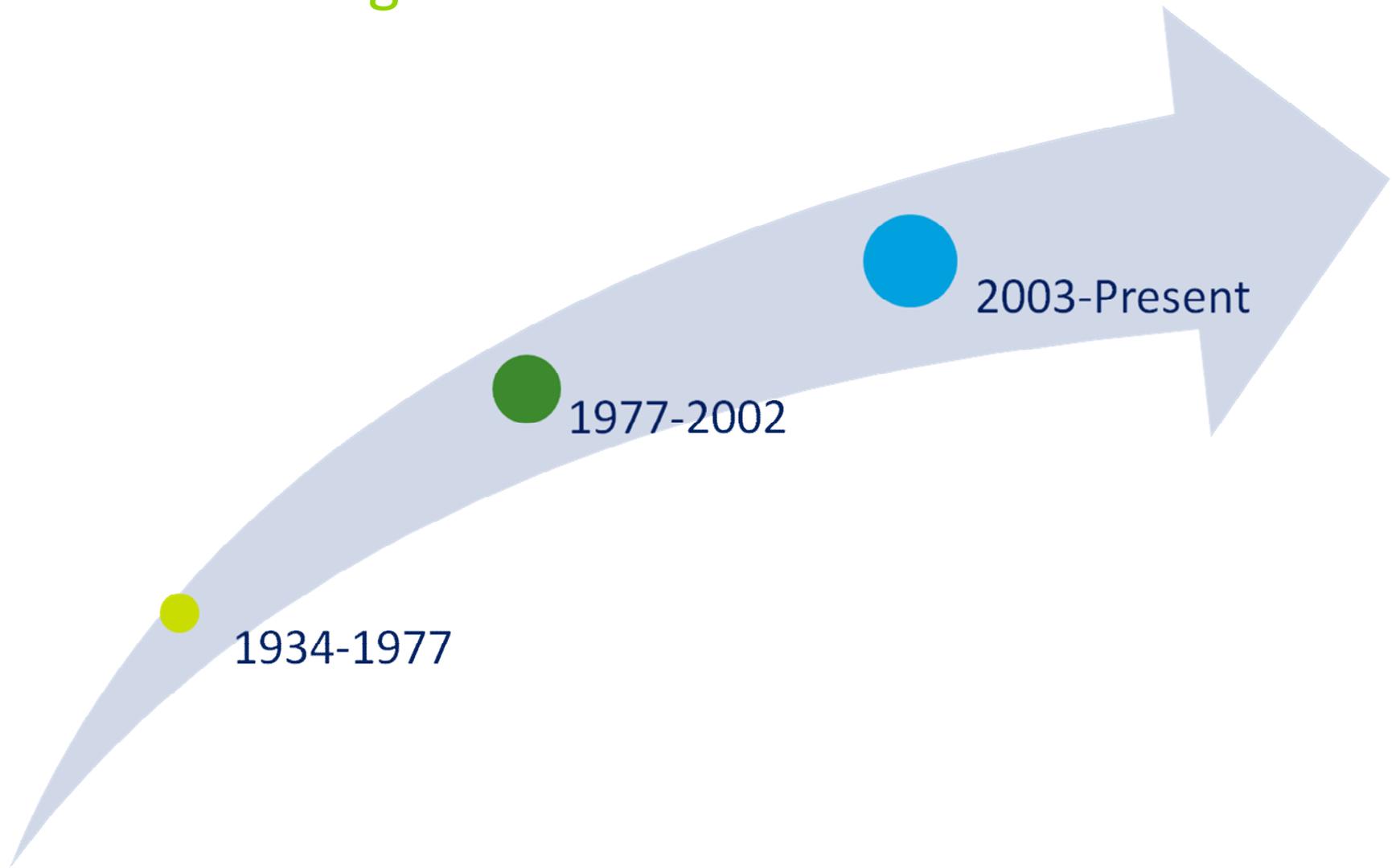
Legislative Update

- **Comprehensive Financial Regulatory Reform**
 - Liability Exposure
 - Aiding and Abetting Liability
 - Lowering Pleading Standard
 - Increased Regulatory Oversight
 - Consumer Financial Protection Agency

Legislative Update

- **Comprehensive Financial Regulatory Reform – cont.**
 - Investor Protection
 - Reforms to Sarbanes-Oxley Internal Control Requirements
 - Sharing of Information by the PCAOB with Foreign Auditor Oversight Authorities
 - Whistleblower Protections
 - Extraterritorial Jurisdiction of the Antifraud Provisions of the Federal Securities Laws

The Current Regulatory Landscape: How did we get here?



Regulatory Update

- SEC Agenda
 - Response to credit crisis and Madoff scandal
 - Enforcement
 - Fair value
 - Going concern
 - Corporate governance matters
 - IFRS roadmap
 - Professional judgment

Regulatory Update

- SEC Agenda: increase focus on enforcement
 - New Enforcement Director, Robert Khuzami
 - » Front and center given Madoff miss
 - » Changes at Enforcement Division – what does this all mean?
 - Specialized Investigative Groups
 - Management restructuring
 - Streamlining
 - “Vigorous enforcement is a critical component of that [financial crisis] recovery effort”
 - Warning to auditors:
 - » The existence of management fraud does not provide exemption to external auditors from SEC enforcement action
 - » Failure to demonstrate professional skepticism common thread in enforcement actions

Regulatory Update

- SEC Orders against E&Y, 6 Partners – December 17
 - SEC found E&Y knew or should have known about Bally Total Fitness Holdings Corporation (Bally's) fraudulent financial accounting and disclosures
 - Among partners charged – 3 members of the firm's national office, including most senior technical partner and Vice Chairman
 - Settlement:
 - » E&Y agreed to pay \$8.5 M penalty and certain undertakings
 - » Partners agreed to sanctions ranging from censure to bars from practicing before SEC for periods 9 months to 3 years
 - Profession Impact:
 - » First case major firm National Office leader cited for actions
 - » Large settlement, but no prohibition from accepting new clients
 - » E&Y agreement to undertakings likely to impact other firms

Regulatory Update

- PCAOB Agenda
 - Chairman and board member changes
 - Active enforcement program
 - Global issues related to mutual recognition of audit oversight
 - Aggressive standard setting agenda unveiled
 - Formation of Investor Advisory Committee

Regulatory Update

- PCAOB Agenda: constitutionality
 - Supreme Court decision – not about the PCAOB
 - Separation of Powers and Appointments Clause
 - Best guess outcome:
 - » PCAOB structure found to violate separation of power doctrine
 - » Trial court judge will likely enter the judgment against the PCAOB but stay any order to dissolve it
 - » Allows Congress to act to cure constitutional defect
 - » Opinion expected in May 2010 – timing to make fix politically challenging due to mid-term elections
 - » Unexpected consequences

Questions and Comments



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