Regulatory and institutional foundations for high-quality corporate reporting

Presented by

Philipp Leu
Executive Director, Financial Reporting, Swiss Exchange
Implementation and Enforcement of Global Standards

SIX Exchange Regulation (Switzerland) - Philipp Leu
Objectives of enforcement

Integrity und reputation of market place

Transparency, equal treatment and reflection of international developments

High-quality financial reporting
National and International Coordination

Financial Reporting Expert Advisory Panel

IOSCO IFRS Database

Specialist Pool for IFRS Issues

Federal Audit Oversight Authority (FAOA)

Auditing bodies (Audit Oversight)

IFRS / US GAAP / Swiss GAAP FER

Issuers (Securities Regulator)

Financial Services (Prudential Regulator)
Enforcement actions 2010 – YTD 2012

The above statistics show the number of cases concluded in the corresponding calendar year.
Sanctions

- Reprimand
- Fine of up to CHF 10 Mio. in cases of wrongful intent
- Fine of up to CHF 1 Mio. in cases of negligence
- Suspension of trading
- Delisting

All sanctions are published
Enforcement: Effect of sanctions

- Investors: negative impact on share price
  -3% abnormal return (publication of a sanction)

- Issuer: higher employee turnover
  40% of CFOs are replaced (following a fine)

- Auditor: increased change of external auditor
  60% of audit firms resp. 100% of lead audit partners are replaced (following a fine)

Source:
Fehler und deren Korrektur in der Rechnungslegung, Universität St. Gallen, Prof. Peter Leibfried / Lea Zingg, Mai 2010
Key thesis

- Need for international coordination to enforce international standards
- Preventive measures are more important than ex-post sanctions
- Rules without enforcement do not substantially improve quality
- Naming and shaming is a very effective measure
- Time to market is crucial for an enforcer
Financial Reporting