



Federation of European Accountants
Fédération des Experts comptables Européens

Lord Jonathan Hill
Commissioner Financial Stability,
Financial Services and Capital
Markets Union

Cc: Alain Deckers
Head of Unit, Audit and
Credit Rating Agencies

26 May 2015

Dear Commissioner Hill,

Re: Cross-border implications in the implementation of the audit reform

We are writing in the context of the ongoing debate on the implementation of the audit reform. As you will already be aware, the discussions you are having in this respect will have important practical repercussions beyond the borders of individual member states and we greatly appreciate the time and efforts you are currently putting in this work.

The regulation includes various member state options, which give flexibility to individual EU member states for instance regarding the duration of the audit engagement, the list of prohibited non-audit services and the level of the cap on the provision of non-audit services compared to audit services provided.

FEE recognizes the rights of member states to exercise these various options where national circumstances have to be taken into account. However, FEE is concerned about the unintended impact that the resulting divergence in national legislations will undoubtedly have on EU businesses operating beyond their national borders. It is not clear whether national rules resulting from the implementation of, for instance prohibited non-audit services, apply not only to an individual Public Interest Entity (PIE), but, where applicable, also to its parent undertaking in another member state, as well as to its controlled undertakings within other member states. As far as mandatory rotation is concerned, what if a group of companies based in one member state has PIE subsidiaries in other member states that have set different rotation rules?

Businesses in the EU would potentially face an additional burden in having to coordinate different auditor rotation periods, different lists of prohibited non-audit services and different caps for the provision of allowed non-audit services. A complex EU regulatory environment translates into additional costs and inefficiencies for EU businesses. We hope that the enclosed appendix may highlight these issues and enable you to reflect on their implications for European businesses.

You will appreciate the need to promote consistency and clarity in the EU wide regulatory framework governing statutory audits in order to ensure that any additional burden on businesses operating in the EU can be minimized.



Should you wish to discuss any of the technical issues addressed in this letter, please contact our Deputy CEO Hilde Blomme on hilde.blomme@fee.be or on +32 (0)2 285 40 77.

Yours sincerely,

Petr Kriz
President

Olivier Boutellis-Taft
Chief Executive

Appendix - Cross-border implications in the implementation of the audit reform

| Real-life scenarios where cross-border implications may have unintended consequences |
|--|
| Mandatory audit firm rotation (article 17) |
| If an entity governed by the law of one member state has securities admitted to trading exclusively on the regulated market of another member state, which law (including options taken) applies to mandatory audit firm rotation under the audit regulation? |
| If a group of PIEs has a parent and/or subsidiaries in different member states, which law (including options taken) applies to mandatory audit firm rotation under the audit regulation? |
| List of prohibited non-audit services (article 5) and cap of the other non-audit services compared to audit services provided (article 4) |
| If an entity governed by the law of one member state has securities admitted to trading exclusively on the regulated market of another member state, which law (including options taken) applies to the prohibition of non-audit services and the cap of other non-audit services that exist under the audit regulation? |
| If a public interest entity (PIE) has non-PIE subsidiaries in several other member states, which law (including options taken) applies to the prohibition of non-audit services and the cap of other non-audit services that exist under the audit regulation? |
| If a group of PIEs has a parent and/or subsidiaries in different member states, which law (including options taken) applies to the prohibition of non-audit services and the cap of other non-audit services that exist under the audit regulation? |