

EP PANA COMMITTEE HEARING “THE ROLE OF LAWYERS, ACCOUNTANTS AND BANKERS IN PANAMA PAPERS”

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INTRODUCTION

Mister chairman, distinguished members of the EP, thank you for this opportunity to contribute to your work on the Panama papers.

Before doing so, I would like to introduce my organisation: not only because we recently changed name – we used to be the “Federation des Experts comptables européens” – but more importantly because it is essential to understand where our views come from and how they take the public interest into account.

Accountancy Europe unites 50 professional institutes from 37 countries across Europe including all the EU member states.

- I should stress that practitioners or firms are not direct members of Accountancy Europe. They are members of our members. Our members represent about 1 million qualified professional accountants who work in accountancy firms of all sizes (big and small); in companies (CFOs) and in the public sector (courts of auditors or tax inspectors).
- As a European organisation, we have no regulatory power; we only have soft power and we use it to advance the profession.
- The regulatory framework of the profession varies significantly depending on the member state, with some institutes having certain disciplinary prerogatives, many none.
- However, many of these institutes have by law, by charter or by aspiration, a mandate to consider the public interest. In addition, all members of an institute should comply with a global Code of ethics.

This diversity of membership – and because we work on the basis of consensus – helps us take a 360° and public interest perspective on public policy matters.

TAX SERVICES

Let me start with tax as many of your questions are on that.

Tax services can be supplied by many different providers, including accountants, lawyers, bankers, and tax advisors in countries where this is a specific profession. There are member states where there is no regulation

at all and anyone can provide tax advice and unlike professional accountants do so without any professional or ethical framework.

Consequently, any initiative to regulate in this field should cover all potential suppliers as otherwise it will miss its public policy objective. Ideally it should be based on the activity practiced rather than on a professional title.

Having said that, I do not believe that tax is the main problem behind the PP; and this is not only because some of the leaks date back to practices which today would no longer be socially acceptable or have been made illegal.

To my view the main drivers behind the PP are:

- The loss of any sense of values, ethics and proportion in certain quarters and generations – in particular our generation; the OECD admits that we have reached unsustainable levels of inequalities.
- Then comes what I like to call the commerce of sovereignty: there are countries that are under-resourced in natural, financial and human capital and who trade on their sovereignty by offering secrecy and certain legal regimes.

However, most of the times, lawmakers produce tax incentives and legal structures to pursue legitimate public policy objectives (stimulating research, encouraging investment, supporting certain behaviours seen as pro-social or pro-environmental).

Most of the times, individuals deserve due protection of their personal data and affairs.

However: there are also times where the proceeds of crime, corruption, tax evasion and tax avoidance meet all together in the same places through the same processes.

THE PROFESSION'S CONTRIBUTION

We at Accountancy Europe listen carefully to the criticism targeted at the profession and use it to continue improving. I believe the instrumental role the vast majority of the profession plays in the public interest should also not be ignored:

- Accountants support transparency and are the cornerstone of most financial and non-financial reporting.
- They promote trust & integrity in markets by carrying out audits and fostering corporate governance
- Accountants also play a key role in combatting financial crime – through providing forensic investigations or carrying out serious customer due diligences to prevent money laundering.
- In many countries, tax administrations call on the profession to help modernise operations, improve controls and leverage technology.
- The reality is that today's overcomplex and haphazard tax systems could not operate without accountants. Despite headlines, most accountants' tax work is to facilitate compliance.

I'm not trying to say that all accountants always get it right. Like lawmakers & tax administrations, we have not always kept pace with society's perceptions and evolving expectations.

A lot of efforts have been put into debating our role & responsibility in tax and into adapting our practices to the new reality – but I can hear you say: it's not enough – and you will be right. So, the question is how can we make further progress?

LOOKING AHEAD

I would like to suggest 2 objectives and 2 instruments:

THE OBJECTIVES ARE:

- to ensure robust framework conditions
- to think in terms of efficiency

THE INSTRUMENTS ARE:

- transparency, and
- cooperation

FRAMEWORK CONDITIONS

Having specific legislation is always a necessity, but we should not neglect the role of robust framework conditions. I am not going to start a lecture on the importance of education or on the profession's contribution to corporate governance, sound accounting, reporting and auditing, but it is fundamental.

Just as an example, a recent study by CPH economics found that relaxing statutory audit obligations in Denmark is correlated with an enlarging tax gap. It also noted with the Danish tax administration that smaller companies account for the majority of the tax gap.

This reminds us that it is difficult to identify and solve the right problem without solid empirical research and independent impact assessments.

Our tax system dates back the world of brick & mortar and unlimited supply of coal: adapting it to a world of depleted natural resources, growing digitalization and automation, high unemployment, ageing, increasing morbidity due to junk food and pollution is long overdue – still this is not what we are debating.

EFFICIENCY

In terms of efficiency, rather than more, we need better and simpler laws, especially in tax.

Simplicity is essential to efficiency: simple tax legislation would be easy to understand, apply, audit and control.

But enforcement is impossible without more effective, better resourced and technology savvy tax administrations.

Let me quickly turn to the means.

TRANSPARENCY

Transparency fosters good practice.

It is time to end secrecy: the possibility to hide illegitimate interests and intentions doesn't only facilitate fraud – it is a factor of distrust in both the business and political establishment.

Secrecy is different from professional confidentiality which is the protection, under certain legal conditions, of legitimate privacy which contributes to trust.

On AML, Accountancy Europe has long supported the development of a robust framework by contributing to improvements of the legislation, organising debates and working on specific projects including with civil society organisations.

We support transparency of beneficial ownership and welcome many elements of the report issued last week by ECON/LIBE.

Transparency can also help in the area of tax. Accountancy Europe has provided practical tools to facilitate public CBCR and has welcomed recent efforts on information exchange and international cooperation.

COOPERATION

I would like to conclude on cooperation because it is probably the main driver of change.

We – the profession, business, civil society, politicians and governments – have a common interest in eliminating crime, building fairer societies, funding public infrastructures and financing the transition toward a sustainable knowledge based economy.

Divisive approaches will just slow down progress on an already long and winding road.

This is true in tax as well, as shown by the countries that have experimented with enhanced cooperation between tax administration, the profession and taxpayers. We put great hopes in the work of the OECD Forum on Tax Administration.

Cooperation is essential because only if we all work together we will be able to make further progress. We at Accountancy Europe stand ready to be partners for change.

Thank you!