SPEECH/08/691

Charlie McCREEVY

European Commissioner for Internal Market and Services

Final Closing Remarks

FEE (Fédération des Experts Comptables Européens) Conference on Audit Regulation

Brussels, 9 December 2008

Thank you Mr. Chairman for inviting me for the third time to speak at this highly regarded conference on audit regulation. And of course my friend Mark [Olson]. I am glad that this gives us another opportunity to continue our discussions on the road map.

This conference has touched upon many important issues. Let me start with the most important one these days: the financial crisis.

The next year will be a painful one. Jobs will be lost. Christmas will not be full of festive cheer for many.

It is important to assess what went wrong. One thing is clear: we cannot go on as before. This crisis has thrown up a number of fundamental questions about the way our capital markets are regulated and supervised.

I am glad to see that a productive discussion has started at the international level how to fix this. The Commission has already brought forward a number of important initiatives and we will stay on the ball.

Accounting standards

The role of accounting standards, in the current financial crisis has been the subject of considerable debate. I do not believe that accounting standards caused the crisis, but neither do I believe that there are no lessons to be learned for the future.

In the short term, the EU's objectives have been to ensure that issuers have the necessary tools to respond to market conditions characterised by unprecedented volatility; and that there is a level playing-field between the EU and the US, to avoid additional pressure on European companies due to divergent accounting treatments between IFRS and US GAAP.

The amendments to the reclassification rules for financial assets and the guidance on the application of fair value measurement in inactive markets recently issued by the IASB were essential to achieve these objectives. The IASB should now give urgent consideration to the three additional issues identified by the Commission at the end of October and, where appropriate, come forward as requested with technical solutions in time for the publication of year end results.

But what about the longer-term? First, there are clearly a number of important accounting issues that need to be examined in depth, including the potential pro-cyclical effects of fair value accounting and the treatment of off-balance-sheet exposures. Work to address these issues has already been launched at the European and international levels. It is, however, too early to draw conclusions at this stage. Moreover, as pointed out in the Declaration issued by the recent G20 Summit, pro-cyclicality is driven by many factors. It would, therefore, be wrong to conclude at this stage either that fair value is the only culprit or that it must be done away with altogether.

Second, any major and lasting changes to IFRS must be subject to due process, including proper impact assessment. While it is self-evident that the IASB does not exist in a political vacuum, technical decisions about accounting standards must ultimately be made by experts, with appropriate input from stakeholders and subject to appropriate accountability towards public authorities. It would be a mistake to politicise the IASB's standard-setting work, which must remain independent.

Third, I would like to highlight the fact that the G20 Summit of 15 November called for the creation of a single high-quality global accounting standard, as well as for co-operation among regulators, supervisors, and accounting standard setters to ensure their consistent application and enforcement. This reflects the EU's long-standing policy of promoting the global acceptance of IFRS, to which I remain fully committed.

Let me also stress one fundamentally important issue: In the next few days, the Commission will adopt two decisions which determine that the GAAPs of US, Japan, China, Canada, South Korea and India are found to be equivalent to IFRS as adopted by the EU. The significance of these decisions should not be underestimated: the EU was the first major jurisdiction since 2005 to make IFRS mandatory for its listed companies, thus setting the cornerstone for the current success of these standards, and it remains by far the largest jurisdiction applying IFRS.

Auditing Standards

Let me now turn to auditing standards. I have said before that it is important to find global solutions to a global profession. This is why the Statutory Audit Directive, and in particular its Article 26, allows the Commission to make International Standards on Auditing (or ISAs) mandatory for the European Union.

For this reason, the European Commission is evaluating ISAs. It seems, however, that some people have already taken a Commission adoption of the ISAs for granted. I intend organising a public consultation on this issue in the first half of next year. A year ago, when I addressed the Legal Affairs Committee of the European Parliament, my view was that it was too early to decide whether these standards should be adopted in the EU, despite the fact that I am certainly a supporter of the idea of international standards. Today I can be more positive.

International standards have to be of high quality to provide an economic benefit to companies and the public at large. They should not simply result in auditors increasing their audit fees. No, they should above all assist the auditor in lowering the risk of material misstatements in a company's accounts. In short: International audit standards should provide trust.

I want to consult all stakeholders before making any proposals on this matter. We have, of course, commissioned two studies. One is looking at the costs and benefits of introducing ISAs in Europe, and the other is aimed at identifying potential differences between ISAs and the auditing standards of the PCAOB, and their implications for those European companies which are US foreign registrants. These studies are to be concluded early next year, and it is not possible to anticipate their findings. Some of you have contributed to these studies, for which I am very thankful.

Global cooperation on auditor oversight

To re-establish trust on every level, we need to look past our European borders. The financial crisis and the global economical crisis that followed have shown once again how intertwined all economies are today. This is why I keep emphasising the need for global cooperation.

Last month's G20 also called for regulatory cooperation. And it did not just focus on the banking sector. Its action plan explicitly refers to regulatory cooperation in accounting standards and auditing.

At last year's event, I discussed the need for effective global cooperation between all auditing regulators. And today's economic situation only reinforces this need. We need to build a global dialogue to work together towards independent high quality audit oversight.

Tomorrow, the European Commission hosts a conference tomorrow where we will discuss together with both EU Member States and third countries how we can improve the cooperation between our oversight systems.

My views on cooperation have not changed since last year. Joint inspections between oversight bodies might be unavoidable in certain cases. But they should remain an exception. And they have to be part of a confidence building exercise among regulators. Joint inspections should lead quickly to full reliance and to home country oversight.

I have to clarify that this is not just an EU-US issue, but a global one:

Can you imagine joint inspections in the EU, with 27 regulators exercising their own regulations and rules on your audit firm, if your firm has activities in every Member State?

Do you not agree that this would be impractical in today's globalised world?

Therefore, the only way forward is for audit regulators to rely on each other's inspections.

We have to cooperate to achieve the same high level of quality assurance over our audit engagements. Performing high quality audits is not sufficient. Stakeholders need to trust your audit opinions. And independent oversight will contribute to this objective.

But this can only be done if governments take responsibility; including our own governments. I therefore call upon our Member States to urgently contribute to building global trust by setting up fully operational and fully staffed oversight systems. And they need to do so within the deadlines agreed upon.

To contribute to this global cooperation, I intend to present a proposal on the adequacy of third country oversight bodies. It will also deal with audit working papers and inspection reports.

Let me conclude. Our economies require our auditors to perform high quality audits. This quality can only be achieved through global cooperation between all parties involved. Our economies therefore need our governments to ensure that their regulators work effectively with their global counterparts.

We therefore need to re-establish confidence on a global level through assuring high quality on all levels:

- On the level of our financial systems;
- On the level of our oversight systems;
- And as a key part of this, on the level of individual audit engagements.

Thank you.