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Corporate governance and the supervision of financial services after the Parmalat case

Check Against Delivery
Seul le texte prononcé fait foi
Es gilt das gesprochene Wort

Address to plenary session of European Parliament

Strasbourg, 11th February 2004

Mr Chairmen, Honourable Members,

The Commission very much welcomes this debate and broadly supports the content of the Resolution submitted to this Parliament. Whilst the facts are not yet fully clear, the Parmalat case is deeply worrying. It is the latest in a growing list of major financial scandals of varying types – in various places – over the last few years.

The **apparent** size of this fraud is staggering. And the **apparent** complicity of a number of people from distinguished, liberal professions together with the failures of regulatory control - equally so.

Members of the European Parliament, scandal upon scandal will cumulatively weaken financial markets like the corrosive drip of a leaking fuel tank.

Many sensible investors will pull out. Economic growth will be affected because the cost of capital will rise – Enron has shown this vividly: Our financial markets went down by more than in the US. Jobs will be fewer. So this matters to all of us.

My first point, which is missing from your Resolution, is this: the financial services industry had better get its act together, and do so fast. We need some real industry leadership to stand up and take charge: to clear out the crooks, expose their unscrupulous practices and curb excessive greed.

If industry leaders are not prepared to do this, then regulators will have to do much more than perhaps they or we would like. If that is the result, then industry leaders can't winge about regulation from Brussels. They will have brought it upon themselves.

So **firstly** – industry leadership. At the moment – frankly – this is lacking.

Secondly – we already have a range of policies in hand which will go some way to improving matters in the future.

Measures in the Financial Services Action Plan – like the Market Abuse and Prospectus Directives - which should be rapidly implemented.

Measures like the new Investment Services Directive which will help deal with some of the major conflicts of interest in the investment services business.

The new international accounting rules which will enhance disclosure, along with the Transparency Directive – which we want adopted before this Parliament breaks for its elections. All these Directives also enhance the powers of competent authorities to act. And also to cooperate much more, cross border.

And in my view, that means cooperating as well, in the same way, with foreign regulators – in particular the SEC and PCAOB in the United States. Capital markets, today, are global. And regulatory cooperation must be global too to match them.

Thirdly, in March I will be proposing to the Commission a revised Company Law Directive on the Statutory Audit function.

It will strengthen controls over the audit profession in the EU. With independent oversight; strengthened inspection; stronger ethical and educational principles; high quality audit standards.

As a result of Parmalat, it is likely also to include :

- Full group auditor responsibility for consolidated accounts of a group of companies.
- Obligatory independent audit committees for listed companies.
- Stricter auditor rotation requirements.
- Strengthened sanctions.

Fourthly, I am also accelerating work in 3 other areas in the Corporate Governance/Company Law areas to have proposals ready, where possible, later this year. They are :

- (i) The role of non-executive directors;
- (ii) Directors' responsibility for company accounts;
- (iii) Full disclosure in the company accounts of offshore Special Purpose Vehicles, including why the company uses these offshore structures and much stricter verification by the group auditor of their content.

We are also working hard on the issues of conflicts of interest of financial analysts – and looking again at credit rating agencies. Here the Katiforis Report is of great help.

Finally, the role and regulatory control of offshore centres needs to be tightened. We are considering the options – although this is not easy. The third Money Laundering Directive which will be tabled in June will play a significant role.

To conclude, this is a very important debate. We support the main lines of this Resolution. We are working, resolutely, in this sense. The absent partner is strong industry leadership – and an appropriate dose of ethics.