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## **EU priorities: The Single Financial Market today and tomorrow**

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

125<sup>th</sup> Anniversary of the Institute of Chartered Accountants in England and Wales

**Brussels, 5 April 2005**

President, Ladies and Gentlemen:

It is a great personal pleasure and an honour for me to participate in this first conference to mark the 125<sup>th</sup> anniversary of your Institute.

The theme of the conference is global capital markets and the challenges they pose. You have asked me to talk about the EU Single Financial Market today and tomorrow. I will start therefore by saying a few words about the EU's current agenda on financial services. Then I will consider how this fits with global challenges, the main theme of your Conference.

This second issue is, it seems to me, crucial. International cooperation between all the key players is essential in a world economy that is becoming ever more interlinked. Regulators, supervisors, oversight bodies, and even the profession, must pull in the same direction. I am delighted to see amongst the speakers at this Conference colleagues, not just from throughout Europe, but also from across the globe. This is an excellent sign that we are beginning to build up the kind of cooperation that is needed.

## **EU agenda**

Europe is faced with a number of tough challenges: we have to increase our competitiveness, our growth rate and our employment levels. We have to become more innovative; more entrepreneurial; and we have to find ways to deal with an ageing population and the strains that this will put on our pension and health systems.

If Europe is to meet these challenges, a strong and dynamic financial sector is key. Deep, liquid and innovative capital markets provide companies with the means to invest and grow. They offer the funds that can turn new ideas into successful products and business models. Efficient markets also offer higher returns on funds and can thereby make a direct contribution to solving our pension problem.

In 1999 the Commission set out to harness the benefits of integrated deep, liquid financial markets with the Financial Services Action Plan. Since then we have come a long way. European financial market integration is underway in many sectors: in the wholesale markets; in stock exchanges; and in the financial markets infrastructure, such as clearing and settlement. Markets have already become more liquid, capital is being allocated more rationally.

At the same time we have been faced with new challenges. Corporate scandals on both sides of the Atlantic have shaken the very basis on which financial markets are built: trust and confidence. The real economic losses that Enron, Worldcom and Parmalat have caused are often underestimated. Everyone suffers when trust is undermined – even if it is down to actions of a few individual players.

We are now entering a new phase. The time has come to consolidate our achievements. Business must be given time to digest the major reforms introduced in financial services and accounting. The watchwords will be implementation and enforcement. We have to make sure European law is evenly implemented across an enlarged Union of 25. We will monitor the enforcement of the new rules and we will assess their economic impact. We will work to ensure that supervisory cooperation responds to the needs of the market.

I intend to ensure that in moving forward, the EU does so without stifling the economy and that only regulatory initiatives with real added value are undertaken. There should be no unnecessary red tape which will hinder entrepreneurship. We have to get the balance right in nurturing an ethical business culture in Europe.

### **EU's global objective**

This brings me already to the global dimension of the EU's agenda. There is one clear lesson we have learned from the recent corporate scandals: legislators and supervisors world wide have to improve their cooperation. When economies grow together legislators have to do the same. Regulatory spill-over is inevitable in a globalised world. It is the responsibility of politicians and regulators the world over to take account of this and work together to reap the great benefits that can flow from cooperation.

This is why the Commission is strongly committed to deepening the dialogue we have started with the US in the area of financial services and which I hope we will be able to extend to others. We want this dialogue to deliver results. We want to do this on the basis of a commitment to "agree-to-agree" where we can make life easier for business by accepting each others rules as equivalent. The Commission has worked tirelessly to soften the blow of the Sarbanes-Oxley Act, in particular to develop a collaborative approach with the US Public Company Accounting Oversight Board (PCAOB) in its oversight role vis-à-vis non-US audit firms. I will also work with the US to encourage them to adopt a new approach on de-registration. I intend to focus in the coming months on making progress on convergence of accounting standards.

### **Convergence and equivalence of standards**

Surely the time has now come to reach towards convergence of IAS and US GAAP. Our aim in global capital markets should be to reduce unnecessary costs. Imagine the reduction in costs which could be achieved for 300 European companies listed in the US if they could use just one set of accounts.

Reaching IAS/US GAAP technical convergence would be a significant step forward. But it should not stop there. There should be a clear and permanent recognition of equivalence of accounting standards. This must be a global exercise, so that companies and investors can benefit on as wide a basis as possible. My hope is that Japan too could participate in this process.

It seems to me that a clear plan is necessary and there should be a timetable and roadmap. I sincerely hope that we can agree there should be real progress by 2007.

The Commission also has to decide at the beginning of next year on the equivalence of US GAAP as compared to IAS (and also, of course of Canadian and Japanese GAAP). If we can reach an overall agreement this would be really good for our companies and capital markets. They could see that things are moving in the right direction. Confidence would rise.

Moreover, agreement on convergence and equivalence of IAS and US GAAP is just the tip of the iceberg. I agree with what Paul Druckman stressed in opening this Conference, namely that: "International Standards cannot be the preserve of an exclusive club". We should work for global standards on as wide a basis as possible.

I imagine many of you are thinking: “How can he say this when the Commission decided to carve out part of IAS 39 on financial instruments?” The answer is simple. We had to listen to the major concerns of the users of international accounting standards. Concerns raised by many banks, the European Central Bank and the world’s leading banking supervisors could not be ignored.

The situation was, of course, far from ideal and it would have been better if we could have avoided the carve-out. But it was limited in scope and time, and I am pleased to say that very good progress has now been made on finding a solution: I am hopeful that a conclusion can be reached swiftly.

Furthermore, the carve-out has not affected the Commission’s determination to have globally accepted standards. We are not only committed to globally accepted accounting standards but also to working towards globally acceptable auditing standards. A mechanism allowing for their endorsement should be in place when our proposal for the 8<sup>th</sup> company law directive is adopted by the Council and Parliament – hopefully before the end of 2005.

### **Standard setters and better regulation**

The growing importance of accounting and auditing standards has implications for the operation of international standard setters. Moving away from setting voluntary standards to setting standards that are made mandatory has clear repercussions on the process of standard setting. The process has to be credible. Accountable, with strong governance rules. It has to be beyond reproach in terms of transparency and openness.

International standard setters must be independent but in touch with business reality and with the users of the standards they elaborate. A balance of skills is required. There should be effective oversight of the standard setters and their work programme.

Interpretations of standards are also crucial. Any interpretation of such standards should be international and consistent. Standards must not be undermined by a myriad of interpretations leading to a rules based system. I very clearly see that the important players, such as the European Financial Reporting Advisory Group (EFRAG), CESR and the national standard setters have to ensure that this does not happen. And we need to consider how the links between a strengthened EFRAG and the IASB can be better defined.

Furthermore, in respect of interpretations of international accounting standards I think the principles of better regulation should also form the basis of our action.

Regulators, the profession, and industry should – before demanding interpretations – ask themselves: Is it really necessary to have detailed interpretations of everything? In my perception, an interpretation should only be issued if it adds value.

Neither detailed legislation nor detailed standards can replace consistent and coordinated implementation and enforcement. There is no way round it – authorities must cooperate and coordinate when implementing and enforcing legislation. In Europe we already have an appropriate structure in place for cooperation and coordination – but a gap exists with regard to the public oversight of audit firms.

## **8<sup>th</sup> Company Law Directive**

The 8<sup>th</sup> Company Law Directive on Statutory Audit sets out principles for public oversight in Member States. The Commission will foster cooperation and coordination between these oversight bodies to close the gap and ensure that this is a means for building strong ties with the public oversight body in the US.

Another important issue is independence of auditors. Independence is a vital condition for ensuring objective auditors' reports. The difficult issue here is the provision of non-audit services. Some of the Member States want a clear and immediate prohibition on the provision of non-audit services. Others want self-assessment by the audit firm, combined with safeguards to be put in place by and within audit firms and networks of audit firms. The current compromise text strikes a careful balance on this and leaves some flexibility for Member States.

Mandatory audit committees for listed companies will significantly contribute to independence by helping to ring-fence auditor independence. Management of companies should not exercise undue influence on the auditor's judgement. Auditors must be firm and not cave in to pressure from companies.

The question of limiting auditor liability has also arisen, although it was not in the Commission's original proposal. Auditors are wary of taking on new audits because they are afraid of unlimited liability. I can see the arguments in favour of acting at an EU level: as there could potentially be an impact on the internal market. I intend to work actively with the European Parliament and the Council to see what can be done in this regard. However, this should not jeopardise adoption of the Directive in a single reading.

## **Conclusion**

To conclude, you will have gathered that I am a firm believer in better regulation and in convergent global regulation. We should limit ourselves to setting out key principles at EU level. All new policy initiatives should be preceded by thorough consultation and an impact assessment. Such assessment should analyse whether alternatives to legislation are possible. Any legislation should have real added value.

My three policy priorities in the field of accounting and auditing will be:

First, to work for globally accepted international standards both in accounting and auditing, with participation of as many countries as possible;

Secondly, and in particular over the coming weeks and months, to work towards a clear timetable for equivalence of global accounting standards; and

Thirdly, to ensure effective cooperation on implementation and enforcement – both within and outside the EU.

Thank you for your attention. I look forward to hearing your views and answering your questions on these and other issues.