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On the road towards convergence and equivalence – State of play in international accounting

SEC Roundtable

Washington, 6th March 2007
Thank you Chris (Cox) for the invitation to take part in this roundtable and thank you Hal (Scott) for your kind words of introduction and for your pioneering work over the years. This is all further proof of the close and effective cooperation the SEC and the European Commission have established. I am very pleased about what we have already achieved together. It is of great practical importance to our citizens and business. And I would like to commend you on your leadership.

Capital markets are global. Our financial markets are becoming ever more closely integrated and can no longer be viewed in isolation. Global markets need global standards and global regulatory cooperation. This is the only way to ensure proper investor protection and promote transparency and efficiency. We are destined to work together more. On securities regulation, banking, insurance and so forth. I note that G7 finance ministers in Essen last month urged that we should now "...explore free trade in securities based on mutual recognition of regulatory regimes." That is a step up.

Some years ago the EU was faced with a situation where our financial reporting practices no longer met the new requirements for building an integrated European capital market. We had to rethink our approach – and we decided to move to International Accounting Standards. That move was bold and visionary.

The changeover to IFRS has not come easy. It has taken a lot of time and money for 8000 or so listed companies to adapt to the new accounting environment. Analysts and stakeholders have had to learn how to react to new financial information.

I am very pleased to be able to say today that the move towards IFRS has been going well. The feedback we get is, in general, positive. The first studies of IFRS accounts have shown that the overall quality of the accounts and the disclosures have improved.

Of course, the introduction of 40 new standards plus interpretations has given rise to some application and interpretative issues. Most of these have been dealt with at company level, by auditors or regulators. This is how it should be in a principles based system. Robust and understandable principles should be handled and used by skilled professionals. To sift out any more complex problems, we have set up a Round Table on consistent interpretation.

Cooperation between regulators on both sides of the Atlantic is also crucial for the smooth introduction and enforcement of IFRS. In the global market, only regulators working together can ensure adequate investor protection. I am very pleased to see the increased level of contacts and joint work between CESR - the Committee of the European Securities Regulators – and the SEC.

The Work Plan between CESR and SEC agreed in August is an important step within the roadmap facilitating cooperation between regulators. This cooperation is crucial in order to ensure consistent application and enforcement of IFRS and US GAAP and to avoid any conflicting regulatory decisions on the application of IFRS. We need to be open towards each other and exchange information at an early stage and frequently. There is still work to be done, but I am confident that we are on the right track.
Since we took the decision to use IFRS in the EU, more than 100 jurisdictions around the world have decided to require or allow IFRS. The US has taken significant steps in this direction. I am convinced accepting IFRS without reconciliation in the US capital markets will have very positive effects. It will bring more openness to capital markets, it will benefit US investors and it will facilitate access for third country issuers to US financial markets. And contribute to a more coherent global regulatory structure.

Let me underline this: this is in the US' interest, just as much as in ours and can and will be done in a way that will benefit and safeguard US investors.

I can fully subscribe to the conclusions of the Capital Markets Competitiveness group that Hal chaired, the Bloomberg-Schumer-McKinsey report and the speech of Treasury Secretary Hank Paulson, all calling for convergence of accounting standards and a more principles-based approach to regulation.

In the long term it is crucial that there is substantial convergence between IFRS and US GAAP, the world's most important accounting frameworks. I welcome the efforts made by the standard-setters FASB and IASB to develop accounting standards for worldwide use. This does not mean that IFRS and US GAAP should be identical, but differences should be narrowed down so that investors can understand the financial statements prepared under the different accounting frameworks.

The convergence process should improve the information available to investors, and be the opportunity to replace weaker standards with stronger ones. However, any new standards must be introduced in such a way that there will be a stable framework of rules that users and preparers can learn to apply in an orderly fashion. We need a period of accounting stability and predictability – not the palace revolution every day.

While the standard-setters are continuing the convergence process, we should also harvest short term benefits. Therefore we need to work on mutual recognition and equivalence of accounting rules between the US and the EU. Last year, Chris Cox and I confirmed our mutual commitment to removing the reconciliation requirements for IFRS and US GAAP. I am happy that good progress has been made since then. In the EU, we took a decision to continue to permit listings on the basis of statements prepared according to the US and a number of other GAAPs until 2009. This aligns the EU timetable with the SEC roadmap. Next year both the SEC and the Commission will have to take crucial decisions. I am convinced that we will achieve a positive result. This is a win-win situation for both the US and the EU.

And I think the principle of equivalence can also be applied in fields beyond accounting. This morning PCAOB chairman Mark Olson and I have agreed to deepen EU-US cooperation on audit regulation.

The starting point for cooperation between oversight bodies should be the home country principle. This is why we have agreed today to launch roadmap discussions on equivalence of our respective auditing systems. We want to move towards full reliance on our respective auditor public oversight systems, in the same spirit as in accounting. This does not require systems and standards to be identical but robust enough to ensure investor confidence. Robust enough for each of us to have confidence in each other. I believe we should also work to find a way to narrow down differences in auditing standards. The aim is to have, by 2009, inspections of audit firms carried out by their home country public oversight body - and not by host country inspections, which are legally and organisationally cumbersome.
This agenda is ambitious and we will need to work hard to achieve it. But I am confident and I think we can build on the experience we have gained in the area of accounting.

Let me also say that these 2 areas – accounting and auditing – are the outriders, the precursors to much deeper EU-US cooperation as Chancellor Merkel is hoping to build with her transatlantic initiative.

**Conclusion**

To conclude, global capital markets are a reality. Regulators have to adapt their structures and thinking to this reality.

The convergence of accounting standards removes differences so that investors can understand different financial statements and make similar investment decisions regardless whether accounts are prepared under IFRS or US GAAP.

While this process is going on, regulators in the US and the EU must already take two important steps:

First, deepen their cooperation to ensure consistent application and enforcement of the accounting standards. Build confidence in each other. And trust each other.

Secondly, eliminate costly reconciliation requirements. This will create a real win-win situation, where the removal of barriers and unnecessary costs will give better access for funding, lead to lower cost of capital and boost our economies on both sides of the Atlantic. Towards a friction-free transatlantic capital market – which is no less than 70% of the global total. The prize is within our grasp. We must reach out and take it.