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EU-US cooperation on reporting standards audit oversight and regulation

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Let met start by thanking FEE President Jacques Potdevin for hosting this Conference.

I would also like to welcome PCAOB Chairman Mark Olson to Europe – Mark, a lot of things have moved in transatlantic relations under your chairmanship of the PCAOB. I trust that you and I can bring things much further for the benefit of our firms. Helping them thrive in today's fiercely competitive global markets.

Ladies and Gentlemen,

This Conference is particularly timely. FEE have brought together an impressive number of speakers from all over the world to discuss accounting and auditing in a global economy. And indeed these are momentous times. We have a real chance of making our accounting and auditing frameworks fit for global challenges. Things are moving fast, especially across the Atlantic. I shall focus on EU – US relations this morning. I have said it before: Transatlantic markets should serve as the laboratory of globalisation. Financial market integration runs deepest between the EU and the US. This is why we should lead by example and show how regulators, supervisors and legislators can cooperate. If we can't do the job – why should we expect others to adopt our ways?

Accounting

I shall start by stating the obvious: capital markets are global, more so than any other market. No commodity travels as fast as capital. Capital markets are also becoming ever more integrated. Global markets need global standards and we need global cooperation in setting those standards. Industry and global investors demand that we deliver. Rightly so, in my view.

A few years ago the EU was facing a situation where our financial reporting practices no longer met the new requirements of modern capital markets. We came to a point where we had to rethink our approach. We needed a completely new strategy. Europe showed vision at that time. Instead of trying to find national or regional solutions to global challenges we went for a global strategy and moved to International Financial Reporting Standards or IFRS. All the institutions and EU Member States backed this strategy. Unanimously. The European Parliament backed this decision in one single reading, without any opposition. All European stakeholders saw the potential benefits of a single global accounting language. Today, we are starting to harvest the benefits of that decision.

With the EU's vote of confidence IFRS has experienced a spectacular boom. Today over 100 countries require or permit the use of IFRS - and the number is rising constantly. Almost all major stock exchanges in the world accept IFRS.

Last weeks' decision by the SEC is another extraordinary breakthrough. The US Securities and Exchange Commission decided to allow foreign issuers to file accounts under IFRS without reconciliation to US standards.

This decision was made little more than two years after Chairman Cox and I affirmed our commitment to a roadmap to do away with costly reconciliations between US and EU accounting standards. So the strategy we have been pursuing with our US counterparts is bearing fruit: we are making major strides towards one global accounting language.

I can only reiterate my congratulations to Chris Cox and his fellow Commissioners for their decision. It came much earlier than expected and it takes immediate effect. As some commentator said: This year Christmas came early for EU firms.

And still I hear some voices who say this is a poor outcome. They think the SEC should have accepted an EU brand of IFRS along with IFRS as adopted by the International Accounting Standards Board or IASB. I am not sure if these critics suffer from amnesia. Let us not forget the facts here. We in Europe have decided to go for IFRS because we rightly believed in the virtues of having a single accounting language. And when I say "we" I mean all of us, including the Council of Ministers and the European Parliament. We have been preaching this gospel to our US counterparts for the last five years – asking them with indefatigable stamina to accept IFRS. And we have been very successful apostles indeed. Not only has the US decided to accept IFRS for our firms, they even envisage allowing their firms to use them. So let us be serious here. We have got what we have been asking for. One hundred per cent.

We need to be clear what we are talking about here: The difference between IFRS as adopted in the EU and IFRS as adopted by the IASB concerns one minor optional carve-out. All EU firms listed in the US will benefit from the SEC's decision. Even those who have made use of the European carve-out. To my knowledge there is only one single EU company listed in the US which is concerned by this carve-out. It will need to reconcile a small part of its accounts to full IFRS. But even that will be an improvement to the current situation of having to reconcile all of the accounts to US GAAP. The IASB say they have a solution for the carve-out for the IAS 39. I would urge them to come forward with it.

The financial benefits of this change for European firms raising capital in the US is considerable. One estimate puts the savings at 2.5 billion Euros. It is not every day regulators can offer such tangible benefits to industry.

Let me beat the drum here. It is worth recalling that without the EU's blind leap of faith in IFRS these standards would never have achieved the momentum they now enjoy. And it has not been all plain sailing in the meantime. Quite legitimate questions have been asked about the quality of governance in the IASB. When I came to this job 3 years ago, I was confronted by an outcry from many EU companies who felt the IASB did not consult effectively, listen or respond to concerns expressed by stakeholders. I spent the first 18 months in office fighting against those who wanted an EU standards setter because they were so unhappy with the IASB. Members of Parliament were lobbied in order to modify proposed standards. That is how we ended up with the carve-out for IAS 39.

Since then, there have been improvements in IASB governance and more is needed.

One of the cornerstones of my strategy is that we must be able to accept any future standards without any serious problems. The endorsement of accounting standards needs to disappear from the political limelight. It should not necessarily be a high profile political issue. Therefore, we must make sure that the new standards reflect the real needs of stakeholders. In more concrete words, we need to have a close look at the standard setting process by the IASB: more transparency, better consultations, impact analyses at an early stage, thorough field-testing of any new standards to avoid unwanted or even unexpected consequences. But above all new standards only where they are really necessary – I shall be very vigilant on that in the future. The introduction of IFRS has imposed huge efforts on our firms to change their accounting and reporting systems. While we all agree that it was worth the effort, maybe it is time to give our firms a little break.

We also need to work on the public accountability of the IASB. I am all for independent standard setters. But independence does not mean that a standard setting organisation should not be accountable to its main stakeholders. Both should go hand in hand.

Although we Europeans are the biggest users of IFRS, we do not want to act on our own. We want to work together with the major jurisdictions of the world as well as with the IASB. That is why, earlier this month we issued a statement together with the SEC, the Japanese Financial Services Authority and IOSCO on what we thought were the basic points we need to deal with.

Now it will be Europe's turn to accept accounts in US GAAP. This decision will have to be taken next year. And it is certainly my intention to propose that no reconciliation to IFRS will be needed for companies filing their accounts under US GAAP. This is the only sensible way forward.

Auditing

Let me now turn to auditing. Where are we on international cooperation in this area?

As regards accounting standards the EU and the US have shown that it is possible to provide workable regulatory solutions for companies who operate globally. We need to build on this experience and deliver similar results for auditing. The aim should be the same: To rely on each others' high quality standards, enforcement and supervision. Such trust can only be generated by imposing and enforcing exacting standards on both sides.

The Directive on statutory audit allows the Commission to recognise the equivalence of third-country oversight systems of auditors. As a result the inspections of audit firms carried out by their home oversight bodies can be recognised as being equivalent to our inspections. Home country oversight will thus replace the oversight by a European body.

In an EU-US context this will mean that both sides will have to rely on each others' inspections of audit firms. Sending European inspectors to the US or American inspectors to Europe is a costly and complex exercise. There are probably better ways to spend taxpayers' money.

While I think that joint inspections might be inevitable in some cases, especially in the early days, our aim should be to establish a system based on mutual trust and mutual reliance which avoids unnecessary duplication and the extraterritorial application of each others' standards. What is important for me is that there is an equality of treatment on both sides of the Atlantic. What's good for the goose is good for the gander, if I may put it that graphically.

Earlier this year Mark Olson and I agreed to launch roadmap discussions on cooperation between EU and US public oversight systems of auditors by 2009. I am convinced that as for accounting a real commitment from the top can make things happen. I look forward to working with Mark and the PCAOB in the coming months to achieve another breakthrough in EU – US relations.

Let me conclude: The EU and the US have shown that it is possible to arrive at win-win situations by working together. I hope other jurisdictions will come on board as well and feel encouraged to address issues of regulatory cooperation to reduce burden on firms and to improve the overall quality of our regulatory environments. The gains in terms of efficiency of markets, cost of capital and ultimately growth and jobs are up for grabs. So don't let us wait. Let us just do it.

Thank you.