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EU-China cooperation on Accounting and Auditing

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Es gilt das gesprochene Wort

Press Conference

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Your Excellency Mr Vice-Minister Wang Jun, Ladies and Gentlemen, President,

It is a great honour and pleasure for me to be in Beijing to discuss accounting and auditing, issues of crucial importance for both China and the European Union.

To function optimally, markets need correct, timely and reliable financial information. There is, therefore, a need for global accounting standards of the highest quality; prepared by accounting specialists from governments, business and the profession. These should not only be theoretically sound, they should also provide users with practical solutions reflecting actual business needs.

Accounting and auditing are significant elements in our work to make the financial markets in the EU more efficient. We are conscious that initiatives developed in the EU remain firmly connected to international work aiming at improving the accounting and auditing frameworks. If EU companies can use the same rules in other parts of the world, significant gains – both in terms of capital and compliance costs – would be achieved. The EU is committed to international solutions and is keen to play an active role in developments on the global scene.

I am, therefore, particularly proud that cooperation with China in this area has increased over the last few years, to the great benefit of both parties.

Before coming back to our cooperation with China I would like to say some general words on where we are on accounting and auditing in the European Union.

Accounting and auditing in the European Union

ACCOUNTING

After ten years of close cooperation with the IASB, the EU took the bold decision to make IFRS mandatory for all listed companies in the EU. In many Member States this led to major changes in accounting practices – particularly for those countries extensively using the "historical cost" approach. Companies also had to do significant efforts to comply with the new, more complex rules.

The way in which accounting standards were set also changed. Accounting standards were prepared by a private organisation – the International Accounting Standard Board- and subsequently discussed and, where possible, endorsed by EU Member States. This was quite a revolutionary step for many Member States. The main concern was to ensure that the standards are technically correct, conducive to the European common good and will lead to true and fair accounting.

The great challenge now is to achieve consistent application of standards and interpretations. Principle-based standards will not always give the same result in all situations, but they should give similar results in similar situations.

Consistent application depends on interpretation and enforcement. The EU message is clear: we want to be part of an international accounting system. We want to use international standards, not an "EU version". We have, therefore, strongly defended the principle that interpretations should be made at the international level in IFRIC (International Financial Reporting Interpretation Committee). It goes without saying that IFRIC must be willing and staffed in such a way that such difficult issues of interpretation can be dealt with in a timely and practical way.

AUDITING

In parallel, we have seen an increased interest in auditing. In the search for more public accountability of auditing, the EU has revised its legislation on Statutory Audit.

The cornerstone of the change to the EU legislation is to require each Member State to set up a public oversight system to regulate auditors. They must be governed by non-practitioners. They must also be transparent and independently funded. Statutory auditors will no longer be self regulated. In the EU, the public oversight bodies of each Member State will be responsible for registering, inspecting, and sanctioning statutory auditors and audit firms.

We are observing nowadays the birth of many audit regulators not only in the EU, but worldwide. In the EU, they will learn to talk to each other - and learn to work in close co-operation. Such dialogue is paramount since audit firms are globally oriented.

We have identified around 10 Chinese issuers listed in the EU. Their auditors will need to be registered with the competent authorities of the Member State of where the company is listed. The registration with the EU competent authority of a Chinese auditor, as with any other, will be subject to certain a number of conditions. These include the examination of the independence rules applied and the auditing standards that are used. This need alone justifies a structured dialogue between China and the EU in the audit field.

China and the IAASB have recently released a joint statement which stresses that China is to accelerate its convergence with the International Standards on Auditing (ISAs). The new EU audit legislation gives the Commission the possibility to adopt International Standards on Auditing (ISA). However, before making such standards mandatory, we need to be convinced that they offer sufficient quality. For political and technical reasons, as in accounting, these international standards would need to be endorsed by EU Member States.

Working together with China

The Joint Statement on accounting between the Chinese Ministry of Finance and the Commission marks a shared willingness to make progress towards maintaining and promoting global economic stability and development; and to strengthen the dialogue between us. This builds on years of significant informal cooperation between the Commission, Member States and Chinese counterparts in accounting.

In the Joint Statement we agreed to strengthen bilateral communication and cooperation on developing and implementing accounting standards, as one of the key cooperation areas within the general China-EU Financial Dialogue.

We undertook to hold regular meetings between our officials, in which an important place will be given to the implementation and application of IFRS. There will also be cooperation on education and training.

As I mentioned, the EU would also attaches importance to including auditing as part of the Dialogue between us and China. It would be beneficial to both parties to have regular updates of our mutual regulations in the field of auditing, as well as to exchange views on international developments.

I am a firm believer in truly international accounting or auditing standards that serve efficient capital markets around the world. Standards are there to serve business needs and address real issues. We believe that accounting and auditing issues have a very important role in the overall China-EU Financial Dialogue.

Thank you for your attention.