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Ensuring robust international audit

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

Address at business breakfast on “Accountability in the Age of Global Markets” organised by European Policy Centre

Brussels, 25th March 2004

I should like to extend a warm welcome to Bill McDonough and his team and to thank the European Policy Centre for organising today's breakfast.

I think you are probably all already aware that we have been working very hard for nearly a year with our counterparts from the PCAOB to work out a cooperative way of regulating audit firms which audit listed companies in both the EU and the US. Our objective has been to work constructively together to define procedures and rationalise work across our different jurisdictions, in order to ensure international audit is as robust and sure as it can be.

There is no doubt that this is of vital economic importance. It is also crucial for building confidence in capital markets, for investors, for stability and for keeping the cost of capital as low as possible.

In essence, what we have to deal with here is a problem which is the epitome of globalism. Damage to one financial market, damages the other. Financial markets today are deeply interconnected.

Once the US Congress had adopted the Sarbanes Oxley Act – at remarkable speed – reflecting the pressure congressmen and senators were under after the collapse of Enron, Worldcom etc., - but without consultation - we in the EU were faced with a simple choice:

Either – we could oppose tooth and nail the SOA –and add yet another fiery dispute to our difficult post-Iraq bilateral relationship.

Or – we could try to find a constructive, cooperative way forward, jointly, respecting to the maximum degree possible our different legal traditions and cultures.

We decided on the latter. Let me pay tribute to Bill McDonough and his team for having tried hard, within the confines of the SOA, to try to accommodate our concerns.

Within the EU we have taken parallel action. The Commission published its proposal for an 8th Directive aiming at regulating the EU audit profession last week, a proposal which sets out the framework for cooperation between competent authorities including with third countries. We are now expecting a PCAOB rule change in the near future on the procedures the PCAOB will follow with third countries.

In **substance** our European approach to the regulation of the audit profession and that of the PCAOB are now quite convergent.

For example - we agree on:

- independent public oversight;
- audit quality assurance;
- more frequent rotation;
- and that auditors must have no conflicts of interest, e.g. in supplying certain non-audit services.

What about conflicts of law you might ask?

The potential for conflicts remains of course. But we have both worked out cooperative mechanisms to try to minimize this. Primarily by encouraging reciprocal regulator to regulator relationships across the Atlantic – with the regulators being the first port of call for information, documents etc. How can you unravel the Parmalat scandal without cooperation?

Do our chances of minimizing such events in the future increase by each of us acting as a Lone Regulatory Ranger? Of course not!

There are incentives on both sides to make these cooperative procedures work:

1. If they do not – the chance of more major financial scandals increases. That is in nobody's interest.
2. If there are unreasonable demands by either side, the cooperative mechanism will simply break down. That means each side will have to start from zero and work out its own unilateral procedures with third countries – which will no doubt entail considerable linguistic complexities!
3. If either side exaggerates, or if there is unnecessary costly bureaucracy or excessive legal zeal, this may well lead to companies deciding to de-list.
4. And either side – at any stage – could tighten the conditionality of the cooperative mechanism. In the EU, the Council and the European Parliament could do so in co decision. In the US, the PCAOB/SEC have autonomous powers to make law within their legal remit.

On our side, Member States will be responsible for elaborating the details of cooperation with the PCAOB, in accordance with clear criteria and safeguards as set out in the 8th Directive. We hope they will take a positive approach.

Colleagues, we live in a global world. Financial scandals in either the EU or US ripple across the Atlantic. The corrosive drip of financial scandals is undermining global financial markets. That is bad news for our economies, and for jobs. There has never been a better reason to work together.

Thank you for your attention.