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A changing landscape for business in Europe

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

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Ladies and Gentlemen,

It is a pleasure for me to be here with you at your Annual Conference. It is a perfect opportunity for me to give you my version of how the business landscape in Europe is evolving and of the challenges we are facing in areas for which I am responsible.

I will start by saying a few words about the economic challenges the EU faces. Then I will consider how the land lies, in particular in the areas of accounting and auditing, and corporate governance.

EU economic challenges

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.

I have no doubt that an essential key to this is a strong and dynamic financial sector. Deep, liquid and innovative capital markets provide companies with the capital to enable them to grow. We have come a long way in achieving a true 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.

I intend to ensure that in moving forward, we at all costs avoid stifling the economy and that only regulatory initiatives with proven added value are undertaken. There should be no unnecessary red tape which hinders entrepreneurship. We need to ensure that EU companies can meet the global challenge and be competitive in an international context. This is why the Commission is firmly committed to developing regulatory dialogue, in particular with the US on financial markets, corporate governance, auditing and accounting.

Accounting and Auditing: the global challenge for regulators

Accounting and auditing issues have, of course, risen to the top of the policy-maker's agenda and attracted much attention over the past 2 to 3 years, mainly because of the grim financial scandals both in the EU and the US. These are areas where regulators are now striving to find the right balance, endeavouring to improve controls but not stifle business. Completeness, consistency and accuracy of financial statements are necessary, as is honesty in the probity of the accounts. If auditing is weak – or if accounts are not healthy – major economic and financial damage can arise, not just in Europe but everywhere. Because markets are global. And contagious.

This inter-relationship in markets is the primary reason why, five years ago, the European Union opted for international accounting standards. About 8,000 listed European companies are now preparing their financial statements using International Accounting Standards (IAS) for their 2005 accounts. The move was made because it fosters international convergence of accounting standards, and keeps our capital markets attractive for overseas issues of securities. But even more importantly, it eases our companies' access to other markets where IAS is accepted.

Convergence and equivalence of global standards

The European Commission has always been a strong advocate of global standards. While International Accounting Standards are the basis for true global standards we must recognise the role US GAAP plays in the largest capital market in the world, i.e. the US. We do not necessarily need to apply exactly the same accounting standards, but differences should be narrowed down so to such an extent that we can at least recognise each other's standards as equivalent. Imagine the reduction in costs which could be achieved for the around 250 European companies listed in the US if they could prepare 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.

I was encouraged by the results of my recent visit to the US in April. In particular, I had an extremely helpful meeting with SEC Chairman, Bill Donaldson. The SEC and the European Commission reached an understanding on a roadmap to eliminate the reconciliation requirement as early as 2007 – which is my clear preference - and by no later than 2009.

Interpretation of accounting standards: the challenge for practitioners

The SEC has highlighted inter alia the importance of consistent IAS application in the EU for the removal of the reconciliation requirement. This will be key for whether the requirement is removed sooner rather than later. I cannot stress too much how important it is now for all interested parties within the EU to pull together on consistent enforcement of IAS.

One means we are considering to do this is a “European Forum”, which would bring together the interested parties, namely regulators, standard setters, preparers and the profession.

We need a flexible system which can respond quickly, not a bureaucratic monster. Nor do we want to add layers of interpreting bodies. International Accounting Standards are principle based and should remain so. I see the usefulness of a possible European Forum in identifying and analysing issues, effectively acting as a filter thereby allowing the International Financial Reporting Interpretations Committee (IFRIC) to concentrate on the issues requiring guidance.

Neither detailed legislation nor detailed standards can replace consistent and coordinated implementation and enforcement. There is no way round it – enforcement bodies in the EU must cooperate and coordinate when implementing and enforcing legislation. And this must be done on a timely basis. The system must be in place by the end of this year.

Auditing: the 8th Directive and our cooperation with the PCAOB

Regulators have, of course, also acted to tighten up controls on the auditing profession to restore confidence after the financial scandals. 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.

The PCAOB was set up as part of the US response to their corporate scandals. In the EU we have developed a solution crafted for a union of 25 Member States, respecting different legislative and cultural traditions. The future 8th Company Law Directive on Statutory Audit – which is close to finalisation – will set out principles for public oversight in Member States. We – Member States, European Commission, Public Oversight bodies – must now make the European solution work and build strong ties with the public oversight body in the US.

Tough and coordinated public oversight can help give back some of the credibility the accountancy and auditing profession have lost in recent years. But it is not enough. You, as a profession, have to keep improving the quality assurance systems.

Another important issue is independence of auditors. Independence is a vital vehicle that enables the issue of objective and reliable auditors' reports. The difficult issue here is to which extent non-audit services can still be provided to the audit client. You are, I am sure, fully aware of the debate in the US. I am concerned that we should not overact in the EU and I think that the compromise on the table in the negotiations on the 8th Directive is balanced.

I know that the business world is concerned about a mandatory requirement for an audit committee. Some flexibility has been introduced, but I am convinced that, for listed companies, an audit committee function can significantly contribute to the ring-fencing of 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. Partners and senior managers must show the young and ambitious auditors that this is the way to conduct an audit.

And finally, there is the question of limiting auditor liability. Auditors are wary of taking on new audits because they are afraid of unlimited liability. Given the potential impact on the internal market, I can see the arguments in favour of analysing the need for action on this at EU level.

Corporate Governance/Company Law

I would like, before closing, to say a few words on corporate governance, which is clearly linked to accounting and auditing. We are working in the context of the accounting directives on improving transparency on corporate governance. The Commission has proposed that listed companies should produce an annual corporate governance statement. The proposal does not introduce a European corporate governance code but it does oblige listed companies to annually publish their practices for governing the company so that shareholders can actively participate in shareholder meetings.

This proposal also entails that listed companies must provide more information about their internal control systems but in contrast to the Sarbanes-Oxley Act it does not make the testing of such controls mandatory. Along the same lines companies should provide more information about off balance sheet arrangements, which for instance could be arrangements involving special purpose entities. We hope that we can reach political agreement on all these issues in autumn this year.

We are also now consulting on an important new initiative that should add value in the area of cross-border exercise of shareholder rights. Shareholders ought to be able to exercise their rights easily no matter where in the EU they are based. Undue obstacles making it difficult for shareholders to make full use of the Single Market must be removed. We must create the right framework to exploit new technologies to reduce distances and improve communication in full.

This will help to ensure that the necessary conditions are in place to allow for a greater shareholder participation across the EU. This will not, however, entail a radical re-working of corporate structures in the EU. We are trying rather to get the plumbing right, by ensuring shareholders know and understand their rights and are able to exercise them should they so wish.

However, as always the trick is to get the balance right in order not to over-regulate. We launched some two weeks ago the second consultation on this issue. I sincerely hope that you will all contribute to this important consultation.

Conclusion

To conclude, you will have gathered that I am a firm believer in better regulation, an open economy and convergent global regulation. All new policy initiatives should be preceded by thorough consultation and an impact assessment. Such assessment should analyse whether alternatives to legislation are possible and even whether there is a need for action at EU-level. Any legislation should have real added value.

In the field of accounting and auditing, my two main objectives are clear:

First, to work for globally accepted international standards both in accounting and auditing, with the participation of as many countries as possible adopted by standard setters which are independent, but accountable and in touch with business reality; and

Secondly, to work towards the convergence and equivalence of global accounting standards in particular by ensuring that the EU and US deliver on the road-map which has been agreed. I hope that the US will recognise our standards as equivalent sooner rather than later. We all have hard work ahead of us.

Thank you for your attention.