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Financial reporting in the EU: striking the right regulatory balance

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

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Thank you, David, for those kind words of introduction.

I should like firstly to use this opportunity to say thank you, David, for the excellent work you have done as FEE's President. To get our rules right we depend a lot on high quality industry input. Under your leadership, FEE has provided just that.

You have combined a broad political vision with an impressive grasp of detail. With you at the helm, FEE has benefited from an experienced and very skilful skipper. I very much hope we can persuade you to continue to put these skills to use in Brussels, not just as a member of the Corporate Governance Forum, but perhaps also in other capacities. So please don't set off on your around the world yachting trip, just yet ...

I should also like to say a warm welcome to your successor, Jacques Potdevin. Jacques, you have a long and distinguished track record here at FEE. You have worked tirelessly to assist Central and Eastern European countries in preparing for EU membership. Alongside your professional activities, I know you enjoy the finer things in life. I very much look forward to working with you and your very able deputy Hans Van Damme.

Ladies and Gentlemen, turning to the subject of your discussions this morning: financial reporting can only contribute to financial stability and transparency if the rules underpinning such reporting strike the right balance. In all regulation, balance is key. Investors, consumers have to be protected - but entrepreneurs must enjoy the freedom to innovate and experiment. As you know, I am not a believer in regulation for its own sake. On the contrary, I am a firm believer that less is very often more.

The EU has managed to avoid regulatory overreaction following the financial scandals a couple of years ago – and this is now paying off. While other jurisdictions are questioning their capital market competitiveness, European capital markets are moving forward. I want to keep it like that.

It was US Treasury Secretary Hank Paulson who, only a couple of weeks ago, called for a less rules-based and more principles-based approach to regulation in the US. This is good news for the EU which is already doing just that.

Today's Conference will explore, in particular, whether principles-based fair value reporting poses a conflict between transparency and stability. It will also consider whether greater access to information over the internet is an opportunity or a risk. The accounting firms are right to provoke a debate on this. Personally, I am sceptical about the benefits, but I will be interested to hear the outcome of your discussions.

By way of background for your debates today I should like to mention briefly 3 areas - IFRS, statutory audit, and SME accounting. My aim is to consider how we are striving at EU level -with your help - to get the regulatory balance right in these areas.

The *implementation of IFRS* has been a huge challenge for both preparers and auditors of listed companies' financial statements. We now have a period of relative stability to let the new standards bed down. This gives time to all the parties involved - companies, auditors, investors and regulators - to absorb and digest them.

I think there is a feeling out there that the investment was worth it and that the benefits outweigh the initial costs. However, we still need to maintain our focus so that further improvements can be made. In particular, more consistency and more coherence still need to be developed. We can debate the theoretical value or not of fair value reporting until the cows come home but if there are big differences of approach across the EU, then this will certainly not contribute to financial stability and transparency.

I appreciate the work that is being done within the networks across countries and across sectors. But there is still room for improvement. Work is picking up at the Roundtable on consistency which the Commission has set up. The Roundtable is there to discuss practical problems and refer issues of widespread concern to IFRIC for interpretation. It is important that all major issues are brought there and I call on the profession to be more active in this respect.

On *statutory audit* our first priority is the effective transposition of the new directive. If this is not done on time and in an efficient way, transposition might result in additional burdens for companies. We initiated the first of a series of workshops on transposition with Member States last month. These workshops should help identify at an early stage, and eliminate wherever possible, any discrepancies or hurdles which might face EU audit firms operating in one or several jurisdictions.

The Commission has wide powers to deliver implementing measures under the new statutory audit directive, but I will follow my motto of "less is more". Implementing measures will be adopted only after their usefulness is fully demonstrated. Two issues need to be addressed as a matter of urgency. Firstly, how to deal with third country auditors. The Commission will launch a consultation early next year on this.

We want, above all, to avoid duplication. The starting point for cooperation between oversight bodies should be the home country principle. This is why I have suggested to the US PCAOB that we should develop a roadmap towards future cooperation between US and EU oversight bodies. This has been done in the accounting field and it should be done for auditing, too.

Secondly, we need to consider what should be done about the adoption of the IAASB's International Standards on Auditing, the so-called "ISAs". I envisage that we might also launch a consultation on this in the course of next year.

On the linked question of *auditor liability*, the London Economics study published by the Commission in October shows clearly that there is an increasing trend of litigation against auditors, that there is a shortage of insurance and that there is a real danger that at some point one of the "Big four" auditing firms might be faced with a claim that would threaten its existence.

We cannot duck these issues. Opinions may be divided on how we can best deal with them. But we cannot put our heads in the sand, ostrich-like, in the hope that the problems will go away. Part of the Commission's job is sometimes to ask the difficult questions and ensure that there is a thorough debate. Following the London Economics study, I intend to do this and we are working on a report which will be open for consultation. I am grateful for FEE's support. I am also heartened that, even in the US, there is a growing realisation of the gravity of this problem. The Committee on Capital Markets Regulation, reporting to the US President, last week argued in favour of "examining the case for caps on liability or safe harbours to prevent the failure of another auditing firm".

Turning now to accounting rules for *small and medium enterprises*. Better regulation is of particular importance to the 23 million SMEs across the EU. They suffer most from unnecessary regulatory burdens. Good ideas cannot be transformed into profitable business models due to red tape. Growth is hampered by tying up scarce resources on form filling instead of more innovative, more productive activities.

Simplification in accounting for SMEs is an integral part of the overall simplification exercise of the Commission. The objective set is a reduction of 25% of the burden. We have initiated work with Member States and received general support. We are working on a communication covering ideas for simplification for the whole field of company law, including specific ideas for accounting simplification for SMEs.

Work is also going on within the IASB on SME accounting. Again, I would repeat that what are needed are simple, easy to apply standards that help business. From what I have seen up to now, I have doubts whether the IASB standards will be able to achieve that. And I am very well aware that many in business share this concern.

To conclude, I intend to continue to apply my underlying philosophy that regulation cannot cover each and every eventuality. A combination of sound principles and common sense delivers the best result. This is what will ensure that financial reporting does contribute to financial stability and transparency. I count on your support and input.

David, once again, it has been my pleasure to work with you and I wish you well for the future. Jacques, welcome and good luck in your new role.

Ladies and Gentlemen, thank you for your attention.