

Accounting & auditing rules redefined for the global marketplace

Recent years have been marked by a strong tendency towards globalisation in which international financial markets have been developing rapidly. Improved market efficiency decreases the cost of capital and thereby contributes to economic growth. However, in order to build an integrated capital market which operates effectively, smoothly and efficiently a higher level of transparency and comparability of financial reporting from all publicly traded Community companies would be required.

Comparability of financial statements

In March 2000 the Lisbon European Council of March had emphasised the need to accelerate completion of the in-



ternal market for financial services, and as part of this task, stressed the need to enhance the comparability of financial statements of publicly traded companies.

It was with this background that in 2005 the EU took the truly bold and visionary step of supplementing the legal framework applicable to publicly traded companies by requiring the use of International Financial Reporting Standards (IFRS) for the preparation of their consolidated financial statements.

This marked the biggest change in financial reporting for listed companies in a generation.

Successful application of IFRS

The key task for the EU over the coming years will now be to ensure the successful application of IFRS in practice. New studies already indicate that the implementation has been successful and that the quality and comparability of financial information has already improved.

At the same time it is important that IFRS-based financial statements of listed EU companies become accepted internationally, without any reconciliation requirement.

In parallel, the EU strongly encourages the convergence efforts of other important jurisdictions and initiatives that will pave the way for IFRS to become adopted and applied Worldwide.

It is also time to start reflecting on the needs of Europe's other companies and what the future accounting requirements for these should be. It is particularly important that the accounting rules for SMEs are revised with the aim of simplicity, and at the same time, made more relevant.

Reliable audit reports

To maintain and enhance confidence in the EU capital and securities markets, investors, and other relevant shareholders, should have at their disposal reliable audit reports. Auditors and audit firm play therefore a key role in ensuring that the accounting figures provided by issuers fully represent their financial situation.

The EU has been actively involved in au-

ditting matters for more than 20 years already. The final objective has been to improve audit quality all over the Community. This has been an evolutionary process which has culminated with the adoption of a new comprehensive Directive in 2006. A similar process is taking place as well in some foreign countries such as the United States, Canada or Japan.

As a result of the new Directive all Member States will have to set up public oversight bodies and efficient external quality assurance systems to ensure high audit quality all over the Community. This will be complemented with an adequate system for investigations and sanctions.

Rules similar to those applicable to EU auditors will apply to foreign auditors auditing foreign issuers which trade their shares and bonds in the EU. In this way European investors, and other stakeholders, will be adequately protected regardless they trade EU or foreign securities.

The choice made in the EU for a system of auditing providing high quality and reliability should serve as a model to other regions in the world.

Given the increasing tendency towards global financial markets, all parties concerned, including EU companies and investors, would benefit from a new scenario in which capital exchanges can take place on sound and confident basis.

