

Letter dated:
6 December 2010

From:
Swedish Parliament Administration
(Kathrin Flossing, Secretary-General)

To:
European Commission
(sg-national-parliaments@ec.europa.eu)

The Swedish Parliament has referred the Commission's Green Paper *Audit Policy: Lessons from the Crisis* (COM(2010) 561) to the Committee on Civil Affairs for examination.

The Committee reported to the House on its examination of the Green Paper in its opinion No 2010/11:CU11. A decision on the opinion was taken on 1 December 2010.

The opinion is attached.

Encl.: 1

Opinion of the Committee on Civil Affairs

2010/11:CU11

Audit policy

Summary

The Committee's opinion covers the Commission's Green Paper *Audit Policy: Lessons from the Crisis* (COM(2010) 561 final), in which the Commission looks at how the editing of companies in the EU can be enhanced. The idea is that suitable rules on auditors and auditing can contribute to increased financial stability.

The Committee is in favour of extensive consultation on these issues.

Committee's proposal for a parliamentary decision

Audit policy

The Parliament hereby records the opinion.

Stockholm, 18 November 2010.

On behalf of the Committee on Civil Affairs

Maryam Yazdanfar

The following members participated in the decision: Maryam Yazdanfar (S), Jan Ertsborn (FP), Magdalena Andersson (M), Anti Avsan (M), Maria Abrahamsson (M), Hillevi Larsson (S), Eva Bengtson Skogsberg (M), Jonas Gunnarsson (S), Hannah Bergstedt (S), Per Lodenius (C), Yilmaz Kerimo (S), Margareta Cederfelt (M), Otto von Arnold (KD), Carina Herrstedt (SD), Marianne Berg (V), Katarina Köhler (S) and Gustav Fridolin (MP).

Report on the subject

Subject and background

On 21 October 2010, in accordance with Chapter 10, Section 5, of the Parliament Act, the House referred the European Commission's Green Paper *Audit Policy: Lessons from the Crisis* (COM(2010) 561 final) to the Committee on Civil Affairs for examination.

In the Green Paper, which was adopted on 13 October 2010, the Commission invites interested parties to submit their views by 8 December 2010. The opinions received will be published on the Internet.

At the Committee's meeting on 9 November 2010, the representative of the Justice Ministry briefed the members on the content of the Green Paper. The Government circulated the Green Paper for consultation. Responses are now available.

Substance of the Green Paper

In the Green Paper the Commission notes that the measures adopted both in Europe and elsewhere in the direct aftermath of the financial crisis focused on the urgent need to stabilise the financial system. While the role played by banks, hedge funds, rating agencies, supervisory authorities or central banks has been questioned and analysed in depth in many different circumstances, limited attention has been given so far to how the audit function could be enhanced in order to contribute to increased financial stability. The Commission considers it appropriate for both the role and scope of audits to be discussed and scrutinised in the general context of financial market regulatory reform.

The Commission feels that audit, alongside supervision and corporate guidance, can be a key contributor to financial stability, as it provides assurance on the veracity of the financial health of all companies. In this context, the Commission notes that auditors have an important role to play and are entrusted by law to conduct statutory audits. This entrustment responds to the fulfilment of a societal role in offering an opinion on the truth and fairness of the financial statements of audited entities. The independence of auditors should thus be the bedrock of the audit environment.

From a broader structural perspective, the Commission notes that the past two decades have seen the consolidation of large firms into even larger firms and that there are now a handful of such large global firms. The potential collapse of one of these firms could not only disrupt the availability of audited financial information on major companies, it would also be likely to damage investor trust and confidence and could impact the stability of the financial system as a whole. It is thus possible to consider that each of these large global firms has attained systemic proportions. As is the case for other large institutions in the financial sector, there is a need to explore further the ways to mitigate this risk. Another important consideration is whether any audit firm should be allowed to become so important that its demise would seriously disrupt the market. The Commission will also explore the possibilities of reducing existing barriers to entry into the audit market, including a debate on existing ownership rules and the partnership model employed by most audit firms.

The Commission's opinion is that continuity in the provision of audit services to large companies is critical to financial stability. To this extent, options such as the ramping up of the capacities of non-systemic firms and exploring the pros and cons of 'downsizing' or 'restructuring' systemic firms should be further examined.

The Commission believes that all market configurations should be accompanied by an effective supervisory system which is fully independent of the audit profession. Structural changes within global networks should not be allowed to result in any gaps or exclusions from supervision.

The Commission considers that thought should be given to creating a genuine single market for the provision of audit services based on enhanced harmonisation of rules and the creation of a 'European passport' for auditors which would allow them to provide services on an EU-wide basis.

Against this background the Commission would like to open a debate on a range of issues, e.g. the role of the auditor, the governance and the independence of audit firms, the supervision of auditors, the configuration of the audit market, the creation of a single market for the provision of audit services, the simplification of rules for small and medium-sized enterprises and practitioners (SMEs and SMPs), and international cooperation for the supervision of global audit networks.

The Commission stresses the need for a differentiated and calibrated approach which is adapted and proportionate to the size and characteristics of both the audited company and its auditor. What may be necessary for large systemic institutions may not be appropriate for other listed companies or for SMEs or SMPs. Any measures would also be subject to better-regulation principles, including cost-benefit analyses and impact assessments.

Committee's considerations*Memorandum from the Ministry of Justice*

The Government sets out its preliminary position in a Ministry of Justice memorandum. It welcomes the focus on the role of auditing in ensuring financial stability, and feels it may be appropriate to draw attention to the fact that several of the proposals may lead to higher costs for audit clients.

Committee's standpoint

Issues relating to auditors and audit firms are very important. It is also appropriate to focus on the role of auditing in ensuring financial stability. The Committee therefore welcomes the launching of a broad discussion on these issues. As pointed out by the Government, it may be appropriate to draw attention to the fact that several of the proposals in the Green Paper may lead to higher costs for audit clients. In the Committee's opinion, a starting point for future work on the issues concerned should be the need to reduce the administrative burdens and costs that have to be borne by companies.

ANNEX

List of proposals discussed

Commission's Green Paper COM(2010) 561 final *Audit Policy: Lessons from the Crisis*