



EUROPEAN COMMISSION
IMPACT ASSESSMENT BOARD

Brussels,
D(2011)

Opinion

Title **DG MARKT - Impact Assessment on a proposal for a regulation on statutory audits of public interest companies and amending Directive 2006/43/EC**

(draft version of 16 June 2011)

(A) Context

Frequently negative findings by auditor supervisors in several Member States, clean audit reports for banks in the lead up to the 2007-09 financial crises and the oligopolistic nature of the auditing industry have raised serious doubts about the average quality of statutory audits and the effectiveness of the underlying legislative framework. The Commission is therefore considering a set of legislative measures to address the underlying causes, drawing upon the results of the public debate it launched in October 2010 with its Green Paper on audit policy - COM(2010)561.

(B) Overall assessment

The report provides the necessary analysis to support action in this area but should be further improved in some respects. The analysis should be more directly informed by the experience with existing provisions in different Member States. The relative importance of the various problem drivers and preferred options should also be explicitly discussed. To better evaluate the proportionality of the overall policy package, the report should also assess the need for each individual measure taking into account the expected impact of all other proposed measures. A more comprehensive analysis of costs and benefits should be provided along with a more extensive presentation of stakeholders' views.

During the meeting, DG MARKT agreed to revise the report in line with the recommendations of the Board.

(C) Main recommendations for improvements

(1) Make better use of existing evidence. The report should present more extensively the existing experience with different provisions and practices in Member States (for instance by adding an annex discussing the case of joint audits in France and Denmark, mandatory rotation in Italy and adapted auditing standards for SMEs in France and the UK). The report should then make greater use of the insights emerging from this analysis to underpin the identification of problems, to explain the specific design of the proposed options and to inform the analysis of impacts.

(2) Strengthen the analysis of the proportionality of individual options within the proposed policy package. The report should not only analyse the proportionality of each individual option in isolation but also in relation to all other measures in the proposed policy package. In order to do so, the report should more clearly discuss the relative importance of individual problem drivers (particularly with regard to the different sources of conflict of interest). It should also discuss whether individual preferred measures are regarded as necessary or simply useful from the point of view of the effectiveness of the proposed policy package. Against this background the report should, in particular, discuss the necessity of strengthening audit committees, legislating the content and format of the audit report, envisaging supervisors' veto against the "Big Four" auditing companies, lifting ownership restrictions while prohibiting the provision of non-auditing services and setting up a pan-European certification scheme in parallel with mutual recognition provisions. Finally, the report should also include a high-level discussion of those options that were discarded without an in-depth analysis of their impacts (such as, for instance, public third party provision of auditing services and strengthening of the sanctioning regime).

(3) Improve the analysis of impacts. The report should provide a more comprehensive analysis of costs and benefits both for individual options and in the aggregate. The report should transparently indicate when this is not possible due to the unavailability of data or other methodological difficulties. In such cases, it should nevertheless try to provide evidence-based qualitative assessments and to substantiate any statement about costs being more than compensated by benefits. A summary table showing all quantitative and qualitative assessments of the cost and benefits of various options should be added along with a more detailed annex discussing the underlying evidence. Relying on this strengthened analysis of costs and benefits, the report should also provide a more extensive illustration of the distribution of impacts across different stakeholders, including a more balanced presentation of the impact on the "Big Four" and a clarification of the impacts of mutual recognition for auditing firms of different size.

(4) Better present stakeholders' views. The report should discuss more extensively stakeholders' views both in favour of and against the report's preferred options. In this context, the report should analyse in greater depth divergences with the proposals made in the current draft of the European Parliament own initiative report. The main text presentation of stakeholders' views should be strengthened in both the summary (§ 1.2) and in the presentation and analysis of individual options. The origins of the views underpinning the analysis in annexes 9 to 11 should be explicitly identified. A summary table comparing the views of key groups of stakeholders for the various options should also be annexed.

(D) Procedure and presentation.

In line with the executive summary, the main text should more clearly indicate whether there is a preferred option or not. The executive summary should be shortened to respect the 10 page limit and its content restructured so as to allow a more informative and specific illustration of the expected impacts for different stakeholders.

(E) IAB scrutiny process	
Reference number	2011/MARKT/018
External expertise used	No
Date of Board Meeting	13 July 2011