



THE INSTITUTE
OF CHARTERED
ACCOUNTANTS
IN ENGLAND AND WALES

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The TransAtlantic Business Dialogue
Residence Palace
155 Rue de la loi, bte 54
B-1040, Brussels
Belgium

By email: jbriginshaw@eu.tabd.com

Dear Mr Briginshaw

**CONSULTATION ON PRIORITIES FOR THE NEXT MEETING OF THE
TRANSATLANTIC ECONOMIC COUNCIL (TEC)**

The Institute of Chartered Accountants in England and Wales is pleased to respond to your request for comments on priorities for the next meeting of the *Transatlantic Economic Council TEC*.

Please contact me or my colleagues Susanna Di Felicianantonio, Head of EU Public Affairs, and Pablo Portugal, EU Affairs Manager, in our European Office (+32 (0) 22 30 32 72), should you wish to discuss any of the points raised in the attached response.

Yours sincerely

Robert Hodgkinson
Executive Director, Technical

T +44 (0) 20 7920 8492
E Robert.hodgkinson@icaew.com

ICAEW Representation

ICAEW REP 65/09

PRIORITIES FOR THE NEXT MEETING OF THE TRANSATLANTIC ECONOMIC COUNCIL (TEC)

Memorandum of comment submitted in May 2009 by The Institute of Chartered Accountants in England and Wales, in response to the TransAtlantic Business Dialogue (TABD) stakeholder consultation on priorities for the next meeting of the Transatlantic Economic Council (TEC).

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INTRODUCTION

1. The Institute of Chartered Accountants in England and Wales (the Institute) welcomes the opportunity to respond to the TransAtlantic Business Dialogue (TABD) stakeholder consultation on priorities for the next meeting of the Transatlantic Economic Council (TEC).

WHO WE ARE

2. The Institute operates under a Royal Charter, working in the public interest. Its regulation of its members, in particular its responsibilities in respect of auditors, is overseen by the Financial Reporting Council. As a world leading professional accountancy body, the Institute provides leadership and practical support to over 133,000 members in more than 160 countries, working with governments, regulators and industry in order to ensure the highest standards are maintained. The Institute is a founding member of the Global Accounting Alliance with over 750,000 members worldwide.
3. Our members provide financial knowledge and guidance based on the highest technical and ethical standards. They are trained to challenge people and organisations to think and act differently, to provide clarity and rigour, and so help create and sustain prosperity. The Institute ensures these skills are constantly developed, recognised and valued.

SUPPORT FOR A ROBUST TRANSATLANTIC DIALOGUE

4. We welcome the initiative of the TABD to seek the views of stakeholders on the priorities for the forthcoming TEC meeting which we understand has now been delayed to the autumn. We believe that a robust transatlantic dialogue in the various economic spheres is a natural precondition for achieving global outcomes, not least given the interconnectivity of EU and US capital markets and their overall share of global financial market activity. We strongly support the pursuit of an ambitious transatlantic agenda as a driver for global initiatives in areas such as macro economic policy, financial services regulation, professional services provision, trade liberalisation and climate change. We therefore also welcome the renewed commitment to the TEC process by the new US Administration and hope that the next College of European Commissioners will also act quickly to restate support for the process.
5. We consider that the next TEC meeting should reaffirm the joint commitment to the overarching objective of transatlantic economic integration made by the EU and US during the April 2007 Summit. This could be backed by agreement on a set of key principles, such as those recently set out by the TABD (Brussels Stakeholder Meeting, 13 May 2009) on avoiding protectionism, encouraging trade and an open investment environment while ensuring aligned and proportionate regulation. We believe that the development of a transparent, targeted and timetabled work programme would help refocus the TEC process going forward.
6. We wish to take this opportunity to focus on two key regulatory areas which underpin the functioning of capital markets: financial reporting and auditing. We are convinced that a globally coordinated regulatory response to the financial crisis is pivotal to rebuilding market confidence in the long-term. Promoting the convergence of accounting standards and enhancing the cooperation among audit supervisors have been ongoing priorities in the transatlantic policy agenda,

as evidenced in the work of the TEC in advocating the equivalence of accounting standards as well as in the activities of the EU-US Financial Markets Regulatory Dialogue. Although progress has been achieved over recent years, we believe that much remains to be done to enhance the regulatory framework in these areas to serve the needs of global business. Given the importance of these issues - as recognised by the G20 summits in November 2008 and April 2009 - we strongly support keeping accounting and audit issues on the agenda of the TEC.

PRIORITIES IN FINANCIAL REPORTING

7. Financial reporting constitutes one of the pillars of the current, and future, global regulatory architecture. It is also a key area of focus in light of the global financial crisis. We fully endorse the outcome of the G20 Summit of April 2009, which called on standard setters, supervisors and regulators to work together to achieve 'a single set of high-quality global accounting standards'. It is our long-held conviction that the increasingly integrated nature of capital markets calls for authorities to work tirelessly towards fulfilling this vision. The perspective of a universally applied accounting language promises to enhance global transparency, comparability and investment choice.
8. The financial crisis should in our view serve to reaffirm the commitment of EU and US authorities to this overarching objective. Nevertheless, we are deeply concerned about reported views from certain authorities and stakeholders on both sides of the Atlantic that appear to question this commitment and suggest a return to piecemeal national solutions as an alternative way to address issues raised by the crisis. These views risk derailing the major progress achieved so far in the convergence process. Furthermore, they risk undermining the credibility of financial reporting standards at a time when the reliability of financial information is critical to restoring investor confidence. We strongly believe that a fragmented financial reporting environment will limit the comparability and transparency essential to rebuilding market confidence in the long-term. We therefore urge the TEC to take its forthcoming meeting as an opportunity to reaffirm its full commitment to the G20 recommendations. A strong message from the TEC will provide the essential public policy support for the International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB) to continue their joint work on the challenges highlighted by the crisis.
9. In particular, unilateral approaches to standards on financial instruments in the coming months clearly would be detrimental to market confidence and the agreed strategy of jointly developing a single set of high-quality accounting standards. Amending accounting standards without appropriate due process in response to political pressures would inevitably bring into question the status and validity of the Memorandum of Understanding (MoU) committing the IASB and the FASB to the development of high-quality, compatible accounting standards that could be used for both domestic and cross-border financial reporting. Such 'quick fixes' to standards that seek to modify the information provided by financial institutions or that attempt to create a 'level playing field' could well undermine the quality of financial reporting. For this reason, we stress the importance of an independent and rigorous international standard-setting process that involves all stakeholders and focuses on the needs of users of financial statements.

PRIORITIES IN AUDIT REGULATION

10. The case for enhancing transatlantic cooperation in the field of audit is particularly strong given the many EU and US companies listed in regulated capital markets that conduct transatlantic operations. An internationally-based framework for the provision of audit services can deliver significant benefits to all stakeholders in audited entities and facilitate the conduct of business across the Atlantic.
11. As noted above, the EU-US Financial Markets Regulatory Dialogue endorsed in 2005 a dialogue on cooperation among audit supervisors. Despite this positive development, we are disappointed that it has not been possible to achieve further progress in this area. We are convinced that EU and US regulators should move towards a system of full reliance in relation to the inspection of audit firms by public oversight authorities. The current system of joint inspections is impractical for public authorities and burdensome for all concerned. The objective should be a system where authorities are able to rely on the inspections carried out by their transatlantic counterparts in their respective jurisdictions. We noted with disappointment that the European Commission suspended the process to issue a Decision on audit working papers this year due to a perceived lack of commitment from US authorities to a framework of full mutual reliance. With the enactment of the Statutory Audit Directive in the EU in 2006, EU Member States are required to establish an independent auditor oversight system, a quality assurance system and an investigations and penalties system - we believe this framework is noticeably strengthening the audit function across the EU. We therefore encourage EU and US authorities to resume dialogue in this area as a matter of urgency, based on principles of mutual trust and mutual assistance.
12. We also consider that opening up the transatlantic debate to achieve greater consistency and cooperation in other areas of audit regulation could deliver significant benefits to companies and investors globally. These areas include auditors' liability, the ownership and control of audit firms, the adoption of International Standards on Auditing (ISAs), auditor independence, the liberalisation of cross-border audit service provision and education and training. We would be pleased to provide further commentary to the TABD on the challenges and opportunities in these areas.

Email: robert.hodgkinson@icaew.com
susanna.difelicianantonio@icaew.com
pablo.portugal@icaew.com

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