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Date: 20 December 2010

CESR/10-1541
CEBS 2010-324
CEIOPS-SEC-182/10

Subject: 3L3 Committees Joint Letter on the European Commission's *Green Paper on Audit: Lessons learnt from the Crisis*

The three Level 3 Committees - CESR, CEBS and CEIOPS (the "Committees"), welcome the opportunity to comment on the Green Paper on Audit: Lessons learnt from the Crisis – as issued by the European Commission on 13 October 2010.

We would like to express our support for the European Commission's project to analyse audit matters in the aftermath of the financial crisis. We note that the Green Paper covers a very broad range of issues, which are worth a thorough debate by stakeholders.

In preparing their response, the Committees have worked together. While this joint letter stresses the Committees common position on topics of utmost importance, the detailed comment letters attached address the matters from the Green Paper from the perspective of each Committee, taking into account the specific sectoral perspective.

The Committees agree that a high level of audit quality is a key element to ensure market confidence and contributes to investor protection. We believe that audit quality across the European Union could be enhanced by further harmonization in the areas of auditing standards, auditors' independence, quality control procedures and by supervision of auditors.

Furthermore, we believe that improvements can and should be sought within the current role of the auditor. In this regard we agree with the Commission's efforts to consider whether there is a need to reinforce some of the current rules, as we believe that this will contribute to enhanced audit quality. However, we note that it is difficult to discuss the auditor's role in isolation and that any possible revisions to the auditor's role should be analysed in the context of their interaction with management, audit committees and other players.

We acknowledge that there is a need for better communication between auditors, audit committees and external stakeholders. Improved communication, inside or outside the audit report, would be beneficial and might help diminish the expectations gap of stakeholders. We are supportive of developments in the role of the audit committees and in their interactions with different stakeholders. Communication between auditors and audit committees is also important and can bring benefits in the performance of their respective roles. We also believe that an



effective and robust audit committee could support auditors in enhancing how they apply professional scepticism.

On the other hand, greater transparency from the auditor oversight bodies, as well as the audit firms themselves, could help audit committees make more informed decisions based on the quality of audit services provided.

Regarding auditing standards, we support the adoption of International Standards of Auditing in Europe in order to achieve the greatest possible degree of harmonization, therefore we believe that this should be done by a regulation.

We appreciate the European Commission's desire to further examine how to reinforce auditor independence. We believe that the current approach in Directive 2006/43 could be strengthened, particularly by reviewing the following aspects:

- Developing the responsibilities of the audit committees, and relevant guidance to help them play their role more effectively;
- More transparency in the process of appointment of the auditors; and
- A stricter approach to the provision of non-audit services, accompanied by enhanced transparency.

Regarding supervision, we do agree with an approach whereby the supervision of audit firms in Europe should be performed on a more integrated basis, with closer cooperation between the national audit oversight systems. At present, supervising global audit firms with cross-border management in various Member States poses challenges for audit regulators at national level. There is also a need to maintain adequate levels of co-operation with relevant third country supervisors.

We believe a stronger mandate for the EGAOB would represent a first step towards a gradual development of the audit oversight system and would allow the EGAOB to continue to provide technical advice to the Commission and to strengthen convergence of supervisory practices across the EU, reinforcing the current structure and developing a common approach on auditor oversight. Given the importance of audit to capital markets, close relationships between a reinforced EGAOB and the future ESAs could be beneficial for both sides.

Finally, the 3L3 Committees agree that the current level of concentration in the audit market does present risks for financial markets, as a failure of one of the largest audit firms could cause severe market disruption. However, we do not see such risks as being the same as those posed by the banking sector during the financial crisis. When identifying appropriate measures to mitigate the risks posed by the structure of the audit market, the distinctive characteristics of the audit sector needs to be taken into account.

In this regard, we agree that contingency planning should be developed to mitigate these risks. As the largest audit firms are part of international networks international co-ordination might be necessary.

The Committees detailed comment letters are set out in the Appendix I to III to this joint letter.



We hope that you find our comments helpful and would be happy to discuss all or any of these issues further with you.

Yours sincerely,

Carlos Tavares,
Chair of CESR

Giovanni Carosio,
Chair of CEBS

Gabriel Bernardino,
Chair of CEIOPS

Three handwritten signatures in blue ink are displayed below the printed names. From left to right, they correspond to Carlos Tavares, Giovanni Carosio, and Gabriel Bernardino. The signatures are stylized and cursive.