



CESR response to the European Commission's Green Paper on Audit Policy

The Committee of European Securities Regulators (CESR), through its Corporate Reporting Standing Committee, has considered the Green Paper on Audit launched by the European Commission.

CESR, the Committee of the European Banking Supervisors (CEBS) and the Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS) have worked together in preparing comments. While our joint letter sets out a common 3L3 position on the most important issues addressed by the Commission in the Green Paper, this annex gives more detail on these main topics from CESR' viewpoint and comments on further aspects that are particularly important from the perspective of securities regulators.

Section 1. Introduction

Question 1

Do you have general remarks on the approach and purposes of this Green Paper?

and

Question 2

Do you believe that there is a need to better set out the societal role of the audit with regard to the veracity of financial statements?

and

Question 3

Do you believe that the general level of "audit quality" could be further enhanced?

We welcome the Commission's initiative to consider the role of audit and audit policy following the financial crisis. We note that the Green Paper covers a very broad range of issues, many of which are worthy of thorough debate by stakeholders.

The Green paper seeks views on possible changes to the auditors' role and mandate. In general terms, we believe that it is very difficult to discuss auditors role in isolation and that possible reviews of this role should take into account the way auditors and their work interacts with that of other players, including management, audit committees and rating agencies. We also believe that improvements can and should be sought within the current role of the auditors. 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 enhance audit quality.

A high level of audit quality is a key element for market confidence and contributes to investor protection. At this stage, we also believe that audit quality across the EU could be enhanced by further harmonization in the areas of auditors' independence, auditing standards, quality control procedures and by audit supervision.

However, we note that the Directive 2006/43 introduced several new measures in relation to audit which have only recently been implemented in many Member States. Therefore, we believe that independent audit oversight bodies should have the opportunity to continue to develop audit quality and to see whether auditors are playing their role effectively across the EU.



Section 2. Role of the auditor

2.1 Communication by auditors to stakeholders

Question 4

Do you believe that audits should provide comfort on the financial health of companies? Are audits fit for such a purpose?

The objective of an audit is to express an opinion on whether the financial statements are prepared in accordance with an applicable financial reporting framework and on whether the financial statements give a true and fair view of the company's affairs, while applying a set of professional standards. The purpose of this exercise is to have more reliable financial statements, primarily for the benefit of shareholders, and also to enhance public confidence in markets more generally.

It seems difficult to encompass an evaluation on the financial health of companies within the objective of the audit work as stated above. This kind of assessment would require investigation of different areas of companies' businesses, evaluation of companies' future strategies and medium or long term development plans. Such an assessment requires competences beyond those on accounting and auditing, and begins to assume a management role; a level of involvement that could also bring threats to auditor independence.

We do not believe that the audit work on the going concern assumption is equivalent to the auditor providing comfort on the financial health of companies (at least when this is understood in a broad sense). The going concern assumption can be considered as part of an evaluation on the financial health of a company, but it would not be sufficient for this purpose. A company could continue as a going concern for the period required by the accounting principles, being at the same time in a very critical situation as regards its financial health over a longer time frame. No such assessment is currently required under auditing principles.

Nonetheless, CESR believes that disclosures on the going concern assumptions might be improved, particularly in the case of companies in difficult situations, while acknowledging that further debate on how to achieve this would be necessary in order to ensure that all implications are taken into account.

Question 5

To bridge the expectation gap and in order to clarify the role of audits, should the audit methodology employed be better explained to users?

To address better external communication through the audit report, certain solutions can be explored, including changing the report's structure and language, and providing additional information useful to stakeholders. IOSCO has published a summary of the answers to a consultation paper on auditors' communications that indicates a range of views on possible areas where communication could be improved together with areas which need further analysis. Each solution warrants careful consideration, taking into account the information needed by investors and the role of auditors and their audit reports.

Moreover, given that the audit report is the main form of communication between auditors and investors, a more "narrative" report might enable investors to better understand the nature and inherent limitations of an audit. Indeed, encouraging innovation in how the results of the audit work are reported could lead to better quality in the information delivered to investors. However there is also a risk that more explanations in the audit report on audit methodology could end up in additional standard paragraphs containing boilerplate language, without being very helpful. The



Commission should engage in more dialogue between all interested parties to clarify what changes to audit reports could help to bridge the expectation gap.

Question 6

Should "professional scepticism" be reinforced? How could this be achieved?

CESR believes that “professional scepticism” is key to the audit approach and that its proper application should be carefully monitored. Attention to professional scepticism should be reinforced considering that adopting a critical attitude is a fundamental component of auditors’ behaviour in fulfilling the societal role assigned to them.

Audit inspections within the EEA in this area have indicated that there is room for improvement in auditors’ application of professional scepticism. However, this could be better achieved through a more rigorous application and enforcement of the rules already included in the professional standards rather than through the introduction of new rules. Audit firms, for example, should manage and monitor more closely the application of professional scepticism by individual auditors through their training activities, monitoring process or other internal initiatives able to emphasise the importance of this state of mind.

Further, we feel that professional scepticism could also be improved by strengthening the communication from the auditor vis-à-vis the audit committee. Effective and robust discussion with Audit Committees gives auditors an opportunity to communicate their views on issues within the company more openly to directors and therefore creates an atmosphere where auditors can apply more scepticism in the audit process.

We would not favour an attitude whereby scepticism, as exercised with regard to key disclosures in the financial statements, is deemed to have improved if there is a subsequent increase in “emphasis of matter” paragraphs in audit reports, as envisaged in the Commission’s Paper. The appropriate exercise of scepticism should lead to adequate disclosure in the financial statements of the audited company, regardless as to whether an emphasis of matter paragraph might also be deemed to be necessary by the auditor.

Question 7

Should the negative perception attached to qualifications in audit reports be reconsidered? If so, how?

Qualified audit reports are indicative of material misstatements or inability to obtain sufficient appropriate audit evidence, and therefore the negative perception attached to them seems unavoidable and justified. The auditor’s opinion should reflect the outcome of the work done and it is clearly an auditor’s responsibility to make its concerns clear to shareholders, where it has such concerns.

Question 8

What additional information should be provided to external stakeholders and how?

As a starting point, CESR believes that any consideration should be based on the premise that it is important not to create potential for confusion among different roles and responsibilities (auditors, management, rating agencies).

The role played by auditors is very different from the one played by rating agencies or equity analysts. The auditor is required to evaluate whether the financial statements have been prepared in accordance with the applicable financial reporting framework, which he does by applying auditing



standards. The auditor's opinion is essentially a binary decision and the auditor's work does not currently aim to make categorisations or rate audit clients.

Having said this it is still possible to explore ways whereby auditors could play a role in improving the quality of financial statements and, in particular, the quality of disclosures. These ways should not detract from the premise that auditors are required to make an evaluation of compliance with principles included in the applicable financial reporting standards framework.

The provision of additional information (on risks, sector evolution etc.) through the auditor's report could blur the respective roles of auditors and management, and does not seem appropriate when management is in the best position to provide the information that users and investor may require. CESR believes that management must retain primary responsibility for communication with stakeholders.

Some additional elements that are communicated to the Audit Committees could also be of interest to stakeholders, and it may be useful to consider how these could be given more prominence either in the audit report or in disclosures provided by the Audit Committee.

Stakeholders might find it useful if auditors were to explain their judgment on significant matters that have required particular attention during the audit. The purpose of this would be to address stakeholders' expectations in having more details on the key elements of the auditor's work on the financial statements and the evidence underlying the judgments made in order to issue the audit opinion. Examples of such elements might include: significant accounting estimates, accounting policies and principles and going concern issues.

Question 9

Is there adequate and regular dialogue between the external auditors, internal auditors and the Audit Committee? If not, how can this communication be improved?

CESR believes that there will always be room for improvement in communication between external auditors, internal auditors and audit committees. A strong, effective and well qualified audit committee can play a significant role in corporate governance and supports the effectiveness of the both the external audit process and other internal controls on behalf of shareholders.

We note that clarified ISA 260 covers a wide range of issues for communication between the external auditors and those charged with governance. CESR believes that this standard, along with other clarified ISAs, will lead to improvements in auditing in those jurisdictions where ISAs have been implemented.

We believe that there could be a role for regulators providing additional guidance to audit committees to support them in their discussions with external (and indeed internal) auditors. Greater transparency by audit committees about the matters they have considered during the year could also lead to a better understanding among investors of the contentious issues during the audit and the way in which the audit committee has lent objectivity to the financial reporting process.

Question 10

Do you think auditors should play a role in ensuring the reliability of the information companies are reporting in the field of CSR?

No comments.

Question 11

Should there be more regular communication by the auditor to stakeholders? Also, should the time gap between the year end and the date of the audit opinion be reduced?



Regarding the time gap, publication of the financial statements for listed entities, including the audit opinion is within the scope of the Transparency Directive, which indicates the timing of such publication. CESR does not see any need to change the rules currently applicable.

Question 12

What other measures could be envisaged to enhance the value of audits?

The scope of statutory audit is currently limited to historical financial information prepared by an issuer and an auditor is not currently expected to provide reasonable assurance on any other communication made to the public, as they are not included within the scope of the audit engagement.

CESR believes that the scope of the audit engagement should not be increased. In this context CESR would not support an extension of the auditor's mandate in order to cover, for example, forward looking information, given the uncertainties in the level of assurance that could be provided for this kind of work.

The Directive 2004/39 (Markets in Financial Instruments Directive), art.50 assigns regulators powers to require auditors or other independent experts to carry out verifications and investigations, when deemed necessary. It could be worth considering whether similar powers would be useful for capital markets in general. In addition to this, CESR believes it is important that audit committees have sufficient access to resources to enable them to request additional assurance or other review work on particular issues (often in areas deemed to be high risk) to be conducted by a different auditor or expert where necessary.

2.2 International Standards on Auditing (ISAs)

Question 13

What are your views on the introduction of ISAs in the EU?

As per our previous comment letter on the adoption of ISAs (CESR/09-776), CESR is supportive of the introduction of ISAs, subject to a suitable European endorsement procedure. We see huge advantages in having harmonized auditing standards in the European Union and internationally.

Question 14

Should ISAs be made legally binding throughout the EU? If so, should a similar endorsement approach be chosen to the one existing for the endorsement of International Financial reporting Standards (IFRS)? Alternatively, and given the current widespread use of ISAs in the EU, should the use of ISAs be further encouraged through non-binding legal instruments (Recommendation, Code of Conduct)?

CESR believes that it would be beneficial for ISAs to be adopted and thus required for the audits of entities with listed securities falling under the scope of the Regulation (EC) No 1606/2002 (Regulation on the application of the International Accounting Standards). In order to achieve the greatest possible degree of harmonisation, CESR would support using the legal form of a Regulation, similar to the adoption of international financial reporting standards.

Notwithstanding the consultations taken place during the development of the ISAs, CESR could envisage rare circumstances where it might be beneficial to the European public interest to retain an ability to amend standards prior to their endorsement. CESR would recommend using such a facility with caution and in only very rare circumstances as it could lead to an erosion of the coherence of such standards.



Question 15

Should ISAs be further adapted to meet the needs of SMEs and SMPs

No comment.

Section 3. Governance and independence of audit firms

Question 16

Is there a conflict in the auditor being appointed and remunerated by the audited entity? What alternative arrangements would you recommend in this context?

and

Question 17

Would the appointment by a third party be justified in certain cases?

CESR supports measures to reinforce the independence of auditors and, in this regard, believes that the provisions included in Directive 2006/43 can be strengthened.

We are concerned that the proposals on the appointment and remuneration of the audit engagement envisaged by the Commission seem to identify measures that would fundamentally change the roles and relationships between auditors and audited companies, while raising, at the same time, a number of new issues. For example, it would be quite difficult for an external party to obtain a sufficient knowledge of the company and its business (even more complicated in the case of a group of companies) to routinely make a better choice of the most appropriate auditors among different proposals than the company's choice. Using a third party to establish a fair level of remuneration for auditors risks entering also into the commercial aspects of a private business (as if audit services could be considered simply as commodities).

We believe that the system already in place can deal to a large degree with the inherent conflict of interests in auditor appointment and remuneration, although the system could be improved by reinforcing the current rules and making them more effective.

We believe that Audit Committees should be in the best position to judge which auditor is most appropriate for their companies, and that it would be most helpful to look at how audit committees could be better able, equipped and prepared to perform this role effectively. The appointment and the remuneration of auditors could be a specific competence of audit committees, reinforcing the current wording in Directive 2006/43 art.41 (par.3) and perhaps strengthening the independency requirements relating to Audit Committees for listed companies.

Looking at the tasks assigned to audit committees in Directive 2006/43 art.41 (monitoring the statutory audit and the independence of the auditor), they could play a very important role in the relationships with auditors on various aspects. However more work should be done in this area in order to develop guidance to enable audit committees to meet these expectations.

Question 18

Should the continuous engagement of audit firms be limited in time? If so, what should be the maximum length of an audit firm engagement?

CESR agrees that audit firm rotation could enhance perceived independence, and would welcome a more thorough debate on the pros and cons of requiring audit firm rotation in addition to rotation of audit partners.

Possible advantages of mandatory rotation are:

- greater independence: audit partner rotation aims to ensure that auditors have a “fresh look” at the audit approach, but this can be seen as only a partial measure. The audit team does not rotate entirely and in any case the economic interests underlying the relationship between the audit firm and the audited company do not change. Therefore audit firm rotation, in addition to audit partner rotation, could ensure greater independence and objectivity with a positive impact on audit quality; and
- audit firm rotation could help to mobilise the audit market in general by increasing the number of audit tenders that arise (even though in some specific market segments the actual choice of audit firms for rotation could be very limited), which should encourage more firms to participate in such tenders in the long run. However, auditor rotation cannot be considered as a measure which would address issues within the structure of the audit market in isolation.

Possible disadvantages of mandatory rotation are:

- the investment necessary in the first year for a new auditor to gain sufficient knowledge of the company to satisfy the requirement of the audit engagement may not be recoverable unless the audit engagement continues for a reasonable amount of time. For mandatory rotation to work, it is necessary to find a balance between maintaining the audit engagement for a reasonable amount of time in order to allow the audit firm to spread over a certain number of years the initial investment, whilst ensuring effective rotation for independence purposes. This debate could also imply a discussion at European level being necessary on the duration of the engagement and its possible harmonization.

A possible suggestion could be to foster rotation of audit firms through alternative measures without making it mandatory. For example, there could be a rebuttable presumption of rotation or re-tendering after a certain number of years, with a requirement for audit committees to give adequate disclosure on their reasons for not changing the audit firm already engaged.

On the duration of the engagement, CESR believes that it could be worth exploring the possibility of having a harmonized approach in Europe. This would facilitate the development of further thinking on independence issues and particularly around the mandatory rotation of audit firms.

Question 19

Should the provision of non-audit services by audit firms be prohibited? Should any such prohibition be applied to all firms and their clients or should this be the case for certain types of institutions, such as systemic financial institutions?

CESR is in favor of reinforcing the rules on the provision of non-audit services. However, we would suggest that the area of concern should be limited to the provision of non-audit services to the same audit client and not extended beyond this context. Therefore CESR would not be concerned with the current structures of firms providing, in general, auditing and non-auditing services, and would not favor the creation of “pure audit firms”. CESR notes that there are no specific independence threats if an audit firm delivers services to a non-audit client, and therefore sees no need for taking such far-reaching measures. Further, the creation of a “pure audit firm” does not address any threats emerging from network organizations, and therefore does not resolve the issue.

CESR believes that the area of the provision by audit firms of non-audit services deserves a stronger approach in terms of clearer provisions aimed at prohibiting the provision of certain non-audit services, requiring more disclosure by companies on non-audit fees and more involvement of audit committees in the decisions related to the provision of non-audit services by the same audit firm. Such stricter rules could be applied to auditors of all listed companies. The nature and the extent of specific prohibitions and rules should be explored further and would require an in-depth analysis of



different legislation and codes of ethics in various jurisdictions, with a view to achieving convergence in Europe.

An additional issue that could be worth exploring further is the definition of “network” included in the Directive 2006/43. The definition is crucial because of its impact on all independence issues and its consistent application in Europe, particularly to smaller less-integrated networks should be analyzed.

Question 20

Should the maximum level of fees an audit firm can receive from a single client be regulated?

No comment.

Question 21

Should new rules be introduced regarding the transparency of the financial statements of audit firms?

We note that Directive 2006/43 includes provisions on auditor transparency and that transparency reports, including financial information, have been developing since the Directive’s implementation. Feedback from auditor oversight bodies on transparency reports provided to date could support the spread of best practice in this area, and could be more effective in the short term than developing new rules.

Question 22

What further measures could be envisaged in the governance of audit firms to enhance the independence of auditors?

CESR believes it would be beneficial to confidence in the audit market for audit firms to adopt best practice in their corporate governance arrangements, despite following a different ownership structure than many businesses in other sectors. In particular, CESR believes it is important for audit firms to communicate with the shareholders of audit clients, embed professionalism within their culture, maintain effective risk management systems and demonstrate transparency about their activities. Commitments from the industry to abide by codes of best practice, such as that adopted in the UK (the UK Audit Firm Governance Code¹), appear to be a positive way to develop industry-led solutions in this area and should be encouraged. As far as legislative proposals are concerned we note that most audit firms operate as owner-managed partnerships and so, given that governance issues do not arise in the same way for audit firms as they do for public companies and so we think that such steps are not necessary at this stage.

Question 23

Should alternative structures be explored to allow audit firms to raise capital from external sources?

As per our previous comment letter on the Commission Paper “Control Structures in Audit Firms and their Consequences for the Audit Market” (Ref CESR/09-291) CESR concedes the possibility that easier access to financial capital could facilitate further integration of audit firms particularly at the mid-tier level and might help these firms subsequently to develop their share of the market of the audits of multinational firms. As such, alternative ownership structures merit further investigation. Alongside the role of capital, CESR believes that amongst other aspects a firm’s

¹ <http://www.frc.org.uk/documents/pagemanager/frc/The%20Audit%20Firm%20Governance%20Code.pdf>.



reputation and its human capital (skill and competence, professionalism) remain key factors. These are the factors that, in the long run would ensure the stable growth of a new player and serve to guarantee audit quality.

Furthermore CESR believes auditor independence is paramount for the conduct of effective audits and for the consequent role played by the audit function in maintaining public confidence in the markets. Any possible solutions must therefore ensure that this independence of the audit function is not compromised.

Question 24

Do you support the suggestions regarding Group Auditors? Do you have any further ideas on the matter?

No comment.

Section 4. Supervision

Question 25

Which measures should be envisaged to improve further the integration and cooperation on audit firm supervision at EU level?

CESR recognises that independence of public oversight systems from the audit profession is the key driver in the audit oversight process.

We do agree with an approach whereby the supervision of audit firms in Europe is 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 the need to maintain adequate levels of co-operation with relevant third country supervisors.

CESR believes a stronger mandate for the EGAOB would represent a first step toward a gradual development of the audit oversight system which 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 ESMA could be beneficial for both authorities in developing their respective competences.

Regarding the proposal to grant a supervisory role either to the future ESMA or to an independent ESA, it is, in our view, still somewhat premature at this stage to make a decision on either alternative because more advanced levels of integration among authorities in different Member States and greater harmonization in terms of their powers and supervisory practices would need to be in place first. Audit practice in general also has areas which are currently not sufficiently harmonised in Europe and any integration of the supervisory authorities should go hand in hand with greater harmonization of such practice.

Question 26

How could increased consultation and communication between the auditor of large listed companies and the regulator be achieved?

CESR agrees on the need to reinforce the dialogue between regulators and auditors. In this context, we believe that a clearer duty to report to securities regulators (and, in some cases, audit regulators)



could be helpful. Similar provisions to those already applied to financial institutions and providers of investment services could be extended to auditors of listed companies, requiring communications to securities regulators in specific circumstances (such as if the auditor becomes aware of any fact or event which could constitute a material breach of laws or could affect the ability of the company to continue as a going concern). Furthermore, CESR agrees that communications should be mandatory in case of fraud or suspected fraud for listed companies. Some countries already require communication in certain circumstances (for example, where an auditor gives an adverse opinion or in connection with the going concern principle). We believe that convergence should be sought in this area in Europe.

Section 5. Concentration and market structure

Question 27

Could the current configuration of the audit market present a systemic risk?

As per our previous comment letter on the Commission Paper “Control Structures in Audit Firms and their Consequences for the Audit Market” (Ref CESR/09-291) CESR supports the initiative of the Commission to stimulate debate on the issue of audit market concentration. We agree that the current level of concentration in the audit market does present risks, even though it remains difficult to state whether these risks are “systemic”, considering the meaning of this word in the financial sector. However, we note that the “systemic risks” associated with a large audit firm exiting the audit market are not the same as those associated with the demise of a bank and would caution against drawing too many parallels² e.g. the idea of using living wills for audit firms.

We believe that any such action in this area should be dealt with at an international level. The audit firms are global networks and the risks that a large audit firm may have to exit the audit market may arise from circumstances outside the EU.

Question 28

Do you believe that the mandatory formation of an audit firm consortium with the inclusion of at least one smaller, non systemic audit firm could act as a catalyst for dynamising the audit market and allowing small and medium-sized firms to participate more substantially in the segment of larger audits?

We are not convinced that joint audits (or audit firm consortia) would necessarily ‘dynamise’ the audit market by enabling mid-tier firms to capture some of the market for the audit of the largest listed entities in a way that would enhance audit quality. Joint audits might pose a number of issues in terms of responsibilities, differences in the level of workload and audit approach. In addition to this, the issues might be more complex when referring to joint audits between Big Four and mid-tier or small audit firms. We would draw the European Commission’s attention to the fact that both Denmark and Belgium have required joint audits in the past, but have since withdrawn these requirements (having not found them to add sufficient value). On the other hand, France, where joint audits have been in use for a number of years, has not noticed negative effects from joint audits.

Question 29

From the viewpoint of enhancing the structure of audit markets, do you agree to mandatory rotation and tendering after a fixed period? What should be the length of such a period?

² For example, reputation risk is the greatest risk faced by the largest audit firms (rather than bankruptcy, to which situation living wills are primarily addressed), and the effect of an event threatening the reputation of an audit firm and thus precipitating its collapse could not be mitigated by injections of funds or other kinds of bail outs associated with systemically important banks.



Though we do not see mandatory rotation of audit firms as a significant measure that would substantially open up the audit market, we do think that there could be a useful debate on how mandatory rotation of audit firms may contribute to greater auditor independence. Therefore we have provided comments on this topic under the section on auditor independence.

Question 30
How should the "Big Four bias" be addressed?

We believe that greater transparency on audit quality, both by auditor oversight bodies and from the audit firms themselves, could help to address the Commission's question about whether the perceived extra level of comfort in appointing a Big Four firm is due to "perceptions" rather than "merit".

Question 31
Do you agree that contingency plans, including living wills, could be key in addressing systemic risks and the risks of firm failure?

A large firm leaving the market could lead to significant disruption for capital markets. Therefore, as securities regulators, we believe that further work should be done on contingency planning, both at sector level and also by individual audit firms and companies (which might lose their auditor), to try to mitigate this risk. We note that IOSCO has published a document on contingency planning³.

We note that any actions, such as contingency planning, do not, in any way, undermine the necessity for audit firms to ensure that they provide high quality audits. The rest of our response focuses on how to enhance audit quality as this underpins market confidence and consumer protection.

Question 32
Is the broader rationale for consolidation of large audit firms over the past two decades (i.e. global offer, synergies) still valid? In which circumstances, could a reversal be envisaged?

CESR believes that it may be appropriate for national competition authorities to consider whether measures might be taken to address market structure in specific jurisdictions, taking into account the specificities of each national market and industry sector.

Section 6. Creation of a European market

Question 33
What in your view is the best manner to enhance cross border mobility of audit professionals?

No comment.

Question 34
Do you agree with "maximum harmonisation" combined with a single European passport for auditors and audit firms? Do you believe this should also apply for smaller firms?

No comment.

³ <http://www.iosco.org/library/pubdocs/pdf/IOSCOPD269.pdf>



Section 7. Simplification : SMP and SME

Question 35

Would you favour a lower level of service than an audit, a so called "limited audit" or "statutory review" for the financial statements of SMEs instead of a statutory audit? Should such a service be conditional depending on whether a suitably qualified (internal or external) accountant prepared the accounts?

No comment.

Question 36

Should there be a "safe harbour" regarding any potential future prohibition of non-audit services when servicing SME clients?

No comment.

Question 37

Should a "limited audit" or "statutory review" be accompanied by less burdensome internal quality control rules and oversight by supervisors? Could you suggest examples of how this could be done in practice?

No comment.

Section 8. International co-operation

Question 38

What measures could in your view enhance the quality of the oversight of global audit players through international co-operation?

CESR believes that international cooperation with audit oversight bodies in third countries is fundamental to addressing the issues arising from the supervision of large groups which operate in multiple jurisdictions and from the supervision of global audit networks.

Therefore it is necessary to build mutual trust and reliance between European audit oversight bodies and between third countries audit oversight bodies. CESR believes that the legal framework of Directive 2006/43, and in particular with respect to the adequacy and equivalence decisions, has helped in creating a common European approach. However, CESR notes those measures have only recently been introduced and it will take time for a truly collaborative relationship to grow at international level.