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Ladies and Gentleman,

I first would like to thank the organisers for their kind invitation to participate in this congress. It is not only an honour for me to participate in your annual gathering, but it is also very pleasant to be here among many friends from my time in academia. I also find it fitting that I have the opportunity to speak in one of the Union's newer Member States on what is Europe Day – commemorating the original proposal by Robert Schuman of the organisation that has grown to become the European Union.

During my various speeches as Chair of the European Securities and Markets Authority (ESMA), I have consistently stressed the key objectives that I see for ESMA as an organization. I would like to say a few words about these today, especially in the context of the broader regulatory reform of financial markets across the main regions of the world. Then I will move on to discuss the role and activities of ESMA in the area of financial reporting and auditing. On the financial reporting side I will specifically discuss, firstly, sovereign debt and public sector accounting and, secondly, the US decision on possible acceptance of IFRS. On the auditing side I will specifically discuss the European Commission's proposals on limiting the combination of auditing and consulting and the regulation and supervision of auditing at EU level, and the role of ESMA.

ESMA

However, before I expand on our work in accounting and auditing, I would like to speak a little about what I believe to be one of the few positive outcomes of this deeply concerning financial crisis in Europe, namely the establishment of the European System of Financial Supervision and the creation of the three new European Supervisory Authorities for securities, banking and insurance in 2011. This was a crucial political decision on the part of the European Union (EU) aimed at improving financial services regulation and supervision in Europe.

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ESMA was one of these three new institutions and we were given the mission of improving the protection of investors and promoting stable and well-functioning financial markets in the EU. The last 16 months have been a busy time for my staff, on the organisational, regulatory and supervisory fronts, as we have set about building an organisation capable of meeting its mandate.

In terms of operational set-up, ESMA began life in Paris with some 35 staff from its predecessor body, the Committee of European Securities Regulators, at the beginning of 2011 but by year's end this had doubled to about 70. This growth included the recruitment of a middle management tier to ensure that we had the resources in place to support delivery on our responsibilities. In the process we have succeeded in recruiting highly qualified candidates from varied backgrounds including government, regulatory bodies and the private sector. And we are not finished yet: by the end of this year we intend to have 100 staff on board and I would like to take this opportunity to say that we are still keen on attracting experienced candidates from as broad a range as possible.

I would now like to move on to speak about our role and work programme. ESMA has two key objectives as an organisation. The first being the building of a single rulebook for the regulation of the EU's financial markets and the second being achieving supervisory convergence and the consistent application and enforcement of the single rule book. The single rule book is important to ensure that investors are receiving the same level of protection across the EU. In addition, the single rule book is beneficial for the financial industry as it creates a level playing field for the financial industry and reduces the costs of providing services at a European level.

The fostering of supervisory convergence forms part of ESMA's mission with the aim of reducing the risk of regulatory arbitrage, which has the potential to undermine not only the integrity, efficiency and orderly functioning of markets but ultimately financial stability. I know that in some academic literature it is suggested that having regulatory competition might be beneficial and improve the quality of regulatory systems. However, in financial markets regulation it resulted in a race to the bottom on some important regulatory issues in the years leading up to the crisis, both within the EU and between the main financial centres of the world.

While the ESMA objectives are ambitious, I feel that we have already made substantial progress since our foundation, particularly when seen in the context of poorly performing financial markets in Europe and the continuation of the regulatory change agenda. It was against this background that we also assumed our role in EU markets supervision, through direct supervision - such as with credit rating agencies (CRAs) - or the co-ordination of actions or exchange of information by EU national regulators, especially regarding short-selling, financial reporting, market microstructures and clearing and settlement.

ESMA is the only European Supervisory Authority currently exercising direct supervisory responsibilities over market participants. As of July 2011 we are responsible for the registration and supervision of CRAs wishing to conduct business in the EU. Bringing CRAs under the umbrella of EU supervision is a milestone achievement which will contribute to a sounder rating process and thus more resilient markets and improved investor protection. We have undertaken our first on-site inspections in December 2011, which will become a regular feature of our oversight, and published the findings in March. I would like to conclude on this by suggesting CRAs as a topic for academic research. I know that CRAs have received some research attention, but not to the same extent as for example audit firms. Without neglecting the differences, I think there are some interesting commonalities between CRAs and audit firms and the financial crisis shows how important CRAs are for the functioning of capital markets.

Before I move on, I should underline that ESMA together with the national supervisory authorities form a network organization. While ESMA has many new tasks and powers, the new framework can only be effective when it is based on extensive cooperation with national supervisory authorities. In this context I would like to mention the active participation by the Slovenian Securities Markets Authority in ESMA's activities, and more specifically ESMA's Board of Supervisors.

The international regulatory reform agenda

Much of ESMA's work is conducted in the context of international agreements on the reform of the financial markets. These agreements are the so-called G20 commitments and they have been essential in achieving, as much as possible, comparable regulatory reforms across the various financial markets. This worldwide coordination is obviously very important considering the interconnectedness of financial markets and the risks of regulatory arbitrage. Concrete examples of current ESMA work which is driven by these G20 commitments are the regulation and supervision of CRAs, private equity, hedge funds, and the far reaching reforms of the OTC derivatives market. But an accounting issue is also part of the G20 commitments: the desire to achieve global accounting standards. I will discuss this topic in more detail later on.

ESMA's role in Financial Reporting and Auditing

Let me now come to the areas that belong to the core of this conference: financial reporting and auditing. I will start by identifying the role of securities regulators, and of ESMA in particular, regarding those areas. I can identify at the minimum three clear roles for ESMA in the areas of reporting and auditing.

Firstly, ESMA promotes convergence in the application and enforcement of IFRS in the EU, which is essential to market integrity. Ensuring such consistency enables a fair and efficient functioning of markets and the availability of high quality information for investors: both are important for the protection of investors. While the correct application of IFRS is the prime responsibility of issuers and their auditors, securities regulators can intervene when there are violations of IFRS in published financial statements. ESMA, as did its predecessor CESR, coordinates the activities of national enforcers in the EEA regarding enforcement of IFRS. This includes the analysis and discussion of individual enforcement decisions and emerging financial reporting issues. The establishment of ESMA has given us stronger legal powers to ensure consistent enforcement of IFRS in the EU. In plain language, we can take various actions when we observe that a national enforcer in the EU is incorrectly enforcing IFRS.

The financial crisis has had a major impact on the financial performance of publicly traded companies, particularly in the financial sector. As a result of the sovereign debt crisis ESMA focused its attention on the crisis' impact on the accounting practices of listed companies in Europe, specifically financial institutions, with respect to their sovereign debt exposures. Last July, we issued a statement stressing the need for enhanced transparency and the application of the relevant IFRS, and ESMA also encouraged issuers to disclose their stressed sovereign debt exposures on a country-by-country basis in their financial statements. Following this action, we assessed the accounting treatment of Greek sovereign debt in the half-year financial statements of EU-listed financial institutions and, to promote consistent application in the year-end statements, published advice on its treatment in November. At the same time we also issued an Opinion on Accounting for Exposure to Greek Sovereign Debt.

A second clear role for ESMA in the area of financial reporting relates to the development of standards. We contribute extensively to the process of the development and adoption of high quality accounting standards. These contributions are mainly based on what we observe when looking at the application and enforcement of IFRS. ESMA has especially made many contributions to the work on financial instruments and the governance framework around the IFRS Foundation.

ESMA actively contributes to the development of high-quality standards by preparing comment letters on the IASB's technical proposals. We also participate in the work of EFRAG and the IASB and follow activities in the field of auditing closely. Our Corporate Reporting Standing Committee conducts work on issues related to accounting, audit, periodic reporting and storage of regulated information. In particular it influences regulatory developments in the area of accounting and auditing, including an active monitoring of the EU endorsement process of international standards and the work of relevant EU accounting and auditing Committees.

Finally, ESMA also monitors and influences developments relating to periodic financial reporting under the Transparency Directive and establishes and maintains appropriate relationships with securities regulators from major capital markets outside Europe to foster operational co-operation at the global level.

The proposals for reforming audit in the EU

I promised to talk about how the current discussion on the role of auditors fits within the broader regulatory response to the crisis. Though this crisis is clearly not an accounting or auditing crisis, like the so-called dot.com crisis at the beginning of this century, we have to admit that there have been serious shortcomings in the performance of the auditing sector during the crisis and we have to learn from that. Hence, I fully support that the European Commission wants to substantially reform the auditing sector.

Before starting at ESMA, I was extensively involved in the regulation and supervision of auditing. When I was chairing the international body for audit regulators, IFIAR, I was extensively involved in the exchange of experiences about national inspections regarding audits of issuers hit by the financial crisis. Various national regulators have also publicly reported on the performance of auditors during the crisis, including critical reports by regulators from the UK, the US and the Netherlands.

As a national regulator I was very involved in the inspections of the Big Four firms in the

Netherlands, and these inspections have now resulted in various sanctions, including fines. A finding from these inspections that struck me was that many of the shortcomings identified do not relate to auditors not being able to handle complex issues. Instead, they relate to quite basic auditing issues, not receiving the right attention in terms of time or not being addressed at the right level within the audit firm. In some isolated cases, the inspection results also provide evidence of unethical behaviour by partners of Big Four audit firms.

The consequences of the shortcomings of auditors during the crisis are not merely technical. For example, in many countries, auditors have the obligation to report to prudential authorities when there are risks threatening the going concern status of a financial institution. We now know that this reporting mechanism has not functioned well and that very few auditors informed the relevant authorities in a timely manner of upcoming going concern problems of financial institutions.

Another example from the first phase of the financial crisis, concerns the problems with the valuation and disclosure of complex financial instruments trading in illiquid markets. It took some time before the financial reporting on these illiquid financial instruments improved and met the right standards. I am personally convinced that if auditors had done a better job, investors would have had higher quality information on these financial instruments at an earlier stage and could have acted accordingly.

As I just stated, I fully support that the European Commission wants to reform the auditing sector. I will not express my views on all elements of the Commission's plan, but focus on two issues. The first one is the combination of audit and consulting. The second one is the supervision of auditing.

Combination of audit and consulting

As we all know, the debate on the pros and cons of combining audit and consulting has continued for decades. I will not attempt to summarize that debate, but just to share my current personal views on this important issue. Let me start by saying that it is essential to underline that the core function of an auditor is conducted to serve the public interest. The "real clients" of auditors are not the companies they audit, but the users of financial statements that need high quality information to make decisions. Of course, we all know that ultimately also a high quality audit is in the interest of companies. The question is to what extent it is possible to combine this public interest function with competing aggressively in a market for consulting services where, completely justified, client interests come first. This reminds me of a discussion I had with the leadership of a large audit firm network. On the question of how they responded to the crisis they stated that "… they stood ready to help their clients through this difficult period". While this sounds sympathetic, there is obviously a risk attached to this perspective. To achieve reliable financial reporting it is important that auditor's contribute to transparency and act in the interest of the users of audited financial statements both in good and bad times, even when it concerns the viability of the company and goes against the wishes of company management.

It must be difficult to combine in one organisation the public interest perspective needed for public auditing, and the strong focus on client needs required to successfully competing in the consulting market. The earlier shortcomings that I have discussed indicate that audit firms are indeed in too many cases not successful in combining these two perspectives in one organisation. Of course, the classic argument for combining audit and consulting is that the latter would help in better understanding complex clients and would improve the audit. However, I do not think that this is a credible argument. First, as I have indicated, most shortcomings found do not relate to complexity, but relate to insufficient attention in terms of time or level in the audit firm. Second, the financial sector is one of the biggest, if not the biggest, sector contributing to consulting revenues of audit firms. However, the assumed benefits of these very extensive consulting activities are not reflected in the quality of audits in the financial sector.

In terms of policy implications it is clear to me that we need to move to a much more restrictive regime regarding the provision of consulting services than the current quite flexible regime in many EU Member States. An important step would be to not allow the combination of audit and consulting at individual client level. While this would already be a very good step forward, and to some extent confirm a practice developed by some listed companies as a result of audit committee requirements, I do not think that this is sufficient. If we only take this step, there might be very negative effects for competition in the auditing sector. The reason being that if an audit firm extensively provides consulting services to many companies, and there is a ban on the combination of audit and consulting at client level, all these companies become less and less attractive as potential audit clients. Hence, I think another step that needs to be taken is to further restrict the list of non-audit services that can be provided by audit firms. This restrictive list would focus on those services which have a clear link and synergy with auditing, such as consulting services related to internal controls and assurance services for non-financial reports.

For many current non-audit services this clear link and synergy with auditing is now missing.

Let me stop here with my discussion of this topic: my preferred direction must be clear by now. As you are probably aware, the proposals are now discussed by the Commission, Council and Parliament and they need to make the final decision on this important issue.

Strengthening supervision

After introducing audit supervision in 2006, the European Commission now proposes to strengthen supervision and to further improve the single market with harmonised standards by requiring ESMA to issue guidance on issues like the supervision of audit committees or on conducting quality assurance reviews. In the current proposals ESMA is not going to supervise auditing directly; the competence for supervision remains with national regulators who have a close understanding of the local market and its drivers. The knowledge and the good practices developed by some national regulators are an important cornerstone to build a stronger and harmonised European supervisory framework.

Giving the EU a bigger role in the supervision of auditing is a very logical step. While the supervision of auditing is relatively new, and some national supervisors are still in their early years of existence, we need to add the EU level to supervisory issues. As the identity of the largest audit firms is the same in all 27 Member States, it is clear that supervision can become much more effective when benefiting from coordination at EU level. The largest networks themselves are organized at EU level and these organizational entities strongly affect the audits provided to clients at national level. Hence, supervisors will lag behind when they are only organized at national level. However, there are not only benefits to supervisors: the audit firm networks will also benefit from consistent supervision across the EU. Without coordination at EU level, they risk needing to respond to 27 different regulatory approaches.

It is clear that if ESMA were tasked with a mandate in the area of audit that it would work in tandem with a network of national audit regulators. ESMA is obviously already liaising with European securities regulators with responsibility for audit oversight. But audit supervision in a substantial number of Member States is not in the hands of the securities regulator. Therefore, to bring about further convergence in European audit supervisory practices, ESMA would need to extend the scope of cooperation to all European national audit regulators, both at the day to day technical level as well as at strategic level. Indeed, if the Commission, Parliament and

Council decide to task ESMA with a role in the area of audit supervision, national audit regulators should become much more involved in ESMA. While it is too early to discuss specific models, it is clear that this involvement needs to be reflected both in the work streams related to audit, but also in the governance relating to ESMA decisions on auditing issues.

Financial Reporting

Let me now move on to financial reporting. There are many issues I could speak about in-depth, for example how ESMA is strengthening the coordination of enforcement activities and helping to achieve consistent application of IFRS in Europe. But today, there are two broader issues which I would like to touch upon: International Public Accounting Standards (IPSAS) and IFRS as global accounting standards.

Public sector accounting

It might surprise you that a financial market regulator wants to address the issue of public sector accounting. However, from a capital market perspective, there are good reasons why public sector accounting needs our full attention. First, over the last few years some governments have been forced to play an important role in restoring financial stability through bailouts, takeovers and guarantees which are likely to result in new liabilities and other obligations for the government. Hence, governments have become even more important and more active capital markets participants then they already were. The importance of government debt for capital markets is confirmed by data from the International Monetary Fund (IMF) which shows that the sovereign debt holdings in the Eurozone area account for US$10.5 trillion.

Second, in capital markets, the difference between corporate debt and sovereign debt becomes more and more obsolete. We have learned the hard way that there is no zero-risk for sovereign debt. In response to this, while initially not sufficient, the transparency and financial reporting by listed companies holding sovereign debt has improved. However, the transparency of issuers of sovereign debt is lagging behind. There is currently a wide gap in the transparency obligations for sovereign debt issuers compared with corporate debt issuers. There are no common financial reporting standards for governments, and they are not subject to important European capital market legislation like the Prospectus Directive and the Transparency Directive. We all know that a high level of transparency is needed for effective market discipline and good governance, and good governance is now especially needed in the Euro-zone.

A recent IMF paper shows that in the past decade, accounting devices have been used by governments in and outside Europe to improve the appearance of their public finances. Hence, improving governmental financial reporting systems is important and I very much support that Eurostat, the European statistical office, is currently consulting stakeholders on the suitability of introducing International Public Sector Accounting Standards (IPSAS) for EU Member States. While not committing at this stage to the IPSAS standards, it is important for securities markets that we move to a set of high quality financial reporting standards for governments in the EU. ESMA will certainly participate in the debate on public sector accounting and will respond to the consultation on IPSAS.

I agree that a move to one international standard on governmental reporting might cause challenges in practice and that there would be a need for a sufficiently long transition period. However, I strongly believe that in the same way as IFRS have contributed a lot to high quality financial information published by listed companies, common public sector accounting standards would result in a more comparable level of transparency.

Global accounting standards

Growth in international trade, capital flows between countries, international investments, the increasing number of multinational firms and international bond and equity offers make companies, investors and regulators keen on a coherent approach to international regulation. Only strong international co-operation and regulation can serve as a backbone for the global economy.

If there is one area where we have made tremendous progress and where we have almost achieved the objective of global regulation, it is accounting standards. While it is a fact that the US is not yet there, the US authorities are committed to achieving a single set of high quality accounting standards. Of course, we fully respect the on-going debates in the US on the implications of IFRS adoption and we appreciate the complex combination of political and economic interests that has to be taken into account. However, while we are waiting I cannot help but think, but for how long?

To smooth the way for the potential adoption of IFRS, the IASB and FASB started an ambitious programme to bring about convergence between US GAAP and IFRS. This convergence programme has been a large step forward. The paper released by the US SEC staff in November

2011 confirmed that once the IASB/FASB memorandum of understanding is completed only a few areas of divergence remain. But we are not yet there, and as is usual in life, the final hurdles are the most difficult ones. The Boards are being challenged to find a common accounting standard on financial instruments – and in particular on the impairment model.

As you might know, currently both IFRS and US GAAP use an incurred loss model for recording impairments on financial assets. Under an incurred loss model, impairments are recognised only after a loss or trigger event is identified. Hence, it is a model which recognises losses to financial assets at a late stage and the financial crisis has shown what kind of situations that can lead to. There is now general consensus that early provisions should cover the losses a firm expects on the basis of statistical models. This so-called expected loss model has the benefit of recognizing loss estimates throughout the life of a loan and other financial assets accounted at amortised cost.

Though some might want to create that impression, making accounting standards is not a science (although making standards can clearly benefit from scientific input). Frequently there is not a perfect and single solution on how to account for a transaction. Accounting standards are a convention. The IASB and FASB have now consulted the market three times and liaise permanently with an expert advisory panel. One would think that all the information is now on the table and that a decision is paramount. However, the absence of a clear US SEC position, and even more regrettably, the lack of clarity on the timetable for their decision have not been to the advantage of the IASB.

Let me be clear with you: the IASB is the world's independent technical standard-setter acting in the public interest. Convergence should not be seen as a sort of bargaining game that should lead to political compromises. I would only like to refer to the demand from the G20 to the Boards to redouble their efforts to achieve a single set of high quality, global accounting standards. The IASB should, of course whilst respecting its independent standard-setting process, take the time it needs to progress on the future impairment model to come to a high quality standard.

The G20 request to redouble their efforts highlights not only the importance of the IASB's work for financial reporting but also in achieving global financial regulation. A single set of accounting standards are an important part, and example, of the G20 commitment to achieving better regulated financial markets in an international context. We should not lose our momentum and depart from that objective. I know that my American counterparts at the SEC believe in international co-operation, and I hope they will send a positive message to the market soon by having the courage to adopt IFRS.

To conclude

Ladies and gentlemen, thank you very much for your attention. I wish you an excellent and fruitful conference, with many ideas for further research and initiatives.