

Ms Rhonda Schnare  
Director, International Affairs  
Public Company Accounting Oversight Board (PCAOB)  
1666 K Street, NW  
Washington D.C. 20006

Brussels, 3 March 2008

**Re: Request for Comment on Proposed Policy Statement: Guidance Regarding Implementation of PCAOB Rule 4012**

Dear Ms Schnare,

On behalf of the **Federation of European Securities Exchanges** (FESE), I would like to express my support for the proposed policy statement that would give the PCAOB Board the possibility of placing full reliance on the inspections programs of qualified non-U.S. auditor oversight entities.

FESE represents the operators of the European “Regulated Markets” and other market segments, for not only stocks and bonds but also financial, energy and commodity derivatives. Through our 24 members, we represent close to 40 securities exchanges from all the countries of the European Union (EU) and Iceland, Norway, and Switzerland.

As Regulated Markets and as Issuers, we support **a system of reciprocity** (or “equivalence”) to reduce unnecessary duplication of work and to provide an incentive for other countries that do not currently have appropriate systems of audit regulation to develop them. Within a few months<sup>1</sup>, **the Statutory Audit Directive** will come into effect in Europe. This Directive sets out a framework of sound principles which EU Governments (“Member States”) must implement in their national legislation.

With regard to the cooperation with 3<sup>rd</sup> countries, the Statutory Audit Directive allows European Governments to rely on the findings of auditors incorporated in 3<sup>rd</sup> countries which have an oversight system in place without obliging these auditors to register in European jurisdictions. For Articles 45 to 47 – covering cooperation with non-EU jurisdictions on auditor oversight – the European Commission will bring forward **transitional measures**. The transitional period will apply to financial years between the date of application of the Directive and 1<sup>st</sup> January 2011. Transitional measures are an incentive for 3<sup>rd</sup> countries to develop a principle-based public oversight in line with the expectations of EU investors and stakeholders.

We understand from the PCAOB Proposed Policy Statement that the agreement would also include a provision for joint inspections to confirm the independence and rigor of the non-US system before full reliance can take effect<sup>2</sup>. The dialogue between the two oversight entities is welcome since some time should be allocated for the two systems to become familiar with one another. On the other hand, the idea of sending US experts with the task to assess the European public oversight systems might undermine the objective of establishing a partnership of trust across the Atlantic.

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<sup>1</sup> The Statutory Audit Directive (2006/43/EC) also known as 8<sup>th</sup> Company Law Directive was adopted in May 2006 and will come into effect on 29<sup>th</sup> June 2008.

<sup>2</sup> Page A1-10, foot note number 12.

Full reliance should be granted to all those European Governments that have fully implemented the Statutory Audit Directive. The system of recognition between the US and the EU should start, on a reciprocal basis and simultaneously, as of 1<sup>st</sup> January 2011.

On a separate but linked matter, I would like to stress the importance of a principle-based approach to auditor oversight. One of the most appreciated advantages of the EU approach to auditor oversight is that it is principle-based. In past responses to public consultations of the European Commission, FESE has stressed the importance of this feature and asked the Commission to consider transitional measures for 3<sup>rd</sup> countries, as mentioned above, to allow them to develop a principle-based public oversight. This was also the position of almost the totality of European stakeholders, which were united in wanting to avoid excessive and burdensome requirements that would make EU markets less attractive to 3<sup>rd</sup> country issuers. As an industry, we believe that the EU has struck the right balance in this matter. We would consider it equally important for the PCAOB to establish a sufficiently principle-based approach to achieve the underlying objectives of auditor oversight and to maintain the openness of the US market to non-US issuers. In this regard, we find the list of **criteria** set in the Proposed Policy Statement excessively detailed especially if they are to be applied in their entirety.

I thank you for the opportunity to express our views on this subject.

Yours sincerely,



Judith Hardt

Secretary General

## Annex I - Answers to PCAOB questions

1. If a non-U.S. auditor oversight entity meets the essential criteria set forth in the proposed Policy Statement, are there reasons why the Board should not increase its level of reliance on inspections conducted by such an independent non-U.S. oversight entity? What are the benefits and costs of full reliance?

We believe that if a non-U.S. auditor oversight entity meets the essential criteria set forth in the proposed Policy Statement, the Board should be able to rely on inspections conducted by such an independent non-U.S. oversight entity. The Statutory Audit Directive 2006/43/EC sets out a framework of sound principles which EU Governments (Member States) must implement in their national legislation. Article 32 sets the principles of public oversight for EU Member States. It gives to the national systems of public oversight the right to conduct investigations in relation to statutory auditors and audit firms and to take appropriate action<sup>3</sup>. Article 32<sup>4</sup> also stresses that the system of public oversight must be transparent. This includes the publication of annual work programmes and activity reports. Finally, it foresees that the system of public oversight is adequately funded<sup>5</sup>. Member States will be responsible for the funding to be secure and free from any undue influence by statutory auditors or audit firms.

It is difficult for us to give any figures on benefits/costs related to full reliance. US recognition of EU oversight entities would have significant cost-saving implications for EU audit firms and thus also for EU firms that are listed in the US. Cost savings for US audit firms and thus US companies listed in the EU will also be available as of 2011, if the US oversight entities are considered equivalent.

2. Are the essential criteria set forth in section III.C. of the Policy Statement appropriate? Are there additional factors that should be considered? Should the criteria be modified in any way?

The criteria set forth in Section III.C not only very thorough but, we believe, excessively detailed. We do not think that additional factors should be considered; moreover, we think that the list would benefit from being shortened and made higher level.

3. Would meeting the essential criteria set forth in section III.C. – along with a satisfactory on-site assessment by the Board of the entity's inspection practices through a period of joint inspections – provide sufficient assurance that the oversight entity's inspection program merits full reliance?

We believe that it would in the case of firms audited by EU audit firms. With the Statutory Audit Directive, the EU has introduced measures that will ensure the robustness of audit oversight systems; therefore the US should feel confident in placing 'full reliance' on EU systems.

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<sup>3</sup> Article 32 (5).

<sup>4</sup> Article 32 (6).

<sup>5</sup> Article 32 (7).

4. The Board has carefully balanced the requirements of the Act and those of non-U.S. jurisdictions (including laws related to data protection, confidentiality and other important legal requirements). Are there additional differences between U.S. and non-U.S. auditor oversight regimes that should be considered? Would those differences suggest greater or less reliance?

No, we do not believe that there are additional differences to be considered.

5. As described in section III.B. of the Policy Statement, does the Policy Statement establish the appropriate nature and level of reliance?

Yes, we believe that it does.

6. Will the proposed approach adequately protect the interests of investors in U.S. issuers audited by non-U.S. audit firms?

Yes, we are confident that the proposed approach will adequately protect the interest of investors in US issuers audited by non-US audit firms.