

IFAC Press Release Apr 03, 2014

New York, New York

European Audit Legislation Creates Potential for Regulatory Divergence

The recent [European Parliament vote on statutory audit legislation](#) marks the latest stage of the European audit reform process and concludes nearly four years of discussion and debate.

As the International Federation of Accountants (IFAC) has stated many times, we believe a primary objective of audit regulatory reform should be to further enhance audit quality, and ultimately the quality of financial reporting. In a highly interconnected global economy, we see regulatory convergence across jurisdictions as a critical part of meeting this objective.

As a result, we welcome aspects of the European reforms that adopt a globally consistent approach. However, other aspects of the legislation—perhaps ones introduced in order to ensure its successful passage—promote regulatory divergence and fragmentation.

“We strongly support Europe’s step toward adopting International Standards on Auditing. These high-quality international auditing standards are globally accepted, and are currently being used or adopted in over 90 jurisdictions around the world, including many countries in Europe,” said Fayeze Choudhury, chief executive officer of IFAC.

“However, we are concerned that other parts of the legislation provide individual member states with options that will create a patchwork of regulation across the union. Not only will Europe be out of step with other major jurisdictions, such as the US and Canada, but member states will potentially be out of step with each other. Just a few years ago, the oft-cited mantra was ‘global problems require global solutions.’ The stakes are high and the rest of the world will certainly be focused on what happens in Europe. Failure to decide a consistent approach to audit regulation within Europe does not auger well for the chances of agreement among the global community.”

In January, IFAC [highlighted](#) the impact of the failure of achieving global regulatory convergence: stifled business confidence, economic stability, and ambitions for a sustainable recovery. In areas including auditor independence—in particular, mandatory audit firm rotation and the provision of non-audit services—the European legislation is unclear and ambiguous, and permits differences between its member states. In addition, it differs from legislation in the many other jurisdictions—and yet will impose regulatory requirements upon these jurisdictions.