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*****I**
REPORT

on the proposal for a regulation of the European Parliament and of the Council on specific requirements regarding statutory audit of public-interest entities (COM(2011)0779 – C7-0470/2011 – 2011/0359(COD))

Committee on Legal Affairs

Rapporteur: Sajjad Karim

Rapporteur for the opinion(*):
Kay Swinburne, Committee on Economic and Monetary Affairs

(*) Associated committee – Rule 50 of the Rules of Procedure

Symbols for procedures

- * Consultation procedure
- *** Consent procedure
- ***I Ordinary legislative procedure (first reading)
- ***II Ordinary legislative procedure (second reading)
- ***III Ordinary legislative procedure (third reading)

(The type of procedure depends on the legal basis proposed by the draft act.)

Amendments to a draft act

In amendments by Parliament, amendments to draft acts are highlighted in ***bold italics***. Highlighting in *normal italics* is an indication for the relevant departments showing parts of the draft act which may require correction when the final text is prepared – for instance, obvious errors or omissions in a language version. Suggested corrections of this kind are subject to the agreement of the departments concerned.

The heading for any amendment to an existing act that the draft act seeks to amend includes a third line identifying the existing act and a fourth line identifying the provision in that act that Parliament wishes to amend. Passages in an existing act that Parliament wishes to amend, but that the draft act has left unchanged, are highlighted in **bold**. Any deletions that Parliament wishes to make in such passages are indicated thus: [...].

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(*) Associated committee – Rule 50 of the Rules of Procedure

DRAFT EUROPEAN PARLIAMENT LEGISLATIVE RESOLUTION

on the proposal for a regulation of the European Parliament and of the Council on specific requirements regarding statutory audit of public-interest entities (COM(2011)0779 – C7-0470/2011 – 2011/0359(COD))

(Ordinary legislative procedure: first reading)

The European Parliament,

- having regard to the Commission proposal to Parliament and the Council (COM(2011)0779),
 - having regard to Article 294(2) and Article 114 of the Treaty on the Functioning of the European Union, pursuant to which the Commission submitted the proposal to Parliament (C7-0470/2011),
 - having regard to Article 294(3) of the Treaty on the Functioning of the European Union,
 - having regard to the reasoned opinions submitted, within the framework of Protocol No 2 on the application of the principles of subsidiarity and proportionality, by the Slovak Parliament and the Swedish Parliament, asserting that the draft legislative act does not comply with the principle of subsidiarity,
 - having regard to the opinion of the European Economic and Social Committee of 26 April 2012¹,
 - having regard to Rule 55 of its Rules of Procedure,
 - having regard to the report of the Committee on Legal Affairs and the opinions of the Committee on Economic and Monetary Affairs and the Committee on Industry, Research and Energy (A7-0177/2013),
1. Adopts its position at first reading hereinafter set out;
 2. Calls on the Commission to refer the matter to Parliament again if it intends to amend its proposal substantially or replace it with another text;
 3. Instructs its President to forward its position to the Council, the Commission and the national parliaments.

Amendment 1

Proposal for a regulation **Recital 2**

¹ OJ C 191, 29.6.2012, p. 61.

(2) Union legislation requires that the financial statements, comprising annual accounts or consolidated accounts, of credit institutions, insurance undertakings, issuers of securities admitted to trading on a regulated market, payment institutions, UCITS, electronic money institutions and alternative investment funds be audited by one or more persons entitled to carry out such audits in accordance with Union law, namely: Article 1(1) of Council Directive 86/635/EEC of 8 December 1986 on the annual accounts and consolidated accounts of banks and other financial institutions, Article 1(1) of Council Directive 91/674/EEC of 19 December 1991 on the annual accounts and consolidated accounts of insurance undertakings, Article 4(4) of Directive 2004/109/EC of the European Parliament and of the Council of 15 December 2004 on the harmonisation of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market and amending Directive 2001/34/EC, Article 15(2) of Directive 2007/64/EC of the European Parliament and of the Council of 13 November 2007 on payment services in the internal market amending Directives 97/7/EC, 2002/65/EC, 2005/60/EC and 2006/48/EC and repealing Directive 97/5/EC, Article 73 of Directive 2009/65/EC of the European Parliament and of the Council of 13 July 2009 on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS), Article 3(1) of Directive 2009/110/EC of the European Parliament and of the Council of 16 September 2009 on the taking up, pursuit and prudential supervision of the business of electronic

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money institutions amending Directives 2005/60/EC and 2006/48/EC and repealing Directive 2000/46/EC, and Article 22(3) of Directive 2011/61/EC of the European Parliament and of the Council of 8 June 2011 on Alternative Investment Fund Managers and amending Directives 2003/41/EC and 2009/65/EC and Regulations (EC) No 1060/2009 and (EU) No 1095/2010. Moreover, Article 4(1)(1) of Directive 2004/39/EC of the European Parliament and of the Council of 21 April 2004 on markets in financial instruments amending Council Directives 85/611/EEC and 93/6/EEC and Directive 2000/12/EC of the European Parliament and of the Council and repealing Council Directive 93/22/EEC also requires that the annual financial statements of investment firms be audited when the Fourth Council Directive 78/660/EEC of 25 July 1978 on the annual accounts of certain types of companies or the Seventh Council Directive 83/349/EEC of 13 June 1983 on consolidated accounts are not applicable.

Amendment 2

Proposal for a regulation

Recital 4

Text proposed by the Commission

(4) During the recent financial crisis, numerous banks revealed huge losses from 2007 to 2009 on the position they had held both on and off balance sheet. This raised not only the question of how auditors could give unqualified audit reports to their clients for those periods but also about the suitability and adequacy of the current legislative framework. The Commission published on 13 October 2010 a Green Paper on Audit Policy: Lessons from the Crisis, which launched a wide public consultation, in the

Amendment

(4) The Commission published on 13 October 2010 a Green Paper on Audit Policy: Lessons from the Crisis, which launched a wide public consultation, in the general context of financial market regulatory reform, on the role and scope of audit and how the audit function could be enhanced in order to contribute to increased financial stability. It resulted from the public consultation that the rules of Directive 2006/43/EC regarding the carrying out of the statutory audit of annual and consolidated accounts of public-

general context of financial market regulatory reform, on the role and scope of audit and how the audit function could be enhanced in order to contribute to increased financial stability. It resulted from the public consultation that the rules of Directive 2006/43/EC regarding the carrying out of the statutory audit of annual and consolidated accounts of public-interest entities could be *substantially* improved. The European Parliament issued an own initiative report on the Green Paper on 13 September 2011. The European Economic and Social Committee also adopted a report on that Green Paper on 16 June 2011.

interest entities could be improved. The European Parliament issued an own-initiative report on the Green Paper on 13 September 2011. The European Economic and Social Committee also adopted a report on that Green Paper on 16 June 2011.

Amendment 3

Proposal for a regulation Recital 6

Text proposed by the Commission

(6) The financial sector is evolving and new categories of financial institutions **are created by Union law**. The importance of new entities and activities outside the **regular** banking system is growing and their impact on financial stability has become greater. Therefore, it is appropriate that the definition of public-interest entity also encompasses other financial institutions and entities such as investment firms, payment institutions, **undertakings for collective investments in transferable securities (UCITS)**, electronic money institutions **and alternative investment funds**.

Amendment

(6) The financial sector is evolving and new categories of financial institutions **have developed in response to regulatory and technological developments**. The importance of new entities and activities outside the **traditional** banking system **that were previously unregulated at Union level** is growing and their impact on financial stability has become greater. Therefore, it is appropriate that the definition of public-interest entity also encompasses other financial institutions and entities such as investment firms, payment institutions **and** electronic money institutions. **Member States should consequently be able to designate other entities as public-interest entities, for instance entities that are of significant public relevance because of the nature of their business, their size or the number of their employees.**

Amendment 4

Proposal for a regulation Recital 7 a (new)

Text proposed by the Commission

Amendment

(7a) Where a cooperative within the meaning of point 14 of Article 2 of Directive 2006/43/EC, or a similar entity as referred to in Article 45 of Directive 86/635/EEC, a subsidiary or a legal successor, or a savings bank or similar entity as referred to in Article 45 of Directive 86/635/EEC, is required or permitted under national provisions to be a member of a non-profit-making auditing entity, an objective, reasonable and informed party would not conclude that the membership-based relationship compromises the statutory auditor's independence, provided that, when such an auditing entity is conducting a statutory audit of one of its members, the principles of independence laid down in Chapter I of Title II are applied to the auditors carrying out the audit and to those persons who may be in a position to influence the statutory audit.

Justification

Alignment with recital 11 of Directive 2006/43/EC

Amendment 5

Proposal for a regulation Recital 8

Text proposed by the Commission

Amendment

(8) Adequate internal organisation of statutory auditors and audit firms should contribute to preventing any threats to their independence. Thus, owners or shareholders of an audit firm, as well as those managing it, should not intervene in

deleted

the carrying out of a statutory audit in any way which jeopardises the independence and objectivity of the statutory auditor who carries out the statutory audit on behalf of the audit firm. Additionally, statutory auditors and audit firms should establish appropriate internal policies and procedures in relation to employees and other persons involved in the statutory audit activity within their organisations in order to ensure compliance with their statutory obligations. Those policies and procedures should in particular seek to prevent and address any threats to independence and ensure the quality, integrity and thoroughness of the statutory audit. Those policies and procedures should be proportionate in view of the scale and complexity of the business of the statutory auditor or audit firm.

Recital 8 is moved to Directive 2006/43/EC.

Amendment 6

Proposal for a regulation

Recital 9

Text proposed by the Commission

Amendment

(9) Auditors, audit firms and their employees should in particular refrain from carrying out the statutory audit of an entity if they have a business interest or financial interest in it and from engaging on trading in financial instruments issued, guaranteed or otherwise supported by an audited entity, other than holdings in diversified collective investment schemes. The statutory auditor or audit firm should abstain from the internal decision-making processes of the audited entity. Statutory auditors or their employees should be prevented from taking up duties in the audited entity at

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managerial or board level until an appropriate period has elapsed since the end of the audit engagement.

Recital 9 is moved to Directive 2006/43/EC.

Amendment 7

Proposal for a regulation Recital 10

Text proposed by the Commission

(10) The level of fees received from one audited entity and the structure of fees can also threaten the independence of a statutory auditor or audit firm. Thus, it is important to ensure that audit fees are not based on any form of contingency and that, when the audit fees from a single client are significant, a specific procedure is established to secure the quality of the audit. *If the dependence on a single client is excessive, the statutory auditor or the audit firm should refrain from undertaking the statutory audit in question.*

Amendment

(10) The level of fees received from one audited entity and the structure of fees can also threaten the independence of a statutory auditor or audit firm. Thus, it is important to ensure that audit fees are not based on any form of contingency and that, when the audit fees from a single client are significant, a specific procedure is established to secure the quality of the audit.

Amendment 8

Proposal for a regulation Recital 11

Text proposed by the Commission

(11) The provision of services other than statutory audit to audited entities by statutory auditors, audit firms or members of their networks may compromise their independence. Therefore, it is appropriate to require the statutory auditor, the audit firm and the members of their network not to provide non-audit services to their audited entities. *The provision of non-audit services by an audit firm to a company would prevent that audit firm from*

Amendment

(11) The provision of services other than statutory audit to audited entities by statutory auditors, audit firms or members of their networks may compromise their independence. Therefore, it is appropriate to require the statutory auditor, the audit firm and the members of their network not to provide *certain* non-audit services to their audited entities. *A statutory auditor or audit firm should be able to provide assurance services, tax advisory services*

carrying out statutory audit of that company, thus resulting in a reduction of the audit firms available to provide statutory audit, in particular with regard to the audit of large public-interest entities where the market is concentrated. As a result, in order to secure that a minimum number of audit firms is able to provide audit services to large public-interest entities, it is appropriate to request that audit firms of significant dimension focus their professional activity on the carrying out of statutory audit and are not allowed to undertake other services unconnected to their statutory audit function such as consultancy or advisory services.

and other non-audit services other than prohibited non-audit services where the provision of those services has been approved in advance by the audit committee and the statutory auditor or audit firm is itself satisfied that provision of those services does not pose a threat to the independence of the statutory auditor or audit firm that cannot be reduced to an acceptable level by the application of safeguards.

Amendment 9

Proposal for a regulation

Recital 12

Text proposed by the Commission

(12) With a view to avoiding conflicts of interest it is important that the statutory auditor or the audit firm, before accepting or continuing an engagement for a statutory audit of a public-interest entity, assesses whether the independence requirements are met, and in particular whether any threats to independence arise as a result of the relationship with that entity. ***In order to maintain this independence, it is also important that they keep records of all threats to their independence and that of their employees and other persons involved in the statutory audit process, as well as the safeguards applied to mitigate those threats.*** Moreover, where the threats to their independence, even after having applied safeguards to mitigate those threats, are too significant, they should resign or abstain from the audit engagement. The statutory auditor or the

Amendment

(12) With a view to avoiding conflicts of interest it is important that the statutory auditor or the audit firm, before accepting or continuing an engagement for a statutory audit of a public-interest entity, assesses whether the independence requirements are met, and in particular whether any threats to independence arise as a result of the relationship with that entity. Moreover, where the threats to their independence, even after having applied safeguards to mitigate those threats, are too significant, they should resign or abstain from the audit engagement. The statutory auditor or the audit firm should confirm annually to the audit committee of the audited entity their independence and discuss with such committee any threat to their independence as well as the safeguards applied to mitigate those threats.

audit firm should confirm annually to the audit committee of the audited entity their independence and discuss with such committee any threat to their independence as well as the safeguards applied to mitigate those threats.

Amendment 10

Proposal for a regulation Recital 14

Text proposed by the Commission

Amendment

(14) It is important that statutory auditors and audit firms respect the rights to private life and data protection of of their clients. They should therefore be bound by strict rules on confidentiality and professional secrecy which, however, should not impede the proper enforcement of this Regulation or the cooperation with the group auditor during the performance of the audit of consolidated financial statements when the parent undertaking is in a third country, provided that Directive 95/46/EC is complied with. However, such rules would not allow a statutory auditor or audit firm to cooperate with third country authorities outside the cooperation channels foreseen in Chapter XI of Directive 2006/43/EC. Those confidentiality rules should also apply to any statutory auditor or audit firm which has ceased to be involved in a specific audit task.

deleted

Recital 14 is moved to Directive 2006/43/EC.

Amendment 11

Proposal for a regulation Recital 15

Text proposed by the Commission

Amendment

(15) The statutory audit results in an opinion on the truth and fairness of the financial statements of the audited entities. Stakeholders, however, might to be unaware of the limitations of an audit (materiality, sampling techniques, role of the auditor in the detection of fraud and the responsibility of managers), which can lead to an expectation gap. In order to reduce such gap, it is important to provide more clarity on what the scope of the statutory audit is. ***deleted***

Recital 15 is moved to Directive 2006/43/EC.

Amendment 12

Proposal for a regulation Recital 16

Text proposed by the Commission

Amendment

(16) Whilst the primary responsibility for delivering financial information should rest with the management of the audited entities, auditors play a role by actively challenging management from a user's perspective. In order to improve audit quality, it is therefore important that the professional scepticism exercised by auditors vis-à-vis the audited entity is reinforced. Auditors should recognise the possibility that a material misstatement due to fraud or error could exist, notwithstanding the auditor's past experience of the honesty and integrity of the audited entity's management. Securing audit quality should be the main criterion to organise the audit work and to allocate the necessary resources to the tasks. The integrity of the statutory ***deleted***

auditor, audit firm and their staff is essential to ensure the public confidence in statutory audits and financial markets. Therefore, any incident that may have serious consequences for the integrity of the statutory audit activities should be appropriately managed. The statutory auditor or the audit firm should appropriately document the audit work.

Recital 16 is moved to Directive 2006/43/EC.

Amendment 13

Proposal for a regulation

Recital 17

Text proposed by the Commission

Amendment

(17) In the case of consolidated financial statements, it is important that there is a clear definition of responsibilities of the statutory auditors who audit different entities of the group. For this purpose, the group auditor should bear full responsibility for the audit report. ***deleted***

Recital 17 is moved to Directive 2006/43/EC.

Amendment 14

Proposal for a regulation

Recital 18

Text proposed by the Commission

Amendment

(18) A sound internal quality control review of the work carried out in each statutory audit engagement should be conducive to high audit quality. Therefore, the statutory auditor or the audit firm should not issue his, her or its audit report until such an internal quality control review has been completed. ***deleted***

Recital 18 is moved to Directive 2006/43/EC.

Amendment 15

Proposal for a regulation Recital 19

Text proposed by the Commission

(19) The results of the statutory audit should be presented to the stakeholders in the audit report. In order to increase the confidence of stakeholders in the financial statements of the audited entity, it is particularly important that the audit report is well-founded and solidly substantiated and its content expanded to include additional information specific to the audit carried out. ***The audit report should in particular include sufficient information on the methodology used in the audit, especially how much of the balance sheet has been directly verified and how much has been based on system and compliance testing, on the levels of materiality applied to perform the audit, on the key areas of risk of material misstatements of the annual and consolidated financial statements, on whether the statutory audit was designed to detect fraud and, in the event of a qualified or adverse opinion or a disclaimer of opinion, on the reasons for such decision.***

Amendment 16

Proposal for a regulation Recital 20

Text proposed by the Commission

(20) The value of statutory audit for the audited entity would be particularly enhanced if the communication between the statutory auditor or the audit firm, on the one hand, and the audit committee, on the other hand, was reinforced. Further to the regular dialogue during the carrying out of the statutory audit, it is important that

Amendment

(19) The results of the statutory audit should be presented to the stakeholders in the audit report. In order to increase the confidence of stakeholders in the financial statements of the audited entity, it is particularly important that the audit report is well-founded and solidly substantiated and its content expanded to include additional information specific to the audit carried out.

Amendment

(20) The value of statutory audit for the audited entity would be particularly enhanced if the communication between the statutory auditor or the audit firm, on the one hand, and the audit committee, on the other hand, was reinforced. Further to the regular dialogue during the carrying out of the statutory audit, it is important that

the statutory auditor or the audit firm submits to the audit committee an additional and more detailed report on the results of the statutory audit. ***It should be possible to make such additional detailed reports available to the supervisors of public-interest entities, but not to the public.***

the statutory auditor or the audit firm submits to the audit committee an additional and more detailed report on the results of the statutory audit.

Amendment 17

Proposal for a regulation Recital 21

Text proposed by the Commission

(21) Statutory auditors or audit firms already provide ***supervisors of*** public-interest entities with information on facts or decisions which could constitute a breach of the rules governing the activities of the audited entity or the impairment of the continuous functioning of the audited entity. Supervisory tasks would also be facilitated if supervisors of credit and financial institutions ***were required to establish a regular dialogue with*** their statutory auditors and audit firms.

Amendment

(21) Statutory auditors or audit firms already provide ***competent authorities supervising*** public-interest entities with information on facts or decisions which could constitute a breach of the rules governing the activities of the audited entity or the impairment of the continuous functioning of the audited entity. Supervisory tasks would also be facilitated if supervisors of credit and financial institutions ***and*** their statutory auditors and audit firms ***were required to establish a regular dialogue with each other.***

Amendment 18

Proposal for a regulation Recital 22

Text proposed by the Commission

(22) In order to increase the confidence in and the liability of the statutory auditors and audit firms carrying out the statutory audit of public-interest entities, it is important that the transparency reporting by statutory auditors and audit firms is increased. Therefore, statutory auditors and audit firms should be required to disclose audited financial information, showing in

Amendment

(22) In order to increase the confidence in and the liability of the statutory auditors and audit firms carrying out the statutory audit of public-interest entities, it is important that the transparency reporting by statutory auditors and audit firms is increased. Therefore, statutory auditors and audit firms should be required to disclose audited financial information, showing in

particular their total turnover divided into audit fees paid by public-interest entities, audit fees paid by other entities and fees for other services. They should also disclose financial information at the level of the network to which they belong. ***The transparency reports of audit firms should be completed by a statement on corporate governance with a view to showing whether the audit firm maintains arrangements for sound corporate governance.*** Additional supplementary information on audit fees should be provided to competent authorities with a view to facilitating their supervisory tasks.

particular their total turnover divided into audit fees paid by public-interest entities, audit fees paid by other entities and fees for other services. They should also disclose financial information at the level of the network to which they belong. Additional supplementary information on audit fees should be provided to competent authorities with a view to facilitating their supervisory tasks.

Amendment 19

Proposal for a regulation Recital 23

Text proposed by the Commission

(23) Audit committees, or bodies performing an equivalent function within the audited entity, have a decisive role in contributing to high-quality statutory audit. It is particularly important to reinforce the independence and technical competence of the audit committee by requiring that a majority of its members is independent and that at least one member of the committee has competence in auditing and another one in auditing and/or accounting. The Commission Recommendation of 15 February 2005 on the role of non-executive or supervisory directors of listed companies and on the committees of the (supervisory) board sets out how audit committees should be established and function. Considering, however, the dimension of boards in companies with reduced market capitalisation and in small and medium-sized public-interest entities, it would be appropriate that the functions assigned to the audit committee for those entities, or

Amendment

deleted

to a body performing equivalent functions within the audited entity, may be performed by the administrative or supervisory body as a whole. Public-interest entities which are UCITS or alternative investment funds should also be exempted from the obligation to have an audit committee. This exemption takes into account the fact that where those funds function merely for the purpose of pooling assets, the employment of an audit committee is not appropriate. UCITS and alternative investments funds, as well as their management companies, operate in a strictly defined regulatory environment and are subject to specific governance mechanisms such as controls exercised by their depositary.

Recital 23 is moved to Recital 11 a (new) of Directive 2006/43/EC.

Amendment 20

Proposal for a regulation

Recital 24

Text proposed by the Commission

(24) It is *also* important that the role of the audit committee in the selection of a new statutory auditor or audit firm be reinforced, for the benefit of a more informed decision of the general meeting of shareholders or members of the audited entity. Hence, when making a proposal to the general meeting, the board should explain whether it follows the recommendation of the audit committee and, if not, why. The recommendation of the audit committee should include at least two possible choices for the audit engagement and a *duly justified* preference for one of them, so that the general meeting can make a real choice. In order to provide a fair and proper justification in its recommendation, the audit committee should use the results of a mandatory

Amendment

(24) It is important that the role of the audit committee in the selection of a new statutory auditor or audit firm be reinforced, for the benefit of a more informed decision of the general meeting of shareholders or members of the audited entity. Hence, when making a proposal to the general meeting, the board should explain whether it follows the recommendation of the audit committee and, if not, why. The recommendation of the audit committee should include at least two possible choices for the audit engagement and a preference for one of them, so that the general meeting can make a real choice. In order to provide a fair and proper justification in its recommendation, the audit committee should use the results of a mandatory selection procedure

selection procedure organised by the audited entity, under the responsibility of the audit committee. In such selection procedure, the audited entity should invite statutory auditors or audit firms, including smaller ones, to present proposals for the audit engagement. Tender documents should contain transparent and non-discriminatory selection criteria to be used for the evaluation of proposals. Considering, however, that this selection procedure could entail disproportionate costs for companies with reduced market capitalisation or small and medium-sized public-interest entities having regard to their dimension, it is appropriate to relieve such entities from this obligation.

organised by the audited entity, under the responsibility of the audit committee. In such selection procedure, the audited entity should invite statutory auditors or audit firms, including smaller ones, to present proposals for the audit engagement. Tender documents should contain transparent and non-discriminatory selection criteria to be used for the evaluation of proposals. Considering, however, that this selection procedure could entail disproportionate costs for companies with reduced market capitalisation or small and medium-sized public-interest entities having regard to their dimension, it is appropriate to relieve such entities from this obligation.

Amendment 21

Proposal for a regulation

Recital 25

Text proposed by the Commission

(25) The right of the general meeting of shareholders or members of the audited entity to choose the statutory auditor or the audit firm would be of no value if the audited entity were to enter into a contract with a third party providing for a restriction of such choice. Therefore any contractual clause entered into by the audited entity with a third party regarding the appointment or restricting the choice *of a* particular *auditor* or audit *firm* should be considered null and void.

Amendment

(25) The right of the general meeting of shareholders or members of the audited entity to choose the statutory auditor or the audit firm would be of no value if the audited entity were to enter into a contract with a third party providing for a restriction of such choice. Therefore any contractual clause entered into by the audited entity with a third party restricting the choice *to* particular *auditors* or audit *firms* should be considered null and void.

Amendment 22

Proposal for a regulation

Recital 26

Text proposed by the Commission

Amendment

(26) The appointment of more than one statutory auditor or audit firm by the public-interest entities would reinforce the professional scepticism and contribute to increasing audit quality. Also, this measure combined with the presence of smaller audit firms would facilitate the development of the capacity of such firms, thus contributing to increasing the choice of statutory auditors and audit firms for public-interest entities. Therefore, the latter should be encouraged and incentivised to appoint more than one statutory auditor or audit firm to carry out the statutory audit.

deleted

Amendment 23

Proposal for a regulation

Recital 27

Text proposed by the Commission

Amendment

(27) In order to address the familiarity threat and therefore reinforce the independence of auditors and audit firms, it is important to establish a maximum duration of the audit engagement of a statutory auditor or audit firm in a particular audited entity. An appropriate gradual rotation mechanism should also be established with regard to the most senior personnel involved in the statutory audit, including the key audit partners carrying out the statutory audit on behalf of the audit firm. It is also important to provide for an appropriate period within which such statutory auditor or audit firm may not carry out the statutory audit of the same entity. In order to ensure a smooth transition, the former auditor should transfer a handover file with relevant information to the incoming auditor.

(27) In order to address the familiarity threat and therefore reinforce the independence of auditors and audit firms, gradual rotation should be ensured with regard to the most senior personnel involved in the statutory audit, including the key audit partners carrying out the statutory audit on behalf of the audit firm.

Amendment 24

Proposal for a regulation Recital 27 a (new)

Text proposed by the Commission

Amendment

(27a) Regular and open mandatory tendering, in respect of both audit and non-audit services, provides small and medium-sized companies with an opportunity to present their services and skills in a transparent process and to increase their visibility as service providers for public-interest entities. Tendering strongly encourages audit committees to consider a broader range of prospective providers of audit and non-audit services. The purpose of the tendering provisions laid down in this Regulation is not, however, to force a rotation of non-audit services providers and auditors. Repeated re-appointment is thus explicitly allowed if the conditions set out in those provisions are fully met.

Amendment 25

Proposal for a regulation Recital 29

Text proposed by the Commission

Amendment

(29) In order to ensure a high level of investor and consumer confidence in the internal market by avoiding conflicts of interests, statutory auditors and audit firms should be subject to appropriate supervision by competent authorities which are independent from the audit profession and which have adequate capacity, expertise and resources. The national competent authorities should have the necessary powers to undertake their supervisory tasks, including the capacity to

(29) In order to ensure a high level of investor and consumer confidence in the internal market by avoiding conflicts of interests, statutory auditors and audit firms should be subject to appropriate supervision by competent authorities which are independent from the audit profession and which have adequate capacity, expertise and resources. The national competent authorities should have the necessary powers to undertake their supervisory tasks, including the capacity to

access documents, demand information from any person and carry out inspections. They should specialize in the supervision of **financial markets**, of compliance with financial reporting obligations or in statutory audit oversight. However, it should be possible that the supervision of the compliance with the obligations set on public-interest entities is carried out by the competent authorities responsible for the supervision of those entities. The funding of the competent authorities should be free from any possible undue influence by statutory auditors or audit firms.

access documents, demand information from any person and carry out inspections. They should specialize in the supervision of compliance with financial reporting obligations or in statutory audit oversight. However, it should be possible that the supervision of the compliance with the obligations set on public-interest entities is carried out by the competent authorities responsible for the supervision of those entities. The funding of the competent authorities should be free from any possible undue influence by statutory auditors or audit firms.

Amendment 26

Proposal for a regulation Recital 32

Text proposed by the Commission

(32) Investigations help to detect, prevent and correct inadequate carrying out of the statutory audit of public-interest entities. Therefore, competent authorities should be empowered to undertake investigations of statutory auditors and audit firms.

Amendment

(32) Investigations help to detect, prevent and correct inadequate carrying out of the statutory audit of public-interest entities. Therefore, competent authorities should be empowered to undertake investigations of statutory auditors and audit firms. ***When carrying out an investigation, they should be able to collaborate with the professional bodies of the auditors.***

Amendment 27

Proposal for a regulation Recital 33

Text proposed by the Commission

(33) The market for the provision of statutory audit services to public-interest entities evolves over time. It is therefore necessary that competent authorities monitor the developments in the market, particularly as regards ***possible limited choice of auditor and the risks that arise***

Amendment

(33) The market for the provision of statutory audit services to public-interest entities evolves over time. It is therefore necessary that competent authorities monitor the developments in the market, particularly as regards ***the effects of the provision of assurance services, tax***

from high market concentration.

advisory services and other to public-interest entity clients on confidence in the quality of audit work, the independence of auditors and the role of audit committees in monitoring the quality of audit work and safeguarding the independence of auditors.

Amendment 28

Proposal for a regulation Recital 36 a (new)

Text proposed by the Commission

Amendment

(36a) This Regulation ensures that Union-wide cooperation between competent authorities in respect of the activities of statutory auditors and audit firms that audit the financial statements of public-interest entities takes place and is coordinated by ESMA. Thus ESMA will take over the Union-wide cooperation mechanism that has hitherto operated under the aegis of the European Group of Auditors' Oversight Bodies (EGAOB), an expert group established by Decision 2005/909/EC¹ and chaired by the Commission, through the creation of a permanent internal committee composed of the competent authorities designated to carry out the tasks provided for in this Regulation. The competent authorities referred to in Article 32 of Directive 2006/43/EC, which have hitherto constituted the EGAOB, are full members of the said permanent internal committee. Thus, the valuable work of the EGAOB will be continued within the permanent internal committee. Public oversight should continue to be carried out at national level.

¹ *Commission Decision 2005/909/EC of 14 December 2005 setting up a group of experts to advise the Commission and to facilitate cooperation between public*

oversight systems for statutory auditors and audit firms (OJ L 329, 16.12.2005, p. 38).

Amendment 29

Proposal for a regulation

Recital 38

Text proposed by the Commission

(38) Recognition of the aptitude of statutory auditors and audit firms to perform statutory audits of public-interest entities should facilitate the access of auditors and firms to other clients. Therefore, it is important to provide for a Quality Certificate of European dimension which should be developed by ESMA. National competent authorities should be involved in the examination of the applications for the certificate.

Amendment

deleted

Amendment 30

Proposal for a regulation

Recital 40

Text proposed by the Commission

(40) Sustainable audit capacity and a competitive market for statutory audit services in which there is a sufficient choice of audit firms capable of carrying out statutory audits of public-interest entities are required in order to ensure a smooth functioning of capital markets. ***ESMA*** should report on the changes brought in the audit market structure by this Regulation. When carrying such analysis, ***ESMA*** should take into account the impact of the national civil liability rules for statutory auditors on the structure of the audit market. Based on such report and other appropriate evidence, the Commission should present a report on the

Amendment

(40) Sustainable audit capacity and a competitive market for statutory audit services in which there is a sufficient choice of audit firms capable of carrying out statutory audits of public-interest entities are required in order to ensure a smooth functioning of capital markets. ***The European Competition Network (ECN)*** should report on the changes brought in the audit market structure by this Regulation. When carrying such analysis, ***the ECN*** should take into account the impact of the national civil liability rules for statutory auditors on the structure of the audit market. Based on such report and other appropriate evidence, the Commission

impact of the national liability rules for statutory auditors on the audit market structure and should take the steps it considers appropriate as a result of its findings.

should present a report on the impact of the national liability rules for statutory auditors on the audit market structure and should take the steps it considers appropriate as a result of its findings.

Amendment 31

Proposal for a regulation

Recital 41

Text proposed by the Commission

(41) In order to improve compliance with the requirements of this Regulation and ***following the Commission Communication of 9 December 2010 entitled 'Reinforcing sanctioning regimes in the financial sector', the power to adopt supervisory measures and the sanctioning powers of competent authorities should be enhanced.***

Administrative pecuniary sanctions on statutory auditors, audit firms and public-interest entities for identified violations should be foreseen. The competent authorities should be transparent about the sanctions and measures they apply.

The adoption and publication of sanctions should respect fundamental rights as laid down in the Charter of Fundamental Rights of the European Union, in particular the right to respect for private and family life (Article 7), the right to the protection of personal data (Article 8) and the right to an effective remedy and to a fair trial (Article 47).

Amendment

(41) In order to improve compliance with the requirements of this Regulation, ***Member States should provide for the imposition on statutory auditors, audit firms and public-interest entities of administrative pecuniary sanctions for identified violations. To that end, measures and sanctions should be sufficiently dissuasive, proportionate and consistently enforced.*** The adoption and publication of sanctions should respect fundamental rights as laid down in the Charter of Fundamental Rights of the European Union, in particular the right to respect for private and family life (Article 7), the right to the protection of personal data (Article 8) and the right to an effective remedy and to a fair trial (Article 47). ***Member States should ensure that decisions taken by the competent national authorities are subject to the right of appeal to the courts.***

Amendment 32

Proposal for a regulation Recital 42

Text proposed by the Commission

Amendment

(42) Whistleblowers can bring new information to the attention of competent authorities which assists them in detecting and sanctioning irregularities, including fraud. However, whistleblowers may be deterred from doing so for fear of retaliation, or may lack incentives to do so. Member States should therefore ensure that adequate arrangements are in place to encourage whistleblowers to alert them to possible breaches of this Regulation and to protect them from retaliation. Member States may also provide them with incentives for doing so; however, whistleblowers should only be eligible for such incentives where they bring to light new information which they are not already legally obliged to notify and where this information results in a sanction for a breach of this Regulation. Member States should also ensure that whistleblowing schemes they implement include mechanisms that provide appropriate protection of a reported person, particularly with regard the right to the protection of his personal data and procedures to ensure the right of the reported person of defence and to be heard before the adoption of a decision concerning him as well as the right to seek effective remedy before a tribunal against a decision concerning him.

deleted

Amendment 33

Proposal for a regulation Recital 43

Text proposed by the Commission

Amendment

(43) In order to take account of developments in auditing and the audit market, the Commission should be empowered to specify technical requirements on the content of the handover file that the new statutory auditor or audit firm should receive and on the establishment of a European quality certificate for statutory auditors and audit firms carrying out statutory audits of public-interest entities.

deleted

Amendment 34

Proposal for a regulation

Recital 44

Text proposed by the Commission

Amendment

(44) In order to take account of the technical developments in the financial markets, in auditing and the audit profession and to specify the requirements laid down in this Regulation, the Commission *should be empowered* to adopt *delegated* acts in accordance with Article 290 of the Treaty on the Functioning of the European Union. *In particular, the use of delegated acts is necessary to adapt* the list of related audit services and of non-audit services ***as well as to set out the level of fees that ESMA could charge for delivering the European Quality Certificate to statutory auditors and audit firms.*** It is of particular importance that the Commission *carries* out appropriate consultations during its preparatory work, including at expert level. The Commission, when preparing and drawing up delegated acts, should ensure a simultaneous, timely and appropriate transmission of relevant documents to the European Parliament and to the Council.

(44) In order to take account of the technical developments in the financial markets, in auditing and ***in*** the audit profession, and to specify the requirements laid down in this Regulation, *the power* to adopt acts in accordance with Article 290 of the Treaty on the Functioning of the European Union *should be delegated to the Commission in respect of* adapting the list of related audit services and of non-audit services. It is of particular importance that the Commission *carry* out appropriate consultations during its preparatory work, including at expert level. The Commission, when preparing and drawing up delegated acts, should ensure a simultaneous, timely and appropriate transmission of relevant documents to the European Parliament and to the Council.

Amendment 35

Proposal for a regulation Recital 45

Text proposed by the Commission

Amendment

(45) In order to ensure legal certainty and the smooth transition to the regime introduced by this Regulation, it is important to introduce a transitional regime regarding the entry into force of the obligation to rotate audit firms, the obligation to organise a selection procedure for the choice of audit firm and the conversion of audit firms into firms that only provide audit services.

deleted

Amendment 36

Proposal for a regulation Article 2 – paragraph 1 – subparagraph 1 a (new)

Text proposed by the Commission

Amendment

Member States may exempt public-interest entities which have not issued transferable securities admitted to trading on a regulated market within the meaning of point 14 of Article 4(1) of Directive 2004/39/EC and their statutory auditor(s) or audit firm(s) from one or more of the requirements of this Regulation.

Amendment 37

Proposal for a regulation Article 4

Text proposed by the Commission

Amendment

Article 4

deleted

Large public interest entities

For the purposes of this Regulation, 'large public-interest entities' shall cover the following

(a) in relation to entities defined in point 13(a) of Article 2 of Directive 2006/43/EC, the largest 10 issuers of shares in each Member State measured by the market capitalisation on the basis of the end-year quotes and in any case all issuers of shares that had an average market capitalisation of more than EUR 1 000 000 000 on the basis of end-year quotes for the previous three calendar years;

(b) in relation to entities defined in points 13(b) to (f) of Article 2 of Directive 2006/43/EC, any entity which on their balance sheet date has a balance sheet total exceeding EUR 1 000 000 000;

(c) in relation to entities defined in points 13(g) and (h) of Article 2 of Directive 2006/43/EC, any entity which on their balance sheet date has total assets under management exceeding EUR 1 000 000 000.

Amendment 38

Proposal for a regulation Article 5

Text proposed by the Commission

A statutory auditor or audit firm shall take all ***necessary*** steps to ensure that the ***carrying out of a statutory audit of a public-interest entity is not affected by any existing or potential conflict of interest or business or other relationship involving the statutory auditor or audit firm carrying out the statutory audit and, where appropriate, its network, managers, auditors, employees, any other natural persons whose services are placed at the disposal or under the control of the***

Amendment

A statutory auditor or audit firm shall take all ***reasonable*** steps to ensure that the ***independence*** of the statutory auditor or audit firm carrying out the statutory audit ***is not compromised by financial, personal, business, employment or other relationships involving the statutory auditor, the audit firm, its network, or any natural person in a position to directly or indirectly influence the outcome of the*** statutory audit.

statutory auditor *or* audit firm, *or* any person directly or indirectly *linked* to the statutory *auditor or audit firm by control*.

Amendment 39

Proposal for a regulation

Article 6

Text proposed by the Commission

Amendment

Article 6

deleted

Internal organisation of auditors and audit firms

1. A statutory auditor or audit firm shall comply with the following organisational requirements:

(a) an audit firm shall establish adequate policies and procedures to ensure that its owners or shareholders as well as the members of the administrative, management and supervisory bodies of the firm, or of an affiliate firm, do not intervene in the carrying out of a statutory audit in any way which jeopardises the independence and objectivity of the statutory auditor who carries out the statutory audit on behalf of the audit firm;

(b) a statutory auditor or an audit firm shall have sound administrative and accounting procedures, internal control mechanisms, effective procedures for risk assessment, and effective control and safeguard arrangements for information processing systems.

Those internal control mechanisms shall be designed to secure compliance with decisions and procedures at all levels of the audit firm or of the working structure of the statutory auditor.

A statutory auditor or an audit firm shall implement and maintain decision-making procedures and organisational structures which clearly and in a documented manner specify reporting lines and

allocate functions and responsibilities;

(c) a statutory auditor or an audit firm shall establish adequate policies and procedures to ensure that his, her or its employees and any other natural persons whose services are placed at its disposal or under its control and who are directly involved in the statutory audit activities have appropriate knowledge and experience for the duties assigned;

(d) a statutory auditor or an audit firm shall establish adequate policies and procedures to ensure that outsourcing of important audit functions is not undertaken in such a way as to impair the quality of the statutory auditor's or audit firm's internal control and the ability of the competent authorities to supervise the statutory auditor's or audit firm's compliance with the obligations laid down in this Regulation;

(e) a statutory auditor or an audit firm shall establish appropriate and effective organisational and administrative arrangements to prevent, identify, eliminate or manage and disclose any threats to independence referred to in Article 11(2);

(f) a statutory auditor or an audit firm shall establish appropriate procedures and standards for carrying out statutory audits of public-interest entities, coaching, supervising and reviewing employees activities and organising the structure of the audit file referred to in Article 15(5);

(g) a statutory auditor or an audit firm shall establish an internal quality control system to ensure the quality of the statutory audit of public-interest entities. The quality control system shall at least cover the procedures and standards described in point (f). In the case of an audit firm, the responsibility of the internal quality control system shall be with a person that qualifies as statutory

auditor;

(h) a statutory auditor or an audit firm shall use appropriate systems, resources and procedures to ensure continuity and regularity in the performance of its statutory audit activities;

(i) a statutory auditor or an audit firm shall establish a policy to preclude his, her or its involvement and that of his, her or its employees in any criminal offence or breach of the law in the conduct of their work. The statutory auditor or the audit firm shall also establish appropriate and effective organisational and administrative arrangements for dealing with and recording incidents which have or may have serious consequences for the integrity of his, her or its statutory audit activities;

(j) a statutory auditor or an audit firm shall have adequate remuneration policies providing sufficient performance incentives to secure audit quality. In particular, compensation and performance evaluation of employees shall not be contingent on the amount of revenue that the statutory auditor or the audit firm derives from the audited entity;

(k) a statutory auditor or an audit firm shall monitor and evaluate the adequacy and effectiveness of his, her or its systems, internal control and internal quality control mechanisms and arrangements established in accordance with this Regulation and take appropriate measures to address any deficiencies. A statutory auditor or an audit firm shall in particular carry out an annual evaluation of the internal quality control system referred to in point (g). A statutory auditor or an audit firm shall keep records of the findings of that evaluation and any proposed measure to modify the internal quality control system.

The policies and procedures referred to in the first subparagraph shall be

documented and communicated to the employees of the statutory auditor or audit firm.

Any outsourcing of audit functions as referred to in point (d) shall not affect the liability of the statutory auditor or audit firm towards the audited entity.

2. The statutory auditor or audit firm shall take into consideration his, her or its size and complexity of activities when complying with the requirements of paragraph 1 of this Article.

The statutory auditor or audit firm shall be able to demonstrate to the competent authority referred to in Article 35(1) that such compliance is proportionate to the size and complexity of activities of the statutory auditor or audit firm.

Article 6 is moved to Article 24a (new) of Directive 2006/43/EC.

Amendment 40

Proposal for a regulation

Article 7

Text proposed by the Commission

Amendment

Article 7

deleted

Independence from the audited entity

1. A statutory auditor or an audit firm and any holder of voting rights in an audit firm shall be independent of the audited entity and shall not be involved in the decision-taking of the audited entity.

2. A statutory auditor, an audit firm, their key audit partners, their employees as well as any other natural person whose services are placed at the disposal or under the control of such auditor or firm and who is directly involved in statutory audit activities, and persons closely associated with them within the meaning of Article 1(2) of Commission Directive 2004/72/EC shall not buy or sell or

engage in any transaction in any financial instrument issued, guaranteed, or otherwise supported by any audited entity within their area of statutory audit activities other than holdings in diversified collective investment schemes, including managed funds such as pension funds or life insurance.

3. Persons or firms referred to in paragraph 2 shall not participate in or otherwise influence the determination of a statutory audit of any particular audited entity if they:

(a) own financial instruments of the audited entity, other than holdings in diversified collective investment schemes;

(b) own financial instruments of any entity related to an audited entity, the ownership of which may cause or may be generally perceived as causing a conflict of interest, other than holdings in diversified collective investment schemes;

(c) have had a recent employment, business or other relationship with the audited entity that may cause or may be generally perceived as causing a conflict of interest.

4. Persons or firms referred to in paragraph 2 shall not solicit or accept money, gifts or favours from anyone with whom the statutory audit or audit firm has a contractual relationship.

5. National measures on professional ethics enacted pursuant to Article 21(1) of Directive 2006/43/EC which are not compatible with paragraphs 2, 3 and 4 shall not apply.

Article 7 is moved to Article 22 of Directive 2006/43/EC.

Amendment 41

Proposal for a regulation Article 8

Text proposed by the Commission

Amendment

Article 8

deleted

Employment by public-interest entities of former statutory auditors or of employees of statutory auditors or audit firms

1. A statutory auditor or a key audit partner who carries out a statutory audit of a public-interest entity on behalf of an audit firm shall not, before a period of at least two years has elapsed since he or she resigned as a statutory auditor or key audit partner from the audit engagement, take up any of the following duties:

(a) take up a key management position in the audited entity;

(b) become a member of the audit committee of the audited entity or, where such committee does not exist, of the body performing equivalent functions to an audit committee;

(c) become a non-executive member of the administrative body or a member of the supervisory body of the audited entity.

2. Employees of a statutory auditor or an audit firm carrying out a statutory audit of a public-interest entity as well as any other natural person whose services are placed at the disposal or under the control of such auditor or firm shall not, when such employees or other natural persons are personally approved as statutory auditors, before a period of at least one year has elapsed since he or she was directly involved in the statutory audit activities, take up any of the duties referred to in points (a), b) and (c) of paragraph 1.

Article 8 is moved to Article 22a (new) of Directive 2006/43/EC.

Amendment 42

Proposal for a regulation Article 9 – paragraph 2

Text proposed by the Commission

2. When the statutory auditor or audit firm provides to the audited entity related financial audit services, as referred to in Article 10(2), the fees for such services shall be limited to no more than 10 % of the fees paid by the audited entity for the statutory audit.

Amendment

deleted

Amendment 43

Proposal for a regulation Article 9 – paragraph 3 – subparagraph 2

Text proposed by the Commission

When the total fees received from a public-interest entity subject to the statutory audit represent, for two consecutive years, 15 % or more of the total annual fees received by the statutory auditor or audit firm carrying out the statutory audit, the auditor or firm shall inform the competent authority referred to in Article 35(1) of such situation. The competent authority referred to in Article 35(1) **shall** decide on the basis of objective grounds provided by the statutory auditor or the audit firm whether the statutory auditor or audit firm of such entity may continue to carry out the statutory for an additional period which in any case shall not be longer than two years.

Amendment

When the total fees received from a public-interest entity subject to the statutory audit represent, for two consecutive years, 15 % or more of the total annual fees received by the statutory auditor or audit firm carrying out the statutory audit, the auditor or firm shall inform the competent authority referred to in Article 35(1) of such situation. The competent authority referred to in Article 35(1) **may** decide on the basis of objective grounds provided by the statutory auditor or the audit firm whether the statutory auditor or audit firm of such entity may continue to carry out the statutory for an additional period which in any case shall not be longer than two years.

Amendment 44

Proposal for a regulation Article 9 – paragraph 3 a (new)

Text proposed by the Commission

Amendment

3a. Where Article 37(2) of Directive 2006/43/EC applies, paragraph 3 of this Article shall not apply.

Amendment 45

Proposal for a regulation Article 10 – title

Text proposed by the Commission

Amendment

Prohibition of the provision of non-audit services

Non-audit services

Amendment 46

Proposal for a regulation Article 10 – paragraph 1 – subparagraph 1

Text proposed by the Commission

Amendment

1. A statutory auditor or an audit firm carrying out statutory audit of public-interest entities may provide to the audited entity, to its parent undertaking and to its controlled undertakings statutory audit services ***and related financial audit*** services.

1. A statutory auditor or an audit firm carrying out statutory audit of public-interest entities may provide to the audited entity, to its parent undertaking and to its controlled undertakings statutory audit services, ***other assurance services, tax advisory services and other non-audit services other than prohibited non-audit services where the provision of those services has been approved by the audit committee in accordance with the audit policy approved in accordance with Article 10a, and the statutory auditor or audit firm is itself satisfied that the provision of those services does not pose a threat to the independence of the statutory auditor or audit firm that cannot be***

reduced to an acceptable level by the application of safeguards.

Amendment 47

Proposal for a regulation

Article 10 – paragraph 1 – subparagraph 2

Text proposed by the Commission

Where the statutory auditor belongs to a network, a member of such network may provide to the audited entity, to its parent undertaking and to its controlled undertakings within the Union statutory audit services *or related financial audit* services.

Amendment

Where the statutory auditor belongs to a network, a member of such network may provide to the audited entity, to its parent undertaking and to its controlled undertakings within the Union statutory audit services, *other assurance* services, *tax advisory services and other non-audit services other than prohibited non-audit services where the provision of those services has been approved by the audit committee in accordance with the audit policy approved in accordance with Article 10a, and the statutory auditor or audit firm is itself satisfied that the provision of those services does not pose a threat to the independence of the statutory auditor or audit firm that cannot be reduced to an acceptable level by the application of safeguards.*

Amendment 48

Proposal for a regulation

Article 10 – paragraph 2 – introductory wording

Text proposed by the Commission

2. For the purposes of this Article, *related financial audit* services shall mean:

Amendment

2. For the purposes of this Article, *assurance* services, *tax advisory services and other non-audit services* shall mean, *in particular*:

Amendment 49

Proposal for a regulation

Article 10 – paragraph 2 – point e

Text proposed by the Commission

(e) providing certification on compliance with tax requirements *where such attestation is required by national law*;

Amendment

(e) providing certification on compliance with tax requirements, *preparation of tax declarations, advice on indirect taxes, payroll tax, customs duties and public support measures, and support regarding tax inspections and inquiries by tax authorities*;

Amendment 50

Proposal for a regulation

Article 10 – paragraph 2 – point e a (new)

Text proposed by the Commission

Amendment

(ea) providing assurance on the implementation and further development of electronic data-processing systems;

Amendment 51

Proposal for a regulation

Article 10 – paragraph 2 – point f

Text proposed by the Commission

(f) any *other* statutory duty *related to audit work* imposed by *Union legislation to* the statutory auditor or audit firm.

Amendment

(f) any statutory *or regulatory* duty imposed by *law or regulation on* the statutory auditor or audit firm.

Amendment 52

Proposal for a regulation

Article 10 – paragraph 2 – point f a (new)

Text proposed by the Commission

Amendment

(fa) reports or other services in relation to

documents, including investment circulars or actions required to be taken by the audited entity by securities legislation or regulation;

Amendment 53

Proposal for a regulation Article 10 – paragraph 2 – point f b (new)

Text proposed by the Commission

Amendment

(fb) providing assurance concerning the audited entity to other parties in relation to a financial or corporate transaction.

Amendment 54

Proposal for a regulation Article 10 – paragraph 2 a (new)

Text proposed by the Commission

Amendment

2a. The statutory auditor or the audit firm may continue to carry out the statutory audit of the public-interest entity only if he, she or it can justify, in accordance with Article 11, that such provision of services does not affect his, her or its professional judgement and the audit report.

Amendment 55

Proposal for a regulation Article 10 – paragraph 3 – subparagraph 1

Text proposed by the Commission

Amendment

3. A statutory auditor or an audit firm carrying out statutory audit of public-interest entities shall not directly or indirectly provide to the audited entity, to its parent undertaking **and** to its controlled

3. A statutory auditor or an audit firm carrying out statutory audit of public-interest entities shall not directly or indirectly provide to the audited entity, to its parent undertaking **or** to its controlled

undertakings non-audit services.

undertakings *prohibited* non-audit services.

Amendment 56

Proposal for a regulation

Article 10 – paragraph 3 – subparagraph 2

Text proposed by the Commission

Where the statutory auditor belongs to a network, no member of such network shall provide to the audited entity, to its parent undertaking *and* to its controlled undertakings within the Union any non-audit services.

Amendment

Where the statutory auditor belongs to a network, no member of such network shall provide to the audited entity, to its parent undertaking *or* to its controlled undertakings within the Union any *prohibited* non-audit services.

Amendment 57

Proposal for a regulation

Article 10 – paragraph 3 – subparagraph 3 – introductory wording

Text proposed by the Commission

For the purposes of this Article, non-audit services shall mean:

Amendment

For the purposes of this Article, *prohibited* non-audit services shall mean:

Amendment 58

Proposal for a regulation

Article 10 – paragraph 3 – subparagraph 3 – point a – introductory wording

Text proposed by the Commission

(a) *services entailing conflict of interest in all cases:*

Amendment

(a) *playing any part in the management or decision-making process of an entity;*

Amendment 59

Proposal for a regulation

Article 10 – paragraph 3 – subparagraph 3 – point a – point i

Text proposed by the Commission

Amendment

(i) expert services unrelated to the audit, tax consultancy, general management and other advisory services;

deleted

Amendment 60

Proposal for a regulation

Article 10 – paragraph 3 – subparagraph 3 – point a – point ii

Text proposed by the Commission

Amendment

(ii) bookkeeping and preparing accounting records and financial statements;

(a a) bookkeeping *services*, and preparing accounting records and financial statements;

Amendment 61

Proposal for a regulation

Article 10 – paragraph 3 – subparagraph 3 – point a b (new)

Text proposed by the Commission

Amendment

(a b) payroll services;

Amendment 62

Proposal for a regulation

Article 10 – paragraph 3 – subparagraph 3 – point a – point iii

Text proposed by the Commission

Amendment

(iii) designing *and* implementing internal control *or* risk management *procedure* related to the preparation and/or control of *financing* information included in the financial statements *and advice on risk*;

(a c) designing *or* implementing internal control, risk management *or financial information technology systems* related to the preparation and/or control of *financial* information included in the financial statements *that*:

(i) form a part of the internal control over financial reporting of the audited entity, *or*

(ii) generate information that is

significant to the accounting records or financial statements that are the subject of the statutory audit;

Amendment 63

Proposal for a regulation

Article 10 – paragraph 3 – subparagraph 3 – point a – point iv

Text proposed by the Commission

(iv) valuation services, providing fairness opinions or contribution-in-kind reports;

Amendment

(a d) valuation services, including valuations performed in connection with actuarial services or litigation support services, where the valuation would have a material effect, separately or in the aggregate, on the financial statements;

Amendment 64

Proposal for a regulation

Article 10 – paragraph 3 – subparagraph 3 – point a – point v

Text proposed by the Commission

(v) actuarial and legal services, including the resolution of litigation;

Amendment

(a e) legal services, with respect to:

(i) the provision of general counsel,

(ii) negotiating on behalf of the audit client, or

(iii) acting in an advocacy role in the resolution of litigation;

Amendment 65

Proposal for a regulation

Article 10 – paragraph 3 – subparagraph 3 – point a – point vi

Text proposed by the Commission

(vi) designing and implementing financial information technology systems for public-interest entities as referred to in

Amendment

deleted

*Article 2(13)(b) to (j) of Directive
2006/43/EC;*

Amendment 66

Proposal for a regulation

Article 10 – paragraph 3 – subparagraph 3 – point a – point vii

Text proposed by the Commission

Amendment

*(vii) participating in the audit client's
internal audit and the provision of services
related to the internal audit function;*

*(a f) participating in the audit client's
internal audit and the provision of services
related to the internal audit function;*

Amendment 67

Proposal for a regulation

Article 10 – paragraph 3 – subparagraph 3 – point a g (new)

Text proposed by the Commission

Amendment

*(a g) calculation of current and deferred
taxes, where the outcome would have a
material impact on the financial
statements to be audited;*

Amendment 68

Proposal for a regulation

Article 10 – paragraph 3 – subparagraph 3 – point a – point viii

Text proposed by the Commission

Amendment

*(viii) broker or dealer, investment adviser,
or investment banking services.*

deleted

Amendment 69

Proposal for a regulation

Article 10 – paragraph 3 – subparagraph 3 – point a h(new)

Text proposed by the Commission

Amendment

(a h) promoting, dealing in, or underwriting shares in the audit client.

Amendment 70

Proposal for a regulation

Article 10 – paragraph 3 – subparagraph 3 – point b – introductory wording

Text proposed by the Commission

Amendment

(b) services which may entail conflict of interest: *deleted*

Amendment 71

Proposal for a regulation

Article 10 – paragraph 3 – subparagraph 3 – point b – point i

Text proposed by the Commission

Amendment

(i) human resources services, including recruiting senior management;

(a i) human resources services with respect to senior management in a position to exert significant influence over the preparation of the accounting records or financial statements which are the subject of the statutory audit, where such services involve:

(i) searching for or seeking out candidates for such positions; or

(ii) undertaking reference checks of candidates for such positions.

Amendment 72

Proposal for a regulation

Article 10 – paragraph 3 – subparagraph 3 – point b – point ii

Text proposed by the Commission

Amendment

(ii) providing comfort letters for investors in the context of the issuance of an *deleted*

undertaking's securities;

Amendment 73

Proposal for a regulation

Article 10 – paragraph 3 – subparagraph 3 – point b – point iii

Text proposed by the Commission

Amendment

(iii) designing and implementing financial information technology systems for public-interest entities as referred to in Article 2(13)(a) of Directive 2006/43/EC; *deleted*

Amendment 74

Proposal for a regulation

Article 10 – paragraph 3 – subparagraph 3 – point b – point iv

Text proposed by the Commission

Amendment

(iv) due diligence services to the vendor or the buy side on potential mergers and acquisitions and providing assurance on the audited entity to other parties at a financial or corporate transaction. *deleted*

Amendment 75

Proposal for a regulation

Article 10 – paragraph 3 – subparagraph 3 – point a j (new)

Text proposed by the Commission

Amendment

(a j) provision of tax advice where the effectiveness of the advice depends on a particular accounting treatment or presentation in the financial statements and where there is reasonable doubt about the appropriateness of the accounting treatment and the outcome or consequences of the advice would materially affect such financial statements.

Amendment 76

Proposal for a regulation

Article 10 – paragraph 3 – subparagraph 4

Text proposed by the Commission

Amendment

By derogation from the first and second subparagraphs, the services mentioned in point (b)(iii) and (iv) may be provided by the statutory auditor or the audit firm, subject to prior approval by the competent authority referred to in Article 35(1).

deleted

Amendment 77

Proposal for a regulation

Article 10 – paragraph 3 – subparagraph 5

Text proposed by the Commission

Amendment

By derogation from the first and second subparagraphs, the services mentioned in point (b)(i) and (ii) may be provided by the statutory auditor or the audit firm, subject to prior approval by the audit committee as referred to in Article 31 of this Regulation.

deleted

Amendment 78

Proposal for a regulation

Article 10 – paragraph 4 – subparagraph 1

Text proposed by the Commission

Amendment

When a member of the network to which the statutory auditor or the audit firm carrying out statutory audit of a public-interest entity belongs provides non-audit services to an undertaking incorporated in a third country controlled by the audited public-interest entity, the statutory auditor or the audit firm concerned shall assess

deleted

whether his, her or its independence would be compromised by such provision of services by the member of the network.

Amendment 79

Proposal for a regulation

Article 10 – paragraph 4 – subparagraph 1a (new)

Text proposed by the Commission

Amendment

Where the statutory auditor or audit firm belongs to a network and services are provided to undertakings outside the Union which are controlled by the audited entity, the statutory auditor or audit firm shall assess whether his, her or its independence could be compromised by the provision of such services. If the threat to the independence of the statutory auditor or audit firm can be reduced to an acceptable level by the application of safeguards, the statutory auditor or audit firm shall apply those safeguards in order to mitigate any threats to independence caused by the provision of such services.

Amendment 80

Proposal for a regulation

Article 10 – paragraph 4 – subparagraph 2

Text proposed by the Commission

Amendment

If his, her or its independence is affected, the statutory auditor or the audit firm shall apply safeguards in order to mitigate the threats caused by such provision of services in a third country. The statutory auditor or the audit firm may continue to carry out the statutory audit of the public-interest entity only if he, she or it can justify, in accordance with Article 11, that such provision of services does not affect his, her or its professional judgement and

The statutory auditor or the audit firm may continue to carry out the statutory audit of the public-interest entity only if he, she or it can justify, in accordance with Article 11, that such provision of services does not affect his, her or its professional judgement and the audit report.

the audit report.

Amendment 81

Proposal for a regulation

Article 10 – paragraph 4 – subparagraph 3

Text proposed by the Commission

Being involved in the decision-taking of the audited entity ***and the provision of the services referred to in points (ii) and (iii) of paragraph 3(a)*** shall be considered as affecting such independence in all cases.

Amendment

Being involved in the decision-taking of the audited entity shall be considered as affecting such independence in all cases.

Amendment 82

Proposal for a regulation

Article 10 – paragraph 4 – subparagraph 4

Text proposed by the Commission

The provision of the services referred to in points (i) and (iv) to (viii) of paragraph 3(a) shall be presumed to affect such independence.

Amendment

deleted

Amendment 83

Proposal for a regulation

Article 10 – paragraph 4 – subparagraph 5

Text proposed by the Commission

The statutory auditor or the audit firm may consult the competent authority for an opinion on this issue.

Amendment

deleted

Amendment 84

Proposal for a regulation

Article 10 – paragraph 5

Text proposed by the Commission

Amendment

5. Where an audit firm generates more than one third of its annual audit revenues from large public-interest entities and belongs to a network whose members have combined annual audit revenues which exceed EUR 1 500 million within the European Union, it shall comply with the following conditions:

deleted

(a) it shall not directly or indirectly provide to any public interest entity non-audit services;

(b) it shall not belong to a network which provides non-audit services within the Union;

(c) any entity which provides the services listed in paragraph 3 shall not directly or indirectly hold more than 5 % of the capital or of the voting rights in the audit firm;

(d) the entities which provide the services listed in paragraph 3 shall not directly or indirectly hold together more than 10 % of the capital or of the voting rights in the audit firm;

(e) such audit firm shall not directly or indirectly hold more than 5 % of the capital or of the voting rights in any entity which provides the services listed in paragraph 3.

Amendment 85

Proposal for a regulation Article 10 – paragraph 6

Text proposed by the Commission

Amendment

6. The Commission shall be empowered to adopt delegated acts in accordance with Article 68 for the purpose of adapting the list of related financial audit services referred to in paragraph 2 and the list of non-audit services referred to in

deleted

paragraph 3 of this Article. When using such powers, the Commission shall take into account developments in auditing and the audit profession.

Amendment 86

Proposal for a regulation Article 10 – paragraph 6 a (new)

Text proposed by the Commission

Amendment

6a. Competent authorities may, on the basis of evidence, add to the list of prohibited non-audit services contained in paragraph 3 for statutory auditors and audit firms where conclude that the provision of such services represents a threat to auditor independence.

Competent authorities shall notify ESMA of all decisions taken pursuant to this provision. Such notification shall be accompanied by a statement of the grounds on which the decision in question was taken.

Amendment 87

Proposal for a regulation Article 10 a (new)

Text proposed by the Commission

Amendment

Article 10a

Audit committee approval of non-audit services

1. The audit committee shall prepare a recommendation for a policy governing the provision of assurance services, tax advisory services and other non-audit services other than prohibited non-audit services as defined in point (a) of the third subparagraph of paragraph 3 of Article 10 by a statutory auditor or audit firm or,

where the statutory auditor belongs to a network, a member of such network, or such other firms as may be considered to be providers of assurance services, tax advisory services and other non-audit services.

The recommendation shall be submitted to the administrative or supervisory board, which shall present the policy for approval by the general meeting of shareholders.

If the decision of the administrative or supervisory board departs from the recommendation of the audit committee, it shall provide a statement of the reasons for not following that recommendation.

Member States may permit or require the recommendation to be submitted to the administrative or supervisory board for approval.

2. The policy referred to in paragraph 1 shall include considerations with regard to:

(i) the nature of non-audit services and the extent to which they are to be subject to an open and transparent tendering procedure designed by the audit committee, and

(ii) the delegation of authority for certain levels of approval.

3. The audited entity shall publish the policy adopted pursuant to the second subparagraph of paragraph 1 and shall communicate it to the competent authority. The audited entity shall include in its communication a reasoned explanation of its policy, in particular with regard to decisions taken in relation to point (i) of paragraph 2.

4. The audit committee shall review the policy adopted under this Article annually, and may submit recommendations to the administrative or supervisory board in accordance with

paragraph 1.

Amendment 88

**Proposal for a regulation
Article 11 – paragraph 1 – first indent**

Text proposed by the Commission

Amendment

– whether he, she or it complies with the internal organisation requirements of Article 6;

deleted

Amendment 89

**Proposal for a regulation
Article 11 – paragraph 1 – second indent**

Text proposed by the Commission

Amendment

– whether he, she or it complies with the requirements of Articles 7, 9 and 10;

– whether he, she or it complies with the requirements of Articles 9 and 10;

Amendment 90

**Proposal for a regulation
Article 11 – paragraph 2 – subparagraph 3**

Text proposed by the Commission

Amendment

If the statutory auditor's or audit firm's independence is affected by threats of self-review *or self-interest*, the statutory auditor or audit firm shall not carry out the statutory audit.

If the statutory auditor's or audit firm's independence is affected by threats of self-review, the statutory auditor or audit firm shall not carry out the statutory audit.

Amendment 91

**Proposal for a regulation
Article 11 – paragraph 3**

Text proposed by the Commission

Amendment

3. A statutory auditor or audit firm shall keep records of the assessments referred to in paragraphs 1 and 2 and shall document in the audit working papers all significant threats to his, her or its independence as well as the safeguards applied to mitigate those threats.

deleted

Amendment 92

Proposal for a regulation

Article 11 – paragraph 4 – subparagraph 1 – point a

Text proposed by the Commission

Amendment

(a) confirm annually in writing to the audit committee **his, her or its independence** from the audited entity;

(a) confirm annually in writing to the audit committee **that the statutory auditor, the audit firm, and audit partners, senior managers and managers conducting the statutory audit are independent** from the audited entity;

Amendment 93

Proposal for a regulation

Article 11 – paragraph 4 – subparagraph 1 – point b

Text proposed by the Commission

Amendment

(b) confirm annually in writing to the audit committee the names of the audit partners, senior manager and manager of the core team conducting the statutory audit, certifying that there are no conflicts of interest;

deleted

Amendment 94

Proposal for a regulation

Article 11 – paragraph 4 – subparagraph 1 – point c

Text proposed by the Commission

Amendment

(c) request permission from the audit committee to provide the non-audit services referred to in Article 10(3)(b)(i) and (ii) to the audited entity; ***deleted***

Amendment 95

Proposal for a regulation

Article 11 – paragraph 4 – subparagraph 1 – point d

Text proposed by the Commission

Amendment

(d) request permission from the competent authority referred to in Article 35(1) to provide the non-audit services referred to in Article 10(3)(b)(iii) and (iv) to the audited entity; ***deleted***

Amendment 96

Proposal for a regulation

Article 13

Text proposed by the Commission

Amendment

Article 13 ***deleted***

Disclosure to third-country auditors and to third country authorities

1. Where a statutory auditor or an audit firm carries out statutory audit of a public-interest entity which is part of a group of undertakings whose parent undertaking is situated in a third country, the confidentiality and professional secrecy rules referred to in Article 23(1) of Directive 2006/43/EC shall not impede the transfer by the statutory auditor or audit firm of relevant documentation of the audit work performed to the group auditor situated in a third country if such documentation is exclusively necessary for the preparation of the audit of

consolidated financial statements of the parent undertaking.

The transfer of information to the group auditor situated in a third country shall comply with Chapter IV of Directive 95/46/EC and the applicable national rules on personal data protection.

2. A statutory auditor or audit firm that carries out statutory audit of a public-interest entity which has issued securities in a third country or which forms part of a group issuing statutory consolidated financial statements in a third country may only transfer the audit working papers or other documents related to the audit of that entity that he, she or it holds to the competent authorities in the relevant third countries under the conditions set out in Article 47 of Directive 2006/43/EC.

Article 13 is moved to Article 23 of the Directive 2006/43/EC.

Amendment 97

Proposal for a regulation Article 14

Text proposed by the Commission

Amendment

Article 14

deleted

Scope of the statutory audit

1. When carrying out the statutory audit of a public-interest entity, the statutory auditor or audit firm shall take the necessary steps with a view to forming an opinion as to whether the annual or consolidated financial statements of the public-interest entity give a true and fair view in accordance with the relevant financial reporting framework and, where appropriate, whether such annual or consolidated financial statements comply with statutory requirements as referred to in Article 22.

Such steps shall include at least the requirements set out in Articles 15 to 20.

The opinion of the statutory auditor or audit firm shall be expressed in accordance with Articles 21 to 25.

2. Without prejudice to the reporting requirements as referred to in Articles 22 and 23, the scope of statutory audit shall not include the assurance on the future viability of the audited entity nor the efficiency or effectiveness with which the management or administrative body has conducted or will conduct the affairs of the entity.

Article 14 is moved to Article 25 a (new) of Directive 2006/43/EC.

Amendment 98

Proposal for a regulation

Article 15

Text proposed by the Commission

Amendment

Article 15

deleted

Professional scepticism

When carrying out the statutory audit of a public-interest entity, the statutory auditor or audit firm shall maintain professional scepticism throughout the audit, recognizing the possibility that a material misstatement due to facts or behaviour indicating irregularities, including fraud or error could exist, notwithstanding the auditor's or firm's past experience of the honesty and integrity of the audited entity's management and of the persons charged with its governance.

The statutory auditor or the audit firm shall maintain professional scepticism in particular when reviewing management estimates relating to fair values and the impairment of goodwill and other intangible and future cash flow relevant to the consideration of the going concern.

For the purposes of this Article, 'professional scepticism' means an attitude that includes a questioning mind, being alert to conditions which may indicate possible misstatement due to error or fraud and a critical assessment of audit evidence.

Article 15 is moved to Article 21 of Directive 2006/43/EC.

Amendment 99

Proposal for a regulation Article 16

Text proposed by the Commission

Amendment

Article 16

deleted

Organisation of the work

1. When the statutory audit of a public-interest entity is carried out by an audit firm, that audit firm shall designate at least one key audit partner. The audit firm shall provide the designated audit partner(s) with sufficient resources to carry out his, her or their duties appropriately.

Securing audit quality, independence and competence shall be the main criteria for the audit firm to select the key audit partner(s) to be designated.

The designated audit partner(s) shall be actively involved in the carrying out of the statutory audit.

2. When the statutory audit of a public-interest entity is carried out by a statutory auditor, he or she shall devote sufficient time to the engagement and shall assign sufficient resources among his or her employees to carry out his or her duties appropriately.

3. The statutory auditor or the audit firm shall keep records of the cases in which their employees do not respect this Regulation. They shall also keep records

of any consequence thereof, including the measures taken towards those employees and the measures taken to modify the internal quality control system. The statutory auditor or the audit firm shall prepare an annual report with an overview of any such measures taken and communicate it to the employees.

When the statutory auditor or the audit firm ask external experts for advice, he, she or it shall document the request made and advice received.

4. A statutory auditor or an audit firm shall maintain a client account record. Such record shall include the following data for each audit client:

(a) the name, the address and the place of business;

(b) in the case of an audit firm, the key audit partner(s);

(c) the fees charged for the statutory audit and the fees charged for other services in any financial year.

5. A statutory auditor or an audit firm shall create an audit file for each statutory audit carried out. The audit file shall contain at least the following data and documents, either in paper form or in electronic form:

(a) the contract between the statutory auditor or the audit firm and the audited entity, and any amendments thereto;

(b) the correspondence with the audited entity related to the statutory audit;

(c) an audit plan setting out the probable scope and method of the statutory audit;

(d) a description of the nature and the extent of the auditing activities carried out;

(e) the starting and ending dates of the phases of audit procedures set out in the audit plan;

(f) the principal findings of the audit procedures carried out;

(g) the conclusions drawn from the findings referred to under point (f);

(h) the opinion of the statutory auditor or the key audit partner as evidenced by the drafts of the reports referred to in Articles 22 and 23;

(i) the data recorded pursuant to Article 11(3), Article 16(3), Articles 17 and 18 and 19(6);

(j) other relevant data and documents that are of importance in support of the reports referred to in Articles 22 and 23 and for monitoring compliance with this Regulation and other applicable legal requirements.

The audit file shall be closed no later than two months after the date of signature of the audit report referred to in Article 22.

6. The statutory auditor or the audit firm shall keep records of any complaints about the performance of the statutory audits.

Article 16 is moved to Article 25 b (new) of Directive 2006/43/EC.

Amendment 100

Proposal for a regulation Article 17

Text proposed by the Commission

Amendment

Article 17

deleted

Market integrity

1. Where an incident which has or may have serious consequences for the integrity of the statutory audit activities of a statutory auditor or an audit firm occurs, the statutory auditor or the audit firm shall:

(a) keep record of the incident;

(b) take appropriate measures with a view to managing the consequences of the incident and prevent any recurrence;

(c) inform the competent authority referred to in Article 35(1) of the incident.

The record referred in point (a) of the first subparagraph shall include the facts and circumstances of the incident, information about the person or persons involved and details of the measures that have been taken pursuant to point (b) of that subparagraph.

2. Without prejudice to Directive 2005/60/EC, when a statutory auditor or an audit firm carrying out the statutory audit of a public-interest entity suspects or has reasonable grounds to suspect that facts or behaviour indicating irregularities, including fraud with regard to the financial statements of the audited entity is being or has been committed or attempted, he, she or it shall inform the audited entity and invite it to investigate the matter and take appropriate measures to deal with such irregularities and to prevent any recurrence of such irregularities in the future.

Where the audited entity does not investigate the matter or does not take any measures, or where the statutory auditor or audit firm believes that the measures taken by the audited entity are not adequate to deal with such irregularities, the statutory auditor or audit firm shall inform the competent authorities supervising public-interest entities of such irregularities.

The disclosure in good faith to the competent authorities, by the statutory auditor or audit firm, of any fact referred to in the first subparagraph shall not constitute a breach of any contractual or legal restriction on disclosure of information and shall not involve such persons in liability of any kind.

Article 17 is moved to Article 25 c (new) of Directive 2006/43/EC.

Amendment 101

Proposal for a regulation

Article 18

Text proposed by the Commission

Amendment

Article 18

deleted

Audit of consolidated financial statements

1 In the case of a statutory audit of the consolidated financial statements of a group of undertakings where the parent undertaking is a public-interest entity, the group auditor shall:

(a) bear the full responsibility for the audit report referred to in Article 22 and the additional report to the audit committee referred to in Article 23 in relation with the consolidated financial statements;

(b) document which audit work is performed by third-country auditor(s), statutory auditor(s), third-country audit entity(ies) or audit firm(s) for the purpose of the group audit;

(c) carry out a review and maintain documentation of his, her or its review of the audit work performed by third-country auditor(s), statutory auditor(s), third-country audit entity(ies) or audit firm(s) for the purpose of the group audit. The documentation retained by the group auditor shall enable the relevant competent authority to review the work of the group auditor properly.

For the purpose of point (c) of the first subparagraph, the group auditor shall secure the agreement of the third-country auditor(s), statutory auditor(s), third-country audit entity(ies) or audit firm(s) to the transfer of relevant documentation during the conduct of the audit of

consolidated financial statements, as a condition of the reliance by the group auditor on the work of that third-country auditor(s), statutory auditor(s), third-country audit entity(ies) or audit firm(s).

2. Where the group auditor is not in a position to comply with point (c) of the first subparagraph of paragraph 1, he, she or it shall take appropriate measures and inform the competent authority referred to in Article 35(1) accordingly.

Such measures may include carrying out additional statutory audit work, either directly or by outsourcing such tasks, in the relevant subsidiary of the public-interest entity.

3. Where the group auditor is subject to a quality assurance review or an investigation concerning the statutory audit of the consolidated financial statements of a group of undertakings where the parent undertaking is a public-interest entity, the group auditor shall, when requested, make available to the competent authority the relevant documentation he, she or it maintains concerning the audit work performed by third-country auditor(s), statutory auditor(s), third-country audit entity(ies) or audit firm(s) for the purpose of the group audit, including the working papers relevant to the group audit.

The competent authority shall request additional documentation on the audit work performed by statutory auditor(s) or audit firm(s) for the purpose of the audit group to the relevant competent authorities pursuant to Chapter III of Title IV of this Regulation.

When a component of a group of undertakings is audited by auditor(s) or audit entity(ies) from a third country, the competent authority shall request additional documentation on the audit work performed by third-country auditor(s) or third-country audit

entity(ies) to the relevant competent authorities from third countries through the working arrangements referred to in Article 47 of Directive 2006/43/EC.

By way of derogation from the third subparagraph, when a component of a group of undertakings is audited by auditor(s) or audit entity(ies) from a third country that has no working arrangement as referred to in Article 47 of Directive 2006/43/EC, the group auditor shall, when requested, also be responsible for ensuring proper delivery of the additional documentation of the audit work performed by third-country auditor(s) or audit entity(ies), including the working papers relevant to the group audit. To ensure such delivery, the group auditor shall retain a copy of such documentation, or alternatively agree with the third-country auditor(s) or audit entity(ies) his, her or its proper and unrestricted access upon request, or take any other appropriate action. Where audit working papers for legal or other reasons cannot be passed from a third country to the group auditor, the documentation retained by the group auditor shall include evidence that he or she has undertaken the appropriate procedures in order to gain access to the audit documentation, and in the case of impediments other than legal ones arising from the legislation of the third country, evidence supporting such an impediment.

Article 18 is moved to Article 27 of Directive 2006/43/EC.

Amendment 102

Proposal for a regulation Article 19

Text proposed by the Commission

Amendment

Article 19

deleted

Internal quality control review

1. Before the reports referred to in Articles 22 and 23 are issued, an internal quality control review shall be performed to assess whether the statutory auditor or the key audit partner could reasonably have come to the opinion and conclusions expressed in the draft of these reports.

2. The internal quality control review shall be performed by an internal quality control reviewer. Such reviewer shall be a statutory auditor who is not involved in the performance of the statutory audit to which the internal quality review relates.

3. When reviewing the internal quality control, the reviewer shall record at least the following:

(a) the oral and written information provided by the statutory auditor or key audit partner to support the main findings of the audit procedures carried out and the conclusions drawn from those findings, whether or not at the request of the internal quality control reviewer;

(b) the audited financial statements;

(c) the main findings of the audit procedures carried out and the conclusions drawn from those findings;

(d) the opinions of the statutory auditor or key audit partner, as expressed in the draft of the reports referred to in Articles 22 and 23;

4. The internal quality control review shall at least assess the following elements:

(a) the independence of the statutory auditor or audit firm with from the audited entity;

(b) the significant risks that the statutory auditor or key audit partner has identified during the performance of the statutory audit and the measures that he or she has taken to adequately manage those risks;

- (c) the reasoning of the statutory auditor or key audit partner, in particular with regard to the materiality and the significant risks referred to in point (b);*
- (d) any request for advice to external experts and the implementation of such advice;*
- (e) the nature and scope of the corrected and uncorrected misstatements in the financial statements that were identified during the performance of the audit;*
- (f) the subjects discussed with the audit committee and the management and/or supervisory bodies of the audited entity;*
- (g) the subjects discussed with competent authorities and, if applicable, with other third parties;*
- (h) whether the documents and information selected from the file satisfactorily reflect the positions taken by the employees involved in the audit, and whether such documents and information support the opinion of the statutory auditor or key audit partner as expressed in the draft of the reports referred to in Articles 22 and 23.*

5. The internal quality control reviewer shall discuss the results of the internal quality control review with the statutory auditor or the key audit partner. The statutory auditor or the audit firm shall determine the procedure to be followed when the reviewer and the statutory auditor or the key audit partner do not agree on the results of the review.

6. The statutory auditor or the audit firm shall keep record of the results of the internal quality control review, together with the considerations underlying those results.

Article 19 is moved to Article 25 d (new) of Directive 2006/43/EC.

Amendment 103

Proposal for a regulation Article 20

Text proposed by the Commission

Amendment

Article 20

deleted

Use of international standards on auditing

The statutory auditor(s) or the audit firm(s) shall comply with the international auditing standards referred to in Article 26 of Directive 2006/43/EC when carrying out the statutory audit of public-interest entities as long as those standards are in conformity with the requirements of this Regulation.

Amendment 104

Proposal for a regulation Article 22 – paragraph 1

Text proposed by the Commission

Amendment

1. The statutory auditor or the audit firm shall present the results of the statutory audit of the public-interest entity in an audit report.

1. The statutory auditor or the audit firm shall present the results of the statutory audit of the public-interest entity in an audit report ***prepared in accordance with the international auditing standards referred to in Article 26 of Directive 2006/43/EC.***

Amendment 105

Proposal for a regulation Article 22 – paragraph 2 – introductory wording

Text proposed by the Commission

Amendment

2. The audit report shall be in writing. It shall at least:

2. The audit report shall be in writing ***and in electronic form.*** It shall at least:

Amendment 106

Proposal for a regulation Article 22 – paragraph 2 – point b

Text proposed by the Commission

(b) *specify* the annual or consolidated financial statements *and* the date *and* period *they cover*;

Amendment

(b) *identify the title of each financial statement included in* the annual or consolidated financial statements *of the individual entity or consolidated group and state the date of, or the period covered by, each financial statement*;

Amendment 107

Proposal for a regulation Article 22 – paragraph 2 – point c

Text proposed by the Commission

(c) *explain, where additional reports have been reviewed, the scope of such review*;

Amendment

deleted

Amendment 108

Proposal for a regulation Article 22 – paragraph 2 – point c a (new)

Text proposed by the Commission

Amendment

(ca) *express an opinion on:*
(i) *whether the management report is consistent with the financial statements for the same financial year;*
(ii) *whether the management report has been prepared in accordance with the applicable legal requirements;*

Amendment 109

Proposal for a regulation Article 22 – paragraph 2 – point c b (new)

(cb) state whether, in the light of knowledge and understanding of the undertaking and its environment obtained during the course of the audit, the statutory auditor or audit firm has identified material misstatements in the management report, and give an indication of the nature of any such misstatements;

Amendment 110

Proposal for a regulation

Article 22 – paragraph 2 – point d

Text proposed by the Commission

Amendment

(d) ***identify*** which body ***within the audited entity appointed*** the statutory auditor(s) or the audit firm(s);

(d) ***if not already disclosed in the management report or the annual financial statements for the same financial year, state by whom or by*** which body the statutory auditor(s) or audit firm(s) ***was appointed***;

Amendment 111

Proposal for a regulation

Article 22 – paragraph 2 – point e

Text proposed by the Commission

Amendment

(e) indicate the date of the appointment and the period of total uninterrupted engagement including previous renewals and reappointments;

(e) ***if not already disclosed in the management report or the annual financial statements for the same financial year, indicate the date of the appointment of the statutory auditor(s) or audit firm and the period of total uninterrupted engagement, including previous renewals and reappointments, of the statutory auditor(s) or audit firm;***

Amendment 112

Proposal for a regulation Article 22 – paragraph 2 – point f

Text proposed by the Commission

(f) indicate that the statutory audit was conducted in accordance with the international standards on auditing *as* referred to in *Article 20*;

Amendment

(f) indicate that the statutory audit was conducted in accordance with the international standards on auditing referred to in *Article 26 of Directive 2006/43/EC*;

Amendment 113

Proposal for a regulation Article 22 – paragraph 2 – point f a (new)

Text proposed by the Commission

Amendment

(fa) provide, in support of the audit opinion, as required by point (t), the following:

(i) a description of the most important assessed risks of material misstatement, including assessed risks of material misstatement due to fraud;

(ii) a summary of the auditor's response to those risks; and

(iii) key observations arising from the audit work.

Where relevant to the above information provided in the audit report concerning each significant audit risk, a clear reference to the relevant disclosures in the financial statements shall be provided.

The information to be disclosed in the audit report, as referred to above, in respect of the most important assessed risks of material misstatement shall be selected from the matters discussed with the audit committee of the entity in accordance with the requirements imposed by the international auditing standards referred to in Article 26 of Directive 2006/43/EC;

Amendment 114

Proposal for a regulation Article 22 – paragraph 2 – point h

Text proposed by the Commission

Amendment

(h) describe the used methodology, including how much of the balance sheet has been directly verified and how much has been based on system and compliance testing;

deleted

Amendment 115

Proposal for a regulation Article 22 – paragraph 2 – point i

Text proposed by the Commission

Amendment

(i) explain any variation in the weighting of substantive and compliance testing when compared to the previous year, even if the previous year's statutory audit had been conducted by another statutory auditor(s) or audit firm(s);

deleted

Amendment 116

Proposal for a regulation Article 22 – paragraph 2 – point j

Text proposed by the Commission

Amendment

(j) lay out the details of the level of materiality applied to perform the statutory audit;

deleted

Amendment 117

Proposal for a regulation Article 22 – paragraph 2 – point k

Text proposed by the Commission

Amendment

(k) identify key areas of risk of material misstatement of the annual or consolidated financial statements,

deleted

including critical accounting estimates or areas of measurement uncertainty;

Amendment 118

Proposal for a regulation

Article 22 – paragraph 2 – point l

Text proposed by the Commission

(l) provide *a statement on the situation of the audited entity or, in case of the statutory audit of consolidated financial statements, of the parent undertaking and the group, especially an assessment of the entity's or the parent undertaking's and group's ability to meet its/their obligation in the foreseeable future and therefore* continue as a going concern;

Amendment

(l) provide:

(i) a conclusion on the appropriateness of management's use of the going concern assumption in the preparation of the financial statements in accordance with the applicable financial reporting framework; and

(ii) a statement as to whether, based on the audit, the auditor has identified any material uncertainty relating to events or conditions that may cast significant doubt about the entity's ability to continue as a going concern;

Amendment 119

Proposal for a regulation

Article 22 – paragraph 2 – point m

Text proposed by the Commission

(m) assess the entity's or, in case of consolidated financial statements, the parent undertaking's internal control system, including significant internal control deficiencies identified during the statutory audit, as well as the bookkeeping and accounting system;

Amendment

deleted

Amendment 120

Proposal for a regulation Article 22 – paragraph 2 – point n

Text proposed by the Commission

Amendment

(n) explain to what extent the statutory audit was designed to detect irregularities, including fraud;

deleted

Amendment 121

Proposal for a regulation Article 22 – paragraph 2 – point o

Text proposed by the Commission

Amendment

(o) indicate and explain any violation of accounting rules or violation of laws or the articles of incorporations, accounting policy decisions and other matters that are significant for the governance of the entity;

deleted

Amendment 122

Proposal for a regulation Article 22 – paragraph 2 – point o a (new)

Text proposed by the Commission

Amendment

(oa) identify any breach of accounting or legal requirements that are significant to the governance of the entity or to its continued operation;

Amendment 123

Proposal for a regulation Article 22 – paragraph 2 – point q

Text proposed by the Commission

Amendment

(q) declare that the non-audit services referred to in Article 10(3) were not provided and that the statutory auditor(s) or

(q) declare that the **prohibited** non-audit services referred to in Article 10(3) were not provided and that the statutory

the audit firm(s) remained **completely** independent in conducting the audit. Where the statutory audit was carried out by an audit firm, the report shall **identify each member of the audit engagement team and shall** state that all members remained **completely** independent **and had no direct or indirect interest in** the audited entity;

auditor(s) or the audit firm(s) remained independent in conducting the audit; **indicate the assurance services, tax advisory services and other non-audit services referred to in Article 10(2) provided to the public-interest entity, as approved by the audit committee.** Where the statutory audit was carried out by an audit firm, the report shall state that all members **of the engagement team** remained independent **of** the audited entity;

Amendment 124

Proposal for a regulation Article 22 – paragraph 2 – point r

Text proposed by the Commission

Amendment

(r) indicate the non-audit services referred to in Article 10(3)(b)(i) and (ii) that the audit committee allowed the statutory auditor or the audit firm to provide to the audited entity;

deleted

Amendment 125

Proposal for a regulation Article 22 – paragraph 2 – point s

Text proposed by the Commission

Amendment

(s) indicate the non-audit services referred to in Article 10(3)(b)(iii) and (iv) that the competent authority referred to in Article 35(1) allowed the statutory auditor or the audit firm to provide to the audited entity;

deleted

Amendment 126

Proposal for a regulation Article 22 – paragraph 2 – point t

Text proposed by the Commission

Amendment

(t) give an opinion which shall state clearly the opinion of the statutory auditor(s) or the audit firm(s) as to whether the annual

(t) give an opinion which shall state clearly the opinion of the statutory auditor(s) or the audit firm(s) as to whether the annual

or consolidated financial statements give a true and fair view *and have been prepared in accordance with the relevant financial reporting framework and, where appropriate, whether the annual or consolidated financial statements* comply with statutory requirements; the audit opinion shall be either *unqualified*, qualified, an adverse opinion or, if the statutory auditor(s) or audit firm(s) are unable to express an audit opinion, a disclaimer of opinion. In case of a qualified or an adverse opinion or a disclaimer of opinion, the report shall explain the reasons *of* such decision;

or consolidated financial statements give a true and fair view *of the financial position of the individual entity or consolidated group and of its financial performance and its cash flows and* comply with statutory *accounting* requirements; the audit opinion shall be either *unmodified*, qualified, an adverse opinion or, if the statutory auditor(s) or audit firm(s) are unable to express an audit opinion, a disclaimer of opinion. In *the* case of a qualified or an adverse opinion or a disclaimer of opinion, the report shall explain the reasons *for* such decision;

Amendment 127

Proposal for a regulation

Article 22 – paragraph 2 – point u

Text proposed by the Commission

(u) refer to any matters to which the statutory auditor(s) or the audit firm(s) draw attention by way of emphasis without *qualifying* the audit opinion;

Amendment

(u) refer to any *other* matters to which the statutory auditor(s) or the audit firm(s) *also* draw attention by way of emphasis without *modifying* the audit opinion;

Amendment 128

Proposal for a regulation

Article 22 – paragraph 2 – point v

Text proposed by the Commission

(v) *give an opinion concerning the consistency or otherwise of the annual report with the annual financial statements for the same fiscal year;*

Amendment

deleted

Amendment 129

Proposal for a regulation

Article 22 – paragraph 2 – point w

Text proposed by the Commission

Amendment

(w) identify where the statutory auditor(s) or audit firm(s) is established.

deleted

Amendment 130

Proposal for a regulation Article 22 – paragraph 3

Text proposed by the Commission

Amendment

3. When more than one statutory auditor or audit firm *have* been appointed to carry out the statutory audit of the public-interest entity, **they** shall agree on the results of the statutory audit and submit a joint report and opinion. ***In case of disagreement, each statutory auditor or audit firm shall submit his, her or its opinion separately. If one statutory auditor or audit firm qualifies his, her or its opinion, submits an adverse opinion or a disclaimer of opinion, the overall opinion shall be considered as qualified, adverse opinion or a disclaimer of opinion. In a separate paragraph each statutory auditor or audit firm shall state the reasons of disagreement.***

3. When more than one statutory auditor or audit firm *has* been appointed to carry out the statutory audit of the public-interest entity, ***the statutory auditors or audit firms in question*** shall agree on the results of the statutory audit and submit a joint report and opinion.

Amendment 131

Proposal for a regulation Article 22 – paragraph 4

Text proposed by the Commission

Amendment

4. The audit report shall not ***be longer than four pages or 10000 characters (without spaces)***. ***It shall not*** contain any cross-references to the additional report to the audit committee referred to in Article 23.

4. The audit report shall not contain any cross-references to the additional report to the audit committee referred to in Article 23.

Amendment 132

Proposal for a regulation Article 22 – paragraph 5

Text proposed by the Commission

5. The audit report shall be signed and dated by the statutory auditor(s) or the audit firm(s). Where an audit firm carries out the statutory audit, the audit report shall be signed by **at least** the statutory auditor(s) carrying out the statutory audit on behalf of the audit firm.

Amendment

5. The audit report shall be signed and dated by the statutory auditor(s) or the audit firm(s). Where an audit firm carries out the statutory audit, the audit report shall be signed by the statutory auditor(s) carrying out the statutory audit on behalf of the audit firm.

Amendment 133

Proposal for a regulation Article 22 – paragraph 6

Text proposed by the Commission

Article 35 of Directive [XXX] on the annual financial statements and the related reports of certain types of undertakings shall not apply to audit reports of public-interest entities.

Amendment

deleted

Amendment 134

Proposal for a regulation Article 23 – paragraph 1 – subparagraph 3

Text proposed by the Commission

The audit committee or the body performing equivalent functions shall **be allowed to** transmit the additional report to the management, administrative or supervisory body of the audited entity.

Amendment

The audit committee or the body performing equivalent functions shall transmit the additional report to the management, administrative or supervisory body of the audited entity.

Amendment 135

Proposal for a regulation Article 23 – paragraph 1 – subparagraph 4

Text proposed by the Commission

Amendment

The additional report shall be disclosed to the general meeting of the audited entity if the management or administrative body of the audited entity so decides.

deleted

Amendment 136

Proposal for a regulation

Article 23 – paragraph 2 – point a

Text proposed by the Commission

Amendment

(a) include a declaration of independence as provided for in point (q) of Article 22(2);

(a) include a declaration of independence;

Amendment 137

Proposal for a regulation

Article 23 – paragraph 2 – point b

Text proposed by the Commission

Amendment

(b) identify the dates of the meetings with the audit committee or the body performing equivalent functions within the audited entity;

(b) describe the nature and extent of communication with the audit committee, the management body and the administrative or supervisory body of the audited entity, including the frequency of such communication;

Amendment 138

Proposal for a regulation

Article 23 – paragraph 2 – point c

Text proposed by the Commission

Amendment

(c) identify the dates of the meetings, if any, with the management, administrative or supervisory body of the audited entity;

deleted

Amendment 139

Proposal for a regulation

Article 23 – paragraph 2 – point d

Text proposed by the Commission

Amendment

(d) describe the appointment procedure;

deleted

Amendment 140

Proposal for a regulation

Article 23 – paragraph 2 – point e

Text proposed by the Commission

Amendment

(e) describe the distribution of tasks among the statutory auditor(s) and/or the audit firm(s);

(e) include a description of the scope and timing of the audit, and where relevant describe:

– the distribution **and, where appropriate, the rotation** of tasks among the statutory auditor(s) and/or the audit firm(s); **and**

– **which audit work has been performed by third-country auditor(s), statutory auditor(s), third-country audit entity(ies) or audit firm(s) in the case of a statutory audit of consolidated financial statements;**

Amendment 141

Proposal for a regulation

Article 23 – paragraph 2 – point e a (new)

Text proposed by the Commission

Amendment

(ea) include significant findings from the statutory audit including:

(i) a statement of events or conditions identified in the course of the statutory audit that may cast significant doubt on the audited entity's ability to continue as a going concern and whether those events or conditions constitute a material

uncertainty;

(ii) summary information on guarantees, comfort letters, undertakings of public intervention and other support measures that have been relied upon when making a going concern assessment;

(iii) details of material errors or omissions in the accounting records, the annual or consolidated financial statements and other reports subject to audit – if those were used and influenced the financial statements – identified during the course of the statutory audit;

(iv) matters involving non-compliance with laws and regulations identified during the course of the statutory audit, in so far as they are considered to be relevant in order to enable the audit committee to fulfil its tasks;

(v) significant deficiencies in internal control that have been identified. For each such significant deficiency, the additional report shall state whether or not the deficiency in question has been resolved by the management. In addition, it shall include information regarding any additional audit procedures performed to compensate for the deficiency in the entity's internal control in the specific areas concerned;

(vi) the views of the statutory auditor or audit firm about the significant qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates, valuations and financial statement disclosures;

(vii) significant judgements as regards the application of principles of consolidation in the case of a statutory audit of consolidated financial statements;

(viii) a statement of significant difficulties encountered during the audit;

(ix) a statement of significant matters arising from the audit that were discussed,

or the subject of correspondence, with the management;

(x) a statement of any other matters arising from the statutory audit that, in the auditor's professional judgement, are significant to the oversight of the financial reporting process;

(xi) a statement as to whether all requested explanations and documents were provided by the audited entity.

Amendment 142

Proposal for a regulation Article 23 – paragraph 2 – point f

Text proposed by the Commission

Amendment

(f) indicate and explain judgments about material uncertainty that may cast doubt about the entity's ability to continue as a going concern;

deleted

Amendment 143

Proposal for a regulation Article 23 – paragraph 2 – point g

Text proposed by the Commission

Amendment

(g) determine in detail whether the bookkeeping, the accounting, all audited documents, the annual or consolidated financial statements and possible additional reports show appropriateness;

deleted

Amendment 144

Proposal for a regulation Article 23 – paragraph 2 – point h

Text proposed by the Commission

Amendment

(h) indicate and explain in detail all instances of non-compliance, including non-material instances as far as it is considered to be important to the audit committee in order to fulfil its tasks;

deleted;

Amendment 145

Proposal for a regulation

Article 23 – paragraph 2 – point i

Text proposed by the Commission

Amendment

(i) assess the valuation methods applied to the various items in the annual or consolidated financial statements including any impact of changes of such;

deleted

Amendment 146

Proposal for a regulation

Article 23 – paragraph 2 – point j

Text proposed by the Commission

Amendment

(j) provide full details of all guarantees, comfort letters, undertakings of public intervention and other support measures that have been relied upon when making a going concern assessment;

deleted

Amendment 147

Proposal for a regulation

Article 23 – paragraph 2 – point k

Text proposed by the Commission

Amendment

(k) confirm the attendance at stock takes as well as other instances of physical verification, in case such stock takes or

deleted

verifications took place;

Amendment 148

Proposal for a regulation

Article 23 – paragraph 2 – point l

Text proposed by the Commission

Amendment

(l) indicate and explain the principles of consolidation in the case of a statutory audit of consolidated financial statements;

deleted

Amendment 149

Proposal for a regulation

Article 23 – paragraph 2 – point m

Text proposed by the Commission

Amendment

(m) indicate which audit work is performed by third-country auditor(s), statutory auditor(s), third-country audit entity(ies) or audit firm(s) in case of a statutory audit of consolidated financial statements;

deleted

Amendment 150

Proposal for a regulation

Article 23 – paragraph 2 – point n

Text proposed by the Commission

Amendment

(n) indicate whether all requested explanations and documents were provided by the audited entity.

deleted

Amendment 151

Proposal for a regulation

Article 23 – paragraph 4

Text proposed by the Commission

4. The additional report to the audit committee shall be signed and dated by the statutory auditor(s) or the audit firm(s). Where an audit firm carries out the statutory audit, the additional report to the audit committee shall be signed by **at least** the statutory auditor(s) carrying out the statutory audit on behalf of the audit firm.

Amendment

4. The additional report to the audit committee shall be signed and dated by the statutory auditor(s) or the audit firm(s). Where an audit firm carries out the statutory audit, the additional report to the audit committee shall be signed by the statutory auditor(s) carrying out the statutory audit on behalf of the audit firm.

Amendment 152

**Proposal for a regulation
Article 23 – paragraph 5**

Text proposed by the Commission

5. Upon request, the statutory auditors(s) or the audit firms(s) shall make available without delay the additional report to the competent authorities.

Amendment

deleted

Amendment 153

**Proposal for a regulation
Article 24 – paragraph 2**

Text proposed by the Commission

The statutory auditor(s) or audit firm(s) shall report to the audit committee on key matters arising from the statutory audit, and in particular on **material weaknesses** in internal control in relation to the financial reporting process. Upon request of any of the parties, the statutory auditor(s) or audit firm(s) shall discuss **these** matters with the audit committee.

Amendment

The statutory auditor(s) or audit firm(s) shall report to the audit committee on key matters arising from the statutory audit, and in particular on **significant deficiencies** in internal control in relation to the financial reporting process. Upon request of any of the parties, the statutory auditor(s) or audit firm(s) shall discuss **those** matters with the audit committee.

Amendment 154

**Proposal for a regulation
Article 24 – paragraph 4**

Text proposed by the Commission

In is the instance of the audited entity ***being*** exempted from the obligation to have an audit committee, the audited entity shall decide which body or organ of the entity *shall* engage with the statutory auditor or audit firm for the purposes of the obligations set out in this Article.

Amendment

Where the audited entity ***is*** exempted from the obligation to have an audit committee, the audited entity shall decide which body or organ of the entity *is to* engage with the statutory auditor or audit firm for the purposes of the obligations set out in this Article.

Amendment 155

Proposal for a regulation

Article 25 – paragraph 1 – subparagraph 1 – introductory wording

Text proposed by the Commission

1. Without prejudice to Article 55 of Directive 2004/39/EC, Article 53 of Directive 2006/48/EC of the European Parliament and of the Council, Article 15(4) of Directive 2007/64/EC, Article 106 of Directive 2009/65/EC, the first paragraph of Article 3 of Directive 2009/110/EC and Article 72 of Directive 2009/138/EC of the European Parliament and of the Council, the statutory auditor or audit firm carrying out the statutory audit of a public-interest entity shall have a duty to report promptly to the competent authorities supervising public-interest entities any ***fact or decision*** concerning that public-interest entity of which he, she or it has become aware ***while*** carrying out ***that*** statutory audit and which is liable to bring about any of the following:

Amendment

1. Without prejudice to Article 55 of Directive 2004/39/EC, Article 53 of Directive 2006/48/EC of the European Parliament and of the Council, Article 15(4) of Directive 2007/64/EC, Article 106 of Directive 2009/65/EC, the first paragraph of Article 3 of Directive 2009/110/EC and Article 72 of Directive 2009/138/EC of the European Parliament and of the Council, the statutory auditor or audit firm carrying out the statutory audit of a public-interest entity ***as defined in point 13 of Article 2 of Directive 2006/43/EC*** shall have a duty to report promptly to the competent authorities supervising public-interest entities any ***information*** concerning that public-interest entity of which he, she or it has become aware ***in the course of*** carrying out ***the*** statutory audit and which ***has brought about or*** is liable to bring about any of the following:

Amendment 156

Proposal for a regulation

Article 25 – paragraph 1 – subparagraph 1 – point b

Text proposed by the Commission

Amendment

(b) **the impairment of** the continuous functioning of the public-interest entity;

(b) **a material threat to, or doubt concerning,** the continuous functioning of the public-interest entity;

Amendment 157

Proposal for a regulation

Article 25 – paragraph 1 – subparagraph 1 – point c

Text proposed by the Commission

Amendment

(c) a refusal to **certify** the financial statements or the **expression of reservations**.

(c) a refusal to **issue an audit opinion on** the financial statements or the **issuing of an adverse disclaimed or qualified opinion**.

Amendment 158

Proposal for a regulation

Article 25 – paragraph 1 – subparagraph 2

Text proposed by the Commission

Amendment

The statutory auditor or the audit firm shall also have a duty to report any facts and decisions of which he, she or it becomes aware in the course of carrying out the statutory audit of an undertaking **having close links with** the public-interest entity for which he, she or it is also carrying out the statutory audit.

The statutory auditor or the audit firm shall also have a duty to report any information **referred to in point (a), (b) or (c) of the first subparagraph** of which he, she or it becomes aware in the course of carrying out the statutory audit of an undertaking **controlled by** the public-interest entity for which he, she or it is also carrying out the statutory audit.

Amendment 159

Proposal for a regulation

Article 25 – paragraph 2 – subparagraph 1

Text proposed by the Commission

Amendment

Competent authorities supervising **credit institutions and insurance undertakings**

Competent authorities supervising **public-interest entities** shall establish regular a

shall establish regular a dialogue with the statutory auditors and audit firms carrying out the statutory audit of those institutions and undertakings.

dialogue with the statutory auditors and audit firms carrying out the statutory audit of those institutions and undertakings. ***The competent authority and the statutory auditor or audit firm concerned shall inform each other and the audited entity about relevant facts or decisions referred to in paragraph 1.***

At least once a year, the European Systemic Risk Board (ESRB) shall organise a meeting with the statutory auditors and audit firms or networks carrying out the statutory audit of any FSB-identified systemically important financial institutions in order to inform the ESRB of sectoral or any significant developments in those systemically important financial institutions.

Amendment 160

Proposal for a regulation Article 25 – paragraph 3

Text proposed by the Commission

3. The disclosure in good faith to the competent authorities, by the statutory auditor or audit firm, of any fact or decision referred to in paragraph 1 or of any fact during the dialogue ***foreseen*** in paragraph 2 shall not constitute a breach of any contractual or legal restriction on disclosure of information and shall not involve such persons in liability of any kind.

Amendment

3. The disclosure in good faith to the competent authorities ***or to the bodies responsible for financial stability***, by the statutory auditor or audit firm, of any fact, ***information, opinion*** or decision referred to in paragraph 1 or of any fact, ***information or opinion emerging*** during the dialogue ***provided for in*** paragraph 2 shall not constitute a breach of any contractual or legal restriction on disclosure of information and shall not involve such persons in liability of any kind.

Amendment 161

Proposal for a regulation

Article 26 – paragraph 1 – subparagraph 2

Text proposed by the Commission

Statutory auditors who carry out statutory audits of public-interest entities shall ***publish*** their annual income statement.

Amendment

Statutory auditors who carry out statutory audits of public-interest entities shall ***make public*** their annual income statement ***at the latest four months after the end of each financial year.***

Amendment 162

Proposal for a regulation

Article 26 – paragraph 2 – subparagraph 1

Text proposed by the Commission

2. The annual financial report and the annual income statement shall show the total turnover divided into fees from the statutory audit of annual and consolidated financial statements of public-interest entities and entities belonging to a group of undertakings whose parent undertaking is a public-interest entity, fees from the statutory audit of annual and consolidated financial statements of other entities and fees charged for ***related financial audit*** services as defined in Article 10(2).

Amendment

2. The annual financial report and the annual income statement shall show the total turnover divided into fees from the statutory audit of annual and consolidated financial statements of public-interest entities and entities belonging to a group of undertakings whose parent undertaking is a public-interest entity, fees from the statutory audit of annual and consolidated financial statements of other entities and fees charged for ***assurance services, tax advisory services and other non-audit*** services as defined in Article 10(2).

Amendment 163

Proposal for a regulation

Article 26 – paragraph 2 – subparagraph 2

Text proposed by the Commission

The annual financial report ***or*** the annual income statement shall be ***audited in accordance with the provisions of this Regulation.***

Amendment

The annual financial report ***and*** the annual income statement shall be ***subject to statutory audit.***

Amendment 164

Proposal for a regulation

Article 26 – paragraph 3 – subparagraph 1 – introductory wording

Text proposed by the Commission

3. Where the statutory auditor or the audit firm belongs to a network, the statutory auditor or the audit firm shall provide the following additional information in the annual financial report or as an annex to the annual income statement:

Amendment

3. Where the statutory auditor or the audit firm belongs to a network, the statutory auditor or the audit firm shall provide the following additional information in the annual financial report or as an annex to the annual income statement, ***or in the transparency report required by Article 27:***

Amendment 165

Proposal for a regulation

Article 26 – paragraph 3 – point d

Text proposed by the Commission

(d) ***the audited consolidated financial statements for the network and***, where there is a legal entity governing the network, the audited financial statements of such legal entity prepared in accordance with Article 4(3) of Directive 2004/109/EC.

Amendment

(d) where there is a legal entity governing the network, the audited financial statements of such legal entity prepared in accordance with Article 4(3) of Directive 2004/109/EC.

Amendment 166

Proposal for a regulation

Article 26 – paragraph 4

Text proposed by the Commission

The annual financial report or annual income statement shall be published on the website of the statutory auditor or the audit firm and shall remain available on that website for at least five years.

Amendment

The annual financial report or annual income statement shall be published on the website of the statutory auditor or the audit firm and shall remain available on that website for at least five years ***from the date of its publication on the website.***

Amendment 167

Proposal for a regulation

Article 27 – paragraph 1 – subparagraph 1

Text proposed by the Commission

1. A statutory auditor or an audit firm that carries out statutory audit(s) of public-interest entities shall make public an annual transparency report at the latest **three** months after the end of each financial year. The annual transparency report shall be published on the website of the statutory auditor or audit firm and shall remain available on that website for at least five years.

Amendment

1. A statutory auditor or an audit firm that carries out statutory audit(s) of public-interest entities shall make public an annual transparency report at the latest **four** months after the end of each financial year. The annual transparency report shall be published on the website of the statutory auditor or audit firm and shall remain available on that website for at least five years **from the day of its publication on the website.**

Amendment 168

Proposal for a regulation

Article 27 – paragraph 1 – subparagraph 3

Text proposed by the Commission

Statutory auditors and audit firms shall communicate to ESMA and to the competent authorities that the transparency report has been published on the website of the statutory auditor or audit firm or, as appropriate, that it has been updated.

Amendment

deleted

Amendment 169

Proposal for a regulation

Article 27 – paragraph 2 – subparagraph 1 – point c

Text proposed by the Commission

(c) a description of the governance structure of the audit firm;

Amendment

(c) a description of the governance structure of the audit firm, ***including the composition and operation of its administrative, management and supervisory bodies and their committees;***

Amendment 170

Proposal for a regulation

Article 27 – paragraph 2 – subparagraph 1 – point f

Text proposed by the Commission

(f) a list of public-interest entities for which the statutory auditor or audit firm has carried out statutory audits during the preceding financial year **and a list of the entities from which the statutory auditor or audit firm receives more than 5% of its annual revenue;**

Amendment

(f) a list of public-interest entities for which the statutory auditor or audit firm has carried out statutory audits during the preceding financial year;

Amendment 171

Proposal for a regulation

Article 27 – paragraph 2 – subparagraph 1 – point k

Text proposed by the Commission

(k) **where appropriate, a corporate governance statement.**

Amendment

(k) **a reference to at least one of the following:**

i) the corporate governance code to which the audit firm is subject,

(ii) the corporate governance code which the audit firm may have voluntarily decided to apply;

(iii) all relevant information about the corporate governance practices applied beyond the requirements under national law.

Where the information referred to in points (i) and (ii) is included, the audit firm shall also indicate where the relevant texts are publicly available. Where the information referred to in point (iii) is included, the audit firm shall make its corporate governance practices publicly available;

If applicable, the statutory auditor or audit firm shall include a explanation of

the extent to which, in accordance with national law, the statutory auditor or audit firm departs from a corporate governance code referred to in points (a)(i) or (ii). Where the audit firm has decided not to apply any provisions of a corporate governance code referred to in points (a)(i) or (ii), it shall explain its reasons for doing so;

If the audit firm is not subject to any corporate governance code and does not voluntarily apply one, it shall state so.

Amendment 172

Proposal for a regulation Article 28

Text proposed by the Commission

Amendment

Article 28

deleted

Corporate governance statement

1. Where an audit firm generates more than one third of its annual audit revenues from large public-interest entities, it shall make public a corporate governance statement. That statement shall be included as a specific section of the Transparency Report.

2. The corporate governance statement shall at least include the following information:

(a) a reference to at least one of the following:

(i) the corporate governance code to which the audit firm is subject,

(ii) the corporate governance code which the audit firm may have voluntarily decided to apply;

(iii) all relevant information about the corporate governance practices applied beyond the requirements under national law.

Where the information referred to in points (i) and (ii) is included, the audit

firm shall also indicate where the relevant texts are publicly available. Where the information referred to in point (iii) is included, the audit firm shall make its corporate governance practices publicly available;

If the audit firm is not subject to any corporate governance code and does not voluntarily apply one, it shall state so.

(b) the extent to which an audit firm, in accordance with national law, departs from a corporate governance code referred to in points (a)(i) or (ii), an explanation by the audit firm as to which parts of the corporate governance code it departs from and the reasons for doing so. Where the audit firm has decided not to apply any provisions of a corporate governance code referred to in points (a)(i) or (ii), it shall explain its reasons for doing so;

(c) a description of the main features of the undertaking's internal control and risk management systems in relation to the financial reporting process;

(d) the following information:

(i) significant direct and indirect holdings of voting rights equal to or exceeding 5 % of the total voting rights in the audit firm, including indirect holdings of voting rights through pyramid structures and cross holdings of voting rights;

(ii) the identity of the holders of any special control rights and a description of those rights, whether such rights results from the holding of any securities, by contract or otherwise;

(iii) any restrictions on voting rights, including limitations of the voting rights of holders of a given percentage or number of votes, deadlines for exercising voting rights,

(iv) the rules governing the appointment and replacement of board members and the amendment of the articles of association;

(v) the powers of board members;

(e) unless the information is already fully provided for in national laws or regulations, the operation of the meeting of shareholders or holders of voting rights and its key powers, and a description of shareholders' or voting rights holders' rights and how they can be exercised;
(f) the composition and operation of the administrative, management and supervisory bodies and their committees.

Justification

The statement does not include additional relevant information in particular with regard to the transparency report in Article 27. The Article can therefore be deleted.

Amendment 173

Proposal for a regulation
Article 29

Text proposed by the Commission

A statutory auditor or audit firm shall provide annually to his, her or its competent authority a list of the **audited** public-interest entities **by revenue generated from them**.

Amendment

A statutory auditor or audit firm shall provide annually to his, her or its competent authority a list of **all** the public-interest entities **audited by that statutory auditor or audit firm, together with details of the services provided to, and the fees paid by, each of those public-interest entities**.

Amendment 174

Proposal for a regulation
Article 30 – subparagraph 1

Text proposed by the Commission

Statutory auditors and audit firms shall keep the documents and information referred to in **Article 6(1), Article 9(3), Article 11(3) and (4), Article 16(2) to (6), Article 17(1) and (2), Article 18(1) and (3), Article 19(3) to (6)**, Articles 22, 23 and 24, Article 25(1) and (2), Article 29, Article 32(2), (3), (5) and (6), Article 33(6)

Amendment

Statutory auditors and audit firms shall keep the documents and information referred to in Articles 22, 23 and 24, Article 25(1) and (2), Article 29, Article 32(2), (3), (5) and (6), Article 33(6) and Article 43(4) for a period of five years following the production of such documents or information.

and Article 43(4) for a period of five years following the production of such documents or information.

Amendment 175

Proposal for a regulation

Article 31

Text proposed by the Commission

Amendment

Article 31

deleted

Audit Committee

1. Each public-interest entity shall have an audit committee. The audit committee shall be composed of non-executive members of the administrative body and/or members of the supervisory body of the audited entity and/or members appointed by the general meeting of shareholders of the audited entity or, for entities without shareholders, by an equivalent body.

At least one member of the audit committee shall have competence in auditing and another member in accounting and/or auditing. The committee members as a whole shall have competence relevant to the sector in which the audited entity is operating. A majority of the members of the audit committee shall be independent. The chairman of the audit committee shall be appointed by its members and shall be independent.

2. By derogation from paragraph 1 of this Article, in public-interest entities which meet the criteria set out in points (f) and (t) of Article 2(1) of Directive 2003/71/EC of the European Parliament and of the Council, the functions assigned to the audit committee may be performed by the administrative or supervisory body as a whole, provided at least that where the

¹ OJ L 345, 31.12.2003 p.64.

chairman of such a body is an executive member, he or she is not the chairman of the audit committee.

3. By derogation from paragraph 1, the following public-interest entities may decide not to have an audit committee:

(a) any public-interest entity which is a subsidiary undertaking within the meaning of Article 1 of Directive 83/349/EEC if the entity complies with the requirements in paragraphs 1 to 4 of that Article at group level;

(b) any public-interest entity which is an undertaking for collective investment in transferable securities (UCITS) as defined in Article 1(2) of Directive 2009/65/EC or an alternative investment fund (AIF) as defined in Article 4(1)(a) of Directive 2011/61/EU;

(c) any public-interest entity the sole business of which is to act as issuer of asset backed securities as defined in Article 2(5) of Commission Regulation (EC) No 809/2004;

(d) any credit institution within the meaning of Article 1(1) of Directive 2006/48/EC whose shares are not admitted to trading on a regulated market of any Member State within the meaning of point 14 of Article 4(1) of Directive 2004/39/EC and which has, in a continuous or repeated manner, issued only debt securities admitted to trading in a regulated market, provided that the total nominal amount of all such debt securities remains below EUR 100 000 000 and that it has not published a prospectus under Directive 2003/71/EC. The public-interest entities referred to in points (b) and (c) shall explain to the public the reasons for which it considers it not appropriate to have either an audit committee or an administrative or supervisory body entrusted to carry out the functions of an audit committee.

4. By derogation from paragraph 1, a

¹ OJ L 149, 30.04.2004, p. 1.

public-interest entity that has a body performing equivalent functions to an audit committee, established and functioning according to provisions in place in the Member State in which the entity to be audited is registered, may decide not to have an audit committee. In such a case the entity shall disclose which body carries out those functions and how that body is composed.

5. Without prejudice to the responsibility of the members of the administrative, management or supervisory bodies, or of other members who are appointed by the general meeting of shareholders of the audited entity, the audit committee shall, inter alia:

- (a) monitor financial reporting process and submit recommendations or proposals to ensure its integrity;*
- (b) monitor the effectiveness of the undertaking's internal control, internal audit where applicable, and risk management systems;*
- (c) monitor the statutory audit of the annual and consolidated financial statements and supervise the completeness and integrity of the draft audit reports in accordance with Articles 22 to 23;*
- (d) review and monitor the independence of the statutory auditors or audit firms in accordance with Articles 5 to 11, and in particular the provision of additional services to the audited entity in accordance with Article 10;*
- (e) be responsible for the procedure on the selection of statutory auditor(s) or audit firm(s) and recommend the statutory auditor(s) or audit firm(s) to be appointed in accordance with Article 32;*
- (f) authorise, on a case by case basis, the provision by the statutory auditor or audit firm of the services referred to in Article 10(3)(b)(i) and (ii) of this Regulation to the audited entity.*

Article 31 is moved to Article 38 a (new) of

Amendment 176

Proposal for a regulation

Article 32 – paragraph 1 – subparagraph 1

Text proposed by the Commission

1. For the purposes of the application of Article 37 of Directive 2006/43/EC, for the appointment of statutory auditors or audit firms by public-interest entities, the conditions set out in paragraphs 2 to 5 of this Article shall apply.

Amendment

1. For the purposes of the application of Article 37(1) of Directive 2006/43/EC, for the appointment of statutory auditors or audit firms by public-interest entities, the conditions set out in paragraphs 2 to 6 of this Article shall apply, **but may be subject to paragraph 9.**

Amendment 177

Proposal for a regulation

Article 32 – paragraph 1 – subparagraph 2

Text proposed by the Commission

Where Article 37(2) of Directive 2006/43/EC applies, the public-interest entity shall inform the competent authority of the use of the alternative systems or modalities referred to in that Article.

Amendment

Where Article 37(2) of Directive 2006/43/EC applies, the public-interest entity shall inform the competent authority of the use of the alternative systems or modalities referred to in that Article. **In such cases, paragraphs 2 to 6 of this Article shall not apply.**

Amendment 178

Proposal for a regulation

Article 32 – paragraph 2 – subparagraph 1

Text proposed by the Commission

The audit committee shall submit a recommendation to the administrative or supervisory board of the audited entity for the appointment of statutory auditors or audit firms. **The audit committee shall**

Amendment

The audit committee shall submit a recommendation to the administrative or supervisory board of the audited entity for the appointment of statutory auditors or audit firms.

justify the recommendation made.

Amendment 179

Proposal for a regulation

Article 32 – paragraph 2 – subparagraph 3

Text proposed by the Commission

Amendment

When it concerns the renewal of an audit engagement in accordance with the second subparagraph of Article 33(1), the audit committee shall, for the preparation of its recommendation, take into consideration any findings and conclusions on the recommended statutory auditor or audit firm referred to in Article 40(6) and published by the competent authority pursuant to Article 44(d).

deleted

Amendment 180

Proposal for a regulation

Article 32 – paragraph 2 – subparagraph 4

Text proposed by the Commission

Amendment

In its recommendation, the audit committee shall state that its recommendation is free from influence by a third party and that no contractual clause as referred to in paragraph 7 has been imposed upon it.

The audit committee shall state that its recommendation is free from influence by a third party and that no contractual clause as referred to in paragraph 7 has been imposed upon it.

Amendment 181

Proposal for a regulation

Article 32 – paragraph 3 – subparagraph 1 – introductory wording

Text proposed by the Commission

Amendment

3. Unless it concerns the renewal of an audit engagement in accordance with the second subparagraph of Article 33(1), the

3. Unless it concerns the renewal of an audit engagement in accordance with the second subparagraph of Article 33(1), the

recommendation of the audit committee referred to in paragraph 2 *of this Article*, shall be prepared following a selection procedure organized by the audited entity respecting the following criteria:

recommendation of the audit committee referred to in paragraph 2 shall be prepared following a selection procedure organised by the audited entity respecting the following criteria:

Amendment 182

Proposal for a regulation

Article 32 – paragraph 3 – subparagraph 1 – point a

Text proposed by the Commission

(a) the audited entity shall be free to invite any statutory auditors or audit firms to submit proposals for the provision of the statutory audit service on the condition that Article 33(2) is respected and that ***at least one of the invited auditors or firms is not one*** who received ***more*** than 15% of the total audit fees from ***large*** public-interest entities in the Member State concerned in the previous calendar year;

Amendment

(a) the audited entity shall be free to invite any statutory auditors or audit firms to submit proposals for the provision of the statutory audit service on the condition that Article 33(2) is respected and that ***the organisation of the tender process does not in any way preclude the participation in the selection procedure of*** firms who received ***less*** than 15 % of the total audit fees from public-interest entities in the Member State concerned in the previous calendar year;

Amendment 183

Proposal for a regulation

Article 32 – paragraph 3 – subparagraph 1 – point b

Text proposed by the Commission

(b) the audited entity shall be free to choose the method to contact the invited statutory auditor(s) or audit firm(s) and shall not be required to publish a call for tenders in the Official Journal of the European Union and/or in national gazettes or newspapers;

Amendment

deleted

Amendment 184

Proposal for a regulation

Article 32 – paragraph 3 – subparagraph 1 – point c

Text proposed by the Commission

(c) the audited entity shall prepare tender documents *to the intention* of the invited statutory auditor(s) or audit firm(s). Those tender documents shall allow them to understand the business of the audited entity and the type of statutory audit that is to be carried out. The tender documents shall contain transparent and non-discriminatory selection criteria that shall be used by the audited entity to evaluate the proposals made by statutory auditors or audit firms;

Amendment

(c) the audited entity shall prepare tender documents, *subject to review by the audit committee, for the attention* of the invited statutory auditor(s) or audit firm(s). Those tender documents shall allow them to understand the business of the audited entity and the type of statutory audit that is to be carried out. The tender documents shall contain transparent and non-discriminatory selection criteria that shall be used by the audited entity to evaluate the proposals made by statutory auditors or audit firms;

Amendment 185

Proposal for a regulation

Article 32 – paragraph 3 – subparagraph 1 – point f

Text proposed by the Commission

(f) the audited entity shall evaluate *the proposals made by the statutory auditors or audit firms* in accordance with the selection criteria predefined in the tender documents. The audited entity shall prepare a report on the conclusions of the selection procedure, which shall be validated by the audit committee. The audited entity and the audit committee shall take into consideration any inspection report on the applicant statutory auditor or audit firm referred to in *Article 40(6)* and published by the competent authority pursuant to Article 44(d);

Amendment

(f) the audited entity shall evaluate *all tenders* in accordance with the selection criteria predefined in the tender documents. The audited entity shall prepare a report on the conclusions of the selection procedure, which shall be validated by the audit committee. The audited entity and the audit committee shall take into consideration any inspection report on the applicant statutory auditor or audit firm referred to in *Article 40(7)* and published by the competent authority pursuant to Article 44(d);

Amendment 186

Proposal for a regulation

Article 32 – paragraph 3 – subparagraph 1 – point g

Text proposed by the Commission

(g) the audited entity shall be able to demonstrate to the competent authority referred to in Article 35 that the selection procedure was conducted in a fair manner.

Amendment

(g) the audited entity shall be able, **upon request**, to demonstrate to the competent authority referred to in Article 35 that the selection procedure was conducted in a fair manner.

Amendment 187

Proposal for a regulation

Article 32 – paragraph 3 – subparagraph 2

Text proposed by the Commission

The audit committee shall be responsible for the selection procedure referred to in the first subparagraph.

Amendment

The audit committee shall be responsible for the selection procedure referred to in the first subparagraph **on behalf of the administrative or supervisory board**.

Amendment 188

Proposal for a regulation

Article 32 – paragraph 3 – subparagraph 3

Text proposed by the Commission

For the purposes of point (a) of the first subparagraph, the competent authority referred to in Article 35(1) shall make public a list of the auditors and audit firms concerned which shall be updated on an annual basis. The competent authority shall use the information provided by statutory auditors and audit firms pursuant to Article 28 to make the relevant calculations.

Amendment

For the purposes of point (a) of the first subparagraph, the competent authority referred to in Article 35(1) shall make public a list of the auditors and audit firms concerned which shall be updated on an annual basis. The competent authority shall use the information provided by statutory auditors and audit firms pursuant to Article 29 to make the relevant calculations.

Amendment 189

Proposal for a regulation

Article 32 – paragraph 4

Text proposed by the Commission

4. Public-interest entities which meet the

Amendment

4. Public-interest entities which meet the

criteria set out in points (f) and (t) of Article 2(1) of Directive 2003/71/EC shall not be required to apply the selection procedure referred to in *paragraph 4*.

criteria set out in points (f) and (t) of Article 2(1) of Directive 2003/71/EC shall not be required to apply the selection procedure referred to in *paragraph 3*.

Amendment 190

Proposal for a regulation

Article 32 – paragraph 5 – subparagraph 2

Text proposed by the Commission

If the proposal of the administrative or supervisory board departs from the recommendation of the audit committee, the proposal shall justify the reasons for not following the recommendation of the audit committee.

Amendment

If the proposal of the administrative or supervisory board departs from the recommendation of the audit committee, the proposal shall justify the reasons for not following the recommendation of the audit committee. ***However, the auditor or auditors recommended by the administrative or supervisory board must have participated in the selection procedure described in paragraph 3.***

Amendment 191

Proposal for a regulation

Article 32 – paragraph 6

Text proposed by the Commission

6. In the case of a credit institution or insurance undertaking, the administrative or supervisory board shall submit its draft proposal to the competent authority referred to in Article 35(2). The competent authority referred to in Article 35(2) shall have the right to veto the choice proposed in the recommendation. Any such opposition shall be duly justified.

The absence of a reply by the competent authority within the prescribed time-limit following submission of the audit

Amendment

6. In the case of a credit institution or insurance undertaking, the administrative or supervisory board shall submit its draft proposal to the competent authority referred to in Article 35(2), ***which shall submit them to ESMA. ESMA shall consult on such proposals with EBA and EIOPA.*** The competent authority referred to in Article 35(2) shall have the right to veto the choice proposed in the recommendation. Any such opposition shall be duly justified ***and notified to ESMA.***

The absence of a reply by the competent authority ***or ESMA*** within the prescribed time-limit following submission of the

committee's recommendation shall be considered as constituting an implied consent to the recommendation.

audit committee's recommendation shall be considered as constituting an implied consent to the recommendation.

Amendment 192

Proposal for a regulation

Article 32 – paragraph 7 – subparagraph 2

Text proposed by the Commission

The public-interest entity shall inform the competent authorities referred to in Article 35 of any attempt by a third party to impose such a contractual clause or to otherwise influence the decision of the general meeting of shareholders on the selection of a statutory auditor or audit firm.

Amendment

The public-interest entity shall inform the competent authorities referred to in Article 35 ***directly and without delay*** of any attempt by a third party to impose such a contractual clause or to otherwise influence the decision of the general meeting of shareholders on the selection of a statutory auditor or audit firm.

Amendment 193

Proposal for a regulation

Article 32 – paragraph 10

Text proposed by the Commission

10. In order to facilitate the exercise of the task of the audited entity to organize a selection procedure for the appointment of a statutory auditor or audit firm, EBA, EIOPA and ESMA shall issue guidelines addressed to the public-interest entities on the criteria governing the selection procedure referred to in paragraph 3, in accordance with Article 16 of Regulation (EU) No 1093/2010, of Regulation (EU) No 1094/2010 and of Regulation (EU) No 1095/2010, respectively.

Amendment

deleted

Amendment 194

Proposal for a regulation

Article 33 – paragraph 1

Text proposed by the Commission

1. The public-interest entity shall appoint a statutory auditor or audit firm for an initial engagement ***that shall not be shorter than two years.***

The public-interest entity may renew this engagement ***only once.***

The maximum duration of the combined ***two*** engagements ***shall*** not exceed ***6*** years.

Where ***throughout a continuous engagement of 6 years two statutory auditors or audit firms have been appointed, the maximum duration of the engagement of each statutory auditor or audit firm shall not exceed 9 years.***

Amendment 195

**Proposal for a regulation
Article 33 – paragraph 3**

Text proposed by the Commission

3. By way of derogation from paragraphs 1 and 2, on an exceptional basis the public-interest entity may request the competent authority referred to in Article 35(1) to grant an extension to re-appoint the statutory auditor or audit firm for an additional engagement. In case of appointment of two statutory auditors or audit firms, this third engagement shall not exceed three years. In case of appointment of one statutory auditor or audit firm, this third engagement shall not exceed two years.

Amendment

1. The public-interest entity shall appoint a statutory auditor or audit firm for an initial engagement ***of at least one year.***

The public-interest entity may renew this engagement.

Member States shall ensure that the maximum duration of the combined engagements does not exceed 14 years.

Where ***Article 37(2) of Directive 2006/43/EC applies, this Article shall not apply.***

Amendment

deleted

Amendment 196

Proposal for a regulation Article 32 – paragraph 3 a (new)

Text proposed by the Commission

Amendment

(3a) By way of derogation from paragraphs 1 and 2, Member States may provide for the maximum duration referred to in the third subparagraph of paragraph 1 to recommence if one or more of the following requirements is satisfied:

(a) a public tendering process for the statutory audit is conducted, in accordance with Article 32(2) to (6);

(b) a comprehensive assessment of the audit engagement is carried out by the audit committee. The comprehensive assessment shall be carried out in a transparent and systematic manner and shall include a consideration of the professional competencies the auditor or audit firm to perform the statutory audit, and compliance with the relevant ethical requirements and the international auditing standards referred to in Article 26 of Directive 2006/43/EC;

(c) two or more statutory auditors or audit firms are appointed according to Article 32(9), or reappointed;

The maximum duration referred to in the third subparagraph of paragraph 1 shall only recommence if, upon a recommendation of the audit committee, the administrative or supervisory board, acting in accordance with national law, proposes to the general meeting of shareholders that the engagement be renewed and that proposal is approved by the general meeting.

Prior to the proposal to the general meeting of shareholders the audited entity shall communicate the recommendation and explain upon

request its findings to the competent authority referred to in Article 35 (2).

Where one or more derogations are applied the total duration of the audit engagement period shall not exceed 25 years.

Amendment 197

Proposal for a regulation

Article 33 – paragraph 4 – subparagraph 1

Text proposed by the Commission

4. The key audit partner(s) responsible for carrying out a statutory audit shall cease his, her or their participation in the statutory audit of the audited entity after a period of seven years from the date of appointment has elapsed. He, she or they may participate in the statutory audit of the audited entity again after a period of at least three years.

Amendment

4. The key audit partner(s) responsible for carrying out a statutory audit shall cease his, her or their participation in the statutory audit of the audited entity after a **maximum** period of seven years from the date of appointment has elapsed. He, she or they may participate in the statutory audit of the audited entity again after **the expiry of** a period of at least three years **since the date on which he, she or they resigned as statutory auditor or key audit partner from the audit engagement.**

Amendment 198

Proposal for a regulation

Article 33 – paragraph 4 – subparagraph 2

Text proposed by the Commission

The statutory auditor or audit firm shall establish an appropriate gradual rotation mechanism with regard to the most senior personnel involved in the statutory audit, including at least the persons who are registered as statutory auditors. The gradual rotation mechanism shall be undertaken in phases on the basis of individuals rather than of **a complete** team. It shall be proportionate in view of the scale and the dimension of the activity of

Amendment

The statutory auditor or audit firm shall establish an appropriate gradual rotation mechanism with regard to the most senior personnel involved in the statutory audit, including at least the persons who are registered as statutory auditors. The gradual rotation mechanism shall be undertaken in phases on the basis of individuals rather than of **the entire engagement** team. It shall be proportionate in view of the scale and the dimension of

the statutory auditor or audit firm.

the activity of the statutory auditor or audit firm.

Amendment 199

Proposal for a regulation Article 33 – paragraph 6

Text proposed by the Commission

6. ESMA shall develop draft regulatory technical standards to specify technical requirements on the content of the handover file referred to in paragraph 6.

Power is delegated to the Commission to adopt the regulatory technical standards referred to in paragraph 6 in accordance with Article 10 of Regulation (EU) No 1095/2010.

Amendment

6. ESMA shall develop draft regulatory technical standards to specify technical requirements on the content of the handover file referred to in ***the first subparagraph of*** paragraph 5.

Power is delegated to the Commission to adopt the regulatory technical standards referred to in ***the first subparagraph*** in accordance with Article 10 of Regulation (EU) No 1095/2010.

Amendment 200

Proposal for a regulation Article 33 – paragraph 6 a (new)

Text proposed by the Commission

Amendment

6a. Article 32(8) shall apply mutatis mutandis.

Amendment 201

Proposal for a regulation Article 34 – paragraph 2 – subparagraph 1

Text proposed by the Commission

Amendment

2. The audit committee, one or more shareholders, the competent authorities referred to in Article 35(1) or 35(2) shall be able to bring a claim before a national court for the dismissal of the statutory auditor(s) or audit firm(s) where there are

2. The audit committee, one or more shareholders ***representing at least 5 per cent of the share capital, or*** the competent authorities referred to in Article 35(1) or 35(2) shall be able to bring a claim before a national court for the dismissal of the

proper grounds.

statutory auditor(s) or audit firm(s) where there are proper grounds.

Amendment 202

Proposal for a regulation

Article 35 – paragraph 1 – subparagraph 1

Text proposed by the Commission

Each Member State shall designate *a* competent **authority** responsible for carrying out the tasks provided for in this Regulation and for ensuring that the provisions of this Regulation are applied.

Amendment

Each Member State shall designate competent **authorities** responsible for carrying out the tasks provided for in this Regulation and for ensuring that the provisions of this Regulation are applied.

Amendment 203

Proposal for a regulation

Article 35 – paragraph 1 – subparagraph 2 – introductory wording

Text proposed by the Commission

The competent **authority** shall be one of the following:

Amendment

The competent **authorities** shall be one of the following:

Amendment 204

Proposal for a regulation

Article 35 – paragraph 2 – point b

Text proposed by the Commission

(b) Article 24(4)(h) of Directive 2004/109/EC;

Amendment

deleted

Amendment 205

Proposal for a regulation

Article 35 – paragraph 6 – subparagraph 1

Text proposed by the Commission

The Member States shall inform each

Amendment

The Member States shall inform each

other, *EBA, EIPA and ESMA in accordance with the relevant provisions of Regulations (EU) No 1093/2010, (EU) No 1094/2010 and (EU) No 1095/2010*, and *shall inform* the Commission of the appointment of competent authorities for the purposes of this Regulation.

other, and the Commission, of the appointment of competent authorities for the purposes of this Regulation.

Amendment 206

Proposal for a regulation Article 35 – paragraph 6 – subparagraph 2

Text proposed by the Commission

Amendment

ESMA shall consolidate this information and make it public.

deleted

Amendment 207

Proposal for a regulation Article 36 – paragraph 2 – introductory wording

Text proposed by the Commission

Amendment

A person shall not be involved in the governance of *those* authorities if in the course of the *three* previous years he or she:

A *natural* person shall not be involved in the governance of *the competent* authorities *referred to in Article 35(1)* if in the course of the previous *two* years he or she:

Amendment 208

Proposal for a regulation Article 36 – paragraph 2 – point d

Text proposed by the Commission

Amendment

(d) was an employee *or otherwise associated with* an audit firm.

(d) was an employee *in* an audit firm.

Amendment 209

Proposal for a regulation Article 36 – paragraph 3

Text proposed by the Commission

The funding of those authorities shall be secure and free from **any possible** undue influence by statutory auditors and audit firms.

Amendment

The funding of those authorities shall be secure and free from undue influence by statutory auditors and audit firms.

Amendment 210

Proposal for a regulation Article 36 – paragraph 3 a (new)

Text proposed by the Commission

Amendment

By way of derogation from the requirements set out in this Article, Member States may allow a minority of practitioners to be involved in the governance of the public oversight system.

Amendment 211

Proposal for a regulation Article 38 – paragraph 5

Text proposed by the Commission

Amendment

5. Where a cooperative within the meaning of *Article 2(14)* of Directive 2006/43/EC or a similar entity as referred to in Article 45 of Directive 86/635/EEC is required or permitted under national law to be a member of a non-profit-making auditing entity, ***the competent authority referred to in Article 35(1)*** may decide that certain provisions set out under this Regulation shall not apply to the statutory audit of such entity provided that the principles of independence laid down in Chapter I of this Regulation are complied with by the statutory auditor carrying out the statutory

5. Where a cooperative within the meaning of *point (14) of Article 2* of Directive 2006/43/EC, ***a savings bank*** or a similar entity as referred to in Article 45 of Directive 86/635/EEC ***or a subsidiary or a legal successor of such a cooperative, savings bank or similar entity*** is required or permitted under national law to be a member of a non-profit-making auditing entity, the ***Member State concerned*** may decide that certain provisions set out under this Regulation shall not apply to the statutory audit of such entity provided that the principles of independence laid down

audit and by persons who may be in a position to influence the statutory audit. ***For the purpose of deciding upon such exceptional situations of non-application of certain provisions of this Regulation, the competent authority referred to in Article 35(1) shall consult the supervisory authority of the cooperative or the similar entity where appropriate.***

in Chapter I of this Regulation are complied with by the statutory auditor carrying out the statutory audit and by persons who may be in a position to influence the statutory audit.

Amendment 212

Proposal for a regulation

Article 40 – paragraph 3 – subparagraph 1

Text proposed by the Commission

3. The competent authority shall ***be responsible*** for the quality assurance system and shall organise it in a manner that is ***independent of*** the reviewed statutory auditors and audit firms.

Amendment

3. The competent authority shall ***have ultimate responsibility*** for the quality assurance system and shall organise it in a manner that is ***free from undue influence by*** the reviewed statutory auditors and audit firms.

Amendment 213

Proposal for a regulation

Article 40 – paragraph 4 – subparagraph 3

Text proposed by the Commission

The competent authority may contract experts for carrying out specific inspections when the number of inspectors within the authority is insufficient. The competent authority may also be assisted by experts when this is essential for the proper conduct of an inspection. In such instances, the competent authorities and the experts shall comply with the requirements of this paragraph. ***Experts shall be independent from professional associations and bodies.***

Amendment

The competent authority may contract experts for carrying out specific inspections when the number of inspectors within the authority is insufficient. The competent authority may also be assisted by experts when this is essential for the proper conduct of an inspection. In such instances, the competent authorities and the experts shall comply with the requirements of this paragraph.

Amendment 214

Proposal for a regulation Article 42 – title

Text proposed by the Commission

Market monitoring

Amendment

Monitoring market quality and competitiveness

Amendment 215

Proposal for a regulation Article 42 – paragraph 1 – subparagraph 1

Text proposed by the Commission

The competent authorities referred to in Article 35(1) shall regularly monitor the developments in ***the market for*** providing statutory audit services to public-interest entities.

Amendment

The competent authorities referred to in Article 35(1) ***and the European Competition Network (ECN)*** shall regularly monitor the developments in providing ***high-quality*** statutory audit services to public-interest entities.

Amendment 216

Proposal for a regulation Article 42 – paragraph 1 – subparagraph 2 – introductory wording

Text proposed by the Commission

The competent authorities shall in particular assess the following:

Amendment

The competent authorities ***referred to in the first subparagraph*** shall in particular assess the following:

Amendment 217

Proposal for a regulation Article 42 – paragraph 1 – subparagraph 2 – point a

Text proposed by the Commission

(a) the risks arising from high concentration, including the demise of audit firms ***with significant market share,***

Amendment

(a) the risks arising from high concentration ***of quality deficiencies of a statutory auditor or audit firm,*** including

the disruption in the provision of statutory audit services whether in a specific sector or across sectors, the further accumulation of risk *in the market* and the impact on the overall stability of the financial sector;

systematic deficiencies within an audit firm network, which may lead to the demise of audit firms, the disruption in the provision of statutory audit services whether in a specific sector or across sectors, the further accumulation of risk *of audit deficiencies* and the impact on the overall stability of the financial sector;

Justification

The first objective of competent authorities is to be the guardian of audit quality. Therefore, it is necessary to refocus this reporting duty of competent authorities towards the goal of high audit quality.

Amendment 218

Proposal for a regulation

Article 42 – paragraph 1 – subparagraph 2 – point a a (new)

Text proposed by the Commission

Amendment

(aa) the market concentration levels, including at the level of specific sectors;

Amendment 219

Proposal for a regulation

Article 42 – paragraph 1 – subparagraph 2 – point a b (new)

Text proposed by the Commission

Amendment

(ab) the performance of audit committees in monitoring the quality of audit work and safeguarding the independence of auditors;

Amendment 220

Proposal for a regulation

Article 42 – paragraph 1 – subparagraph 2 – point b

Text proposed by the Commission

Amendment

(b) the need to adopt measures to mitigate

(b) the need to adopt measures to mitigate those risks, *which measures may be*

those risks.

legally binding;

Amendment 221

Proposal for a regulation

Article 42 – paragraph 2 – subparagraph 1

Text proposed by the Commission

By X X 20XX [2 years after the entry into force of the Regulation], and at least on a **two-year** basis thereafter, each competent authority shall draw up a report on this issue and submit it to ESMA, **EBA** and **EIOPA**.

Amendment

By X X 20XX [2 years after the entry into force of the Regulation], and at least on a **four-year** basis thereafter, each competent authority shall draw up a report on this issue and submit it to ESMA and **the Commission**.

Amendment 222

Proposal for a regulation

Article 42 – paragraph 2 – subparagraph 2

Text proposed by the Commission

ESMA, EBA and EIOPA shall use those reports to draw up a joint report on the situation at Union level. The report shall be submitted to the **Commission**, the European Central Bank and the European Systemic Risk Board.

Amendment

The Commission, following consultation with ESMA, shall use those reports to draw up a joint report on the situation at Union level. The report shall be submitted to **Member States and their national parliaments, the European Parliament**, the European Central Bank and the European Systemic Risk Board.

Amendment 223

Proposal for a regulation

Article 43 – paragraph 1 – subparagraph 1

Text proposed by the Commission

1. Without prejudice to Article 52, competent authorities designated pursuant to Article 35(1) shall require at least the six largest audit firms in terms of statutory audits of **large** public-interest entities in each Member State to establish a

Amendment

1. Without prejudice to Article 52, competent authorities designated pursuant to Article 35(1) shall require at least the six largest audit firms in terms of statutory audits of public-interest entities in each Member State to establish a contingency

contingency plan addressing a possible event threatening the continuity of operations of the *concerned firm*.

plan addressing a possible event threatening the continuity of operations of the *firm concerned*.

Amendment 224

Proposal for a regulation

Article 43 – paragraph 1 – subparagraph 2

Text proposed by the Commission

The competent authority shall make public a list of the firms concerned by the first subparagraph and update it annually. The competent authority shall use the information provided by statutory auditors and audit firms pursuant to **Article 28** to calculate which the largest six audit firms are.

Amendment

The competent authority shall make public a list of the firms concerned by the first subparagraph and update it annually. The competent authority shall use the information provided by statutory auditors and audit firms pursuant to **Article 29** to calculate which the largest six audit firms are.

Amendment 225

Proposal for a regulation

Article 43 – paragraph 4 – subparagraph 2

Text proposed by the Commission

The competent authorities shall ***not formally approve or endorse the contingency plans. They may however provide an opinion on the contingency plans or on draft contingency plans, should the audit firms consult them in advance.***

Amendment

The competent authorities shall ***advise ESMA on the general status of*** contingency plans.

Amendment 226

Proposal for a regulation

Article 44 – point d

Text proposed by the Commission

(d) the ***inspections findings and conclusions*** referred to in **Article 40(6)**.

Amendment

(d) the ***report*** referred to in **Article 40(7)**.

Amendment 227

Proposal for a regulation Article 46 – paragraph 1 – subparagraph 2

Text proposed by the Commission

ESMA shall create a permanent internal committee pursuant to Article 41 of Regulation (EU) No 1095/2010 for this purpose. Such internal committee shall be at least composed of the competent authorities referred to in Article 35(1) of this Regulation. ***The*** competent authorities referred to in Article 32 of Directive 2006/43/EC ***shall be invited to attend the meetings of such internal committee concerning matters related to approval and registration of statutory auditors and audit firms and relations with third countries in so far as relevant to the statutory audit of public-interest entities.***

Amendment

ESMA shall create a permanent internal committee pursuant to Article 41 of Regulation (EU) No 1095/2010 for this purpose. Such internal committee shall be at least composed of the competent authorities referred to in Article 35(1) of this Regulation ***and the*** competent authorities referred to in Article 32 of Directive 2006/43/EC ***which heretofore constitute the European Group of Audit Oversight Bodies (EGAOB) created by Decision 2005/909/EC.***

Amendment 228

Proposal for a regulation Article 46 – paragraph 1 – subparagraph 4 a (new)

Text proposed by the Commission

Amendment

ESMA shall cooperate with the international bodies involved in developing the international standards and practices related to the carrying-out of statutory audits.

Amendment 229

Proposal for a regulation Article 46 – paragraph 2

Text proposed by the Commission

Amendment

2. ESMA shall provide advice to the competent authorities in the cases provided for in this Regulation. The *Competent*

2. ESMA shall provide advice to the competent authorities in the cases provided for in this Regulation. The *competent*

authorities shall consider that advice before taking any final decision under this Regulation.

authorities shall consider that advice before taking any final decision under this Regulation (*auditing standing committee*). *The internal committee may create specific colleges of competent authorities to facilitate quality assurance, investigations, cooperation in inspections, contingency planning and administrative sanctions.*

Amendment 230

Proposal for a regulation

Article 46 – paragraph 2 a (new)

Text proposed by the Commission

Amendment

2a. ESMA shall be adequately staffed, in terms of capacity and expertise, and shall have the resources needed in order for it to be able to fulfil its tasks as provided for in this Regulation.

Amendment 231

Proposal for a regulation

Article 46 – paragraph 3 – subparagraph 1 – point a

Text proposed by the Commission

Amendment

(a) common standards on the content and presentation of the report referred to in Article 22;

(a) common standards on the content and presentation of the report referred to in Article 22, *within the framework of the international auditing standards referred to in Article 26 of Directive 2006/43/EC;*

Amendment 232

Proposal for a regulation

Article 46 – paragraph 3 – subparagraph 1 – point b

Text proposed by the Commission

Amendment

(b) common standards on the content and presentation of the report referred to in Article 23;

(b) common standards on the content and presentation of the report referred to in Article 23, *respecting reporting obligations resulting from national*

requirements;

Amendment 233

Proposal for a regulation

Article 46 – paragraph 3 – subparagraph 1 – point c

Text proposed by the Commission

Amendment

(c) common standards on the oversight activity of the audit committee referred to in Article 24; ***deleted***

Amendment 234

Proposal for a regulation

Article 46 – paragraph 3 – subparagraph 1 – point d

Text proposed by the Commission

Amendment

(d) common standards and best practices on the content and presentation of the report referred to in Article 27, including the statement referred to in Article 28; ***(d) common standards and best practices on the content and presentation of the report referred to in Article 27;***

Amendment 235

Proposal for a regulation

Article 46 – paragraph 3 – subparagraph 1 – point e

Text proposed by the Commission

Amendment

(e) common standards and best practices on the gradual rotation mechanism referred to in Article 33; ***deleted***

Amendment 236

Proposal for a regulation

Article 46 – paragraph 3 – subparagraph 1 – point f

Text proposed by the Commission

Amendment

(f) common standards and best practices regarding the dismissal of auditors, in ***(f) common standards and best practices on the existence of proper grounds for the***

particular on the existence of proper grounds for it, as referred to in Article 34;

dismissal of auditors, as referred to in Article 34;

Amendment 237

Proposal for a regulation

Article 46 – paragraph 3 – subparagraph 1 – point g

Text proposed by the Commission

Amendment

(g) enforcement practices and activities to be conducted by competent authorities under this Regulation;

(g) common standards and best practices in the auditing area facilitating the consistent enforcement of applicable accounting standards, especially impairment rules;

Amendment 238

Proposal for a regulation

Article 46 – paragraph 3 – subparagraph 1 – point h – introductory wording

Text proposed by the Commission

Amendment

(h) common standards and best practices for conducting quality assurance reviews provided for in Article 40, taking into consideration, in particular:

(h) common standards and best practices ***within the framework of the international auditing standards referred to in Article 26 of Directive 2006/43/EC*** for conducting quality assurance reviews provided for in Article 40, taking into consideration, in particular:

Amendment 239

Proposal for a regulation

Article 46 – paragraph 4 – subparagraph 3

Text proposed by the Commission

Amendment

In a report to be prepared by X X 20XX [two years after the entry into force of the Regulation], ESMA shall undertake an evaluation of the structure of the audit market.

In a report to be prepared by X X 20XX [two years after the entry into force of the Regulation], ESMA, ***following the advice of the European Competition Network***, shall undertake an evaluation of the structure of the audit market.

Amendment 240

Proposal for a regulation

Article 46 – paragraph 4 – subparagraph 5

Text proposed by the Commission

In a report to be prepared by ESMA by X X 20XX [four years after the entry into force of the Regulation], shall examine whether the competent authorities referred to in Article 35(1) are sufficiently empowered and have adequate resources to carry out their tasks.

Amendment

In a report to be prepared by ESMA by X X 20XX [four years after the entry into force of the Regulation], **it** shall examine whether the competent authorities referred to in Article 35(1) are sufficiently empowered and have adequate resources to carry out their tasks.

Amendment 241

Proposal for a regulation

Article 46 – paragraph 4 – subparagraph 6 – introductory wording

Text proposed by the Commission

In a report to be prepared by ESMA by X X 20XX [six years after the end of the transitional period], shall examine the following issues:

Amendment

In a report to be prepared by ESMA by X X 20XX [six years after the end of the transitional period], **it** shall examine the following issues:

Amendment 242

Proposal for a regulation

Article 46 – paragraph 5 a (new)

Text proposed by the Commission

Amendment

5a. Following the expiry of a transitional period of three years after the entry into force of the Regulation, the Commission shall submit to the European Parliament and the Council a report on the performance of ESMA with regard to audit and the functioning of the internal audit committee. That report shall also consider any enhanced future role for ESMA. The Commission shall assess whether ESMA has enough resources to fulfil its tasks laid down in this Regulation, and shall propose any budget

adjustments that it considers necessary.

Amendment 243

Proposal for a regulation

Article 50

Text proposed by the Commission

Amendment

Article 50

deleted

European Quality Certificate

1. ESMA shall establish a European quality certificate for statutory auditors and audit firms carrying out statutory audits of public-interest entities.

The European quality certificate shall meet the following conditions:

(a) the European quality certificate shall be delivered by ESMA and shall be valid across the Union;

(b) Union auditors and audit firms meeting the relevant requirements shall be entitled to apply for the European quality certificate;

(c) ESMA shall publish the requirements for obtaining the European quality certificate. Such requirements shall be based on audit quality and the experience of the quality assurance systems referred to in Article 30 of Directive 2006/43/EC and Article 40 of this Regulation;

(d) ESMA shall charge fees to the applicant statutory auditors and audit firms for delivering the European quality certificate in accordance with the delegated act referred to in paragraph 4 of this Article. Those fees shall fully cover ESMA's necessary expenditure relating to the delivering of the certificate and the reimbursement of any costs that the competent authorities may incur carrying out work pursuant to this Article;

(e) ESMA shall state the reasons for

delivering the certificate or for rejecting the application;

(f) a statutory auditor or audit firm shall comply at all times with the conditions for the initial granting of the certificate;

(g) ESMA shall be entitled to re-examine any certificate granted to any statutory auditor or audit firm, either at the request of a competent authority or on its own initiative. The results of the quality assurance reviews shall be taken into account;

(h) ESMA shall be entitled to withdraw the European quality certificate where the statutory auditor or audit firm does not longer meet the conditions for obtaining it;

(i) ESMA shall keep a registry of statutory auditors and firms which obtained the certificate;

(j) the European quality certificate shall have a voluntary character and shall not be a condition for statutory auditors or audit firms to be able to carry out statutory audits of public-interest entities, to be approved in another Member in accordance with Article 14 of Directive 2006/43/EC or to be recognised in another Member in accordance with Article 3a of that Directive.

2. ESMA shall develop draft regulatory technical standards to specify the procedure for obtaining a European quality certificate for statutory auditors and audit firms carrying out statutory audits of public-interest entities. Those technical standards shall comply with the following principles:

(a) applications shall be submitted to ESMA in either a language accepted in the Member State where the statutory auditor or audit firm is approved or in a language customary in the sphere of international finance.

Where a group of audit firms applies for the European quality certificate, the members of the group may mandate one of their members to submit all the applications on behalf of the group;

(b) ESMA shall transmit a copy of the application to the competent authorities of the Member States concerned by the application;

(c) the competent authorities of the Member States concerned by the application shall jointly examine the application for the certificate within a college of competent authorities referred to in Article 53. Such examination shall cover whether the application is complete and whether it meets the conditions for delivering the certificate. Information obtained in quality assurance reviews on a particular applicant shall be used in this examination;

(d) the competent authorities of the Member States concerned by the application shall provide an advice to ESMA as to whether the applicant shall be entitled to obtain the certificate;

(e) ESMA shall take a decision on the application;

(f) ESMA shall establish the detailed procedural steps and time limits;

For the purposes of point (ii), those Member States shall be at least:

– if the applicant is a statutory auditor, the Member State(s) where the statutory auditor is approved in accordance with Article 3 of Directive 2006/43/EC and, if applicable, the Member State(s) where the statutory auditor is approved in accordance with Article 14 of that Directive and/or the Member State(s) where statutory auditor is undertaking an adaptation period pursuant to Article 14 of Directive 2006/43/EC;

– if the applicant is an audit firm, the

Member State(s) where the audit firm is approved in accordance with Article 3 of Directive 2006/43/EC and, if applicable, the Member State(s) where the audit firm is recognised in accordance with Article 3a of that Directive and/or the Member State(s) where the audit firm has controlled firms, affiliate firms or a parent firm.

3. ESMA shall submit the draft regulatory technical standards referred to in paragraph 2 to the Commission by [3 years after the entry into force of this Regulation].

Powers are delegated to the Commission to adopt the regulatory technical standards referred to in paragraph 2 in accordance with Article 10 of Regulation (EU) No 1095/2010.

4. The Commission shall be empowered to adopt delegated acts in accordance with Article 68 for the purpose of determining the fees referred to in point (d) of paragraph 1.

The delegated acts shall determine in particular the types of fees and the matters for which fees are due, the amount of the fees, the way in which they are to be paid and the way in which ESMA is to reimburse competent authorities in respect of any costs that they may incur carrying out work pursuant to this Article.

The amount of a fee charged to a statutory auditor or an audit firm shall cover all administrative costs.

Amendment 244

Proposal for a regulation Article 51 – paragraph 2 – subparagraph 3

Text proposed by the Commission

Amendment

The competent authority making any such

The competent authority making any such

request shall inform *ESMA* of any request referred to in the first and second subparagraphs.

request shall inform *the Commission* of any request referred to in the first and second subparagraphs.

Amendment 245

Proposal for a regulation Article 61

Text proposed by the Commission

Amendment

1. Member States shall *lay down the rules on* administrative sanctions and measures applicable *in cases of breaches of the provisions of this Regulation identified in the Annex to the* persons responsible for *those* breaches *and shall take all measures necessary to ensure that they are implemented. The* sanctions and measures provided for shall be effective, proportionate and dissuasive.

2. *By [24 months after the entry into force of this Regulation] the Member States shall notify the rules referred to in paragraph 1 to the Commission and ESMA. They shall notify the Commsison and ESMA without delay of any subsequent amendment thereto.*

3. *This Article and Articles 62 to 66 are without prejudice to provisions of national criminal law.*

Member States shall *ensure, in conformity with their national law, that at least the appropriate* administrative sanctions and/or measures applicable to persons responsible for breaches *of the provisions of this Regulation and of Directive 2006/43/EC may be taken. Member States shall ensure that those* sanctions are effective, proportionate and dissuasive.

Amendment 246

Proposal for a regulation Article 62

Text proposed by the Commission

Amendment

Article 62

deleted

Sanctioning powers

1. This Article shall apply to breaches of the provisions of this Regulation identified in the Annex.

2. Without prejudice to the supervisory powers of competent authorities in accordance with Article 38, in case of a breach referred to in paragraph 1, competent authorities shall, in conformity with national law, have the power to impose at least the following administrative measures and sanctions:

(a) an order requiring the person responsible for the breach to cease the conduct and to desist from a repetition of that conduct;

(b) a public statement which indicates the person responsible and the nature of the breach, published on the website of competent authorities;

(c) a temporary prohibition for the statutory auditor, the audit firm or the key audit partner to carry out statutory audits of public-interest entities and/or signing audit reports within the meaning of Article 22 with effect throughout the Union, until the breach has been brought to an end;

(d) declaring that the audit report does not meet the requirements of Article 22, until the breach has been brought to an end;

(e) a temporary ban against a member of an audit firm or a public-interest entity administrative or management body to exercise functions in audit firms or public-interest entities;

(f) administrative pecuniary sanctions of up to twice the amount of the profits gained or losses avoided because of the breach where those can be determined;

(g) in respect of a natural person, administrative pecuniary sanctions of up to EUR 5 000 000 or, in the Member States where the Euro is not the official currency, the corresponding value in the

national currency on the date of entry into force of this Regulation;

(h) in respect of a legal person, administrative pecuniary sanctions of up to 10% of its total annual turnover in the preceding business year; where the legal person is a subsidiary of a parent undertaking as defined in Articles 1 and 2 of Directive 83/349/EEC, the relevant total annual turnover shall be the total annual turnover resulting from the consolidated account of the ultimate parent undertaking in the preceding business year.

3. Member States may give to competent authorities other sanctioning powers in addition to those referred to in paragraph 2 and may provide for higher levels of administrative pecuniary sanctions than those established in that paragraph.

Amendment 247

Proposal for a regulation Article 63

Text proposed by the Commission

Amendment

Article 63

deleted

Effective application of sanctions

1. When determining the type of administrative sanctions and measures, competent authorities shall take into account all relevant circumstances, including:

(a) the gravity and the duration of the violation;

(b) the degree of responsibility of the responsible person;

(c) the financial strength of the responsible person, as indicated by the total turnover of the responsible undertaking or the annual income of the

responsible natural person;

(d) the importance of the profits gained or losses avoided by the responsible person, insofar as they can be determined;

(e) the level of cooperation of the responsible person with the competent authority, without prejudice to the need to ensure disgorgements of profits gained or losses avoided by that person;

(f) previous violations by the responsible person.

Additional factors may be taken into account by competent authorities, if such factors are specified in national law.

2. EBA, EIOPA and ESMA shall jointly issue guidelines addressed to competent authorities in accordance with Article 16 of Regulation No (EU) 1093/2010, Regulation No (EU) 1094/2010 and Regulation No (EU) 1095/2010 on types of administrative measures and sanctions and level of administrative pecuniary sanctions to be applied in individual cases within the national legal framework.

Amendment 248

Proposal for a regulation Article 64

Text proposed by the Commission

Amendment

Every administrative measure or sanction imposed for breach of this Regulation ***shall be published without undue delay, including at least information on the type and nature of the breach and the identity of the persons responsible for it***, unless such publication would seriously jeopardise the stability of financial markets. Where publication would cause disproportionate damage to the parties

Member States shall provide for the publication without undue delay of every administrative measure or sanction imposed for breach of this Regulation ***and of Directive 2006/43/EC***, unless such publication would seriously jeopardise the stability of financial markets. Where publication would cause disproportionate damage to the parties involved, competent authorities shall publish the measures and

involved, competent authorities shall publish the measures and sanctions on an anonymous basis.

Competent authorities shall inform ESMA, without undue delay, of any sanction or measure adopted for breach of this Regulation.

The publication of sanctions shall respect fundamental rights as laid down in the **EU** Charter of Fundamental Rights, in particular the right to respect for private and family life and the right to the protection of personal data.

sanctions on an anonymous basis.

The publication of sanctions shall respect fundamental rights as laid down in the Charter of Fundamental Rights **of the European Union**, in particular the right to respect for private and family life and the right to the protection of personal data.

Amendment 249

Proposal for a regulation

Article 66

Text proposed by the Commission

Amendment

Article 66

deleted

Reporting of breaches

1. Member States shall establish effective mechanisms to encourage reporting of breaches of this Regulation to the competent authorities.

2. The mechanisms referred to in paragraph 1 shall include at least:

(a) specific procedures for the receipt of reports of breaches and their follow-up;

(b) appropriate protection for persons who report potential or actual breaches;

(c) protection of personal data concerning both the person who reports the potential or actual breaches and the accused person in compliance with the principles laid down in Directive 95/46/EC;

(d) appropriate procedures to ensure the right of the accused person of defence and to be heard before the adoption of a decision concerning him and the right to seek effective remedy before a tribunal

against any decision or measure concerning him.

3. Audit firms and public-interest entities shall establish appropriate procedures for their employees to report potential or actual breaches of this Regulation internally through a specific channel.

Amendment 250

Proposal for a regulation Article 67

Text proposed by the Commission

Amendment

Article 67

deleted

Exchange of information with ESMA

1. Competent and judicial authorities shall provide ESMA annually with aggregated information regarding all administrative measures, sanctions and fines imposed in accordance with Articles 61, 62, 63, 64, 65 and 66. ESMA shall publish this information in an annual report.

2. Where the competent authority has disclosed administrative measures, sanctions and fines to the public, it shall simultaneously report that fact to ESMA.

Amendment 251

Proposal for a regulation Article 70

Text proposed by the Commission

Amendment

Article 70

deleted

Transitional provision

1. By derogation from Articles 32 and 33, the following requirements shall apply to contracts for the provision of statutory audit to public-interest entities which are

in force at [date of entry into force of this Regulation];

(a) any audit contract entered into before XX/XX/XXXX [the date of adoption of the Commission proposal] which is still in force on [the date of entry into force of this Regulation] shall remain applicable for a maximum period of four accounting years after [the date of entry into force of this Regulation];

(b) any audit contract entered into after XX/XX/XXX [the adoption of the Commission proposal] but before XX/XX/XXXX [the date of entry into force of this Regulation] and which is still in force shall remain applicable for a maximum period of five accounting years after XX/XX/XXXX [the date of entry into force of this Regulation];

(c) when an audit contract referred to in points (a) or (b) of this paragraph expires or is terminated, the public-interest entity may renew such contract once with the same audit statutory auditor or audit firm, without the provisions Article 31(3) being applicable. Such renewed contract shall be subject to the following maximum duration:

(i) 1 year: if the auditor has been providing services to the audited entity for a consecutive period exceeding 100 years;

(ii) 2 years: if the auditor has been providing services to the audited entity for a consecutive period between 51 and 100 years;

(iv) 3 years: if the auditor has been providing services to the audited entity for a consecutive period between 21 and 50 years;

(v) 4 years: if the auditor has been providing services to the audited entity for a consecutive period between 11 and 20 years;

(vi) 5 years: if the auditor has been

providing services to the audited entity for a consecutive period not exceeding 10 years.

By derogation from the criteria set out in point (c), the audit contract may remain applicable until the end of the first accounting year ending after [2 years after the entry into force of this Regulation].

By derogation from points (a) to (c), when national rules establish a maximum duration of the contractual relationship between the statutory auditor or the audit firm and the audited entity which does not exceed 9 years and require the audited entity to select a different statutory auditor or audit firm when such maximum duration is reached, the audit contract may remain applicable until the end of that maximum duration period.

2. Article 33 shall apply to any audit contract entered into after [...] [the date of the entry into force of this Regulation] but before [...] [[2 years after the entry into force of this Regulation].

Article 32(3) shall only apply to such contract after the expiration or termination of the first renewal of such contract.

Amendment 252

Proposal for a regulation Article 72 – paragraph 3

Text proposed by the Commission

However, Article 32(7) shall apply from [...] [the date of the entry into force of the Regulation] **and Article 10(5) shall apply from [...] [3 years after the entry into force of the Regulation].**

Amendment

However, Article 32(7) shall apply from [...] [the date of the entry into force of the Regulation].

Amendment 253

Proposal for a regulation Annex

Text proposed by the Commission

Amendment

ANNEX

deleted

I. Breaches by statutory auditors, audit firms or key audit partners

A. Breaches related to conflicts of interest, organisational or operational requirements

1. The statutory auditor or audit firm infringes Article 6(1) by not establishing adequate policies and procedures to ensure compliance with the minimum organisational requirements, as set out in paragraph 1(a) to (k).

2. The statutory auditor or the key audit partner who carries out a statutory audit on behalf of an audit firm infringes Article 8(1)(a) by taking up a key management position in the audited entity before a period of at least two years has elapsed since he or she resigned as a statutory auditor or key audit partner from the audit engagement.

3. The statutory auditor or the key audit partner who carries out a statutory audit on behalf of an audit firm infringes Article 8(1)(b) by becoming a member of the audit committee of the audited entity or of an equivalent body, before a period of at least two years has elapsed since he or she resigned as a statutory auditor or key audit partner from the audit engagement.

4. The statutory auditor or the key audit partner who carries out a statutory audit on behalf of an audit firm infringes Article 8(1)(c) by becoming a non-executive member of the administrative body or a member of the supervisory body of the audited entity, before a period of at least two years has elapsed since he or she resigned as a statutory auditor or key audit partner from the audit engagement.

5. The statutory auditor or audit firm infringes Article 9(2) by not ensuring that related financial audit services provided to the audited entity do not exceed 10% of the fees paid by the audited entity for the statutory audit.

6. The statutory auditor or audit firm infringes Article 10 by providing services other than statutory audit services or related financial audit services to the audited entity.

B. Breaches related to the performance of the statutory audit

7. The statutory auditor or the audit firm infringes Article 16(3) by not keeping records of the cases when his, her or its employees do not respect the provisions contained in this Regulation or by not preparing an annual report of the measures taken in order to ensure compliance with those provisions.

8. The statutory auditor or the audit firm infringes Article 16(4) by not maintaining a client account record that includes the data referred to in point (a), (b) and (c) of the same paragraph.

9. The statutory auditor or the audit firm infringes Article 16(5) by not creating an audit file for each statutory audit carried out which contains the information referred to in points (a) to (j) of the same paragraph.

10. The statutory auditor or the audit firm infringes Article 17(1)(c) by not informing the competent authority referred to in Article 36 of an incident which has or may have serious consequences for the integrity of his, her or its statutory activity.

11. The statutory auditor or the audit firm infringes Article 17(2) by not informing the competent authority supervising public-interest entities of any fraud committed or attempted with regard to the financial statements of the audited entity.

C. Breaches related to audit reporting

12. The statutory auditor or the audit firm

infringes Article 19 by not ensuring that an internal quality control review is done according to the requirements set out in paragraphs 2 to 6 of that Article.

13. The statutory auditor or the audit firm infringes Article 22 by not providing an audit opinion prepared in accordance with the requirements set out in paragraphs 2, 3, 4, 5 and 7 of that Article.

14. The statutory auditor or the audit firm infringes Article 23 by not submitting an additional report to the audit committee of the audited entity that is prepared in accordance with the requirements set out in paragraphs 2 to 5 of that Article.

15. The statutory auditor or the audit firm infringes Article 25 by not reporting promptly to the competent authorities supervising public-interest entities any fact or decision concerning that public-interest entity of which he, she or it has become aware while carrying out that statutory audit and which might be linked to any of the breaches mentioned in points (a) to (c) of the first paragraph of Article 25.

D. Breaches related to disclosure provisions

16. The audit firm infringes the first subparagraph of Article 26(1) in connection with Article 26(4) by not making public on its website its annual financial report within the meaning of paragraph 2 of Article 4 of Directive 2004/109/EC at the latest four months after the end of each financial year and making it available for at least five years.

17. The statutory auditor infringes the second subparagraph of Article 28(2) in connection with Article 27(1) by not making public on his or her website his or her annual income statement and making it available for at least five years.

18. The statutory auditor or the audit firm infringes Article 26(2) by not showing in his or her annual income statement or in its annual financial report the fees received from the statutory audit of

annual and consolidated financial statements of public-interest entities and entities belonging to a group of companies whose parent undertaking is a public-interest entities separated from the fees received from the statutory audit of annual and consolidated financial statements of other entities and fees charged for related financial audit services as defined in Article 10.

19. The statutory auditor or audit firm that belong to a network infringes Article 26(3) by not providing as annex to the income statement or to the annual financial report the information referred to in point (a) to (d) of Article 26(3), unless the derogation of the second subparagraph of that paragraph applies.

20. The statutory auditor or audit firm infringes Article 27 by not or not timely publishing a transparency report including information set out in paragraph 2 of that Article and, where applicable, the information set out in Article 28.

21. The statutory auditor or audit firm infringes Article 29 by not providing annually to his, her or its competent authority referred to in Article 35(1) a list of the audited public-interest entities by revenue generated from them.

22. The statutory auditor or audit firm infringes Article 30(1) by not keeping the documents and information referred to in Article 30(1).

E. Breaches related to the appointment of statutory auditors or audit firms by public-interest entities

23. The statutory auditor or audit firm infringes Article 33(2) by undertaking the statutory audit of the public-interest entity after the expiry of the two consecutive engagements referred to in Article 33(1) before the period of four years has elapsed.

24. The statutory auditor or audit firm infringes Article 33(6) by not presenting a complete handover file at the end of the

audit engagement to the incoming statutory auditor or audit firm.

F. Breaches related to quality assurance

25. The statutory auditor or audit firm infringes Article 40(6) by not following up the recommendations of inspections within the period set out by the competent authority.

II. Breaches by public-interest entities

A. Breaches related to the appointment of statutory auditors or audit firms

1. Without prejudice to Article 31(2), (3) and (4), a public-interest entity infringes Article 31(1) by not establishing an audit committee and/or by not appointing the required number of independent members and/or by not appointing the required number of members having specific competence in accounting and/or auditing.

2. A public-interest entity infringes Article 32(1) by not appointing the statutory auditor(s) or audit firm(s) in accordance with the conditions set out in Article 32(2) to (6).

3. A public-interest entity infringes Article 33 by employing the same statutory auditor or audit firm for a period longer than the one referred to in Article 33.

4. A public-interest entity infringes Article 34 by dismissing a statutory auditor or audit firm in the absence of proper grounds.

14.3.2013

OPINION OF THE COMMITTEE ON ECONOMIC AND MONETARY AFFAIRS (*)

for the Committee on Legal Affairs

on the proposal for a regulation of the European Parliament and of the Council on specific requirements regarding statutory auditing of public-interest entities (COM(2011)0779 – C7-0470/2011 – 2011/0359(COD))

Rapporteur (*): Kay Swinburne

(*) Associated committee – Rule 50 of the Rules of Procedure

AMENDMENTS

The Committee on Economic and Monetary Affairs calls on the Committee on Legal Affairs, as the committee responsible, to incorporate the following amendments in its report:

Amendment 1 Proposal for a regulation

Title

Text proposed by the Commission

Proposal for a
REGULATION OF THE EUROPEAN
PARLIAMENT AND OF THE COUNCIL
on specific requirements regarding
statutory audit of public-interest entities
(Text with EEA relevance)

Amendment

Proposal for a
DIRECTIVE OF THE EUROPEAN
PARLIAMENT AND OF THE COUNCIL
on specific requirements regarding
statutory audit of public-interest entities
(Text with EEA relevance)

This amendment applies throughout the text

Justification

An EU Regulation is not a suitable format of regulation, in particular in view of the highly detailed and intervening nature of the Commission's proposal. It represents an "one-size-fits-all" approach that is not taken the nature of different corporate governance systems throughout the EU into account. It would lead to decreased corporate governance standards in some Member States.

Amendment 2 Proposal for a regulation Recital 6

Text proposed by the Commission

(6) The financial sector is evolving and new categories of financial institutions **are created by Union law**. The importance of new entities and activities outside the **regular** banking system is growing and their impact on financial stability has become greater. Therefore, it is appropriate that the definition of public-interest entity also encompasses **other financial institutions and entities such as investment firms, payment institutions, undertakings for collective investments in transferable securities (UCITS), electronic money institutions and alternative investment funds**.

Amendment

(6) The financial sector is evolving and new categories of financial institutions **have developed in response to regulatory and technological developments**. The importance of new entities and activities outside the **traditional** banking system **that were previously unregulated at Union level** is growing and their impact on financial stability has become greater. Therefore, it is appropriate that the definition of public-interest entity also encompasses **other financial institutions and entities such as investment firms, payment institutions and electronic money institutions. Member States should therefore be able to designate other entities as public-interest entities, for instance entities that are of significant public relevance because of the nature of their business, their size or the number of their employees;**

Amendment 3 Proposal for a regulation Recital 6 a (new)

Text proposed by the Commission

Amendment

(6 a) A particular concern is the auditors' involvement in the structuring of off-balance sheet Special Purpose Vehicles (SPVs) for financial institutions. These

vehicles can make it more difficult for investors and regulators to hold management to account. If applied by financial institutions, moreover, SPVs can be abused to mask risks in the financial system and thus reduce supervisors' and shareholders' ability to recognise and act upon threats to financial stability in a timely and effective manner. It is therefore appropriate to clarify that any involvement in the structuring of SPVs by a firm's auditor constitutes a case of self-review and will most likely represent inappropriate accounting treatment. Such activity should therefore be prohibited.

Amendment 4
Proposal for a regulation
Recital 7

Text proposed by the Commission

(7) Audit of annual and consolidated financial statements is intended as a statutory safeguard for investors, lenders and business counterparties who have a stake or a business interest in public-interest entities. Hence, statutory auditors and audit firms should be completely independent when carrying out statutory audits of such entities and conflicts of interest should be avoided. In order to determine the independence of auditors and audit firms, the concept of network in which auditors and firms operate has to be taken into account.

Amendment

(7) Audit of annual and consolidated financial statements is intended as a statutory safeguard for investors, lenders and business counterparties who have a stake or a business interest in public-interest entities. Hence, statutory auditors and audit firms should be completely independent when carrying out statutory audits of such entities and conflicts of interest should be avoided. ***They should be able to inform the audited entity of matters arising from the audit, but should abstain from the internal decision processes of the audited entity. If they find themselves in a situation where the significance of the threats to their independence, even after application of safeguards to mitigate those threats, is too high, they should resign or abstain from the audit engagement.*** In order to determine the independence of auditors and audit firms, the concept of network in which auditors and firms operate has to be taken into account.

Amendment 5
Proposal for a regulation

Recital 8

Text proposed by the Commission

(8) Adequate internal organisation of statutory auditors and audit firms should contribute to preventing any threats to their independence. Thus, owners or shareholders of an audit firm, as well as those managing it, should not intervene in the carrying out of a statutory audit in any way which jeopardises the independence and objectivity of the statutory auditor who carries out the statutory audit on behalf of the audit firm. Additionally, statutory auditors and audit firms should establish appropriate internal policies and procedures in relation to employees and other persons involved in the statutory audit activity within their organisations in order to ensure compliance with their statutory obligations. Those policies and procedures should in particular seek to prevent and address any threats to independence and ensure the quality, integrity and thoroughness of the statutory audit. Those policies and procedures should be proportionate in view of the scale and complexity of the business of the statutory auditor or audit firm.

Amendment

(8) Adequate internal organisation of statutory auditors and audit firms should contribute to preventing any threats to their independence. Thus, owners or shareholders of an audit firm, as well as those managing it, should not intervene in the carrying out of a statutory audit in any way which jeopardises the independence and objectivity of the statutory auditor who carries out the statutory audit on behalf of the audit firm. Additionally, statutory auditors and audit firms should establish appropriate internal policies and procedures in relation to employees and other persons involved in the statutory audit activity within their organisations in order to ensure compliance with their statutory obligations. Those policies and procedures should in particular seek to prevent and address any threats to independence and ensure the quality, integrity and thoroughness of the statutory audit. Those policies and procedures should be proportionate in view of the scale and complexity of the business of the statutory auditor or audit firm ***and the audited entities.***

Amendment 6
Proposal for a regulation
Recital 21 a (new)

Text proposed by the Commission

Amendment

(21 a) The role of the ESRB is to monitor the build up of systemic risk in the Union. Given the information that audit firms of systemically important financial

institutions have access to, their experience could help the ESRB in its work. Therefore an annual forum for dialogue between them on a sectoral, anonymised basis should be facilitated by this Regulation.

Amendment 7 **Proposal for a regulation**

Recital 23

Text proposed by the Commission

(23) Audit committees, or bodies performing an equivalent function within the audited entity, have a decisive role in contributing to high-quality statutory audit. It is particularly important to reinforce the independence and technical competence of the audit committee by requiring that a majority of its members is independent and that at least one member of the committee has competence in auditing and another one in auditing and/or accounting. The Commission Recommendation of 15 February 2005 on the role of non-executive or supervisory directors of listed companies and on the committees of the (supervisory) board²⁶ sets out how audit committees should be established and function. Considering, however, the dimension of boards in companies with reduced market capitalisation and in small and medium-sized public-interest entities, it would be appropriate that the functions assigned to the audit committee for those entities, or to a body performing equivalent functions within the audited entity, may be performed by the administrative or supervisory body as a whole. ***Public-interest entities which are UCITS or alternative investment funds should also be exempted from the obligation to have an audit committee. This exemption takes into account the fact that where those funds function merely for the purpose of***

Amendment

(23) Audit committees, or bodies performing an equivalent function within the audited entity, have a decisive role in contributing to high-quality statutory audit. It is particularly important to reinforce the independence and technical competence of the audit committee by requiring that a majority of its members is independent and that at least one member of the committee has competence in auditing and another one in auditing and/or accounting. ***Members of the audit committee should take part in skill enhancement programmes to ensure an appropriate level of technical knowledge to fulfil their roles.*** The Commission Recommendation of 15 February 2005 on the role of non-executive or supervisory directors of listed companies and on the committees of the (supervisory) board sets out how audit committees should be established and function. Considering, however, the dimension of boards in companies with reduced market capitalisation and in small and medium-sized public-interest entities, it would be appropriate that the functions assigned to the audit committee for those entities, or to a body performing equivalent functions within the audited entity, may be performed by the administrative or supervisory body as a whole.

pooling assets, the employment of an audit committee is not appropriate. UCITS and alternative investments funds, as well as their management companies, operate in a strictly defined regulatory environment and are subject to specific governance mechanisms such as controls exercised by their depositary.

Amendment 8

Proposal for a regulation

Recital 24

Text proposed by the Commission

(24) It is also important that the role of the audit committee in the selection of a new statutory auditor or audit firm be reinforced, for the benefit of a more informed decision of the general meeting of shareholders or members of the audited entity. Hence, when making a proposal to the general meeting, the board should explain whether it follows the recommendation of the audit committee and, if not, why. The recommendation of the audit committee should include at least two possible choices for the audit engagement and a duly justified preference for one of them, so that the general meeting can make a real choice. In order to provide a fair and proper justification in its recommendation, the audit committee should use the results of a mandatory selection procedure organised by the audited entity, under the responsibility of the audit committee. In such selection procedure, the audited entity should invite statutory auditors or audit firms, including **smaller** ones, to present proposals for the audit engagement. Tender documents should contain transparent and non-discriminatory selection criteria to be used for the evaluation of proposals. Considering, however, that this selection procedure could entail disproportionate

Amendment

(24) It is also important that the role of the audit committee in the selection of a new statutory auditor or audit firm be reinforced, for the benefit of a more informed decision of the general meeting of shareholders or members of the audited entity. Hence, when making a proposal to the general meeting, the board should explain whether it follows the recommendation of the audit committee and, if not, why. The recommendation of the audit committee should include at least two possible choices for the audit engagement and a duly justified preference for one of them, so that the general meeting can make a real choice. In order to provide a fair and proper justification in its recommendation, the audit committee should use the results of a mandatory selection procedure organised by the audited entity, under the responsibility of the audit committee. In such selection procedure, the audited entity should invite statutory auditors or audit firms, including **non-dominant** ones, to present proposals for the audit engagement. Tender documents should contain transparent and non-discriminatory selection criteria to be used for the evaluation of proposals. Considering, however, that this selection procedure could entail disproportionate

costs for companies with reduced market capitalisation or small and medium-sized public-interest entities having regard to their dimension, it is appropriate to relieve such entities from this obligation.

costs for companies with reduced market capitalisation or small and medium-sized public-interest entities having regard to their dimension, it is appropriate to relieve such entities from this obligation.

Amendment 9 **Proposal for a regulation**

Recital 24

Text proposed by the Commission

(24) It is also important that the role of the audit committee in the selection of a new statutory auditor or audit firm be reinforced, for the benefit of a more informed decision of the general meeting of shareholders or members of the audited entity. Hence, when making a proposal to the general meeting, the board should explain whether it follows the recommendation of the audit committee and, if not, why. The recommendation of the audit committee should include at least two possible choices for the audit engagement and a duly justified preference for one of them, so that the general meeting can make a real choice. In order to provide a fair and proper justification in its recommendation, the audit committee should use the results of a mandatory selection procedure organised by the audited entity, under the responsibility of the audit committee. In such selection procedure, the audited entity should invite statutory auditors or audit firms, including smaller ones, to present proposals for the audit engagement. Tender documents should contain transparent and non-discriminatory selection criteria to be used for the evaluation of proposals. Considering, however, that this selection procedure could entail disproportionate costs for companies with reduced market capitalisation or small and medium-sized public-interest entities having regard to

Amendment

(24) It is also important that the role of the audit committee in the selection of a new statutory auditor or audit firm be reinforced, for the benefit of a more informed decision of the general meeting of shareholders or members of the audited entity. Hence, when making a proposal to the general meeting, the board should explain whether it follows the recommendation of the audit committee and, if not, why. ***It should equally provide reasons if it proposes to renew an audit engagement following a tender procedure.*** The recommendation of the audit committee should include at least two possible choices for the audit engagement, ***a comprehensive assessment of both proposals,*** and a duly justified preference for one of them, so that the general meeting can make a real choice. In order to provide a fair and proper justification in its recommendation, the audit committee should use the results of a mandatory selection procedure organised by the audited entity, under the responsibility of the audit committee. In such selection procedure, the audited entity should invite statutory auditors or audit firms, including smaller ones, to present proposals for the audit engagement. Tender documents should contain transparent and non-discriminatory selection criteria to be used for the evaluation of proposals. Considering, however, that this selection

their dimension, it is appropriate to relieve such entities from this obligation.

procedure could entail disproportionate costs for companies with reduced market capitalisation or small and medium-sized public-interest entities having regard to their dimension, it is appropriate to relieve such entities from this obligation.

Amendment 10
Proposal for a regulation
Recital 24 a (new)

Text proposed by the Commission

Amendment

(24 a) Audit committees should consider whether shared audit may be of benefit when conducting their tendering process. Shared audit, where subsidiaries of a company are audited by one audit firm while the responsibility for the group audit, and ultimate liability, lies with one group auditor could provide a useful way of engaging with more audit firms and reduce costs via increased competition.

Amendment 11
Proposal for a regulation
Recital 24 a (new)

Text proposed by the Commission

Amendment

(24a) When it concerns the renewal of an audit engagement the audit committee should base its recommendation periodically on a comprehensive assessment of the audit quality of the statutory auditor or audit firm. The comprehensive assessment should include the consideration of professional competencies of the statutory auditor or audit firm (i.e. industry knowledge, infrastructure, technical know-how, IT competence), which may vary according to the size and complexity of the audited entity. The audit committee should also consider adherence to relevant rules and

regulations as well as to professional standards. The competent authority should issue guidelines on the criteria of professional competencies to facilitate the selection procedure.

Amendment 12
Proposal for a regulation
Recital 26

Text proposed by the Commission

Amendment

(26) The appointment of more than one statutory auditor or audit firm by the public-interest entities would reinforce the professional scepticism and contribute to increasing audit quality. Also, this measure combined with the presence of smaller audit firms would facilitate the development of the capacity of such firms, thus contributing to increasing the choice of statutory auditors and audit firms for public-interest entities. Therefore, the latter should be encouraged and incentivised to appoint more than one statutory auditor or audit firm to carry out the statutory audit.

deleted

Amendment 13
Proposal for a regulation
Recital 27

Text proposed by the Commission

Amendment

(27) In order to address the familiarity threat and therefore reinforce the independence of auditors and audit firms, it is important to establish a maximum duration of the audit engagement of a statutory auditor or audit firm in a particular audited entity. An appropriate gradual rotation mechanism should also be established with regard to the most senior personnel involved in the statutory audit, including the key audit partners

deleted

carrying out the statutory audit on behalf of the audit firm. It is also important to provide for an appropriate period within which such statutory auditor or audit firm may not carry out the statutory audit of the same entity. In order to ensure a smooth transition, the former auditor should transfer a handover file with relevant information to the incoming auditor.

Amendment 14
Proposal for a regulation
Recital 27 a (new)

Text proposed by the Commission

Amendment

(27 a) Regular and open mandatory tendering of both the audit and non-audit services provides small and medium-sized companies with an opportunity to present their services and skills in a transparent process and to increase their visibility as service providers for public-interest entities. Tendering strongly encourages audit committees to consider a broader range of prospective providers of audit and non-audit services. The purpose of the tendering provisions in Articles 10a and 33 is not, however, to force a rotation of non-audit services providers and auditors. Repeated re-appointment is thus explicitly allowed if the conditions set out in the abovementioned Articles are fully complied with.

Amendment 15
Proposal for a regulation
Recital 27 b (new)

Text proposed by the Commission

Amendment

(27b) There should also be regular and open tendering of the related financial audit services and non-audit services as it

provides small and medium-sized statutory auditors, audit firms and non-audit related service providers to present their services and skills in a transparent process and to increase their visibility as service providers for public-interest entities. The incumbent auditor does not necessarily have to perform related financial audit and non-audit services and so the tendering process strongly encourages audit committees to consider a broader range of prospective providers of audit and non-audit services. The purpose of tendering both financial audit related services and non-audit services is to not only evaluate the incumbent provider's performance but also the requirements of the audited entity.

Amendment 16
Proposal for a regulation
Recital 29

Text proposed by the Commission

(29) In order to ensure a high level of investor and consumer confidence in the internal market by avoiding conflicts of interests, statutory auditors and audit firms should be subject to appropriate supervision by competent authorities which are independent from the audit profession and which have adequate capacity, expertise and resources. The national competent authorities should have the necessary powers to undertake their supervisory tasks, including the capacity to access documents, demand information from any person and carry out inspections. They should specialize in the supervision of **financial markets**, of compliance with financial reporting obligations or in statutory audit oversight. However, it should be possible that the supervision of the compliance with the obligations set on public-interest entities is carried out by the competent authorities responsible for the

Amendment

(29) In order to ensure a high level of investor and consumer confidence in the internal market by avoiding conflicts of interests, statutory auditors and audit firms should be subject to appropriate supervision by competent authorities which are independent from the audit profession and which have adequate capacity, expertise and resources. The national competent authorities should have the necessary powers to undertake their supervisory tasks, including the capacity to access documents, demand information from any person and carry out inspections. They should specialize in the supervision of compliance with financial reporting obligations or in statutory audit oversight. However, it should be possible that the supervision of the compliance with the obligations set on public-interest entities is carried out by the competent authorities responsible for the supervision of those

supervision of those entities. The funding of the competent authorities should be free from any possible undue influence by statutory auditors or audit firms.

entities. The funding of the competent authorities should be free from any possible undue influence by statutory auditors or audit firms.

Amendment 17
Proposal for a regulation
Recital 33

Text proposed by the Commission

(33) The market for the provision of statutory audit services to public-interest entities evolves over time. It is therefore necessary that **competent** authorities monitor the developments in the market, particularly as regards possible limited choice of auditor and the risks that arise from high market concentration.

Amendment

(33) The market for the provision of statutory audit services to public-interest entities evolves over time. It is therefore necessary that **competition** authorities **of the Union, the Member States and ESMA** monitor the developments in the market, particularly as regards possible limited choice of auditor and the risks that arise from high market concentration.

Amendment 18
Proposal for a regulation
Recital 36 a (new)

Text proposed by the Commission

Amendment

(36a) This Directive ensures that EU-wide cooperation between competent authorities in respect of the activities of statutory auditors and audit firms that audit the financial statements of public-interest entities takes place and is coordinated by ESMA. Thus ESMA will take over the EU-wide cooperation mechanism that currently takes place under the aegis of the European Group of Auditors' Oversight Bodies (EGAOB), an expert group established and chaired by the European Commission, through the creation of a permanent internal committee composed of the competent authorities designated for carrying out the tasks provided for in this Directive. The competent authorities referred to in Article 32 of Directive 2006/43/EC which

heretofore constitute the European Group of Audit Oversight Bodies (EAOB) created by Decision 2005/909/EC are full members of said permanent internal committee. Thus, the valuable work of EAOB will be continued within the permanent internal committee. Auditor public oversight should continue to be carried out at national level.

Amendment 19
Proposal for a regulation
Recital 38

Text proposed by the Commission

Amendment

(38) Recognition of the aptitude of statutory auditors and audit firms to perform statutory audits of public-interest entities should facilitate the access of auditors and firms to other clients. Therefore, it is important to provide for a Quality Certificate of European dimension which should be developed by ESMA. National competent authorities should be involved in the examination of the applications for the certificate.

deleted

Amendment 20
Proposal for a regulation
Recital 40

Text proposed by the Commission

Amendment

(40) Sustainable audit capacity and a competitive market for statutory audit services in which there is a sufficient choice of audit firms capable of carrying out statutory audits of public-interest entities are required in order to ensure a smooth functioning of capital markets. *ESMA* should report on the changes brought in the audit market structure by this Regulation. When carrying such analysis, *ESMA* should take into account

(40) Sustainable audit capacity and a competitive market for statutory audit services in which there is a sufficient choice of audit firms capable of carrying out statutory audits of public-interest entities are required in order to ensure a smooth functioning of capital markets. ***The European Competition Network (ECN)*** should report on the changes brought in the audit market structure by this Regulation. When carrying such analysis, ***the ECN***

the impact of the national civil liability rules for statutory auditors on the structure of the audit market. Based on such report and other appropriate evidence, the Commission should present a report on the impact of the national liability rules for statutory auditors on the audit market structure and should take the steps it considers appropriate as a result of its findings.

should take into account the impact of the national civil liability rules for statutory auditors on the structure of the audit market. Based on such report and other appropriate evidence, the Commission should present a report on the impact of the national liability rules for statutory auditors on the audit market structure and should take the steps it considers appropriate as a result of its findings.

Amendment 21
Proposal for a regulation
Recital 43

Text proposed by the Commission

Amendment

(43) In order to take account of developments in auditing and the audit market, the Commission should be empowered to specify technical requirements on the content of the handover file that the new statutory auditor or audit firm should receive and on the establishment of a European quality certificate for statutory auditors and audit firms carrying out statutory audits of public-interest entities.

deleted

Amendment 22
Proposal for a regulation

Recital 44

Text proposed by the Commission

Amendment

(44) In order to take account of the technical developments in the financial markets, in auditing and the audit profession and to specify the requirements laid down in this Regulation, the Commission should be empowered to adopt delegated acts in accordance with Article 290 of the Treaty on the Functioning of the European Union. In particular, the use of delegated acts is

(44) In order to take account of the technical developments in the financial markets, in auditing and the audit profession and to specify the requirements laid down in this Regulation, the Commission should be empowered to adopt delegated acts in accordance with Article 290 of the Treaty on the Functioning of the European Union. In particular, the use of delegated acts is

necessary to adapt the list of related audit services and of non-audit services as well as to set out the level of fees that ESMA could charge for delivering the European Quality Certificate to statutory auditors and audit firms. It is of particular importance that the Commission carries out appropriate consultations during its preparatory work, including at expert level. The Commission, when preparing and drawing up delegated acts, should ensure a simultaneous, timely and appropriate transmission of relevant documents to the European Parliament and to the Council.

necessary to adapt the list of related audit services and of **prohibited** non-audit services as well as to set out the level of fees that ESMA could charge for delivering the European Quality Certificate to statutory auditors and audit firms. It is of particular importance that the Commission carries out appropriate consultations during its preparatory work, including at expert level **and with ESMA**. The Commission, when preparing and drawing up delegated acts, should ensure a simultaneous, timely and appropriate transmission of relevant documents to the **ESMA**, European Parliament and to the Council.

Amendment 23
Proposal for a regulation

Recital 45

Text proposed by the Commission

(45) In order to ensure legal certainty and the smooth transition to the regime introduced by this Regulation, it is important to introduce a transitional regime regarding the entry into force of ***the obligation to rotate audit firms, the obligation to organise a selection procedure for the choice of audit firm and the conversion of audit firms into firms that only provide audit services.***

Amendment

(45) In order to ensure legal certainty and the smooth transition to the regime introduced by this Regulation, it is important to introduce a transitional regime regarding the entry into force of ***certain of the obligations in this Regulation.***

Justification

To be adapted to reflect the removal of requirements for mandatory firm rotation, mandatory tendering and audit-only firms but to nevertheless preserve the principle of transitional measures which may be needed for certain provisions, to allow public interest entities and audit firms time to adapt.

Amendment 24
Proposal for a regulation
Article 3

Text proposed by the Commission

For the purposes of this Regulation, the definitions laid down in Article 2 of Directive 2006/43/EC shall apply, except for the definitions of 'audit report' and 'competent authority'.

Amendment

For the purposes of this Regulation, the definitions laid down in Article 2 of Directive 2006/43/EC shall apply, except for the definitions of 'audit report' and 'competent authority' **and 'public-interest entities'**.

For the purpose of this Regulation 'public-interest entities' means:

(a) entities governed by the law of a Member State whose transferable securities are admitted to trading on a regulated market of any Member State within the meaning of point 14 of Article 4(1) of Directive 2004/39/EC excluding undertakings for collective investment in transferable securities (UCITS) as defined in Article 1(2) of Directive 2009/65/EC of the European Parliament and of the Council(**) and EU alternative investment funds as defined in Article 4(1)(k) of Directive 2011/61/EC of the European Parliament and of the Council(*****);***

(b) credit institutions as defined in point 1 of Article 4 of Directive 2006/48/EC of the European Parliament and of the Council*; excluding those credit institutions which have not issued transferable securities admitted to trading on a regulated market within the meaning of point 14 of Article 4(1) of Directive 2004/39/EC unless the total value of its assets exceeds 30 billion euro

(c) insurance undertakings within the meaning of Article 13 of Directive 2009/138/EC of the European Parliament and of the Council**;

(d) entities governed by the law of a Member State which are payment institutions as defined in point 4 of Article 4 of Directive 2007/64/EC of the European Parliament and of the Council, unless Article 15(2) of that***

Directive applies;

*(e) entities governed by the law of a Member State which are electronic money institutions as defined in point 1 of Article 2 of Directive 2009/110/EC of the European Parliament and of the Council****, unless Article 15(2) of Directive 2007/64/EC applies;*

(f) investment firms as defined in point 1 of Article 4(1) of Directive 2004/39/EC;

(g) entities governed by the law of a Member State which are central securities depositories;

*(h) central counterparties as defined in Article 2(1) of Regulation X/XXXX of the European Parliament and of the Council*****[see proposal for a Regulation on OTC derivatives, central counterparties and trade repositories, COM(2010)484];*

** OJ L 177, 30.6.2006, p. 1*

*** OJ L 335, 17.12.2009, p. 1*

**** OJ L 187, 18.7.2009, p. 5*

***** OJ L 267, 10.10.2009, p. 7*

Amendment 25
Proposal for a regulation
Article 4

Text proposed by the Commission

Amendment

Article 4

deleted

Large public interest entities

*For the purposes of this Regulation,
'large public-interest entities' shall cover
the following*

*(a) in relation to entities defined in point
13(a) of Article 2 of Directive 2006/43/EC,
the largest 10 issuers of shares in each*

Member State measured by the market capitalisation on the basis of the end-year quotes and in any case all issuers of shares that had an average market capitalisation of more than EUR 1 000 000 000 on the basis of end-year quotes for the previous three calendar years;

(b) in relation to entities defined in points 13(b) to (f) of Article 2 of Directive 2006/43/EC, any entity which on their balance sheet date has a balance sheet total exceeding EUR 1 000 000 000;

(c) in relation to entities defined in points 13(g) and (h) of Article 2 of Directive 2006/43/EC, any entity which on their balance sheet date has total assets under management exceeding EUR 1 000 000 000.

Amendment 26 **Proposal for a regulation**

Article 5 – paragraph 1

Text proposed by the Commission

A statutory auditor or audit firm shall take all necessary steps to ensure that the ***carrying out of a statutory audit of a public-interest entity is not affected by any existing or potential conflict of interest or business or other relationship involving the statutory auditor or audit firm carrying out the statutory audit and, where appropriate, its network, managers, auditors, employees, any other natural persons whose services are placed at the disposal or under the control of the statutory auditor or audit firm, or any person directly or indirectly linked to the statutory auditor or audit firm by control.***

Amendment

A statutory auditor or audit firm shall take all necessary steps to ensure that the ***independence of the statutory auditor or audit firm carrying out the statutory audit is not compromised by financial, personal, business, employment or other relationships involving the statutory auditor, the audit firm, its affiliate firms and network, and any natural person in a position to influence the outcome of the statutory audit.***

Justification

This proposed wording reflects better the nature of the relationship of the statutory auditor or audit firm to the audited entity and captures in a more comprehensive way potential threats

for independence. This is furthermore more aligned to existing international ethics standards and would ensure an international level playing field.

Amendment 27
Proposal for a regulation
Article 9 – paragraph 3

Text proposed by the Commission

Amendment

3. When the total fees received from a public-interest entity subject to the statutory audit represent either more than 20 % or, for two consecutive years, more than 15 % of the of the total annual fees received by the statutory auditor or audit firm carrying out the statutory audit, such auditor or firm shall disclose to the audit committee the fact that the total of such fees represents more than 20 % or 15 %, as appropriate, of the total fees received by the firm and the discussions referred to in Article 11(4)(d) shall be undertaken. The audit committee shall consider whether the audit engagement shall be subject to a quality control review by another statutory auditor or audit firm prior to the issuance of the audit report.

deleted

When the total fees received from a public-interest entity subject to the statutory audit represent, for two consecutive years, 15 % or more of the total annual fees received by the statutory auditor or audit firm carrying out the statutory audit, the auditor or firm shall inform the competent authority referred to in Article 35(1) of such situation. The competent authority referred to in Article 35(1) shall decide on the basis of objective grounds provided by the statutory auditor or the audit firm whether the statutory auditor or audit firm of such entity may continue to carry out the statutory for an additional period which in any case shall not be longer than two years.

Where the audited entity is exempted from the obligation to have an audit committee,

the audited entity shall decide which body or organ of the entity shall engage with the statutory auditor or audit firm for the purposes of the obligations set out in this paragraph.

Amendment 28
Proposal for a regulation
Article 10 – paragraph 1 – subparagraph 1

Text proposed by the Commission

A statutory auditor or an audit firm carrying out statutory audit of public-interest entities may provide to the audited entity, *to its parent undertaking and to its controlled undertakings statutory audit services and related financial audit services.*

Amendment

A statutory auditor or an audit firm carrying out statutory audit of public-interest entities may provide to the audited entity *or* its controlled undertakings *non-audit services only after having properly assessed threats and potential safeguards to independence in accordance with Article 11 and after having obtained approval from the audit committee.*

Amendment 29
Proposal for a regulation
Article 10 – paragraph 1 – subparagraph 2

Text proposed by the Commission

Where the statutory auditor belongs to a network, *a* member of such network may provide to the audited entity, to its parent undertaking and to its controlled undertakings within the Union *statutory audit services or related financial audit services.*

Amendment

Where the statutory auditor belongs to a network, *any* member of such network may provide to the audited entity, to its parent undertaking and to its controlled undertakings within the Union *non-audit services only after having properly assessed threats and potential safeguards to independence in accordance with Article 11 and after having obtained approval from the audit committee.*

Amendment 30
Proposal for a regulation
Article 10 – paragraph 2

Text proposed by the Commission

Amendment

2. For the purposes of this Article, related financial audit services shall mean:

deleted

(a) the audit or review of interim financial statements;

(b) providing assurance on corporate governance statements;

(c) providing assurance on corporate social responsibility matters;

(d) providing assurance on or attestation of regulatory reporting to regulators of financial institutions beyond the scope of the statutory audit and designed to assist regulators in fulfilling their role, such as on capital requirements or specific solvency ratios determining how likely an undertaking will be to continue meeting its debt obligations;

(e) providing certification on compliance with tax requirements where such attestation is required by national law;

(f) any other statutory duty related to audit work imposed by Union legislation to the statutory auditor or audit firm.

Amendment 31

Proposal for a regulation

Article 10 – paragraph 3 – subparagraph 3

Text proposed by the Commission

Amendment

For the purposes of this Article, non-audit services shall mean:

For the purposes of this Article, prohibited non-audit services shall mean any service provided during the period covered by the financial statements subject to audit and the period during which the audit engagement is executed, and where the provision of such services causes a material conflict of interest including:

(a) services entailing conflict of interest in

a) bookkeeping services, preparing calculations of current and deferred

all cases:

(i) expert services unrelated to the audit, tax consultancy, general management and other advisory services;

(ii) bookkeeping and preparing accounting records and financial statements;

(iii) designing and implementing internal control or risk management procedure related to the preparation and/or control of financing information included in the financial statements and advice on risk;

(iv) valuation services, providing fairness opinions or contribution-in-kind reports;

(v) actuarial and legal services, including the resolution of litigation;

(vi) designing and implementing financial information technology systems for public-interest entities as referred to in Article 2(13)(b) to (j) of Directive 2006/43/EC;

(vii) participating in the audit client's internal audit and the provision of services related to the internal audit function;

(viii) broker or dealer, investment adviser, or investment banking services.

(b) services which may entail conflict of interest:

(i) human resources services, including recruiting senior management;

(ii) providing comfort letters for investors

taxes, and preparing accounting records and financial statements that are subject to the statutory audit;

(b) designing or implementing internal control, risk management systems or financial information technology systems that:

i) form a significant part of the internal control over financial reporting of the audited entity, or

(ii) generate information that is significant to the accounting records or financial statements that are subject to the statutory audit;

(c) providing valuation services, including valuations performed in connection with actuarial services or litigation support services, where the valuation would have a material effect separately or in the aggregate on the financial statements subject to the statutory audit;

(d) legal services with respect to

(i) the provision of general counsel,

(ii) negotiating on behalf of the audit client, or

(iii) acting in an advocacy role in the resolution of a litigation when the amounts involved are material to the financial statements subject to the statutory audit;

(e) payroll services;

(f) promoting, dealing in, or underwriting shares of the audited entity;

(g) human resources services with respect

in the context of the issuance of an undertaking's securities;

(iii) designing and implementing financial information technology systems for public-interest entities as referred to in Article 2(13)(a) of Directive 2006/43/EC;

(iv) due diligence services to the vendor or the buy side on potential mergers and acquisitions and providing assurance on the audited entity to other parties at a financial or corporate transaction.

By derogation from the first and second subparagraphs, the services mentioned in point (b)(iii) and (iv) may be provided by the statutory auditor or the audit firm, subject to prior approval by the competent authority referred to in Article 35(1).

By derogation from the first and second subparagraphs, the services mentioned in point (b)(i) and (ii) may be provided by the statutory auditor or the audit firm, subject to prior approval by the audit committee as referred to in Article 31 of this Regulation.

Amendment 32
Proposal for a regulation
Article 10 – paragraph 4 – subparagraph 1

to senior management in a position to exert significant influence over the preparation of the accounting records or the financial statements subject to the statutory audit, where such services involve:

(i) searching for or seeking out candidates for such positions; or

(ii) undertaking reference checks of prospective candidates for such positions.

h) legal or tax advisory services relating to structuring transactions introduced by the statutory auditor or audit firm or a member of its network that go beyond the presentation and/or analysis of alternatives and which would have a direct and material impact on the financial statements subject to the statutory audit.

Text proposed by the Commission

When a member of the network to which the statutory auditor or the audit firm carrying out statutory audit of a public-interest entity belongs provides non-audit services to an undertaking incorporated in a third country controlled by the audited public-interest entity, the statutory auditor or the audit firm concerned shall assess whether his, her or its independence would be compromised by such provision of services by the member of the network.

Amendment

When a member of the network to which the statutory auditor or the audit firm carrying out **the** statutory audit of a public-interest entity belongs provides non-audit services to an undertaking incorporated in a third country controlled by the audited public-interest entity, the statutory auditor or the audit firm concerned shall assess whether his, her or its independence would be compromised by such provision of services by the member of the network.

Amendment 33
Proposal for a regulation
Article 10 – paragraph 4 – subparagraph 3

Text proposed by the Commission

Being involved in the decision-taking of the audited entity and the provision of the services referred to in points (ii) and (iii) of paragraph 3(a) shall be considered as affecting such independence in all cases.

Amendment

deleted

Amendment 34
Proposal for a regulation
Article 10 – paragraph 4 – subparagraph 4

Text proposed by the Commission

The provision of the services referred to in points (i) and (iv) to (viii) of paragraph 3(a) shall be presumed to affect such independence.

Amendment

deleted

Amendment 35
Proposal for a regulation
Article 10 – paragraph 5

Text proposed by the Commission

Amendment

5. Where an audit firm generates more than one third of its annual audit revenues from large public-interest entities and belongs to a network whose members have combined annual audit revenues which exceed EUR 1 500 million within the European Union, it shall comply with the following conditions:

deleted

(a) it shall not directly or indirectly provide to any public interest entity non-audit services;

(b) it shall not belong to a network which provides non-audit services within the Union;

(c) any entity which provides the services listed in paragraph 3 shall not directly or indirectly hold more than 5 % of the capital or of the voting rights in the audit firm;

(d) the entities which provide the services listed in paragraph 3 shall not directly or indirectly hold together more than 10 % of the capital or of the voting rights in the audit firm;

(e) such audit firm shall not directly or indirectly hold more than 5 % of the capital or of the voting rights in any entity which provides the services listed in paragraph 3.

**Amendment 36
Proposal for a regulation
Article 10 – paragraph 6**

Text proposed by the Commission

Amendment

The Commission shall be empowered to adopt delegated acts in accordance with Article 68 for the purpose of adapting the list of related financial audit services referred to in paragraph 2 and the list of non-audit services referred to in

deleted

paragraph 3 of this Article. When using such powers, the Commission shall take into account developments in auditing and the audit profession.

Amendment 37
Proposal for a regulation
Article 10 – paragraph 6 a (new)

Text proposed by the Commission

Amendment

6a. Member States may exceptionally add to the list of services prohibited by virtue of paragraph 2 for statutory auditors or audit firms for which the relevant member state is the home member state. Competent authorities shall notify ESMA of any additional services or activities which it considers to impart a conflict of interest.

Amendment 38
Proposal for a regulation
Article 10 a (new)

Text proposed by the Commission

Amendment

Article 10 a

Audit committee approval of non-audit services

1. The audit committee shall set up a non-audit service policy governing whether the statutory auditor or audit firm or, where the statutory auditor belongs to a network, a member of such network may provide to the audited entity or to its controlled undertaking non-audit services other than prohibited non-audit services (Article 10 (2)). Such policy shall include considerations with regard to:

(i) the nature of the non-audit services and whether they are generally permissible or require explicit approval on an engagement basis,

(ii) the related fee levels for such services, and how these fees relate to the audit fees, both by categories of non-audit services and in aggregate,

(iii) the delegation of authority for certain levels of approval.

Individual decisions on whether to approve the provision of a non-audit service shall be based on the non-audit service policy, and in doing so further consideration shall be given to:

(i) the expertise and experience of the statutory auditor or audit firm in that particular service area or whether there are alternative service providers available, and

(ii) whether there are sufficient safeguards in place to eliminate or reduce the threats to auditor independence to an acceptable level that may result from the provision of the non-audit service by the statutory auditor or audit firm.

2. When designing their non-audit service policies referred to in Paragraph 1, audit committees must:

(a) aim for the greatest possible transparency; and

(b) seek an annual approval of such policy for non-audit services by the shareholders at the annual general meeting.

Amendment 39
Proposal for a regulation

Article 11 – paragraph 4 – subparagraph 1 – point c

Text proposed by the Commission

Amendment

(c) request permission from the audit committee to provide the non-audit services referred to in Article 10(3)(b)(i) and (ii) to the audited entity;

deleted

Amendment 40
Proposal for a regulation
Article 11 – paragraph 4 – subparagraph 1 – point d

Text proposed by the Commission

Amendment

(d) request permission from the competent authority referred to in Article 35(1) to provide the non-audit services referred to in Article 10(3)(b)(iii) and (iv) to the audited entity; *deleted*

Amendment 41
Proposal for a regulation

Article 16 – paragraph 5 – subparagraph 1 – point c

Text proposed by the Commission

Amendment

(c) an audit plan setting out the probable scope and method of the statutory audit;

(c) an audit plan setting out the probable scope and method of the statutory audit ***and, where more than one statutory auditor or audit firm have been appointed, the distribution of tasks among the appointed statutory auditors or audit firms and the rotation plan established in accordance with Article 33(1).***

Amendment 42
Proposal for a regulation

Article 20 – paragraph 1

Text proposed by the Commission

Amendment

The statutory auditor(s) or the audit firm(s) shall comply with the international auditing standards referred to in Article 26 of Directive 2006/43/EC when carrying out the statutory audit of public-interest entities ***as long as those standards are in conformity with the requirements of this Regulation.***

The statutory auditor(s) or the audit firm(s) shall comply with the international auditing standards referred to in Article 26 of Directive 2006/43/EC when carrying out the statutory audit of public-interest entities.

Justification

Auditors should comply with the international auditing standards issued by IAASB. There shouldn't be differences between international auditing standards and the Regulation.

Amendment 43

Proposal for a regulation

Article 22 – paragraph 2 – point r

Text proposed by the Commission

(r) indicate the non-audit services referred to in Article 10(3)(b)(i) **and (ii)** that the audit committee allowed the statutory auditor or the audit firm to provide to the audited entity;

Amendment

(r) indicate the non-audit services referred to in Article 10 that the audit committee allowed the statutory auditor or the audit firm to provide to the audited entity;

Amendment 44

Proposal for a regulation

Article 22 – paragraph 2 – point r

Text proposed by the Commission

(r) indicate the non-audit services referred to in Article 10(3)(b)(i) and (ii) that the audit committee allowed the statutory auditor **or the audit firm** to provide to the audited entity;

Amendment

(r) indicate the non-audit services referred to in Article 10(3)(b)(i) and (ii) that the audit committee allowed the statutory auditor, **audit firm or non-audit service provider** to provide to the audited entity;

Amendment 45

Proposal for a regulation

Article 22 – paragraph 2 – point s

Text proposed by the Commission

(s) indicate the non-audit services referred to in Article 10(3)(b)(iii) and (iv) that the competent authority referred to in Article 35(1) allowed the statutory auditor or the audit firm to provide to the audited entity;

Amendment

deleted

Amendment 46
Proposal for a regulation

Article 22 – paragraph 2 – point t

Text proposed by the Commission

(t) give an opinion which shall state clearly the opinion of the statutory auditor(s) or the audit firm(s) as to whether the annual or consolidated financial statements give a true and fair view and have been prepared in accordance with the relevant financial reporting framework and, where appropriate, whether the annual or consolidated financial statements comply with statutory requirements; the audit opinion shall be either unqualified, qualified, an adverse opinion **or, if the statutory auditor(s) or audit firm(s) are unable to express an audit opinion, a disclaimer of opinion. In case of a qualified or an adverse opinion or a disclaimer of opinion, the report shall explain the reasons of such decision;**

Amendment

(t) give an opinion which shall state clearly the opinion of the statutory auditor(s) or the audit firm(s) as to whether the annual or consolidated financial statements give a true and fair view and have been prepared in accordance with the relevant financial reporting framework and, where appropriate, whether the annual or consolidated financial statements comply with statutory requirements; **in accordance with International Standards on Auditing** the audit opinion shall be either unqualified, qualified, **or** an adverse opinion. **In case of a qualified or an adverse opinion, the report shall explain the reasons of such decision. In the case of credit institutions and insurance undertakings, in accordance with Article 16 of Regulation (EU) No 1093/2010 and of Regulation (EU) No 1094/2010 respectively, the opinion of the statutory auditor(s) or the audit firm(s) shall state the 'going concern' of the audited entity, where necessary, and inform the competent authority;**

Amendment 47
Proposal for a regulation

Article 22 – paragraph 2 – point u

Text proposed by the Commission

(u) refer to any matters to which the statutory auditor(s) or the audit firm(s) draw attention by way of emphasis without qualifying the audit opinion;

Amendment

(u) refer **in accordance with International Standards on Auditing** to any matters to which the statutory auditor(s) or the audit firm(s) draw attention by way of emphasis without qualifying the audit opinion;

Amendment 48
Proposal for a regulation

Article 22 – paragraph 2 – point v

Text proposed by the Commission

(v) give an opinion concerning the consistency or otherwise of the annual report with the annual financial statements for the same fiscal year;

Amendment

(v) give an opinion ***in accordance with International Standards on Auditing*** concerning the consistency or otherwise of the annual report with the annual financial statements for the same fiscal year;

Amendment 49
Proposal for a regulation

Article 22 – paragraph 3

Text proposed by the Commission

3. When more than one statutory auditor or audit firm have been appointed to carry out the statutory audit of the public-interest entity, they shall agree on the results of the statutory audit and submit a joint report and opinion. In case of disagreement, each statutory auditor or audit firm shall submit his, her or its opinion separately. If one statutory auditor or audit firm qualifies his, her or its opinion, submits an adverse opinion or a disclaimer of opinion, the overall opinion shall be considered as qualified, adverse opinion or a disclaimer of opinion. In a separate paragraph each statutory auditor or audit firm shall state the reasons of disagreement.

Amendment

3. When more than one statutory auditor or audit firm have been appointed to carry out the statutory audit of the public-interest entity, they shall agree on the results of the statutory audit and submit a joint report and opinion. In case of disagreement, each statutory auditor or audit firm shall submit his, her or its opinion separately. If one statutory auditor or audit firm qualifies his, her or its opinion, submits an adverse opinion or a disclaimer of opinion, the overall opinion shall be considered as qualified, adverse opinion or a disclaimer of opinion, ***in accordance with International Standards on Auditing***. In a separate paragraph each statutory auditor or audit firm shall state the reasons of disagreement.

Amendment 50
Proposal for a regulation

Article 22 – paragraph 4

Text proposed by the Commission

4. The audit report shall not ***be longer than four pages or 10000 characters (without spaces)***. It shall not contain any cross-references to the additional report to the audit committee referred to in Article 23.

Amendment

4. The audit report shall not contain any cross-references to the additional report to the audit committee referred to in Article 23, ***and shall be in clear and unambiguous language.***

Amendment 51
Proposal for a regulation

Article 24 – paragraph 1

Text proposed by the Commission

The audit committee of the public-interest entity shall monitor the work of the statutory auditor(s) or audit firm(s) carrying out the statutory audit.

Amendment

The audit committee of the public-interest entity shall monitor the work of the statutory auditor(s) or audit firm(s) carrying out the statutory audit, ***and, when more than one statutory auditor or audit firm have been appointed, the distribution of tasks between them and their rotation.***

Amendment 52
Proposal for a regulation

Article 24 – paragraph 2

Text proposed by the Commission

The statutory auditor(s) or audit firm(s) shall report to the audit committee on key matters arising from the statutory audit, and in particular on material weaknesses in internal control in relation to the financial reporting process. Upon request of any of the parties, the statutory auditor(s) or audit firm(s) shall discuss these matters with the audit committee.

Amendment

The statutory auditor(s) or audit firm(s) shall report to the audit committee on key matters arising from the statutory audit, and in particular on material weaknesses in internal control in relation to the financial reporting process. Upon request of any of the parties, the statutory auditor(s) or audit firm(s) shall discuss these matters with the audit committee, ***and, when more than one statutory auditor or audit firm have been appointed, the distribution of tasks between them.***

Amendment 53
Proposal for a regulation

Article 24 – paragraph 4

Text proposed by the Commission

In *is* the instance of the audited entity being exempted from the obligation to have an audit committee, the audited entity shall decide which body or organ of the entity shall engage with the statutory auditor or audit firm for the purposes of the obligations set out in this Article.

Amendment

In the instance of the audited entity being exempted from the obligation to have an audit committee, the audited entity shall decide which body or organ of the entity shall engage with the statutory auditor or audit firm for the purposes of the obligations set out in this Article.

Amendment 54
Proposal for a regulation
Article 25 – paragraph 1 – subparagraph 2

Text proposed by the Commission

The statutory auditor or the audit firm shall also have a duty to report any facts and decisions of which he, she or it becomes aware in the course of carrying out the statutory audit of an undertaking having close links with the public-interest entity for which he, she or it is also carrying out the statutory audit.

Amendment

The statutory auditor or the audit firm shall also have a duty to report any **relevant** facts and decisions of which he, she or it becomes aware in the course of carrying out the statutory audit of an undertaking having close links with the public-interest entity for which he, she or it is also carrying out the statutory audit.

Amendment 55
Proposal for a regulation
Article 25 – paragraph 2 – subparagraph 1

Text proposed by the Commission

Competent authorities supervising **credit institutions and insurance undertakings** shall establish regular a dialogue with the statutory auditors and audit firms carrying out the statutory audit of those institutions and undertakings.

Amendment

Competent authorities supervising **public interest entities referred to in Article 3 (b), (c) and (f)** shall establish regular a dialogue with the statutory auditors and audit firms carrying out the statutory audit of those institutions and undertakings. **The competent authority and the statutory auditor or audit firm shall inform each other and the audited entity about relevant facts or decisions referred to in**

paragraph 1.

At least once a year, the ESRB shall organise a meeting with the statutory auditors and audit firms or networks carrying out the statutory audit of any FSB identified systemically important financial institutions in order to inform the ESRB of sectoral or any significant developments in those systemically important financial institutions.

Amendment 56
Proposal for a regulation

Article 25 – paragraph 3

Text proposed by the Commission

3. The disclosure in good faith to the competent authorities, by the statutory auditor or audit firm, ***of any fact or decision referred to in paragraph 1 or of any fact during the dialogue foreseen in paragraph 2*** shall not constitute a breach of any contractual or legal restriction on disclosure of information and shall not involve such persons in liability of any kind.

Amendment

3. The disclosure in good faith to the competent authorities, by the statutory auditor or audit firm shall not constitute a breach of any contractual or legal restriction on disclosure of information and shall not involve such persons in liability of any kind.

Justification

An active two-way dialogue between competent authorities and statutory auditors and audit firms help to improve the quality of statutory audits of financial institutions. ESMA and the European Commission should be informed about any guidelines issued in this particular field. Disclosure in good faith to competent authorities should be generally privileged.

Amendment 57
Proposal for a regulation

Article 26 – paragraph 2 – subparagraph 1

Text proposed by the Commission

The annual financial report and the annual income statement shall show the total turnover divided into fees from the

Amendment

The annual financial report and the annual income statement shall show the total turnover divided into fees from the

statutory audit of annual and consolidated financial statements of public-interest entities and entities belonging to a group of undertakings whose parent undertaking is a public-interest entity, fees from the statutory audit of annual and consolidated financial statements of other entities and fees charged for **related financial** audit services as defined in Article 10(2).

statutory audit of annual and consolidated financial statements of public-interest entities and entities belonging to a group of undertakings whose parent undertaking is a public-interest entity, fees from the statutory audit of annual and consolidated financial statements of other entities and fees charged for **audit-related and other assurance** audit services as defined in Article 10.

Justification

Change following deletion of article 10 (2)

Amendment 58 **Proposal for a regulation** **Article 27 – paragraph 1 – subparagraph 3**

Text proposed by the Commission

Statutory auditors and audit firms shall communicate to **ESMA and to** the competent authorities that the transparency report has been published on the website of the statutory auditor or audit firm or, as appropriate, that it has been updated.

Amendment

Statutory auditors and audit firms shall communicate to the competent authorities that the transparency report has been published on the website of the statutory auditor or audit firm or, as appropriate, that it has been updated.

Amendment 59 **Proposal for a regulation**

Article 27 – paragraph 2 – subparagraph 1 – point f

Text proposed by the Commission

(f) a list of public-interest entities for which the statutory auditor or audit firm has carried out statutory audits during the preceding financial year and a list of the entities from which the statutory auditor or audit firm receives more than 5% of its annual revenue;

Amendment

(f) a list of public-interest entities for which the statutory auditor or audit firm has carried out statutory audits during the preceding financial year and a list of the entities from which the statutory auditor or audit firm receives more than 5% of its annual revenue **generated by fees coming from statutory audit and non audit services**;

Amendment 60
Proposal for a regulation

Article 29 – paragraph 1

Text proposed by the Commission

A statutory auditor or audit firm shall provide annually to his, her or its competent authority a list of the audited public-interest entities by revenue generated from them.

Amendment

A statutory auditor or audit firm shall provide annually to his, her or its competent authority a list of the audited public-interest entities by revenue generated from them. ***This list concerns revenues generated by audit and non audit services.***

Amendment 61
Proposal for a regulation

Article 31 – paragraph 1 – subparagraph 2

Text proposed by the Commission

At least one member of the audit committee shall have competence in auditing ***and another member in accounting and/or auditing.*** The committee members as a whole shall have competence relevant to the sector in which the audited entity is operating.

Amendment

At least one member of the audit committee shall have competence in auditing. The committee members as a whole shall have competence relevant to the sector in which the audited entity is operating.

Justification

The words “and another member in accounting and/or auditing” should be deleted. The remaining competence requirements on the committee in this paragraph are sufficient. Additional requirements on individual members only serve to further complicate the recruitment problems to boards, especially for companies in small markets and/or small boards.

Amendment 62
Proposal for a regulation

Article 31 – paragraph 1 – subparagraph 3

Text proposed by the Commission

A majority of the members of the audit

Amendment

A majority of the members of the audit

committee shall be independent. The **chairman** of the audit committee shall be **appointed by its members** and shall be independent.

committee shall be independent. The **chairperson** of the audit committee shall be **elected annually by the general meeting of shareholders of the audited entity** and shall be independent. **The chairperson shall report directly to the shareholders.**

Amendment 63
Proposal for a regulation

Article 31 – paragraph 1 – subparagraph 3 a (new)

Text proposed by the Commission

Amendment

Members of the audit committee shall take part in skill enhancement programmes in order to ensure an adequate technical knowledge level to fulfil their tasks.

Amendment 64
Proposal for a regulation
Article 31 – paragraph 3 – subparagraph 1 – point b

Text proposed by the Commission

Amendment

(b) any public-interest entity which is an undertaking for collective investment in transferable securities (UCITS) as defined in Article 1(2) of Directive 2009/65/EC or an alternative investment fund (AIF) as defined in Article 4(1)(a) of Directive 2011/61/EU;

deleted

Amendment 65
Proposal for a regulation
Article 31 – paragraph 3 – subparagraph 2

Text proposed by the Commission

Amendment

The public-interest entities referred to in **points (b) and (c)** shall explain to the **public** the reasons for which it

The public-interest entities referred to in **point (c)** shall explain to the **national competent authority** the reasons for which

not appropriate to have either an audit committee or an administrative or supervisory body entrusted to carry out the functions of an audit committee.

it considers it not appropriate to have either an audit committee or an administrative or supervisory body entrusted to carry out the functions of an audit committee.

Amendment 66
Proposal for a regulation

Article 31 – paragraph 5 – point d a (new)

Text proposed by the Commission

Amendment

(da) monitor the quality of the statutory auditors or audit firms, taking into account any findings and conclusions by the competent authority pursuant to Article 40(6);

Amendment 67
Proposal for a regulation

Article 31 – paragraph 5 – point e

Text proposed by the Commission

Amendment

(e) be responsible for the procedure on the selection of statutory auditor(s) or audit firm(s) and recommend the statutory auditor(s) or audit firm(s) to be appointed in accordance with Articles 32;

(e) be responsible for the procedure on the selection of statutory auditor(s) or audit firm(s) and recommend the statutory auditor(s) or audit firm(s) to be appointed ***by the audited companies Annual General Meeting*** in accordance with Articles 32;

Amendment 68
Proposal for a regulation

Article 31 – paragraph 5 – point f

Text proposed by the Commission

Amendment

(f) ***authorise, on a case by case basis***, the provision by the statutory auditor or audit firm of ***the*** services referred to in Article 10(3)(b)(i) and (ii) of this Regulation to the audited entity.

(f) ***approve*** the provision by the statutory auditor or audit firm of ***all non-audit services other than the prohibited*** services referred to in Article 10(3) ***and the audit related and other assurance services referred to in Article 10(2)***, to the audited

entity *and its controlled undertakings in the Union*.

Amendment 69

Proposal for a regulation

Article 32 – paragraph 2 – subparagraph 2

Text proposed by the Commission

Unless it concerns the renewal of an audit engagement in accordance with the second subparagraph of Article 33(1), the recommendation shall contain at least two choices for the audit engagement and the audit committee shall express a duly justified preference for one of them.

Amendment

For the initial appointment of the statutory auditor(s) or audit firm(s) or for a renewal of an audit engagement in accordance with the second subparagraph of Article 33(1) *that takes place after a period of 7 years of combined audit engagements has elapsed*, the recommendation shall contain at least two choices for the audit engagement, and the audit committee shall express a duly justified preference for one of them.

Amendment 70

Proposal for a regulation

Article 32 – paragraph 2 – subparagraph 3

Text proposed by the Commission

When it concerns the renewal of an audit engagement in accordance with the second subparagraph of Article 33(1), the audit committee shall, *for the preparation of* its recommendation, *take into consideration any findings and conclusions on the recommended statutory auditor or audit firm referred to in Article 40(6) and published by the competent authority pursuant to Article 44(d)*.

Amendment

The audit committee shall *base* its recommendation *on a comprehensive assessment of the audit quality*.

Amendment 71

Proposal for a regulation

Article 32 – paragraph 2 – subparagraph 4

Text proposed by the Commission

In its recommendation, the audit committee shall state that its recommendation is free from influence by a third party and that no contractual clause as referred to in paragraph 7 has been imposed upon it.

Amendment

The comprehensive assessment shall be performed in a transparent and systematic approach, and shall include the consideration of professional competencies of the auditor or audit firm which are necessary to perform the statutory audit in compliance with relevant ethical requirements and international standards on auditing referred to in Article 20. It shall take into consideration any findings and conclusions on the recommended statutory auditor or audit firm referred to in Article 40(6) and published by the competent authority pursuant to Article 44(d).

In its recommendation, the audit committee shall state that its recommendation is free from influence by a third party and that no contractual clause as referred to in paragraph 7 has been imposed upon it.

Justification

This sets out the content of the assessment of audit quality.

Amendment 72

Proposal for a regulation

Article 32 – paragraph 3 – subparagraph 1 – introductory part

Text proposed by the Commission

Unless it concerns the renewal of an audit engagement in accordance with the second subparagraph of Article 33(1), the recommendation of the audit committee referred to in paragraph 2 of this Article, shall be prepared following a selection procedure organized by the audited entity respecting the following criteria:

Amendment

The recommendation of the audit committee referred to in paragraph 2 of this Article, shall be prepared following a selection procedure organized by the audited entity respecting the following criteria:

Amendment 73
Proposal for a regulation
Article 32 – paragraph 3 – subparagraph 1 – point a

Text proposed by the Commission

(a) the audited entity shall be free to invite any statutory auditors or audit firms to submit proposals for the provision of the statutory audit service on the condition that Article 33(2) is respected and ***that at least one of the invited auditors or firms is not one who received more than 15% of the total audit fees from large public-interest entities in the Member State concerned in the previous calendar year;***

Amendment

(a) the audited entity shall be free to invite any statutory auditors or audit firms to submit proposals for the provision of the statutory audit service on the condition that Article 33(2) is respected and ***ensure due consideration is given to small and medium-sized service providers;***

Amendment 74
Proposal for a regulation
Article 32 – paragraph 3 – subparagraph 1 – point b

Text proposed by the Commission

(b) the audited entity shall be free to choose the method to contact the invited statutory auditor(s) or audit firm(s) and shall not be required to publish a call for tenders in the Official Journal of the European Union and/or in national gazettes or newspapers;

Amendment

deleted

Amendment 75
Proposal for a regulation
Article 32 – paragraph 3 – subparagraph 3

Text proposed by the Commission

For the purposes of point (a) of the first subparagraph, the competent authority referred to in Article 35(1) shall make public a list of the auditors and audit firms concerned which shall be updated on an annual basis. ***The competent authority shall use the information provided by statutory auditors and audit firms pursuant to Article 28 to make the relevant calculations.***

Amendment

For the purposes of point (a) of the first subparagraph, the competent authority referred to in Article 35(1) shall make public a list of the auditors and audit firms concerned which shall be updated on an annual basis.

Amendment 76
Proposal for a regulation
Article 32 – paragraph 6

Text proposed by the Commission

6. In the case of a credit institution or insurance undertaking, the administrative or supervisory board shall submit its draft proposal to the competent authority referred to in Article 35(2). The competent authority referred to in Article 35(2) shall have the right to veto the choice proposed in the recommendation. Any such opposition shall be duly justified.

The absence of a reply by the competent authority within the prescribed time-limit following submission of the audit committee's recommendation shall be considered as constituting an implied consent to the recommendation.

Amendment 77
Proposal for a regulation

Article 32 – paragraph 7 – subparagraph 2

Text proposed by the Commission

The public-interest entity shall inform the competent authorities referred to in Article 35 of any attempt by a third party to impose such a contractual clause or to otherwise influence the decision of the general meeting of shareholders on the selection of a statutory auditor or audit firm.

Amendment

6. In the case of a credit institution or insurance undertaking, the administrative or supervisory board shall submit its draft proposal to the competent authority referred to in Article 35(2) **who shall submit them to ESMA. ESMA shall consult on such proposals with EBA and EIOPA.** The competent authority referred to in Article 35(2) shall have the right to veto the choice proposed in the recommendation. Any such opposition shall be duly justified **and notified to ESMA.**

The absence of a reply by the competent authority **or ESMA** within the prescribed time-limit following submission of the audit committee's recommendation shall be considered as constituting an implied consent to the recommendation.

Amendment 78
Proposal for a regulation
Article 32 – paragraph 10

Text proposed by the Commission

Amendment

10. In order to facilitate the exercise of the task of the audited entity to organize a selection procedure for the appointment of a statutory auditor or audit firm, EBA, EIOPA and ESMA shall issue guidelines addressed to the public-interest entities on the criteria governing the selection procedure referred to in paragraph 3, in accordance with Article 16 of Regulation (EU) No 1093/2010, of Regulation (EU) No 1094/2010 and of Regulation (EU) No 1095/2010, respectively.

deleted

Amendment 79
Proposal for a regulation
Article 33 – paragraph 1 – subparagraph 1

Text proposed by the Commission

Amendment

The public-interest entity shall appoint a statutory **auditor** or audit **firm** for an initial engagement that shall not **be shorter than two years**.

The public-interest entity shall appoint **one or more** statutory **auditors** or **one or more** audit **firms** for an initial engagement that shall not **exceed seven years**.

Amendment 80
Proposal for a regulation
Article 33 – paragraph 1 – subparagraph 2

Text proposed by the Commission

Amendment

The public-interest entity may renew this engagement **only once**.

The public-interest entity may renew this engagement, **provided that the renewal is recommended by the audit committee. Shareholders at the annual general meeting shall formally approve the statutory auditor's engagement.**

Amendment 81
Proposal for a regulation
Article 33 – paragraph 1 – subparagraph 3

Text proposed by the Commission

Amendment

The maximum duration of the combined two engagements shall not exceed 6 years. **deleted**

Amendment 82
Proposal for a regulation
Article 33 – paragraph 1 – subparagraph 4

Text proposed by the Commission

Amendment

Where throughout a continuous engagement of 6 years two statutory auditors or audit firms have been appointed, the maximum duration of the engagement of each statutory auditor or audit firm shall not exceed 9 years. **deleted**

Amendment 83
Proposal for a regulation
Article 33 – paragraph 2

Text proposed by the Commission

Amendment

2. After the expiry of the maximum duration of the engagement referred to in paragraph 1, the statutory auditor or audit firm or any members of its network within the Union, where applicable, shall not undertake the statutory audit of the public-interest entity concerned until a period of at least four years has elapsed. **deleted**

Amendment 84
Proposal for a regulation
Article 33 – paragraph 3

Text proposed by the Commission

Amendment

3. By way of derogation from paragraphs **deleted**

1 and 2, on an exceptional basis the public-interest entity may request the competent authority referred to in Article 35(1) to grant an extension to re-appoint the statutory auditor or audit firm for an additional engagement. In case of appointment of two statutory auditors or audit firms, this third engagement shall not exceed three years. In case of appointment of one statutory auditor or audit firm, this third engagement shall not exceed two years.

Amendment 85
Proposal for a regulation
Article 33 – paragraph 4

Text proposed by the Commission

Amendment

4. The key audit partner(s) responsible for carrying out a statutory audit shall cease his, her or their participation in the statutory audit of the audited entity after a period of seven years from the date of appointment has elapsed. He, she or they may participate in the statutory audit of the audited entity again after a period of at least three years.

deleted

The statutory auditor or audit firm shall establish an appropriate gradual rotation mechanism with regard to the most senior personnel involved in the statutory audit, including at least the persons who are registered as statutory auditors. The gradual rotation mechanism shall be undertaken in phases on the basis of individuals rather than of a complete team. It shall be proportionate in view of the scale and the dimension of the activity of the statutory auditor or audit firm.

The statutory auditor or audit firm shall be able to demonstrate to the competent authority that such mechanism is effectively applied and adapted to the scale and the dimension of the activity of the statutory auditor or audit firm.

Amendment 86
Proposal for a regulation
Article 33 – paragraph 6

Text proposed by the Commission

6. ESMA shall develop draft regulatory technical standards to specify technical requirements on the content of the handover file referred to in **paragraph 6**.

Power is delegated to the Commission to adopt the regulatory technical standards referred to in **paragraph 6** in accordance with Article 10 of Regulation (EU) No 1095/2010.

Amendment

ESMA shall develop draft regulatory technical standards to specify technical requirements on the content of the handover file referred to **in the first subparagraph of paragraph 2**.

Power is delegated to the Commission to adopt the regulatory technical standards referred to in **the first subparagraph of paragraph 2** in accordance with Article 10 of Regulation (EU) No 1095/2010.

Amendment 87
Proposal for a regulation
Article 35 – paragraph 2 – point b

Text proposed by the Commission

(b) Article 24(4)(h) of Directive 2004/109/EC;

Amendment

deleted

Amendment 88
Proposal for a regulation
Article 35 – paragraph 6 – subparagraph 2

Text proposed by the Commission

ESMA shall consolidate this information and make it public.

Amendment

The Commission shall consolidate this information and make it public.

Amendment 89
Proposal for a regulation

Article 42 – title

Text proposed by the Commission

Market monitoring

Amendment

Monitoring market quality and

Amendment 90
Proposal for a regulation

Article 42 – paragraph 1 – subparagraph 1

Text proposed by the Commission

The competent authorities referred to in Article 35(1) shall regularly monitor the developments in ***the market*** for providing statutory audit services to public-interest entities.

Amendment

The competent authorities referred to in Article 35(1) ***and the European Competition Network (ECN)*** shall regularly monitor the developments in providing ***high-quality*** statutory audit services to public-interest entities.

Amendment 91
Proposal for a regulation

Article 42 – paragraph 1 – subparagraph 2 – introductory part

Text proposed by the Commission

The competent authorities shall in particular assess the following:

Amendment

The competent authorities ***referred to in the first sub paragraph*** shall in particular assess the following:

Amendment 92
Proposal for a regulation

Article 42 – paragraph 1 – subparagraph 2 – point a

Text proposed by the Commission

(a) the risks arising from high concentration, including the demise of audit firms ***with significant market share***, the disruption in the provision of statutory audit services whether in a specific sector or across sectors, the further accumulation of risk ***in the market*** and the impact on the overall stability of the financial sector;

Amendment

(a) the risks arising from high concentration ***of quality deficiencies of a statutory auditor or audit firm***, including ***systematic deficiencies within an audit firm network, which may lead to*** the demise of audit firms, the disruption in the provision of statutory audit services whether in a specific sector or across sectors, the further accumulation of risk ***of audit deficiencies*** and the impact on the overall stability of the financial sector;

Justification

The first objective of competent authorities is to be the guardian of audit quality. Therefore, it is necessary to refocus this reporting duty of competent authorities towards the goal of high audit quality.

Amendment 93

Proposal for a regulation

Article 42 – paragraph 1 – subparagraph 2 – point a a (new)

Text proposed by the Commission

Amendment

(a a) the market concentration levels, including at the level of specific sectors;

Amendment 94

Proposal for a regulation

Article 42 – paragraph 1 – subparagraph 2 – point a b (new)

Text proposed by the Commission

Amendment

(a b) the performance of audit committees in monitoring the quality of audit work and safeguarding the independence of auditors;

Amendment 95

Proposal for a regulation

Article 42 – paragraph 1 – subparagraph 2 – point b

Text proposed by the Commission

Amendment

(b) the need to adopt measures to mitigate those risks.

(b) the need to adopt measures to mitigate those risks, ***which may be legally binding;***

Amendment 96

Proposal for a regulation

Article 42 – paragraph 2 – subparagraph 1

Text proposed by the Commission

Amendment

By X X 20XX [2 years after the entry into force of the Regulation], and at least on a ***two-year*** basis thereafter, each competent authority shall draw up a report on this

By X X 20XX [2 years after the entry into force of the Regulation], and at least on a ***four-year*** basis thereafter, each competent authority shall draw up a report on this

issue and submit it to ESMA, *EBA* and *EIOPA*.

issue and submit it to ESMA and *the Commission*.

Amendment 97

Proposal for a regulation

Article 42 – paragraph 2 – subparagraph 2

Text proposed by the Commission

ESMA, EBA and EIOPA shall use those reports to draw up a joint report on the situation at Union level. The report shall be submitted to the *Commission*, the European Central Bank and the European Systemic Risk Board.

Amendment

The Commission following consultation with ESMA shall use those reports to draw up a joint report on the situation at Union level. The report shall be submitted to *Member States and their parliaments*, the *European Parliament*, the European Central Bank and the European Systemic Risk Board.

Amendment 98

Proposal for a regulation

Article 43 – paragraph 4 – subparagraph 2 a (new)

Text proposed by the Commission

ESMA shall create a permanent internal committee pursuant to Article 41 of Regulation (EU) No 1095/2010 for this purpose. Such internal committee shall be at least composed of the competent authorities referred to in Article 35(1) of this Regulation. *The* competent authorities referred to in Article 32 of Directive 2006/43/EC *shall be invited to attend the meetings of such internal committee*

Amendment

The competent authorities shall advise ESMA on the general status of contingency plans.

Amendment 99

Proposal for a regulation

Article 46 – paragraph 1 – subparagraph 2

Text proposed by the Commission

ESMA shall create a permanent internal committee pursuant to Article 41 of Regulation (EU) No 1095/2010 for this purpose. Such internal committee shall be at least composed of the competent authorities referred to in Article 35(1) of this Regulation *and the* competent authorities referred to in Article 32 of Directive 2006/43/EC *which heretofore constitute the European Group of Audit*

Amendment

ESMA shall create a permanent internal committee pursuant to Article 41 of Regulation (EU) No 1095/2010 for this purpose. Such internal committee shall be at least composed of the competent authorities referred to in Article 35(1) of this Regulation *and the* competent authorities referred to in Article 32 of Directive 2006/43/EC *which heretofore constitute the European Group of Audit*

concerning matters related to approval and registration of statutory auditors and audit firms and relations with third countries in so far as relevant to the statutory audit of public-interest entities.

Oversight Bodies (EAOB) created by Decision 2005/909/EC.

Amendment 100
Proposal for a regulation
Article 46 – paragraph 1 – subparagraph 4 a (new)

Text proposed by the Commission

Amendment

ESMA shall cooperate with the international bodies involved in the developing of the international standards and practices related to the carrying out of statutory audits.

Amendment 101
Proposal for a regulation
Article 46 – paragraph 2

Text proposed by the Commission

Amendment

2. ESMA shall provide advice to the competent authorities in the cases provided for in this Regulation. The Competent authorities shall consider that advice before taking any final decision under this Regulation.

2. ESMA shall provide advice to the competent authorities in the cases provided for in this Regulation. The Competent authorities shall consider that advice before taking any final decision under this Regulation (*auditing standing committee*). *The internal committee may create specific colleges of competent authorities to facilitate quality assurance, investigations, the European Quality Certificate referred to in Article 50, cooperation in inspections, contingency planning and administrative sanctions.*

Amendment 102
Proposal for a regulation
Article 46 – paragraph 2 a (new)

Text proposed by the Commission

Amendment

2a. ESMA shall be adequately staffed, with regard to capacity and expertise, and shall have the necessary resources in

order to be able to fulfil its tasks provided for in this Regulation.

Amendment 103

Proposal for a regulation

Article 46 – paragraph 3 – subparagraph 1 – point a

Text proposed by the Commission

(a) common standards on the content and presentation of the report referred to in Article 22;

Amendment

(a) common standards on the content and presentation of the report referred to in Article 22, ***within the framework of the international auditing standards as referred to in Article 20;***

Amendment 104

Proposal for a regulation

Article 46 – paragraph 3 – subparagraph 1 – point b

Text proposed by the Commission

(b) common standards on the content and presentation of the report referred to in Article 23;

Amendment

(b) common standards on the content and presentation of the report referred to in Article 23 ***respecting reporting obligations resulting from national requirements;***

Amendment 105

Proposal for a regulation

Article 46 – paragraph 3 – subparagraph 1 – point c

Text proposed by the Commission

(c) common standards on the oversight activity of the audit committee referred to in Article 24;

Amendment

(c) common standards on ***the independence of*** the oversight activity of the audit committee referred to in Article 24 ***due to risks resulting from any direct or indirect financial, business, employment or other relationship between audit committee members and the management of the audited entity;***

Amendment 106

Proposal for a regulation

Article 46 – paragraph 3 – subparagraph 1 – point e

Text proposed by the Commission

Amendment

(e) common standards and best practices on the gradual rotation mechanism referred to in Article 33; **deleted**

Amendment 107

Proposal for a regulation

Article 46 – paragraph 3 – subparagraph 1 – point f

Text proposed by the Commission

Amendment

(f) common standards and best practices regarding the dismissal of auditors, **in particular on the existence of proper grounds for it**, as referred to in Article 34;

(f) common standards and best practices **on the existence of proper grounds** regarding the dismissal of auditors, as referred to in Article 34;

Amendment 108

Proposal for a regulation

Article 46 – paragraph 3 – subparagraph 1 – point g

Text proposed by the Commission

Amendment

(g) **enforcement practices and activities to be conducted by competent authorities under this Regulation;**

(g) **common standards and best practices in the auditing area facilitating the consistent enforcement of applicable accounting standards, especially impairment rules;**

Amendment 109

Proposal for a regulation

Article 46 – paragraph 3 – subparagraph 1 – point h

Text proposed by the Commission

Amendment

(h) common standards and best practices for conducting quality assurance reviews provided for in Article 40, taking into consideration, in particular:

(h) common standards and best practices **within the framework of the international auditing standards as referred to in Article 20** for conducting quality assurance reviews provided for in Article 40, taking into consideration, in particular:

Amendment 110

Proposal for a regulation

Article 46 – paragraph 4 – subparagraph 3

Text proposed by the Commission

In a report to be prepared by X X 20XX [two years after the entry into force of the Regulation], ESMA shall undertake an evaluation of the structure of the audit market.

Amendment

In a report to be prepared by X X 20XX [two years after the entry into force of the Regulation], ESMA, ***following the advice of the European Competition Network***, shall undertake an evaluation of the structure of the audit market.

Amendment 111

Proposal for a regulation

Article 46 – paragraph 4 – subparagraph 5

Text proposed by the Commission

In a report to be prepared by ESMA by X X 20XX [four years after the entry into force of the Regulation], shall examine whether the competent authorities referred to in Article 35(1) are sufficiently empowered and have adequate resources to carry out their tasks.

Amendment

In a report to be prepared by ESMA by X X 20XX [four years after the entry into force of the Regulation], ***it*** shall examine whether the competent authorities referred to in Article 35(1) are sufficiently empowered and have adequate resources to carry out their tasks.

Amendment 112

Proposal for a regulation

Article 46 – paragraph 4 – subparagraph 6 – introductory part

Text proposed by the Commission

In a report to be prepared by ESMA by X X 20XX [six years after the end of the transitional period], shall examine the following issues:

Amendment

In a report to be prepared by ESMA by X X 20XX [six years after the end of the transitional period], ***it*** shall examine the following issues:

Amendment 113

Proposal for a regulation

Article 46 – paragraph 5 a (new)

Text proposed by the Commission

Amendment

5a. The Commission shall after a transitional period of 3 years come back to the European Parliament and the Council with a report on the performance of ESMA with regards to audit and the functioning of the internal audit

committee as well as a considering any enhanced future role for ESMA. The Commission shall evaluate whether ESMA has enough resources to fulfil its tasks laid down in this Regulation and propose budget adjustments if necessary.

Amendment 114
Proposal for a regulation
Article 51 – paragraph 2 – subparagraph 3

Text proposed by the Commission

The competent authority making any such request shall inform **ESMA** of any request referred to in the first and second subparagraphs.

Amendment

The competent authority making any such request shall inform **the Commission** of any request referred to in the first and second subparagraphs.

Amendment 115
Proposal for a regulation
Article 53 – paragraph 4 – subparagraph 1

Text proposed by the Commission

Within 15 working days of the establishment of the college of competent authorities with regard to a specific network, its members shall select a facilitator. ***In the absence of agreement, ESMA shall appoint a facilitator.***

Amendment

Within 15 working days of the establishment of the college of competent authorities with regard to a specific network, its members shall select a facilitator.

Amendment 116
Proposal for a regulation

Article 69 – paragraph 1 a (new)

Text proposed by the Commission

Amendment

Before X.X.20XX [two years after the entry into force of the Directive], the Commission shall undertake an evaluation of the appropriateness of fees charged by statutory auditors or audit firms for the provision of statutory audits

or audit firms for the provision of statutory audits of public-interest entities as well as their impact on the audit market structure, and shall present a report. In the light of that report, the Commission shall, if it considers it appropriate, take measures to address the potential issues identified.

Amendment 117
Proposal for a regulation

Article 69 a (new)

Text proposed by the Commission

Amendment

Article 69a

Report about ESMA

The Commission shall by XX (five years after the end of the transitional period) prepare a report on ESMA’s current and future role. The Commission shall assess whether ESMA has enough resources to fulfil its tasks according to this Directive.

Amendment 118
Proposal for a regulation

Article 72 – paragraph 4

Text proposed by the Commission

Amendment

This Regulation shall be binding in its entirety and directly applicable in all Member States.

deleted

Justification

An EU Regulation is not a suitable format of regulation, in particular in view of the highly detailed and intervening nature of the Commission’s proposal. It represents an “one-size-fits-all” approach that is not taken the nature of different corporate governance systems throughout the EU into account. It would lead to decreased corporate governance standards in some Member States.

EXPLANATORY STATEMENT

In drafting this opinion, due consideration has been given to the issues of improving the quality of audit services, improving competition in the audit market and harmonising standards of practice across the EU. However, attention has also been paid to the cost to businesses and investors; the users of audit services, a balance between the costs and benefits of implementation to them are seen as paramount as companies struggle to deal with the current difficult economic situation.

Therefore, while the Commission points out some reasonable points with regards to competition some of the proposals would constitute an unreasonable burden upon businesses and introduce extra costs with uncertain benefit. Above all else the quality of audit must be at the forefront of any reform, shareholders and investors need to have confidence in the audit report in order to continue to invest in companies.

Tendering and Shared Audit

The last reform of the audit profession took place via the 8th Company Law directive and required the mandatory rotation of partners on at least a 7 year basis, the results of this reform on the independence of audit and the quality of audit are yet to be seen in the EU as not enough time has passed to truly evaluate their effect. Therefore it would seem that the proposal of the Commission that this should be significantly escalated to a 7 year mandatory rotation of the entire audit firm is premature and may prove to be unnecessary.

A mandated 7 year tendering process would provide a framework for increased scrutiny of the audit services provided by the current auditor by the audit committee and would remove any speculation in the market when an audit mandate is tendered. A planned audit tender process will not provoke a negative market response. While a full tendering procedure may increase costs for companies it should help increase competition within the field of audit, giving more audit firms a predictable time scale to prepare for the tender and certainty that they will be considered.

Currently, some companies are choosing to undertake shared audit whereby certain subsidiaries are audited by a different firm to the group audit. This avoids the problem of joint liability and extra costs for the audited entity as the group auditor maintains liability for the over all audit, providing an oversight role for the terms of the audit of the subsidiary and then evaluating the results. The Rapporteur has chosen not to mandate this service as it would not be suitable for all companies, however it should be given due consideration by audit committees particularly when undertaking the proposed regular tendering process.

Non- audit services

Revenues from non-audit services have become as significant to audit firms as the statutory audit function and while in some cases it is more efficient to have the statutory auditor conduct some non-audit services this is by n means universally true. As such, the Rapporteur would like to encourage audit committees to take a more active role in decisions regarding the

providers of non-audit services.

Firstly, the audit committee should be consulted on the provision of all non-audit services so they can properly reflect on who the best provider of the service is and whether it would affect the independence of the statutory auditor should they choose to use them.

Secondly, all non-audit services of a significant monetary value should be put out to tender. The value of such a threshold should be proposed by a company's audit committee and published annually. While small audit firms may not be in a position to audit large global entities they are in a position to build up specialised skill sets in specific areas of non-audit services if they have a reasonable expectation of being able to provide those services. This, coupled with consideration of shared audit, should provide audit committees with more experience of using smaller audit firms, and increase competition in the EU audit market over time.

Supervision at a European Level- the EGAOB

While the Commission proposes ESMA as the correct body at an EU level to coordinate the actions of national bodies and to write regulatory technical standards and guidelines around the provision of audit, the Rapporteur is concerned that only 5 of the EU securities supervisors have any responsibility for supervision of audit firms and audit services and therefore do not collectively have the necessary experience in this area. In addition to this, ESMA has been given many tasks in its direct area of responsibility as a result of G20 commitments that will need to take precedent, therefore the Rapporteur is proposing that the European Group of Audit Oversight Bodies (EGAOB) is better equipped to manage these tasks. Due to its current legal formation this will necessarily need to be done via the provision of advice to the European Commission; however consideration should be given about whether it should become a full level 3 committee in order to properly coordinate the supervision of audit services across the single market and to actively and directly shape future delegated acts and guidelines.

Public Interest Entity definition

Discussions in the Parliament suggest a concern when proposing differentiating between the audit of financial entities as opposed to non-financial entities. Clarity across all EU companies in such an important statutory function suggests rather that as all audits should be the same regardless of sector therefore, the Rapporteur has seen fit to delete the provisions regarding large public interest entities.

The inclusion of UCITS and AIF within the definition of a PIE is of great concern to the Rapporteur as many of the provisions of the regulation, and future uses of the definition would not be proportionate when related to the multitude of funds covered. Although the rapporteur supports the need to fully audit funds and the activities of fund managers following high profile cases of fraudulent activity, believes that this can best be achieved within the depository function inside the AIFM directive and in the upcoming revision to UCITs.

Dialogue with National Regulators and the ESRB

Auditors of systemically important financial institutions have a privileged view inside these companies and in many instances a sectoral view that is of relevance to financial supervisory bodies. While there has always been an obligation for auditors to report areas of concern to national regulators in many member states, this has not been taken up in many. Therefore a forum for regular dialogue should be established so discussions can take place about ongoing developments in the market. While it is accepted that auditors are not supervisors they can be a useful partner for competent authorities going forwards.

The ESRB was established to look at the build up of systemic risk across the whole EU, therefore it would be helpful for the auditors of the largest entities in the EU to have a regular dialogue with the ESRB on an anonymised basis regarding sectoral developments in systemically important financial institutions. This should take the form of a two way dialogue that should aide both parties in carrying out their responsibilities.

The audit report and audit function are critical for investor confidence and the wider public therefore the Rapporteur is proposing more granular disclosure of audit committee decisions and resulting corporate policy with regards to audit and non-audit service providers, a formalised tendering process for services and an improved dialogue for those who audit financial institution who pose a systemic risk to the EU financial system with financial regulators and supervisors, as a proportionate response to improving audit quality throughout the EU.

PROCEDURE

Title	Specific requirements regarding statutory auditing of public-interest entities
References	COM(2011)0779 – C7-0470/2011 – 2011/0359(COD)
Committee responsible Date announced in plenary	JURI 15.12.2011
Opinion by Date announced in plenary	ECON 15.12.2011
Associated committee(s) - date announced in plenary	20.4.2012
Rapporteur Date appointed	Kay Swinburne 25.10.2011
Discussed in committee	15.10.2012
Date adopted	11.3.2013
Result of final vote	+: 26 –: 17 0: 3
Members present for the final vote	Burkhard Balz, Elena Băsescu, Slavi Binev, Sharon Bowles, Udo Bullmann, Nikolaos Chountis, George Sabin Cutaş, Leonardo Domenici, Derk Jan Eppink, Markus Ferber, Elisa Ferreira, Ildikó Gáll-Pelcz, Jean-Paul Gauzès, Liem Hoang Ngoc, Gunnar Hökmark, Othmar Karas, Jürgen Klute, Rodi Kratsa-Tsagaropoulou, Philippe Lamberts, Werner Langen, Hans-Peter Martin, Ivari Padar, Alfredo Pallone, Antolín Sánchez Presedo, Olle Schmidt, Peter Skinner, Theodor Dumitru Stolojan, Ivo Strejček, Kay Swinburne, Sampo Terho, Marianne Thyssen, Ramon Tremosa i Balcells, Corien Wortmann-Kool
Substitute(s) present for the final vote	Jean-Pierre Audy, Pervenche Berès, Lajos Bokros, Philippe De Backer, Saïd El Khadraoui, Sari Essayah, Roberto Gualtieri, Sophia in 't Veld, Olle Ludvigsson, Thomas Mann, Emilie Turunen
Substitute(s) under Rule 187(2) present for the final vote	Klaus-Heiner Lehne, Sabine Verheyen, Tatjana Ždanoka

3.12.2012

OPINION OF THE COMMITTEE ON INDUSTRY, RESEARCH AND ENERGY

for the Committee on Legal Affairs

on the proposal for a regulation of the European Parliament and of the Council on specific requirements regarding statutory audit of public-interest entities
(COM(2011)0779 – C7-0470/2011 – 2011/0359(COD))

Rapporteur: Jürgen Creutzmann

SHORT JUSTIFICATION

The financial crisis of 2008 has cast doubt on the well functioning of the European statutory audit system, in particular with regard to public interest entities. While deficiencies in the banking sector were arguably due to a lack of proper oversight and adequate regulatory safeguards, there have been calls to improve the statutory audit system in order to reinforce investor protection in the financial statements published by undertakings. It could be debated whether or to which degree more adept audit rules could have prevented the crisis. Still, there is added value in a more robust audit process and a more dynamic audit market. In this regard, the draftsman welcomes the Commission's proposal.

The focus of the draft opinion is on increasing audit quality, independence of the auditor and investor protection. The relationship between the auditor of the audited entity, and a strengthened audit committee, representing the investors, needs to be particularly highlighted. The draftsman would not like to enter the debate on whether the Regulation should rather be integrated in the existing Directive, however, he underlines the interlinks with corporate governance, which might warrant a more flexible approach to leave Member States a margin to adapt provisions to their national frameworks.

Analysis show that the audit market is very concentrated up to the point that in some Member States there is a considerably reduced choice since one or two large audit firms dominate the market. The draftsman is sceptical as to whether the Commission's proposal will actually be able to change the current market situation and break up existing oligopolies. Only drastic market interventions might reach this goal, however it is questionable whether such measures would be proportionate. Furthermore, some of the proposed measures might actually lead to more market concentration and should therefore be carefully considered.

The draftsman supports measures to increase the quality of audits and reinforce auditor independence. Nonetheless he underlines that any such measure needs to be proportionate

with regard to the goal to be accomplished. For this reason the draftsman proposes to reconsider or at least adjust the most extensive market interventions in the proposal, i.e. a limitation of related financial audit services and the concept of mandatory external rotation. While the latter may have its virtues such as increased auditor independence, in its proposed form it equally entails the risk of further market concentration, reduced choice of audit firms and lower quality audits in the first years following rotation. Therefore the draftsman proposes to extend the maximum duration of audit appointments.

The draftsman proposes to considerably strengthen the position of the audit committee. First of all, a public tender procedure for the auditor selection should be conducted every 7 years, which would allow all interested auditors or audit firms to offer their services, thereby rendering the selection process more transparent and giving the audit committee a broader choice to select from and the possibility to choose the best qualified firm. During the entire auditor selection process, the audit committee shall be the audited entity's representative and conduct the negotiations. In addition the investors should be strengthened by e.g. making all audit-related services subject to the prior approval of the audit committee, which decreases threats to the auditors' independence.

The additional report to the audit committee and supervisory body is explicitly welcomed by the draftsman as it increases the information provided and is the best place to address critical issues such as the application of the going concern principle, weaknesses in internal control systems and instances of non-compliance. Detailed account in this report needs to be taken of the quality of the management's financial statement. This is why the draftsman proposes to move several aspects from the public audit report to the additional report, since investors are best served by giving more information to the bodies that represent them and have the required knowledge of the entity at hand, in contrast to making the information available to the public, unacquainted with the entity.

In principle it could be considered to limit services provided to the audited entity beyond the mere statutory audit as these can create threats to the auditor's independence if the additional fees are disproportionate compared to the amount of the audit fees. However, some of the mentioned services are closely linked to the audit work and can be most efficiently or, in some instances, only be provided by the auditor. Therefore it would be disproportionate to set an arbitrary limit, not adjustable to the concrete situation or complexity of the entity in relation to the audit fees. Instead, the draftsman proposes to prohibit non-audit services and make audit-related and other assurance services expressly mentioned subject to prior approval of the audit committee. In addition, the auditor him- or herself is required to avoid any threats to independence and take appropriate safeguards. In order to allow for new services in future, both the list of prohibited and the list of permitted services should not be closed.

AMENDMENTS

The Committee on Industry, Research and Energy calls on the Committee on Legal Affairs, as the committee responsible, to incorporate the following amendments in its report:

Amendment 1
Proposal for a regulation
Recital 8

Text proposed by the Commission

(8) Adequate internal organisation of statutory auditors and audit firms should contribute to preventing any threats to their independence. Thus, owners or shareholders of an audit firm, as well as those managing it, should not intervene in the carrying out of a statutory audit in any way which jeopardises the independence and objectivity of the statutory auditor who carries out the statutory audit on behalf of the audit firm. Additionally, statutory auditors and audit firms should establish appropriate internal policies and procedures in relation to employees and other persons involved in the statutory audit activity within their organisations in order to ensure compliance with their statutory obligations. Those policies and procedures should in particular seek to prevent and address any threats to independence and ensure the quality, integrity and thoroughness of the statutory audit. Those policies and procedures should be proportionate in view of the scale and complexity of the business of the statutory auditor or audit firm.

Amendment

(8) Adequate internal organisation of statutory auditors and audit firms should contribute to preventing any threats to their independence. Thus, owners or shareholders of an audit firm, as well as those managing it, should not intervene in the carrying out of a statutory audit in any way which jeopardises the independence and objectivity of the statutory auditor who carries out the statutory audit on behalf of the audit firm. Additionally, statutory auditors and audit firms should establish appropriate internal policies and procedures in relation to employees and other persons involved in the statutory audit activity within their organisations in order to ensure compliance with their statutory obligations. Those policies and procedures should in particular seek to prevent and address any threats to independence and ensure the quality, integrity and thoroughness of the statutory audit. Those policies and procedures should be proportionate in view of the scale and complexity of the business of the statutory auditor or audit firm ***and the audited entities.***

Amendment 2

Proposal for a regulation
Recital 11

Text proposed by the Commission

(11) The provision of services other than statutory audit to audited entities by statutory auditors, audit firms or members of their networks may compromise their independence. Therefore, it is appropriate to require the statutory auditor, the audit

Amendment

(11) The provision of services other than statutory audit to audited entities by statutory auditors, audit firms or members of their networks may compromise their independence. Therefore, it is appropriate to require the statutory auditor, the audit

firm and the members of their network not to provide non-audit services to their audited entities. The provision of non-audit services by an audit firm to a company would prevent that audit firm from carrying out statutory audit of that company, thus resulting in a reduction of the audit firms available to provide statutory audit, in particular with regard to the audit of large public-interest entities where the market is concentrated. As a result, in order to secure that a minimum number of audit firms is able to provide audit services to large public-interest entities, it is appropriate to request that audit firms of significant dimension focus their professional activity on the carrying out of statutory audit and are not allowed to undertake other services unconnected to their statutory audit function such as consultancy or advisory services.

firm and the members of their network not to provide non-audit services to their audited entities. The provision of non-audit services by an audit firm to a company would prevent that audit firm from carrying out statutory audit of that company, thus resulting in a reduction of the audit firms available to provide statutory audit, in particular with regard to the audit of large public-interest entities where the market is concentrated. As a result, in order to secure that a minimum number of audit firms is able to provide audit services to large public-interest entities, it is appropriate to request that audit firms of significant dimension *either* focus their professional activity on the carrying out of statutory audit and are not allowed to undertake other services unconnected to their statutory audit function such as consultancy or advisory services *or they partner with other audit firms in joint audits if they want to further expand their business activities.*

Amendment 3
Proposal for a regulation
Recital 15

Text proposed by the Commission

(15) The statutory audit results in an opinion on the truth and fairness of the financial statements of the audited entities. Stakeholders, however, might *to* be unaware of the limitations of an audit (materiality, sampling techniques, role of the auditor in the detection of fraud and the responsibility of managers), which can lead to an expectation gap. In order to reduce such gap, it is important to provide more clarity on what the scope of the statutory audit is.

Amendment

(15) The statutory audit results in an opinion on the truth and fairness of the financial statements of the audited entities. Stakeholders, however, might be unaware of the limitations of an audit (materiality, sampling techniques, role of the auditor in the detection of fraud and the responsibility of managers), which can lead to an expectation gap. In order to reduce such gap, it is important to provide more clarity on what the scope of the statutory audit is, *without drawing the attention of stakeholders away from the actual content of the audit opinion.*

Amendment 4
Proposal for a regulation
Recital 16

Text proposed by the Commission

(16) Whilst the primary responsibility for delivering financial information **should rest** with the management of the audited entities, auditors play a role by actively challenging management from a user's perspective. In order to improve audit quality, it is therefore important that the professional scepticism exercised by auditors vis-à-vis the audited entity is reinforced. Auditors should recognise the possibility that a material *misstatement* due to fraud or error could exist, notwithstanding the auditor's past experience of the honesty and integrity of the audited entity's management. Securing audit quality should be the main criterion to organise the audit work and to allocate the necessary resources to the tasks. The integrity of the statutory auditor, audit firm and their staff is essential to ensure the public confidence in statutory audits and financial markets. Therefore, any incident that may have serious consequences for the integrity of the statutory audit activities should be appropriately managed. The statutory auditor or the audit firm should appropriately document the audit work.

Amendment 5
Proposal for a regulation
Recital 19

Text proposed by the Commission

(19) The results of the statutory audit should be presented to the stakeholders in the audit report. In order to increase the confidence of stakeholders in the financial statements of the audited entity, it is particularly important that the audit report is well-founded and solidly substantiated

Amendment

(16) Whilst the primary responsibility for delivering financial information **rests** with the management of the audited entities, auditors play a role by actively challenging management from a user's perspective. In order to improve audit quality, it is therefore important that the professional scepticism exercised by auditors vis-à-vis the audited entity is reinforced. Auditors should recognise the possibility that a material *misstatement* due to fraud or error could exist, notwithstanding the auditor's past experience of the honesty and integrity of the audited entity's management. Securing audit quality should be the main criterion to organise the audit work and to allocate the necessary resources to the tasks. The integrity of the statutory auditor, audit firm and their staff is essential to ensure the public confidence in statutory audits and financial markets. Therefore, any incident that may have serious consequences for the integrity of the statutory audit activities should be appropriately managed. The statutory auditor or the audit firm should appropriately document the audit work.

Amendment

(19) The results of the statutory audit should be presented to the stakeholders in the audit report. In order to increase the confidence of stakeholders in the financial statements of the audited entity, it is particularly important that the audit report is well-founded and solidly substantiated

and its content expanded to include additional information specific to the audit carried out. The audit report should in particular include *sufficient* information on the methodology used in the audit, *especially how much of the balance sheet has been directly verified and how much has been based on system and compliance testing, on the levels of materiality applied to perform the audit, on the key areas of risk of material misstatements of the annual and consolidated financial statements*, on whether the statutory audit was designed to detect fraud and, in the event of a qualified or adverse opinion or a disclaimer of opinion, on the reasons for such decision.

Amendment 6

Proposal for a regulation

Recital 20

Text proposed by the Commission

(20) The value of statutory audit for the audited entity would be particularly enhanced if the communication between the statutory auditor or the audit firm, on the one hand, and the audit committee, on the other hand, was reinforced. Further to the regular dialogue during the carrying out of the statutory audit, it is important that the statutory auditor or the audit firm submits to the audit committee an additional and more detailed report on the results of the statutory audit. It should be possible to make such additional detailed reports available to the supervisors of public-interest entities, *but not* to the public.

and its content expanded to include additional information *about the auditee* specific to the audit carried out. The audit report should in particular include information on the methodology used in the audit, *on matters in the financial statements that are fundamental to the users' understanding*, on whether the statutory audit was designed to detect fraud and, in the event of a qualified or adverse opinion or a disclaimer of opinion, on the reasons for such decision.

Amendment

(20) The value of statutory audit for the audited entity would be particularly enhanced if the communication between the statutory auditor or the audit firm, on the one hand, and the audit committee, on the other hand, was reinforced. *This would contribute to increased transparency, strengthened accountability and professional ethics.* Further to the regular dialogue during the carrying out of the statutory audit, it is important that the statutory auditor or the audit firm submits to the audit committee an additional and more detailed report on the results of the statutory audit. It should be possible to make such additional detailed reports available to the supervisors of public-interest entities *and if possible, to the extent that they do not concern the business secrets of the audited entity*, to the public.

Amendment 7
Proposal for a regulation
Recital 23

Text proposed by the Commission

(23) Audit committees, or bodies performing an equivalent function within the audited entity, have a decisive role in contributing to high-quality statutory audit. It is particularly important to reinforce the independence and technical competence of the audit committee by requiring that a majority of its members is independent and that at least one member of the committee has competence in auditing and another one in auditing and/or accounting. The Commission Recommendation of 15 February 2005 on the role of non-executive or supervisory directors of listed companies and on the committees of the (supervisory) board sets out how audit committees should be established and function. Considering, however, the dimension of boards in companies with reduced market capitalisation and in small and medium-sized public-interest entities, it would be appropriate that the functions assigned to the audit committee for those entities, or to a body performing equivalent functions within the audited entity, may be performed by the administrative or supervisory body as a whole. Public-interest entities which are UCITS or alternative investment funds should also be exempted from the obligation to have an audit committee. This exemption takes into account the fact that where those funds function merely for the purpose of pooling assets, the employment of an audit committee is not appropriate. UCITS and alternative investments funds, as well as their management companies, operate in a strictly defined regulatory environment and are subject to specific governance mechanisms such as controls exercised by

Amendment

(23) Audit committees, or bodies performing an equivalent function within the audited entity, have a decisive role in contributing to high-quality statutory audit. It is particularly important to reinforce the independence and technical competence of the audit committee by requiring that a majority of its members is independent and that at least one member of the committee has competence in auditing and another one in auditing and/or accounting.
Members of the audit committee should take part in skill enhancement programmes to ensure an appropriate level of technical knowledge to fulfil their roles. The Commission Recommendation of 15 February 2005 on the role of non-executive or supervisory directors of listed companies and on the committees of the (supervisory) board sets out how audit committees should be established and function. Considering, however, the dimension of boards in companies with reduced market capitalisation and in small and medium-sized public-interest entities, it would be appropriate that the functions assigned to the audit committee for those entities, or to a body performing equivalent functions within the audited entity, may be performed by the administrative or supervisory body as a whole. Public-interest entities which are UCITS or alternative investment funds should also be exempted from the obligation to have an audit committee. This exemption takes into account the fact that where those funds function merely for the purpose of pooling assets, the employment of an audit committee is not appropriate. UCITS and alternative investments funds, as well as

their depositary.

their management companies, operate in a strictly defined regulatory environment and are subject to specific governance mechanisms such as controls exercised by their depositary.

Amendment 8

Proposal for a regulation Recital 24

Text proposed by the Commission

(24) It is also important that the role of the audit committee in the selection of a new statutory auditor or audit firm be reinforced, for the benefit of a more informed decision of the general meeting of shareholders or members of the audited entity. Hence, when making a proposal to the general meeting, the board should explain whether it follows the recommendation of the audit committee and, if not, why. The recommendation of the audit committee should include at least two possible choices for the audit engagement and a duly justified preference for one of them, so that the general meeting can make a real choice. In order to provide a fair and proper justification in its recommendation, the audit committee should use the results of a mandatory **selection** procedure organised by the audited entity, under the responsibility of the audit committee. In such **selection** procedure, the audited entity should **invite statutory** auditors or audit firms, **including smaller ones**, to present proposals for the audit engagement. Tender documents should contain transparent and non-discriminatory selection criteria to be used for the evaluation of proposals. Considering, however, that this **selection** procedure could entail disproportionate costs for companies with reduced market capitalisation or small and medium-sized public-interest entities having regard to

Amendment

(24) It is also important that the role of the audit committee in the selection of a new statutory auditor or audit firm be reinforced, for the benefit of a more informed decision of the general meeting of shareholders or members of the audited entity. ***This would lead to more transparency in the selection procedure and to strengthened accountability vis-à-vis shareholders.*** Hence, when making a proposal to the general meeting, the board should explain whether it follows the recommendation of the audit committee and, if not, why. ***It should equally provide reasons if it proposes to renew an audit engagement following a tender procedure.*** The recommendation of the audit committee should include at least two possible choices for the audit engagement, ***a comprehensive assessment of both proposals***, and a duly justified preference for one of them, so that the general meeting can make a real choice. In order to provide a fair and proper justification in its recommendation, the audit committee should use the results of a mandatory **tender** procedure organised by the audited entity, under the responsibility of the audit committee. In such **tender** procedure, the audited entity should **publish a call to** auditors or audit firms to present proposals for the audit engagement. Tender documents should contain transparent and non-discriminatory selection criteria to be

their dimension, it is appropriate to relieve such entities from this obligation.

used for the evaluation of proposals. Considering, however, that this *tender* procedure could entail disproportionate costs for companies with reduced market capitalisation or small and medium-sized public-interest entities having regard to their dimension, it is appropriate to relieve such entities from this obligation.

Amendment 9

Proposal for a regulation Recital 27

Text proposed by the Commission

(27) In order to address the familiarity threat and therefore reinforce the independence of auditors and audit firms, it is important to establish a maximum duration of the audit engagement of a statutory auditor or audit firm in a particular audited entity. An appropriate gradual rotation mechanism should *also* be established with regard to the most senior personnel involved in the statutory audit, including the key audit partners carrying out the statutory audit on behalf of the audit firm. ***It is also important to provide for an appropriate period within which such statutory auditor or audit firm may not carry out the statutory audit of the same entity. In order to ensure a smooth transition, the former auditor should transfer a handover file with relevant information to the incoming auditor.***

Amendment

(27) In order to address the familiarity threat and therefore reinforce the independence of auditors and audit firms, it is important to establish a maximum duration of the audit engagement of a statutory auditor or audit firm in a particular audited entity. ***Furthermore, a comprehensive, transparent and independent evaluation of audit quality should be regularly and appropriately documented. This comprehensive evaluation should form the basis for the auditor selection by the general meeting, which follows a tender procedure at least every 7 years. Moreover,*** an appropriate gradual rotation mechanism should be established with regard to the most senior personnel involved in the statutory audit, including the key audit partners carrying out the statutory audit on behalf of the audit firm.

Amendment 10

Proposal for a regulation Recital 33

Text proposed by the Commission

(33) The market for the provision of statutory audit services to public-interest

Amendment

(33) The market for the provision of statutory audit services to public-interest

entities evolves over time. It is therefore necessary that **competent authorities** monitor the developments in the market, particularly as regards possible limited choice of auditor and the risks that arise from high market concentration.

entities evolves over time. It is therefore necessary that **Member States** monitor the developments in the market, particularly as regards possible limited choice of auditor and the risks that arise from high market concentration.

Amendment 11

Proposal for a regulation Recital 43

Text proposed by the Commission

(43) In order to take account of developments in auditing and the audit market, the Commission should be empowered to specify technical requirements on the **content of the handover file that the new statutory auditor or audit firm should receive and on the** establishment of a European quality certificate for statutory auditors and audit firms carrying out statutory audits of public-interest entities.

Amendment

(43) In order to take account of developments in auditing and the audit market, the Commission should be empowered to specify technical requirements on the establishment of a European quality certificate for statutory auditors and audit firms carrying out statutory audits of public-interest entities.

Amendment 12

Proposal for a regulation Article 5 – paragraph 1

Text proposed by the Commission

A statutory auditor or audit firm shall take all necessary steps to ensure that the **carrying out of a statutory audit of a public-interest entity is not affected by any existing or potential conflict of interest or business or other relationship involving** the statutory auditor or audit firm carrying out the statutory audit **and, where appropriate, its network, managers, auditors, employees, any other natural persons whose services are placed at the disposal or under the control of the statutory auditor or audit firm, or** any person **directly or indirectly linked to the**

Amendment

A statutory auditor or audit firm shall take all necessary steps to ensure that the **independence of** the statutory auditor or audit firm carrying out the statutory audit **is not compromised by financial, personal, business, employment or other relationships involving the statutory auditor, the audit firm, its affiliate firms and network, and** any natural person **in a position to influence the outcome of the** statutory audit.

statutory auditor or audit firm by control.

Justification

This proposed wording reflects better the nature of the relationship of the statutory auditor or audit firm to the audited entity and captures in a more comprehensive way potential threats for independence. This is furthermore more aligned to existing international ethics standards and would ensure an international level playing field.

Amendment 13
Proposal for a regulation
Article 6 – paragraph 1 – point e

Text proposed by the Commission

(e) a statutory auditor or an audit firm shall establish appropriate and effective organisational and administrative arrangements to prevent, identify, eliminate or manage and disclose any threats to independence referred to in Article 11(2);

Amendment

(e) a statutory auditor or an audit firm shall establish appropriate and effective organisational and administrative arrangements to prevent, identify, eliminate or manage and disclose **to the audit committee of the audited entity** any threats to independence referred to in Article 11(2);

Justification

It should be clarified that it is the audit committee of the audited entity that should be informed in these cases.

Amendment 14
Proposal for a regulation
Article 7 – paragraph 4

Text proposed by the Commission

4. Persons or firms referred to in paragraph 2 shall not solicit or accept **money**, gifts or favours from **anyone with whom the statutory audit or audit firm has a contractual relationship**.

Amendment

4. Persons or firms referred to in paragraph 2 shall not solicit or accept gifts or favours from **the audited entity unless a reasonable and informed third party would consider the value insignificant**.

Justification

The definition of gifts or favours clearly includes "money", which is why this element is redundant. In addition, the objective of the proposal is to make the auditor or audit firm more independent of the audited entity, which is why it is disproportionate and entails no added

value to also extend the above rule to relationships with third parties. Insignificant favours or gifts that could not reasonably be considered to have an influence on the audit should be excluded.

Amendment 15
Proposal for a regulation
Article 10 – paragraph 1

Text proposed by the Commission

1. A statutory auditor or an audit firm carrying out statutory audit of public-interest entities may provide to the audited entity, to its parent undertaking and to its controlled undertakings statutory audit services **and related financial audit services**.

Where the statutory auditor belongs to a network, a member of such network may provide to the audited entity, to its parent undertaking and to its controlled undertakings within the Union statutory audit services **or related financial audit services**.

Amendment 16
Proposal for a regulation
Article 10 – paragraph 2 – introductory part

Text proposed by the Commission

2. For the purposes of this Article, **related financial audit** services shall mean:

Amendment

1. A statutory auditor or an audit firm carrying out statutory audit of public-interest entities may provide to the audited entity, to its parent undertaking and to its controlled undertakings **in addition to** statutory audit services **other services subject to prior approval of the audit committee and as long as such services do not pose a threat to independence that cannot be reduced to an acceptable level by the application of safeguards**.

Where the statutory auditor belongs to a network, a member of such network may provide to the audited entity, to its parent undertaking and to its controlled undertakings within the Union **in addition to** statutory audit services **other services subject to prior approval of the audit committee and as long as such services do not pose a threat to independence that cannot be reduced to an acceptable level by the application of safeguards**.

2. For the purposes of this Article, **audit-related and other assurance** services shall mean **in particular**:

Justification

The amended list is no closed list but only indicative. Thus, other services may be permitted as long as the conditions of Paragraph 1 are fulfilled.

Amendment 17

Proposal for a regulation

Article 10 – paragraph 2 – point e

Text proposed by the Commission

Amendment

(e) providing certification on compliance with tax requirements ***where such attestation is required by national law;***

(e) providing certification on compliance with tax requirements, ***preparation of tax declarations, advice on indirect taxes, payroll tax, transfer prices, customs duties and public support measures, support regarding tax inspections and tax authority enquiries;***

Justification

Auditors are best-placed to provide certification on tax requirements. Especially for small public interest entities this is an important service that should be always allowed, whether the attestation is required by law or not.

Amendment 18

Proposal for a regulation

Article 10 – paragraph 2 – point e a (new)

Text proposed by the Commission

Amendment

(ea) the audit of technology systems, internal control or risk management procedure related to the preparation and/or control of financing information included in the financial statements and advice on risk;

Justification

While the design and implementation of such control and risk management systems and procedures should be prohibited, an audit of such system should be permitted as the auditor or audit firm needs to rely on the correctness of the information provided through these systems.

Amendment 19
Proposal for a regulation
Article 10 – paragraph 2 – point e b (new)

Text proposed by the Commission

Amendment

(eb) providing assurance on the implementation and further development of electronic data processing systems;

Justification

This only refers to assurance services and not the actual implementation of data processing systems.

Amendment 20
Proposal for a regulation
Article 10 – paragraph 2 – point e c (new)

Text proposed by the Commission

Amendment

(ec) the audit of occupational pension schemes and pension obligations;

Amendment 21
Proposal for a regulation
Article 10 – paragraph 2 – point f

Text proposed by the Commission

Amendment

(f) any other statutory duty related to audit work imposed by Union legislation to the statutory auditor or audit firm.

(f) any other statutory duty related to audit work imposed by Union ***and/or national*** legislation to the statutory auditor or audit firm;

Justification

There remain different national legal requirements which the auditor or audit firm should obviously be allowed to perform.

Amendment 22
Proposal for a regulation
Article 10 – paragraph 2 – point f a (new)

Text proposed by the Commission

Amendment

(fa) providing comfort letters for investors in the context of the issuance of an undertaking's securities and fairness opinions or contribution-in-kind reports.

Justification

The auditor or audit firm of an audited entity is usually best-placed to provide these services and a potential conflict of interest is not likely.

Amendment 23

Proposal for a regulation

Article 10 – paragraph 3

Text proposed by the Commission

Amendment

3. A statutory auditor or an audit firm carrying out statutory audit of public-interest entities shall not directly or indirectly provide to the audited entity, to its parent undertaking and to its controlled undertakings ***non-audit*** services.

Where the statutory auditor belongs to a network, no member of such network shall provide to the audited entity, to its parent undertaking and to its controlled undertakings within the Union any ***non-audit*** services.

For the purposes of this Article, ***non-audit*** services shall mean:

(a) services ***entailing conflict of interest in all cases:***

(i) expert services unrelated to the audit, tax consultancy, general management and other advisory services;

(ii) bookkeeping and preparing accounting records and financial statements;

3. A statutory auditor or an audit firm carrying out statutory audit of public-interest entities shall not directly or indirectly provide to the audited entity, to its parent undertaking and to its controlled undertakings ***prohibited*** services.

Where the statutory auditor belongs to a network, no member of such network shall provide to the audited entity, to its parent undertaking and to its controlled undertakings within the Union any ***prohibited*** services.

For the purposes of this Article, ***prohibited*** services shall mean:

(a) ***any services where the statutory auditor or the audit firm assumes a management responsibility such as making significant judgments or taking decisions on behalf of the audited entity;***

(b) accounting and bookkeeping, including payroll services, and preparing accounting records and financial statements;

(iii) designing *and* implementing internal control or risk management procedure related to the preparation and/or control of financing information included in the financial statements and advice on risk;

(iv) valuation services, *providing fairness opinions or contribution-in-kind reports*;

(v) *actuarial and legal services, including the resolution of litigation*;

(vi) designing *and* implementing financial information technology systems *for public-interest entities as referred to in Article 2(13)(b) to (j) of Directive 2006/43/EC*;

(vii) participating in the audit client's internal audit and the provision of services related to the internal audit function;

(viii) broker or dealer, investment adviser, or investment banking services.

(b) *services which may entail conflict of interest*:

(i) human resources services, including recruiting senior management;

(ii) *providing comfort letters for investors in the context of the issuance of an undertaking's securities*;

(iii) *designing and implementing financial information technology systems for public-interest entities as referred to in Article 2(13)(a) of Directive 2006/43/EC*;

(iv) due diligence services to the vendor or the buy side on potential mergers and acquisitions and providing assurance on the audited entity to other parties at a financial or corporate transaction.

(c) *actuarial and legal services, including resolving a dispute or litigation*;

(d) designing *or* implementing *technology systems*, internal control or risk management procedure related to the preparation and/or control of financing information included in the financial statements and advice on risk;

(e) valuation services;

(f) designing *or* implementing financial information technology systems;

(g) participating in the audit client's internal audit and the provision of services related to the internal audit function;

(h) broker or dealer, investment adviser, or investment banking services, *including providing corporate finance services involving promoting, dealing in or underwriting an audit client's shares*;

(i) human resources services, including recruiting senior management;

(j) due diligence services to the vendor or the buy side on potential mergers and acquisitions and providing assurance on the audited entity to other parties at a financial or corporate transaction;

(k) *legal and tax services that go beyond the presentation of alternatives; tax*

services for natural persons with a significant role in the financial reporting of the audited entity and the marketing of tax planning concepts.

By derogation from the first and second subparagraphs, the services mentioned in point (b)(iii) and (iv) may be provided by the statutory auditor or the audit firm, subject to prior approval by the competent authority referred to in Article 35(1).

By derogation from the first and second subparagraphs, the services mentioned in point (b)(i) and (ii) may be provided by the statutory auditor or the audit firm, subject to prior approval by the audit committee as referred to in Article 31 of this Regulation.

Amendment 24

Proposal for a regulation

Article 10 – paragraph 4

Text proposed by the Commission

Amendment

4. When a member of the network to which the statutory auditor or the audit firm carrying out statutory audit of a public-interest entity belongs provides non-audit services to an undertaking incorporated in a third country controlled by the audited public-interest entity, the statutory auditor or the audit firm concerned shall assess whether his, her or its independence would be compromised by such provision of services by the member of the network.

If his, her or its independence is affected, the statutory auditor or the audit firm shall apply safeguards in order to mitigate the threats caused by such provision of services in a third country. The statutory auditor or the audit firm may continue to carry out the statutory audit of the public-interest entity only if he, she or it can justify, in accordance with Article 11, that such provision of services does not affect his, her or its professional judgement and

4. When a member of the network to which the statutory auditor or the audit firm carrying out statutory audit of a public-interest entity belongs provides non-audit services to an undertaking incorporated in a third country controlled by the audited public-interest entity, the statutory auditor or the audit firm concerned shall assess whether his, her or its independence would be compromised by such provision of services by the member of the network.

If his, her or its independence is affected, the statutory auditor or the audit firm shall apply safeguards in order to mitigate the threats caused by such provision of services in a third country. The statutory auditor or the audit firm may continue to carry out the statutory audit of the public-interest entity only if he, she or it can justify, in accordance with Article 11, that such provision of services does not affect his, her or its professional judgement and

the audit report.

Being involved in the decision-taking of the audited entity and the provision of the services referred to in **points (ii) and (iii) of paragraph 3(a)** shall be considered as affecting such independence in all cases.

The provision of the services referred to in points (i) and (iv) to (viii) of paragraph 3(a) shall be presumed to affect such independence.

The statutory auditor or the audit firm may consult the competent authority for an opinion on this issue.

the audit report.

Being involved in the decision-taking of the audited entity and the provision of the **prohibited** services referred to in **paragraph 3** shall be considered as affecting such independence in all cases.

The statutory auditor or the audit firm may consult the competent authority for an opinion on this issue.

Amendment 25

Proposal for a regulation

Article 10 – paragraph 5 – introductory part

Text proposed by the Commission

5. Where an audit firm generates more than one third of its annual audit revenues from large public-interest entities and belongs to a network whose members have combined annual audit revenues which exceed EUR 1 500 million within the European Union, it shall comply with the following conditions:

Amendment

5. Where an audit firm generates more than one third of its annual audit revenues from large public-interest entities and belongs to a network whose members have combined annual audit revenues which exceed EUR 1 500 million within the European Union, ***whereas revenues from audits for which more than one audit firm has been appointed shall not be factored in the calculation of these thresholds,*** it shall comply with the following conditions:

Justification

The so-called audit-only firms concept seems disproportionate. Therefore, and to incentivise joint audits, it is proposed to leave the choice to very large audit firms to partner with other audit firms if they seek to expand their auditing business further. This also provides an opportunity to smaller audit firms to be engaged by larger audited entities together with a large network partner firm. This would ensure at least some joint audits in the market without making it generally obligatory.

Amendment 26
Proposal for a regulation
Article 10 – paragraph 6

Text proposed by the Commission

6. The Commission shall be empowered to adopt delegated acts in accordance with Article 68 for the purpose of adapting the list of **related financial audit** services referred to in paragraph 2 and the list of **non-audit** services referred to in paragraph 3 of this Article. When using such powers, the Commission shall take into account developments in auditing and the audit profession.

Amendment

6. The Commission shall be empowered to adopt delegated acts in accordance with Article 68 for the purpose of adapting the list of **other** services referred to in paragraph 2 and the list of **prohibited** services referred to in paragraph 3 of this Article. When using such powers, the Commission shall take into account developments in auditing and the audit profession.

Amendment 27
Proposal for a regulation
Article 11 – paragraph 1 – indent 6

Text proposed by the Commission

– without prejudice to Directive 2005/60/EC, the integrity of the public-interest entity.

Amendment

– without prejudice to Directive 2005/60/EC, the integrity of the **members of the administrative, management or supervisory body of the** public-interest entity.

Justification

The amended text better reflects the task to be fulfilled and aims at those in charge of the governance of the audited entity

Amendment 28
Proposal for a regulation
Article 11 – paragraph 4 – subparagraph 2

Text proposed by the Commission

Where the audited entity is exempted from the obligation to have an audit committee, the audited entity shall decide which body or organ of the entity shall perform the functions assigned to the audit committee

Amendment

Where the audited entity is exempted from the obligation to have an audit committee, the audited entity shall decide which body or organ of the entity shall perform the functions assigned to the audit committee

in this paragraph.

in this paragraph *in order to avoid conflicts of interests, ensure independence, and professional ethics.*

Amendment 29
Proposal for a regulation
Article 15 – paragraph 1

Text proposed by the Commission

When carrying out the statutory audit of a public-interest entity, the statutory auditor or audit firm shall maintain professional scepticism throughout the audit, recognizing the possibility that a material misstatement due to facts or behaviour indicating irregularities, including fraud or error could exist, notwithstanding the auditor's or firm's past experience of the honesty and integrity of the audited entity's management and of the persons charged with its governance.

Amendment

When carrying out the statutory audit of a public-interest entity, the statutory auditor or audit firm shall maintain professional scepticism throughout the audit, recognizing the possibility that a material misstatement due to facts or behaviour indicating irregularities, including fraud or error could exist, notwithstanding the auditor's or firm's past experience of the honesty and integrity of the audited entity's management and of the persons charged with its governance, *as required by international auditing standards referred to in Article 26 of Directive 2006/43/EC.*

Justification

There exist comprehensive international auditing standards that provide ample indications on professional scepticism.

Amendment 30
Proposal for a regulation
Article 16 – paragraph 5 – point b

Text proposed by the Commission

(b) the correspondence with the audited entity related to the statutory audit;

Amendment

(b) the *significant* correspondence with the audited entity related to the statutory audit;

Justification

All correspondence related to the statutory audit is a too broad category which would result in an amount of data that would be of little use at a later and unnecessarily increase the costs and administrative burden of statutory audits.

Amendment 31
Proposal for a regulation
Article 16 – paragraph 5 – point e

Text proposed by the Commission

Amendment

(e) the starting and ending dates **of the phases of audit procedures set out in the audit plan**;

(e) the starting and ending dates of the **statutory audits**;

Justification

The nature of the statutory audit does not allow for clear dates of individual phases as it is an iterative process designed to lead to the final audit opinion.

Amendment 32
Proposal for a regulation
Article 16 – paragraph 5 – point h

Text proposed by the Commission

Amendment

(h) the opinion of the statutory auditor or the key audit partner as evidenced by **the drafts of** the reports referred to in Articles 22 and 23;

(h) the opinion of the statutory auditor or the key audit partner as evidenced by the reports referred to in Articles 22 and 23;

Justification

Ultimately, only the final reports reflect the key partners' opinion, which is why it would be of little added value to refer to drafts with potential errors or at least being incomplete.

Amendment 33
Proposal for a regulation
Article 22 – paragraph 2 – point h

Text proposed by the Commission

Amendment

(h) describe the used methodology, **including how much of the balance sheet has been directly verified and how much has been based on system and compliance testing**;

(h) describe the used methodology;

Justification

This information should not be detailed in a public report but in a report addressed to the

audit committee / supervisory board in the additional report.

Amendment 34
Proposal for a regulation
Article 22 – paragraph 2 – point i

Text proposed by the Commission

Amendment

(i) explain any variation in the weighting of substantive and compliance testing when compared to the previous year, even if the previous year's statutory audit had been conducted by another statutory auditor(s) or audit firm(s); **deleted**

Justification

International standards exist that should be sufficient in this regard and any added complexity could pose problems in practice. Furthermore, it is questionable whether a third party not acquainted with the technical matters could understand the additional information provided and an audit committee should usually be informed about the audit focuses, which is why this element was added to the additional report.

Amendment 35
Proposal for a regulation
Article 22 – paragraph 2 – point j

Text proposed by the Commission

Amendment

(j) lay out the details of the level of materiality applied to perform the statutory audit; **deleted**

Justification

In practice such an information is of low added value to non-acquainted third parties, especially since the materiality levels can differ in a report. A mention of materiality levels would not only render the report more complex but could also lead to implicit conclusions as to absolute value thresholds without taking the overall circumstances into account. Since the information remains relevant, it is added to the additional report.

Amendment 36
Proposal for a regulation
Article 22 – paragraph 2 – point k

Text proposed by the Commission

Amendment

(k) identify key areas of risk of material misstatement of the annual or consolidated financial statements, including critical accounting estimates or areas of measurement uncertainty;

(k) draw attention, where appropriate, to matters disclosed in the financial statements that in the auditor's judgment are fundamental to the users' understanding of the financial statements;

Justification

IFSRs already require the audit committee to be informed of the points mentioned in this paragraph. A wording closer to the corresponding ISAs is more appropriate. Further information could be given in the additional report.

Amendment 37

Proposal for a regulation

Article 22 – paragraph 2 – point l

Text proposed by the Commission

Amendment

(l) provide a *statement* on the *situation of the audited entity or, in case of the statutory audit of consolidated financial statements, of the parent undertaking and the group, especially an assessment of the entity's or the parent undertaking's and group's ability to meet its/their obligation in the foreseeable future and therefore continue as a going concern;*

(l) provide a *conclusion* on the *assessment by the statutory auditor or audit firm on the appropriateness of the management's use of the going concern assumption in preparing the financial statements and whether material uncertainties in relation to the going concern assumption have been identified;*

Justification

An auditor only verifies the appropriateness of the application of the going concern assumption and material uncertainties in this regard. The assumption itself is, however, applied by the management of the audited entity. The auditor's task is not to assess the going concern itself.

Amendment 38

Proposal for a regulation

Article 22 – paragraph 2 – point m

Text proposed by the Commission

Amendment

(m) assess the entity's or, in case of consolidated financial statements, the

deleted

parent undertaking's internal control system, including significant internal control deficiencies identified during the statutory audit, as well as the bookkeeping and accounting system;

Justification

The audit committee should be informed about any weaknesses in the internal control systems. A full assessment of such deficiencies would considerably increase the costs and burden of an audit. Furthermore, any information on such weaknesses to third parties are not relevant as long as they have not led to a qualified opinion.

Amendment 39
Proposal for a regulation
Article 22 – paragraph 2 – point p

Text proposed by the Commission

Amendment

(p) confirm that the audit opinion is consistent with the additional report to the audit committee referred to in Article 23; ***deleted***

Justification

This should be limited to exchanges between audit committee and auditor. As the public has no access to the additional report, any references to it have little added value and could even lead to misunderstandings, e.g. in case there are indeed differences between the two reports.

Amendment 40
Proposal for a regulation
Article 22 – paragraph 2 – point q

Text proposed by the Commission

Amendment

(q) declare that **the non-audit services referred to in Article 10(3) were not provided and that** the statutory auditor(s) or the audit firm(s) remained completely independent in conducting the audit. Where the statutory audit was carried out by an audit firm, the report shall identify each member of the audit engagement team and shall state that all members remained completely independent and had no direct or indirect interest in the audited entity;

(q) declare that the statutory auditor(s) or the audit firm(s) remained completely independent in conducting the audit. Where the statutory audit was carried out by an audit firm, the report shall identify each member of the audit engagement team and shall state that all members remained completely independent and had no direct or indirect interest in the audited entity;

Justification

To the public what is relevant is the fact that the auditor has conducted the audit in full independence, which is to be assessed by the audit committee. Corporate governance rules provide that the audit committee verifies the auditor's independence. Furthermore, it is suggested to prohibit the limited list of non-audit services.

Amendment 41

Proposal for a regulation

Article 22 – paragraph 2 – point r

Text proposed by the Commission

(r) indicate the ***non-audit*** services referred to in Article 10(3)(b)(i) and (ii) that the audit committee allowed the statutory auditor or the audit firm to provide to the audited entity;

Amendment

(r) indicate the ***audit-related and other assurance*** services referred to in Article 10 that the audit committee allowed the statutory auditor or the audit firm to provide to the audited entity;

Justification

As all audit-related and other assurance services should be subject to the audit committee's approval and non-audit services are prohibited, only the former are to be mentioned here.

Amendment 42

Proposal for a regulation

Article 22 – paragraph 2 – point s

Text proposed by the Commission

(s) indicate the non-audit services referred to in Article 10(3)(b)(iii) and (iv) that the competent authority referred to in Article 35(1) allowed the statutory auditor or the audit firm to provide to the audited entity;

Amendment

deleted

Justification

Obsolete since all audit-related and other assurance services are to be mentioned according to the preceding paragraph.

Amendment 43

Proposal for a regulation

Article 22 – paragraph 4

Text proposed by the Commission

Amendment

4. The audit report shall not be longer than four pages or 10000 characters (without spaces). It shall not contain any cross-references to the additional report to the audit committee referred to in Article 23.

deleted

**Amendment 44
Proposal for a regulation
Article 23 – paragraph 1 – subparagraph 1**

Text proposed by the Commission

Amendment

The statutory auditor(s) or the audit firm(s) carrying out statutory audit of public-interest entities shall submit an additional report to the audit committee of the audited entity.

The statutory auditor(s) or the audit firm(s) carrying out statutory audit of public-interest entities shall submit an additional report to the audit committee **and the management, administrative and supervisory board** of the audited entity.

Justification

In two-tier systems featuring a supervisory board, the original provision could have the effect of reducing the information given to the supervisory board compared to current practice.

**Amendment 45
Proposal for a regulation
Article 23 – paragraph 1 – subparagraph 3**

Text proposed by the Commission

Amendment

The audit committee or the body performing equivalent functions shall be allowed to transmit the additional report to the management, administrative or supervisory body of the audited entity.

deleted

Justification

Redundant paragraph if the additional report is automatically sent to the management, administrative or supervisory body.

Amendment 46
Proposal for a regulation
Article 23 – paragraph 1 – subparagraph 4

Text proposed by the Commission

The additional report shall be disclosed to the general meeting of the audited entity if the **management** or administrative body of the audited entity so decides.

Amendment

The additional report shall be disclosed to the general meeting of the audited entity if the **supervisory** or administrative body of the audited entity so decides.

Justification

As the additional report is addressed to the administrative or supervisory body in the first place, the decision on whether to publish it or not should not be left to the management.

Amendment 47
Proposal for a regulation
Article 23 – paragraph 2 – point e

Text proposed by the Commission

(e) describe the distribution of tasks among the statutory auditor(s) and/or the audit firm(s);

Amendment

(e) describe the distribution of tasks among the statutory auditor(s) and/or the audit firm(s) **and include a description of the scope and timing of the audit and significant findings from the statutory audit conducted, including significant deficiencies in the internal control system of the audited entity; address significant difficulties encountered during the audit and other matters arising from the statutory audit that in the statutory auditor's or audit firm's professional judgement are significant to the oversight of the financial reporting process;**

Justification

The mere distribution of tasks between auditors is not enough and the audit committee should receive additional information as to the elements added.

Amendment 48
Proposal for a regulation
Article 23 – paragraph 2 – point f

Text proposed by the Commission

(f) indicate and explain **judgments about material uncertainty** that may cast doubt about the entity's ability to continue as a going concern;

Amendment

(f) indicate and explain **how events or conditions** that **have been identified in the course of the statutory audit** may cast **significant** doubt about the **audited** entity's ability to continue as a going concern **and whether they give rise to a material uncertainty**;

Justification

It is important to the audit committee to know how certain events and conditions may cast a doubt and not how the auditor has come to this judgment.

Amendment 49

Proposal for a regulation

Article 23 – paragraph 2 – point f a (new)

Text proposed by the Commission

Amendment

(fa) explain any variation in the weighting of substantive and compliance testing when compared to the previous year, even if the previous year's statutory audit had been conducted by another statutory auditor(s) or audit firm(s);

Justification

This was removed from the audit report as such technical information should be addressed to the audit committee.

Amendment 50

Proposal for a regulation

Article 23 – paragraph 2 – point f b (new)

Text proposed by the Commission

Amendment

(fb) lay out the details of the level of materiality applied to perform the statutory audit;

Justification

This item has been removed from the audit report as this information is rather relevant to the audit committee.

Amendment 51
Proposal for a regulation
Article 23 – paragraph 2 – point f c (new)

Text proposed by the Commission

Amendment

(fc) identify key areas of risk of material misstatement of the annual or consolidated financial statements, including critical accounting estimates or areas of measurement uncertainty;

Justification

Item removed from the audit report.

Amendment 52
Proposal for a regulation
Article 23 – paragraph 2 – point g

Text proposed by the Commission

Amendment

(g) determine in detail whether the bookkeeping, the accounting, all audited documents, the annual or consolidated financial statements and possible additional reports show appropriateness;

(g) provide details concerning material errors and omissions in the bookkeeping, the accounting, the annual or consolidated financial statements and other reports identified in the course of the statutory audit;

Justification

The amount of information to the audit committee should be manageable and should therefore focus on material issues and not provide an overwhelming level of detail, which risks taking attention away from key aspects.

Amendment 53
Proposal for a regulation
Article 23 – paragraph 2 – point g a (new)

Text proposed by the Commission

Amendment

(ga) describe the used methodology, including how much of the balance sheet has been directly verified and how much has been based on system and compliance testing;

Justification

This information should be addressed to the audit committee and was therefore deleted from the audit report.

Amendment 54
Proposal for a regulation
Article 23 – paragraph 2 – point g b (new)

Text proposed by the Commission

Amendment

(gb) assess the entity's or, in case of consolidated financial statements, the parent undertaking's internal control system, including significant internal control deficiencies identified during the statutory audit, as well as the bookkeeping and accounting system;

Justification

Information that should be addressed to the audit committee, deleted from the audit report article.

Amendment 55
Proposal for a regulation
Article 23 – paragraph 2 – point h

Text proposed by the Commission

Amendment

(h) indicate and explain ***in detail all*** instances of non-compliance, including non-material instances as far as it is considered to be important to the audit committee in order to fulfil its ***tasks***;

(h) indicate and explain instances of non-compliance, including non-material instances, ***identified in the course of the statutory audit*** as far as it is considered to be important to the audit committee in order to fulfil its ***task***;

Justification

The audit committee should not be overloaded with details on immaterial instances of non-compliance in order to be able to focus on the key aspects.

Amendment 56 **Proposal for a regulation** **Article 23 – paragraph 2 – point i**

Text proposed by the Commission

Amendment

*(i) assess the **valuation methods applied to the various items in the annual or consolidated financial statements** including any impact of changes of such;*

*(i) assess **significant qualitative aspects of the audited entity's accounting practices, including accounting policies, accounting estimates, valuations and financial statement disclosures and any material impact of changes of such;***

Justification

Instead of giving a mere judgement on the valuation methods, more detail should be provided on qualitative aspects. Again, the auditor should help manage the information for the audit committee by pointing out key aspects.

Amendment 57 **Proposal for a regulation** **Article 23 – paragraph 2 – point l**

Text proposed by the Commission

Amendment

(l) indicate and explain the principles of consolidation in the case of a statutory audit of consolidated financial statements;

deleted

Justification

This information is already given in the company's financial statements.

Amendment 58 **Proposal for a regulation** **Article 25 – paragraph 1 – introductory part**

Text proposed by the Commission

Amendment

*Without prejudice to Article 55 of Directive 2004/39/EC, Article 53 of Directive 2006/48/EC of the European Parliament and of the Council, Article 15(4) of Directive 2007/64/EC, Article 106 of Directive 2009/65/EC, the first paragraph of Article 3 of Directive 2009/110/EC and Article 72 of Directive 2009/138/EC of the European Parliament and of the Council³⁵, the statutory auditor or audit firm carrying out the statutory audit of a public-interest entity shall **have a duty to** report promptly to the **competent authorities supervising public-interest entities** any fact or decision concerning that public-interest entity of which he, she or it has become aware while carrying out that statutory audit **and which is liable** to bring about any of the following:*

The statutory auditor or audit firm carrying out the statutory audit of a public-interest entity shall report promptly to the **audit committee, the administrative and supervisory body** any fact or decision concerning that public-interest entity of which he, she or it has become aware while carrying out that statutory audit. **The reporting is** to bring about any of the following:

Justification

In general, it is more appropriate to channel via those in charge of the governance of the audited entity. A direct and un-coordinated communication of the statutory auditor or audit firm with the supervisory authority may result in overlapping and confusing communication on incidents.

Amendment 59

Proposal for a regulation

Article 25 – paragraph 1 – point c

Text proposed by the Commission

Amendment

(c) a refusal to **certify the financial statements** or the **expression of reservations**.

(c) a refusal to **issue an audit report** or the **issuance of an adverse or a qualified audit opinion**.

Justification

Clarification of the requirement.

Amendment 60
Proposal for a regulation
Article 25 – paragraph 1 – subparagraph 2

Text proposed by the Commission

The statutory auditor or the audit firm shall also have a duty to report any facts and decisions of which he, she or it becomes aware in the course of carrying out *the* statutory audit of an undertaking **having close links with** the public-interest entity for which he, she or it is also carrying out the statutory audit.

Amendment

The statutory auditor or the audit firm shall also have a duty to report any facts and decisions **according to points (a), (b) or (c) of the first subparagraph** of which he, she or it becomes aware in the course of carrying out **a** statutory audit of an undertaking **controlled by** the public-interest entity for which he, she or it is also carrying out the statutory audit.

The audit committee, administrative and supervisory body will undertake appropriate steps to immediately inform the competent authorities supervising public interest entities about these reported facts and decisions.

Justification

The added wording sets a requirement for those in charge of the governance of the audited entity to seek an appropriate way to immediately report the decisions and facts to their supervisory authority.

Amendment 61
Proposal for a regulation
Article 25 – paragraph 3

Text proposed by the Commission

3. The disclosure in good faith to the competent authorities, by the statutory auditor or audit firm, of any fact **or decision referred to in paragraph 1 or of any fact** during the dialogue foreseen in paragraph 2 shall not constitute a breach of any contractual or legal restriction on disclosure of information and shall not involve such persons in liability of any kind.

Amendment

3. The disclosure in good faith to the competent authorities, by the statutory auditor or audit firm, of any fact during the dialogue foreseen in paragraph 2 shall not constitute a breach of any contractual or legal restriction on disclosure of information and shall not involve such persons in liability of any kind.

Justification

This reflects the changed approach in reporting to supervisory authorities for all public interest entities. The specific approach for statutory auditors and audit firms of credit insurance and insurance undertakings remains.

Amendment 62

Proposal for a regulation

Article 26 – paragraph 2 – subparagraph 1

Text proposed by the Commission

2. The annual financial report and the annual income statement shall show the total turnover divided into fees from the statutory audit of annual and consolidated financial statements of public-interest entities and entities belonging to a group of undertakings whose parent undertaking is a public-interest entity, fees from the statutory audit of annual and consolidated financial statements of other entities and fees charged for ***related financial audit*** services as defined in Article 10(2).

Amendment

2. The annual financial report and the annual income statement shall show the total turnover divided into fees from the statutory audit of annual and consolidated financial statements of public-interest entities and entities belonging to a group of undertakings whose parent undertaking is a public-interest entity, fees from the statutory audit of annual and consolidated financial statements of other entities and fees charged for ***audit-related and other assurance*** services as defined in Article 10.

Justification

Change following modifications to Article 10.

Amendment 63

Proposal for a regulation

Article 31 – paragraph 1 – subparagraph 3 a (new)

Text proposed by the Commission

Amendment

Members of the audit committee shall take part in skill enhancement programmes in order to ensure an adequate technical knowledge level to fulfil their tasks.

Amendment 64

Proposal for a regulation

Article 32 – paragraph 2 – subparagraph 3

Text proposed by the Commission

When it concerns the renewal of an audit engagement in accordance with the second subparagraph of Article 33(1), the audit committee shall, ***for the preparation of its recommendation, take into consideration any findings and conclusions on the recommended*** statutory auditor or audit firm ***referred to in Article 40(6) and published by the competent authority pursuant to Article 44(d).***

Amendment

When it concerns the renewal of an audit engagement in accordance with the second subparagraph of Article 33(1), the audit committee shall ***base its recommendation on a comprehensive assessment of the audit quality of the*** statutory auditor or audit firm ***after a period of three consecutive years.*** The competent authority ***referred to in Article 35(2) may adjust the timing in accordance with the national appointment period.***

Justification

After a period of three years, the audit committee should evaluate the audit quality. The timing can be adjusted, since the appointment period varies throughout Europe. Mandatory re-assessment of the quality of the auditor or audit firm will - in connection with reporting to the shareholders meeting and to the competent authority and the competent authority's veto right - increase transparency about the decision making process.

Amendment 65

Proposal for a regulation

Article 32 – paragraph 2 – subparagraph 3 a (new)

Text proposed by the Commission

Amendment

The comprehensive assessment shall be performed in a transparent and systematic approach, and shall include the consideration of professional competencies of the auditor or audit firm which are necessary to perform the statutory audit in compliance with relevant ethical requirements and international standards on auditing referred to in Article 20. It shall take into consideration any findings and conclusions on the recommended statutory auditor or audit firm referred to in Article 40(6) and published by the competent authority pursuant to Article 44(d).

Justification

This sets out the content of the assessment of audit quality.

Amendment 66

Proposal for a regulation

Article 32 – paragraph 3 – subparagraph 1 – introductory part

Text proposed by the Commission

1. Unless it concerns the renewal of an audit engagement in accordance with the second subparagraph of Article 33(1), the recommendation of the audit committee referred to in paragraph 2 of this Article, shall be prepared following a ***selection*** procedure organized by the audited entity respecting the following criteria:

Amendment

1. Unless it concerns the renewal of an audit engagement in accordance with the second subparagraph of Article 33(1), the recommendation of the audit committee referred to in paragraph 2 of this Article, shall be prepared following a ***tender*** procedure organized by the audited entity respecting the following criteria:

Amendment 67

Proposal for a regulation

Article 32 – paragraph 3 – subparagraph 1 – point a

Text proposed by the Commission

(a) ***the audited entity shall be free to invite*** any statutory ***auditors*** or audit ***firms*** to submit proposals for the provision of the statutory audit service on the condition that Article 33(2) is respected ***and that at least one of the invited auditors or firms is not one who received more than 15% of the total audit fees from large public-interest entities in the Member State concerned in the previous calendar year;***

Amendment

(a) any statutory ***auditor*** or audit ***firm is free*** to submit proposals for the provision of the statutory audit service on the condition that Article 33(2) is respected;

Amendment 68

Proposal for a regulation

Article 32 – paragraph 3 – subparagraph 1 – point b

Text proposed by the Commission

(b) the audited entity shall ***be free to choose the method to contact the invited statutory auditor(s) or audit firm(s) and***

Amendment

(b) the audited entity shall publish a call for tenders in the Official Journal of the European Union and/or in national gazettes

shall not be required to publish a call for tenders in the Official Journal of the European Union and/or in national gazettes or newspapers;

Justification

While the audited entity is free to renew the auditor appointment once, it should organize a call for tenders when the maximum duration for two consecutive appointments of an auditor or audit firm has been reached. This will allow for more competition and a more transparent selection process.

Amendment 69

Proposal for a regulation

Article 32 – paragraph 3 – subparagraph 1 – point c

Text proposed by the Commission

(c) the **audited entity** shall prepare tender documents to the intention of the invited statutory auditor(s) or audit firm(s). Those tender documents shall allow them to understand the business of the audited entity and the type of statutory audit that is to be carried out. The tender documents shall contain transparent and non-discriminatory selection criteria that shall be used by the audited entity to evaluate the proposals made by statutory auditors or audit firms;

Amendment

(c) the **audit committee** shall prepare tender documents to the intention of the invited statutory auditor(s) or audit firm(s). Those tender documents shall allow them to understand the business of the audited entity and the type of statutory audit that is to be carried out. The tender documents shall contain transparent and non-discriminatory selection criteria that shall be used by the audited entity to evaluate the proposals made by statutory auditors or audit firms;

Justification

The audit committee should be responsible for the auditor selection procedure.

Amendment 70

Proposal for a regulation

Article 32 – paragraph 3 – subparagraph 1 – point d

Text proposed by the Commission

(d) the **audited entity** shall be free to define the selection procedure and may conduct direct negotiations with interested tenderers in the course of the procedure;

Amendment

(d) the **audit committee** shall be free to define the selection procedure and may conduct direct negotiations with interested tenderers in the course of the procedure;

Justification

The audit committee should be responsible for the auditor selection procedure.

Amendment 71

Proposal for a regulation

Article 32 – paragraph 3 – subparagraph 1 – point f

Text proposed by the Commission

(f) the **audited entity** shall **evaluate** the proposals made by the statutory auditors or audit firms in **accordance with the selection criteria predefined in the tender documents. The audited entity shall prepare a report on the conclusions of the selection procedure, which shall be validated by the audit committee.** The audited entity and the audit committee shall take into consideration any inspection report on the applicant statutory auditor or audit firm referred to in Article 40(6) and published by the competent authority pursuant to Article 44(d);

Amendment

(f) the **audit committee** shall **perform a comprehensive assessment of** the proposals made by the statutory auditors or audit firms in **a transparent and systematic approach that shall include the consideration of professional competencies of the auditor or audit firm which are necessary to perform the statutory audit in compliance with relevant ethical requirements and international standards on auditing referred to in Article 20.** The audited entity and the audit committee shall take into consideration any inspection report on the applicant statutory auditor or audit firm referred to in Article 40(6) and published by the competent authority pursuant to Article 44(d);

Justification

Professional competencies of the auditor or audit firm which are necessary to perform the statutory audit in compliance with relevant ethical requirements and international standards on auditing referred to in Article 20 should already be considered in the tendering process. Finally, it should be clear that it is the audit committee that is fully responsible for all steps in the selection procedure.

Amendment 72

Proposal for a regulation

Article 32 – paragraph 3 – subparagraph 1 – point g

Text proposed by the Commission

(g) the **audited entity** shall be able to demonstrate to the competent authority referred to in Article 35 that the selection

Amendment

(g) the **audit committee** shall be able to demonstrate to the competent authority referred to in Article 35 that the selection

procedure was conducted in a fair manner.

procedure was conducted in a fair manner.

Justification

The audit committee should be responsible for the auditor selection procedure.

Amendment 73

Proposal for a regulation

Article 32 – paragraph 3 – subparagraph 2

Text proposed by the Commission

Amendment

The audit committee shall be responsible for the selection procedure referred to in the first subparagraph.

deleted

Justification

The audit committee is now expressly mentioned at all steps in the selection procedure.

Amendment 74

Proposal for a regulation

Article 32 – paragraph 5 – subparagraph 1

Text proposed by the Commission

Amendment

5. The proposal of the administrative or supervisory board to the general meeting of shareholders or members of the audited entity for the appointment of statutory auditors or audit firms shall include the recommendation made by the audit committee.

5. The proposal of the administrative or supervisory board to the general meeting of shareholders or members of the audited entity for the appointment of statutory auditors or audit firms shall include the recommendation made by the audit committee. ***The proposal to the general meeting shall be accompanied by the results of the comprehensive assessment referred to in paragraphs 2 and 3.***

Justification

This increases transparency in the selection process.

Amendment 75

Proposal for a regulation

Article 32 – paragraph 5 – subparagraph 2

Text proposed by the Commission

If the proposal of the administrative or supervisory board departs from the recommendation of the audit committee, the proposal shall justify the reasons for not following the recommendation of the audit committee.

Amendment

If the proposal of the administrative or supervisory board departs from the recommendation of the audit committee, the proposal shall justify the reasons for not following the recommendation of the audit committee. ***It shall equally justify the reasons if, following a tender procedure referred to in paragraph 3, the renewal of an audit engagement is proposed.***

Justification

Similar to the 'comply or explain' principle, reasons should be justified in case, despite a tender, the incumbent auditor is proposed for renewal. This again underlines that available alternatives should be thoroughly considered.

Amendment 76

Proposal for a regulation

Article 32 – paragraph 6 – subparagraph 1

Text proposed by the Commission

6. In the case of a credit institution or insurance undertaking, the administrative or supervisory board shall submit its draft proposal to the competent authority referred to in Article 35(2). The competent authority referred to in Article 35(2) shall have the right to veto the choice proposed in the recommendation. Any such opposition shall be duly justified.

Amendment

6. The administrative or supervisory board shall submit its draft proposal to the competent authority referred to in Article 35(2). ***The draft proposal shall be accompanied by the results of the comprehensive assessment referred to in paragraphs 2 and 3.*** The competent authority referred to in Article 35(2) shall have the right to veto the choice proposed in the recommendation. Any such opposition shall be duly justified.

Justification

The assessment should be made available to the competent authority. This information and the veto rights attached to it should be made available to all competent authorities not only to competent authorities in the financial industry in order to address possible weaknesses in the auditors appointment process for statutory audits of all public interest entities.

Amendment 77

Proposal for a regulation

Article 33 – paragraph 1

Text proposed by the Commission

1. The public-interest entity shall appoint a statutory auditor or audit firm for an initial engagement that shall not be shorter than **two** years.

The public-interest entity may renew this engagement only once.

The maximum duration of the combined two engagements shall not exceed **6** years.

Where *throughout a continuous engagement of 6 years* two statutory auditors or audit firms have been appointed, the maximum duration of the *engagement of each statutory auditor or audit firm* shall not exceed **9 years**.

Amendment 78

Proposal for a regulation

Article 33 – paragraph 3

Text proposed by the Commission

3. By way of derogation from paragraphs 1 and 2, on an exceptional basis the public-interest entity may request the competent authority referred to in Article 35(1) to grant an extension to re-appoint the statutory auditor or audit firm for an additional engagement. In *case of* appointment of two statutory auditors or audit firms, this third engagement shall not exceed three years. In *case of* appointment of one statutory auditor or audit firm, this third engagement shall not exceed two years.

Amendment

1. The public-interest entity shall appoint a statutory auditor or audit firm for an initial engagement that shall not be shorter than **three** years.

The public-interest entity may renew this engagement only once.

The maximum duration of the combined engagements shall not exceed **12** years. ***A public tender shall be conducted at the latest after 6 years of renewed audit engagements.***

Where ***at least*** two statutory auditors or audit firms have been appointed, the maximum duration of the ***combined engagements*** shall not exceed **15 years**.

Amendment

3. By way of derogation from paragraphs 1 and 2, on an exceptional basis the public-interest entity may request the competent authority referred to in Article 35(1) to grant an extension to re-appoint the statutory auditor or audit firm for an additional engagement. In *the event of* appointment of ***at least*** two statutory auditors or audit firms, this third engagement shall not exceed three years. In *the event of* appointment of one statutory auditor or audit firm, this third engagement shall not exceed two years.

Amendment 79
Proposal for a regulation
Article 33 – paragraph 4 – subparagraph 2

Text proposed by the Commission

The statutory auditor or audit firm shall establish an appropriate gradual rotation mechanism with regard to the most senior personnel involved in the statutory audit, including at least the persons who are registered as statutory auditors. The gradual rotation mechanism shall be undertaken in phases on the basis of individuals rather than of **a complete** team. It shall be proportionate in view of the scale and the dimension of the activity of the statutory auditor or audit firm.

Amendment

The statutory auditor or audit firm shall establish an appropriate gradual rotation mechanism with regard to the most senior personnel involved in the statutory audit, including at least the persons who are registered as statutory auditors. The gradual rotation mechanism shall be undertaken in phases on the basis of individuals rather than of **the entire audit engagement** team. It shall be proportionate in view of the scale and the dimension of the activity of the statutory auditor or audit firm.

Justification

Clarifies the wording in accordance with applicable international standards.

Amendment 80
Proposal for a regulation
Article 33 – paragraph 5 – subparagraph 1

Text proposed by the Commission

5. Where a statutory auditor or audit firm is replaced by another statutory auditor or audit firm, the former statutory auditor or audit firm shall provide the incoming statutory auditor or audit firm with **a handover file. Such file shall include relevant information concerning the audited entity as may reasonably be necessary to understand the nature of the business and the internal organisation of the audited entity and to ensure the continuity of the statutory audit and the comparability with the audits carried out in previous years.**

Amendment

5. Where a statutory auditor or audit firm is replaced by another statutory auditor or audit firm, the former statutory auditor or audit firm shall provide the incoming statutory auditor or audit firm with information **as required by law and Article 23(3) of Directive 2006/43/EC.**

Amendment 81
Proposal for a regulation
Article 33 – paragraph 5 – subparagraph 2

Text proposed by the Commission

The former statutory auditor or audit firm shall also grant access to the incoming statutory *auditor* or audit *firm* to the additional reports to the audit committee referred to in Article 23 *of* previous years and to any information transmitted to competent authorities pursuant to Articles 25 and 27.

Amendment

The former statutory auditor or audit firm shall also grant access to the incoming statutory *auditors* or audit *firms* to the additional reports to the audit committee referred to in Article 23 *for the* previous *three* years and to any information transmitted to competent authorities pursuant to Articles 25 and 27.

Justification

To provide a reasonable timeframe for the provision of this information and to reflect that the former auditor may not have been in that role for the previous three years.

Amendment 82

Proposal for a regulation
Article 33 – paragraph 6

Text proposed by the Commission

6. ESMA shall develop draft regulatory technical standards to specify technical requirements on the content of the handover file referred to in paragraph 6.

Power is delegated to the Commission to adopt the regulatory technical standards referred to in paragraph 6 in accordance with Article 10 of Regulation (EU) No 1095/2010.

Amendment

deleted

Justification

The text of Article 23(3) of the Directive 2006/43/EC on statutory audits is more comprehensive and has proven to work in practice. In addition, the responsibilities of incoming successor auditors with respect to the work of predecessor auditors are already addressed in international standards.

Amendment 83

Proposal for a regulation
Article 34 – paragraph 2 – subparagraph 1

Text proposed by the Commission

Amendment

2. The audit committee, one or more shareholders, the competent authorities referred to in Article 35(1) or 35(2) shall be able to bring a claim before a national court for the dismissal of the statutory auditor(s) or audit firm(s) where there are proper grounds.

(Does not affect English version.)

Amendment 84
Proposal for a regulation
Article 42 – paragraph 1 – subparagraph 1

Text proposed by the Commission

Amendment

1. The competent authorities referred to in Article 35(1) shall regularly monitor the developments in the market for providing statutory audit services to public-interest entities.

Member States shall regularly monitor the developments in the market for providing statutory audit services to public-interest entities.

Justification

It should be left to the member states to decide which national body is best placed to monitor market developments. E.g. competition authorities have the expertise and capacities needed, which is why this task should not necessarily be assigned to the competent authorities.

Amendment 85
Proposal for a regulation
Article 42 – paragraph 1 – subparagraph 2 – introductory part

Text proposed by the Commission

Amendment

The competent authorities shall in particular assess the following:

Member States shall in particular assess the following:

Justification

Member states shall be free to decide on how to undertake the market monitoring tasks.

Amendment 86
Proposal for a regulation
Article 42 – paragraph 2

Text proposed by the Commission

Amendment

2. By XX 20XX [2 years after the entry into force of the Regulation], and at least on a two-year basis thereafter, each competent authority shall draw up a report on this issue and submit it to ESMA, EBA and EIOPA.

deleted

ESMA, EBA and EIOPA shall use those reports to draw up a joint report on the situation at Union level. The report shall be submitted to the Commission, the European Central Bank and the European Systemic Risk Board.

Justification

Audit firms are not systemic like financial institutions and the focus should rather be set on contingency planning. Furthermore, the market situation differs to such a degree from member state to member state that a Union level report has little added value.

Amendment 87

Proposal for a regulation
Article 46 – paragraph 1 – subparagraph 2

Text proposed by the Commission

Amendment

*ESMA shall create a permanent internal committee pursuant to Article 41 of Regulation (EU) No 1095/2010 **for this purpose**. Such internal committee shall be at least composed of the competent authorities referred to in Article 35(1) of this Regulation. The competent authorities referred to in Article 32 of Directive 2006/43/EC shall be invited to attend the meetings of such internal committee concerning matters related to approval and registration of statutory auditors and audit firms and relations with third countries in so far as relevant to the statutory audit of public-interest entities.*

*Pursuant to Article 41 of Regulation (EU) No 1095/2010, ESMA shall create a permanent internal committee **to which it shall delegate the duties and decisions entailed in carrying out the tasks referred to in the first subparagraph**. Such internal committee shall be at least composed of the competent authorities referred to in Article 35(1) of this Regulation. The competent authorities referred to in Article 32 of Directive 2006/43/EC shall be invited to attend the meetings of such internal committee concerning matters related to approval and registration of statutory auditors and audit firms and relations with third countries in so far as relevant to the*

statutory audit of public-interest entities.

Amendment 88

Proposal for a regulation

Article 46 – paragraph 5 a (new)

Text proposed by the Commission

Amendment

5a. Before X X 20XX [six years after the entry into force of this Regulation], the Commission shall submit an evaluation report, based on the ESMA reports and other relevant information, on all the tasks entrusted to ESMA by virtue of this Article.

PROCEDURE

Title	Specific requirements regarding statutory auditing of public-interest entities
References	COM(2011)0779 – C7-0470/2011 – 2011/0359(COD)
Committee responsible Date announced in plenary	JURI 15.12.2011
Opinion by Date announced in plenary	ITRE 15.12.2011
Rapporteur Date appointed	Jürgen Creutzmann 14.2.2012
Discussed in committee	8.10.2012
Date adopted	29.11.2012
Result of final vote	+: 37 –: 8 0: 2
Members present for the final vote	Josefa Andrés Barea, Jean-Pierre Audy, Zigmantas Balčytis, Ivo Belet, Bendt Bendtsen, Jan Březina, Reinhard Bütikofer, Maria Da Graça Carvalho, Giles Chichester, Jürgen Creutzmann, Dimitrios Droutsas, Vicky Ford, Gaston Franco, Adam Gierek, Norbert Glante, Fiona Hall, Kent Johansson, Romana Jordan, Krišjānis Kariņš, Lena Kolarska-Bobińska, Judith A. Merkies, Angelika Niebler, Jaroslav Paška, Vittorio Prodi, Miloslav Ransdorf, Herbert Reul, Jens Rohde, Paul Rübig, Amalia Sartori, Salvador Sedó i Alabart, Francisco Sosa Wagner, Patrizia Toia, Catherine Trautmann, Ioannis A. Tsoukalas, Claude Turmes, Marita Ulvskog, Vladimir Urutchev, Alejo Vidal-Quadras
Substitute(s) present for the final vote	Ioan Enciu, Roger Helmer, Jolanta Emilia Hibner, Seán Kelly, Zofija Mazej Kukovič, Alajos Mészáros, Vladimír Remek, Silvia-Adriana Țicău, Henri Weber

PROCEDURE

Title	Specific requirements regarding statutory auditing of public-interest entities			
References	COM(2011)0779 – C7-0470/2011 – 2011/0359(COD)			
Date submitted to Parliament	30.11.2011			
Committee responsible Date announced in plenary	JURI 15.12.2011			
Committee(s) asked for opinion(s) Date announced in plenary	ECON 15.12.2011	ITRE 15.12.2011	IMCO 15.12.2011	
Not delivering opinions Date of decision	IMCO 29.2.2012			
Associated committee(s) Date announced in plenary	ECON 20.4.2012			
Rapporteur(s) Date appointed	Sajjad Karim 21.11.2011			
Previous rapporteur(s)	Syed Kamall			
Discussed in committee	1.3.2012	10.7.2012	18.9.2012	27.11.2012
	22.1.2013			
Date adopted	25.4.2013			
Result of final vote	+: –: 0:	15 10 0		
Members present for the final vote	Luigi Berlinguer, Sebastian Valentin Bodu, Christian Engström, Marielle Gallo, Giuseppe Gargani, Sajjad Karim, Klaus-Heiner Lehne, Antonio Masip Hidalgo, Alajos Mészáros, Bernhard Rapkay, Evelyn Regner, Dimitar Stoyanov, Rebecca Taylor, Alexandra Thein, Cecilia Wikström, Tadeusz Zwiefka			
Substitute(s) present for the final vote	Piotr Borys, Eva Lichtenberger, Angelika Niebler, József Szájer			
Substitute(s) under Rule 187(2) present for the final vote	John Stuart Agnew, Sylvie Guillaume, Jim Higgins, Jürgen Klute, Jacek Olgierd Kurski, Andrés Perelló Rodríguez			
Date tabled	20.5.2013			