Michel Barnier, member of the European Commission for Internal Market and Services wants to overhaul the accountancy market and break the power of the big four accountancy firms, in the aftermath of the financial and banking crises. The proposed measures may have complicating effects for listed companies and may also affect the practice of investor relations. The European Commission on October 14, 2010 issued a Green Paper which included some far-reaching measures. For listed companies, three proposals stand out that may have an effect on their relationship with accountancy firms:

- the proposal to force rotation of audit companies – rather than audit partners;
- the proposal for joint audits, the obligation for companies to use two auditors who share responsibility for the audit and jointly sign the audit report;
- the proposal for the external communications behavior of auditing firms, whereby auditors, independently communicate with other stakeholders, how they assess the risks that the firms they audit face in the course of their business.

NEVIR acknowledges the Commission's effort to introduce more competition in the accountancy market, which may ultimately lead to a reduction in pricing for audit work. Nevertheless, NEVIR also believes that the proposals listed above put an unnecessary burden on listed firms and puts them at a further disadvantage to non-listed competitors. In recent years regulation related to listed firms has already been severely increased to protect shareholder interests.

The forced rotation of audit companies, rather than audit partners would require listed companies to re-educate its auditors on a regular basis leading to additional costs on the part of the auditing firm as well as on the part of the listed companies.

The proposal for a joint audit introduces another risk, namely that of audit partners keeping each other busy rather than focusing on the true audit of the company itself. If the intent of the commission is to have the partners control the quality of each other's auditing work, then again an undue cost burden is laid with listed companies.

The third proposal, to independently have the auditor communicate about the risks they see in the firms they audit, would introduce the risk of selective disclosure. Many companies have comprehensive risk management systems in place in which risks are disclosed in a balanced manner. Audit companies would do well to review the risk management procedures for companies and assess the quality of the disclosures of firms in this field. NEVIR however believes that uncoordinated communication by accounting firms on risks, may have a disturbing effect on the relationship companies maintain with shareholders and may negatively affect investor relations efforts.

Gerbrand Nijman
Chairman of NEVIR