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## Regulations

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The global financial crisis highlighted the problems created by having “uneven playing fields” for multi-national organizations. Different regulatory arrangements in different jurisdictions allowed these organizations to engage in regulatory arbitrage, but at the same time created unnecessary costs and uncertainty for them and their key stakeholders. These differences limited the type and effectiveness of responses that governments, central banks, and regulators could take to address the problems created by the crisis.

“IFAC is concerned by the growing divergence and regulatory fragmentation that is occurring and the uncertainty that it creates. We call on international coordinating organizations and forums—the G-20, IFIAR, IOSCO, FSB—to fully commit to promoting and enacting global regulatory consistency and evidence-based regulatory reform,” said Mr. Fayezul Choudhury, CEO of IFAC.

Currently, a number of jurisdictions are increasingly resorting to nation-specific responses and reforms that create the potential for uncertainty and instability—and ultimately stifle global growth—despite the fact that the G-20 has called for global

convergence in a number of areas and the FSB has recognized 12 sets of

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Growing diversity in regulatory arrangements for auditing and auditor independence requirements are a prime example of where jurisdictions appear to be moving further apart, rather than converging.

Over 90 jurisdictions use or are in the process of adopting or incorporating clarified International Standards on Auditing (ISAs)<sup>[1]</sup> into their national auditing standards, or use them as a basis for preparing national auditing standards; current proposed legislation in Europe would mandate use of clarified ISAs for statutory audits within the European Union. However, some jurisdictions unnecessarily modify standards, choose not to adopt the full set of standards, or introduce revisions to national standards before the International Auditing and Assurance Standards Board (IAASB) has finalized revisions to the relevant ISAs. These actions diminish the considerable benefits of facilitating transparency, consistency, economic growth, and financial stability that come with the global adoption and implementation of high-quality international standards, such as ISAs.

Similarly, the Code of Ethics for Professional Accountants<sup>[2]</sup> provides a solid ethical foundation for auditors, outlines robust requirements for auditor independence, and is suitable for application around the globe. It addresses matters such as conflicts of interest, the provision of non-audit services, and the rotation of audit engagement partners. However, major jurisdictions are clearly divided in their views on auditor independence. For example, some jurisdictions adopt the prohibitions on non-audit services that exist in the Code, some jurisdictions introduce additional legislative prohibitions, and some others propose a list of “acceptable services.”

Another aspect of auditor independence where there are considerable and growing jurisdictional differences is mandatory audit firm rotation. Certain jurisdictions with major capital markets activity (e.g., the US and Canada) have considered it, and have clearly rejected it. In contrast, last month the European Parliament announced a series of legislative reforms to auditing, including mandatory audit firm rotation—

with the possibility that the rotation period will differ among member states—

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from the crisis and will be consigned to discussing and addressing these same issues again in the not too distant future.”

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