



28 January 2016,

**ecoDa's response to the Call for evidence: EU regulatory framework for financial services:**

*Feedback on trends that are emerging as the audit reform legislation is being implemented in the EU member states.*

*ecoDa's ID number : 66267003864-57*

We would like to take the opportunity of this call for evidence to share with you our view on the implementation of the new EU Audit Regulation and Directive. If the European Confederation of Directors' Associations (ecoDa) supports the general aim of the legislation, we are worried about the implications of article 27 of the Regulation.

This article specifies that national competent authorities and the European Competition Network, - as appropriate-, shall assess the risks of audit quality deficiencies of statutory auditors, the market concentration as well as the performance of audit committees.

Regarding the performance monitoring of the audit committee, the Regulation remains silent on the scope and on the explicit criteria to assess audit committees. It is not clear whether the monitoring will be restricted or not to the audit market, e.g. the way audit committees organise the selection procedure of the statutory auditor or audit firm. It is also unclear if this requirement – being based in the Regulation - only applies to corporate governance related requirements laid out in the Regulation. We are a bit worried by the interpretation that the Member States may have from the Regulation.

Even if we understand well that the directive is now in its implementing phase, we would like to address some elements of importance for us. We would like to emphasise that like any other board committee, audit committees operate as subcommittee within the board. Audit committees can only deal with matters within the board's scope of responsibilities and for whose decisions the board as a whole is held accountable. As a general principle in Europe, we believe that this is the responsibility of boards to assess the performance of its committees and of the audit committee. This being an internal evaluation of the board's activities it is primarily aimed at evaluating fitness for purpose.

To our mind, the audit committee can not be seen as a separate governance body from the board. Furthermore, director's final evaluation (discharge) and the imposition of possible sanctions (removal of the director or non-renewal of his or her term of office) are currently exclusively entrusted to the general meeting of shareholders.

ecoDa has always been extremely supportive of robust board effectiveness reviews and individual director assessments as a way to put more emphasis on the right governance attitude. However, the assessment of boards and of boards' committees is a complex role because the unique situation of each entity has to be considered. We have the feeling that transferring this task to public administration would breach fundamental and well developed Corporate Governance principle (and an essential duty attributed to boards in all legislations and Corporate Governance Codes).

Therefore, we kindly ask you to consider the existing practices on board evaluation in place when the scope of national competent authorities with regard to Art. 27 of the EU Audit Regulation is specified.

We would appreciate if you could take our concerns into account when working on the implementation phase with the Member States. We will on our side approach the national Member States to advocate our opinion.

Given that this is in our interest to make the audit reform work, we will develop practical guidance to help audit committees to perform the selection procedure in an efficient way. We want to play our part in preparing the European corporate governance community to comply with the new requirements.

We remain at your disposal should you wish to discuss this subject further.

Best regards,  
on behalf of ecoDa



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## **About ecoDa:**

The European Confederation of Directors' Associations (ecoDa) is a not-for-profit association founded in December 2004 under the laws of Belgium. Its objective is to represent the views of company directors from EU member states to corporate governance policy-makers at EU level. ecoDa, the European Confederation of Directors' Associations, is a not-for-profit association acting as the "European voice of board directors".

Through its 20 national institutes of directors, ecoDa represents around sixty-five thousand board members from across the EU, ensuring that their views on Corporate Governance are clearly communicated to policymakers in the EU institutions. ecoDa's member organisations represent board directors from the largest public companies to the smallest private firms, both listed and unlisted.

[www.ecoda.org](http://www.ecoda.org)

## **ecoDa full members:**

- The British "Institute of Directors" (IoD)
- The Belgian GUBERNA
- The French IFA
- The Luxembourg ILA
- The Directors' Institute of Finland
- The Spanish institute "Instituto de Consejeros – Administradores"
- The Slovenian Directors' Association
- The Polish Institute of Directors
- The Norwegian Institute of Directors
- The Swedish StyrelseAkademien
- Vereinigung der Aufsichtsräte in Deutschland e.V., VARD
- The Dutch "Nederlandse vereniging van Commissarissen en Directeuren"
- The Italian Directors' Association, Nedcommunity
- The Portuguese Forum de Administradores Empresas

## **ecoDa affiliated members (national institutes of directors):**

- The Croatian Institute of Directors
- The Macedonian Institute of Directors, MIoD
- Corporate Governance Institute Albania (CGIA)

## **Corporate Associates (national institutes of directors):**

The Danish Board Network

## **Correspondents:**

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