



Accounting Enforcement Mechanisms.

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Presentation roadmap.

- What's in it for me?
- Enforcement, why?
- Enforcement, how?
 - Auditors;
 - Regulators;
- Conclusions.



Predictable enforcement helps to budget costs.

- Understanding regulator approach on accounting enforcement helps you to budget possible costs:
 - Improving accounting quality – cost;
 - Improving auditing quality – cost;
 - Taking the risk of enforcement –cost.



This presentation is on accounting enforcement.

- **Body of accounting law and practice consists of:**
 - Accounting standard setting: who and how sets accounting standards;
 - Accounting standards implementation: who and how uses accounting standards in everyday life;
 - Accounting standards enforcement: who and how does that: (1) private interest - auditors, (2) public interest – regulators.



Enforcement is a cure to avoid ignorance.

- Problems:
 - Standards unclear or conflicting;
 - Standards clear, but do not fit into local context;
 - Standards not fully understood;
 - Standards clear, but companies are not willing to comply.
- Solutions:
 - IFRIC official interpretation;
 - Regulator local interpretation;
 - Training, application guidance;
 - Enforcement by regulator.



Uniform accounting rules, uniform enforcement.

- The EU Regulation no. 1606/2002 articles 2, 4 and recital (16):
 - EU listed companies should prepare their consolidated accounts in conformity with the EU IAS;
 - CESR should take a lead in coordinating enforcement.

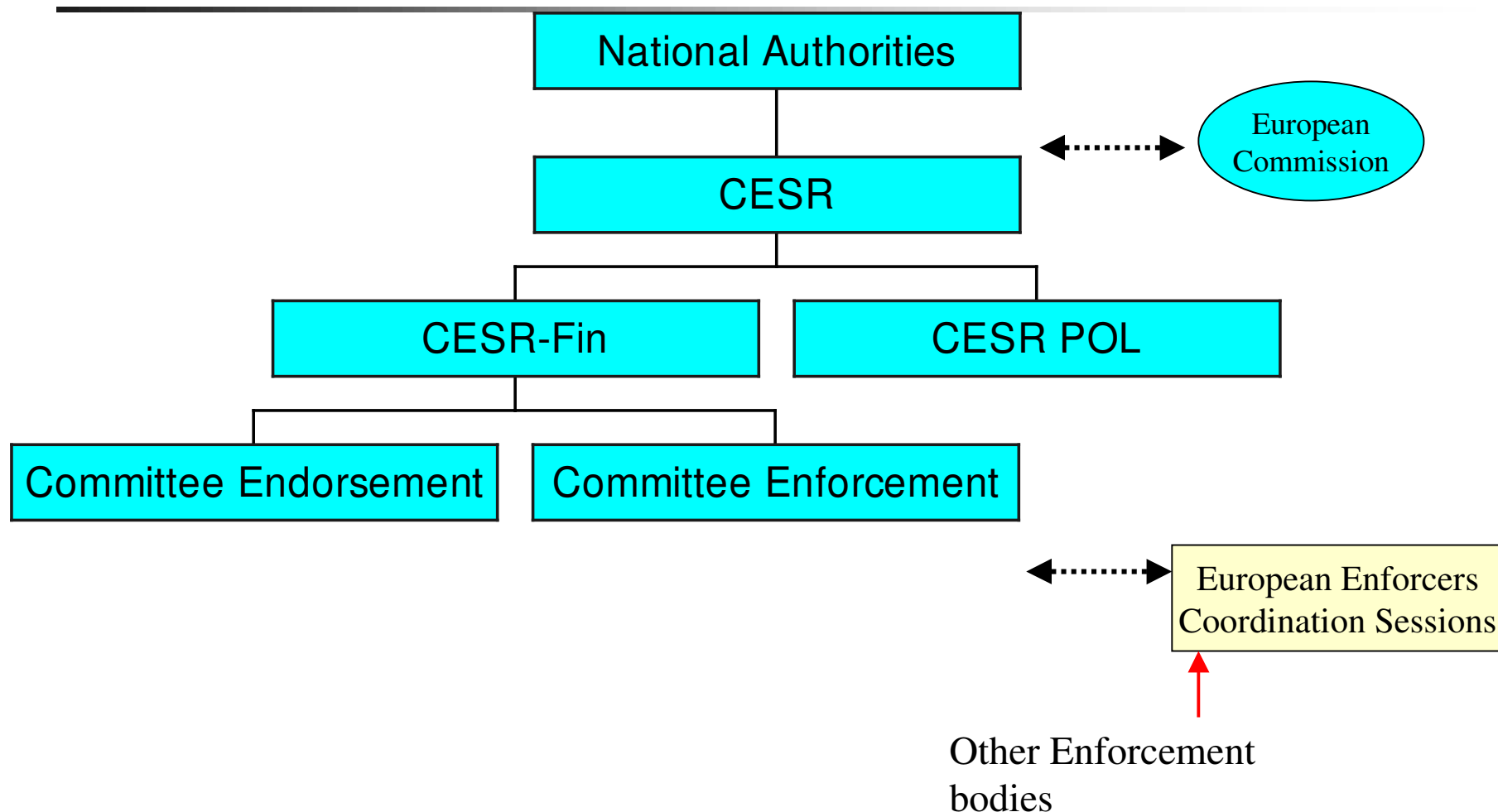


First line of defence: auditors.

- Improve reliance on auditors' work:
 - Audit standards (national based on ISA's);
 - Ethics and independence code;
 - Quality control mechanisms: "monitored peer reviews;"
 - Oversight and sanctioning systems.



CESR is a forum to move towards EU uniform enforcement





CESR has addressed uniform enforcement in its standards.

- CESR standards are advisable to incorporate into national law;
- Two the most important standards on enforcement:
 - March 2003 Standard no. 1;
 - April 2004 Standard no. 2.



Transparent and coordinated risk-based EU-wide enforcement.

- Standard no. 1:
 - Prescribes enforcement methods;
 - Some hints on cooperation (coordination);
 - Enforcement principles to be made more transparent;
- Standard no. 2:
 - *Stare decisis* approach;
 - Information sharing btw enforcers.



Our risk-based approach to enforcement (1).

- Off-site ex-post review of regular information disclosures:
 - Routine supervision;
 - Annual rating;
 - Low risk rating translates into rotation;
 - Procedure;
- On-site inspection of listed companies:
 - Extraordinary measure, based on off-site activity;
 - Procedure.



Our risk-based approach to enforcement (2).

- Means of enforcement currently:
 - Recommendation/prescription (*ettekirjutus*) to correct accounts;
 - Administrative fine to the company;
 - In major cases, referring criminal case to police;
- Means of enforcement in the nearest future:
 - Disclosure of supervisory activities/decisions;
 - Introducing 'penalty payment' (*sun niraha*) and 'substitutive enforcement' (*asendustäitmine*) in case *ettekirjutus* not duly performed;
 - Right to recall auditors.



Conclusion.

- Enforcement is routine activity to avoid ignorance in applying accounting standards;
- EU-wide accounting rules lead to EU-wide transparent and coordinated risk-based EU-wide enforcement practices;
- Require your regulators to explain their policies and practices on accounting enforcement.

Thank you!

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