

James Quigley

CAPTAIN'S TABLE

The ripple effect of the subprime challenge serves as yet another reminder of just how interconnected and interdependent our capital markets have become.

As passé as it may sound, globalisation is upon us and there are many real challenges for businesses operating in this environment. But there are also unprecedented opportunities for market leaders – and nowhere more so than in the United States and the European Union, where financial market integration is at its strongest.

Trade flows between the US and the EU add up to approximately \$1.6 billion a day. Cumulative investments in each other's markets are valued at \$3 trillion and account for almost 14 million jobs on each side of the Atlantic.

With around 65 percent of global market capitalisation, if these two markets get it right, they not only set the stage for others to follow, but they increase the value of their own markets in the process. While many regions are exploring ways to strengthen their markets, the US and EU have an unprecedented opportunity to shape a more integrated global marketplace.

The "Framework for Advancing Transatlantic Economic Integration" agreed last year by German Chancellor Angela Merkel, European Commission President José Manuel Barroso and US President George W Bush is a pioneering and pragmatic initiative to achieve a truly barrier-free transatlantic marketplace. But swift action is also required from EU and US business, regulators and government bodies to maintain the momentum and political will needed to deliver the desired results.

The accounting profession is doing its part. In conjunction with regulators, policymakers, investors and preparers, it

is actively working with the standard-setters to develop a global financial reporting model driven by a single set of high-quality, global reporting standards. Much has been achieved already. The Financial Accounting Standards Board and International Accounting Standards Board have worked hard to eliminate differences in their reporting standards, providing a roadmap for an eventual single set of global financial reporting standards.

The US Securities and Exchange Commission (SEC) recently voted to eliminate the rule requiring foreign issuers to reconcile International Financial Reporting Standards (IFRS) statements, used in the EU, with the US's Generally Accepted Accounting Principles (GAAP). It has also proposed that US filers be allowed to report using either IFRS or US GAAP. Europe's Internal Market Commissioner Charlie McCreevy has reciprocated, suggesting that in 2008 the EU should accept accounts in US GAAP without reconciliation. Mutual recognition is an important milestone on the convergence journey.

These are significant actions and must be applauded. Political will followed by action is what it takes to implement change. And the process will continue at the upcoming Global Public Policy Symposium IV being held in New York in January.

Business, government and regulatory leaders, as well as investors and the accounting and auditing profession from around the world will discuss the outcomes of 10 roundtable events held over the past year to identify issues that need to be addressed in the development of global capital markets. Examples of some key issues cited include the development of consistent and appropriate regulatory, oversight and enforcement infrastructure; new tertiary level education; training for all



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stakeholder groups; and appropriate governance of international standard-setters that national authorities have confidence in.

While supporting the convergence of financial reporting is a goal of the accounting and auditing profession, it is but one element in improving the overall quality, effectiveness and efficiency of capital flow across the Atlantic and eventually beyond. Global businesses within these transatlantic markets must continue to push for reforms in other areas, including those that will facilitate trade and business expansion. One element will not succeed without the other.

The US and EU must not pass up on this unique opportunity to show their strength and carve a path for others to follow.

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