Resolution on corporate governance and supervision of financial services, the Parmalat case

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The European Parliament adopted a resolution on corporate governance in the European Union and stated that it was extremely worried by the events surrounding the unfolding Parmalat case. Parliament expressed its concern about the implications for employees, investors and banks, as well as the impact on confidence in the functioning of the financial system and stressed the need to take the social dimension of the Parmalat case into account. The estimate of the gross debt accumulated by Parmalat is EUR 14 billion. The Parmalat case has shown: - the importance of cooperation between national supervisory bodies in relation to cross-border takeovers, groups and conglomerates, - that transparency and disclosure are important in overcoming asymmetric information on financial markets, but appropriate and proportionate binding rules are also required to ensure diligent business conduct and efficient corporate governance; The European Parliament deplored the number of cases of bankruptcy due to fraud by large publicly held corporations, and the resulting social and economic effects. It called for those responsible to be prosecuted to the full extent of the law. It expressed its concern that neither those responsible for supervision, be they the regulatory authority or the auditors, nor the rating agencies had the slightest suspicion, at any stage in the audit process, that funds were being embezzled. The financial services industry must clean up its act and redouble its efforts to ensure that the small minority of market participants who are dishonest are brought to justice. The industry needs to demonstrate its commitment to ethical conduct and diligence in order to protect the savings of millions of people and to recover the full trust of investors in the financial services industry. Parliament invited all financial institutions involved to reimburse investors in the case of losses for which they bear the responsibility. On the question of corporate governance rules, Parliament put forward a number of suggestions. One is that part of the long-term solution must be a single authority for financial prudential supervision in Europe. The Commission should also prepare legislation to force companies to rotate their audit firm or switch the audit partner in charge of their accounts. Parliament dismissed the argument that this will risk damaging continuity and bring about more audit failures. On the contrary, rotation will ensure peer-review of auditing and bring more focus to this important element of control. Parliament went on to stress the need to incorporate statutory audit rules into corporate governance in order to increase the responsibilities of auditors and their independence from management, and to tighten and harmonise public supervision of auditors (addressing the issues of the scope of supervision and supervisory powers, the composition of supervisory boards and the transparency of supervision). Other suggestions include the following: - the presence of independent directors on a management board represents an approach which should be taken so as to improve company auditing; - the presence of representatives of employees on management boards can at the very least enable them to safeguard their interests in connection with decisions directly affecting thefuture of their firms. Parliament reminded the Council and Commission that the ongoing discussions on the Transparency Directive must bring real benefits to investors and the public at large in relation to disclosure requirements, with good quality, timely information, and not mandatory quarterly reporting. The latter, as the present Parmalat case, or indeed the Enron case, show, does not prevent financial scandals. Transparency not only means publishing regular financial information, but could also include publishing information on matters such as social, environmental and ethical issues. Finally, Parliament asked the Commission to take its decision as soon as possible on the compatibility with Community law of the measures adopted by the Italian Government concerning the crisis in the Italian dairy sector in relation to the Parmalat case.