



Commissioner Lord Jonathan Hill
Financial Stability, Financial Services and
Capital Markets Union
Martin Spolc, Head of Unit, Economic analysis
and evaluation

Cc: Alain Deckers, Head of Unit, Audit and
Credit Rating Agencies

Cc: Erik Nooteboom, Head of Unit, Head of
Unit, Accounting and Financial Reporting

Cc: Klaus Wiedner, Head of Unit, Banking
regulation and supervision

Cc: Nathalie Berger, Head of Unit, Insurance
and Pensions

Brussels, 29 January 2016

Subject: “Call for Evidence: EU Regulatory Framework for Financial Services”

Dear Commissioner Hill,

Dear Mr Spolc,

1. The Federation of European Accountants (FEE)¹ with number 4713568401-181 of the European Commission’s (the Commission) Register of Interest Representatives is pleased to provide you with its comments on the European Commission’s Call for Evidence on EU Regulatory Framework for Financial Services.
2. FEE welcomes the Commission’s decision to assess the cumulative impact of the EU regulatory package on financial services introduced over the last six years. In response to the financial crisis, legislators were required to take immediate action in order to restore public confidence in the financial sector. Following this intense period of regulation, it is now important to look back and review any points which may have been overlooked or caused unintended effects and unnecessary constraints to the industry, to markets or to the public at large.

¹ FEE’s represents 50 professional institutes of accountants and auditors from 37 European countries, including all 28 European Union (EU) Member States. It has a combined membership of over 875.000 professional accountants, working in different capacities in public practice, small and big accountancy firms, businesses of all sizes, government and education. Adhering to the fundamental values of their profession – integrity, objectivity, independence, professionalism, competence and confidentiality – they contribute to a more efficient, transparent and sustainable European economy.

3. As a representative of the European accountancy profession, FEE would like to focus on those parts of legislation introduced in the fields of auditing, accounting, financial reporting and tax areas. Over the last six years an important number of initiatives were agreed at EU level and handed to Member States for transposition at national level. Although a number of countries have already advanced with transposition, the deadlines for an important number of initiatives have not yet been reached. **Therefore, it is essential to allow for further time to pass in order to be able to assess the transposition and implementation process in a comprehensive manner and conclude which parts possibly need to be reviewed, especially in the light of the numerous Member States options included in certain initiatives. This applies to most of the recently adopted financial services initiatives and particularly the Audit Directive (2014/56/EU), Audit Regulation for Public Interest Entities (PIEs) (537/2014) and Accounting Directive (2013/34/EU).**

4. Yet, FEE would like to provide some evidence and flag the profession's concerns and views on the impact of the following legislative requirements:
 - Audit Reform: Audit Directive (2014/56/EU) and Audit Regulation (537/2014);
 - The Country by Country Reporting provisions;
 - Evolution in corporate reporting and how to better serve market needs, starting from the Accounting Directive;
 - Accounting Directive (2013/34/EU);
 - The International Accounting Regulation (IAS) 1606/2002;
 - Auditors' involvement in regulatory reporting and public disclosure for banks and insurance undertakings: indications of inconsistencies.

The Audit Reform

5. **Clarifications needed for consistent implementation:** As flagged in previous communications with the Commission, FEE would like to reiterate its concerns on **cross border implications** in the transposition and implementation of the audit reform and particularly of the Audit Regulation. Businesses with cross border activity in the EU will undoubtedly be faced with additional burdens in having to coordinate (i) different audit firm rotation periods (ii) different lists of prohibited non-audit services (iii) different caps for the provision of allowed non-audit services. A complex EU Regulatory environment translates into additional costs and inefficiencies for EU businesses. This is an issue that FEE believes the EU Commission will need to monitor going forward, especially in determining whether further action would be needed to address this fragmentation in future.

6. **Audit Regulation review should promote innovation and retain audit quality:** An audit adds credibility to financial reporting, and is a cornerstones of our financial system. It contributes to financial stability, fosters economic growth and ultimately creates jobs. The sweeping changes to auditor reporting and the role of the audit committee in overseeing the independence of the auditor as well as in selecting the auditor are crucial in this respect. Promoting the creation of a single market for audit services in capital markets is right in a globalised world and should aim at sustaining the breadth and depth of other auditors' services which contributes to the quality of audit. Certain of the **independence requirements** for PIEs auditors might adversely affect audit quality. The objective of enhancing choice in the audit market for PIEs is valid, regulatory measures aimed at entirely reshaping the audit market for PIEs may be one of the answers to achieve this legitimate objective but there are still serious doubts that it can effectively do so and concerns that it may do the opposite. As we move

ahead with the implementation, the Commission needs to assess whether certain parts of the Audit Regulation are excessive, reducing competition and potentially harmful to audit quality and have hampered the auditor's capacity to respond to market and societal needs.

7. Further details and evidence is provided in Appendix 1.

Country by Country Reporting provisions

8. **Country by Country Reporting for transparency:** FEE supports transparency and measures fostering fair competition and a level playing field between enterprises. The disclosure of relevant and meaningful **Country by Country Reporting (CBCR)** information, either to tax administrations as established in the OECD recommendations on Base Erosion and Profit Shifting (BEPS), or indeed to the wider public, has potential in further fostering transparency and thereby contributing to restoring public trust in the European tax systems and business. FEE supports public disclosure of CBCR tax information, but suggests that it should be part of an international initiative rather than the EU taking unilateral action – thereby avoiding unintended consequences for the European economy and businesses.
9. **Duplication, lack of interaction and inconsistencies:** In light of the above, any system of CBCR disclosure must be consistent and clear for companies so as to ensure smooth compliance with the requirements, as well as comparability and usefulness of the information across industry sectors. Thus a key challenge for any European CBCR system is to avoid **fragmentation**. For the time being EU provisions with regard to CBCR can be found in the **Accounting Directive** and the **Capital Requirements Directive IV (CRD IV)**, and establish disclosure requirements on the logging and extractive industries, and the financial services sector, respectively. However, the disclosure requirements and the rationale behind the measure differ between the two. The **Shareholders Rights Directive (SHRD)** currently in trilogue also includes suggested provisions for a public CBCR requirement to be established on large undertakings and PIEs across sectors. The European Commission is moreover currently considering putting forward a **proposal on CBCR**, based on the public consultation on corporate tax transparency as well as its impact assessment on the topic. Overall, this seriously risks amounting to a variety of different CBCR provisions in different pieces of legislation that would end up in a fragmented and confusing EU CBCR regime.
10. Further details are provided in Appendix 2.

Evolution in corporate reporting and how to better serve market needs, starting from the Accounting Directive

11. Accounting and corporate reporting, including both financial reporting and increasingly also non-financial reporting, are critical in managing businesses, including smaller ones. They are equally relevant for building a capital markets union across Europe, as corporate reporting is a key element in channelling funds from investors across the globe to European companies needing capital to grow, create jobs and innovate. In this respect, we would like to refer to the FEE Paper on the 'Future of Corporate Reporting – creating the dynamics for change'² which addresses the main elements of corporate reporting: companies' stakeholders, the content of corporate reporting, the corporate reporting process itself and finally ways to enhance innovation in the current legislative environment.

² <http://www.fee.be/images/FEECogitoPaper - TheFutureofCorporateReporting.pdf>

12. The number of entities that report non-financial information on a voluntary basis has significantly increased over the last few years. Many stakeholders including investors, clients, business partners, and non-governmental organisations (NGOs) are seeking this type of information and are pressurising companies to report more of it. Even if, technically, financial and non-financial information can still be considered in isolation, integrating non-financial issues into everyday business decision-making is now a must to improve management decision-making, provide more meaningful corporate reporting and facilitate the transition towards a more sustainable economy.
13. The new EU directive to disclose non-financial information³ is a first step towards new ways of reporting and the European accountancy profession is committed to playing its role in improving corporate reporting further. The directive lacks guidance on how to apply the high-level principles included in the new legislation. Therefore, FEE is working towards issuing a paper very soon on how these new requirements could be applied in practice in a principles-based way. **We hope to inspire the European Commission Guidelines to facilitate the disclosure of non-financial information by companies and to enhance the level playing field in the transposition of this part of the Accounting Directive across EU Member States.**
14. **Many companies now face significant pressure to provide their stakeholders with reliable non-financial information. External assurance helps provide further credibility and trust.** FEE notes that this requirement currently included in the legislation⁴ is a compliance and regulatory exercise that the statutory auditor performs in relation to other information in the remit of an audit assignment. This compliance and regulatory requirement is solely a “consistency check” and is, however, not aimed at providing any comfort to stakeholders about the quality of the data reported as no assurance is provided over the NFI reported.
15. This comfort could be brought by applying the member state option that suggests the verification of these data. The accountancy profession is equipped to respond to assurance needs over non-financial information. If non-financial information is ‘assurable’ as per the characteristics of any assurance engagement, and if there is market demand, the accountancy profession is able to respond to this call with relevant skills, appropriate standards, and proven experience to deliver quality. In this respect, reference is made to the recent FEE position paper *EU Directive on disclosure of non-financial and diversity information: the role of practitioners in providing assurance*⁵.

The Recast of the Accounting Directive

16. **Potential lack of consistency in implementation:** Although the deadline for transposition in EU Member States of the Accounting Directive expired in July 2015, this process is still being finalised in quite a number of EU Member States. As the status of national implementation changes by the day, FEE has opted to not comment in detail on the Accounting Directive at this stage due to incomplete Member State implementation. Close monitoring of implementation will, however, be essential in the near future, not least as there are close to one hundred Member States options included in this Accounting Directive that could well result in a significant lack of consistency in implementation and application.

³ <http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32014L0095>

⁴ Article 19a (5) of the Directive 2014/95/EU, amending Directive 2013/34/EU

⁵ http://www.fee.be/images/publications/1512_EU_Directive_on_NFI.pdf

The IAS 1606/2002 Regulation Review

17. **High quality standards affecting the ability of the economy to finance itself and growth:** FEE welcomes the outcome of the Commission's evaluation as it shows broad support for the use of IFRS, based on the views of EU companies, investors and other stakeholders after 10 years of experience. The benefits of comparable, reliable and transparent financial information prepared using global standards are crucial for Europe, currently and in the future to attract foreign investment to foster growth, innovation and job creation. Reducing the complexity of IFRS is one of the key areas of work in progress. Simplifying disclosures will facilitate the practical and proportional application of the international standards particularly now in light of the Capital Markets Union (CMU) initiative. .

Lessons for public sector accounting

18. The success of the EU implementation of global standards for financial reporting in the corporate world would also be inspirational for the EU public sector which severely misses the application of a common set of globally accepted accrual accounting and financial reporting standards.

Auditors' involvement in regulatory reporting and public disclosure for banks and insurance undertakings: indications of inconsistencies

Reliance on financial and regulatory reporting by banks

19. In an effort to develop the most effective approach to assume direct and indirect supervisory responsibilities, the European Central Bank (ECB) has taken a great interest in determining how and to what extent it can rely on work of externals, including that of statutory auditors on the financial and regulatory reporting by banks.
20. Providing assurance on the reports of banks to their regulators is a task which auditors can assume and which is already required in some European countries. It contributes to restoring trust and improving the quality of reporting. Auditors can provide assurance in addition to the annual statutory audits of a bank's financial statements, which is required by EU law.
21. In response to the needs of the ECB in September 2015, FEE has performed a survey in 27 European countries on the scope of the audit of European banks. It demonstrates that the scope of audits of European banks regarding regulatory reporting varies widely between EU Member States and in the euro area. The results of the survey are included in Appendix 3.
22. **These considerable inconsistencies can significantly impair the supervisory level playing field throughout Europe and create gaps in investor and consumer protection which can impact the ability of the economy to finance itself and grow.** The European Commission could be instrumental in developing, together with the ECB, as well as the European Banking Authority (EBA) and national competent authorities, a more coordinated approach to tackle this divergence in practice. Nowadays, with one banking supervisor for the whole Eurozone, such alignment of the regulatory policy would provide benefits to all stakeholders.

Adding credibility to regulatory reporting and disclosures by insurance undertakings

23. The application of the Solvency II supervisory regime for insurance undertakings started on 1 January 2016, requiring (re)insurance undertakings to publically disclose information on their solvency and financial condition
24. The first prudential reports by undertakings under Solvency II are expected to be submitted to National Competent Authorities (NCAs) in April 2016. NCAs are looking for ways to ensure the reliability of these reports which some are considering to fulfil by expanding the scope of the statutory audit.
25. Therefore, in September 2015, FEE has performed a survey regarding the involvement of the auditor in the regulatory reporting (Solvency I) and the potential involvement of the auditor regarding Solvency II regulatory reporting of insurance undertakings in a number of European countries. The results of this survey are included in Appendix 3.
26. These results indicate a significant amount of divergence in the new and/or proposed requirements from the national regulators which may create doubts about the reliability and quality of reporting to NCAs, as well as public disclosures by insurance undertakings across Europe.
27. **These considerable inconsistencies can also significantly impair the supervisory level playing field across Europe and create gaps in investor and consumer protection which could unfavourably impact the economy.** Therefore, the European Commission, together with the European Insurance and Occupational Pensions Authority (EIOPA), should consider the need for high quality public disclosures of Solvency II reports on Solvency and Financial Condition Reporting (SFCR)⁶ and the divergence in national frameworks for the audit of Solvency II, which statutory auditors are ready to perform.

We hope that the enclosed appendices on the audit reform and country by country reporting can highlight the key points in further detail and enable discussion on their implication for European businesses. We also analyzed some studies and evidence based on current (national) facts and circumstances, but seeing that not all initiatives have been fully implemented yet, it did not appear relevant to include them at this point in time in a response to a European call for evidence. Therefore, there is a need to allow further time for Member States to progress and to re-evaluate and discuss the reforms' effects once we have a full perspective on the implementation process.

We are also at your disposal for a more in depth discussion and exchange of views on these matters and on any other issues of relevance to the accountancy profession. For further information on this letter, please contact Hilde Blomme, FEE Deputy CEO on +32 2 893 33 77 or via email hilde.blomme@fee.be.

Kind regards,



Petr Kriz
FEE President



Olivier Boutellis-Taft
FEE Chief Executive

⁶ EIOPA's statement stressing the need for a high quality public disclosure of Solvency II report on Solvency and Financial Condition Reporting (SFCR) (<https://eiopa.europa.eu/Pages/News/EIOPA-calls-for-high-quality-public-disclosure-under-Solvency-II.aspx>)

Annex 1 - The Audit Reform

Current state of play of transposition and implementation of the Audit Directive and Regulation

FEE **supported modernising the current audit framework and advancing audit policy**, in particular with the following measures:

- Measures enhancing the performance of the audit;
- EU adoption of International Standards on Auditing (ISAs) for all audits;
- Improvement of the governance of audit firms;
- The ban of contractual clauses limiting choice of auditors;
- Improvement of the coordination of audit oversight on European level.

FEE also agreed with the development of the **role of audit committees**, especially in relation to the responsibility for the selection of auditors of PIEs, the responsibility to oversee the provision of non-audit services by the audit firm to such entities and the assessment of the threats to the auditor's independence and the appropriateness of any necessary safeguards prior to giving its approval. FEE is convinced that these provisions will (i) help entities make the right choice for their auditor - which corresponds to their needs - and (ii) develop a communication hub between the statutory auditor and those charged with governance that will be instrumental in enhancing audit quality. Audit quality should be seen as a shared commitment between all players of the financial reporting supply chain thanks to fruitful synergies between good corporate governance, good corporate reporting and good audit.

The European Union changes to **auditor communications** are also broadly supported. Especially the requirement to describe in the audit report the most significant assessed risks of material misstatement will enable the profession, using professional judgement, to provide more meaningful and transparent information to stakeholders. Nevertheless, there is a need to ensure that the provisions included in the Audit Regulation will not inhibit innovation or create differences in approaches that could be detrimental to the added-value of such reports. Indeed, these new requirements are similar but do not fully mirror the new auditor reporting in the International Standards on Auditing (ISAs) 700 and 701 as recently issued by the International Auditing and Assurance Standards Board (IAASB), the professional standards adopted in 25 of the 28 EU Member States. It will require adaptations in practice to comply with both sets of requirements however without a need to produce two differing sets of audit reports.

Implementation of certain provisions of the Audit Regulation on the Statutory Audit of Public Interest Entities

An Audit Regulation was chosen as the most appropriate and effective legal instrument with regards to PIEs specifically because it would 'offer the highest degree of harmonisation' and 'would override incompatible provisions in domestic legislation.'⁷ Unfortunately, the highest degree of **EU harmonisation is unlikely to be reached due to various EU member state options** which give flexibility to jurisdictions where national circumstances have to be taken into account.

⁷ See Commission's impact assessment (see Annex 14 on page 191)
http://ec.europa.eu/internal_market/auditing/docs/reform/impact_assesment_en.pdf

In addition, some EU Member States are making use of the options in a partial manner, thus further contributing to an unintended regulatory patchwork throughout the EU, especially in an industry that has its major players operating in global network structures.

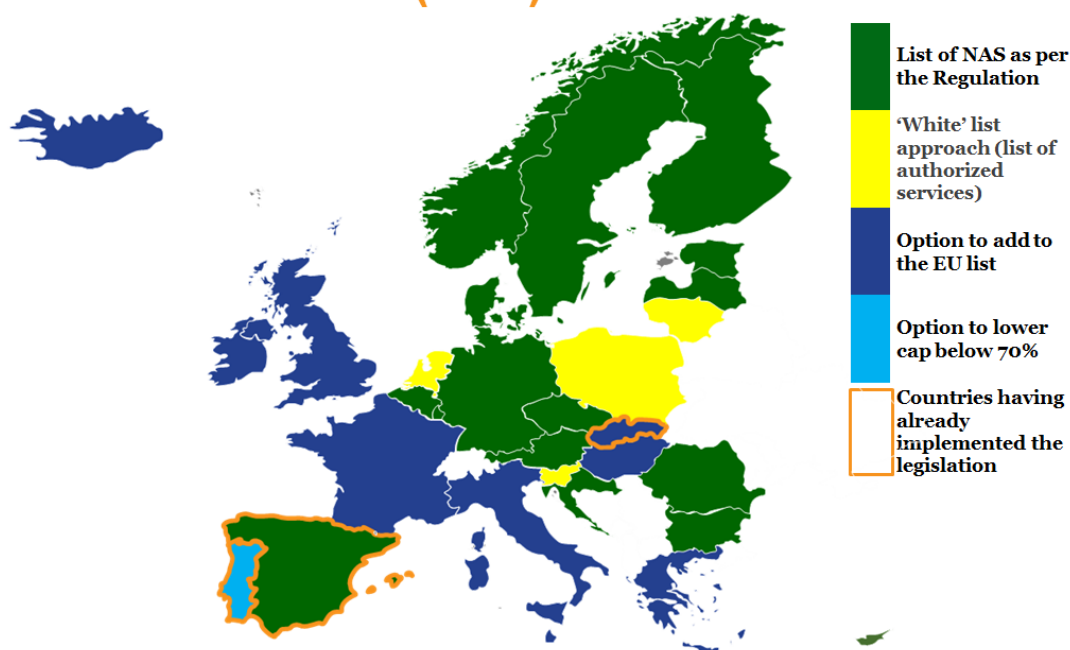
The expected divergence in implementation will **increase complexity and costs to business** and will not contribute to enhancing confidence in doing business in the EU. However, FEE is especially concerned about the **unintended impact** that the resulting divergence in national legislations will undoubtedly have on EU **businesses operating beyond their national borders**.

Provision of non-audit services to public interest entity statutory audit clients

Indeed, it is not clear whether national rules resulting from the implementation of prohibited non-audit services apply not only to an individual PIEs, but, where applicable, also to its parent undertaking in another member state, as well as to its controlled undertakings within other member states. Businesses in the EU would potentially face an additional burden in having to coordinate different lists of prohibited non-audit services and different caps for the provision of allowed non-audit services.

Although the implementation of this EU legislation and the choice of options is currently being considered in EU Member States, we understand at this point in time that the potential outcome for the prohibition of the provision of non-audit services and the level of the cap on the provision of permitted non-audit services compared to audit services provided, could be as follows:

Potential outcome re prohibition of Non-Audit Services (NAS)



This map has been prepared for general illustration purposes. The information included in it has been informally gathered up to early January 2016. FEE has not been in a position to directly verify this information. FEE has not conducted a formal study, and the map is based on received information which may already be out of date as at 29 January 2016, the date of this response. It is likely to be subject to change in the near future. As this is aimed at illustrating the issue, FEE cannot accept or assume any liability, responsibility in this respect. More timely information will be provided once available.

Based on the above patchwork, FEE concludes unfortunately that consistency in implementation does not appear to be reached and FEE recommends the European Commission to encourage EU Member States transposing the Audit Regulation to stay as close as possible to the text of the Audit Regulation without adding additional requirements or prohibitions.

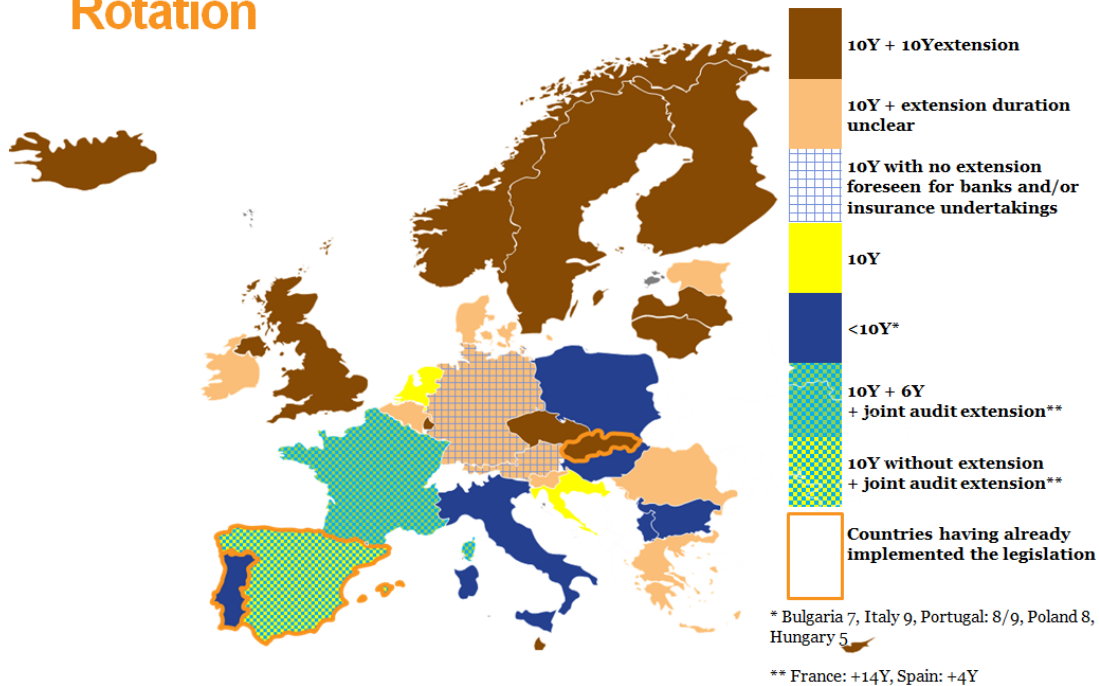
The Appointment of the Auditor and the Duration of the Audit Engagement

Along the same lines, as far as mandatory rotation is concerned, we wonder about the practical consequences for a group of companies based in one member state which has PIE subsidiaries in other member states that have set different rotation rules. The fact that some member states currently intend to apply the option to extend the duration of an audit engagement only for some PIEs and for instance not for credit institutions and/or insurance undertakings, like in Austria, Germany and Sweden, will add further complication. Businesses in the EU would potentially face an additional burden in having to coordinate different auditor rotation periods. A complex EU regulatory environment translates into additional costs and inefficiencies for EU businesses.

Although the implementation of this EU legislation and the choice in Member options is currently being considered in EU Member States, we understand at this point in time that the potential outcome for the duration of the audit engagement could be as follows⁸:

⁸ This map has been prepared for general illustration purposes. The information included in it has been informally gathered up to early January 2016. FEE has not been in a position to directly verify this information. FEE has not conducted a formal study, and the map is based on received information which may already be out of date as at 29 January 2016, the date of this response. It is likely to be subject to change in the near future. As this is aimed at illustrating the issue, FEE cannot accept or assume any liability, responsibility in this respect. More timely information will be provided once available.

Potential outcome re Mandatory Firm Rotation



The visual above highlights the current lack of consistency in implementation.

FEE hopes that the enclosed visuals have highlighted the issues and enable the European Commission to reflect on their implications for European businesses as well as the need to **promote consistency and clarity** in the EU wide regulatory framework governing statutory audits in order to ensure that any **additional burden on businesses operating in the EU can be minimized**.

In addition, as implementation of the audit reform is not due before June 2016, there is a need to allow further time for Member States to progress and to **re-evaluate and discuss** the reforms' effects once we have a full perspective on the implementation process. This should allow the Commission to assess whether the cumulative impact of certain parts of the **Audit Regulation is excessive and potentially harmful to audit quality** or have hampered the auditor's capacity to respond to the needs of society to foster growth, innovation and job creation.

Annex 2 - Country by Country Reporting (CbCR) provisions

Current state of play of legislative initiatives on EU level

FEE has identified four country by country reporting legislative initiatives for companies of which the detailed requirements, the scope of application to companies, the implementation deadlines, ... are or will be different, duplicative, inconsistent and uncoordinated.

Accounting Directive – Chapter 10 on Payments to Government⁹

This does not appear to be a tax transparency initiative but rather an anti-corruption measure. It covers only logging and extractive industries. All payments to government totalling €100 000 or more are to be disclosed in financial statements or in a separate report.

FEE is supportive of the initiative to increase transparency and accountability related to payments made to governments of resource rich countries¹⁰.

Capital Requirements Directive IV (2013/36/EU) – Article 89 on Country by Country Reporting Information¹¹

The inclusion of the CbCR requirements in the CRD IV was a last minute European Parliament addition. The requirements are high level, with few details and **subject to considerable differences in interpretation**. Requirements are for each credit institution and investment firm to, as from 2015, “disclose annually, specifying by Member State and by third country in which it has an establishment, the following information on a consolidated basis for the financial year:

- a) Name(s), nature of activities and geographical location;
- b) Turnover;
- c) Number of employees on full time equivalent basis;
- d) Profit or Loss before tax;
- e) Tax on profit or loss
- f) Public subsidies received.”

Following FEE’s request for clarification to the European Banking Authority (EBA)¹² in February 2014 and a further request to the European Commission¹³ in September 2014 on the continuing significant lack of clarity of these CbCR requirements, FEE issued in March 2015 a FEE Alert on the clarification finally provided by EBA¹⁴. This related to the definition of reportable items, the location of disclosures and audit consequences, the country of transaction, scope of disclosure and intragroup transactions, the definition of establishment, the scope of consolidation and turnover. FEE was convinced of the need to take such initiative in order to **avoid inconsistent implementation in EU Member States and inconsistent application** by credit institutions and investment firms.

⁹ <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2013:182:0019:0076:en:PDF>

¹⁰ http://www.fee.be/images/publications/financial_reporting/Policy_Statement_1211_on_main_issues_of_the_accountancy_profession_on_the_EC_Proposals_for_the_recast_of_the_4th_and_7th_Acc30112012141422.pdf

¹¹ <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2013:176:0338:0436:En:PDF>

¹² http://www.fee.be/images/Vaillant_140218_CRD_IV_Article_89.pdf

¹³ http://www.fee.be/images/Hooijer_140929_EC_consult_potential_effects_of_CBCR_under_CRD_IV.pdf

¹⁴ http://www.fee.be/images/Alert_EBA_Single_Rule_Book_Q_and_A.pdf

Shareholders' Rights Directive – Country by Country Information¹⁵

The European Parliament voted to graft country by country reporting requirements on to the Directive whereby large undertakings and PIEs would be required to report on a country by country basis on:

- a) Name(s), nature of activities and geographical location;
- b) Turnover;
- c) Number of employees on a full time equivalent basis;
- d) Value of assets and annual cost of maintaining those assets;
- e) Sales and purchases;
- f) Profit or loss before tax;
- g) Tax on profit or loss;
- h) Public subsidies received;
- i) Parent companies shall provide a list of subsidiaries operating in each Member State or third country alongside the relevant data.

These are the same requirements as per the CRD IV except for the added points d), e) & i). However, the scope of application is largely extended from credit institutions and investment firms to large undertakings and PIEs proposed to be companies that have, on a consolidated basis, more than 500 employees and turnover in excess of €100 million or “a balance sheet” which does not exceed €86 million. Furthermore, the added items under points d) and particularly e) are undefined, there is no clarity in the difference between turnover and sales and these items cannot be taken directly from financial statements, which provides additional risks of diversity and misinterpretation.

The outcome of the European Commission's CBCR impact assessment is currently awaited for the European Parliament and Council to further discuss this and other points of the Directive.

The European Commission public consultation on further corporate tax transparency¹⁶

The key questions addressed in this online consultation regarding enhanced corporate tax transparency deal to a large degree with country by country reporting of tax information, as follows:

- The EU's future work on enhanced transparency – should it do nothing, follow international initiatives or lead the way;
- Did respondents agree with certain key objectives, headlined as:
 - “enterprises should pay tax where they actually make profit”;
 - “Member States should stop harmful tax competition”;
 - Measures should be introduced to “help tax authorities orientate their audits on enterprises”:
 - “enterprises should act as they communicate in terms of contribution to welfare through taxation”;
 - “enterprises should structure their investments based on real economic reasons, not just to avoid taxes” and,
 - Measures should be introduced to promote “fairer competition between multinational enterprises and SMEs”.
- Which of the following options did respondents agree with regarding further action at EU level:

¹⁵ <http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52014PC0213>

¹⁶ http://ec.europa.eu/finance/consultations/2015/further-corporate-tax-transparency/index_en.htm

- OPTION B: No EU Action
- OPTION B: Implementation of BEPS 13 at EU level
- OPTION C: Publication of anonymised/aggregated data by the EU tax authorities
- OPTION D: Public disclosure of tax-related information by either enterprises or tax authorities
- OPTION E: Publicly available corporate tax policies

FEE supported a holistic approach to enhanced transparency and public disclosure of country by country tax information and suggests that it should be part of an international initiative, rather than the European Union going it alone.¹⁷

FEE supported many of the options proposed, including the public disclosure of tax-related information by either enterprises or tax authorities. FEE highlighted the need for meaningful and relevant information, by focusing on material information and key jurisdictions, and proposed that the information should be included in a separate report, preferably electronically, and not within the statutory financial statements of companies affected in order to avoid information overload.

FEE did not support the option to make corporate tax policies publicly available. Whilst we believe that it would be good practice for businesses to disclose their tax policies along with other CSR information, we do not believe that this should be compulsory as this could lead to the publication of meaningless, template information for those companies where tax policy is not a key issue. This would also increase the administrative burden on such companies.

We also called for the criteria that could be applied to be consistent with other criteria already established, i.e. in the Non-Financial Information amendments in the Accounting Directive, in order to avoid duplication of effort and undue costs arising on the preparers of such information.

In summary, the key challenge is to avoid duplication, lack of interaction and inconsistencies between different parts of EU legislation, some already finalised and others yet to be decided on. Any system of CBCR disclosure must be consistent and clear for companies to ensure compliance with the requirements as well as comparability and usefulness of the information across industry sectors.

¹⁷ http://www.fee.be/index.php?option=com_content&view=article&id=1532&Itemid=106&lang=en

Annex 3 - Auditors' involvement in regulatory reporting and public disclosure for banks and insurance undertakings: indications of inconsistencies

Reliance on financial and regulatory reporting by banks

In September 2015, FEE published a survey on the Scope of the Audit of Banks Across Europe.

We received information from 27 countries across Europe including 17 member countries of the Eurozone. The results of the survey reveal that apart from the statutory audit (including financial statements, management reporting and compliance with laws and regulations), which falls within the scope of the audit in all 27 countries, there is significant divergence in practice regarding the scope of the audit of regulatory reporting of banks.

In summary, in only 15 countries the auditor is involved with regulatory organisation reporting, in 12 countries the scope of audit includes other regulatory requirements, in 10 countries the scope of the audit includes ongoing financial reports that are addressed to the regulators and finally in only 12 countries the scope of the audit includes special reports that are addressed to the supervisors.

A summary of the results can be found in the table below. For a more detailed view of the responses, please consult the tables in the appendix of the FEE survey starting on page 5 on http://www.fee.be/images/publications/Corporate_Reporting/1509_FEE_Scope_of_Audit_of_Banks.pdf

Country Eurozone	Statutory Audit		Additional Supervisory Requirements			
	Assurance: Financial Statements including Management Report, Going Concern (ISA)	Compliance: Laws and Regulations (Covered by ISA)	Compliance: Regulatory Organisation	Compliance: Further Regulatory Requirements	Compliance: Ongoing Financial Reports to Supervisors	Special Reports to Supervisors
Austria	✓	✓	✓	✓	✓	
Belgium	✓	✓	✓		✓	✓
Bulgaria	✓	✓	✓			
Cyprus	✓	✓			✓	
Czech Republic	✓	✓	✓			✓
Denmark	✓	✓	✓	✓		✓
Estonia	✓	✓			✓	
Finland	✓	✓			✓	
France	✓	✓				
Germany	✓	✓	✓	✓	✓	✓
Greece	✓	✓		✓		✓
Hungary	✓	✓	✓			
Ireland	✓	✓	✓	✓		✓
Italy	✓	✓	✓	✓	✓	
Luxembourg	✓	✓	✓	✓	✓	✓
Malta	✓	✓				
Netherlands	✓	✓	✓	✓		✓
Norway	✓	✓				
Poland	✓	✓				
Portugal	✓	✓	✓	✓		
Romania	✓	✓				
Slovak Republic	✓	✓	✓	✓	✓	
Slovenia	✓	✓	✓			✓
Spain	✓	✓		✓		✓
Sweden	✓	✓				
Switzerland	✓	✓	✓	✓	✓	✓
UK	✓	✓				✓

Adding credibility to regulatory reporting and disclosures by insurance undertakings

In the attached table, we include the results of a survey based on information informally gathered during July and August 2015 regarding the status of the current involvement of the auditor in the regulatory reporting (Solvency I) and for the current status of the discussions at national level regarding the potential involvement of the auditor in Solvency II regulatory reporting of insurance undertakings.

This information has been prepared for general illustration purposes and summarises results received from a selected sample of EU Member States, including Austria, Belgium, Denmark, France, Germany, Italy, Netherlands, Poland, Portugal, Spain, Sweden and the UK. FEE has not conducted a formal study and has not been in a position to directly verify this information.

The information provided is based on the discussions at national level and do not necessarily represent the official NCA's position or final decision. The information has been provided for indicative purposes only and to demonstrate the divergence in the current status across Europe.

As this information has been gathered during July and August 2015, it may already be out of date as at 29 January 2016, the date of this response. It is likely to be subject to change in the near future depending on the developments in each EU Member State, like is the case for the UK as noted below.

As this is aimed at illustrating the issue, FEE cannot accept or assume any liability, responsibility in this respect. More timely information will be provided once available.

The results clearly indicate a high level of divergence in the new and/or proposed requirements from the national regulators which may create doubts about the reliability and quality of public disclosures across Europe. In some countries the National Competent Authorities (NCAs) are considering to expand the scope of the statutory audit, however, in some other countries the NCAs have decided to leave the decision for an audit of Solvency II reporting to the discretion of the insurance undertakings. Furthermore, we identified that there is a divergence in the level of assurance for different regulatory reporting requirements (negative or positive assurance). The NCAs which will not benefit from assurance provided by auditors are expected to perform some procedures to ensure the reliability of the regulatory reporting and disclosures of the insurance undertakings they supervise, which can significantly differ in nature and depth.

The table below reflects the input regarding a range of different fields:

- **Current status of the scope of audit of regulatory reporting (Solvency I)**
In some countries, Solvency I reporting is audited and the auditor's report is either addressed to the supervisor or made available to the public (depending on the jurisdiction).
- **Auditor's involvement in the preparatory phase of Solvency II**
The involvement of the auditor in the preparatory phase of Solvency II is usually on an ad-hoc basis and following a specific requirement from the regulator.
- **Scope of Solvency II assurance: Balance sheet, own funds, MCR and SCR**
Based on the discussions in each country (either at the level of the government or at the level of the National Competent Authority, depending on the jurisdiction) we surveyed whether there are any indications that national requirements will be introduced for the audit of regulatory reporting of Solvency II. We surveyed the scope of the audit (Balance sheets, own funds, MCR and SCR) and the level of assurance (limited or reasonable).
- **Solvency II assurance: Day-one reporting**
This field relates to the involvement of the auditor in the audit/assurance of the opening balance sheet for Solvency II (i.e. for the figures on Solvency II balance sheet as at 1 January 2016).
- **Solvency II: Pillar II requirements**
This field relates to whether the national governments or the NCAs are considering introducing a requirement for the audit/assurance on disclosure requirements under Pillar II of Solvency II (i.e. risk management).
- **Timing of audit reporting**
This field relates to the timing of the involvement of an auditor, i.e. whether the audit/assurance will be finalized on the same date as the statutory audit or whether can be at a later stage.
- **Solvency II assurance: Involvement of other, external professionals** – e.g. actuaries.
This field relates to any requirements for the involvement of other professional experts on the assurance aspects of Solvency II requirements for insurance undertakings, for instance actuaries.

Country	Current status of the scope of audit of regulatory reporting (Solvency I)	Auditors involvement in the preparatory phase of Solvency II	Scope of Solvency II assurance: - Balance sheet, - own funds, - MCR and SCR	Solvency II assurance: Opening balances	Solvency II assurance: Pillar II disclosures	Timing of audit reporting	Solvency II assurance: Involvement of other professional – e.g. actuaries
Austria * The new requirements have been enacted	The profession is involved in the audit of Solvency I reporting. The profession is involved in the audit of Solvency I reporting. Any assurance on Solvency I reports is part of the long form auditors report.	No, the profession is not involved. The audit profession is not involved in this phase.	The profession will be involved in audit of: - SFCR, especially - Solvency II balance sheet; - MCR/SCR and, - Own funds. Positive assurance addressed to the supervisor, as from year ends 2016.	There are not any specific audit requirements for opening balances.	Yes, the profession is involved. Negative assurance as from year ends 2016.	The insurance undertakings have to submit our audit report end of May at the latest. The law does not specifically address when our appendix to our audit report, covering Solvency II, has to be submitted.	There is no requirement for the involvement of other professionals.

Country	Current status of the scope of audit of regulatory reporting (Solvency I)	Auditors involvement in the preparatory phase of Solvency II	Scope of Solvency II assurance: - Balance sheet, - own funds, - MCR and SCR	Solvency II assurance: Opening balances	Solvency II assurance: Pillar II disclosures	Timing of audit reporting	Solvency II assurance: Involvement of other professional – e.g. actuaries
Belgium * The new requirements have not yet been finalised.	Yes, the profession is involved in the audit of Solvency I reporting. The current requirements include an annual audit of Solvency I reporting and a review on a semi-annual basis.	Yes, the profession has been involved in this phase. The profession has been asked by the regulator to report back whether the Solvency II reporting (as of 31 December 2014 and as of 30 September 2015) is prepared in line with the requirements. This includes all the elements of Pillar III disclosures.	It is probable that the profession will be involved. No decision has been taken yet. The National Competent Authority explained that the purpose of involving auditors during the preparatory phase was to allow them also to get prepared to issue an assurance report over Solvency II measures. However, nothing has been decided yet. The scope and level of assurance is not yet formally defined by the authorities. Solvency II directive still needs to be transposed into National Law.		Yes, the profession is involved. Under Solvency I already, auditors are required to perform control procedures over the internal control self-assessment prepared by management, which include among others Pillar II elements.	In respect of current Solvency I reporting, at the same time as reporting on the financial statements. The latest three weeks before the annual general meeting (AGM). Would the audit requirements of Solvency II be confirmed, we expect the same deadlines to apply.	Actuaries are involved. For the seven biggest insurance companies and in respect of the submission as of 31 December 2014, the regulator has asked external actuaries for their assessment on the best estimates.

Country	Current status of the scope of audit of regulatory reporting (Solvency I)	Auditors involvement in the preparatory phase of Solvency II	Scope of Solvency II assurance: - Balance sheet, - own funds, - MCR and SCR	Solvency II assurance: Opening balances	Solvency II assurance: Pillar II disclosures	Timing of audit reporting	Solvency II assurance: Involvement of other professional – e.g. actuaries
Denmark *The new requirements have not yet been finalised	Yes, the profession is involved in the audit of Solvency I reporting. Only Solvency I reporting disclosed in the statutory annual accounts (Base capital and Solvency I requirement) are subject to audit as part of the audit requirement of the annual report.	The profession has not been directly involved in this process.	Some audit requirements for Solvency II reporting. There are no audit requirements of Solvency II stand-alone balance sheet. The Danish regulators have however incorporated the Solvency II balance sheet as part of the “executive order” on which Danish insurance companies are required to prepare their statutory accounts. Having said that, some exceptions are available and therefore the Solvency II additional requirements for financial reporting are not mandatory. Currently the MRC and SCR, which are reported in the statutory Annual Reports, are exempted from statutory audit.	No specific audit requirements for opening balances. No other than the comments mentioned under Scope of Solvency II assurance.	The profession is involved. According to the Danish Executive order on auditing, auditors are required to make statements to the Danish regulators based on specified minimum work on a number of Pillar II items for example internal controls.	Not yet defined.	Actuaries are involved. Required involvement of actuarial knowledge in the audit of insurance companies for Statutory audit.

Country	Current status of the scope of audit of regulatory reporting (Solvency I)	Auditors involvement in the preparatory phase of Solvency II	Scope of Solvency II assurance: - Balance sheet, - own funds, - MCR and SCR	Solvency II assurance: Opening balances	Solvency II assurance: Pillar II disclosures	Timing of audit reporting	Solvency II assurance: Involvement of other professional – e.g. actuaries
France * The new requirements have been enacted	Not specific requirements. Some requirements exist to communicate to the auditors certain reports prepared by insurance enterprises in the context of Solvency I but they are not subject to audit or assurance requirement as such. Auditors' involvement is generally restricted to the audit of financial statements which form the basis for Solvency I quantitative requirements. Group solvency might be subject to additional assurance, at the supervisor's discretion.	The profession is not involved in this phase.	There are not any specific audit requirements for these 3 areas. Although the French Insurance supervisors expressed their preference to have some assurance on the regulatory reporting, no such requirement has been introduced at this stage as a part of the legal and regulatory transposition and no process has been started yet to implement such a requirement before Solvency II comes into effect. Insurers would be left with the responsibility to decide whether they will ask for some assurance on the SFCR, based on industry best practices, and this would be expected to bring divergence in practice.			Not applicable as there are not any specific audit requirements.	There are not any specific requirements for the involvement of other professionals.

Country	Current status of the scope of audit of regulatory reporting (Solvency I)	Auditors involvement in the preparatory phase of Solvency II	Scope of Solvency II assurance: - Balance sheet, - own funds, - MCR and SCR	Solvency II assurance: Opening balances	Solvency II assurance: Pillar II disclosures	Timing of audit reporting	Solvency II assurance: Involvement of other professional – e.g. actuaries
Germany * The new requirements have been enacted	No, the profession is not involved in the audit of Solvency I reporting. There is no requirement for the auditor to audit regulatory reports, apart from the statutory financial statements which are the basis for determining own funds.	The profession is not involved in this phase.	Yes, the profession will be involved in audit of Solvency II reporting. As from 2016 and onwards audit of balance sheet (reasonable assurance).	There are not any specific requirements for audit of opening balances. Not a requirement, however, some companies might ask for involvement of auditors on a voluntary basis.	There are not any audit requirements specifically for Pillar II.	Separate deadlines, which will allow finalizing audit of Solvency II - balance sheet after audit of statutory accounts.	There are not any specific requirements for the involvement of other professionals.

Country	Current status of the scope of audit of regulatory reporting (Solvency I)	Auditors involvement in the preparatory phase of Solvency II	Scope of Solvency II assurance: - Balance sheet, - own funds, - MCR and SCR	Solvency II assurance: Opening balances	Solvency II assurance: Pillar II disclosures	Timing of audit reporting	Solvency II assurance: Involvement of other professional – e.g. actuaries
Italy * The new requirements have not yet been finalised	<p>No, the profession is not involved in the audit of Solvency I reporting.</p> <p>Currently an audit is only conducted on Consolidated IFRS consolidated financial statements and on individual financial statements based on local GAAP (used for dividend distribution purposes).</p>	<p>The profession is involved in this phase.</p> <p>The national regulator (IVASS) formally encouraged insurers to have external auditors verify data quality as part of the USP application package.</p> <p>IVASS have requested some external auditors' activity in form of Agreed Upon Procedures for Internal Model applicants.</p>	<p>The profession will be involved.</p> <p>The Italian parliament recently approved the New Private Insurance Code, which mandates IVASS to issue a specific regulation concerning the areas of the SFCR subject to audit by the external auditor.</p> <p>The auditor would be the same external auditor involved in the audit of financial statements.</p> <p>The scope and level of assurance is not yet defined by the authorities.</p>			<p>There are not any specific references yet.</p>	<p>There are not any specific requirements for the involvement of other professionals.</p>

Country	Current status of the scope of audit of regulatory reporting (Solvency I)	Auditors involvement in the preparatory phase of Solvency II	Scope of Solvency II assurance: - Balance sheet, - own funds, - MCR and SCR	Solvency II assurance: Opening balances	Solvency II assurance: Pillar II disclosures	Timing of audit reporting	Solvency II assurance: Involvement of other professional – e.g. actuaries
Netherlands * The new requirements have not yet been finalised	The profession is involved in the audit of Solvency I reporting. There is an audit requirement of Solvency I reporting.	The profession is not involved in this phase.	The profession will be involved. The profession is asked to audit: - MVBS, - Technical provisions, - Premiums/claims/expenses per branch, Own Funds, - SCR (SF & (P)IM), and - MCR and stat P&L.	The profession will be involved. This is expected to be an agreed upon procedures (AUP). The content of AUP will be agreed at a later stage.	There are not any specific audit requirements for Pillar II.	There are not any specific references yet.	There are not any specific requirements for the involvement of other professionals.
Poland * The new requirements have not yet been finalised	No specific requirements The audit profession is not involved in the audit of Solvency I reporting. Currently only the audit of statutory financial statements falls within the scope of statutory audit.	The profession is not involved in this phase.	The profession is expected to be involved in the audit of Solvency II reporting. Solvency II assurance is defined in the project of the Law not yet adopted. The intention of new legislation is to include the audit (reasonable assurance) of B/S, own funds, MCR and SCR.	Not yet defined.	Not yet defined.	Not yet defined.	Not yet defined, specifically for Solvency II assurance (but general requirement of audit standards to use professionals exists).

Country	Current status of the scope of audit of regulatory reporting (Solvency I)	Auditors involvement in the preparatory phase of Solvency II	Scope of Solvency II assurance: - Balance sheet, - own funds, - MCR and SCR	Solvency II assurance: Opening balances	Solvency II assurance: Pillar II disclosures	Timing of audit reporting	Solvency II assurance: Involvement of other professional – e.g. actuaries
Portugal * The new requirements have not yet been finalised	The profession is involved in the audit of Solvency I reporting. The auditors are required to perform a limited review of the financial and statistical information (which includes Solvency I) to be submitted to the regulator. The auditors are also requested to perform audit procedures over the Solvency I information disclosed in the statutory financial statements.	The profession is involved in this phase. The auditors are required to issue a yearly report on the adequacy of the risk management and internal control system, driven by Pillar II requirements.	Not clear yet. The legislative proposal related to the transposition of Solvency II European directive is being discussed by the Portuguese Parliament.	Not clear yet. A circular letter to be issued by the regulator regarding the Solvency II transition allowances is being discussed. This draft clarifies the procedures to be performed by the companies, auditors and actuaries in what refers to the transitional allowances.	Yes, there are requirement for audit of Pillar II. The auditors are required to issue a yearly report on the adequacy of the risk management and internal control system, driven by Pillar II requirements. The procedures include the analysis of the risk management and internal system reports prepared by the companies to be submitted to the regulator.	Not yet clear. This is not clarified in the current legislative proposal.	Not clear yet. A circular letter to be issued by the regulator regarding the Solvency II transition allowances is being discussed. This draft clarifies the procedures to be performed by the companies, auditors and actuaries in what refers to the transitional allowances.

Country	Current status of the scope of audit of regulatory reporting (Solvency I)	Auditors involvement in the preparatory phase of Solvency II	Scope of Solvency II assurance: - Balance sheet, - own funds, - MCR and SCR	Solvency II assurance: Opening balances	Solvency II assurance: Pillar II disclosures	Timing of audit reporting	Solvency II assurance: Involvement of other professional – e.g. actuaries
Spain * The new requirements have not yet been finalised	The profession is involved in auditing of the financial statements which includes some of Solvency I reporting. The Quantitative Reporting Templates (QRTs) in Solvency I are not submitted to audit. However, the financial statements, submitted to audit, include the Solvency states (with less detail than the QRTs).	The profession is not involved in this phase. The auditors are not involved in this phase.	Not clear yet. At this moment, the Spanish Regulator is revising the accounting rules about the financial statements, submitted to audit, for including various QRTs. The scope is not clear.	Not clear yet. In review process, according to previous point.	There are not any specific audit requirements for Pillar II.	Not clear yet.	There are not any specific requirements for the involvement of other professionals.
Sweden * The new requirements have not yet been finalised	The profession is not involved in the audit of Solvency I reporting	The profession is not involved in this phase	Not yet decided. There are not any proposals from the NCA re the audit of Solvency II reporting.				There are not any proposals from the NCA re the audit of Solvency II reporting

Country	Current status of the scope of audit of regulatory reporting (Solvency I)	Auditors involvement in the preparatory phase of Solvency II	Scope of Solvency II assurance: - Balance sheet, - own funds, - MCR and SCR	Solvency II assurance: Opening balances	Solvency II assurance: Pillar II disclosures	Timing of audit reporting	Solvency II assurance: Involvement of other professional – e.g. actuaries
UK¹⁸ * The new requirements have not yet been finalised	The profession is involved in the audit of Solvency I reporting. In the UK insurance undertaking report their capital position annually in a separate public reporting document. This document is subject to audit requirements as required by the Prudent Regulatory Authority's (PRA's) rules.	The profession is involved in this phase. For those insurers proposing to use internal models and some of the large insurers using standard models the auditors have been asked by the PRA to provide positive assurance the Solvency II balance sheet as at 31 December 2014 in the preparatory phase. This has been a one-off request.	There is not currently any decision taken from the PRA and there has as yet been no public comment. A consultation is expected later this year to set the proposed scope of any potential audit requirement (i.e. balance sheet, MCR, SCR). It is worth mentioning that the PRA has the authority to require an audit (not the government).	Not currently anticipated.	Not currently anticipated.	Not yet known. Current practice under Solvency I is for audit report timing to be aligned with regulatory return submission (which may differ from statutory audit sign-off).	Not yet known. Current practice under Solvency I is that the auditors of life insurers must involve an actuary (who is independent of the insurer) in the audit of regulatory reporting.

¹⁸ **Update from the UK from January 2016:**

The UK Prudential Regulation Authority (PRA) of the Bank of England has published a consultation. It proposes a full audit requirement for a subset of the annual FSCR (publicly available information). What has been proposed to be audited is the quantitative templates and narrative disclosures in respect of: MCR, SCR (standard formula - only), balance sheet and own funds. No audit requirement is proposed on the annual or quarterly private reporting to the regulator or on the opening balance sheet submission. The proposal includes the same deadline for audit as for the publication of SFCR. The consultation ends in the middle of February 2016. The PRA then needs to consider the responses and the final set of requirement is expected in Q2 of 2016.