

Valdis Dombrovskis
European Commission
Financial Stability, Financial Services and
Capital Markets Union

Sent online

Brussels, 16 July 2018

Subject: European Commission consultation document Fitness check on the EU framework for public reporting by companies

Dear Commissioner Dombrovskis,

We welcome the European Commission's (the 'Commission') fitness check on the European Union (EU) framework for public reporting by companies. We appreciate that the Commission carries out this significant exercise.

Accountancy Europe is profoundly engaged in the corporate reporting agenda and so we consider the fitness check a great opportunity to provide our views, contribute and help the EU meet its intended objectives.

The views expressed in this letter include comments provided in the response to the survey and additional comments which we consider important to share with the Commission.

The positions taken in our response to the consultation reflects the views of Accountancy Europe. Individual Member Bodies of Accountancy Europe in some Member States may submit positions which differ in certain respects from the common position expressed by Accountancy Europe in its submission.

As a general comment, we found the way some questions were posed in the consultation paper ambiguous. When responding to the survey we included a caveat for those questions we considered to be unclear.

Overall, we assess that the EU public reporting framework adds value and is mostly effective and relevant. However, there is room for improvement, especially related to consistency between different legislative instruments. There is a level of inconsistency in the overall EU approach, for instance the approach to the preparation and reporting of financial and non-financial information differs and both are not fully integrated. Accountancy Europe has worked on this since 2015, we refer to our work on *The Future of Corporate Reporting – creating the dynamics for change*¹, which is discussed further below and in our responses to the survey.

¹ https://www.accountancyeurope.eu/wp-content/uploads/FEFCogitoPaper_-_TheFutureofCorporateReporting.pdf

Moreover, we believe that the audit profession can help companies report information that is more reliable with the objective to provide trust and confidence to users. Therefore, we support the alignment on EU level of the audit and assurance requirements, the management report and non-financial information disclosures for large and listed entities. However, we recognize that it is not always possible or desirable to fully align every piece of regulation, for instance audit exemption thresholds for smaller entities should not be aligned on EU level.

TOWARDS LONG-TERM AND SUSTAINABLE VALUE CREATION

- Sustainability and long-term investment are of prime importance to the EU economy. Overall, we welcome the spirit of the final recommendations of the High-Level Expert Group (HLEG) on sustainable finance and we urge the Commission to take immediate action where necessary. As key actors in the sustainability reform agenda, we especially recognise the importance of:
 - embedding sustainability factors in corporate reporting
 - changing short-term financial behaviour.
- Sustainability and long-term investment objectives are global concerns and as such merit a global solution. We call on the European Financial Reporting Advisory Group (EFRAG) to continue working with the International Accounting Standards Board (IASB) to improve standards in a way that will help users consider these objectives when making their investment decisions, including providing better information on intangible assets.
- The current EU financial reporting framework does not encourage a company or a group to disclose information about their strategy, business model and how they plan to achieve value creation on the longer term in the future. A good understanding of these objectives would help users comprehend the context in which they should interpret the more detailed information reported.
- In 2015 Accountancy Europe published the Cogito paper *The Future of Corporate Reporting – creating the dynamics for change*. It puts forward a new presentation approach to corporate reporting, the ‘Core & More’ concept. We further clarified the Core & More concept in our September 2017 paper *Core and More: an opportunity for smarter corporate reporting*².

NON-FINANCIAL REPORTING

- Compared to financial reporting, non-financial information is at a much earlier stage of development. The Non-Financial Information (NFI) Directive and Non-Binding Guidelines are a good first step in improving the quality and quantity of non-financial information. Though, with only one reporting cycle since transposition, it is very difficult to accurately gauge the Directive’s impact.
- The current scope of the NFI Directive, limited to large public interest entities (PIEs), is too restrictive as it excludes some very large companies that are not publicly listed, which should be included.
- We strongly encourage a move towards more integrating reporting. Interconnected financial and non-financial information reporting would allow to focus on the long-term perspective and would assist stakeholders in getting a more complete picture of the performance of the entity.

² <https://www.accountancyeurope.eu/publications/core-more-smarter-corporate-reporting/>

- Experimentation in the market over time would be instrumental to develop new concepts. A Corporate Reporting Lab at EU level is likely to help foster experimentation and innovation in the corporate reporting arena. It is appreciated that this idea has been picked up by the Commission in the context of its Action Plan *Financing Sustainable Growth*. The accountancy profession is instrumental to meet these objectives by contributing its expertise and experience.
- The consultation paper refers to integrated reporting as a concept and does not explicitly mention the Integrated Reporting (<IR>) Framework established by the International Integrated Reporting Council (IIRC). Notwithstanding this fact, we encourage the Commission to support this initiative. In our *Call for action: Enhance the coordination of non-financial information initiatives and frameworks*³ we urge the IIRC to pursue its valuable initiative. We support moving towards one universal principles-based reporting framework. The <IR> Framework had been a major catalyst over recent years to achieve global acceptance of value driven reporting. It makes use of interconnected financial and non-financial information, covering six capitals, to communicate a clear, concise, and integrated story that explains how an entity's resources are used to create value. The IIRC shares on their website⁴ some evidence showing the benefits of <IR> which we consider worth looking at.
- We note an increasing call for more assurance over non-financial information, including from investors. Therefore, a certain level of assurance over integrated reporting, including the non-financial information, would increase the benefits of integrated reporting.

INTERNATIONAL FINANCIAL REPORTING

- EU's move towards International Financial Reporting Standards (IFRS) ensures that EU listed entities report their consolidated financial statements under a global reporting language. We strongly advocate that this should continue in the EU as well as in a growing number of jurisdictions around the world.
- Listed entities that do not have subsidiaries and thus no consolidated accounts should also be required to report under IFRS.
- In addition, the option to use IFRS should be granted at a company level not only at a Member State level, to give the opportunity to all entities to opt for IFRS if they so wish.
- It is still appropriate that the IAS Regulation prevents the Commission from modifying the content of IFRS. We call for great caution in permitting the EU to change specific aspects of IFRS standards published by the IASB ('carve-in') before transposing them into EU law because:
 - Allowing more flexibility may set an uncontrollable and unpredictable trend that would lead to creating European rather than global standards.
 - This would isolate the EU from global capital markets and may hinder investment, also long-term ones. It would create confusion in the marketplace, increase the cost of capital for European issuers and costs for preparers, especially those with multinational operations.
 - It might endanger the current position of EU Foreign Private Issuers (FPIs) in the US and other capital markets that can use IFRS financial statements for their US or foreign

³ <https://www.accountancyeurope.eu/publications/call-for-action-nfi-frameworks/attachment/170918-call-for-action-letter/>

⁴ <http://integratedreporting.org/news/european-commission-fitness-check-show-your-support-for-integrated-reporting/>

filing without providing a reconciliation to local Generally Accepted Accounting Principles (GAAP).

- Any changes would diminish EUs influence on the international standards-setter and its global standing. It is not unlikely that such de facto European standards would be seen with suspicion by global investors. EU should continue to exert influence on the IASB through active engagement. This helps to have IFRS standards that meet the EU endorsement criteria.
- This would result in losing all the benefits in terms of transparency and comparability from the leadership provided by the EU in having IFRS adopted in more than 150 countries around the globe.
- As indicated above, we fully recognise the legitimacy and relevance of the Commission's concerns to ensure that sustainability and long-term investments are considered in the EU public reporting framework and we definitely want to constructively contribute to finding solutions to achieve these objectives. At this point in time, we are not convinced that additional changes to IFRS would solve these concerns. There is a need to further assess this as the purpose of IFRS does not appear to be to incentivise or disincentivise these objectives. Evidence does not indicate that IFRS influence investors' decisions on sustainability (refer to Climate Disclosure Standards Board (CDSB) 2018 publication *Uncharted waters: How can companies use financial accounting standards to deliver on the Task Force on Climate related Financial Disclosures' recommendations?*)⁵ and long-term investment (refer to B20 2014 report *Unlocking investment in infrastructure: Is current accounting and reporting a barrier?*)⁶.
- We do not support changing the existing EU endorsement criteria. Such a change would be premature at a time where priority should be given to consolidating the Maystadt reform. However, considering the importance of the sustainability and long-term investment objectives, we suggest that EFRAG is asked by the Commission, as part of the 'EU Public Good' criteria assessment, to evaluate certain aspects / possible impacts of IFRSs on these objectives on a case-by-case basis.
- We support the endorsement of the IASB Conceptual Framework. It would be important that the Framework is used in the EU in a similar way as conceived by the IASB: principles stipulated in the standards, covering specific accounting topics, have priority over the 'general' principles covered in the Framework.

NATIONAL FINANCIAL REPORTING

- Harmonised financial and non-financial reporting would be instrumental for cross-border trade and activities, but it is not the primary obstacle to them. Divergent tax rules, company law, languages and insolvency laws are more important limitations.
- Reducing the variability of standards for unlisted entities from one Member State to another should not be a priority for the Commission.
- In case the Commission decides to carry out an exercise of convergence of national GAAP:
 - Firstly, certain obstacles will need to be addressed. These include the links between financial accounting, the determination of taxable income and capital maintenance and dividend distribution requirements.

⁵ https://www.cdsb.net/sites/default/files/uncharted_waters_final.pdf

⁶ <http://integratedreporting.org/wp-content/uploads/2014/06/unlocking-investment-in-infrastructure.pdf>

- Once these obstacles are tackled, we favour harmonization of accounting principles and thus the reduction of options currently available in the EU accounting legislation.
- We do not agree with converging national GAAPs on the basis of a European Conceptual Framework. Such a framework might gradually lead to the overall abolishment of global standards in the EU.
- If a "pan-EU GAAP" is established, then IFRS for Small and Medium-Sized Entities (SMEs) could be the starting point.

TECHNOLOGY

- The EU regulatory framework is not an obstacle to digitalisation but does need to allow for innovation and be adaptable in the future as it is still too early to commit to a single form of reporting technology. Having such flexibility is especially important for SMEs.
- We support an EU principles-based framework for electronic reporting and a single EU access point to link to individual company's websites.
- EU is best placed to provide some principles of which elements a company's website should include. This information could be supported by a Core & More system, driven and enabled by the use of technology, as indicated in the Accountancy Europe 2015 publication *The Future of Corporate Reporting – creating the dynamics for change*.
- Digitalisation of non-financial information has the prospect to better link financial information to the non-financial narrative.
- There is a need to have a secured channel for information, which also applies to the assurance of such information. It would be advantageous to work towards an international standard on this.

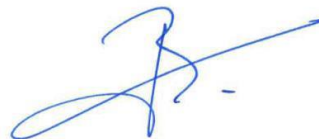
Our answers to the specific questions can be found in the response to the survey.

For further information on this letter and the response to the survey, please contact Hilde Blomme on +32 (0) 2 893 33 77 or via email at hilde@accountancyeurope.eu.

Sincerely,



Edelfried Schneider
President



Olivier Boutellis-Taft
Chief Executive

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