EUROPEAN COMMISSION
Directorate-General for Financial Stability, Financial Services and Capital Markets Union

INVESTMENT AND COMPANY REPORTING
Accounting and financial reporting

CONSULTATION DOCUMENT

FITNESS CHECK ON THE EU FRAMEWORK FOR PUBLIC REPORTING BY COMPANIES

You are invited to reply **by 21 July 2018** at the latest to the **online questionnaire** available on the following webpage:
http://ec.europa.eu/info/consultations/finance-2018-companies-public-reporting_en

Please note that in order to ensure a fair and transparent consultation process **responses should be made through the online questionnaire**.

This consultation follows the normal rules of the European Commission for public consultations. Responses will be published unless respondents indicate otherwise in the online questionnaire.

Responses authorised for publication will be published on the following webpage:
http://ec.europa.eu/info/consultations/finance-2018-companies-public-reporting_en#contributions

Should you have a problem completing this questionnaire or if you require particular assistance, please contact:

fisma-public-reporting-by-companies@ec.europa.eu

CONTENT OF THE CONSULTATION DOCUMENT

This consultation seeks stakeholder views on whether the EU framework for public reporting by companies is fit for purpose.

Considering the size of this public consultation please feel free to respond only to sections or questions of interest to you.

The questionnaire is structured as follows:

► Introduction

► Assessing the fitness of the EU public reporting framework overall (Section I; Questions 1- 7)

► The EU financial reporting framework applicable to all companies (Accounting Directive: companies with cross border activities, SMEs, and content of the information) (Section II; Questions 8- 18)

► The EU financial reporting framework for listed companies (IAS regulation, Transparency Directive) (Section III; Questions 19- 29)

► The EU financial reporting framework for banks and insurance companies (Sectoral Accounting Directives) (Section IV; Questions 30 - 38)

► Non-financial reporting framework (Non-Financial Reporting Directive, Country-by-Country Reporting for extractive and logging industries) and integrated reporting (Section V; Questions 39 - 55)

► The digitalisation challenge (Section VI; Questions 56- 66)

► Other comments

► Acronyms and Abbreviations

Introduction

Public reporting by companies[1] is based on a number of EU Directives, Regulations and Recommendations that were adopted at different points in time over the last 40 years. The current body of EU law (the "acquis") comprises a range of requirements applying to listed and non-listed companies, sector specific requirements (banks and insurers), as well as additional disclosure requirements applicable to listed companies. The initial Directive on annual accounts aimed at harmonising financial information to capital providers and for creditor protection. More recently, public reporting requirements have been expanded to non-financial reporting for a much broader audience.

The Commission is now conducting a comprehensive check of the fitness of the EU framework on public reporting by companies. The objectives of this fitness check are:

1) to assess whether the EU public reporting framework is overall still relevant for meeting the intended objectives, adds value at the European level, is effective, internally consistent, coherent with other EU policies, efficient and not unnecessarily burdensome;

2) to review specific aspects of the existing legislation as required by EU law[2]; and

3) to assess whether the EU public reporting framework is fit for new challenges (such as sustainability and digitalisation).

Throughout this consultation, certain concepts should be understood as follows:

- **Effectiveness** – whether an intended objective is met;
- **Relevance** – whether a requirement is necessary and appropriate for the intended objectives;
- **Efficiency** – whether the costs associated with the intervention are proportionate to the benefits it has generated;
- **Coherence** – whether requirements are consistent across the board;
- **Added value** – whether the EU level adds more benefits than would have been the case if the requirements were only introduced at the national level.

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[1] For this consultation "companies" mean limited liability companies of the types listed in the accounting Directive, companies that have issued securities on an EU regulated market, and banks or insurance companies including cooperatives and mutual structures.

[2] According to legislation, a series of reviews will have to be performed by the Commission:

- A report on the implementation of Non-Financial Reporting Directive 2014/95/EU, addressing its scope, particularly as regards large non-listed undertakings, its effectiveness and the level of guidance and methods provided.
- A report on the situation of micro-undertakings having regard to the number of micro- companies and the reduction of administrative burdens resulting from the simplifications introduced in 2013.
- A report on the implementation and effectiveness of the Country-By-Country Reporting by extractive and logging industries, including examining the case for an extension of the Country-By-Country reporting to other sectors.
- A report on the 2013 Amendments to the Transparency Directive, considering the impact on small and medium-sized issuers and the application of sanctions.

The Commission published an action plan on financing sustainable growth that builds on the recommendations of the High Level Expert Group (HLEG) on sustainable finance. This fitness check on the EU framework for public reporting by companies is one of the actions announced in the Action plan. Several questions in this fitness check, in particular in the section on non-financial reporting, should be considered also in the context of the HLEG recommendations on sustainability.

The replies to this consultation will feed into a Staff Working Document on the fitness of the EU framework for public reporting by companies, to be published in 2019.

I. Assessing the fitness of the EU public reporting framework overall

Depending on its type, activity or situation, a company has a number of public reporting obligations under EU law. The current EU level public reporting framework considered for this consultation consists of the following:

- Publication of individual and consolidated financial statements in accordance with national GAAP (Generally Accepted Accounting Principles) by any limited liability company established in the EU. By virtue of the Accounting Directive 2013/34/EU Member States must ensure that any company in their jurisdiction with a legal form that limits its liability must prepare financial statements and a management report. These shall be audited / checked by a statutory auditor and published in the relevant business register according to national law that is compliant with this Directive. For companies other than a public-interest entity (bank, insurance company or company with securities listed), EU requirements are proportionate to the company's size.

- Publication of consolidated financial statements in accordance with the International Financial Reporting Standard (IFRS)[3] adopted by the EU and other specific items by any company established in the EU that has securities (e.g. shares, bonds) listed on an EU regulated market by virtue of the IAS Regulation (EC) No 1606/2002, the Transparency Directive 2004/109/EC and the Market Abuse Regulation (EU) No 596/2014. The use of IFRS makes company accounts comparable within the single market and globally. Companies established in third countries may use their national standards (e.g. US GAAP) if these are accepted on the basis of EU equivalence decisions. The Transparency Directive (2004/109/EC) makes the issuers' activities more transparent, thanks to regular publication of yearly and half-yearly financial reports, as well as the publication of major changes in the holding of voting rights and ad hoc inside information which could affect the price of securities. Issuers have to file such information with the national Officially Appointed Mechanisms (OAMs).

- Publication of individual and consolidated financial statements in accordance with sectoral layouts and principles by any bank or insurance company in the EU by virtue of the Bank Accounting Directive (86/635/EEC) and the Insurance Accounting Directive (91/674/EEC). Unless they prepare IFRS financial statements, any bank or insurance company in the EU must publish financial statements in compliance with national accounting rules that are in line with these sectoral Accounting Directives. Specific sectoral rules provide for, inter alia, layouts (balance sheet and Profit and Loss Account) and accounting treatments for e.g. loans, repurchase agreements or technical provisions.

- Publication of non-financial information by any public-interest entity (bank, insurance company or listed company) with more than 500 employees by virtue of Directive 2014/95/EU. The information should be part of the management report, or published in a separate report. Non-binding guidance was issued in 2017 in order to assist companies – Commission Communication C/2017/4234.

[3] Previously known as IAS (international accounting standards).

- Publication of country-by-country reports on payments to governments by any large company that is active in extraction or logging by virtue of Chapter 10 of Accounting Directive 2013/34/EU and Article 6 of Transparency Directive 2004/109/EC. This fosters transparency on payments to governments, including third country governments, made in relation to these activities.

The table below provides an overview of the different objectives of the current EU framework mapped to individual legal instruments in the field of public reporting by companies:

	MAIN OBJECTIVES	OPERATIONAL OBJECTIVES	EU LEGAL INSTRUMENTS[4]				
			AD	IAS	TD	BAD	IAD
▶	**Stakeholder protection**	❖ Shareholder protection ❖ Creditor protection ❖ Depositor protection ❖ Policy holder protection	X X	X	X	 X	 X
▶	**Internal market**	Facilitate: ❖ Cross border investments ❖ Cross border establishment	 X X	 X	 X	 X X	 X X
▶	**Integrated EU capital markets**	Market efficiency: ❖ Access to capital ❖ Capital allocation ❖ Integrated securities market	 X	 X X X	 X X X		
▶	**Financial stability**	❖ Public confidence in company reporting ❖ Trust in the resilience of specific sectors (banking and insurance)	X	X	X	 X	 X
▶	**Sustainability**	❖ Enhanced corporate responsibilities / accountability/ good corporate governance ❖ Empower stakeholders ❖ Foster globally sustainable activities ❖ Foster long term investments ❖ Fight corruption	X X X X X		X X X		

Questions

Assessing the fitness of the EU Public Reporting Framework Overall

1. Do you think that the EU public reporting requirements for companies, taken as a whole, have been **effective** in achieving the intended objectives?

	1	2	3	4	5	Don't know

[4] Accounting Directive (AD); IAS regulation / IFRS (IAS); Transparency Directive (TD); Bank accounts Directive (BAD); Insurance Accounts Directives (IAD)

Ensuring stakeholder protection	☐	☐	☐	☒	☐	☐
Developing the internal market	☐	☐	☐	☒	☐	☐
Promoting integrated EU capital markets	☐	☐	☐	☒	☐	☐
Ensuring financial stability	☐	☐	☒	☐	☐	☐
Promoting sustainability	☐	☐	☐	☐	☐	☒

(1= totally disagree, 2= mostly disagree, 3= partially disagree and partially agree, 4= mostly agree, 5=totally agree)

Please explain your response and substantiate it with evidence or concrete examples.

Ensuring stakeholder protection: the requirement for preparation and audit of financial statements contributes to stakeholder protection.

Developing the internal market/Promoting integrated EU capital markets: International Financial Reporting Standards (IFRS), as one reporting language under the IAS Regulation, has helped in promoting integrated EU capital markets.

Ensuring financial stability: the EU can help to stabilise the financial system by providing structure, but the ultimate result lies in the decisions taken by the stakeholders. EU can help shape those decisions. EU public reporting requirements need to be transparent so that stakeholders are well informed.

Promoting sustainability: Commission's development of the Non-Financial Information (NFI) Directive and Non-Binding Guidelines are a good first step to promote sustainability. However, these are recent additions to the EU regulatory landscape, and it is too early to gauge their effectiveness.
The action plan on Sustainable Finance will also be a catalyst for ensuring that sustainable and inclusive long-term growth are achieved.

2. Do you think that the EU public reporting requirements for companies, taken as a whole, are **relevant** (necessary and appropriate) for achieving the intended objectives?

	1	**2**	**3**	**4**	**5**	**Don't know**
Ensuring stakeholder protection	☐	☐	☐	☒	☐	☐
Developing the internal market	☐	☐	☐	☒	☐	☐
Promoting integrated EU capital markets	☐	☐	☐	☒	☐	☐
Ensuring financial stability	☐	☐	☒	☐	☐	☐
Promoting sustainability	☐	☐	☒	☐	☐	☐

(1= totally disagree, 2= mostly disagree, 3= partially disagree and partially agree, 4= mostly agree, 5=totally agree)

Please explain your response and substantiate it with evidence or concrete examples of any requirement that you think is not relevant.

Ensuring financial stability and promoting sustainability is important. However, these are not the primary objectives of the EU public reporting framework. Reporting is the outcome of these two objectives when better information and transparency are provided by companies.

3. Companies would normally maintain and prepare a level of information that is fit for their own purposes, in a "business as usual situation". Legislation and standards tend to frame this information up to a more demanding level.

	1	2	3	4	5	Don't know
With regards to the objectives pursued, do you think that the EU legislation and standards on public reporting are **efficient** (i.e. costs are proportionate to the benefits generated)	☐	☐	☐	☐	☐	☒

(1= totally disagree, 2= mostly disagree, 3= partially disagree and partially agree, 4= mostly agree, 5 = totally agree)

Please explain your response and substantiate it with evidence or concrete examples of requirements that you consider most burdensome.

It is difficult for Accountancy Europe to express an evidence-based view, hence our above response. In general, our view is that the EU legislation and standards on public reporting are efficient overall.

4. If you are a preparer company, could you please indicate the **annual recurring costs** (in € and in relation to the total operational cost) incurred for the preparation, audit (if any) and publication of mandatory public reporting:

Total amount in Euros
€ ...

Amount as a % of total operating costs
... %

Coherence

As a preparer, user, or person with interest in financial reporting, you may have noticed possible incoherence due to overlaps, repetitions, redundant items, loopholes or inconsistencies in relation with the preparation, publication, access to or use of public reporting by companies.

5. Do you agree that the intrinsic coherence of the EU public reporting framework is fine, having regard to each component of that reporting?

	1	2	3	4	5	Don't know
Financial statements (preparation, audit and publication)	☐	☐	☐	☒	☐	☐
Management report (preparation, consistency check by a statutory auditor, publication) Please do not consider corporate governance statement or non-financial information	☐	☐	☐	☒	☐	☐
Non-financial information (preparation, auditor's check and publication)	☐	☐	☐	☒	☐	☐
Country-by-country reporting by extractive / logging industries (preparation, publication)	☐	☐	☐	☒	☐	☐

(1= totally disagree, 2= mostly disagree, 3= partially disagree and partially agree, 4= mostly agree, 5= totally agree)

Please explain your response and substantiate it with evidence or concrete examples.

We consider the overall intrinsic coherence of the EU public reporting framework to be high. However, it is not always possible or desirable to fully align every piece of regulation or threshold in the Member State transposition, mainly caused by EU Member State options in the respective EU Directives.

- Financial statements – audit: the audit exemption thresholds for small entities differ from one EU Member State to another, see https://www.accountancyeurope.eu/wp-content/uploads/1605_Audit_exemption_thresholds_update.pdf (May 2016, Ireland implemented the Accounting Directive in June 2016 with the highest possible EU audit exemption thresholds for small entities)
- Financial statements – audit: 26 of the 28 EU Member States use the International Standards on Auditing (ISAs) as their national auditing standards, Germany will be the 27th Member State in the foreseeable future following a decision at the beginning of 2018 to adopt the translated ISAs as national standards (ISA-DE)., see https://www.accountancyeurope.eu/wp-content/uploads/MA_ISA_in_Europe_overview_150908_update.pdf (April 2015, Portugal adopted the ISAs subsequently)
- Management report – preparation and publication: can form part of the Annual Report or can be a separate report
- Management report – consistency check: the scope of the auditor's involvement can differ from one Member State to another as well
- Non-financial information – preparation and audit : differ depending on implementation of the Directive in EU Member States, see https://www.accountancyeurope.eu/wp-content/uploads/NFR-Publication-3-May-revision.pdf (April 2018)

It is also observed that there is a level of inconsistency in the overall EU approach over all these areas combined, 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, refer to our work on the Future of Corporate Reporting, which is discussed in further detail in the responses to the questions that follow.

6. Depending on circumstances, a company may have public reporting obligations on top of those being examined here. Such legislation may have been developed at the EU[5], national or regional level. Should you have views on the interplay of these additional reporting obligations with the policies examined in this consultation, please comment below and substantiate it with evidence or concrete examples.

[5] For example, under the Shareholders' Rights Directive 2007/36/EC, companies must publicly announce material transactions with related parties, establish remuneration policy and draw up a remuneration report for the attention of the shareholders, etc. Under the Directive on Capital Requirements for banks (2013/36/EU, Art. 96) banks must maintain a website explaining how they comply with corporate governance requirements, country by country reporting and remuneration requirements. The Solvency II Directive (2009/138/EC) requires Insurance and reinsurance undertakings to publish their Solvency and Financial Condition Report. A prospectus, regulated by the Prospectus Directive (2003/71/EC) and Regulation ((EU) 2017/1129) is a legal document that describes a company's main line of business, its finances and shareholding structure. As regards Market Abuse Directive and Regulation, see specific questions further down.

There is a certain level of overlap between the different (financial, supervisory, prudential) reporting requirements in the EU, and even within the different reporting requirements. We anticipate the results of the exercise undertaken by the Commission, as part of the fitness check on supervisory reporting, to identify possible ways to simplify and streamline supervisory reporting.

Concerning banks, we would like to refer to the Non-Performing Loans (NPLs) topic in this context. The ECB has published both guidance and an addendum for banks on NPLs. The Commission also issued a paper in which they explain how banks should calculate provisions for newly originated loans that turn into NPLs. These guidelines are however not in line with the accounting principles stipulated in IFRS 9 *Financial Instruments* and local GAAP requirements, and as such increase the reporting burden for banks.

Other examples include (slightly) different definitions (for instance in the word 'annually'), different formats and tables, which means often that the same data need to be entered several times by corporates. There is also lack of integrated reporting over these different regimes as well as a lack of digitalisation and integration of digitalisation over the different regimes of reporting.

EU Added value

7. Do you think that, for each respective objective, the EU is the right level to design policies in order to obtain **valuable results**, compared to unilateral and non-coordinated action by each Member State?

	1	2	3	4	5	Don't know
Ensuring stakeholder protection	☐	☐	☐	☐	☒	☐
Developing the internal market	☐	☐	☐	☐	☒	☐
Promoting integrated EU capital markets	☐	☐	☐	☐	☒	☐
Ensuring financial stability	☐	☐	☐	☐	☒	☐
Promoting sustainability	☐	☐	☐	☐	☒	☐

(1= totally disagree, 2= mostly disagree, 3= partially disagree and partially agree, 4= mostly agree, 5= totally agree)

Please explain your response and substantiate it with evidence or concrete examples.

Consistency across Europe, and at a global level, can significantly enhance a level playing field and help ensuring investor and consumer protection which could favourably impact the economy.

Moreover, we believe the EU level is right for major steps forward such as introducing IFRS and non-financial information, and their integration, as well as to address major changes in the level of use of IT technology in reporting.

II. The financial reporting framework applicable to all EU companies

The financial reporting framework for any EU company is broadly shaped by the Accounting Directive. Member States' accounting laws, regulations and standards for the preparation of annual accounts (national GAAP) must incorporate the provisions of the Accounting Directive. The Accounting Directive includes financial statements (balance sheet, profit or loss statement, and notes to the accounts) as well as a management report, depending on the size of the company. Several Member States allow or require the use of IFRS instead of national GAAP for the preparation of annual financial statements. But even when a company prepares financial statements using IFRS, many requirements from the Accounting Directive still apply such as the management report, statutory audit or publication[6].

Companies operating cross-border

Companies often structure their cross-border business activities within the EU by establishing local entities in a host Member State controlled by a parent established in the home Member State. Together they form a group of controlled entities. Even though a group usually acts and is seen as a single economic entity, EU law does not recognise the legal personality of a group. Nevertheless, EU law addresses certain specific group situations, for instance, by requiring the preparation of consolidated financial statements as if the group were a single entity[7], structuring bankruptcy[8] or implementing sectoral regulatory supervision[9].

When doing cross border business, a group usually faces a variety of business, tax and legal environments. These differences tend to hinder the application of consistent policies and procedures within a group and weaken the comparability of financial statements for users.

Some of these differences arise from options or lacunas in the Accounting Directive or the way in which Member States have complemented the minimum European accounting requirements. For example, the Accounting Directive does not address some economically important transactions such as lease contracts, foreign currency transactions, government grants, cash flows statements, income recognition or deferred taxes. These lacunas are addressed by each Member States in their own way.

More recently the Commission has proposed to harmonise the basis for the taxation of corporate profits for certain groups by ways of a proposal for a Directive on a Common Corporate Tax Base (CCTB) (COM(2016)685 final). It also seeks to organise the free flow of non-personal data by ways of a proposal for a Regulation on a framework for the free flow of non-personal data in the European Union (COM(2017)495), which would legally enable centralised storage and processing of the group's non-personal data by removing unjustified data localisation restrictions within the EU.

[6] For further details, see the guidance on Interaction between IFRS reporting and other EU accounting rules available here: https://ec.europa.eu/info/law/international-accounting-standards- regulation-ec-no-1606-2002/implementation/guidance-implementation-and-interpretation-law_en

[7] Accounting Directive 2013/34/EU, IAS Regulation (EC) No 1606/2002

[8] Regulation (EU) 2015/848 on insolvency proceedings

[9] Capital Requirement Directive and Regulation (banks), Solvency Directive (Insurance).

Questions

8. In your view, to what extent do the addition of, and differences in, national reporting rules hinder the ability of companies to do cross border business within the EU single market?

- ❍ Differences seriously hinder the ability to do business within the EU
- ❍ Differences hinder to some extent
- ❍ Differences do not hinder the ability to do business within the EU / are not significant
- ❍ Don't know

Please explain your response and substantiate it with evidence or concrete examples.

Reporting is an essential facilitator for cross-border trade. In practice, there is a need for internationally comparable and harmonised financial statements, particularly for medium sized and large non-listed companies, because of increasing cross border operations, shareholdings, setting up of subsidiaries, mergers and acquisitions involving companies in different Member States.

However, the differences in national reporting rules only slightly hinder the ability of companies to do cross border business within the EU single market. We consider factors such as the language barrier, different tax rules, company law, and insolvency law to be the main sources of impediment for business within the EU. This is especially the case for SMEs.

Refer to our response in question 9 for more detailed information as to which differences cause an impediment to cross border business.

Our comments above relate to non-listed entities. Please refer to section III for information about listed entities.

9. To what extent to you think that the following differences, because they affect public reporting by companies, are significant impediments to cross-border establishment in the EU?

	1	2	3	4	5	Don't know
Areas covered by EU requirements						
Differences and lacunas in accounting standards or principles	☐	☒	☐	☐	☐	☐
Differences in corporate governance standards	☐	☒	☐		☐	☐
Differences and overlaps arising from the presentation of the financial statements (balance sheet, etc.)	☐	☒	☐	☐	☐	☐
Differences arising from publication rules / filing with business registers (publication deadlines, publication channels, specifications)	☐	☒	☐		☐	☐
Differences arising from audit requirements	☐	☒	☐	☐	☐	☐
Differences arising from dividends distribution rules or capital maintenance rules	☐	☒	☐		☐	☐
Areas not covered by EU requirements						
Differences arising from specific bookkeeping requirements such as charts of accounts, audit trail requirements, data storage and accessibility	☐	☒	☐	☐	☐	☐
Differences arising from language requirements (Bookkeeping documentation, publication of financial statements)	☐	☐	☐	☒	☐	☐
Differences arising from the determination of taxable profit	☐	☐	☒	☐	☐	☐

Differences arising from digital filing requirements (for instance taxonomies used)	☐	☐	☐	☒	☐	☐
Differences arising from software specifications	☐	☐	☐	☐	☐	☒
Other (please specify) Differences in Company Law, Insolvency law	☐	☐	☐	☒	☐	☐

(1= totally disagree, 2= mostly disagree, 3= partially disagree and partially agree, 4= mostly agree, 5= totally agree)

Please explain your response and substantiate it with evidence or concrete examples.

The question refers to identifying which impediments are significant to cross-border establishment in the EU. Companies successfully perform cross-border activities even if there are some impediments. Therefore, we do not consider that any of the above will prevent a company from establishing cross border in the EU.

Areas covered by EU requirements (Accounting Directive): we do not have specific evidence that these areas cause significant impediments.

Audit exemption thresholds for small entities differ from one EU Member State to another (refer to question 5), but this is justified by the differences in the size of the economy, entities, frequency of tax inspections, … in EU Member States.

As an audit could potentially enhance the conditions for cross-border business, it could reinforce investor's confidence in the financial information of the entity. It could also build trust to a parent company as to the integrity of the financial statements of its subsidiaries. This is why there is a continued need for an EU requirement for audit for medium-sized and large entities.

Beyond the Accounting Directive, as far as the Audit Directive and Regulation are considered, there are significant difference in the implementation of these reforms in different EU Member States, see https://www.accountancyeurope.eu/wp-content/uploads/Audit-policy-implementation-state-of-play_April-2018-2.pdf.However, there are less and less differences in audit performance requirements as most EU Member States use ISAs as their national auditing standards (refer also to question 5).

Areas not covered by EU requirements:

Differences arising from language requirements can deter cross border establishment because it is costly, especially for smaller entities, if things are different in different Member States. See our response to question 10 as well (second paragraph).

Differences arising from the determination of taxable profit:

It is more likely that the tax regime offered (which includes both the income tax rates and determination of taxable profit) has far more consequences when deciding on a permanent establishment, rather than considering only the diverse ways of determining taxable profit in EU Member States.

Differences in software specifications:

We selected "Don't know" as we are not certain to which software specification the question refers to.

Differences in Company Law:

There are different detailed national rules in company law between Member States. This deters entities from pursuing new opportunities.

We acknowledge that the Commission put forward proposals in the Company Law to tackle these issues. The proposal to assist entities to move across borders outlines common procedures at the EU level on how a company can shift from one EU country to another, merge or divide into two or more new companies across borders. The new rules will also safeguard employees' rights.

Differences in Insolvency law:
Currently, EU business insolvency proceedings differ across EU Member States. Although we do not consider this as a primary impediment to cross-border activities, it is an area which could be more convergent across Europe. Having fewer differences in EU business insolvency and restructuring proceedings will help viable companies in financial distress to restructure on time. This can also increase legal certainty to companies (especially SMEs), their stakeholders like suppliers and employees, as well as investors encouraging cross-borders activities.

10. How do you evaluate the impact of any hindrances to cross border business on costs relating to public reporting by companies?

- ❍ The impact of hindrances on costs are negligible or not significant
- ❍ The impact of hindrances on costs are somehow significant
- ❍ The impact of hindrances on costs are very significant
- ❍ Don't know

Please explain your response and substantiate it with evidence or concrete examples.

As a representative of the accountancy profession, Accountancy Europe does not have evidence on the impact of hindrances to cross border business on costs relating to public reporting by companies.

However, if we were to provide our view, we expect the cost to be relatively more significant for smaller entities compared to larger entities. For instance, for a smaller SME it will be relatively costlier to learn the local rules of another country than for a large multinational company.

11. On top of differences in national accounting rules, national tax laws will usually require the submission of a tax return in compliance with self-standing national tax rules, adding another layer of reporting standard.

	1	2	3	4	5	Don't know
Once a Common Corporate Tax Base is adopted at the EU level, would you consider that the profit before tax reported in the Profit or Loss statement and the determination of the taxable profit should be further aligned across EU Member States?	☐	☒	☐	☐	☐	☐

(1= totally disagree, 2= mostly disagree, 3= partially disagree and partially agree, 4= mostly agree, 5 = totally agree)

Please explain your response and substantiate it with evidence or concrete examples.

We interpret this question as asking:

- Whether there should be greater convergence between financial reporting and tax reporting, or vice versa
- Whether CCTB would result in more convergence in the tax reporting requirements between Member States

- Even after adoption of the CCTB, could national tax reporting be further converged
    - By improvements to the CCTB
    - By other alignment of Member States tax reporting

<u>Convergence of financial reporting and tax reporting</u>
Financial reporting and tax reporting have different objectives so complete convergence between the two is neither possible nor desirable – not least because financial reporting is based around the recognition of both realised and unrealised gains and losses whereas tax reporting is primarily based around realised gains and losses.
<u>Convergence through the CCTB</u>
If the CCTB was widely adopted across the EU (i.e. voluntarily adopted by companies that have turnover less than €750 million per annum) it would reduce the variances in tax reporting quite considerably. Effectively, it introduces its own tax reporting framework as a 'tax profit or loss account' which is built from scratch and does not use financial profit before tax as a starting point. The proposals contain relatively few options – these being:

- Art 4 – Member States have the option to allow a tax deduction for gifts\donations to charity
- Art 19.2 – Companies have the option to use FIFO, LIFO and weighted-average stock valuation methods
- Art 24 – Member States have the option to allow the deduction of pension payments

The Member State options in the CCTB would increase the complexity in compliance for cross-border businesses and may also influence businesses where to locate their establishments. Presumably the options exist because Member States were unable to agree a harmonised treatment, so it will be difficult to remove these options in the future.

<u>Convergence through other means</u>
The specific tax reporting rules vary considerably across the EU. Such variances add to the administrative burden of setting up a permanent establishment in other Member States but the tax regime of a Member State (including incentives) has more influence on the place of establishment than tax reporting requirements.

Even if the options in the CCTB were to be removed, there would still be variances in national tax reporting rules to deal with national tax specificities – such as national tax incentives and anti-avoidance provisions. These variances could only be removed by harmonising national tax rules, which is not feasible given differing fiscal requirements amongst Member States and the fact that direct tax law is a national competency.

12. As regards the <u>preparation of consolidated and individual financial statements</u> how do you assess the ability of the following approaches to reduce barriers to doing business cross-borders?

	1	2	3	4	5	Don't know
The EU should reduce the variability of standards from one Member State to another through more converged national GAAPs, possibly by removing options currently available in the EU accounting legislation	☐	☐	☒	☐	☐	☐
The EU should reduce the variability of standards from one Member State to another by converging national GAAPs on the basis of a European Conceptual Framework	☒	☐	☐	☐	☐	☐

The EU should reduce the variability of standards from one Member State to another by converging national GAAPs and in addition by addressing current lacunas in the Accounting Directive (leases, deferred taxes, etc.)	☐	☐	☒	☐	☐	☐
The EU should reduce the variability of standards from one Member State to another by establishing a "pan-EU GAAP" available to any company that belongs to a group. Such "pan-EU GAAP" may be the IFRS, IFRS for SMEs, or another standard commonly agreed at the EU level	☐	☐	☒	☐	☐	☐
Do nothing (status quo)	☒	☐	☐	☐	☐	☐
Other (please specify)	☐	☐	☐	☐	☐	☐

1= totally disagree, 2= mostly disagree, 3= partially disagree and partially agree, 4= mostly agree, 5 = totally agree)

Please explain your response and substantiate it with evidence or concrete examples.

As mentioned in questions 8-9, differences in reporting rules may hinder cross-border business, but only to a limited extent - hence our ranking of 3 for boxes 1,3 and 5. We provide below solutions to help reduce such barriers but do not consider reducing the variability of standards for unlisted entities from one Member State to another to be a priority for the Commission.

Removing options currently available in the EU accounting legislation
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.
- Once these obstacles are tackled, we favour harmonisation of accounting principles and thus the reduction of options currently available in the EU accounting legislation.

Addressing current lacunas in the Accounting Directive
If the Commission decides to address current lacunas then it should consider a cash flow statement for non-financial institutions, treatment of leases, disclosures on intangibles and disclosure requirements regarding dividend distribution and policies and risks.

Converging national GAAPs based on a European Conceptual Framework
We do not agree with converging national GAAPs on the basis of a European Conceptual Framework. Such a framework would create fragmentation, gradually leading to the overall abolishment of global standards in Europe.

Pan-EU GAAP
In case the Commission proposes a "pan-EU GAAP" then the starting point could be IFRS for SMEs. This standard is simpler to apply than full IFRS and it is already used at a global level. There are criticisms that the purpose of the IFRS for SMEs has not yet been clearly established by the IASB. (it is still seen as too complicated for small entities). As such, the Commission should work together with the IASB to improve any shortcomings before endorsing the standard.

IFRS
The global character of IFRS improves the quality, comparability and reliability of financial information. These benefits are crucial for the EU in remaining competitive and attracting foreign investment and for retaining confidence in the European financial markets.

1. We are convinced IFRS must stay as the reporting language for the consolidated financial statements of listed companies in the EU.
2. Listed entities that do not have subsidiaries, and thus do not prepare consolidated financial statements, are not currently required to prepare their individual financial statements under IFRS even though their equity and/or debt is publicly traded. Accountancy Europe suggests

that the scope of the IAS Regulation should be updated to require such entities to report their individual financial statements under IFRS.

3. For all other entities, the option to use IFRS should be granted by the EU at a company level, not only at a Member State level.
4. All non-listed entities should be allowed, if they so wish, to use IFRS for the preparation of their consolidated and individual financial statements. This would be beneficial if the entity seeks to go public in the future. This could also lead to a reduction in the reporting and auditability burden for subsidiaries of groups which report under IFRS. We acknowledge that such a change interrelates with taxation rules, company law and dividends distribution rules in certain countries, but this will provide the opportunity to companies which have international ambitions to be transparent and provide relevant information to a greater audience.

13. As regards the publication of individual financial statements, the Accounting Directive (Article 37) allows any Member State to exempt the subsidiaries of a group from the **publication of their individual financial statements** if certain conditions are met (inter alia, the parent must declare that it guarantees the commitments of the subsidiary). Would you see a need for the extension of such exemption from a Member State option to an EU wide company option?

❍ Yes
❍ No
❍ Don't know

Please explain your response and substantiate it with evidence or concrete examples.

There is a need for transparency which is wider than just for users/investors, but also for (local) stakeholders like employees, suppliers, … of a local subsidiary.

See also our reply to question 36 (section of Bank Accounts Directive). We are not in favour of exempting subsidiaries which are themselves public interest entities (PIEs) from publication, as a PIE is a company which is held to higher transparency requirements.

SMEs

Since 2016, EU law requires small companies to prepare and publish **only** a balance sheet, a profit or loss statement and a few notes, thanks to the harmonisation agreed at the EU level. Each Member State may fine-tune this regime as regards the level of detail in the balance sheet or profit and loss, and as regards the need for an audit or for a management report. In addition Member State can simplify even further the regime of micro companies and bring it down to only a super simplified balance sheet, a super simplified profit or loss statement and lightweight publication regime. The Member States have used these possibilities to varying extents. The Commission has commissioned a consortium led by the Centre for European Policy Studies (CEPS) to conduct a study on the accounting regime of micro companies with limited liability (FISMA/2017/046/B)). These simplifications are not available to banks, insurance companies or listed companies which are considered as public-interest entities.

Questions

14. Do you agree that the EU approach is striking the right balance between preparers' costs and users' needs, considering the following types of companies?

	1	2	3	4	5	Don't know
Medium-sized	☐	☐	☐	☒	☐	☐
Small	☐	☐	☐	☒	☐	☐

Micro	☐	☐	☐	☒	☐	☐

(1= totally disagree, 2= mostly disagree, 3= partially disagree and partially agree, 4= mostly agree, 5 = totally agree)

Please explain your response and substantiate it with evidence or concrete examples.

We believe that companies need to prepare a certain minimum of information to manage their business: this does not necessarily mean full accounts. The current requirements for small and medium-sized companies to prepare and publish a balance sheet, a profit or loss statement and a few notes demonstrates that the requirements for these entities are not excessively burdensome, especially as many businesses use accounting software that can produce these statements automatically.

As accurate financial accounting is essential for the long-term health of SMEs, further reporting simplifications could have long term damage on European SMEs. Rather, attention should be directed towards other burdens on SMEs, such as complicated direct and indirect tax rules and unnecessary paperwork requests issued by government departments.

15. EU laws usually define size categories of companies (micro, small, medium-sized or large) according to financial thresholds. Yet definitions may vary across EU pieces of legislation. For instance, the metrics of size-criteria for a micro-company in the Accounting Directive (for the financial statements) differ from those in the Commission Recommendation 2003/361/EC (Commission Recommendation of 6 May 2003 concerning the definition of micro, small and medium-sized enterprises (for the support by certain EU business-support programmes). For instance, the turnover may not exceed €700,000 for micro-companies in the Directive whereas it may not exceed €2,000,000 in the Recommendation.)

	1	2	3	4	5	Don't know
In general, should the EU strive to use a single definition and unified metrics to identify SMEs across all the EU policy areas?	☐	☒	☐	☐	☐	☐
In particular, should the EU strive to align the SME definition metrics in the Accounting Directive with those in Recommendation 2003/361/EC?	☐	☒	☐	☐	☐	☐

(1= totally disagree, 2= mostly disagree, 3= partially disagree and partially agree, 4= mostly agree, 5 = totally agree)

Please explain your response and substantiate it with evidence or concrete examples.

Single definition and unified metrics to identify SMEs across all the EU policy areas

Different EU legislation might have different objectives and a one-size criterion applicable for all policy areas might hinder achieving these different objectives. Before going in such direction, the Commission should provide more transparency by comprehensively explaining where and which thresholds are used throughout the EU policies and with what consequences.

Moreover, the extent to which the thresholds are implemented by Member States largely depends on the size of the national economy, the size of companies and the significance of audited financial statements to third parties (for example taxation authorities).

Before any change is made, a regulatory impact assessment is needed to assess the impact on individual countries, on significant stakeholders within these countries and important economic sectors.

Align the SME definition metrics in the Accounting Directive with those in Recommendation

2003/361/EC

Accountancy Europe responded to the Commission's *2018 consultation on the review of the SME definition* (https://www.accountancyeurope.eu/wp-content/uploads/180504-Commission-consultation-response-on-the-revision-of-the-SME-definition.pdf). In our response we noted that the categorisation of micro-sized, small-sized and medium-sized enterprises is appropriate. As such, the EU should not strive to align the SME definition metrics in the Accounting Directive with those in Recommendation 2003/361/EC.

However, we invite the Commission to reflect on whether a more qualitative and relevant approach to company categorisation might be more appropriate in the long term. Characteristics such as the complexity of a business model, the impact to society, the scope of a company should be considered because of the rapid evolution of business models, digitalisation and globalisation.

Relevance of the content of financial reporting

A company's financial statement, together with the management report and related documents (corporate governance report, non-financial information) aim to provide a reliable picture of a company's performance and financial position at the reporting date. However, certain users argue that financial statements give only an image of the (recent) past and lack forward-looking information (see for instance Conference Shaping the future of corporate reporting, panel 5 – Matching expectations with propositions, investors' views). The financial statements may also fail to provide a complete picture of the long term value creation, business model, cash flows (non-IFRS financial statements) and internally generated intangible assets (See for instance expert group's report on Intellectual Property Valuation, 2013). There is also only scarce information required at the EU level on dividend distribution policies and risks (see for instance the UK FRC Lab). The search for other sources of information to remedy this situation may increase costs for users and undermine the level playing field.

Questions

16. How do you think that the current EU framework as regards the content of financial reporting is relevant (necessary and appropriate), having regards to the following information:

	1	2	3	4	5	Don't know
A company's or group's strategy, business model, value creation	☒	☐	☐	☐	☐	☐
A company's or group's intangible assets, including goodwill, irrespective of whether these appear on the balance sheet or not	☐	☒	☐	☐	☐	☐
A company's or group's policies and risks on dividends, including amounts available for distribution	☐	☒	☐	☐	☐	☐
A company's or group's cash flows	☐	☒	☐	☐	☐	☐

(1= totally disagree, 2= mostly disagree, 3= partially disagree and partially agree, 4= mostly agree, 5 = totally agree)

Please explain, including if in your view additional financial information should be provided:

- **Strategy, business model, value creation:** A good understanding of the strategy, the business model and the long-term value creation would help users understand the context in which they should interpret the more detailed information. In 2015 Accountancy Europe published the Cogito paper *The Future of Corporate Reporting – creating the dynamics for change* (https://www.accountancyeurope.eu/wp-content/uploads/FEECogitoPaper_-_TheFutureofCorporateReporting.pdf). It puts forward a new presentation approach to corporate reporting, the 'Core & More' concept. We also further clarified the Core & More concept in our September 2017 paper *Core and More: an opportunity for smarter corporate reporting* (https://www.accountancyeurope.eu/wp-content/uploads/170918-Publication-Core-More.pdf). The Core report would include the information needed to obtain a fair understanding of the key elements of the organisation's affairs. We suggested to include the business model and strategy in this Core report amongst other topics. The Core report could also help explain how an organisation's resources are creating value. This additional information would be helpful in the context of IFRS accounts.

- **Intangible assets:** Internally generated intangible assets and other intangible items which do not meet the recognition criteria (i.e. unrecognised intangible assets) could be disclosed in the notes to the financial statements. The disclosure of those unrecognised intangible assets, in both IFRS and non-IFRS financial statements, could improve the understanding of the company's situation.
- **Policies and risks on dividends:** The current disclosure requirements are too limited concerning dividend distribution policies and risks. This applies to both IFRS and non-IFRS accounts.
- **Cash-flows:** This important information is indeed missing in (non-IFRS) financial statements.

17. Is there any other information that you would find useful but which is not currently published by companies?

❍ Yes
❍ No
❍ Don't know

If you answered yes, please explain what additional information you would find useful:

- Operating performance indicators (in the context of IFRS preparers): They are also indicators of long term value creation. Some specific examples of such indicators include for example the number of trademarks registered, customer loyalty, customer satisfaction scores and employee motivation. Companies are in the best position to determine which operating performance indicators are most relevant to disclose considering their activities/ sector.
- Viability statement (concerning IFRS accounts): The Commission could explore the potential benefits of such statement in view of its sustainable finance agenda (https://www.frc.org.uk/getattachment/76e21dee-2be2-415f-b326-932e8a3fc1e6/Risk-and-Viability-Reporting.pdf).

Financial statements often contain alternative performance measures[10] such as the EBITDA.

	1	2	3	4	5	Don't know
18. Do you think that the EU framework should define and require the disclosure of the most commonly used alternative performance measures?	☒	☐	☐	☐	☐	☐

(1= totally disagree, 2= mostly disagree, 3= partially disagree and partially agree, 4= mostly agree, 5 = totally agree)

Please explain your response and substantiate it with evidence or concrete examples.

[10] An APM is a financial measure of historical or future financial performance, financial position, or cash flows, other than a financial measure defined or specified in the applicable financial reporting framework

The Commission should not define alternative performance measures (APMs) for companies. This should be dealt with by the IASB for listed entities and IFRS reporters. We also refer to our response to the European Securities and Markets Authority (ESMA) in relation to its 2014 consultation on APMs(https://www.accountancyeurope.eu/wp-content/uploads/Maijoor_140513_ESMA_APMs.pdf), where we make analogous comments.

Stakeholders would benefit from higher quality, less voluminous financial reporting addressing what is relevant, considering a specific reporting entity. It is therefore important that entities focus on disclosing relevant entity-specific information instead of following a rules-based check-the-box exercise resulting in boilerplate disclosures.

It is true, though, that the flexibility that companies have in terms of disclosing APMs often leads to reduced comparability. It is therefore useful that preparers have some guidance on how APMs can be fairly presented in the financial statements. Organisations such as ESMA, the International Organisation of Securities Commissions (IOSCO) and various national regulators have already released guidance on how APMs should be presented by entities. Preparers should be encouraged to review such guidance.

We also note that the IASB is currently examining the use of additional subtotals in the statement(s) of financial performance and providing guidance on the presentation of management performance measures in the project 'Primary Financial statements' (Discussion Paper or Exposure Draft expected first half of 2019). We encourage the EU to follow closely the IASB's work in this area.

III. The EU financial reporting framework for listed companies

The IAS Regulation and International Financial Reporting Standards (IFRS)

The IAS Regulation adopted in 2005 made the use of IFRS mandatory for the consolidated accounts of listed companies. The Commission Evaluation of the IAS Regulation in 2015[11] found that the use of IFRS had led to greater transparency and comparability of financial reporting within the single market, but that complexity had increased. It also concluded that the use of IFRS in the EU has significantly increased the credibility of IFRS and its use worldwide.

However, the current level of commitment to IFRS by third country jurisdictions differs significantly. Very few of the major capital markets and large jurisdictions have made the use of IFRS as issued by the IASB mandatory[12]. As a result, the level of global convergence achieved is sub-optimal compared to the initial objective on global use.

Before becoming EU law IFRSs have to be endorsed to ensure that they meet certain technical criteria, are not contrary to the true and fair view principle, and are conducive to the European public good[13]. The current endorsement process prevents the Union from modifying the content of the standards issued by the IASB. Some stakeholders, as mentioned in the final report of the High-Level Expert Group (HLEG)[14], are concerned that this lack of flexibility would prevent the EU from reacting if these standards were to pose an obstacle to broader EU policy goals such as long-term investments and sustainability.

The IASB is addressing the complexity of the standards and the volume of disclosure requirements as part of its "Better Communication" project[15]. In addition, the Commission will continue to monitor progress on IASB commitment to improve disclosure, usability and accessibility of IFRS (see the Communication on the Mid-Term Review of the Capital markets Union Action Plan[16]). This initiative is one of the actions set in motion by the Commission in order to make it easier for companies to enter and raise capital on public markets, notably on SME Growth Markets[17].

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[11] http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex:52015DC0301

[12] As per the Pocket guide to IFRS standards 2017 published by the IFRS Foundation: Very few of the major capital markets and large jurisdictions require the use of IFRS as issued by the IASB. Some allow the use of IFRS by any listed company, or restrict the option to third country issuers. Many others have transposed IFRS into national GAAP which then become "substantially converged" with IFRS issued by the IASB. Several jurisdictions require IFRS as issued by the IASB albeit often relabelled as national GAAP

[13] The IAS Regulation does not define the criterion "European public good". As a result the Commission has so far followed a pragmatic approach that allows identification of key matters of concern on a case by case basis: https://ec.europa.eu/info/system/files/2016-06-27-european- public-good_en.pdf

[14] https://ec.europa.eu/info/publications/180131-sustainable-finance-report_en

[15] http://www.ifrs.org/projects/better-communication/

[16] https://ec.europa.eu/transparency/regdoc/rep/1/2017/EN/COM-2017-292-F1-EN-MAIN-PART- 1.PDF

[17] https://ec.europa.eu/info/sites/info/files/2017-barriers-listing-smes-consultation-document_en.pdf

Questions

19. Given the different levels of commitment to require IFRS as issued by the IASB around the globe, is it still appropriate that the IAS Regulation prevents the Commission from modifying the content of IFRS?

❍ **Yes**
❍ No, due to the risk of uneven level playing field for EU companies vis-à-vis companies established in third countries that do not require the use of IFRS as issued by the IASB.
❍ No, due to the risk that specific EU needs may not properly be addressed during the IASB standard setting process.
❍ No, due to other reasons.
❍ Don't know

If you answered "No, due to other reasons ", please specify.

20. Since the adoption of IFRS by the EU in 2005, topics such as sustainability and long-term investment have come to the forefront of the regulatory agenda. Is the EU endorsement process appropriate to ensure that IFRS do not pose an obstacle to broader EU policy objectives such as sustainability and long-term investments?

❍ **Yes**
❍ No
❍ Don't know

If you answered "No", please explain your position

21. How could the EU ensure that IFRS do not pose an obstacle to sustainability and long-term investments:

❍ By retaining the power to modify the IFRS standards in well-defined circumstances;
❍ By making explicit in the EU regulatory framework that in order to endorse IFRS that are conducive to the European public good, sustainability and long term investment must be considered;
❍ **Other**
❍ Don't know

Please specify in what other ways could the EU ensure that IFRS do not pose an obstacle to sustainability and long-term investments:

Towards sustainability and long-term Investment
Sustainability and long-term investment are of prime importance to the EU economy. Consequently, we welcome 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 both embedding sustainability factors in corporate reporting and changing short-termism in financial behaviour.
While we recognise the legitimacy and relevance of the concerns regarding the attractiveness of long-term investments, we need to better assess whether additional changes to IFRS would solve these concerns. Other factors such as investor's behaviour or regulatory barriers may drive the lack of attractiveness.
The B20 Forum investigated the effect of fair value accounting principles to long-term investments (http://integratedreporting.org/wp-content/uploads/2014/06/unlocking-investment-in-infrastructure.pdf). The findings show that investors, when making decisions, focus more on the underlying features and risks of investment opportunities. The report concludes that changes to accounting principles would not increase the attractiveness of long-term investments.
There has been a recent study by the Climate Disclosure Standards Board (CDSB) Uncharted

waters: How can companies use financial accounting standards to deliver on the Task Force on Climate related Financial Disclosures' recommendations? (https://www.cdsb.net/sites/default/files/uncharted_waters_final.pdf) which identifies how some IFRS and related guidance issued by the IASB could help in the reporting of numerous parts of the Task Force on Climate-related Disclosures (TCFD). The survey demonstrates that IFRS are not a direct obstacle to sustainability.
Therefore, more evidence is required to validate the argument that IFRS pose an obstacle to sustainability and long-term investments. Indeed, the purpose of IFRS is not to incentivise or disincentivise sustainability and long-term investments. Financial reporting provides users of financial statements with information on what is currently happening.

Endorsement criteria and suggestions
We do not support changing the existing endorsement process. We reiterate our concerns noted in our position paper 'Sustainable Finance: The accountancy profession's contributions to EU strategy' (https://www.accountancyeurope.eu/wp-content/uploads/1803-Sustainable-finance_final_WEB.pdf). If the EU endorsement process changes (adopting IFRS only if they consider sustainability and long-term investment objectives):
This approach would not focus on first holistically improving non-financial information and financial information reporting.

Such a change, by adding endorsement criteria, would be premature at a time where a priority should be given to consolidating the Maystadt reform.

Instead, we suggest explicitly requiring EFRAG to evaluate sustainability and long-term investments when considering the 'European public good' criterion for specific standards.

Furthermore, the growing and pressing demand from stakeholders to have a better understanding of a company's longer-term value drivers, including the impact on the environment and society, necessitates a rethink of intangible assets which are often not recognised in the balance sheet. Considering the sustainability and long-term investment objectives is a global concern and as such merits a global solution. We therefore recommend EFRAG to continue working with the IASB to improve the presentation and disclosure of financial statements as well as providing better information on intangible assets amongst others. This will ensure that the IASB helps investors make appropriate investment decisions considering sustainability and long-term factors.

22. The True and Fair view principle should be understood in the light of the general accounting principles set out in the Accounting Directive[18]. By requiring that, in order to be endorsed, any IFRS should not to be contrary to the true and fair view principle, a link has been established between IFRS and the Accounting Directive. However, the principle of true and fair view is not laid down in great detail in the Accounting Directive, nor is it underpinned by e.g. a European Conceptual Framework that would translate these principles into more concrete accounting concepts such as recognition and measurement, measurement of performance, prudence, etc. Do you think that an EU conceptual framework should underpin the IFRS endorsement process?

- Yes
- **No**
- Don't know

If you answered "No", please explain your position:

We acknowledge that it is difficult to define at a European level (and at a global level) the 'true and fair view' principle. However, we do not consider that a European Conceptual Framework should

[18] According to the Accounting Regulatory Committee (ARC), its application nonetheless should be guided by the general accounting principles set out in the Accounting Directive (https://ec.europa.eu/info/system/files/2016-06-27-true-and-fair-view_en.pdf

underpin the IFRS endorsement process. Such an EU conceptual framework would diminish Europe's influence on the standards-setter and its global standing.

Instead, we are in favor of endorsing the IASB Conceptual Framework (see our response to Question 23).

23. The EU has not endorsed the IASB Conceptual Framework for Financial Reporting. The conceptual framework is a set of concepts used to develop IFRSs but can also be helpful in interpreting how IFRS standards have to be understood and applied in specific circumstances. This could enhance a common application of IFRSs within the EU.

	1	2	3	4	5	Don't know
Should the EU endorse the IASB Conceptual Framework for Financial Reporting?	☐	☐	☐	☐	☒	☐

(1= totally disagree, 2= mostly disagree, 3= partially disagree and partially agree, 4= mostly agree, 5 = totally agree)

Please explain your response and substantiate it with evidence or concrete examples.

We recommend endorsement of the IASB Conceptual Framework ('The Framework'), even if there might be some practical challenges with endorsing it.

- The Framework is an important document as it is the conceptual basis developed by the IASB and helps solve several 'horizontal' issues among different Standards.
- The Framework serves as a guide for preparers of financial statements in selecting accounting policies and developing new ones when no IFRS Standard applies to a specific transaction. In addition, it might help to resolve issues when the specific guidance do not provide sufficient direction under the IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* hierarchy. Certain standards also refer to the Framework.
- Furthermore, the Framework helps users of financial statements and other constituents (including the external auditors) to better understand and comprehend the principles of IFRS.
- The EU endorsement of the Framework could contribute to a more consistent application of IFRS across the EU.

However, 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 individual IFRS Standards, covering specific accounting topics, having priority over the 'general' principles covered in the Framework. Additionally, the Framework should only be used in the context of IFRS.

24. Contrary to the Accounting Directives the EU endorsed IFRSs do not require companies to present financial information using a prescribed (minimum) lay-out for the balance sheet and income statement. Mandatory use of minimum layouts could enhance comparability of human readable financial statements[19].

[19] Electronic structured data reporting based on the IFRS taxonomy have an implicit layout as relationships between elements for which amounts shall be presented are defined.

Do you agree with the following statement?

	1	2	3	4	5	Don't know
Prescribed (minimum) layouts enhance comparability of financial statements for users and should therefore be introduced for companies using IFRS.	☒	☐	☐	☐	☐	☐

(1= totally disagree, 2= mostly disagree, 3= partially disagree and partially agree, 4= mostly agree, 5 = totally agree)

Please explain your response and substantiate it with evidence or concrete examples.

The layout of the financial statements should remain flexible, taking into account the minimum requirements stipulated in IAS 1 *Presentation of financial statements* (endorsed by the EU), to allow entities to present their financial position and performance in the most transparent and accurate way based on the applicable facts and circumstances. In addition, the appropriate layout depends on the type of the information being disclosed and on entity-specific sectors, therefore providing prescribed layouts more than the minimum would be inappropriate. We also would like to highlight that the IASB started a project to revise IAS 1.

Moreover, detailed requirements should not be introduced to avoid potential inconsistency with future accounting developments. Reporting is indeed continuously developing. The Directive should therefore be high level in nature to allow for such developments and not form an impediment to either the use of IFRS or IFRS for SMEs.

Transparency Directive

The Transparency Directive requires issuers of securities traded on regulated markets within the EU to ensure appropriate transparency through a regular flow of information to the markets. The Transparency Directive was last amended in 2013 in order:

a. To reduce the administrative burden on smaller issuers and promote long-term investment by abolishing the requirement to publish quarterly financial reports and,
b. To strengthen investor protection by improving the efficiency of the disclosure regime of major holdings of voting rights, particularly regarding voting rights held through derivatives.

Questions:

25. Do you agree that the Transparency Directive requirements are **effective** in meeting the following objectives, notably in light of increased integration of EU securities markets?

Objectives	1	2	3	4	5	Don't know
Protect investors	☐	☐	☒	☐	☐	☐
Contribute to integrated EU capital markets	☐	☐	☐	☒	☐	☐
Facilitate cross border investments	☐	☐	☐	☐	☒	☐

(1= totally disagree, 2= mostly disagree, 3= partially disagree and partially agree, 4= mostly agree, 5 = totally agree)

Please explain your response and substantiate it with evidence or concrete examples.

26. Do you agree that abolishing the quarterly reporting requirement in 2013 by issuers contributed to the following?

	1	2	3	4	5	Don't know
Reducing administrative burden, notably for SMEs	☐	☐	☐	☒	☐	☐
Promoting long-term investment (i.e. discouraging the culture of short-termism on financial markets).	☐	☐	☒	☐	☐	☐
Promoting long-term and sustainable value creation and corporate strategies	☐	☐	☒	☐	☐	☐
Maintaining an adequate level of transparency in the market and investors' protection	☐	☐	☐	☒	☐	☐

(1= totally disagree, 2= mostly disagree, 3= partially disagree and partially agree, 4= mostly agree, 5 = totally agree)

Please explain your response and substantiate it with evidence or concrete examples.

Reducing administrative burden, notably for SMEs

Removing quarterly reports undoubtedly reduced the administrative and compliance burden.

Promoting long-term investment, long-term and sustainable value creation and corporate strategies

The CFA Institute Research Foundation published a study in 2017 which examined the impact on corporate behaviour of the U.K. removing the requirement for quarterly reporting in 2014 (https://www.cfapubs.org/doi/pdf/10.2470/rfbr.v3.n1.1). The study concluded that there no evidence that abolishing quarterly reports reduced a short-termism in companies.

We concur with the results of this study but believe that abolishing quarterly reports allows companies to focus on what information better meets the needs of their stakeholders, instead of considering reporting as a compliance exercise. This also helps to promote long-term and sustainable value creation. An outstanding example of a large company that has benefited from abolishing quarterly reporting is Generali (see https://sway.com/RFYK9Mgrgj9zOVax?ref=Link for General's example in the United Kingdom's Financial Reporting Council Lab (the ''UK FRC Lab'') blog post). This insurance company argues that it now concentrates on reporting the most important events and strategic key performance indicators (KPIs).

Maintaining an adequate level of transparency in the market and investors' protection

We would argue that investors use the financial statements for its confirmatory value. They receive relevant and timely information elsewhere, i.e. through announcements in the company's website, insightful information in reporting of key metrics and trends, etc. Removing quarterly reporting does not prevent a company from providing enhanced relevant disclosures, therefore an adequate level of transparency is maintained.

We also do not have any evidence that abolishing quarterly reporting has resulted in loss of investor's protection.

27. Do you consider that the notifications of major holdings of voting rights in their current form is **effective** in achieving the following?

	1	2	3	4	5	Don't know
Strengthening investor protection	☐	☐	☐	☒	☐	☐
Preventing possible market abuse situations	☐	☐	☐	☒	☐	☐

(1= totally disagree, 2= mostly disagree, 3= partially disagree and partially agree, 4= mostly agree, 5 = totally agree)

Please explain your response and substantiate it with evidence or concrete examples.

As a general rule, we would expect that providing more information on voting rights is conducive to better protection of investors and prevention of potential market abuse.

It is our understanding that the Commission will look into revised rules on shareholder and voting rights. Such revisions would, hopefully, require further details on the persons behind the parties holding voting rights – starting with identifying these persons. This would accomplish the above listed objectives even more effectively. The upcoming revisions should also ensure that they include sufficient provisions to deal with complex schemes that give temporary, deferred or potential access to voting rights and cause corresponding risks of dilution (e.g. use of derivatives on shares, equity swaps, total return swaps, lending of voting rights, etc).

Having said that, a more proportionate approach on possible future stricter requirements for smaller listed companies should be considered. This is particularly pertinent for requirements concerning insider lists.

28. Do you agree that the disclosure and notification regime of major holdings of voting rights in the Transparency Directive is overall **coherent** with the following EU legislation?

	1	2	3	4	5	Don't know
Coherent with EU company law	☐	☐	☐	☐	☐	☒
Coherent with the shareholders' rights directive	☐	☐	☐	☐	☐	☒
Coherent with the obligation to disclose managers' transactions under Article 19 of the Market Abuse Regulation[20]	☐	☐	☐	☐	☐	☒
Coherent with other EU legislation – please specify	☐	☐	☐	☐	☐	☒

(1= totally disagree, 2= mostly disagree, 3= partially disagree and partially agree, 4= mostly agree, 5= totally agree)

Please explain your response and substantiate it with evidence or examples.

The meaning of the word "coherent" in this context remains obscure. Moreover, the comparison in the table above ranges from broader legislation such as company law, all the way down to more specific pieces of legislation such as shareholder rights. The levels, areas and details between these different types of legislation are too different to enable any meaningful comparison.

29. As regards the following areas, did you identify a lack of coherence of legislation from one Member State to another that could jeopardize to some extent the objectives of investor protection, integrated capital markets and cross-border investment?

- Yearly and half-yearly financial information
- On-going information on major holdings of voting rights
- Ad hoc information disclosed pursuant to the Market Abuse Directive☐Administrative sanctions and measures in case of breaches of the Transparency Directive requirements

☒Don't know / no opinion / not relevant

Please explain your response and substantiate it with evidence or concrete examples.

Accountancy Europe does not have such comparative information.

30. Should anything be done to improve public reporting by listed companies (documents, information, frequency, access, harmonisation, simplification)? Should anything be done to improve public reporting by listed companies (documents, information, frequency, access, harmonisation, simplification)?

We have identified three areas where public reporting by companies could be improved.

Presenting corporate reporting in a smarter way

Public reporting by listed companies should evolve in a way that will keep pace with the developing economic reality and address the needs of their stakeholders. None of the reports currently available can address these needs in a single standalone report. Financial statements alone cannot present a comprehensive picture of the company's affairs, while on the other hand non-financial reporting alone cannot depict a company's financial performance, position and return to investors. In an effort to address these limitations, Accountancy Europe has developed a presentation concept, Core & More (see (https://www.accountancyeurope.eu/wp-content/uploads/FEECogitoPaper_-

[20] Article 19(3) of MAR sets out the following disclosure obligations: The issuer (…) shall ensure that the information [on transactions carried out by managers or persons closely associated to the managers] is made public promptly and no later than three business days after the transaction in manner which enables fast access to this information on a non-discriminatory basis

_FutureofCorporateReporting.pdf)), aimed at organizing different strands of reporting in a structured yet connected manner. The Core report would be an 'executive report' focusing on the most relevant and material information about the company, directed towards the widest of audiences. Most of the Core, together with selected More reports or parts thereof, would likely comply with the legal reporting requirements as currently fulfilled by the annual report. Please refer to our 2017 paper *Core & More an opportunity for smarter corporate reporting* (https://www.accountancyeurope.eu/wp-content/uploads/170918-Publication-Core-More.pdf) for more detailed information.

Enhance the coordination of non-financial information initiatives and frameworks

The overwhelming number of existing disconnected non-financial information reporting frameworks complicates coherent, consistent, and comparable wider corporate reporting, and increases the reporting burden for companies (e.g. 'Country-by-country reporting by extractive and logging industries': benefits outweigh the costs? (see also response to question 51)). The different standard setting bodies and initiatives should coordinate their efforts to streamline existing reporting frameworks addressing similar pieces of non-financial information, with support from the regulatory community.

The final step should aim at developing a single global framework for non-financial information reporting. In the longer run, one party should take firm ownership of the development of this much-needed framework which will help improve public reporting by listed companies. We refer to our *Call for action: Enhance the coordination of non-financial information initiatives and frameworks* (https://www.accountancyeurope.eu/wp-content/uploads/170918-Call-for-action-letter.pdf) for more information.

Audit of information

The audit profession has a role to play in helping to ensure that companies report data that is reliable, complete and supported by appropriate evidence – with the objective to provide trust and confidence for users.

Apart for the current requirement for listed entities to perform an audit on their financial statements, we also see merit in gradually moving from checking existence (as prescribed in the NFI Directive) to some form of assurance on non-financial information required by law. This is also supported by investors who are calling for expansion of assurance for non-financial information, as indicated in a 2018 CFA Institute member survey report on Audit Value, Quality, and Priorities (see https://www.cfainstitute.org/en/research/survey-reports/audit-value-quality-priorities-survey-report).

IV. The EU financial reporting framework for banks and insurance companies

Bank Accounts Directive (BAD)

All banks (credit institutions) and groups of banks established in the EU - irrespective of their legal form - have to prepare and publish annual financial statements in order to achieve comparability of financial statements. Member State accounting laws, regulations and standards for the preparation of banks' financial statements must incorporate EU law on bank accounting: the Bank Accounts Directive (BAD) adopted in 1986.

Following the endorsement of IFRS by the EU in 2002 all large banks, accounting for more than 65% of total European banking assets, are obliged to use EU endorsed IFRS for their consolidated financial statements. In addition to the mandatory use of IFRS for the consolidated accounts by listed banks, 15 Member States currently *require* IFRS for the consolidated accounts of non-listed banks and 12 Member States *require* IFRS for the individual accounts of non-listed banks instead of national GAAP[21].

The use of IFRS has reduced the relevance of the Bank Accounts Directive for achieving harmonised financial statements. The BAD has also lost relevance over time as it has not been updated to include more recent accounting treatments, for example on expected credit losses, (operational) leases or revenues from digital business models.

Harmonising banks' financial statements is not only important for the comparability of banks' financial statements. Bank prudential requirements and capital ratios are based on accounting values. Differences between national GAAPs or between national GAAPs and IFRS lead to different prudential outcomes, which hamper the comparability of capital ratios.

Questions

31. Do you agree with the following statements:

	1	2	3	4	5	Don't know
The BAD is still sufficiently **effective** to meet the objective of comparability	☒	☐	☐	☐	☐	☐
The BAD is still sufficiently **relevant** (necessary and appropriate) to meet the objective of comparability	☒	☐	☐	☐	☐	☐
The costs associated with the BAD are still **proportionate** to the benefits it has generated	☐	☐	☐	☐	☐	☒
The current EU legislative public reporting framework for banks is sufficiently **coherent**	☐	☐	☒	☐	☐	☐

[21] See for more details the table on page 64 of the Staff Working Document on the evaluation on the IAS Regulation http://eur-lex.europa.eu/legal- content/EN/TXT/PDF/?uri=CELEX:52015SC0120&from=EN

(1= totally disagree, 2= mostly disagree, 3= partially disagree and partially agree, 4= mostly agree, 5= totally agree)

Please explain your response and substantiate it with evidence or concrete examples.

- Effectiveness/ relevance: We believe that the effectiveness and relevance of the BAD has been reduced due to the introduction of IFRS. On top of that, the BAD (from 1986!) has never been updated to cover more recent accounting treatments.
- Cost/benefit analysis (i.e. efficiency): We unfortunately do not have evidence to respond to this question.
- Coherence: There is no conflict within the current EU legislative public reporting framework for banks, mainly due to the fact that the BAD is providing rather high-level guidance with a lot of options. On the other hand, it would be good that the BAD refers to IFRS in view of a more coherent EU legislative public reporting framework for banks.

32. Do you agree with the following statement:

	1	2	3	4	5	Don't know
The BAD could be suppressed and replaced by a *requirement* for all EU banks to use IFRS	☐	☐	☒	☐	☐	☐

(1= totally disagree, 2= mostly disagree, 3= partially disagree and partially agree, 4= mostly agree, 5 = totally agree)

Please explain your response and substantiate it with evidence or examples.

We suggest the following for banks:

- Listed entities: *Mandatory* IFRS for the consolidated financial statements as well as for the individual financial statements of banks without subsidiaries
- For the individual parent and for unlisted entities: *Allowing* IFRS for both the consolidated and individual financial statements (see also Question 35)

There are a lot of benefits linked to the use of IFRS by banks, for example the FINREP reporting is also based on IFRS figures. There are however some concerns around the extensive IFRS disclosure requirements. More proportionate IFRS disclosure requirements could be a potential solution for this issue, especially for smaller banks.

It is also important that the EU influences global standard setting in a proactive way (i.e. before a final Standard is issued by the IASB) considering the proposed extensive use of IFRS in the EU.

33. Do you think that the objective of comparability of financial statements of banks using national GAAP could be improved by including accounting treatments in the BAD for:

- Expected Credit risk provisioning ❍ **Yes**
- Leases ❍ **Yes**
- Intangible assets ❍ **Yes**
- Derivatives ❍ **Yes**
- Other, please specify: **See text box**

Please explain your response and substantiate it with evidence or examples.

Firstly, it would be helpful to have some clarification around the notion 'by including accounting treatments in the BAD' in the question. In any case, we would not support including some kind of EU IFRS 'modifications' in the BAD (e.g. on IFRS 9 *Financial Instruments*). If the BAD was to be updated to include guidance on those topics, it should as far as possible use the same guidance as found in the IFRSs - at least for the preparation of the consolidated financial statements under IFRS as adopted by the EU.

We believe that accounting treatments on the below topics might be useful as well in the context of banks:

- Distinction between debt and equity instruments
- Classification/measurement of financial instruments

34. Do you agree with the following statement:

	~~1~~	~~2~~	~~3~~	~~4~~	~~5~~	~~Don't know~~
~~The current **number of options** in the BAD may hamper the comparability of financial statements and prudential ratios~~	~~☐~~	~~☐~~	~~☐~~	~~☐~~	~~☐~~	~~☐~~

(1= totally disagree, 2= mostly disagree, 3= partially disagree and partially agree, 4= mostly agree, 5= totally agree)

Please explain your response and substantiate it with evidence or concrete examples.

35. Do you agree with the following statements:

	1	2	3	4	5	Don't know
Mandatory use of national GAAPs for the preparation of individual financial statements of bank subsidiaries reduces the efficiency of preparing consolidated financial statements	☐	☐	☐	☐	☒	☐
Allowing the use of IFRS for the preparation of individual financial statements by (cross border) banking subsidiaries, subject to consolidated supervision, would increase efficiency	☐	☐	☐	☐	☒	☐

(1= totally disagree, 2= mostly disagree, 3= partially disagree and partially agree, 4= mostly agree, 5 = totally agree)

Please explain your response and substantiate it with evidence or concrete examples.

We agree that allowing a company option for IFRS for the preparation of individual financial statements by banking subsidiaries would increase efficiency amongst other benefits (see also question 32).

36. Do you agree with the following statement:

	1	2	3	4	5	Don't know
Cross border bank subsidiaries of an EU parent should be allowed *not to publish* individual financial statements subject to (1) being included in the consolidated financial statements of the group, (2) consolidated supervision and (3) the parent guaranteeing all liabilities and commitments of the cross border subsidiary?	☒	☐	☐	☐	☐	☐

(1= totally disagree, 2= mostly disagree, 3= partially disagree and partially agree, 4= mostly agree, 5= totally agree)

Please explain your response and substantiate it with evidence or concrete examples.

We believe that banks, including cross border bank subsidiaries of an EU parent, should always publish individual financial statements in view of transparency considering they are PIEs (Public Interest Entities) and also as it concerns a regulated industry.

Insurance Accounting Directive (IAD)

The Directive on the annual and consolidated accounts of insurance undertakings was adopted in 1991 in order to set a common European Framework consistent with the Accounting Directive. Where applicable, its scope includes the statutory accounts, which implies a strong interplay with National Legal Frameworks pertaining to insurance contract obligations, dividend distribution, taxation and prudential requirements applicable to small entities outside the scope of the Solvency II Directive.

Unlike in the banking sector where prudential requirements and ratios are based on accounting values, the Solvency II Directive applicable from 2016 includes dedicated measurement principles and public disclosure requirements independent from accounting standards.

IFRS17 "insurance contracts" was issued by the IASB in May 2017 and should apply from 2021 onwards to the consolidated financial statements of listed companies (and to other companies depending on Member States options). In the context of the European endorsement process of IFRS 17, consultations have highlighted concerns that some provisions of IFRS17 might contradict the Insurance Accounting Directive and that the interaction between IFRS 17 and Solvency II public disclosure requirements may duplicate information.

Overall depending on Member States' use of options, the European accounting and prudential framework requires listed insurance groups to prepare multiple sets of financial statements[22]. This possibility of overlaps between the various pieces of legislation potentially affects their relevance, efficiency and consistency.

<u>Questions</u>

37. Do you agree with the following statements:

[22] Statutory accounts as per National GAAPs, Solvency and Financial Condition Report under the Solvency II Directive and IFRS financial statements for consolidation purpose

	1	2	3	4	5	Don 't know
The Insurance Accounting Directive meets the objective of comparable financial statements within the European insurance industry (the Insurance Accounting Directive is **effective**)	☐	☒	☐	☐	☐	☐
The Insurance Accounting Directive is still sufficiently **relevant** (necessary and appropriate) to meet the objective of comparable financial statements	☐	☒	☐	☐	☐	☐
The costs associated with the Insurance Accounting Directive are still proportionate to the benefits it has generated (the Insurance Accounting Directive is **efficient**)	☐	☐	☐	☐	☐	☒

(1= totally disagree, 2= mostly disagree, 3= partially disagree and partially agree, 4= mostly agree, 5 = totally agree)

Please explain your response and substantiate it with evidence or concrete examples.

Objective of relevance and comparability of the Insurance Accounting Directive (IAD)

When the IAD was adopted in 1991 to set a common European Framework consistent with the Accounting Directive, it granted various Member States options for the annual and consolidated accounts of insurance undertakings. These Member States options impair the objective of comparable financial statements.

For insurers whose financial statements are subject to the requirements of IAD, we have identified several areas which show that the IAD is not sufficient to achieve comparability. For example:

- It is not possible to make direct and easy comparisons (necessity to go into the notes).
- For what pertains to valuation criteria, the IAD grants different options to Member States that resulted in a variety of accounting practices – in particular for the calculation of technical provisions.
- The IAD also allows Member State options such as the prohibition of deferral of acquisition costs (Article 18); presentation of reinsurance amounts (Article 24(3)); presentation of unearned premiums in respect of life insurance (Article 25); valuation of investments (Article 46t(1)).
- The requirements of Article 59 ('on the basis of recognised actuarial methods') are not sufficient to ensure a comparable calculation of the 'life assurance provision'. The implementation of Solvency II has exacerbated this issue with some insurers continuing to use methods based on the Solvency I Directive with others seeking to use approaches more aligned with Solvency II.
- The IAD permits, but does not require, the discount of general insurance outstanding claims subject to certain conditions being met.

To partially mitigate the impaired comparability of the primary financial statements, the IAD requires additional disclosures in the notes e.g. at the point of time when the IAD was published, it was the first directive that required comparability of investment account both on historic cost and fair value basis.

It is fair to say that we should also consider the needs of the users that companies try to respond to when considering whether the application of the requirements of the IAD will be appropriate to attain comparability of financial statements. For instance, in some countries non-listed national companies are mainly locally active and do not consider it a priority to meet the principle of comparability. The adverse applies for a listed insurance undertaking that borrows from various

European capital markets; in those cases, IFRS applies for the consolidated accounts, which are mostly relevant to investors.

Even where the IAD is sufficiently prescriptive to ensure comparability of those financial statements subject to it, there may still be a question as to whether its requirements remain relevant. For example, some may question the appropriateness of prohibiting the discounting of general insurance claims provisions not meeting the conditions set out in Article 60(1)(g).

Costs associated with the IAD

As a representative of the accountancy profession and not as preparers, Accountancy Europe does not have insights in the costs of implementing and maintaining operationally the current accounting frame nor the benefits generated since the IAD was issued and adopted by Member States.

What we could contemplate is that all one-off costs linked with the implementation have been fully amortised, considering that the Directive is now 27 years old. We expect remaining costs to be remote, but it has to be maintained in addition to other costs to fulfil tax and regulatory obligations.

Arguably a change of the IAD and consequential changes in national laws may cause costs and side effects on company law, tax law, supervisory law, contract law and individual insurance contracts.

38. Do you agree with the followingstatements?

	1	2	3	4	5	Don't know
There are contradicting requirements between the IAD and IFRS17 which prevent Member States from electing IFRS17 for statutory and consolidated accounts	☐	☐	☒	☐	☐	☐
The Insurance Accounting Directive should be harmonized with the Solvency II Framework	☐	☒	☐	☐	☐	☐
The Insurance Accounting Directive should be harmonized with the IFRS 17 Standard	☐	☐	☐	☐	☐	☒
Preparers should be allowed to elect for a European-wide option to apply Solvency II valuation principles in their financial statements	☒	☐	☐	☐	☐	☐

(1= totally disagree, 2= mostly disagree, 3= partially disagree and partially agree, 4= mostly agree, 5 = totally agree)

Please explain your response and substantiate it with evidence or examples.

Contradicting requirements between the IAD and IFRS 17

This first question is not capable of a single interpretation. We are not clear whether the question is asking:

- if it is possible to apply the IFRS 17 and be compliant with the IAD, or
- if because of contradicting requirements between the two frameworks a company cannot apply IFRS 17.

From a pure technical point of view, there are a few features of the IFRS 17 accounting model that should be addressed vis-a-vis the IAD, that should not be confused as contradictory elements. Some of the differences noted are the following:

- Profit and Loss (P&L) presentation: IAD- Written premiums as topline, IFRS 17- Revenue defined as an income measure without investment component
- Valuation of assets: IAD- Cost or fair value, IFRS- Fair value
- Valuation of insurance provisions: IAD- Discounted or not, calculation contract by contract, implicit risk adjustment, inclusion of margins in assumptions drives profit recognition, IFRS- Discounted, explicit risk adjustment, Contractual Service Margin (CSM)
- Unbundling components of contracts is possible under the IAD but required under IFRS

Overall, it can be noted that some of the abovementioned concepts are new to the IAD (i.e. CSM), others are present in some forms within the optionality granted to Member States. As such, one could argue that no real significant contradictory elements emerged.

Conversely, one could claim that there is a reason that companies do not choose to report under IFRS, i.e. each framework serves a different purpose and there are inconsistencies between the two, reason why IFRS is not applied for statutory accounts in most of the member states.

IAD alignment with Solvency II

There may be efficiencies to be gained in aligning the requirements, but we do not consider that the IAD should be harmonised with Solvency II. Solvency II is a special purpose framework for supervisors whereas the IAD is a general-purpose accounting and reporting framework with different objectives, like tax and legal purposes and dividend distribution.

Moreover, Solvency II does not include a performance statement with mechanism to spread profits according to services provided. Adopting Solvency II as an accounting basis without specifying a profit recognition basis could lead to a significant acceleration of the recognition of profits compared to current accounting. It would require the development of an alternative approach to determine distributable profits to ensure capital maintenance.

In addition, the Solvency II framework mandates the use of IFRS (where IFRS use a fair value) for all items except for technical provisions, for which specific guidance on the calculation of Risk Adjustment and Best estimate of Liability is prescribed. Therefore, harmonisation of IAD with Solvency II would eliminate the need to prepare two sets of accounts that follow different principles.

Harmonizing IAD with the IFRS 17

The process of the endorsement of IFRS 17 for use in the EU is ongoing and this process may highlight the pros and cons of the use of this standard for accounting for insurance activities in the EU. As such it would be appropriate to defer any consideration of the alignment of the IAD with IFRS 17 until that endorsement process is complete.

We believe that IFRS 17:

- Will greatly enhance comparability
- Does not imply extra burden since all EU insurers can leverage the investments made in the adoption of Solvency 2.

- It might imply the elimination of maintaining several accounting frames that would ultimately result in additional benefits.

However, even if IFRS 17 is endorsed for use in financial statements prepared in accordance with IFRS as adopted in the EU, this would not necessarily mean that it would be proportionate to mandate its use in the accounts of insurers prepared under national GAAP. This is because IFRS 17 is a complex standard with extensive requirements. Also, we acknowledge that the cross-border angle is not pertinent for all EU companies. We therefore accept that national GAAP should be continued.

When the assessment is complete, we will be better placed to determine to what extent the IAD should be updated or not, whether IFRS 17 should be mandated (and to which set of financial statements and to which type of insurance entity), or whether it should be referred to in IAD only as an additional company option, or as a Member State option.

Electing a European-wide option to apply Solvency II valuation principles in the financial statements of insurance undertakings

Solvency II is a special purpose framework for prudential supervisory purposes without any profit recognition, so how could insurers be allowed to apply Solvency II valuation principles in their financial statements? This optionality would result in additional diversity in practice, undermining the overall objective of comparability.

39. Do you think that the current prudential public disclosure requirements and general public disclosure requirements applicable to insurance and reinsurance undertakings are **consistent** with each other?

	1	2	3	4	5	Don't know
For European insurance and reinsurance companies under the scope of the mandatory application of IFRS according to the IAS regulation	☐	☐	☐	☒	☐	☐
For European insurance and reinsurance companies required to apply IFRS according to Member States options	☐	☐	☒	☐	☐	☐
For European insurance and reinsurance companies not required to apply the IFRS Standards	☐	☐	☒	☐	☐	☐

(1= totally disagree, 2= mostly disagree, 3= partially disagree and partially agree, 4= mostly agree, 5 = totally agree)

Please explain your response and substantiate it with evidence or examples.

We understand or assume that with the current prudential public disclosure requirements the Commission refers to Solvency II (and Solvency and Financial Condition Reporting (SFCR)) and that the general public disclosure requirements relate to financial reporting disclosure requirements or GAAP.

The current prudential public disclosure requirements are not meant to be consistent to the general public disclosure requirements applicable to insurance and reinsurance undertakings. Therefore, it is not a matter of consistency per se but rather alignment.

Most data included in SFCR is required to be prepared on a Solvency II basis – this may not be aligned with the accounting basis both in respect of the recognition or measurement requirements that apply or the level of granularity (e.g. lines of business) at which the data is required to be prepared. Only a minority of the information contained in Solvency II's public reporting is aligned with the accounting basis (subject to deposit accounting not being permitted).

Financial reporting may also require risk disclosures that are not necessarily aligned with the Solvency II basis. However, we believe that this is rather the case because of requirements or implementations of the IAD within Member States than because of IAD requirements themselves.

The nature of the information required to be disclosed in the Solvency II SFCR is thus not fully aligned with that required to be disclosed under GAAP.

We provide a ranking of 4 for companies which report under IFRS because they are required to disclose information about the effect of the regulatory frameworks in which they operate (IFRS 17, paragraph 126). By disclosing such information, a user is made aware of any inconsistencies between the two frameworks. Whereas, under national GAAP such information is not required.

V. Non-financial reporting framework

Non-Financial Reporting Directive

Directive 2014/95/EU on disclosure of non-financial Information and diversity information (the NFI Directive) requires around 6.000 large companies with more than 500 employees listed on EU regulated markets or operating in the banking or insurance sectors to disclose relevant environmental and social information in their management report. The directive also requires the large listed companies to make a statement about their diversity policy in relation to the composition of their boards. The first reports have to be published in 2018 regarding financial year 2017. In addition to the NFI Directive, the Commission adopted guidelines in June 2017 to help companies disclose relevant non-financial information in a consistent and more comparable manner. The Commission is required to submit a review report on the effectiveness of the Directive by December 2018.

Questions

40. The impact assessment for the NFI Directive identified the quality and quantity of non- financial information disclosed by companies as relevant issues, and pointed at the insufficient diversity of boards leading to insufficient challenging of senior management decisions. Do you think that these issues are still **relevant**?

	1	2	3	4	5	Don't know
The quality and quantity of non-financial information disclosed by companies remain relevant issues.	☐	☐	☐	☒	☐	☐
The diversity of boards, and boards' willingness and ability to challenge to senior management decisions, remain relevant issues.	☐	☐	☐	☒	☐	☐

(1= totally disagree, 2= mostly disagree, 3= partially disagree and partially agree, 4= mostly agree, 5= totally agree)

Please explain your response and substantiate it with evidence or concrete examples.

Quality and quantity of non-financial information

The NFI Directive has been a valuable first step in improving the quality and quantity of non-financial information but they still remain relevant issues, not least because insufficient time has elapsed since national transposition to assess its impact.
Current surveys on non-financial information disclosures show that non-financial information reporting is improving, however is not yet as robust and coherent as could be expected. EY survey on the importance of non-financial information to investors (see *https://www.ey.com/Publication/vwLUAssets/EY_-_Nonfinancial_performance_may_influence_investors/%24FILE/ey-nonfinancial-performance-may-influence-investors.pdf*), survey of FSR-Danish auditors survey on listed companies (see *https://www.fsr.dk/-/media/Files/Faglig%20viden/CSR/Artikler%20og%20notater/Analysis%20-%20Danish%20listed%20companies%20reporting%20on%20CSR%20-%20FSR%20-%20Danish%20Auditors%202017.ashx?la=da*) and KPMG surveys on corporate responsibility reporting (see *http://www.ey.com/Publication/vwLUAssets/EY_-_Nonfinancial_performance_may_influence_investors/$FILE/ey-nonfinancial-performance-may-influence-investors.pdf)* provide further valuable insights into non-financial information reporting state of play.

General comment on both issues: quantity/quality of information and diversity of Boards
We expect that the NFI Directive will bring some improvement to both of these areas, but such improvements will be a gradual process. Hence, we believe both remain relevant issues today. As there has only been one reporting cycle since the NFI Directive was transposed in most countries, it is still too early to accurately assess the impact of the NFI Directive on the quality and quantity of non-financial information and of the diversity of Boards.

41. Do you think that the NFI Directive's disclosure framework is **effective** in achieving the following objectives?

	1	2	3	4	5	Don't know
Enhancing companies' performance through better assessment and greater integration of non-financial risks and opportunities into their business strategies and	☐	☐	☒	☐	☐	☐
Enhancing companies' accountability, for example with respect to the social and environmental impact of their	☐	☐	☒	☐	☐	☐
Enhancing the efficiency of capital markets by helping investors to integrate material non-financial information into their investment decisions.	☐	☒	☐	☐	☐	☐
Increasing diversity on companies' boards and countering insufficient challenge to senior management decisions	☐	☒	☐	☐	☐	☐
Improving the gender balance of company boards	☐	☒	☐	☐	☐	☐

(1= totally disagree, 2= mostly disagree, 3= partially disagree and partially agree, 4= mostly agree, 5 = totally agree)

Please explain your response and substantiate it with evidence or concrete examples.

As already explained in our response to Question 40, with only one reporting cycle since transposition, it is very difficult to accurately gauge the NFI Directive's effectiveness in these areas and to provide evidence to support our views. This is particularly the case regarding questions of consistency, which can only be accurately assessed with time.

Overall, we believe that the NFI Directive is a positive first step in addressing the issues raised above and has helped raise awareness of them in certain countries. Reporting such issues undoubtedly raises them in the public's awareness and helps lead to change but this process is slow.

It is possible to speed up the impact of reporting by other legislation – most recently illustrated by the requirement in the UK for companies with more than 250 employees to publish their gender pay gap. Making it a legal requirement to disclose information of this nature and having a centralised database where companies' performance can easily be compared, has heightened the public debate on how to deal with the issue than the introduction of more general corporate governance requirements.

Even so, it should be appreciated that it will take considerable time for the public debate to result in significant changes in practice, as dealing with environmental and diversity issues, for example, require significant structural changes within a business.

42. Do you think that the NFI Directive's current disclosure framework is **effective** in providing non-

financial information that is:

	1	2	3	4	5	Don't know
Material	☐	☐	☒	☐	☐	☐
Balanced	☐	☒	☐	☐	☐	☐
Accurate	☐	☒	☐	☐	☐	☐
Timely	☐	☐	☒	☐	☐	☐
Comparable between companies	☐	☐	☒	☐	☐	☐
Comparable over time	☐	☐	☒	☐	☐	☐

(1= totally disagree, 2= mostly disagree, 3= partially disagree and partially agree, 4= mostly agree, 5 = totally agree)

Please explain your response and substantiate it with evidence or concrete examples.

General comment

We believe that there will be an increasing appreciation of the value of integrating financial and non-financial information. This will inevitably lead to increased effectiveness in such areas as materiality, accuracy and comparability, not least because of the greater regulatory maturity that cover the reporting and audit of financial information. Two thirds of investors indicate that having independent verification is important and can significantly improve credibility of the company's reporting processes in the eyes of all stakeholders. This importance has been noted, for example, by the London Stock Exchange, which has issued guidance on Environmental, Social & Governance (ESG) reporting (https://www.lseg.com/sites/default/files/content/images/Green_Finance/ESG/2018/February/LSEG_ESG_report_January_2018.pdf).

Material and balanced information

We believe that the NFI Directive is a good starting point to improve non-financial information reporting in all of these aspects and that improvements will be seen in the future.

Having balanced disclosures is important to reflect a company's true performance. Investors also ask for non-financial information tailored to specific audiences; having a boilerplate list of ESG indicators is no longer sufficient.

Such reporting takes time to reach maturity. Although Denmark has a long tradition of sustainability reporting, a recent survey by FSR-Danish Auditors (link above) notes that:

- while companies are providing relevant KPIs, only 23% companies refer to an assessment of materiality in the reports
- only 38% refer to accounting policies describing the sources and methods applied to calculate KPIs
- only 43% clearly define what parts/subsidiaries/points of operation and activities of the company are comprised or not by the reporting

Accuracy of information

Currently, independent assurance on non-financial information is not mandatory across the EU (except, in Italy and France). Companies that implement independent assurance on their non-financial information reports usually have better reporting practices and this increases accuracy of the reported information. According to EY's survey (link in Question 40) 42% of investors participating in the survey lack non-financial information which is consistent, available or verified by an independent assurance service provider.
However, it has been reported that NFI Directive has resulted in a greater awareness of the businesses affected that non-financial information must be accurate. This is especially the case when such information is disclosed in the management report.

Timeliness of information
As with the accuracy of information, inclusion of non-financial information in the management report increases the timeliness of reporting. However, many Member States currently permit the non-financial report to be presented separately up to six months after the balance sheet date, with the annual financial statements often prepared much sooner.

Comparability of information
The NFI Directive is very high-level and provides considerable flexibility in disclosures, which has an adverse effect on the balance of information presented and the comparability of such information between companies, even within the same sector. Investors do not consider non-financial information in their decision-making process mainly because the information is unavailable for comparison with other companies.
Furthermore, as we noted in our response to Question 30, the large number of existing uncoordinated non-financial information reporting frameworks reduces consistency and comparability of the information disclosed (for further information please see https://www.accountancyeurope.eu/wp-content/uploads/170918-Call-for-action-letter.pdf).
In respect of the comparability of non-financial information reporting over time, we believe that it is too early to be able to assess the effectiveness of the NFI Directive as we are limited to one reporting cycle for most Member States.

43. Do you agree with the followingstatement?

	1	2	3	4	5	Don't know
The current EU non-financial reporting framework is sufficiently **coherent** (consistent across the different EU and national requirements)?	☐	☐	☒	☐	☐	☐

(1= totally disagree, 2= mostly disagree, 3= partially disagree and partially agree, 4= mostly agree, 5= totally agree)

Please explain your response and substantiate it with evidence or concrete examples.

After the implementation of the NFI Directive, all Member States have minimum requirements for non-financial reporting. Some countries already had sustainability requirements in place, for example, Denmark have mandatory sustainability reporting from 2009 and France since 2002.

Transposition of the NFI Directive at national level has been relatively coherent. However, most Member States went for the minimum requirements laid down in the NFI Directive on transposition because the NFI Directive allows so much flexibility. This has led to a lack of coherence across the EU (particularly in respect of reporting frameworks) for the reporting company.

There is also a lack of coherence in respect of scope because most Member States rely on their existing definitions of public interest entities established under the transposition of the 2013 Accounting Directive – with the notable exceptions of Greece and Denmark.

Where the non-financial information is to be presented is also not consistent, with approximately one third of countries went for the NFI Directive's default position that the report should be contained in the Management report.

For further detailed information on Member State implementation of the NFI Directive please consult the following publication https://www.accountancyeurope.eu/wp-content/uploads/NFR-Publication-3-May-revision.pdf.

We are aware that some cross-border companies have found divergent transposition between Member States to be burdensome and confusion does exist on the national application of certain provisions of the NFI Directive, including those relating to independent verification.

44. Do you agree with the following statement?

	1	**2**	**3**	**4**	**5**	**Don't know**
The costs of disclosure under the NFI Directive disclosure framework are proportionate to the benefits it generates	☐	☐	☐	☐	☐	☒

(1= totally disagree, 2= mostly disagree, 3= partially disagree and partially agree, 4= mostly agree, 5=totally agree)

Please explain your response and substantiate it with evidence or concrete examples.

We do not have evidence-based information on the costs. However, we provide some general observations below.

In this context, we are considering the benefits in relation to all stakeholders, not just from the viewpoint of the reporting company.

Many businesses affected by the NFI Directive already disclose information consistent with the requirements of the NFI Directive. Additionally, the NFI Directive permits proportionate disclosure depending on the materiality of the issues in question. Consequently, the costs of disclosure vary considerably between jurisdictions and between companies.

We believe that the changes in corporate behaviour that result from making such disclosures will provide societal and economic benefits that far outweigh the costs of implementation.

45. Do you agree with the following statement?

	1	2	3	4	5	Don't know
The scope of application of the NFI Directive (i.e. limited to large public interest entities[23]) is appropriate	☐	☒	☐	☐	☐	☐

(1= Far too narrow, 2= Too narrow, 3= about right, 4= too broad, 5 = way too broad)

Please explain your response and substantiate it with evidence or concrete examples.

We believe that the current scope of the NFI Directive, limited to PIEs, is too restrictive as it excludes some very large companies that are not publicly listed. Non-financial reporting for these large private enterprises may well be more relevant than for some of the companies within the current scope.

Under the current scope, there are also some financial institutions that are not covered. Given the current emphasis on sustainable finance, we propose that all large financial institutions (for instance fund managers, pension funds) should be obliged to provide the same level of non-financial information as their equivalent PIE competitor.

46. It has been argued that the NFI Directive could indirectly increase the reporting burden for SMEs, as a result of larger companies requiring additional non-financial information from their suppliers.

	1	2	3	4	5	Don't know
Do you agree that SMEs are required to collect and report substantially more data to larger companies as a result of the NFI directive?	☐	☒	☐	☐	☐	☐

(1= totally disagree, 2= mostly disagree, 3= partially disagree and partially agree, 4= mostly agree, 5= totally agree)

Please explain your response and substantiate it with evidence or concrete examples.

We have seen a move towards SMEs having to report on non-financial information matters because they are part of a supply chain for larger entities, but this has been a result of other initiatives – for example, as part of public sector procurement procedures. We have not seen any evidence that the NFI Directive has directly lead to an increased reporting burden but, in any event, it is likely to take some time for the impacts of the NFI Directive to disseminate down to the supply chain.

That being said, it is worth mentioning that Greece, when implementing the NFI Directive, expanded the scope: companies with over 10 employees, net turnover over Euro 700 000 or balance sheet total over Euro 350 000 must provide information on environmental performance and employee matters.

47. Do you agree with the following statement?

	1	2	3	4	5	Don't know

[23] "Public-interest entities" means listed companies, banks, insurance companies and companies designated by Member States as public-interest entities

The non-binding Guidelines on Non- Financial Reporting issued by the Commission in 2017 help to improve the quality of disclosure	☐	☐	☒	☐	☐	☐

(1= totally disagree, 2= mostly disagree, 3= partially disagree and partially agree, 4= mostly agree, 5 = totally agree)

Please explain your response and substantiate it with evidence or concrete examples.

We believe that the non-binding guidelines are a useful step towards improving comprehension of the requirements of the NFI Directive. However, their nature as 'non-binding' has reduced the impact that they could have had.

We have seen little evidence that they are being widely used. For instance, Denmark has a history of sustainability reporting since 2009. The national guidelines were developed to help companies comply with these requirements and are currently being used in preference to the non-binding guidelines, despite the Commission's guidelines being superior in certain respects. This could be explained by national guidelines being perceived as more relevant to the companies based in the country, but also leads us to question how effectively the Commission's non-binding guidelines have been publicised and promoted to the companies affected.

Relevance of the non-binding guidelines might be increased through more practical guidance which explains our high scores for question 48 (which offers no comment opportunity).

48. The Commission action plan on financing sustainable growth includes an action to revise the 2017 Guidelines on Non-Financial Reporting to provide further guidance to companies on the disclosure of climate related information, building on the FSB TCFD recommendations. The action plan also states that the guidelines will be further amended regarding disclosures on other sustainability factors. Which other sustainability factors should be considered for amended guidance as a priority?

	1	**2**	**3**	**4**	**5**	**Don't know**
Environment (in addition to climate change already included in the Action Plan)	☐	☐	☐	☐	☒	☐
Social and Employee matters	☐	☐	☐	☐	☒	☐
Respect for human rights	☐	☐	☐	☐	☒	☐
Anti-corruption and bribery	☐	☐	☐	☐	☒	☐

(1= totally disagree, 2= mostly disagree, 3= partially disagree and partially agree, 4= mostly agree, 5 = totally agree)

49. ~~If you are a preparer company, could you please estimate the **increased cost** of compliance with national laws on non-financial disclosure that were adopted or amended following the adoption of the NFI Directive in 2014, compared to annual non-financial disclosure costs incurred before the adoption of the NFI Directive?~~

	~~Total amount in Euros~~	~~Amount as a % of total operating costs~~
~~One-off costs of reporting for the first time~~		
~~Estimated recurring costs~~		

50. How would you assess, overall, the impact of the NFI Directive disclosure framework on the

competitiveness of the reporting EU companies compared to companies in other countries and regions of the world?

- ❍ Very positive impact on competitiveness
- ❍ Somewhat positive impact on competitiveness
- ❍ No significant impact on competitiveness
- ❍ Somewhat negative impact on competitiveness
- ❍ Very negative impact on competitiveness
- ❍ Don't know

Please explain your response and substantiate it with evidence or concrete examples.

It will take some time for the full impact of the NFI Directive on the EU's competitiveness to become apparent and, at this time, we believe that it is too soon to accurately assess the impact.

That being said, we believe companies adopting non-financial reporting for the first time will inevitably suffer costs in implementing reporting systems and may not see an immediate benefit from doing so. Indeed, it is possible that reporting of certain information may have short-term negative impacts on the reporting company.

In the long-term, however, we believe that the impact of the NFI Directive on the competitiveness of EU business is likely to be positive. It will encourage EU businesses to build improved risk management resilience into their business models, promote the development of innovative products and thereby give EU businesses a head start as these trends develop across the globe.

Also, in our experience, international investors are placing increasing importance on non-financial reporting when making investment decisions so the early adoption of such reporting by EU companies could lead to better access to global capital markets.

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Country-by-country reporting by extractive and logging industries

Since 2017, companies that are active in the extractive industry or in the logging of primary forests have to be more transparent on the payments they make to governments. Through amendments made in 2013 to the Accounting and Transparency directives, such companies established in the European Union should publish each year a so-called "country-by-country report" summarising payments to governments. These reporting requirements were introduced to help governments of resource-rich countries manage their resources as well as to enable civil society to better hold governments and business into account. This should also help governments of resources-rich countries to implement the Extractive Industries Transparency Initiative (EITI) principles.

Questions:

51. Do you think that the public reporting requirements on payments to governments ("country- by-country reporting") by extractive and logging industries are:

	1	**2**	**3**	**4**	**5**	**Don't know**
effective (successful in achieving its objectives)	☐	☐	☒	☐	☐	☐
efficient (costs are proportionate to the benefits it has generated)	☐	☐	☐	☐	☐	☒
relevant (necessary and appropriate)	☐	☐	☐	☒	☐	☐

coherent (with other EU requirements)	☐	☐	☐	☒	☐	☐
Designed at the appropriate level (EU level) in order to add the highest value (as compared to actions at	☐	☐	☐	☒	☐	☐

(1= totally disagree, 2= mostly disagree, 3= partially disagree and partially agree, 4= mostly agree, 5 = totally agree)

Please explain your response and substantiate it with evidence or concrete examples.

With the scope being restricted to the extractive and logging industries, we have seen few instances of the country by country reporting of payments to government in practice. We believe that the positive impacts of such reporting in the long term will mostly accrue to the citizens of countries, often located outside of Europe, in which the extractive industries operate but it is too soon to accurately gauge the impact of these disclosures in such areas as the fight against corruption.

From the preparer's perspective, whereas we do not have evidence-based information, we believe that the costs of implementing\updating the reporting process and of collecting the relevant data will probably outweigh the benefits that could accrue to them. Accountancy Europe's Core and More approach (see (https://www.accountancyeurope.eu/wp-content/uploads/FEECogitoPaper_-_FutureofCorporateReporting.pdf)) could be a useful methodology in the future to ensure that the costs and benefits of such reporting are better balanced.

~~52. As a preparer company, could you please indicate the annual recurring costs (in € and in relation to total operating costs) incurred for the preparation, audit (if any) and publication of the "country-by-country report":~~

	~~Total amount in Euros~~	~~Amount as a % of total operating costs~~
~~One-off costs of reporting for the first time~~		
~~Estimated recurring costs~~		

53. How would you assess, overall, the impact of country-by-country reporting on the competitiveness of the reporting EU companies?

- Very positive impact on competitiveness
- Somewhat positive impact on competitiveness
- No significant impact on competitiveness
- Somewhat negative impact on competitiveness
- Very negative impact on competitiveness
- Don't know

Please explain your response and substantiate it with evidence or concrete examples.

We believe that country-by-county reporting of payments to government enhances transparency, which can strengthen the reputation of the affected EU companies and thereby improve competitiveness.

However, the county-by-country reports based on Chapter 10 of the Accounting Directive contain very little narrative, which could lead to misinterpretation of the information provided, with consequent negative impacts on the competitiveness of reporting companies.

Integrated reporting

In addition to a demand to broaden the range of information to be included in corporate reports, there is an ongoing debate on whether and how to integrate financial, non-financial, and other related reports in a meaningful way.

<u>Questions</u>

54. Do you agree that integrated reporting can deliver the following **benefits**?

	1	2	3	4	5	Don't know
More efficient allocation of capital, through improved quality of information to capital providers	☐	☐	☐	☐	☒	☐
Improved decision-making and better risk management in companies as a result of integrated thinking and better understanding of the value-creation process	☐	☐	☐	☐	☒	☐
Costs savings for preparers	☐	☐	☐	☐	☐	☒
Cost savings for users	☐	☐	☐	☐	☐	☒
Other, please specify: Better communication with wider stakeholder audience, including employees and customers Providing a holistic picture of the reporting organisation Promoting the cohesiveness of different reporting streams by linking the related financial and non-financial information in a logical and understandable manner Explaining how an organisation's resources are creating value in the long term	☐	☐	☐	☐	☒	☐

(1= totally disagree, 2= mostly disagree, 3= partially disagree and partially agree, 4= mostly agree, 5 = totally agree)

Please explain your response and substantiate it with evidence or concrete examples.

Please note that we consider the general concept of 'interconnected financial and non-financial information reporting' when responding to the questions in this section, rather than a specific initiative.

The future direction of travel for corporate reporting should indeed be a more holistic and coherent reporting concept.

We also take the opportunity to refer to the 'Core & More' concept which has been launched by Accountancy Europe in 2015. Please see our response on question 16 for more details concerning the Core & More concept. The Integrated Report, as developed by the International Integrated Reporting Council (<IIRC>) framework could be the 'core' report since it includes the information needed to obtain a fair understanding of the key elements of the organisation's affairs.

As to the principles for measurement and disclosure of financial and non-financial information, existing frameworks such as the IASB's Management Commentary could be considered.

We believe that integrated reporting has the potential to provide all of the above-mentioned benefits – indeed its rationale is to focus on the short, medium and long term, reduce short-termism and thereby result in better risk management. There is a great potential for integrated financial and non-financial information to provide better contextual information about a business than is possible if both types of reporting remain separated.

These benefits are highlighted in the 2017 study *The Economic Consequences Associated with Integrated Report Quality: Capital Market and Real Effects* (https://www.gsb.stanford.edu/gsb-cmis/gsb-cmis-download-auth/435571). Integrated reporting leads to improved financial capital, as shown by research from Prof. George Serafeim of the Harvard Business School. This research indicated that whereas separated financial and non-financial reporting leads to especially responsible investors taking ESG factors into account, integrated reporting leads to mainstream investors considering these value drivers.

We think that the 'interconnected financial and non-financial information' principle does not in itself result in additional reporting requirements and hence costs.

We also believe that a certain level of assurance over the integrated reporting, including the non-financial information, would increase the benefits of integrated reporting. We currently note important diversity in practice concerning non-financial information assurance across Europe. Please refer to our response to question 42 for more details around the assurance aspect. Furthermore, we note that high quality of reporting is a matter which requires good corporate governance within entities. This might also result in improving corporate governance in the entity.

55. Do you agree with the following statement?

	1	2	3	4	5	Don't know
A move towards more integrated reporting in the EU should be encouraged	☐	☐	☐	☐	☒	☐
The costs of a more integrated reporting would be proportionate to the benefits it generates (would be efficient)	☐	☐	☐	☐	☒	☐

(1= totally disagree, 2= mostly disagree, 3= partially disagree and partially agree, 4= mostly agree, 5 = totally agree)

Please explain your response and substantiate it with evidence or concrete examples.

We strongly encourage a move towards more integrated reporting in the EU.

Experimentation in the market over time would be instrumental to develop new concepts. To facilitate adoption, new concepts should be introduced on a voluntary basis, at least initially.

A Corporate Reporting Lab at EU level, similar to the UK FRC Lab, 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*.

An EU Lab should aim to help market participants innovate and improve corporate reporting primarily by bringing together preparers and investors. A safe environment, a collaborative approach, and testing examples to identify best practices could contribute to the EU Lab's success. It is a powerful instrument which facilitates discussions amongst stakeholders as opposed to issuing additional regulation.

We know that many experiments take place in different EU countries which would be beneficial to replicate in other environments. An EU Lab could support such efforts and facilitate the sharing of best practices between EU countries.

56. Is the existing EU framework on public reporting by companies an obstacle to allowing companies to move freely towards more integrated reporting?

- ❍ Yes
- ❍ No
- ❍ Don't know

If you answered "Yes", please clarify your response and substantiate it with evidence or concrete examples.

The existing reporting EU framework on public reporting by companies is not an obstacle to allowing companies to move freely towards more integrated reporting.

However, in companies, integrated reporting is seen as an additional and separate reporting stream on top of the current reporting requirements. It might lead to duplication which causes a practical burden for companies. Preparers perceive the current reporting burden already as excessive. As such, we recommend achieving interconnected financial and non-financial information reporting within the current reporting set.

VI. The digitalisation challenge

In the area of public reporting by companies technology is changing 1) the way companies prepare and disseminate corporate reports and 2) the way investors and the public access and analyse company information. On 6 October 2017, the 'eGovernment Declaration' was signed in Tallin in the framework of the eGovernement Ministerial Conference. It marked a clear political commitment at EU level towards ensuring high quality, user-centric digital public services for citizens and seamless cross-border public services for businesses[24].

Digitalisation is soon to become reality for issuers with securities listed on European regulated markets ("listed companies"). These companies must file their Annual Financial Reports with the relevant Officially Appointed Mechanisms (OAMs). An Annual Financial Report mainly contains the audited financial statements, the management report and some other statements. In 2013, the Transparency Directive was amended to introduce as from 1 January 2020 a structured electronic reporting for Annual Financial Reports based on a so-called "European Single Electronic Format" (ESEF). It also established a single European Electronic Access Point (EEAP) in order to interconnect the different national OAMs. The objectives were to facilitate the filing of information by listed companies, and facilitate access to and use of company information by users on a pan-EU basis, thus reducing operational costs for both parties.

Beyond listed companies, the Commission is currently working, as announced in the 2017 Commission Work Programme, on an EU Company Law package making the best of digital solutions and providing efficient rules for cross-border operations whilst respecting national social and labour law prerogatives, which is not subject to this public consultation.

<u>Questions</u>

57. Do you consider the existing EU legislation to be an obstacle to the development and free use by companies of digital technologies in the field of public reporting?

❍ Yes
❍ No
❍ Don't know

If you answered "yes", please explain your response and substantiate it with evidence or concrete examples

58. Do you consider that increased digitalisation taking place in the field diminishes the relevance of the EU laws on public reporting by companies (for instance, by making paper-based formats or certain provisions contained in the law irrelevant)?

❍ Yes
❍ No
❍ Don't know

If you answered "yes", please explain your response and substantiate it with evidence or concrete examples

[24] The 'Tallinn Declaration':https://ec.europa.eu/digital-single-market/en/news/ministerial-declaration-egovernment-tallinn- declaration

The impact of electronic structured reporting

59. Do you think that, as regards public reporting by listed companies, the use of electronic structured reporting based on a defined taxonomy (ESEF) and a single access point (EEAP) will meet the following intended objectives:

	1	2	3	4	5	Don't know
Improve transparency for investors and the public	☐	☐	☒	☐	☐	☐
Improve the relevance of company reporting	☐	☐	☒	☐	☐	☐
Reduce preparation and filing costs for companies	☐	☐	☐	☐	☐	☒
Reduce costs of access for investors and the public	☐	☐	☐	☐	☐	☒
Reduce other reporting costs through the re-use of companies' public reporting of electronic structured data for other reporting purposes (e.g. tax authorities, national statistics, other public authorities)	☐	☐	☐	☐	☐	☒

(1= totally disagree, 2= mostly disagree, 3= partially disagree and partially agree, 4= mostly agree, 5 = totally agree)

Please provide an estimated order of magnitude or qualitative comments for such cost reductions (e.g. % of preparation costs or % of costs of accessing and analysing data...):

The estimated magnitude or qualitative dimensions of such cost reductions are essentially dependent on the question of whether the use of digital reporting creates an additional publishing obligation for the entities or whether existing disclosure requirements on a home jurisdictional level can also be fulfilled by the digital disclosures.

60. In your opinion, on top of the financial statements, do you think that the following documents prepared by listed companies should contain electronic structured data?

	1	2	3	4	5	Don't know
Financial reporting						
Half-yearly interim financial statements	☐	☐	☐	☐	☒	☐
Management report	☐	☒	☐	☐	☐	☐
Corporate governance statement	☐	☒	☐	☐	☐	☐
Other disclosure or statements requirements under the Transparency Directive such as information about major holdings	☐	☒	☐	☐	☐	☐
Non-financial reporting and other reports						
Non-financial information	☐	☐	☒	☐	☐	☐
Country-by-country report on payments to governments	☐	☐	☐	☐	☒	☐
Other, please specify:................	☐	☐	☐	☐	☐	☐

(1= totally disagree, 2= mostly disagree, 3= partially disagree and partially agree, 4= mostly agree, 5= totally agree)

61. Once the ESEF is fully developed and in place for listed companies, would this EU language add value as a basis to structure the financial statements, management reports etc. published by any limited liability company in the EU?

❍ Yes
❍ No
❍ Don't know

Please explain your response and substantiate it with evidence or concrete examples.

We do not consider that ESEF will add the desired value as a basis to structure financial statements, management reports, non-financial reporting etc of any company.

A report on XBRL published by the UK FRC Lab in 2017, *Digital future of corporate reporting* (see https://www.frc.org.uk/getattachment/9279091c-a4e9-4389-bdd6-d8dc5563b14a/DigFutureXBRLDec.pdf), shows that whereas XBRL has numerous benefits, more work needs to be done to realise its maximum potential, i.e. linking financial information to other information about the company, sustainability reporting frameworks, level of reliability etc. In addition, providing assurance on XRBL reports is important to enhance their credibility.

Moreover, structured electronic reporting using XBRL requires the presence of a taxonomy. ESEF is based on the IFRS Taxonomy. Inevitably, if ESEF is based on national GAAP, then this would require a separate taxonomy.

62. As regards the **non-financial information** that listed companies, banks and insurance companies must publish, do you think that digitalisation of this information could bring about the following benefits?

	1	2	3	4	5	Don't know
Facilitate access to information by users	☐	☐	☐	☐	☒	☐
Increase the granularity of information disclosed	☐	☐	☐	☐	☒	☐
Reduce the reporting costs of preparers	☐	☐	☐	☐	☐	☒

(1= totally disagree, 2= mostly disagree, 3= partially disagree and partially agree, 4= mostly agree, 5 = totally agree)

Please explain your response and substantiate it with evidence or concrete examples

<ins>Facilitate access to information by users</ins>

In our rating, we have considered how digitalisation will facilitate access for users both within an organisation and for external stakeholders.

We believe that digitalisation will have a positive impact on the availability of information vital for decision making within an organisation. More non-financial information relevant data is now being entered into databases instantly accessible across the globe. Additionally, smart data analytics can interrogate such structured data and, as importantly, sources of unstructured data, to provide actionable insights to decision makers within an organisation – such as performance dashboards that allow users to benchmark their performance against other areas of the organisation.

In respect of external stakeholders, smart data analytics can provide insight into a businesses' non-financial information. We prefer reporting entities to disclose (audited/ reviewed) information instead of running the risks of having information spread by other (unreliable) sources. For the organisation, digitalisation permits a business to publish more relevant, accurate and timely information by drawing from diverse data sources that would not be practical to integrate into a manual system – for example, real time information about CO_2 emissions drawn from smart electricity meters.

<ins>Increase the granularity of information disclosed</ins>

We believe that digitalisation has the potential not to just increase the granularity of data disclosed but also to increase its understandability and improve the linkage of non-financial information to relevant financial information. For example, digitalisation is essential to realise our Core and More approach, as explained in question 67.

Enterprise wide structured data supported by smart data analytics are essential tools in achieving this objective. We are also seeing the growing use of blockchain solutions in the public sector to link financial information to performance measures and anticipate that similar solutions are also in development in the private sector to better integrate financial and non-financial information.

63. Digitalisation facilitates the widespread dissemination and circulation of information. Besides, the same corporate reporting information may be available from different sources, such as a company's web site, an OAM, a business register, a data aggregator or other sources. In a digitalised economy, do you consider that electronic reporting should be secured by the reporting company with electronic signatures, electronic seals and/or other trust services?

- ❍ Yes
- ❍ No
- ❍ Don't know

Please explain your response and substantiate it with evidence or concrete examples.

There is an increasing awareness of the need to secure all forms of business communication and we are seeing an increasing use of Blockchain, and other distributed ledger technologies, as a means of proving the veracity of information. Blockchain solutions are being developed, for example, to verify the provenance of press releases and information on websites. Blockchain not only contains existing digital signature solutions (i.e. ECDSA) but also brings additional security through such features as automated date-stamping and the immutability of data in the chain.

Not only do we consider that the security and accountability of the digital reporting should be an obligation of the reporting company, but also that the existing and future Officially Appointed Mechanism (OAM) have to ensure the authenticity and reliability of the provided digital reporting. Hence, we agree, that electronic reporting should be secured by the reporting company. Which electronic mechanism and techniques are used depends on the design of reporting process and the realised IT-related security controls on company level and OAM level.

However, we recognise that creators must rise to the challenge of overcoming any initial resistance to the transition from a paper-based (traditionally signed) document-centric process to electronic documents (e.g. signed by electronic signatures). For auditors, this has the implication that they are faced with the legal and technical challenges of using electronic signatures or other digital authentication techniques.

With respect to assurance over XBRL, we encourage the Commission to initiate the debate on the audibility of the structured electronic reporting information, as there is currently no international standard addressing this issue.

Data storage mechanisms – data repositories

Today, the self-standing national databases maintained by each Officially Appointed Mechanisms (OAMs) are not interconnected to each other, or to a central platform.

The European Financial Transparency Gateway (EFTG)[25] is a pilot project funded by the European Parliament that aims to virtually connect the databases using the distributed ledger technology in order to provide a single European point of access to investors searching for investment opportunities on a pan-EU basis. The European Financial Transparency Gateway could be used as a basis for achieving a single European Electronic Access Point (EEAP).

64. Considering the modern technologies at hand to interconnect databases on information filed by

[25] https://webgate.ec.europa.eu/fpfis/wikis/pages/viewpage.action?pageId=213238645

listed companies with the OAMs, do you agree with the following statements?

	1	2	3	4	5	Don't know
A pan-EU digital access to databases based on modern technologies would improve investor protection	☐	☐	☐	☐	☒	☐
A pan-EU digital access to databases based on modern technologies would promote cross border investments and efficient capital markets	☐	☐	☐	☐	☒	☐
The EU should take advantage of a pan-EU digital access to make information available for free to any	☐	☐	☐	☐	☒	☐

(1= totally disagree, 2= mostly disagree, 3= partially disagree and partially agree, 4= mostly agree, 5 = totally agree)

65. Public reporting data in the form of structured electronic data submitted by listed companies could potentially be re-used for different purposes by different authorities. For instance, by filing a report once with an OAMs and re-using it for filing purposes with a business register. In your opinion, should the EU foster the re-use of data and the "file only once" principle?

- ◉ Yes
- ○ No
- ○ Don't know

Please explain your response and substantiate it with evidence or concrete examples.

In principle we agree, that the reuse of public reporting data in the form of structured electronic reporting data submitted by listed companies can reduce the burden (in terms of timing and costs) that companies nowadays have to file similar reports with different authorities. However an essential aspect of this question is, whether the reporting obligations in the home jurisdiction can be fulfilled without additional reporting efforts.

Coherence with other Commission initiatives in the field of digitalisation

On 1 December 2017, the Commission launched a Fitness Check on the supervisory reporting frameworks[26]. In parallel, the financial data standardisation (FDS) project, launched in 2016, aims for a 'common financial data language' across the board for supervisory purposes. The Commission will report by summer 2019[27].

	1	2	3	4	5	Don't know
Should the EU strive to ensure that labels and concepts contained in public reporting by companies are standardised and aligned with those used for	☐	☐	☒	☐	☐	☐

(1= totally disagree, 2= mostly disagree, 3= partially disagree and partially agree, 4= mostly agree, 5= totally agree)

[26] https://ec.europa.eu/info/consultations/finance-2017-supervisory-reporting-requirements_en

[27] For more details, see Commission report on the Follow up to the Call for Evidence - EU regulatory framework for financial services, December 2017 section 3

Other comments

67. Do you have any other comments or suggestions?

We would also like to comment on question 57.

Whereas the EU legislation, as it stands, is not an obstacle, we do support the adaptation of the EU law to keep pace with technological developments. For instance, the fact that the Transparency Directive was amended, as per ESMA's mandate, to require listed companies to report their annual financial reports under inline XBRL ((i)XBRL) will simplify the process of obtaining information. It will also ensure comparability amongst companies. In addition, we recognise that (i)XBRL is already used in some EU legislation to prepare financial statements in a format that provides the structured data that OAM, regulators, tax authorities, financial institutions and analysts require.

Whereas we support the extended use of technological reporting and recognise that (i)XBRL has several advantages, we should not restrict the free use of digital technologies by all companies (over and above listed entities) only to one tool. Other systems (existing and emerging ones in the future) could provide a variety of benefits as well. Having such flexibility is especially important for the SMEs. It is however premature to decide what should be the specific format – more research is needed in this area.

The EU should provide a principled-based framework for electronic reporting to be used for further development without limitations due to slow updating of laws. The UK FRC Lab developed in 2017 a Framework for future digital reporting (https://www.frc.org.uk/getattachment/fd3054ee-b0f3-4968-8b20-d5bb262c4c54/Digital-Future_final.pdf). From discussions with preparers, investor and other stakeholders, the UK FRC Lab identified three stages in the process of corporate reporting (production, distribution, consumption) that are most relevant to future digital reporting. Characteristics for each process were also identified that would render digital reporting effective. The EU could use some of this work and collaborate with the UK FRC Lab.

Moreover, we support a single EU access point which could provide links to the company's website, where the detailed information can be provided. This information should be accessible to the public. In addition, the EU is best placed to provide some principles of what elements a company's website should have. For instance, the EU could define how the websites work and acquire data ensuring that they include all information required and needed by society. This information could be supported by a 'Core & More' system, as indicated in the Accountancy Europe 2015 publication The Future of Corporate Reporting – creating the dynamics for change (https://www.accountancyeurope.eu/wp-content/uploads/FEECogitoPaper_-_FutureofCorporateReporting.pdf). The 'Core report' will be presented with (hyper)links to the 'More' layers. This would allow readers to click on those parts that they are interested in and access the level of detail that they need to fulfil their information needs. Both financial and non-financial information can be provided in the reports.

Acronyms and Abbreviations

AD	Accounting Directive
BAD	Bank Accounts Directive
CEP	Centre for European Studies
CBCR	Country by Country Reporting
CLD	Company Law Directive
CMD	Capital Maintenance Directive
CMU	Capital Markets Union
CRD	Capital Requirements Directive
CRR	Capital Requirements Regulation
DG FISMA	Directorate General Financial Stability, Financial Services and Capital Markets Union
DLT& API	Distributed Ledger Technology & Application Programme Interface
EC	European Commission
EFRAG	European Financial Reporting Advisory Group
EFTG	European Financial Transparency Gateway
EITI	Extractive Industries Transparency Initiative
ESG	Environmental, Social & Governance factors
ESMA	European Securities and Markets Authority
ESRB	European Systemic Risk Board
FSB	Financial Stability Board
GAAPs	General Accepted Accounting Principles
HLEG	High-Level Expert Group
IAD	Insurance Accounts Directive
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IFRS	International Financial Reporting Standards
IFRS 4	International Financial Reporting Standards on Insurance contracts
IFRS 9	International Financial Reporting Standards on Financial Instruments
IFRS 17	will replace IFRS 4 as of 1 January 2021
IIRC	International Integrated Reporting Council
KPIs	Key Performance Indicators
NFR	Non-Financial Reporting Directive (also called NFI for Non-Financial Information)
NGOs	Non-Govermental Organisation
OAMs	Officially Appointed Mechanisms
OECD	Organization for Economic Co-operation and Development
PIE	Public Interest Entities
P&L	Profit and Loss account
SMEs	Small and Medium Enterprises
SRB	Single Resolution Board
SSM	Single Supervisory Mechanism
TCFD	Task Force on Climate-related Financial Disclosures
TD	Transparency Directive