ACCOUNTANCY EUROPE.

November 2023

Mrs. Ursula von der Leyen
President
European Commission
Rue de la Loi 200,
1049, Brussels
Belgium

Brussels, 28 November 2023

Subject: Accountancy Europe's response to European Commission's Call for Evidence on rationalisation of reporting requirements

Dear President von der Leyen,

Accountancy Europe welcomes the European Commission's (EC) efforts to make the EU Single Market more competitive and to rationalise regulatory requirements in order to make it easier for businesses to operate and thrive. Reviewing and reflecting on regulatory requirements in a holistic manner, and assessing whether regulatory provisions are still fit for purpose to fulfil policy objectives, is well aligned with the EU's Better Regulation principles.

In this light, we are happy to contribute to the EC's initiative to rationalise EU reporting requirements. By virtue of its members and the sector that we represent, Accountancy Europe is profoundly engaged in the corporate reporting agenda. Our members' daily work consists of helping companies measure, report and provide trust through audit/assurance engagements on the reported information. In doing so, they work with companies of all sizes, including SMEs.

After consulting with our members, we would like to draw the EC's attention to the below areas where opportunities for rationalising reporting requirements could be further identified. Overall, we regret that the time to provide feedback to the Call for Evidence was extremely short and not sufficient to gather and collate all the necessary input. With more time, Accountancy Europe would have been able to identify and assess additional suggestions for reporting requirement rationalisation.

We look forward to contributing to future relevant EC workshops as indicated in the Call for Evidence document.

General considerations

Smarter legislation

We firmly believe that such a rationalisation exercise needs to start from the public policy objectives and reflect on how these can be achieved in the most effective and efficient manner. Generally speaking, compliance costs could often be reduced by eliminating duplication of requirements, increasing consistency at European level, reducing options based on mere local political concerns and using technology. Moreover, the EC should consider better tailoring various reporting obligations to the specificities of companies and the real impacts they have on society, rather than opting for one-size-fits-all approaches (for a discussion of risk-based approaches, see our recent article as well as 2020 publication From Risks to Regulation).

We also note that in the co-legislation and trilogue processes a lot of new or not thoroughly impact-assessed obligations may be included in the final legislation in order to reach a political compromise. Ideally, any new reporting obligations would be subject to high quality impact assessments that also take account of particular impacts on SMEs – including indirect or ‘spill-over’ impacts. The critical importance of business’ and investors’ needs for legal certainty, predictability and stability should be kept in mind, noting that a lot of problems could be avoided by producing smart and proportionate legislation in the first place.

The burden of Member State options

EU Member State options in several EU Directives cause the EU public reporting framework to lack proper alignment and sometimes consistency. This results in additional reporting burdens for all types of companies operating cross-border. EC legislative proposals should avoid EU Member State options when they do not seek to achieve a relevant European public policy objective. Reducing such options also contributes to EC’s efforts to improve the Single Market’s cohesion and functioning, and removing obstacles for cross-border business inside the EU.

Alignment of financial, supervisory and prudential requirements

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. For instance, parts of supervisory and/or prudential requirements are not in line with IFRS accounting principles, for instance related to Non-Performing Loans (NPLs) in banks. This increases the reporting burden for banks. The exercise started by the EC to simplify and streamline supervisory reporting should be continued, which should also focus on integrated digitalisation.

Sustainability reporting

Accountancy Europe strongly supports EC’s efforts to transition EU’s economy for a sustainable future. Sustainability reporting is one of the many necessary supporting tools to make this ambition a reality. Our suggestions below are intended to reinforce this objective.

Equivalence between sustainability reporting frameworks

Article 40a of the Corporate Sustainability Reporting Directive (CSRD) provides the possibility for third-country companies in the CSRD scope to use “ESRS equivalent standards” to comply with their reporting obligations. The EC should allow these companies (which already adhere to sustainability reporting requirements similar to those outlined in Article 40a, such as TCFD, ISSB, or California bills) to use international standards equivalent to ESRS. We suggest the EC considers the combination of GRI and IFRS sustainability standards as equivalent to the ESRS, for non-EU entities.

In doing so, the EC would reciprocate the benefits granted to European companies (e.g., European companies can use IFRS standards for both sustainability and financial reporting in foreign countries). Equivalence of standards facilitates capital and trade flows, a direct benefit for European companies. Failure to reciprocate risks potential retaliation in having these facilitations revoked, which would burden European companies with extensive reporting obligations in the foreign countries they operate in.

Sector-specific ESRS

Accountancy Europe welcomes the EC’s decision to postpone by 2 years the adoption of the delegated act with sector-specific ESRS as this will allow the necessary time to develop robust standards and for the first batch of twelve standards to settle in. We strongly suggest the EC builds on the experience and knowledge with the first set of ESRS to ensure fit-for purpose sector-specific ESRS, by:

- following an adequate due process, which underpins the legitimacy of standards
- developing clear standards that consider stakeholders’ comments on granularity and complexity
- building on existing international standards such as GRI and the ISSB (with SASB incorporated).

The EC should also clearly instruct EFRAG on these principles as they undertake their work in developing their technical advice with these standards.

Financial reporting

The Bank Accounts Directive (BAD)

The use of IFRS has diminished the relevance of BAD (Bank Accounting Directive) in achieving harmonised financial statements. BAD has not been updated since 1986 to incorporate newer accounting treatments. This creates differences between national accounting standards and IFRS, leading to challenges in comparing capital ratios and complying with prudential requirements. To address this, it is proposed, for the banking sector, to make IFRS mandatory for listed entities' consolidated and individual financial statements of banks without subsidiaries. For the individual parent and for unlisted entities we propose allowing IFRS for both the consolidated and individual financial statements. Due to the extensive IFRS disclosure requirements smaller banks might benefit from the adoption of IFRS standard Subsidiaries Without Public Accountability - Disclosures (discussed below).

IFRS standard: Subsidiaries without public accountability

Applying the full set of IFRS standards often demands considerable resources from preparers due to extensive disclosures in financial statements. To address this, the IASB decided to issue a new optional standard which aims to significantly lessen disclosure requirements for non-public entities while maintaining consistent recognition and measurement rules found in the full IFRS. This initiative stems from preparers' request to the IASB for a streamlined disclosure approach and could be aligned with the EC's goal to reduce reporting burdens for businesses.

Tax reporting

National tax reporting is a substantial source of administrative burden for most businesses and in particular for SMEs. Such reporting also includes taxes related to employment, VAT and other indirect taxes and taxes on profits.

The burden and cost of reporting such taxes increases substantially when businesses engage in cross-border trade. One example is Intrastat reporting for cross-border sales of goods (and services in some EU Member States). This reporting is a burden in itself, but this is amplified due to non-harmonised rules. There are differences in annual thresholds (which may also differ for imports and exports) and services are also included in some Member States. Businesses also have to deal with annual revisions of the Combined Nomenclature codes.

The failure to agree the Definitive Regime for VAT and delays in agreeing a common real-time reporting system for VAT mean that a form-based system introduced twenty years ago is still being used when far less burdensome real-time systems are technically feasible, and, indeed, used by an increasing number of Member States in a potentially uncoordinated manner.

Increased homeworking during the Coronavirus crisis also highlighted the real burdens placed on businesses from having to deal with un-harmonised rules about residency for personal income tax and social security – which increases business costs and reduces cross-border mobility of labour. Un-harmonised rules as to what constitutes a permanent establishment (which are also different from the rules for what constitutes a fixed establishment for VAT purposes) also add to the burden faced by cross-border businesses.

Successfully resolving such fundamental cross-border tax inconsistencies would be a greater day to day benefit for businesses than reducing, for example, the requirements of what is reported in annual accounts. Moreover, the use of technology by Member State tax authorities for tax reporting, and the automatic exchange of such information between Member States where appropriate, is essential to reduce the administrative burden on businesses.

This is why we believe that there should be one-stop shop portals to register businesses and Member States should introduce domestic real-time reporting systems compatible with those of other Member States. This will ultimately simplify the reporting of information, cut down on duplication of reporting (such as Intrastat) and reduce the possibility of taxpayer errors and fraud. The information could also be used to provide real benefits to businesses, especially SMEs, such as pre-filling of tax returns and a live estimate of business income tax liabilities, for example.

The use of technology in corporate reporting

EU legislation requires companies to disclose a wide range of machine-readable data to improve the transparency and accessibility of capital market information for external users, including investors.

One of the most important initiatives in this regard has been the introduction of the European Single Electronic Format (ESEF). We observe, however, that ESEF implementation is fragmented in the EU member states which hampers its usefulness. The inconsistencies exist for example in the validation rules applied by national competent authorities, timing of ESEF filings, audit requirement for the digital files and interpretations about the legal status of financial statements prepared in ESEF format.

With the CSRD, EU has taken a major step by requiring companies to present their sustainability information in digital format. The taxonomy is being developed by EFRAG and we believe that the EC should closely monitor the process with a view to accelerate the taxonomy development. Time is of the essence since the affected parties, particularly companies, national competent authorities and software service providers, need time to adapt their procedures and practices.

Establishment of the European Single Access Point (ESAP) will considerably improve the transparency of companies' financial and sustainability-related information. To maximise the benefits of this initiative, potential implementation differences at member state level should be eliminated and the policy choices made by ESMA should be communicated to relevant parties in a timely manner.

EU policymakers have launched several other initiatives related to technology and digital services (e.g., DSA, DMA and DORA) as a response to evolving business environment and needs. Similar to the initiatives mentioned above, timely communication of policy choices and harmonised implementation by member states are preconditions for these to achieve their intended objectives. Technology is advancing very rapidly and therefore the EC should consider adapting its policymaking process to be more agile to fast technological changes, including its coordination with the national authorities, to ensure that EU legislation is future-proof and remains fit-for-purpose.

Sincerely,

Mark Vaessen
President

Olivier Boutellis-Taft
Chief Executive

About Accountancy Europe

Accountancy Europe unites 50 professional organisations from 35 countries that represent close to **1 million** professional accountants, auditors and advisors. They make numbers work for people. Accountancy Europe translates their daily experience to inform the public policy debate in Europe and beyond.

Accountancy Europe is in the EU Transparency Register (No 4713568401-18).