ICAEW
REPRESENTATION 88/18

EUROPEAN COMMISSION FITNESS CHECK ON THE EU FRAMEWORK FOR PUBLIC REPORTING BY COMPANIES

Issued 30 July 2018

ICAEW welcomes the opportunity to comment on the *Fitness Check on the EU Framework for Public Reporting by Companies* published by the European Commission in March 2018, a copy of which is available from this link.

This response of 30 July 2018 has been prepared by the ICAEW Financial Reporting Faculty. Recognised internationally as a leading authority on financial reporting, the Faculty, through its Financial Reporting Committee, is responsible for formulating ICAEW policy on financial reporting issues and makes submissions to standard setters and other external bodies on behalf of ICAEW. The Faculty provides an extensive range of services to its members including providing practical assistance with common financial reporting problems.

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MAJOR POINTS

SUPPORT FOR THE INITIATIVE

1. ICAEW welcomes the EC's *Fitness Check on the EU Framework for Public Reporting by Companies*. In our view, it is both important and necessary to evaluate public reporting requirements on a regular basis in order to ensure they are still fit for purpose. It also provides an opportunity to reflect on whether reporting requirements need to be updated for any relevant developments, for example, in relation to technology, or to pinpoint any areas requiring further consideration.

2. Indeed, we are very active in current discussions on future developments in corporate reporting, and in 2017 issued the report *What's next for corporate reporting: time to decide?* In this report, we take stock of where corporate reporting stands at present and identify the key decisions that need to be taken before a step change in the quality and usefulness of reports can be achieved, with particular reference to non-financial reporting.

CONSULTATION APPROACH

3. We are disappointed with the overall style of the consultation. In particular, we have noted a number of leading questions and also that respondents are not always invited to provide detailed comments depending on what answer has been selected. In our view, this has limited the opportunity to ensure appropriately balanced feedback.

4. In addition, we believe it is too soon to be inviting feedback in some areas. For example, the Non-Financial Reporting Directive only came into effect for accounting periods beginning on or after 1 January 2017 and, in our view, more time is needed to allow companies to familiarise themselves with and implement the new requirements. Also, the European Single Electronic Format (ESEF) does not come into effect until 1 January 2020. We believe it would be advisable to wait until companies have implemented the new rules before conducting a review of the requirements.

5. On a similar note, it is not clear why this consultation is seeking feedback on matters which have very recently been subject to extensive research and for which clear conclusions have been reached. For example, Section III of the consultation seems not to take into account the EC's 2014 study into the costs and benefits of applying IFRS which concluded that IFRS had been successful in creating a common accounting language for capital markets and that preparers had mostly found the application of IFRS to be positive with the benefits outweighing the costs.

THE BIGGER PICTURE

6. As discussed throughout our response, we believe it is important to consider and understand how the different elements of public reporting interact with each other and together contribute to the EC's objectives (as outlined in this consultation). It is with this bigger picture in mind that we have identified three general themes which form the foundations of our response:

   - **Principles-based directives –** we believe it is important to consider the interaction between the legal requirements for company accounts (as set out in directives) and the requirements set out in accounting standards. Overlaps in requirements are unhelpful, result in confusion and can lead to extra costs to preparers. In our view, there is a need to ensure a clear distinction between the purpose and requirements of the legal framework and accounting standards. For example, the legal requirements in the Accounting Directive could helpfully set out the framework within which financial statements are produced, published etc, while the accounting standards should set out the content, recognition, measurement and disclosure requirements.

   - **Global standards without local variations –** we continue to believe that it is appropriate for the IAS Regulation to prevent the EC from modifying the content of IFRS. Experience suggests (for example, in Australia) that the full benefits of IFRS adoption can only be reaped if the standards are adopted as issued by the IASB. This issue is discussed further in our reports *Moving to IFRS reporting: seven lessons learned from the European experience* and *Brexit: implications for financial reporting*. In our view, a move in the direction of European standards risks undermining investor confidence and damaging capital markets.

- **Differentiation between public and private company reporting** - we believe it is important to have a differentiation between the reporting requirements for listed and private companies, with a particular focus on preparers' costs and users' needs in the context of smaller companies.

- **Focus of the annual report –** in our opinion, the annual report should form a coherent and integrated document aimed primarily at current and potential capital providers, free of clutter and preferably without information that is required by government or regulators to meet other public policy objectives.

RESPONSES TO SPECIFIC QUESTIONS

I. ASSESSING THE FITNESS OF THE EU PUBLIC REPORTING FRAMEWORK OVERALL

ASSESSING THE FITNESS OF THE EU PUBLIC REPORTING FRAMEWORK OVERALL

Question 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
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.

7. We assume that this question relates to listed companies and have answered on that basis. We also assume that the reference to 'public reporting' in this question is intended to incorporate the wider regulatory landscape ie, not just financial reporting. For example, we consider it to cover the legal framework, regulations for listed companies, and other relevant regulatory initiatives such as the Non-Financial Information (NFI) Directive. Focusing on one area alone cannot reflect how different aspects of public reporting interact with each other and together contribute to the listed objectives.

8. We have attributed a ranking of 4 to the first three items above as our assessment is that EU public reporting requirements have had a beneficial impact in these areas, given that (a) the requirement for the preparation, audit and filing of financial reports is vitally important for stakeholder protection and (b) there is significant evidence that the bold EU decision to move to IFRS reporting for listed companies, coupled with improvements in enforcement mechanisms, has had positive economic impacts. Those positive impacts were evident in the European Commission report of 2014 on the costs and benefits of applying IFRS and ICAEW's 2015 report *Moving to IFRS reporting: seven lessons learned from the European*

experience.

9. We think that it is more difficult to assess the contribution of audited IFRS reports to the promotion of financial stability or sustainability in the EU, especially as we do not think these were primary objectives of the public reporting framework. Although we recognise that high quality public reporting fosters transparency and investor confidence, amongst many other things, we are unaware of any evidence that public reporting is hindering the ability of regulators to promote financial stability.

10. We also think it is too early to judge the effectiveness across Europe of recent EU initiatives in relation to sustainability reporting, including the NFI Directive and the related EC guidance. It will take longer still to assess the impact of that reporting in providing useful information for sustainability related policies.

Question 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.

11. We refer to our comments under question 1 above. The first three items are very clearly relevant in this context.

Question 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.

12. We assume that the reference to legislation and standards that 'tend to frame up' company information 'to a more demanding level' refers to the need to prepare, audit and publish annual financial reports.

13. Our general assessment is that the costs involved are proportionate to the benefits for listed companies and also the capital markets more generally. Our report of 2015, *Moving to IFRS*

reporting: seven lessons learned from the European experience, lends support to this assessment in relation to IFRS reporting.

14. We acknowledge that this assessment is more difficult in relation to other types of entity and other types of report. Please see below, for example, our comments in relation to SMEs and micro-entities and country-by-country reporting.

Question 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
€ ...	... %

15. Not applicable.

COHERENCE

Question 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.

16. Overall we do not think there are major issues regarding the coherence of the EU public reporting framework, when looking at each of the components above or the way that they interlink.

17. That is not to say that the end result is – or should be - an entirely consistent approach to reporting within the EU given the many member state options available in the relevant directives, for example in relation to the preparation, reporting and assurance of non-financial information.

18. There is also scope for more coherence overall between the different components of reporting, for example the financial and non-financial. We acknowledge that this is a complex and evolving aspect of reporting.

Question 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 EU5, 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.

19. We are not sure what other obligations are being referred to here. We would however note the importance of alignment as far as possible between supervisory and prudential reporting requirements and IFRS financial reporting. We also would refer to our longstanding advocacy of a high level, principles-based accounting directive as an approach that would, amongst other things, minimise any potential lack of alignment between EU law and national reporting standards.

EU ADDED VALUE

Question 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.

20. The EU reporting framework helpfully differentiates between public and private entities and we think this question should too. However, we have answered with listed companies in mind, as it is at this level that the EU should play a decisive part in determining requirements to ensure, for example, a consistent approach to financial reporting and better non-financial reporting.

II. THE FINANCIAL REPORTING FRAMEWORK APPLICABLE TO ALL EU COMPANIES

Question 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.

21. We assume that this question relates to non-listed companies and have answered on that basis.

22. In our view, while the local business environment will be considered by a company seeking to engage in cross border business, for example consideration of any differences in employment law etc, we do not believe that the existence of different national reporting rules would prevent a company from engaging in an otherwise viable project/venture overseas.

Question 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)…………..	☐	☐	☐	☐	☐	☐

(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.

23. Other than differences arising from language requirements, we do not believe that the factors listed above would significantly affect a company's decision to operate overseas. Please also see our response to question 8.

Question 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.

24. See our responses to questions 8 and 9.

Question 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.

25. We believe that this question is fundamentally misconceived. The question assumes that a common consolidated tax base will be introduced, a position that is by no means certain, and that this should then form the basis for further convergence with the accounting profit. In our view, tax treatments should not drive accounting treatments. While we believe that the financial statements should be aimed primarily at current and potential capital providers we acknowledge that they will contain information that may also be of interest to other stakeholders. Such stakeholders will include tax authorities but, in our view, their needs should not be the sole or even the main driver for accounting treatments.

Question 12:

As regards the preparation of conso lidated and in dividual fi nancia l state me nts 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.

26. Our preferred option, for now, is to maintain the status quo. This is because we believe that before considering if or how to reduce the variability of standards between member states, it is more important to consider the interaction between the legal requirements for company accounts (as set out in the Accounting Directive) and the requirements set out in accounting standards. Overlaps in requirements are generally unhelpful, and can result in confusion and extra costs for preparers. In our view, the legal requirements could helpfully set out the framework within which financial statements are produced, published etc, while the accounting standards should set out the content, recognition, measurement and disclosure requirements. As noted above, we have been longstanding advocates of a high level, principles-based Accounting Directive

Question 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.

27. We believe it would be helpful for the EU to first consider the number of member states that have introduced this option. If it has not been widely adopted we question whether there is in fact a high demand for an EU wide company option. It might also be advisable to gather any evidence available from those member states that have introduced the option, in relation to the costs/benefits.

SMES

Question 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.

28. Medium-sized - In our view, there now remain few meaningful exemptions for a medium-sized company. Indeed, it might be argued that the differences are now so few and in some places lacking in value that they are more likely to result in confusion than to provide any significant cost savings in the preparation of the financial statements. From a UK perspective, removing the medium-sized company category may in fact simplify the regime without adding significantly to the reporting obligations of such companies. For example, under UK company law, medium-sized companies are not required to provide details of non-financial key performance indicators (KPIs) within their Strategic Report. However, they are still required to meet the objective of providing a fair, balanced and comprehensive analysis of the development, performance and position of the company, which may require the disclosure of non-financial KPIs, regardless of the available exemption.

29. Small – We support the continuation of a simpler reporting regime for small companies taking account of preparers' costs and user' needs for small company accounts. However, we continue to have strong concerns about the very limited set of disclosure requirements set out in law and the restriction placed on national accounting standards requiring additional information in small company accounts. Although we are still assessing the effects of the new small company regime in the UK, anecdotal evidence suggests that it has created uncertainty for directors with regards to their responsibility to ensure that the accounts show a true and fair view. There are also concerns over a possible deterioration in the overall quality of small company financial reporting, and that the costs and efforts associated with accounts preparation have increased.

30. Micro – We continue to have strong reservations over the micro-entities regime. In particular, the unusual fact that accounts prepared using this regime are presumed to give a true and fair view if they include the very limited disclosures required by law. There are also concerns over the usefulness of micro-entity accounts for users and the ability of micro-entities to obtain finance, for example, lenders and creditors may require more information than provided in the accounts. As a result, we are not convinced that the balance between preparer's costs and users' needs is right. For example, for users unable to demand additional information from a micro-entity, the accounts may have limited use. On the other hand, for users able to request additional information from a micro-entity, this will impose more cost on preparers at a later stage.

Question 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.

31. We believe it would be helpful if the definitions for the various types and sizes of company were to be consistent between different EU legislation. However, we strongly believe that member states should still have the option to determine their own size criteria as appropriate for the local business environment. Over time, it may also be useful to consider other types criteria to categorise companies reducing the reliance on using size criteria.

RELEVANCE OF THE CONTENT OF FINANCIAL REPORTING

Question 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 <u>strategy, business model, value creation</u>	☐	☐	☒	☐	☐	☐
A company's or group's <u>intangible assets</u>, including goodwill, irrespective of whether these appear on the balance sheet or not	☐	☐	☒	☐	☐	☐
A company's or group's <u>policies and risks on dividends</u>, including amounts available for distribution	☐	☒	☐	☐	☐	☐
A company's or group's <u>cash flows</u>	☐	☐	☐	☒	☐	☐

(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:

32. We note that some of the information identified in this question would not be covered in a company's financial statements. As such, we have assumed that the reference to financial reporting here is intended to cover both the information provided in the financial statements *and* a company's or group's management commentary, including for example the UK's Strategic Report regime

33. Generally speaking we believe that the EU framework is relatively light, or silent, with regards to requiring information on a company's strategy, business model and value creation (including in relation to its intangible assets). However, these matters are covered in the IASB's *Practice Statement 1: Management Commentary*, or are being considered as part of its ongoing update. We strongly support developments which aim to improve the narrative reporting by companies and believe that the IASB's global management commentary framework will be an important factor in improving and harmonising reporting in this area.

Question 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:

34. We believe that improved narrative reporting in relation to a company's strategy, value creation, and intangible assets would be helpful. In our view, developments in these areas would be best delivered through the IASB's Management Commentary project. In addition, we note that the FRC Financial Reporting Lab has issued a report on how to improve the disclosures made regarding policies and risks on dividends.

Question 18:

	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.

35. We do not believe that the EU framework should define and/or require the disclosure of the most commonly used alternative performance measures (APMs). Although taking this approach might improve consistency of reporting of certain APMs within Europe, we are concerned that it would undermine the exercise of professional judgement and stifle helpful innovation in reporting practice. It may also set an unhelpful precedent, particularly if other regional frameworks are developed, running the risk of confusion and inconsistency at an international level. We believe that performance reporting is a global issue and we encourage the EC to engage with the IASB's ongoing work in this important area.

36. APMs are an important way for users to better understand an entity's financial performance. However, if regulatory approaches become prescriptive they can result in the disclosure of 'boilerplate' or unnecessary information – clutter. Such boilerplate and clutter undermines the ability of the company to tell its 'story' in a clear, concise, imaginative way, and results in

disclosure that is less meaningful and more challenging to determine key messages.

III. THE EU FINANCIAL REPORTING FRAMEWORK FOR LISTED COMPANIES

THE IAS REGULATION AND INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

Question 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.

37. We continue to believe that it is appropriate for the IAS Regulation to prevent the EC from modifying the content of IFRS. Experience suggests (for example, in Australia) that the full benefits of IFRS adoption can only be reaped if the standards are adopted as issued by the IASB. In our view, a move in the direction of European standards risks undermining investor confidence and damaging Europe's capital markets. We believe it is important for the EU to continue exercising leadership in the adoption of IFRS around the globe.

38. As already noted, in 2015 ICAEW issued the report *Moving to IFRS reporting: seven lessons learned from the European experience*. This report was produced largely as a consequence of the extensive consultation and research carried out by ICAEW in preparation for its response to the European Commission's 2014 study into the costs and benefits of applying IFRS.

39. We believe it is important to reflect on the conclusions of both the EC's study and the ICAEW report. In particular, we note that the EC study concluded that IFRS had been successful in creating a common accounting language for capital markets and that preparers had mostly found the application of IFRS to be positive with the benefits outweighing the costs. Importantly, investors also supported IFRS identifying improvements in transparency and comparability of financial statements.

40. These conclusions were consistent with ICAEW's own report which concluded that the benefits of IFRS adoption outweighed any related costs. Importantly, our report also emphasised the importance of keeping local variants of IFRS to a minimum. Most investors do not have the time or the resources to study the intricacies of local variations from IFRS as issued by the IASB, or to easily understand the implications of carve-outs or amendments. Indeed, we note the recent experience of Japan where a local version of IFRS was introduced, but it has not been widely used, in part due to limited demand from investors.

41. Our report also highlighted the importance of the endorsement mechanism as a means of establishing political legitimacy of IFRS, and the need for key local stakeholders and the endorsement body to be involved in the standard-setting process as early as possible. We also noted that when considering the scope and relative importance of endorsement criteria, policymakers should ensure that the need of investors and other users for transparent financial information is not overshadowed by reference to wider social, prudential or economic policy objectives.

42. The consultation notes that 'very few of the major capital markets and large jurisdictions have

made the use of IFRS as issued by the IASB mandatory' and concludes that as result 'the level of global convergence achieved is sub-optimal compared to the initial objective on global use.' We do not believe that this accurately reflects the true position and progress achieved since the IAS regulation was introduced in 2002. The global uptake of IFRS has been significant, and we would refer in this context to the adoption of IFRS in Canada, Australia, Latin America and countries in South-East Asia. While some countries have introduced local variations we understand that in many cases attempts are being made for these to be abolished over time.

Question 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:

43. We note that this consultation outlines five operational objectives with regards to sustainability. These include: enhance corporate responsibilities/accountability/good corporate governance; empower stakeholders; foster globally sustainable activities; foster long-term investments; and fight corruption. It is with these aspects of sustainability in mind that we have answered this question.

44. We do not believe that IFRS or the current EU endorsement process pose an obstacle to broader policy objectives such as sustainability and long-term investment.

45. We believe that the receipt of transparent, faithfully represented financial information by capital providers is fundamental to their investment decisions and as such can be seen to underpin the efficient operation of financial markets. Accounting solutions should be determined principally on their merits in achieving the objective of meeting the information needs of investors – the primary users of annual financial statements under the IASB's Framework – not according to other social or economic policy objectives.

46. In any case, broader policy objectives, including for example sustainability and long-term investment, should already be taken into account during the endorsement process within the existing requirement to consider the 'European public interest'.

Question 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, please specify***
- ***Don't know***

47. We do not believe that IFRS poses an obstacle to broader policy objectives such as sustainability and long-term investment. Neither is it clear from the questionnaire what

obstacles are envisaged by the EC in this respect.

48. We have therefore selected ‘Other’. This is because we believe that the current EU endorsement process already provides a strong platform for the EU to engage with and influence the IFRS standard-setting process. This engagement should not be underestimated. Indeed, the current system enables a rich debate at a European level which in our view can be highly influential during the development of IFRS. Also, as already noted we believe that the existing requirement to consider the ‘European public interest’ is sufficient to ensure that any broader policy objectives are considered.

Question 22:

The True and Fair view principle should be understood in the light of the general accounting principles set out in the Accounting Directive. 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:

49. We do not agree that an EU conceptual framework should underpin the IFRS endorsement process. It is not clear to us what the benefits would be from the EU moving away from the IASB Conceptual Framework for Financial Reporting. We are concerned that a move away from IFRS would undermine investor confidence and damage Europe’s capital markets. If, despite our reservations (see also our response to question 23), it is decided that a conceptual framework is needed to underpin the IFRS endorsement process, then in our view this should be the IASB Conceptual Framework for Financial Reporting.

Question 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.

50. We do not believe that it is necessary for the EU to endorse the IASB Conceptual Framework for Financial Reporting. Indeed, it is not clear how this would help with the interpretation of IFRS standards or enhance common application of IFRSs within the EU. To our mind, the absence of EU endorsement of the IASB Conceptual Framework does not prevent companies from referring to it when necessary.

Question 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.

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.

51. We do not agree that the Accounting Directive should introduce prescribed (minimum) layouts for companies using IFRS. We accept that improvements could be made in this area, for example, to address concerns over the lack of comparability of performance measures used by companies. However, this is an issue already being addressed by the IASB as part of its ongoing Primary Financial Statements project. We strongly support this project and encourage the EC to input into the IASB's deliberations.

52. In addition, we note that although IAS 1 *Presentation of Financial Statements* allows considerable flexibility with regard to the order and format of the balance sheet and income statement, it does still outline some minimum requirements, for example, in relation to required line items, disaggregation/aggregation, and the use of subtotals.

TRANSPARENCY DIRECTIVE

Question 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.

53. We agree that the Transparency Directive has been important with regards to protecting investors, contributing to integrated EU capital markets, and facilitating cross border investment. However, it is important to keep in mind that the Transparency Directive was introduced as part of a wider package of directives, including for example the Market Abuse Directive, Prospectus Directive and later MiFID, which together with the IAS Regulation introduced in 2002 have contributed to all the objectives outlined in this question. Focusing on the Transparency Directive alone does not accurately reflect all factors which can and do have a positive effect on these objectives.

Question 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.

54. From a UK perspective, we understand companies' approach to quarterly reporting reflects their sector, business cycle and international peers. This results in a range of approaches from the provision of full IAS 34 *Interim Financial Reporting* quarterly statements to detailed sales and profit figures by the quarter, with some (a slightly increasing number now) omitting quarterly statements entirely. On balance though, our strong preference was for the abolition of the *requirement* for quarterly reporting in the EU. There does, however, need to be an appropriate regulation and enforcement of the requirement to disclose the occurrence of new material events or changes in performance or position between semi-annual statements, in order to avoid a reduction in the level of transparency in the market, or investors' protection.

55. We do not believe that there is sufficient evidence at this stage to conclude on whether the abolition of quarterly reporting has contributed to 'promoting long-term investment' and/or 'promoting long-term and sustainable value creation and corporate strategies'.

Question 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.

56. The Market Abuse Regulation is still relatively new. In our view, more time is needed before its effectiveness can be properly assessed.

Question 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	☐	☐	☐	☐	☐	☐
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.

57. As a general point, we believe the EC should strive to make the disclosure and notification regime of major holdings of voting rights as coherent as possible with other relevant EU legislation. However, achieving consistency should not be to the detriment of ensuring an adequate level protection in the markets.

Question 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***

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

58. We have not answered this question as in our view it is for the EC to consider this matter, perhaps conducting a separate study/survey.

Question 30:

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

59. In addition to our responses to the specific questions outlined in this consultation, we have highlighted below two general areas for further consideration.

- Private versus public companies – we are aware of the recent trend towards fewer companies listing on public markets within the EU. Regulation of public markets is of course necessary and important but we agree that it is also important to keep the regulatory requirements under review to ensure that they do not unnecessarily discourage listing on the public markets.

- Categories of companies – there is now a confusing array of types of company (micro/small/medium/large, private/public, quoted/traded on a regulated market/PIEs etc). In our view, this should be considered further to explore any opportunities to make the regulatory framework more internally consistent and/or simpler.

IV. THE EU FINANCIAL REPORTING FRAMEWORK FOR BANKS AND INSURANCE COMPANIES

BANK ACCOUNTS DIRECTIVE (BAD)

Question 31:

Do you agree with the following statements:

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

(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.

60. Our preferred option is to maintain the status quo with regard to the Bank Accounts Directive (BAD). Legal requirements can helpfully set out the framework within which financial statements are produced, published etc, while accounting standards should set out the content, recognition, measurement and disclosure requirements. If any changes were to be made to the BAD, it would be to reduce the accounting requirements to reduce the risk of conflict with accounting standards.

Question 32:

Do you agree with the following statement:

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

(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.

61. We agree that all EU banks should have the option to apply IFRS. This reduces compliance costs across banking groups and can improve the consistency of information provided.

Question 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 ❍ No
- **Leases** ❍ Yes ❍ No
- **Intangible assets** ❍ Yes ❍ No
- **Derivatives** ❍ Yes ❍ No
- **Other, please specify:**

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

62. We do not consider that directives are a suitable place for including detailed accounting requirements. These are generally better dealt with through IFRS or local GAAP where this is applied. Introducing accounting treatments into law is undesirable since the law cannot be kept up to date as easily as new issues emerge.

Question 34:

Do you agree with the following statement:

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

(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.

63. We acknowledge that comparability in financial reporting is important to regulators given that capital requirements are substantially derived from the balance sheet. However, for banks applying IFRS, the BAD does not hamper comparability. For banks applying local GAAP, the BAD does not hamper comparability more than different local reporting requirements. As discussed for companies in question 24, concerns over the lack of comparability of performance measures used by IFRS reporters are being addressed by the IASB as part of its ongoing Primary Financial Statements project.

Question 35:

Do you agree with the following statements:

Mandatory use of national GAAPs for the preparation of individual financial statements of bank subsidiaries reduces the efficiency of preparing consolidated financial statements	**1** ☐	**2** ☐	**3** ☐	**4** ☐	**5** ☐	**Don't know** ☐
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** ☐	**2** ☐	**3** ☐	**4** ☐	**5** ☐	**Don't know** ☐

(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.

64. One of the major benefits of IFRS is the ability for a group to have to apply only one accounting framework.

Question 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.

65. In addition to the points noted in question 13, we question whether bank regulators would permit such an approach.

INSURANCE ACCOUNTING DIRECTIVE (IAD)

Question 37:

Do you agree with the following statements:

	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.

66. In our view, the IAD does not achieve comparability of EU insurers' financial statements . To start, its provisions do not apply when full IFRS is applied and insurers applying full IFRS may deviate from the requirements of the IAD. Even for insurers whose financial statements are subject to the requirements of IAD, the application of the requirements will not necessarily be sufficient to achieve comparability of financial statements. 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. In addition there are other areas, where the requirements of IAD do not facilitate comparability of insurers' financial statements. For example, the permission, but not the requirement, to discount general insurance outstanding claims subject to certain conditions being met. And finally, we note that the IAD allows Member State options in certain areas

which reduces the ability of the IAD to achieve comparability.

67. That said, given that the EU endorsement process for IFRS 17 is currently ongoing, we do not believe it is helpful to assess the IAD at this early stage. For this reason we have answered 'don't know' for the second two parts of this question.

Question 38:

Do you agree with the following statements?

	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.

68. IFRS 17's accounting model for accounting for insurance contracts is not aligned with the IAD and as such there are contradictory requirements. However, insurers reporting under IFRS as adopted by the EU will not be prevented from applying IFRS 17 as a result of these conflicting requirements as, in these circumstances, the requirements of the IAD are not applied. These differences would appear to preclude Member States from fully adopting the provisions of IFRS 17 as part of national GAAP.

69. It may be appropriate to consider aligning elements of IAD with certain aspects of the Solvency II Directive. Most insurers preparing accounts subject to IAD would be expected to be subject to Solvency II and so there may be efficiency to be gained in aligning certain aspects of the requirements. However, Solvency II does not contain a mechanism to spread profits over the life of an insurance contract. 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. Some may consider that such an approach is not appropriate.

70. The EU endorsement process for IFRS 17 is ongoing. In our view, it would be more appropriate to defer any consideration of the alignment of the IAD with IFRS 17 until that endorsement process is complete. That is not to say that a review of the IAD might not be appropriate at a later stage. For example, assuming that IFRS 17 is endorsed, it might be helpful to review the disclosure requirements of the IAD to minimise any unnecessary duplication with IFRS 17 requirements. However, care would be needed, as aligning the IAD with IFRS 17 might not be proportionate if it were to in effect mandate use of the standard in the accounts of insurers prepared under national GAAP.

71. Any proposal for allowing preparers to elect for a European-wide option to apply Solvency II valuation principles has the potential to increase the lack of comparability between those

insurers who make this election and those that do not (who it is assumed would continue to apply IAD). As noted above Solvency II does not contain a profit recognition basis and so it may not be appropriate to allow an election to allow the use of an unmodified Solvency II basis.

Question 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.

72. For the purpose of this question we have assumed that the word ‘prudential’ means Solvency II for eligible EU firms, and ‘general public disclosure requirements’ would include IFRS 17 requirements on adoption.

73. We note that the purpose of, and users of, general purpose financial statements may differ from the purpose of, and users of, prudential public disclosure. As such we do not consider that consistency of disclosure requirements should necessarily be considered to be an objective in itself. Differences in disclosure requirements may be justified by the different purposes and users of these documents.

74. In the UK, the financial statements disclosure requirements under national GAAP are aligned with those required under IFRS 4. In addition, insurers required to apply national GAAP are also required to meet the disclosure requirements of IAD (to the extent not covered by IFRS 4).

75. The prudential public disclosure requirements (the Solvency II Solvency and Financial Condition Report - SFCR) are prescriptive in terms of what is required to be disclosed both in terms of quantitative and qualitative data. In general most data included in the SFCR is required to be prepared on a Solvency II (as opposed to a GAAP) accounting 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 (eg, lines of business) at which the data is required to be prepared. A minority of the information contained in Solvency II’s public reporting is aligned with the accounting basis used for the purpose of the insurer’s financial statements (subject to deposit accounting not being permitted).

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

V. NON-FINANCIAL REPORTING FRAMEWORK

NON-FINANCIAL REPORTING DIRECTIVE

Question 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.

77. We believe it is too soon to start assessing the effects of the NFI Directive - the requirements only came into effect for accounting periods beginning on or after 1 January 2017. In our view more time is needed to allow companies to implement the new requirements, for best practice to emerge, and for users to familiarise themselves with and understand the new information provided by companies within the scope of the NFI Directive.

78. That said, we do believe that the issues highlighted in this question are, and will continue to be, very relevant. To demonstrate, in recent years, significant efforts have been made in the UK to develop a strong narrative reporting regime that facilitates bespoke, relevant disclosure and encourages entities to focus their reporting on major financial and non-financial matters in which it is anticipated investors will be interested. Indeed, much of the information required by the NFI Directive was already required by law to be included in the strategic reports of UK quoted companies. While the overall quality of narrative reporting by UK companies has improved over the years, we do not see that this has diminished the need to assess the quality and quantity of non-financial information disclosed by companies, or to ensure sufficient diversity of boards.

Question 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 operations.	☐	☐	☐	☐	☐	☒
Enhancing companies' accountability, for example with respect to the social and environmental impact of their operations.	☐	☐	☐	☐	☐	☒

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.

79. As discussed in our response to question 40, we believe it is too soon to assess the effectiveness of the NFI Directives' disclosure framework.

Question 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.

80. As discussed in our response to question 40, we believe it is too soon to assess the effectiveness of the NFI Directive's disclosure framework.

Question 43:

Do you agree with the following statement?

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

(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.

81. As already noted, we believe it is too soon to assess whether the NFI Directive is being applied coherently within member states, although, we would expect some degree of consistency at a national level given that requirements of the NFI Directive are mandatory for those companies within its scope.

82. We are not able to comment on whether the NFI Directive is coherent with regards to other EU requirements and/or national requirements. We believe the EC is the organisation best

placed to collate and analyse the necessary information to answer this question.

83. On a final point, we would not expect total consistency between member states due to the various member state options available in the NFI Directive.

Question 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.

84. As already noted, we believe it is too soon to carry out a meaningful assessment of the NFI Directive, particularly in relation to any associated costs and benefits, which may not yet be clear to those implementing the requirements or those using the information provided.

Question 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) 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.

85. In our view, assuming that the intention is to provide information to the capital providers of a company, a more effective and proportionate approach would be to require the information from all companies with securities admitted to trading on an EU-regulated market, and only such companies.

Question 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.

86. We are not aware yet of SMEs generally being required to report more information as a result of certain larger companies requiring additional information from their suppliers as a result of the NFI Directive. It might, however, be more helpful for the EC to widen the scope of this question, considering the combined effect of other regulatory initiatives that may also indirectly affect the reporting requirements of smaller companies within the supply chains or larger companies, for example, the UK's Modern Slavery statement and data protection requirements. Focusing on one set of regulations in isolation will not provide a complete picture of any potential demands on small companies.

Question 47:

Do you agree with the following statement?

	1	2	3	4	5	Don' t know
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.

87. We believe that the overarching purpose of the guidelines should be to promote effective communication between a company and its capital providers/investors. We do not believe that this has been made sufficiently clear in the guidelines.

Question 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)

88. Rather than providing guidance on a wide range of specific topics we suggest that a better approach would be to develop principles-based guidance which enables companies to assess what non-financial reporting information is of most relevance. Each company will be different and the provision of very detailed prescriptive guidelines can result in disclosure of 'boilerplate' or unnecessary information. It is important that the guidelines should not undermine the exercise of professional judgment or stifle helpful innovation in reporting practice.

Question 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		

89. Not able to answer this question.

Question 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.

90. As already noted, we believe it is too soon to carry out a meaningful assessment of the NFI Directive.

COUNTRY-BY-COUNTRY REPORTING BY EXTRACTIVE AND LOGGING INDUSTRIES

Question 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 Member State level)	☐	☐	☐	☐	☐	☐

(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.

91. ICAEW supports the aims of country-by-country reporting, ie to increase the transparency over payments made by companies to the governments of resource-rich countries and

therefore to hold these governments to account. These are laudable aims and we favour robust and concerted international action in this area.

92. To achieve these aims it is important to ensure that the information provided is credible, relevant and internationally consistent, that the delivery mechanism is appropriate, and that the costs and efforts involved are proportionate to the benefits. We therefore welcome this review on the effectiveness of the current reporting requirements. In particular, we would encourage a review of how the country-by-country reporting requirements work in group situations and for joint ventures. In our experience, the interaction of the rules with these common business structures has resulted in considerable confusion, potentially reducing the relevance of the resulting information. For example, the legislation does not deal with activities outside of the group structure but where there is an element of control by entities within the group.

Question 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		

93. Not applicable.

Question 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.

94. We are not aware of any evidence to suggest that the country-by-country reporting requirements have had any impact on the competitiveness of those EU companies reporting this information. However we are aware of concerns about solutions that are not international in scope.

INTEGRATED REPORTING

Question 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…………….	☐	☐	☐	☒	☐	☐

(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.

95. We have also selected ‘other’ as another benefit of integrated reporting is the encouragement of taking a longer-term perspective on environmental and social matters.

Question 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.

96. We favour developments which promote greater integration of financial and non-financial information and in this connection support the IASB’s Management Commentary project. We also acknowledge the very important and on-going work of the IIRC in this respect and in encouraging a focus on long-term value creation, which we support. That said, it is necessary to acknowledge that there are barriers in the EU to achieving ‘full’ integrated reporting, for example, when the placement of certain information is driven/restricted by local regulatory requirements.

Question 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.

97. As noted in our response to question 55, regulatory requirements which determine the location of certain information, for example information required within the financial statements, directors’ report, or in a management commentary, act as a barrier to achieving more integrated reporting. In addition, there are complications when seeking to integrate audited and non-audited information. These are areas that require further thought and investigation in order to move towards greater integrated reporting.

VI. THE DIGITALISATION CHALLENGE

Question 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

98. To the extent that the placement of certain information is driven/restricted by regulatory requirements, this can limit the full use of some digital technologies.

99. It is also important to note that there are other obstacles to the development and free use of digital technologies. We believe that these have been well articulated by the UK Financial Reporting Council's FR Lab in its Digital Present report. For example, they highlight how many investors still prefer receiving a PDF copy of the annual report and do not necessarily see the benefits of other types of technologies. Other issues can arise for companies with multiple listings with different rules for the provision of their financial information. In the UK, we have also observed that different rules on the provision of financial information presents a challenge, for example, there are different requirements on the provision of information between the market authorities, the Registrar of Companies, and the tax authority.

Question 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

100. We still believe that the EU laws on public reporting by companies are relevant, but it is important to ensure that they are reviewed and developed as necessary to keep up to date with technological developments.

THE IMPACT OF ELECTRONIC STRUCTURED REPORTING

Question 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...):

101. Given that the use of electronic structured reporting will not change the level of information available, we do not believe that it will significantly improve transparency for investors and the public, or the relevance of company reporting more generally. In our view, the main benefit of electronic structured reporting relates to how the information is used, for example, by users analysing data on an aggregated basis. Similarly, while we agree that there is potential for reducing costs if electronic structured data can be re-used for other reporting purposes, there are still significant barriers to achieving this goal. For example, the need for the various organisations to agree, coordinate, and invest in the right systems to ensure that re-use of structured data is possible.

102. That said, we broadly support the development of the European Single Electronic Format (ESEF). The requirement in the amended Transparency Directive for annual reports of EU listed companies to be prepared using a single electronic format is an important milestone in Europe's journey towards a more uniformly applied and coherent digital reporting framework for corporate reporting. However, we continue to have concerns about the ESEF in its current form and in particular the challenging 1 January 2020 implementation deadline. We are aware of widespread confusion and uncertainty over the forthcoming requirements, and also of concerns that it will introduce the requirement to report using technology that is/may soon be out of date.

Question 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)

103. As discussed in our response to question 59, we believe the development of a single electronic format is an important milestone in Europe's journey towards a coherent digital reporting framework for corporate reporting. However, we believe more time is needed for experimentation, experience, and for any technological developments/best practice to emerge before extending the use of electronic structure data to other parts of the annual report and/or most other reports.

Question 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.

104. The ESEF comes into effect from 1 January 2020. We suggest that before deciding whether or not it should be extended to limited liability companies, it would be advisable to wait until the companies currently within its scope have implemented the new rules and to gather evidence on their experiences.

Question 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.

105. No comments at this stage.

Question 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.

106. Although we do not have any detailed comments at this stage, we would like to highlight the recent ICAEW Technical Release *04/10 Guidance for Performing Agreed-Upon-Procedures Engagements That Address XBRL-Tagged Data Included Within Financial Statements Prepared in iXBRL Format*, which may be of interest to the Commission.

DATA STORAGE MECHANISMS – DATA REPOSITORIES

Question 64:

Considering the modern technologies at hand to interconnect databases on information filed by 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 user	☐	☐	☐	☒	☐	☐

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

107. No further comments at this stage.

Question 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.

108. While we agree that re-using structured electronic data could be beneficial we believe there are currently technological limitations to achieving this goal. In addition, as discussed in our response to question 59, we believe that further work would be needed to ensure sufficient agreement, coordination and investment by the participating organisations.

COHERENCE WITH OTHER COMMISSION INITIATIVES IN THE FIELD OF DIGITALISATION

Question 66:

	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 supervisory purposes?	☐	☐	☐	☐	☐	☒

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

109. No comments at this stage