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

INVESTMENT AND COMPANY REPORTING
Accounting and financial reporting

CONSULTATION DOCUMENT

FITNESS CHECK ON THE EU FRAMEWORK FOR PUBLIC REPORTING BY COMPANIES

Disclaimer

This document is a working document of the Commission services for consultation and does not prejudge the final decision that the Commission may take.

The views reflected on this consultation paper provide an indication on the approach the Commission services may take but do not constitute a final policy position or a formal proposal by the European Commission.

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

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

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

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

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

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

CONTENT OF THE CONSULTATION DOCUMENT

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

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

The questionnaire is structured as follows:

► Introduction

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

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

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

► The EU financial reporting framework for banks and insurance companies (Sectoral Accounting Directives) (Section IV; Questions 30 - 39)

► Non-financial reporting framework (Non-Financial Reporting Directive, Country-by-Country Reporting for extractive and logging industries and integrated reporting) (Section V; Questions 40 - 56)

► The digitalisation challenge (Section VI; Questions 57- 66)

► Other comments

► Acronyms and Abbreviations

Introduction

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Questions

Assessing the fitness of the EU Public Reporting Framework Overall

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

	1	2	3	4	5	Don't know

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

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

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

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

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.

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.

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

Total amount in Euros
€ ...

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

Coherence

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

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

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

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

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

Most of these issues relate to regulation that goes beyond IFRS Standards. However, the Board in November 2017 added a project to its agenda to revise and update the IFRS Practice Statement Management Commentary issued in 2010. The Board noted that in undertaking the project it consider how broader financial reporting could complement and support IFRS financial statements.

6. Depending on circumstances, a company may have public reporting obligations on top of those being examined here. Such legislation may have been developed at the EU[5], national

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

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.

EU Added value

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

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

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

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

II. The financial reporting framework applicable to all EU companies

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

Companies operating cross-border

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

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

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

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

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

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

8 Regulation (EU) 2015/848 on insolvency proceedings

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

Questions

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

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

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

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.

Much of this goes beyond the scope of IFRS Standards. However, as part of its work on Wider Corporate Reporting, the Board is exploring targeted improvements to the structure and content of the primary financial statements, with a focus on the statement(s) of financial performance. This work is at an early stage and is likely to be relevant to the questions above about differences and overlaps arising from the presentation of the financial statements.

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.

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.

12. As regards the preparation of consolidated and individual financial statements 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.

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.

SMEs

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

Questions

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

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

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

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

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.

Relevance of the content of financial reporting

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

Questions

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

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

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

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

The Board in November 2017 added a project to its agenda to revise and update the IFRS Practice Statement Management Commentary issued in 2010. The Board noted that in undertaking the project it consider how broader financial reporting could complement and support IFRS financial statements.

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

❍ Yes

❍ No

❍ Don't know

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

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

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

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

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.

As part of its work on Wider Corporate Reporting, the Board is exploring targeted improvements to the structure and content of the primary financial statements, with a focus on the statement(s) of financial performance. This work is at an early stage and is likely to be relevant to the questions about alternative performance measures.

III. The EU financial reporting framework for listed companies

The IAS Regulation and International Financial Reporting Standards (IFRS)

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

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

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

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

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

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

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

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

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

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

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

Questions

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

- ❍ **X** 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.

We set out the following points in support of the above response. In doing so, we note that it is the right for all sovereign jurisdictions to determine whether and how to incorporate IFRS Standards into its own requirements.

- **The EU is not an outlier in its decision to adopt IFRS Standards without use of carve-ins:** The EU's 2002 decision to adopt IFRS Standards without carve-ins provided a blueprint for IFRS adoption that has been followed by most of the rest of the world. To date, almost 90% of all jurisdictions researched by the IASB (144 out of 166) require the use of IFRS Standards for all or most publicly listed companies. This includes three quarters of all G20 jurisdictions. Of the 144 adopters, 87 jurisdictions have no endorsement mechanism at all and simply adopt IFRS Standards as issued by the IASB.
- **Direction of travel among most remaining jurisdictions is towards unmodified IFRS Standards:** With the exception of the United States, the remaining G20 jurisdictions are making good progress towards IFRS Standards. In Japan, companies representing around 30% of total Japanese market capitalisation have voluntarily chosen to adopt IFRS Standards. China has adopted unmodified versions of all recent IFRS standards and is committed to full convergence with IFRS Standards over time. Moreover, Chinese companies representing around 30% of the total market capitalisation of mainland China also produce financial statements fully compliant with IFRS Standards for the purpose of their dual listings in Hong Kong. Like China, both India and Indonesia are committed to achieving full convergence over time.
- **Previous EU consultations on IFRS have concluded that carve-ins are not warranted:** The EU has—on two occasions in the last five years—sought feedback on the possibility of introducing a carve-in mechanism to the EU endorsement process. Both reviews cautioned against such a change.

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?

❍ X Yes

❍ No

❍ Don't know

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

We do not believe it would be helpful or necessary to add 'long-term investment' and 'sustainability' as two new criteria for the EU-endorsement process.

- While we applaud the EU's efforts to achieve such goals, the possible impact of accounting standards should not be overestimated, since accounting is primarily a tool to present as fairly as possible economic reality. Promoting long-term investment requires more fundamental policy tools such as adequate asset-liability management and the availability of adequate sources of long-term equity and debt.

- Moreover, criteria such as sustainability and long-term finance are sufficiently vague to provide legitimacy for myriad lobbying efforts. If the EU also introduces a European Conceptual Framework, an idea which is tested in the questionnaire, divergence from international norms would become much more likely.

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;

❍ X Other, please specify

See response 20.

❍ Don't know

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

performance, prudence, etc. Do you think that an EU conceptual framework should underpin the IFRS endorsement process?

❍ Yes

❍ X No

❍ Don't know

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

See response 20.

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.

Should the EU endorse the IASB Conceptual Framework for Financial Reporting?	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.

In March 2018 the Board issued a revised version of its Conceptual Framework for Financial Reporting that underpins IFRS Standards. It sets out the fundamental concepts of financial reporting that guide the Board in developing IFRS Standards. It helps to ensure that the Standards are conceptually consistent and that similar transactions are treated the same way, providing useful information for investors and others.

The Conceptual Framework also assists companies in developing accounting policies when no IFRS Standard applies to a particular transaction; and it helps stakeholders more broadly to understand the Standards better.

The revised Conceptual Framework includes a new chapter on measurement; guidance on reporting financial performance; improved definitions and guidance—in particular the definition of a liability; and clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting.

The Foundation recommends in general the use of the Conceptual Framework, however, the decision whether to endorse it in the EU is the EU's sovereign decision that is why 'don't know' has been selected.

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

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

and income statement. Mandatory use of minimum layouts could enhance comparability of human readable financial statements[19].

Do you agree with the following statement?

Prescribed (minimum) layouts enhance comparability of financial statements for users and should therefore be introduced for companies using 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 concrete examples.

IFRS standards do not provide for prescribed minimum layouts because expectations of investors vary across markets. However, they do provide flexibility and set out minimum disclosure and presentation requirements.

As noted above, the Board is exploring targeted improvements to the structure and content of the primary financial statements, with a focus on the statement(s) of financial performance. This work is at an early stage and is likely to be relevant to the questions about minimum prescribed layouts.

Transparency Directive

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

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

Questions:

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

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

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

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

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

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.

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.

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

	1	2	3	4	5	Don't know
Coherent with EU company law	☐	☐	☐	☐	☐	☐

Coherent with the shareholders' rights directive	☐	☐	☐	☐	☐	☐
Coherent with the obligation to disclose managers' transactions under Article 19 of the Market Abuse Regulation[20]	☐	☐	☐	☐	☐	☐
Coherent with other EU legislation – please specify	☐	☐	☐	☐	☐	☐

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

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

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.

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

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

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

Bank Accounts Directive (BAD)

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

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

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

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

<u>Questions</u>

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**

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

						☐

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

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

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.

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.

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.

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	**1** ☐	**2** ☐	**3** ☐	**4** ☐	**5** ☐	**Don't know** ☐

efficiency of preparing consolidated financial statements						
Allowing the use of IFRS for the preparation of individual financial statements by (cross border) banking subsidiaries, subject to consolidated supervision, would increase efficiency	**1** ☐	**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.

36. Do you agree with the following statement:

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** ☐	**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.

Insurance Accounting Directive (IAD)

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

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

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

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

Questions

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.

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	☐	☐	☐	☐	☐	☒

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

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.

IFRS 17 is the first truly international standard for insurance contracts. It will require current valuation of all insurance liabilities based on uniform principles. The Standard will bring clear principles for revenue and profit recognition, making the insurance industry better comparable to other financial companies, such as banks and asset managers.

Although Solvency 2 and IFRS 17 requirements have different objectives, there are some similarities regarding the measurement of some aspects of insurance liabilities. A company may be able to use the same valuation principles for Solvency 2 and IFRS 17, in which case the EU could limit preparers' discretion, but a valuation basis that modifies the application of the standard would be tantamount to a carve in, with all the problems and challenges that we outline above.

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.

V. Non-financial reporting framework

Non-Financial Reporting Directive

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

Questions

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

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

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

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

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.

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.

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.

44. Do you agree with the following statement?

	1	2	3	4	5	Don ' t kno w
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.

45. Do you agree with the followingstatement?

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

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

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

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 kno w
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.

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

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.

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

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

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

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

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

50. How would you assess, overall, the impact of the NFI Directive disclosure framework on the competitiveness of the reporting EU companies compared to companies in other countries and regions of the world?
   - ❍ Very positive impact on competitiveness
   - ❍ Somewhat positive impact on competitiveness
   - ❍ No significant impact on competitiveness
   - ❍ Somewhat negative impact on competitiveness
   - ❍ Very negative impact on competitiveness
   - ❍ Don't know

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

Country-by-country reporting by extractive and logging industries

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

Questions:

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

	1	**2**	**3**	**4**	**5**	**Don't know**
<u>effective</u> (successful in achieving its objectives)	☐	☐	☐	☐	☐	☐
<u>efficient</u> (costs are proportionate to the benefits it has generated)	☐	☐	☐	☐	☐	☐
<u>relevant</u> (necessary and appropriate)	☐	☐	☐	☐	☐	☐
<u>coherent</u> (with other EU requirements)	☐	☐	☐	☐	☐	☐
Designed at the <u>appropriate level</u> (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.

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

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

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

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

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

Integrated reporting

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

<u>Questions</u>

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

	1	**2**	**3**	**4**	**5**	**Don't know**

More efficient allocation of capital, through improved quality of information to capital providers	☐	☐	☐	☐	☐	☐
Improved decision-making and better risk management in companies as a result of integrated thinking and better understanding of the value-creation process	☐	☐	☐	☐	☐	☐
Costs savings for preparers	☐	☐	☐	☐	☐	☐
Cost savings for users	☐	☐	☐	☐	☐	☐
Other, please specify…………….	☐	☐	☐	☐	☐	☐

(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.

55. Do you agree with the followingstatement?

	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.

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.

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

VI. The digitalisation challenge

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

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

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

<u>Questions</u>

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

❍ Yes

❍ No

❍ Don't know

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

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

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

❍ Yes

❍ No

❍ Don't know

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

The impact of electronic structured reporting

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

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

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

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

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

	1	2	3	4	5	Don't know
Financial reporting						

Half-yearly interim financial statements	☐	☐	☐	☐	☐	☐
Management report	☐	☐	☐	☐	☐	☐
Corporate governance statement	☐	☐	☐	☐	☐	☐
Other disclosure or statements requirements under the Transparency Directive such as information about major holdings	☐	☐	☐	☐	☐	☐
Non-financial reporting and other reports						
Non-financial information	☐	☐	☐	☐	☐	☐
Country-by-country report on payments to governments	☐	☐	☐	☐	☐	☐
Other, please specify:……………..	☐	☐	☐	☐	☐	☐

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

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

❍ Yes

❍ No

❍ Don't know

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

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.

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.

Data storage mechanisms – data repositories

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

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

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

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

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.

Coherence with other Commission initiatives in the field of digitalisation

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

	1	2	3	4	5	Don't know
66. 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)

Other comments

67. Do you have any other comments or suggestions?

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

[27] For more details, see Commission report on the Follow up to the Call for Evidence - EU regulatory framework for financial services, December 2017 section 3.3

Acronyms and Abbreviations

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