

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

Sent online

19. july 2018

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

Dear Commissioner Dombrovskis,

We welcome the European Commission's (EC) initiative assessing the EU framework for public reporting by companies.

We very much appreciate that the EC takes this initiative and engages itself in a debate on such an important issue.

FSR – Danish Auditors has already for a couple of years engaged in the debate on the future of corporate reporting and how auditors can continue to provide relevant assurance services taking into consideration the development of new technologies, the digital transformation and increasing demands for reliable and comprehensive corporate reporting addressing both financial and NFI. Some of our observations are available in our magazine Future Reporting from 2016 and have been reported to Accountancy Europe (former FEE), according to the enclosed link and annex A below:

[https://fsr.dk/Faglige\\_informationer/Publikationer/Publikationer-liste/Fremtidens-rapportering/Future-raporting](https://fsr.dk/Faglige_informationer/Publikationer/Publikationer-liste/Fremtidens-rapportering/Future-raporting)

Response and comments to discussion paper FEE – The Future of Corporate Reporting – creating the dynamics for change cf. annex A.

The EU Fitness Check initiative from the EC is a good opportunity to provide an assessment of corporate reporting in Europe and the effects of current legislations and frameworks within corporate reporting.

Actions should be taken as a follow-up on the EU Fitness Check in order to update the current EU reporting framework to fulfil stakeholders' needs for an up-

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dated, transparent, comparable and relevant reporting framework in an environment where the digitalisation has created new possibilities for filing and distribution of financial and NFI.

Overall, we have identified the following needs that should be dealt with:

- a) A need for modernisation of the EU reporting framework.
- b) A need for broader corporate reporting including reporting of performance in a wider context where both financial and NFI performance are integrated.
- c) A need for allowance to adopt new technologies in corporate reporting and filing of corporate reports, which are understandable and easily accessible/usable for stakeholders.

Referring to the specific chapters in the EU Fitness Check questionnaire, we have the following general comments (our specific comments are stated in the answers to the questionnaire).

## **1. EU Public Reporting Framework Overall**

Generally, we find that the European accounting directives have fulfilled their main objectives. Some of the objectives mentioned in the fitness check questionnaire, e.g. ensuring financial stability, are fulfilled to some degree by the EU reporting Framework but other initiatives by the EC will also fulfil such objectives. We support an accounting directive without options (in principle), since harmonised rules on corporate reporting ensure better comparability and more transparency.

We acknowledge that the debate on and trends to have more focus on NFI and sustainability in corporate reporting than was anticipated when developing the current accounting directive are a major reason behind initiating the fitness check.

Legislation on NFI reporting in a European context has been introduced more recently compared to financial reporting. We have had mixed experiences with Corporate Social Responsibility (CSR) reporting in Denmark since it was introduced in Danish legislation in 2009. We find that the EU has an important role to play in the further development on CSR and sustainability reporting.

The current challenges with comparability and reliability of CSR reports should be dealt with, and we suggest requiring external assurance of these reports.

The management report is an important part of corporate reporting. The current requirements in the accounting directive and in international financial reporting standards are not up-to-date on this matter. We would suggest more focus on indications of the expected development and on risks and uncertainties.

## **2. Financial reporting framework applicable to all EU companies**

- The accounting directive needs a modernisation, including further requirement for reporting on areas such as e.g. cash flow and the management report (forward looking information, risks and uncertainties).
- We suggest to abolish the micro regime, because annual reports based on the minimum requirements for micro entities are not satisfactory for users as they provide too limited information.
- Other requirements close to accounting should be harmonised – e.g. we find a need for better quality of data applied for NFI purposes, in order to strengthen NFI reporting. Better quality will support possibilities for external audit or assurance of NFI reporting.
- We do not support tax and accounting profit to be more aligned. We support to have tax reporting to be separate from the annual report, since the objectives for these reports are quite different.
- We do not support an EU Conceptual Framework (CFW) for financial reporting. It would be much better if the EU influences the IFRS framework and endorses this framework as this is used anyway when issuers have accounting issues which are not covered specifically in the IFRS standards.
- We support requirements to report on financial statements from the individual companies within a group. Even if the parent company has to guarantee the liabilities of the subsidiary, we still find it of less relevance compared to the requirement on reporting on individual entities.
- We support more informative and robust reporting for SMEs and an EU option to use IFRS for SMEs to be elected by the individual entity. The IFRS for SMEs is up-dated currently and it is recognised globally.

### **3. Financial reporting framework for listed companies**

We generally find that the European requirement to apply IFRS cf. the IAS regulation and the transparency directive has fulfilled its purpose and it has created a suitable frame for financial reporting from listed entities.

Other general themes and standpoints:

- IFRS must remain the reporting language for listed companies in EU and without modification. We definitely see most arguments for not having European carve in or carve outs, cf. our comments to question 19 in the questionnaire. We do therefore not support implementation of a carve -in model in the European legislation.
- Harmonised requirements for all listed companies including requirement for format and contents of the management report.
- We support to have the IFRS conceptual framework to be endorsed in the EU, even though we acknowledge that this is not without issues to consider and handle.
- We support voluntary quarterly reporting for listed companies as investors and other stakeholders are interested in frequent and consistent information.

### **4. Financial reporting for framework for banks and insurance companies**

We have not developed specific comments on chapter IV on financial reporting for banks and insurance companies.

## 5. Non-financial information (NFI)

- We support better integration in the corporate reporting of financial and NFI information.
- We suggest that the EC should work on the definition of one set of NFI requirements instead of the diversity of guidelines existing globally today.
- We suggest that the EC work on more harmonised rules for NFI across Europe in the individual countries.
- We find that the current European requirement on NFI for listed companies with more than 500 employees should be extended to cover also some very large non-listed companies, which might have an important role to play nationally and/or on a European level on ensuring sustainability.
- We suggest a requirement for audit or external assurance of NFI.

## 6. Technology

The development of new technology is both for the benefit for issuers as for users and for other stakeholders of public reporting by companies. In our opinion, it is important that new technology which supports a free and easy access to information for the stakeholders.

- We strongly recommend requirements on electronic reporting and filing to be required in the accounting and transparency directives.
- We see opportunities to improve the quality of assurance through the use of new technology, while at the same time creating use assurance to create confidence to new technology.
- We support to allow the electronically filed annual reports to have links to sub-reports at the company's website. It might be links to the corporate governance report or to NFI reports (the Danish model as of today).
- We support a single EU access point, but it may be with a link back to national central filing points.

- EU should provide some standardisation of the part of corporate websites, which are used by investors and others on annual reporting relevant contents.
- We would support a reporting model taking into account the technological development as well as the growing need for wider reporting like e.g. the principles behind the Core & More model with a Core report with links to More reports as indicated in the FEE (now: Accountancy Europe) publication: "Future of corporate reporting: Creating the dynamics for change" (2015).
- EU should provide a framework for electronic reporting to be used for further development without limitations due to slow updating of laws.
- EU reporting legislation should be modernised to allow digital reporting. Technology will change future reporting compared to today and will improve reporting by making it more accessible, dynamic, interactive and coherent.

If you have any questions to our comments, please do not hesitate to contact us.

Kind regards,

Brian Wessel  
Director, Dept. of Professional Affairs