

Fitness check on the EU framework for public reporting by companies

Consultation issued by the European Commission

Comments from ACCA

July 2018

ACCA (the Association of Chartered Certified Accountants) is the global body for professional accountants, offering business-relevant, first-choice qualifications to people of application, ability and ambition around the world who seek a rewarding career in accountancy, finance and management.

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GENERAL COMMENTS

ACCA welcomes the opportunity to comment on the European Commission's *Fitness check on the EU framework for public reporting by companies* ('the consultation'). This submission has been done with the assistance of European members of ACCA's Global Forum for Corporate Reporting.

ACCA's detailed responses are provided via the online questionnaire. Our views on key aspects of the consultation are summarised below.

If further information is needed, please get back to us.

International Financial Reporting Standards

As a global standard, IFRS provides the basis for more comparable, reliable and relevant information for users of financial statements, and contributes to more efficient allocation of capital both within and outside the EU. For this reason, ACCA believes that it is still appropriate for the IAS Regulation to prevent the Commission from modifying the content of IFRS. We consider that EU-modified IFRS would be less trusted by investors and so less beneficial for capital markets than IFRS as issued by the IASB.

There is no evidence to suggest that IFRS pose an obstacle to sustainability and long-term investment.

Other levers may prove more effective in promoting sustainability and long-term investment, for example targeted regulation, taxation and corporate governance codes.

Integrated reporting

As a voluntary, business-driven initiative, integrated reporting leads to more long-term focused business decision-making, greater corporate accountability and the more efficient allocation of capital. It is therefore entirely aligned with the European Commission's goal of promoting sustainability and long-term investment.

ACCA would encourage the European Commission to support the adoption of integrated reporting by companies in the EU, by explicitly acknowledging the International Integrated Reporting Framework, and issuing guidance regarding how integrated reporting may fit within the current regulatory framework.

Management report

We note that the consultation has not addressed the management report, which is required by the Accounting Directive from medium-sized and large companies. There are opportunities to improve the relevance of reporting within the management report, especially since the requirements for more non-financial information, addressing key

societal concerns, is for now restricted to large listed companies. We would recommend that the European Commission reviews the management report requirements with this in mind in future.

Assessing the fitness of the EU public reporting framework overall

The public reporting requirements for large listed companies differ significantly from those for small and micro entities, which are limited to a selection of balance sheet headings from the financial statements. The numerous options in the Accounting Directive also mean that application varies greatly from one member state to another. It is therefore not possible to give a generalised assessment the fitness of the EU public reporting framework overall in a meaningful way.

We would suggest that the European Commission exercises caution in interpreting the results relating questions 1-7 of the consultation, as we suspect that given the general nature of the questions, responses are likely to overlook the application of the public reporting framework by SMEs, the largest population of companies in Europe.

The impact of the NFI directive

The NFI directive has been in force for only one reporting cycle, so it is too early to fully assess its effectiveness. Impacts such as diversity and challenge in boardrooms, the enhanced competitiveness of European businesses, and the trickle-down demand for non-financial information through the supply chain, need to be observed over a period of several years. We would welcome an assessment of the NFI directive in two or three years' time, when more complete implementation feedback may allow the European Commission to consider extending the directive's scope beyond large public interest entities.