Deutsches Rechnungslegungs Standards Committee e.V.

Accounting Standards Committee of Germany

DRSC

DRSC e. V. • Zimmerstr. 30 • 10969 Berlin

Directorate-General for Financial Stability,
Financial Services and Capital Markets Union
European Commission
1049 Brussels
Belgium

Administrative Board

Telefon: +49 (0)30 206412-0
E-Mail: info@drsc.de

Berlin, 12 July 2018

Dear Madam or Sir

RE: Fitness check on the EU framework for public reporting by companies

On behalf of the Administrative Board of the Accounting Standards Committee of Germany (ASCG), which oversees the work of the German standard-setter and is the body responsible for strategically positioning the organisation, I am writing to summarise our key points on the *Fitness check on the EU framework for public reporting by companies* (herein referred to as 'the Fitness check'). This letter accompanies and should be read in conjunction with our detailed responses that we provide in the questionnaire, as you have requested. We commend the Commission for having launched this extensive review and are generally supportive of assessing the appropriateness of the current framework for public reporting by companies.

Public reporting requirements are generally deemed appropriate and sufficient, but the definition of public interest entities should be reconsidered

We are of the opinion that the current EU reporting framework is generally effective in meeting its objectives. In some areas, such as ensuring financial stability or sustainability, we note that these public policy goals had not been defined as the key objective for developing the reporting requirements initially. Furthermore, we sincerely question whether the objective of financial reporting should really be to address these broader public policy goals or whether they would not be better served by other means instead (e.g., prudential oversight in the case of the former). We acknowledge that gaps in certain areas and options provided in the framework do lead to a certain degree of incomparability across companies. However, based on the evidence from all stakeholders operating in our jurisdiction, we have not received strong calls for further alignment. Users seem to be able to appropriately deal with any differences where they exist. Hence, given no apparent need for further streamlining reporting requirements and abolishing options, we believe that scarce resources should not be deployed in this area.

An area that we deem worth reconsidering though concerns the definition of a public interest entity (PIE) and the reporting burdens placed on them. Specifically, we note that there are many smaller financial institutions that are being captured by the PIE definition, so they have to meet reporting requirements, which are primarily targeted at big and listed companies. We question whether the requirements are truly cost-beneficial in such cases and suggest the Commission reconsider this aspect.

Review the interplay of 'level 1' legislation with 'level 2/3' regulation

Notwithstanding our general assessment regarding the 'level 1' legislation referred to in the previous section, we do see merit in reviewing and potentially streamlining requirements in the area of 'level 2/3' regulation, particularly where they either conflict or overlap with 'level 1' legislation or unnecessarily limit choices for no apparent reason or benefit. We understand and acknowledge that the Commission's focus for the Fitness Check is on 'level 1' legislation only; however, we strongly believe that keeping the focus that narrow is limiting the ability to further increase the effectiveness of public reporting. When it comes to applying reporting requirements, it is less important to know who authored those requirements (i.e. the Commission, Member States, or European authorities) than to know which requirements exist and have to be followed. Hence, we suggest the Commission revisit its decision regarding scope to explore where duplications and overlap can be avoided and abolished.

No changes to the IAS Regulation

An area where we have a long-standing and firm view concerns the IAS Regulation. We fundamentally disagree with the recommendations made by the High Level Expert Group on Sustainable Finance with regard to changing the IAS Regulation so as to broaden the evaluation criteria and to allow Europe to make technical changes to the IFRS literature (to be) endorsed. The IAS Regulation has been reviewed several times over the past decade, and in every consultation it has been deemed to work satisfactorily. We honestly fail to see new facts that could have arisen or any fundamental change in circumstances that would convince us of starting another review.

As regards the first point, we do not see why the public good criterion would have to be amended to explicitly refer to 'sustainability and long-term investment objectives'. We note that the Commission has some freedom to interpret what it considers 'conducive to the European Public Good' to mean in any given circumstance, as is evidenced by the endorsement requests sought from EFRAG since the implementation of the Maystadt reform. It goes without saying that comprehensive standards, such as IFRSs 9, 15, 16 and 17 warrant a deeper dive into areas of public policy and macroeconomics than, say, a minor annual improvement. Hence, we fail to see why the explicit mention of two policy areas was deemed necessary or advisable. Further, we equally fail to see why IFRSs would be regarded an obstacle to sustainability or long-term investment objectives, as either objective relies on decision-useful information that we firmly believe IFRSs do bring about.

On the second issue of changing the IAS Regulation so as to allow Europe to make changes to IFRSs in the course of or past endorsement, we maintain our position and firmly object to any such changes being made. Firstly, we disagree with the assertion that Europe was the only jurisdiction bound to a simple binary decision whether to endorse or not, which is simply a false statement. Secondly, we fail to see the benefit such changes would bring for European businesses other than threatening the IASB with counter-action should a development not suit particular positions raised by some in Europe. We fear that such threat potential might even have the opposite effect of weakening Europe's weight when standards are developed, as the IASB would never know in advance whether or not Europe would endorse the final product. Thirdly, and most importantly, we strongly believe in and clearly see the benefits associated with a single set of global standards vis-à-vis different dialects and variants, even if a particular treatment was favoured less than a first best option. This is simply the price to pay for having highly efficient reporting processes in companies operating in and across several different jurisdictions and for easing the understanding of capital market participants and other stakeholders about a group's financial position and performance in turn.

Insufficient evidence for assessing the effectiveness of new requirements

In several areas of the questionnaire, the Commission seeks to ascertain whether or not a particular reporting area was working as intended and, thus, be deemed effective and sufficient (e.g., the recent NFI requirements that became effective last year). We note that one year of evidence is not enough to cast a verdict over whether or not the objectives have been achieved. As is the case with any new policy requirement, there is usually diversity in how these requirements are being implemented by and across companies. However, much of the diversity will only exist temporarily as a best practice subsequently evolves. We firmly believe that for any new policy measure entities should be given ample time to experiment and adjust their reporting, as appropriate, before any new reporting burdens are placed on them.

No premature takeover for IFRS requirements into the Accounting Directives

We note the IFRSs differ in many respects from the solutions contained in the EU Directives. For instance, the IASB has fundamentally changed the concept for accounting for leases with IFRS 16; IFRS 9 contains a new impairment model aimed at earlier loss recognition for certain financial instruments; and IFRS 17 brings about a completely new accounting model for insurance contracts. Whilst we see merits in keeping these and other new concepts on the radar for potential future amendments of EU legislation, we believe that it would be premature to copy any of the new requirements into the Directives before they have been fully implemented by the entities reporting under IFRS and evidence been gathered in a post-implementation review. In any case, companies not listed on a regulated market should not become the guinea pigs for companies reporting under IFRS by hastily amending EU Directives, even if this meant that those Directives would not be amended for the next few years.

Should you wish to discuss any of the above mentioned issues in more detail, please feel free to reach out to me any time.

Yours sincerely,

Dr Ralf P Thomas,

Chairman of the ASCG's Administrative Board