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Administrative Board

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Accountancy Europe
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Dear Sir/Madam

Cogito paper: Interconnected Standard Setting for Corporate Reporting

We welcome Accountancy Europe's initiative and publication of the discussion paper *Interconnected Standard Setting for Corporate Reporting*. With this paper, Accountancy Europe initiates a public debate on the future organisational and institutional structure of a harmonised corporate reporting in the area of non-financial reporting, in particular.

We agree with Accountancy Europe that there is a strong and steadily increasing demand for high quality and comparable non-financial disclosures for users from different stakeholder groups. Obviously, there is the 'traditional' investor group that are regarded the primary user of the companies' financial reporting. These users require financial as well as non-financial information to support their decision-making on whether to provide capital to the company. That said, there is also a much wider group that Accountancy Europe coins 'indirect' investors, which includes employees, suppliers, customers, the society at large etc. Both groups of 'investors' require information about the broader aspects of a company's value creation and drivers as well as its risk management over a longer-term horizon, as the paper rightly states.

Whilst moves to harmonise financial reporting have led to the creation of the International Accounting Standards Board (IASB) and have been largely successful in developing a common global reporting language, a similar consolidation in the non-financial arena is yet to be seen. We acknowledge that convergence of the 1,000+ different frameworks will be distinctly more challenging to achieve given the far greater and more diverse audience they mean to address. In its paper, Accountancy Europe takes the efforts that have led to the development of the IASB as a role

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model and promotes an approach where, similarly, a private sector body should be tasked with developing global standards in the non-financial arena, ideally under the same organisational umbrella and linked through a mutually agreed-upon framework for corporate reporting that would facilitate coherent financial and non-financial reporting.

Whilst we see a lot of merits in pursuing such an approach, we have doubts that it may be too ambitious to achieve in one straight attempt. Hence, if achievements were to be sought rather quickly, intermittent steps seem necessary, appropriate and more promising. In our view, three issues stand out as requiring resolution in particular:

1. Should the approach be private sector-driven, or should governments and regulators step in and require certain non-financial information?
2. Should consolidation of the non-financial reporting frameworks be sought before taking the organisational step of creating an International Non-Financial Reporting Standards (INFRS) Board? Alternatively, should an INFRS Board be created with a subset of the non-financial reporting initiatives (e.g., those that focus on providers of capital)?
3. Should the envisaged solution be developed globally from the start (a top-down approach), or would pursuing regional approaches that would then merge into a global body later on (a bottom-up approach) be more promising?

As to the first question, we believe that there are roles for both the private and the public sector: We would differentiate between *setting requirements* on the one hand and *requiring adherence* to those standards on the other: The former may be better placed with those that are closer to where deficiencies exist and information is being sought. Conversely, public policy seems better placed to address the scope as to who should be subjected to such standards as well as to enforce the quality of those companies' reporting. So, with regard to setting non-financial reporting standards, we believe that **market-led approaches are genuinely more suitable** in contrast to public policy reporting requirements as the former are tailored more directly to address specific information needs. This would also contribute to avoiding creating compliance exercises and box-ticking approaches.

As to the second issue, we believe that it may be easier to **align non-financial reporting frameworks that share the same stakeholder orientation**, namely providers of capital. Whilst there may be a spectrum of views also amongst financial investors, we believe that their views are at least directionally similar (in contrast to the range of views of other stakeholders, which may even conflict with each other) and therefore easier to align. Further, aligning these frameworks and reconciling them with financial reporting might be easier to facilitate, too. Whether or not any consolidation of non-financial reporting frameworks took place under the roof of the existing (though perhaps reshaped) financial reporting standard-setter or was achieved outside of the existing organisation would be of secondary importance to us. Finally, our support for this narrower approach should not be misunderstood as neglecting the importance of trying to pursue further discussions with other frameworks that address different stakeholder groups with a view of merging and consolidating.



Finally, as to whether a global or a regional solution should be aimed at, we definitely share Accountancy Europe's **preference for a global approach**. Whilst we accept that differing degrees of willingness to proceed with mandatory non-financial reporting exist around the globe, we do not share the view of those that believe Europe should be first, go regional and create its own non-financial reporting environment. The reporting requirements are primarily targeting companies that are sourcing, selling and doing business beyond Europe's borders; further, the areas to be reported on are not genuinely limited by Europe's territory, either – so what would be the perceived benefit of creating yet another non-financial framework to which only companies domiciled in Europe would be subjected? We admit that a European framework might bring consistency and comparability within that regional area; on the other hand, any regional approach bears the risk of creating competitive disadvantage to European companies vis-à-vis their non-European counterparts who would not be subject to these regional requirements. We, therefore, agree with the summary of Accountancy Europe's arguments for preferring a global standard setter as mentioned on page 22 of its paper.

Should you wish to discuss our comments further or should you have any questions on any of the points, please contact Kristina Schwedler (schwedler@drsc.de), Thomas Schmotz (schmotz@drsc.de) or Andreas Barckow (barckow@drsc.de).

Yours sincerely

[Signature]
Chairman