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Re : Comment letter on consultation document "Fitness Check on the EU Framework for Public Reporting by Companies"

Dear members of the European Commission,

The Dutch Accounting Standards Board (DASB) appreciates the opportunity to respond to your consultation document "Fitness Check on the EU Framework for Public Reporting by Companies", that was issued on 21 March 2018.

In addition to our responses in your online consultation document, we have the following comments in respect of some main issues in the consultation document:

1. The use of IFRS in the EU
2. Introduction of a 'carve-in' mechanism in the endorsement process of IFRS
3. Revision of the endorsement criteria in the IAS Regulation
4. Introduction of an EU Conceptual Framework or endorsement of IASB Conceptual Framework
5. EU minimum lay-outs for financial reports
6. EU Accounting directive 2013/34/EU for non-listed companies
7. The EU financial reporting framework for banks and insurance companies
8. Non-financial reporting framework
9. Digitalization and Electronic structured data for Non-financial Information

Our main comments for these subjects are outlined in the paragraphs below.

1. The use of IFRS in the EU

The DASB strongly supports the use of IFRS in the EU. The adoption of IFRS have evidently had positive effects for listed companies and investors in all member states, such as higher quality and comparability of financial statements and increased transparency in the financial position and results of listed companies. It also reduced cross-border barriers through a common international financial reporting language and it achieved a level playing field for companies in the access to capital markets, both on EU and global level. These positive effects were also shared and confirmed in the 2015 public European Commission evaluation of a decade of IFRS Standards and in the feedback on the Maystadt report of 2013.

Without any doubt the EU played a leading role in these developments by requiring that all EU listed companies should apply IFRS for their consolidated financial statements. After this, many other jurisdictions followed in one or other way, which increased application of IFRS around the world. In our view, these significant positive effects of IFRS should be protected and maintained as much as possible in the future, to safeguard the interests of companies, investors and other stakeholders on global level.

2. Introduction of a 'carve-in' mechanism

The consultation document discusses a 'carve-in' mechanism that would enable the EU to allow changes to be made in IFRS standards to be applied in the EU. The DASB is strongly opposed to such a mechanism for the following reasons:

- a. As public financial markets are global, a single set of high-quality, global financial reporting standards that are globally accepted are key to achieve global comparability of financial statements. The EU plays a leading role in accomplishing this, and we urge the EU to continue supporting global comparability of financial statements. As concluded in the 2013 Maystadt report, carve-in mechanisms would rather lead to regional rather than global standards, which will result in less comparability and transparency. This would also lead to higher costs for European companies operating in several regions of the world and to higher barriers for investors in EU companies. The 2015 European Commission evaluation of a decade of IFRS Standards also confirmed the conclusions of the Maystadt review. The Maystadt report stated that caution is necessary in this area and most stakeholders supported maintaining the status quo. Europe, especially via EFRAG¹, currently is one of the most, and probably even the most influential force that influences the IASB because of the current 'binary yes or no' endorsement procedure and the leverage that the sheer size of the European Union provides. We expect that allowing carve-ins will significantly erode Europe's influence on IFRS. The consequence will be that the IASB will focus less on making sure Europe will

¹ A recent evaluation of the EFRAG reform concluded that EFRAG has been successful. See also <http://www.efrag.org/Assets/Download?assetUrl=%2Fsites%2Fwebpublishing%2FsiteAssets%2FPerception%2520Audit%2520FH.pdf> that states "The ability to influence IFRS Standards prior to their publication is generally granted a high priority by stakeholders, who on the whole see EFRAG as successfully fulfilling its mandate to carry European views to the International Accounting Standards Board (IASB)."

support in all details any new IFRS standard, given that with carve ins Europe signals to be no longer committed to global standards and may alter any existing or new IFRS standard anyway. It goes without saying this would be an undesirable development.

- b. In 2008, the US Securities and Exchange Commission (SEC) adopted rules to allow foreign private issuers to file their financial statements prepared in accordance with IFRS as issued by the IASB, without reconciliation to US generally accepted accounting principles. The introduction of carve-ins, in addition to the existing possibilities of carving-out IFRS standards or specific provisions thereof, could lead to the risk that the US will no longer recognize the EU financial reporting standards and consequently force EU companies listed in the US to reconcile their financial statements to US GAAP or full IFRS. In both cases this will lead to higher costs.
- c. The experience with the revision of the Accounting Directives in Europe has demonstrated that it is difficult to find consensus on accounting issues in Europe. Carve-ins would lead to European standard setting for which in our view the European process is not equipped. If this were to be done properly, it would be very difficult and costly for Europe to set this up, without any significant benefits.
- d. Finally, the introduction of a carve-in mechanism could easily delay the issuance of IFRS based EU financial reporting standards because of discussions before the end of the EU endorsement process. As a result EU companies will have less time to analyze the implications for them and to implement the requirements in time.

3. Revision of the endorsement criteria in the IAS Regulation

The consultation document raises the possibility of adding two new criteria to the EU-endorsement process, namely 'long-term investment' and 'sustainability'.

The DASB is strongly supportive of the EU objectives to stimulate long-term investment and sustainability. However, we do not concur with adding new endorsement criteria to the IAS Regulation. DASB considers ensuring financial stability not as an objective of financial reporting, but as an outcome thereof: transparent, true and fair financial reporting contributes to financial stability.

There are limitations to what financial reporting can mean for promoting sustainability. We believe that other measures are more appropriate. We believe that other initiatives, such as disclosure of non-financial information, a better integration of financial and non-financial information, long-term investment-stimulating government subsidies and sustainability benchmarks on EU level are more effective and appropriate to stimulate sustainability and long-term investments.

Investors are already showing their appreciation for sustainability or long-term investment objectives; this will stimulate preparers to be transparent on long-term value creation and sustainability preferably in management reports. We also welcome the EU's support for global initiatives such as the activities of the Task Force on Climate-related Disclosures (TCFD) and the Commission's plan to incorporate the TCFD guidance further into the non-binding guidance of the NFI Directive.

As far as IFRS is concerned, we believe that the current EU endorsement criteria, as described in the IAS Regulation, are appropriate. In our view, long-term investment and sustainability are sufficiently covered by the criteria that international standards must be "conducive to the European public good". We do not

have any evidence or indications that the current set of criteria poses a relevant obstacle to broader EU policy objectives such as sustainability and long-term investments.

The primary objective of financial reporting standards is to reflect the company's economic reality in a reliable way ('true and fair view'). DASB would be very concerned if general financial reporting objectives ('true and fair view principle') would be made subordinate to objectives to stimulate long-term investments and sustainability, for instance, by allowing alterations to recognition and/or measurement principles compared to the general principles with the purpose to hide volatility or risks of certain investments. Or by altering disclosure requirements in a way that volatility and risks related to the investments in business(es) involved will be less transparent or hidden in public reporting, or will give less insight to society.

4. Introduction of an EU Conceptual Framework or endorsement of the IASB Conceptual Framework

The DASB is strongly opposed to the introduction of an EU Conceptual Framework to underpin the IFRS endorsement process. The EU should not act as a standard setter for listed companies and therefore it is not in need of a conceptual framework. As an EU version could deviate from the IASB Conceptual Framework, it could also be inconsistent with IFRS standards that are adopted in the EU.

We do support the IASB Conceptual Framework, but in our view it is not necessary to endorse this framework in the EU as efforts in this direction would raise a number of new complexities for potentially limited practical benefit.

5. EU minimum layouts for financial reports for IFRS preparers

The consultation document discusses the introduction of prescribed (minimum) layouts for the balance sheet and income statement for companies that apply IFRS. Although mandatory use of minimum layouts could enhance comparability of financial statements, the DASB is not in favor of introducing such formats. EU specific layouts for IFRS will lead to further divergence from IFRS requirements, for example as laid down in IAS 1 'Presentation of financial statements'. Also, companies should have sufficient flexibility to align their balance sheet and income statement with the specific nature and size of their business, and to present their financial position and results of operation in a reliable and transparent way.

In our opinion, it will be more effective if the EU would actively support the IASB's current project to revise Financial Statement Presentation. The IASB is the appropriate body for such an initiative, and this project is already in a progressing stage.

6. EU Accounting Directive 2013/34/EU for non-listed companies

For non-listed entities, the requirements of the Accounting Directive implemented in national law appear to be a satisfactory basis to provide useful information to their shareholders and other stakeholders. To have a clear picture on this, we would suggest a separate and more thorough evaluation on the effectiveness of the EU Accounting Directive. We consider requirements for a cash flow statement and a

director's report as part of the publicly issued financial reporting of non-listed medium-sized and large entities to be an improvement.

With respect to the questions on further harmonisation of financial reporting of non-listed entities within the EU we believe more diverse stakeholder interests are relevant for the evaluation of the quality of reporting. For example, not only transparency and comparability requirements, but also cost/benefit considerations, creditor protection and alignment with local laws and regulations (e.g. on tax, dividend or capital maintenance) need to be taken into account. As distinct from listed companies most of those companies have a national market focus and are not operating cross-border.

We do not support introducing a European conceptual framework to underpin and harmonize application of the EU directive, because in our view this will be a disproportionate effort with potentially limited practical benefit.

In the Netherlands, non-listed companies have the option to use IFRS, but this is not the case in all EU member states. We believe that non-listed companies in Europe that wish to do so, should have the option to use IFRS instead of national GAAP. In this way, those non-listed entities for which cross-border comparability is important would have the ability to achieve that. Having such an option would also reduce burden for subsidiaries of group companies that report on IFRS for group purposes, which at present may have to prepare an extra set of statutory accounts based on national GAAP.

For wholly owned subsidiaries of listed companies, we recommend to introduce a set of "IFRS disclosure light" reporting standards. These standards would exactly follow the recognition and measurement criteria of IFRS, but would inherit only a limited part of the disclosure requirements. The decisions on which disclosure requirements will remain should be taken by the IASB. The impact would be less administrative burden for these subsidiaries of listed companies. We do not prefer the option to use IFRS for SMEs, as this could lead to measurement differences with consolidated financial statements that are based on IFRS.

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

In general, we are not supportive of using prudential reporting frameworks also for general financial reporting, as both frameworks serve different objectives. Additionally, the true and fair view principles for financial reporting should not be hampered by prudential objectives and requirements.

Bank Accounting Directive (BAD)

The current Bank Accounting Directive is rather outdated and -to a large extent- its objectives are taken over by IFRS standards. In the Netherlands only a limited number of banks do not report according to IFRS. In this light, in our view it would require a disproportionate effort to update and redesign the Bank Accounting Directive.

Insurance Accounting Directive (IAD)

At present comparability of insurance companies within the EU is not ensured by the Insurance Accounting Directive which is as an issue. Comparability of listed insurance companies will improve significantly when IFRS 17 will be applied. It seems logical to first decide on the endorsement of IFRS 17 within the EU and after this process has been finalized, as a subsequent step to start the evaluation of the effectiveness of and improvement possibilities for the current Insurance Accounting Directive.

Because the former steps will take a couple of years, we would suggest already one improvement in the current IAD. In the insurance industry, we noticed that the regulatory reporting framework has evolved to market value accounting principles. We would welcome if the EU investigates whether or not the market value accounting principles of the regulatory reporting frameworks for the measurement of all technical provisions could also be used for general reporting purposes, if this would lead to more reliable, transparent and comparable financial reporting by insurance companies. Due to the current limitation in respect of applying discounting of (short-tail) non-life insurance liabilities, this is not possible under the IAD.

We believe non-listed cross border insurance companies should also have the option to use IFRS instead of national GAAP (EU wide company option). In this way, those non-listed entities for which cross-border comparability is important would have the ability to achieve that (when IFRS 17 will be applicable). For national insurance companies comparability seems already achieved via local prudential requirements.

8. Non-financial reporting framework

The DASB is of the opinion that the Directive on Non-Financial information and diversity is a proper step to improve non-financial information reporting in the EU, as now all member states are obliged to implement the same minimum requirements for disclosure of non-financial information. What we see is an increasing number of companies that are -often voluntarily- including non-financial information in their annual reporting, especially regarding corporate social responsibility and sustainability. We also observe that more and more companies are combining financial and non-financial information in so-called *integrated reports*.

We welcome and appreciate these positive developments, which increase the relevance of public reporting. We have the following comments on some viewpoints expressed in the consultation document:

- a. At this moment, there are many frameworks available for reporting on non-financial information (such as GRI, SASB, IIRC, CDSB). Often they contain inconsistent or conflicting principles or requirements for non-financial disclosures. This inevitably leads to increasing costs for companies, as the information not only needs to be published, but also collected, recorded in computer systems, processed and sometimes audited. For this reason, we would favor the development of a single (global) non-financial reporting framework to align and clarify the principles involved. This could be initiated by the EC by showing her thought leadership role by supporting initiatives of -for example - the Corporate Reporting Dialogue (CRD) and the Task Force on Climate-related Financial Disclosures (TCFD).

In addition, we notice that non-financial information should be entity specific and management will

have to determine in their own particular situation which non-financial information is material and relevant for investors and other stakeholders for publication in their annual reports. The question on what non-financial information to disclose, depends on e.g. the size and geographical footprint of the company, the nature and character of the business and the markets they are operating in. In our view, only a limited set of non-financial key performance indicators (such as employee satisfaction, customer satisfaction, quality indicators, employee illness rate) may be seen as 'common ground' for most companies. We also believe that it is important that non-financial information will be accompanied by explaining narratives such as were they are based on and what they show.

- b. We welcome the call on EFRAG in the EC Action Plan on Financing Sustainable Growth to set up a European Corporate Reporting Lab as part of EFRAG to promote innovation and to develop good practices in corporate reporting. Such forum on EU level, comparable to the Financial Reporting Lab in the United Kingdom, would help companies and investors to develop and test new, innovative corporate reporting initiatives and align it with the needs of investors and other stakeholders. The lab is not only suitable for developing financial reporting, but also for reporting of all kind of non-financial information such as sustainability and climate related disclosures.
- c. The Directive on Non-Financial Reporting and diversity requires companies to report the non-financial information as of financial year 2017. As this was the first time, it is now too early to evaluate the effectiveness and cost/benefit ratio of the Directive's requirements. We would expect a thorough separate evaluation on this subject after a couple of years of application.

9. Digitalization and Electronic structured data for (Non-)Financial Information

We acknowledge the growing importance of the use of technology and digitalisation in the communication between companies and their stakeholders. Digitalization of (non-)financial information is a development that cannot and must not be ignored.

We do not think that current EU legislation provides an obstacle for developments in this area, but we also do not see that it stimulates innovation. Governments could provide incentives for best practices to develop further, for instance by providing subsidies or supporting an EU financial reporting Lab.

Standardisation in this area has advantages for efficiency and comparability but these advantages need to be compared with a possible loss of entity-specific information and differentiation.

When digitalization is accompanied by mandatory structured data formats, we have the following concerns:

- a. Structured formats do often not allow for providing entity specific information, which could in the end lead to less relevant information for stakeholders. For example, management discussions and analyses on the strategy and performance of the company, are very entity and industry specific which can hardly be captured in structured data formats.
- b. We do not support structured formats for financial reporting if these formats will not contribute to the true and fair view principle of financial reporting, for example when the (im)possibilities of the underlying technique is considered more relevant than the true and fair view of financial statements.

Or if entity specific important information can only be added by making a lot of efforts or costs, such as the need for building preparer extensions at the costs of the preparers.

- c. Structured formats may have the tendency to focus on 'numbers only', because one of the benefits is that all data structured in the same format can be gathered and accumulated for analyzing or decision making purposes. Not allowing enough prominence/attention to the specific accompanying disclosures and clarifications can lead to incorrect interpretations or decisions.
- d. Structured data formats could force companies to disclose non-financial information that actually is not or less relevant for stakeholders. It could eventually lead to an increased number of reporting requirements and higher costs for companies, without any clear benefits for investors and other stakeholders. In our view the format should be flexible enough to not require all datafields to be filled in.
- e. Due to its wide scope and nature, non-financial information is very difficult to translate into standardized data formats. If the data formats are not adequate or lack clarity, this could lead to confusion or misinterpretation among companies and consequently to impaired quality and comparability of non-financial information.
- f. Companies could consider presenting two separate reports for non-financial information: one based on the mandatory structured data formats for compliance purposes and a separate report containing only the relevant non-financial information for 'stakeholder relations' purposes. This inevitably leads to double costs for companies and would confuse stakeholders in obtaining the information they need.
- g. Although we can see the benefits of digitalization and electronic structured data, in our opinion a well thought-out position on the most appropriate framework and the most effective underlying technique for digital financial reporting needs to be developed further. Because of the rapid developments in this area we would suggest the EC to closely follow the FRC initiative on a framework for digital reporting, see the report 'Digital Future (A framework for future digital reporting)'. This report includes interesting concepts from a production, distribution and consumption perspective to be taken into account to make digital reporting a success.

Please do not hesitate to contact us should you require further information on these comments.

Yours sincerely,

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Chairman Dutch Accounting Standards Board