Association of International Certified Professional Accountants®

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

Sent onlineBrussels, 19 July 2018

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

Dear Commissioner Dombrovskis,

We welcome the European Commission's (the 'Commission') fitness check on the European Union (EU) Framework for public reporting by companies and recognise its importance. The Association of International Certified Professional Accountants ("the Association") is pleased to offer comments on the Document.

The Association is the largest professional accountancy body in the world, representing 100,000 Chartered Institute of Management Accountants (CIMA) Members within the UK and Ireland as well as 650,000 United States certified public accountants ("U.S. CPAs"), chartered global management accountants (CGMA), associates ("ACMA"), and fellows ("FCMA") of, and accounting and finance professionals in more than 170 countries, supporting them from our offices and centres across the EU, US and 23 further countries around the world.

We are dedicated to driving a dynamic accounting profession ready to meet the demands of a constantly changing world. We advance the quality of U.S. CPAs, CGMAs, ACMAs, FCMAs, and accounting and finance professionals globally. Our members represent many areas of practice, including business and industry, public practice, government, education, and consulting. The Association includes the American Institute of Certified Public Accountants (AICPA) and CIMA.

We have chosen to respond to two parts of the questionnaire – **Part Three** on the reporting framework and **Part Five** on the non-financial reporting framework.

Standard Setting

The Association supports the goal of a single set of high-quality, comprehensive accounting standards to be used by publicly-traded or listed entities in the preparation of transparent and comparable financial reports throughout the world.

We therefore strongly oppose permitting the EU to change specific aspects of IFRS published by the IASB ('carve-in') before transposing them into EU law. Specifically, we disagree with the implication outlined in Question 19 that different levels of commitment to IFRS internationally mean that this goal should be side-lined. In our view allowing flexibility will lead to the inevitable development of separate

European Standards as opposed to global ones, with the result that other regions of the world will follow suit. Ultimately, global standards will be undermined, and accounting will become a matter of policy and political direction rather than one of independence and integrity.

We question the feasibility of using accounting standards for the advancement of EU goals other than the efficient functioning of EU capital markets and the ability of EU companies to have access to international capital markets on optimal terms. Furthermore, there would have to be agreement on those goals and, as noted in the Fitness Check, the EU IAS Regulation does not define the "European Public Good." Perhaps more importantly, governments come and go, and administrations change their political leanings and their policies. It would be unnecessarily disruptive to the financial system to change financial accounting standards every time governmental policy changes direction. Moreover, only if accounting information is neutral can it safely be used to help guide policies as well as to measure their results.

We recognize that standard-setters must be alert to the economic impact of the standards that they promulgate. Although difficult to isolate and even harder to predict when a standard is under consideration, we support the IASB's process, including its post-implementation reviews, which consider the probable economic impact of its standards (including input from national standard setters and other constituents) and monitors that impact as best it can after a standard goes into effect. It considers, for example, whether the standard results in a faithful representation of the economic phenomena that was intended.

In our view, if adopted this will isolate European companies from global capital markets, particularly unwise at the time of Brexit when leading European companies may lose some access to funding from London. It may also hinder investment and increase the cost of capital to issuers. We believe that the European Commission and other EU bodies would be better served through continuing to work with the IASB. This should help IFRS standards match EU endorsement criteria. Finally, the benefits in terms of transparency and comparability that European companies enjoy from having adopted IFRS will be lost.

To support our case for IFRS, we outline evidence of how these standards are utilized in the United States.

Use of IFRS in the U.S.

Although the U.S. Securities and Exchange Commission (SEC) requires the use of U.S. Generally Accepted Accounting Principles (U.S. GAAP) by domestic public companies, the SEC permits the use of IFRS, as issued by the IASB, for foreign private issuers. As of September 2016, about 525 foreign private issuers with a combined market capitalization of approximately $7.3 trillion were able to file IFRS financial statements with the SEC without reconciliation to U.S. GAAP.[1] Furthermore, since 2008 the AICPA also has recognized the use of IFRS, as issued by the IASB, as an alternative to U.S. GAAP by U.S. non-public entities.

The use of IFRS is particularly important to U.S. investors given the enormous size of U.S. outward foreign direct investment (FDI) and the vast volume of foreign assets held by U.S. investors. According to the Congressional Research Service, U.S. FDI in Europe was $3 trillion in 2015, the latest year for which such detailed investment position data are available, more than any other region.[2]

Non – Financial Reporting

---

[1] See Mary Jo White, *A U.S. Imperative: High-Quality, Globally Accepted Accounting Standards*, January 5, 2017, *available at* https://www.sec.gov/news/statement/white-2016-01-05.html

[2] See James K. Jackson, *U.S. Direct Investment Abroad: Trends and Current Issues*, Congressional Research Service (June 29, 2017), *available at* https://fas.org/sgp/crs/misc/RS21118.pdf

The Association supports the Commission’s policy of promoting wider corporate reporting through the non-financial reporting directive. However, we believe that, at this time, it is too early to assess the full impact of this directive given that there has been only one reporting cycle since Member States implemented it.

However, we would note that while the Directive[3] was an important step in bringing greater focus to non-financial reporting, it remains very high level and insufficient in detail in terms of how preparers should integrate their value creation story into their financial statements. The Commission may wish to consider a more integrated approach in terms of non-financial reporting requirements going forward as the current structure does not provide adequate non-financial information that is critical to key decision making.

We believe that a Business Model Framework[4] is critical to understanding how all value is created and captured, and that this wider reporting should form the basis for European policy in this area. Specifically, we are supportive of the work of the International Integrated Reporting Council, which has developed a framework that allows focus on the long-term and assists stakeholders in getting a more complete picture of the performance of an entity. We believe that the Integrated Reporting Framework has been a major catalyst for change over recent years and has helped to achieve global acceptance of value-driven reporting. It makes use of interconnected financial and non-financial information, covering six capitals, to communicate a clear, concise, and integrated story that explains how an entity’s resources are creating value. Furthermore, integrated reporting promotes integrated thinking. There is evidence that this leads to better internal decision making, future performance and helps to build trust with stakeholders[5]. Ultimately, a certain level of assurance over integrated reporting, including the non-financial information, would increase the benefits of integrated reporting.

Finally, we would encourage the European Commission to work with the Financial Reporting Council Lab (Lab) in the UK. The Lab is a safe space for investors and issuers to come together and develop thinking on the reporting agenda. We would emphasise that this approach can be more successful than the blunt use of legislation in achieving the Commission’s stated goals.

We are happy to provide any further evidence to support this submission and look forward to working with the Commission on next steps.

Yours Faithfully,

Susan Coffey

---

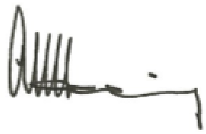
[3] https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32014L0095

[4] https://www.cgma.org/resources/reports/business-models-concepts-cgma-white-paper.html

[5] See Purpose Beyond Profit (https://www.cgma.org/content/dam/cgma/resources/reports/downloadabledocuments/purpose-beyond-profit.pdf) , 2018, AICPA and Black Sun

Executive Vice President – Public Practice

Association of International Certified Professional Accountants



Andrew Harding FCMA CGMA

Chief Executive Management Accounting