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

Submitted online

19 July 2018

Dear Commissioner Dombrovskis

Consultation Document: Fitness Check on the EU Framework for Public Reporting by Companies

We are pleased to comment on the European Commission's (the Commission) Fitness Check on the EU Framework for Public Reporting by Companies (the Fitness Check). The views expressed in this letter have been shared with BDO member firms in the EU.

In developing our responses to some of the questions in the Fitness Check, we found the context of certain of the questions unclear and ambiguous, and needed to make certain assumptions. For example, we have assumed that section II 'The financial reporting framework applicable to all EU companies' is aimed primarily at unlisted companies, with section III 'the EU financial reporting framework for listed companies' having its primary focus on those entities that are listed on a regulated market. It was also not clear to us why the Commission considered it to be appropriate that, when certain responses were given to some questions, the opportunity to provide comments was removed.

Overall, we believe that the current reporting framework for companies in the EU is robust and effective, and we welcome the continuing efforts of the Commission in ensuring that the framework remains fit for purpose.

We agree that sustainability and long-term investment are important to the EU economy. We note the recommendations of the High Level Expert Group (HLEG) on sustainable finance and agree that these factors are important in the context of wider corporate reporting. We encourage the Commission to consider how better information about an entity's business model and strategy can be disclosed, and the extent to which and how these link to longer term value creation.

However, we believe that the primary focus of financial statements, which form part of a wider corporate report, should be to ensure that the financial effects of the approach taken by an entity to sustainability and long term investment are reported in its financial statements in a clear, transparent and unbiased way.

International Financial Reporting Standards (IFRS)

The adoption by the EU of IFRS has resulted in EU listed entities reporting their financial results using an internationally recognised and understood accounting language. In the context of global capital markets, we believe that this is of critical importance in ensuring that EU listed entities compete effectively and on a level playing field with non-EU listed entities, and that the EU capital markets are attractive to non-EU entities that seek to list on global capital markets.

Linked to this, we believe that the current endorsement criteria for IFRS is appropriate. In particular, it remains wholly appropriate that the IAS Regulation prevents the Commission from modifying the content of IFRS. If modification were to be permitted, there are significant risks, including that:

- This might lead to significant divergence between EU-endorsed IFRS and IFRS as issued by the IASB;
- The benefits of following an internationally recognised and understood accounting language would be lost, including a loss of trust in financial information reported by listed entities in the EU, a reduction in investment in the EU, and increased costs of capital;
- There would be significant increases in costs for multinational groups, because of the need to prepare financial statements under multiple GAAPs;
- It would lead to an inability for EU entities that are Foreign Private Issuers on the capital market in the United States to use EU-endorsed IFRS financial statements for US filing purposes without the need to provide a potentially very costly reconciliation to US GAAP; and
- It would lead to a reduction in the EU's ability to influence the IASB's work; it is likely that the IASB would pay less attention to concerns raised by the EU if, in the event that the IASB does not take account of the EU's comments about the IASB's proposals, it is known that the EU could simply make changes to new or amended IFRSs itself.

As noted above, we agree that sustainability and long-term investment are important to the EU economy. However, we believe that these factors should be dealt with through wider corporate reporting, and are sceptical that changes to the requirements of IFRS are appropriate. It remains important that financial information, which depicts the results of decisions taken by entities (including decisions about sustainability and long-term investment), is clear, transparent and unbiased.

Our other comments, where these could be included in response to the detailed questions in the Fitness Check, are set out in our completed online questionnaire. We hope that you will

find our comments and observations helpful. If you would like to discuss any of them, please contact Andrew Buchanan at +44 (0)20 7893 3300 or by email at abuchanan@bdoifra.com.

Yours sincerely

A handwritten signature in black ink that reads "Andrew Buchanan". The signature is written in a cursive style with a large initial 'A'.

Andrew Buchanan

Global Head of IFRS