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Public consultation on strengthening the quality of corporate reporting and its enforcement

Fields marked with * are mandatory.

Introduction

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High quality and reliable corporate reporting is of key importance for healthy financial markets, business investment and economic growth. The EU corporate reporting framework should ensure that companies publish the right quantity and quality of relevant information allowing investors and other interested stakeholders to assess the company's performance and governance and to take decisions based on it. High quality reporting is also indispensable for cross-border investments and the development of the capital markets union (CMU).

In the context of this consultation, corporate reporting comprises the financial statements of companies, their management report that includes the non-financial and corporate governance statements and country-by-country reporting. It would also include sustainability information pursuant to the proposed Corporate Sustainability Reporting Directive.

The consultation takes into account the outcomes of the 2018 consultation on the EU framework for public reporting by companies and the 2021 fitness check on the EU framework for public reporting by companies. This consultation however focuses on companies listed on EU regulated markets (hereafter 'listed companies' or 'issuers'), that is a subset of the companies subject to public reporting requirements under EU law. Please note that in terms of reporting, this consultation does not seek the views of stakeholders on the applicable accounting standards, such as International Financial Reporting Standards (IFRS) or the standards in the Accounting Directive, or the views of stakeholders on public country-by-country reporting or the Commission's proposal for a Corporate Sustainability Reporting Directive.

The 2018 consultation did not cover the areas of corporate governance or statutory audit. Therefore, this consultation contains questions to evaluate aspects of the Audit Regulation 537/2014, Audit Directive 2006/43/EC and of Accounting Directive 2013/34/EU. However, it covers the EU framework on corporate governance only in so far as relevant for corporate reporting by listed companies and the statutory audit of so-called public interest entities (PIEs). Listed companies, credit institutions, insurance undertakings and entities designated as such by Member States are PIEs.

This consultation also builds on the work carried out by the European Securities and Markets Authority (ESMA) and the Committee of European Audit Oversight Bodies (CEAOB).

This consultation is divided into 5 parts

- The first part seeks your views about the overall impact of the EU framework on the three pillars of high quality and reliable corporate reporting - corporate governance, statutory audit and supervision. It also seeks your views about the interaction between the three pillars
- The second part of the questionnaire focuses on the corporate governance pillar, as far as relevant for corporate reporting. It aims to get your feedback in particular on the functioning of company boards, audit committees and your views on how to improve their functioning
- The third part focuses on the statutory audit pillar. The first questions in this part aim at getting your views on the effectiveness, efficiency and coherence of the EU audit framework. It focuses in particular on the changes brought by the 2014 audit reform. Subsequently, the questions aim to seek views on how to improve the functioning of statutory audit
- The fourth part asks questions about the supervision of PIE statutory auditors and audit firms
- Finally, the consultation will ask questions about the supervision of corporate reporting and how to improve it

This consultation will directly feed into an impact assessment that the Commission will prepare in 2022 with a view to possibly amend and strengthen the current EU rules.

Please note: In order to ensure a fair and transparent consultation process **only responses received through our online questionnaire will be taken into account** and included in the report summarising the responses. Should you have a problem completing this questionnaire or if you require particular assistance, please contact fisma-corporate-reporting@ec.europa.eu.

More information on

- this consultation
- the consultation document
- the consultation strategy
- company reporting
- the protection of personal data regime for this consultation

About you

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* Language of my contribution

- Bulgarian
- Croatian
- Czech

- ○ Danish
- ○ Dutch
- ● English
- ○ Estonian
- ○ Finnish
- ○ French
- ○ German
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- ○ Hungarian
- ○ Irish
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* I am giving my contribution as

- ○ Academic/research institution
- ○ Business association
- ○ Company/business organisation
- ○ Consumer organisation
- ○ EU citizen
- ○ Environmental organisation
- ○ Non-EU citizen
- ○ Non-governmental organisation (NGO)
- ○ Public authority
- ○ Trade union
- ● Other

* First name

Sandy

* Surname

Peters

* Email (this won't be published)

sandra.peters@cfainstitute.org

* Organisation name

255 character(s) maximum

CFA Institute (Investor Organization)

* Organisation size

- Micro (1 to 9 employees)
- Small (10 to 49 employees)
- Medium (50 to 249 employees)
- Large (250 or more)

Transparency register number

255 character(s) maximum

Check if your organisation is on the transparency register. It's a voluntary database for organisations seeking to influence EU decision-making.

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* Country of origin

Please add your country of origin, or that of your organisation.

Afghanistan	Djibouti	Libya	Saint Martin
Åland Islands	Dominica	Liechtenstein	Saint Pierre and Miquelon
Albania	Dominican Republic	Lithuania	Saint Vincent and the Grenadines
Algeria	Ecuador	Luxembourg	Samoa
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			São Tomé and Príncipe
Angola	Equatorial Guinea	Malawi	Saudi Arabia
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Belize	Ghana	Montserrat	Sri Lanka
Benin	Gibraltar	Morocco	Sudan
Bermuda	Greece	Mozambique	Suriname
Bhutan	Greenland	Myanmar/Burma	Svalbard and Jan Mayen
Bolivia	Grenada	Namibia	Sweden
Bonaire Saint Eustatius and Saba	Guadeloupe	Nauru	Switzerland
Bosnia and Herzegovina	Guam	Nepal	Syria
Botswana	Guatemala	Netherlands	Taiwan
Bouvet Island	Guernsey	New Caledonia	Tajikistan

Brazil
British Indian Ocean Territory
British Virgin Islands
Brunei
Bulgaria
Burkina Faso
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Cameroon
Canada
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Cayman Islands
Central African Republic
Chad
Chile
China
Christmas Island
Clipperton
Cocos (Keeling) Islands
Colombia
Comoros
Congo
Cook Islands
Costa Rica
Côte d’Ivoire

Guinea
Guinea-Bissau
Guyana
Haiti
Heard Island and McDonald Islands
Honduras
Hong Kong
Hungary
Iceland
India
Indonesia
Iran
Iraq
Ireland
Isle of Man
Israel
Italy
Jamaica
Japan
Jersey
Jordan
Kazakhstan
Kenya
Kiribati
Kosovo

New Zealand
Nicaragua
Niger
Nigeria
Niue
Norfolk Island
Northern Mariana Islands
North Korea
North Macedonia
Norway
Oman
Pakistan
Palau
Palestine
Panama
Papua New Guinea
Paraguay
Peru
Philippines
Pitcairn Islands
Poland
Portugal
Puerto Rico
Qatar
Réunion

Tanzania
Thailand
The Gambia
Timor-Leste
Togo
Tokelau
Tonga
Trinidad and Tobago
Tunisia
Turkey
Turkmenistan
Turks and Caicos Islands
Tuvalu
Uganda
Ukraine
United Arab Emirates
United Kingdom
United States
United States Minor Outlying Islands
Uruguay
US Virgin Islands
Uzbekistan
Vanuatu
Vatican City
Venezuela

Croatia	Kuwait	Romania	Vietnam
Cuba	Kyrgyzstan	Russia	Wallis and Futuna
Curaçao	Laos	Rwanda	Western Sahara
Cyprus	Latvia	Saint Barthélemy	Yemen
Czechia	Lebanon	Saint Helena Ascension and Tristan da Cunha	Zambia
Democratic Republic of the Congo	Lesotho	Saint Kitts and Nevis	Zimbabwe
Denmark	Liberia	Saint Lucia	

* Role in the corporate reporting market

- ○ Preparer of corporate reporting
- ● User of of corporate reporting
- ○ Preparer and user of corporate reporting
- ○ Statutory auditor
- ○ Accounting professional
- ○ Supervisor
- ○ None
- ○ Other

* Field of activity or sector (if applicable)

- [ ] Accounting
- [ ] Auditing
- [ ] Banking
- [ ] Credit rating agencies
- [ ] Insurance
- [ ] Pension provision
- [x] Investment management (e.g. hedge funds, private equity funds, venture capital funds, money market funds, securities)
- [ ] Market infrastructure operation (e.g. CCPs, CSDs, Stock exchanges)
- [ ] Other financial services (e.g. advice, brokerage)
- [ ] Social entrepreneurship
- [ ] Trade repositories

- [ ] Other
- [ ] Not applicable

The Commission will publish all contributions to this public consultation. You can choose whether you would prefer to have your details published or to remain anonymous when your contribution is published. **For the purpose of transparency, the type of respondent (for example, 'business association, 'consumer association', 'EU citizen') country of origin, organisation name and size, and its transparency register number, are always published. Your e-mail address will never be published.** Opt in to select the privacy option that best suits you. Privacy options default based on the type of respondent selected

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The Commission will publish the responses to this public consultation. You can choose whether you would like your details to be made public or to remain anonymous.

- ( ) **Anonymous**
  Only organisation details are published: The type of respondent that you responded to this consultation as, the name of the organisation on whose behalf you reply as well as its transparency number, its size, its country of origin and your contribution will be published as received. Your name will not be published. Please do not include any personal data in the contribution itself if you want to remain anonymous.
- (•) **Public**
  Organisation details and respondent details are published: The type of respondent that you responded to this consultation as, the name of the organisation on whose behalf you reply as well as its transparency number, its size, its country of origin and your contribution will be published. Your name will also be published.

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Part I - The EU framework for high quality and reliable corporate reporting

The EU framework for corporate reporting has developed significantly since the EU adopted the fourth company law Directive (Directive 78/660/EEC) which coordinated the national provisions on the presentation, content and publication of annual accounts and management reports of limited liability companies. This Directive also already required a statutory audit of the annual accounts of limited liability companies.

Today, the Accounting Directive 2013/34/EU, the Statutory Audit Directive (2006/43/EU) and Audit Regulation (537/2014) and the Transparency Directive 2004/109/EC provide the main requirements that ensure the quality of corporate reporting and its enforcement in the EU. Moreover, the ESMA Regulation (EU)1095/2010 gives tasks to ESMA in relation to corporate reporting. Given the inclusion of the Transparency Directive in the scope of the ESMA Regulation ESMA can make use of its powers in the ESMA Regulation, such as to issue guidelines.

The main elements of this framework that guarantee the quality and reliability of corporate reporting can be summarised as follows

- **Corporate governance**: Responsibility of company boards for corporate reporting; the establishment by PIE's of an audit committee to minimise risks and to enhance the quality of financial reporting
- **Audit**: The requirements for a statutory audit of the annual accounts to ensure that there are no material misstatements
- **Supervision**: The supervision of statutory auditors and audit firms to ensure the quality of audits and the supervision of corporate reporting by listed companies to ensure the quality of corporate reporting

The three pillars of the corporate reporting framework can be mutually reinforcing. At the same time, weaknesses in one pillar also negatively impact other pillars. Appropriate responsibilities and supervision of company boards provide incentives to company boards to focus on the quality of their corporate reporting. It will also incentivise them to see statutory audit not as a burden, but as an important external check by statutory auditors. On the other hand, where company boards are insufficiently accountable and supervised, there is a risk that boards may pay insufficient attention to the quality of reporting and that they provide insufficient resources for a proper audit.

Question 1. As a user of corporate reporting (retail or wholesale investor, credit rating agency, NGO, public authority, employees, suppliers, other stakeholders), what is the relative importance of the information contained therein compared to other sources of information?

- ( ) 1 - Very low
- ( ) 2 - Low
- ( ) 3 - Medium
- ( ) 4 - High
- (x) 5 - Very high
- ( ) Don't know / no opinion / not applicable

Question 2. How do you assess the overall effectiveness, efficiency, relevance, coherence and EU added value of the EU legislation, considering each of the pillars underpinning corporate reporting individually, but also in combination with each other?

a) Corporate governance

	1 (very low)	2 (low)	3 (medium)	4 (high)	5 (very high)	Don't know - No opinion - Not applicable

I. Effectiveness in reaching its objectives	○	●	○	○	○	○
II. Efficiency: has the framework been cost efficient	○	●	○	○	○	○
III. Relevant in terms of overall needs and objectives	○	○	○	○	●	○
IV. Coherence with other related EU frameworks / internal coherence	●	○	○	○	○	○
V. EU Added value: was and is EU intervention justified?	○	○	○	○	●	○

b) Statutory audit

	1 (very low)	2 (low)	3 (medium)	4 (high)	5 (very high)	Don't know - No opinion - Not applicable
I. Effectiveness in reaching its objectives	○	●	○	○	○	○
II. Efficiency: has the framework been cost efficient	○	○	●	○	○	○

	1 (very low)	2 (low)	3 (medium)	4 (high)	5 (very high)	Don't know - No opinion - Not applicable
III. Relevant in terms of overall needs and objectives	○	○	○	○	●	○
IV. Coherence with other related EU frameworks / internal coherence	○	○	●	○	○	○
V. EU Added value: was and is EU intervention justified?	○	○	○	●	○	○

c) Supervision by public authorities of statutory auditors/audit firms

	1 (very low)	2 (low)	3 (medium)	4 (high)	5 (very high)	Don't know - No opinion - Not applicable
I. Effectiveness in reaching its objectives	●	○	○	○	○	○
II. Efficiency: has the framework been cost efficient	○	●	○	○	○	○
III. Relevant in terms of overall needs and objectives	○	○	○	○	●	○
IV. Coherence with other related EU	○	●	○	○	○	○

frameworks / internal coherence						
V. EU Added value: was and is EU intervention justified?					X	

d) Supervision by authorities of corporate reporting

	1 (very low)	2 (low)	3 (medium)	4 (high)	5 (very high)	Don't know - No opinion - Not applicable
I. Effectiveness in reaching its objectives		X				
II. Efficiency: has the framework been cost efficient			X			
III. Relevant in terms of overall needs and objectives					X	
IV. Coherence with other related EU frameworks / internal coherence			X			
V. EU Added value: was and is EU intervention justified?				X		

e) The eco-system composed of all of the above

	1 (very low)	2 (low)	3 (medium)	4 (high)	5 (very high)	Don't know - No opinion - Not applicable
I. Effectiveness in reaching its objectives	○	●	○	○	○	○
II. Efficiency: has the framework been cost efficient	○	●	○	○	○	○
III. Relevant in terms of overall needs and objectives	○	○	○	○	●	○
IV. Coherence with other related EU frameworks / internal coherence	○	●	○	○	○	○
V. EU Added value: was and is EU intervention justified?	○	○	○	○	●	○

Question 2.1 Please describe the main issues that you see, if any, in the four areas mentioned in question 2 and in the eco-system composed of all four areas. Where possible, please provide concrete examples and evidence supporting your assessment.
You may want to consider the following aspects

- **have any factors reduced the effectiveness / rendered the relevant EU framework less effective than anticipated? Which rules have proven less effective than anticipated?**
- **is there room to improve efficiency via further simplification?**
- **are existing provisions coherent with each other?**

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See complete response at:
https://www.cfainstitute.org/-/media/documents/comment-letter/2020-2024/20220203.pdf
https://www.cfainstitute.org/-/media/documents/comment-letter/2020-2024/20220131.pdf

We find much of the focus and public narrative on corporate scandals, reporting problems and failures gets assigned to auditors. Wirecard demonstrated that the issues with high-quality, reliable corporate reporting did not simply rest at the feet of the auditors. Failures occurred across the entire reporting ecosystem (i.e., pillars) – management, corporate governance, financial reporting regulators, audit regulators and financial supervisory regulators, as well as the auditors execution of the audit – were not effectively working, thereby justifying consideration herein. We believe the Consultation rightly contextualizes the need for reform in the various pillars, but we believe greater and more specific emphasis on the accountability of management – not simply corporate governance broadly – is needed because it is the foundation of the corporate reporting and audit ecosystem. Without that being remedied, the corporate reporting and audit ecosystem will never sufficiently improve. Without transparency, accountability and effectiveness of all the other pillars to support the auditor, they cannot hold management accountable for high-quality and reliable corporate reporting.
That said, we heard the pillars in greatest need of reform – in addition to strengthening management accountability related to: broadly improving corporate governance because of the fragmented corporate governance requirements at the member state level and the need to improve statutory audit oversight because of similar fragmentation. Ratings were much higher for supervision of corporate reporting & audit because the EU has taken legislative actions in these areas. Our overall ratings have been lowered because of views on corporate govern & super of auditors. See Question 19.2.

The ESMA report on enforcement and regulatory activities of European enforcers in 2020 notes that supervisors undertook the examination that year of 729 financial statements drawn up in accordance with International Financial Reporting Standards (IFRS). Based on these examinations, European enforcers took enforcement actions against 265 issuers in order to address material departures from IFRS. This represents an action rate of 38%.

As regards the audit sector the [Commission's market monitoring report] highlights deficiencies in audit firms' internal quality control systems, but also in individual files for audits of PIEs. National audit oversight bodies also report that part of statutory audits is not up to standards.

Question 3. Based on your own experience how do you assess the quality and reliability of corporate reporting by listed EU companies?

- 1 - Very low
- 2 - Low
- [x] 3 - Medium
- 4 - High
- 5 - Very high
- Don't know / no opinion / not applicable

Question 3.1 Please provide concrete examples and evidence supporting your assessment in question 3 and explain the consequences that the quality and reliability of corporate reporting or lack thereof has on you.

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See:
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https://www.cfainstitute.org/-/media/documents/comment-letter/2020-2024/20220131.pdf
Corporate failures are highly publicized & the quality of corporate reporting & the ecosystem of corporate governance, audits, audit supervision and corporate reporting all are judged by their worst moment because of the lack of transparency. There are elements of corporate reporting ecosystem failures that are many times attributed to the auditor which really are more reflective of an ecosystem where the accountability and transparency of all those charged with protecting the interests of investors & other stakeholders (management, audit committee/board, auditors, auditor supervisors, & securities regulators) are not as transparent and accountable as they should be. Throughout the corporate reporting ecosystem, many of the participants do not have the necessary information to judge the quality of the good. Interestingly, this lack of transparency also makes it hard for the EC to judge the quality of the work being done. The following are contributing factors:

The principles-based nature of IFRS & the lack of consistent application & enforcement reduce quality of corporate reporting. Examples include adoption of the leasing standard, the application of fair value principles, the revenue standard & segment disclosures. We find EU companies provide less descriptive explanatory language and exercise greater discretion in the inclusion of information.

Making this more challenging is that only now will there be tagged data & a system to search and compare, more easily, reporting across jurisdiction. The use of XBRL data has facilitated much more searchable numeric & textual data & comparison across companies in major indices. To be able to make comparisons in the EU, we must utilize more expensive data providers with less ability to search across companies textually.

Question 4. There are no generally accepted standards or indicators to measure the quality of corporate reporting and of statutory audit, nor the effectiveness of supervision. In light of this, what are your views on the following questions?

	1 (strongly disagree)	2 (rather disagree)	3 (neutral)	4 (rather agree)	5 (strongly agree)	Don't know - No opinion - Not applicable
Would it be useful to have specific indicators to measure the quality of corporate reporting, of statutory audits and the effectiveness of supervision?	○	○	○	○	◉	○
Is it possible to have clear and reliable indicators to measure the quality of corporate reporting, of statutory audit and the effectiveness of supervision?	○	○	○	○	◉	○
Should the European Commission develop indicators on the quality of corporate reporting, of statutory audits and the effectiveness of supervision?	○	○	○	○	◉	○

Question 4.1 Please provide any further explanation supporting your views, and, where relevant, please suggest possible indicators of the quality and reliability of corporate reporting, statutory audit and supervision, where possible with concrete examples:

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including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

We are very supportive of specific metrics to measure the quality of corporate reporting, statutory audits & supervision of both. What gets measured gets monitored. While many have argued that metrics to judge this quality are elusive, they are not. The challenge with these metrics isn't that they are hard to develop, but that they work at increasing accountability & transparency.

Audits are a credence good: one with qualities that cannot be observed by the consumer after purchase, making it difficult to assess its utility. The investor, who is the genuine client of the auditor, can only trust that an audit has been performed satisfactorily, as there is no information available beyond the audit opinion & some high-level fee information. A rigorous program of audit quality indicators for audit firms, at the audit firm & engagement level, would enable investors, or their agents, to move audit from a credence good. Many have opposed such AQIs noting that audit quality is simply too hard to judge. We disagree. Such AQIs would allow users to discern differences in capabilities & quality cultures among firms. Further, a rigorous program of audit quality indicators for individual audits would enable investors to assess the quality of the work done by the auditors & the underlying quality of management's books & records & internal controls over financial reporting.

In the 1990s AIMR (our predecessor) evaluated the quality of corporate reporting & issued awards on corporate reports. Though not online any longer we can share historical materials. We know the quality of corporate reporting can be assessed, but we believe it can be best assessed by those with access to internal information such as regulators with the power to request additional information.

We have written extensively on what we want from audit & securities regulators in their evaluation of corporate reporting & audits, we believe these could be developed from the underlying principles.

Question 5. In your view, should the Commission take action in the areas of the corporate governance pillar, the statutory audit pillar, the supervision of PIE auditors and audit firms and the supervision of corporate reporting to increase the quality and reliability of reporting by listed companies?

- (selected) Yes, there is a need to improve the **some or all of the areas listed above**
- Yes, there is a need to improve some or all of the areas listed above **as well as other areas**
- No, but there is a need to improve other areas than those listed above
- No, there is no need to take further action in any area
- Don't know / no opinion / not applicable

Please indicate to what extent you think the Commission should take action in each of the areas below to increase the quality and reliability of reporting by listed companies:

	1 (strongly disagree)	2 (rather disagree)	3 (neutral)	4 (rather agree)	5 (strongly agree)	Don't know - No opinion - Not applicable
Improve the corporate governance pillar					X	
Improve the statutory audit pillar				X		
Improve the supervision of PIE auditors and audit firms					X	
Improve the supervision of corporate reporting				X		

Question 5.1 Please provide any further explanation supporting your views, and where appropriate describe what actions you would prioritise and why, with concrete examples:

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See letter & questionnaire at:
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https://www.cfainstitute.org/-/media/documents/comment-letter/2020-2024/20220131.pdf

Improvements are needed in each of the pillars & the certainly need to be done in a coordinated manner. The greatest improvements are needed in the corporate governance pillar & in supervision of audit. As it relates to at what level action is needed, auditors should take action to improve their work, but without action by management, audit supervisors & individual members states there will be no overall improvement by auditors because of the inherent conflicts of interest. Without action at the EU level – there will be improvement by management, audit supervisors or the member states in their responsibilities. They need to be compelled to act. Our responses to the questions in Parts II-V provide more specifics, but our five most significant improvements – in order of priority – needed are as follows & continued at Q5.1 & 5.3

1) Implement Management Certifications, Supported by Audits, of ICFR – As we note in Part II, the implementation of management certifications supported by auditor attestations on internal controls over financial reporting (ICFR) have has significant impacts on the behaviour and accountability of management in the execution of their responsibilities and their allocation of resources to financial reporting. As a result, such measures have enhanced the quality of corporate reporting. This is a necessary improvement that the EU should implement. Investors are willing to pay the cost of such certifications and attestations. The cost /benefit analysis on ICFR certifications & attestations includes the direct cost of performing the work without recognizing the benefit of improved financial reporting to investors and the lower cost of capital. Q19.2 discusses the appropriate investor focused cost-benefit analysis.

Cont. at Q5.2

Question 5.2 At what level should action be taken to improve the quality of corporate governance, audit, audit supervision and/or supervision of corporate reporting?

	1 (strongly disagree)	2 (rather disagree)	3 (neutral)	4 (rather agree)	5 (strongly agree)	Don't know - No opinion - Not applicable
Companies themselves should take action to improve their reporting					X	
Auditors themselves should take action to improve audits					X	
Audit supervisors themselves should take action to improve their functioning					X	
Individual Member States should take action if the situation in their market requires this				X		
The EU should take action					X	
Several of the above should take action					X	

Question 5.3 Please provide any further explanation supporting your views expressed in question 5.2:

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Continued from Q5.2

2) Study & Create European Audit Regulator – As we note in Part IV, we believe a detailed, independent review and inspection of EU member state audit regulators and the CEAOB to determine how they should be improved is necessary. In our view this report would be about how, not if, to create a stronger pan-European audit regulator.

3) Strengthen Regulatory Oversight of Audit Committees to Improve Functioning – As we describe in Part II, we believe that there remain improvements necessary in the functioning of audit committees and their oversight by regulators.

4) Establish Engagement Level Audit Quality Indicators – As we note in Part III, we believe the most important improvement related to audit – in addition to ICFR attestation – is to develop audit quality indicators (AQIs).

5) Strengthen the Responsibilities and Powers of ESMA – As we note in Part V, ESMA's formation has been highly effective at bringing an EU-wide perspective and vantage point to the quality of corporate reporting. A similar EU-wide vantage point is missing as it relates to audit supervision as noted above. That said, ESMA lacks the access, strength of supervision and enforcement powers that are necessary to really effectuate the enforcement necessary to improve corporate reporting. In that regard, we believe improvements to strengthen ESMA are necessary. Supervision by its nature is an ex-post activity, and it is an important backstop, but much of supervision's efficacy depends on public displays of enforcement to function as an effective ex-ante deterrent. That is why we believe changes are necessary at the ESMA level to provide greater supervisory and enforcement powers to ESMA.

Question 6. To what extent is there a need to modify the EU framework on corporate reporting to support the following objectives?

	1 (not at all necessary)	2 (rather not necessary)	3 (neutral)	4 (rather necessary)	5 (highly necessary)	Don't know - No opinion - Not applicable
I. The green transition	○	○	●	○	○	○
II. The digital transition	○	○	○	○	●	○
III. Facilitating doing business by SMEs	○	○	●	○	○	○
IV. Reducing burdens and/or simplification	○	●	○	○	○	○
V. Better corporate social responsibility, including tax transparency and fair taxation	○	●	○	○	○	○

Question 6.1 Please provide, if needed, any further explanation supporting your views expressed in question 6:

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including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

We discourage the use of corporate reporting to promote a plethora of other purposes as the underlying IFRS F/Ss are based upon the needs of investors & a mixing of objectives will introduce bias into corporate reporting that can reduce the transparency & usefulness. Green Transition & Better Corporate Social Responsibility – In this vein we believe items such as green transition & better corporate social responsibility have the potential to muddle the objective of corporate reporting. There are elements of the effectiveness of existing financial reporting that need enhancing before broadening the remit & objective of corporate reporting. We have long supported improved jurisdictional disclosures related to taxable income, tax expense, cash paid for income tax, tax liabilities & cash balances, along with the overall tax strategy of the reporting company. We are not, however, supportive of the notion of "fair taxation" issue, as this is normative and far from a neutral topic. Tax transparency, & with it, the improvement of information surrounding tax provisions, & accruals in various jurisdictions, would, however, provide information to investors and stakeholders of all kinds, allowing them to draw their own conclusions. SMEs – CFA has not supported differential reporting for SMEs as the information needs of investors are no different based upon the size of company or the nature of its capital structure. Reducing reporting requirements may appear to reduce SME costs, but in reality, this reduced reporting simply increases the equity risk premium and cost of capital. "Simplification" – We find "simplification" to be a red herring. It is generally interpreted as reducing the transparency & usefulness of corporate reporting for investors & is used to stall improvements in the corporate reporting. Digital Transition – We embrace the digital transition especially related to the gathering & dissemination of information, which benefits investors & other stakeholders.

Part II - Corporate governance

The EU corporate governance framework focuses on the relationships between company boards, shareholders and other stakeholders, and therefore, on the way a company is managed and controlled. The framework consists of a combination of EU and Member State legislation and soft law, namely national corporate governance codes applied on a 'comply or explain' basis. It aims inter alia to provide protection for shareholders and other parties with a particular interest in companies, such as employees and creditors.

A sustainable corporate governance initiative is planned to be adopted by the Commission in 2021. (In addition, the Commission's study on directors' duties and sustainable corporate governance, July 2020, assesses the root causes of 'short termism' in corporate governance and discusses their relationship with current market practices and/or regulatory frameworks).

Key features of the EU framework on corporate governance that are relevant for corporate reporting are

- The collective responsibility of the members of the administrative, management and supervisory bodies of a company for drawing up and publishing annual financial statements and management reports
- The requirement for a statement by the persons responsible within the issuer that, to the best of their knowledge, the financial statements prepared give a true and fair view of the assets, liabilities, financial position and profit or loss of the issuer
- The requirement for PIEs to establish, in principle, an audit committee

Question 7. How do you assess the effectiveness, efficiency, and coherence of the key features of the EU framework on corporate governance, considering how they underpin quality and reliability of corporate reporting?

a) Board responsibilities for reporting

	1 (very low)	2 (low)	3 (medium)	4 (high)	5 (very high)	Don't know - No opinion - Not applicable
I. Effectiveness in reaching its objectives	○	◉	○	○	○	○
II. Efficiency: has the framework been cost efficient	○	◉	○	○	○	○
III. Coherence with relevant EU rules	○	◉	○	○	○	○

b) Liability of company boards for reporting

	1 (very low)	2 (low)	3 (medium)	4 (high)	5 (very high)	Don't know - No opinion - Not applicable
I. Effectiveness in reaching its objectives	○	◉	○	○	○	○
II. Efficiency: has the framework been cost efficient	○	◉	○	○	○	○
III. Coherence						

with relevant EU rules	○	◉	○	○	○	○

c) Obligation to establish an audit committee

	1 (very low)	2 (low)	3 (medium)	4 (high)	5 (very high)	Don't know - No opinion - Not applicable
I. Effectiveness in reaching its objectives	○	◉	○	○	○	○
II. Efficiency: has the framework been cost efficient	○	◉	○	○	○	○
III. Coherence with relevant EU rules	○	◉	○	○	○	○

d) Rules on the composition of the audit committee

	1 (very low)	2 (low)	3 (medium)	4 (high)	5 (very high)	Don't know - No opinion - Not applicable
I. Effectiveness in reaching its objectives	○	◉	○	○	○	○
II. Efficiency: has the framework been cost efficient	○	◉	○	○	○	○
III. Coherence						

with relevant EU rules	○	●	○	○	○	○

e) Tasks of the audit committee

	1 (very low)	2 (low)	3 (medium)	4 (high)	5 (very high)	Don't know - No opinion - Not applicable
I. Effectiveness in reaching its objectives	○	●	○	○	○	○
II. Efficiency: has the framework been cost efficient	○	●	○	○	○	○
III. Coherence with relevant EU rules	○	●	○	○	○	○

f) External position of the audit committee (e.g. in relation to shareholders)

	1 (very low)	2 (low)	3 (medium)	4 (high)	5 (very high)	Don't know - No opinion - Not applicable
I. Effectiveness in reaching its objectives	○	●	○	○	○	○
II. Efficiency: has the framework been cost efficient	○	●	○	○	○	○
III. Coherence						

with relevant EU rules	○	●	○	○	○	○

Question 7.1 Please describe the main issues you see, if any, as regards corporate governance and, where possible, please provide concrete examples and evidence supporting your assessment.
You may want to consider the following aspects

- **are there factors that have reduced the effectiveness / rendered the relevant EU framework less effective than anticipated? Which rules have proven less effective than anticipated?**
- **is there room to improve efficiency via further simplification?**
- **are existing provisions coherent with each other?**

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See comment letter & questionnaire sections Background and Context to Our Consultation Response: An Investor Perspective on Corporate Governance at links below for a discussion of the context to our response.
https://www.cfainstitute.org/-/media/documents/comment-letter/2020-2024/20220203.pdf
https://www.cfainstitute.org/-/media/documents/comment-letter/2020-2024/20220131.pdf

The Wirecard situation has drawn attention to the weak corporate governance in protection of investor interests across the European Union and the fragmented nature of corporate governance requirements as well as their application at the member state level. Making it more complicated is that many rules related to corporate governance over corporate reporting and audit come through audit and corporate reporting regulations/directives rather than being integrated with corporate governance regulations/directives. This creates a complex patchwork of inconsistently applied regulations/directives that makes it challenging for investors to discern the rules that establish their rights – let alone seek to assess the quality of their application, or their enforcement. The fragmented nature of corporate governance regulation impedes investment capital and is, in our view, an impediment to the EU's desired capital markets union.

We believe the consistency of all the items in Q7 must be assessed by the Commission across the various regulations/directives at the EU level, the application of these principles across the member states & application & integration of member state corporate governance rules. We believe EU level legislation to improve corporate governance and the inconsistent application is essential to facilitate the capital markets union and capital investment. We share our key suggestions for improvement as part of Q 9.1.1.

See overall comments under Q19.2.

Question 8. Considering the level of material departures from IFRS reported in the ESMA report on enforcement and regulatory activities of European enforcers in 2020, to what extent can such departures be attributed to deficiencies of the EU framework on corporate governance?

- 1 - Not at all
- 2 - To a limited extent
- 3 - To some extent
- 4 - To a large extent
- (selected) 5 - To a very large extent
- Don't know / no opinion / not applicable

Question 8.1 Please explain the main issues you see, and, where possible, please provide concrete examples and evidence supporting your assessment:

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including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

As a participant in the IFRS Interpretations Committee, I have seen directly that ESMA does an effective job of reviewing and highlighting issues for consistency and departures from IFRS, but ESMA has limited powers and their review is on an ex-post basis advisory basis without enforcement powers. See our comments related to ESMA at Q 18.1 and 19.1.

The principles-based nature of IFRS is a key contributor to the departures from IFRS, but a lack of accountability by management and corporate boards (audit committees) as it relates to internal controls over financial reporting contributes to this lack of consistency. The principal responsibility for the quality of financial reporting resides with management and the company – and the audit committee that most directly oversees them. Throughout this Consultation we believe there is a lack of emphasis on the accountability of management. See our comments related to management and audit committees in our response to Q9.1.1

Question 9. How effective and efficient would the following actions be in increasing the quality and reliability of reporting by listed companies?

a) Strengthen the (collective) responsibilities of the board / tasks for reporting / liability of boards for incorrect reporting

	1 (not at all effective/ efficient)	2 (rather not effective/ efficient)	3 (neutral)	4 (rather effective/ efficient)	5 (very effective/ efficient)	Don't know - No opinion - Not applicable
I. Effectiveness	○	○	○	●	○	○
II. Efficiency in term of cost/benefits of action	○	○	○	●	○	○

b) Require proper expertise of specific board members in relation to corporate reporting (internal controls, accounting framework, sustainability reporting, etc.)

	1 (not at all effective/ efficient)	2 (rather not effective/ efficient)	3 (neutral)	4 (rather effective/ efficient)	5 (very effective/ efficient)	Don't know - No opinion - Not applicable
I. Effectiveness	○	○	○	○	●	○
II. Efficiency in term of cost/benefits of action	○	○	○	○	●	○

c) Increase the responsibilities of specific board members (e.g. Chief Executive Officer or the Chief Financial Officer) and their liability on corporate reporting

	1 (not at all effective/ efficient)	2 (rather not effective/ efficient)	3 (neutral)	4 (rather effective/ efficient)	5 (very effective/ efficient)	Don't know - No opinion - Not applicable
I. Effectiveness	○	○	○	○	◉	○
II. Efficiency in term of cost/benefits of action	○	○	○	○	◉	○

d) Give company boards an explicit responsibility to establish effective risk management and internal control systems for the preparation of corporate reporting, including as regards controls for risks of fraud and going concern

	1 (not at all effective/ efficient)	2 (rather not effective/ efficient)	3 (neutral)	4 (rather effective/ efficient)	5 (very effective/ efficient)	Don't know - No opinion - Not applicable
I. Effectiveness	○	○	○	○	●	○
II. Efficiency in term of cost/benefits of action	○	○	○	○	●	○

e) More transparency of company boards about the effectiveness of the companies' risk management and report on the actions undertaken during the reporting period

	1 (not at all effective/ efficient)	2 (rather not effective/ efficient)	3 (neutral)	4 (rather effective/ efficient)	5 (very effective/ efficient)	Don't know - No opinion - Not applicable
I. Effectiveness	○	○	○	○	●	○
II. Efficiency in term of cost/benefits of action	○	○	○	○	●	○

f) Remove exemptions in EU legislation for establishing an audit committee

	1 (not at all effective/ efficient)	2 (rather not effective/ efficient)	3 (neutral)	4 (rather effective/ efficient)	5 (very effective/ efficient)	Don't know - No opinion - Not applicable
I. Effectiveness	○	○	○	○	◉	○
II. Efficiency in term of cost/benefits of action	○	○	○	○	◉	○

g) Increase the tasks of the audit committee, e.g. for providing assurance on internal control systems for the avoidance of risk and fraud and going concern

	1 (not at all effective/ efficient)	2 (rather not effective/ efficient)	3 (neutral)	4 (rather effective/ efficient)	5 (very effective/ efficient)	Don't know - No opinion - Not applicable
I. Effectiveness					X	
II. Efficiency in term of cost/benefits of action					X	

h) Strengthen the external position of the audit committee (e.g. vis-à-vis the auditor or by reporting to shareholders)

	1 (not at all effective/ efficient)	2 (rather not effective/ efficient)	3 (neutral)	4 (rather effective/ efficient)	5 (very effective/ efficient)	Don't know - No opinion - Not applicable
I. Effectiveness						
II. Efficiency in term of cost/benefits of action						

i) Require the setting up of specific whistle blowing procedures inside listed companies and supervisors of corporate reporting to strengthen the protection of whistle blowers

	1 (not at all effective/ efficient)	2 (rather not effective/ efficient)	3 (neutral)	4 (rather effective/ efficient)	5 (very effective/ efficient)	Don't know - No opinion - Not applicable
I. Effectiveness	○	○	○	◉	○	○
II. Efficiency in term of cost/benefits of action	○	○	○	◉	○	○

j) Require auditors to provide assurance on the systems and internal controls implemented by the board, including fraud, going concern and related reporting requirements

	1 (not at all effective/ efficient)	2 (rather not effective/ efficient)	3 (neutral)	4 (rather effective/ efficient)	5 (very effective/ efficient)	Don't know - No opinion - Not applicable
I. Effectiveness					X	
II. Efficiency in term of cost/benefits of action					X	

k) Strengthen the role of shareholders on corporate reporting

	1 (not at all effective/ efficient)	2 (rather not effective/ efficient)	3 (neutral)	4 (rather effective/ efficient)	5 (very effective/ efficient)	Don't know - No opinion - Not applicable
I. Effectiveness	○	○	○	○	●	○
II. Efficiency in term of cost/benefits of action	○	○	○	○	●	○

Question 9.1 Have you identified other actions that would effectively and efficiently increase the quality and reliability of reporting by listed companies?

- [x] Yes
- [ ] No
- [ ] Don’t know / no opinion / not applicable

9.1.1 Please specify to what other action(s) you refer in your answer to question 9.1:

2000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

We are supportive of all actions included in Q9 regarding improving the quality & reliability of reporting. These items correlate with the deficiencies observed by investors, & they are basic elements of good corporate governance. Fragmented EU & member state corporate governance requirements & their application deters investor protection, capital investment & ultimately the CMU. We believe each are basic tenants of good corporate governance observed in other developed markets/jurisdictions & the cost/benefit have been demonstrated. We believe all are important to implement. We have two specific points to add:
1) Implement Management Certifications, Supported by Audits, of Internal Controls Over Financial Reporting – We note that Items (c) & (j) relate, respectively, to increasing responsibilities of specific board members such as the CEO & CFO & requiring auditors to provide assurance on the systems of internal control related to fraud & going concern (i.e., internal controls over financial reporting more broadly are not mentioned). While these are directed at increasing accountability on management, they fall short of articulating the requirement for management certification of internal controls over financial reporting. We believe implementing a requirement that management certify the effectiveness of ICFRs is essential to improving corporate reporting in the EU. Investors are willing to pay the cost of such attestations & internal controls. We would refer you to the discussion of “efficiency” under Q19.2. ICFR certifications & attestations are a prime example of where EU companies have decreased attractiveness in capital flows to jurisdictions such as the US & will experience a higher cost of capital. See comment letter & questionnaire for more complete discussion:
https://www.cfainstitute.org/-/media/documents/comment-letter/2020-2024/20220203.pdf
https://www.cfainstitute.org/-/media/documents/comment-letter/2020-2024/20220131.pdf
See Q 19.2.

Question 9.2 Please provide any details to support your views. Any evidence, including on expected benefits and costs of such action is welcome:

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including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Continued from Q9.1,1
2) Implement Improved Regulatory Oversight of Audit Committees – Given the needed improvement in audit committees in the EU as noted in our response to Q7.1 and Q 9, we believe transparency, accountability and effectiveness could be improved by implementing better regulatory oversight of audit committees. The 2020 EC Report on Audit Market Monitoring notes the following:

The available data does not allow for an overall assessment of ACs’ performance, given the differing approaches to AC monitoring across Member States and the fact that most information is based on ACs' self-assessment. However, NCAs have made progress in gathering information and establishing a relationship with ACs

We suggest this be studied and considered as part of the establishment of a stronger audit regulator as noted in our response to Q15.1.

In our 2019 response to the UK Competition and Market Authority (CMA)'s Statutory Audit Services Market Study proposal we made a similar request noting the specific items in the excerpt below. We would note that the 2021 UK Government's Department of Business, Energy & Industrial Strategy (BEIS) overarching consultation (BEIS Overall Consultation), Restoring Trust in Audit and Corporate Governance: Consultation on the Government's Proposals includes a requirement that the newly formed Audit, Reporting and Governance Authority study how this can be implemented.

See comment letter & questionnaire for more complete discussion.
https://www.cfainstitute.org/-/media/documents/comment-letter/2020-2024/20220203.pdf
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Part III - Statutory audit

The overall objective of statutory audits is to ensure that financial statements are free from material misstatements and provide a true and fair view. The auditor has to identify and assess the risk of material misstatements and gather sufficient and appropriate audit evidence as the basis for his opinion that the financial statements provide a true and fair view and to publicly report on the results of his audit work. The EU audit rules promote audit quality and seek to ensure the independence of auditors and audit firms.

Therefore, the final objective of statutory audit is to contribute to the quality and reliability of financial statements of companies.

Question 10. How do you assess the effectiveness, efficiency and the coherence with other relevant EU frameworks of the key features of EU audit legislation in so far as it applies to PIE auditors and audit firms?

a) The rules on independence of auditors/audit firms and absence of conflicts of interest

	1 (very low)	2 (low)	3 (medium)	4 (high)	5 (very high)	Don't know - No opinion - Not applicable
I. Effectiveness in reaching its objectives	◉	○	○	○	○	○

II. Efficiency: has the framework been cost efficient	X					
III. Coherence with relevant EU rules	X					

b) The rules on the content of the audit and of the audit report

	1 (very low)	2 (low)	3 (medium)	4 (high)	5 (very high)	Don't know - No opinion - Not applicable
I. Effectiveness in reaching its objectives		X				
II. Efficiency: has the framework been cost efficient		X				
III. Coherence with relevant EU rules		X				

c) The rules applicable to non-audit services

	1 (very low)	2 (low)	3 (medium)	4 (high)	5 (very high)	Don't know - No opinion - Not applicable
I. Effectiveness in reaching its objectives		X				

II. Efficiency: has the framework been cost efficient		X				
III. Coherence with relevant EU rules		X				

d) The rules on auditor/audit firm rotation

	1 (very low)	2 (low)	3 (medium)	4 (high)	5 (very high)	Don't know - No opinion - Not applicable
I. Effectiveness in reaching its objectives			X			
II. Efficiency: has the framework been cost efficient			X			
III. Coherence with relevant EU rules			X			

e) The rules on transparency (transparency report, additional reports to other parties / audit committees / supervisors)

	1 (very low)	2 (low)	3 (medium)	4 (high)	5 (very high)	Don't know - No opinion - Not applicable
I. Effectiveness in reaching its objectives		X				

II. Efficiency: has the framework been cost efficient	○	◉	○	○	○	○
III. Coherence with relevant EU rules	○	◉	○	○	○	○

Question 11. Please describe the main issues you see, if any, in the audit pillar and, where possible, please provide concrete examples and evidence supporting your assessment.
You may want to consider the following aspects

- **are there factors that have reduced the effectiveness / rendered the relevant EU framework less effective than anticipated? Which rules have proven less effective than anticipated?**
- **is there scope to improve efficiency via further simplification?**
- **are existing provisions coherent with each other?**

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As background to our responses to the questions in Part III, please see the section Overarching Investors Perspectives That Inform Our Consultation Response in the letter & questionnaire noted below:
https://www.cfainstitute.org/-/media/documents/comment-letter/2020-2024/20220203.pdf
https://www.cfainstitute.org/-/media/documents/comment-letter/2020-2024/20220131.pdf

We provide our view on Independence, Audit Reports, Non-Audit Services, Mandatory Audit Rotation, and Transparency as it relates to Q10 in the above. In addition to implementing management certification & audits of ICFR, we believe there needs to be implementation of engagement level audit quality indicators (AQIs) to enhance transparency of the audit at the engagement level as banning non-audit services and rotating auditors does not change the fundamental payor & transparency problem associated with audit. We are strong believer that greater transparency on audit fees &AQIs is key to improving audit quality. There is a perception that audit quality is an elusive, unmeasurable quality. We disagree. There are many products where measures of quality are routinely defined, measured, monitored, tested, and adjusted over time, at the specific product level. Audit is no different. While firm level information, quality standards & transparency reports are important, they are not sufficient – many investors believe they serve as marketing materials rather than useful instruments for evaluating audit effectiveness. Engagement level audit quality indicators provide management, the audit committee, the audit regulator & the consume (investor) with metrics to communicate & measure progress. Measuring audit quality is about providing more information to investors, & the agents engaged to protect their interests, to move audits out of the realm of a credence good. What gets measured gets monitored. Delays in developing AQIs is an indicator of their potential to be highly effective. See Q19.2.

Question 12. To which extent you agree to the following statements?

	1 (strongly disagree)	2 (rather disagree)	3 (neutral)	4 (rather agree)	5 (strongly agree)	Don't know - No opinion - Not applicable
I. Statutory audits contribute as much as is possible to the quality and reliability of corporate reporting by PIEs			X			
II. I am satisfied with the role of the statutory auditors / audit firms of PIEs			X			
III. The work of auditors is reliable so I trust their assessment and reports and their work inspires trust in capital markets			X			
IV. There is not enough choice for public interest entities in finding an audit firm at appropriate costs	X					
V. Joint audits contribute to the quality of audit	X					

12.1 If you want to add any comments, and/or mention specific issues you see you can insert them here. Where possible, please provide concrete examples and evidence supporting your assessment:

2000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

See our response to Question 11. As it relates to the Items I, II and III of Question 12, we would refer you to the discussion of audit as a credence good in the comment letter referenced there.

https://www.cfainstitute.org/-/media/documents/comment-letter/2020-2024/20220203.pdf
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The lack of transparency from auditors limits the ability of investors to say that audit contributes as much as possible to the quality and reliability of corporate reporting, the ability to assess their satisfaction with the role of auditors, and the reliability of their work in a manner that inspires trust in capital markets. See also our discussion in Question 11 on AQIs.

As it relates to Item IV of Question 12, we would refer you to our response to the UK Competition and Market Authority (CMA)'s Statutory Audit Services Market Study where we highlight our global views on audit market competition. There we highlight that increased choice and competition without an ability to judge audit quality will not address the real issue of audit quality as it simply creates more competitors without an ability to judge the quality of the good (i.e., audit). In that same letter we highlight that we do not support joint audit (Item V) as they are race to the bottom in audit quality as accountability is diminished and competition between auditors to please client increased.

Overall, we do not believe that increasing audit competition or the number of auditors – without any way to judge audit quality – is the way to improve audit quality. It simply creates more competition in providing a credence good. A market does not improve when there is a lack of transparency between market participants.

The audit quality issues that occur most often at EU level are

- deficiencies in audit firms' internal quality control systems
- the lack of, or inappropriate, monitoring of high-risk audited entities
- and the lack of audit evidence and documentation.

Question 13. To what extent can these quality issues be attributed to deficiencies in the EU legal and supervisory framework for statutory audit?

- ○ 1 - Not at all
- ○ 2 - To a limited extent
- ○ 3 - To some extent
- ● 4 - To a large extent
- ○ 5 - To a very large extent

◯ Don’t know / no opinion / not applicable

Question 13.1 Please explain, and where possible, provide evidence for your assessment under question 13:

2000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

See our responses to Questions 9, 11 and 12.1. Our view is that the pillars of corporate governance (Part II) and audit supervision (Part IV) that provide support and leverage to auditors are weak and are the elements at the EU legislation that need to be addressed most promptly. Lack of management certification of internal controls over financial reporting and auditor attestation decreases accountability by management and auditors. We have found these to be powerful behavioral impetuses to company management and board in dedicating resources to corporate reporting. Additionally, audit quality indicators – at the audit engagement level – provide transparency and measurements that get monitored and evaluated to improve audit quality by all the participants in the corporate reporting and audit ecosystem. These items combined with a regulator with the resources (i.e., in both quantity and skills) to perform inspections and the teeth to punish bad actors (at the company, board or auditor) – and act as an effective deterrent – are the elements of the EU audit ecosystem which we believe are missing and could address the problems that result in the response to Question 13.

Question 14. How effective and efficient would the following actions be in increasing the quality of statutory audits of PIEs?

a) Ask auditors to disclose how they have assured the directors' statement on material fraud, and what steps they have taken to assess the effectiveness of the relevant internal controls and to detect any fraud

	1 (not at all effective/ efficient)	2 (rather not effective/ efficient)	3 (neutral)	4 (rather effective/ efficient)	5 (very effective/ efficient)	Don't know - No opinion - Not applicable
I. Effectiveness	○	○	●	○	○	○
II. Efficiency in term of cost/benefits of action	○	○	●	○	○	○

b) Strengthen the informational value of audit reports

	1 (not at all effective/ efficient)	2 (rather not effective/ efficient)	3 (neutral)	4 (rather effective/ efficient)	5 (very effective/ efficient)	Don't know - No opinion - Not applicable
I. Effectiveness	○	○	○	○	●	○
II. Efficiency in term of cost/benefits of action	○	○	○	○	●	○

c) Improve the internal governance of audit firms

	1 (not at all effective/ efficient)	2 (rather not effective/ efficient)	3 (neutral)	4 (rather effective/ efficient)	5 (very effective/ efficient)	Don't know - No opinion - Not applicable
I. Effectiveness	○	○	○	○	●	○
II. Efficiency in term of cost/benefits of action	○	○	○	○	●	○

d) Incentivise or mandate the performance of joint audits for PIEs, including to enhance competition on the PIE audit market

	1 (not at all effective/ efficient)	2 (rather not effective/ efficient)	3 (neutral)	4 (rather effective/ efficient)	5 (very effective/ efficient)	Don't know - No opinion - Not applicable
I. Effectiveness	◉	○	○	○	○	○
II. Efficiency in term of cost/benefits of action	◉	○	○	○	○	○

e) Further harmonise the rules on mandatory rotation

	1 (not at all effective/ efficient)	2 (rather not effective/ efficient)	3 (neutral)	4 (rather effective/ efficient)	5 (very effective/ efficient)	Don't know - No opinion - Not applicable
I. Effectiveness	○	○	●	○	○	○
II. Efficiency in term of cost/benefits of action	○	○	●	○	○	○

f) Limit the scope for statutory auditors and audit firms to provide non-audit services

	1 (not at all effective/ efficient)	2 (rather not effective/ efficient)	3 (neutral)	4 (rather effective/ efficient)	5 (very effective/ efficient)	Don't know - No opinion - Not applicable
I. Effectiveness	○	○	○	◉	○	○
II. Efficiency in term of cost/benefits of action	○	○	○	◉	○	○

g) Increase or eliminate caps on auditor liability, at least for cases of gross negligence of statutory auditors

	1 (not at all effective/ efficient)	2 (rather not effective/ efficient)	3 (neutral)	4 (rather effective/ efficient)	5 (very effective/ efficient)	Don't know - No opinion - Not applicable
I. Effectiveness	○	○	○	○	●	○
II. Efficiency in term of cost/benefits of action	○	○	○	○	●	○

h) Limit the number of Member State options in the EU Audit framework to ensure consistency across the EU and to incentivise cross-border statutory audits

	1 (not at all effective/ efficient)	2 (rather not effective/ efficient)	3 (neutral)	4 (rather effective/ efficient)	5 (very effective/ efficient)	Don't know - No opinion - Not applicable
I. Effectiveness	○	○	○	○	●	○
II. Efficiency in term of cost/benefits of action	○	○	○	○	●	○

i) The creation of a passporting system for PIE auditors and audit firms, allowing auditors to provide their services across the Union based on their approval in a Member State

	1 (not at all effective/ efficient)	2 (rather not effective/ efficient)	3 (neutral)	4 (rather effective/ efficient)	5 (very effective/ efficient)	Don't know - No opinion - Not applicable
I. Effectiveness	○	○	○	○	○	●
II. Efficiency in term of cost/benefits of action	○	○	○	○	○	●

Question 14.1 Have you identified other actions that would effectively and efficiently increase the quality and reliability of statutory audits of PIEs?

- (selected) Yes
- No
- Don’t know / no opinion / not applicable

14.1.1 Please specify to what other action(s) you refer in your answer to question 14.1:

2000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

As it relates to specific elements of improving audit quality highlighted in Q14 note the following:
a. Fraud – See our comments in the UK Brydon response on fraud. Our global view is that there is not a definition of fraud that is consistent between the audit profession and the general public and that until this is reconciled improvements will be challenging. We noted the following in our comment to the UK, and believe the same holds true in the EU:
We are not convinced that requiring a fraud detection mindset or reasonable person standard is sufficient to improve the expectations users have of auditors as it relates to fraud. We do not believe the public has an accurate perception regarding the definition of fraud. Further, the public’s perception of the balance of auditors’ responsibilities with respect to detecting fraud versus management’s and director’s responsibilities with respect to preventing and detecting fraud seems out of balance. The nature and definition of fraud, controls to prevent and detect fraud and the nature of audit procedures related to fraud is an expansive topic. For that reason – and the fact that the public needs greater education on the topic – we think separate consultation and consideration of this issue is necessary before any conclusions can be reached.
b. Info Value of Audit Reports – What exactly is meant by “information value of audit reports” would need to be defined more precisely to answer this in greater detail. The transparency & information value of audit reports can be improved,including in respect to disclosures under IFRS (e.g., segments, cash flows, etc.) Extended audit reports with disclosure of key or critical audit matters have emerged, there remains work to make these more meaningful
c. Internal Governance of Audit Firms – Improving firm governance needs to come through engagement level AQIs (Q11)such that existing transparency reports are not marketing materials, but useful communications.
See Q14.2

Question 14.2 Please provide any details to support your views. Any evidence, including on expected benefits and costs of such action is welcome:

2000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Continued from Q 14.1
d. Joint Audits – We do not support joint audits. In fact, we are very strongly opposed to them and see joint audits as a race to the bottom on audit quality.
e. Mandatory Rotation – As an organization, CFA Institute has not supported mandatory audit rotation. We have supported disclosures of audit tenure and routine audit tendering, but we believe there are other elements of audit reform that could improve audit quality. Harmonization of mandatory rotation would,

however, make the rules clearer to investors.
f. Non-Audit Services – We support prohibition in the providing of certain non-audit services to audit clients. There appears to be some simplification worth considering, though some investors view that all non-audit services should be banned. Some investors believe that reporting on sustainability information should be considered a prohibited non-audit service. We are not convinced of this argument and believe further study on the nature of the disclosures being assured, their connection to the financial statements and their linkage to internal controls should be explored further before a determination is made on that point.
g. Liability Caps – We believe that all caps on legal liability should be removed. Auditors will audit more thoroughly for their own self-preservation if they face the potential of unlimited liability. As they say, "the prospect of hanging focuses mind wonderfully."
h. Limit Member State Options – Optionality always reduces comparability and quality in corporate reporting and audit. As such, we do not support optionality at the member state level. Optionality also reduces effective enforcement. Further, the tenants of high-quality audit are not "optional" – measures either increase the quality and effectiveness of the audit or they do not.
i. Passporting – We need more information on what his would look like and the legal challenges to be able to comment most effectively.

Part IV - Supervision of PIE statutory auditors and audit firms

National competent authorities are responsible for the approval and registration of statutory auditors and audit firms, the adoption of audit standards, quality assurance and investigative and administrative disciplinary systems.

At European level, the cooperation between competent authorities is organised within the framework of the Committee of European Audit Oversight Bodies (the 'CEAOB'). The CEAOB has different tasks aimed at supervisory convergence, but it has no power to take binding decisions (Article 30 Audit Regulation).

Question 15. How do you assess the effectiveness, efficiency, and coherence of the key features of the EU supervisory framework for PIE statutory auditors and audit firms?

a) The supervision of PIE statutory auditors and audit firms in the EU

	1 (very low)	2 (low)	3 (medium)	4 (high)	5 (very high)	Don't know - No opinion - Not applicable
I. Effectiveness in reaching its objectives	◉	○	○	○	○	○
II. Efficiency: has the framework been cost efficient	◉	○	○	○	○	○

III. Coherence with relevant EU rules	●	○	○	○	○	○

b) The establishment and operation of national audit oversight bodies

	1 (very low)	2 (low)	3 (medium)	4 (high)	5 (very high)	Don't know - No opinion - Not applicable
I. Effectiveness in reaching its objectives	○	●	○	○	○	○
II. Efficiency: has the framework been cost efficient	○	●	○	○	○	○
III. Coherence with relevant EU rules	○	●	○	○	○	○

c) The Member State systems for investigations and sanctions

	1 (very low)	2 (low)	3 (medium)	4 (high)	5 (very high)	Don't know - No opinion - Not applicable
I. Effectiveness in reaching its objectives	○	●	○	○	○	○
II. Efficiency: has the framework been cost efficient	○	●	○	○	○	○

III. Coherence with relevant EU rules	○	◉	○	○	○	○

d) The role of the CEAOB

	1 (very low)	2 (low)	3 (medium)	4 (high)	5 (very high)	Don't know - No opinion - Not applicable
I. Effectiveness in reaching its objectives	◉	○	○	○	○	○
II. Efficiency: has the framework been cost efficient	◉	○	○	○	○	○
III. Coherence with relevant EU rules	◉	○	○	○	○	○

Question 15.1 Please describe the main issues you see, if any, in relation to the supervision of statutory auditors and audit firms and, where possible, please provide concrete examples and evidence supporting your assessment. You may want to consider the following aspects

- **are there factors that have reduced the effectiveness / rendered the relevant EU framework less effective than anticipated? Which rules have proven less effective than anticipated?**
- **is there scope to improve efficiency via further simplification?**
- **are existing provisions coherent with each other?**

2000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Please refer to the Background and Context to Our Consultation Response: An Investor Perspective on Regulatory Supervision section in the comment letter & questionnaire noted below:
https://www.cfainstitute.org/-/media/documents/comment-letter/2020-2024/20220203.pdf
https://www.cfainstitute.org/-/media/documents/comment-letter/2020-2024/20220131.pdf

There we highlight how the audit regulator in the EU's largest economy, APAS a member of the CEAOB, failed investors and diminished the credibility of both and auditor oversight more broadly within the EU given the lack of independence, transparency, accountability and effectiveness of these organizations. How auditors are supervised, especially in light of the audit payor model is an essential part of the strength of the audit ecosystem. Audit regulators act as an important key backstop to facilitate & assist auditors in the execution of their duties.

Recommend Study & Creation of EU Level Statutory Audit Supervisor - We understand that supervision in other EU member states is equally poor, the CEAOB is not effective, and staffing at such audit supervisors is insufficient, of low quality and ineffective. Audit supervisory organizations and CEAOB, including their inspection findings, lack transparency. We believe a detailed, independent review & inspection of EU member state audit regulators & the CEAOB to determine how they should be improved is necessary. In our view, this report would be about how, not if, to create a stronger pan-European audit regulator. It is essential that the cost of national vs. a European-wide audit regulator be assessed such that sufficient resources are deployed, and economies of scaled gained, by such an EU wide model. Such regulator would have oversight of audit standard setting and endorsement, inspections and enforcement actions. We would envisage something similar to ESMA, but with the greater powers we highlight in Part V. Continued at Q16.1.

Question 16. Considering the findings in the Commission monitoring report and reports of national audit oversight bodies how would you rate the quality of audit supervision?

- 1 - Very low
- ◉ 2 - Low
- 3 - Medium
- 4 - High
- 5 - Very high
- Don't know / no opinion / not applicable

16.1 If you want to add any comments and/or provide evidence for your assessment in question 16, you can provide it below. You may also include the consequences that your assessment of the quality of audit supervision or the lack thereof has:

2000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Continued from Q15.1. CFA Institute similarly advocated, subsequent to high-profile corporate failures such as Enron, for the formation of the Public Company Accounting Oversight Board (PCAOB) & other audit reforms that were enacted by the Sarbanes-Oxley Act of 2002 – including audit standard setting, auditor inspection and enforcement. CFAI has been an active participant in the PCAOB standard setting & audit oversight process over the last 20 years. While not perfect, we see clear evidence that the PCAOB has improved audit quality through more vigorous inspections, but also, & maybe more importantly, by providing auditors with a backstop to pressure company management & audit committees to provide the evidence necessary to support the audit opinion. This has created important behavioural change to the audit, where an auditor payor model inhibits auditors' ability to challenge management on accounting & internal control issues & seek the audit evidence necessary to support accounting & reporting conclusions.

We have also been active in the debate on audit reform in the UK for reasons noted previously. Our response to the 2021 UK Government's overarching consultation, Restoring Trust in Audit and Corporate Governance: Consultation on the Government's Proposals highlights that the most significant outcome of the UK Government's audit reform efforts appears to be a stronger audit regulator, ARGA. By contrast to the US and UK, and the EU is a laggard in audit supervisory reform with essentially no EU level oversight and powers – and with a regulator in the largest economy in the EU with demonstrably weak supervision & conflicts of interest.

The EC should undertake a review of member state audit regulators, the CEAOB, & include making recommendations for improving the supervision of audit & establishing a pan-European audit regulator. Something more akin to ESMA – but with stronger, enforcement powers on an ex-ante & ex-post basis – is needed for audit.

Question 17. How effective and efficient would the following actions be to increase the quality and effectiveness of supervision of PIE statutory auditors and audit firms?

a) Ensure better the independence and appropriate resources of supervisors of auditors and audit firms

	1 (not at all effective/ efficient)	2 (rather not effective/ efficient)	3 (neutral)	4 (rather effective/ efficient)	5 (very effective/ efficient)	Don't know - No opinion - Not applicable
I. Effectiveness	○	○	○	○	◉	○
II. Efficiency in term of cost/benefits of action	○	○	○	○	◉	○

b) Increase the transparency of audit supervisors

	1 (not at all effective/ efficient)	2 (rather not effective/ efficient)	3 (neutral)	4 (rather effective/ efficient)	5 (very effective/ efficient)	Don't know - No opinion - Not applicable
I. Effectiveness	○	○	○	○	●	○
II. Efficiency in term of cost/benefits of action	○	○	○	○	●	○

c) Increase the consistency of supervision of cross-border networks of audit firms

	1 (not at all effective/ efficient)	2 (rather not effective/ efficient)	3 (neutral)	4 (rather effective/ efficient)	5 (very effective/ efficient)	Don't know - No opinion - Not applicable
I. Effectiveness	○	○	○	○	●	○
II. Efficiency in term of cost/benefits of action	○	○	○	○	●	○

d) Ensure supervision of audit committees

	1 (not at all effective/ efficient)	2 (rather not effective/ efficient)	3 (neutral)	4 (rather effective/ efficient)	5 (very effective/ efficient)	Don't know - No opinion - Not applicable
I. Effectiveness	○	○	○	○	●	○
II. Efficiency in term of cost/benefits of action	○	○	○	○	●	○

e) Harmonise and strengthen the investigation and sanctioning powers of audit supervisors

	1 (not at all effective/ efficient)	2 (rather not effective/ efficient)	3 (neutral)	4 (rather effective/ efficient)	5 (very effective/ efficient)	Don't know - No opinion - Not applicable
I. Effectiveness	○	○	○	○	●	○
II. Efficiency in term of cost/benefits of action	○	○	○	○	●	○

f) Ensure that at European level there are legal instruments available that ensure supervisory convergence as regards statutory audit of PIEs

	1 (not at all effective/ efficient)	2 (rather not effective/ efficient)	3 (neutral)	4 (rather effective/ efficient)	5 (very effective/ efficient)	Don't know - No opinion - Not applicable
I. Effectiveness	○	○	○	○	●	○
II. Efficiency in term of cost/benefits of action	○	○	○	○	●	○

g) Grant a European body the task to register and supervise PIE statutory auditors and audit firms

	1 (not at all effective/ efficient)	2 (rather not effective/ efficient)	3 (neutral)	4 (rather effective/ efficient)	5 (very effective/ efficient)	Don't know - No opinion - Not applicable
I. Effectiveness						
II. Efficiency in term of cost/benefits of action						

Question 17.1 Have you identified other actions that would effectively and efficiently increase the quality and reliability of supervision of PIE statutory auditors and audit firms?

- (x) Yes
- ( ) No
- ( ) Don’t know / no opinion / not applicable

17.1.1 Please specify to what other action(s) you refer in your answer to question 17.1:

2000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

See Q15.1 where we recommend a detailed independent review & inspection of EU member state auditor regulators & the CEAOB to determine how they should be improved. This report would be done with the objective of how, not if, to create a stronger pan-EU audit regulator. Such regulator would have oversight of audit standard setting & endorsement, inspections & enforcement actions. An organization something more akin to ESMA, but stronger, is needed related to audit supervision. All items in Q17 would be both highly effective & efficient at improving audit supervision.
Independent & Appropriate Resources – Numerous media reports identify the lack of independence, quality & number of audit supervisory resources as a significant contributor to the lack of quality audit supervision. Consolidation of efforts could increase quality, resources, & efforts.
Transparency of Supervisors – The lack of transparency of the member state audit supervisors is a problem observed by auditors, investors, & the media. This is also evidenced at CEAOB by simple review of their website. Transparency is one of the first principles of audit quality. Without it the quality of the credence good will never be assessable.
Consistency of Cross Border Supervision – We believe a pan-European audit supervisor would be best placed to ensure consistency of cross-border supervision.
Ensure Supervision of Audit Committees – In Part II we support enhanced reg. oversight of audit committees.
Harmonize & Strengthen Investigation & Sanctioning of Audit Supervisors – We support pan-EU level legislation to ensure convergence of audit supervision. We believe a pan-European organization is the most effective mechanism to support strength and harmonization.
EU Level Instruments to Ensure Convergence of Audit Supervision – We support a EU level legislation to ensure convergence of audit supervision.
Grant a EU Body Right to Register & Supervise Auditors & Audit Firms – We would support.

Question 17.2 Please provide any details to support your views. Any evidence, including on expected benefits and costs of such action is welcome:

2000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

See our response to Q15.1

Part V - Supervision and enforcement of corporate reporting

The supervision and enforcement of corporate reporting refers to the examination by competent authorities of listed companies' compliance with the disclosure obligations stemming from the applicable reporting framework, as well as taking appropriate measures when infringements are identified.

Based on enforcement activities by national competent authorities, ESMA reports a significant level of material misstatements. In the follow up of the Wirecard case and based on its experience, ESMA recommended a number of actions to improve the enforcement of corporate reporting (see ESMA letter of 26 February 2021 to the Commissioner McGuinness on next steps following Wirecard - ESMA32-51-818).

The Transparency Directive includes a number of requirements relating to supervision of corporate reporting

- the designation of a central competent authority in each Member State. For the enforcement of corporate reporting, Member States may designate a competent authority other than the central authority and/or delegate tasks to other entities
- national central competent authorities must be independent from market participants. There are no specific provisions as regards the independence of other designated authorities. As regards entities with delegated tasks, the entity in question must be organised in a manner such that conflicts of interest are avoided and information obtained from carrying out the delegated tasks is not used unfairly or to prevent competition
- Member States must provide competent authorities with certain powers, including investigative powers
- ESMA is tasked to foster supervisory convergence as regards the enforcement of financial statements prepared in accordance with the IFRS. For this purpose it has adopted in 2014 guidelines on the enforcement of financial information

This part of the consultation complements the Commission targeted consultation on the supervisory convergence and the Single Rulebook from 12 March 2021 to 21 May 2021.

Question 18. Considering the level of material departures from IFRS in the financial statements of listed companies found in the ESMA report on enforcement and regulatory activities of European enforcers in 2020, how would you rate (on a scale of 1 to 5) the degree to which such departures can be attributed to deficiencies in the EU supervisory framework?

- ( ) 1 - Very low
- ( ) 2 - Low
- ( ) 3 - Medium
- (x) 4 - High
- ( ) 5 - Very high
- ( ) Don't know / no opinion / not applicable

18.1 If you want to add any comments and/or provide evidence for your assessment in question 18, you can provide it below. You may also include the consequences that your assessment of the quality of audit supervision or the lack thereof has:

2000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

The principles-based nature of IFRS makes corporate reporting processes & controls particularly important. As a former member of the IFRS Interpretations Committee, given the limited detail, access, and powers ESMA has, I directly, as an investor, observed that ESMA brought excellent issues associated with inconsistencies in the application of IFRS to the IFRS IC. Like investors, ESMA was the only one at the table who had an external perspective on the usefulness of fin stmts across the EU. The establishment of the ESEF & ESAP has the potential to significantly increase the ability of EU level oversight of corporate reporting & auditing. As a user of tagged data tools the ability to search across all public companies there are immeasurable benefits to having the data tagged & collected in a single source across the EU. This type of EU-wide effort enhances the concept of the capital markets union.

ESMA's formation has been very effective at bringing an EU-wide perspective & vantage point to the quality of corporate reporting. ESMA lacks the access, strength of supervision & enforcement powers that are necessary to really effectuate the enforcement necessary to improve corporate reporting. The situation with Germany's FREP in the wake of the Wirecard scandal highlights the lack of ability of ESMA to bring change on an ex-ante basis. The published news accounts suggest it was well known that FREP lacked the resources & capabilities to execute its necessary duties. Even on an ex-post basis ESMA, can only observe & comment on changes needed but cannot bring them to bear. We believe improvements to strengthen ESMA are necessary. Supervision by its nature is an ex-post activity, & it is an important backstop, but much of supervision's efficacy depends on public displays of enforcement to act as an effective ex-ante deterrent.

Question 19. How effective and efficient would the following actions be in increasing the quality and reliability of reporting by listed companies?

a) Clarify the role and responsibilities of the national authorities charged with the enforcement of corporate reporting and entities to whom the supervision of corporate reporting is delegated/designated, and improve their cooperation

	1 (not at all effective/ efficient)	2 (rather not effective/ efficient)	3 (neutral)	4 (rather effective/ efficient)	5 (very effective/ efficient)	Don't know - No opinion - Not applicable
I. Effectiveness	( )	( )	( )	(x)	( )	( )
II. Efficiency in term of cost/benefits of action	( )	( )	(x)	( )	( )	( )

b) Improve the system for the exchange of information between authorities and entities involved in the supervision of corporate reporting, and other relevant national authorities

	1 (not at all effective/ efficient)	2 (rather not effective/ efficient)	3 (neutral)	4 (rather effective/ efficient)	5 (very effective/ efficient)	Don't know - No opinion - Not applicable
I. Effectiveness	○	○	○	●	○	○
II. Efficiency in term of cost/benefits of action	○	○	●	○	○	○

c) Strengthen the rules ensuring the independence of national authorities or entities involved in the supervision of corporate reporting

	1 (not at all effective/ efficient)	2 (rather not effective/ efficient)	3 (neutral)	4 (rather effective/ efficient)	5 (very effective/ efficient)	Don't know - No opinion - Not applicable
I. Effectiveness	○	○	○	●	○	○
II. Efficiency in term of cost/benefits of action	○	○	●	○	○	○

d) Increase the resources of national authorities or entities involved in the supervision of corporate reporting

	1 (not at all effective/ efficient)	2 (rather not effective/ efficient)	3 (neutral)	4 (rather effective/ efficient)	5 (very effective/ efficient)	Don't know - No opinion - Not applicable
I. Effectiveness	○	○	○	●	○	○
II. Efficiency in term of cost/benefits of action	○	○	●	○	○	○

e) Increase the powers for national competent authorities to enforce corporate reporting, such as forensic, powers to obtain any necessary information from banks, tax or any other authorities in the country, powers to request information and corrective actions, etc.

	1 (not at all effective/ efficient)	2 (rather not effective/ efficient)	3 (neutral)	4 (rather effective/ efficient)	5 (very effective/ efficient)	Don't know - No opinion - Not applicable
I. Effectiveness	○	○	○	◉	○	○
II. Efficiency in term of cost/benefits of action	○	○	◉	○	○	○

f) Improve cooperation and coordination between national authorities of different Member States

	1 (not at all effective/ efficient)	2 (rather not effective/ efficient)	3 (neutral)	4 (rather effective/ efficient)	5 (very effective/ efficient)	Don't know - No opinion - Not applicable
I. Effectiveness	○	○	○	●	○	○
II. Efficiency in term of cost/benefits of action	○	○	●	○	○	○

g) Increase transparency on the conduct and results of enforcement activities by national authorities

	1 (not at all effective/ efficient)	2 (rather not effective/ efficient)	3 (neutral)	4 (rather effective/ efficient)	5 (very effective/ efficient)	Don't know - No opinion - Not applicable
I. Effectiveness	○	○	○	●	○	○
II. Efficiency in term of cost/benefits of action	○	○	●	○	○	○

h) Strengthen the role of ESMA on the enforcement of corporate reporting

	1 (not at all effective/ efficient)	2 (rather not effective/ efficient)	3 (neutral)	4 (rather effective/ efficient)	5 (very effective/ efficient)	Don't know - No opinion - Not applicable
I. Effectiveness	○	○	○	○	●	○
II. Efficiency in term of cost/benefits of action	○	○	○	○	●	○

Question 19.1 Have you identified other actions that would effectively and efficiently increase the quality and reliability of reporting by listed companies?

- (x) Yes
- ( ) No
- ( ) Don't know / no opinion / not applicable

19.1.1 Please specify to what other action(s) you refer in your answer to question 19.1:

2000 character(s) maximum
including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

We believe all the Items (A) to (H) articulated in Q19, and listed below, would be important in improving the quality and the reliability of corporate reporting. That said, while we believe Items (A) to (G) listed above can have impact, they will result in a fragment approach as they are focused on national authorities rather than an EU-wide approach that is cohesive and consistent. We would need to be convinced, given Wirecard, how more power at the member state level with national authorities is the best approach. As we highlight in our response to Q18.1, we believe an EU-wide level approach that strengthens ESMA is a better approach to ensuring there is a coordinated, well-resourced, consistent, more transparent, independent approach to corporate reporting supervision. We believe strengthening the powers of ESMA (Item H) on the enforcement of corporate reporting would be the most effective and have powerful ripple effects back to national authorities. It also provides a stronger balance of power and independence to the national authorities by providing accountability outside of their respective jurisdiction. This is also our preferred approach because we believe it will provide investors with the confidence to compare companies across the European Union, reduce the cost of capital and facilitate the capital markets union.

We also believe it is essential that the cost of national vs. a European Union wide corporate reporting regulator be assessed – and an assessment be made of whether ESMA is sufficiently funded – such that sufficient resources are deployed – and economies of scaled gained through ESMA.

Question 19.2 Please provide any details to support your views. Any evidence, including on expected benefits and costs of such action is welcome:

2000 character(s) maximum
including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Effectiveness &Efficiency –Many stakeholders (e.g., management & auditors) have limited experience to comment on the effectiveness of a particular rule as they do not bring the perspective of those for whom the rule, or corporate reporting, was created – investors. Those same respondents have very strong views regarding efficiency – which they generally define at the direct time or money they employ in applying the requirements – without the experience to balance that perspective with effectiveness or an understanding that investors – those who ultimately bear the cost of application – are willing to pay for such regulations. They, & regulators, don't always understand & don't tally the cost of not providing the necessary information or assurance to investors. Specifically, they don't tally the equity risk premium and increased cost of capital applied by investors when deploying capital in company's & in jurisdictions where lower quality reporting exists.An example of how equation is not appropriately balanced is in the requirement for management

certification, & auditor attestation, of ICFR. In the UK and the EU there is no such requirement with many (i.e., management) abstractly (i.e., without study of the cost) tallying the cost of ICFR and saying it cannot be worth it. What this analysis fails to recognize is:
-Failure to implement ICFR increases the cost of capital for companies in the EU relative to the US;
-Investors, not management or the company, bear such cost, &
-Investors are willing to pay as their analysis also includes the cost at which capital will need to be deployed.
Our responses incorporate a definition of efficiency that considers both the cost of applying the regulation & the cost of capital.
Coherence – See the comment letter & questionnaire noted below:
https://www.cfainstitute.org/-/media/documents/comment-letter/2020-2024/20220203.pdf
https://www.cfainstitute.org/-/media/documents/comment-letter/2020-2024/20220131.pdf

Additional information

Should you wish to provide additional information (e.g. a position paper, report) or raise specific points not covered by the questionnaire, you can upload your additional document(s) below. **Please make sure you do not include any personal data in the file you upload if you want to remain anonymous**.

The maximum file size is 1 MB.
You can upload several files.
Only files of the type pdf,txt,doc,docx,odt,rtf are allowed

Useful links

More on this consultation (https://ec.europa.eu/info/publications/finance-consultations-2021-corporate-reporting_e

Consultation document (https://ec.europa.eu/info/files/2021-corporate-reporting-consultation-document_en)

Consultation strategy (https://ec.europa.eu/info/files/2021-corporate-reporting-consultation-strategy_en)

More on company reporting (https://ec.europa.eu/info/business-economy-euro/company-reporting-and-auditing_e

Specific privacy statement (https://ec.europa.eu/info/law/better-regulation/specific-privacy-statement_en)

More on the Transparency register (http://ec.europa.eu/transparencyregister/public/homePage.do?locale=en)

Contact

fisma-corporate-reporting@ec.europa.eu