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21 July 2018

Dear Sirs,

**Public consultation: Fitness check on the EU framework for public reporting by companies**

We welcome the opportunity to respond to the European Commission's public consultation on the fitness check on the EU framework for public reporting by companies.

The Quoted Companies Alliance *Financial Reporting Expert Group* has examined your proposals and advised on this response. A list of Expert Group members is at Appendix A. We have responded below in more detail to specific questions from the point of view of our members – small and mid-size quoted companies.

Overall, we believe that the current EU framework for public reporting by companies is fit for purpose. Users of public reports – particularly investors – will favour a framework which is consistent and comparable across all their investee companies. As the IASB already has an existing accounting standards consultation process in place, there is no demand for any further endorsement processes. In light of this, we would emphasise the following points:

- **There should be no “pan-EU GAAP” – this would create an extra level of burden and regulation which would harm small and mid-size quoted companies.**
- **The European Commission should not be enabled to modify the content of IFRS as this would lead to unnecessary fragmentation of IFRS adoption. This would not benefit either preparers or users of financial statements.**
- **The EU framework should not define and require the disclosure of the most commonly used alternative performance measures.**
- **The European Union should endorse the IASB Conceptual Framework for Financial Reporting as soon as possible.**

The Quoted Companies Alliance is the independent membership organisation that champions the interests of small to mid-size quoted companies.

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If you would like to discuss our response in more detail, we would be happy to attend a meeting.

Yours faithfully,

A handwritten signature in blue ink, appearing to read 'TW', with a horizontal line extending to the right.

Tim Ward

Chief Executive

**Response**

**Q6** Depending on circumstances, a company may have public reporting obligations on top of those being examined here. Such legislation may have been developed at the EU, national or regional level. Should you have views on the interplay of these additional reporting obligations with the policies examined in this consultation, please comment below and substantiate it with evidence or concrete examples.

As a general comment, duplicated and conflicting requirements at both the national and EU level are disproportionately burdensome for smaller entities.

We do however note that, in many cases, this is due to ineffective responses to EU legislation by national or regional governments. For example, in the UK, the main cause of complexity for the EU Non-financial Reporting (NFR) Regulation is its interaction with the UK-specific quoted company strategic report requirements, which the UK government could have chosen to remove when the NFR came into force in January 2017.

**Q12** As regards the preparation of consolidated and individual financial statements how do you assess the ability of the following approaches to reduce barriers to doing business cross-borders?

	1	2	3	4	5	Don't know
The EU should reduce the variability of standards from one Member State to another through more converged national GAAPs, possibly by removing options currently available in the EU accounting legislation	X					
The EU should reduce the variability of standards from one Member State to another by converging national GAAPs on the basis of a European Conceptual Framework	X					
The EU should reduce the variability of standards from one Member State to another by converging national GAAPs and in addition by addressing current lacunas in the Accounting Directive (leases, deferred taxes, etc.)	X					
The EU should reduce the variability of standards from one Member State to another by establishing a "pan-EU GAAP" available to any company that belongs to a group. Such "pan-EU GAAP" may be the IFRS, IFRS for SMEs, or another standard commonly agreed at the EU level.	X					
Do nothing (status quo)			X			
Other (please specify)					X	

(1= totally disagree, 2= mostly disagree, 3= partially disagree and partially agree, 4= mostly agree, 5 = totally agree)

**Please explain your response and substantiate it with evidence or concrete examples**

We believe that the best approach to reducing barriers to doing business cross-borders would be to dedicate efforts towards improving, clarifying and harmonising the existing common standards - that is, national GAAPs and IFRS.

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However, we believe that there is also an argument for retaining the status quo. Convergence of national GAAPs would be redundant for companies which are both owned and operate in that local jurisdiction. Convergence is only required when ownership or other financial stakeholders are in a different jurisdiction to the company.

Enforcing greater convergence of national GAAPs, or creating a European Conceptual Framework or a “pan-EU GAAP”, would simply create an extra level of burden and regulation, which would be detrimental to small and mid-size quoted companies.

**Q16 How do you think that the current EU framework as regards the content of financial reporting is relevant (necessary and appropriate), having regards to the following information:**

	1	2	3	4	5	Don't know
<b>A company's or group's strategy, business model, value creation</b>	X					
<b>A company's or group's intangible assets, including goodwill, irrespective of whether these appear on the balance sheet or not</b>				X		
<b>A company's or group's policies and risks on dividends, including amounts available for distribution</b>				X		
<b>A company's or group's cash flows</b>				X		

(1= totally disagree, 2= mostly disagree, 3= partially disagree and partially agree, 4= mostly agree, 5 = totally agree)

**Please explain your response and substantiate it with evidence or concrete examples**

The reporting of a company's strategy, business model and value creation should be driven by the corporate governance principles and code adopted by an entity rather than the EU framework itself.

Regarding intangible assets, including those off balance sheet, and cash flows, there is consensus that the EU framework for financial reporting is relevant as it should correlate to the underlying accounting standard requirements.

With respect to dividends, there is currently little information required on this and it would benefit from having further details provided.

**Q18 Financial statements often contain alternative performance measures such as the EBITDA**

	1	2	3	4	5	Don't know
<b>Do you think that the EU framework should define and require the disclosure of the most commonly used alternative performance measures?</b>	X					

(1= totally disagree, 2= mostly disagree, 3= partially disagree and partially agree, 4= mostly agree, 5 = totally agree)

**Please explain your response and substantiate it with evidence or concrete examples**

An EU framework which defines and requires the disclosure of the most commonly used alternative performance measures would add further unnecessary administrative burdens for small and mid-size quoted companies.

Alternative performance measures are, by nature, unique and specific to each individual company. It would be very difficult to define and agree measures that are truly applicable to all companies and, therefore, readily comparable.

There are currently no clearly enforceable requirements to define or reconcile financial alternative performance measures - the ESMA Guidelines being of limited scope and only indirect enforceability.

A better approach would be to clarify the calculations of the alternative performance measures currently in use. This would result in a greater degree of convergence without the need for burdensome regulation.

**Q19 Given the different levels of commitment to require IFRS as issued by the IASB around the globe, is it still appropriate that the IAS Regulation prevents the Commission from modifying the content of IFRS?**

<b>Yes</b>	X
<b>No, due to the risk of uneven level playing field for EU companies vis-à-vis companies established in third countries that do not require the use of IFRS as issued by the IASB.</b>	
<b>No, due to the risk that specific EU needs may not properly be addressed during the IASB standard setting process.</b>	
<b>No, due to other reasons.</b>	
<b>Don't know</b>	

**If you answered "No, due to other reasons ", please specify.**

We do not believe that the European Commission should be able to modify the content of IFRS; this would lead to fragmentation in the adoption of IFRS, which would yield no benefit to either preparers or users of the financial statements.

**Q21 How could the EU ensure that IFRS do not pose an obstacle to sustainability and long-term investments?**

<b>By retaining the power to modify the IFRS standards in well-defined circumstances</b>	
<b>By making explicit in the EU regulatory framework that in order to endorse IFRS that are conducive to the European public good, sustainability and long term investment must be considered</b>	X
<b>Other</b>	
<b>Don't know</b>	

Although, overall, we would favour the EU making it explicit in the EU regulatory framework that, in order to endorse IFRS that are conducive to the European public good, sustainability and long term investment would need to be considered, we question how this could be done in practice – particularly with respect to sustainability.

Regarding long-term investment, we acknowledge that this could be encouraged by the financial statements of entities providing clear, relevant information (which would be achieved through the disclosure principles and requirements of the standard being endorsed).

We would nonetheless emphasise that care would need to be taken that the needs of certain investors were not inappropriately prioritised.

**Q22 The True and Fair view principle should be understood in the light of the general accounting principles set out in the Accounting Directive. By requiring that, in order to be endorsed, any IFRS should not be contrary to the true and fair view principle, a link has been established between IFRS and the Accounting Directive. However, the principle of true and fair view is not laid down in great detail in the Accounting Directive, nor is it underpinned by e.g. a European Conceptual Framework that would translate these principles into more concrete accounting concepts such as recognition and measurement, measurement of performance, prudence, etc. Do you think that an EU conceptual framework should underpin the IFRS endorsement process?**

<b>Yes</b>	
<b>No</b>	X
<b>Don't know</b>	

**If you answered "No ", please explain your position.**

We note that, in the UK, preparers can refer to IFRS, FRS 102, FRS 102 with the reduced disclosure framework, FRS 102.1A and FRS 101 with respect to the true and fair view principle. Although we agree that the true and fair view principle should be laid down in greater detail, we do not believe that an EU conceptual framework would be the most effective means in achieving this.

The EU should either choose to adopt IFRS or not adopt them; this includes the Conceptual Framework.

**Q23** The EU has not endorsed the IASB Conceptual Framework for Financial Reporting. The conceptual framework is a set of concepts used to develop IFRSs but can also be helpful in interpreting how IFRS standards have to be understood and applied in specific circumstances. This could enhance a common application of IFRSs within the EU.

	1	2	3	4	5	Don't know
Should the EU endorse the IASB Conceptual Framework for Financial Reporting?					X	

(1= totally disagree, 2= mostly disagree, 3= partially disagree and partially agree, 4= mostly agree, 5 = totally agree)

**Please explain your response and substantiate it with evidence or concrete examples**

We are unclear as to why the EU has not already endorsed the IASB Conceptual Framework for Financial Reporting, as there are clear benefits that this would bring when interpreting how IFRS should be understood and applied. We would therefore strongly recommend, and support, the EU endorsing the IASB Conceptual Framework.

We also fully agree that such an endorsement would enhance a common application of IFRS within the EU.

**Q24** Contrary to the Accounting Directives the EU endorsed IFRSs do not require companies to present financial information using a prescribed (minimum) lay-out for the balance sheet and income statement. Mandatory use of minimum layouts could enhance comparability of human readable financial statements.

**Do you agree with the following statement?**

	1	2	3	4	5	Don't know
Prescribed (minimum) layouts enhance comparability of financial statements for users and should therefore be introduced for companies using IFRS.		X				

(1= totally disagree, 2= mostly disagree, 3= partially disagree and partially agree, 4= mostly agree, 5 = totally agree)

**Please explain your response and substantiate it with evidence or concrete examples**

On the one hand, prescribed layouts could enhance the comparability of financial statements for users and make the drafting process for SME financial statements simpler.

However, a prescribed layout can often lead to inflexibility for entities, especially where their business model does not 'conform' to the expected norm. If a prescribed layout is to be introduced, there should be an element of flexibility built into the requirements which allows entities to add or remove certain line items depending on the nature of their business.

In any case, the EU should consider whether the prescription of financial statement formats is consistent with the work that is being proposed by the IASB.

**Q30 Should anything be done to improve public reporting by listed companies (documents, information, frequency, access, harmonisation, simplification)?**

We believe that public reporting by listed companies, especially small and mid-sized quoted companies, should be improved through a simplification of the requirements as graded on the size of the entity.

Additional guidance and support provided by the regulators and standard setters for listed companies on the expectations on such reporting would also be welcomed.

**Quoted Companies Alliance Financial Reporting Expert Group**

<b>Matthew Howells (Chair)</b>	<b>Smith &amp; Williamson LLP</b>
Matthew Stallabrass (Deputy Chair)	Crowe LLP
Jonathan Compton	BDO LLP
Peter Westaway	Deloitte LLP
Gary Jones	Grant Thornton UK LLP
Laura Mott	haysmacintyre
Claire Needham	KPMG
Anthony Carey	Mazars
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David Hough	RSM
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