CONSULTATION DOCUMENT

STRENGTHENING OF THE QUALITY
OF CORPORATE REPORTING AND ITS ENFORCEMENT

Disclaimer

This document is a working document of the Commission services for consultation and does not prejudge the final decision that the Commission may take.

The views reflected on this consultation paper provide an indication on the approach the Commission services may take but do not constitute a final policy position or a formal proposal by the European Commission.
You are invited to reply by 4 February 2022 at the latest to the online questionnaire available on the following webpage: https://ec.europa.eu/info/publications/finance-consultations-2021-corporate-reporting_en

Please note that in order to ensure a fair and transparent consultation process only responses received through the online questionnaire will be taken into account and included in the report summarising the responses.

This consultation follows the normal rules of the European Commission for public consultations. Responses will be published in accordance with the privacy options respondents will have opted for in the online questionnaire.

Responses authorised for publication will be published on the following webpage: https://ec.europa.eu/info/publications/finance-consultations-2021-corporate-reporting_en

Any question on this consultation or issue encountered with the online questionnaire can be raised via email at fisma-corporate-reporting@ec.europa.eu.
INTRODUCTION

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 five 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.
CONSULTATION QUESTIONS

1. 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.

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...  

---

1 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.
Question 2. On a scale of 1 (low) to 5 (High), 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?

<table>
<thead>
<tr>
<th>Areas</th>
<th>I. Effectiveness in reaching its objectives</th>
<th>II. Efficiency: has the framework been cost efficient</th>
<th>III. Relevant in terms of overall needs and objectives</th>
<th>IV. Coherence with other related EU frameworks / internal coherence</th>
<th>V. EU Added value – Was and is EU intervention justified?</th>
</tr>
</thead>
<tbody>
<tr>
<td>a) Corporate governance</td>
<td>2</td>
<td>2</td>
<td>5</td>
<td>1</td>
<td>5</td>
</tr>
<tr>
<td>b) Statutory audit</td>
<td>2</td>
<td>3</td>
<td>5</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>c) Supervision by public authorities of statutory auditors/audit firms</td>
<td>1</td>
<td>2</td>
<td>5</td>
<td>2</td>
<td>5</td>
</tr>
<tr>
<td>d) Supervision by authorities of corporate reporting</td>
<td>2</td>
<td>3</td>
<td>5</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>e) The ecosystem composed of all of the above</td>
<td>2</td>
<td>2</td>
<td>5</td>
<td>2</td>
<td>5</td>
</tr>
</tbody>
</table>
Question 2.1 Please describe the main issues that you see, if any, in the four areas mentioned in the table above. 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?

**RESPONSE:**

We address our detailed views on each of the pillars in Part II (Corporate Governance), Part III (Statutory Audit), Part IV (Supervision of Statutory Audit) and Part V (Supervision and Enforcement of Corporate Reporting). We provide more detail in the questions related to each pillar. Here we provide the background and context for our response; overarching investor perspectives related to high-quality and reliable corporate reporting that informs our consultation response; our view of reform needed in the respective pillars, and the relative importance of the reforms needed along with a summary of our top priorities.

**Background and Context for Our Consultation Response**

*The Wirecard Situation Illustrates the Policy Issues Under Consideration in the Consultation* – The implosion of Germany’s Wirecard demonstrated that those parties investors compensate and rely on – management, the audit committee and board, auditors, audit regulators and corporate reporting regulators – to attend to their capital investments failed them on multiple levels. These parties charged with protecting investors are the “pillars” of high-quality, reliable corporate reporting referred to in the Consultation. In the context of the European Commission’s pursuit of the capital markets union, the Wirecard scandal highlights that the integrity and efficiency of the union in facilitating the free flow of capital for investors will likely be judged by the weakest link – especially when such egregious examples of deficiencies in investor protection emerge in the European Union’s largest economy. While we agree with the concept and ambition of the capital markets union, the events that led up to the publication of the Consultation – and the effort expended in responding to the Consultation – only highlight the fragmented and challenging nature of connecting the principles within European Commission legislation (regulations/directives) with the actual national jurisdictional rules, implementation, application, and enforcement. Our responses with respect to the Consultation are focused on what is needed throughout the European Union to protect investors and increase transparency and accountability in what we will refer to as the corporate reporting and auditing ecosystem. Our overarching guiding principle is whether and what improvements are necessary to increase transparency and accountability of the pillars that support high-quality and reliable corporate reporting.

Below we highlight anecdotes from the Wirecard situation – as they relate to corporate governance and regulatory supervision, specifically audit supervision – because they so poignantly illustrate the challenges investors face in navigating and connecting the principles within European Commission legislation (regulations/directives) with the actual national jurisdictional rules and the implementation, application, and enforcement of each. They also demonstrate key investor concerns in these areas – that are directly queried in this Consultation – and why investors seek reforms as well as more commonality, and checks and balances, across the European Union. The Consultation seeks our input on the pillars of high-quality, corporate reporting, how they interact with each other and the relationship between member state and EU level legislation. Wirecard can’t help but inform investor views in that regard as such, we offer these anecdotes in that spirit and as backdrop that informs and contextualizes our views.

*An Investor Perspective on Corporate Governance* – Articles such as, *Wirecard is a Scar on Germany’s Corporate Landscape: The Scandal Shows Why Shareholders Must Have More Rights*, highlight investor concerns related to basic tenants of good corporate governance:

*The Wirecard affair, the latest in a series of corporate scandals in Germany, raises an important question. Why does Germany find it so difficult to protect investors?*
Those outside Germany who admire the Rhineland model for its seemingly enlightened form of capitalism ought to examine the Wirecard collapse in detail. From my perspective, the chief problem of German corporate governance is that shareholders lack the power to hold management accountable. Wirecard shareholders tried to question Markus Braun, the company’s chief executive, at annual general meetings. But they did not have a chance to grill him. German law makes it easy for a company’s board members to evade awkward questions by talking in platitudes.

The erosion of shareholders’ rights is a scar on Germany’s corporate landscape that investor protection groups have complained about for many years. A related problem is that Germany’s two-tier system of a management board and a supervisory board does not produce the necessary stringent controls. Wirecard’s supervisory board say they did not have a clue about how executives were cooking the books.

Documents such as, Consequences of Wirecard Scandal: New Requirements for Corporate Governance and Audit of German Listed Companies - Gibson Dunn, highlight changes being implemented in Germany post Wirecard including:

- Mandatory audit committee comprising at least two financial experts;
- Extended information rights and functions for audit committee members;
- Legal obligation to establish an internal control system and a risk management system; and
- Separate meetings with the auditor without the management board.

However, in making these changes it highlights how nascent and weak corporate governance actually was and remains. The changes made also demonstrate that significant changes are still necessary related to the quality and competence of audit committees; the limited information rights of the audit committee; the lack of management accountability for a quality system of internal control and risk management and the inability auditors have had to speak freely in the protection of the rights of investors.

The Wirecard situation has simply 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 board responsibilities for reporting, the liability of company boards for reporting, the obligation to establish an audit committee, rules on the composition of the audit committee, tasks of the audit committee, and the external position of the audit committee (e.g., in relation to shareholders) must be assessed by the Commission across the various regulations and directives at the EU and member state level, the application of these principles across the member states and the integration and application of member state corporate governance rules. We believe EU level legislation to improve corporate governance and the need for more consistent principles and their application is essential to facilitate the capital markets union and capital investment.

An Investor Perspective on Regulatory Supervision – The Wirecard failure and scandal have also highlighted weaknesses in German federal financial regulatory supervision at BaFin; the Financial Reporting Enforcement Panel (FREP) charged with investigating violations of accounting requirements; and the German audit regulatory oversight organization APAS Audit Oversight Body. Innumerable press articles highlight the failures of BaFin, FREP and APAS included: an inability to perform their oversight functions because of conflicts of interest (i.e., including ownership in Wirecard and holding board seats in companies under their supervisory power); a lack of coordination of supervisory efforts; a disbelief that the claims regarding the company were true; unqualified and insufficient staffing at regulators; and knowledge by the audit profession of the inadequacies and ineffectiveness.

---

1 Wirecard Inquiry: Germany’s Political And Financial Elite Exposed | Wirecard Collapse Leads To Call For German Parliamentary Inquiry | German Audit Watchdog Chief Faces Probe Over Wirecard Share Trading | Head Of German Accounting Watchdog To Step Down In Wake Of Wirecard | German Watchdog Reports EY To Prosecutors Over Wirecard Audit | Bafin Boss ‘Believed’ Wirecard Was Victim Until Near The End | All Financial Reporting Enforcement Panel Articles |
of APAS. These are but a few of the findings. These reports have put financial regulation, corporate oversight, corporate reporting, and audit supervision regulation in the line-of-sight for investors, in addition to regulators. The reports of weak supervision at BaFin have led to reforms and more powers for BaFin. As that publication highlights:

*Up until now, the Financial Reporting Enforcement Panel (Deutsche Prüfstelle für Rechnungslegung – FREP), an institution organised under private law, was responsible for looking into suspected violations of accounting requirements. BaFin was only called on to examine a company if the latter refused to cooperate with the FREP, disagreed with the results of the examination or if there were considerable doubts about the examination procedure or results of the FREP examination. This two-tier model has proved inefficient. The responsibility for financial reporting enforcement has now been assigned exclusively to BaFin.*

A recent court ruling, however, only highlights the importance of greater investor rights related to supervision for the protection of investors. A January 19, 2022, article, *Wirecard Investors Case Against German Regulator BaFin Dismissed By Court*, notes the following:

*The investors accused BaFin of not stopping market manipulation by Wirecard, failing to investigate evidence of illegal conduct by the company and failing to inform the public properly. The lawsuits were dismissed, with the court arguing that under German law, BaFin explicitly works for the wider public interest rather than that of individual investors.*

Dismissal of this case with the view that BaFin works for the wider public interest rather than that of individual investors leaves investors curious as to who protects their interests – the audit committee, the auditor, the corporate reporting regulator, the audit regulator? It seems all failed in the case of Wirecard. For example, the head of Germany’s audit regulator APAS admitted to owning Wirecard shares while investigating Wirecard’s auditor EY:

*It was an innocuous question, posed shortly before midnight some nine hours into an exhausting parliamentary hearing into the Wirecard scandal. “Did you ever actually own Wirecard shares?” Cansel Kiziltepe, the Social Democrat MP, asked Ralf Bose, head of Germany’s auditor watchdog Apas.*

*His answer caused a political earthquake and brought an abrupt end to his more than 30-year career. A former partner at KPMG, Bose ran a government agency that is normally protected from public scrutiny by stringent secrecy laws. But those laws do not apply to the Bundestag’s inquiry into Wirecard. Bose disclosed that he had bought and sold Wirecard stock while Apas was investigating Wirecard’s auditor EY. Just hours later the German government started to probe the transactions. And within a matter of weeks Bose had been fired.*

APAS is referred to as “a government agency that is normally protected from public scrutiny by stringent secrecy laws.”

As the audit regulator in the EU’s largest economy and a member of the Committee of European Auditing Oversight Bodies (CEAOB), the credibility of APAS, CEAOB and auditor oversight more broadly within the European Union is in question 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 corporate reporting ecosystem. Audit regulators act as an important key backstop to facilitate and assist auditors – who lack independence because of the payor model – in the execution of their duties.

**Investor Perspectives on Corporate Reporting That Inform Our Consultation Response**

The following investor perspectives inform our responses to the Consultation/Questionnaire:

1) **The Elements of High-Quality Corporate Reporting and Audit Are Not Jurisdictionally Specific** – CFA Institute’s efforts related to corporate reporting and audit have been global for many years, because the foundational elements of high-quality corporate reporting and audit are not unique to a particular jurisdiction. What is jurisdictionally specific is the manner in which such elements are incorporated into the legal and regulatory regimes in the respective countries in which investee companies are domiciled and how they are enforced.

Investors invest globally and investing is a comparative process whereby investors look across jurisdictions for investee companies with a comparative advantage. A high-quality reporting and audit system in a company’s jurisdiction of domicile are a consideration in the investment process as they influence and impact the quality of information used for investment decision-making. Without high-quality information the cost of capital must increase to compensate for the additional risk associated with investing in that
jurisdiction.

As the largest global organization of professional investors who have advocated for meaningful audit and corporate reporting reforms globally for over 50 years, we have devoted significant time to our consideration of corporate reporting and auditing globally. As a matter of practice, we address issues in particular jurisdictions – such as the US, the UK and now in the European Union – because reforms in one market can inform and influence other jurisdictions as a result of the fact that corporations in which we invest, and the audit firms who audit them, are increasingly globally interconnected, and because the elements of high-quality corporate reporting and audit are not unique to a particular market.

In the last two years, CFA Institute has devoted significant time to addressing UK government corporate reporting, governance, and audit reform consultations as a result of high-profile failures in their market. We encourage the European Commission staff to review the aforementioned CFA Institute consultation responses related to UK audit reform2 as they address – and are an excellent compendium of – our global investor views on corporate governance related to high-quality corporate reporting, the elements of high-quality audits (including independence, content of audit reports, rules on auditor rotation and non-audit services), auditor and corporate reporting supervision – all elements of this European Commission Consultation. Specifically, we would point you to Appendix A to our Brydon comment letter response as it includes a comprehensive list of our work related to audit specifically, but also the pillars of the corporate reporting ecosystem you reference in this European Commission Consultation.

References to our UK audit reform consultations included herein and in the Consultation and Questionnaire are provided as they are global views that we share with the European Commission to highlight the consistency of our global perspectives not because they are UK specific views.

2) Transparency & Accountability: In the European Union’s Largest Economy, the Wirecard Affair Exposed the Weakness in the First Principles of High-Quality and Reliable Corporate Reporting – Investors rely on and compensate all of those who are charged with looking after their capital investments. This includes management, the audit committee and board, auditors and in some jurisdictions, through government assessments on public companies, even audit regulators (e.g., US PCAOB). That said, investors get very limited communication from such parties. Only recently have extended audit reports provided more information to investors. Audit firm transparency reports are limited in usefulness to investors and, as such, are generally not used. There is also very little, if any, useful communication from audit committees to investors in many jurisdictions. Audit regulators provide far too little information (i.e., investors perceive this to be the case in the US where there is far more information than in the EU). As a result, improvements needed in the pillars of high-quality corporate reporting are related to the first principles of the responsibilities of those charged with protecting investor interests – those being transparency and accountability.

3) Audit (Corporate Governance & Supervision) is a Credence Good: Purchasers (Investors) Lack Transparency in Evaluating the Quality of the Good, Greater Transparency is Essential to Improving Corporate Reporting and Audit

We would note that audits are a credence good3 whereby the quality of the audit is difficult for the purchaser – the investor – to assess even after purchase. For that reason, we believe greater transparency from those hired (e.g., management, the audit committee, auditors, audit regulators and corporate reporting regulators) to protect the interests of investors is essential. We would also make two related observations: 1) The other pillars of high-quality corporate reporting – including elements of corporate governance and regulatory

---

2 CFA Institute has responded to the UK Government’s efforts regarding improving the audit regulator (Kingman Review), competition in the audit market (CMA Review) and audit quality (Brydon Review) in 2018 and 2019 as well as 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. In 2019, CFA Institute provided comprehensive responses to Sir Donald Brydon’s Independent Review of the Quality and Effectiveness of Audit and the Competition and Market Authority (CMA)’s Statutory Audit Services Market Study proposals. Jointly with the Council of Institutional Investors (CII), we also provided in 2019 our views to BEIS on the importance of internal controls over financial reporting. In 2021, we provided a response to the BEIS Overall Consultation.

3 Colleen Honigsberg, Phd, Professor of Accounting at Stanford Law School rightly highlighted this point at a September 9, 2021 meeting of the SEC Investor Advisory Committee. It is a sentiment we expressed in our letter to the UK Government during its recent audit reform efforts.
oversight of corporate reporting and audit supervision – also lack the transparency that allows investors to judge the quality of the work of these agents, who are charged with protecting investors, perform on their behalf, and 2) The European Parliament and Commission – like investors – suffers from a corporate reporting and audit ecosystem that lacks transparency. Without greater transparency in all the pillars the European Parliament and Commission cannot make improvements in legislation (regulation/directives) to protect the interests of investors and other stakeholders.

4) **The Audit Payor Model Reduces Skepticism & Independence: Requires Strength in Other Pillars** – We would also note that a fundamental behavioural issue with the quality of corporate reporting stems from the audit payor model wherein the auditor perceives they are paid, for audit and non-audit services, by the management of the company being audited – what they refer to as their “client”. The auditor is thus leveraged to the satisfaction of management, rather than to the satisfaction of investors – who are paying the auditor, the actual client. This makes the auditor incentivized to maintain a non-confrontational relationship with their perceived client. This naturally leads to decreased skepticism. This is why regulation to strengthen the transparency and accountability of the other pillars – corporate governance (**Part II** of the Consultation) and audit supervision (**Part III** of the Consultation) are particularly important.

As investors consider the elements of high-quality and reliable corporate reporting they are guided, irrespective of jurisdiction, by the aforementioned principles of independence, professional skepticism, transparency, accountability and appropriate checks and balances between those hired (e.g., management, the audit committee, auditors, audit regulators and corporate reporting regulators) to protect their interests.

**Our Current Assessment of the Pillars of High-Quality, Reliable Corporate Reporting (Questions #2 and #2.1)**

**Wirecard Demonstrated All Pillars, Not Just Audit, Failed to Protect Investors** – We generally find much of the focus and public narrative on corporate scandals, reporting problems and failures gets assigned to auditors. The Wirecard scandal demonstrated that the issues with high-quality and reliable corporate reporting did not simply rest at the feet of the auditors. This time 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. Wirecard illustrated all such pillars were not effectively working in the European Union’s largest economy. Accordingly, this Consultation rightly focuses on all the elements of corporate reporting and audit quality.

**EU Legislation Has Heavily Focused on the Auditors Over the Other Pillars** – Much of the EU legislation in the post financial crisis era focused on new audit legislation, without a change in the auditor payor model, the biggest conflict of interest. Rotating auditors, reducing non-audit services, assessing the competitiveness of the audit market are not measures that will address this fundamental conflict of interest, however. The desire of the auditor to please management will always reduce auditor skepticism and the quality of audits. As such, if the payor model is meant to stay in place, then there needs to be stronger accountability by management; stronger and more transparent audit committees; the existence of competent and effective audit regulators and a corporate reporting regulator with stronger powers. All of these are needed as a backstop to the auditor to enable them to offset the payor model.

**Management Accountability is Foundational** – EU level legislation to date appears relatively more focused on holding auditors accountable rather than management – those who are principally charged with ownership of effective internal controls over financial reporting. Management, in particular, does not appear to have sufficient accountability for the internal controls over financial reporting. Without that being remedied, the corporate reporting and audit ecosystem will never sufficiently improve. Management accountability for controls over financial reporting is not simply a pillar, but the foundation of high-quality and reliable corporate reporting. 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 – needs to be emphasized.

**Strength in Other Pillars: Essential to Improving Quality and Reliability of Corporate Reporting** – Auditors cannot improve a company’s broken reporting system, they can only report on it, and advocate to improve for its improvement. The intractable conflict of interest created by the payor model prevents this from effectively occurring, however. Without a corporate reporting/audit ecosystem with pillars of equal or greater strength,
Auditors are pushing a boulder uphill alone. EU legislators through their audit regulations/directives are simply pushing on the end of a string and additional EU legislation (regulation/directives) on auditors will have no further meaningful effect.

The Other Pillars Are Not Sufficiently Strong to Support the Audit Pillar – 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, as we undertook completion of the Consultation we heard the pillars in greatest need of reform – in addition to strengthening management accountability related to: 1) broadly improving corporate governance because of the fragmented corporate governance requirements at the EU member state level and 2) the need to improve statutory audit oversight because of similar member state fragmentation. There is also a realization that the quality of staff, lack of resources, lack of transparency and independence at the member state level were not seen as unique to Germany. Our comments in Part II and Part IV provide more detail.

Our Responses to Question #2 – In responding to Question #2, we found all the pillars relevant to high-quality and reliable corporate reporting and that EU intervention was justified in each case. Our responses as they related to effectiveness, efficiency and coherence in Question #2 were much lower for corporate governance and audit supervision as reflected in the immediately preceding comments. Our ratings on the dimensions of effectiveness, efficiency and coherence were much higher for supervision of corporate reporting (i.e., see comments in Part V) and the audit ecosystem (i.e., see comments in Part III). This driven by the fact that the EU and EC have taken stronger legislative and regulatory actions at the EU level in these areas in the last decade. Our overall ratings of the ecosystem have been lowered because of our views on corporate governance and supervision of statutory audit as we describe in Parts II and Part IV, respectively. See also comments under Question #19.2 related to the efficiency via further simplification and coherence in existing provisions parts of Question #2.

Overall – In sum, our view is that the pillars must work together to create an environment that works for investors and other stakeholders. The ecosystem must have transparency and accountability at each pillar to work effectively. When one pillar fails the system fails.

Pillars in Most Immediate Need of Reform (Questions #5, #5.1 and #5.3) Address Weaknesses in Corporate Governance (Including Management Accountability) and Audit Regulatory Supervision

We are responding to Questions #5, 5.1 and 5.3 here as they are interrelated with Question #2.1. As we noted above, we believe there are improvements needed in each of the pillars and the improvements certainly need to be done in a coordinated manner. As we note above, we believe the greatest improvements are needed in the corporate governance pillar and in supervision of audit. (i.e., Question #5). As it relates to at what level action is needed (i.e., Question #5.2), we believe that auditors should take action to improve their work, but as we note above, without action by management, audit supervisors and individual members states there will be no overall improvement by auditors because of the inherent conflicts of interest. That said, we don’t believe – 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 to the improvements needed, but our most significant improvements – in order of priority – needed are as follows:

1) Implement Management Certifications, Supported by Audits, of Internal Controls Over Financial Reporting – As we note in Part II, we have found that the implementation of management certifications supported by auditor attestations on internal controls over financial reporting (ICFR) have had 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. We believe this is a necessary improvement that the EU should implement. Investors are willing to pay the cost of such certifications and attestations. We explain there that the cost/benefit analysis on ICFR certifications and attestations include the direct cost of performing the work without recognizing the benefit of improved financial reporting to investors and the lower cost of capital. We draw special attention to Appendix B where we discuss the appropriate – investor focused – cost-benefit analysis that needs to be deployed in assessing the implementation of ICFR certifications and attestations.
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. Such regulator would have oversight of audit standard setting and endorsement, inspections and enforcement actions. We would envisage and organization similar to ESMA, but with the greater powers we highlight are needed at ESMA in Part V. Relative to the Public Company Accounting Oversight Board in the US, and the planned improvements in the Financial Reporting Council – becoming the Audit, Reporting, and Governance Authority (ARGA) in the UK, the European Union appears to be a laggard in audit supervision with very limited oversight of auditors and with limited transparency.

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). While audit firm level information, quality standards and transparency reports are important, they are not sufficient. Engagement level audit quality indicators provide management, the audit committee, the audit regulator, and the consumer (investor) with metrics to communicate and measure progress. Measuring audit quality is about providing more information to investors – and the agents engaged to protect their interests – to move audits out of the realm of a credence good.

5) **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. Such regulator would have oversight of audit standard setting and endorsement, inspections and enforcement actions. We would envisage and organization similar to ESMA, but with the greater powers we highlight are needed at ESMA in Part V. Relative to the Public Company Accounting Oversight Board in the US, and the planned improvements in the Financial Reporting Council – becoming the Audit, Reporting, and Governance Authority (ARGA) in the UK, the European Union appears to be a laggard in audit supervision with very limited oversight of auditors and with limited transparency.

6) **Strengthen the Responsibilities and Powers of ESMA** – 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. The situation with Germany’s Financial Reporting Enforcement Panel (FREP) in the wake of the Wirecard scandal highlights the lack of ability of ESMA to bring change on an ex-ante basis – when it is most needed. The published news accounts suggest it was well known that FREP lacked the resources and capabilities to execute its necessary duties. Even on an ex-post basis ESMA, when asked by the Commission to look at the Wirecard issue, can only observe and comment on changes needed but cannot bring them to bear. 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.

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.

We would also note that we believe the establishment of the ESEF and the ESAP has the potential to significantly increase the ability of EU level oversight of corporate reporting and auditing. As users of tagged data tools and the ability to search across all public companies – in the US, for example using CalcBench – there are immeasurable benefits to having the data tagged and collected in a single source across the European Union. This type of EU-wide effort enhances the concept of the capital markets union.
Question 3.

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.

| Based on your own experience how do you assess the quality and reliability of corporate reporting by listed EU companies on a scale of 1 (low) to 5 (high)? | 3 |
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.

RESPONSE:

Boiling one’s experience with the quality and reliability in corporate reporting down to a single numerical value without consideration of the parameters of how the respondents came to that conclusion is challenging and makes the reliability of the response hard to judge. Corporate failures and scandals are highly publicized and the quality of corporate reporting and the ecosystem of corporate governance, audits, audit supervision and corporate reporting all are judged by their worst moment – not their best – because of the lack of transparency discussed in our responses throughout this consultation.

That said, as we explain elsewhere herein, we believe that 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 and other stakeholders (management, audit committee/board, auditors, auditor supervisors, and 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 European Commission – as in this consultation – to judge the quality of the work being done.

Additionally, we would note the following as contributing factors that decrease the quality and reliability of corporate reporting of listed companies in the EU.

1) **Principles Based Nature of IFRS** – What also makes the quality of corporate reporting more challenging in the European Union is the principles-based nature of IFRS and the lack of consistent application and enforcement. Examples include adoption of the leasing standard, the application of fair value principles, the revenue standard and segment disclosures. We find EU companies provide less descriptive explanatory language and exercise greater discretion in the inclusion of information.

2) **EU Corporate Reporting Data** – Making this more challenging is that only now – some 10-15 years after the US – will there be tagged data and a system to search and compare, more easily, reporting across jurisdiction. In the US, the use of XBRL tagged data with tools like CalcBench and Idaciti have facilitated much more searchable numeric and textual data and comparison across companies in major indices. To be able to make comparisons in the EU, we find the need for need to utilize more expensive data providers with less ability to search across companies textually. See also comments under Question #18.1 in Part V related to ESMA’s work.

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 on a scale of 1 (strongly disagree) to 5 (strongly agree)?

<table>
<thead>
<tr>
<th>Questions</th>
<th>Scale</th>
</tr>
</thead>
<tbody>
<tr>
<td>Would it be useful to have specific indicators to measure the quality of corporate reporting, of statutory audits and the effectiveness of supervision?</td>
<td>5</td>
</tr>
<tr>
<td>Is it possible to have clear and reliable indicators to measure the quality of corporate reporting, of statutory audit and the effectiveness of supervision?</td>
<td>5</td>
</tr>
<tr>
<td>Should the European Commission develop indicators on the quality of corporate reporting, of statutory audits and the effectiveness of supervision?</td>
<td>5</td>
</tr>
</tbody>
</table>
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.

RESPONSE:
We are very supportive of specific metrics to measure the quality of corporate reporting, statutory audits and supervision of both. What gets measured gets monitored. While many have argued that metrics to judge this quality are elusive, they are not. In producing many goods – many which are more to critical and essential to our lives – we develop and utilize, as well as adjust over time, metrics. The challenge with these metrics isn’t that they are hard to develop, but that they work and that they get to the importance of our first principles as noted in Question #2.1 – transparency and accountability.

1) Audits – Audits are a perfect example of this. As we note in Question #11 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 and some high-level fee information. This hardly enlightens one about the quality of the service provided. Furthermore, auditors do not compete with each other for engagements on the basis of audit quality. They are more likely to compete with each other through price cutting, which can only affect audit quality negatively.

As we note in Question #11 a rigorous program of audit quality indicators for audit firms – at the audit firm and 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 and 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 and the underlying quality of management’s books and records and internal controls over financial reporting.

2) Corporate Reporting – In the 1990s, AIMR (CFA Institute’s predecessor) would evaluate the quality of corporate reporting and issue awards on the quality of corporate reports. Though those are not on-line 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. In our view – and based upon our observation of ESMAs work as we note in Questions #18.1 and #19.1 – we believe it is eminently possible to develop such indicators, particularly if ESMA’s powers were enhanced.

3) Supervision – We have written extensively, more that we could include here, on what we want from audit and securities regulators in their evaluation of corporate reporting and audits – and the need for greater transparency – and though we have not written about indicators of their supervision quality, we believe these could be developed from the underlying principles that inform our views in those writings. Given the greatest transparency on both such supervisory activities exists in the US market, we would look to contemporary issues, comment letters, inspection reports and matrix them against the supervisors responsibilities in developing and tailoring to the respective market. Said differently, our view is that such indicators could be developed based upon transparency and consultation on their responsibilities.

In short, we believe such measures would be useful and possible and we believe the European Commission should consider developing such indicators.
Question 5. In your view, should the Commission take action in the areas of the

- corporate governance pillar
- statutory audit pillar
- supervision of PIE auditors and audit firms
- supervision of corporate reporting

to increase the quality and reliability of reporting by listed companies?

- Yes, there is a need to improve 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
Please indicate on a scale of 1 (strongly disagree) to 5 (strongly agree) 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:

<table>
<thead>
<tr>
<th>Area</th>
<th>Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>Improve the corporate governance pillar</td>
<td>5</td>
</tr>
<tr>
<td>Improve the statutory audit pillar</td>
<td>4</td>
</tr>
<tr>
<td>Improve the supervision of PIE auditors and audit firms</td>
<td>5</td>
</tr>
<tr>
<td>Improve the supervision of corporate reporting</td>
<td>4</td>
</tr>
<tr>
<td>Improve all of the above in a coordinated manner</td>
<td>5</td>
</tr>
</tbody>
</table>

If you think there is a need to improve other areas than those listed above please indicate which areas you have in mind:

RESPONSE:
Under Question #2.1 we have responded to Questions #2.1, 5, 5.1 and 5.3 as they are interrelated with Question #2.1 querying the current state of effectiveness of corporate reporting pillars, Questions #5 and 5.1 querying the improvements needed in the corporate reporting pillars and Question #5.3 querying who should act within the pillars to improve corporate reporting.

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.

RESPONSE:
Under Question #2.1 we have responded to Questions #2.1, 5, 5.1 and 5.3 as they are interrelated with Question #2.1 querying the current state of effectiveness of corporate reporting pillars, Questions #5 and 5.1 querying the improvements needed in the corporate reporting pillars and Question #5.3 querying who should act within the pillars to improve corporate reporting.
5.2 If you responded that you think that there is a need to improve the quality of corporate governance, audit, audit supervision and/or supervision of corporate reporting, at what level should action be taken, rating the relevance of each level on a scale of 1 (strongly disagree) to 5 (strongly agree)?

<table>
<thead>
<tr>
<th>Action Provided</th>
<th>Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>Companies themselves should take action to improve their reporting</td>
<td>5</td>
</tr>
<tr>
<td>Auditors themselves should take action to improve audits</td>
<td>5</td>
</tr>
<tr>
<td>Audit supervisors themselves should take action to improve their functioning</td>
<td>5</td>
</tr>
<tr>
<td>Individual Member States should take action if the situation in their market requires this</td>
<td>4</td>
</tr>
<tr>
<td>The EU should take action</td>
<td>5</td>
</tr>
<tr>
<td>Several of the above should take action</td>
<td>5</td>
</tr>
</tbody>
</table>

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

RESPONSE:
Under Question #2.1 we have responded to Questions #2.1, 5, 5.1 and 5.3 as they are interrelated with Question #2.1 querying the current state of effectiveness of corporate reporting pillars, Questions #5 and 5.1 querying the improvements needed in the corporate reporting pillars and Question #5.3 querying who should act within the pillars to improve corporate reporting.
Question 6. To what extent is there a need to modify the EU framework on corporate reporting to support the following objectives (on a scale of 1 (not at all necessary) to 5 (highly necessary))?

<table>
<thead>
<tr>
<th>Objective</th>
<th>Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>I. The green transition</td>
<td>3</td>
</tr>
<tr>
<td>II. The digital transition</td>
<td>5</td>
</tr>
<tr>
<td>III. Facilitating doing business by SMEs</td>
<td>3</td>
</tr>
<tr>
<td>IV. Reducing burdens and/or simplify</td>
<td>2</td>
</tr>
<tr>
<td>V. Better Corporate Social responsibility, including tax transparency and fair taxation</td>
<td>2</td>
</tr>
</tbody>
</table>

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

RESPONSE:
The purpose of corporate reporting is to provide reliable, decision-useful financial information for investors. Recent high-profile failures and this Consultation highlight the need for improvements in the basic pillars of corporate reporting (e.g., corporate governance and statutory audit supervision). As such, our principal concerns are focused on improving the quality of corporate reporting for investors. We discourage the use of corporate reporting to promote a plethora of other purposes as the underlying IFRS financial statements are based upon the needs of investors and a mixing of objectives will introduce bias into corporate reporting that can reduce the transparency, effectiveness and usefulness.

Green Transition and Better Corporate Social Responsibility – In this vein we believe items such as Item I (green transition) and Item V (better corporate social responsibility) have the potential to muddle the objective of corporate financial reporting. There are elements of the effectiveness of existing financial reporting that are the basis for this Consultation that need enhancing before broadening the remit and objective of corporate reporting. As it relates to Item V, we have long supported improved jurisdiction disclosures related to taxable income, tax expense, cash paid for income tax, tax liabilities and 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. Financial statements are meant to portray information in a neutral fashion. Tax transparency, and with it, the improvement of information surrounding tax provisions, and accruals in various jurisdictions, would, however, provide information to investors and stakeholders of all kinds – allowing them to draw their own conclusions.

SMEs – As a rule, CFA Institute has not supported differential reporting for SMEs (Item III) 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 for SMEs. Tallying the cost of corporate reporting is more commonly understood and easily observably measured without recognizing the reduce reporting comes at a cost in terms of the price of capital being higher through an increase in the equity risk premium.

“Simplification” – We find Item IV (“simplification”) to be a red herring. Our experience tells us it is generally interpreted as reducing the transparency and usefulness of corporate reporting for investors and is used to stall improvements in the corporate reporting. We would note that a more comprehensive and cohesive articulation and integration of the directives and regulations related to corporate reporting in the European Union would greatly enhance the understandability of EU corporate reporting requirements by investors.
2. **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.

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. On a scale of 1 (low) to 5 (High), 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?

<table>
<thead>
<tr>
<th>Topic</th>
<th>I. Effectiveness in reaching its objectives</th>
<th>II. Efficiency: has the framework been cost efficient</th>
<th>III. Coherence with relevant EU rules</th>
</tr>
</thead>
<tbody>
<tr>
<td>a) Board responsibilities for reporting</td>
<td>2</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>b) Liability of company boards for reporting</td>
<td>2</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>c) Obligation to establish an audit committee</td>
<td>2</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>d) Rules on the composition of the audit committee</td>
<td>2</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>e) Tasks of the audit committee</td>
<td>2</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>f) External position of the audit committee (e.g. in relation to shareholders)</td>
<td>2</td>
<td>2</td>
<td>2</td>
</tr>
</tbody>
</table>
Question 7.1 Please describe the main issues you see, if any, as regards corporate governance (role boards, audit committee role, shareholders and other stakeholders) and, where possible, please provide concrete examples and evidence supporting your assessment.

You may 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?

RESPONSE:

Wirecard Scandal Highlights Fragmented, Weak Corporate Governance Regulation/Directives & Inconsistent Application in Support of Investors Rights – As background to our responses to the questions in Part II, please see the section Background and Context to Our Consultation Response: An Investor Perspective on Corporate Governance in Part I (Question #2). The Wirecard situation has drawn attention to the weak corporate governance in protection of investor interests – not simply on corporate reporting – 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 board responsibilities for reporting, the liability of company boards for reporting, the obligation to establish and audit committee, rules on the composition of the audit committee, tasks of the audit committee, and external position of the audit committee (e.g., in relation to shareholders) must be assessed by the Commission across the various regulations and directives at the EU level, the application of these principles across the member states and application and 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 Question #9.1.1.

Efficiency via Further Simplification – See overall comments under Question #19.2. In this specific context, we believe decreased fragmentation and greater cohesion through EU level corporate governance legislation (regulations/directives) and their application at the member state level is the reform needed to achieve greater efficiency. This is an issue of weak and fragmented regulation that is neither efficient nor effective for investors.

Coherence in Existing Provisions – See comments under Question #19.2. As noted above, we believe there is a significant lack of coherence in existing provisions and their application which must be addressed.
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 (on a scale of 1 (not at all) to 5 (to a very large extent)) can such departures be attributed to deficiencies of the EU framework on corporate governance?

5

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

RESPONSE:
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 Question #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 Question #9.1.1
Question 9. How effective and efficient would the following actions be in increasing the quality and reliability of reporting by listed companies, on a scale of 1 (Not effective/efficient) to 5 (Very effective/efficient)?

<table>
<thead>
<tr>
<th>Areas</th>
<th>I. Effectiveness</th>
<th>II. Efficiency in term of cost/benefits of action</th>
</tr>
</thead>
<tbody>
<tr>
<td>a) Strengthen the (collective) responsibilities of the board / tasks for reporting / liability of boards for incorrect reporting</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>b) Require proper expertise of specific board members in relation to corporate reporting (internal controls, accounting framework, sustainability reporting, etc.)</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>c) Increase the responsibilities of specific board members (e.g. Chief Executive Officer) or the Chief Financial Officer) and their liability on corporate reporting</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>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</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>e) More transparency of company boards about the effectiveness of the companies’ risk management and report on the actions undertaken during the reporting period</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>f) Remove exemptions in EU legislation for establishing an audit committee</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>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</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>h) Strengthen the external position of the audit committee (e.g. vis-à-vis the auditor or by reporting to shareholders)</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>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</td>
<td>4</td>
<td>4</td>
</tr>
</tbody>
</table>
j) Require auditors to provide assurance on the systems and internal controls implemented by the board, including fraud, going concern and related reporting requirements

|   | 5 | 5 |

k) Strengthen the role of shareholders on corporate reporting

|   | 5 | 5 |

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

- Yes
- No
Question 9.1.1 If you have replied ‘yes’ to question 9.1 please explain which action(s) you have in mind.

RESPONSE:

We are supportive of all the actions included in Question #9 regarding improving the quality and reliability of reporting of listed companies as follows:

a) **Strengthening the responsibilities of the board** for incorrect reporting;
b) Requiring **proper expertise of specific board members** related to corporate reporting;
c) Increasing responsibilities for specific board members (e.g., CEO and CFO) and their liability for corporate reporting;
d) **Giving company boards an explicit responsibility to establish effective risk management and internal control systems** related to corporate reporting, fraud and going concern;
e) Requiring **more transparency of company boards about the effectiveness of the companies’ risk management**;
f) **Removing exemptions in EU legislation for establishing an audit committee**;
g) **Increase tasks of audit committee**;
h) **Strengthen the external position of the audit committee**;
i) Setting up specific **whistle blowing procedures**;
j) **Require auditors to provide assurance on the systems of internal control related to fraud and going concern**;

These items correlate with the deficiencies observed by investors, and they are basic elements of good corporate governance. Fragmented EU and member state corporate governance requirements and their application deters investor protection, capital investment and ultimately the capital markets union. We believe each are basic tenants of good corporate governance observed in other developed markets/jurisdictions and the cost/benefit (efficiency/effectiveness) have been demonstrated. We believe all are important to implement.

That said we have two specific points to add to the items listed above:

1) **Implement Management Certifications, Supported by Audits, of Internal Controls Over Financial Reporting** – We note that Items (c) and (j) relate, respectively, to increasing responsibilities of specific board members such as the CEO and CFO and requiring auditors to provide assurance on the systems of internal control related to fraud and 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. Only management has the level of detailed knowledge and day-to-day ability to impact the quality of corporate reporting as it happens. Audit committees are not involved in the day-to-day operations of the business and have limited access to the detailed books and records. Auditors, though, they may have greater access can only report on findings – in a system that disincentivizes this – to audit committees who have limited powers in various EU jurisdictions. In our view, existing EU legislation places more responsibility/regulation on auditors than management for ensuring the integrity of corporate reporting. This is akin to pushing on the end of a string. Auditors can’t fix a broken internal control structure and poor corporate reporting – only management can. We believe it is essential that management is held to account for the systems of internal control over financial reporting and that such certifications are only effective if auditors are then required to attest to the effectiveness of those internal controls. One without the other is not effective.

As we noted in our 2019 letter to the UK Government’s Department of Business, Energy & Industrial Strategy (BEIS) – where we note our global views – on this same topic:

*Internal Control Certification* – Both CFA Institute and the Council of Institutional Investors have long been supportive of the attestation over internal controls as required by Section 404 of SOX (SOX 404). In particular, we have found the certification of internal controls by management (SOX Section 404(a)) – along with the attestation of disclosure controls and procedures required by SOX...
Section 302 – have been an effective behavioural change for management. These laws, which clearly place accountability (and legal liability) for internal controls over accounting and financial reporting with the principal officers of the company, have had the effect of increasing the resources necessary to enhance financial reporting. These certifications have had the effect of making upper management accountable for providing resources and attention to these important elements of financial management. We believe similar requirements should be implemented in the UK and, depending upon the respective laws, being attested to by management, directors or both as appropriate to UK law.

**Internal Control Audits** – We are also supportive of the audit of internal controls as we believe it provides a higher degree of assurance and accountability by the auditor and ensures management takes their certification responsibilities seriously. In complex businesses, testing of – and confidence in – internal controls is an essential element of the audit. As such, reporting on the auditors internal control work is something investors have found useful, and that assurance is an important driver of confidence in the integrity of financial statements and in the fairness of our capital markets.

In our 2021 response to the BEIS consultation, *Restoring Trust in Audit and Corporate Governance: Consultation on the Government’s Proposals* we reiterated this point. Whether in the US, the UK or the European Union these certifications and attestations are an essential element (first principle) of high-quality corporate reporting. We reiterate the point made above, that while much focus on the quality of audits and corporate reporting falls to the auditors when high-profile failures occur, the principal responsibility falls with management. We have found in the US that the implementation of management certifications and auditor attestations on internal controls over financial reporting have had significant impacts on the behaviour and accountability of management in the execution of their responsibilities and their allocation of resources to financial reporting. Auditors cannot fix poor internal controls and poor culture. They can simply report them, but without strong audit committees and a strong regulator – and with the existing audit payor model that disincentivizes such behaviour – this will not occur.

Investors are willing to pay the cost of such attestations and internal controls. While management/preparers complain about the cost of ICFR certifications and audit attestations, investors ultimately pay the cost of such certifications and attestations and they are willing to bear the cost. We would refer you to the discussion of “efficiency” under **Question #19.2**.

Preparers generally tally the direct time or money they employ in applying the ICFR requirements – without the experience to balance this with effectiveness investors see in such measures and without recognizing that those who ultimately bear the cost (i.e., investors) are willing to pay for such regulations. Further, management – and regulators – don’t understand and 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 and in jurisdictions where lower quality reporting exists.

ICFR certifications and attestations are a prime example of where European companies have decreased comparative attractiveness in capital flows to jurisdictions such as the US and will experience a higher cost of capital to European companies because of a high risk of poor internal controls.

2) **Implement Improved Regulatory Oversight of Audit Committees** – Given the needed improvement in audit committees in the EU as noted in our response to **Questions #7.1** and **Question #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 **Question #15.1**.

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. Our 2019 recommendation – reflecting our
Overall, we are highly supportive of enhancing all the basic tenants of good corporate governance are outlined/queried in Question #9. Other jurisdictions have demonstrated the cost/benefit (efficiency/effectiveness). We also believe that:

1) Enhancing management accountability is essential and this is best done by requiring management certifications of internal controls in financial reporting – validated by audits of internal controls over financial reporting. Without management accountability, there will be no significant improvement in corporate reporting.

2) Improved regulatory oversight of key functions of the audit committee is also essential to providing a solid backstop to enhance the powers of the audit committee in overseeing management and the auditors. This pillar
of the ecosystem must be supported by a high-quality and effective audit regulatory function. See **Question #15.1**.

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

**RESPONSE:**

See **Question# 9.1.1**.
3. **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. On a scale of 1 (low) to 5 (high), 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:**

<table>
<thead>
<tr>
<th>Areas</th>
<th>I. Effectiveness in reaching its objectives</th>
<th>II. Efficiency: has the framework been cost efficient</th>
<th>III. Coherence with relevant EU rules</th>
</tr>
</thead>
<tbody>
<tr>
<td>a) The rules on independence of auditors/audit firms and absence of conflicts of interest</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>b) The rules on the content of the audit and of the audit report</td>
<td>2</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>c) The rules applicable to non-audit services</td>
<td>2</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>d) The rules on auditor/audit firm rotation</td>
<td>3</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>e) The rules on transparency (transparency report, additional reports to other parties / audit committees/ supervisors)</td>
<td>2</td>
<td>2</td>
<td>2</td>
</tr>
</tbody>
</table>
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?

RESPONSE:

Overarching Considerations Related to Statutory Audit – As background to our responses to the questions in Part III, please see the section Overarching Investors Perspectives That Inform Our Consultation Response in Part I (Question #2).

With these overarching comments in mind, we respond to the Part III questions on audit in Questions #11, 12.1, 13.1 and 14.1.1. These overarching comments should also be considered as part of the other pillars as the ecosystem is connected.

Question #10 Specific Items

1) Independence – While there is focus on independence, performance of non-audit services, and mandatory rotation, as we note above, the auditor payor model without a strong ecosystem including corporate governance and statutory audit oversight will never balance out the lack of skepticism and conflict of interest established by the auditor believing company management is their “client.” This is why we argue for enhancement of the other pillars, improved disclosure of audit quality indicators, and greater transparency of fees elsewhere in this Consultation.

2) Audit Reports – While audit reports have improved, many remain boilerplate and we have observed clean audit opinions followed by fairly rapid business failures because of a lack of transparency over liquidity issues in various jurisdictions. While there is always room for improvement in audit reports, they are not the item in most urgent need of repair in the European corporate reporting and audit ecosystem. Internal controls over financial reporting certifications and attestations are far more urgent at this moment in our view.

3) Non-Audit Services – EU audit legislation that came into existence in the post Financial Crisis era sought to significantly limit such services. As noted by Accountancy Europe, according to an Audit Analytics report, the % of non-audit fees received from PIE audit clients has been declining since new measures at EU level came into effect in 2014 (see https://bit.ly/3AksJpX). That said our review of publications such as KPMG’s European Union Audit Legislation spends approximately 30 of 90 pages assisting with the discernment of what is in and out as far as non-audit services. There appears to be some simplification worth considering there. Though some investors view that all non-audit services should be banned, this is not a position we have held. Some investors believe that sustainability reporting should be considered a prohibited non-audit services. 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. This is why we have not held a complete ban of non-audit services position.

4) Mandatory Auditor Rotation – CFA Institute did not support mandatory auditor rotation. Rather, we supported disclosure of auditor tenure which allowed investor to assess whether the duration of the relationship may have been a deterrent to professional skepticism. Based upon our review of publication such as KPMG’s European Union Audit Legislation, the rules seems a bit fragmented across member states.

5) Transparency – As we note above, there is far too little transparency from all parties charged with protecting investor interests. See discussion above about audit being a credence good. See discussion which follows on Audit Quality Indicators (AQIs).

Establish Engagement Level Audit Quality Indicators – Banning non-audit services and rotating auditors does not change the fundamental payor and transparency problem associated with audit. We are strong believer that greater transparency on audit fees and audit quality indicators – along with the changes in corporate governance
discussed in **Part II** and audit supervision in **Part IV** are the keys to improving audit quality. In addition to implementing management certification and 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.

There is a perception – almost mystique – that audit quality is an elusive, unmeasurable quality. We disagree. There are many products (i.e., products that are much more vital to our lives (e.g., vaccines)) 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 and 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, and the consumer (investor) with metrics to communicate and measure progress.

Measuring audit quality is about providing more information to investors – and the agents engaged to protect their interests – to move audits out of the realm of a credence good. What gets measured gets monitored. Standard-setting delays in developing audit quality indicators is, in the view of some, an indicator of their potential to be highly effective.

Without the transparency that can be achieved through audit quality indicators there cannot be trust and without trust there cannot be confidence by investors in the audit profession. As investors we respect and want to work with the audit profession for we are their genuine client, not the audit committee or management. We have a mutual interest in seeing the audit profession succeed. We do not believe the audit profession should be judged by their worst moments, as reported in the press upon high-profile audit failures. We believe the that auditors should be judged by the good work undertaken each day by members of the profession, and we believe transparency about their functions will increase the visibility of their good work. We also believe that auditors should be paid fairly for their work. For that reason, we believe audit quality indicators would facilitate recognition of the good work of auditors.

**Efficiency via Further Simplification** – See comments under **Question #19.2**.

**Coherence in Existing Provisions** – See comments under **Question #19.2**.
Question 12. On a scale of 1 (strongly disagree) to 5 (strongly agree), please share to which extent you agree to the following statements.

<table>
<thead>
<tr>
<th>Question</th>
<th>Scale</th>
</tr>
</thead>
<tbody>
<tr>
<td>I. Statutory audits contribute as much as is possible to the quality and reliability of corporate reporting by PIEs</td>
<td>3</td>
</tr>
<tr>
<td>II. I am satisfied with the role of the statutory auditors / audit firms of PIEs</td>
<td>3</td>
</tr>
<tr>
<td>III. The work of auditors is reliable so I trust their assessment and reports and their work inspires trust in capital markets</td>
<td>3</td>
</tr>
<tr>
<td>IV. There is not enough choice for public interest entities in finding an audit firm at appropriate costs</td>
<td>1</td>
</tr>
<tr>
<td>V. Joint audits contribute to the quality of audit</td>
<td>1</td>
</tr>
</tbody>
</table>
Question 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:

RESPONSE:
See our response to Question #11 above, particularly related to Overarching Considerations. 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 under Question #11. 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 discussion in Question #11 on AQIs.

Competition vs. Quality – 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. Refer to the excerpt from that response below:

Audit Concentration & Competition – The current degree of concentration among the Big Four – and the market resilience – has existed for nearly twenty years. Accordingly, this concern is not new or unique to the UK. If another failure on the scale of Arthur Andersen were to occur, such a change would be disruptive to publicly listed companies, investors and firm employees as well as many other stakeholders. However, enhancing the competitiveness of the challenger firms through the aforementioned remedies doesn’t seem like a viable plan for addressing the resilience of the market as many publicly listed companies wouldn’t switch to a challenger firm for the reasons already articulated.

We go on to say:
As we describe above, Remedy #2 (Mandatory Joint Audit), #2A (Market Share Cap), #3 (Additional Measure to Reduce Barriers to Challenger Firms) seem to focus on increasing the number of market participants by increasing the involvement in the audit market of challenger firms, but they don’t seem to address the primary issue for investors, that of audit quality. We are especially concerned by creation of mandatory joint audits where auditors may be incentivized to compete on engendering themselves to management and audit committees rather than focusing on audit quality. How a market share cap would work in a dynamic market is also challenging to envision. Broadly, we don’t see that joint audits, market caps or other measures to enhance competition of challenger firms is the solution to improving the audit market because we believe we need a market where buyers are more well informed not simply where there are more sellers.

Joint Audits Reduce Quality – As the above excerpt highlights, we do not support joint audits. More specifically we noted in that same consultation:

Joint Audit – We very strongly oppose the notion of the joint audit. In our view, joint audits reduce accountability to investors. When everyone is responsible, no one is responsible. Joint audits increase audit quality risk. Such audits require careful coordination, cooperation, division of responsibility and accountability between two firms, which has the potential to increase audit risk and decrease quality. While less averse to a shared audit, we aren’t convinced either remedy improves audit quality. The ten-page discussion in the Audit Market Study includes a discussion of the liability framework and how challenger firms would benefit. However, it falls short, in our view, in precisely articulating how this remedy will improve audit quality for the benefit of investors. We see this remedy as having the potential to increase fees without improving, and possibly decreasing, audit quality.

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.
Question 13:

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

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

| To what extent can these quality issues be attributed to deficiencies in the EU legal and supervisory framework for statutory audit (on a scale of 1 (not at all) to 5 (to a very large extent))? | 4 |

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

RESPONSE:
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? On a scale of 1 (not effective/efficient) to 5 (very effective/efficient)?

<table>
<thead>
<tr>
<th>Question</th>
<th>I. Effectiveness</th>
<th>II. Efficiency in term of cost/benefits of action</th>
</tr>
</thead>
<tbody>
<tr>
<td>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</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>b) Strengthen the informational value of audit reports</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>c) Improve the internal governance of audit firms</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>d) Incentivise or mandate the performance of joint audits for PIEs, including to enhance competition on the PIE audit market</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>e) Further harmonise the rules on mandatory rotation</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>f) Limit the scope for statutory auditors and audit firms to provide non-audit services</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>g) Increase or eliminate caps on auditor liability, at least for cases of gross negligence of statutory auditors</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>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</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>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</td>
<td>N/A</td>
<td>N/A</td>
</tr>
</tbody>
</table>

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

- Yes
- No
Question 14.1.1 If you have replied ‘yes’ to question 14.1 please explain which action(s) you have in mind.

RESPONSE:
See our responses to Questions #9, 11, 12.1 and 13.1 as our responses build upon each other. As we note extensively in those responses, we believe that management certifications regarding and audits of internal controls over financial reporting are an essential element of improving audit quality. We would also note as described more fully in Question #11, we believe implementing firm level audit quality indicators is an essential step in enhancing transparency to the credence good of audit for not only investors but also EU legislators.

As it relates to specific elements of improving audit quality highlighted in Question #14, we would 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. We highlight other considerations in our specific response to Questions 36-39.*

b. **Informational 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 and information value of audit reports can be improved in many respects, including in respect to disclosures under IFRS (e.g., segments, cash flows, etc.) While extended audit reports with disclosure of key or critical audit matters have emerged, there remains work to make these more meaningful and less boilerplate.

c. **Internal Governance of Audit Firms** – Improving internal firm governance needs to come through engagement level audit quality indicators such that existing transparency reports are not marketing materials, but useful decision-making communications. More work is needed at the engagement level as noted in Question #11.

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. See comments in Question #12.1.

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 more significantly as outlined in Questions #11, 12.1 and 13. 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. As we note in response to Question #11 related to Question #10, 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. We would need more harmonization of rules and more analysis of the legal frameworks and cross border legal rights to investors. In the United States, investors through the PCAOB have sought more transparency on the use of other auditors and the legal liability concerns this presents for inspection, enforcement and investor legal rights.
Question 14.2 Please provide any details to support your views. Any evidence, including on expected benefits and costs of such action is welcome.

RESPONSE:
See our responses to Questions #11, 12.1 and 13.1 and 14.1.1
4. **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 Auditing 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. On a scale of 1 (low) to 5 (high), 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?**

<table>
<thead>
<tr>
<th>Topic</th>
<th>I. Effectiveness in reaching its objectives</th>
<th>II. Efficiency: has the framework been cost efficient</th>
<th>III. Coherence with other related EU rules</th>
</tr>
</thead>
<tbody>
<tr>
<td>a) The supervision of PIE statutory auditors and audit firms in the EU</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>b) The establishment and operation of national audit oversight bodies</td>
<td>2</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>c) The Member State systems for investigations and sanctions</td>
<td>2</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>d) The role of the CEAOB</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
</tbody>
</table>
Question 15.1 Please describe the main issues, if any, you see 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?

RESPONSE:  
An Investor Perspective on Supervision of Statutory Auditors – As background to our responses to the questions in Part IV, please see the section Background and Context to Our Consultation Response: An Investor Perspective on Regulatory Supervision in Part I (Question #2). There, we highlight how the audit regulator in the EU’s largest economy – German audit regulatory oversight organization APAS Audit Oversight Body and a member of the Committee of European Auditing Oversight Bodies (CEAOB) – along with other German regulators failed investors and diminished the credibility of APAS, CEAOB and auditor oversight more broadly within the Europe 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 and assist auditors in the execution of their duties.

Recommend Study and Creation of EU Level Statutory Audit Supervisor
Through numerous discussions with investors and others – including auditors – in the EU, we hear that supervision in other EU member states is equally poor and the CEAOB is an ineffective affiliation. We hear that staffing as such audit supervisors is insufficient, of low quality and ineffective. We have repeatedly heard the audit supervisory organizations – including their inspection findings – lack transparency. The CEAOB, as evidenced by its website, also lacks transparency. As such, 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. 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 and organization similar to ESMA, but with the greater powers we highlight are needed at ESMA in Part V.

Europe’s Supervision of Statutory Auditors Lags Other Developed Market:
By way of background, CFA Institute similarly advocated, subsequent to high-profile corporate failures such as Enron, for the formation of the Public Company Accounting Oversight Board (PCAOB) and other audit reforms that were enacted by the Sarbanes-Oxley Act of 2002 (SOX Act) – including audit standard setting, auditor inspection and enforcement. CFA Institute has been an active participant in the PCAOB standard setting and 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 – and maybe more importantly – by providing auditors with a backstop to pressure company management and 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 and internal control issues and seek the audit evidence necessary to support accounting and reporting conclusions.

As we noted in our response to Question #11, we have also been active in the debate on audit reform in the UK for reasons noted previously (i.e., that they represent our global views in various jurisdictions). And while we did not respond, because of timing, to the initial Kingman Review – which reviewed the strength and quality of the audit regulator – our response to 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*, highlights that the most significant outcome of the UK Government’s audit reform efforts appears to be a stronger audit regulator, the Audit Reporting and Governance Authority. Below is an excerpt from our comment letter to this effect:

Stepping away from the details of the Consultation, it would appear the UK Government’s most significant audit reform is to replace the FRC with the new Audit Reporting and Governance Authority (ARGA) – as we address in the following paragraph. While certainly stronger enforcement by a regulator can be an effective deterrent, such enforcement must be swift, strong, visible and frequent. Further, a reputation of strong enforcement must be established by the new ARGA and the UK Government for investors to see evidence of credible deterrence.

By contrast to the US and UK, and the European Union 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 European Union with demonstrably weak supervision and conflicts of interest.

Again, our recommendation is that the European Commission undertake a review of member state audit regulators and the CEAOB – similar to the UK Kingman Review – and that such review include making recommendations for improving the supervision of audit and establishing a pan-European audit regulator. Overall, we believe something more akin to ESMA – but with stronger, enforcement powers on an ex-ante and ex-post basis – is needed related to audit supervision.

**Efficiency via Further Simplification** – See comments under Question #19.2. A single regulatory solution would substantially improve efficiency and effectiveness of audit supervision. It is a cost investors are willing to bear.

**Coherence in Existing Provisions** – See comments under Question #19.2. With the CEAOB being a loose affiliation, there is substantively no coherence in policy.
Question 16.

| Considering the findings in the Commission monitoring report and reports of national audit oversight bodies how would you rate (on a scale of 1 to 5) the quality of audit supervision? | 2 |

Question 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.

**RESPONSE:**
See our response to Question #15.1.
**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? On a scale of 1 (not effective/effective) to 5 (very effective/efficient)?

<table>
<thead>
<tr>
<th>Areas</th>
<th>I. Effectiveness</th>
<th>II. Efficiency in term of cost/benefits of action</th>
</tr>
</thead>
<tbody>
<tr>
<td>a) Ensure better the independence and appropriate resources of supervisors of auditors and audit firms</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>b) Increase the transparency of audit supervisors</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>c) Increase the consistency of supervision of cross-border networks of audit firms</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>d) Ensure supervision of audit committees</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>e) Harmonise and strengthen the investigation and sanctioning powers of audit supervisors</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>f) Ensure that at European level there are legal instruments available that ensure supervisory convergence as regards statutory audit of PIEs</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>g) Grant a European body the task to register and supervise PIE statutory auditors and audit firms</td>
<td>5</td>
<td>5</td>
</tr>
</tbody>
</table>

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

- Yes
- No
Question 17.1.1 If you have replied ‘yes’ to question 17.1 please explain which action(s) you have in mind.

RESPONSE:
See our response to Question #15.1 where we recommend a detailed independent review and inspection of EU member state auditor regulators and the CEAOB to determine how they should be improved is necessary. In our view, this report would be done with the objective of how, not if, to create a stronger pan-European audit regulator. Such regulator would have oversight of audit standard setting and endorsement, inspections and enforcement actions. Overall, we believe an organization something more akin to ESMA – but stronger – is needed related to audit supervision.

We believe all the items articulated in Question #17 would be both highly effective and efficient at improving statutory audit supervision as we note below.

a. Independent & Appropriate Resources – Numerous media reports identify the lack of independence, quality and number of audit supervisory resources as a significant contributor to the lack of quality audit supervision. Consolidation of efforts could increase quality, resources, and efforts.

b. Transparency of Supervisors – The lack of transparency of the member state audit supervisors is a problem observed by auditors, investors, and 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.

c. Consistency of Cross Border Supervision – We believe a pan-European audit supervisor would be best placed to ensure consistency of cross-border supervision.

d. Ensure Supervision of Audit Committees – As we note in Part II (Question #9.1.1) we support enhanced regulatory oversight/supervision of audit committees.

e. Harmonize & Strengthens Investigation & Sanctioning of Audit Supervisors – As we note in Question #15.1, we support pan-European level legislation to ensure convergence of statutory audit supervision. We believe a pan-European organization is the most effective mechanism to support strength and harmonization.

f. European Level Instruments to Ensure Convergence of Statutory Audit Supervision – As we note in Question #15.1, we support a European level legislation (regulation) to ensure convergence of statutory audit supervision.

g. Grant a European Body Right to Register & Supervise Statutory Auditors and Audit Firms – As in other jurisdictions we would support such an initiative.

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

RESPONSE:
See our response to Question #15.1,
5. **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.³

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? | 4 |

---

³ ESMA letter of 26 February 2021 to the Commissioner McGuinness on next steps following Wirecard (ESMA32-51-818)
**Question 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.

**RESPONSE:**
Strength in corporate reporting processes and controls at the company level as we describe in Part II and at the supervisory level are particularly important given the principles-based nature of IFRS. As a former member of the IFRS Interpretations Committee – given the limited detail, access, and powers ESMA has – I directly, as an investor and user of financial statements, observed that ESMA brought some excellent issues associated with inconsistencies in the application of IFRS to the IFRS Interpretations Committee (IFRS IC). Like investors, ESMA – at times – was the only one at the table who had an external perspective on the usefulness of financial statements across the European Union and what the end product of IFRS was actually bringing to users of financial statements and corporate reports. The IFRS IC did not, unfortunately, always address these issues.

We believe the establishment of the ESEF and the ESAP has the potential to significantly increase the ability of EU level oversight of corporate reporting – and auditing. As users of tagged data tools and the ability to search across all public companies – in the US, for example using CalcBench – there are immeasurable benefits to having the data tagged and collected in a single source across the European Union. This type of EU-wide effort enhances the concept of the capital markets union. You will note that CFA Institute recently commented to the IASB about their proposed changes to disclosure principles that we believe will deter comparability and usefulness of ESEF and the ESAP.

ESMA’s formation has been very 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 in our response to **Question# 16.1**. 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. The situation with Germany’s Financial Reporting Enforcement Panel (FREP) in the wake of the Wirecard scandal highlights the lack of ability of ESMA to bring change on an ex-ante basis – when it is most needed. The published news accounts suggest it was well known that FREP lacked the resources and capabilities to execute its necessary duties. Even on an ex-post basis ESMA, when asked by the Commission to look at the Wirecard issue, can only observe and comment on changes needed but cannot bring them to bear. In that regard, we believe improvements – as we highlight in **Question #19** and 19.1 – 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 act 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 19

How effective and efficient would the following actions be in increasing the quality and reliability of reporting by listed companies on a scale of 1 (not effective/efficient) to 5 (very effective/efficient)?

<table>
<thead>
<tr>
<th>Areas</th>
<th>I. Effectiveness</th>
<th>II. Efficiency in term of cost/benefits of action</th>
</tr>
</thead>
<tbody>
<tr>
<td>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</td>
<td>4</td>
<td>3</td>
</tr>
<tr>
<td>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</td>
<td>4</td>
<td>3</td>
</tr>
<tr>
<td>c) Strengthen the rules ensuring the independence of national authorities or entities involved in the supervision of corporate reporting</td>
<td>4</td>
<td>3</td>
</tr>
<tr>
<td>d) Increase the resources of national authorities or entities involved in the supervision of corporate reporting</td>
<td>4</td>
<td>3</td>
</tr>
<tr>
<td>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.</td>
<td>4</td>
<td>3</td>
</tr>
<tr>
<td>f) Improve cooperation and coordination between national authorities of different Member States</td>
<td>4</td>
<td>3</td>
</tr>
<tr>
<td>g) Increase transparency on the conduct and results of enforcement activities by national authorities</td>
<td>4</td>
<td>3</td>
</tr>
<tr>
<td>h) Strengthen the role of ESMA on the enforcement of corporate reporting</td>
<td>5</td>
<td>5</td>
</tr>
</tbody>
</table>
Question 19.1 Have you identified other actions that would effectively and efficiently increase the quality and reliability of the supervision of reporting by listed companies?

- Yes
- No

Question 19.1.1 If you have replied ‘yes’ to question 19.1 please explain which action(s) you have in mind.

RESPONSE:
We believe all the Items (A) to (H) articulated in Question #19, and listed below, would be important in improving the quality and the reliability of corporate reporting.

a. Clarify Roles and Responsibilities of National Authorities
b. Improve System of Exchange of Information
c. Strengthen Rules on Independence of National Authorities
d. Increase Resources of National Authorities
e. Increase Powers of National Authorities
f. Increase Cooperation Between National Authorities
g. Increase Transparency on Conduct and Enforcement Activities by National Authorities

Strengthen the Role of ESMA on 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 Question #18.1, 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.
19.2 Please provide any details to support your views. Any evidence, including on expected benefits and costs of such action is welcome.

RESPONSE:
CONSULTATION RESPONSE CONSIDERATIONS
Questions 2, 7, 9, 10, 14, 15, 17 and 19 all address the efficiency and cohesiveness of the regulations underlying the questions to which they relate. We would make the following overarching observations:

1) **Effectiveness and Efficiency** – We would observe that:
   a) Many stakeholders (e.g., management and auditors) have limited experience to comment on the effectiveness of a particular rule as they do not bring to the Questionnaire the perspective of those for whom the rule, or corporate reporting, was created – investors.
   b) 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.
   c) They – and regulators – don’t always understand and 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 and in jurisdictions where lower quality reporting exists.

An example of how this effectiveness vs. efficiency equation is not appropriately balanced is in the requirement for management certification, and auditor attestation, of ICFR. In the UK and the European Union there is no such requirement with many (i.e., management and regulators at their behest) 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 that:
   a) such an approach (i.e., failure to do ICFR) increases the cost of capital for companies in these jurisdictions relative to, for example, the US;
   b) investors – not management or the company – bear such cost, and
   c) investors are willing to pay for such work as their effectiveness vs. efficiency 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 and the cost of capital. We have sought greater transparency on costs, such as audit fees, such that as investors we can best balance the cost of compliance with the cost of capital.

We highlight this issue as we believe throughout the Questionnaire, there is an asymmetry in this analysis – and that the number of respondents in a particular category may skew the weighting of the results.

b) **Coherence** – As with efficiency, the notion of coherence is not only a numerical query response on certain questions (e.g., Questions 2, 7, 10 and 15) it is also included in the open-ended (e.g., Questions 2.1, 7.1, 11 and 15.1) qualitative commentary section. We note that the term coherence is not defined in the consultation. This term could be defined as coherence of the EU level legislation (regulations/directives) with each other in a particular pillar or across pillars; coherence regarding integration of the EU level directives in the respective jurisdictions; or coherence in their application in the respective jurisdictions. As such, more specificity on the definition of coherence would be useful.

Further, we believe it is necessary for the European Commission as it pursues further work on harmonizing legislation across the EU – and in making queries in consultation’s such as these – to provide a matrix that shows the key elements of the legislation they are referring to and the differences in their application by jurisdiction. Specifically, as it relates to this Consultation we believe that there needs to be a specific articulation of the elements of the pillars of corporate governance, statutory audit, audit supervision and corporate reporting supervision that are seen as most important to the corporate reporting and audit quality ecosystem such that stakeholders have a complete cross pillar view of the regulatory landscape and the application in EU jurisdictions. This insight is necessary not only for stakeholders but also for regulators and legislators as they make decisions to ensure the key elements of corporate reporting and audit quality and their application are fully understood by lawmakers.
c) **Investor Respondents** – We would also highlight that weighting the numeric responses – without consideration of the limited number of investors responding to the Questionnaire has the effect of skewing the results toward those with the greatest number of respondents, which will always deter the results away from investors/users – those for whom the regulations are meant to serve.