

**Existing regulation already guarantees
high quality corporate reporting**

1 The EU framework for high quality and reliable corporate reporting

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

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

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

(1: very low; 2: low; 3: medium; 4: high; 5: very high; N.A.: Don't know/No opinion/Not applicable)

	I. Effective- ness in reaching its objectives	II. Efficiency: has the framework been cost efficient	III. Relevant in terms of overall needs and objectives	IV. Coherence with other related EU frame- works / internal coherence	V. EU Added value: was and is EU inter- vention justified?
a) Corporate governance	4	2	3	2	2
b) Statutory audit	3	2	3	N.A.	2

	I. Effective- ness in reaching its objectives	II. Efficiency: has the framework been cost efficient	III. Relevant in terms of overall needs and objectives	IV. Coherence with other related EU frame- works / internal coherence	V. EU Added value: was and is EU inter- vention justified?
c) Supervision by public authorities of statutory auditors/ audit firms	3	2	3	N.A.	2
d) Supervision by authorities of corporate reporting	4	2	3	N.A.	2
e) The eco- system composed of all of the above	4	2	3	N.A.	2

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

- **have any factors reduced the effectiveness / rendered the relevant EU framework less effective than anticipated? Which rules have proven less effective than anticipated?**

- **is there room to improve efficiency via further simplification?**
- **are existing provisions coherent with each other?**

The EU legislation ensures a high quality of corporate reporting. Numerous initiatives of the EU (such as the audit reform, the Transparency Directive) have already created a complex institutional setting. The CSRD will introduce even new reporting requirements that further increase complexity. As a consequence, corporate reporting is not very cost efficient as it causes high efforts for preparers while not always providing the most relevant information to investors. Neither effectiveness nor efficiency will be increased with strengthening further regulation. Therefore, additional EU intervention won't be necessary and will most likely aggravate existing negative side effects.

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

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

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

The regulatory framework has been substantially strengthened over the last decade with the adoption of the Transparency Directive, the Non-Financial Reporting Directive and the implementation of electronic reporting (ESEF). The proposed CSRD and the ESAP regulation are still in progress and will further complement the framework. The audit reform also further strengthened the overall eco-system by extending the responsibilities of audit committees, enhancing independence of auditors and improving the information value of audit reports.

Against this background we cannot identify any major deficits in the current regulatory system nor systematic quality issues with financial reporting that would justify further strengthening of the regulation. In contrast, EU regulators should always keep in mind the (cost) efficiency of the overall framework.

Referring to the ESMA report is also misleading in this respect as departures from IFRS has always to be judged against the complexity of the IFRS framework and the necessary judgement regarding accounting practices for complex business models. This is indirectly supported by the ESMA report that shows that only in 9 cases a reissuance of accounts has been demanded by authorities. Furthermore, the vast majority of enforcement action points to rather minor technical issues linked to that complexity. Materiality in a formal sense is thus often not materiality in an economic sense. Consequently, it is our experience that there is little or no market reaction to enforcement action.

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

(1: strongly disagree; 2: rather disagree; 3: neutral; 4: rather agree; 5: strongly agree; N.A.: Don't know/No opinion/Not applicable)

Would it be useful to have specific indicators to measure the quality of corporate reporting, of statutory audits and the effectiveness of supervision?	2
Is it possible to have clear and reliable indicators to measure the quality of corporate reporting, of statutory audit and the effectiveness of supervision?	2
Should the European Commission develop indicators on the quality of corporate reporting, of statutory audits and the effectiveness of supervision?	1

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:

N.A.

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

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

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:

As mentioned in our answers above, the current framework ensures high quality reporting. The priority therefore, when reviewing existing regulation and finalizing and implementing current on-going EU initiatives, should be not to overload issuers with complex reporting needs and to ensure adequacy of the material aspects of the reporting as well as coherence with existing EU law.

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

(1: strongly disagree; 2: rather disagree; 3: neutral; 4: rather agree; 5: strongly agree; N.A.: Don't know/No opinion/Not applicable)

Companies themselves should take action to improve their reporting	1
Auditors themselves should take action to improve audits	1
Audit supervisors themselves should take action to improve their functioning	1
Individual Member States should take action if the situation in their market requires this	1

The EU should take action	1
Several of the above should take action	1

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

Please refer to our comments under question 2.1.

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

(1: not at all necessary; 2: rather not necessary; 3: neutral; 4: rather necessary; 5: highly necessary; N.A.: Don't know/No opinion/Not applicable)

I. The green transition	1
II. The digital transition	1
III. Facilitating doing business by SMEs	3
IV. Reducing burdens and/or simplification	5
V. Better corporate social responsibility, including tax transparency and fair taxation	1

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

From our perspective the consultation should focus on financial reporting.

It should thus not include other policy objectives (such as the green transition, the digitalization or corporate social responsibility). As we do not see significant deficits in the current framework regarding quality issues the EU Commission should rather concentrate on simplification. Simplification would support the main objective of corporate reporting, which is to provide relevant information to investors. It would also help companies of all sizes to do business in the EU.

2 Corporate governance

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

(1: very low; 2: low; 3: medium; 4: high; 5: very high; N.A.: Don't know/No opinion/Not applicable)

	I. Effectiveness in reaching its objectives	II. Efficiency: has the framework been cost efficient	III. Coherence with other related EU rules
a) Board responsibilities for reporting	4	2	N.A.
b) Liability of company boards for reporting	4	2	N.A.
c) Obligation to establish an audit committee	4	3	N.A.
d) Rules on the composition of the audit committee	4	3	N.A.
e) Tasks of the audit committee	4	3	N.A.
f) External position of the audit committee (e.g. in relation to shareholders)	5	N.A.	N.A.

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

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

The responsibilities and liability of boards as well as the rules applicable to audit committees regarding their tasks, composition and functioning are effective in ensuring high quality of corporate reporting. Thus, we are of the opinion that there are no main issues the EU framework on corporate governance. In particular, we do not see the necessity to strengthen the external position of the audit committee. The existing obligations are sufficient to inform the shareholders about audit committees' tasks, the composition of the board and the check of internal systems.

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

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

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

First of all, most reported deficiencies have a formal background without impact on shareholder decisionmaking and therefore usually cause no market reaction (see response to Q 3.1). Thus, ESMA's report should not be taken as an indicator for lacking reporting quality in general.

Furthermore, we doubt that there are deficits in the EU framework of corporate governance that contribute to lacking quality of reporting on average. There might be cases of governance deficits within individual companies but this is neither a general problem nor should it be a case for further regulation.

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

(1: not at all effective/efficient; 2: rather not effective/efficient; 3: neutral; 4: rather effective/efficient; 5: very effective/efficient; N.A.: Don't know/No opinion/Not applicable)

	I. Effectiveness	II. Efficiency in term of cost/benefits of action
a) Strengthen the (collective) responsibilities of the board / tasks for reporting / liability of boards for incorrect reporting	1	1
b) Require proper expertise of specific board members in relation to corporate reporting (internal controls, accounting framework, sustainability reporting, etc.)	2	1
c) Increase the responsibilities of specific board members (e.g. Chief Executive Officer or the Chief Financial Officer) and their liability on corporate reporting	2	1

	I. Effectiveness	II. Efficiency in term of cost/benefits of action
d) Give company boards an explicit responsibility to establish effective risk management and internal control systems for the preparation of corporate reporting, including as regards controls for risks of fraud and going concern	2	1
e) More transparency of company boards about the effectiveness of the companies' risk management and report on the actions undertaken during the reporting period	2	1
f) Remove exemptions in EU legislation for establishing an audit committee	2	1
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	2	1
h) Strengthen the external position of the audit committee (e.g. vis-à-vis the auditor or by reporting to shareholders)	1	1
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	2	1

	I. Effectiveness	II. Efficiency in term of cost/benefits of action
j) Require auditors to provide assurance on the systems and internal controls implemented by the board, including fraud, going concern and related reporting requirements	2	1
k) Strengthen the role of shareholders on corporate reporting	1	1

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
 Don't know / no opinion / not applicable

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

We generally oppose further EU intervention in the field corporate governance as there are no material deficits, the current framework is already sufficient and corporate governance is deeply rooted in national company laws and, in addition to this, further specified by national corporate governance codes.

3 Statutory audit

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

(1: very low; 2: low; 3: medium; 4: high; 5: very high; N.A.: Don't know/No opinion/Not applicable)

	I. Effectiveness in reaching its objectives	II. Efficiency: has the framework been cost efficient	III. Coherence with related EU rules
a) The rules on independence of auditors/audit firms and absence of conflicts of interest	5	2	N.A.
b) The rules on the content of the audit and of the audit report	3	3	N.A.
c) The rules applicable to non-audit services	4	3	N.A.
d) The rules on auditor/audit firm rotation	3	2	N.A.

	I. Effectiveness in reaching its objectives	II. Efficiency: has the framework been cost efficient	III. Coherence with related EU rules
e) The rules on transparency (transparency report, additional reports to other parties / audit committees / supervisors)	4	3	N.A.

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?**

We agree that the framework for statutory audits needs to address potential conflicts of interests on the side of auditors and guarantee an appropriate level of transparency. We are, however, increasingly concerned about negative side effects of the current regulation and would oppose any additional strengthening of the regulation.

One key issue certainly is the interplay between ever stricter rules on rotation and ever stricter limits to non-audit services that already make it difficult for issuers to find both appropriate and highly-sophisticated auditors and services providers at the same time. This ultimately bears the risk of lower quality in financial reporting when issuers have to make a second best decision for their auditors against this background. Alternatively, issuers may be forced to make a second best choice with regard to important non-audit services which may hamper the strategic development of an issuer.

A second issue is that – though basically addressing the right objectives – the Audit Regulation is not cost efficient as it leads to overly complex processes, in particular regarding the mandating of auditors (see also response to Q14.2). In a similar vein, the framework sets incentives for auditors’ to require more detailed disclosure irrespective of investors’ needs. Such “boilerplate disclosure” runs the risk to dilute the information content of disclosures which should certainly not be the objective of the regulation.

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

(1: strongly disagree; 2: rather disagree; 3: neutral; 4: rather agree; 5: strongly agree; N.A.: Don’t know/No opinion/Not applicable)

I. Statutory audits contribute as much as is possible to the quality and reliability of corporate reporting by PIEs	4
II. I am satisfied with the role of the statutory auditors / audit firms of PIEs	4
III. The work of auditors is reliable so I trust their assessment and reports and their work inspires trust in capital markets	5
IV. There is not enough choice for public interest entities in finding an audit firm at appropriate costs	3
V. Joint audits contribute to the quality of audit	1

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:

Basically, auditors work professionally and thus contribute to the reliability of corporate reporting as much as possible.

As mentioned above the key concern of issuers is thus not the quality of auditors’ work but that regulation could aggravate the existing problem of limited choice among auditors that are able to perform audits for big international issuers. Also, we are concerned about the high complexity that has been caused by the Audit Regulation with regard to mandating processes, in particular.

Furthermore, we doubt that the implicit assumption that joint audits will improve audit quality is correct. Existing regulation does not prohibit joint audits nor does it prohibit members states to make joint audits mandatory. However, neither companies nor their stakeholders have required joint audits on large scale. And with the exemption of France no member state has made them mandatory. In other words: there has not been a demand for joint audits so far nor has there been a regulatory case for it.

This is not surprising, as joint audit will certainly add to the complexity of the audit process (as well as the selection process). They will also most likely rather result in quality issues because additional co-ordination will be necessary which makes the process more prone to mistakes due to co-ordination problems. And last but not least joint audits will further add to the problem of limited choice for companies and limits competition instead of improving it. Thus, joint audits will neither improve audit quality nor will it be cost effective.

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

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

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

Question 13 implicitly assumes that there are significant deficiencies and quality issues with audits. In contrast, it is our experience that auditors work professionally and thus contribute to the reliability of corporate reporting as much as possible. Moreover, recent accounting scandals resulted from fraud and/or lack of execution of regulation rather than from missing regulation.

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

(1: not at all effective/efficient; 2: rather not effective/efficient; 3: neutral; 4: rather effective/efficient; 5: very effective/efficient; N.A.: Don't know/No opinion/Not applicable)

	I. Effectiveness	II. Efficiency in term of cost/benefits of action
a) Ask auditors to disclose how they have assured the directors' statement on material fraud, and what steps they have taken to assess the effectiveness of the relevant internal controls and to detect any fraud	1	1
b) Strengthen the informational value of audit reports	1	1
c) Improve the internal governance of audit firms	N.A.	N.A.
d) Incentivise or mandate the performance of joint audits for PIEs, including to enhance competition on the PIE audit market	1	1
e) Further harmonise the rules on mandatory rotation	3	4
f) Limit the scope for statutory auditors and audit firms to provide non-audit services	1	1

	I. Effectiveness	II. Efficiency in term of cost/benefits of action
g) Increase or eliminate caps on auditor liability, at least for cases of gross negligence of statutory auditors	1	1
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	3	3
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	N.A.	N.A.

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
 Don't know / no opinion / not applicable

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

We understand the question against the background of existing regulation. On the one hand we support that regulation should limit conflicts of interests and should deliver an appropriate and sufficient level of transparency and reliability. In that

sense we support the core elements of existing regulation. However and as mentioned above, we are not of the opinion that the current framework should further be tightened as already now it is not sufficiently balanced in terms of cost-effectiveness and creates negative side effects.

We are therefore concerned that any of the potential measures listed in the question above may result in additional bureaucracy and additional limitations of choice for listed companies and ultimately in additional costs and new quality issues. This is particularly true for the idea of joint audit (item 14 d, see response to Q 12.1), but also holds true for other suggested measures. Thus, in general no action should be taken.

However, issuers have made the experience that some provisions of the Audit Regulation led to overly complex processes and formal procedures without contributing to the objectives of the regulation. Problems arise particularly with regard to the interplay between items 14 e), 14 h) and 14 f).

Firstly, for larger international issuers it is of utmost importance that the minimum rotation period will not be shorter than 10 years and that the rotation period of the parent company can be applied to all subsidiaries. Shorter periods would definitely lose the balance between the objective of avoiding conflict of interests on the one hand and on the other ensuring in depth knowledge of the company (and thus audit quality) as well as providing for a certain level of cost efficiency. However, due to the multitude of options chosen by member the process of mandating auditors for companies operating cross border has become extremely complex and costly. This ultimately creates quality risks as international groups have to comply with different national approaches for the groups as well as the various group subsidiaries. Against this background we would support a more harmonised approach, provided that the rotation period will not be shorter than 10 years.

Secondly, the EU Commission should seek ways to clarify and simplify the rules on non-audit services as issuers have made the experience that the classification is not entirely appropriate against the objectives of the regulation and creates negative side effects.

Concretely, it should be clarified that assurance services (such as the voluntary review of quarterly reports or reviewing the accounts of newly created group entities) are classified as audit-services for the reasons of calculating the fee cap. Those services are closely related to the auditors' work and thus can most effectively and efficiently be provided by the existing auditor without bearing the risk of conflicts of interests.

This problem arises for example in strategically important situations for issuers. If an issuer plans to spin off parts of the group, to change the organisational structure of the group or to access bond markets for the first time, accounts for new entities will have to be created and audited. This work can best be performed by the

existing auditor who knows best the company structure and the business model. Unfortunately, this kind of services is sometimes regarded as a non-audit-service which is not appropriate. Depending on the number and size of the entities in question and the volume of the mandate, the fee cap thus can be hit though there are no conflict of interest issues with this kind of services.

Another issue with the existing rules on non-audit services arises in conjunction with mandatory rotation. If a newly appointed auditor has previously provided certain non-audit services the auditor is blocked already before the audit work is taken over (cooling-in). This means major challenges for companies, since existing mandates for non-audit-services as well as potential mandates for audit services has to be co-ordinated in order to have still enough choice among highly-sophisticated auditors and highly-sophisticated non-audit-service providers.

4 Supervision of PIE statutory auditors and audit firms

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

(1: very low; 2: low; 3: medium; 4: high; 5: very high; N.A.: Don't know/No opinion/Not applicable)

	I. Effectiveness in reaching its objectives	II. Efficiency: has the framework been cost efficient	III. Coherence with relevant EU rules
a) The supervision of PIE statutory auditors and audit firms in the EU	4	N.A.	N.A.
b) The establishment and operation of national audit oversight bodies	N.A.	N.A.	N.A.
c) The Member State systems for investigations and sanctions	4	N.A.	N.A.
d) The role of the CEAOB	N.A.	N.A.	N.A.

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

You may want to consider the following aspects

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

Generally, we have made the experience that the system of audit oversight is effective, but tends to be too formalistic. The report of EU Commission shows that audit supervisors are able and willing to uncover and name deficits. Thus, we believe that there is no case for additional regulation in this field and supervisors have sufficient measures, resources and sanctions at hand to name and cope with potential quality deficits. However, they should seek ways to be less formalistic.

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

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

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:

N.A.

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?

(1: not at all effective/efficient; 2: rather not effective/efficient; 3: neutral; 4: rather effective/efficient; 5: very effective/efficient; N.A.: Don't know/No opinion/Not applicable)

	I. Effectiveness	II. Efficiency in term of cost/benefits of action
a) Ensure better the independence and appropriate resources of supervisors of auditors and audit firms	2	2
b) Increase the transparency of audit supervisors	3	2
c) Increase the consistency of supervision of cross-border networks of audit firms	2	2
d) Ensure supervision of audit committees	1	1
e) Harmonise and strengthen the investigation and sanctioning powers of audit supervisors	2	2
f) Ensure that at European level there are legal instruments available that ensure supervisory convergence as regards statutory audit of PIEs	2	2

	I. Effectiveness	II. Efficiency in term of cost/benefits of action
g) Grant a European body the task to register and supervise PIE statutory auditors and audit firms	1	1

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

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

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

We basically agree and support that regulation ensures an appropriate level of supervision on audit firms and respective supervisors have sufficient resources to fulfil their tasks.

In the same vain, transparency about supervisory action (if well-balanced) ensures that stakeholder trust in the effectiveness of the system and to identify auditors with frequent quality problems. However, to our experience EU regulation already provides for sufficient supervisory tools to effectively supervise audit firms. If any action is envisaged, the EU Commission should focus on the question whether transparency of supervisory action could help issuers in evaluating the audit quality.

Furthermore, we member states already have enough flexibility to adjust their supervisory system to their market specifics. Members states with a high number of PIEs and a generally high market capitalisation may for example need different tools and resources than members states with less mature markets. Thus, there appears to be no need for additional EU action.

This is particularly true for a supervision of audit committees. This would impose direct supervision on the corporate governance of listed companies. This would constitute a fundamental change to supervision and would go far beyond what is efficient or necessary. The current system to ensure quality of financial reporting rests on several layers of control that work together. If an audit committee does not work properly this will sooner or later be detected either by the auditors, by the enforcement authorities or the investors.

Furthermore, auditors are already obliged to inform authorities when they have reasonable grounds to suspect that irregularities have or may occur with regard to financial statements (Art. 7 Audit Regulation). Supervising directly audit committees would only add complexity at the expense of the overwhelming majority of well-managed companies with robust corporate governance and effective internal controls.

5 Supervision and enforcement of corporate reporting

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

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

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:

We doubt that the implicit assumption behind the question is correct. There are neither systematic deficits in the quality of financial reporting nor can they be attributed to lacking regulation on EU level.

Furthermore, it is important to understand the key reason for departures from IFRS. It is our experience that most of departures happen due to the simple fact that IFRS are complex and the accounting of complex business cases always demands judgement from issuers as well as from auditors. Thus, even in well-managed companies with a proven track record and highly sophisticated processes departures from IFRS may occur. Against this background, the current level of enforcement action is no reason for concern and investors are able to draw right conclusions (see also Q 3.1).

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

(1: not at all effective/efficient; 2: rather not effective/efficient; 3: neutral; 4: rather effective/efficient; 5: very effective/efficient; N.A.: Don't know/No opinion/Not applicable)

	I. Effectiveness	II. Efficiency in term of cost/benefits of action
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	2	2
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	2	2
c) Strengthen the rules ensuring the independence of national authorities or entities involved in the supervision of corporate reporting	N.A.	N.A.
d) Increase the resources of national authorities or entities involved in the supervision of corporate reporting	1	1

	I. Effectiveness	II. Efficiency in term of cost/benefits of action
e) Increase the powers for national competent authorities to enforce corporate reporting, such as forensic, powers to obtain any necessary information from banks, tax or any other authorities in the country, powers to request information and corrective actions, etc.	1	1
f) Improve cooperation and coordination between national authorities of different Member States	2	2
g) Increase transparency on the conduct and results of enforcement activities by national authorities	1	1
h) Strengthen the role of ESMA on the enforcement of corporate reporting	1	1

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

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

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

We respond to the question against the background of existing regulation. We basically support that regulation should ensure an appropriate level of enforcement, that enforcers have clear mandates, sufficient resources, information is shared among authorities and there is a certain degree on enforcement activities.

However, we are of the opinion the existing EU regulation is already fit for purpose and enforcement bodies have sufficient resources to perform their tasks, so that no adjustments are necessary. In particular, we do not believe that a strengthened role of ESMA (beyond its existing mandate and tasks) will be beneficial. For the enforcement it is necessary to understand local market circumstances as well as the business models of the listed companies in the relevant member states. For this task national bodies are better equipped than ESMA. ESMA's role should remain co-ordinative as it is currently performed in the European Enforcers Co-Ordination Sessions (EECS). If the EECS identifies deficits with regard to that co-ordination process we believe this can also be resolved on that level.

With regard to item 19g) we would like to draw the attention to potential negative side-effects of too much transparency. At least in Germany the possibilities of the NCA to inform the public about ongoing investigations has been widened in the course of recent legislation. Issuers are concerned that authorities' information practices could result in negative stock price effects though at an early stage of an investigation it cannot be clear if an investigation will finally justify enforcement action or – in exceptional situations – even uncover fraudulent practices. Thus, we strongly prefer transparency at a point of time when supervisory investigations have been finalised and issuers had sufficient opportunities to bring forward deviating views.

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