



## NOTE

July 2018

### **Danish response to the public consultation on Public Reporting by companies – Fitness Check on the EU Framework**

The Danish Government supports of the initiative of the Commission to evaluate the relevance and the effect etc. of the EU reporting framework on public reporting for companies. This position paper supports and particularizes the response to the consultation provided by the Danish Government.

#### *The financial reporting framework applicable to all EU companies*

The Danish Government believes it is important to have an EU framework requiring valuable financial information to be published for the benefit of investors and other users of financial information.

We would like to stress the importance of assessing the user need for financial information from companies of different sizes. This is valuable knowledge when deciding on the content and the form of financial reporting requirements.

With regard to small companies it is imperative to find the right balance between meeting all needs that different users of financial statements might have, on the one hand, and on the other hand not imposing administrative costs on companies that are not proportionate by requiring excessive reporting. The smallest companies have the least economic resources to provide this information and the fewest users.

The Danish Government encourages the Commission to look into alternative ways to secure publication of relevant financial information from the smallest companies instead of a once a year publication of the financial statements. This could be obtained through companies giving more frequent public access to parts of the bookkeeping and various key figures. Such a publication regime could secure more frequent access to relevant data. In this case it should be a prerequisite that users of financial information should not have less information and security for their decision-making than today.

The Danish Government finds no need for further harmonization in regard to the smallest companies covered by the Accounting Directive. In this segment, there is generally no need to have a high degree of comparability as the smallest companies in general do not engage in cross border activity.

The Danish Government supports the Commission to endorse IFRS<sup>1</sup> for SMEs for use in the EU. We support that IFRS for SMEs is introduced as a company option. This would mean that companies wanting to provide financial statements of a higher standard, e.g. ambitious growth companies, can choose to do so. The IFRS for SMEs is updated currently and it is globally recognized. Alternatively, the Accounting Directive should be amended in order to give companies the option to choose to prepare financial statements in accordance with IFRS as for recognition and measurement but with a reduced set of disclosure requirements.

However, the above mentioned flexibility to choose between accounting regimes is not suitable for financial companies under supervision (banks, insurance etc.).

The Danish Government supports that the Commission promotes the endorsement of IASBs<sup>2</sup> globally recognized and applied conceptual framework in the EU. The Danish government on the other hand cannot support the development of a pan-EU conceptual framework as such a framework will not be recognized worldwide, as this would potentially be burdensome to companies with activities outside of the EU.

With regard to answers to questions in this section they are not entirely all applicable to financial companies.

#### *The EU financial reporting framework for listed companies*

The Danish Government strongly supports the use of International Financial Reporting Standards (IFRS) for consolidated financial statements for listed companies. We find it important that European entities which operate on a global market apply accounting standards which are accepted worldwide. This view is widely shared by the Danish stakeholders.

Therefore, we also support the Member State option giving Member States the possibility to either allow or require other entities to use IFRS. We have used this option to allow non-financial entities to use IFRS, if they consider it relevant, for instance to attract foreign investors or to enter into other forms of long term relationships with foreign entities. For

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<sup>1</sup> International Financial Reporting Standards

<sup>2</sup> International Accounting Standards Board

financial institutions we have used the option to allow non-listed groups to apply IFRS in their consolidated financial statements.

The IFRS used within the EU should be the same as the ones adopted by the International Accounting Standards Board (IASB). We do not find it appropriate to have special European solutions and changes to the standards, as this will threaten the very idea of global standards.

Instead, it is important that European authorities and stakeholders engage in the work of IASB and by doing so ensure that IASB at an early stage of the standard setting process take European interests properly into account.

Accounting in Europe should be based on the framework of IASB. Thus, we see no need for a special European framework for accounting.

*The EU financial reporting framework for banks and insurance companies*

The Danish Governments would like to stress that before considering introducing new requirements and administrative burdens it is important to perform a REFIT exercise. New initiatives must be assessed by their actual added value and from a proportionality perspective because new initiatives always will incur some costs. It is also important to take into consideration the different sizes of financial institutions in various markets.

It is appropriate and relevant to build upon existing and well-known and acknowledged systems, including e.g. the use of IFRS that is also applied outside the EU. Such an approach promotes competitiveness, transparency, comparability and convergence in practice and it reduces burdens compared to establishing yet another "local" EU-GAAP<sup>3</sup>.

The Danish Government is of the opinion that the existing set-up for requirements on the use of IFRS is appropriate and that IFRS requirements should not be extended to apply to smaller companies. Smaller companies should still be allowed to apply national GAAP which is less burdensome. It is the assessment that it is appropriate and important that financial companies, including financial SMEs should use full IFRS in their consolidated financial statements if they are listed.

Furthermore, Member States should still have the option to require or allow IFRS in the consolidated financial statements from non-listed companies and in the separate financial statements from all companies.

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<sup>3</sup> Generally accepted accounting principles

The IFRS for SMEs is not considered to be appropriate for financial companies, which is also indicated in the standard from IASB.

The Danish Government finds it important to secure future-proof solutions. This can be done by – among other things – allowing for the use of digital solutions to the widest possible extent especially in relation to reporting requirements. It should also be considered to include solutions based on the use of Artificial Intelligence. In this context it is necessary though, to take into account that Member States are not all at the same stage of development when it comes to IT.

A number of challenges are beyond the framework concerning financial reporting, being challenges connected to tax conditions and therefore out of scope of this consultation.

#### *Non-financial reporting framework*

In Denmark we have had reporting requirements on CSR since 2009. The Danish Government believes that non-financial information (NFI) disclosed by companies remain relevant, but it is our experience that it takes time for companies to adopt the sustainability and diversity agenda and to develop reporting practices that support their business objectives.

The Danish Government is aware that some companies find it difficult to adequately address materiality which decreases transparency and the companies are asking for further guidelines on materiality.

Implementation of the requirements of the NFI Directive in Member States has contributed to a common focus between Member States and increased transparency. The directive provides the flexibility that companies want and need, due to the follow-or-explain principle. The Danish Government would prefer to maintain the current flexibility for the companies on this issue.

Furthermore, the Danish Government supports the flexibility given in the directive to either publish NFI in the financial statements or in a separate report. When NFI is included in the financial statements it is important though, that only relevant NFI is included and that the information is well structured.

The Danish Government finds that the non-binding Guidelines on Non-Financial reporting is clarifying some of the articles in the NFI-directive. It should be considered to expand the guidelines with more information on how to assess materiality.

#### *Technology*

The Danish Government supports the idea of a single European Electronic Access Point (EEAP) interconnecting the different national OAMs (official appointed mechanisms).

The Danish Government finds that the use of electronic structured reporting for listed companies, based on a defined taxonomy (ESEF) and a single access point (EEAP) will improve transparency for investors and the public. However, it must be foreseen that the transformation will incur some costs in connection with companies' conversion.

We believe that – apart from financial statements also half-yearly interim financial statements, non-financial information and country-by-country-reports on payments to governments should contain electronic structured data.

In Denmark we have mandatory digital filing for listed and non-listed non-financial companies and our experience is that the transformation from paper based filing to digital filing has taken place without causing big problems.

If electronic structured reporting based on the EU language developed in ESEF is extended to also encompass non-listed companies it must be secured that an EU core taxonomy does not become an obstacle to the work already carried out in this field in some Member States.

The Danish Government believes that digitalization creates a need for securing the authenticity of electronically filed financial reports etc. Therefore this information should be secured in some form. We do not see the need for EU legislation prescribing which technology should be applied – rather what objectives must be fulfilled. New technologies like block chain might be considered to achieve the required security.