



NOTE

26 January 2022

Response to the European Commission's consultation document Strengthening of the quality of corporate reporting and its enforcement

The Danish Government fully agrees that high quality and reliable corporate reporting is of key importance for healthy financial markets, business investment and economic growth. The Danish Government also agrees that high quality and reliable corporate reporting depends on the quality of the three pillars defined: corporate governance; statutory audit; and supervision, as well as the interaction between the three pillars. The primary responsibility for corporate reporting lies with the company's management under the supervision of the board of directors/supervisory board. The responsibility for high audit quality lies in the first instance with auditors and audit firms. Audit committees also play an important role to enhance audit quality. Supervision of corporate reporting and statutory audit is the third instance to ensure high quality and reliable corporate reporting. The framework should reflect this.

The Danish Government supports the initiative of the Commission to prepare an impact assessment in order to determine the need to amend and strengthen the current EU rules based on the responses to the consultation document. However, actions to strengthen the current EU rules should be supported by underlying analysis that shows the needs to enhance quality and reliable corporate reporting in general and that potential new burdens must be commensurate with the benefits.

As regards of the Danish capital market The Danish Government does not see a general quality problem and no general loss of confidence calling for immediate EU actions regarding corporate governance or supervision.

However, the Danish Government finds that action can be taken regarding the following:

- Market concentration in the PIE audit market.
- Options in the audit regulation.
- Task of audit committees.
- Supervision.

Regarding **market concentration**, the Commission's market monitoring report shows a very high market concentration in the PIE audit market in several countries, including in Denmark, which the provisions in the audit regulation have not effectively been able to address. We encourage the Commission to investigate joint audit models that effectively address the market concentration issue. At the same time, we will be supportive towards the creation of a passporting system in the EU to address the concentration issue, and also to ensure that the companies have sufficient options when appointing a new auditor.

The independence of the auditor is of crucial importance for the quality and reliance in the audit of the corporate reports. The provision of non-audit services to the audit engagements creates a threat to independence. The Danish Government can therefore not support a restriction on the Member States' ability to strengthen the rules of the provision of non-audit services without this taking place in connection with a general reduction of access to the provision of non-audit services. Options regarding the provision of non-audit services and rotation of audit firms create considerable complexity for auditors and companies. Due to the very different implementation in the Member States it seems to create unnecessary burdens on the PIE. The Danish Government sees potential to reduce the number of **options** in the audit regulation in order to further harmonize and strengthen provisions applicable to statutory audits and auditors across Member States.

The **audit committee** plays an important role to ensure the quality of corporate reporting, including monitoring the statutory audit. The task of the audit committee may be strengthened by strengthening the professional qualifications in the committee.

The Danish Government is positive towards further harmonization and strengthening of the **supervision** and oversight of statutory audit across the Member States.

In conclusion, the Danish Government finds that action can be taking regarding statutory audit in regard to market concentration, options regarding NAS, task of audit committees and supervision.

The Danish Government would also like to highlight the importance of not letting the current cases of financial fraud in Europe result in hasty regulation based on individual cases. Special conditions in the individual cases or conditions in individual member states may have made these cases possible – not necessarily poor regulation at EU-level.

However, the Danish Government points out that the current regulation is partly based on the Transparency Directive and partly on the more detailed guidelines from ESMA, which are not legally binding for Member States.

It might therefore be considered to incorporate ESMA's guidelines into European regulation. The Commission should also consult supervisors and

stakeholders on whether the current regulation limits the effectiveness of enforcement.

In this context, the Danish Government is in favor of looking at the rules on the role of national supervisors and their possibility of exchanging information with other authorities, ensuring that national authorities have sufficient resources and powers and improving co-operation between national supervisors in the EU.