

**Answer to question 67. Do you have any other comments or suggestions?:**

**Re. Question 19:** We strongly oppose any considerations to modify the IAS Regulation in a way that allows the European Commission to change the content of IFRS (so-called 'carve-ins').

The IDW was surprised that the European Commission has again opened the discussion around the IAS Regulation and the Endorsement process, since similar discussions held during the last five years have confirmed their status quo (we refer to the report by Philippe Maystadt from 2013 and the evaluation of the IAS Regulation by the European Commission in 2015).

In our view, the key question is: Is there a desire to have uniform international financial reporting standards (and in particular the IFRS as published by the IASB) or not? The advantages of the IFRS are well known: increased transparency and greater comparability between financial statements within and across industries and countries, lower costs of capital, lower costs of preparing financial statements for multinational companies etc. Moreover, the Commission itself found evidence of improved capital market outcomes, i.e. higher liquidity, increased cross-border transactions, easier access to capital at EU and global level, improved investor protection and maintenance of investor confidence (we refer to the final report 'Evaluation of the regulation (EC) No 1606/2002 of 19 July 2002 on the application of international accounting standards' from 18 June 2015).

However, if the EU Commission is committed to the IFRS, then suggestions and representations concerning specific requirements within the standards have to be addressed within the official standard setting process, and the due process of the international standard setter respectively. Although there are several possibilities to influence the outcome of the standard setting process, inevitably sometimes, concerns expressed by the EU will not be picked up, e.g. if the IASB and/or other stakeholder outside Europe have taken another view. Given the commitment to global IFRS, this has to be accepted. If the EU is not willing to do so, the alternative would be to create an own European financial reporting regime and to accept the disadvantages associated therewith (e.g. potentially European entities could no longer benefit from the relief of a reconciliation of financial statements to US GAAP when they are listed in the US). Furthermore, the EU's recent experiences have shown how difficult it is to develop cross-border accounting rules (we refer to the development of the European Accounting Directive).

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Establishing international financial reporting standards is still the aim of the G20, IOSCO and other stakeholder associations. Also the IDW is generally in favour of the IFRS and disagrees with the idea of altering specific requirements (or concepts of single standards) of the IFRS as issued by the IASB in order to push through current political interests within the EU. In our view, financial reporting should faithfully represent relevant business transactions and should not serve as a means to transpose current political goals such as sustainability and long-term investments

Moreover, we could not follow the argument that it should be a disadvantage for or an 'anomaly of the EU' to have an ex ante legal commitment to make IFRS standards compulsory for listed companies. We support the question posed by the Chair of the IASB Hans Hoogervorst and Chair of the IFRS Foundation Trustees Michel Prada in their response to the European Commission consultation: Would the EU really want to backtrack from full IFRS adoption, and move to a position that [...] countries [like India and China] do not see as an ideal end state, while individual companies are able to avoid local variants of IFRS Standards wherever they can? In our view, the redemption of the European ex ante commitment to IFRS would be a step back from the overall aim: the overarching idea of high-quality, global financial reporting standards.

Furthermore, we share the concerns and arguments in the position paper 'Sustainable Finance', published by Accountancy Europe in March 2018.

**Re. Question 20:** As we mentioned in our comments on question 19, financial reporting standards should ensure that financial statements faithfully represent relevant business transactions and should not serve as a means to transpose current political goals such as sustainability and long-term investments.

Additionally, we question the appropriateness of 'sustainability' and 'long-term investments' as endorsement criteria. In this context, we share the view of Accountancy Europe, i.e.

- adopting IFRS only if they consider sustainability and long-term investment objectives would not focus primarily on holistically improving non-financial and financial reporting
- such a change, by adding endorsement criteria, would be premature at a time where priority should be given to consolidating the Maystadt reform

Instead, it would be more helpful to clarify existing criteria set forth by the IAS Regulation, for instance by additional guidance to have regard to sustainability aspects.

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We refer to the position paper 'Sustainable Finance', published by Accountancy Europe in March 2018, p. 5.

**Re. Question: 57:** Adapting EU law to keep pace with the technological developments will lead to more frequent use of digital technologies in the field of public reporting. For instance, the fact that the Transparency Directive was amended, as per ESMA's mandate, to require listed companies to report their annual reports under XBRL will facilitate wider access to information. It will also ensure standardization and comparability amongst companies. XBRL, or Inline XBRL, are open standards with free access, enabling a single document to provide both human-readable and structured, machine-readable data. XBRL is already used in some EU Member States to prepare financial statements in a format that provides the structured data required by OAM, regulators, tax authorities, financial institutions and analysts.

**Re. Question 58:** In general, we believe that technological developments mean that EU legislation will only become less relevant if it no longer meet the needs of its stakeholders. The benefits of digital reporting derive primarily from its ability to be automatically processed and analysed. EU legislation should therefore consider the technological needs and expectations of the stakeholders with respect to digitalisation of financial reporting. We encourage the Commission to review all existing requirements in the various Directives before adding any additional requirements. A holistic approach is needed that enables the efficient delivery and analysis of financial reporting, based on structured records (such as XBRL).

**Digitalisation:**

It will be necessary to address the role of the auditor of the financial statements– if any – in regard to structured electronic reporting for Annual Financial Reports (ESEF).

The auditor is required to form an opinion (or disclaim an opinion) on the financial statements as a whole in the form presented for audit (i.e., in their paper-based readable format). Currently, in the absence of specific agreement between the auditor and the audited entity, the auditor has no responsibility in relation to the audited entity's process for submitting its annual financial report to the registrar of companies etc. and the auditor's report does not cover filing mechanisms subsequent to the auditor having signed the auditor's report.

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Under German law (Art. 321 (1) sentence 3 HGB) the auditor is only required to report to the supervisory board in the long-form audit report (or orally) when the auditor becomes aware of any dereliction of legal duties in regard to the publication of the previous period's financial report (i.e. retrospectively). However, this report is generally not publicly available.

Nevertheless, an auditor may provide support in this area, e.g., if engaged on a voluntary basis to advise or provide assurance on the correct classification of the financial statements as audited into the IFRS-taxonomy and to report thereon directly to the company (not publicly).

In its feedback statement to the EU Commission, ESMA proposed a requirement for the iXBRL reports to be included in the statutory audit. Should legislators (at EU or Member State level) determine that the auditor provide some form of comfort regarding the entity's tagging of data, it would be necessary to distinguish between the mandatory use of standardized taxonomy not requiring professional judgment for tagging on the one hand and the use of a taxonomy that requires professional judgment for tagging or allows for entity specific extensions on the other hand.

In the first case, there would be no scope for an entity to amend the standardized taxonomy (i.e., there will be no entity specific extensions) and no reasonable alternatives when tagging. An Agreed-Upon Procedures (AOP) engagement could involve the auditor tracing the tagging of the information in the audited financial statements in the form presented for audit and report upon factual findings (ISRS 4400 "Engagements to Perform Agreed-Upon Procedures Regarding Financial Information). Such an engagement is not an assurance engagement, as the auditor would obtain neither limited or reasonable assurance as to the correct tagging. This type of engagement might be useful to a third party who received the data in structured electronic format.

In the second case, where the reporting entity develops its own entity-specific extensions or depart from the standardized taxonomy, or there are reasonable alternatives in the tagging involving professional judgment, an AOP engagement would not be appropriate, because the entity's own judgement is involved in tagging information and the auditor would be required to apply professional judgement in vetting the tagging. An assurance engagement might be useful, provided there are suitable criteria to govern the development of extensions or departure from the standardized taxonomy available. To our knowledge officially agreed criteria do not currently exist, therefore the entity would need to develop (and publish) the criteria used, as it is questionable whether the requirements foreseen in the draft RTS on ESEF would suffice.

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There is, however, a problem if the auditor were to publish an assurance opinion on the tagging of iXBRL data. The nature of iXBRL data is such that it is entity-specific and can be disaggregated or presented in a new aggregated format as user needs dictate. Thus, third parties can mistakenly assume that the auditor's opinion (which, as explained above relates solely to the financial statements as a whole in the form presented for audit) can be extended to the legal compliance of each individual item tagged in a iXBRL financial report. Due to the application of the concept of materiality in the audit, such an assumption is not appropriate. A solution to this problem would be for the financial statements and auditor's report thereon to be firmly interconnected with the assurance report on tagging of the iXBRL financial report. It would further need to be clear (and documented) that the auditor's report on the financial statements relates solely to the financial statements as a whole in the form presented for audit (i.e., the instance document = visible human readable structure as XHTML file). The auditor's report on the financial statements does not cover any other presentation of the XBRL data or single data items.