



THE EUROPEAN COMMISSION'S CONSULTATION DOCUMENT – STRENGTHENING OF THE QUALITY OF CORPORATE REPORTING AND ITS ENFORCEMENT

FAR, in Sweden, welcomes the EC's initiative to strengthen the three pillars of corporate reporting (corporate governance, statutory audit and supervision) and believes the key to a successful change is to involve all stakeholders.

We acknowledge that corporate failures have occurred in the past, and that they most likely will occur in the future. It is important to analyse them and to find the root cause. Before introducing further regulation, it is of the essence to find out if there are systematic problems that need to be addressed. Increased regulation for listed companies and their auditors should have a clear objective in increasing reliability and quality of corporate reporting. It should also be noted that, although EU is a common market there are differences between countries in respect to corporate reporting, corporate governance, audit and supervision.

From a Swedish perspective the corporate reporting is generally of high quality based on good corporate governance tradition and solid corporate regulations. Listed companies in Sweden need to follow the Swedish Corporate Governance Code, a “soft-law” applied on a comply or explain basis with very few departures. (https://www.bolagsstyrning.se/the-code/current-code__3724).

The ESMA-report referred to in the Consultation Paper indicates that there are many material departures from IFRS. Although seen as material in the report, only 9 of the departures required restatement of the financial reporting and 7 of these relate to one country. On the contrary, most of the departures required only correction in future financial statements. This is an indication that the supervision works as intended and support the development of corporate reporting going forward. We note that in Sweden no departures requiring restatement were noted and a majority of the departures only required correction in future financial statements.

From a European perspective, any changes in regulation and procedures for all three pillars need to take into account differences in legislation and corporate governance practices in the member states.

However, potential changes do not mean that the regulation need to be more extensive. On the contrary, new regulation need to carefully balance costs and benefits to the objective to uphold quality and reliance on corporate reporting bearing in mind that a change affecting one pillar might cause unintended consequences. In terms of oversight, harmonisation should aim for better coordination and harmonised procedures. It should not implicate additional oversight bodies or a stronger influence of pan-European authorities.

Changes could include:

Regarding corporate governance:

- Extended external reporting by the board on internal control, including fraud and going concern and a statement of its effectiveness, preferably by means of “soft law”



- Requirement to establish an internal audit function in larger and more complex PIEs
- If corporate reporting requirements are extended this might implicate a need for adding competence requirements for the audit committee such as internal control and sustainability

For statutory audit:

- Extended assurance on internal control over financial (corporate) reporting,
- Reduce the boundaries for challenger firms to enter the PIE-audit segment
- Exclusion of assurance services from the fee cap calculation even if not required by legislation

For supervision:

- Increased, and harmonised, transparency of reports from oversight bodies as to individual audit firm results (both for corporate reporting and statutory auditors)
- Harmonisation, i.e. coordination of methods and procedures, for supervision performed by member state authorities
- Include root-cause analysis when issues are identified and include information on what could have been done (differently) to assess potential systematic issues that need to be addressed