



Clarify, simplify and harmonize EU Corporate Reporting

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Despite a too early review of the EU corporate governance framework by the EU Commission, ecoDa wants to contribute to the consultation.

« In general, more regulation is not what ecoDa recommends. However, clarification, simplification and more uniform rules with less exemptions are required for a better consistency with the initial objectives and greater homogeneity of application of the rules », summarizes Leena Linnainmaa, ecoDa's Chair.

The EU corporate governance framework, issued in 2017, need more time for a full assessment of its merits. The complexity of the reform, the Covid-19 pandemic and the struggle to maintain "business as usual" by audit committees, internal control, finance and accounting departments and external auditors makes the present review premature. This being said, ecoDa calls for clarification, simplification and harmonization.

Clarification: is it the task of the audit committee to monitor the internal control over financial reporting? ecoDa is requesting clarification, e.g. from a CEA OB guidance. As it is now, the differences in understanding by European companies has not led to intended drastic changes.

Simplification: Calculate the 70 per cent limit of non-audit services based on the entire worldwide network – not the localization of the affiliate. Also, exclude services such as comfort letters from the list of non-audit services.

Harmonization: Keep the same rules for non-audit services across the EU. Member States' discretion has created conflicts of interests and unnecessary discussions with the external auditors. This includes:

- The start of the 10 year maximum duration period should not include the years before the company qualified as a PIE.
- The maximum duration period should be a multiple of the minimum duration, to facilitate rotation as well as the conditions for a good audit.
- Inspection reports and reports to supervisors of PIEs regarding material breaches and threats should be made directly available to the governance bodies - and not only upon request - and eventually publicly released.
- The transparency report should include more quantitative information beyond the narrative description, such as a summary of the inspection findings.

ecoDa wants to point out some basic principles with regard to audit committees:

- the principle of collegiality which has been undermined in the context of the approval of non-audit services

- the principle of equal rules calling for the removal of all exemptions for the implementation of an audit committee. Similarly, internal audit functions should be rendered mandatory for companies over a certain size.

ecoDa is of the opinion that it should be left to the board / audit committee to decide if they want to appoint joint auditors. ecoDa carried out an in-depth cost/benefit analysis and concluded that joint audit might be viewed as a safeguarding mechanism, corresponding to the size and complexity of the PIE.

“ecoDa is confident that without adding overburdening legislation our suggestions will have a large impact on the quality of Corporate Reporting in Europe” underlined Anne-Hélène Monsellato, Chair of ecoDa’s Working Group on Audit Committees.

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Notes to editors

About the European Confederation of Directors Associations

The European Confederation of Directors Associations (ecoDa) is a not-for-profit association founded in December 2004 under the laws of Belgium. Through its 20 national institutes of directors (the main national institutes existing in Europe), ecoDa represents approximately 55,000 board directors from across the EU. ecoDa’s member organizations represent board directors from the largest public companies to the smallest private firms, both listed and unlisted.