ecoDa
The European Voice of Directors

EU Alert

Weeks 7-9/2017

1. Audit Reform: Guidelines on Audit Tenders

On 8 February 2016 the Investment Association published guidelines on audit tenders, setting out the expectations of its members when companies tender their audits.
The guidelines include:

- The audit committee should direct the planning and oversee the audit tender process. The whole committee should be involved
- It critical that companies prioritise auditor selection over other services, such as taxation and consultancy. They should also ensure that those responsible for procuring professional services are aware of the restrictions on non-audit services and any plans to tender. An audit tender should be planned strategically to ensure the choice of candidates is maximised.
- Clear objectives should be set as to what the audit committee wants to achieve and what is looked for in an auditor. The committee should agree the selection criteria and the weightings given to each. The process must be fair and objective.
- Audit quality should be the main criterion in making the recommendation.
- The audit committee should consider seeking the views of the company's major investors before making the appointment.

2. Non-binding EU guidelines on non-financial reporting

On 16 February, DG FISMA (European Commission) organised a worshop on Non-binding EU guidelines relating to disclosure of non-financial information. The European Commission shared with the participants issue fiches for the non-binding guidelines. The draft guidelines are structured in two main pillars:

The first one focuses on the following **key reporting principles**:

1. Disclose material information (*Issues to be considered for inclusion in the non-financial statement are company-specific, taking into account concrete circumstances and sectoral considerations and a company's specificities. A company must exercise judgment at assessing which information is material, based on its analysis of the relative importance of such information for an understanding of the company's development, performance, position and the impact of its activities*)
2. Fair, balanced and understanding (*Fair and accurate information may be enhanced by, for example, robust and reliable internal control and reporting systems; effective stakeholder engagement; independent external assurance; appropriate corporate governance*

arrangements (for instance, certain independent board members or a board committee entrusted with the responsibility over sustainability matters)).

3. Comprehensive but concise
4. Strategic and forward-looking *(The disclosure of objectives and targets enables stakeholders to put the position and performance of the company in a context, and may be helpful when assessing future prospects. Objectives and targets may be presented in qualitative or quantitative terms).*
5. Stakeholder oriented
6. Consistent and coherent
7. Reporting frameworks *(A company relying on one or several frameworks in order to report material non-financial information, should disclose which framework(s) it has used for which specific disclosures)*

The second pillar deals with the **contents of the non-financial report**:

1. Business Model
2. Policies and due diligence
3. Outcome
4. Principal risks and their management
5. Key Performance Indicators
6. Thematic aspects
7. Board diversity disclosure

The guidelines should be published in the spring of 2017.

3. Agreement to extend EU programme on financial reporting and auditing

At the end of February, the Maltese Presidency and European Parliament representatives reached a provisional agreement on extending the EU's funding to the European Financial Reporting Advisory Group (EFRAG). EFRAG's mission is to develop and promote European views in the field of financial reporting. It also tries to ensure that these views are duly taken into account within the International Accounting Standards Board, which is the independent body responsible for developing International Financial Reporting Standards (IFRS). It advises the European Commission on international financial reporting standards in the interest of the European project.

4. Corporate tax avoidance

On 21 February 2017, the Council agreed its position on rules aimed at closing down hybrid mismatches with the tax systems of third countries.
The draft directive is the latest of a number of measures designed to prevent tax avoidance by large companies. It seeks to prevent them from exploiting disparities between two or more tax jurisdictions to reduce their overall tax liability. Such arrangements can result in a substantial erosion of the taxable bases of corporate taxpayers in the EU. The directive will contribute to implementation of 2015 OECD recommendations addressing corporate tax base erosion and profit shifting.
The Council will adopt the directive once the European Parliament has given its opinion.

5. Civil Law Rules on Robotics

On 15 February, in the sitting starting at 15.00, there was a plenary debate on the Committee on Legal Affairs' legislative initiative report on Civil Law Rules on Robotics. The report was voted on 16 February. The report calls for EU-wide rules to fully exploit the economic potential of robotics and artificial intelligence and to guarantee a high level of safety and security.

Following the recently adopted report on civil law rules in robotics, the Committee on Legal Affairs has decided to launch a public consultation on the topic

6. ICSA Papers on "The Future of Governance"

ICSA has just launched new series of thought leadership papers on "The Future of Governance". Chris Hodge gives his personal view of the current UK corporate governance model, its strengths and weaknesses, and whether it achieves what it is intended to achieve in a first paper on "Untangling Corporate Governance".

In his conclusion, Chris Hodge claims for greater attention to be paid to 1- the standards of governance in other sectors, where practices are generally less developed than in the listed sector, 2-to other asset classes such as commercial and government bonds, and to the governance of asset managers and pension schemes themselves as the guardians of those assets.

He suggests to:

- enable asset owners to hold managers more effectively to account for how they exercise stewardship on their behalf
- consider whether the routes through which companies report to, and are held to account by, shareholders need to be overhauled
- provide greater accountability to other stakeholders.

7. UK: The review of the CG Code

The FRC has responded to the Government's Green paper on Corporate Governance reforms.

In its response; the FRC considers that the role and remit of the remuneration committee should be extended to cover pay policies throughout the organisation. Remuneration policy and payments should have a much clearer link to delivery of strategy, focusing strategy and outcomes which deliver long-term company performance.

FRC calls for making remuneration reporting more straightforward. According to the FRC, remuneration committees should make a better use of the AGM as a vehicle to outline how they have consulted shareholders, what targets have been set and how the remuneration outcomes relate to business results. The FRC would recommend a requirement for remuneration committee members to sit on the committee for 12 months before becoming chairman.

According to the FRC, boards should be required to demonstrate how they had regard to wider stakeholders in their key decisions. **Consideration should be given to the introduction of a "super complaint system" as there is in Consumer law.** The FRC should see its enforcement powers extended to ensure that disciplinary action can be taken against all directors where there have been financial reporting breaches.

Earlier in February, the FRC has announced plans for a fundamental review of the UK Corporate Governance Code. To guide this review, the FRC will seek input from a wide range of stakeholders including its recently established Stakeholder Advisory Panel. The FRC will commence a consultation on its proposals later in 2017, based on the outcome of the review and the Government's response to its Green Paper. Sir Winfried Bischoff, chairman of the FRC, said it will "consider the appropriate balance between the Code's principles, provisions and guidance" but that "the role of stewardship and the comply or explain approach must be preserved".

8. ecoDa's News

- ✓ Programme of the 20th Corporate Governance Conference under the Maltese Presidency (May 4th)
- ✓ ecoDa Spring Training Session on March 7 & 8 in Brussels–*35 participants*
- ✓ ecoDa / AIG / FERMA webinar on Transparency on March 9 at 14.00 CET – *over 100 participants* Registration link
- ✓ ecoDa Dinner with its members, Corporate Associates and peer organisations on "Building trust in boards – supporting responsive and responsible leadership" – *32 participants*
  - Welcoming speeches from Turid E. Solvang (ecoDa Chair) and Mike Everett (Standard Life Investments)
  - Short presentation from Alexis van Bavel - PwC on the CEO survey carried out for the World Economic Forum
  - Short presentation from Gurpreet Brar, General Manager at Edelman on their 2017 Trust Barometer
  - Reaction from Lutgart Van den Berghe, Chair of ecoDa Policy Committee
  - Discussion among the participants during dinner moderated by Trevor Pryer, Board Agenda.
- ✓ ecoDa board meeting on March 15th in presence of Mr. Ralf Bose, chair of the CEAOB.

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