ECG Manifesto for 2024 - 2029

The ECG's strategic priorities for the upcoming European legislative term

This manifesto looks ahead to the next European Union legislative term, presenting priorities and recommendations to support building a stronger, more prosperous EU. By leveraging multidisciplinary and international perspectives, we, the European Contact Group (ECG), aim to share insights and expertise with EU institutions and the wider stakeholder community, contributing to efforts to:

- Reinforce the EU's competitiveness and strengthen the Single Market.
- Build well-functioning capital markets to attract investment and support growth.
- Enable the green transition and encourage sustainable finance.
- Harness the benefits of and ensure trust in a digital world.

We contribute to the building of a competitive and sustainable business environment in the EU through:

- Activities to strengthen public trust in professional services networks' capabilities and their commitment to act in the public interest;
- Support for effective regulation and oversight of professional services networks as an important building block of public trust; and
- European perspectives on the development of effective international reporting and assurance standards that are fit for the next decade.

What is the ECG?

The European Contact Group (ECG) brings together the six largest professional services networks in Europe: BDO, Deloitte, EY, Grant Thornton, KPMG, and PwC.

Our members are members of international networks of independent firms providing accountancy, auditing, and consulting services. In the EU, we are majority-owned by European-qualified professionals under EU or Member State law. Under European public oversight, we help bring confidence and trust in sustainable European businesses and financial markets, and collectively employ around 300.000 people in the EU, with 1.300 offices in over 340 European cities. Our services make a substantial contribution to the EU's economy by creating jobs, driving innovation, and fostering economic growth.

Our mission is to promote confidence in the audit profession and large networks in the EU, and to contribute constructively to EU policy debates and the development of effective EU legislation that also safeguards the public interest. We also contribute to building a more resilient Europe through:

- Multidisciplinary skills and expertise which both help businesses grow and thrive as they face an ever more complex business environment, and to protect investors and enhance trust and transparency in the capital market. The multidisciplinary audit firm model, combining audit with complementary service lines, offers the best platform for auditors to fulfil their public-interest obligation to protect investors and other users of financial and non-financial information. The integration of legal, financial, and technological perspectives enables a holistic approach to navigating regulatory frameworks, managing investments, and implementing sustainable practices.

- Developing skills across Europe as we invest in new skills and technologies. Our network firms are significant employers in EU Member States and beyond, particularly for young professionals entering the workforce, actively cultivating the essential skills needed to embrace green and digital transitions, thereby making a significant contribution to the growth of the EU's talent pool.

You can read more about the ECG on our website.

The ECG's Recommendations

Looking ahead to the next EU legislative term, these are our recommendations:

Supporting the EU's competitiveness and strengthening the Single Market:

- Focus on the implementation and consolidation of consistent and harmonised EU legislative requirements, ensuring that regulation is fully embedded by users; and
- Take into account the initiative to reduce reporting requirements by 25%.

Building well-functioning capital markets to attract investment, support growth and facilitate trust in a digital world:

- Consider enhancing responsibilities of management and boards for corporate reporting across the EU, to ensure consistency and reduce the costs that stem from limited trust and transparency;
- Promote the important role of external assurance to strengthen public trust in companies and the market as companies' obligations to disclose information become broader in range and complexity;
- Ensure that external assurance service providers' frameworks are aligned across future EU legislative initiatives; and
- Enhance confidence in new, disruptive technologies (e.g. generative artificial intelligence), including by engaging with the assurance industry on these technologies' impact on corporate reporting and assurance services to maintain high-quality of and trust in the relevance and faithfulness of company disclosures.

Supporting the green transition and sustainable finance:

- Sustainability reporting is a journey for the whole reporting ecosystem, stakeholders will need to collaborate and not lose sight of the objective, which is ensuring businesses' contribution to a sustainable Europe;

- Engage in dialogue with market participants that external assurance reports could be signalling incomplete or lower quality sustainability information provided by companies in the early years. We would like to stress the importance of good materiality assessments by companies to limit disclosures and so reduce burdens;
- Review how the connectivity between financial and sustainability reporting needs to be further improved following the implementation of the Corporate Sustainability Reporting Directive (CSRD) in the Member States;
- Use international sustainability assurance standards as a baseline to deliver EU sustainability assurance standards that increase comparability and reduce compliance costs; and
- Clarify the role of tax in the sustainability framework to promote tax certainty for businesses and assist them in navigating the evolving landscape of corporate responsibility.

Our recommendations in more detail:

Reduction of Reporting Requirements

We are committed to contribute to the EC's ambition to simplify companies' reporting requirements and the overall reduction of bureaucratic burden. While sustainability reporting is a significant responsibility for companies to deliver on the green transition, simplifying reporting obligations could help companies, especially SMEs, to better disclose relevant sustainability information and in a way that is helpful to their stakeholders.

Among others, simplification could be achieved by:

- A review of the approach for, and cohesiveness of, the sustainable finance EU regulations[1] to enable their streamlining with respect to the information to be produced, and allowing focusing the reporting on matters that are material to stakeholders;
- A more harmonised implementation of EU legislation, as differing Member States' options increases the complexity of understanding the reporting requirements for EU and non-EU companies operating across the EU;
- Ensuring interoperability, and equivalence mechanisms, to the extent possible with other jurisdictions, as conflicting requirements and duplications of reporting are sources of complexity and burden for EU companies operating globally, and non-EU companies operating and investing in the EU;
- Support companies in the implementation of the new (reporting) requirements through publication of guidance connected with regulations, development of databases enabling free access to shared information, and understanding how Member States have transposed the various (new) Directives related to the Green Deal;

[1] Corporate Sustainability Reporting Directive (CSRD), European Sustainability Reporting Standards (ESRS), Environmental Taxonomy Regulation, Sustainable Finance Disclosure Regulation (SFDR), Green Bonds Standard Regulation, Benchmark Regulation, Pillar 3 Regulation for credit institutions, EU Climate Law, etc.

- Initiate timely reviews of recently adopted regulations to assess whether they meet their objectives and could be simplified (in particular, the reporting requirements of the EU Environmental Taxonomy Regulation, the SDFR and ESRS). A rationalisation exercise needs to start from the public policy objectives and reflect on how these can be achieved in the most effective and efficient manner; and
- Ensure that a robust standard-setting due process, inclusive of stakeholders' participation and that allows sufficient time for them to express their views, supported by impact analyses and field-testing, applies to the development of any new or revised reporting regulations. As an illustration, we consider that the due process applicable for the EU Environmental Taxonomy Regulation could be improved through consideration of the more recent due process approach adopted for the development of ESRS.

The Quality of the EU Corporate Reporting Framework

A well-functioning corporate reporting framework is beneficial to all stakeholders, including public authorities, investors and consumers, as it reduces costs that stem from limited trust and lack of transparency. We think that there is room for enhancing corporate governance as the first pillar of corporate reporting, to both harmonise board responsibility for quality reporting and increase accountability. There could be wider economic benefits of doing so, as foreign direct investment will reward such a framework in terms of costs of capital, as demonstrated in a study by Oxera Consulting.

This study also shows that, currently, corporate governance structures in the EU Member States are not as robust as they could be, with limited accountability and with differences across the Union. When reviewing the EU corporate reporting framework ecosystem, we therefore suggest taking a comprehensive approach, including companies' governance, the work of statutory auditors, and supervisors. Only in this way, will the framework be transparent, reliable, robust, and with clearly assigned responsibilities.

A reform of corporate governance expectations for the quality of reporting in terms of the internal control environment and the accountability of directors should aim for more consistency across the EU Member States: this can lead to more transparency, lower investor risks and higher company valuations, making the EU a more attractive investment opportunity.

The Future of Assurance

We are witnessing an increasing number of EU legislative initiatives across different sectors, including digital and green initiatives, that foresee an element of independent third-party verification or assurance. All of these initiatives are responses to complex developments and challenges, be it climate change or the rise of new technologies that come with risks and responsibilities.

Boost trust in innovative, emerging technologies (such as generative artificial intelligence), by involving the assurance sector in discussions regarding the influence and impact of these technologies on corporate reporting and assurance services, to uphold the utmost quality, trustworthiness, and accuracy of company disclosures.

While companies and those charged with their governance are responsible for compliance with these new legislations, including respective transparency, other factors such as assurance by an independent third-party can help to enhance trust in business in these areas. However, we also observe that these initiatives lead to the creation of unnecessarily diverse audit frameworks and requirements for assurance providers. This will likely cause additional implementation costs for both reporting companies and assurance providers. Such complexity and costs act as a barrier to entry for new entrants to assurance markets.

We therefore suggest that the next EC proposes a horizontal approach, either through a legislative act or guidance. For example, a directive that would include principles, standards and criteria against which assurance providers could perform different types of assurance engagement. Those standards and criteria should be transparent, publicly available, profession agnostic, and need to be set by an independent body. They should as far as possible be aligned with existing global frameworks to ensure consistency and keep implementation costs at a minimum.

EU Assurance Standards for Sustainability Information

The assurance of companies' sustainability information puts an important responsibility onto assurance providers in contributing to the delivery of the EU's sustainability agenda and goals. We are committed to fulfilling this responsibility.

We welcome the EC's request to the CEAOB of March 2024, to prepare technical advice for the development of EU specific add-ons (and possible carve-outs) to ISSA 5000 to be used for the preparation of the Delegated Act adopting EU limited assurance sustainability standards. In our view, the reference to a global baseline of sustainability assurance standards will contribute to the reliability and comparability of sustainability reporting, and will help to streamline assurance processes for preparers and assurance providers. We recommend that the Commission and Member States adopt a pragmatic approach and build on ISAE 3000 (revised) for the interim period and ISSA 5000 for the EU sustainability assurance standards to be delivered in 2026 and 2028. However, we note that the ISSA 5000 Exposure Draft does not address all sustainability information to be reported under the EU rules or other EU requirements, such as the EU environmental taxonomy requirements, and the mark-up required for the European Single Electronic Format (ESEF), which also require a consistent approach across the EU.

Compliance with relevant ethical/ independence requirements and maintenance of an effective system of quality management are also critical for the performance of consistent, high-quality sustainability assurance engagements. In this regard, more guidance and transparency are needed in relation to other professional requirements, or requirements imposed by laws or regulations, which are to be considered 'as least as demanding' as the IESBA Code and ISQM1. The IESBA Code and ISQM1 are already commonly applied by auditors, both for financial statements and other assurance engagements.

Implementation of the Corporate Sustainability Reporting Directive

The EU's Corporate Sustainability Reporting Directive (CSRD) is a fundamental and ambitious step towards achieving a sustainable economy and is expected to lead to a major transformation for the whole corporate reporting ecosystem, including companies, boards, assurance providers, standard-setters, and supervisors. We welcome the EU's recognition of the importance of high-quality external assurance of sustainability information, and we are proud to be some of the assurance providers that will play a role in supporting the EU's transition to a more sustainable economy.

We would like to highlight that many companies are still in the process of developing governance structures, processes, and internal controls for accumulating, analysing, and reporting sustainability information, including the ones already obligated to provide mandatory non-financial information under the Non-Financial Reporting Directive (NFRD, about to be superseded by the CSRD). The quality of disclosures and companies' readiness to report sustainability information is closely linked to successfully implementing these measures. This is also impacting the roles of assurance providers and oversight bodies. The early years of sustainability reporting may well see emphasis of matters, and possibly qualifications in assurance reports to reflect companies' lack of readiness; potentially creating a negative perception unless properly explained. Mentioning the possibility of this situation and clear communication from regulators and supervisors could be helpful. Acknowledging the challenges of achieving high-quality reporting, regulators are encouraged to promote transparency by companies on their reporting readiness and urge them to openly address challenges in collecting robust sustainability data and related corporate governance.

We share the EC's goal of moving in the medium term from limited assurance to reasonable assurance as companies' systems and processes become more mature. If sustainability information is to be considered as rigorous and as important as financial information, it should ultimately have the same level of assurance. Assurance standard-setters and assurance providers should support investors and other stakeholders' better understanding of the differences between limited and reasonable assurance (focusing on the specificities of sustainability information), their impact as well as the circumstances/ conditions which may lead to a report, an emphasis of matter or qualification.

Connectivity Between Financial Statements and Sustainability Disclosures

We support improved connectivity between financial statements and sustainability disclosures to provide an integrated picture of a company's performance. This will help investors and other stakeholders to assess the impacts of sustainability risks and opportunities on a company's prospects and its financials, as well as the impact of the company's business on the outside world across all sustainability topics.

The effects of climate change and other sustainability risks have potentially far-reaching implications for our society. Ensuring that sustainability risks and opportunities and impacts are transparently disclosed and that stakeholders understand the interdependencies between financial and sustainability aspects will help stakeholders make better-informed decisions.

We welcome the initiatives undertaken by the European Financial Reporting Advisory Group (EFRAG), the International Accounting Standards Board (IASB), and the International Sustainability Standards Board (ISSB) in that respect.

Tax

As the sustainability agenda grows in importance, many businesses are assessing how tax should be considered and could support it. Groundbreaking worldwide tax policy changes over the past decade have led many multinational enterprises to take, or consider taking, a purpose-led approach in their tax strategies. The strong link between the political developments in the societies that businesses are part of, and tax developments has also led to a more active role in managing externalities with an impact on tax matters, including on assessing the role taxation plays and could play in securing a sustainable future. This has been accompanied by an active debate on what can be expected from companies when it comes to public tax reporting. Whilst worldwide policy changes have led to a transformation in the access of governments to cross-border information on the tax affairs of, in particular, the larger businesses in the world, the EU Public Country-by-Country Reporting Directive mandates these multinationals to publicly disclose certain quantitative data. We welcome the EC's commitment to review the functioning of the EU Public Country-by-Country Reporting Directive by June 2027. We also acknowledge that as disclosure requirements increase in a way that results in diverging standards and directional rules open for differences in interpretation, the desire for clarity, standardisation and exchange of best practices also increases. In this context, we as ECG members aim to explore and engage with regulatory stakeholders on the relationship between financial reporting, sustainability reporting and tax reporting. We also urge the Commission to continue the conversation with stakeholders on the feasibility of a standardised approach to tax reporting.

We highlight the need for new tax initiatives to not increase the overall administrative burden for taxpayers and tax administrations and to improve the competitiveness of the EU as a whole internationally. As such, we recommend that each tax-related Commission legislative proposal is preceded by an impact assessment which considers the impact of the initiative on business, and on economic growth in the EU. In addition, policymakers should ensure that initiatives do not go beyond what is necessary to achieve their objectives and are therefore compliant with the principle of proportionality. In order to achieve these objectives, we support early-stage involvement of the business community in the formulation of policy by providing sufficient possibility for input and exchanges on guidance, best practices, and principles that will affect businesses.

Given the recent changes to the international tax landscape (e.g., the Anti-tax Avoidance Directive, the OECD's Two Pillars Solution, the Directive on Administrative Cooperation), policymakers should allow sufficient time to analyse the impact of these measures with the aim to examine whether they are effective and efficient. This would include, in particular, evaluating the potential of rationalising existing measures or the need for further guidance to reduce complexity, uncertainty and administrative burden.