European Contact Group (ECG) Roundtable on the Oxera Report

9 February 2023

Overview

In May 2021, European Commissioner for Financial Services Mairead McGuinness announced the European Commission would conduct a comprehensive assessment of the quality and effectiveness of the EU corporate governance and reporting framework. Following this announcement, in February 2022, the European Commission's Directorate-General for Financial Stability, Financial Services and Capital Markets Union (DG FISMA) launched a consultation on the quality of corporate reporting, recognising the importance of companies reporting accurate information for the efficient operation of financial markets.

DG FISMA's consultation concerned three pillars of corporate reporting: (i) corporate governance; (ii) statutory audit; and (iii) the supervision of statutory auditors and audit firms. The European Contact Group (ECG), representing the six largest international professional services networks in Europe, commissioned a study by Oxera, the Oxford-based economic consultancy, which focused on the first pillar and aimed at exploring whether well-run companies have a distinct advantage in attracting investors and shareholder value. In particular, Oxera was to look at the broader economic impact of recent corporate governance and corporate reporting reforms. The results in relation to the cost of capital/equity of the affected companies were impressive, showing a decrease of between 0.5 and 1.5 percentage points (with a point estimate of 1 percentage point) for the respective companies, with significant positive knock-on effects for consumers and the wider EU economy.

The ECG organised a roundtable to bring together participants from industry, civil society, academia, and EU institutions to discuss and challenge the findings of the Oxera report and explore what policy conclusions could be drawn from the research for future action by the EU.

Panel 1: Discussion on the findings of the report

Panellists:

- Professor Nicole Ratzinger-Sakel, University of Hamburg
- Chiara Mosca, Commissioner, Italian Securities and Financial Markets Authority (CONSOB)
- Karel Lannoo, Chief Executive Officer, Centre for European Policy Studies (CEPS)
- Gabriela Figueiredo Dias, Chair, International Ethics Standards Board for Accountants (IESBA)
- Dr. Luis Correia da Silva, Partner, Oxera
- Professor Ryan Williams, Université Paris Dauphine
- Moderated by Andrew Hobbs, EMEIA Public Policy Leader, EY

Following the presentation of the report by its authors, the discussion focused on the findings and methodology of the report.

The key points raised during the discussion were:

- As suggested by the report, the Italian case seems an interesting one to look at due to its peculiarities and given the number of reforms which took place in the past years. Nonetheless, generalising the study's results does not necessarily represent the overall trends of the market and frameworks in various Member States.
- The improvements made to corporate governance frameworks are recent and do not offer a wide range of data, thus making the analyses of the impacts post and pre- reform more difficult to assess.
- Despite general trends towards harmonisation in certain fields of EU law, corporate governance has not yet been subject to comprehensive harmonising reforms. Progress has nonetheless been made in the area of corporate reporting specifically with the new sustainability-related reporting requirements.
- There is a clear need for further frameworks on corporate governance. The degree of harmonisation thus remains to be determined. On the one hand, high-level principles and a soft law approach could be more beneficial in incentivising companies to contribute to the improvement of corporate governance. This was noticeably done by organisations such as the OECD. On the other hand, further harmonisation of EU rules could increase certainty for investors and provide for high-quality information. However, it was also noted that due to the different regimes in Member States as well as the different needs, harmonisation may be difficult.
- It was raised during the discussion that the same type of development should apply to internal control for non-financial information.
- The discussion also highlighted that the responsibility of CFOs should be increasingly recognised when it comes to the accuracy of corporate reporting. The current legislative framework strongly regulates auditors, while not paying enough attention to the role of preparers and the broader value chain.
- Lastly, there should be stronger awareness and diversity on boards to enhance the integration of corporate governance policies.

Panel 2: Policy options on corporate governance

Panellists:

- Roberto Cravero, Coordinator, NED Community and Senior Managing Partner, Cravero&Associates
- Daniel Blume, Senior Policy Analyst, OECD
- Rients Abma, Executive Director, Eumedion
- Isabelle Grauer-Gaynor, Head of Corporate Finance and Reporting Unit, ESMA
- Moderated by Pablo Zalba, EU Policy Centre Managing Director, Deloitte

Building on the findings of the Oxera report, the second panel focused on policy options for corporate governance.

- Looking outside the European Union, a lot is happening in the realm of corporate governance on global markets. It is clear that as for the EU, there is a multitude of systems, methodologies and indexes but sustainability-related issues and corporate governance are gaining significant importance as they are an instrument for economic growth.
- There are two essential elements that contribute to the improvement of good corporate governance, i.e., the consideration of the needs of stakeholders and the further development of strong internal controls.

- Oversight of markets would be facilitated by enhanced corporate reporting and governance. Supervisors often rely on public information, and the quality of the first two pillars (governance and audit) are a key factor for the quality of oversight. The first line of defence has the most information available but is arguably subject to the lowest level of regulation (soft law). In the case of Wirecard, internal controls were not functioning properly.
- The role of supervisors is crucial in protecting investors and increasing trust in corporate governance processes. Apart from the fit and proper test at the beginning of a mandate, supervisors have no powers to intervene if board members are not functioning as they should. Diversity of board members and tone at the top are key.
- Apart from regulators, there should also be stronger and harmonised frameworks put in place to ensure safeguards for independent directors, as well as reinforcing and making the requirements on audit committees mandatory. Also, it was suggested that not only should audit committees be mandatory throughout the EU, but that they should not be part of the full board.
- The Italian reforms demonstrate how to tackle the core of risk management and internal control to embed not only sustainability aspects but also ensure that there is liability associated with the internal control processes.
- It is also necessary to stress that financial reporting and sustainability reporting should be on an equal footing. This requires a change of culture in the governance of a company. However, sustainability should be at the core of any companies' agenda.
- Corporate governance covers much more than the role of auditors or directors but is first and foremost a political and societal discussion. It is the reason why it makes it so difficult to harmonise the processes across the Member States. It involves elements of powers and shared responsibilities between the stakeholders as well as competition across companies.
- It would therefore be beneficial to harmonise 'internal assurance' and signed internal control statements by management/board. The CS3D negotiations show that this may be hard to achieve though — corporate governance is a factor of competition between Member States. This will increase trust in the reporting mechanisms and provide certainty for investors. This is particularly relevant considering the recent development of sustainability-related standards. In this context, it was stated that there is a need for good assurance standards and further harmonisation regarding internal and external assurance.
- Some panellists presented the need for regulation and a certain degree of harmonisation — whether this should be achieved through hard or soft laws remained unclear — and it was also discussed that any regime must be flexible and proportionate, but there is a need for more transparency on corporate governance. European competitiveness and burdens in times of economic downturn should also be considered, as well as the strengthening of the Capital Markets Union
- The notion that boards need to act in the interest of their company and its shareholders remains, so there needs to be increased clarity on what is necessary to report internally. It was suggested that there is a need for harmonised in-control statements relating to financial and sustainability reporting systems on which all directors would have to sign off, and that there should be an obligation for an internal audit function for listed companies. Furthermore, heightened shareholders' responsibilities and voices would allow them to express their views and challenge management, particularly as it pertains to the contents and the quality of corporate reporting. A proposed solution was requiring shareholder votes on sustainability reporting, not just on the financial statements, or at a minimum having a non-binding vote on sustainability reporting.

- Some panellists said that there was a need for harmonised internal control statements relating to financial and sustainability reporting systems on which all directors would have to sign off. Shareholders should vote not only on the financial statements, but also on the sustainability information. Last but not least, there should be an obligation for an internal audit function for listed companies.