



Study on the effectiveness of the framework for corporate governance underpinning the quality of corporate reporting

Final Report

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governance underpinning the quality of corporate reporting**



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1. Executive summary

Corporate governance refers to the relationships and structures through which company objectives are established, monitored, and achieved. It serves as a key foundation for ensuring accurate, transparent, and accountable financial and non-financial disclosures.

The European Commission's *Call for Evidence*, related to the initiative "Corporate reporting – improving its quality and enforcement", identified shortcomings in essential corporate governance elements – such as board oversight, risk management, internal control systems (ICS), and audit committee structures – which may adversely affect the quality of corporate reporting. As a follow-up to that call for evidence, this study aims to gather further insights and supporting data to help the Commission assess how the effectiveness of corporate governance systems contributes to the quality of corporate reporting. The study focuses exclusively on the practices and experiences of companies with shares listed on regulated capital markets (i.e. listed companies) in ten selected EU Member States. It also provides a comparative overview of how internal controls and related reporting are regulated in Japan and the United States.

Methodology

The study combined different research streams and a variety of consultation tools to examine how corporate governance influences the quality of corporate reporting. Legal mapping was conducted in ten EU Member States (i.e. Germany, France, Poland, Italy, Ireland, the Netherlands, Sweden, Croatia, Portugal, and Latvia) as well as Japan and the United States with regard to internal controls, drawing on contributions from national legal experts. This was complemented by a review of 100 corporate reports, covering both financial statements and corporate governance disclosures. Empirical evidence was collected through 96 survey responses from eight stakeholder groups – such as board members, auditors, regulators, and investor representatives – alongside 18 follow-up interviews, a focus group with key stakeholders and a literature review. All these research streams and consultation tools supported the identification of governance factors affecting reporting quality and informed the development of policy-relevant recommendations.

EU framework and requirements for corporate governance underpinning the quality of corporate reporting

The EU has a complex and multi-layered regulatory framework that supports corporate governance practices and the quality of corporate reporting. This framework is centred on directives such as the Transparency Directive, Audit Directive, Accounting Directive, and the Non-Financial Reporting Directive (NFRD) – recently expanded by the Corporate Sustainability Reporting Directive (CSRD). These instruments establish minimum requirements for financial and non-financial disclosures, statutory audits, corporate governance statements, and sustainability reporting. However, differences in national implementation contribute to fragmentation across Member States.

Architecture of corporate governance in 10 Member States, the US and Japan

The legal mapping of corporate governance aspects influencing the quality of corporate reporting across selected EU Member States indicates a fragmented regulatory landscape in the EU. Member State jurisdictions often detail or go beyond the EU requirements through their national laws or corporate governance codes, resulting in diverging approaches across the EU. Furthermore, the regulatory landscape governing corporate governance is fragmented across multiple legal sources, ranging from hard law obligations to non-binding corporate governance codes that operate on a comply-or-explain basis. While legislation imposes mandatory duties that entities must adhere to,

governance codes provide best practices that companies are expected to follow, unless they can justify deviations.

Some Member States require more detailed additional disclosure requirements compared to the Accounting Directive, in particular on audit committee functioning; indemnities for resignation or dismissal without just cause; compensation in case of resignation, unfair dismissal, or termination following a takeover bid; statement on long-term viability of the company; the principles to determine remuneration and benefits of corporate officers. National approaches to corporate governance disclosure also differ in terms of duration of public access, and publication format.

In all selected Member States, listed companies are allowed to deviate from corporate governance requirements/practices based on explanation for such departure.

While companies generally have the freedom to choose between one-tier or two-tier board structures and mixed models, some jurisdictions mandate a specific model. Board composition requirements vary, with certain countries imposing rules on independence, rotation, and employee representation.

The establishment of specialised committees beyond the mandatory audit committee is largely voluntary, though recommendations for nomination and remuneration committees are common in corporate governance codes. Corporate reporting is primarily the responsibility of the whole management board or board of directors, while liability regimes differ in terms of legal liabilities and exemptions, delegation of responsibilities, and oversight obligations. Conflict of interest rules require disclosure and monitoring of related party transactions, with some jurisdictions mandating public reporting for listed companies. External audits are required in all Member States, with the general assembly typically appointing auditors, though in some cases, supervisory boards or audit committees play a role in the selection process.

The analysis of shareholders' rights across Member States highlights significant divergences in implementation and additional national provisions that extend beyond the Shareholders' Rights Directive (SRD). While the SRD provides a baseline, some countries offer enhanced rights, particularly concerning access to corporate information, and remote participation. Differences in meeting formats, notice periods, and voting rights reflect national governance traditions and regulatory preferences. These findings suggest that despite the SRD, national laws and corporate governance codes play a crucial role in shaping shareholder engagement and oversight.

The selected Member States have a fragmented approach to internal controls. While some Member States have detailed legal requirements or governance code provisions for ICS, others impose more limited obligations. Most of them do not require listed companies to systematically assess and publicly disclose the effectiveness of their ICS. As a comparison, the US framework under the Sarbanes-Oxley Act (SOX) is highly prescriptive even though it does not mandate a descriptive narrative of control systems themselves. Listed companies must regularly evaluate and disclose the effectiveness of their ICS in annual (10-K) and quarterly (10-Q) reports. CEOs and CFOs must certify the accuracy of these disclosures, and external auditors must provide attestations on ICS effectiveness. Japan takes a middle-ground approach. Listed companies must establish internal controls under the Companies Act and Financial Instruments and Exchange Act (FIEA). However, while companies are required to describe their ICS in annual reports and provide risk disclosures, there is no obligation to publicly certify their effectiveness. Unlike the US, Japan relies more on corporate governance codes and voluntary reporting.

The analysis of corporate governance reporting oversight and sanctioning frameworks across selected EU Member States reveals some variations in institutional responsibilities, enforcement mechanisms, and sanctioning approaches. Across all Member States, responsibility for signing and providing true and fair view statements lies with directors or management boards.

Member States impose sanctions on directors, management board members, or designated managers for false reporting, including fines and imprisonment. Prison terms range from a few

months to a maximum of eight years. Fines for individuals vary significantly, reaching up to EUR 10 million. Sanctions are also imposed on statutory auditors. Member States also impose sanctions on legal persons, often linked to economic benefits gained or company turnover. Fines for companies can be substantial, with some jurisdictions imposing penalties proportionate to financial gains. However, the severity and consistency of enforcement measures differ significantly across jurisdictions.

Main findings on the assessment of corporate governance reports

The assessment of the corporate governance reports reveals certain points in common, but also significant differences in the practices followed as well as in the regulatory frameworks applied by the companies in the selected EU Member States. Despite not being the predominant practice in all countries, in most cases (80% of the assessed companies' reports), companies include their corporate governance statement directly within their management reports. Exceptions are found in countries such as Latvia and Italy, where a significant number of companies opt to publish their corporate governance reports as a separate document on their websites.

In terms of compliance with relevant EU frameworks, most sampled companies appear to comply with Article 20(1) EU Directive 2013/34/EU, specifying adherence to the Directive's requirements in terms of transparency and structured corporate governance reporting. Furthermore, the majority of companies also refer to the corporate governance code followed, which is typically the code issued by their domestic stock exchange, or the national commercial code.

The evaluation of the internal control reporting disclosed by companies suggests the existence of certain differences in terms of the practices followed across countries. While companies in France and Germany tend to provide a detailed description of their internal control and risk management systems in a separate and often extensive section of the annual report, most of the remaining companies provide it within the corporate governance statement section. In addition, the inclusion of a statement with regard to the effectiveness of internal controls is frequently observed in the sampled reports (91% of the assessed companies' reports), often following a structured format.

Despite not always being specified in the companies' reports, the responsibility for monitoring the internal control system appears to be a task of the audit committee, which then reports the results to the company board. In many companies in countries such as Ireland, Italy, Portugal and Sweden, the board of directors seems to be responsible for overseeing the drafting of the internal control statement, while in other Member States such as Croatia, Germany, Latvia and the Netherlands, this responsibility typically lies with the management board, supported by the audit committee and the internal control department. Furthermore, references to board independence are usually included in the assessed reports (90% of the assessed companies' reports), while anti-fraud measures were only encountered in half of the companies' reports.

As for assurance on the effectiveness of internal controls, most companies did not specify the level of assurance. Exceptions are found in the Netherlands and Ireland, where a significant number of companies provide such information consistently, most of them specifying reasonable assurance. In these cases, the term generally refers to internal declarations by management or audit committees based on their evaluation of the design and functioning of internal control systems. It does not imply an independent third-party audit, unless explicitly stated. This distinction is important, as external assurance on internal controls is not currently required under EU law.

Notable differences have been encountered across Member States when looking at the scope of the corporate governance statement on internal controls. In general, most sampled companies focus solely on financial reporting, with a few companies specifying that they include both financial and non-financial reporting in their internal control statements. In addition to this, the specification of the framework used in their corporate governance statements on internal control is only mentioned by

less than half of the sampled companies' reports, which usually refer to the application of the COSO framework.

The assessment of the usefulness of corporate governance statements on internal controls reveals that while most reports provide valuable insights, some lack information in key areas. Reports from companies in Germany, Sweden and Italy are among the most detailed, covering key features, responsibilities, and the frameworks used for internal controls. In contrast, half of the assessed Portuguese companies fail to mention the role of internal audit or provide specifics related to risk management processes.

Similarly, some Croatian companies mention internal controls but provide only moderate detail, with limited explanation of how these controls function. Latvian companies generally offer minimal or no information on internal controls, making it difficult to assess their existence or effectiveness. By contrast, companies in Germany, Sweden, Italy, and Ireland generally provide sufficient detail to evaluate the effectiveness of their internal control systems.

Factors underpinning the quality of corporate reporting

Good corporate governance is essential for high-quality corporate reporting. It helps ensure that financial and non-financial information is accurate, reliable, and transparent – building trust with investors, regulators, and the public. Research and consultation with key actors in the field identified five main factors that support strong corporate reporting. These are: ethical leadership, board oversight and independence, the role of audit committees, effective internal control systems, and adherence to corporate governance codes.

Ethical leadership and board diversity are key enablers of high-quality corporate reporting.

Clear, principled decision-making at senior levels fosters a culture of transparency and accountability, which is crucial for the accuracy of financial and non-financial disclosures. Ethical leadership was widely recognised by stakeholders – particularly in Germany, the Netherlands, and Sweden – as central to promoting corporate integrity.

Board oversight, accountability and independence are fundamental governance mechanisms that enhance the quality of corporate reporting through active supervision of both financial and non-financial disclosures. By defining clear responsibilities, ensuring personal accountability, and providing strategic guidance on reporting practices – including compliance with regulatory standards— – senior leadership establishes a robust framework to mitigate reporting risks and uphold organisational transparency, integrity, and reliability. This was widely recognised by consulted stakeholders who raised concerns about governance practices that may undermine impartiality – such as combining the roles of CEO and board chair (e.g. in France) and the lack of standardised board evaluations across the EU.

Audit committees are central to ensuring the integrity, accuracy, and transparency of corporate reporting. They enhance corporate governance by reviewing financial statements, overseeing internal controls and risk management, and engaging with external auditors. Their role fosters accountability and builds stakeholder confidence, particularly regarding financial disclosures. Surveyed stakeholders across all groups emphasised the importance of audit committees in promoting high-quality reporting.

Another key factor influencing the robustness of corporate reporting is **the effectiveness of internal control systems and the transparency of internal control reporting.** Across various stakeholder groups – including academics, auditors, management, competent national authorities, professional organisations, stock exchanges, and users of corporate reports participating in the survey, there is broad recognition that internal controls play an essential role in ensuring accurate, reliable, and high-quality reporting. A large majority of surveyed auditors perceive internal control systems as crucial

for mitigating risks and improving corporate reporting. The surveyed management and board members unanimously believe that their internal controls are highly effective in identifying and addressing risks, with real-time updates to reflect evolving challenges. The surveyed professional business organisations and stock exchanges agree that internal controls significantly influence corporate reporting quality and corporate governance practices. Despite these positive assessments, challenges remain in ensuring that internal control systems function optimally. Management and board members responding to the survey acknowledge that if stricter internal control policies were to be imposed by, for example, legislation, this would present difficulties, particularly in terms of increased operational costs and the challenge of finding skilled personnel to carry out such controls. The vast majority of surveyed competent authorities identify high implementation costs and technological integration challenges as key barriers. For example, outdated infrastructure can limit the ability to support enhanced controls that rely on automation.

Corporate governance codes play a critical role in guiding organisations towards transparent and high-quality corporate reporting, thereby fostering stakeholder trust. Adherence to national and international governance codes is widely perceived as a key contributor to reporting quality. In the stakeholder survey, most respondents agreed that compliance with these codes significantly improves the quality and usefulness of corporate reporting.

EU actions to enhance corporate governance for better reporting: Assessment and cost analysis

Several governance dimensions have been identified as critical to the quality of corporate reporting across the EU. These include ethical leadership, board diversity and training, clearly defined board oversight responsibilities, the role of audit committees, and the effectiveness of internal control systems. While national frameworks vary, there is broad recognition of the importance of strengthening these areas in a proportionate and flexible manner.

Ethical leadership is recognised as a key enabler of transparent and responsible corporate behaviour. While the existing EU legal framework in this area is comprehensive, its implementation remains inconsistent across Member States. Adding further legal obligations could result in regulatory overlap with existing frameworks (e.g. CSRD, CSDDD¹) and impose disproportionate compliance burdens, especially for smaller firms. The cost assessment shows that initiatives aimed at reinforcing ethical leadership – such as codes of conduct and public reporting – may require significant investments in technology and staffing. However, these actions risk yielding limited benefits if they encourage symbolic compliance rather than substantive change. A more balanced approach lies in promoting ethical leadership through soft-law instruments and updates to national corporate governance codes.

Board diversity – encompassing gender, skills, experience, and cognitive perspectives – is widely seen as enhancing board effectiveness and strategic decision-making. While national governance codes encourage diverse board composition, imposing rigid quotas or EU-level mandates may conflict with national legal traditions and data protection laws. Promoting diversity through voluntary targets, enhanced disclosures, and regular board evaluations appears to be more effective and proportionate. Although related costs, especially for recruitment, training, and increased director fees are not insignificant, they remain moderate in comparison to other reforms. 38% of companies reported high to very high costs associated with diversity policies, while 50% anticipated moderate expenses. The impact is more pronounced for smaller companies, underlining the importance of flexible implementation.

¹ Directive (EU) 2024/1760 of the European Parliament and of the Council of 13 June 2024 on corporate sustainability due diligence

Equipping board members with the necessary competencies, particularly in governance, sustainability, risk, and digital literacy, is increasingly essential. However, prescribing minimum competencies through binding EU rules risks reducing flexibility in board composition. Training costs, particularly in digital integration and ESG-related topics, are significant, with the burden falling disproportionately on SMEs. Survey results show that 88% of companies identify training-related tech upgrades and advisory services as key cost-drivers. Companies favour scalable and voluntary training solutions tailored to their size and sector. Integrating digital learning tools and maintaining transparency through national governance codes offer a more pragmatic path to raising board competencies without adding excessive regulatory pressure.

Effective **board oversight** is central to ensuring the reliability of financial and non-financial reporting. Clarifying roles and responsibilities, improving independence, and mandating regular self-assessments are seen as key measures to reinforcing accountability. These elements are already covered in many national frameworks and internal control systems, but implementation is uneven. Strengthening board oversight could require significant operational investment – 75% of companies anticipate high to very high costs, mainly due to additional reporting obligations and staffing requirements. Despite the costs, enhanced oversight is expected to yield long-term benefits through better investor confidence and improved access to capital markets.

Audit committees are fundamental to strong corporate governance, with a growing remit that includes both financial and sustainability oversight. While the current EU framework is adequate, inconsistencies in implementation across Member States lead to varied practices. Enhancing audit committee effectiveness by increasing independence, improving training, and expanding internal control oversight, could improve reporting quality. However, such measures involve higher recruitment costs and ongoing training investments. Smaller companies may face challenges in sourcing qualified members, making flexibility and tailored support essential for broader adoption.

Internal control systems are a cornerstone of reliable corporate reporting. Strengthening these systems, particularly through automation and integration with sustainability reporting, requires substantial investment (with annual maintenance costs adding further financial pressure). Recruiting skilled personnel and investing in director training also contribute to high recurring expenses. Around 63% of companies rate ICS implementation costs as high to very high. For those automating internal controls, 38% foresee very high costs, while 62% expect high costs. The benefit-cost balance is debated, with only a minority of companies expecting long-term financial gains to outweigh initial investments. Nevertheless, global experience (e.g. SOX 404) suggests that robust internal controls can deliver operational efficiency and reduce reporting risks.

Internal control reporting is vital for enhancing transparency and credibility but remains underdeveloped across the EU. While many companies adopt frameworks such as COSO or SOX, few are required to provide structured, risk-based assessments of control effectiveness. Mandating external assurance is seen as premature; instead, a phased approach starting with management-led reporting is more feasible. Clear frameworks, harmonised formats, and improved coordination between internal and external assurance providers are key to building robust practices. Standardisation should balance comparability with flexibility to accommodate varying levels of maturity across company sizes and jurisdictions.

Policy recommendations

Improving corporate governance across the EU **does not necessarily require new legislative instruments** but can be advanced through a **smart regulatory approach** that builds on national practices, soft law, and proportional implementation. This includes fostering a culture of ethical leadership, strengthening board structures and responsibilities, and supporting the development of effective internal control systems – particularly in a way that accommodates the needs and capacities of smaller companies.

Efforts to enhance ethical leadership can be supported by **modernising national corporate governance codes in line with Recommendation 2014/208/EU**, rather than introducing new legislation. This approach allows for convergence in expectations around integrity and accountability while respecting national diversity. Broader aspects of board diversity, including cognitive and professional diversity, can be promoted through voluntary and proportionate mechanisms, such as disclosure requirements and board evaluations, particularly for companies not subject to mandatory gender targets. Structured board training, especially in areas such as ESG, digital resilience, and risk oversight, is also essential. Rather than binding standards, increased transparency and voluntary initiatives supported by digital learning tools and potential tax incentives may help build capacity.

Clearer articulation of board oversight responsibilities, especially in relation to internal controls, is necessary to reinforce accountability. National corporate governance codes and existing EU instruments, such as the SRD , provide avenues for clarification without introducing rigid requirements. The role of audit committees remains central to strong governance. However, inconsistent implementation across jurisdictions could be addressed through **better coordination, practical guidance, and peer learning** between national authorities. Simplified expectations and flexible implementation for smaller companies can reduce compliance burdens while preserving effectiveness.

Internal control systems remain uneven across the EU, with significant variation in their adoption and maturity. A **principles-based approach** focused on awareness-raising, technical support, and voluntary adoption can help companies (in particular SMEs) to strengthen these systems at their own pace. Alignment with international standards, including COSO, and support for digital solutions are encouraged. Internal control reporting should initially be management-led and based on harmonised frameworks. External assurance is not recommended at this stage but could be introduced gradually as systems and capacities improve. Clear roles and responsibilities between internal and external control actors will be important to maintain the integrity of oversight processes.

Overall, the proposed approach prioritises **convergence over harmonisation, proportionality over uniformity**, and **voluntary improvement over prescriptive compliance**. It aims to support the development of effective governance practices that enhance corporate reporting quality while remaining feasible and cost-effective for a wide range of companies.

2. Introduction

As defined by the 2010 Commission Green Paper² in line with the OECD principles³, corporate governance concerns the relations between a company's senior management, its board of directors, its shareholders and other stakeholders, such as employees and their representatives. It also determines the structure used to define a company's objectives, as well as the means of achieving them and of monitoring the results obtained. Corporate governance is regarded as one of the key pillars—alongside statutory audit and supervision and enforcement by public authorities—for ensuring the quality of corporate reporting. It enhances the accuracy, transparency, and accountability of both financial and non-financial disclosures, thereby fostering trust and enabling informed decision-making among stakeholders.

Key elements of public corporate reporting within the EU

Public corporate reporting refers to the process of communicating information about a company's financial and non-financial performance to its stakeholders, including shareholders, investors, employees, customers, suppliers, and national governments. This information is commonly published in the form of financial statements and management reports (both of which are forms of public corporate reporting).

Financial statements provide detailed information about a company's financial performance and position, including its assets, liabilities, equity, revenue, and expenses. In the EU, financial statements must be prepared by all limited liability companies, regardless of their size. On the other hand, management reports issue information on the non-financial and operational activities of the company. This includes, for instance, insights into a company's development and performance against relevant business indicators. Management reports can take different forms and the requirements governing their content varies across countries, both outside of and across Europe. However, currently, in line with minimum content requirements set out in EU law, management reports of public-listed companies shall include, inter alia, a corporate governance statement and a sustainability report. As per Directive (EU) 2022/2464 on corporate sustainability reporting (CSRD), large non-listed companies will also be required to produce a sustainability report for financial years commencing on or after 1 January 2025⁴.

Corporate governance statements (typically integrated within the management report, but also at times issued separately) provide the necessary information to allow for the effective monitoring of management by the board, and the board's accountability to the company and the shareholders. These reports are important to investors and other stakeholders who want to understand how the company is governed, and to assess the effectiveness of its governance practices.

Sustainability reports, however, provide information about a company's sustainability performance. These are becoming increasingly important to investors and other stakeholders who want to understand a company's impact on society and the environment.

The Commission's Call for Evidence related to the initiative "Corporate reporting – improving its quality and enforcement"⁵ raises several areas for improvement regarding the current role of corporate governance in the EU in sustaining high-quality public corporate reporting. Firstly, the limited level of responsibility that boards of publicly listed companies may have has been highlighted, in terms of overseeing the quality of corporate reporting. Secondly, the importance of establishing robust risk-management and internal control systems has been emphasised. The document further

² Green Paper - Corporate governance in financial institutions and remuneration policies {COM(2010) 285 final} {COM(2010) 286 final} {SEC(2010) 669}.

³ OECD (2023), *G20/OECD Principles of Corporate Governance 2023*, OECD Publishing, Paris, <https://doi.org/10.1787/ed750b30-en>.

⁴ Directive (EU) 2022/2464 of the European Parliament and of the Council of 14 December 2022 amending Regulation (EU) No 537/2014, Directive 2004/109/EC, Directive 2006/43/EC and Directive 2013/34/EU, as regards corporate sustainability reporting (OJ L 322, 16.12.2022, pp. 15–80).

⁵ Call for evidence for an impact assessment - Ares(2021)6964463, https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/13128-Corporate-reporting-improving-its-quality-and-enforcement_en.

points out discrepancies in the establishment and supervision of audit committees, where they exist at all. The Commission's fitness check on public reporting additionally stresses weaknesses in the framework of corporate reporting, in particular in relation to supervision and enforcement by Member States (see Section 3.1.1.2)⁶.

In light of this key finding, this study focuses specifically on the corporate governance pillar. It gathers evidence and elements that might assist the Commission in assessing how the effectiveness of corporate governance systems underpins the quality of corporate reporting. This study is limited to the corporate reporting practices and experiences of companies with shares listed on regulated capital markets (i.e. listed companies) and focuses on ten EU selected Member States including also some information on how Japan and the US regulate internal controls and their reporting.

⁶ COMMISSION STAFF WORKING DOCUMENT Fitness Check on the EU framework for public reporting by companies Accompanying the document Report from the Commission to the European Parliament, the Council and the European Economic and Social Committee on the review clauses in Directives 2013/34/EU, 2014/95/EU, and 2013/50/EU, 21.4.2021, SWD (2021) 81 final.

3. Corporate governance in the EU: state of play

The EU has adopted several legal requirements to strengthen corporate governance, with a view to, inter alia, enhancing the quality of corporate reporting. However, as a rule, Member States retain discretion in shaping corporate governance frameworks, primarily through their national company law, which is complemented by elements of EU legislation.

Section 2.1 outlines the key EU legal instruments shaping corporate governance and corporate reporting, covering directives on transparency, audit, accounting, and non-financial reporting. It also maps new EU rules on digitalisation in governance, including regarding financial disclosures, shareholder rights, and corporate transparency.

Section 2.2 presents a comparative analysis of corporate governance rules across ten selected EU Member States - DE, FR, PL, IT, IE, NL, SE, HR, PT, and LV - ensuring a balanced representation in terms of geography and market size. Additionally, Japan and the United States are included as third-country comparators, with a specific focus on their systems of internal controls. This research highlights both the similarities and divergences between national approaches.

Section 2.4 contains an analysis of governance statements in corporate reports and internal control statements in these ten selected EU Member States. This assessment applies a structured scoring matrix to evaluate corporate governance and internal control statements, focusing on transparency, compliance, and governance effectiveness. The findings highlight prevailing reporting approaches and identify good corporate governance practices with concrete examples.

3.1. EU framework and requirements for corporate governance underpinning the quality of corporate reporting

The EU has a complex and multi-layered regulatory framework underpinning corporate governance practices and the quality of corporate reporting.

The **Transparency Directive** (2004/109/EC) establishes minimum requirements for the distribution of financial and non-financial information by listed companies to enhance market transparency and investor protection. The **Audit Directive** (2006/43/EC) sets standards for statutory audits of company accounts and requires public-interest entities to have an audit committee, although a recent legal mapping⁷ shows that implementation of this requirement varies across EU Member States.

The **Accounting Directive** (2013/34/EU) harmonises accounting principles and requires companies to include corporate governance statements in their management reports, covering areas such as internal controls, board composition, and diversity policies.

The **Non-Financial Reporting Directive** (NFRD - 2014/95/EU) mandates large companies to disclose non-financial information, thereby encouraging stronger corporate governance practices around social and environmental issues. The **Corporate Sustainability Reporting Directive** (CSRD - 2022/2464) further expands and strengthens the NFRD's requirements by broadening its scope of application in terms of entities covered. This broadens and harmonises the reporting standards for sustainability information, providing an assurance regime and an audit of sustainability

⁷ Europe Economics, CEPS and Milieu for the European Commission, DG FISMA (2022): Study on the Audit Directive (Directive 2006/43/EC as amended by Directive 2014/56/EU) and the Audit Regulation (Regulation (EU) 537/2014) – Final report, Publications Office of the European Union, <https://data.europa.eu/doi/10.2874/374003>.

information⁸.

Overall, this EU framework, combined with national-level implementations and specific national requirements, seeks to improve the transparency, accountability and sustainability of corporate governance practices across the EU. However, significant diversity in terms of country approaches and implementation remains, leading to a complex and at times fragmented system.

Digitalisation is influencing corporate governance practices and reporting in Member States, aligning these frameworks with the EU's broader digital strategies. Key initiatives, such as the European Commission's 2020 Communication on a European strategy for data⁹ and the Digital Finance Strategy¹⁰, emphasise the role of digital infrastructures in enhancing the transparency and accessibility of corporate information. These objectives are reflected in regulatory frameworks such as the CSRD, which mandates that companies prepare their management reports in a digital readable format and make them freely accessible online. Similarly, the establishment of a European single access point (ESAP)¹¹ for public corporate information seeks to standardise digital formats for corporate disclosures, facilitating the efficient comparison and analysis of data by stakeholders. The **Company Law Directive** (2017/1132) also mandates the online disclosure of certain company documents, both in national company registries and through the Business Registers Interconnection System (BRIS) at EU level¹². Documents to be disclosed, as per Article 14 of the Company Law Directive, include yearly accounting documents and information on the appointment, termination of office and particulars of persons taking part in the administration, supervision or monitoring of the company. Taken together, such measures not only streamline reporting processes but also strengthen the synergy between digitalisation and corporate governance by ensuring consistency and transparency across the EU.

Beyond affecting reporting outputs, digitalisation is also reshaping corporate governance processes¹³. The COVID-19 pandemic accelerated the adoption of digital practices, with many Member States introducing temporary and, in some cases, permanent legislation to enable hybrid or virtual general meetings¹⁴. This shift highlights the adaptability of corporate governance systems

⁸ On 26 February 2025, the European Commission presented the **Omnibus Simplification Package**, a set of legislative proposals intended to reduce administrative burdens and improve the competitiveness of businesses across the European Union. Among the proposed measures is an amendment to the **Corporate Sustainability Reporting Directive (CSRD)**, which would raise the employee threshold for mandatory sustainability reporting from **250 to 1 000 employees**. The package also proposes a **postponement of the application deadlines** under the CSRD and adjustments to the **Corporate Sustainability Due Diligence Directive (CSDDD)**, notably by narrowing the scope of due diligence obligations to focus primarily on **direct (Tier 1) suppliers**, rather than the entire supply chain. At the time of writing, these changes remain at the **proposal stage** and are subject to the ordinary legislative procedure.

⁹ European Commission (2020), Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions – A European strategy for data. See [link](#).

¹⁰ European Commission (2020), Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions - A Digital Finance Strategy for the EU. See [link](#).

¹¹ Outlined in the European Commission's new action plan for a Capital Markets Union. See: European Commission (2020), Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions on a Capital Markets Union for people and businesses - new action plan. See [link](#).

¹² See, in particular, Articles 14, 16 and 18.

¹³ See Lombardi, R., and Secundo, G., (2021), 'The digital transformation of corporate reporting – a systematic literature review and avenues for future research', *Meditari Accountancy Research*, Vol. 29 No. 5, pp. 1179-1208.

¹⁴ See, for instance, Spain (Law 5/2021, of 12 April), or Germany (Gesetz zur Einführung virtueller Hauptversammlungen von Aktiengesellschaften und Änderung genossenschafts-sowie insolvenz- und restrukturierungsrechtlicher Vorschriften v. 20.7.2022, BGBl. I, 1166). Some countries are currently considering taking similar measures, including Austria, Finland,

to leveraging digital tools for inclusivity and efficiency.

Moreover, initiatives such as the **Shareholder Rights Directive II** (Directive (EU) 2017/828) and the Commission Implementing Regulation (EU) 2018/1212 promote modern technologies for cross-border communication between issuers and stakeholders, facilitating the exercise of shareholder rights¹⁵.

3.2. National research: Architecture of corporate governance in 10 Member States, the US and Japan

The current Study covers ten Member States – i.e. Germany, France, Poland, Italy Ireland, the Netherlands, Sweden, Croatia, Portugal, and Latvia – ensuring a balanced representation of geographic regions and country sizes within the EU-27. Beyond the EU, the research also examines internal control systems in two key third countries, Japan and the United States, providing a third-country perspective. The focus throughout remains on measures applicable to listed companies on regulated capital markets regarding the following aspects:

- Corporate governance report obligations
- Architecture of corporate governance
- Relationships between boards and shareholders
- Systems of internal controls for the processes related to corporate reporting
- Systems of oversight and sanctions for corporate governance
- Sustainability reporting.

3.2.1. Corporate governance report obligations

The Accounting Directive requires certain undertakings admitted to trading on a regulated market to include a corporate governance statement in their management reports. Member States have the flexibility to allow this information to be provided either in a separate report published with the management report or in a publicly accessible document on the undertaking's website, provided it is referenced in the management report. The separate report or online document may cross-refer to the management report where necessary. Additionally, Member States can exempt certain undertakings - such as those issuing only securities other than shares traded on regulated markets - from including specific information in their governance statements, unless those undertakings have shares traded on a multilateral trading facility. If an undertaking departs from an applicable corporate governance code, it must explain the reasons for doing so or why it has chosen not to adopt any provisions of such a code.

Use of the option to prepare a separate corporate governance report

The selected Member States diverge on the use of this option.

SE, IT, and IE allow listed companies to prepare a separate corporate governance report under the following conditions:

- In SE, as long as a note is made of this in the management report, and the report is submitted within the same time period as the annual accounts.

Ireland and the Netherlands, as per European Commission (2022), Commission SWD - On possible national regulatory barriers to the use of new digital technologies in the interaction between investors, intermediaries and issuers. See [link](#).

¹⁵ See, for instance, Articles 3a (on identification of shareholders), 3b (on transmission of information) and 3c (on facilitation of the exercise of shareholder rights) of Directive (EU) 2017/828 (the Shareholder Rights Directive II, or SRD II)

- In IT, such option must be approved by the board, and the corporate governance report must be published together with the management report.
- In IE, the corporate governance statement can either be prepared as a separate report, or form part of the directors' report. If it is a separate report, it has to be attached to the published balance sheet at the Annual General Meeting (AGM) and published on the company's website alongside the directors' report.

In FR, by default the management board shall present at the shareholders meeting a report on corporate governance attached to the management report. However, the corresponding information may be presented within a specific section of the management report.

In PT, LV, NL, and PL the corporate governance statement must be part of the management report. There is no reference to a separate corporate governance report in these countries.

In DE, the corporate governance statement must be included in the (group) management report or, alternatively, on the company's website with a corresponding reference in the management report.

Use of the exemption

In line with the option under Article 20(4) of the Accounting Directive, among the selected Member States, only SE, IE, and IT provide listed companies with an exemption from preparing corporate governance statement/reports when they trade securities other than shares. IT specifies that these exempted undertakings must still provide information on risk management and internal control systems in relation to the financial reporting process.

Additional/further detailed information requirements in the corporate governance statement

According to the Accounting Directive, corporate governance statements must include information on:

- the corporate governance codes and additional governance practices applied by the undertaking;
- deviations from the applied codes;
- the internal control and risk management systems related to financial reporting;
- how shareholder meetings operate, their powers, shareholder rights, and how these rights can be exercised;
- the capital structure, particularly regarding the rules applicable to takeover bids according to Article 10 of Directive 2004/25/EC, including restrictions on share transfers, voting rights, and significant agreements involving change;
- the operation, and composition of the administrative, management, and supervisory bodies and their committees;
- diversity policy.

PL provides in addition specific and detailed reporting standards on the audit committee's functioning, including members' independence and their qualifications in accounting, auditing, and industry knowledge, but also on the committee's role in selecting the audit firm and whether non-audit services were provided.

SE sets detailed information requirements on members of different board committees, for example audit committees, and remuneration committees, but also on committees outside of the board such as the nomination committee¹⁶. These detailed information requirements include main education and

¹⁶ Body responsible for proposing candidates for election to the company's board of directors.

work experience, assignments in the company and other significant assignments, own or related parties' holding of shares and financial instruments in the company, and the member's independence according to the election committee. This also applies to the managing director (e.g. main education and work experience, significant assignments outside the company, own or related parties' holding of shares and financial instruments in the company, significant shareholdings and part ownership in companies with which the company has significant business relations). It requires information on implementation and reporting of the board evaluation and also an obligation to report on any violations of stock exchange regulations.

In IT, the corporate governance statement must include information on agreements between the company and the directors, and members of the management or supervisory board, which provide for indemnities in the event of resignation or dismissal without just cause. In PT, this statement must include agreements between the company and members of the management body or employees, providing for compensation in the event of an employee's resignation, unfair dismissal or termination of the employment relationship following a takeover bid.

IE requires that listed companies describe in their corporate governance statement their compliance with the relevant provisions of the Irish Corporate Governance Code, including the reasons for non-compliance. It requires that governance reporting should focus on board decisions and their outcomes in the context of the company's strategy and objectives. Directors must provide a statement on the long-term viability of the company based on the 'Guidance on Risk Management, Internal Control and Related Financial and Business Reporting' published by the Financial Reporting Council in September 2014¹⁷.

In FR, the corporate governance report must also present the principles and rules established by the board of directors to determine the remuneration and benefits of all kinds granted to corporate officers (*mandataires sociaux*).

Obligation to submit the corporate governance statement/report to authorities, and related publication requirements

All selected Member States must submit a corporate governance statement/report to public authorities. They must either send it directly to the company register or to financial market authorities which then include it in the company register.

There are, however, specific publication requirements across Member States as detailed in the paragraph below:

- Going beyond the Transparency Directive, NL, PL, and PT specify that annual financial accounts should be kept available to the public for a period of at least ten years (e.g. on the company website).
- In FR, listed companies are required to include a corporate governance report within their annual financial reports. This report is submitted to the general meeting of shareholders alongside the management report. Additionally, issuers must file these reports with the Autorité des Marchés Financiers (AMF), the French financial markets regulator. The AMF then provides these documents to the Direction de l'Information Légale et Administrative (DILA) register, ensuring public access to corporate information. In DE, the declaration on corporate governance must be published in the (group) management report available on the German Federal Gazette, or, alternatively, on the company's website with a corresponding reference in the management report.

¹⁷https://media.frc.org.uk/documents/Guidance_on_Risk_Management_Internal_Control_and_Related_Financial_and_Business_Reporting_September.pdf.

Comply or explain system

In all selected Member States, listed companies are entitled to deviate from corporate governance requirements/practices based on explanation for such departure in line with Article 20(1) of the Accounting Directive. However, some Member States are particularly diligent in monitoring the justifications provided. For instance, in DE, deviations must be explained precisely and publicly through a “Declaration of Conformity” under §161 of the German Stock Corporation Act. In NL, the Monitoring Commissie Corporate Governance Code is responsible for promoting the relevance and practical application of the Dutch Corporate Governance Code and regularly assesses the quality of companies’ explanations for non-compliance.

3.2.2. Architecture of corporate governance

The architecture of corporate governance specifies the distribution of tasks and roles among the different corporate bodies (e.g. management/supervisory boards, general meeting) and delineates their relationship. It establishes how the company is managed and held accountable to both the company itself and its shareholders. Generally, the structure is described in national company law and specified in detail in company bylaws/articles of association. National legislation, across all Member States, provides for a significant degree of autonomy and flexibility in this regard.

As companies are free to set up their corporate governance structure, this shall not impact their corporate reporting. It may however be noted that, as the process of corporate reporting involves a number of actors, some practices and features may influence the reporting quality.

Models of corporate governance

At present, in the majority of Member States there are two models for corporate governance: a one-tier board (an administrative organ only) or two-tier board (i.e. a supervisory organ and a management organ)¹⁸. In some Member States there is also a mixed model, combining elements of both. The key difference lies in how corporate governance responsibilities are divided between management and supervisory functions. In a one-tier board structure, there is a single board of directors that includes both executive and non-executive members, who collectively oversee corporate management while monitoring executive performance. Two-tier board structures are instead characterised by the presence of two separate and independent bodies: the management board, responsible for day-to-day operations, and the supervisory board, which oversees and monitors the management board.

The possibility to choose between these two models is found in almost all Member States, with the exception of three (DE, PL and SE). In DE and PL, it is mandatory for listed companies to have a two-tier board structure, whereas in SE the one-tier board structure is required.

In IE, the predominant model is by far the one-tier board structure. Legislation and the Corporate Governance Code are directed at this model (although companies can always choose and justify their choice in the bylaw). Conversely, in HR and NL the two-tier structure is the most common model. In NL, companies of a certain size and significance are covered by a set of rules called ‘structure regime’ which mandate a two-tier board structure. In HR, instead, the Corporate Governance Code is drafted for two-tier board companies.

In two Member States (IT and PT), a third model is available, the so-called ‘traditional model’ or

¹⁸ For more details on the two models, see Articles 38 and following of Council Regulation (EC) No 2157/2001 of 8 October 2001 on the Statute for a European company (SE), <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A02001R2157-20130701>.

'Latin model'. This is a hybrid model, in which management and supervisory functions are separated into two bodies, but the supervisory body does not have the same operational independence and scope of supervision as a supervisory board in a two-tier board model. In fact, companies that follow the traditional model are obliged to appoint an external statutory auditor or certified accountant for accounting control. Furthermore, in PT, legislation requires that companies choosing the two-tier board structure must establish a financial matters committee within the supervisory board.

Composition of boards

The structure, composition and operation of the administrative, management and supervisory bodies are described in detail in the corporate governance statement, pursuant to the Accounting Directive.

The corporate governance model chosen by the company naturally has an influence on the composition of the bodies of the company. In the majority of Member States, national legislation does not impose strict requirements for the composition of management and supervision bodies, and companies are free to determine and indicate them in company articles of association or bylaws. General expertise recommendations might be identified in the Corporate Governance Codes. In IE and NL, the national Codes indicate that board members should have specific expertise, knowledge, and skills for the fulfilment of their duties.

However, some rules regarding the composition of the management body are identified in five Member States (DE, FR, IE, IT, SE). In IT for example, the legislation requires, as a minimum, a director to be appointed from the minority list¹⁹ and another one to be independent. The independency of Directors²⁰ is in fact crucial to ensuring compliance with regulatory standards and corporate reporting integrity. In SE, in fact, the majority of members of the board must be independent in relation to the company's management.

With regard to appointment, the management body of companies with a two-tier board structure is appointed by the supervisory board, whereas in the case of one-tier board structure, the general shareholders' meeting elects its members. In IT, the management board is always appointed by the shareholders' meeting. In SE, where the one-tier board model is mandatory, the law provides for strict composition rules in relation to independency for the board of directors. Only one member of the board may work in the company's management body, and at least two members must be independent in relation to the company's major shareholders. IE legislation contains a rule on the rotation of directors. All directors are required to retire from office at the first annual general shareholders' meeting, but they can offer themselves for re-election.

Specialised committees

Beyond the audit committee, which is mandatory in a number of situations, companies may set up within their boards of directors an internal specialised committee for the performance of specific functions, such as remuneration or nomination. In all Member States, companies are free to set up such specialised committees. In LV, the establishment of a nomination committee is mandatory for companies that are wholly or partially owned by the State or other public bodies. In four Member States (DE, FR, HR, IT) the Code recommends the establishment of a nomination committee and a remuneration committee for all listed companies. In NL, such recommendation applies only to

¹⁹ In listed companies, the proposal and election of directors/members of the boards must be allowed to parties other than controlling shareholders, i.e. those forming 'minority lists'.

²⁰ An independent (non-executive) director is a director who is not directly employed by the company and has no financial interest in it. Their role is to provide valuable, impartial perspective to corporate decision-making and oversight and to ensure that the company operates within the law.

companies with a supervisory board of more than four members. In IE, as public listed companies are obliged to adopt a remuneration policy, they normally also set up a remuneration committee. In SE, the Code requires all listed companies to have a nomination committee.

Audit committee

The only mandatory committee is the audit committee in Public Interest Entities (PIEs), as required by the Audit Directive. The role of the audit committee is fundamental to improving accuracy and transparency of corporate reporting. In almost all Member States, with the exception of two (IT and PT), the law mandates its establishment as a separate body, or within the supervisory/management board (depending on the structure of the company). IT and PT have a strong tradition of employing the 'Latin/traditional model'. For companies with this model, the functions of the audit committee are generally carried out by the board of statutory auditors/supervisory board. As with any other rules contained in the Code, if a company does not establish an audit committee as prescribed, it will need to provide justification. Its functions, as per the laws of all Member States include, among others, monitoring the accounting process for the preparation of financial information, monitoring the effectiveness of the internal control and the risk management system and the internal audit system, and monitoring independence of auditors. In terms of composition, the audit committee shall be composed also of non-executive members, and of a majority of independent members, with at least one member having expertise in financial accounting or auditing. For example, in HR, the audit committee, pursuant to the law, must be composed of non-executive members, members of the supervisory board and/or independent members. When it is composed entirely of members of the supervisory board or non-executive members, the independency requirement does not apply. IE law sets out requirements for the director of the audit committee. Specifically, the director must be independent, non-executive and must not have had any relationship with the company in the 3 years prior to appointment. As for expertise, in NL, the audit committee must be composed of members having competences relevant to the sector in which they operate.

Corporate reporting committee

According to the G20/OECD Principles, the establishment of committees to advise on additional issues is at the discretion of the company and depends upon the company's size, structure, complexity and risk profile (Principle V.E.2). The use of committees may improve the work of the boards and allow for a deeper focus on specific areas. For example, **corporate reporting or disclosure committees** may assist in ensuring the accuracy, completeness, and timeliness of corporate disclosures²¹. However, within the scope of the study, no Member States have been identified as having a committee on corporate reporting.

Diversity within the board

A description of the diversity policy in place within listed companies shall constitute part of the corporate governance report, according to the Accounting Directive. In five Member States (DE, FR, HR²², NL, PT), rules on gender representation are provided directly in the law, while in three Member

²¹ Such committees have become more prevalent following the enactment of the Sarbanes–Oxley Act of 2002 in the United States. While the Sarbanes–Oxley Act does not explicitly mandate the formation of Disclosure committees, their creation has been widely recognised as a best practice to ensure compliance with the Act's provisions, particularly those related to disclosure controls and procedures.

²² It is noted that, subsequent to the submission of the Interim Report (in December 2024), Croatia adopted amendments to listed company legislation. The new provisions set out rules on balanced representation of men and women in supervisory and management boards.

States (HR, IE, PL) these are included in the Code. An explicit legal obligation to describe the company's diversity policy in the corporate governance report is found in two Member States (HR and PT), whereas in PL this is applicable only to companies above a certain size. In addition, such rule is found in the Code of three Member States (IE, NL, PL). Furthermore, in some Member States (FR, DE, HR, SE) there are also legal requirements on employee representation. In DE, specific categories of companies must have direct employee representation in the management board. A 'labour director' must be appointed as an equal member of the management board to represent the employees.

Responsibility over corporate reporting

Members of the administrative, management and supervisory bodies of a company must have collective responsibility for drawing up and publishing the annual financial statements, the management report and the corporate governance statement (if provided separately), as well as the consolidated reports and statements in line with the Accounting Directive and with the international accounting standards²³. In all Member States, the approval of all the company reports (financial and non-financial) is a task of the management board/board of directors (depending on the corporate governance structure). The management body is also collectively responsible for the accuracy and legality of all company reports.

Liability regimes

Depending on national law rules, members of the management board/board of directors could be held jointly and severally liable for any damage caused by actions or omissions that constitute a breach of their obligations. However, in FR, NL and SE, the law expressly states that a board member may be exempt from liability if they can show that the failure is not due to their negligence. In PT, instead, they can mitigate their liability if they prove they were not involved in a decision, or opposed it, during a board meeting. DE legislation further provides that members of the board shall also be liable for their failure to monitor other board members to which specific obligations are delegated. In addition, PL law states that the joint and several liability of board members applies irrespective of any delegations of responsibilities within or outside of these bodies. Members of the management board must sign the corporate statements/accounts and assume the responsibility for their accuracy and completeness. In DE, for example, this obligation falls on all members of the management board, and in NL, on both the management and supervisory board. In IE, directors are required to disclose a compliance statement confirming that they are not committing any of the offences regulated by law. In IT, a director must be appointed from the members of the board as responsible for producing a declaration certifying that the financial statements are true and correct.

Conflict of interest

Within the structure of corporate governance, particular attention should be paid to conflict of interest – i.e. those situations where personal interests are in contrast with professional responsibilities²⁴ – that may include related party transactions, i.e. arrangements between two parties that have a pre-

²³ Standards pursuant to Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards, OJ L 243, 11.9.2002, pp. 1-4, <https://eur-lex.europa.eu/legal-content/EN/ALL/?uri=celex%3A32002R1606>.

²⁴ Corporate Governance Institute, https://www.thecorporategovernanceinstitute.com/insights/lexicon/what-is-a-conflict-of-interest/?srsltid=AfmBOoolwKpbQolgelq4_ul_Q4gyuX-0m5ukixdBxFUDPc-6_cGSwOlj.

existing relationship such as familial ties or common business interests²⁵. These transactions can therefore have a significant influence on the company decision-making process. Pursuant to the OECD Principles of Corporate Governance, related party transactions shall be approved and conducted in a manner that ensures proper management of conflict of interest²⁶. Members of the board are in fact required to disclose any direct or indirect conflict of interest they might have in a transaction²⁷.

The obligation to disclose related party transactions shall be immediate in six Member States (FR, HR, IT, LV, NL, PT). In DE, disclosure of conflict of interest by the supervisory and management board is recommended by the Corporate Governance Code. In SE, disclosure is mandated on a case-by-case basis, as set out in the law, and no rules are identified on the periodic reporting of related party transactions.

Companies normally have a system in place for the monitoring of transactions which may potentially lead to conflicts of interest. In four Member States (DE, FR, HR, NL), these transactions must be mandatorily approved by the supervisory board. In four Member States (IE, IT, LV, PT), members of the board are required to adopt internal procedures to ensure such monitoring is carried out. In PL, when there is a contract between the company and a member of the management board, as well as disputes involving them, the supervisory board or a proxy appointed by the general meeting represents the company. There is also an obligation for listed companies to publish information on related party transactions, to make it available to investors and the public. This is applicable in five Member States (DE, HR, IE, IT, PT)²⁸. In PT in particular, listed companies have the obligation to publicly disclose transactions with related parties with value equal to or greater than 2.5% of their consolidated or individual assets.

Additionally, information on related party transactions must also be included in the annual corporate governance report or in the financial reports of companies. This is the case in almost all Member States, with the exception of PL and SE²⁹.

External auditors

The OECD Principles of Corporate Governance and EU law require that listed companies undergo an annual external audit, conducted by an independent, competent and qualified auditor, to verify that company financial statements are compliant with the applicable financial reporting framework.

External auditors are appointed by the general assembly in all Member States. In SE, the law does not specifically set out an obligation to appoint an external auditor. However, any external or internal

²⁵ Conflicts of interest are also defined by the OECD in the context of public sector as follows: 'A *'conflict of interest'* involves a conflict between the public duty and private interests of a public official, in which the public official has private-capacity interests which could improperly influence the performance of their official duties and responsibilities.' OECD Recommendation of the Council on OECD Guidelines for Managing Conflict of Interest in the Public Service, <https://legalinstruments.oecd.org/en/instruments/oecd-legal-0316>.

²⁶ OECD Principles of Corporate Governance, II.F.

²⁷ OECD Principles of Corporate Governance, II.F.2.

²⁸ Member States generally have specific rules and requirements dealing with the disclosure of related party transactions. In Italy, for example, there is a dedicated CONSOB Regulation, No. 17221 of 12 March 2010, which sets out rules specifically for related party transactions. Furthermore, in Germany, a special related party transactions (RPT) regime applies to listed stock corporations since 1 January 2020. Such detailed regimes are in line with the obligation to disclose information on these types of transactions pursuant to Article 17(1)(r) of the Accounting Directive and go beyond requirements, providing very specific and detailed frameworks.

²⁹ It is noted that, subsequent to the submission of the Interim Report (in December 2024), Croatia adopted amendments to listed company legislation. The boards are now required to adopt a report on related party transactions as a separate report or as part of the report on transactions with affiliated companies.

auditor must be elected by the general assembly. In PL, the company's articles of association may empower the supervisory board or the audit committee. In IE, for the company's first year, the auditor is appointed by the directors. Subsequent auditors are appointed by the general meeting.

In six Member States (DE, FR, IE, IT, NL, PT), the audit committee is responsible for making recommendations on the candidate(s) for the position of external auditor. In PT, the audit committee advises the supervisory board, which then submits a nomination for appointment to the general assembly. In LV, recommendations may come from either the audit committee or the supervisory body. In SE, this task is assigned specifically to the nomination committee.

3.2.3. Relationship of boards with shareholders

The SRD ensures that shareholders of listed companies have an active right to remain informed and involved by:

- putting items on the agenda of general meetings and proposing resolutions (if they have a 5% holding in the company's capital);
- asking questions related to items on the agenda, which the company is obliged to answer; and
- participating and voting without limitations other than the qualifying date set by a company for owning shares.

The right of shareholders' right to be sufficiently informed

Beyond these aforementioned "active" rights of shareholders (requiring shareholders to act), the SRD also foresees a "passive" right to information (no action required by the shareholder). Article 3b(1) of the SRD ensures that intermediaries are required to transmit certain information³⁰, without delay, from the company to the shareholder or to a third party nominated by the shareholder. The study examined whether Member States foresee more passive rights for shareholders than the Directive does.

The examined Member States do not require companies to have a formal **policy of communication** related to contact with stakeholders. It is, however, considered good governance practice that:

'..to ensure that the interests of the relevant stakeholders of the company are considered when the sustainability aspects of the strategy are determined, the company should draw up an outline policy for effective dialogue with those stakeholders. The relevant stakeholders and the company should be prepared to engage in a dialogue. The company should facilitate this dialogue unless, in the opinion of the management board, this is not in the interests of the company and its affiliated enterprise. The company should publish the policy on its website' (SE Code of Governance, 1.1.5).

Beyond the rights outlined by the SRD, the main rights granted by Member States on the exercise of the **right to be informed** outside of general meetings

are:

- **Right to inspect key documents** (e.g. annual financial statements, the management report, the supervisory board report, remuneration report) ahead of a general meeting of shareholders. This is the case for six Member States (DE, FR, HR, IE, LV, and PT). FR goes

³⁰ (a) the information which the company is required to provide to the shareholder, to enable the shareholder to exercise rights flowing from its shares, and which is directed to all shareholders in shares of that class; or

(b) where the information referred to in point (a) is available to shareholders on the website of the company, a notice indicating where on the website that information can be found (Article 3b(1) SRD).

beyond this: the number of documents that can be inspected is more comprehensive (current annual accounts, consolidated accounts, management report, supervisory report, text and explanatory statement of proposed resolutions, candidates for board of directors or supervisory board, remuneration of 5 or 10 of the highest paid persons, payment made under sponsorship and patronage actions, list of shareholders) and the inspection right may be invoked at any time to access these documents for the past three financial years. In IE, shareholders of 10% and above shares can request details on other shareholders. In PT, this right is conditional: shareholders with, at least, 1% of the voting rights are entitled to receive essential and necessary information about the company, particularly in preparation for general meetings. To attain this threshold, PT applies a concept of collective information rights: this provision allows a group of shareholders to request information collectively, ensuring that minority shareholders can also exercise their right to be informed. Note that in NL, any 'right' to be informed outside the general meeting follows from a management duty of care to share information with particular (groups of) shareholders based on a reasonable and fair assessment made on a case-by-case basis.

- Shareholders in FR and IT have **the right to submit written questions** in advance of general meetings, and the board is required to provide a response. In other Member States, this practice is either encouraged as a matter of good governance or required only during the general meeting itself.

For rights during meetings, see next sub-section,

Shareholders' meeting and tasks

Pursuant to Article 20(1) of the Accounting Directive, the corporate governance statement must include a description of the operation of the shareholder meeting and its key powers and a description of shareholders' rights and how they can be exercised (unless the information is already fully provided for in national law).

In addition, Article 5 of the Shareholders' Rights Directive states that: "1. [...] Member States shall ensure that the company issues the convocation of the general meeting in one of the manners specified in paragraph 2 of this Article not later than on the 21st day before the day of the meeting.

Member States may provide that, where the company offers the facility for shareholders to vote by electronic means accessible to all shareholders, the general meeting of shareholders may decide that it shall issue the convocation of a general meeting which is not an annual general meeting in one of the manners specified in paragraph 2 of this Article not later than on the 14th day before the day of the meeting. [...]

2. Without prejudice to further requirements for notification or publication laid down by the competent Member State as defined in Article 1(2), the company shall be required to issue the convocation referred to in paragraph 1 of this Article in a manner ensuring fast access to it on a non-discriminatory basis."

The EU legislation is silent on the link between general stakeholders' meeting and corporate reporting. However, in all Member States, the general meeting is the opportunity for shareholders to exercise their right to oversight.

Key powers to be exercised **during the shareholder meetings** to discuss and approve general reporting include:

- Right to speak (explicitly mentioned in DE and NL, probably implicit in other Member States).
- Right to ask (all MSs). In DE, shareholders' questions on company matters must be answered at the Annual General Meeting if the requested information is necessary - from the

perspective of a shareholder making an objective judgement. In FR, the law foresees a right to ask written questions.

- Right to inspect all documents and information relevant to the general meeting (under certain conditions, a shareholder may also request to inspect company documents) (all MSs).
- Appointment of auditors (FR, HR, IE, IT, NL, PL, PT, SE).
- Approval of key reports (all Member States), such as:
 - remuneration report (DE, HR, IE, IT, LV, PL);
 - financial statements (FR, HR, IE, IT, LV, NL, PL, SE);
 - other non-financial company reports (IT, PL, PT, SE).

Due to the importance of the shareholders' meeting in the exercise of shareholders' oversight rights on corporate reporting, the manner in which such meeting takes place is important. The next paragraphs examine how and where they are convened.

Convening shareholders' meetings is part of the powers of the board in all Member States (majority decision). The national laws set instances in which this is compulsory such as:

- receiving the adopted annual financial statements;
- receiving the management report;
- receiving the proposal of the decision on use of profit;
- in the event of a loss amounting to a certain part of the share capital; and
- in the event of a minority request (for more information on this see next sub-section).

In FR, shareholder meetings may also be requested, should the board fail to do so, by:

- the auditors;
- a representative, appointed by the courts, at the request of either any interested party in the event of an emergency, or of one or more shareholders representing at least 5% of the share capital, or of an association of shareholders meeting the conditions set out in Article L. 225-120;
- the liquidators;
- the majority shareholders in capital or with voting rights after a public purchase or exchange offer or after a transfer of a controlling interest.

In PT, general meetings can also be requested, in the special cases provided for by law, by the court, the supervisory board or the general council.

Location and format of general meetings. The general meeting usually takes place at the registered office of the company, or for listed companies in certain cases, at the registered office of the stock exchange. Countries such as DE, HR, and PL allow meetings at the registered office, with some flexibility for listed companies. FR allows meetings at any location within the same department, while IE has no restriction as long as the location is mentioned in the notice, and shareholders can participate reasonably. PT requires meetings to be at the registered office or, in certain cases, within the judicial district where the office is located. In SE, meetings are generally held at the registered office's municipality, with flexibility for international meetings if shareholders consent.

Virtual and Remote Participation. Holding virtual meetings is permitted in five countries (DE, FR, IE, IT, LV), though conditions apply. In DE, virtual meetings require authorisation in the company's statutes and must be partially in-person (e.g. the chairman and notary must be physically present). FR allows fully virtual meetings if the statutes permit, and proper identification mechanisms are in place. IE has allowed virtual and hybrid meetings due to COVID-19 regulations, with extensions subject to ministerial approval. LV, NL, and PL have similar rules where statutes must authorise virtual participation and voting.

In general, remote participation or voting is possible in nine countries, including DE, FR, HR, and

SE, but again, approval foreseen in the company's statutes is often required. For example, in LV, shareholders holding at least 20% of the company's shares can request remote participation or voting. In SE, remote participation is also an option, with specific rules around identifying shareholders and ensuring equal participation rights.

Transmission of Meetings. Video and audio transmission of meetings is allowed in some countries, depending on specific conditions, such as being foreseen by the statutes or requiring approval by the management board. In DE, it is customary but not required for large companies. IE mandates real-time transmission by law, and PL requires public access to a live transmission for companies listed on regulated markets.

Minimum notice. The notice period for convening a general meeting varies across countries. Under EU law (Article 5 of the Shareholders' Rights Directive), companies must issue a convocation at least 21 days before the meeting. However, this differs by country. For example, in DE, IT, and PT, the notice must be issued at least 30 days in advance, and in SE, it can be up to 42 days for listed companies. FR and IE have shorter notice periods, with 15 and 14 days respectively.

Method of notification. In many countries, including DE, FR, HR, LV, IT, and SE, the official journal is the default method of notification. Additionally, companies in these countries must often advertise the notice elsewhere, such as on their website or in a regional publication. In IE, listed companies are required to use media capable of disseminating information across the EU. Similarly, NL and PL require companies to publish notices via electronic means or on their websites. In some countries, if all shareholders are known by name or address, the notice can be sent by registered letter.

Shareholders' rights in relation to corporate reporting

Article 6 of the SRD requires that "Member States shall ensure that shareholders, acting individually or collectively: (a) have the right to put items on the agenda of the general meeting, provided that each such item is accompanied by a justification or a draft resolution to be adopted in the general meeting; and (b) have the right to table draft resolutions for items included or to be included on the agenda of a general meeting. [...]".

Shareholders are entitled to use such rights in relation to corporate reporting that is presented in shareholders' meetings. Regarding rights outside of general meetings, see previous sub-section on the right of stakeholders to be sufficiently informed.

The thresholds for using such rights vary across the Member States:

- In DE, at least 5% of the share capital or a proportionate amount of EUR 500 000. Adding an agenda item must be done at least 24 days prior to the general meeting (30 days for listed companies).
- In FR, the right to request agenda items, a resolution to be added on the agenda, or to request a shareholder meeting exists for shareholders with 5% and above of shares for companies with capital less than EUR 750 000, decreasing share requirement above that threshold. This must be done at least 15 days before the meeting.
- In HR, the threshold is also at 5%, unless stated in the statutes as lower. The request of shareholders to add items to the agenda must be received by the company at least 24 days beforehand.
- In IE, shareholders with 5% and above of shares can request a meeting. Shareholders with 3% and above can put items on the agenda (with reasonable grounds). The request to add an item to the agenda must be received at least 42 days before the meeting.
- In IT, 5% and above shareholders can request meeting. Shareholders with 2.5% and above of the shares can request new agenda items, within 10 days of the publication of the notice.
- In LV, the threshold is set at 5% for both adding agenda items and requesting a meeting.

- In NL, the threshold is set at 10% or lower, if so determined in the statutes, provided that they have obtained authorisation to convene a meeting by the preliminary relief judge.
- In PL, the threshold is also set at 5% for both adding agenda items and requesting a meeting (less if statutes state so). Such request must be made 21 days prior to the meeting.
- In PT, the threshold is at 2% for adding agenda item and 5% for requesting a meeting. Requesting new agenda items must be done within 5 days of the publication of the notice convening the meeting. Regarding the meeting convened by minority request, the chairman of the general meeting board must publish the notice within 15 days of receiving the request; the meeting must convene before 45 days have elapsed since the notice was published.
- In SE, shareholders who directly or indirectly control at least 10% of the company's shares can request that the board call a general meeting. Such a request must be in writing and contain information about the matter to be dealt with at the general meeting. It is not however, possible to request an extra general meeting just to provide information. Summons for such extraordinary general meetings must be issued within two weeks of the request being received by the company.

In terms of voting rights, the default arrangement is that one share conveys one vote. However, the legislation of all Member States allows the statutes to foresee other arrangements:

- In nine Member States (DE, FR, HR, IE, IT, LV, NL, PL, PT), the statutes can determine whether there are non-voting preference shares and how many there are. Voting rights can only be excluded completely or not at all; a restriction to certain resolutions or a restriction of voting rights is not permitted. In FR, a company may only emit up to 25% of shares without voting rights. In PT, the limit is set at 50% of such shares.
- The statutes may provide for registered shares with multiple voting rights in five Member States (DE, FR, IE, LV, SE). In DE, the multiple voting rights may not exceed ten times the voting rights. A resolution of the Annual General Meeting to endow or issue shares with multiple voting rights requires the approval of all shareholders concerned. This primarily affects companies that are not listed on the stock exchange, as the multiple voting rights expire upon transfer of the share on the open market, but no later than ten years after the stock exchange listing, unless this period has been extended by a qualified majority. In SE, no share may have a voting value that exceeds ten times the voting value of any other share.
- In IT, the statutes can allow the issuance of shares (i) without voting rights, (ii) with limited voting rights, (iii) with voting rights subject to predetermined events/conditions. The total value of all these types of shares cannot be more than half of the social capital. Listed companies can issue loyalty shares, which grant increased voting rights to shareholders who hold them for at least two years.

3.2.4. System of internal controls for the processes related to corporate reporting

Requirements on the set-up of internal controls

Robust ICS) are necessary to ensure that companies draw up corporate reporting that is trustworthy and meets required standards. These controls act as safeguards to prevent inaccuracies, fraud, and financial misstatements while ensuring compliance with laws and regulations. Internal controls are integrated into the company's governance framework, aligning with risk management strategies and legal obligations. In some of the selected Member States, the set-up of such ICS are detailed in laws and corporate governance codes. In DE, the "FISG" Act recently introduced a provision requiring the management boards of listed companies to 'establish an internal control system and risk management system that is appropriate and effective in view of the scope of the company's business activities and its risk situation'. In IT, the corporate governance code sets out a well-defined

framework for internal control, composed of several control elements that involve all company resources. In PT, listed companies are required to establish and maintain effective systems of internal control, risk management, and compliance. These systems must be appropriate to the size of the company and the type and scale of its operations and should be aligned with the company's medium- and long-term strategies. In FR, an obligation to set up internal controls only applies to certain companies, in order to fight against money laundering and the financing of terrorism.

Table 1: US and Japan requirements for setting up internal controls

US legal regime:

In the US, listed companies must establish **disclosure controls and procedures** to ensure financial reporting integrity, detect fraud, and mitigate corporate risks. The **Caremark Doctrine** under Delaware law mandates that boards implement and oversee internal control mechanisms. Failure to do so can result in **legal liability for directors**.

Japan legal regime:

Listed companies in Japan are legally required to establish internal control systems to ensure compliance with laws, regulations, and corporate governance standards. The **Regulation for Enforcement of the Companies Act (RECA)** specifies internal control requirements, including risk management, retention of records, and operational efficiency systems.

Key actors for designing, implementing, and assessing ICS

In all selected Member States, the management board of listed companies has core responsibility in overseeing the design, implementation, and maintenance of ICS. Where supervisory boards exist, they are responsible for approving and monitoring the implementation of these systems.

While formal standards or frameworks are rare, broad principles exist for assessing ICS. These are often embedded in "soft law", leaving implementation to boards or committees and some discretion on the actual scope of the assessment.

As specified in the Audit Directive and reflected in the selected Member State laws, the **audit committee** is in charge of monitoring the effectiveness of the undertaking's internal quality control and risk management systems and, where applicable, its internal audit, regarding the financial reporting of the audited entity, without breaching its independence. The audit committee undertakes preparatory work for the board's decision-making regarding the effectiveness of the company's ICS. In IT, an internal control and risk management committee must be established within the management board of companies as a prerequisite to being admitted to the stock market, with the specific role of supporting the board's functions in this area.

Internal auditors usually provide ongoing monitoring and evaluation of ICS to the audit committee and/or to the board as a whole. In PL, on a comply-or-explain basis, and in PT, NL and HR the set-up of an internal auditor function is compulsory under certain conditions. In PL, a company belonging to the WIG20, mWIG40 or SWIG80 index³¹ must appoint an internal auditor in charge of the internal audit function who, inter alia, must once a year present to the supervisory board an assessment and report on the effectiveness of the company's systems (functions) of ICS. In NL, the law requires the set-up of an internal audit function that reports the audit results to the management board and the audit committee and informs the external auditor. The internal audit function must, inter alia, report any flaws in the effectiveness of internal risk management and control systems. An independent third party should assess the performance of the internal audit function at least every five years. The supervisory board maintains regular contact with the person fulfilling the audit function. In turn, the management board should consult with the audit committee annually regarding the way in which the

³¹ Stock market indices of the Warsaw Stock Exchange.

internal audit function fulfils its responsibility. In PT, the company must implement an internal audit function for supervision of risk management and an internal control system. The audit committee must agree with the internal auditor annual plan, receive its reports and supervise implementation of the auditor's recommendations.

In IT, the system of internal control is not obligatorily assigned to an individual tasked with internal auditor functions³². The performance of control on specific operational areas and on compliance with internal rules and procedures has to be defined by the management board which can delegate it to a responsible person for the internal audit. It does not have any management responsibility, and its functions are the following:

- verifies the operation and suitability of the internal control and risk management system, through an audit plan approved by the management board,
- prepares periodic reports containing adequate information on its activities and on compliance with the audit plan, which shall include an assessment of the suitability of the internal control and risk management system,
- verifies, as part of the audit plan, the reliability of the information systems including the accounting systems.

In most selected Member States, **statutory auditors** are generally required to obtain an understanding of the components of the internal control and risk management that are relevant to the audit and evaluate the design and the components of the system as described in the corporate governance report³³. This enables auditors to assess whether misstatements have occurred and to provide remarks in case of deficiencies. Financial external auditors review only a portion of ICS linked to the financial statements. However, in DE in addition to such assessment, they must assess whether the company's control system is designed and implemented effectively, in order to identify risks threatening the company's continued existence. In FR, in case of substantial deficiencies in internal controls, the statutory auditor must directly report to the management board or board of directors. No reference to the use of a specific certification system for ICS effectiveness has been identified in these selected Member States, nor were standardised methodologies for testing ICS effectiveness or monitoring improvements post-audit identified.

After the external audit of internal controls, it is standard practice for the Internal Audit Function or the audit committee to monitor the implementation of recommended improvements.

Table 2: US and Japan key actors for designing, implementing, and assessing ICS

US legal regime:

Several key actors are involved in the internal control governance in the US:

- **Board of Directors** – Holds ultimate responsibility for overseeing the company's internal control environment, including ensuring that effective internal control systems are in place.
- **Audit Committee** – A subset of the board composed of independent directors that oversees the company's internal control system, particularly internal controls over financial reporting (ICFR). It reviews and discusses the effectiveness of controls with internal auditors and management. It also oversees the external audit process, including the external auditors' assessment of ICFR.
- **CEO and CFO** – Responsible for evaluating and personally certifying the effectiveness of internal controls in annual reports (Form 10-K) as required by Section 302 of the SOX.

³² Historically in Italy, the so-called 'traditional model', which was the most popular model of corporate governance, implied that the internal control function was exercised by the board of auditors. In this context, there was no need for an additional role. With the evolution of corporate governance tradition and legislation, the role of internal auditor started to take shape. and it is now regulated in the Corporate Governance Code.

³³ This has been identified as a legal requirement in the following Member States: FR, DE, HR, IE, PL, SE.

- **Internal Auditors** – Assess and test the operational effectiveness of internal controls and provide independent assurance to management and the audit committee.
- **External Auditors** – Provide an independent assessment of the company's financial statements and the effectiveness of ICFR, reporting any material weaknesses or significant deficiencies to the audit committee and management.
- **Securities and Exchange Commission (SEC)** – Enforces compliance with disclosure requirements, investigates failures to disclose internal control systems (ICS), deficiencies or material weaknesses, and takes regulatory action when necessary.

Japan legal regime:

Several key actors are involved in the internal control governance in Japan, depending on the type of governance structure the listed company selects. The options are detailed in the comparison table below:

Governance structure	Board and Committees	Key internal control actors	External audit	Notes
Company with Kansayaku Board (audit body)	• Board of Directors and Kansayaku Board	• Board of Directors (may include outside directors) • Kansayaku (Company Auditors) (at least half must be from outside) • Internal Audit Dept. (common in large companies)	Accounting Auditor	Traditional model in Japan. Kansayaku are independent from the Board. At least one outside director is strongly recommended (comply-or-explain for listed companies)
Company with Audit & Supervisory Committee	• Board of Directors (with an Audit & Supervisory Committee)	• Audit & Supervisory Committee (majority must be outside directors) • Internal Audit Dept. (typical for large/ listed companies)	Accounting Auditor	Introduced as an alternative to the traditional Kansayaku system The Audit & Supervisory Committee is part of the Board but composed mainly of outside directors
Company with Three Committees	• Board of Directors and three Committees (Nomination, audit, compensation)	• The Audit Committee oversees internal controls and audits directors' performance • Internal Audit Dept.	Accounting Auditor	Often used by companies seeking stronger corporate governance -Each committee must have a majority of outside directors

As a summary, the **Board of Directors** is responsible for establishing and overseeing internal control policies. In all three governance structures, the **Audit-related body**—whether it is the Kansayaku (Audit & Supervisory Board), the Audit & Supervisory Committee, or the Three Committees—plays a key role in ensuring effective internal controls by reviewing internal control frameworks and evaluating their effectiveness in preventing violations or misstatements. **An Internal Audit Department** (where established) assesses and reports on internal processes and risk management. **The external Accounting Auditor** audits internal controls over financial reporting.

Communication and publication of effectiveness assessments of ICS

In several selected Member States, there is no specific reference to the publication or communication of the assessment of the effectiveness of ICS, except in DE, FR, NL and IT.

In DE, the Corporate Governance Code recommends that the management report describes the main characteristics of the entire internal control system and risk management system and provides comment upon the appropriateness and effectiveness of these systems. The internal controls report is not restricted to financial statements.

While it is not compulsory to issue a public statement about the effectiveness of the internal control, the Afep-Medef Code, which is the main corporate governance code for large listed companies in FR, recommends that each listed company implements reliable procedures for identifying, controlling, and assessing its commitments and risks. It also suggests providing shareholders and investors with relevant information. Specifically, companies should:

- Indicate in the annual report the internal procedures implemented for identifying and controlling off-balance sheet commitments, as well as for assessing the company's significant risks.
- Publish the company's ratings by financial rating agencies, along with any changes that occurred during the financial year.

In IT, the management report, which is published, must contain the management board's assessment of the adequacy of the internal control systems, as well as an explanation of the choice made regarding the composition of the internal audit function.

In NL, there is no specific reference to the publication or communication of internal control effectiveness assessments in the law. However, pursuant to the 2022 Corporate Governance Code³⁴, the management board must provide in the management report:

- The conduct of risk assessments, including a description of the principal risks faced by the company in view of its established risk appetite.
- The design and operation of internal risk management and control systems during the past financial year.
- Any major failings in internal risk management and control systems observed during the financial year.
- Significant changes made to these systems and planned major improvements, along with confirmation that these issues have been discussed with the audit committee and supervisory board.
- The sensitivity of the company's results to material changes in external factors.

Table 3: Communication and publication of effectiveness assessments of ICS in the US and Japan

US legal regime:

Public companies are required to report on the effectiveness of their internal controls through annual (10-K), quarterly (10-Q), and material event (8-K) disclosures to the SEC.

- **Annual Report (10-K Form):** A comprehensive annual report filed with the SEC by publicly traded companies which requires, inter alia, full ICS evaluations, CEO/CFO certification, and external auditor attestations.
- **Quarterly (10-Q) reports** require internal assessments of ICS but no auditor review.

³⁴ <https://www.mccg.nl/de-code>.

- **Material events (8-K):** A real-time disclosure of major corporate events that investors should know about within four business days (i.e. discovery of material weaknesses or control deficiencies, resignation or dismissal of the CEO, CFO, or key internal control personnel, and significant fraud or accounting irregularities).

Japan legal regime

In Japan, companies must describe their internal control systems when applying for listing on the Tokyo Stock Exchange (TSE) and, once listed, disclose corporate governance practices and internal controls through the Timely Disclosure Information System (TDnet), with many also voluntarily publishing this information on their websites. While companies are required to submit annual internal control reports under the FIEA, there is no legal obligation to issue public statements on their effectiveness, though some do so, following Corporate Governance Code (CGC) recommendations. Reporting on internal controls is codified in the FIEA and Companies Act, with audits conducted by company auditors (kansayaku), and financial auditors. There is, however, no legally mandated follow-up on audit recommendations on internal controls, though the board is expected to act on them, and shareholders can take legal action if deficiencies are not addressed, in line with Japan's Stewardship Code.

3.2.5. Systems of oversight and sanctions for corporate governance reporting

The Transparency Directive requires Member States to designate the national authority responsible for ensuring the application of its provisions. The Directive also lists the powers which should be vested in the designated competent national authority. The enforcement landscape varies across selected Member States, with some assigning broad powers to a single authority, while others distributing oversight and sanctioning responsibilities among multiple authorities.

In all EU Member States, the responsibility for signing and providing true and fair view statements as per Article 4(2)(c) of the Transparency Directive generally lies with the company's directors or management board. However, the specific requirements vary across jurisdictions:

- In DE, PT, LV, SE, IE, and HR, all board members must sign the statement.
- In FR, the responsibility falls on the chairman, director, or the general managers of the company.
- In IT, the manager in charge of preparing corporate accounting documents is responsible for signing and providing the statements.

The inclusion of true and fair view statements in financial reports also varies, for example:

- In DE, PL, PT, and SE, the statements are included in the annual report.
- In NL, they are included in both the annual report and the management report.

All selected Member States provide for sanctions targeting the person responsible in the company for signing and providing true and fair view statements, in the case of false statements. Some Member States also apply sanctions to statutory auditors (e.g. FR, NL, IE, PL).

MS	Natural person sanctions	Legal person sanctions
DE	• Incorrect Management Report: Up to 5 years' imprisonment, or a fine of up to EUR 10 million. • Less serious offences: Administrative fines.	• If the company was enriched by the offence, fines of up to EUR 10 million or more (if benefit exceeds this amount). • Administrative fine: EUR 50 000 to EUR 2 million, or twice the economic benefit derived.
FR	• In FR, the chairman, directors or general managers who do not give a true and fair image of the results of the financial year operations may be sanctioned by a prison term of five years and a fine of EUR 375 000. • The statutory auditor certifying the true and fair view statements may also face	• No reference to legal person sanctions. • Statutory auditors (legal persons) may be held liable for up to EUR 1 million or, if higher, the average amount of fees invoiced by the auditor to the person or entity concerned during the financial year in which the fault was committed and the two preceding financial years. If this information is unavailable, liability is capped at

MS	Natural person sanctions	Legal person sanctions
	disciplinary sanctions or other sanctions, including administrative pecuniary sanctions (for an individual: EUR 250 000).	the amount of fees invoiced during the financial year in which the fault occurred.
HR	Members of the management board who provide incorrect information on the financial situation of the company shall be punishable by a monetary fine or a prison term of up to two years.	5% of annual revenue but not less than 66 360 EUR, for failure of the listed company to publish prescribed information which significantly endangers the financial market. - In case of “non-endangering” failure to publish/deliver information, fines between EUR 33 180 – 66 360.
IE	Directors who approve the statements: If true and fair view statements are inaccurate, each director approving them is liable for fines (EUR 5 000 to 50 000) and/or 12 months to 5 years’ imprisonment if they knew about or were reckless as to the inaccuracy of the reports.	If the annual report does not present a true and fair view, the company can be fined EUR 5 000.
IT	Management board, directors, manager in charge of accounting, audit committee, liquidators: false or omitted information punishable by 3 to 8 years’ imprisonment.	An administrative fine corresponding to 800 to 1 200 “company shares” (value depends on share valuation).
LV	- Individuals may face administrative, civil, and/or criminal liability for false reporting. In addition, a person found guilty of hiding or forging documents or information as required by law, may face imprisonment for up to five years, depending on the aggravating circumstances. - A certified auditor is also disciplinarily, civilly, and criminally liable for their professional misconduct.	Companies may be sanctioned for failing to meet reporting obligations (no specific fine ranges provided in the law).
NL	Board members: false statements can trigger civil and/or criminal liability.	Companies may be sanctioned if they fail to meet obligations to publish/deliver required information (no detailed fine ranges provided).
PL	- Management members breaching duties to ensure compliance with accounting/reporting laws may be subject to criminal sanctions, i.e. a fine (of up to around EUR 250 000) or imprisonment for up to 2 years. - If a company violates its periodic disclosure obligations, the financial supervision authority may impose a fine on the members of the management board (up to EUR 250 000). - Management and supervisory board members may be subject to civil liability for the damages incurred by the company due to the lack of compliance with legal accounting/reporting obligations.	• If a company breaches its periodic reporting obligations (e.g. relating to the annual report), the financial supervisory authority may decide to exclude its securities from trading on the regulated market. It may also impose a fine of up to EUR 1,000,000 or 5% of the company’s total annual revenue as reported in the most recent audited financial statements—whichever is higher—or apply both sanctions simultaneously.

MS	Natural person sanctions	Legal person sanctions
PT	Directors/board members: intentionally misleading financial documents can result in up to 3 years' imprisonment or fines.	Fines: EUR 25 000 to EUR 5 million, or potentially more, based on the economic benefit derived and the company's turnover.
SE	False annual accounts: up to 2 years' imprisonment for the standard version of the offence; fines and/or up to six months if the offence is minor; 6 months to 6 years if serious.	None identified.

Across all Member States covered, directors, board members, or designated managers can face fines and/or imprisonment for false or misleading financial reporting. Many selected Member States also impose fines on the company itself, often tied to economic gains or the company's turnover. Imprisonment can range from a few months to up to eight years, while fines for individuals can reach up to EUR 10 million (DE). Corporate fines can reach millions (DE, PL, PT) or be tied to revenue (PL).

The possibility of substantial fines and imprisonment for false or misleading financial reporting acts as a strong deterrent, prompting companies to develop robust internal controls, reinforce management oversight, and strengthen external assurance measures. Nonetheless, the severity of sanctions varies across Member States, resulting in different degrees of deterrence in selected Member States, and most likely across the EU.

3.3. Overall conclusion on regulatory state of play on corporate governance in the EU

The legal mapping of corporate governance aspects influencing the quality of corporate reporting across selected EU Member States indicates a fragmented regulatory landscape in the EU. Member State jurisdictions often go into detail or go beyond the EU requirements, through their national laws or corporate governance codes resulting in diverging approaches across the EU. Furthermore, the regulatory landscape governing corporate governance is fragmented across multiple legal sources, ranging from hard law obligations to non-binding corporate governance codes that operate on a comply-or-explain basis. While legislation imposes mandatory duties that entities must adhere to, governance codes provide best practices that companies are expected to follow, unless they can justify deviations.

Some Member States impose more detailed disclosure requirements than those set out in the Accounting Directive. These may include information on audit committee functioning, indemnities for resignation or dismissal without just cause, compensation in cases of resignation, unfair dismissal or termination following a takeover bid, statements on the company's long-term viability, principles for determining remuneration, and benefits of corporate officers. National approaches also vary regarding the duration of public access and the format of publication.

In all selected Member States, listed companies are allowed to deviate from corporate governance requirements/practices based on explanation for such departure.

While companies generally have the freedom to choose between one-tier, two-tier board structures and mixed models, some jurisdictions mandate a specific model. Board composition requirements vary, with certain countries imposing rules on independence, rotation, and employee representation.

The establishment of specialised committees beyond the mandatory audit committee is largely voluntary, though recommendations for nomination and remuneration committees are common in corporate governance codes. Corporate reporting is primarily the responsibility of the whole

management board or board of directors, with liability regimes differing in terms of legal liabilities and exemptions, delegation of responsibilities, and oversight obligations. Conflict of interest rules require disclosure and monitoring of related party transactions, with some jurisdictions mandating public reporting for listed companies. External audits are required in all Member States, with the general assembly typically appointing auditors, though in some cases, supervisory boards or audit committees play a role in the selection process.

The analysis of shareholders' rights across Member States highlights significant divergences in implementation and additional national provisions that extend beyond the SRD. While the Directive provides a baseline, some countries offer enhanced rights, particularly concerning access to corporate information, and remote participation. Differences in meeting formats, notice periods, and voting rights reflect national governance traditions and regulatory preferences. These findings suggest that despite the SRD, national laws and corporate governance codes play a crucial role in shaping shareholder engagement and oversight.

The selected Member States have a fragmented approach to internal controls. While some Member States have detailed legal requirements or governance code provisions for internal control systems, others impose more limited obligations. Most of them do not require listed companies to systematically assess and publicly disclose the effectiveness of their internal control mechanisms. As a comparison, the US framework under the Sarbanes-Oxley Act (SOX) is highly prescriptive even though it does not mandate a descriptive narrative of control systems themselves. Listed companies must regularly evaluate and disclose the effectiveness of their ICS in annual (10-K) and quarterly (10-Q) reports. CEOs and CFOs must certify the accuracy of these disclosures, and external auditors must provide attestations on ICS effectiveness. Japan takes a middle-ground approach. Listed companies must establish internal controls under the Companies Act and FIEA. However, while companies are required to describe their ICS in annual reports and provide risk disclosures, there is no obligation to publicly certify their effectiveness. Unlike the US, Japan relies more on corporate governance codes and voluntary reporting.

The analysis of corporate governance reporting oversight and sanctioning frameworks across selected EU Member States reveals some variations in institutional responsibilities, enforcement mechanisms, and sanctioning approaches. Across all Member States, responsibility for signing and providing the true and fair view statements lies with directors or management boards.

Member States impose sanctions on directors, management board members, or designated managers for false reporting, including fines and imprisonment. Prison terms range from a few months to a maximum of eight years. Fines for individuals vary significantly, reaching up to EUR 10 million. Sanctions are also imposed on statutory auditors. Member States also impose sanctions on legal persons, often linked to economic benefits gained or company turnover. Fines for companies can be substantial, with some jurisdictions imposing penalties proportionate to financial gains. However, the severity and consistency of enforcement measures differ significantly across jurisdictions.

3.4. Analysis of the governance statements of corporate reports and internal control statements

To deepen the understanding of governance reporting practices across the 10 selected Member States (DE, FR, PL, IT, IE, NL, SE, HR, PT, and LV), a review of corporate reports was conducted. This analysis not only highlights prevailing reporting approaches but also serves as a foundation for identifying good practices in corporate governance through concrete examples.

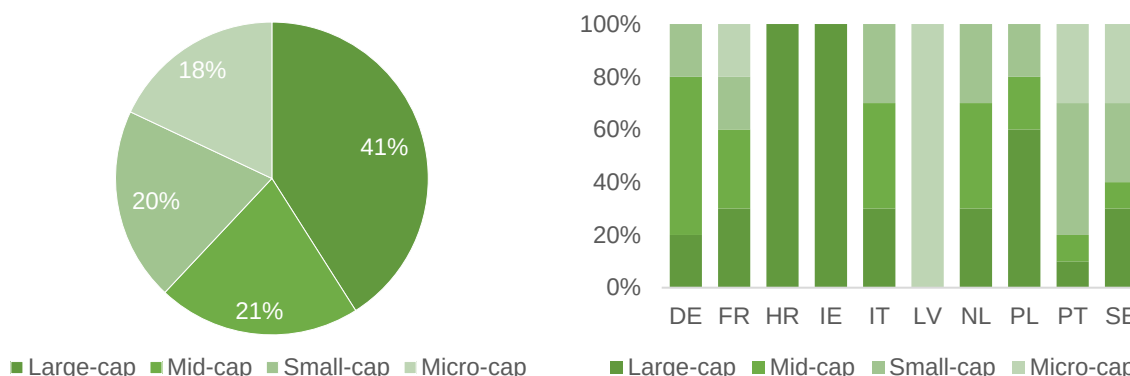
The assessment specifically focused on corporate governance statements and internal control statements, in line with the tender specifications and project objectives. By applying a structured scoring matrix, this section provides a systematic evaluation of the information disclosed in corporate

governance reports, offering insights into transparency, compliance, and the effectiveness of governance frameworks.

3.4.1. Overview of the scoring matrix results

The sample comprises 100 corporate reports from companies listed on their respective domestic stock exchanges. These companies represent a range of sizes according to their inclusion in various cap-index universes. As illustrated in the left-hand panel of Figure 1, a majority of the companies analysed belong to the large-cap category (41%), followed by mid-cap (21%), small-cap (20%) and micro-cap companies (18%). This diverse sample allows for a comprehensive understanding of corporate practices across different company sizes.

Figure 1: Sample of companies by size (in %) and across Member States (number of companies)



The right-hand panel of Figure 1 provides a visual representation of the distribution of company sizes across the selected Member States. In some cases, only companies from a single cap-index were selected. For example, all the companies in the samples from HR and IE are part of the large-cap index, while in LV, all the chosen entities fall under the micro-cap index. Conversely, countries such as FR, PT, and SE show a broader diversity in company size, reflecting a more varied representation across large-cap, mid-cap, small-cap, and micro-cap indexes. This variation highlights differences in market structures and corporate profiles across Member States.

The companies in the sample were also chosen to ensure representation across various sectors. A total of 17 NACE sectors are represented, with the largest proportion being from the manufacturing sector (37 companies), followed by information and communications (13 companies), financial and insurance activities (12 companies), and wholesale and retail trade (9 companies). The remaining companies are distributed across other sectors, including mining and quarrying, accommodation and food services, transportation and storage, and construction, among others. This sectoral diversity ensures that the analysis covers a broad range of industries.

3.4.2. Assessment of the Corporate Governance Statement

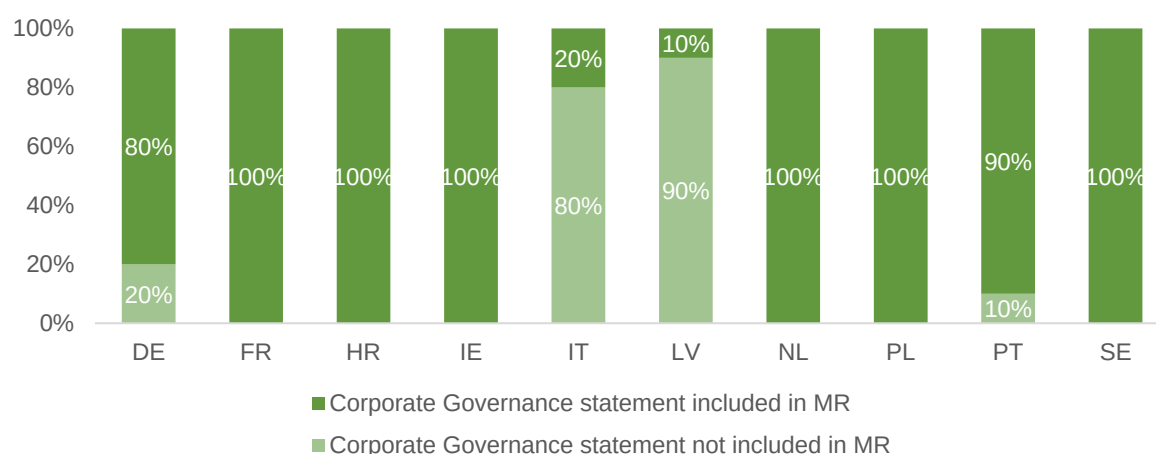
The analysis of corporate governance reporting practices shows that the presence of a corporate governance statement within the management report varies across Member States (see Figure 2). In most cases (i.e. 80 out of 100 companies), such as in FR, HR, IE, NL, PL, and SE, companies generally include the corporate governance statement directly within their management reports. However, this is not the predominant practice in all countries.

For example, in LV, around 90% of companies opt to publish their corporate governance statement as a separate document available on their websites. A similar approach is observed in IT, where

most companies follow this procedure, alongside a few companies in countries such as DE and PT. This trend of externalising the corporate governance statement reflects varying national practices and regulatory compliance approaches across the EU, as detailed in the legal mapping under 2.2.

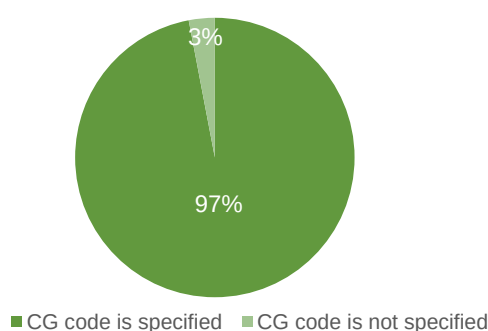
Additionally, all 80 companies that included a corporate governance statement in their management reports complied with Article 20(1) of EU Directive 2013/34/EU by ensuring it appears as a specific, distinct section. This demonstrates adherence to the Directive's requirement for transparency and structured corporate governance reporting, ensuring stakeholders can easily locate and assess governance practices within the management report.

Figure 2: Share of companies including a corporate governance statement in their management reports per Member State



In relation to the corporate governance code, the sampled companies generally follow the practice of referencing it in their corporate governance statements (see Figure 3). Only three companies do not mention any corporate governance code in their statements, and these are based in LV (2) and PL (1).

Figure 3: Share of companies specifying the Corporate Governance Code that the undertaking is subject to



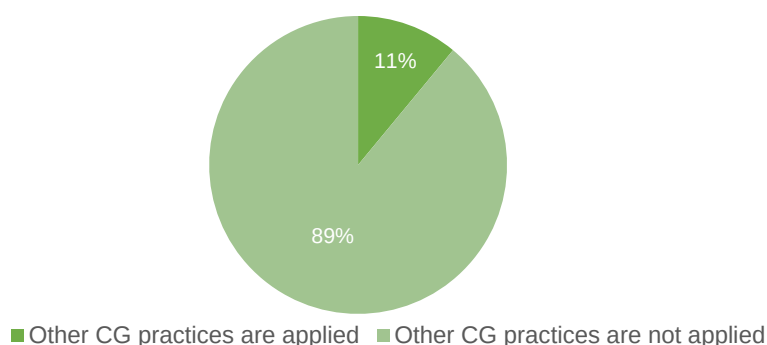
As for the corporate governance code that companies are subject to, no significant deviations were noted among listed companies within each Member State. Typically, companies reference the corporate governance code issued by their domestic stock exchange or the national commercial code. For instance, in DE, companies commonly cite Principle 23 of the German Corporate Governance Code, sections 289f and 315d of the German Commercial Code, as well as section 161 of the German Stock Corporation Act (AktG). In HR, all companies mention the corporate governance code of the Zagreb Stock Exchange, while Italian companies refer to the corporate

governance code drawn up by the Borsa Italiana. Similar practices are observed in other Member States. There are also three companies (two in LV and one in PT) which do not specify the corporate governance code that they are subject to.

Moreover, three companies in the sample voluntarily apply additional corporate governance codes or specific provisions beyond those issued by their domestic stock exchange or national commercial code. These include two large-cap companies and one mid-cap company. Specifically, one company listed on the Portuguese stock exchange has voluntarily adopted (on top of the CMVM Code) the Corporate Governance Code of the Portuguese Institute of Corporate Governance. Another company, listed on the German stock exchange, has chosen to comply with certain non-mandatory recommendations of the German Corporate Governance Code.

Certain companies go beyond the requirements established under national legislation by incorporating additional corporate governance practices. A total of 11 listed companies were identified as adhering to practices beyond the national corporate governance standards (see Figure 4), with the majority (7 companies) located in SE. These companies, which operate across various sectors – including financial and insurance, manufacturing, information and communications, and construction – adhere to supplementary governance frameworks. In particular, some Swedish companies reference the use of internal governing documents that define the rules of procedure for the board, guidelines for board committees, and other governance structures. Additionally, one Swedish company reports following a combination of internal and external corporate governance policies, though without specifying further details.

Figure 4: Share of companies specifying any CG practices applied over and above the requirements of the applicable national law



Additionally, two companies from IT and NL report applying foreign corporate governance codes, as they are also listed on international exchanges. The adoption of these extra practices may also be influenced by the sectors in which these companies operate. For example, some financial and insurance firms reference the European Banking Authority guidelines on internal governance in their corporate governance statements, as well as other pertinent regulations, such as the legal framework governing credit institutions.

3.4.3. Assessment of the Internal Controls Statement – content

As previously indicated in this report, the quality of corporate reporting hinges on compliance with existing frameworks. Article 20(1)(c) of Accounting Directive stipulates that listed companies must describe the main characteristics of their internal controls and risk management systems regarding the financial reporting process. Furthermore, corporate governance codes within the selected Member States have set detailed recommendations on internal controls and corporate reporting, as further detailed in the table below.

Corporate Governance Codes	Key recommendations on internal controls and corporate reporting
DE - <u>German Corporate Governance Code (DCGK)</u>	The management report shall describe the main characteristics of the entire internal control system and risk management system, and provide comment upon the appropriateness and effectiveness of these systems.
FR - <u>Corporate Governance Code of Listed Corporations 2022</u>	As part of monitoring the effectiveness of internal control and risk management systems and, where applicable, internal auditing of procedures relating to the preparation and processing of financial and non-financial accounting information, the audit committee hears those responsible for internal auditing and risk control and gives its opinion on the organisation of their services. It is informed of the internal audit programme and receives internal audit reports or a periodic summary of these reports.
HR - <u>2019 the Corporate Governance Code</u>	The management board, with prior approval of the supervisory board, must adopt risk management policy. The supervisory board must ensure that there are in place efficient structures, policies and procedures for identification, reporting, management and supervision of significant risk and ensure independence and efficiency of external and internal audit. The management board must recognise the risks, implement and keep appropriate risk management and internal control procedures and report to the supervisory board.
IE - <u>2024 Irish Corporate Governance Code 2024</u>	- The board should establish formal and transparent policies and procedures to ensure the independence and effectiveness of internal and external audit functions and satisfy itself on the integrity of financial and narrative statements. - The board should establish an effective risk management and internal control framework, and determine the nature and extent of the principal risks the company is willing to take in order to achieve its long-term strategic objectives. - The board should “monitor the company’s risk management and internal control systems and, at least annually, carry out a review of their effectiveness and report on that review in the annual report. The monitoring and review should cover all material controls, including financial, operational, reporting and compliance controls. - Both annual and interim financial statements should identify any material uncertainties the company is facing in the next 12 months and whether the board has a reasonable expectation of continuing operations over the period of assessment.
IT - <u>2020 Corporate Governance Code Borsaitalia</u>	- The Code set out a well-defined framework for internal control, composed of several control elements that involve all company resources. It recommends the setting up of an internal control and risk management system. - The management board must also report on internal controls, as part of the corporate governance reporting, to be done annually. - The board of directors defines the guidelines of the internal control and risk management system in accordance with the company’s strategies, and annually assesses its adequacy and effectiveness. - The board describes, in the corporate governance report, the main characteristics of the internal control and risk management system and the methods of coordination among the subjects involved. The report provides information about the national and international reference models and best practices adopted and the board’s overall assessment of the adequacy of the system itself.
LV - <u>2020 Corporate Governance Code</u>	The company has a documented internal control system, the establishment of which is the responsibility of the management board.

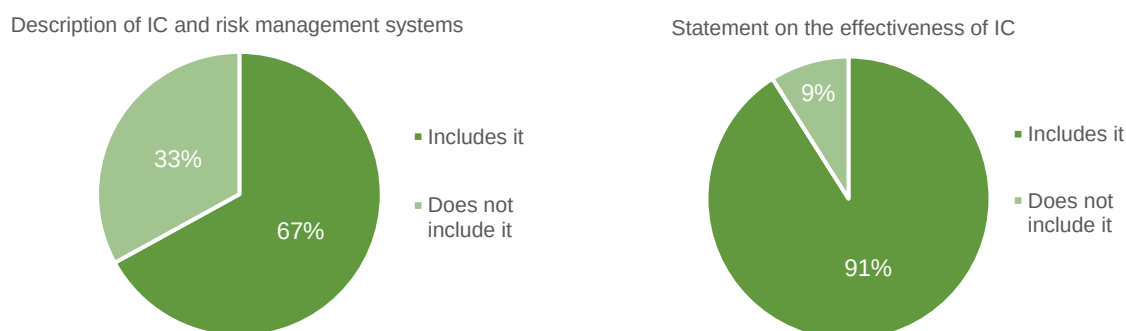
Corporate Governance Codes	Key recommendations on internal controls and corporate reporting
	• The internal audit evaluates the effectiveness of the internal control system at least once a year, taking into account pre-defined criteria and reporting the results of the evaluation to the supervisory board. • The supervisory board, at least once a year, examines the provided evaluation of the effectiveness of the internal control system.
NL - <u>Corporate Governance Code 2022</u>	• The management board must publish in the management report: – the conduct of the risk assessment, including a description of the principal risks facing the company in relation to its defined risk appetite; – the design and functioning of the internal risk management and control systems during the past financial year; – any significant failings identified in these systems during the financial year; – any major changes made to the systems, any planned improvements, and confirmation that these matters have been discussed with the audit committee and the supervisory board; – the sensitivity of the company's results to material changes in external factors. • The management board discusses the effectiveness of the internal risk management and control systems with the audit committee, and reports on it to the supervisory board. • The supervisory board should supervise the effectiveness of the company's internal risk management and control systems and the integrity and quality of the financial and sustainability reporting
PL - <u>WSE Good Practices Code</u>	• The supervisory board monitors the effectiveness of the internal control systems and functions based, inter alia, on reports periodically provided to it directly by the persons responsible for these functions and the company's management board. The supervisory board does an annual evaluation of the effectiveness of the functioning of these systems and functions. Where the company has an audit committee, it monitors the effectiveness of the internal control systems and functions. However, this does not exempt the supervisory board from doing an annual evaluation. • The annual report of the supervisory board includes, inter alia: – an assessment of the company's situation, including an evaluation of internal control systems, risk management, compliance, and internal audit functions, along with information about the actions taken by the supervisory Board to complete this assessment (which covers all significant control mechanisms, especially those related to reporting and operational activities); – an assessment of the company's application of corporate governance principles and the fulfilment of informational obligations regarding their application specified in the WSE Listing Rules and the APO and DMF, along with information about the actions taken by the supervisory Board to conduct this assessment.
PT - <u>Corporate Governance Code</u>	• Companies shall establish an internal control system aligned with their medium- and long-term strategies. This system should encompass risk management, compliance, and internal auditing functions. The purpose is to anticipate and mitigate the risks inherent in the company's activities, ensuring that the organisation operates within the confines of its risk policies and strategic objectives. • The board of directors must debate and approve the company's strategic plan and risk policy. This includes setting limits for risk-taking, ensuring that risks are managed consistently within the company's goals. • The internal control system must be appropriate to the company's size and the complexity of its risks, meaning that more complex organisations may require more robust and detailed control mechanisms.

Corporate Governance Codes	Key recommendations on internal controls and corporate reporting
	• The supervisory body must ensure that the risks incurred by the company are aligned with the objectives set by the board of directors. • The company should establish regular procedures for evaluating and adjusting its internal control system. This includes an annual evaluation to ensure that the system functions effectively and remains aligned with the company's evolving risk environment. • The company should have a dedicated risk management function responsible for identifying risks, assessing their likelihood and potential impact, and implementing appropriate tools and measures to mitigate them. • The Code recommends that companies collect and process data related to environmental and social sustainability, and incorporate it into their internal control systems. It requires the supervisory board to review the work plans and resources allocated to internal control functions, including risk management, compliance, and internal auditing.
SE – CGC	• The board must ensure that the company has formalised procedures in place to uphold established principles for financial reporting, sustainability reporting, and internal control. It must also ensure that financial and sustainability reports are prepared in accordance with the law, applicable accounting standards, and other requirements for listed companies. corporate governance report description of the most important elements in the company's system for internal control and risk management in connection with financial reporting also include the board's measures to follow up on the execution of internal controls and also that the reporting to the board is effective. • The board must ensure that the company has good internal controls.

To evaluate whether these internal controls contribute to high-quality reporting, various elements of the companies' corporate reports were assessed.

Firstly, the description of internal controls and risk management systems can be found in different sections of the management report. Most commonly, this information is located within the corporate governance statement, as evidenced by 67% of the sampled companies (see Figure 5, right-hand panel). This trend is consistent across five Member States (IE, IT, PT, SE, and NL). Conversely, approximately one-third of the companies adopt a different approach. For example, in FR and DE, the details regarding internal controls and risk management systems are presented in a separate and often extensive section of the annual report, typically labelled as "Risk management", "Risks and internal control", or "Control and procedures".

Figure 5: Share of companies in which the CG statement includes a description of IC and risk management systems (left-hand panel) and a statement on the effectiveness of IC (right-hand panel)



Secondly, the most prevalent practice among the companies in the sample is the inclusion of a statement regarding the effectiveness of internal controls within their corporate governance reports, observed in 91% of the assessed companies (see Figure 5, right-hand panel). For instance, such a statement often follows a structured format, as demonstrated by examples from the reports as follows:

- “As of 31 December 2023, the Executive Board has no information that would suggest that the internal control system and risk management system as a whole are inadequate or ineffective.”
- “The Audit Committee finds that in relation to financial reporting, risk management, compliance management system, internal and external audit engagement, there is no indication that internal control system does not work effectively.”
- “The Board has satisfied itself on the effectiveness of the internal control systems in operation and it has reviewed and approved the reporting lines to ensure the ongoing effectiveness of the internal controls and reporting structures.”
- “The Board conducted a review of the effectiveness of the Group’s risk management and internal controls systems, including financial, operational and compliance controls, and as part of this it obtained a report from the internal auditor. In the course of this review the Board did not identify, nor was it advised of, any failings or weaknesses that it determined to be significant.”

When analysing the data across Member States, this practice is consistently followed by all companies in six of the selected countries: FR, IE, IT, PT, SE, and NL. On top of that, and to offer a more comprehensive view of the effectiveness of internal controls, about one-fifth of the corporate governance statements reference other sections of the reports. For instance, many Dutch and Irish reports feature a “Risk management” section where the design and effectiveness of the internal control frameworks are thoroughly discussed.

In contrast, two companies provide a statement about the effectiveness of internal control outside their corporate governance reports. Specifically, the statement is included in the management report, often within sections titled “Risk Report” or “Risk and Opportunity Report”. Furthermore, seven companies do not include any statement regarding the effectiveness of the internal controls in either the corporate governance report or the management report.

Another important aspect is identifying the body responsible for preparing/drafting the statement on the effectiveness of internal controls. While companies do not typically make explicit references to “drafting”, this responsibility generally, lies with the body tasked with monitoring the internal control system – primarily the audit committee, often in collaboration with the internal control department. The audit committee subsequently reports on the outcome of the assessment to the board members, who are responsible for evaluating performance and deciding on the effectiveness of the internal control system. In almost half of the companies sampled in countries such as IE, IT, PT, and SE, the board of directors is responsible for overseeing the drafting of the internal controls statement. In other cases, such as in HR, DE, LV, and NL, this responsibility lies with the management board, often supported by the audit committee and internal control department. Some companies, however, make no mention of who is responsible for drafting the internal control statement.

Regarding the independence of board committee members, it is standard practice for companies to address this in their corporate governance statements. Of the 100 reports assessed, 90 included references to board independence. However, three companies (from HR and NL) explicitly acknowledged the non-independence of certain supervisory board members, while the remaining seven reports did not address the matter.

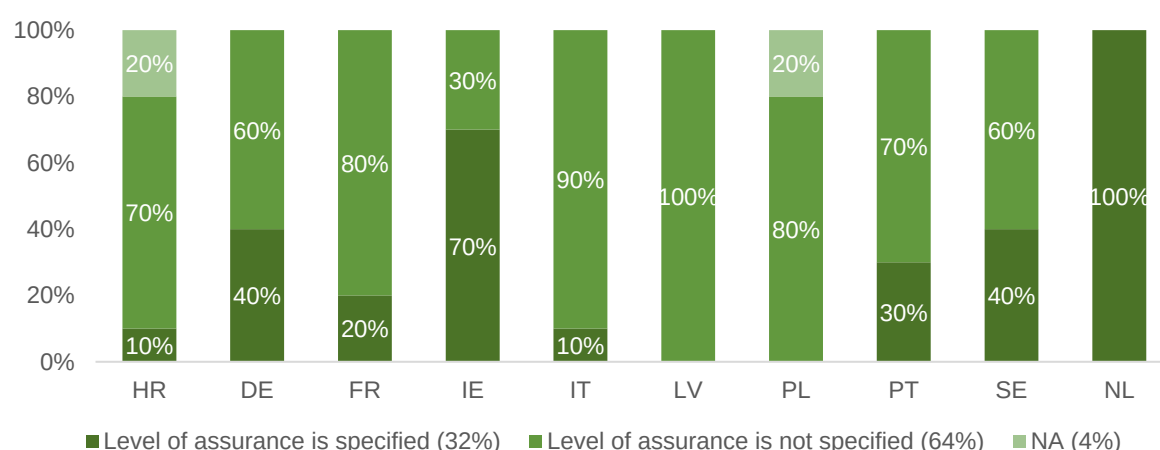
Moreover, anti-fraud measures are a crucial element of corporate governance. Among the sampled reports, 50% do not reference anti-fraud measures, while one-third provide detailed accounts of their

fraud prevention policies, programs and training initiatives. For example, one company highlighted the establishment of a dedicated “Fraud Prevention Committee”, while others emphasised the use of whistleblowing systems enabling anonymous reporting of fraud or other non-compliant activities. The remaining companies briefly mention fraud prevention as part of their internal control systems but provide limited detail on the specific measures implemented.

Additionally, the analysis examined whether the internal controls statements specified the level of assurance provided. This is particularly relevant given the responses to the European Commission’s public consultation, which highlighted calls for enhancing the role of the audit committee to provide such assurance, or establishing an internal audit function dedicated to this task.

Usually, the management board of a company is responsible for establishing the internal control system within the organisation. Such system is designed to provide assurance with regard to the accuracy of the financial statements³⁵ in accordance with the legal requirements, as well as to ensure that the operational risks are contained within the acceptable limits defined by the governing bodies. Overall, the reports generally do not specify the level of assurance on the effectiveness of internal controls (see Figure 6). Only companies in NL consistently provide this information, with a significant number of Irish companies following the same practice. Conversely, none of the Latvian companies include this detail, and the majority of companies in the other Member States also omit it.

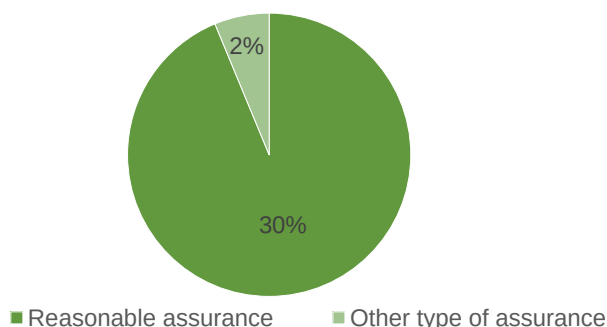
Figure 6: Share of companies in which the CG statement on internal controls specifies the level of assurance given on it



Interestingly, almost all companies that previously indicated providing assurance on their internal controls specified that it was at the level of “reasonable assurance” (see Figure 7). In contrast, some companies referenced terms such as “a certain degree of assurance” or “independent and objective assurance”.

³⁵ In some cases, assurance is also provided regarding the Company’s non-financial information.

Figure 7: Level of assurance provided (applicable to the CG statements on IC specifying the level of assurance) (in %)

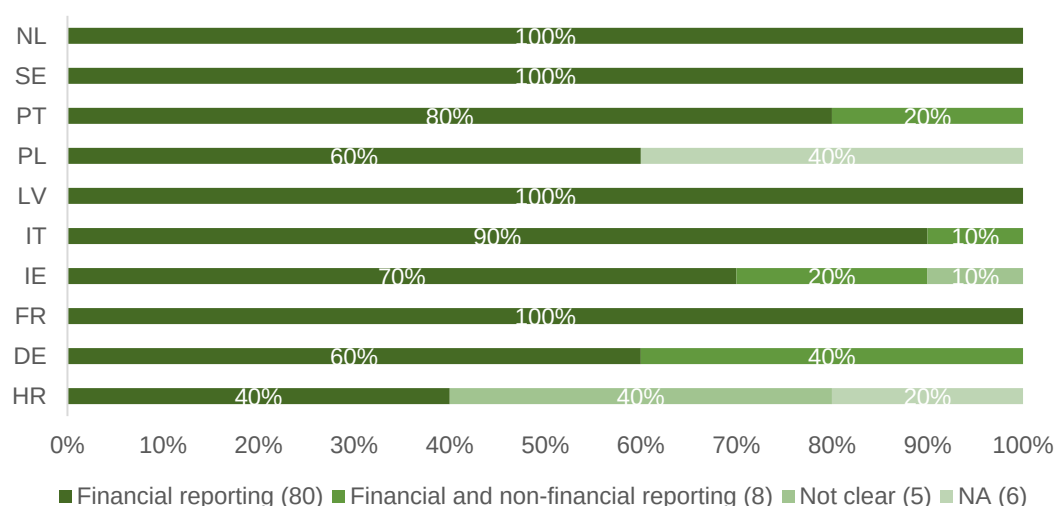


Regarding the body responsible for providing assurance on internal control effectiveness, none of the sampled reports cited external auditors as the source of this assurance. Instead, in most Dutch and German companies, the responsibility lies with the management board. In contrast, for Irish and Swedish companies, it typically falls to the board of directors. Notably, only one Swedish company explicitly identified the internal audit department as responsible for ensuring the effectiveness of the internal controls.

The corporate governance statement on internal controls can either focus solely on financial reporting or extend to include non-financial reporting as well (see Figure 8). There are notable differences between Member States, and even within individual Member States, regarding this practice.

Overall, most of the sampled companies focus exclusively on financial reporting when discussing internal controls and risk management systems. This trend is observed across all sampled companies in NL, SE, LV, and FR, as well as most companies in IE, PT, PL, and DE. However, a minority of companies – primarily in PT, IT, IE, and DE – include both financial and non-financial reporting in their statements on internal controls.

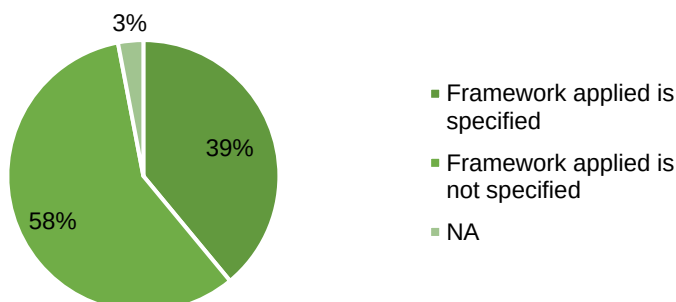
Figure 8: Coverage of different types of reporting in the CG statement on internal controls (in %)



An effective internal control system enables companies to identify and assess risks that could pose a threat to the organisation. It also ensures that the mitigating measures in place are functioning as intended. Various frameworks serve as guidance for evaluating internal controls and managing risks

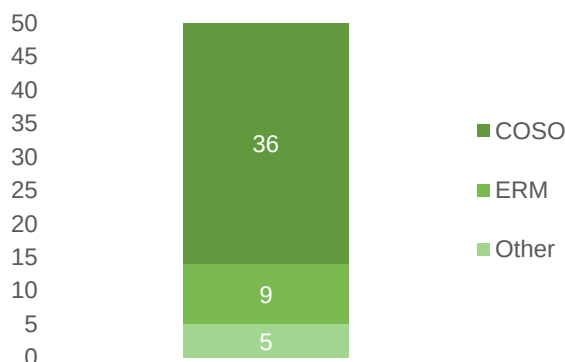
within a firm. The figures below illustrate the scoring matrix results from this assessment. More than half of the sampled reports do not mention the specific framework applied (see Figure 9). However, a significant number of reports specify the framework in their corporate governance statements on internal controls.

Figure 9: Specification of the applied framework on the CG statement on internal controls (in %)



Notably, nearly all companies specifying the framework refer to the COSO framework for internal control purposes (see Figure 10). This framework helps organisations design and implement internal controls as part of their business processes. Additionally, a few companies apply the Enterprise Risk Management (ERM) approach alongside the COSO framework. A minority of companies mention other frameworks, such as the guidelines published by the French Financial Markets Authority (FR), ISO 31000 (NL), the Minimum Requirements for Risk Management (MaRisk) from the German Federal Financial Supervisory Authority (DE), and the FRC Guidance on Risk Management, Internal Control, and Related Financial and Business Reporting (IE).

Figure 10: Framework applied in the CG statement on internal controls (number of reports)



Note: The figure represents responses to a question with multiple options, meaning companies could indicate adherence to more than one framework. As a result, the total number of responses in this figure (50) exceeds that of Figure 9 (39).

Another aspect on which corporate reports were assessed is the adherence to a specific framework for the internal audit function. In this context, 80% of the sampled companies do not specify adherence to any particular framework. This lack of specification was consistent across most Member States. However, Germany stood out as an exception, with a majority of reports indicating adherence to established frameworks such as the Professional Code for German Public Auditors and Chartered Accountants, as well as the Auditing Standards of the Institute of Public Auditors in Germany (IDW). Some companies in Ireland reported following the standards of the Chartered Institute of Internal Auditors (UK), while firms in NL and PL referred to their respective national

Institutes of Internal Auditors' standards.

When considering whether companies have made changes to their internal control system due to identified shortcomings or other factors, we observe that while most companies in the sample did not report any changes, seven companies did highlight modifications for various reasons. One company addressed financial reporting misstatements, while another cited updates to payment processes, reporting, and internal controls. Additionally, some companies made structural changes, such as appointing a Control, Risk and Sustainability committee, and enhancing IT-related controls. One company reported that internal audits of risk management revealed significant, though not critical, issues related to stress testing, validation processes and internal controls. Another company updated its corporate procedures related to financial reporting processes.

3.4.4. Assessment of the Internal Controls Statement – usefulness

To assess the usefulness of internal control statements in describing the presence and effectiveness of internal controls within a company, a scoring matrix was developed with a scale ranging from 1 to 10. Each internal control statement received a score from “completely useless” (score of 1) to “comprehensive and exhaustive” (score of 10). A statement classified as completely useless might omit any discussion of internal controls or provide irrelevant information, making it impossible to determine whether any internal controls exist within the company. Conversely, the highest score is awarded to statements that encompass all essential aspects of internal control, including design, implementation, oversight, and accountability (see Annex I for further information), as well as roles, processes and effectiveness of internal controls (see Annex II for further information).

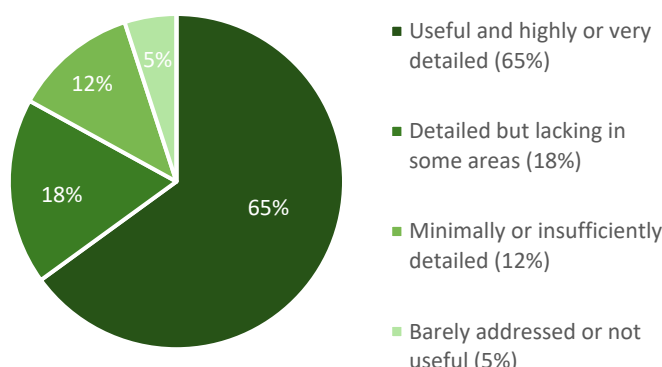
As regards the sense of presence of internal control through its description, overall, the majority of the evaluated internal control statements appear to be useful and are detailed enough to assess the extent of the internal controls (see Figure 11). Analysing the data by country, most statements from Swedish, German, and Italian companies are categorised as highly detailed, which means they clearly outline key features, responsibilities, and frameworks regarding internal controls. This level of detail facilitates identifying which internal controls are implemented within these firms. Conversely, many companies in NL and IE exhibit very detailed reporting on the existence and structure of internal controls. Notably, the companies in these groups are primarily large- or mid-cap firms, with almost half operating in the manufacturing sector, followed by those in information and communication, as well as financial and insurance activities.

On further examination of the remaining companies, some internal control statements appear to be detailed but lack information in certain areas. This is particularly evident in about half of the Portuguese reports, which fail to mention the role of internal audit or specifics related to risk management processes. Additionally, several internal control statements are identified as moderately detailed. This indicates that the reports acknowledge the presence of internal controls; however, it is challenging to ascertain the extent of these controls due to incomplete or vague explanations. A considerable number of Croatian reports fall into this category.

The last category consists of internal control statements that provide minimal details or scarcely address the existence of internal controls within the company. All Latvian companies are categorised under one of these two classifications. In the former situation, the selected statements recognise internal controls; however, they offer minimal or no further details. This absence of information makes it quite difficult to evaluate the extent or effectiveness of internal controls in these companies.

Lastly, two statements were found to be unhelpful in assessing the presence of internal controls within the companies. In both instances, with the companies located in HR and PL, there is no mention of internal controls in their management reports.

Figure 11: Usefulness of the Internal Controls Statement for assessing to what extent internal controls are present (in %)



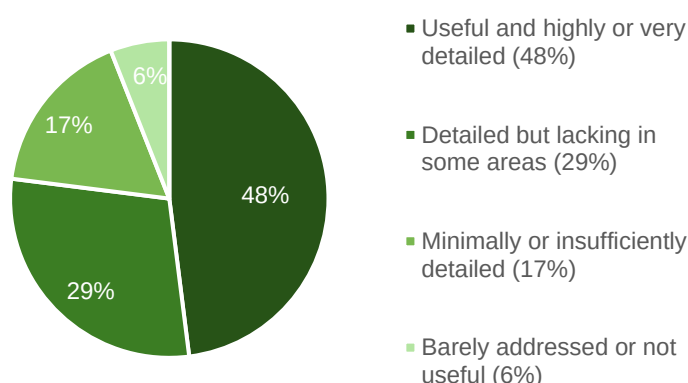
As regards the assessment of the effectiveness of internal controls, a symmetric analysis was performed to evaluate this within the sampled companies (see Figure 12).

Consistent with the previous findings, most companies from countries such as DE, SE, IT, and IE provide in the statements sufficient details that are useful and highly or very detailed and enable the reader to better assess the effectiveness of internal controls. By outlining the structure, responsibilities, roles, and processes within the organisation, these statements facilitate an understanding of the robustness of the internal controls. In specific cases, such as in IT, the statements provide comprehensive details about the reporting process (e.g. detailing who reports to whom), and some reports are notably extensive, exceeding 100 pages. Additionally, a considerable number of French and Portuguese companies also fall into these categories.

Conversely, many of the assessed statements from companies in NL appear to be detailed yet lack information in specific areas. In some instances, the design of the internal control system is either inadequately developed or not described at all, which makes it difficult to gauge their strength.

The remaining sampled companies have internal control statements that range from minimally detailed to unhelpful for assessing the robustness of internal controls. It is particularly challenging to understand how the internal control system functions based on the basic and limited information provided in the reports. Moreover, in certain cases, assessing the presence of internal controls is even problematic, categorising these companies under the lowest scores. As noted in the previous figure, all Latvian companies in the sample are characterised by vague or superficial information concerning internal controls, often lacking any detail about their operation. Notably, over half of the companies in the sample that belong to the micro-cap index received the lowest scores regarding the usefulness of their internal control statements.

Figure 12: Usefulness of the Internal Control Statement for assessing the effectiveness of internal controls present (in %)



3.5. Main findings on the assessment of corporate governance reports

The assessment of the corporate governance reports reflects certain points in common, but also significant differences in the practices followed. This is also true of the regulatory frameworks applied by the companies in the selected EU Member States. Despite not being the predominant practice in all countries, in most cases (80% of the assessed companies reports), companies include the corporate governance statement directly within their management reports. Exceptions are found in countries such as LV and IT, where a significant number of companies opt to publish their corporate governance reports as a separate document on their websites.

In terms of compliance with the relevant EU framework, most sampled companies appear to comply with Article 20(1) EU Directive 2013/34/EU, specifying adherence to the Directive's requirements in terms of transparency and structured corporate governance reporting. Furthermore, the majority of companies also refer to the corporate governance code followed, which is typically the code issued by their domestic stock exchange or the national commercial code.

The evaluation of the internal control reporting disclosed by companies suggests the existence of certain differences in terms of the practices followed across countries. While companies in FR and DE tend to provide a detailed description of their internal control and risk management systems in a separate and often extensive section of the annual report, most of the remaining companies provide it within the corporate governance statement section. In addition, the inclusion of a statement with regard to the effectiveness of internal controls is frequently observed in the sampled reports (91% of the assessed companies reports), often following a structured format.

Despite not always being specified in the companies' reports, the responsibility for monitoring the internal control system appears to be a task of the audit committee, who then report the results to the company board. In many companies in countries such as IE, IT, PT, and SE, the board of directors seems to be responsible for overseeing the drafting of the internal control statement, while in other Member States such as HR, DE, LV, and NL, this responsibility typically lies with the management board, but is supported by the audit committee and the internal control department. Furthermore, references to board independence are usually included in the assessed reports (90% of the assessed companies reports), while anti-fraud measures were only encountered in half of the companies' reports.

As for the assurance on the effectiveness of internal controls, most companies did not specify the level of assurance. Exceptions are found in NL and IE, where a significant number of companies

provide such information consistently, most of them specifying reasonable assurance.

Notable differences are encountered across Member States when looking at the scope of the corporate governance statement on internal controls. In general, most sampled companies focus solely on financial reporting, with a few companies specifying the inclusion of both financial and non-financial reporting in their internal control statements. In addition to this, the specification of the framework used in their corporate governance statements on internal control is mentioned by less than half of the sampled companies' reports only, which usually refer to the application of the COSO framework.

The assessment of the usefulness of corporate governance statements on internal controls reveals that while most reports provide valuable insights, some lack information in key areas. Reports from companies in DE, SE, and IT are among the most detailed, covering key features, responsibilities, and the frameworks used for internal controls. In contrast, half of the assessed Portuguese companies fail to mention the role of internal audits or provide specifics related to risk management processes.

Similarly, some Croatian companies acknowledge internal controls but offer only moderate detail, with limited explanations of their functioning. Latvian companies, on the other hand, provide minimal or no detail on internal controls, making it difficult to assess their presence or effectiveness. Finally, when evaluating the effectiveness of internal controls, reports from companies in DE, SE, IT, and IE generally offer sufficient detail for assessment, whereas most Latvian companies lack substantive information on how their internal controls operate and whether they are effective.

4. Factors underpinning the quality of corporate reporting

The literature identifies a range of factors influencing the quality of corporate reports. Central to the concept of high-quality reporting is the principle of transparency and the requirement to provide a '**true and fair view**' of a company's financial and non-financial performance. These principles, enshrined in the Accounting Directive and Transparency Directive, mandate that financial statements should accurately represent a company's assets, liabilities, financial position, and profit or loss, while management reports must present a fair review of business developments. As such, corporate governance practices should ensure sufficient transparency to uphold these principles and facilitate stakeholders' ability to evaluate business practices accurately.

Academic literature³⁶ shows that **management discretion** is a significant determinant of reporting quality, with both positive and negative implications. Research demonstrates that management practices, such as **impression management**³⁷, can distort the presentation of corporate performance. Narrative reporting, which provides qualitative insights into operations and strategy, is particularly susceptible to such distortions. The quality of narrative disclosures is therefore often assessed based on their relevance to stakeholders and their ability to provide meaningful information about economic performance and non-financial impacts.

Corporate governance frameworks also play a pivotal role in shaping reporting practices³⁸. Internal

³⁶ Michelon, G., Sealy, R., & Trojanowski, G., (2020), Understanding research findings and evidence on corporate reporting: An independent literature review, commissioned by the Financial Reporting Council. See [link](#).

³⁷ Impression management is a deliberate or involuntary process where individuals try to shape others' perceptions by managing and controlling information. See, for instance: Melloni, G., Stacchezzini, R., & Lai, A., (2016), The tone of business model disclosure: An impression management analysis of the integrated reports, *Journal of Management and Governance*, 20(2), 295–320.

³⁸ de Villiers, C., and Dimes, R., Determinants, mechanisms and consequences of corporate governance reporting: a research framework, *Journal of Management and Governance*, (2021), 25:7–26.

factors, such as organisational culture, managerial incentives and stakeholder relations, interact with external pressures, including legal requirements, stakeholder activism and media scrutiny. **Formal governance mechanisms**, such as performance monitoring and risk evaluation, complement informal practices, such as fostering an ethical corporate culture. Corporate governance structures implement many of these frameworks, in turn affecting reporting outputs.

Audit practices and their integration within corporate governance frameworks are also crucial to understanding the drivers of reporting quality. While audits enhance the reliability of financial reporting, their role in sustainability and corporate social responsibility disclosures remains less clear. This uncertainty is attributed to the lack of standardised practices for non-financial reporting and ambiguous assurance guidelines³⁹. Cross-national disparities in the transposition and enforcement of EU audit legislation further complicate the reliability of audit outcomes⁴⁰. Nevertheless, **internal audits and controls and their reporting** are seen as essential for creating accountability within corporate governance structures and ensuring comprehensive outputs for stakeholders.

Finally, country-specific influences also underscore the complexity of corporate reporting. National legal frameworks, cultural norms, and levels of stakeholder activism introduce significant variability in reporting practices. The growing trend towards broader non-financial disclosures reflects the increasing prominence of **stakeholder theory**⁴¹, which emphasises the need for transparency and accountability to a wide array of stakeholders beyond investors.

The following sections provide a deeper analysis of these factors, drawing on insights from survey responses (see Annex III), interviews, and case studies (e.g. on current national legal frameworks and corporate governance codes across countries, or on past scandals). These insights help illustrate how regulatory and governance structures contribute to enhancing corporate reporting quality. Note, however, that it is sometimes difficult to identify a clear impact of implementing corporate governance practices on the quality of corporate reporting, given the influence of additional factors beyond governance itself.

4.1. Ethical leadership, board structure and diversity

Clear, principled decision-making at high levels sets the tone for organisational behaviour and reporting standards. Fostering **ethical leadership** at the board and senior management levels therefore constitutes an important pillar of corporate governance. By maintaining a culture of transparency and accountability, senior leaders play a key role in ensuring the accuracy and reliability of both financial and non-financial reporting. Moreover, **board diversity**, encompassing gender, expertise, and professional experience, emerges as another mechanism for enhancing corporate reporting quality by introducing multifaceted perspectives, and ensuring more robust, comprehensive and transparent decision-making processes.

The role of ethical leadership in promoting corporate transparency was widely acknowledged across

³⁹ Michelon, G., Sealy, R., & Trojanowski, G., (2020), Understanding research findings and evidence on corporate reporting: An independent literature review, commissioned by the Financial Reporting Council. See [link](#).

⁴⁰ European Commission: Directorate-General for Financial Stability, Financial Services and Capital Markets Union, Study on the Audit Directive (Directive 2006/43/EC as amended by Directive 2014/56/EU) and the Audit Regulation (Regulation (EU) 537/2014) – Final report, Publications Office of the European Union, 2022, <https://data.europa.eu/doi/10.2874/374003>.

⁴¹ Stakeholder Theory is a view of capitalism that stresses the interconnected relationships between a business and its customers, suppliers, employees, investors, communities, and other interested parties. See, for instance: Debbie Thorne McAlister, Debbie M. Thorne, O. C. Ferrell, Linda Ferrell, 2003, Business and Society: A Strategic Approach to Corporate Citizenship (Houghton Mifflin, Boston, MA).

stakeholder groups. Academic researchers from DE, NL and SE highlighted its substantial impact on fostering accountability and integrity in corporate reporting. This perspective was reinforced by audit professionals, with 91% of them emphasising that strong ethical leadership at board level is critical to improving the accuracy and the quality of corporate disclosures. Additionally, 84% recognised board diversity as a key factor in enhancing transparency. A notable example is FR, where the “Copé-Zimmermann” law (see Table 4), aimed at increasing diversity among board members, has been credited with strengthening corporate reporting practices by ensuring a broader range of perspectives in governance and decision-making, as further detailed below.

Table 4: Identified good practice related to board diversity

The “Copé Zimmermann” law in France⁴²

Adopted in 2011, the aim of the Copé-Zimmerman law was to enhance gender diversity in corporate leadership by requiring companies with over 500 employees or EUR 50 million in revenue to ensure that at least 40% of board seats were held by women by 2017. This initiative aligned with similar legislative efforts across the EU, following the precedent set by Norway’s 2006 gender quota law.

By 2017, all CAC40-listed companies headquartered in France had met the quota, demonstrating the law’s effectiveness in promoting gender balance at board level. However, some multinational firms headquartered abroad (e.g. Airbus, ArcelorMittal) fell short due to differences in national regulations.

Despite this progress, gender diversity in executive committees remained limited, prompting further legislative action. In response, France introduced the Rixain Law, the first in a Western country to extend gender quotas beyond boards, mandating a 40% representation of women in executive committees by 2029. This evolution reflects the continued commitment to fostering inclusivity and improving corporate governance through diverse leadership.

Board members and senior management respondents also strongly emphasised the role of ethical conduct in enhancing the quality of corporate reporting. The majority considered ethical leadership a crucial factor, with diversity on the board having a notable impact on reporting quality across all respondent groups. Moreover, expertise in financial reporting and corporate governance was widely recognised as essential, particularly among surveyed board members and senior executives. Several national competent authorities and professional business associations (DE, IE, NL, PL) underscored the importance of not only fostering diversity but also ensuring that board members possess the necessary skills and expertise, regardless of gender. For these stakeholders, avoiding a ‘box-ticking’ approach to board composition is essential to maintaining high governance standards.

In this context, most board member respondents agreed that governance training for board members and executives is highly valuable in strengthening corporate reporting quality. Interestingly, while one respondent noted that corporate governance structures influence reporting quality, the majority either did not perceive any impact (50%) or were uncertain (33%). The respondent who identified a link pointed to specific governance structures that enhance reporting quality, including a two-tier board structure with separate management and supervisory boards, independent audit committees, and robust internal control mechanisms.

Further insights from professional business organisations, corporate governance experts, and users of corporate reports reinforced the perception that board diversity enhances reporting quality. Among seven respondents representing organisations with an interest in corporate reporting, four (IT, PL, HR, DE) indicated that ethical leadership plays a significant role, while three (SE, LV) viewed its contribution as moderate. Regarding board diversity, five out of seven acknowledged its positive influence, with three (IT, DE, PL) considering it highly beneficial and two (IT, SE) seeing it as moderately impactful. Additionally, perspectives on executive compensation structures, particularly performance-based pay, were mixed. While four respondents (IT, PL, LV, HR) believed it moderately

⁴² The following summary is based on: Ferrary, M., (2024), The French approach to promoting gender diversity in corporate governance, *European Management Journal*. See [link](#).

improves reporting quality, one (IT) viewed its impact as strongly positive, whereas two (SE, PL) remained neutral, suggesting that its effectiveness depends on specific organisational and regional contexts.

4.2. Board oversight accountability and independence

Board oversight, accountability and independence are fundamental governance mechanisms that enhance the quality of corporate reporting through active supervision of both financial and non-financial disclosures. By defining clear responsibilities, ensuring personal accountability, and providing strategic guidance on reporting practices — including compliance with regulatory standards — senior leadership establishes a robust framework to mitigate reporting risks and uphold organisational transparency, integrity, and reliability.

Table 5: Strengthening board governance: lessons learnt from past scandals⁴³

The scandals involving Wirecard, Parmalat, Royal Imtech, Enron, and Satyam collectively underscore the vital importance of strong board oversight, accountability, and independence in corporate governance. These cases reveal how ineffective or compromised governance structures – marked by weak oversight, conflicts of interest, and inadequate internal controls – enabled financial fraud and misreporting, leading to devastating financial and reputational losses. Each scandal prompted regulatory reforms aimed at reinforcing board independence, improving audit quality, and enhancing transparency in financial disclosures. These measures highlight the necessity of vigilant oversight to safeguard stakeholder trust and ensure the integrity of corporate operations.

Some concerns were raised by interviewed stakeholders regarding existing corporate governance practices in this context. For instance, ICGN criticised the practice of combining the roles of CEO and board chair in certain countries (e.g. FR), as it makes it difficult to challenge the board. This may have implications for the impartiality of corporate reporting, as responsibility for preparing the corporate governance report rests with either the management board or the supervisory board. EcoDA pointed out that improvements can be made in board assessments and external evaluations of board performance, which are not standardised at EU level.

Survey respondents across all stakeholder categories expressed a unanimous consensus with regard to how foundational board oversight is for improving the quality and transparency of corporate reporting. For example, 96% of surveyed auditors consider that board oversight is either of very or extreme importance. In practice, the board of directors' supervision of regulatory standards compliance and corporate reporting seem to be carried out moderately well according to the respondents (82% of the respondents). However, a few surveyed auditors indicated that they perceived a neutral or poor performance in this sense (18% of the respondents). In line with this, 71% of the surveyed national competent authorities believe that the board of directors in their jurisdictions are fairly engaged in overseeing corporate reports so as to ensure compliance with the standards.

Regarding the role of the management, more than half of audit body respondents believe that senior management is mostly or fully accountable in ensuring accuracy and transparency in corporate reporting. However, for a significant number of respondents, the existing corporate governance frameworks are not very effective in holding management accountable for the accuracy of both financial and non-financial reporting (45% of the respondents). In relation to non-financial reporting, over half of auditor respondents indicated that the governance frameworks mostly or fully support its transparency and accuracy. Nevertheless, more than one-third of the surveyed auditors believe there is only partial support of such frameworks for non-financial reporting.

Insights gathered from interested organisations corroborate with the fact that senior management

⁴³ See Annex VI for detailed summary of past scandals.

accountability and board independence are acknowledged as critical. Among six respondents, four rated management as fully accountable (IT, SE, PL, LV), one as mostly accountable (DE), and one as somewhat accountable (HR). Six respondents acknowledged the benefits of board independence for corporate reporting quality, with three (IT, PL, LV) highlighting a significant contribution and the other three noting a more moderate impact (SE, HR, IT). One respondent from Germany remained neutral, reflecting that while board independence is broadly beneficial, its perceived influence on reporting quality varies.

Senior management accountability was also rated highly by professional business organisations, with more than half of survey respondents from this category describing management as fully accountable for reporting quality (DE, PT, LV, FR). Others viewed management as mostly accountable (DE, PT, IE, HR), indicating room for improvement and suggesting that while management is largely seen as responsible, mechanisms to ensure full accountability could be strengthened. Board independence was seen as a meaningful factor in improving reporting quality, though views varied. Three participants acknowledged board independence as contributing to a great extent (LV, FR, DE), while four others perceived it as contributing to some extent (FR, PT, IE, HR).

Interestingly, among management and board members of companies with securities listed on an EU-27 capital market, all respondents consider that the company's management is fully accountable for the accuracy and integrity of corporate reporting. Most respondents give a high or very high importance to the independence of the board in contributing to the quality of corporate reporting.

Among national competent authorities and standard-setters, 43% of the respondents agree on the degree of accountability of senior management for ensuring accuracy and transparency of corporate reporting, indicating that it is mostly or fully accountable for it. National authorities also stressed the importance of board independence for contributing to the quality of corporate reporting. For three authorities, an independent board helps to improve, in a moderate way, the quality of corporate reporting. In addition, two other respondents reported that such contribution is even greater, as it significantly improves the quality.

Table 6: Identified good practices to strengthen board oversight

“Senior Executive Accountability Regime” (SEAR) in Ireland

Introduced as part of Ireland's Individual Accountability Framework (IAF) Act 2023 and in effect since 2024, the Senior Executive Accountability Regime (SEAR) applies to various financial entities, including relevant credit institutions, insurance undertakings, investment firms, and certain third-country branches of these. It is overseen by the Central Bank of Ireland (CBI), which retains the discretion to extend its scope to additional sectors in the future. SEAR forms a cornerstone of the broader IAF and is aimed at enhancing accountability within Irish financial services and ensuring robust governance practices. It places an obligation on firms to clearly define where responsibilities and decision-making authority lie within their senior management. By requiring organisations to identify and document these responsibilities, SEAR seeks to prevent ambiguity and ensure accountability is embedded into the operational fabric of financial institutions.

Under SEAR, firms are required to allocate statutory duties, known as the Duty of Responsibility, to individuals performing pre-approval-controlled functions (PCFs). These obligations ensure that specific individuals are held accountable for decisions and actions within their remit. While mandating accountability, SEAR also offers flexibility, allowing firms to tailor the allocation of PCF responsibilities according to their unique organisational structures and operational models. This ensures that the framework is adaptable while maintaining rigorous governance standards.

Two critical documents underpin the implementation of SEAR, promoting transparency as well as serving as tools for internal and regulatory oversight.

- The **Statement of Responsibilities** is prepared for each individual in a PCF role and outlines the inherent, prescribed, and additional responsibilities allocated to the individual, clarifying their specific duties.

- The **Management Responsibility Map** offers a comprehensive overview of the organisation's governance and management arrangements. This map is designed to ensure there are no gaps in material responsibilities, fostering an environment of accountability throughout the company.

Individuals in PCF roles who fail to adhere to their responsibilities may face sanctions imposed by the CBI, including monetary fines. This emphasis on enforcement is intended to deter misconduct and reinforce a culture of accountability within the financial sector.

By placing accountability and governance at the forefront, SEAR aims to build trust and confidence in financial institutions while ensuring senior executives' accountability. As the regime evolves, its scope may broaden, potentially setting a new governance standard for the sector. This regulatory framework is not just about compliance but about embedding a culture of integrity and responsibility at every level of financial organisations.

Annual shareholders' vote on sustainability reporting – Switzerland and Spain

The Swiss and Spanish annual shareholders' vote on sustainability reporting was mentioned as a good practice in the survey.

The 2022 revision of the Swiss Code of Obligations (CO) introduced a unique requirement for certain companies to submit their non-financial reports for shareholder approval⁴⁴. Under this obligation, the sustainability report must be approved and signed by the company's highest governing body at the annual general meeting (AGM), following its mandatory submission by the board of directors. This new reporting requirement became mandatory for the first time in 2024. It applies to Swiss public companies⁴⁵ as well as prudentially supervised financial institutions that have at least 500 full-time employees and have either at least CHF 20 million in total assets or at least CHF 40 million in turnover, both at the consolidated level.

Regarding the sustainability report, the Swiss CO specifies that it must include information on environmental, social and employment matters, as well as respect for human rights, and anti-corruption efforts. Additionally, companies must provide sufficient context to allow for an informed assessment of their business performance, results and overall condition, including the impact of their activities on the specified non-financial areas. Furthermore, the Swiss CO requires the company's highest governing body to ensure that the non-financial report is published online immediately after approval and remains publicly accessible for at least ten years.

A comparable requirement exists in Spain. Since 2018, Spanish companies with more than 250 employees have been required to produce a non-financial report and present it as a separate agenda item for approval at the AGM⁴⁶. Unlike the Swiss CO, which does not explicitly clarify whether the shareholder vote on the sustainability report is binding or advisory, the Spanish framework explicitly mandates a binding vote.

4.3. Audit committees

Audit committees play a crucial role in enhancing the integrity and effectiveness of corporate governance structures. By reviewing financial statements prior to their publication, they ensure the accuracy, consistency, and compliance of financial reporting. Their oversight of internal controls and risk management frameworks strengthens an organisation's ability to identify and mitigate potential vulnerabilities. Engagement with external auditors fosters independent scrutiny, which enhances the credibility of financial information. Furthermore, audit committees uphold transparency by ensuring the reliability of both financial and non-financial disclosures, thereby bolstering stakeholder confidence and promoting accountability within the organisation.

The extent to which audit practices (internal or external) are integrated within corporate governance systems and codes is a key consideration in the context of understanding the drivers of reporting quality. While audits and assurance are considered to enhance the quality of financial reporting, their

⁴⁴ Article 964c of the Swiss Code of Obligations (CO), available at: https://www.fedlex.admin.ch/eli/cc/27/317_321_377/en#part_4/tit_32/chap_6/lvl_C.

⁴⁵ Swiss public companies comprise entities with listed securities but also Swiss companies with bonds outstanding or entities that contribute at least 20% of the turnover or assets to the consolidated accounts of a company with listed shares or outstanding bonds.

⁴⁶ <https://www.boe.es/buscar/doc.php?id=BOE-A-2018-17989>.

impact on sustainability and corporate social responsibility reporting is found to be less clear. This uncertainty mainly stems from the lack of standardised reporting practices, unclear assurance guidelines (including concerns about materiality thresholds) and the relatively new, undeveloped nature of non-financial reporting systems⁴⁷. The recent 2022 study on the Audit Directive and Audit Regulation⁴⁸ evidenced that significant disparities remain between countries in the transposition, implementation and enforcement of the EU audit legislation. For instance, while some countries allow PIEs to choose the form of their audit committee (i.e. whether it be part of the audited entity's administrative or supervisory body), others made it compulsory for the committee to be stand-alone.

All stakeholder groups responding to the survey underscore the importance of audit committees in ensuring the accuracy and transparency of corporate reporting. When asked about which specific roles audit committees play in ensuring the integrity of financial and non-financial disclosures, surveyed academics most often mentioned that tasks include reviewing financial statements before publication, overseeing internal controls and risk management, as well as engaging with external auditors. Besides these activities, two respondents also include monitoring compliance with regulatory standards as a specific function of the audit committee.

Two-thirds of auditors consider that audit committees' effectiveness appears to be key to ensuring high-quality and transparent corporate reporting. To guarantee reliability and accuracy, 91% of the surveyed audit firms/audit professional bodies consider that the financial expertise of the audit committee members is of utmost importance. Furthermore, the role of the audit committee in ensuring that ESG disclosures are accurate and demonstrate high-quality corporate reporting is of very or extreme relevance among the majority of auditor respondents (77%).

Most surveyed management and board members also agree on the strong and positive impact that audit committees have on the quality of corporate reporting. The internal audit function is perceived by all respondents as very effective in supporting and ensuring high-quality corporate reporting. On the other side, the external auditor's involvement seems, for most respondents, to highly contribute to the effectiveness of reporting in their companies.

Regarding national competent authorities, all survey respondents agree on the necessity of strengthening the audit committee oversight so as to improve the quality of corporate reporting in their jurisdictions. Respondents representing professional business organisations also highlighted the need to enhance audit committee independence and expertise (LV, FR, DE). On this point, one interviewee (NL) highlighted the fact that recruiting individuals endowed with the necessary expertise for the roles in audit committees represents a significant challenge for many organisations.

Table 7: Lessons learned from past scandals related to audit procedures⁴⁹

Past scandals (Wirecard, Parmalat, Royal Imtech, Enron, Satyam, Patisserie Valerie, Carillon, Thomas Cook, Evergrande) underscore the pivotal role of good audit practices and audit committees in ensuring financial transparency and preventing fraud. In each case, weak or compromised audit processes allowed the manipulation of financial statements and the concealment of key discrepancies, leading to significant financial losses and organisational collapses. External auditors failed to identify or act on red flags, often due to conflicts of interest or insufficient scrutiny, while audit committees lacked the independence or expertise needed to provide rigorous oversight. These failures highlight the necessity of robust and independent auditing mechanisms to uphold the integrity of financial reporting. Effective audit committees, composed of qualified and independent members, are essential for scrutinising financial statements, evaluating risk, and holding both management and auditors accountable. The reforms introduced in the

⁴⁷ Michelon, G., Sealy, R., & Trojanowski, G., (2020), Understanding research findings and evidence on corporate reporting: An independent literature review. Commissioned by the Financial Reporting Council. See [link](#).

⁴⁸ Europe Economics, CEPS and Milieu for the European Commission, DG FISMA (2022): Study on the Audit Directive (Directive 2006/43/EC as amended by Directive 2014/56/EU) and the Audit Regulation (Regulation (EU) 537/2014) – Final report, Publications Office of the European Union, <https://data.europa.eu/doi/10.2874/374003>.

⁴⁹ See Annex VI for detailed summary of past scandals.

wake of these scandals, such as stricter requirements for auditor independence, enhanced responsibilities for audit committees, and improved whistleblower protections, demonstrate that strong audit practices are a cornerstone of good corporate governance and a vital defence against financial misconduct.

4.4. Internal control systems and their reporting

A key factor influencing the robustness of corporate reporting is the effectiveness of **internal control systems and the transparency of internal control reporting**. Across various stakeholder groups - including academics, auditors, management, competent national authorities, professional organisations, stock exchanges, and users of corporate reports participating in the survey, there is broad recognition that internal controls play an essential role in ensuring accurate, reliable, and high-quality reporting.

- A large majority of surveyed auditors perceive internal control systems as crucial for mitigating risks and improving corporate reporting.
- Management and board members surveyed unanimously believe their internal controls are highly effective in identifying and addressing risks, with real-time updates to reflect evolving challenges.
- Surveyed Professional business organisations and stock exchanges agree that internal controls significantly influence corporate reporting quality and corporate governance practices.

Despite these positive assessments, challenges remain in ensuring that internal control systems function optimally. Management and board member survey respondents acknowledge that if stricter internal control policies were to be imposed by for example legislation, this would present difficulties, particularly in terms of increased operational costs and the challenge of finding skilled personnel to carry out such controls. The vast majority of surveyed competent authorities identify high implementation costs and technological integration challenges as key barriers - outdated infrastructure for example can limit the ability to support enhanced controls that rely on automation. One competent authority suggested that third-party audits of internal controls, with certification of compliance with ISO standards, could help reinforce companies' internal controls and risk management.

Table 8: Identified good practices on internal controls

COSO Internal Control - Integrated Framework

In 1992, the Committee of Sponsoring Organizations of the Treadway Commission⁵⁰ (COSO) introduced its *Internal Control – Integrated Framework* for the first time. Originally developed to address the causes of financial reporting fraud in the 1980s, the framework aimed to enhance confidence in the reliability of financial and non-financial information. Recognised globally as a best practice, the COSO Framework has been widely adopted by companies of all sizes and across various industries. It provides comprehensive guidance on designing, implementing and maintaining effective internal controls to support sound corporate governance and risk management.

In 2013, in response to evolving business and operational environments, the COSO Framework was updated to provide enhanced tools for organisations to design and implement their risk management systems (see Figure 13). The revised framework establishes a direct relationship between a company's **objectives**⁵¹, the **components** necessary for

⁵⁰ COSO is a private-sector initiative funded by the following organisations: American Accounting Association (AAA), American Institute of Certified Public Accountants (AICPA), Financial Executives International (FEI), Institute of Management Accountants (IMA) and The Institute of Internal Auditors (IIA).

⁵¹ Compliance, operations and reporting.

achieving them⁵², and its **organisational structure**⁵³. It introduces 17 Principles that articulate the core concepts underpinning the five interrelated components of an effective internal control system. These components are:

- **Control environment:** This forms the foundation of internal control, encompassing the company's commitment to integrity and ethical values, the assignment of authority and responsibility by management, and the accountability of individuals for their internal control responsibilities.
- **Risk assessment:** Organisations define clear objectives to facilitate the identification and assessment of risks that could hinder their achievement. This includes identifying, analysing and determining appropriate responses to risks, incorporating fraud risk considerations and evaluating changes that could significantly impact the internal control system.
- **Control activities:** Policies and procedures are established to mitigate identified risks and support the achievement of objectives, ensuring that internal controls are effectively embedded within business processes.
- **Information and communication:** Critical internal control-related information, including roles and responsibilities, is communicated internally to support the system's effectiveness. Additionally, relevant information is shared with external parties in line with regulatory requirements and stakeholder expectations.
- **Monitoring activities:** Organisations conduct ongoing or periodic assessments to evaluate whether the internal control components are in place and functioning effectively, ensuring continuous improvement and adaptation to changing conditions.



Source: *The Committee of Sponsoring Organizations of the Treadway Commission (COSO).*

Interestingly, corporate governance codes such as the Dutch Corporate Governance Code recommend the use of the COSO framework in their explanatory notes.

Here is an illustrative example of its application in a French company:

RISK MANAGEMENT AND INTERNAL CONTROL MECHANISMS

This section sets out the internal control and risk management measures in place. It is based on information and control methods reported by the various parties involved in internal control within Ubisoft and its subsidiaries, as well as the work carried out by the Internal Control Department, at the request of Executive Management and the Audit and Risk Committee.

Objectives and general principles

Ubisoft has introduced a range of risk management and internal control measures to pre-empt, identify and address the main internal and external risks facing the Group in the context of its activities, and that could have a negative impact on its performance, image, financial position, or ability to reach its targets.

To complete this range of measures, Ubisoft refers to the reference framework of France's Autorité des Marchés Financiers (French Financial Markets Authority - AMF) and its application guide, updated in July 2010, and to the guidelines issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), updated in 2013.

Internal control and risk management are measures that contribute to the management of activities, the effectiveness of operations, and the efficient use of resources, and which enable appropriate consideration to be given to any material risks, whether operational, financial or compliance risks.

The range of internal control measures is designed in particular to ensure:

- *compliance with laws and regulations;*

⁵² Control environment, risk assessment, control activities, information and communications, and monitoring activities.

⁵³ Entity level, division, business unit and function.

- application of the instructions and policies set down by Executive Management and the Audit and Risk Committee;
- proper functioning of the Group's internal processes, particularly those involving the security of its assets;
- reliability of the financial information published.

The risk management system is a component of internal control. It allows Ubisoft to anticipate and identify the key internal or external risks that could pose a threat and prevent it from achieving its objectives. This management tool seeks in particular to:

- create and preserve the value, assets, and reputation of the Group;
- secure the Group's decision-making and processes to help it achieve its objectives;
- contribute to ensuring that all actions are consistent with Group values;
- involve Group team members in a common vision of the principal risks.

Therefore, these measures play a key role in the conduct and monitoring of its activities.

However, Ubisoft is aware that its risk management and internal control system cannot provide an absolute guarantee that its objectives will be met and that all risks will be controlled.

RISK FACTORS

In the course of its business, the Group is exposed to a series of risks that could affect its performance, its reputation, the achievement of its strategic and financial goals, and its share price.

In early 2024, in an effort to improve the efficiency of internal processes and strategic intelligence, Ubisoft updated its overall risk map by involving the Group's operational and functional departments. On this basis, and in accordance with the provisions of Regulation (EU) 2017/1129 of June 14, 2017, revising the Prospectus directive, the key risk factors identified and presented below are those which the Group considers to be material, high-priority and specific to its business, and which are liable, as of the date of publication of this Universal Registration Document, to have a significant impact on its operations, its image, its financial position, its results, and its ability to achieve its objectives.

These risk factors are grouped into four categories, presented in no particular order (business risks, risks related to talent, regulatory risks, technological risks). However, within each category, risk factors are presented on the basis of their net criticality in decreasing order of importance. The net criticality of the risk factors is calculated through a combination of the probability of the risk occurring and the corresponding level of severity, once the risk management measures put in place by the Group have been taken into account. The manner in which each risk factor could impact Ubisoft, as well as the control and mitigation measures put in place by the Group to deal with them, are explained below. However, these measures cannot provide an absolute guarantee that these risks will be controlled.

Other risks, considered less significant by the Group or not yet identified as at the date of this document, could also become significant risk factors able to have an adverse effect on Ubisoft's business and performance. To anticipate, identify, and mitigate the main internal or external risks incurred by the Group, Ubisoft has put in place the internal control and risk management procedures [...]

Investors are therefore invited to examine carefully each of the risks described below as well as all of the information presented in this Universal Registration Document in order to make investment decisions in a fully informed manner.

	Risk Description	Net Criticality
Business risks	Failures in the development process of a game leading to delays to its launch	High
	Toxicity in games and services	High
	Cultural inertia in response to changes in the Group	Moderate
	Difficulties in making optimal use of game-related data	Moderate

	<i>Failure by external partners rendering a flagship game unavailable or altering the player experience</i>	<i>Moderate</i>
	<i>Restriction or structural limitation of access to certain markets</i>	<i>Moderate</i>
	<i>Loss of technical, functional or key leadership skills</i>	<i>High</i>
Risks related to talent	<i>Departure of key talent</i>	<i>High</i>
	<i>Inability to attract and retain talent</i>	<i>Moderate</i>
Regulatory risks	<i>New regulations</i>	<i>High</i>
	<i>Reduction in the level of grants, subsidies, and tax credits</i>	<i>Moderate</i>
Technological risks	<i>Inability to respond rapidly to major technological developments</i>	<i>High</i>
	<i>Delays by Ubisoft or occurrence of disruptive innovation by a competitor</i>	<i>Moderate</i>

CONTROL ACTIVITIES

In addition to the risk management system, the Group has many control processes in place at all Group levels. Functional departments at the registered office play a crucial role in ensuring that subsidiaries' initiatives comply with Group guidelines and providing support for risk management, especially when local teams lack sufficient expertise in terms of team members. The centralized organization of these support functions enables consistent dissemination of the major policies and goals of Executive Management:

- The Financial Planning Department** is responsible for analysing the Company's performance using operational monitoring based on forecast reporting from the Group's subsidiaries. It also coordinates meetings between Executive Management and the Operational and Finance Departments during which the various reporting indicators are reviewed and the differences between actual performance and initial forecasts are analysed, enabling the quarterly, interim, annual and multiannual forecasts to be fine-tuned on the basis of actual figures and market outlooks as received from local and operational teams. The financial controllers monitor the whole financial reporting cycle and constantly query subsidiaries on their performance levels, earnings, and business activity. They then set and distribute the financial objectives for the current financial year. The Financial Planning Department also carries out an annual in-depth review of the multiannual forecasts (three or five years), ensuring consistency with the strategic decisions made by the Group. These processes taken together represent a major component of the Group's internal control system and an ideal tool for monitoring the operations of subsidiaries. They allow the Financial Planning Department to alert Executive Management to the financial consequences and the levels of performance of the different operations undertaken. Furthermore, the Financial Planning Department regularly performs an alignment of management processes and improves its management tools, in addition to establishing management standards with the Information Systems Department so as to provide a common language for all team members to work with.
- The role of the Consolidation Department** is to monitor standards, to define the Group's accounting policies, to produce and analyse the consolidated financial statements, and to prepare the accounting and financial information. It is the main point of contact for the Statutory Auditors during the half-yearly reviews and annual audits.
- The IFRS accounting standards applicable to the Group are identified by the Consolidation Department and systematically distributed via the online accounting policies manual accessible by all accounting and financial services. Technical monitoring is carried out by the team that organizes and manages the updating process via instructions or training, with the help of experts on a one-off basis where applicable.
- The Consolidation Department centralizes all expertise on the preparation and analysis of the Group's monthly, interim and annual consolidated financial statements. It audits the accounting information received from subsidiaries, checks its compliance with the accounting policies manual and performs

reconciliations to ensure the standardization of procedures. A detailed report is sent to Executive Management each month so that the Group's performance may be monitored and analysed. It ensures compliance with applicable standards and regulations so as to provide a true picture of the Group's business activities and position.

- **The Treasury Department** checks the suitability and compatibility of exchange rate, interest rate and liquidity risk management policies, as well as the financial information published. It arranges foreign exchange and interest rate derivative contracts and coordinates cash flow management at French and foreign subsidiaries, in particular by overseeing cash pooling solutions and cash flow projections. It centralizes and verifies the delegations of banking authority granted to a limited number of team members, who are exclusively authorized by Executive Management to handle certain financial transactions, subject to pre-defined limits and authorization procedures. The Treasury Department provides support to the Group's subsidiaries in the implementation of tools for enhancing controls and the security of means of payment.

ONGOING SUPERVISION OF THE INTERNAL CONTROL SYSTEM

The introduction of an overall formalized approach to internal control:

- allows the quality of controls in subsidiaries to be understood, particularly by means of:
 - ensuring that risk levels associated with their business and functional organization are taken into account,
 - ensuring that activities carried out locally are in line with Group strategy and guidelines,
 - justifying investments and expenditure,
 - evaluating the efficient utilization of resources (human, material, or financial);
- improves operational and financial practices by means of corrective and optimization initiatives to remedy shortcomings;
- allows effective monitoring of compliance with these procedures and controls.

To ensure the continual improvement of the Internal Control measures in place, the Group continued its efforts in 2023-24, with the following actions in particular:

- further strengthening of the anti-corruption program as part of the project to ensure compliance with the law of December 9, 2016, on transparency, combating corruption, and the modernization of the economy (known as the "Sapin 2" Law) – see section 3.2.2 "**Organization of internal control**" / **Combating corruption**;
- deployment of a Group policy management tool, to enable centralized management of the main policies (current and future) that team members have to follow to strengthen the compliance and internal control system;
- an IT audit to assess the level of internal control of the accounting information system and thus contribute to its improvement through the recommendations issued;
- establishment of Group policies and procedures aimed at structuring and improving internal controls.

In 2024-2025, the Group will continue to support its subsidiaries with a proactive approach to the assessment of operational risk and the definition of action plans and the corresponding controls.

In addition, the **Audit and Risk Committee**, which comprises two independent directors, receives regular updates on the roll-out of internal control measures, the results of the audits carried out within subsidiaries, any major risk identified during the risk mapping exercise, and the monitoring of action plans relating to the control of such risks. It guarantees the effectiveness of the internal control systems, risk management, and the security of the Group's IT systems.

The **Audit and Risk Committee** is also tasked with monitoring the process used for the preparation of financial and accounting information. It examines the annual and half-year consolidated financial statements as well as the conclusions of the **Statutory Auditors** prior to their presentation to the **Board of Directors**.

While internal controls are critical, it is only possible to fully realise their effectiveness if they are properly disclosed in corporate reports. Internal control reporting serves as a vital mechanism for stakeholders to assess a company's risk management, compliance measures, and overall governance quality, thereby contributing to investor confidence and market integrity. However, limited transparency remains a significant issue. Most academics responding to the survey perceive companies as only moderately transparent in their internal control disclosures, and users of

corporate reports highlight inadequate disclosure of weaknesses and remediation plans. Several respondents believe that companies do not fully disclose their internal control frameworks, which undermines the overall credibility of corporate reporting.

Surveyed auditors identified several challenges in producing high-quality internal control reports, including a lack of internal resources or expertise, weak internal control frameworks, and the complexity of regulatory requirements. They suggested strengthening the role of audit committees in reviewing internal control reports, enhancing the integration between internal control reporting and financial disclosures, and increasing transparency regarding internal control weaknesses, to ensure higher-quality and more useful reporting.

Board members expressed concerns about the increasing costs and complexity of compliance for internal audit and compliance functions within companies. Among stock exchange respondents, clearer and more consistent regulatory guidance was the most frequently mentioned recommendation. Similar to auditors, four stock exchanges specifically suggested reinforcing the role of audit committees in reviewing internal control reports.

Table 9: Examples of comprehensive internal control reporting requirements

Statement on Risk Management (VOR) - Dutch Corporate Governance Code

In December 2023, the Institute of Chartered Accountants (NBA), in collaboration with the supporting parties⁵⁴ of the Dutch Corporate Governance Code (DCGC), proposed amendments to the national corporate governance framework. The key change involves introducing a requirement for listed Dutch companies to include a risk management statement (Verklaring over Risicobeheersing – VOR)⁵⁵ in their management reports.

Aimed at strengthening the risk management responsibilities of key corporate bodies – including management boards, supervisory boards and audit committees – the proposal underscores the importance of monitoring and reporting on risk management processes. The key modifications include:

- Board responsibility for risk management: A formal statement clarifying the board's responsibility for evaluating the effectiveness of internal risk management and control systems concerning operational, compliance and reporting risks over the past financial year. This includes disclosing the framework used (e.g. COSO).
- Assurance on sustainability reporting: A statement affirming that the company's internal risk management and control systems provide at least limited assurance that sustainability reporting is free from material inaccuracies.
- Supervisory oversight and accountability: Clearer delineation of the board of directors' or audit committee's role in supervising risk management and ensuring accountability within the management report.

While the aim of these amendments is to enhance transparency and accountability in corporate risk management, they also pose notable challenges for companies. One key complexity is the requirement to provide a comprehensive assessment of risk management systems, necessitating explicit categorisation of risks into the three defined areas (operations, compliance and reporting). Additionally, the need to ensure limited assurance over non-financial reporting will likely demand additional time and resources, disproportionately impacting smaller companies that may lack the infrastructure to meet these requirements efficiently.

Internal Controls - The US Sarbanes-Oxley Act of 2002 ("SOX")

In response to a series of high-profile corporate failures and financial fraud scandals⁵⁶, the US Congress enacted the Sarbanes-Oxley Act (SOX) on 30 July 2002. This comprehensive federal law was designed to restore investor confidence by enhancing the reliability, accuracy and transparency of corporate governance, risk management, auditing and financial reporting. SOX is structured into eleven sections, each establishing specific compliance requirements and responsibilities for publicly traded companies in the US.

SOX places strong emphasis on internal controls, particularly under Section 404 (Management Assessment of Internal

⁵⁴ The supporting parties include Eumedion, Euronext, FNV, CNV, Veuo, VEB and VNO-NCW.

⁵⁵ In local language: Verklaring Omtrent Risicobeheersing (VOR).

⁵⁶ Including the accounting scandals of WorldCom, Enron, Tyco International, Adelphia, among others.

Controls). This provision mandates that public companies:

- Publicly disclose: Management must publicly disclose their responsibility for establishing and maintaining an effective internal control system over financial reporting (ICFR).
- Assessment and reporting: Companies are required to assess and report on the effectiveness of their internal control structure as part of their annual financial statements.
- Independent audit: External auditors must conduct an independent audit to attest to and report on the management's assessment of internal controls over financial reporting.

By placing accountability directly on corporate management, SOX reinforces the obligation of executives and board members to ensure that internal control systems are not only in place but are regularly tested, monitored and certified. The aim of this framework is to mitigate the risk of fraud, misstatements and financial irregularities, ultimately strengthening corporate integrity and market stability.

In addition to Section 404, SOX includes other key provisions such as:

- Section 302: Requires senior executives to certify the accuracy and completeness of their company's financial reports on a quarterly and annual basis.
- Section 802: Imposes criminal penalties for altering, destroying, or concealing documents with the intent of obstructing or influencing any official proceedings.
- Section 906: Makes it a crime for corporate officers to willfully certify a false or misleading financial report.

These provisions collectively work to enhance corporate accountability, improve the quality of financial disclosures and protect investors from fraudulent activities. By adhering to SOX regulations, companies can build trust with stakeholders, ensure compliance with regulatory standards and foster a culture of integrity and transparency. However, SOX 404 has drawn some criticism over time for its burdensome nature. A 2009 study of the US Securities and Exchange Commission found that smaller companies incurred higher costs relative to their asset values while larger companies incurred on average larger absolute costs. However, the report also found that costs decreased with the 2007 reform⁵⁷.

4.5. Corporate governance codes

Corporate governance codes play a critical role in guiding organisations towards transparent and high-quality corporate reporting, thereby fostering stakeholder trust. Adherence to national and international governance codes is widely perceived as a key contributor to reporting quality. In the stakeholder survey, most respondents agreed that compliance with these codes significantly improves the quality and usefulness of corporate reporting.

Several auditor respondents (from HR, DE, LV, and NL) noted that the implementation of national corporate governance codes had a positive impact on reporting practices. These codes were seen to enhance the quality of disclosures and provide stakeholders—particularly investors—with more transparent and relevant information (DE, IE, IT, LV, NL, PT, SE). Academics from DE and NL also highlighted how recent improvements in governance codes and ESG-related requirements have strengthened the overall transparency and reliability of corporate reporting.

Despite the broadly positive view, survey responses from organisations with a focus on corporate governance and reporting indicated that compliance with governance codes varies across companies. Of six such respondents, four (HR, DE, IT, LV) rated companies as mostly compliant. One (SE) reported full compliance, and one (PL) indicated only partial compliance. This points to a general alignment with governance codes but also suggests room for improvement to ensure consistent and meaningful adherence across the EU.

One Portuguese interviewee noted a limitation in the national corporate governance code, citing its lack of flexibility. This inflexibility was seen to result in redundant information, particularly concerning

⁵⁷ United States Securities and Exchange Commission, (2009), *Study of the Sarbanes-Oxley Act of 2002 Section 404 Internal Control over Financial Reporting Requirements*. See [link](#).

remuneration disclosures, potentially reducing the efficiency and clarity of reporting.

The importance of effective governance codes has also been underscored by corporate scandals such as Wirecard and Royal Imtech, which prompted significant reforms. Following the collapse of Royal Imtech, for instance, the Dutch government and regulatory bodies recognised the need to strengthen corporate governance frameworks. As a result, the Dutch Corporate Governance Code was revised in 2016 to reinforce board accountability, risk oversight, and the independence of internal controls. The updated code requires boards to take a more proactive role in overseeing financial reporting, internal audits, and risk management processes, thereby promoting greater transparency and corporate responsibility. Similarly, the Wirecard scandal prompted significant revisions to Germany's Corporate Governance Code (Deutscher Corporate Governance Kodex, DCGK), reflecting the urgent need to address the weaknesses exposed by the Wirecard case. The government indicated a commitment to strengthening the enforcement of corporate governance codes and requirements, thus ensuring companies adhere not just to the letter but also to the spirit of the revised standards⁵⁸.

Table 10: Corporate Governance Codes identified as good practices

Throughout the survey and the interviews, both the UK and the German Corporate Governance Codes have been mentioned as a best practice by different stakeholders, for different reasons.

The UK Corporate Governance Code

Published in 1992 and developed by the Financial Reporting Council (FRC), the Code aims to promote transparency, accountability, and effective board oversight, through what is known as the 'comply-or-explain' framework. Companies within the Code's scope shall either comply with its provisions or provide clear and meaningful explanations for any deviations. This approach allows organisations to adopt governance and business models tailored to their unique circumstances while preserving transparency and accountability to stakeholders.

In 2024, the FRC introduced substantial updates to the Code's provisions on internal controls, with the aim of improving stakeholder confidence in their reliability, to ultimately enhance the integrity of corporate reporting. Key updates include:

- **Board responsibility:** The board is now responsible for both establishing and maintaining the effectiveness of the company's risk management and internal controls framework.
- **Comprehensive scope:** The risk management and internal control framework shall encompass financial, operational, reporting and compliance controls.
- **Annual review and declaration:** Boards must conduct at least one annual review of the framework's effectiveness and document it in the company's annual report, including a formal declaration on the effectiveness of material controls as of the balance sheet date.
- **Transparency on control gaps:** The annual report must also describe how the board monitored and reviewed the framework's effectiveness. Any material control deficiencies must be disclosed, along with actions taken or planned to address these gaps.

In parallel, the Financial Conduct Authority (FCA) updated its Listing Rules in 2024, expanding the Code's applicability to all entities listed in the category of commercial companies and to closed-ended investment funds, regardless of whether they are incorporated in the UK or abroad. This expansion aligns with broader efforts to harmonise governance standards across different market segment, reflecting the growing importance of robust governance practices across different entities, including those with significant international operations.

The German Corporate Governance Code

The German Corporate Governance Code (Kodex)⁵⁹ sets out principles and recommendations for German listed companies. It builds on legal requirements – primarily referencing the German Stock Corporation Act (AktG) – and

⁵⁸ This involves increasing the capacity of regulatory bodies to monitor and enforce compliance with the corporate governance code. For example, regulators may have enhanced powers to scrutinise governance practices, investigate potential violations, and ensure that companies provide accurate and complete disclosures. Furthermore, there may be more stringent consequences for companies that fail to comply with the revised code, including penalties or sanctions.

⁵⁹ <https://www.fsa.go.jp/en/refer/councils/corporategovernance/reference/german.pdf>.

widely accepted national and international corporate governance standards. Key points identified as best practices include:

- **Evolution of Management Board Remuneration Disclosure:** Until 2019, the Kodex recommended that companies disclose management board remuneration. This was based on a standardised model table included in the appendix⁶⁰ and detailing the value of benefits granted during the reporting period, and the maximum and minimum achievable remuneration values. This structured approach improved clarity for shareholders, facilitating a better understanding of the complexity and comparability of remuneration systems⁶¹. However, due to modifications to the AktG⁶², which introduced a comprehensive and detailed remuneration report, this table became redundant and so the recommendation was removed.
- **Enhancing Internal Control and Risk Management Reporting:** Another significant development in the Kodex came in 2022 with the introduction of a new recommendation (A.5) strengthening reporting requirements on internal control and risk management systems. According to this recommendation, the management report shall describe not only these systems but also comment on their appropriateness and effectiveness. This addition represents a major step towards strengthening transparency and accountability in corporate governance practices in Germany, ensuring that internal controls and risk management frameworks are not only disclosed but also evaluated for their effectiveness.

Annual Report on Corporate Governance – HANFA Croatia

- In 2011, the Croatian Financial Services Supervisory Agency (HANFA) launched the Annual Report on Corporate Governance, an initiative aimed at enhancing the corporate governance culture among companies listed on the regulated market of the Zagreb Stock Exchange. A primary objective of the report was to centralise all corporate governance data for the relevant issuers.
- Initially based on questionnaires submitted directly by the issuers, the report provided an aggregated statistical overview of the corporate governance practices of companies, separated by issuers of shares and issuers of bonds. With the introduction of the Corporate Governance Code in 2019, the report's scope was expanded to include a detailed statistical analysis of issuers' adherence to the Code's recommendations.
- To gather data for the report, HANFA distributes two separate questionnaires to issuers annually: one to assess compliance with the Corporate Governance Code, and another to collect information on the companies' governance practices. Issuers are required to submit both questionnaires to HANFA in line with the introductory provisions of the Code. The first questionnaire asks listed companies to publicly disclose whether they comply with each provision of the Code, while the second gathers detailed data on various governance practices, including ownership structures, board members' remuneration, risk management, internal controls and audits, transparency, and corporate social responsibility, among others.
- Issuers' compliance with the Corporate Governance Code is assessed according to the structure of the Code, which is organised by sections (e.g. Section 1: Leadership; Section 2: Duties of Board Members; Section 3: Appointment of Board Members). Compliance for each issuer is calculated based on the total scores achieved in each section, and the results are presented in matrix tables for individual issuers.
- Similar initiatives to collect and publish data on corporate governance by national authorities can also be found in other EU Member States. For example, since 2019, the Instituto Português de Corporate Governance (IPCG) has published the Annual Monitoring Report, which evaluates the degree of compliance with the Portuguese Corporate Governance Code. Additionally, in France, the Autorité des Marchés Financiers (AMF) publishes the Report on Corporate Governance and Executive Compensation in Listed Companies, which tracks the evolution of corporate governance practices and analyses the governance approaches of a selection of companies.

⁶⁰ https://www.dcgk.de/files/dcgk/usercontent/en/download/code/170214_Code.pdf.

⁶¹ Based on the survey responses from users of corporate governance and https://www.glasslewis.com/wp-content/uploads/2016/12/Guidelines_Germany.pdf.

⁶² Section 162 of the AktG.

5. EU actions to enhance corporate governance for better reporting: Assessment and cost analysis

Based on insights from the literature review, stakeholder surveys and interviews, legal mapping, and the analysis of corporate governance statements, specific courses of action at EU level were identified for key corporate governance factors contributing to the quality of corporate reporting. These proposed actions were validated in a dedicated stakeholder workshop, and, where feasible, the associated costs for companies were also assessed.

5.1. Understanding governance-related costs

The implementation of corporate governance requirements within organisational structures entails significant and multi-faceted costs. These include direct compliance costs – such as regulatory reporting obligations, audit fees, and administrative expenses – but also indirect costs, such as opportunity costs, increased complexity in decision-making, and the possible misallocation of managerial attention. In practice, governance costs are shaped by a company's size, sector, geographical footprint, and ownership structure, making their estimation inherently difficult and context dependent.

A fundamental difficulty in assessing these costs stems from the lack of conceptual clarity around what constitutes a 'corporate governance cost'. The boundaries between governance-specific costs and those associated with general good business practices are often blurred. For instance, as some stakeholders noted in interviews, expenditures on risk management systems or board meeting organisation can be viewed either as a cost of responsible business operations or, when mandated by regulators, as compliance costs. This conceptual ambiguity complicates both the measurement and comparability of governance costs across companies and jurisdictions.

Moreover, the very notion of a 'cost of governance' is entangled with normative assumptions about what constitutes 'good' governance. Academic literature has long focused on the benefits of improved governance – such as better access to capital, increased investor confidence, and enhanced firm performance – while often downplaying or ignoring the costs of conformity to evolving governance norms. As highlighted by Aguilera *et al.* (2008)⁶³ and further discussed by Durden and Pech (2022)⁶⁴, the strategic and symbolic dimensions of corporate governance reforms may lead firms to adopt practices that are costly, without necessarily delivering tangible organisational benefits.

Despite a large body of research on the performance benefits of 'good' corporate governance, the literature remains vague about the associated costs. These costs include not only the tangible financial outlays but also the intangible costs of over-governance, separating formal adoption and substantive implementation, and the risk of 'box-ticking' compliance. In many cases, corporate governance reforms reflect 'good corporate governance norms' that may not align with the strategic needs or operational contexts of firms, creating inefficiencies and eroding competitiveness.

Additionally, Durden and Pech (2022) argue that corporate governance reforms often result in the transfer of agency costs from shareholders to corporate boards and managers. Instead of reducing the principal-agent problem, excessive corporate governance requirements may add new layers of

⁶³ Aguilera, R. V., Capapé, J., & Santiso, J., (2016), Sovereign wealth funds: A strategic governance view. *Academy of Management Perspectives*, 30(1), 5–23.

⁶⁴ Durden, C., and Pech, R., (2006), The increasing cost of corporate governance: decision speed-bumps for managers, *Corporate Governance*, Vol. 6 No. 1, pp. 84-95.

bureaucracy, increase internal frictions, and divert managerial attention away from long-term value creation.

These critical observations are reflected in feedback from surveyed stakeholders and listed companies in the EU. While the financial burden of governance reforms is widely acknowledged, the perceived costs are often company-specific and difficult to quantify. For instance, the Diligent Institute's attempts to measure the cost of governance crises and the benefits of strong governance frameworks primarily focus on the material consequences of poor governance, rather than the structural costs of maintaining compliance⁶⁵.

5.2. Ethical leadership

The growing public and political focus on corporate integrity highlights the importance of ethical leadership within boards. However, the EU's existing legal framework regarding ethical leadership is already comprehensive, and the primary challenge lies in its uneven implementation across Member States. The analysis suggests that adding further regulatory requirements at EU level could lead to unintended consequences, complicating the regulatory landscape without delivering substantial improvements.

Possible courses of action

- Introduce EU-wide guidelines defining ethical responsibilities of board members, with an emphasis on integrity, transparency, and accountability.
- Encourage ethical commitments or codes of conduct for directors, supported by periodic assessments and public reporting.

Assessment and cost analysis

Despite the increasing public and political focus on corporate integrity, the EU's existing legal framework on ethical leadership is already considered comprehensive. The core challenge lies in its uneven implementation and the lack of harmonisation across Member States. Stakeholders emphasise that additional regulatory intervention at EU level may do more harm than good. Introducing new requirements – such as mandatory public reporting on directors' ethical commitments – risks duplicating existing obligations under the CSRD and CSDDD, while adding further complexity to already burdened internal control systems.

Findings from the cost analysis reinforce these concerns. According to the stakeholder survey, 88% of respondents identified technology upgrades and increased staffing needs as major cost drivers of governance reforms. Over 50% cited additional compliance reporting obligations as particularly burdensome. Importantly, half of the surveyed companies believe that the costs of stricter governance policies outweigh their benefits, with only 13% expecting benefits to fully offset implementation costs. These figures suggest that expanding the regulatory perimeter to cover ethical leadership through new hard-law obligations could impose disproportionately high compliance costs, especially for smaller firms, without delivering corresponding improvements in board integrity or transparency.

Furthermore, internal control frameworks such as COSO and professional conduct codes already embed ethical leadership principles within organisational governance. Ethical responsibilities are routinely addressed in directors' duties, codes of conduct, and board oversight practices. Expanding these through EU-level legislation risks over-governance, the dilution of strategic board attention,

⁶⁵ Diligent Institute, (2023), [A Case for Modern Governance: The High Cost of Governance Deficits](#).

and increased opportunity costs. Interviewees also warned that prescriptive governance reforms often generate symbolic compliance ('box-ticking'), rather than meaningful behavioural change.

In light of these concerns, a lighter-touch approach is recommended. Rather than duplicating existing efforts at EU level, the most pragmatic path forward would be to work through national Corporate Governance Code custodians. These actors operate under the "comply or explain" principle established by Article 20 of Directive 2013/34/EU and are well placed to promote ethical leadership through soft-law instruments. Future updates of Recommendation 2014/208/EU could serve as a vehicle to encourage Code custodians to more explicitly address ethical responsibilities, integrity, and transparency in board conduct, without adding further regulatory layers at EU level.

5.3. Board diversity

Board diversity, particularly beyond gender, has become a prominent issue in corporate governance discussions. While there is widespread recognition of its importance, there is a divergence of opinions regarding how far the EU should go in regulating board diversity.

Possible courses of action

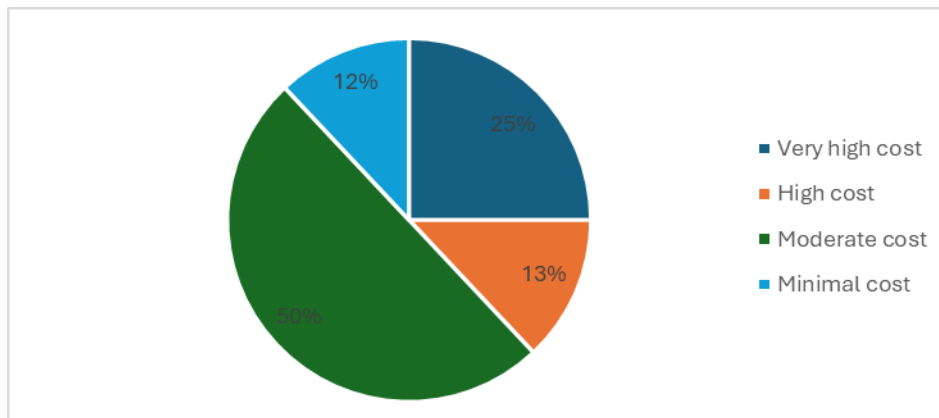
- Encourage disclosure of diversity targets and achievements in annual reports (e.g. in addition to gender, expertise, age, cultural and geographical origins).
- Establish a harmonised framework to measure, benchmark, and report board diversity across Member States.
- Create incentives (recognition awards, preferential treatment in EU funding programs) for companies achieving significant board diversity.

Assessment and cost analysis

Board diversity has gained increasing attention, especially beyond gender, in recent years. National Corporate Governance Codes already encourage diversity in terms of expertise, age, and geography, and existing legislation such as the Shareholder Rights Directive also touches upon this area. However, the implementation of diversity measures faces significant challenges. While there is broad support for the idea of diversity, concerns persist about the possible negative consequences of overly rigid or quota-based approaches. There is a risk that focusing excessively on external identifiers, such as ethnicity or race, may conflict with national constitutional norms (as in France) or data protection laws (e.g. GDPR restrictions on processing sensitive data). A growing perspective is that a focus on cognitive diversity – encompassing a mix of perspectives, skills, and experiences that enhance board function and strategic oversight – should be prioritised over more superficial measures of diversity.

Our analysis also suggests that promoting board diversity comes with substantial costs. Based on insights from a targeted survey of listed companies, it is clear that all respondents acknowledge the financial implications of diversity requirements, especially related to training and development. A significant portion of the companies (38%) expected high to very high costs, 50% anticipated moderate costs, and 12% expected minimal costs. These expenses are not just linked to recruiting directors from non-traditional backgrounds but also to fostering inclusive decision-making practices and addressing the risks of groupthink. Additionally, there is a growing concern about the rising fees for independent directors as governance expectations increase, which contributes further to financial pressures. Although these costs are relatively moderate compared to broader structural reforms, they remain material, and for smaller companies, they pose a particular challenge.

Figure 13: Perceived cost impact of implementing new corporate governance policies mandating board diversity requirements



This economic dimension underscores the need for a balanced, flexible approach to diversity. Proposals for EU-wide diversity benchmarks or binding quotas have been viewed by many companies as intrusive and potentially costly, with unclear benefits. A more effective and context-sensitive solution may lie in reinforcing the role of regular board evaluations, which are already an established part of internal control and self-assessment frameworks. These evaluations can help boards naturally identify diversity gaps without imposing prescriptive criteria that may not be suitable for all companies.

Surveyed board members also indicated concerns about the opportunity costs associated with an overemphasis on formal governance requirements. About 22% of respondents explicitly cited the diversion of time and resources away from strategic oversight due to lengthy discussions on compliance matters, including diversity-related reforms. For smaller companies, this impact is even more pronounced, further reinforcing the need for scaled requirements, simplified reporting standards, and potential exemptions or financial support for those companies facing significant challenges.

In conclusion, proposals for EU-wide benchmarks or incentives related to diversity might be unnecessary and potentially counterproductive. Instead, a proportionate approach, which reinforces regular board evaluations, seems more effective. These evaluations allow companies to address diversity concerns organically, without the need for rigid mandates. Corporate Governance Code custodians can play a crucial role by embedding nuanced, context-sensitive guidance on diversity into national codes.

5.4. Better training of board members

The call for more professionalised and better-trained boards, particularly in areas such as financial literacy, ESG, risk oversight, and cybersecurity, has become increasingly prevalent. These competencies are now seen as essential for boards to fulfil their oversight roles, especially as corporate reporting frameworks such as the CSRD and internal control mandates expand.

Possible courses of action

- Develop non-binding guidelines defining minimum competencies for board members (e.g. governance, financial literacy, ESG, cybersecurity).
- Recommend continuous professional training for board members, focusing on key governance issues.

Assessment and cost analysis

The need for improved board training is not a new concept. In fact, certain competencies are increasingly considered fundamental to a board's ability to oversee financial and non-financial reporting effectively. As the board's responsibilities grow, particularly under evolving frameworks such as the CSRD, the pressure to enhance skills in governance, risk management, and digital literacy becomes more pronounced.

Despite this growing recognition, our analysis indicates significant resistance to the introduction of EU-wide guidelines that define "minimum competencies" for board members. The opposition is primarily based on the principle of subsidiarity and practical concerns. Board competencies can vary widely depending on factors such as company size, sector, and ownership structure. Therefore, the board itself, often with input from its nomination committee, is best positioned to determine the specific expertise required, and to ensure proper succession planning. Prescriptive EU-wide guidelines could inadvertently reduce flexibility in board composition and limit accountability.

Rather than introducing regulatory mandates, a transparency-based approach should be favoured. National corporate governance codes, while non-binding, are already converging across Member States and can serve as a platform for encouraging voluntary upskilling in key areas. These codes cover board composition, diversity, evaluation, and training. They provide a framework through which companies can voluntarily enhance the competencies of their boards without introducing rigid mandates. In particular, risk management literacy is frequently highlighted as a critical area for boards to focus on in order to effectively oversee both financial and non-financial reporting.

Training board members comes with associated costs. Our survey of listed companies reveals that 88% of respondents identified technological upgrades, digital integration, and external advisory services as major cost drivers, particularly for ESG and digital disclosures. Despite these costs, the majority of respondents expressed a preference for voluntary and scalable training solutions, especially those tailored to a company's specific size and sector. There was widespread concern that imposing a one-size-fits-all mandate could disproportionately burden companies, especially SMEs. Some respondents suggested phased implementation and scaled compliance expectations, depending on a company's capacity. More than half of the companies noted that training-related costs would have a greater impact on smaller firms unless mitigated by exemptions or targeted support.

A key takeaway is the importance of integrating digital tools, such as AI-driven training systems, into board development programs. Anticipating technological advancements is crucial to ensuring that governance reforms, including those targeting board competencies, remain relevant and manageable as they evolve over time.

In conclusion, a balanced approach would focus on transparency regarding board training and development through adherence to established Corporate Governance Codes. These codes already address board composition, evaluation, and skill development, and can provide a foundation for encouraging board training without the need for new EU mandates.

5.5. Strengthening board oversight

Ensuring effective board oversight, particularly in the areas of financial disclosures and compliance, is essential for maintaining the integrity of corporate governance. The need to define roles and responsibilities for board members, as well as to enhance their independence and oversight capacity, is crucial. However, much of this is already addressed within internal control frameworks and self-regulatory Corporate Governance Codes. Therefore, a balanced approach is necessary to strengthen board oversight without overwhelming companies with excessive regulation.

Possible courses of action

Develop EU-wide guidelines for standardised evaluation of board oversight capacity which could cover the following elements:

- Defined roles and responsibilities for board directors in overseeing accounting policies, financial disclosures, and compliance with reporting standards.
- Independence checks to prevent conflicts of interest and strengthen oversight (e.g. disclosure of conflict of interest, cooling-off periods).
- Information on board and committee members (e.g. education, work experience, significant assignments, shareholdings, and independence status).
- Mandate the boards to conduct self-assessments with external evaluations on their oversight capacity (e.g. every two years).

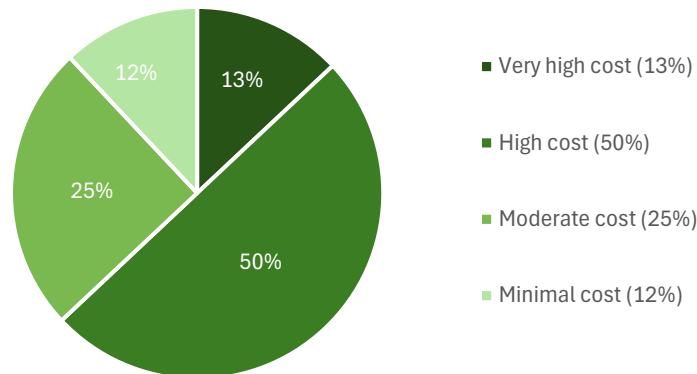
Assessment and cost analysis

The proposal to create EU-wide guidelines for board oversight aims to address key concerns regarding the effectiveness of board supervision. However, many of these aspects, such as role clarity, independence checks, and self-assessments, are already covered within established internal control frameworks such as COSO and through national Corporate Governance Codes. The current legal framework already mandates certain oversight obligations, but the implementation across Member States remains fragmented.

There is room for greater clarity in the roles and responsibilities of boards, particularly regarding the oversight of financial disclosures and compliance. This could be addressed within ongoing reforms to the Shareholder Rights Directive. In the meantime, it is important to continue enhancing governance frameworks through stronger internal control baselines and regular, meaningful board self-evaluations. Additionally, the role of risk management functions should be further clarified to ensure it is distinct from other compliance and control functions.

While the introduction of new EU guidelines for board oversight is recognised as necessary for improving clarity, the costs associated with implementing enhanced governance frameworks are significant. For 75% of companies, these costs are expected to be high to very high, mainly due to additional compliance reporting and increased staffing needs. The costs include preparing mandatory reports, data collection, verification, and external audits – key activities to ensure transparency in board oversight, but which also place a financial burden on companies. Moreover, 88% of companies would need to hire specialised personnel to ensure compliance and independence in board oversight, adding further to operational costs.

Figure 14: Perceived cost impact of implementing new corporate governance policies that introduce enhanced board oversight requirements



Despite the upfront costs, there are potential long-term benefits associated with strengthening governance frameworks, including improved investor confidence, enhanced performance, and better access to capital. However, these benefits must be weighed against the financial and operational burden they create, particularly for smaller companies.

5.6. Audit committees

Audit committees are pivotal to safeguarding the integrity of financial reporting and they are increasingly expected to extend their oversight to sustainability disclosures. As regulatory frameworks evolve, the role of audit committees is under growing scrutiny, particularly in relation to internal control systems and interactions with external auditors.

Possible course of action

- Strengthening audit committee oversight through:
 - increased powers to engage with external auditors;
 - monitoring compliance with regulatory standards;
 - majority of independent members having financial and risk management expertise;
 - mandatory training programs for their members;
 - providing assurance over internal processes or establishing an internal controls audit committee;
 - addressing disparities between Member States in the implementation of the EU audit committee requirements.

Assessment and cost analysis

The expanding scope of audit committee responsibilities reflects growing expectations for robust governance and assurance across both financial and sustainability domains. Proposed enhancements – such as improved auditor engagement, expanded training, and stronger internal control oversight – are broadly supported in principle. However, most stakeholders agree that no major legislative reform is needed at EU level. The current regulatory framework, including Directive 2014/56/EU, is already complemented by national corporate governance codes, which cover issues such as independence, expertise, and committee composition.

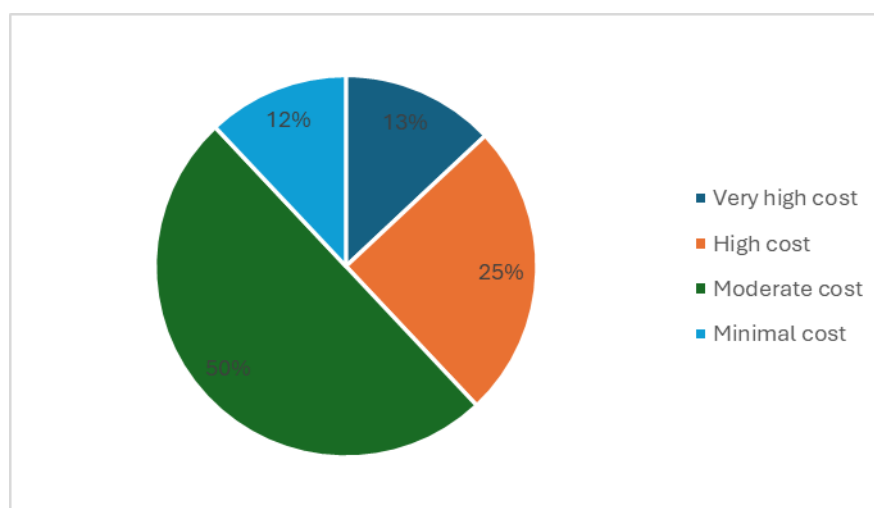
The primary concern lies in the fragmented implementation of audit committee requirements across Member States. Disparities in task allocation, committee structure, and coordination with other governance bodies can lead to inconsistent practices and diluted oversight. Yet, there is a clear understanding that audit committees are advisory in nature, not executive. Final decisions remain with the full board, and responsibility for internal controls ultimately lies with management. As such,

proposals to impose US-style obligations – such as management certifications under the Sarbanes-Oxley Act – are widely viewed as disproportionate in the EU context. Instead, the focus should shift towards encouraging companies to disclose robust internal control frameworks, which audit committees can then help monitor.

Cost is a key consideration in expanding audit committee mandates. Our analysis finds that increasing the number of independent members with specific expertise in finance, risk, and sustainability can raise recruitment and remuneration costs. This is particularly challenging for smaller companies or those in less liquid markets, where the pool of qualified candidates is more limited. Moreover, attracting professionals with dual expertise in both financial and non-financial reporting often requires higher compensation packages.

Training is another important factor. As audit committees are expected to cover ESG and internal control matters, members must receive ongoing, targeted training. Programmes covering topics such as digital assurance tools, risk oversight, and evolving regulatory frameworks entail both financial and time commitments. Stakeholders noted that while training is essential, it must be updated regularly to remain effective – raising costs further, especially for SMEs that may lack internal capacity.

Figure 15: Perceived cost impact of implementing new corporate governance policies that mandate increased independence and training for audit committees



5.7. Internal control systems

Internal control systems (ICS) are a cornerstone of sound corporate governance, underpinning the accuracy of financial and non-financial reporting, risk management, and fraud prevention. Despite growing recognition of their importance, the adoption and modernisation of internal controls remain uneven across the EU. While some companies – particularly those operating in regulated sectors – have adopted structured frameworks such as COSO, many others continue to rely on outdated or informal systems. As the scope of reporting expands to include sustainability information, the need for effective, digitally-enabled ICS becomes more pressing.

Possible courses of action

- Develop training and certification programs in internal control frameworks, helping companies attract and retain skilled professionals.
- Promote partnerships between companies, educational institutions, and professional associations to build a talent pipeline.

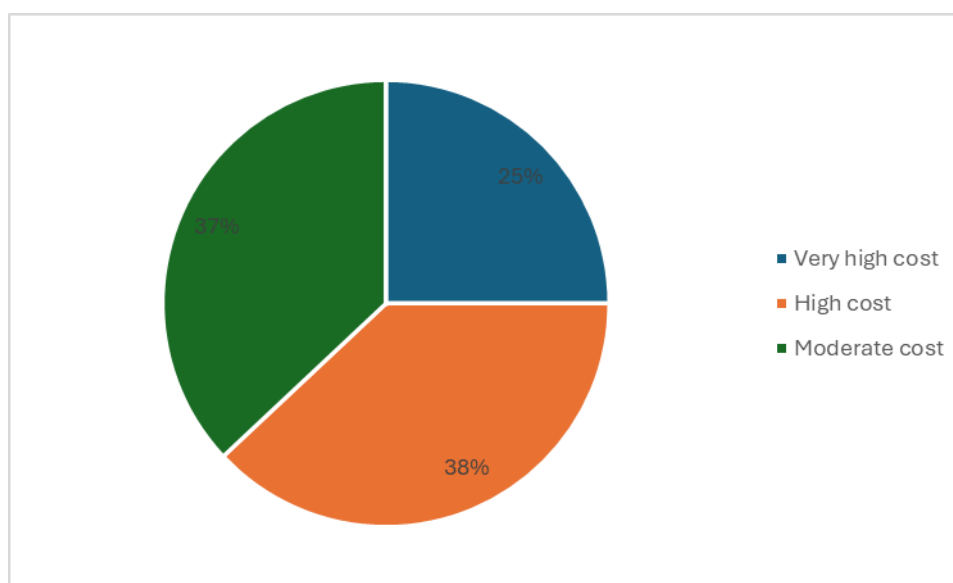
- Provide guidance and best-practice examples, for transitioning from outdated systems to modern, automated solutions on internal controls.

Assessment and cost analysis

A robust ICS is key to improving corporate transparency, preventing material misstatements, and enhancing investor confidence — particularly as sustainability-related disclosures gain prominence. However, the cost of establishing or upgrading internal controls is frequently underestimated. Among surveyed listed companies, 63% estimated the cost of strengthening ICS as high to very high. The automation of internal control reporting – involving ERP upgrades, digital monitoring, and cybersecurity – was consistently cited as the most resource-intensive measure. For 38% of the companies, it will incur very high costs, while for 62% high costs. Third-party audits of internal controls were also considered highly burdensome by all companies, especially where internal audit capacity is weak or non-existent. For a quarter of them (25%) the costs will be very high, while for the remaining 75% the costs will be high.

According to a [KPMG analysis](#), companies moving towards SOX 404-style frameworks in the EU may face initial costs ranging from EUR 250 000 to over EUR 2 million, depending on complexity and company size. Ongoing maintenance can add EUR 50 000 - 300 000 annually. In addition, external audits of internal controls are considered highly burdensome, with costs averaging EUR 100 000 - 200 000 per year and audit fees increasing by 15 - 30% for mid-sized companies.

Figure 16: Management and board members of listed companies' views on the implementation of new corporate governance policies related to strengthening internal control and compliance systems



Increased oversight by audit committees also entails significant resource commitments. More than half of the companies in our sample (57%) viewed this as a high-cost area, particularly due to the need for additional expertise, director training, and more frequent meetings. The European Confederation of Institutes of Internal Auditing ([ECIIA](#)) estimates training costs for directors at EUR 5 -000 - 15 000 annually per person, varying by jurisdiction and programme.

Another key barrier highlighted by the interviewed companies is the shortage of skilled professionals, particularly in smaller markets or SMEs. Despite the availability of certification bodies such as ECIIA and IIA, the limited internal knowledge of structured frameworks continues to cause a bottleneck. According to ECIIA, some companies reported needing to increase compliance staffing by 1 - 3 full-

time equivalents (FTEs) to implement more rigorous ICS policies. Given that the average fully loaded cost per compliance professional in the EU is approximately EUR 70 000 – 120 000 per year, this represents a significant recurring expense.

Interestingly, the benefit-cost balance of internal control policies remains contested. Only 13% of the interviewed companies believed that the benefits would fully offset the costs over time, while 50% believed the costs would outweigh the benefits, suggesting a perceived lack of proportionality or clarity about long-term value generation. However, empirical data from the US SOX 404 implementation suggests otherwise. Empirical evidence suggests that robust ICS contribute to reducing financial misstatement risks and enhancing operational efficiency, particularly when digital controls were embedded⁶⁶. Companies are already making trade-offs to cope with the rising cost of internal control requirements. 88% of respondents indicated that they had to reallocate internal resources or restructure operations, while half reported delaying certain business initiatives. These opportunity costs may not appear directly on balance sheets but have real implications for innovation, growth, and competitiveness.

5.8. Internal control reporting

Internal control reporting is emerging as a critical pillar in enhancing the credibility and reliability of both financial and sustainability disclosures. While many EU companies already operate under well-established internal control frameworks, such as COSO and SOX, there is growing debate over whether reporting obligations should go beyond mere descriptions to include substantive, risk-based assessments. A key tension lies in whether statutory auditors should be required to provide separate assurance on internal controls, and what form such oversight should take.

Possible courses of action

- Support targeted training programs on internal control reporting, tailored to different company sizes and maturity levels.
- Develop EU-level guidance and best-practice principles for internal control reporting, including reporting on deficiencies and remediation plans.
- Foster standardisation in reporting formats to improve comparability and transparency across Member States.
- Designate a statutory auditor in charge of a separate assurance process for internal controls (e.g. effectiveness, design, and implementation of internal controls).

Assessment and cost analysis

Stakeholders express divergent views on how far internal control reporting obligations should go. While there is strong support for improving transparency and oversight, there is equally widespread concern about the proportionality and practicality of requiring statutory auditors to issue separate internal control assurances. Many fear such a move would compromise auditor independence, blur professional responsibilities, and create legal uncertainties.

Instead, most stakeholders support a gradual, structured approach. In the short term, requiring companies to disclose their own assessments of internal control effectiveness, accompanied by identified material weaknesses and remediation plans, could drive cultural and procedural shifts

⁶⁶ <https://onlinelibrary.wiley.com/doi/abs/10.1111/1911-3846.12409>, <https://www.sciencedirect.com/science/article/abs/pii/S0165410109000500>, <https://publications.aaahq.org/accounting-review/article-abstract/90/2/529/3687/Does-Ineffective-Internal-Control-over-Financial?redirectedFrom=fulltext>.

without overwhelming resources. Over time, this could pave the way for more formal external assurance, provided that robust internal control criteria and risk assessment methodologies are in place.

Internationally recognised frameworks such as COSO and SOX offer a solid foundation. Many EU-based subsidiaries of global companies already implement these standards, and expanding their use could enhance comparability. However, the quality of internal control reporting depends not only on the framework used but also on internal capacity, which varies significantly across Member States and company sizes.

Training and certification efforts are critical and largely feasible. EU-level confederations and national associations already offer relevant programmes, and these could be scaled up or adapted as demand grows.

Standardising reporting formats is viewed positively but requires careful balancing. Overly prescriptive formats could stifle innovation or limit relevance for smaller companies, while too much flexibility risks reducing comparability.

Stakeholders also highlight the importance of coordinated oversight between internal auditors, external auditors, and audit committees. Rather than duplicating responsibilities, efforts should focus on clarifying roles and reinforcing collaboration. Audit committees are best placed to manage this alignment, ensuring that internal control reporting supports – not replaces – broader governance objectives.

6. Policy recommendations

What follows is a set of practical policy suggestions aimed at enhancing corporate governance across the EU. Building on case studies and the analysis in the previous chapters, the recommendations advocate a smart regulatory approach—one that leverages soft law, subsidiarity, and alignment with national practices to strengthen internal governance without increasing burdens, particularly for smaller firms. The overarching goal is to foster responsible corporate behaviour, improve board effectiveness, and support modern internal control systems as the foundation of high-quality reporting and sustainable performance.

6.1. Governance culture and leadership

Strengthening the ethical foundations of corporate governance begins with leadership quality, board diversity, and continuous competence development. These are areas where soft law and voluntary initiatives can drive meaningful improvements, without the unintended consequences of one-size-fits-all regulation. The following recommendations promote a culture of responsibility, inclusion, and professionalisation through updated national codes, capacity-building, and EU-level coordination.

6.1.1. Ethical leadership

Challenge: Ethical leadership remains inconsistently defined and applied across Member States, despite its critical role in shaping corporate culture and managing risk.

Recommendation: Further EU legislation in this area is not warranted. Instead, national Corporate Governance Code custodians should be encouraged to expand and modernise their provisions on ethical leadership, using Recommendation 2014/208/EU as a benchmark. This would foster convergence across Member States while allowing adaptation to national contexts and sectoral realities.

Rationale: Promotes shared standards without duplicative regulation. Enhances boardroom accountability while respecting Member State autonomy.

6.1.2. Board diversity

Challenge: While EU-level measures have made progress on gender representation, broader diversity dimensions – such as cognitive, professional, and experiential diversity – remain unevenly addressed.

Recommendation: No additional EU legislation is necessary. Diversity should continue to be addressed through national codes and internal control practices. Recommendation 2014/208/EU could be updated to reflect evolving best practices on inclusive board composition, with particular attention to cognitive diversity. Voluntary, evaluative, and proportionate approaches should be prioritised, especially for SMEs.

Rationale: Encourages innovation and effectiveness in board composition without imposing undue burdens. Maintains competitiveness and proportionality.

6.1.3. Training of board members

Challenge: Board member competencies vary significantly, and structured training – especially in emerging areas such as ESG and cybersecurity – is often insufficient or ad hoc.

Recommendation: The EU should refrain from setting binding standards for board training. Instead, it should encourage transparency through national codes, which typically cover training and board evaluations. Voluntary initiatives in critical areas such as risk oversight and digital resilience should be supported. To reduce costs and encourage uptake, digital learning tools and potential tax incentives could be explored, with proportionate implementation for smaller firms.

Rationale: Enhances board capabilities while preserving flexibility and minimising regulatory burdens, particularly for SMEs.

6.2. Board responsibilities and structures

Good governance depends not only on who sits on the board, but on how responsibilities are defined, delegated, and exercised. Strengthening audit committees and clarifying oversight functions requires better coordination and implementation—not necessarily new legislation. This section advocates reinforcing accountability structures through enhanced national practices and soft-law guidance.

6.2.1. Strengthening board oversight

Challenge: Board oversight responsibilities are not always clearly defined, and in practice, may not be effectively executed across Member States.

Recommendation: Rather than legislating new obligations, the EU should encourage the reinforcement of internal control frameworks and promote best practices via national governance codes. The Shareholder Rights Directive could be used to clarify board responsibilities where appropriate, without imposing rigid requirements.

Rationale: Enhances oversight functions while preserving operational flexibility and avoiding unnecessary regulatory expansion.

6.2.2. Audit committees

Challenge: The application of audit committee rules remains uneven across jurisdictions, contributing to fragmented oversight and varying levels of effectiveness.

Recommendation: Instead of expanding the legislative framework, the EU should focus on improving consistency in how existing rules are applied. This could be achieved through greater coordination among national authorities, peer-learning, and the development of soft-law instruments or practical guidance. Audit committees should continue to serve in an advisory capacity and operate within a proportionate framework – especially in relation to smaller companies. Simplified requirements and flexible implementation pathways should be explored.

Rationale: Strengthens board-level oversight while recognising proportionality and avoiding excessive compliance costs.

6.3. Internal control frameworks

Robust internal control systems are the backbone of effective governance, risk management, and high-quality reporting. However, adoption across the EU remains uneven – particularly among SMEs. A principles-based, proportionate, and voluntary approach, underpinned by technical support and EU-level coordination, is key to advancing convergence without creating unnecessary burdens.

6.3.1. Internal control systems

Challenge: Many firms, especially SMEs – lack structured internal control systems and the skills needed to design and operate them effectively.

Recommendation: The EU should avoid introducing prescriptive rules and instead promote the gradual and voluntary adoption of internal control frameworks. This includes raising awareness, providing technical assistance, and fostering partnerships with professional bodies to deliver training and certification. Digitalisation and alignment with international standards (e.g. COSO) should be encouraged. A principles-based approach will allow companies to strengthen their systems at a sustainable pace.

Rationale: Promotes convergence and capacity-building without disproportionate obligations. Supports risk resilience and transparency across firm sizes.

6.3.2. Internal control reporting

Challenge: Internal control reporting remains fragmented and underdeveloped. Full assurance mandates, particularly issued from external auditors, could be premature and counterproductive at this stage.

Recommendation: The EU should refrain from requiring auditors to issue standalone internal control assurance reports. Instead, it should support the development of management-led reporting based on harmonised frameworks, with phased implementation. These assessments should identify material weaknesses and include action plans. Independent assurance could be introduced later, once capacity and systems have matured. Non-binding EU guidance and standardised formats could further support implementation, alongside investment in training. A clear delineation of responsibilities between internal and external control providers will be essential.

Rationale: Balances transparency with audit integrity and cost-effectiveness. Builds the foundation for more robust internal governance without immediate regulatory burdens.

ANNEX I: Scoring matrix explanation for assessing the presence of internal controls in reports

Score	Criteria	Plausible Assessments
10	Comprehensive and Exhaustive	The report provides a detailed, comprehensive overview of the internal controls, including their design, implementation, and the entities responsible for them. Every aspect is thoroughly covered, allowing for a complete assessment of the presence and strength of ICs.
9	Highly Detailed and Useful	The report elaborates on internal controls in great detail, describing roles, responsibilities, and the framework in place. It clearly outlines who is responsible for what, making it easy to assess the extent of internal controls.
8	Very Detailed and Useful	The report clearly states that internal controls are present, describes key features, and details the framework used. It includes information on who is responsible for the controls and how they are overseen, providing a solid basis for assessment.
7	Detailed but Lacking in Some Areas	The report confirms the presence of internal controls and provides some details about their structure. However, certain areas lack depth or clarity, such as the role of internal audit or specifics of risk management processes.
6	Moderately Detailed	The report mentions the presence of internal controls and gives a basic overview, but important details are missing or vague. The information provided is sufficient to know controls exist, but not enough to assess their full extent.
5	Minimally Detailed	The report acknowledges internal controls but offers minimal description. It may confirm their presence but lacks specifics, making it difficult to gauge how extensive or effective the controls are.
4	Slight Mention, Insufficient Detail	Internal controls are mentioned, but the report lacks substantive details. The information provided is too sparse to assess the presence or strength of controls confidently.
3	Barely Addressed	The report makes a brief mention of internal controls, offering little to no useful information. It is unclear from the report whether comprehensive controls are in place.
2	Not Useful	The report provides almost no information on internal controls, making it impossible to assess their presence. The mention, if any, is too vague or brief to be of any use.
1	Completely Useless	The report omits any discussion of internal controls or provides irrelevant or misleading information, making it impossible to determine whether internal controls are present at all.

Explanation of Scoring Levels

Score 10: Comprehensive and Exhaustive

- **Explanation:** Reports with this score provide a complete and detailed account of internal controls, covering every necessary aspect, including design, implementation, oversight, and responsibility. This makes it possible to fully assess the presence and thoroughness of the internal control framework.

Score 9: Highly Detailed and Useful

- **Explanation:** These reports offer extensive detail about internal controls, covering key features, responsibilities, and frameworks. The thorough description enables a clear understanding of the extent to which internal controls are in place.

Score 8: Very Detailed and Useful

- **Explanation:** Reports scoring an 8 provide substantial information about the presence and structure of internal controls. They outline who is responsible for these controls and how they are managed, offering a solid basis for assessing their presence.

Score 7: Detailed but Lacking in Some Areas

- **Explanation:** These reports confirm the presence of internal controls and provide useful details, but may be lacking in specific areas such as internal audit functions or risk management processes. The information is sufficient for a general assessment but leaves some questions unanswered.

Score 6: Moderately Detailed

- **Explanation:** A score of 6 indicates that the report acknowledges the existence of internal controls and provides a basic overview. However, the details are either incomplete or unclear, making it difficult to fully assess the extent of these controls.

Score 5: Minimally Detailed

- **Explanation:** Reports with a score of 5 recognise internal controls but offer minimal or no further details. This makes it challenging to assess the full extent of the controls or their effectiveness.

Score 4: Slight Mention, Insufficient Detail

- **Explanation:** A score of 4 suggests that internal controls are mentioned, but the report lacks depth or substantive information. The report provides some assurance of their presence but leaves much to be desired in terms of clarity and completeness.

Score 3: Barely Addressed

- **Explanation:** These reports make only a brief mention of internal controls with little to no useful detail. It is difficult to determine from the report whether comprehensive controls are in place.

Score 2: Not Useful

- **Explanation:** A score of 2 indicates that the report provides almost no meaningful information on internal controls. The mention, if any, is too vague or brief to be useful in assessing the controls' presence.

Score 1: Completely Useless

- **Explanation:** Reports scoring a 1 completely omit any discussion of internal controls or provide irrelevant information, making it impossible to determine whether any internal controls exist.

ANNEX II: Scoring matrix explanation for assessing the strength of internal controls in reports

Score	Criteria	Explanation
10	Exceptionally Useful	The IC statement or MR is exceptionally clear, detailed, and comprehensive. It allows for a thorough assessment of internal control strength with no ambiguity, providing exhaustive detail on structure, roles, processes, effectiveness and the independence of involved internal bodies.
9	Highly Useful	The report is highly detailed and informative, covering all necessary aspects of internal controls. It offers in-depth insights that allow for a confident assessment of control strength.
8	Very Useful	The report provides substantial detail on internal controls, including the structure, responsibilities, and processes. While it may not be exhaustive, it gives a clear understanding of control effectiveness.
7	Useful	The report adequately describes the internal controls, covering key features such as roles, responsibilities and independence of involved internal bodies. It is sufficient for assessing control strength but may lack some depth or specificity.
6	Somewhat Useful	The report provides basic information on internal controls, enough to give a general sense of the framework but lacking in detail necessary for a full assessment of control strength.
5	Minimally Useful	The report offers minimal detail, making it difficult to assess the strength of internal controls effectively. Key elements might be missing, and the overall utility is limited.
4	Not Very Useful	The report is vague or superficial in its discussion of internal controls. It mentions them in passing but does not provide enough information to assess their strength.
3	Barely Useful	The report offers very little information about internal controls, making it nearly impossible to assess their strength.
2	Not Useful	The report does not mention internal controls in any meaningful way, leaving no basis for assessing their strength.
1	Completely Useless	The report completely omits any discussion of internal controls or provides irrelevant or misleading information that cannot be used to assess control strength.

Explanation of Scoring Levels

Score 10: Exceptionally Useful

- **Explanation:** This score is awarded when the IC statement or MR is so detailed and comprehensive that it leaves no doubts about the strength of internal controls. It provides a clear, systematic breakdown of the internal control environment, including processes, roles, responsibilities, and risk management. The independence of involved internal bodies, and their ability to escalate findings to senior management, is ensured through the design of the internal control framework.

Score 9: Highly Useful

- **Explanation:** A report scoring a 9 is almost as comprehensive as a 10 but may be slightly less detailed. However, it still provides a high level of insight, enabling a thorough assessment of the internal control strength.

Score 8: Very Useful

- **Explanation:** This level indicates that the report is very informative, covering most of the key aspects of internal controls. It provides a strong basis for assessing control strength, although it might lack the exhaustive detail that higher scores provide.

Score 7: Useful

- **Explanation:** A score of 7 suggests the report provides a good overview of internal controls, covering key areas such as the structure and chain of responsibility. It allows for a reasonable assessment but might not delve into all aspects necessary for a complete evaluation.

Score 6: Somewhat Useful

- **Explanation:** At this level, the report provides some useful information, but it is not comprehensive. It gives a basic understanding of internal controls but lacks the detail needed for a full assessment of their strength.

Score 5: Minimally Useful

- **Explanation:** A score of 5 indicates that the report mentions internal controls but in a very limited way. The information provided is insufficient for making a confident assessment of control strength.

Score 4: Not Very Useful

- **Explanation:** Reports scoring a 4 are vague, providing only superficial information on internal controls. They do not provide enough detail to assess the strength of controls effectively.

Score 3: Barely Useful

- **Explanation:** A score of 3 suggests that the report offers very little relevant information. It might acknowledge the existence of internal controls but does not provide any meaningful details.

Score 2: Not Useful

- **Explanation:** This score is given when the report fails to provide any substantial information about internal controls, making it impossible to assess their strength.

Score 1: Completely Useless

- **Explanation:** A score of 1 indicates that the report does not discuss internal controls at all, or the information provided is irrelevant or misleading, offering no value for assessing control strength.

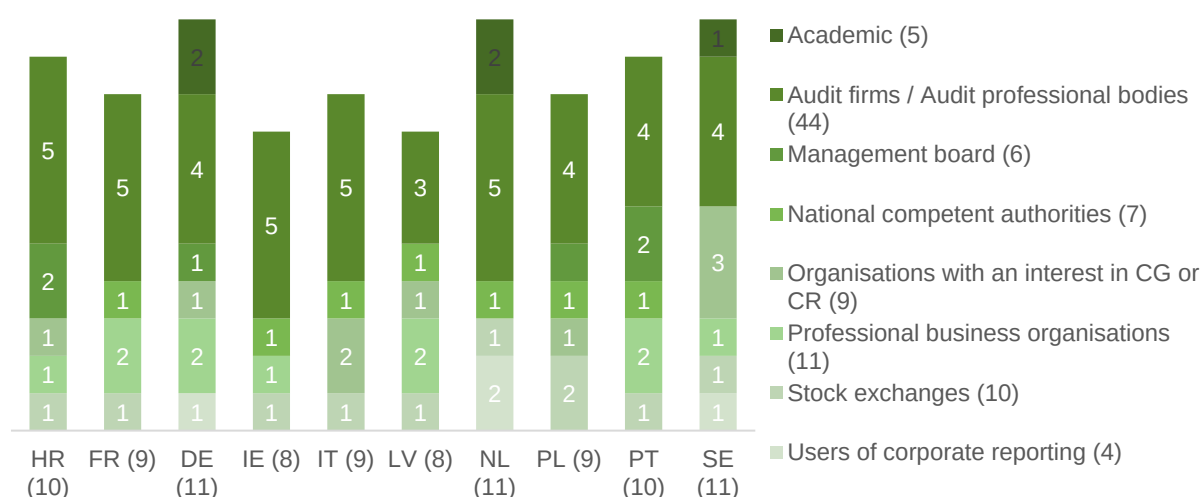
ANNEX III: Survey Overview

To assess the quality of corporate reporting and corporate governance, a survey has been distributed among the different types of stakeholders. The survey⁶⁷ was sent to 241 stakeholders identified in the ten selected Member States (see figure below). The number of responses received is 96, representing a response rate of 40%.

The group of stakeholders answering the highest number of questionnaires is the one composed of audit firms and audit professional bodies (44 responses), while users of corporate reporting completed the fewest number of surveys (4 responses). The rest of the questionnaires received are distributed as follows: 5 from academics, 6 from management and board members of listed companies at EU27 capital market, 7 from national competent authorities, 9 from organisations with an interest in corporate governance or corporate reporting, 10 from stock exchanges and 11 from professional business organisations.

Considering the survey distribution per Member State, the number of completed surveys ranges from 8 in countries such as Ireland and Latvia, to 11 in Germany, the Netherlands and Sweden. The remaining countries have completed 9 (France, Italy, Poland) and 10 (Croatia, Portugal) surveys respectively.

Figure 13: Number of stakeholders who completed the survey distributed per Member State



Summary of Audit firms / Audit professional bodies

Main findings

- The audit firms and professional bodies had the highest response rate, with 75% participation from 44 respondents out of 59 questionnaires sent across 10 selected Member States.
- A significant portion of the respondents (nearly 50%) interact with corporate reports on a daily basis, while another third engage on a weekly basis.
- Auditors generally perceive corporate reporting quality as good, with 80% considering it accurate, though challenges such as regulatory complexity, lack of resources and weak internal controls are frequently cited.
- The effectiveness of corporate governance, especially board oversight, is seen as crucial for improving the quality of corporate reports, with audit committees playing a key role in ensuring high standards, particularly for non-financial disclosures.

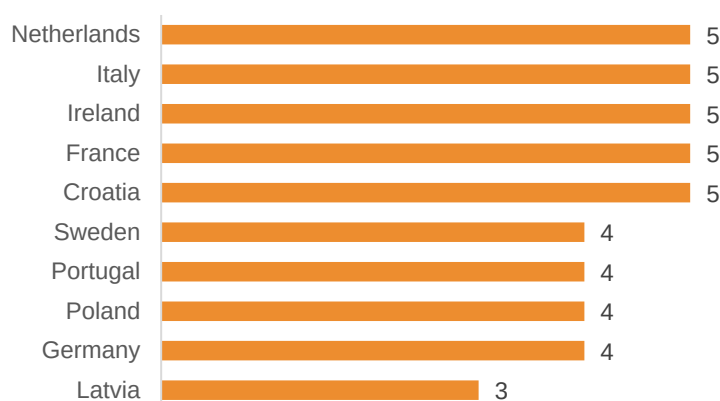
⁶⁷ Each group of stakeholders received a different survey, which contains certain common sections but also specific targeted questions depending on the type of stakeholder.

- Respondents believe that internal control reporting, while important for corporate reporting quality, faces challenges such as resource limitations and weak frameworks, but its effectiveness is expected to improve slightly over the next few years.
- Auditors recommend prioritising strong risk management, internal controls, board independence, and enhanced transparency to improve corporate reporting standards.

The audit firms and audit professional bodies represent the group of stakeholders with the highest response rate. In total, 59 questionnaires were sent to this category of stakeholders, receiving a total of 44 responses. This represents a response rate of 75%.

Audit firms and audit professional bodies responding to the survey belong to the ten selected Member States (see figure below). The number of completed questionnaires per country range from 3 in Latvia to 5 in countries such as the Netherlands, Italy, Ireland, France and Croatia. The remaining countries have 4 questionnaires filled by audit firms / audit professional bodies in each case.

Figure 14: Number of audit firms/audit professional bodies who completed the survey per Member State



The survey results reveal that audit firms/audit professional bodies generally perceive corporate reporting quality as good, with most stakeholders expressing satisfaction with accuracy and compliance to standards. Corporate governance quality is seen as a significant driver of corporate reporting quality. In particular, the role of audit committees, board oversight and ethical leadership are seen as important practices to reach reporting quality and accuracy. Specifically on audit committees, the members financial expertise appears to be of utmost relevance for almost all auditors to guarantee reliability. In addition, despite senior management being highly accountable for ensuring accuracy and transparency in corporate reporting for most respondents, the existing frameworks do not seem to be effective in establishing so.

While most surveyed audit firms/audit professional bodies value the relevance and usefulness of corporate reports for stakeholders in taking informed decisions, the current satisfaction of investors, regulators, etc., with the quality of internal control reporting is not outstanding. Moreover, to produce high-quality reports, numerous challenges such as regulatory complexity, lack of resources or expertise, and weak internal controls are frequently cited. The use of technology is widely regarded as a key factor that can improve the companies reporting accuracy and quality for most auditors.

Internal control reporting is moderately effective but faces barriers such as resource constraints and regulatory complexity. Corporate governance features such as board oversight, audit committee effectiveness, and internal controls are deemed critical for high-quality reporting. However, the existence of multiple frameworks and requirements (particularly on ESG reporting) seem to hinder the transparency and quality of corporate reporting, while led to inconsistencies across jurisdictions. Contrary, the implementation of IFRS and national corporate governance codes appear to contribute significantly to the quality of corporate reporting.

Looking ahead, the surveyed auditors expect slight improvements in corporate reporting and governance practices, emphasising the need for clearer regulations, robust risk management and internal controls, and better integration of internal controls with broader governance frameworks. Challenges such as high implementation costs, expertise gaps, and resistance to change from management are potential hurdles in implementing stricter governance policies, which are anticipated to enhance transparency, investor confidence, and competitiveness. Recommendations for policymakers include clearer guidelines, phased implementation, and leveraging digital transformation to streamline compliance and reporting.

Summary of Academics

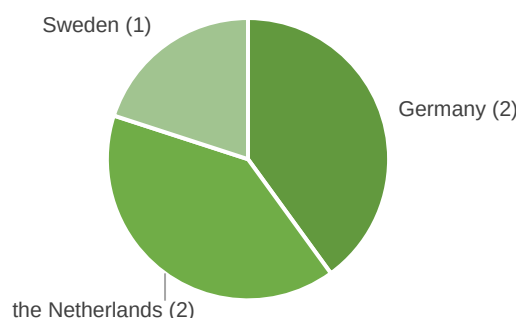
Main findings

- The overall quality of corporate reporting is generally perceived as good, with improvements in transparency and accuracy over the last decade, although some challenges, such as risk reporting and valuation methods, persist.
- Compliance with national and international reporting standards (e.g. IFRS, GAAP) is widely observed, though not always consistently, with some variation in the perceived level of compliance across countries.
- ESG disclosures are seen as highly useful in understanding a company's long-term strategy and risk management, with most academics rating them as very or extremely useful.
- The transparency and effectiveness of internal control reporting are perceived as moderate, with some academics highlighting issues such as the lack of detailed risk disclosures and weaknesses in reporting.
- Corporate governance practices, such as board oversight and the role of audit committees, are viewed as significantly contributing to the quality and transparency of corporate reporting.
- Academics generally expect slight to moderate improvements in corporate reporting quality in the future, although challenges such as regulatory complexity, lack of internal resources and insufficient expertise at management level are anticipated to persist.

Numerous academics were contacted to complete the survey. In total, 36 questionnaires were sent to this group of stakeholders, receiving 5 responses (see figure below). This represents a response rate of 14%.

The respondents belong to three different countries, Germany and the Netherlands (2 each) and Sweden (1). In most of the cases, the respondents consider themselves as users of corporate reports, except for one academic who reported being a researcher with an interest in the topic. In addition, the frequency of use of corporate reports by the academics goes from daily (SE) to monthly (DE, NL) and annually (DE, NL).

Figure 15: Number of academics who completed the survey per Member State



For the surveyed academics, the overall quality of corporate reporting seems to be good, showing significant improvements in terms of transparency and accuracy in the last few years. In particular, the respondents agree that the quality of corporate governance highly contributes to the overall quality of corporate reporting and expect such quality to improve

during the next years.

Despite exhibiting different levels of consistency, companies are mostly compliant with national and international reporting standards. However, certain common issues related to financial reporting are encountered among the respondents. For most surveyed academics, there is still a lack of transparency in risk reporting, as well as a poor disclosure of critical risk and uncertainties in the companies' corporate reports. Moreover, inconsistencies on the valuation methods used are also found as common issues. Lastly, the general consideration regarding the transparency of governance practices is qualified as optimal.

In general, this group of stakeholders finds the governance disclosures in corporate reports useful for assessing the quality of financial and non-financial reporting. Particularly, a unanimous consensus is verified among the academics with regard to the contribution of board oversight in improving the quality and transparency of corporate reports. Along with this practice, the role of the audit committee in enhancing transparency and accuracy of corporate reports is also highlighted by the academics as particularly important. Senior management is held primarily accountable for reporting accuracy, with ethical leadership and board independence further strengthening reporting integrity.

In addition, internal control systems are seen as effective, particularly in mitigating risks, but lack transparency in disclosing weaknesses and remediation plans. Moreover, the quality of internal control reporting is generally rated as fair, and its alignment with broader corporate governance practices is seen as inconsistent, hindered by complex regulations and constraints related to the lack of internal resources and expertise.

While satisfaction with current governance practices varies, academics anticipate improvements, especially through stricter regulations, greater diversity, and digital transformation in reporting processes. Challenges in adopting stricter internal control and risk management policies remain, including high compliance costs, as well as the integration of technology in the processes.

Recommendations from the surveyed academics for policymakers emphasise clear, consistent and phased regulatory guidelines, flexibility or exemptions for smaller firms, and incentives for innovation to enhance reporting quality without stifling adaptability or growth.

Management and board members of companies with securities listed on an EU 27 capital market

Main findings

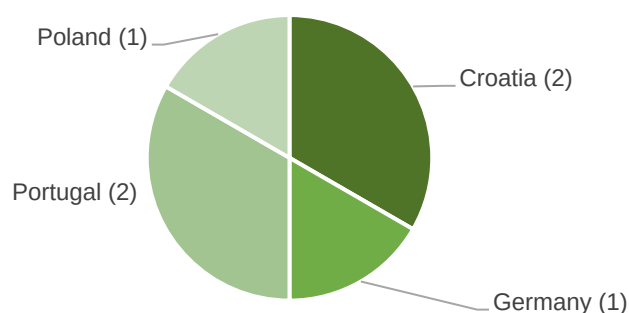
- The response rate for the survey among management and board members of companies with securities listed on an EU market was low, at just 17%. The respondents come from large organisations in different sectors, all of which are involved in preparing corporate reports.
- The perceived quality of national corporate reporting standards was largely positive, with respondents stating that their companies' corporate reports were in full compliance with EU regulations and transparent for external stakeholders. Most also reported significant improvements in the quality of financial reporting in recent years.
- Corporate governance structures varied among respondents, with some following a one-tier system and others a dualistic model, impacting their views on reporting quality. However, most respondents did not see a direct connection between governance structure models (e.g. two-tier model) and reporting quality, though a few highlighted the positive impact of specific governance features such as board independence, ethical leadership and diversity.
- Internal control systems were unanimously seen as effective in enhancing the quality of financial reporting. Respondents emphasised the importance of the board's role in overseeing internal control and the contributions of external auditors in ensuring report accuracy.
- While respondents generally supported stricter governance and internal control policies, they expressed concerns about the costs, particularly regarding upgraded technology and increased staffing. However, many saw the potential for these measures to improve reporting standards and risk management.
- The cost of implementing governance reforms, such as board diversity and internal control upgrades, was recognised as a challenge, with some respondents concerned about its impact on

competitiveness. Still, the integration of digital tools and audits for internal control reporting was considered costly by most.

The management and board members of 35 companies with securities listed on an EU market were contacted to complete the survey. The response rate of this group of stakeholders holds out for one of the lowest shares, after the academics (14%), reaching 17%⁶⁸. All respondents belong to large organisations with more than 500 employees, from different sectors⁶⁹, and have indicated to be preparers of corporate reports. Regarding this, the frequency of use or interaction with such reports appears to be for the majority every quarter, while for the rest is daily (1) or weekly (1).

The management and board members responding to the survey pertain to entities with different corporate governance structure. While two of them follow a one-tier governance model (PT), the remaining four have a dualistic or two-tier board structure (DE, HR, PL). In one of the former cases, the management structure lies with the Board of directors and has a supervisory structure formed by a statutory audit board and a statutory external auditor. In the other case, the model is composed by the board of directors, which comprises an audit committee made up of non-executive directors and an executive committee.

Figure 16: Number of management and board members of companies with securities listed on an EU 27 capital market who completed the survey per Member State



The survey reveals that the management and board members are largely satisfied with the extent national corporate reporting standards applied in their countries, describing them as comprehensive and effective. The respondents perceive their corporate reports as excellent, fully compliant with EU and national regulations, and timely in meeting EU capital market requirements. Management and board members express high confidence in the accuracy, transparency, and stakeholder alignment of these reports, with many citing significant improvements in quality over recent years. EU reporting standards are seen as beneficial, with most respondents acknowledging their positive impact on financial reporting. Board oversight and external auditors are deemed critical to maintaining report quality, supported by effective internal controls. EU directives such as the NFRD, CSRD, and audit guidelines and accounting standards are recognised for improving quality and transparency, though their complexity and varying interpretations present challenges.

Internal controls are deemed highly effective in the surveyed companies at the moment, with boards playing a key role in oversight and external auditors enhancing quality. EU directives such as NFRD and CSRD are credited with improving reporting standards but criticised for their complexity and divergent interpretations across Member States. Governance features such as independent boards, ethical leadership, and diversity (gender, experience, and background) are seen as enhancing reporting quality, along with governance and financial reporting expertise, and ongoing governance training for board

⁶⁸ One of the respondents only answered the questions from the first section.

⁶⁹ Respondents belong to companies from different sectors such as banking, telecommunications, consumer goods industry and holding.

members.

Respondents view audit committees and internal audits as critical to ensuring high-quality reporting, while it is believed that external auditors significantly contribute to compliance. Challenges include regulatory complexity and resource constraints, particularly for smaller companies, with high costs anticipated for implementing stricter policies such as technology upgrades, increased staffing, and compliance measures. Measures such as phased policy implementation, streamlined regulations, and automation are proposed to ensure the effectiveness and practicality for companies.

Despite concerns about costs linked to new internal control policies, particularly driven by integration of digital tools in the internal reporting process and the regular external audits or reviews, respondents agree that stricter governance policies could moderately or significantly improve the quality of corporate reporting and risk management. However, profitability could be impacted, with smaller firms particularly vulnerable. Recommendations from respondents include collaboration between regulators and the private sector, exemptions or simplified standards for smaller firms, and tax incentives to offset compliance costs. The adoption of mandatory third-party audits and enhanced internal controls is seen as beneficial but expensive, with varying impacts on operational efficiency.

National competent authorities, standard setters

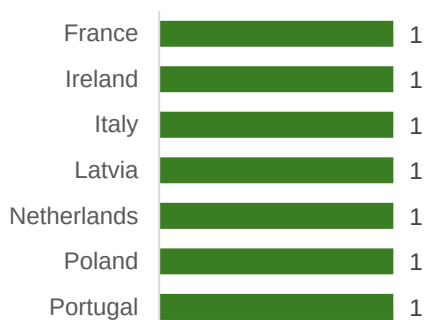
Main findings

- The survey received responses from 7 out of 16 national competent authorities or standard setters, with varying involvement in corporate reporting. Some authorities interact with corporate reports daily, while others do so less frequently.
- Most authorities rate the quality of financial and non-financial reporting as good, but some view it as only fair. National regulations and strong corporate governance are seen as key to maintaining reporting quality.
- While most respondents find companies generally compliant with reporting standards, discrepancies and non-compliance are occasionally encountered. The reliability of non-financial information, such as sustainability data, is often questioned.
- Corporate reports are generally seen as clear and useful for regulatory oversight, although some authorities rely less on them for risk identification. Internal control reporting quality varies, with some respondents viewing it as high, while others assess it as fair or poor.
- The main challenges for companies producing high-quality reports include complex regulatory requirements and balancing financial and non-financial reporting. Many expect slight improvements in corporate reporting quality, driven by stronger governance practices and measures such as audit committee oversight.

Competent authorities in the ten selected Member States were contacted to complete the survey. In total, 16 questionnaires were sent, receiving seven responses (see figure below). This represents a response rate of 44%.

The respondents are immersed in different environments and relate to corporate reporting in various manners. While two of them qualified themselves as users of corporate reports, the rest are standard setters or audit oversight bodies. The frequency of use or interaction with corporate reports present mixed responses. While 3 of them indicated having a daily interaction (IE; IT; PL), the rest reported doing it in a less frequent manner (weekly (NL), monthly (FR), quarterly (PT) and annually (LV)).

Figure 17: Number of national competent authorities who completed the survey per Member State



The surveyed national competent authorities provided insights into the quality and effectiveness of corporate reporting in their jurisdictions. Overall, most respondents rated corporate reporting in their countries as good. National regulations, enforcement mechanisms, and corporate governance structures, such as board oversight and audit committees, were seen as key to ensuring high-quality reporting. However, challenges remain and include, for most surveyed national competent authorities, regulatory requirements complexity, insufficient focus on non-financial reporting, and discrepancies in internal control reporting.

While corporate reports are generally timely, some discrepancies in financial and non-financial information remain. Sustainability and ESG reporting, in particular, are areas needing improvement, with many authorities highlighting the importance of strengthening transparency, accountability, and internal control systems. Regarding internal control reports, the lack of resources or expertise is mentioned as one of the main barriers to produce high-quality reports, together with the existence of weak internal control frameworks. In this sense, most respondents suggested the integration of automated systems for internal control monitoring as a measure to strength internal control and risk management frameworks.

Looking ahead, the majority of authorities foresee slight improvements in corporate reporting, with technology adoption, simplified processes and strengthen audit committee oversight being suggested as critical to enhancing reporting quality and compliance.

Lastly, although stricter governance policies could improve risk management and compliance, as well as investor confidence, concerns about the increased costs associated with compliance and complexity in implementation and reporting remain significant.

Organisations with Interest in Corporate Governance and Reporting

Main findings

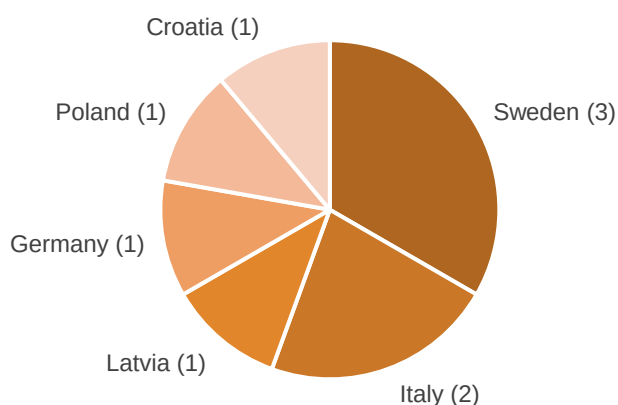
- Nine responses received from organisations with an interest in corporate governance and reporting across ten Member States. Sweden accounted for the highest number of respondents, followed by Italy, and one response each from Croatia, Poland, Germany, and Latvia.
- Corporate reporting quality was generally perceived positively, with accuracy and compliance rated highly by respondents, though relevance and comprehensiveness received mixed assessments. Many highlighted the importance of corporate governance, including board oversight and audit committees, in maintaining reporting standards.
- Non-financial reporting faces challenges, particularly due to the complexity of sustainability standards, inconsistent ESG data and regulations such as the Market Abuse Regulation, which some view as overly demanding.
- Enhancing transparency, accountability and ESG practices is a key priority, supported by stronger internal controls, ethics and risk management frameworks, while addressing challenges such as compliance costs, outdated systems and limited expertise.

- Non-financial reporting is highlighted as essential for aligning governance frameworks with regulatory demands and stakeholder expectations, with a focus on improving standardisation, clarity and accessibility.
- Stakeholder engagement and the role of digital transformation are emphasised as critical to improving corporate governance practices, fostering trust and supporting innovative and inclusive approaches.

A number of organisations with interest in corporate governance and corporate reporting from the ten selected Member States were invited to participate in the survey. In total, 24 questionnaires were distributed to this group of stakeholders, resulting in nine responses, giving a response rate of 38%. The distribution of responses varied across Member States, with Sweden having the highest number of respondents (3), followed by Italy (2). Stakeholders from Croatia, Poland, Germany, and Latvia have responded to one survey in each case (see figure below). Notably, two respondents did not complete the survey but submitted a joint statement outlining their perspectives.

In terms of reporting frequency of use or interaction with corporate reports, the responses indicate the following distribution: three surveyed organisations interact with company corporate reports on a daily basis, two on a monthly basis and one each on a weekly and quarterly basis. Lastly, three surveyed organisations are users of corporate reports, one other is a preparer of corporate reports, and the remaining three are organisations with members that are preparers and users of corporate reports, supervisors and associations representing listed companies.

Figure 18: Number of organisations with interest in corporate governance who completed the survey per Member State



The survey reflects a generally positive perception of corporate reporting quality, with strong recognition of accuracy, compliance and usefulness. However, views on non-financial reporting remain mixed, as organisations highlight challenges related to complexity and a lack of standardisation.

Corporate governance is widely credited with strengthening reporting standards through effective board oversight, audit committees and management accountability. Nonetheless, opinions diverge on issues such as executive compensation and board diversity. Internal control reporting is valued for its role in risk management and enhancing financial reporting quality, though respondents see opportunities for greater transparency, stronger integration with governance frameworks and improved timeliness.

Respondents emphasise the need for clearer regulations, particularly for SMEs, while acknowledging key challenges such as compliance costs and outdated reporting systems. Stakeholder engagement, technology adoption and the evolution of non-financial reporting are identified as critical areas for improvement.

Looking ahead, the outlook is optimistic. Respondents anticipate progress in non-financial reporting through better standardisation and more streamlined regulations. There is strong momentum towards enhancing transparency, accountability and risk management,

supported by clearer policies and innovative approaches. Despite ongoing challenges, confidence remains high in the ability to foster more effective, inclusive and transparent corporate practices.

Professional Businesses Organisations

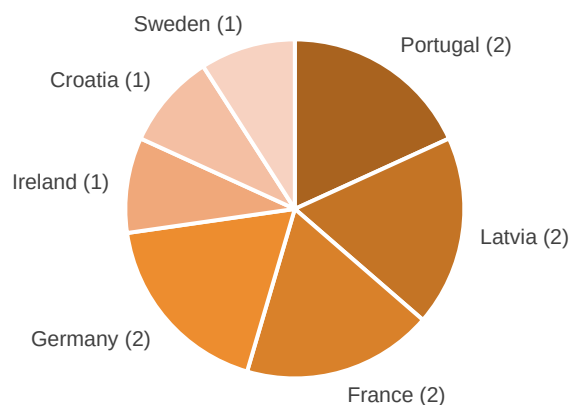
Main findings

- Professional business organisations from selected Member States participated in the survey, with 11 responses received, representing a 50% response rate. Germany, Portugal, Latvia and France had the highest participation, followed by Sweden, Croatia and Ireland.
- Corporate reporting quality was generally rated positively, with five respondents rating it as good and two as excellent. Neutral assessments were noted in France and Latvia. Reports were widely seen as useful or extremely useful for decision-making.
- Perceptions of accuracy were mostly favorable, with the majority rating reports as very accurate. However, a few participants from France, Latvia and Germany indicated concerns about somewhat inaccurate or inaccurate information.
- Timeliness and compliance with global reporting standards were highly rated by most respondents. However, Germany and Ireland noted partial alignment and some identified room for improvement in comprehensiveness.
- Challenges identified included regulatory complexity, resource constraints, insufficient training or expertise and limited stakeholder engagement. Optimism for future improvements exists, though concerns about regulatory burdens, especially related to CSRD and ESG, remain prevalent.
- Overall, participants emphasised strengths in timeliness, compliance, and governance but pointed to challenges in addressing complexity, resource demands and the integration of non-financial reporting.

A number of professional businesses from the selected Member States were invited to participate in the survey. In total, 11 responses were received, representing a response rate of approximately 50%. The distribution of responses varied across countries, with Germany, Portugal, Latvia, and France having the highest number of respondents (2), followed by Sweden, Croatia, and Ireland with one respondent each (see figure below). Noteworthy, the respondent from Sweden did not complete the survey but submitted a statement outlining its standpoint.

Regarding the frequency of interaction with corporate reports, the responses show: two professional businesses organisations interact on a daily basis, one on a weekly basis, one on a monthly basis, and three others on a quarterly basis. Additionally, two respondents reported interacting with corporate and governance reports only annually. The majority of respondents are users of corporate reports (6 or 55% of the respondents). The remaining respondents are either preparers of corporate reports (1 or 9% of the respondents), provider of services to preparers of corporate reports (1 or 9% of the respondents) or have not specified the organisations background.

Figure 19: Number of professional businesses who completed the survey per Member State



Responses highlight generally positive perceptions of corporate reporting quality, with accuracy, timeliness and compliance identified as key strengths. However, opinions on the relevance and comprehensiveness of reports – particularly concerning non-financial data and sustainability disclosures – remain mixed.

Governance practices, including board oversight, internal controls and ethical leadership, are widely regarded as effective in supporting high-quality reporting. Nonetheless, challenges persist, such as regulatory complexity, resource constraints and the increasing demand for non-financial reporting. Internal control reporting is valued for its quality, clarity and governance role, yet there is room for improvement in integrating it more effectively into governance frameworks, enhancing stakeholder understanding and addressing compliance challenges.

Participants emphasise the need for targeted reforms to strengthen reporting frameworks while maintaining stakeholder trust. Although the outlook is broadly optimistic, respondents caution against excessive regulation that could overburden companies and stakeholders. There is strong support for reforms that strike a balance between rigor and flexibility, ensuring governance frameworks remain robust, inclusive and adaptable to diverse organisational needs.

Key areas for improvement include aligning compensation structures with governance objectives, enhancing stakeholder engagement and simplifying reporting requirements. Overall, the findings underscore a broad consensus on the importance of governance frameworks that prioritise transparency, accountability and risk management. While resource constraints and regulatory complexity remain significant obstacles, a flexible and incremental approach to reform could enhance transparency, improve risk management and strengthen investor confidence – ultimately making corporate governance more effective and practical across diverse organisational contexts.

Stock Exchanges

Main findings

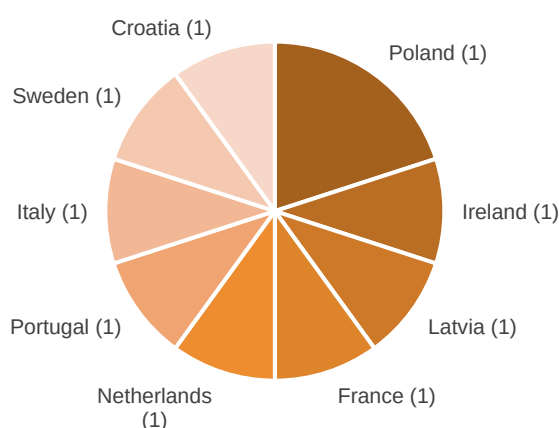
- Nine stock exchanges from the selected Member States participated in the survey.
- The quality of corporate reporting is generally seen as good, with most respondents praising the usefulness of reports for stakeholders such as investors and regulators. However, there is room for improvement, particularly in enhancing the accuracy and consistency of the information provided.
- Responses indicate that market rules for listing on regulated markets either impose the adoption of a corporate governance code (HR, PL, LV) or encourage it without mandating a specific one (PL, IE, FR, NL, PT, IT), reflecting variations in regulatory approaches across Member States.

- Corporate governance practices, such as board oversight and audit committees, are widely acknowledged as crucial to reporting quality. The majority of respondents emphasise the importance of these practices in ensuring transparency and compliance.
- Challenges to high-quality corporate reporting include regulatory complexity, insufficient resources and a lack of focus on non-financial reporting. While the regulatory framework is a significant concern, there is optimism that reporting quality will improve in the coming years.
- Internal control reporting is seen as crucial for maintaining the reliability of financial and non-financial reporting, with most respondents rating its quality as fair but noting room for improvement. The main challenges include a lack of resources and expertise, as well as the complexity of regulatory requirements.

Different stock exchanges from the ten selected Member States were invited to participate in the survey. In total, 9 responses were received, representing a response rate of 90%, one per each country (see figure below). Additionally, it is worth mentioning that the participant from Sweden did not complete the survey but provided a joint statement outlining its perspective.

Regarding the frequency of interaction with corporate reports, the responses show that most stock exchanges interact monthly (55% of the respondents), while the rest do it on a daily basis (22% of the respondents), or on a weekly, monthly or quarterly basis (11% of the respondents in each case). One third of the surveyed stock exchanges are users of corporate reports, while one other is a preparer of corporate reports. The remaining respondents have not specified anything in this aspect.

Figure 20: Number of stock exchanges who completed the survey per Member State



Stock exchange stakeholders view corporate reporting as an essential tool for ensuring transparency, compliance, and market integrity. It plays a key role in fostering strong governance practices and meeting regulatory requirements. However, stakeholders noted challenges such as regulatory complexity, resource constraints and increasing demands for non-financial reporting, all of which require strategic attention to sustain the effectiveness and relevance of corporate reporting. Internal control reporting is especially valued for its contribution to governance, market integrity, and risk management. Despite this, persistent issues such as resource limitations, regulatory burdens and gaps in integration with broader governance frameworks underline the need for targeted reforms. Stakeholders call for enhanced training, expertise and streamlined compliance processes to address these issues and strengthen stakeholder confidence.

There is cautious optimism regarding the future of corporate governance practices, with expectations of gradual improvements in oversight, internal controls and ethical leadership across various markets (HR, LV, PL, FR, NL, PT, IT, IE). However, concerns remain about the disproportionate impact of complex regulatory requirements on smaller organisations, particularly SMEs, highlighting the need for balanced reforms. Stakeholders emphasised the importance of aligning governance and reporting practices with stakeholder expectations by promoting diversity, transparency and accountability within governance structures. Policymakers are encouraged to adopt balanced, flexible regulatory approaches

that encourage competitiveness and accountability without overburdening organisations. This approach is crucial for maintaining the effectiveness of corporate reporting while addressing the evolving demands of stakeholders and the market.

Users of Corporate Reporting

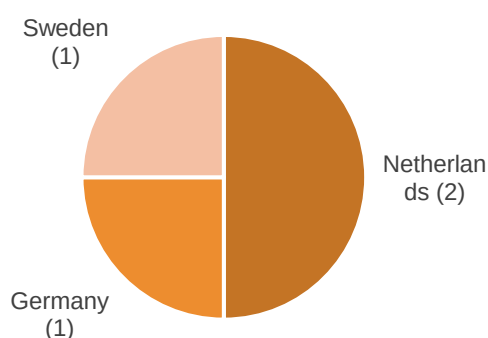
Main findings

- Four responses were collected from a survey sent to 39 stakeholders, reflecting a low participation rate and diverse feedback from Germany, the Netherlands and Sweden.
- Ratings on the quality and usefulness of corporate reporting varied; two considered it "good" and one "fair," with usefulness ratings ranging from "moderately useful" to "extremely useful."
- Key concerns included inconsistent standards, unclear disclosures and insufficient emphasis on non-financial reporting such as ESG. Regulatory complexity and overly detailed financial data were also flagged as barriers.
- Corporate governance practices such as board oversight, audit committees and board diversity were rated as critical to the quality of reporting, though challenges such as weak internal controls and inadequate board expertise were noted.
- Internal control reporting received mixed reviews, with issues surrounding timeliness, integration with governance frameworks, and insufficient disclosure of weaknesses highlighted as areas needing improvement.

A total of 39 stakeholders were invited to participate in the survey, with four responses received, representing a response rate of around 10%. The distribution of responses includes two users of corporate governance and reporting from the Netherlands, one from Germany, and one other from Sweden. Notably, the respondent from Sweden did not complete the survey but provided a joint statement outlining their perspective.

The respondents represent a mix of users of corporate reporting, including a head of units (e.g. European affairs), executive directors, and board members. Among them, one engages with corporate reports daily, while two interact weekly. These responses provide insights into the perspectives of different stakeholder groups, showcasing both common practices and notable variations in the use and frequency of corporate reporting.

Figure 21: Number of users who completed the survey per Member State



Users of corporate reporting emphasise the critical role of corporate governance practices in ensuring the quality, transparency, and accountability of corporate reporting. Key components such as board oversight and audit committees are recognised as essential, but challenges such as weak internal controls, inconsistent governance practices, and insufficient expertise must be addressed. Strengthening governance structures through targeted reforms that foster diversity, transparency, and accountability is vital to meeting stakeholder expectations and regulatory requirements. Internal control reporting is highlighted as a pivotal governance tool for enhancing market confidence, but its effectiveness is limited by issues such as inconsistent terminology, inadequate disclosure of weaknesses, and poor integration with broader frameworks. Addressing these challenges

through improved disclosure practices, targeted reforms, and better integration with governance systems is necessary to unlock its full potential. Respondents strongly supported advancing non-financial reporting and integrating technology into governance frameworks. Clearer regulatory guidelines and phased implementation strategies were deemed essential for ensuring the practicality and effectiveness of these reforms. Overall, the findings underscore the need for governance policies that enhance transparency, strengthen risk management, and build stakeholder trust, while balancing stricter requirements with organisational feasibility.

Stakeholder Comparison

The survey results show broad agreement on the overall quality of corporate reporting among all groups of stakeholders, emphasising accuracy, transparency, and compliance as key strengths. Across the groups, corporate governance is identified as a critical factor in enhancing reporting quality, with board oversight, audit committees, and ethical leadership frequently highlighted as essential contributors. However, analysis reveal shared challenges, such as regulatory complexity, resource constraints, and inconsistent approaches to non-financial reporting and valuation methods, which hinder transparency and alignment with governance frameworks.

Academics and auditors/audit professionals' bodies agree that while the quality of reporting has improved, gaps persist in risk transparency, internal control reporting, and valuation methodologies. They emphasise the importance of board oversight and audit committees, noting the role of financial expertise from the management in ensuring accuracy and reliability. However, academics highlight inconsistencies in internal controls and their integration with governance frameworks, while audit professionals stress the inefficacy of existing frameworks in ensuring senior management accountability.

Management and board members of listed companies display higher confidence in corporate reporting, particularly within the EU27 capital markets, where compliance with EU and national standards is viewed as strong. Governance practices such as board diversity, ethical leadership, and external audits are recognised as enhancing report quality. However, these stakeholders also cite challenges with complex EU directives and high costs of compliance, particularly for smaller firms.

National competent authorities and organisations with interest in corporate governance emphasise weaknesses in sustainability and non-financial reporting. While reporting timeliness and compliance are generally seen as strong, discrepancies in non-financial disclosures and weak internal control frameworks are noted as barriers to improvement. Both groups advocate for greater use of technology and automation to enhance risk management and transparency.

Professional businesses and stock exchange stakeholders focus on the need for reforms to address regulatory burdens and resource constraints. They caution against overwhelming firms with additional regulations, especially smaller organisations, and call for flexible and phased implementation of new policies. These groups highlight the potential of digital transformation to streamline compliance and improve reporting.

Users of corporate reporting, such as investors and regulators, stress the need for more consistent governance practices and stronger internal control systems. They advocate for clearer disclosure of weaknesses, better integration of internal controls with broader governance frameworks, integration of technology into governance frameworks and advancements in non-financial reporting. Users also emphasise balancing stricter governance policies that enhance transparency, risk management and build stakeholder trust, that are feasible to implement, ensuring organisational efficiency.

In summary, while the groups generally agree on the strengths of current corporate reporting frameworks, their perspectives vary in terms of specific challenges and areas for improvement. Common recommendations include enhancing transparency in risk and non-financial reporting, addressing inconsistencies in governance practices, adopting clearer

and phased regulatory guidelines, and leveraging technology to boost reporting efficiency. A shared optimism exists for future advancements, particularly through targeted reforms and digital innovation, though the need to balance rigor with organisational adaptability is emphasised.

ANNEX IV: Past scandals

Wirecard

The Wirecard scandal, which unfolded in 2020, is perhaps one of the most egregious examples of corporate governance failure in recent history. Wirecard, a German payments company once considered a fintech darling, inflated its balance sheet by EUR1.9 billion through the creation of fictitious assets. For years, it misled investors, auditors, and regulators by fabricating financial statements, ultimately resulting in its collapse and the loss of billions for shareholders. Wirecard's key governance failures include:

- **Non-existent assets:** The central fraudulent practice was the reporting of non-existent cash balances, particularly held in trustee accounts in the Philippines, which never actually existed.
- **Misleading financial reporting:** Wirecard used opaque accounting practices to mask the discrepancies in its financial statements, misrepresenting revenues, liabilities, and profitability.
- **Long-term deception:** This deception spanned over a decade, during which auditors, regulators, and analysts failed to spot or act on significant red flags. The company's stock surged during this period, with a market capitalisation of EUR 24 billion at its peak.

Wirecard's collapse underscored critical weaknesses in Germany's way to structure and oversee corporate governance, revealing gaps in regulatory oversight and internal controls. Wirecard was listed on Germany's DAX index, giving the appearance of strong governance, but several key failures persisted:

- **Weak board oversight:** Wirecard's board failed to exercise effective oversight over management. It allowed its CEO and COO to operate unchecked, even though their actions warranted close scrutiny. The supervisory board, tasked with overseeing the executive board, was largely ineffective.
- **Audit failures:** External auditors approved Wirecard's financial statements for over a decade, despite mounting discrepancies. They failed to detect or challenge the absence of key financial documents and did not act on irregularities, including the fabricated accounts.
- **Regulatory lapses:** Germany's financial regulator was also criticised for its inaction. Despite repeated warnings from whistleblowers and journalists about irregularities in Wirecard's financials, concerns were dismissed, in some cases, there was even a tendency to protect the company from external scrutiny, such as criticism from short-sellers.

The scandal prompted significant revisions to Germany's Corporate Governance Code (Deutscher Corporate Governance Kodex, DCGK), reflecting the urgent need to address the weaknesses exposed by the Wirecard case. One of the primary changes was the increased emphasis on effective internal control systems. Companies are now required to provide more detailed disclosures regarding their internal controls over financial reporting, ensuring these mechanisms are robust and reliable.

In addition, the revised code strengthened board oversight by recommending that a majority of supervisory board members be independent from the management board. This change aims to enhance the board's ability to oversee company operations and mitigate potential conflicts of interest. The issue of auditor independence also received heightened attention.

The updated code encourages companies to engage auditors who demonstrate not only independence but also the necessary expertise and resources to evaluate the company's financial statements thoroughly. This is crucial for ensuring the integrity of financial reporting and internal controls.

Moreover, the revisions mandated enhanced transparency in financial disclosures. Companies are now urged to disclose more information about their governance practices and internal control systems, which helps ensure that shareholders and stakeholders are well-informed about these critical elements. Finally, there is an emphasis on regulatory oversight of corporate governance practices. The government has indicated a commitment to strengthening the enforcement of corporate governance codes and requirements, thus ensuring companies adhere not just to the letter but also to the spirit of the revised standards⁷⁰.

Parmalat

Parmalat's financial fraud, one of the largest in European history, involved the fabrication of financial statements and the concealment of billions in debt through off-balance-sheet entities. The company overstated its assets by around EUR 14 billion, misleading investors and regulators. For years, Parmalat masked its insolvency by manipulating financial records and misrepresenting its liquidity. This fraud went undetected due to a lack of effective internal controls and board oversight, resulting in the company's eventual collapse in 2003.

The Parmalat scandal revealed glaring deficiencies in corporate governance, particularly in the areas of board independence and audit quality. The board failed to provide adequate supervision of financial reporting and internal controls, while external auditors overlooked significant discrepancies in financial records. Italian corporate governance rules, which mandated transparency and independent audits, were not adequately enforced in Parmalat's case, leading to one of the most catastrophic failures in Italy's financial history.

Parmalat's reliance on complex financial structures, such as off-balance-sheet entities, further evaded the oversight that Italy's corporate governance framework aimed to ensure. This underscored the importance of proper audit committee functionality and the need for robust mechanisms to identify fraudulent activity early on.

The scandal led to significant reforms in Italy's corporate governance and financial reporting regulations. In response, Italy adopted Sarbanes-Oxley-style reforms, which focused on enhancing the independence of auditors and improving corporate transparency. These included stricter requirements for the composition of audit committees, enhanced whistleblower protections, and more rigorous auditing standards to ensure the accuracy of financial reporting. The Accounting Directive was revised so as to reinforce the disclosure of off-balance sheet arrangements, in particular when associated with the creation or use of one or more Special Purpose Entities, and to implement the corporate governance statement⁷¹.

Additionally, reforms under the EU's Corporate Governance Action Plan were bolstered, with a greater focus on preventing the misuse of off-balance-sheet entities and ensuring that boards take responsibility for internal control systems. While these measures were an important step forward, Parmalat's case highlights the need for continued enforcement of governance rules and the critical importance of independent and vigilant auditing practices to detect financial irregularities before they spiral out of control.

⁷⁰ This involves increasing the capacity of regulatory bodies to monitor and enforce compliance with the corporate governance code. For example, regulators may have enhanced powers to scrutinise governance practices, investigate potential violations, and ensure that companies provide accurate and complete disclosures. Furthermore, there may be more stringent consequences for companies that fail to comply with the revised code, including penalties or sanctions.

⁷¹ Directive 2006/46/EC of the European Parliament and of the Council

Royal Imtech

Royal Imtech, a company specialising in technical services and engineering, collapsed in 2013 following the exposure of significant accounting fraud and financial misreporting, particularly in its subsidiaries in Poland and Germany. This fraud led to the overstatement of earnings and ultimately precipitated a liquidity crisis that resulted in the company's bankruptcy.

The Royal Imtech scandal starkly illustrates how governance failures can directly impact the quality and reliability of corporate reporting. At the heart of the collapse was a severe lack of accountability and oversight at multiple levels within the organisation, which allowed fraudulent activities to go unchecked for years.

One of the primary governance issues was the ineffective internal audit function. The internal auditors failed to identify significant discrepancies in financial reporting, which facilitated the manipulation of earnings. Reports indicated that these internal audits were not conducted with the necessary rigor, thereby failing to provide a reliable check on financial practices. This negligence not only violated the principles of the Dutch Corporate Governance Code, which mandates robust internal controls, but it also created an environment where misreporting could thrive without detection.

Additionally, the board's oversight was inadequate. Governance structures require that boards actively engage with financial reporting processes, ensuring transparency and accuracy. In Royal Imtech's case, the board did not fulfil its oversight responsibilities effectively. Senior management exerted excessive influence, and there was a lack of independent scrutiny. As a result, board members were either unaware of or complicit in the financial misreporting. This illustrates a critical governance gap: the failure to separate management and board responsibilities, which is essential for effective oversight.

Following the collapse of Royal Imtech, the Dutch government and regulatory bodies recognised the urgent need to strengthen corporate governance frameworks to prevent similar occurrences in the future. One of the key changes was the revision of the Dutch Corporate Governance Code, which was updated in 2016. This revision aimed to enhance transparency and accountability within companies. It included stricter guidelines on board responsibilities, emphasising the need for effective oversight of financial reporting and internal controls. The code now requires that boards take a more proactive role in risk management and internal auditing processes, ensuring that these functions are robust and independent.

Additionally, there was a push for greater shareholder engagement and rights. The reforms encourage more active involvement of shareholders in governance matters, including the ability to question board decisions and influence executive compensation structures. This shift is intended to create a more balanced power dynamic between management and shareholders, fostering an environment where governance issues can be addressed more effectively.

Enron

The Enron scandal in the US, one of the most remarkable failures of corporate governance in history, serves as a stark reminder of the critical importance of ethical oversight and transparency in corporate reporting. Enron's executives engaged in extensive accounting fraud to present a facade of profitability while concealing significant debt. This manipulation involved complex financial structures, such as special purpose entities (SPEs), that were used to hide liabilities and inflate earnings. The company's culture prioritised profits and stock price over ethical behaviour and transparent reporting, leading to catastrophic outcomes, including bankruptcy and significant financial losses for investors and employees.

The practices at Enron clearly violated several fundamental principles of corporate governance, including board independence, oversight, and transparency. The company's

board of directors failed to provide effective oversight, and many board members had conflicts of interest due to their ties with Enron's management. Additionally, Enron's auditor compromised its independence by providing consulting services alongside auditing, leading to a lack of objective financial reporting.

The Enron scandal led to significant changes in corporate governance practices and regulatory frameworks in the United States, primarily through the enactment of the Sarbanes-Oxley Act in 2002. This landmark legislation aimed to restore investor confidence in the financial markets and enhance corporate governance by implementing stringent reforms across several key areas.

One of the most critical changes introduced was the requirement for greater transparency in financial reporting. Companies are now required to provide more detailed disclosures about their financial condition, particularly concerning off-balance-sheet entities and other complex financial instruments that can obscure a company's true liabilities. This aims to prevent the type of obfuscation seen at Enron.

Another significant reform was the establishment of independent audit committees for publicly traded companies. The Sarbanes-Oxley Act requires that these committees consist solely of independent directors who have the authority to hire and fire external auditors. This measure was designed to enhance the independence of the auditing process and prevent conflicts of interest, where the same auditor acts as both an auditor and a consultant for the same company.

The legislation also introduced stricter penalties for corporate fraud, including harsher consequences for executives who engage in misleading practices or violate financial disclosure regulations. It also established the Public Company Accounting Oversight Board (PCAOB), which oversees the auditing profession and ensures compliance with standards that promote the accuracy and reliability of financial reporting. The PCAOB's role is crucial in monitoring the effectiveness of audits and reinforcing the integrity of financial statements.

Satyam

Satyam Computer Services engaged in large-scale financial fraud by inflating its revenues, profits, and cash balances while under-reporting liabilities. Founder Ramalinga Raju admitted to manipulating the company's financial statements by overstating profits by over USD 1 billion. The fraud went undetected for years, as the company's board of directors and audit committee failed to act on numerous red flags. Critical aspects of corporate governance, such as internal controls, external auditing, and management oversight, were weak or compromised, allowing the deception to continue unchecked.

The Satyam case highlighted severe deficiencies in corporate governance. Key failings included poor adherence to norms of board independence and ineffective audit committee oversight. The board was dominated by insiders and lacked sufficient independence to hold management accountable. Furthermore, the audit committee failed to ensure rigorous financial scrutiny, and external auditors were unable (or unwilling) to identify the large-scale manipulation. This case demonstrates a critical gap in enforcing transparency and accountability, which are fundamental to good governance and accurate corporate reporting.

The aftermath of the Satyam scandal led to sweeping governance reforms in India. The introduction of the Companies Act 2013 aimed to rectify many of the failures exposed by the scandal, mandating stronger board independence, greater responsibilities for audit committees, and more robust whistleblower protections. Moreover, the role of external auditors was strengthened, with enhanced accountability measures.

Patisserie Valerie

The Patisserie Valerie scandal, which came to light in 2018, exposed significant financial mismanagement and fraudulent accounting practices within one of the UK's most well-

known café chains. The company, listed on London's AIM stock market, appeared to be thriving, reporting strong revenues and profitability. However, the discovery of a black hole in its accounts amounting to an estimated £94 million – revealed that financial statements had been grossly manipulated. This led to the company's collapse, highlighting severe governance failures and weaknesses in financial oversight. Patisserie Valerie's key governance failures included:

- Lack of board oversight: The company's board, led by its executive chairman, failed to detect the fraudulent accounting practices, raising concerns about weak governance structures and the absence of effective internal controls.
- Fictitious cash reserves: The company's accounts falsely showed large cash balances that did not exist, masking its true financial distress. Fake invoices and forged documentation were used to inflate the company's financial position.
- Audit failures: The external auditor was heavily criticised for failing to identify glaring financial irregularities over several years, leading to regulatory scrutiny of its auditing processes.

The collapse of Patisserie Valerie underscored the vulnerabilities in corporate governance and financial reporting, particularly in the UK's AIM-listed market, which has historically been subject to lighter regulatory oversight. The scandal prompted calls for stricter auditing standards and reforms to enhance financial transparency in mid-sized listed companies. In response, the UK government launched a review of audit practices, leading to proposals for stronger oversight of financial reporting and auditor accountability (e.g. the establishment of the Audit, Reporting and Governance Authority, the introduction of a new Internal Audit Code of Practice) to prevent similar corporate failures in the future.

Carillion

The collapse of Carillion in January 2018 stands as a significant example of corporate governance failure in the UK. Carillion, a major construction and facilities management company, entered liquidation with debts exceeding £1 billion, a pension deficit over £500 million and minimal cash reserves. This event not only disrupted numerous public projects but also led to extensive job losses and financial instability for many stakeholders. Some of the key governance failures include:

- Excessive risk-taking and debt Accumulation: Carillion's aggressive expansion strategy involved acquiring several companies, leading to a significant increase in debt and intangible assets. The board failed to adequately assess the risks associated with this strategy, resulting in financial overreach.
- Inadequate board oversight: The board did not effectively challenge executive decisions or scrutinise financial practices. This lack of oversight allowed management to engage in risky financial behavior without sufficient checks and balances.
- Misleading financial reporting: Carillion's financial statements did not accurately reflect its financial health. The company carried substantial levels of debt, creating inherent risks that were not adequately disclosed or managed.
- Audit failures: Carillion's external auditor failed to identify multiple warning signs before the collapse. The Financial Reporting Council (FRC) later issued a £21 million fine to the auditor for these shortcomings.

The Carillion scandal prompted a comprehensive evaluation of corporate governance, risk management and accounting practices within the UK. It highlighted ongoing flaws in the UK's corporate governance system, which requires directors to prioritise shareholder interests over those of other stakeholders, while relying heavily on investor oversight. In response, there have been calls for reforms to enhance board accountability, improve risk management practices, and ensure more rigorous auditing standards. The collapse served as a catalyst for change, prompting a reassessment of governance practices and regulatory frameworks in the UK.

Thomas Cook

The collapse of Thomas Cook in September 2019 was one of the most significant corporate failures in the UK, highlighting severe deficiencies in corporate governance, financial oversight, and risk management. The 178-year-old travel giant entered compulsory liquidation with debts exceeding £1.7 billion, leaving 600,000 customers stranded and triggering the UK's largest peacetime repatriation effort. The failure stemmed from a combination of excessive debt, mismanagement, weak governance structures and inadequate regulatory oversight.

The key governance failures can be summarised as follows:

- Excessive debt and financial mismanagement: Thomas Cook accumulated a high level of debt over the years due to an aggressive expansion strategy, including costly acquisitions. Instead of reinvesting profits into modernising its business model, the company prioritised servicing its massive debt, making it highly vulnerable to external shocks.
- Ineffective board oversight and risk management: The board failed to respond effectively to the company's deteriorating financial health. Despite warning signs, directors continued to approve large dividend payments and executive bonuses while ignoring the mounting financial risks. The lack of a robust turnaround strategy exacerbated the company's liquidity crisis.
- Outdated business model and strategic missteps: Thomas Cook struggled to adapt to the rise of online travel agencies and changing consumer behaviors. While competitors embraced digital transformation, Thomas Cook remained heavily reliant on high-cost physical stores and package holidays, failing to modernise its offerings.
- Audit and regulatory failures: The company's financial reports consistently portrayed a misleadingly optimistic outlook. The auditors were criticised for failing to identify and report clear financial red flags. The UK's Financial Reporting Council (FRC) launched investigations into the role of auditors, questioning the effectiveness of external oversight.

The collapse of Thomas Cook intensified scrutiny over corporate governance in the UK, leading to a series of proposed and implemented regulatory changes. The audit and corporate governance reform of 2022 aimed at improving audit quality and corporate accountability. Key measures included:

- Strengthening the Financial Reporting Council (FRC) and transitioning it into a new regulator, the Audit, Reporting and Governance Authority (ARGA), with expanded powers to hold company directors accountable.
- Requiring larger companies to produce resilience statements outlining their financial sustainability and risk management strategies.
- Introducing greater transparency in audit reports, particularly regarding companies at risk of failure.

In addition, the UK government strengthened rules on executive remuneration, requiring more shareholders say on pay policies and linking bonuses more closely to long-term company performance rather than short-term gains. The Corporate Insolvency and Governance Act 2020 introduced new restructuring tools, aimed at preventing sudden collapses by allowing companies in distress to explore rescue plans before liquidation. The case of Thomas Cook underscored the need for mechanisms that provide struggling firms with a structured path to recovery, rather than abrupt insolvency.

Evergrande

The collapse of China Evergrande Group, one of the world's largest property developers, exposed deep-rooted weaknesses in corporate governance, financial risk management and regulatory oversight in China's real estate sector. Evergrande's downfall, which began in 2021 and culminated in a formal liquidation order in 2024, resulted from excessive leverage,

financial misreporting, weak internal controls and an overreliance on speculative real estate development. The crisis had far-reaching consequences, destabilising China's property market, shaking investor confidence and raising systemic risk concerns in global financial markets.

The key corporate governance failures were:

- Excessive debt and overleveraging: Evergrande aggressively expanded by financing its real estate projects through massive borrowing. At its peak, the company's total liabilities exceeded \$300 billion, making it the world's most indebted real estate developer. The company relied on short-term debt to fund long-term projects, creating a severe liquidity mismatch.
- Weak internal controls and risk management: The company's rapid expansion was not matched by adequate financial oversight. Evergrande engaged in aggressive off-balance-sheet financing, obscuring the true extent of its debt. The company also sold wealth management products to retail investors, promising high returns, even as it struggled to meet debt obligations.
- Fraudulent financial practices and misreporting: Investigations revealed that Evergrande inflated its revenue and misrepresented its financial position. In 2023, Chinese regulators found that Evergrande overstated its assets and profits, further eroding market confidence. The lack of transparency in its financial disclosures made it difficult for investors to assess the company's true financial health.
- Board and executive mismanagement: Evergrande's corporate governance structure was highly centralised, with the founder and owner exerting excessive control over decision-making. The board lacked independent oversight, enabling reckless expansion without adequate financial discipline. In 2023, the founder was placed under police investigation for suspected financial crimes, underscoring serious governance failings at the top.
- Regulatory and market failures: Despite Evergrande's growing financial instability, regulatory intervention came too late. China's 'Three Red Lines' policy – introduced in 2020 to curb excessive borrowing in the real estate sector – was not enforced stringently enough in Evergrande's early expansion years. By the time regulatory pressure mounted, the company was already deeply overleveraged, leaving limited room for corrective action.

Evergrande's failure prompted major regulatory and corporate governance responses in China, aimed at preventing similar crises in the real estate sector and strengthening financial risk management. With regard to corporate governance and board oversight, the Chinese government emphasised the need for stronger independent board oversight in listed companies, reducing the dominance of founders and majority shareholders. New regulations pushed for more independent directors on company boards, particularly in heavily indebted industries such as real estate, while companies were required to establish risk committees to oversee financial stability and debt management.

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