

Adoption of 'equivalence mechanism' paves the way for decisions on third country accounting standards

The Commission has taken another step further towards the establishment of a common set of worldwide accounting standards for listed companies. Following a favourable opinion of the European Parliament a Regulation has been adopted which sets out the basis for deciding which third country Generally Accepted Accounting Principles (GAAPs) can be considered equivalent to IFRS system adopted by the EU.

The EU has the objective of arriving at a common set of worldwide accounting standards for listed companies. For the interim, a key part of this strategy is to eliminate existing costly and burdensome reconciliation requirements between the EU and its key trading partners.

Using the definition of equivalence and

the mechanism established by this Regulation, the Commission will shortly be presenting proposals for decisions on which third country GAAPs should be accepted as equivalent with effect from 2009. The Commission will also be able to propose allowing third country issuers to use, in the EU, GAAPs which are not equivalent for a transitional period ending in 2011 at the latest, provided these are converging with IFRS or the respective third country intends to adopt IFRS within a short timeframe.

Under these decisions, foreign issuers listed in the EU will be allowed to continue preparing their accounts using their GAAP instead of having to restate their financial statements using IFRS.

In December 2007, the US Securities and

Exchange Commission adopted proposals to dispense with the reconciliation requirement to US GAAP for foreign issuers using IFRS, including EU companies.

The EU was the first major jurisdiction to make (as from 2005) IFRS mandatory for its listed companies, thus setting the foundation for the current success of these standards, and it remains by far the largest jurisdiction applying IFRS. Commissioner for Internal Market and Services Charlie McCreevy said: "This is a crucial milestone towards our objective of promoting the efficiency of capital markets by establishing a common worldwide accounting language. Without this Regulation in place we would not be able to proceed with key decisions on the acceptability of third-country GAAPs in the EU."

info http://ec.europa.eu/internal_market/securities/transparency/index_en.htm#equivalence

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