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Financial services: European Parliament's approval of proposed Transparency Directive is good news for investors

The European Commission has welcomed the European Parliament's vote to approve the Commission's proposal for a Directive on transparency requirements for securities issuers. This will pave the way for adoption by the EU's Council of Ministers shortly. The proposal, a key part of the Financial Services Action Plan, aims to make the European financial market place more attractive, upgrading the information available to investors and helping them allocate their funds more efficiently, thus boosting the economy as a whole. Among its key achievements will be that investors will in future receive interim management statements from those share issuers who do not publish quarterly reports and will get half-yearly financial reports from issuers of new bonds. In addition, all securities issuers will have to provide annual financial reports within four months after the end of their financial year. The proposed Directive will also lead to better dissemination of information on issuers across Member States. The Commission will, under the proposal, establish a mechanism for assessing at EU level the equivalence between international accounting standards and third country accounting standards.

Internal Market Commissioner Frits Bolkestein said: "Enlightened companies do not consider transparency as a burden, but as an investment in building trust which brings its own rewards in the market place. So I am pleased that we are on course to meet the target set by the March 2003 European Council of adopting this proposal by this spring. I pay great tribute to the European Parliament and the Council, who have cooperated closely to make it possible to reach agreement at first reading. Investors will be better informed in future. Interim management statements will provide them with more regular information about the financial position of share issuers who do not yet report on a quarterly basis. Investors in bonds will benefit from far better financial reporting rules. The role of securities regulators will be strengthened."

The proposal as approved by the European Parliament was already informally endorsed in general terms by the EU's Council of Economics and Finance Ministers of 25 November 2003 (see MEMO/03/241). Once formally adopted by the Council, it will bring many advantages for European capital markets.

"Home country principle"

The proposed Directive confirms the "home country principle", prohibiting other Member States from imposing more stringent disclosure requirements on an issuer than those already imposed in its home Member State. This is along the same lines as already agreed under the Prospectus Directive (Directive 2003/71/EC, see IP/03/1018, IP/02/1209, MEMO/02/180). Thus, issuers quoted in several Member States will no longer face a patchwork of different transparency requirements.

More timely and more detailed financial reports

Issuers will have to publish an annual financial report within four months after the end of their financial year, so that investors no longer have to wait at least six months until the outcome of shareholder meetings. Third country bond issuers, using third country accounting standards for their bonds listed before 1 January 2005, may continue to do so, provided that certain conditions are met. More detailed half-yearly financial reports by share issuers will be required (based on IAS 34 and on an interim management report also providing information on major related party transactions). There will be a similar requirement for issuers of new bonds.

Interim management statements

Share issuers will have to publish interim management statements in between the annual financial report and the half-yearly financial report. These statements should include a narrative description of the financial position and of the impact of material events on that financial position. This would not apply to those share issuers who already publish quarterly financial reports.

Better information on major shareholders' interests

The public will get swifter and better information about the material interests of important shareholders. More changes in issuers' shareholding structures will need to be disclosed within shorter time limits. The shareholders involved and the company itself will have to ensure that such information became public. There will be tailor-made rules with regard to the function of market makers and custodian banks, as well as the aggregation of shareholdings between asset management companies and their parent undertakings. If a home Member State deems it necessary, it may also provide for limited exemptions for issuers whose shares are traded in the trading books of credit institutions and investment firms, meaning that some of the relevant information is already in the public domain.

Electronic communication

The proposed Directive will facilitate electronic communication between companies and their shareholders. On the basis of a decision taken in a shareholders' meeting, shareholders should be given a reasonable period of time during which they may object to receiving information by electronic means. The share issuer would not be forced to await the express consent of each individual shareholder. An individual shareholder may continue to object to electronic communication at any moment in future. The same provisions would apply to holders of bonds;

Corporate information available EU wide

It will also enable Europe to move to a system of EU-wide dissemination of corporate information which should be available to investors in all Member States. The home Member State – where the issuer is based - may also request publication in its print media.

Background

The Commission presented its proposal one year ago under the Financial Services Action Plan (IP/03/436). The proposal is for a framework Directive in line with the February 2002 agreement with the European Parliament on improving the regulation of EU securities markets, following the recommendations of the Committee of Wise Men chaired by Alexandre Lamfalussy (see IP/02/195). It therefore confines itself to setting out the general high-level obligations which Member State authorities should enforce. More detailed implementing measures will be set down by the Commission, following consultations with market participants and Member States, and taking into account advice from the Committee of European Securities Regulators (CESR). The Commission will soon be starting its work on first mandates for CESR.

The Council agreed on a general approach at the 25th November Council of Finance Ministers. The European Parliament has to a large extent supported the line taken by the Council in its general approach. On new elements, the Council is likely to follow the line voted by the European Parliament. Thus, the Directive should be adopted at a future Council meeting after a single reading in the European Parliament. It would have to be implemented in the Member States' national laws during 2006, 24 months after publication in the Official Journal of the EU.