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Accounts: Commission proposes collective board responsibility and more disclosure on transactions, off-balance sheet vehicles and corporate governance

The European Commission has proposed four key revisions of the EU's Accounting Directives to enhance confidence in financial reporting by companies. First, establishing that board members are collectively responsible for financial statements and key non-financial information. Second, making unlisted companies' transactions with related parties more transparent. Third, ensuring that all companies provide full information about off-balance sheet arrangements, including Special Purpose Vehicles which may be located offshore. Fourth, making listed companies issue an annual "corporate governance statement". The proposals are part of the Commission's Company Law Action Plan, published in May 2003 (see IP/03/716 and MEMO/03/112).

Internal Market Commissioner Frits Bolkestein said: "Recent financial scandals show that investors and the public need more protection against cheats. We want to kill four birds with one stone, by ensuring that company boards are responsible for what they tell the markets, that transactions with related parties are explained, that accounts reflect off-balance sheet arrangements and that markets know how companies are governed. That will build confidence in EU capital markets and reduce malpractice."

Responsibility of board members

The proposal would confirm that board members of limited companies are collectively responsible to the company for the financial and other key information that they publish and that Member States must have appropriate sanctions and liability rules where board members do not comply with accounting rules. This is in line with what currently exists in all Member States. In some, there is debate on going further, so the Commission considers this proposal may be a first step at EU-level.

Related party transactions

For listed companies, disclosure requirements on transactions with all related parties such as family members and company managers already exist under International Accounting Standards (IAS). The proposed amendments would extend these to unlisted companies, though the amendments would apply only to significant transactions with related parties not carried out under normal commercial conditions. Member States would be able to exempt small unlisted companies.

Off-balance sheet arrangements

Certain financial instruments can involve Special Purpose Entities located offshore that are not captured in the balance sheet. The Commission proposes that all companies - listed or not - should disclose all off-balance sheet arrangements, including their financial impact, in notes to the annual and consolidated accounts.

Corporate governance statement

Companies that perform well tend to be well-governed. Investors need transparency on corporate governance to make informed investment decisions. The Commission is proposing that all listed EU companies should provide a corporate governance statement in their annual report. That statement would cover key issues such as whether the company complies with a corporate governance code, information about shareholders' meetings and the composition and operation of the board and its committees.

The proposed amendments to the Accounting Directives follow consultations earlier this year:
http://www.europa.eu.int/comm/internal_market/accounting/board/index_en.htm