



**COUNCIL OF
THE EUROPEAN UNION**



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Council updates legal framework on annual accounts for EU companies

The Council adopted today¹ a directive updating EU rules on the annual and consolidated accounts of European companies (*3675/05 and 8511/06 ADD1*).

The new directive modifies the 4th and 7th company law directives (“accounting directives” 78/660/EEC and 83/349/EEC), together with accounting directives for banks (86/635/EEC) and insurance undertakings (91/674/EEC), with a view to further enhancing confidence in the financial statements and annual reports published by EU companies. It establishes collective responsibility for board members in the drawing up and publishing of financial statements and annual reports, enhances transparency in related parties’ transactions and off-balance sheet arrangements and, for publicly traded companies, introduces a requirement for a corporate governance statement.

¹ The directive was adopted without discussion at the Agriculture and Fisheries Council meeting.

P R E S S

These measures are intended to promote the reliability of company accounts while avoiding overburdening companies with new administrative obligations, in particular small and medium-sized undertakings (SMEs). They are part of the Community measures taken under the EU's action plan for modernising company law and corporate governance, such as the new rules on the audit of company accounts adopted on 25 April (8635/06).

Current EU rules provide for options for member states to exempt all or certain categories of SMEs from a number of accounting and auditing requirements. To this effect, the 4th directive offers a definition of SMEs on the basis of three criteria: the balance sheet total, the net turnover and the number of employees. To benefit from the exemptions, companies must fulfil two of the three criteria for two consecutive years. The new rules enlarge the possibilities for exemption of SMEs in the context of these directives by increasing by 20% two of the thresholds: the balance sheet total and the net turnover.

The directive was adopted in first reading, in accordance with the co-decision procedure, after approval by the Council of all of the amendments introduced by the European Parliament. The presidents of both institutions will now sign the legal act that will be published in the Official Journal of the EU. The directive will come into force on the twentieth day following its publication.

EU member states must transpose the provisions of the new directive into their national legislation within two years after entry into force.
