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## **Corporate governance and accounting- Where we stand in the EU**

*Check Against Delivery  
Seul le texte prononcé fait foi  
Es gilt das gesprochene Wort*

Business Leader Forum Association of Chartered Certified Accountants (ACCA) Ireland

**Dublin, 29 September 2006**

Ladies and Gentlemen

I am very pleased to be invited here today to speak to you about where we stand in the EU regarding corporate governance and accounting. It is good to see such a lot of interest in these topics. Events such as this are important as they give us the opportunity to communicate where we are and describe our current actions and plans in the field of corporate governance and accounting in Europe.

### **Accounting – IAS implementation**

So where do we stand in Europe? I believe that we are standing on the threshold of a new era. In accounting, for listed companies, the beginning of 2005 saw the introduction of the IAS Regulation and its requirement that around 8000 European listed companies have to prepare their consolidated financial statements using IFRS. Initial studies show that the implementation of IFRS has generally been successful. I am aware that accountants and auditors have done extensive work in order to achieve these results. At the same time, more work needs to be done on consistent application of the standards across Europe. Several parties have a role to play in this area. CESR, the Committee of European Securities Regulators, is playing a leading role: it has created several working groups in order to coordinate enforcement decisions in different jurisdictions. In the interest of transparency, there will also be a public database of decisions taken. Accountants and Auditors can help to improve consistent application, by improved communication among themselves.

The Commission also plays its full role: we have set up an informal "Roundtable", bringing together all interested parties. The Roundtable provides a forum for discussion but does not provide European interpretations or guidance. Issues which are of widespread significance are referred to IFRIC, the International Financial reporting Interpretations Committee.

### **SME's Accounting**

Let's turn to SMEs. Today, 99% of all EU enterprises are SMEs. There are 23 million SMEs in the EU, which employ 75 million workers. SMEs account for more than 80% of employment in some industrial sectors such as textiles. SMEs play a crucial role in our economy.

As the Commissioner responsible for Internal Market and Services, I want to make sure that SMEs can fully reap the benefits of the internal market – and of the global chances beyond it.

This is why I will start discussing what the future accounting requirements for these companies should be. At present, the accounting requirements for unlisted companies are contained in the Fourth and Seventh Company Law Directives. The Directives already contain exemptions from some of the accounting requirements for SMEs. But we will need to review the existing rules to assess whether or not they are all relevant for SMEs' business needs today. These Directives have been in force for over 20 years, now they need modernisation.

Improving the quality of unlisted company financial statements should also help them to obtain finance. Unlisted companies generally use their local bank and not the capital markets. High quality financial statements won't of course guarantee a successful outcome of a loan application to a bank but can certainly aid a better informed decision on the part of the bank and help underpin confidence in the decision-making process.

I have repeatedly stated that accounting for SMEs must be simplified and that the level of accounting complexity should be aligned with the nature of the activities of these companies. We have to identify SME's real needs and those of their financiers and use them as the basis for deciding on their future accounting requirements.

I am aware that this is a politically sensitive issue - so there will be extensive consultation with all stakeholders. We will listen very carefully to the concerns of SMEs before taking any decision.

As you know, the IASB intends to publish an exposure draft on accounting standards for SMEs. There will be a period of consultation afterwards. I have made it clear already that only simple, easy-to-apply standards will be acceptable to us. Nobody should assume that the standards will be automatically transposed into European law.

### **Corporate Governance – Achievements so far**

Let me now turn to corporate governance.

Our Action Plan on Company Law and Corporate Governance, which was adopted in 2003 as a Commission's reply to major financial scandals, has been successfully implemented. Nearly all measures scheduled for adoption in the short term, i.e. 2003 to 2005, have been put in place.

Our priority, at the time of adoption of the Action Plan, was twofold. We needed, on the one hand, to bring investors back to the financial markets. On the other hand, we wanted to design measures that could boost the competitiveness of our businesses.

Given the political context, we first focused on measures aimed at improving transparency. We adopted a Recommendation on the independence of non-executive supervisory directors with concrete criteria on how to define "independence". We adopted another Recommendation on listed-companies' remuneration policy – in order to ensure transparency regarding the remuneration of directors. We are now examining the way Member States have implemented both Recommendations.

We have also recently adopted amendments to the Accounting Directives. These require additional disclosures where a company has material related party transactions that have been undertaken at a below market rate. Also, additional disclosures are required where the company has off balance sheet arrangements, such as special purpose entities (SPEs). Companies that are below the small and medium-sized thresholds are not required to make these disclosures.

I am particularly pleased, however, that we also took the opportunity to increase the small and medium-sized company thresholds by 20% to ensure that the regulatory burden for SMEs is kept to a minimum.

Other important measures have been put on track in order to modernise company law and corporate governance and to enhance the mobility of companies. These include the adoption of a Directive allowing cross-border mergers of companies without any bureaucratic obstacles. We have also amended the Second Company Law Directive on the formation and alteration of capital to remove bureaucratic obstacles.

## **Corporate Governance – Priorities for the future**

Today, the context in which our companies are working in is different from when we first adopted our Action Plan. Statistics show that investors have come back to the markets. However, they also show a worrying trend that the European economy is not keeping up with global competition and globalisation generally. So, we need to focus all our energy on well-targeted measures that can boost the competitiveness of Europe's businesses.

That's why I decided last year, that before continuing with the implementation of the Action Plan, it was time to consult our stakeholders to determine whether or not the medium term and long term proposed actions are still relevant in today's market place. When I say relevant, I mean by providing the most appropriate regulatory response to business needs.

The responses to last year's consultation on the Action Plan generally expressed satisfaction regarding the measures already adopted.

Our proposed application of the better regulation principles to corporate governance issues received overwhelming support. We will accordingly consult before initiating any piece of legislation. In full transparency. Because dialogue and exchange of experience are the paths to success. We need to work together rather than work against each other.

Let me say a few words on some of the issues in the consultation.

There is support for tackling the issue of shareholders' democracy and, in particular, the one share one vote principle. We have recently launched a study on the deviation from the proportionality principle across Member States. Results should be published by next spring. Depending on the results, we may propose a Recommendation.

There is also widespread support regarding the objective to modernise and simplify company law. However, respondents have differing opinions as to how this can be achieved. As often, everyone applauds the general idea of simplification of legislation but when it comes to what exactly to get rid of or streamline, views start diverging. So we need to do some further thinking in this area.

Based on the result of our consultation I will soon come forward with a more detailed statement on where the priorities will lie in the coming years. But one thing is clear already: there will be no big surprises and no raft of new legislation.

## **Conclusion**

Ladies and Gentlemen: I have briefly described where we currently stand in the EU regarding accounting, company law and corporate governance.

Much has been achieved over the last few years. Following the financial scandals we have updated and improved the framework in Europe. Now, the time has come to let the new rules bed down and make them work. Sure, there are areas where further improvements are needed. But accounting and corporate governance alike are fields where the right balance has to be struck. The balance between ensuring reliability, transparency and security for all stakeholders while preserving entrepreneurial freedom. I will do my best that we will find this balance.

Thank you for your attention.