

Brussels, 13 February 2001

Financial reporting: Commission proposes requirement for listed companies to use International Accounting Standards by 2005

The European Commission has presented a proposal for a Regulation that would require all EU companies listed on a regulated market, including banks and insurance companies, to prepare consolidated accounts in accordance with International Accounting Standards (IAS). This requirement would enter into force at the latest in 2005. Member States would have the option to extend this requirement to unlisted companies and to the production of individual accounts. The Regulation would help eliminate barriers to cross-border trading in securities by ensuring that company accounts throughout the EU are more transparent and can be more easily compared. This would in turn increase market efficiency and reduce the cost of raising capital for companies. The proposal is a priority measure under the Financial Services Action Plan (see IP/00/1269), endorsed by the Lisbon European Council as a key element of the creation of an integrated financial services market. It is also in line with the strategy outlined in the Commission's June 2000 Communication on the future of financial reporting in Europe (see IP/00/606).

Internal Market Commissioner Frits Bolkestein said: "This eagerly awaited proposal signals the beginning of a new era of transparency and the end of the Tower of Babel in financial reporting in Europe. The use of one global accounting language will greatly benefit European companies. It will help them to compete on equal terms for global capital. Investors and other stakeholders will, at last, be in a position to compare company performance against a common standard. Listed companies should start preparing now for this change-over to a single set of financial reporting rules, namely International Accounting Standards. Although some investment will be needed in terms of training, I am confident that it will repay itself many times in the long run, notably through the reduced cost for companies of raising capital".

Applying IAS in the EU

The proposed Regulation would require all listed companies (including listed SMEs), to prepare their consolidated accounts in accordance with IAS. However, as most SMEs are unlisted, they would be dispensed from applying IAS, unless they wished to do so and this option was allowed by their Member State.

The proposal would also establish a new EU mechanism to assess International Accounting Standards adopted by the International Accounting Standards Board, the international accounting standard-setting organisation based in London to give them legal endorsement for use within the EU. Under this mechanism, there would be an Accounting Regulatory Committee that would operate at the political level under established EU rules for decision-making by regulatory committees. The Committee, chaired by the Commission and composed of representatives of the Member States, would decide whether to endorse IAS on the basis of Commission proposals.

An accounting technical committee will be set up as a private-sector initiative, named EFRAG "European Financial Reporting Advisory Group", by the main actors interested in financial reporting (including users, preparers, the accounting profession and national standard setters). The accounting technical committee would provide technical expertise concerning the use of IAS within the European legal environment. It would participate actively in the international accounting standard setting process and organise the coordination within the EU of views concerning international accounting standards. This committee should be in place in the course of the second quarter of 2001, i.e. soon after the new IASC Board becomes operative (from 1 April 2001 onwards). The Commission would be represented in this committee in an observer capacity.

Modernising financial reporting

The proposed Regulation constitutes the cornerstone of the financial reporting strategy adopted by the Commission in June last year. It will be accompanied by other initiatives, notably the modernising in the course of 2001-2002 of the existing Accounting Directives (namely the 4th Company Law Directive (78/660/EEC) and the 7th Directive on consolidated accounts (83/349/EEC). These Directives will remain the basis for financial reporting for all limited liability companies.

To ensure that improved financial reporting guarantees better investor protection, the Commission is also working to develop a stronger enforcement infrastructure, based on high quality statutory audit as well as a strengthened coordination among European securities regulators to ensure a proper enforcement of accounting standards.

The role of accounting in creating an integrated financial market

The proposed Regulation complements the Commission's efforts to encourage cross-border trade in financial services and so create a fully-integrated market, by helping to make financial information more transparent and easily comparable. In particular, the forthcoming proposals, due this Spring, to modernise the existing Directives on Prospectuses and to introduce a single passport for European issuers of securities. Access to securities markets will be secured through a common registration system based on comparable market information, including one set of accounting standards.

A recent survey by a major accounting firm of 700 listed companies reveals that 79% of Chief Financial Officers support the European Commission's recommendation that IAS should be mandatory for listed companies by 2005. They cite strategic business and financial considerations, rather than accounting practice, as the reasons for their support to IAS. These include marketability, cross-border mergers and acquisitions, shareholder dialogue and finance raising.

See also MEMO/01/40 for further information.