COMMISSION OF THE EUROPEAN COMMUNITIES

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Proposal for a

REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL

on the application of international accounting standards

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Explanatory Memorandum

1. INTRODUCTION

The 23-24 March 2000 Lisbon Council Conclusions stressed the need to accelerate completion of the internal market for financial services, set a deadline of 2005 to implement the Commission's Financial Services Action Plan and urged that steps be taken to enhance the comparability of financial statements prepared by listed[1] companies.

On 13 June 2000, the Commission adopted its Communication *The EU's Financial Reporting Strategy: The Way Forward*[2]. The Communication proposes that all EU companies listed on a regulated market should be required to prepare their consolidated accounts in accordance with a single set of accounting standards, namely International Accounting Standards (IAS) from 2005, at the latest. Adoption of uniform, high quality financial reporting rules in EU capital markets will enhance overall market efficiency, thereby reducing the cost of capital for companies.

On 17 July, the ECOFIN Council welcomed the June 2000 Communication and emphasised in its conclusions that the comparability of the financial statements of listed undertakings, financial institutions and insurance undertakings is an essential aspect of the integration of the financial markets. ECOFIN also invited the Commission to present a proposal to introduce the new requirement and to establish an appropriate mechanism for recognising IAS.

A recent survey[3] of 700 EU 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. Strategic business and financial considerations, ahead of accounting issues, are the most compelling reasons for considering the change to IAS. These include marketability, cross-border mergers and acquisitions, shareholder dialogue and finance raising.

EU accounting legislation, adopted in the 1970s, provided a base level for harmonisation, as regards reporting requirements for limited liability companies. However, it has not been able to deliver sufficient comparability for publicly traded companies. A new approach is necessary to meet the current needs of a fully integrated European capital and financial services market, which the Lisbon European Council aspired to. Furthermore, these companies are subject to more demanding disclosure requirements from investors and need a financial reporting system that offers a much higher level of transparency and comparability of company performance.

The lack of comparability in financial reporting has adverse effects for stake-holders. Adaptation of financial statements to take account of local conventions was understandable when investors and other stakeholders were of the same nationality as the company. However, with the emergence of an integrated financial market, the securities of any one company are

1 For the purpose of this Regulation, the terminology "listed companies" shall be understood as referring to companies whose securities are admitted to trading on a regulated market, i.e. publicly traded companies. The expression "listed companies" is only used for ease of communication. By opposition, wherever the expression "unlisted companies" is used, this shall be understood in the acceptance of "non publiclytraded companies".

2 COM (2000)359, 13.06.2000

3 PriceWaterhouseCoopers – International Accounting Standards in Europe – 2005 or now?

often held by an internationally diverse group of investors. The prevailing level of diversity is also detrimental to the effective supervision and efficient enforcement of financial reporting requirements of publicly traded companies.

In an integrated European securities market, it is necessary that listed companies publish their financial statements on the basis of a single set of financial reporting standards. Rather than relying on market forces to determine the standards that should be used, the most effective basis for ensuring this objective of comparability is a requirement for listed companies to publish financial statements that conform to a single set of standards. The EU itself will not attempt to produce a distinct body of accounting standards. This would miss the trend towards globalisation of financial markets and weaken the ability to raise capital by EU companies on third country markets. Therefore, an internationally recognised set of standards appears to be the most suitable basis for financial reporting in the EU.

In its 1995 Accounting Strategy Communication, the Commission expressed its preference for IAS as the set of standards for EU companies wishing to raise capital on an international basis. Since 1996 the IASC (International Accounting Standards Committee) has undertaken a gradual and in-depth process of revision and development of the standards. Also, in 1999 the IASC finalised the core set of standards agreed with International Organisation of Securities Commissions (IOSCO). IAS provides a comprehensive and conceptually robust set of standards for financial reporting specifically intended to serve the needs of the international business community.

2. AN INTERNAL MARKET APPROACH

This new approach is to deliver the European Union's political objective of cementing the conditions necessary for the realisation of an integrated, efficient capital market. Continuing to rely on establishing *minimum*, *equivalent* requirements concerning the extent of the financial information to be made available by publicly traded companies is no longer sufficient. In order to build a fully integrated capital market by 2005 at the latest, the Community must now adopt measures that bring about *a much higher level of comparability* of financial accounts throughout the Internal Market. This will improve competition and greatly facilitate the free movement of capital as an essential, key parts for completing EU's capital markets..

A Regulation is necessary to ensure that by 2005 all listed EU companies apply International Accounting Standards. It will also ensure early take-up and provide the right signals to the markets. By complying with IAS, the quality of financial statements will be dramatically improved and there will be an increasing degree of comparability. The credibility and consequently the usefulness of financial statements will be enhanced throughout the EU capital markets. Investors must be able to compare the financial statements of an enterprise through time in order to identify trends in its financial position and performance and also be able to compare the financial statements of different enterprises in order to evaluate their relative financial position and performance.

In order to achieve full legal certainty and consistent application of IAS by all listed EU companies, it is necessary to reduce the risk of national variations that do not correspond with today's needs of financial markets and which could hinder establishing a single set of accounting standards in EU capital markets. The approach proposed is also necessary in order to avoid uneven implementation and undue delays in transposition of the new requirements into national law.

3. MAIN ISSUES CONSIDERED IN THIS PROPOSAL

This proposal introduces the requirement that, at the latest from 2005 onwards, all EU companies listed in a regulated market as well as companies preparing admission to trading prepare their consolidated financial statements in accordance with IAS adopted for application within the EU. It also provides an option for Member States to permit or require the application of adopted IAS in the preparation of annual accounts and to permit or require the application of adopted IAS by unlisted companies. This means that Member States can require uniform application of adopted IAS to important sectors such as banking or insurance, regardless of whether companies are listed or not. This proposal also establishes the basic rules for the creation of an endorsement mechanism that will adopt IAS, the timetable for implementation and a review clause to permit an assessment of the overall approach proposed.

3.1. Timing and date of application

It is extremely important to facilitate early application of the proposed legislation in order to meet the 2005 deadline set out by the Lisbon Council. It is also crucial for the objective of comparability to achieve consistent application of IAS by all listed EU companies, with no national variations. This is indispensable for the efficient functioning of the markets. The proposed Regulation will enter into force immediately in order to foster application of IAS by listed companies as soon as possible. However, as provided in the June Communication, a later date of application (before obligatory application in 2005) is necessary in order to allow Member States and companies to carry out the necessary adaptations to make the application of international accounting standards possible. During this transitional period Member States may however anticipate the requirement or permit the use of adopted IAS for all or certain companies within the scope of the proposal. Member States are also free to apply or to adopt any measures which do not conflict with the scope or objectives of the proposed Regulation and that ensure its application.

3.2. Role of the Accounting Directives

The requirement for listed companies to apply IAS will be additional to the Directives' requirements. The Directives will remain applicable to maintain a base level of comparability for all limited liability companies across the EU. This will also help unlisted companies that do not use IAS to be encouraged to move from the minimum requirements of the Accounting Directives to more sophisticated financial reporting such as IAS. Conformity with the Directives will be required for all companies, the application of IAS will be a supplementary requirement for listed companies.

3.3. Endorsement mechanism

In order to provide for the necessary public oversight, an EU endorsement mechanism is needed. The role of that mechanism is not to reformulate or replace IAS, but to oversee the adoption of new standards and interpretations, intervening only when these contain material deficiencies or have failed to cater for features specific to the EU economic or legal environment. The central task of this mechanism should be to confirm that IAS provide a suitable basis for financial reporting by listed EU companies. The mechanism will be based on a two-tier structure, combining a regulatory level with an expert level.

Regulatory level of the endorsement mechanism

The regulatory level will include representatives of all Member States and operate on the basis of appropriate institutional arrangements under established comitology rules that will ensure full transparency and accountability towards the Council and the Parliament. The regulatory level will give its opinion as to whether or not an IAS standard shall be adopted by the EU and by which date adopted IAS apply within the EU.

Expert level of the endorsement mechanism

An accounting technical committee will provide the support and expertise needed to assess the standards on a timely basis. It will also provide input into the IASC standard setting process at all stages, and particularly in the early phases. The expert level must be able to issue final opinions expeditiously. EU users of IAS and the markets in general, need to be certain about the standards to be used. Timely decision-making can only be ensured if the mechanism can anticipate potential problems concerning forthcoming IAS. This means that the mechanism needs to follow, proactively and continuously, the IASC standard setting process.

The expert level of the endorsement mechanism will ensure that EU users and preparers are involved in the preparatory discussions of the standards at international level and in the technical assessment of the standards before their EU adoption. This requires the involvement of standard setters, the accounting profession, users and preparers as well as a close co-operation with supervisory and prudential authorities. The endorsement mechanism will facilitate the application of IAS in the EU environment. The Accounting Technical Committee will also advise the Commission on whether or not an amendment to the Directives is recommended in the light of international accounting developments.

4. OUTLINE OF THE CONTENTS OF THIS PROPOSAL

4.1. Article 3 – Powers of the Commission and publicity

Paragraph 1 of this Article defines the powers conferred on the Commission for the adoption of international accounting standards in the Community

Paragraph 2 foresees that two years after entry into force of the proposal at the latest, the Commission assisted by the Accounting Regulatory Committee will, in accordance with the procedure laid down in Article 6, decide on the adoption and applicability of the international accounting standards listed in the Annex to the proposed legislation.

Paragraph 3 refers to the necessary legal publicity that would follow adoption of a standard. This will require publication in the Official Journal (title and reference number of the standard and its effective date).

4.2. Articles 4 to 5 – Requirements applying to EU companies

All EU companies traded on a regulated market[4] as well as all companies preparing a public offer prospectus[5] in accordance with the Listing Particulars Directive[6] in view of their

[4] Within the meaning of Article 1(13) of Council Directive of 10 May 1993 (93/22/EEC OJ L 141 11.06.93 P.27) on investment services in the securities field

[5] Regulated by Council Directive of 17 April 1989 (89/298/EEC OJ L 124 05.05.89 P.8) coordinating the requirements of the drawing-up, scrutiny and distribution of the prospectus to be published when transferables securities are offered to the public.

admission to trading on a regulated market shall be required to prepare consolidated accounts in accordance with IAS, at the latest from 2005 onwards. Member States will be permitted either to require or to allow non-traded companies to publish financial statements in accordance with the same set of standards as those for publicly traded companies. The requirement to use IAS relates to the consolidated accounts of publicly traded companies. Member States will be able to permit or require the use of IAS for individual accounts.

4.3. Article 6 – The Accounting Regulatory Committee

The endorsement mechanism's central regulatory function will be to assess IAS in order to confirm that they represent a suitable basis for financial reporting by listed EU companies. The Accounting Regulatory Committee corresponds to the regulatory level of the endorsement mechanism and will deliver its opinion upon the proposal of the Commission as to the standards and interpretations to be used (adopting or, conversely, rejecting a standard for application in the EU) and their date of application in the Community.

The specific, regulatory characteristics of these functions could imply that the composition of the Accounting Regulatory Committee may well be different from that of the Contact Committee set up pursuant to Article 52 of Directive 78/660/EEC, whose function is strictly of an advisory nature. Moreover, the powers of the Contact Committee also include statutory audit. It is therefore appropriate to create a new committee distinct from the Contact Committee, with the powers indicated in this Regulation.

The Accounting Regulatory Committee's procedure will follow existing comitology rules. It will be a committee composed of representatives of the Member States and chaired by the Commission. The Commission will provide the secretariat. Under such arrangements, the Commission will present to the Committee a report, which will identify the standard, examine its conformity with the Accounting Directives and its suitability as a basis for financial reporting in the EU. Within one month, the Committee must decide (on the basis of qualified majority voting) upon the proposal made by the Commission. This procedure will also apply for the adoption of amendments to previously adopted IAS. In accordance with the internal rules of procedure for the Accounting Regulatory Committee, the Commission may decide to invite experts to talk on particular matters, at the request of a Committee member or on its own initiative.

In preparing its report, the Commission may ask an accounting technical committee for advice. If this committee were to recommend the adoption of a standard, but the Commission did not agree with this recommendation, the Commission will substantiate its view and then ask the technical level to examine an alternative solution.

4.4. Articles 7 to 10 – Final Provisions

Article 7 requires Member States to inform the Commission and other Member States in case where they exercise any of the options included in the proposal. Article 8, for accountability

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[6] Council Directive of 17 March 1980 (80/390/EEC OJ L 100 17.04.80 P.1) coordinating the requirements for the drawing up, scrutiny and distribution of the listing particulars to be published for the admission of securities to official stock exchange listing.

purposes, requires the Commission to inform the Council and the European Parliament about the measures adopted pursuant to this Regulation. Also, as provided in the June 2000 Communication, this article establishes that the provisions, mechanisms and procedures laid down in the proposal will need to be reviewed subsequent to final implementation. This is foreseen by mid 2007.

Proposal for a

REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL

on the application of international accounting standards

THE EUROPEAN PARLIAMENT AND THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty establishing the European Community, and in particular Article 95(1) thereof,

Having regard to the proposal from the Commission,

Having regard to the opinion of the Economic and Social Committee,

Acting in accordance with the procedure laid down in Article 251 of the Treaty,

Whereas:

1. The Lisbon European Council of 23-24th March 2000 emphasised the need to accelerate completion of the internal market for financial services, set the deadline of 2005 to implement the Commission's Financial Services Action Plan and urged that steps be taken to enhance the comparability of financial statements prepared by publicly traded companies.

2. In order to contribute to a better functioning of the internal market, publicly traded companies must be required to apply a single set of high quality international accounting rules for the preparation of their consolidated financial statements. Such measure will also ensure high level transparency and comparability of financial reporting by all publicly traded EU companies as a necessary condition for building an integrated capital market which plays its role effectively, smoothly and efficiently.

3. This Regulation aims at contributing to the efficient and cost-effective functioning of the capital market. The protection of investors and the maintenance of confidence in the financial markets is also an important aspect of the completion of the internal market in this area; This Regulation reinforces the freedom of movement of capital in the internal market and helps enabling European companies to compete on an equal footing for financial resources available in the European capital markets, as well as in world capital markets.

4. It is important for the competitiveness of European capital markets to achieve convergence of the norms used in Europe for preparing financial statements, with international accounting standards that can be used globally, for cross-border transactions or listing anywhere in the world.

5. On 13 June 2000, the Commission published its Communication on "EU Financial Reporting Strategy: the way forward" in which it was proposed that all publicly traded EU companies prepare their consolidated financial statements in accordance

with one single set of accounting standards, namely International Accounting Standards (IAS), at the latest by 2005.

6. International Accounting Standards (IASs) are developed by the International Accounting Standards Committee (IASC), whose purpose is to develop a single set of global accounting standards. These standards should, wherever possible and provided that they ensure a high degree of transparency and comparability for financial reporting in the Community, be made obligatory for use by all publicly traded EU companies as well as by all EU companies preparing admission to trading of securities.

7. The Commission, assisted by an Accounting Regulatory Committee composed of representatives of the Member States, should be authorised, in accordance with the procedure laid down in the Council Decision 1999/468/EC of 28 June 1999 laying down the procedures for the exercise of implementing powers conferred on the Commission, to make international accounting standards mandatory at Community level. Since the measures necessary for the implementation of this Regulation are measures of general scope within the meaning of Article 2 of Council Decision 1999/468/EC of 28 June 1999 laying down the procedures for the exercise of implementing powers conferred on the Commission, they should be adopted by use of the regulatory procedure provided for in Article 5 of that Decision.

8. An accounting technical committee will provide support and expertise to the Commission in the assessment of international accounting standards. It will also contribute to the strengthening of the co-ordination of positions within the European Union in the International Accounting Standards Committee's (IASC) discussions, the definition at an early stage of European positions on new international accounting issues and active European participation in the constituent bodies of the IASC in order to influence and shape the solutions eventually chosen by the IASC.

9. The endorsement mechanism should act expeditiously on proposed international accounting standards and also be a means to deliberate, reflect and exchange information on international accounting standards among the main parties concerned, in particular national accounting standard setters, securities supervisors, the accounting profession and users and preparers of accounts. The mechanism should be a means to foster common understanding of adopted international accounting standards in the European Union.

10. In accordance with the principle of proportionality, the measures provided for in this Regulation, in requiring the application of a single set of international accounting rules to publicly traded companies and companies preparing admission to trading, are necessary to achieve the objective of contributing to the efficient and cost-effective functioning of EU capital markets and thereby to the completion of the internal market.

    In accordance with the principle of proportionality, it is necessary, as regards annual accounts, to leave to Member States the option to permit or require publicly traded companies as well as companies preparing admission to trading to prepare them in conformity with international accounting standards adopted in accordance with the procedure laid down in this Regulation. Member States may decide as well to extend this permission or this requirement to non-traded companies as regards the preparation of their consolidated accounts and/or their annual accounts.

11. In order to allow Member States and companies to carry out the necessary adaptations to make the application of international accounting standards possible, it is necessary to foresee the application of certain provisions only in 2005.

HAVE ADOPTED THIS REGULATION:

Article 1 - Aim

This Regulation lays down the rules for the adoption and use of international accounting standards in the Community in order to improve the functioning of the Internal Market and to ensure a smooth and efficient functioning of the EU capital market.

Article 2 - Definitions

For the purpose of this Regulation, "international accounting standards" shall mean International Accounting Standards (IAS) and related Interpretations (SIC interpretations) issued by the International Accounting Standards Committee (IASC) listed in the Annex to this Regulation, subsequent amendments to those standards and related interpretations, future standards and related interpretations to be produced by the IASC as well as equivalent accounting standards, which are standards that ensure a high degree of transparency and comparability of financial reporting and are as close as possible to International Accounting Standards.

Article 3 – Powers of the Commission and publicity

1. The Commission shall, in accordance with the procedure laid down in Article 6, identify and adopt the international accounting standards that shall be made mandatory in accordance with Article 4 of this Regulation in order to ensure a high degree of transparency and comparability of financial statements.

2. At the latest by 31 December 2002, the Commission shall, in accordance with the procedure laid down in Article 6, decide on the applicability within the Community of the international accounting standards listed in the Annex to this Regulation.

3. The decisions of the Commission concerning the adoption of international accounting standards shall be published in the Official Journal of the European Communities.

Article 4 – Consolidated accounts of publicly traded companies and of companies preparing admission to trading of securities

Companies governed by the law of a Member State, whose securities are admitted to trading on a regulated market within the meaning of Article 1(13) of Council Directive 93/22/EEC of 10 May 1993 on investment services in the securities field, or whose securities are offered to the public in view of their admission to trading on a regulated market in accordance with the conditions established in Council Directive 80/390/EEC of 17 March 1980 co-ordinating the requirements for the drawing up, scrutiny and distribution of the listing particulars to be published for the admission of securities to official stock exchange listing, shall prepare their consolidated accounts over the financial year starting on or after 1 January 2005 in conformity with the international accounting standards adopted in accordance with the procedure laid down in this Regulation.

Article 5 – Options in respect of annual accounts and of non publicly-traded companies

Member States may permit or require

a) the companies referred to in Article 4 to prepare their annual accounts,

b) companies other than those referred to in Article 4 to prepare their consolidated accounts and/or their annual accounts,

in conformity with the international accounting standards adopted in accordance with the procedure laid down in Article 6.

Article 6 – The Accounting Regulatory Committee

1. In adopting international accounting standards in accordance with the procedure laid down in this Regulation, the Commission shall be assisted by an Accounting Regulatory Committee hereinafter referred to as "the Accounting Regulatory Committee", composed of representatives of the Member States and chaired by the representative of the Commission. Where reference is made to this paragraph, the regulatory procedure laid down in Article 5 of Decision 1999/468/EC thereof shall apply, in compliance with Article 7 (3) and Article 8 thereof.

2. The Accounting Regulatory Committee shall deliver its opinion on the Commission's proposal within one month after its submission.

3. The period provided for in Article 5(6) of Decision 1999/468/EC shall be two months.

Article 7 - Notification

Where Member States take measures by virtue of Article 5, they shall immediately communicate these to the Commission and to other Member States.

Article 8 – Information and Review

.The Commission shall review the operation of this Regulation and report thereon to the European Parliament and to the Council by 1 July 2007 at the latest.

Article 9 - Entry into force

This Regulation shall enter into force on the day of its publication in the *Official Journal of the European Communities.*

Article 10 - Addressees

This Regulation shall be binding in its entirety and directly applicable in all Member States.

Done at Brussels,

For the European Parliament	*For the Council*
The President	*The President*

ANNEX

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INTERNATIONAL ACCOUNTING STANDARDS	
IAS No.	Title
IAS 1	Presentation of Financial Statements
IAS 2	Inventories
IAS 7	Cash Flow Statements
IAS 8	Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies
IAS 10	Events After the Balance Sheet Date
IAS 11	Construction Contracts
IAS 12	Income Taxes
IAS 14	Segment Reporting
IAS 15	Information Reflecting the Effects of Changing Prices
IAS 16	Property, Plant and Equipment
IAS 17	Leases
IAS 18	Revenue
IAS 19	Employee Benefits
IAS 20	Accounting for Government Grants and Disclosure of Government Assistance
IAS 21	The Effects of Changes in Foreign Exchange Rates
IAS 22	Business Combinations
IAS 23	Borrowing Costs
IAS 24	Related Party Disclosures

IAS 26	Accounting and Reporting by Retirement Benefit Plans
IAS 27	Consolidated Financial Statements and Accounting for Investments in Subsidiaries
IAS 28	Accounting for Investments in Associates
IAS 29	Financial Reporting in Hyperinflationary Economies
IAS 30	Disclosures in the Financial Statements of Banks and Similar Financial Institutions
IAS 31	Financial Reporting of Investments In Joint Ventures
IAS 32	Financial Instruments: Disclosures and Presentation
IAS 33	Earnings Per Share
IAS 34	Interim Financial Reporting
IAS 35	Discontinuing Operations
IAS 36	Impairment of Assets
IAS 37	Provisions, Contingent Liabilities and Contingent Assets
IAS 38	Intangible Assets
IAS 39	Financial Instruments: Recognition and Measurement
IAS 40	Investment Property

Discontinuity in the numbering of IAS is due to the fact that some of the first standards have been superseded by more recent ones.

STANDING INTERPRETATIONS COMMITTEE RULINGS	
SIC no.	Title
SIC-1	Consistency – Different Cost Formulas for Inventories
SIC-2	Consistency – Capitalisation of Borrowing Costs
SIC-3	Elimination of Unrealised Profits and Losses on Transactions with Associates
SIC-5	Classification of Financial Instruments - Contingent Settlement Provisions
SIC-6	Costs of Modifying Existing Software
SIC-7	Introduction of the Euro
SIC-8	First-Time Application of IASs as Primary Basis of Accounting
SIC-9	Business Combinations - Classification either as Acquisitions or Unitings of Interests
SIC-10	Government Assistance - No Specific Relation to Operating Activities
SIC-11	Foreign Exchange - Capitalisation of Losses Resulting from Severe Currency Devaluations
SIC-12	Consolidation - Special Purpose Entities
SIC-13	Jointly Controlled Entities - Non-Monetary Contributions by Venturers
SIC-14	Property, Plant and Equipment - Compensation for the Impairment or Loss of Items
SIC-15	Operating Leases - Incentives
SIC-16	Share Capital - Reacquired Own Equity Instruments (Treasury Shares)
SIC-17	Equity - Costs of an Equity Transaction
SIC-18	Consistency – Alternative Methods
SIC-19	Reporting Currency – Measurement and Presentation of Financial Statements under IAS 21 and IAS 29
SIC-20	Equity Accounting Method - Recognition of Losses
SIC-21	Income Taxes - Recovery of Revalued Non-Depreciable Assets
SIC-22	Business Combinations – Subsequent Adjustment of Fair Values and

	Goodwill Initially Reported
SIC-23	Property, Plant and Equipment - Major Inspection or Overhaul Costs
SIC-24	Earnings Per Share – Financial Instruments and Other contracts that May be Settled in Shares
SIC-25	Income Taxes - Changes in the Tax Status of an Enterprise or its Shareholders

FINANCIAL STATEMENT

1. TITLE OF OPERATION

Proposal for a Regulation of the European Parliament and of the Council on the application of international accounting standards

2. BUDGET HEADING INVOLVED

None

3. LEGAL BASIS

Article 95 (1) of the EC Treaty

4. DESCRIPTION OF OPERATION

4.1 General objective

To achieve clear pan-European rules for comparable, transparent financial reporting throughout the European Union.

4.2 Period covered and arrangements for renewal

The Accounting Regulatory Committee foreseen in Article 6 of the proposed regulation will start meeting soon after adoption of the regulation (end 2001). This Committee is an executive committee ruled by Council decision 1999/468/EC of 28 June 1999 laying down the procedures for the exercise of implementing powers conferred on the Commission.

5. CLASSIFICATION OF EXPENDITURE

N/A

6. TYPE OF EXPENDITURE

N/A

7. FINANCIAL IMPACT ON PART B OF THE BUDGET

No impact.

8. FRAUD PREVENTION MEASURES

Given the nature of the action, no specific fraud prevention measures are necessary.

9. Elements of cost-effectiveness analysis

9.1 Specific and quantified objectives; target population

The thrust of the proposal is to achieve clear pan-European rules for comparable, transparent financial reporting throughout the European Union. Rules which should be capable of rigorous interpretation and application, thereby providing relevant and reliable information for investors and other stakeholders so that they can make meaningful comparisons of company performance, cross-border and cross-sector. Comparable, transparent financial reporting is an essential building block for the realisation of integrated, competitive and attractive EU capital markets to complement the single currency and so strengthen the European economy.

This proposal is a priority measure under the Financial Services Action Plan, endorsed by the Lisbon European Council as a key element of the creation of an integrated financial services market.

9.2 Grounds for the operation

The initiative concerns the operation of the internal market and hence comes under the exclusive competence of the Community; thus, the principle of subsidiarity does not apply to this specific situation.

The present proposal allows Member States to permit or require the application of the same accounting standards required for publicly traded companies to non-traded companies and for producing individual accounts. Moreover, the proposal establishes the creation of an EU mechanism that will assess International Accounting Standards and give them legal endorsement for use within the EU.

The establishment of an endorsement mechanism based at the political level on comitology rules will guarantee the swift adoption at Community level of international accounting standards issued by the International Accounting Standards Committee (IASC). The frequency of meeting of the Accounting Regulatory Committee will be partly determined by the work of the IASC. In this context, it is expected that the Accounting Regulatory Committee will have to meet practically once a month. These meetings will be held in Brussels.

9.3 Monitoring and evaluation of the operation

An evaluation of the action will be made in 2007, based on a report prepared by the Commission on the application of the regulation.

10. ADMINISTRATIVE EXPENDITURE (SECTION III, PART A OF THE BUDGET)

Actual mobilisation of the necessary human and administrative resources will be covered within the budgetary allocation attributed to the managing DG.

10.1 Effect on the number of posts

Type of post		Staff to be assigned to managing the operation		Source		Duration
		Permanent posts	Temporary posts	Existing resources in the DG or department concerned	Additional resources	
Officials or temporary staff	A B C	1.5 . 0.5		1.5 . 0.5	0	
Other resources						
Total		2.0		2.0	0	

This action will be managed using existing staff resources of the unit concerned.

10.2 Overall financial impact of additional human resources

Euro

	Amounts (Euro)	Method of calculation
Officials Other resources	€ 216,000	€ 108,000x2
Total	€ 216,000	

10.3 Increase in other administrative expenditure as a result of the operation

Euro

Budget heading	Amounts (Euro)	Method of calculation
Meetings (A 7031) Comitology committee	€97,500	15 Member States representatives meeting 10 times a year: €650x15x10 meetings = € 97,500 **This will only apply from 2002 onwards**
Total	€97,500	

IMPACT ASSESSMENT FORM

THE IMPACT OF THE PROPOSAL ON BUSINESS WITH SPECIAL REFERENCE TO SMALL AND MEDIUM-SIZED ENTERPRISES(SMEs)

I. TITLE OF PROPOSAL

Proposal for a Regulation on the application of international accounting standards

II. DOCUMENT REFERENCE NUMBER

III. THE PROPOSAL

1. The initiative concerns the operation of the internal market and hence comes under the exclusive competence of the Community; thus, the principle of subsidiarity does not apply to this specific situation.

This legislative proposal is a crucial element in delivering the Commission's Action Plan for Financial Services. Adoption of uniform, high quality financial reporting rules in EU capital markets will greatly enhance the comparability and transparency of financial information, thereby increasing the efficiency of the markets and reducing the cost of capital for companies. The realisation of this objective is a necessary condition to make progress in other key areas in financial services.

The present proposal allows Member States to permit or require the application of the same accounting standards required for publicly traded companies to non-traded companies and for producing individual accounts. Moreover, the proposal establishes the creation of an EU mechanism that will assess International Accounting Standards and give them legal endorsement for use within the EU. This mechanism will be comprise a two-tier structure: A Regulatory committee ("The Accounting Regulatory Committee") that will operate under established comitology rules; and a committee of technical experts.

The thrust of the proposal is to achieve clear pan-European rules for comparable, transparent financial reporting throughout the European Union. Rules which should be capable of rigorous interpretation and application, thereby providing relevant and reliable information for investors and other stakeholders so that they can make meaningful comparisons of company performance, cross-border and cross-sector. Comparable, transparent financial reporting is an essential building block for the realisation of integrated, competitive and attractive EU capital markets to complement the single currency and so strengthen the European economy.

IV. THE IMPACT ON BUSINESS

2. Who will be affected by the proposal?

All EU companies traded in a EU regulated market as well as all EU companies preparing a listing on such a market will be required to prepare, at the latest by 2005, their consolidated accounts in accordance with adopted international accounting standards. Member States will have the faculty to extend this requirement to non-traded companies and for producing individual accounts.

There are at present around 7000 companies listed on EU regulated markets, 275 of which already apply IAS.

3. What will business have to do to comply with the proposal?

To meet in practice the requirements of the proposal, companies concerned will have to start either preparing consolidated financial statements or retreating them according to adopted IAS already in 2003 and 2004 so as to be in a position in 2005 to present IAS compliant consolidated financial statements for that financial year as well as for the two previous financial years to meet the comparability requirement imposed both by the Accounting Directives and IAS norms.

It is expected that this proposal should be adopted by Council and Parliament at the latest in 2002. This will provide the accounting profession as well as companies with the necessary transition period to prepare themselves before 2005.

Costs for companies will mainly be costs of training, as their accountants will need to familiarise themselves with a sophisticated set of accounting rules. The same applies to the accounting profession.

4. What economic effects is the proposal likely to have?

Adoption of uniform, high quality financial reporting rules in EU capital markets will greatly enhance the comparability and transparency of financial information, thereby increasing the efficiency of the markets and reducing the cost of capital for companies.

5. The proposal contains measures to take account of the specific situation of small and medium-sized firms (reduced or different requirements etc)?

The vast majority of small and medium-sized companies will not be concerned by this proposal, to the extent that its main requirement relates essentially to the application of adopted IAS for the preparation of consolidated financial statements, with which very few SMEs are concerned.

Although the proposal allows Member States to extend this requirement to the producing of annual accounts and/or consolidated accounts by non-traded companies, it is very unlikely, for obvious reasons of proportionality, that it will apply to SMEs. Member States may however permit SMEs to use adopted IAS if they so wish for the preparation of their financial statements.

V. CONSULTATION

6. FEE (accounting profession); UNICE/ERT (industry), FESE (stock exchanges), EFFAS (financial analysts), CEA (insurance), UEAPME (small and medium-sized enterprises) have all responded positively to the proposal and are considering taking part to the foundation of a private organisation that will provide support to an expert committee on accounting, the Accounting Technical Committee.