

Financial reporting: Commission welcomes adoption of Directive to modernise and update accounting rules

The European Commission has welcomed the definitive adoption of a Directive amending the European Union Accounting Directives, following its approval today by the EU's Council of Ministers. The changes, approved by the European Parliament in January 2003 (see [IP/03/47](#)), bring existing EU rules into line with current best practice. They complement the International Accounting Standards (IAS) Regulation, adopted in June 2002, that requires all EU companies listed on a regulated market to use IAS from 2005 onwards and allows Member States to extend this requirement to all companies (see [IP/02/417](#) and [IP/01/200](#)). The amendments allow Member States which do not apply IAS to all companies to move towards similar, high quality financial reporting, and could therefore affect up to five million companies. They provide for appropriate accounting for special purpose vehicles, improve the disclosure of risks and uncertainties and increase the consistency of audit reports across the EU.

Internal Market Commissioner Frits Bolkestein said, "I am delighted that the Directive has been adopted in a single reading and am grateful for the positive attitude of both the Parliament and the Council. This Directive demonstrates Europe's commitment to transparent, high quality financial reporting, consistently applied across the EU. Shareholders, potential investors and the public need to know from companies' accounts exactly how well they are performing and to be able to compare like with like."

The IAS Regulation, adopted in June 2002, requires all EU companies listed on a regulated market - such as a stock exchange - to use IAS from 2005 onwards and allows Member States to extend this requirement to all companies.

Where IAS are not applied, the 4th and 7th Company Law Directives (78/660/EEC and 83/349/EEC), also known as the Accounting Directives, will continue be the basis of EU accounting requirements and may therefore remain applicable to up to 5 million companies in Europe. They needed to be modernised.

This latest Directive does that, allowing Member States which do not apply IAS to all companies to move towards similar, high quality financial reporting.

The changes bring EU accounting requirements into line with modern accounting theory and practice. In doing so, all inconsistencies with International Accounting Standards (IAS) have been eliminated. Given the link, in some Member States, between annual accounts and taxation, it is important that each Member State move toward IAS at a pace appropriate to that particular country. Accordingly, Member States will be able to implement many of the changes by a gradual alignment of national accounting requirements with IAS.

The modernising Directive will, among other things, make it more difficult for a company to 'hide' liabilities by setting up artificial structures (so-called 'special purpose vehicles') which, in substance, they control but which nominally are owned by different shareholders. This is an important step in the proper treatment of off-balance-sheet financing, in other words any liabilities such as loans or debt that are omitted from a company's balance sheet where they arguably should be included.

As well as modernising accounting requirements, the amendments to the existing Directives make clear that, in the annual report, the analysis of risks and uncertainties facing the company should not be restricted to financial aspects of its business. This will encourage disclosure of key social and environmental aspects where relevant.

The amendments also facilitate a more harmonised presentation of statutory audit reports, by outlining the necessary content of such reports, which are a valuable assurance that accounts are reliable. The new requirements are consistent with those of International Standards on Auditing issued by the International Auditing and Assurance Standards Board.

The modernising Directive has been adopted in a single reading after being approved by the European Parliament in January 2003 (see [IP/03/47](#)).

The full texts of the amended Directive will be available at:

http://www.europa.eu.int/comm/internal_market/accounting/officialdocs_en.htm