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Financial reporting: Commission welcomes Parliament's support for modernised accounting rules

The European Commission has welcomed the European Parliament's vote on 14 January to approve the proposal for a Directive amending the European Union's Accounting Directives. The amendments will bring existing EU rules into line with current best practice and complement the International Accounting Standards (IAS) Regulation, adopted in June 2002 (see IP/02/827), 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. The amendments allow Member States which do not apply IAS to all companies to move towards similar, high quality financial reporting. They allow appropriate accounting for special purpose vehicles, improve the disclosure of risks and uncertainties and increase the consistency of audit reports across the EU. The Commission supported the Parliament's amendments and hopes the EU's Council of Ministers can adopt the Regulation in a single reading in March.

Mr Bolkestein said: "Parliament's support for this proposal gives a strong political signal not only that the European Union is serious about achieving an integrated capital market by 2005, but also that it is committed to improvements in financial reporting and auditing for all EU companies. High quality financial reporting is essential so that investors and customers can make informed decisions about these companies."

The IAS Regulation requires all EU companies listed on a regulated market to prepare their consolidated accounts in accordance with endorsed IAS from 2005 onwards. Member States may extend this requirement to unlisted companies and to annual accounts. Where endorsed IAS are not applied, the detailed provisions of the 4th and 7th Accounting Directives, which this proposal would amend, will continue to act as the basis of EU accounting requirements. These Directives may therefore continue to be applicable to up to 5 million companies in Europe.

The proposed amendments would bring EU accounting requirements into line with modern accounting theory and practice (see IP/02/799). In doing so, the proposal would remove all inconsistencies with International Accounting Standards (IAS). Notably, it would 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, considering only the shareholdings, appear to be largely unrelated. This is an important step in the proper treatment of off-balance-sheet financing.

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 individual country. Accordingly, most changes are implemented as Member State options – allowing gradual alignment of national accounting requirements with IAS.

As well as modernising accounting requirements, the proposed amendments 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 is in order to encourage disclosure of key social and environmental aspects where relevant.

The proposed amendments also move towards 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 proposal is an important element in 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).