

Securities markets: Commission proposes Directive to increase investor protection and transparency

The European Commission has presented a proposal for a Directive introducing minimum transparency requirements for information which must be provided by companies whose securities are traded on a regulated market, such as a stock exchange. The proposal, a key part of the Financial Services Action Plan, aims to enhance investor protection, attract investors to the European market place and improve the efficiency, openness and integrity of European capital markets. It would also remove certain national barriers linked to transparency requirements, which may discourage issuers from having their securities admitted to trading on more than one regulated market in the EU. In order to achieve these aims, the proposed Directive would upgrade the current level and frequency of the mandatory financial information that issuers have to provide to the markets throughout the financial year. It would also simplify requirements issuers must meet on the use of languages and on the way information is disseminated. The proposal will be submitted to the European Parliament and the EU's Council of Ministers for adoption under the so-called "co-decision" procedure.

Internal Market Commissioner Frits Bolkestein said: "This proposal aims to ensure that investment decisions are based on sound information about issuers of securities - information available to all investors, large and small, experts and non-experts. Better informed investment decisions will lead to a better allocation of capital. That will help both listed companies and investors and bring enormous benefits for the European economy as a whole. A true Internal Market in financial services needs investors to be able to invest across borders easily and with confidence. I want to achieve that without excessive burdens on issuers. So compared to current practice in the US we have opted for less demanding publication periods and a more pragmatic mix of more detailed half-yearly financial reports and light, but reliable, quarterly financial information. That is the minimum modern capital markets need to attract more investment from more people. Enlightened companies do not consider transparency as wasted effort, but as an investment in loyalty and trust."

The Commission's proposal, which follows extensive two-year consultations with the markets, regulators and other interested parties, is part of a comprehensive strategy aiming to improve the clarity, reliability and comparability of the information provided to investors. Other related Commission initiatives cover accounting standards, prospectuses and company law.

The proposed Directive will upgrade existing EU law to bring it into line with the requirements of a more global economy.

Scope

The proposed Directive will apply to all companies whose securities are admitted to trading on a regulated market in the EU. It takes into account the particularities of wholesale bond markets, such as the Eurobond markets, along the same lines as in the Prospectus Directive (currently before the Council and Parliament). There will thus be no periodic reporting requirements for those who issue solely bonds the denomination of which is €50,000 or more

Information to be disclosed

The Directive updates and upgrades periodic information requirements for securities issuers. Current EU law dates back some twenty years and must be modernised to take into account the introduction of International Accounting Standards (IAS) for all companies listed in the EU from 2005 (see [IP/02/827](#) and [IP/01/200](#) and [MEMO/01/40](#)). Several Member States have already increased their requirements for the mandatory disclosure of information by issuers, largely exceeding the requirements currently imposed by EU law.

The proposed Directive balances greater market transparency for all investors with avoiding unnecessary burdens and costs on issuers. It would introduce a pragmatic policy mix of more detailed half-yearly financial reports and less extensive quarterly financial information for the first and third quarter of each financial year.

The proposed Directive would require all securities issuers to disclose to the public periodically:

- an audited **annual financial report** (financial statements based on international accounting standards) and a **management report**, within three months of the end of each financial year
- a **half-yearly condensed financial report** based on international accounting standards on interim financial reporting (IAS-34) as well as an update of the last annual management report.

In addition, **share issuers** would also need to publish a less extensive quarterly financial information report for the first and third quarter of a financial year. This would include the share issuers' net turnover, profit and loss before or after deduction of tax, plus, if the issuer so chooses, short trend information on the company's future development for the remaining part of the financial year. Member States would not be able to require share issuers to publish this short trend information in their quarterly reports.

Companies who issue only debt securities, who are currently not subject to any interim reporting requirement at all, would under the proposal be required to issue half-yearly financial reports for the first six months of a financial year.

All this interim information would need to be within 60 days after the end of the period concerned.

The proposed Directive also upgrades the current requirements on information that is not periodic:

- to give the public **swifter and better information about the material interests of important shareholders**, more changes in issuers' shareholding structures would need to be disclosed within shorter time limits. The shareholders involved and the company itself would have to ensure that such information became public

- securities issuers would have to provide information to holders of shares and debt securities so as to **facilitate participation in general meetings**. This would include information about proxy voting under the law of the issuer's home Member State.

The proposal would allow companies to convey this information by electronic means, under certain conditions (see below). However, it does not deal with the conditions for electronic voting or harmonise proxy voting in the EU. These issues are linked to company law and corporate governance, on which the Commission will issue a separate Communication this Spring taking into account the report by the Commission's High level Group of Company Law Experts of November 2002 (see [IP/02/1600](#)).

Languages

The proposed Directive covers requirements on the use of languages. At present, each Member State where a company is listed may require that information disclosed to the public is in its official language(s). Responses to consultation demonstrated that issuers whose securities are traded in several Member States find having to produce information in many different languages costly and burdensome. Under the proposed Directive, when disclosing information to a host Member State market, such issuers would be able to use, in addition to the language of their own home Member State, a language customary in the international sphere of finance.

Dissemination of information to the public

The proposed Directive would make sure that issuers disseminate information on time throughout their home Member State as well as abroad. In order to do so, issuers would be able, if they chose, to use means of dissemination located outside their home Member State or to channel all financial information through a single source. The host Member States where an issuer's securities are traded would not be able to impose their own policy, but would have to allow the issuer to use its internet site, backed up by an efficient electronic alert system the details of which would be laid down by future implementing rules. The proposal also provides, if necessary, for the Commission to establish a list of the media which the home Member State may impose.

Background

The Commission prepared its proposal on the basis of extensive consultations with national authorities, security issuers, investors, auditors, stock exchanges and market participants over two years (see [IP/02/684](#)).

The proposal has been drafted in conformity with the institutional arrangements laid down in the Stockholm European Council Resolution which resulted from the recommendations of the Committee of Wise Men chaired by Baron Alexander Lamfalussy on the efficiency and transparency of the EU legislative process relating to securities markets (see [IP/02/195](#)). It is therefore a "framework Directive" in line with the February 2002 agreement with the European Parliament on improving the regulation of EU securities markets.

The proposal sets out the general high-level obligations which Member States authorities would have to enforce. It also provides for the use of technical implementing measures so as to ensure its uniform implementation and to adapt to changing market and supervisory realities. The scope of the implementing measures will be decided by the European Parliament and the Council by co-decision. The Commission's implementing measures will be developed on the basis of technical advice provided by the Committee of European Securities Regulators (CESR) following open consultation of market practitioners.

The full text of the proposal is available on the Commission's web site at:

http://www.europa.eu.int/comm/internal_market/en/finances/mobil/index.htm

See also :

MEMO/03/68.