

Accounting: Commission adopts an "equivalence mechanism" in relation to third country GAAPs

European Internal Market and Services Commissioner Charlie McCreevy has warmly welcomed the adoption on 21 December 2007 of a key Regulation by the Commission, following a favourable opinion of the European Parliament. This Regulation sets out the on which third-country Generally Accepted Accounting Principles (GAAPs) can be found equivalent to International Financial Reporting Standards (IFRS) which are adopted by the EU.

Commissioner McCreevy said: *"This is a crucial milestone towards our objective of promoting the efficiency of capital markets by establishing a common worldwide accounting language. Without this Regulation in place we would not be able to proceed with this key decisions on the acceptability of third-country GAAPs in the EU."*

The EU has the objective of arriving at a common set of worldwide accounting standards for listed companies. For the interim, a key part of this strategy is to eliminate existing costly and burdensome reconciliation requirements between the EU and its key trading partners.

Now the Commission, using the definition of equivalence and the mechanism established by this Regulation, can present concrete proposals on which third country GAAPs should be accepted as equivalent with effect from 2009. The Commission will also be entitled to allow third country issuers to use their GAAPs in the EU for a transitional period ending in 2011 at the latest, provided these countries are converging with IFRS or the respective third country intends to adopt IFRS. Through these decisions, foreign issuers listed in the EU will be allowed to continue preparing their accounts using their GAAP instead of having to restate their financial statements using IFRS. Already last month the US Securities and Exchange Commission adopted proposals to dispense with the reconciliation requirement to US GAAP for foreign issuers using IFRS, including EU companies.

The EU was the first major jurisdiction to make since 2005 IFRS mandatory for its listed companies, thus setting the foundation for the current success of these standards, and it remains by far the largest jurisdiction applying IFRS.

More information is available at:

http://ec.europa.eu/internal_market/securities/transparency/index_en.htm#equivalence

http://ec.europa.eu/internal_market/securities/prospectus/index_en.htm

http://ec.europa.eu/internal_market/accounting/news/index_en.htm