

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 23-24 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 standards for the preparation of their consolidated financial statements. Furthermore, it is important that the financial reporting standards applied by European companies participating in financial markets are accepted internationally and are truly global standards. This implies an increasing convergence of accounting standards currently used internationally with the ultimate objective of achieving a single set of global accounting standards.
- (3) Council Directive 78/660/EEC of 25 July 1978 on the annual accounts of certain types of companies¹, Council Directive 83/349/EEC of 13 June 1983 on consolidated accounts², Council Directive 86/635/EEC of 8 December 1986 on the annual accounts and

¹ OJ L 222, 14.8.1978, p.11 Directive as last amended by Directive 2001/XX/EC (OJ L..., xx/xx/2001, p.xx)

² OJ L 193, 18.7.1983, p.1 Directive as last amended by Directive 2001/XX/EC (OJ L..., xx/xx/2001, p.xx)

consolidated accounts of banks and other financial institutions³ and Council Directive 91/674/EEC on the annual accounts and consolidated accounts of insurance companies⁴ are also addressed to publicly traded EU companies. The reporting requirements set out in these Directives cannot ensure the high level of transparency and comparability of financial reporting from all publicly traded EU companies which is a necessary condition for building an integrated capital market which operates effectively, smoothly and efficiently. It is therefore necessary to supplement the legal framework applicable to publicly traded companies.

- (4) 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 to enable European companies to compete on an equal footing for financial resources available in the European capital markets, as well as in world capital markets.
- (5) It is important for the competitiveness of European capital markets to achieve convergence of the standards 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.
- (6) 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.
- (7) 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. Further to the restructuring of the IASC, the new Board on 1 April 2001, as one of its first decisions, renamed the IASC as the International Accounting Standards Board (IASB) and, as far as future international accounting standards are concerned, IAS as International Financial Reporting Standards (IFRS).

³ OJ L 372, 31.12.1986, p.1 Directive as last amended by Directive 2001/XX/EC (OJ L..., xx/xx/2001, p.xx)

⁴ OJ L 374, 31.12.1991, p.7 Directive as last amended by Directive 2001/XX/EC (OJ L..., xx/xx/2001, p.xx)

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 in their consolidated accounts by all publicly traded EU companies [*as well as by all EU companies required to publish a public offer prospectus*].

- (8) The measures necessary for the implementation of the present Regulation are adopted in accordance with Council Decision 1999/468/EC of 28 June 1999 laying down the procedures for the exercise of implementing powers conferred on the Commission⁵.
- (9) To adopt an international accounting standard for its application in the Community, it is necessary firstly that it meets the basic requirement of the aforementioned Council Directives, that is to say that its application results in a true and fair view of the financial position and performance of an enterprise -this principle being considered in the light of the said Council Directives without implying a strict conformity with each and every provision of those Directives; secondly that, in accordance with the conclusions of the ECOFIN Council of 17 July 2000, it is conducive to the European public good and lastly that it meets basic criteria as to the quality of information required for financial statements to be useful to users.
- (10) 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, supervisors in the fields of securities, banking and insurance, central banks including the ECB, 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.
- (11) An accounting technical committee will provide support and expertise to the Commission in the assessment of international accounting standards.
- (12) In order to facilitate an exchange of views and to allow Member States to coordinate their positions, the Commission will periodically inform the accounting regulatory committee about active projects, discussion papers, point outlines and exposure drafts issued by the IASB and about the consequential technical work of the accounting technical committee. It is also important that the accounting regulatory committee is

⁵ OJ L 184, 17.7.1999, p.23

informed at an early stage about the Commission's intention not to propose to adopt an international accounting standard.

- (13) The Commission will be represented in constituent bodies of the IASC.
- (14) 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 required to publish a public offer prospectus] 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 other companies as regards the preparation of their consolidated accounts and/or their annual accounts.
- (15) 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. Appropriate provisions need to be put in place for the first-time application of IAS by companies as a result of the entry into force of the present regulation. Such provisions must be elaborated at international level in order to ensure international recognition of the solutions adopted.
- (16) A proper and rigorous enforcement regime is key to underpinning investors' confidence in financial markets. Member States, by virtue of Article 10 of the Treaty, are required to take appropriate measures to ensure compliance with international accounting standards. The Commission intends to liaise with Member States to develop a common approach to enforcement notably through the Committee of European Securities Regulators (CESR).

HAVE ADOPTED THIS REGULATION:

Article 1 – Scope and objective

This Regulation has for its objective the adoption and use of international accounting standards in the Community with a view to harmonising the financial information presented by the companies referred to in Article 4 in order to ensure a high degree of transparency and comparability of financial statements and hence an efficient functioning of the EU capital market and of the Internal Market.

Article 2 - Definitions

For the purpose of this Regulation, “international accounting standards” shall mean International Accounting Standards (IAS), International Financial Reporting Standards (IFRS) and related Interpretations (SIC interpretations), subsequent amendments to those standards and related interpretations, future standards and related interpretations issued or adopted by the International Accounting Standards Board (IASB).

Article 3 – Adoption and use of international accounting standards

1. In accordance with the regulatory procedure set out in Article 6 (2), the Commission shall decide on the applicability within the Community of international accounting standards.
2. The international accounting standards can only be adopted if:
 - they conform to the principle set out in Article 16(3) of Council Directive 83/349/EEC and in Article 2(3) of Council Directive 78/660/EEC and are conducive to the European public good and,
 - they meet the criteria of understandability, relevance, reliability and comparability required of the financial information needed for making economic decisions and assessing the stewardship of management.
3. 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 in existence upon entry into force of this Regulation.
4. Adopted international accounting standards shall be published in full, as a Commission regulation, in the Official Journal of the European Communities.

Article 4 – Consolidated accounts of publicly traded companies [and of companies required to publish a public offer prospectus]

Companies governed by the law of a Member State, whose securities, on or after 1 January 2005,

- a) are, at the balance sheet date, admitted to trading on a regulated market of any Member State within the meaning of Article 1(13) of Council Directive 93/22/EEC [*or,*

b) are, at the balance sheet date, offered to the public in accordance with the conditions established in Council Directive 89/298/EEC],
shall prepare their consolidated accounts for financial years starting on or after 1 January 2005 in conformity with the international accounting standards adopted in accordance with the procedure laid down in Article 6(2).

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(2).

Article 6 – The Accounting Regulatory Committee

1. The Commission shall be assisted by an accounting regulatory committee hereinafter referred to as “the Committee”.
2. Where reference is made to this Article, Articles 5 and 7 of Decision 1999/468/EC shall apply, having regard to the provisions of Article 8 thereof.

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

3. The Committee shall adopt its rules of procedures.

Article 7 – Reporting and coordination

1. The Commission shall liaise on a regular basis with the Committee about the status of active IASB projects and any related documents issued by the IASB in order to coordinate positions and to facilitate discussions concerning the adoption of standards that might result from these projects and documents.
2. The Commission shall duly report to the Committee in a timely manner if it intends not to propose the adoption of a standard.

Article 8 - Notification

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

Article 9 – 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.

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

Done at Brussels,