

**Proposal for a Regulation of the European Parliament and of the Council on the application of international accounting standards**

(2001/C 154 E/29)

COM(2001) 80 final — 2001/0044(COD)

*(Submitted by the Commission on 13 February 2001)*

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 rules for the preparation of their consolidated financial statements. Such measure will also ensure high level transparency and comparability of financial reporting by all publicly traded EU companies as a necessary condition for building an integrated capital market which plays its role effectively, smoothly and efficiently.

(3) 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 Regu-

lation reinforces the freedom of movement of capital in the internal market and helps enabling European companies to compete on an equal footing for financial resources available in the European capital markets, as well as in world capital markets.

(4) It is important for the competitiveness of European capital markets to achieve convergence of the norms 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.

(5) 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.

(6) 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. 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 by all publicly traded EU companies as well as by all EU companies preparing admission to trading of securities.

(7) The Commission, assisted by an Accounting Regulatory Committee composed of representatives of the Member States, should be authorised, in accordance with the procedure laid down in the Council Decision 1999/468/EC of 28 June 1999 laying down the procedures for the exercise of implementing powers conferred on the Commission, to make international accounting standards mandatory at Community level. Since the measures necessary for the implementation of this Regulation are measures of general scope within the meaning of Article 2 of Council Decision 1999/468/EC of 28 June 1999 laying down the procedures for the exercise of implementing powers conferred on the Commission, they should be adopted by use of the regulatory procedure provided for in Article 5 of that Decision.

- (8) An accounting technical committee will provide support and expertise to the Commission in the assessment of international accounting standards. It will also contribute to the strengthening of the co-ordination of positions within the European Union in the International Accounting Standards Committee's (IASC) discussions, the definition at an early stage of European positions on new international accounting issues and active European participation in the constituent bodies of the IASC in order to influence and shape the solutions eventually chosen by the IASC.
- (9) 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, securities supervisors, 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.
- (10) In accordance with the principle of proportionality, the measures provided for in this Regulation, in requiring the application of a single set of international accounting rules to publicly traded companies and companies preparing admission to trading, are necessary to achieve the objective of contributing to the efficient and cost-effective functioning of EU capital markets and thereby to the completion of the internal market.
- (11) 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 preparing admission to trading 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 non-traded companies as regards the preparation of their consolidated accounts and/or their annual accounts.
- (12) 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,

HAVE ADOPTED THIS REGULATION:

#### *Article 1*

##### **Aim**

This Regulation lays down the rules for the adoption and use of international accounting standards in the Community in order to improve the functioning of the internal market and to ensure a smooth and efficient functioning of the EU capital market.

#### *Article 2*

##### **Definitions**

For the purpose of this Regulation, 'international accounting standards' shall mean International Accounting Standards (IAS) and related Interpretations (SIC interpretations) issued by the International Accounting Standards Committee (IASC) listed in the Annex to this Regulation, subsequent amendments to those standards and related interpretations, future standards and related interpretations to be produced by the IASC as well as equivalent accounting standards, which are standards that ensure a high degree of transparency and comparability of financial reporting and are as close as possible to International Accounting Standards.

#### *Article 3*

##### **Powers of the Commission and publicity**

1. The Commission shall, in accordance with the procedure laid down in Article 6, identify and adopt the international accounting standards that shall be made mandatory in accordance with Article 4 of this Regulation in order to ensure a high degree of transparency and comparability of financial statements.

2. 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 listed in the Annex to this Regulation.

3. The decisions of the Commission concerning the adoption of international accounting standards shall be published in the *Official Journal of the European Communities*.

*Article 4***Consolidated accounts of publicly traded companies and of companies preparing admission to trading of securities**

Companies governed by the law of a Member State, whose securities are admitted to trading on a regulated market within the meaning of Article 1(13) of Council Directive 93/22/EEC of 10 May 1993 on investment services in the securities field, or whose securities are offered to the public in view of their admission to trading on a regulated market in accordance with the conditions established in Council Directive 80/390/EEC of 17 March 1980 co-ordinating the requirements for the drawing up, scrutiny and distribution of the listing particulars to be published for the admission of securities to official stock exchange listing, shall prepare their consolidated accounts over the financial year starting on or after 1 January 2005 in conformity with the international accounting standards adopted in accordance with the procedure laid down in this Regulation.

*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.

*Article 6***The Accounting Regulatory Committee**

1. In adopting international accounting standards in accordance with the procedure laid down in this Regulation, the Commission shall be assisted by an Accounting Regulatory Committee hereinafter referred to as 'the Accounting Regu-

latory Committee', composed of representatives of the Member States and chaired by the representative of the Commission. Where reference is made to this paragraph, the regulatory procedure laid down in Article 5 of Decision 1999/468/EC thereof shall apply, in compliance with Article 7(3) and Article 8 thereof.

2. The Accounting Regulatory Committee shall deliver its opinion on the Commission's proposal within one month after its submission.

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

*Article 7***Notification**

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

*Article 8***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.

*Article 9***Entry into force**

This Regulation shall enter into force on the day of its publication in the *Official Journal of the European Communities*.

*Article 10***Addressees**

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

## ANNEX

<b>INTERNATIONAL ACCOUNTING STANDARDS</b>	
IAS No	Title
IAS 1	Presentation of Financial Statements
IAS 2	Inventories
IAS 7	Cash Flow Statements
IAS 8	Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies
IAS 10	Events After the Balance Sheet Date
IAS 11	Construction Contracts
IAS 12	Income Taxes
IAS 14	Segment Reporting
IAS 15	Information Reflecting the Effects of Changing Prices
IAS 16	Property, Plant and Equipment
IAS 17	Leases
IAS 18	Revenue
IAS 19	Employee Benefits
IAS 20	Accounting for Government Grants and Disclosure of Government Assistance
IAS 21	The Effects of Changes in Foreign Exchange Rates
IAS 22	Business Combinations
IAS 23	Borrowing Costs
IAS 24	Related Party Disclosures
IAS 26	Accounting and Reporting by Retirement Benefit Plans
IAS 27	Consolidated Financial Statements and Accounting for Investments in Subsidiaries
IAS 28	Accounting for Investments in Associates
IAS 29	Financial Reporting in Hyperinflationary Economies
IAS 30	Disclosures in the Financial Statements of Banks and Similar Financial Institutions
IAS 31	Financial Reporting of Investments In Joint Ventures
IAS 32	Financial Instruments: Disclosures and Presentation
IAS 33	Earnings Per Share
IAS 34	Interim Financial Reporting
IAS 35	Discontinuing Operations
IAS 36	Impairment of Assets
IAS 37	Provisions, Contingent Liabilities and Contingent Assets
IAS 38	Intangible Assets
IAS 39	Financial Instruments: Recognition and Measurement
IAS 40	Investment Property

Discontinuity in the numbering of IAS is due to the fact that some of the first standards have been superseded by more recent ones.

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**STANDING INTERPRETATIONS COMMITTEE RULINGS**


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SIC No	Title
SIC-1	SIC-1 Consistency — Different Cost Formulas for Inventories
SIC-2	Consistency — Capitalisation of Borrowing Costs
SIC-3	Elimination of Unrealised Profits and Losses on Transactions with Associates
SIC-5	Classification of Financial Instruments — Contingent Settlement Provisions
SIC-6	Costs of Modifying Existing Software
SIC-7	Introduction of the Euro
SIC-8	First-Time Application of IASs as Primary Basis of Accounting
SIC-9	Business Combinations — Classification either as Acquisitions or Unitings of Interests
SIC-10	Government Assistance — No Specific Relation to Operating Activities
SIC-11	Foreign Exchange — Capitalisation of Losses Resulting from Severe Currency Devaluations
SIC-12	Consolidation — Special Purpose Entities
SIC-13	Jointly Controlled Entities — Non-Monetary Contributions by Venturers
SIC-14	Property, Plant and Equipment — Compensation for the Impairment or Loss of Items
SIC-15	Operating Leases — Incentives
SIC-16	Share Capital — Reacquired Own Equity Instruments (Treasury Shares)
SIC-17	Equity — Costs of an Equity Transaction
SIC-18	Consistency — Alternative Methods
SIC-19	Reporting Currency — Measurement and Presentation of Financial Statements under IAS 21 and IAS 29
SIC-20	Equity Accounting Method — Recognition of Losses
SIC-21	Income Taxes — Recovery of Revalued Non-Depreciable Assets
SIC-22	Business Combinations — Subsequent Adjustment of Fair Values and Goodwill Initially Reported
SIC-23	Property, Plant and Equipment — Major Inspection or Overhaul Costs
SIC-24	Earnings Per Share — Financial Instruments and Other contracts that May be Settled in Shares
SIC-25	Income Taxes — Changes in the Tax Status of an Enterprise or its Shareholders