

UPDATING THE EU FINANCIAL REPORTING STRATEGY

UNICE PRELIMINARY COMMENTS

The purpose of this paper is to present the Commission with some preliminary views in the context of current discussions on the EU's future financial reporting strategy, in particular following the November meeting of the Accounting Advisory Forum.

General remarks

UNICE believes that a comprehensive and internationally accepted set of accounting standards is of great importance because of the ever-increasing globalisation of business and capital markets. High quality, transparent and comparable financial information is important for efficient functioning of capital markets.

UNICE would suggest that, before the Commission takes a decision on which international accounting standards will be acceptable in Europe in the future, it should closely consider the results of the work carried out in IOSCO Working Party 1. Only then will European companies be in a position to assess whether or not the IASC 'core set of standards' will be accepted on any stock market in the world without reconciliation. In UNICE's opinion the outcome of the accounting standards harmonisation process ought to lead to a situation in which there is no need for reconciliation of a company's financial statements for any one stock market in the world.

While this is not UNICE's wish, it may be that work in progress in IOSCO Working Party 1 will result in revision of the IASC 'core set of standards' or some aspects thereof. If this were to be the case, it is UNICE's expectation that the new structure of IASC will also influence revision of the 'core set of standards'. Consequently, Europe's participation in a new IASC structure also needs to be taken in consideration.

The comments below are based on the assumption that IASC will become the organisation to develop and maintain the comprehensive set of internationally accepted accounting standards. It is UNICE's strongly held view that Europe should be adequately represented in this organisation.

Requirement or option ?

UNICE believes there should be no requirement for listed companies to prepare their financial statements in accordance with International Accounting Standards (IAS). Market forces will lead to greater European harmonisation, which will be achieved by introduction of a company option.

In UNICE's opinion, this option should not be limited to listed companies. Other companies should not be debarred from using international accounting standards. In addition UNICE believes a direct option

for companies to apply US-GAAP should be introduced as well, possibly for a limited period of time, until it is clear which set of international accounting standards will be accepted world-wide.

Reconciliation

In principle UNICE thinks that reconciliation should be avoided. It is not desirable for financial statements that have been prepared in accordance with IAS to be reconciled to the European Directives. In those cases where there is a conflict between the Directives and IAS, it should be sufficient to explain that departure from this specific conflicting requirement is necessary for the overriding purpose of providing a true and fair view under IAS.

At the same time, a mechanism will have to be devised to integrate IAS into EU law. On this point, however, UNICE would also refer to its general remarks above on the future structure of IASC.

Role and composition of the screening device

It can be inferred from its general remarks on the future structure of IASC that UNICE is not opposed to introduction of a 'screening device'. However, in UNICE's view a screening device should not be a standard-setter itself. It should in principle have two main tasks: (1) act as a preparatory body for a European delegation in the future structure of IASC, and (2) discuss conditions for those matters not specifically covered by international accounting standards.

In the work of the screening device all parties concerned in standard-setting should be represented. In order to stimulate the decision-making process, the work of the screening device should be prepared by a group of experts. Finally, as stated above, reconciliation should be avoided.

Enforcement

In practice, harmonised application of IAS is covered by the Standing Interpretations Committee (SIC) of IASC. It is therefore not necessary to set up a European equivalent of this Committee.

UNICE believes that, as long as there is no European securities regulator, national enforcement mechanisms are sufficient. These include the role of statutory auditors, especially with non-listed companies. Establishment of a review panel is not necessary unless the converse can be demonstrated. Close co-ordination between national securities regulators could be a first step towards a European securities regulator.
