Union of Industrial and Employers' Confederations of Europe
Union des Confédérations de l'Industrie et des Employeurs d'Europe

22.7/6/1 **19 May 2000**

MODERNISATION OF THE ACCOUNTING DIRECTIVES

UNICE PRELIMINARY COMMENTS

1. GENERAL COMMENTS REGARDING LISTED COMPANIES

1.1 Listed companies and EU Accounting Directives

The financial reporting environment is changing rapidly at both global and European level. Initiatives in Europe need to take into account and form part of the developments at global level. The European Union is moving towards completion of the Single Market, to which introduction of the euro has given greater impetus. Consequently, European listed companies will increasingly operate on a global level and will wish to mirror this development in their financial reporting by using global accounting standards. The Accounting Directives should not form a barrier to such developments.

UNICE would favour giving listed companies the option to use IAS without requiring compliance with the Accounting Directives.

The underlying motivation for this opinion is twofold:

(i) It is not easy to foresee how the European legislative process can keep up with the much faster pace of international standard-setting. Future standards will give rise to further obstacles. It would mean that, in cases where there are differences between IAS and the Accounting Directives, companies would be required to draw up at least two different sets of financial statements: one set complying with IAS and one set complying with the Accounting Directives. This will create extra costs for companies and will cause confusion for the public as to which is the proper set of financial statements. Since there would inevitably be time lags, at both EU and national implementation level, listed companies could find themselves preparing one set of accounts one year, two the next, one the year thereafter, and so on, or at least reconciliation statements.

(ii) Furthermore UNICE would like to stress that other geographical regions or institutions in this world might constrain IAS as well, for instance by ruling out options permitted in a particular IAS standard. It can easily be foreseen that worldwide application of IAS might be impossible because different regions or institutions might impose different constraints. This illustrates the importance for companies to be able just to apply IAS without taking into account all kinds of additional regional stipulations.

☞ *Consequently, for the above-mentioned reasons, UNICE is in favour of allowing listed companies to use IAS without having to comply with the Accounting Directives, thus avoiding the imposition of additional financial reporting burdens upon companies which want to operate in the global market.*

UNICE realises that removing listed companies from the scope of the EU Directives is a politically sensitive issue. However, much might be gained by a powerful pro-active role of the European Union in the IASC's standard-setting process. In this respect, UNICE supports the role of a screening device provided that it will not result in a European IAS.

UNICE would also add that it is difficult to be definitive at this stage on approving a requirement, rather than an option for IAS, without some caveats on satisfactory broad agreement with the US on acceptance of IAS in place of US GAAP.

1.2 Listed companies and permission to apply US GAAP

UNICE would like to stress the view it has already expressed that European listed companies should be allowed to use US GAAP in their consolidated accounts until the SEC approves application of IAS without mandatory reconciliations to US GAAP.

2. GENERAL COMMENTS REGARDING NON-LISTED COMPANIES

With regard to non-listed companies, UNICE concurs with European Commission's view that it is necessary to adapt the directives to developments that have taken place since their adoption. It should be stressed however that this process of modernisation should not result in an extension of mandatory accounting requirements for non-listed companies.

For instance, with regard to fair value accounting, Members States should be given an option or a requirement to *allow* (and not to require) fair value accounting. Otherwise heavy accounting standard burdens will be placed on companies creating higher administrative expenses that will (generally) not be compensated by benefits in terms of better allocation of scarce resources, due to the limited public exposure of the financial statements.

3. SPECIFIC ISSUES

In this section, UNICE gives its response to the questions raised in the Commission's working paper:

- *Are any changes needed to remove conflicts between the Directives and existing IAS?*

  UNICE would like to refer to the 1999 FEE study "Comparison of the EC Accounting Directives and IASs", especially the conclusions of section B. UNICE agrees with those conclusions which give the European Commission detailed guidance in removing "incomparabilities" or in adding further clarification in order to bring the Directives in line with IASs.

- *Are any changes needed to prevent new conflicts arising between the Directives and future IAS?*

  Yes, especially regarding the use of fair value accounting for non-financial instruments. UNICE would refer to the recently approved IAS 40 (investment properties) and E 65 (agriculture) in which fair value accounting for non-financial instruments is allowed or required. This is definitely in contravention with the Directives.

- *Is there a need to make the existing formats more flexible and how could this be done without upsetting the nature of these formats?*

  Yes, there is a need to make the existing formats more flexible, since the EC takes in its 1999 comparability report ("Examination of the Conformity between International Accounting Standards and European Accounting Directives") a very strict position that the formats cannot be changed other than allowed by Article 4 of the Fourth Directive.

Regarding these formats materiality and 'substance over form principles' could be applied. Materiality provisions are for instance included in UK law.

- *Is there a need to amend Article 31 of the Fourth Directive which contains the basic valuation principles, including the prudence principle?*

  Yes, there is. See our earlier remark on IAS 40 and E 65. Article 31 paragraph c (prudence) should be brought in line with IAS 1, wherein the idea of prudence is a qualitative characteristic inspiring the preparation of financial statements instead of a fundamental and restrictive rule. The other principles of Article 31 are not in conflict with the IAS conceptual statements (within Conceptual Framework or within IAS 1).

- *Is there any need to amend provisions in the Fourth and Seventh Directives in the light of the 1998 Interpretative Communication or the comparisons which have been carried out between IAS and the Directives?*

  See UNICE's answer to the first question.

- *Are there any options or provisions in the Directives which can be removed because they are no longer useful?*

  Not that UNICE would be aware of.

- *Is there a need to include new issues or provisions in the Directives in order to take account of developments that have taken place since their adoption?*

  Fair value accounting for non-financial instruments.

____