

Application of the international accounting standards

European Parliament resolution of 14 November 2007 on the the draft Commission regulation amending Regulation (EC) No 809/2004 as regards the accounting standards in accordance with which historical information contained in prospectuses is drawn up and on the draft Commission decision on the use by third country issuers of securities of information prepared under internationally accepted accounting standards

The European Parliament,

- having regard to Directive 2003/71/EC of the European Parliament and of the Council of 4 November 2003 on the prospectus to be published when securities are offered to the public or admitted to trading¹, and in particular to Article 7(1) thereof,
- having regard to Directive 2004/109/EC of the European Parliament and of the Council of 15 December 2004 on the harmonisation of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market², and in particular to Article 23(4)(i) thereof,
- having regard to Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards³,
- having regard to the draft Commission regulation amending Regulation (EC) No 809/2004 as regards the accounting standards in accordance with which historical information contained in prospectuses is drawn up,
- having regard to the draft Commission decision on the use by third country issuers of securities of information prepared under internationally accepted accounting standards,
- having regard to its resolutions of 24 October 2006 on the implementing measures of the Transparency Directive⁴ and the Prospectus Directive⁵,
- having regard to Council Decision 1999/468/EC of 28 June 1999 laying down the procedures for the exercise of implementing powers conferred on the Commission⁶,
- having regard to the statement made to Parliament by Commission President Prodi on 5 February 2002,
- having regard to its resolution of 5 February 2002 on the implementation of financial services legislation⁷,

¹ OJ L 345, 31.12.2003, p. 64.

² OJ L 390, 31.12.2004, p. 38.

³ OJ L 243, 11.9.2002, p. 1.

⁴ OJ C 313E, 20.12.2006, p. 114.

⁵ OJ C 313E, 20.12.2006, p. 116.

⁶ OJ L 184, 17.7.1999, p. 23. Decision as amended by Decision 2006/512/EC (OJ L 200, 22.7.2006), p. 11).

⁷ OJ C 284 E, 21.11.2002, p. 115.

- having regard to Rule 81 of its Rules of Procedure,

As regards the draft implementing regulation

1. Notes the progress achieved by the Commission in eliminating the reconciliation requirements for EU issuers in third countries; supports steps directed towards the recognition of the EU standards based on US Generally Accepted Accounting Principles (GAAP) and International Financial Reporting Standards (IFRS) in both jurisdictions by 2009;
2. Takes the view that third-country GAAP should be considered equivalent to IFRS if investors are able to make similar decisions irrespective of whether they are provided with financial statements based on IFRS or on third-country GAAP and if audit assurance and enforcement on entity levels are sufficient for investors to rely on;
3. Points out that IFRS are high-quality principle-based standards; believes that regulators should maintain an active dialogue with their international counterparts regarding application and consistent enforcement of IFRS and enhance cooperation and information sharing;
4. Welcomes the Commission's decision to ask the Committee of European Securities Regulators (CESR) to provide technical advice on a suitable mechanism on determining the equivalence of third-country GAAP and/or appropriate conditions for the mutual recognition of accounting standards; asks the Commission to extend the mandate of the CESR in order to incorporate technical advice on the appropriate conditions for the recognition of mutual standards;
5. Welcomes the CESR's assistance to the EU and national authorities in ensuring a consistent assessment of equivalence with respect to individual countries' GAAP;
6. Notes that IFRS that are endorsed by the International Accounting Standards Board (IASB) provide a solid basis for the regulators to work towards the convergence of accounting standards globally; takes the view that the use of globally accepted accounting standards would improve transparency and comparability of financial statements, thus bringing substantial benefits to companies as well as investors;
7. Believes that the convergence of accounting standards should not be pursued in a hasty manner but should be carried out by signing in due time when necessary a framework agreement with the IASB on eliminating differences; stresses that the inconsistent modification of IFRS endorsed by the European Union gives rise to considerable costs and intellectual investment for EU companies listed in the European Union, especially for small and medium-sized companies, and leads to confusion among investors in the European Union's financial markets;
8. Calls on the Commission to ensure that the extension of the derogation for third-country issuers to use IFRS by 2011 does not allow current established equivalence procedures to be delayed in the event that an earlier commencement date has already been specified;
9. Asks the Commission to consult industry representatives and policymakers on the convergence of accounting standards at an early stage and to analyse whether the European Union is adequately represented in the IASB;

10. Proposes to modify the draft Regulation as follows:

Recital 3

- (3) In order to ensure that a determination of the equivalence of third country accounting standards is made in all cases that are relevant to Community markets, the Commission should assess the equivalence of third-country accounting standards either upon a request from the competent authority of a Member State or an authority responsible for accounting standards or market supervision of a third country, or on its own initiative. The Commission should first consult the Committee of the European Securities Regulators (CESR) with regard to the assessment of equivalence of the accounting standards in question. In addition, the Commission should actively monitor ongoing progress in the work by the relevant third-country authorities to eliminate any requirement for Community issuers accessing the financial markets of a third country to reconcile financial statements prepared using IFRS as adopted by the European Union. A decision by the Commission will imply, in all cases, the right for EU issuers to use in any third country, IFRS as endorsed by the European Union.

Recital 3 a

- (3a) Welcomes the steps taken by the Commission to secure US agreement to recognise EU companies reporting under IFRS as equivalent, thereby removing the costly reconciliation requirements that do not apply to US companies in the European Union. Encourages/requests the Commission to secure similar arrangements with other third countries where EU companies list on their exchanges before the end of 2008;

Article 2

Equivalence

The Generally Accepted Accounting Principles of a third country may be considered equivalent to IFRS as adopted by the European Union if the financial statements drawn up in accordance with the Generally Accepted Accounting Principles of the third country concerned enable investors to make a similar assessment of the assets and liabilities, financial position, profit and losses and prospects of the issuer as financial statements drawn up in accordance with IFRS, with the result that investors are likely to make the same decisions about the acquisition, retention or disposal of securities of an issuer.

Article 4

Conditions for the acceptance of third-country accounting standards for a limited period

1. Third-country issuers may be permitted to use financial statements drawn up in accordance with the accounting standards of a third country in order to comply with the obligations under Directive 2004/109/EC and, by derogation from Article 35(5) of Regulation (EC) No 809/2004, to provide historical financial information under that Regulation for a period commencing after 31 December 2008 and expiring no later than 31 December 2011 where:

- (1) the third-country authority responsible for the national accounting standards concerned has made a public commitment before 30 June 2008 to converge those standards with IFRS before 31 December 2011 and the following conditions are met:
 - (a) the third country authority responsible for the national accounting standards concerned has established a convergence programme before 31 December 2008, which is comprehensive and capable of being completed by 31 December 2011; and
 - (b) the convergence programme is effectively implemented, without delay, and the resources necessary for its completion are allocated to its implementation; or
- (2) the third-country authority responsible for the national accounting standards concerned has either made a public commitment before 30 June 2008 to adopt IFRS by 31 December 2011 and effective measures are taken in the third country to secure the timely and complete transition to IFRS by that date, or has reached a mutual recognition agreement with the European Union by 31 December 2008.

2. Any decision under paragraph 1 to permit the continued acceptance of financial statements drawn up in accordance with the accounting standards of a third country shall be made in accordance with the procedure referred to in Article 24 of Directive 2003/71/EC and Article 27(2) of Directive 2004/109/EC.
3. Where the Commission permits the continued acceptance of financial statements drawn up in accordance with the accounting standards of a third country in accordance with paragraph 1, it shall review regularly whether the conditions specified in point (a) or point (b), as the case may be, continue to be met, and shall report, accordingly, to the European Securities Committee and to the European Parliament.
4. If the conditions in point (a) or (b) of paragraph 1 are no longer met, the Commission shall take a decision in accordance with the procedure referred to in Article 24 of Directive 2003/71/EC and Article 27(2) of Directive 2004/109/EC amending its decision under paragraph 1 in respect of those accounting standards.
5. Before complying with this Article, the Commission shall consult the CESR about the convergence programme or about progress towards adoption of the IFRS, as the case may be.

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11. Accepts the implementing measures, provided that the above-mentioned points are taken into account by the Commission;
12. Instructs its President to forward this resolution to the Council and the Commission.