COMPANY LAW

European company law is partially codified in Directive (EU) 2017/1132 relating to certain aspects, and Member States continue to operate separate company acts, which are amended from time to time to comply with EU directives and regulations. The ongoing efforts for establishing a modern and efficient company law and corporate governance framework for European undertakings, investors and employees aim to improve the business environment in the EU.

LEGAL BASIS

Articles 49, 50(1) and (2)(g), and 54, second paragraph, of the Treaty on the Functioning of the European Union (TFEU).

OBJECTIVES

An effective corporate governance framework creates a positive EU-wide business environment in the internal market. The objective of harmonising company law is to promote the achievement of freedom of establishment (Title IV, Chapter 2 TFEU) and to implement the fundamental right laid down in Article 16 of the Charter of Fundamental Rights of the European Union, the freedom to conduct a business within the limits of Article 17 of the Charter (right to property) (4.1.2).

Article 49, second paragraph TFEU guarantees the right to take up and pursue activities in a self-employed capacity and to set up and manage undertakings, in particular companies or firms (2.1.4).

The purpose of EU rules in this area is to enable businesses to be set up anywhere in the EU enjoying the freedom of movement of persons, services and capital (2.1.3), to provide protection for shareholders and other parties with a particular interest in companies, to make businesses more competitive, and to encourage businesses to cooperate over borders (2.1.5).

The internal market implies the creation of Europe-wide companies. There are currently around 24 million companies in the EU, of which approximately 80% are limited liability companies. While around 98-99% of limited liability companies are SMEs, companies must be able to act throughout the EU according to a uniform legal framework.
ACHIEVEMENTS

A. A minimum set of common obligations

Although there is no codified European company law as such, harmonisation of the national rules on company law has created some minimum standards and covers areas such as the protection of interests of shareholders and their rights, rules on takeover bids for public limited companies, branch disclosure, mergers and divisions, minimum rules for single-member private limited liability companies, financial reporting and accounting, easier and faster access to information on companies, and certain disclosure requirements for companies.

1. Setting up a company, capital and disclosure requirements

The First Council Directive (68/151/EEC) dates back to 1968 and has been amended many times (most recently by Directive 2012/17/EU and Directive (EU) 2017/1132). It aims to give the public easier and faster access to information on companies and deals, among other things, with the validity of obligations entered into by a company and nullity of the company. It applies to all public and private limited liability companies. A second Council Directive (77/91/EEC of 1976, replaced by Directive 2017/1132/EU) relates only to public limited liability companies; the constitution of such companies requires a minimum amount of authorised capital (currently EUR 25 000) as security for creditors and a counterpart to the limited liability of members. There are also rules on maintaining and modifying the capital and a minimum content requirement for public limited liability companies’ instruments of incorporation. The 12th Company Law Directive (2009/102/EC of 16 September 2009) provides a framework for single-member private limited liability companies where all shares are held by a single shareholder.

2. Company operations involving more than one country

The 11th Company Law Directive (89/666/EEC, as amended) introduces disclosure requirements for foreign branches of companies. It covers EU companies that set up branches in another EU country or companies from non-EU countries setting up branches in the EU. Council Directive 2014/86/EU of 8 July 2014 on the common system of taxation applicable in the case of parent companies and subsidiaries of different Member States introduces tax rules which are neutral from the point of view of competition for groups of companies of different Member States. There is no double taxation of dividends distributed by a subsidiary in one Member State to its parent company in another (see also Council Directive 2008/7/EC of 12 February 2008 concerning indirect taxes on the raising of capital).

out technical specifications and procedures required for the system of interconnection of business registers.

3. Company restructuring (domestic mergers and divisions, transfer of seat)

Shareholders and third parties have the same guarantees during restructuring of the company (mergers and divisions). Directive 2011/35/EU (repealing the Third Council Directive 78/855/EEC concerning mergers between public limited liability companies) covers protection for shareholders, creditors and employees. The Sixth Council Directive (82/891/EEC) on the division of public limited liability companies (amended by Directive 2007/63/EC, regarding the requirement for an independent expert’s report in the event of the merger or division of public limited liability companies, by Directive 2009/109/EC, in order to simplify the obligations as regards reporting and documentation requirements) has now been codified by Directive (EU) 2017/1132[1]. The possibility of operating beyond national borders is a part of a company’s natural life cycle. This includes carrying out a cross-border merger, division or conversion, which may mean the chance to survive and grow by, for example, tapping into new business opportunities in other Member States or adapting to changing market conditions.

In April 2019, the European Parliament adopted amendments to the Commission’s proposal to amend Directive (EU) 2017/1132 as regards cross-border conversions, mergers and divisions, which envisaged additional rules on cross-border mergers of limited liability companies established in an EU Member State and offered further simplifications to be applied to all three operations[2]. Furthermore, in respect of those operations, the agreed text provides for similar rules on employee participation rights and seeks to ensure that employees will be adequately informed of and consulted about their expected impact. Minority and non-voting shareholders’ rights will enjoy greater protection, while creditors of the companies concerned are given clearer and more reliable safeguards.

The 10th Company Law Directive (2005/56/EC) on cross-border mergers of limited liability companies is intended to facilitate cross-border mergers between companies with share capital. Transferring the registered office of a limited liability company from one Member State to another as well as merging or dividing it is an inherent aspect of the freedom of establishment guaranteed by Articles 49 and 54 TFEU (Cartesio ruling of the European Court of Justice[3]). However, the principle of freedom of establishment does not permit a company to move from its home Member State to another Member State while preserving its legal capacity. Parliament has therefore called on numerous occasions for a proposal on the cross-border transfer of seat (‘14th Company Law Directive’). The question of cross-border transfer of registered office has not yet been resolved. In Case C-106/16 Polbud, the Court of Justice, in answer to a preliminary question, further specified the ‘freedom of establishment’, stating that it is applicable also to the transfer of the registered office of a company formed in accordance with

the law of one Member State to the territory of another Member State, for the purpose of its conversion.

4. Guarantees concerning the financial situation of companies

To ensure that information provided in accounting documents is equivalent in all Member States, the Fourth, Seventh and Eighth Directives (78/660/EEC, 83/349/EEC and 84/253/EEC) were replaced by Directives 2006/43/EC and 2013/34/EU, requiring company accounts (annual accounts, consolidated accounts and approval of persons responsible for carrying out statutory audits) to give a true and fair view of the company’s assets, liabilities, financial position and profit or loss. Directive 2006/43/EC aims to improve the reliability of the financial statements of companies by establishing minimum requirements for the statutory audit of annual and consolidated accounts. Directive 2013/34/EU also introduced the obligation for EU listed companies to provide a corporate governance statement in their annual report.

Regulation (EC) No 1606/2002 on the application of international accounting standards harmonises the financial information presented by publicly traded companies in order to guarantee protection for investors. Directive 2009/49/EC simplifies the financial reporting requirements for micro-enterprises in order to enhance their competitiveness and release their growth potential. Regulation (EU) No 2015/848 of 20 May 2015 on insolvency proceedings (based on Article 81 TFEU on civil law cooperation) helps to resolve conflicts of jurisdiction and laws and ensures the recognition of judgments across the EU. It does not harmonise substantive insolvency laws of the Member States; rather, it simply establishes common rules on the court competent to open insolvency proceedings, the applicable law, and the recognition of the court’s decisions. The main objective is to avoid the transfer of assets or judicial proceedings from one Member State to another. In March 2019, Parliament and the Council reached an agreement on the Commission proposal for a directive on preventive restructuring frameworks (or ‘second chance for entrepreneurs’). This directive will seek to increase the efficiency of restructuring, insolvency and discharge procedures and address concerns raised by large numbers of investors about insolvency rules and the risk of lengthy or complex insolvency procedures abroad, which they attribute as the main reason for not investing outside their own country.

5. The cross-border exercise of shareholders’ rights

Directive 2007/36/EC (amended by Directives 2014/59/EU and (EU) 2017/828) on the exercise of certain rights of shareholders in listed companies abolishes the main obstacles to a cross-border vote in listed companies that have their registered office in a Member State, by introducing specific requirements for a certain number of shareholder rights at the general meeting. It also sets out certain rights for shareholders in listed companies, including timely access to relevant information on general meetings and easier proxy voting. Directive (EU) 2017/828 encourages shareholder engagement, and introduces requirements in relation to identification of shareholders, transmission of information, facilitation of exercise of shareholders’ rights, transparency of institutional

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investors, asset managers and proxy advisors, remuneration of directors and related party transactions.

**B. EU legal entities**

European legal entities apply throughout the EU and coexist with the national ones.

1. **The European Company (SE)**

After a long period of stalemate (the negotiations lasted 30 years), the Council adopted the two legislative instruments necessary for the establishment of a European company, namely Regulation (EC) No 2157/2001 on the Statute for a European company and Directive 2001/86/EC supplementing the Statute with regard to the involvement of employees in the European company. This enables a company to be set up within the territory of the EU in the form of a public limited liability company, known by the Latin name ‘Societas Europaea’ (SE). Several options are made available to undertakings of at least two Member States which wish to set themselves up as an SE: merger, establishment of a holding company, formation of a subsidiary, or conversion into an SE. The SE must take the form of a company with share capital. In order to ensure that such companies are of reasonable size, a minimum amount of capital is set, i.e. not less than EUR 120 000.

Directive 2001/86/EC is aimed at ensuring that the establishment of an SE does not entail the disappearance or reduction of practices of employee involvement existing within the companies participating in the establishment of that SE.

2. **The European Cooperative Society (SCE)**

Regulation (EC) No 1435/2003 on the Statute for a European Cooperative Society (SCE) puts in place a genuine single legal statute for the SCE. It enables a cooperative to be established by persons resident in different Member States or by legal entities established under the laws of different Member States. With a minimum capital of EUR 30 000, these new SCEs can operate throughout the single market with a single legal personality, set of rules and structure.

Directive 2003/72/EC supplements this statute with regard to the involvement of employees in the SCE, in order to ensure that the establishment of an SCE does not entail the disappearance or reduction of practices of employee involvement existing within the companies participating in the establishment of that SCE.

3. **European Economic Interest Grouping (EEIG)**

Council Regulation (EEC) No 2137/85 sets out a statute for European Economic Interest Groupings (EEIGs). The EEIG, which is endowed with legal capacity, enables a company in one Member State to cooperate in a joint venture (for example, to facilitate or develop the economic activities of its members, but not to make profits for itself) with companies or natural persons in other Member States, the profits being shared between the members. An EEIG may not invite investment by the public.

4. **Single-member private limited liability company (SUP)**

On 10 April 2014, the Commission submitted a proposal (COM(2014) 0212) for a directive of the European Parliament and of the Council on single-member private limited liability companies (Societas Unius Personae). The objective of this proposal
was to make it easier to set up such a company with a single shareholder in the EU across borders between Member States.

**ROLE OF THE EUROPEAN PARLIAMENT**

Parliament has always succeeded in amending legislation, e.g. defending worker participation in companies or making progress in the creation of the various forms of European companies in order to facilitate the cross-border activities of enterprises. In February 2007, Parliament asked the Commission to present a proposal for a European private company adapted to the needs of SMEs and to prepare for a review of the European company statute in order to simplify procedures for the constitution of such companies. Following the withdrawal of the two proposals for regulations on a European association and mutual society, Parliament has invited the Commission to resurrect these projects. It has also called for an appropriate legal framework for foundations and associations. On 8 February 2012, the Commission proposed a Council Regulation on the Statute for a European Foundation, ‘Fundatio Europaea’ (FE), designed to make it easier for such organisations to work for the public good anywhere in the EU.

In its [resolution of 14 June 2012 on the future of European company law](http://www.europarl.europa.eu/factsheets/en), Parliament took the view that EU company forms supplementing the existing forms available under national law have considerable potential and should be further developed. In order to address the specific needs of SMEs, Parliament urged the Commission to make further efforts with a view to the adoption of the [Private Company Statute (SPE)](http://www.europarl.europa.eu/factsheets/en). In response to the Commission communication on the matter, Parliament adopted a resolution on a renewed EU strategy for corporate social responsibility in February 2013. Parliament’s resolution of 14 March 2013 on the Statute for a European mutual society contained recommendations to the Commission on such a statute. Finally, Parliament has, on numerous occasions, called for a directive on the cross-border transfer of company seats, through various resolutions and oral questions deploring the current lack of common rules that undermine corporate mobility and thus freedom of establishment[6]. Directive 2019/2121 of 27 November 2019 amending Directive (EU) 2017/1132 as regards cross-border conversions, mergers and divisions[7] was adopted at the end of 2019.

In April 2014, the Commission presented a proposal for a directive on single-member private limited liability companies with a view to facilitating the creation of companies with a single shareholder across the EU (on 7 March 2015 the Commission withdrew this proposal).

In Parliament’s resolution of 13 June 2017 on cross-border mergers and divisions, attention was drawn to the rights of minority shareholders and rules on creditor protection, as well as to the lengthy and complex procedures required for cross-border divisions.

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A number of petitions dealing with digitalisation of EU company law and cross-border operations have been received by Parliament. The Committee on Petitions usually asks the Commission to provide relevant information or give its opinion on the points raised by the petitioner. (4.1.5.).

In May 2017, Parliament adopted a resolution on the EU e-Government action plan, in which it called on the Commission to consider further ways to promote digital solutions for formalities throughout a company’s lifecycle, and underlined the importance of interconnecting business registers[^8].

In July 2019, Parliament adopted the Directive to amend Directive (EU) 2017/1132 as regards the use of digital tools and processes in company law, which is designed to facilitate the establishment of businesses by electronic means and promote online operations throughout company lifecycles[^9]. According to figures supplied by the Commission, currently only 17 Member States provide a full set of online registration procedures for businesses, despite the fact that online registration is twice as fast on average and can be up to three times cheaper than traditional paper-based formats.

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