Procedure file

Basic information

COD - Ordinary legislative procedure (ex-codecision procedure) Regulation	2001/0044(COD)	Procedure completed
Capital market, financial services: application of international accounting standards Amended by 2006/0298(COD) Subject 2.50 Free movement of capital 2.50.04 Banks and credit 3.45.03 Financial management of undertakings, business loans, accounting		

Key players

European Parliament	Committee responsible	Rapporteur	Appointed
	JURI Legal Affairs and Internal Market		24/04/2001
		PPE-DE INGLEWOOD The Lord	
	Committee for opinion	Rapporteur for opinion	Appointed
	ECON Economic and Monetary Affairs (Associated committee)		28/05/2001
		PPE-DE THYSSEN Marianne	
Council of the European Union	Council configuration	Meeting	Date
	Economic and Financial Affairs ECOFIN	2520	15/07/2003
	Industry	2433	06/06/2002
	Economic and Financial Affairs ECOFIN	2401	13/12/2001
European Commission	Commission DG	Commissioner	
	Financial Stability, Financial Services and Capital Markets Union		

Key events

12/02/2001	Legislative proposal published	COM(2001)0080	Summary
02/04/2001	Committee referral announced in Parliament, 1st reading		
13/12/2001	Debate in Council	2401	
26/02/2002	Vote in committee, 1st reading		Summary
25/02/2002	Committee report tabled for plenary, 1st reading	A5-0070/2002	
11/03/2002	Debate in Parliament		
12/03/2002	Decision by Parliament, 1st reading	T5-0094/2002	Summary
06/06/2002	Act adopted by Council after Parliament's 1st reading		
12/07/2002	Final act signed		

19/07/2002	End of procedure in Parliament		
11/09/2002	Final act published in Official Journal		
15/07/2003	Resolution/conclusions adopted by Council		

Technical information

Procedure reference	2001/0044(COD)
Procedure type	COD - Ordinary legislative procedure (ex-codecision procedure)
Procedure subtype	Legislation
Legislative instrument	Regulation
	Amended by 2006/0298(COD)
Legal basis	Rules of Procedure EP 57; EC Treaty (after Amsterdam) EC 095-p1
Stage reached in procedure	Procedure completed

Documentation gateway

Legislative proposal		COM(2001)0080 OJ C 154 29.05.2001, p. 0285 E	13/02/2001	EC	Summary
Economic and Social Committee: opinion, report		CES0934/2001 OJ C 260 17.09.2001, p. 0086	11/07/2001	ESC	
Committee draft report		PE308.463	04/10/2001	EP	
Amendments tabled in committee		PE308.463/AM	12/12/2001	EP	
Amendments tabled in committee		PE308.463/AC+	20/02/2002	EP	
Amendments tabled in committee		PE308.463/AMC	20/02/2002	EP	
Amendments tabled in committee		PE308.463AC/R	21/02/2002	EP	
Committee report tabled for plenary, 1st reading/single reading		A5-0070/2002	26/02/2002	EP	
Text adopted by Parliament, 1st reading/single reading		T5-0094/2002 OJ C 047 27.02.2003, p. 0025-0062 E	12/03/2002	EP	Summary
Implementing legislative act		32003R1725 OJ L 261 13.10.2003, p. 0001-0420	29/09/2003	EU	Summary
Follow-up document		COM(2008)0215	24/04/2008	EC	Summary
Follow-up document		COM(2015)0301	18/06/2015	EC	Summary
Follow-up document		SWD(2015)0120	18/06/2015	EC	Summary

Additional information

European Commission	EUR-Lex

Final act

Regulation 2002/1606
OJ L 243 11.09.2002, p. 0001-0004 Summary

Capital market, financial services: application of international accounting standards

PURPOSE: to present a Commission proposal for a Regulation of the European Parliament and of the Council on the application of international accounting standards. CONTENT: This proposal introduced the requirement that, at the latest from 2005 onwards, all EU companies listed in a regulated market as well as companies preparing admission for trading prepare their consolidated financial statemmets in accordance with International Accounting Standards (IAS) adopted for application within the EU. It also provides an option for Member States to permit or require the application of adopted IAS in the preparation of annual accounts and to permit or require the application of adopted IAS by unlisted companies. This means that Member States can require uniform application of adopted IAS to important sectors such as banking or insurance, regardless of whether companies are listed or not. This proposal also establishes the basic rules for the creation of an endorsement mechanism that will adopt IAS, the timetable for implementation and a review clause to permit an assessment of the overall approach proposed. It is extremely important to facilitate early application of the proposed legislation in order to meet the 2005 deadline set by the Lisbon Council. It is also crucial for the objective of comparability to achieve consistent application of IAS by all listed EU companies, with no national variations. The proposed Regulation will enter into force immediately in order to foster application of IAS by listed companies as soon as possible. Against this background, the main provisions of the proposed Regulation include powers of the Commission and publicity; requirements applying to EU companies and the Accounting Regulatory Committee.?

Capital market, financial services: application of international accounting standards

The committee adopted the report by Lord INGLEWOOD (EPP-ED, UK) broadly endorsing the Commission proposal under the codecision procedure (1st reading), subject to a number of amendments. It sought, for example, to omit the requirement that companies preparing to be listed on regulated markets should also prepare consolidated accounts in accordance with IAS, as it feared that this might lead to disproportionate financial reporting requirements for small businesses. MEPs believed it should be left to Member States to choose whether to require non-traded companies to publish financial statements in accordance with the same set of standards as those for publicly-traded companies. In another amendment the committee said that Member States should be allowed to exempt certain companies temporarily from the requirement to apply IAS. These would be companies publicly traded both in the EU and on a regulated third country market which are already applying another set of internationally accepted standards, as well as companies which only have publicly-traded debt securities. However, this exemption would only be allowed until 2007. Finally, the committee stated that implementing measures for the new regulation should be adopted with due regard to the declaration made to Parliament by the President of the Commission on 5 February 2002, which acknowledged Parliament's right to be fully involved in the implementation of financial services legislation.?

Capital market, financial services: application of international accounting standards

The European Parliament adopted the report drafted by Lord Inglewood (EPP/ED, UK) by 492 votes, with 5 against and 29 abstentions. (Please refer to the document dated 26/02/02). An additional amendment seeks to ensure that the international standards can only come into force if they are in line with the basic principles defined in existing EU accounting directives, are conducive to the public good, and provide for a high quality of financial information.?

Capital market, financial services: application of international accounting standards

PURPOSE : the adoption of international accounting standards (IAS). COMMUNITY MEASURE : Regulation 1606/2002 of the European Parliament and of the Council on the application of international accounting standards. CONTENT : This Regulation has as its objective the adoption and use of IAS in the Community with a view to harmonising the financial information presented by certain companies in order to ensure a high degree of transparency and comparability. For each financial year starting on or after 01/01/05, companies governed by the law of a Member State will prepare their consolidated accounts in accordance with the IAS if, at their balance sheet date, their securities are admitted to trading on a regulated market of any Member State within the meaning of Article 1(13) of Council Directive 93/22/EEC. With regard to annual accounts, Member States have the option to permit or require publicly traded companies to prepare them in conformity with IAS adopted in accordance with the procedure laid down in this Regulation. Member States may decide as well to extend this permission or requirement to other companies as regards the preparation of their consolidated accounts or their annual accounts. Member States are allowed to defer the application of certain provisions until 2007 for those companies publicly traded both in the Community and on a regulated third-country market which are already applying another set of internationally accepted standards as the primary basis for their consolidated accounts, as well as for companies which have only publicly traded debt securities. ENTRY INTO FORCE : 14/09/02.?

Capital market, financial services: application of international accounting standards

LEGISLATIVE ACT : Commission Regulation 1725/2003/EC adopting certain international accounting standards in accordance with Regulation 1606/2002/EC of the European Parliament and of the Council. CONTENT : the Commission, having considered the advice provided by the Accounting Technical Committee, has concluded that the international accounting standards in existence on 14 September 2002 meet the criteria for adoption set out in Article 3 of Regulation 1606/2002/EC. It has also considered the current improvements projects that propose to amend many existing standards. International accounting standards resulting from the finalisation of these proposals will be considered for adoption once those standards are final. The existence of these proposed amendments to existing standards does not impact upon the Commission's decision to endorse the existing standards, except in the cases of IAS 32 Financial instruments: disclosure and presentation, IAS 39 Financial instruments: recognition and measurement and a small number of interpretations related to these standards, SIC 5 Classification of financial instruments - Contingent settlement provisions, SIC 16 Share capital - reacquired own equity instruments (treasury shares) and SIC 17 Equity - Costs of an equity transaction. The existence of high quality standards dealing with financial instruments, including derivatives, is important to the Community capital market. However, in the cases of IAS 32 and IAS 39, amendments currently being considered may be so considerable that it is appropriate not to adopt these standards at this time. As soon as the current improvement project is complete and revised standards issued, the Commission will consider, as a matter of priority, the adoption of the revised standards further to Regulation 1606/2002/EC. Accordingly, all international accounting standards in existence on 14 September 2002 except IAS 32, IAS 39 and the related interpretations should be adopted. ENTRY INTO FORCE : 16/10/03.?

Capital market, financial services: application of international accounting standards

In accordance with specifications set out in Regulation (EC) No 1606/2002 - the IAS Regulation, the Commission is required to review and report upon the Regulation?s operation.

To recall, the IAS Regulation places an obligation on European companies, whose securities are admitted to trading on a regulated market in the EU, to prepare their consolidated accounts in conformity with IAS/IFRS and SIC/IFRIC international accounting standards. The main findings of the report are as follows:

Effective use of the IFRS in the EU: in 2005 the number of IFRS adopters, whose securities were admitted to trading on a regulated market in the EU, stood at 7 365, of which 5 534 were equity issuers. By 31 December 2005 the following standards and interpretations had been endorsed: IAS 1 to 41, IFRS 1 to 6, SIC 7 to 32 and IFRIC 1 to 5, excluding those superseded or abolished before or after that date. Additional standards and interpretations were endorsed in 2006 (IFRS 7 and IFRIC 6 to 9) and 2007 (IFRS 8 and IFRIC 10 and 11), along with amendments to previously endorsed standards. Some standards (IFRS 6), amendments to standards (on IAS 39) and interpretations (IFRIC 4 and 5) endorsed in 2005 could be applied as from 1 January 2006. It was also possible to apply IFRS 7, IFRIC 6 and amendments to some standards endorsed on 11 January 2006 to 2005 financial statements. CESR?s members have undertaken a full review of 1 410 companies? 2005 IFRS financial statements and a thematic review of an additional 920 companies? 2005 IFRS financial statements. They have set up a database in which 85 enforcement decisions had been entered by the end of August 2007.

Application of IFRS in the EU: the overall application of the IFRS has been challenging for all stakeholders. Nevertheless it has been achieved without disrupting markets or reporting cycles. This is a major achievement. Overall, stakeholders report that applying IFRS has improved the comparability and quality of financial reporting and has led to greater transparency. The flexible approach to IFRS implementation has tailored the application of the Regulation to the individual accounting environment of each Member State. Understanding of the financial statements has generally improved ? other than in certain areas such as financial instruments, business combinations and share-based payments, where there seems to be room for improvement. IFRS accounts remain influenced by national accounting traditions. One reason for this is a lack of experience and accounting doctrine. IFRS recognition and measurement provisions appear to have been applied more consistently and clearly than certain disclosure requirements. Options allowed by IFRS, including those related to employee benefits, borrowing and costs and joint ventures, have been widely used. However, use of the carve-out in IAS 39 is limited to very few banks. Specific concerns have been identified by the CESR in certain areas, such as business combinations, financial instruments, non-current assets, disclosure on accounting policies, estimates and assumptions. Enforcers recommend improving disclosure relating to pension schemes and share-based payments plus further streamlining of the balance sheet and income statement formats Few technical accounting issues have been referred to the Roundtable for the consistent application of IFRS in the EU. On a final point, academics have started to analyse the impact of IFRS on securities markets but it is still too early to report on any findings.

Conclusions: the report notes that the first year of IFRS mandatory application in the EU has been generally positive albeit that regulatory changes and lack of experience have posed a challenge for first-time users. The IFRS has been applied consistently across the EU and the level of consistency between IFRS accounts is likely to increase over time as preparers and auditors gain greater experience in applying the new accounting framework.

The EU endorsement process ensures technical quality and political legitimacy. The endorsement system is flexible. Thus, for example, it has already been amended to include SARG, new working methods in EFRAG and new committee procedures. In order to maintain this momentum it is important that stakeholders feel the right issues are being prioritised. As a result, the report urges the EU institutions, the Member States and interested parties to become involved in the standard setting process as early as possible.

Capital market, financial services: application of international accounting standards

This Commission staff working document evaluates, in detail, Regulation (EC) N° 1606/2002 on the application of International Accounting Standards (IAS).

It draws conclusions on the findings of the evaluation, on the Regulations endorsement criteria and on governance aspects, and maps out a way forward. The working document is organised by topics covered in the IAS Regulation.

It main findings were as follows:

Possible extension of the scope: while stakeholders do not see an immediate need for change, about a third acknowledged that extension of the use of IFRS beyond the present mandatory scope could be explored in certain areas to achieve greater harmonisation where possible, to inform investors but also to save costs. However, practical issues that Member States could have difficulties in overcoming were highlighted. These concerned taxation, company law, capital maintenance and variable remuneration. Also, there was an increased need for Member States to assess the impact of IASB developments at national level. A potential need to align certain European directives was also stressed.

Enforcement: feedback from the public consultation suggested that there is generally little appetite for EU legislation on penalties and enforcement activities. Some experts thought that ESMAs role could be strengthened through soft law leaving Member States some discretion as to how they achieve enforcement, especially now that the system is more mature. The feedback revealed no critical difference in enforcement among Member States.

Global standards: the IAS Regulation envisaged IFRS becoming global standards which would benefit EU companies. Stakeholders believed that the EUs decision to adopt IFRS provided a major impetus to the credibility and acceptance of IFRS globally.

Simplification and codification: within the IAS Regulation, IFRS adopted by the EU have been codified in a legally-binding Commission

Regulation amended for each new standard and amendment. Twice yearly, the Commission draws up a non-binding consolidated version of current standards in all EU languages. Evidence shows a need for improved translations for certain languages, practical difficulties in the consolidation of the standards and some discrepancies between IASB and the EU consolidated texts. An official codification of all IFRS by the Commission could therefore represent a useful exercise. As regards coherence, the document noted that the IAS Regulation interacts with other EU regulations and directives. The Commission is committed to help address any points of friction in the interactions between the IAS Regulation and the Accounting Directive. Thus far, adequate interpretation and transposition methods by the Member States have enabled such points to be overcome.

Endorsement criteria: the document suggested that two other criteria could be added as components of public good: that the standards should not endanger financial stability and must not hinder the economic development of the Union. Alternatively it suggested issuing a Communication giving guidelines for the interpretation of the public good criterion. The Commission, together with EFRAG, should produce guidance for improving the understanding of the endorsement criteria.

Governance: to recall, the IFRS Foundation is an independent organisation setting accounting standards for more than 100 countries. Hence, it needs strong governance arrangements to ensure public accountability. In response to demand from stakeholders, including European concerns, the IASB is developing its Conceptual Framework which will improve financial reporting by providing a complete and updated set of concepts to use in their future work. The IFRS Foundation is bound by its Constitution to review its organisational structure every five years. Past reviews significantly improved its governance. The next review will present an opportunity to tackle the issue of the Foundations funding and decision-making process, including the role of the Monitoring Board.

Overall cost/benefit assessment: there seems to be broad agreement among stakeholders responding to the public consultation and the expert group that, on the whole, the benefits of IFRS outweigh the costs. From that perspective, the IAS Regulation appears to be an effective contribution to its stated objectives of greater transparency, comparability and better-functioning capital markets.

Capital market, financial services: application of international accounting standards

The Commission presents a report on the evaluation of Regulation (EC) N° 1606/2002 on the application of international accounting standards (IAS Regulation) as part of the Regulatory Fitness and Performance Programme (REFIT). The objective of adopting International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) for use in the EU was to improve the efficient functioning of the EU capital markets and the internal market.

The objective of the IAS Regulation was to harmonise the financial reporting of listed companies by ensuring a high degree of transparency and comparability of their financial statements in order to enhance the efficient functioning of EU capital markets and of the internal market. The Regulation attached importance to IFRS becoming globally accepted.

Method: the Commission conducted the evaluation by seeking the views of stakeholders through a public consultation, an informal expert group and the Accounting Regulatory Committee (ARC) which comprises representatives of all Member States. The evaluation sought to compare the situation under the IAS Regulation with what would have been the case if IFRS had not been adopted. The evaluation was generally from the perspective of the EU as a whole, without systematic analysis of the interaction of the Regulation with national legislation. The evaluation does not touch upon auditing.

Findings and next steps: the Commission is satisfied with the overall quality of the evaluation and in that context finds the overall results adequately supported by the evidence despite limited availability of quantitative data. The key findings showed that the objectives of the Regulation have been met. The Commission services and the European Financial Reporting Advisory Group (EFRAG) assess the effects of a standard at EU level. It appears that the reform of EFRAG in the period under review is perceived as important in strengthening the EU voice in the development of IFRS. The reform took effect on 31 October 2014 when the amended EFRAG Statutes and Internal Rules came into force. It involved establishing a new Board of EFRAG, its new decision-making body, with balanced representation of public and private interests, with a view to strengthening the legitimacy of its positions and contributing to the objective of Europe speaking with one voice.

Nevertheless, the Commission feels that there are opportunities to improve the way in which the provisions of the IAS Regulation are applied and has identified a number of practical steps which could be taken.

1) Functioning of the IAS Regulation

- the existing scope of the Regulation and the options given to Member State are appropriate. The Commission recalls that as part of the Green Paper on Building a Capital Markets Union, it asked whether there is value in developing a common EU level, high quality and simplified accounting standard for SMEs listed on Multilateral Trading facilities (MTFs);
- the Commission supports IFRS as global standards and continues to urge the United States SEC to adopt IFRS for use by its domestic companies. It considers that commitment to IFRS should be evidenced by establishing permanent financial contributions to fund the IFRS Foundation, proportionate to a contributor country's GDP;
- the effectiveness of the Regulation depend on the quality of the standards themselves which should continue to be appropriately assessed during their development and endorsement. In particular, any interaction between the IAS Regulation and other EU law should be considered. The Commission will examine the case for strengthening EU rules relating to dividend distribution;
- the Commission encourages Member States to apply ESMA enforcement guidelines. It will look at whether the powers of the European Supervisory Authorities, including ESMA, are sufficient and whether more efficient approaches towards supervisory and market reporting could be helpful for market participants;
- to ensure simplification of legislation and coherence, the Commission will consider a codification exercise of the legislation endorsing IFRS in the medium term, after adoption of some major pending standards.

2) Endorsement process

- the Commission will ensure that its requests to EFRAG for endorsement advice include specific concerns, including matters of public good, on a case by case basis. The involvement of Member States at an earlier stage of the process will help to inform the Commission staff of any concerns and EFRAGs reformed governance structure will enhance its ability to address the matters raised.
- the Commission encourages EFRAG to develop its capacities with respect to the analysis of the effects of standards including macro-economic effects.

3) Governance arrangements for the relevant organisations

- the Commission calls on the IFRS Foundation to refocus its attention from issues of internal organisation to discussing matters of public interest that could be referred to the IFRS Foundation.
- the IASB is urged to strengthen their impact analyses, to consider the specific needs of investors with different investment time horizons and to provide specific solutions, in particular to long-term investors, when developing their standards.

In order to ensure that the objective of strengthening the EU's influence on the development of international accounting standards is met, the Commission will continue to closely monitor the follow-up of the reform and will report yearly.