



The EU perspective on disclosure and transparency

OECD corporate governance round table

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The EU's Internal Market

- Based on the principle of an open market economy with free competition
- Legal foundation (Mainly Directives)
- Some data: 370 EU + EEA, 1.300 Directives, 18 million companies, 4 Mio covered by company law Directives
- Not the eurozone!



EU initiatives

2 broad categories:

- **“Company law”** (regulatory framework; corporate governance)
- **“Capital market”** (FSAP, Lamfalussy report)



EU Company law

- Treaty art 44 freedom of establishment with common safeguards
- Company law Directives, 1st, 2nd, 3rd, 4th, 6th, 7th, 8th, 11th, 12th
- Large scope of companies
- “insider” and “outsider” cultures



EU Company law initiatives

- **European company statute**
- **High level group of company law experts (modern framework);**
- **Comparative study of corporate governance codes;**
- **Internet based consultation on company**
- **modernisation 1st Directive**
- **Takeover-bid Directive**
- **Cross border mergers**



Some specific Corporate governance issues

- Role of non-executive directors/ supervisory boards
- Management remuneration
- Management responsibility for the preparation of financial information
- Regular reporting on voting rights and the capital structure
- Management transactions in company shares



EU Capital Market

- 7.000 domestic companies
- 1.400 foreign companies
- Market capitalisation Euro 8.800 billion

- US figures:
- 6.600 domestic and 850 foreign (+/- 280 EU)
- market capitalisation U\$ 14.000 billion



Considerations on EU capital market

- **Context**
- **Roadmap to EU capital market**
- **How can financial reporting contribute?**
- **What do we have?**
- **and where do we come from?**



Relevant capital market initiatives

- Lamfalussy report and proposals for ESC and CCSR
- IAS Regulation
- Prospectus Directive proposal
- Market abuse Directive proposal
- Transparency Regular reporting consultation (not yet a proposal)
- Interface with Company law reforms



Proposed Regulation on IAS

Scope:

- **requirement: to use endorsed IAS for consolidated accounts of EU listed companies**
- **Optional:**
 - consolidated accounts of unlisted companies
 - individual accounts
- **endorsement infrastructure:**
 - EU accounting regulatory committee
 - EFRAG (European Financial Reporting Advisory Group)



Amendments to IAS Regulation

- Institutional balance with the EP (supervision 1 -> 3 months + resolution)
- Influence supervisors and ECB
- Enforcement key issue -> CESR
- Principles for endorsement
- Publication in full, in all official languages
- ARC <-> Commission
- 2007 exemption for certain companies



Financial reporting

- Speedy adoption of IAS regulation
- Endorsement of existing IAS
- Development of EU and national enforcement mechanisms
- Continued dialogue with US for recognition of IAS without reconciliation
- EU support IASB projects share based payments and SPE's
- Regular reporting



Considered new priority issues on statutory audit

- Adoption of ISAs
- Public oversight
- Corporate governance; audit committees
- Education (update curriculum and PE)
- Code of ethics
- Disciplinary systems
- Modernise 8th Company law Directive
(underpin independence, auditing standards quality assurance, etc)



Other relevant proposals

- Prospectus Directive proposal,
- Market abuse
- Investment service Directive
- Regular reporting (another consultation)
- Lamfalussy report and ESC and CESR
- Company law reforms



Enron; a first EU response

Oviedo, ECOFIN paper 5 key issues:

- Financial reporting
- Statutory audit
- Corporate governance
- Transparency international financial system
- Financial analysts and role of rating agencies



Financial analysts and credit rating agencies

- Fair representation of financial research
- Prescriptive code of conduct for financial analysts
- Disclosure of any conflict of interest
- Cross sectoral policy assessment on:
 - the role of credit rating agencies
 - the need for regulatory intervention in the area of credit rating agencies



OECD Principles

- **The rights of shareholders**
- **equitable treatment of shareholders (within classes)**
- **the role of stakeholders**
- **Disclosure and transparency**
- **responsibility of the board**



Further information

DG Markt website:

http://europa.eu.int/comm/internal_market/en/company/index.htm

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