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THE LONG ROAD OF THE EUROPEAN UNION TOWARDS A CONVERGED ACCOUNTING SYSTEM FROM THE TREATY OF ROME TO THE SINGLE ACCOUNTING DIRECTIVE

Since the end of World War II, after the Marshall Plan, after the Treaty of Rome, accounting has been living at the time of standardization; as a late consequence, the European Union (formerly European Economic Community with 6 countries, now Union with 28 countries) was submitted to several accounting guidelines such as the 3rd and the 4th 1978 directives, the 6th 1982 directive or the 8th 1984 directive. This European standardization coexists with the international standardization coming from the United Nations Organization, the Organization for Economic Cooperation and Development, the International Accounting Standards Board, the European Federation of Accountants, the IFAC and the International Organization of Securities Commissions (IOSCO), as well as foreign standardizations with strong negotiating power, especially Anglo-Saxon, such as the American FASB – entirely exotic, or the ambiguous British ASC – at the same time exotic and integrated to the European Union. All of these standardization systems continuously evolve and it is impossible to maintain a single one without any modification or with absolute stability for more than a few years. Thus, the three evolutions of the conceptual framework of the IASC – changed to IASB – have rendered the evolution of the main European accounting directives almost inevitable and a single directive has been developed and was published on June 26, 2013. Its key characteristics are presented below.
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Introduction

European accounting and financial professionals have lived for three decades with the references of the Council's 4th *European directive n° 78/660/CEE of July 25, 1978, based on article 54 paragraph 3 g) of the Treaty of Rome regarding the yearly accounts of certain types of entities and with the references of the Council's 7th European directive n° 83/349/CEE of June 13, 1983, based on article 54 paragraph 3 g) of the same treaty, which dealt with consolidated accounts. These texts have been integrated in the national legislations of the Union's member countries. In France, for instance, they were enacted, thus strengthened, by Act 83-353 of April 30, 1983 relative to the harmonization of the

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accounting obligations of merchants and of some business entities with the 4th directive adopted by the Council of the European Communities in 1978, by the enactment of Decree n° 83-1020 of November 29, 1983 issued pursuant to Act n° 83-353 of April 30, 1983 and relating to the accounting obligations of merchants; integrated in the Commercial Code, they have laid the true bases of the French accounting law. Associated to the ultimate version of the French accounting standards approved on June 22, 1999 which constituted regulation n° 99-03 modified by regulations n°99-08 and 99-09 of November 24, 1999 of the Accounting Regulation Committee and to regulation n° 99-02 of April 29, 1999 pertaining to the consolidated accounts of private and public companies, they were for a long time unavoidable and fixed points for French private companies and associations founded under the 1901 Law. But the evolution of international financial problems and the work of two dedicated European organizations, the ARC (Accounting Regulatory Committee, founded by the European Commission as stated in article 6 of CE rule n° 1606/2002 of July 19, 2002), responsible for providing opinions on the endorsement of international accounting standards and the EFRAG (European Financial Reporting Advisory Group), founded in 2001 by accounting professionals in order to provide their input to the IASB work and technical opinion on the adoption of its international accounting standards, following a technical evaluation on standards and interpretations before their adoption in Europe, have quite naturally raised the question of their modification. Other authorities were consulted prior to the change becoming effective, particularly the accounting standards Authority (ANC) and the Committee of European Securities Regulators (CESR), the Haut Conseil du Commissariat aux Comptes (the French High Council of Statutory Auditors) and the Conseil Supérieur de l'Ordre des Experts-Comptables (Governing Board of the French Association of Certified Public Accountants). But there was no real revolution: there is still coexistence between a first-degree standardization addressing formal elements, a country-reserved area, and a second-degree standardization addressing more philosophical elements, confiscated by supranational organizations.

1. Standardize, Standardize, Something Will Always Remain Out of It

As we have often written in reference to our esteemed colleague Pierre Lassègue (Lassègue, p. 369-371), "to standardize is to establish common rules in order to harmonize and improve accounting policies". We have often reminded that the type of standardization one can first think of is a first-degree standardization, one which relates to the form, the containing body, the model to depict. It leads to definitions, to a nomenclature, to document layouts. Although it is not completely neutral, its implications are repressed, limited. This first-degree standardization has been sufficient for a long time in France and elsewhere, but the standard builders wanted to go even further and implemented a second-degree standardization which relates to the substance, the contents, and is much more ambitious, if not dangerous, for it dwells with thought methods and behaviors. Standardization does not have one single source, it has multiple sources. In Europe we are first subjugated to the European Union which has enacted directives such as the 3rd and the 4th of 1978 or the 6th

of 1982 and the 8th of 1984.[2] Such community standardization is relayed by the standardization of public authorities who pass laws and regulations, develop jurisprudence and supervise the Accounting Standards Authority and the Financial Markets Authority which springs from the merger of the Financial Markets Council and the Stock Exchange Commission. This standardization, strictly controlled by the State and by public bodies, is completed by the one coming from professional organizations – Association of Certified Public Accountants, National Company of Auditors, Banking and Financial Regulations Committee, Haut Conseil du Commissariat aux Comptes. This multifaceted set of standardization and standard-makers – community, legal, professional – cannot always make abstraction of the international standardization deriving from the United Nations, the Organization for Economic Cooperation and Development, the International Accounting Standard Board, the European Federation of Certified Public Accountants, The IFAC and the International Organization of Securities Commission (OICV), just as it cannot completely ignore foreign standardizations, particularly Anglo-Saxon such as the totally exotic American FASB or the ambiguous British ACS, both exotic and European Community integrated.

One can ask if such multiplicity of sources is not affecting standardization or even if standardization still lives on under a flood of texts, recommendations and regulations. During its earlier stages, the French National Organization for Standardization (AFNOR) stated that "to standardize is to simplify, specify, unify". The current standards system, with its many faces, giving rise to accounting vagrancy, is far from having completed its transformation. A long and tortuous journey has nonetheless been completed since 1973. Formal standardization raises only limited difficulties for it focuses on accounts vocabulary, meaning and nomenclature, accounting statements structure, codification systems. Fundamental standardization is far more ambitious and requires more precaution: it enunciates principles, formulates goals, arbitrarily defines fields, and selects criteria. It is also far more imperialistic. There is not a very clear line between the two types of standardization: building accounting structures implies founding principles; articulating principles and goals cannot be done without a structural support. In absolute terms, fundamental standardization should perhaps be favored, for the measure of profit and loss, of assets, of the financial situation, of the company's risks do depend on it. On the other hand, this standardization generates negative aspects because it is the one which founds itself on power.

Legislative sources, doctrine and jurisprudence have always permitted bringing out the broad rules generally accepted by accounting professionals. International treaties act as a general framework for accounting relations: the 4th European directive of 1978 relating to the business entities' annual accounts and the 7th European directive of 1983 relating to the business groups' accounts have long provided the indispensable elements of the accounting

[2] The 8th Directive 84 /253/CEE of 10 April 1984, regarding the agreement of the people in charge of the legal control of accounting documents had already been repealed by the 8th new Directive 2006/43/CEE of 9 June 2006, laying down the rules regarding legal controls of annual accounts and consolidated accounts.

reference, but as Guiseppe Tomassi di Lempedusa wrote in The Leopard[3]: "If we want things to stay as they are, things will have to change". Pursuant to these first directives, from article 54/G of the Treaty of Rome, the French legislator has brought a number of regulatory changes in the accounting law and in the accounting decree of 1983 and has updated the Commercial Code of 1807 on September 20, 2000. Coincidentally, the IASC – changed to IASB – experienced three significant developments of its successive conceptual frameworks and a major review of the 4th and 7th directives – artificially separated even though they have many motives to be put together – was essential. This has been done but, before going into further detail of the new single directive, let us recalls some of the IASB's action stages.

2. ISAB's Successive Conceptual Frameworks and the Evolution of Second-Degree Standardization

It is a fact that within the European Union, the International Accounting Standards Board (IASB) is considered as the reference body of accounting standardization – but not as the Union's specific standardization system – the only one permitting access to a reference basis and to recognized international accounting standards. On the initiative of Sir Henry Benson, associate of the London office of the Coopers and Lybrandt's consulting firm, the International Accounting Standards Committee (IASC) had been founded on its first version on June 29, 1973 as the result of an agreement between the accounting standardization institutions of the 10 founding countries: Germany, Australia, Canada, France, the United States, Ireland, Japan, Mexico, Netherlands, and the United Kingdom. Its objectives were to formulate and publish accounting standards for the presentation of financial statements, to promote their worldwide acceptance and implementation, to work towards the improvement and harmonization of the rules, the accounting standards and the procedures relating to the preparation of the financial statements. As is often the case, a more complex organization was implemented in 2001. It included: the IASC foundation (International Accounting Standards Committee Foundation, IASCF), the International Accounting Standards Boards (IASB), the International Financial Reporting Interpretation Committee (IFRIC) and the Standards Advisory Council (SAC). Since its founding, the IASB's importance and role never stopped growing and was always supported by its multiple partners, including, far from the slightest, the European Union. Such support allowed the IASB to elaborate objectives as well as an internationally accepted conceptual framework.

2.1. The emergence of IASB in 2001

After its creation in 2001 and as a successor to the 1973 IASC, the IASB specified its new objectives: first, to elaborate, in the general interest, a single set of high quality,

[3] di Lempedusa, G. T. (1958). The Leopard. French version, Ed. du Seuil. Original Italian sentence: *Se Vogliamo che tutto rimanga come è, bisogna che tutti cambi!*

understandable accounting standards which could be applied worldwide, imposing the supply of transparent and comparable high quality data in financial statements and other financial reports, for the purpose of helping the various financial market participants, as well as other users around the world, in their economic decision-making. Then, to promote the strict use and application of these standards and, lastly, to ensure that the national accounting standards of each country evolved toward international standards to offer high-quality solutions. The IASB and its representatives have always been aware of the fact that it is not possible to have a pertinent and coherent international standardization without the full support of national standard-setters, in particular those of more developed countries which generate high added economic value and strong market capitalization. The global network, not perfect yet existing despite numerous and varied difficulties, is seeking to improve its main financial and accounting knowledge approach and to optimize its operations. This needs to go through the definition of a conceptual framework.

- *IASB's conceptual framework*

The first conceptual framework, which was essential to the production of high quality standards, was initially built in 1989. Its aim was to draw up directives that would ease the elaboration of financial statements (balance sheets, income statements, cash flow statements, related notes and other explanatory documents). It was intended for different types of users – investors, salaried employees, lenders, suppliers and creditors, clients, governments and administrations, the public. It highlighted the two objectives of financial statements: the first one, the assumption of business continuity according to which the company would pursue its activities within the foreseeable future. The usefulness of this assumption lies in the ability to present the balance sheet items at higher values than those used in the event of the liquidation of the company. If the continuation of the company's activity was not ensured, the items of the balance sheet would be assessed to a – incidentally very low – liquidation value. The second objective was the accrual basis accounting method. According to this hypothesis, the company's legal and financial transactions should be accounted when they occur (principles of commercial accounting or of VAT paid on debits) and not when they are paid (principle of cash accounting or of VAT on collection). Logically, the IASB then brought attention back to the qualitative characteristics which financial statements – having to make their content useful, particularly to the investors – are based upon. Financial statements need to have qualities of intelligibility, pertinence, reliability and comparability.

➢ Intelligibility

The information presented in the financial statements must be immediately understandable to its users. However, this presupposes three conditions. On the one hand, users have a reasonable knowledge of the company's economic activities. On the other hand, they have a reasonable knowledge of accounting. Lastly, they are willing to study the financial statements in a reasonably diligent manner, since the complexity of some transactions is no motive to exclude their representation in financial statements.

➢ Pertinence

In order to be considered as relevant, a piece of information must possibly affect the decision-making process of financial statements users. Thus, it has to help users understand and evaluate past, present, or future events which are associated with the company. The information presented must have a significant importance, that is to say eventually influence investors' decision-making through its presence or absence in the financial statements.

➢ Reliability

To be useful, the information included in the financial statements must be reliable, i.e. it does not contain any error or bias in what it is supposed to be representing. A piece of information is all the more reliable if it has been audited by a qualified or certified professional and if it respects four series of constraints: the preeminence of substance over form leads to favor the economic nature of a transaction or event when it is advisable to account for and reflect it in the financial statements. Neutrality consists in presenting information that does not aim to distort the users' decision in order to have them make the relevant decisions. Exhaustiveness must provide all the useful information for economic decision-making without neglecting the relative importance of each such piece of information. Prudence allows a certain degree of precaution in the exercise of the judgment needed to prepare assessments without prohibiting, if necessary, a revaluation of the assets. Moreover, financial statements must be comparable over space and time. Over time to monitor progress of financial conditions from period to period, over space because cash-rich investors should be able to compare financial statements between comparable organizations, in a single or in several activity sectors.

The conceptual framework points out all components of the financial statements, assets and liabilities, equity capital and revenues and expenses, as well as the recording criteria of these items:

- Accounting of assets: economic advantage + reliable evaluation
- Accounting of liabilities: transfer of resources + reliable evaluation
- Accounting of revenues: increase of economic benefits + reliable evaluation
- Accounting of expenses: decrease of economic benefits + reliable evaluation.

Financial statements components could be assessed to historical cost, to actual cost, to realizable value or to present value. The concept of fair value, which has been the subject of much debate, has been added belatedly. Fair value is defined as the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction. When there is an organized market, the fair value of a financial asset is very close to its market value, but in the event of difficulties, the easy solution is to use the cost of acquisition. The French system of reference – commercial law, tax code, French accounting standards- does not include fair value. All these precise prescriptions given by the conceptual framework are aimed toward **the essential objective of presenting a true and fair view of the company or entity and to the complementary objective of ensuring substance over form.**

2.2. Changes occurred in 2010

Constantly searching for effectiveness, the IASB has redefined its objectives in 2010 and from now on proposes the following goals (Obert, 2011, p. 26-39):

- To assist the IASB Council in the elaboration of future IFRS and in the revision of existing texts;
- To assist the IASB in promoting the harmonization of accounting rules, standards and procedures;
- To help national standardization bodies in the development of their own standards;
- To help financial statement preparers to implement IFRS and to deal with matters that should be subject to IFRS in the future;
- To help auditors to form their opinion on the conformity of financial statements with IFRS;
- To help financial statements users to interpret the information available in financial statements prepared in accordance with IFRS;
- To provide anyone interested in the IASB's works with information on IFRS's standards development approach.

- *The IASB's new onceptual framework*

With the effort of promoting a high quality frame of standards and of ensuring their strict implementation, the conceptual framework was changed while still retaining the permanent goal of giving directives and guidance aimed at facilitating the elaboration of financial statements (balance sheets, income statements, statements of source and application of funds, related notes and other explanatory material). It is still first designed for equity investors, lenders and other present and potential creditors. It no longer speaks of other eligible parties (stakeholders) even if it indicates that the IASB will seek to address the widest range of users' needs. The conceptual framework maintains the hypothesis of the continuity of operations: the usefulness of this hypothesis lies in the ability to present the balance sheet items at values higher than those used in the event of liquidation. Should the business activity not be maintained, the balance sheet items should be evaluated at a - for that matter- very low liquidation value. The technical hypothesis of accrual accounting, characteristic of commercial companies recording their transactions in claims and debts and not in incomes and expenditures, was not reinstated in the conceptual framework but it does appear in the IAS' standard 1. The qualitative characteristics on which financial statements are based must ensure the usefulness of their contents, particularly to financial statements users. The new conceptual framework sets apart two essential qualities financial statements must have relevance and faithful representation and four auxiliary characteristics.

- Relevance

In order to be regarded as relevant, a piece of information must possibly affect the financial statements users' decision-making and have a significant importance in investors' decision-making.

- Faithful representation

Financial reporting shall provide a true and fair view of the phenomena it depicts, a complete and neutral description, free of significant errors. All the necessary information for a user to understand the set-out facts is included in the full representation notion. A neutral piece of information must be so, particularly with regards to the favorable or unfavorable probability of appreciation. The new conceptual framework does not re-instate the principle of substance over form so difficult to transcribe in French positive law. The legal nature of the transaction is not ignored but takes second place as in the case of assets held in leasing contracts represented in IFRS' balance sheets among other fixed assets, even though the company does not own them. The precautionary principle, which is defined as the integration of a certain degree of caution in the exercise of the required judgment to prepare the estimates needed to avoid for assets or revenue items to be overvalued and liabilities or operating costs to be undervalued, has been abandoned as well.

The new auxiliary characteristics are comparability, verifiability, timelessness and understandability.

- Comparability

Comparability is the quality of the information which allows users to notice similarities and differences between two sets of economic phenomena. Financial statements shall always be comparable over space and time. Comparability is the goal; coherence and consistency of methods are the way to achieve this objective.

- Verifiability:

Verifiability is the quality of the information given to users, insofar as it allows them to assess the accurate image of the economic phenomena it is supposed to represent. Verifiability is founded on the hypothesis that:

- The Information distributed does not include any error or significant bias with regards to the phenomena that it is supposed to represent;
- A method of accounting or appropriate evaluation has been used and it does not include either error or bias, or significant prejudice.

- Timelessness:

Timelessness characterizes the information available for decision makers before it loses its capacity to effectively influence their decisions. Faster access to relevant information will increase its efficiency. The older a piece of information is, the less operational it is, with the exception of permanent information from which structural information systems can be constructed or which lead to determining trends and axes of evolution.

➢ Understandability

Understandability has replaced the older Intelligibility notion: information presented in the financial statements had to be immediately understandable by users, which presupposes three conditions. On the one hand, that all users have a reasonable understanding of the company's economic activities, on the other hand that they have a reasonable knowledge of accounting and lastly the willingness to analyze financial statements in a reasonably diligent way – the complexity of some transactions not being by itself a sufficient reason to omit their representation in the financial statements. Understandability goes further since the conceptual framework points out that the former is increased when information is classified, defined and presented in a clear and precise manner. For very complex matters – those which could unfortunately be ignored in the financial statements because of their complexity- outside professional help can be used.

The new conceptual framework only brings precisions on the elements of the financial statements:

- Assets: resource controlled by the company as a result of past events and from which future economic benefits are expected.
- Liabilities: Present obligations of the company arising from past events, whose settlement is expected to result in an outflow of resources representative of economic advantages.
- Equity capital: residual interest in the assets of an entity after deducting all of its liabilities.
- Financial income: an increase in economic benefits over a reporting period in the form of increase in assets or decrease in liabilities resulting in augmented equity other than through owners capital contribution.
- Financial Expense: a decrease in economic benefits over an accounting period, in the form of asset disposal or decrease in the value of retained assets, or a debt increase resulting in the decrease of equity capital other than through owners' capital distribution.

The measuring and accounting systems of the financial statements components have showed little change over time. In the 2010 conceptual framework version, the IASB has become more flexible; it reckons that the measurement system generally used by entities in their financial statements is that of historical costs, sometimes combined with others. The fair value concept, which did not exist in the 1989 conceptual framework, is no longer mentioned – even though it had had great success in in the 2001 interim period, despite some shortcomings including, last but not least, that of being defined differently in several IAS or IFRS' standards. The 2007-2009 subprime crisis in the United States may not be irrelevant to this reversal. Further explanations – relating to the concepts of capital and capital maintenance, allowing the explanation of the determination of profit – appear toward the end of the conceptual framework. All these precise prescriptions given by the conceptual framework remain committed to **the primary objective of giving a true and fair view of the undertaking or entity,** one that be operational for IFRS' standards users.

2.3. Other standards and underlying recommendations[4]

Next to the IASB's standards, one must not forget the International Federation of Accountants (IFAC) standards which complement previous standards. There are 164 IFAC members and associates in 125 countries representing over 2.5 million accounting professionals. The IFAC standards are of the highest quality, particularly with regards to the training of professionals, to financial accounting, to audit practices, to the integration of the newer computer and communication technologies, to the philosophy of professional regulation. They constitute an unavoidable reference document. Neither must one forget the FAS American standards from the Federal Accounting Standard Bureau (FASB) and the *Generally Accepted Accounting Principles (GAPP)* which come with them. Americans are confronted to the harmonization process while actively participating in it and are acting to preserve the status of their FASB/GAAP standard. In the context of international standardization, the United States has both a preeminent and ambiguous place. Preeminent, since the quality of their framework and their economic and financial power reasonably allow them to appear as one of the most important doctrinal sources for the elaboration of an international framework. Ambiguous, since, in this game of influence, harmonization looks like a confrontation between an imperialist American model and other, essentially European, models, all the more unwilling to abandon their specific characteristics in such harmonization that they consider the future international referential as a true alternative to the American framework. In this context, the balance of power is all the more important that the IASB has the ambition to have its framework recognized in all the world's financial centers, including, of course, in the United States, whereas American authorities do not wish to acknowledge standards that would be too far from theirs and of a lower quality. For Americans, the point is therefore at the same time:

- To protect the US GAAP's eminent role by refusing to see the harmonization process result in the emergence of an exclusive framework at the international level;
- To identify in the IASB framework as many as possible American FASB characteristics.

In order to do so, they constantly improve their GAAP accounting principles and they systematically put pressure on the IASB to ensure that its framework has a maximum of aspects getting it closer to the American framework. An agreement between the international and the American institutions is well under way. Indeed, in 2004 (Norwalk agreement) the IASB and the FASB had accepted this agreement principle, and one of the first results is, at the end of 2010, the publication of two texts with the same contents – FASB's *Statement of Financial Accounting Concepts* n° 8 and IASB's 2010 Conceptual Framework for Financial Information. The evolution of financial standards was thus making the evolution of the European accounting directives essential, particularly thanks to the single accounting directive of June 26, 2013.

[4] Remember that in the United States accounting standardization falls within the jurisdiction of the federal government whereas commercial law remains within the competence of each State: therefore there are 50 different, more or less strict, commercial governing laws; Indiana commercial law is considered as strict, and Delaware's is more permissive.

3. The Single Accounting Directive of June 26, 2013: Update of a First Degree Normalization Consistent with the Second Degree Normalization

Directive 2013/34/EU of the European Parliament and of the Council of June 26, 2013 dealing with the annual financial statements, consolidated financial statements and related reports of certain types of undertakings, amends Directive 2006/43/EC of the European Parliament and of the Council and repeals Directives 78/660/EEC – referred to as the 4th directive, and 83/349/EEC – referred to as the 7th directive.

The directive takes into account the European «Better Lawmaking» program part of its communication relating to "A smart set of regulations within the European Union" whose objective consists of conceiving and producing the highest possible quality set of regulations, while complying with the principles of subsidiarity and proportionality and ensuring that the administrative burden is appropriate compared to the benefits provided. The "Think Small First: Priority to SMEs – a Small Business Act for Europe" – communication from the Commission adopted in June 2008 and revised in February 2011, recognizes the central role of SMEs in the economy of the Union and aims to improve the overall approach to entrepreneurship and to anchor the "Priority to SMEs" principle in the definition of policies from regulation to public service. The European Council of March 24 and 25, 2011 was pleased with the intention expressed by the Commission to present the Single Market Act with particular emphasis on measures which create growth and employment and which deliver tangible results for citizens and businesses. The Commission text adopted in April 2011, entitled "Single Market Act" suggested to simplify the Fourth Council Directive 78/660/EEC of July 25, 1978 and the Seventh Council Directive 83/349/EEC of June 13, 1983.

The requirements in terms of financial reporting and reduction of administrative burden, particularly for SMEs, concerned the Council which, so it claims, wishes for the dominant strategy in Europe in 2020 to result in a smart, sustainable and inclusive growth, making it possible to reduce the administrative burden and to improve the environment of businesses, in particular for SMEs, and to encourage their internationalization. The European Council of March 24/25, 2011 had wished for an overall reduction of regulatory burdens, particularly those on SMEs, both on the Union and national level, and proposed measures destined to improve productivity, for instance by cutting red tape and by improving the regulatory framework for SMEs.These wishes, which some downers will consider as wishful thinking, are only the first among 56 of them in a preamble to the Single Directive.[5] Next, the text has 11 chapters covered, including all accounting matters: entities involved, principles, returns and accounting documents, reporting, auditing, limitations and exemptions, and relations to national governments.

Chapter 1 – Scope, definitions and categories of undertakings and groups

Chapter 2 – General provisions and principles

Chapter 3 – Balance sheet and profit and loss account

[5] Official Journal of the European Union June 29, 2013 L 182/19 to L 182/76. Recitals 56 of the preamble on pages L182/19 to L182/26.

Chapter 4 – Notes to the financial statements

Chapter 5 – Management report

Chapter 6 – Consolidated financial statements and reports

Chapter 7 – Publication

Chapter 8 – Auditing

Chapter 9 – Provisions concerning exemptions and restrictions on exemptions

Chapter 10 – Report on payments to governments

Chapter 11 – Final provisions

3.1. New entities concerned

As in the preceding legislation, the text only concerns commercial companies. That is to say, in the French case, general and limited partnerships of which all partners are companies, companies limited by share, simplified joint-stock companies, limited liability companies, limited companies. The text deals with, small undertakings, medium-sized undertakings, large undertakings and incidentally micro-undertakings. Groups follow the same trend: small group, medium-sized group and large group.

Table 1

Different categories of undertakings obligated to publish annual accounts

Types of enterprises	Balance sheet total	Net turnover	Average number of employees	Comments
Small enterprises	≤ 4 M €	NT≤ 8 M €	Ne ≤ 50	2 of 3 criteria
Medium-sized enterprises	4 M € < Bst ≤ 20 M €	8 M € < NT≤ 40 M €	50 < Ne ≤ 250	2 of 3 criteria
Large enterprises	Bst > 20 M €	NT > 40 M €	Ne > 250	2 critères sur 3
Micro-entreprises	Bst >20M€	NT≤40 M €	Ne≤10	option granted to countries

Article 3 of the directive sets a number of minimum requirements for small undertakings and additional obligations for medium-sized and large undertakings. Public-interest entities characterized by transferable securities admitted to trading on a regulated market, credit institutions, insurance undertakings, and undertakings designated by Member States as such, do not appear on the table. Instead of the 4 000 000 € threshold, Member States may define a higher threshold for the balance sheet total, which shall not exceed 6 000 000 €, and instead of the 8 000 000 € net turnover threshold, a higher threshold, without exceeding 12 000 000 €.

Table 2

Different categories of undertakings obligated to publish consolidated accounts

Types of undertakings	Consolidated balance sheet total	Consolidated net turnover	Number of employees	Comments
Small group	Cbst ≤ 4 M €	CNt ≤ 8 M €	Ne ≤ 50	2 of 3 criteria
Medium-sized group	4 M € < Cbst ≤ 20 M €	8 M € < CNt≤ 40 M €	50 < Ne ≤ 250	2 of 3 criteria
Large group	Cbst > 20 M €	CNt > 40 M €	Ne > 250	2 of 3 Criteria

Article 3 of the directive sets the group's thresholds as the same as those made in individual annual accounts, but they are calculated at the level of the group. For table 1 and table 2, Member States which have not adopted the euro, convert the amounts set out in equivalent national currency and the exchange rate is published in the Official Journal of the European Union as at the date of the entry into force of any directive setting those amounts.

3.2. Stability of stated accounting principles

Article 4 of the directive reiterates the essential aspects of what was already included in the 4th directive, which remains and is not likely to change: annual financial statements[6] constitute a composite whole for all undertakings comprising, as a minimum, a balance sheet, a profit and loss account and notes to the financial statements. Member States may require for certain types of undertakings, other than small undertakings, to issue other statements in addition to the annual financial statements. The latter shall be drawn up clearly and in total accordance with the provisions of this new Directive. As in the past, the annual financial statements shall give a true and fair view of the undertaking's assets, liabilities, financial position and profit or loss. If necessary, additional information must be given to comply with that requirement. The general principles laid down in the 4th and 7th directives and the two first IASC and IASB conceptual frameworks do not show fundamental changes:

- The undertaking or the group are presumed to be carrying their business on;
- Accounting policies and measurement bases are applied consistently from one financial year to the next;
- The principle of prudence is applied when accounting and evaluating, and only profits made at the close of the balance sheet may be recognized, all liabilities arising in the course of the financial year concerned or in the course of a previous financial year are recognized, even if such liabilities become apparent only between the balance sheet date

[6] The Directive uses the terms of annual financial statements or consolidated financial statements which, in our opinion, are less ambiguous than the ones of the French Commercial Code: Annual Accounts (Art.L.232-1C.com) and consolidated accounts (Art.L.233-16C.com)

and the date on which the balance sheet is drawn up, all negative value adjustments are recognized, whether the result of the financial year is a profit or a loss;

- Amounts recognized in the balance sheet and profit and loss accounts are computed on the accrual basis;
- The opening balance sheet for each financial year corresponds to the closing balance sheet for the preceding financial year;
- The components of asset and liability items are valued separately;
- Any set-off between asset and liability items, or between income and expenditure items, are prohibited;
- Items in the profit and loss account and balance sheet are accounted for and presented with reference to the substance of the transaction or agreement concerned;
- Items recognized in the financial statements shall be measured in accordance with the principle of purchase price or production cost;
- The requirements set out in the directive regarding recognition, measurement, presentation, disclosure and consolidation need not be complied with when the effect of complying with them is immaterial.

The directive sets out its specific requirements more clearly than the IASB conceptual framework, avoids using technical terms such as consistency of methods or prudence and substance over form or accounting on accrual basis; yet the result is the same: slightly blurred, the key accounting principles developed over the last decades are indeed present and mandatory. In principle, as set out in Article 6-1.i, items recognized in the financial statements are measured in accordance with the principle of purchase price or production cost, but, by way of derogation from the previous article, Member States may authorize or require that all companies or any class of companies revalue their fixed assets. In this case, each national law sets out the process, the limits and the specific revaluation rules. When revaluation occurs, the amount of the difference between measurement on a purchase price or production cost basis and measurement on a revaluation basis is entered in the balance sheet as « Revaluation reserve » under « Capital and reserves ». The said revaluation reserve may be capitalized in whole or in part at any time and is reduced where the amounts transferred to that reserve are no longer necessary for the implementation of the accounting revaluation basis. No part of the revaluation reserve may be distributed, either directly or indirectly, unless it represents a gain actually realized. Except insofar as laid down in the Council's Directive, the revaluation reserve may not be dissolved.

3.3. Alternative measurement based on fair value

Article 7 provides interesting precisions on the alternative measurement method based on fair value by way of derogation from Article 6:

- Member States may permit or require, in respect of all undertakings or any class of undertaking, the measurement on fair value of fixed assets including derivative financial instruments;
- They may also permit or require the valuation of specified categories of assets other than financial instruments at amounts based on fair value;
- Such permission or requirement may be restricted to consolidated accounts and not related to annual financial statements;
- Member States may also, under certain specific conditions, authorize any asset or liability components to be considered as hedged items under a fair value hedge accounting system, or, for identified portions of such asset or liability components, permit valuation at the specific amount required under that system.

Last but not least, fair value for the purpose of this article is determined by reference to one of the following values:

- For those financial instruments for which a reliable market can readily be identified, the market value. Where a market value is not readily identifiable for a given item but can be identified for its components or for a similar instrument, the market value of that item may be derived from that of its components or of the similar instrument within the meaning of the present European Union accounting directive.
- For those instruments for which a reliable market cannot be readily identified, a value resulting from generally accepted valuation models and techniques, provided that such valuation models and techniques shall ensure a reasonable approximation of the market value.
- Those financial instruments which cannot be measured reliably by any of the methods described above are measured in accordance with the principle of value at purchase price or production cost, insofar as an evaluation can be carried out on that basis.

Where a financial instrument is measured at fair value, any variation in the value is included in the profit and loss account, except in the following cases, in which such a change is directly included in a fair value reserve:

- The instrument accounted for is a hedging instrument under a system of hedge accounting that allows some or all of the change in value not to be shown in the profit and loss account;
- Change in value relates to an exchange difference arising on a monetary item that forms part of a company's net investment in a foreign undertaking.
- Member States may permit or require a change in the value of a financial asset available for sale, other than a derivative financial instrument, to be included directly in equity, in the fair value reserve. This fair value reserve shall be adjusted when amounts shown therein are no longer necessary.

- Member States may permit or require of all undertakings or any classes of undertakings to include in the profit and loss account a change in the value resulting of the evaluation at fair value of assets other than financial assets.

Fair value, which plays an important and variable role in IFRS standards, has received the greatest consideration from European standards-setters, yet without exhausting a subject that will still cause a lot of ink to flow.

3.4. Main financial statements and notes

All the components included in the financial statements recalled above in the new IASB conceptual framework, remain unchanged. Assets, liabilities, equity capital, incomes and expenses and financial statements of the European Union are based on these five components.

- Two balance sheet presentation layouts

From one fiscal year to the next, the layout of the financial statements in general and of the balance sheet in particular shall not be changed. The only exceptional cases relate to the need to improve the presentation of the fair view of the entity and they must be disclosed in the notes and must be duly motivated.

The layout of the balance sheet is showed in Annex III to VI of the Directive (OJ of the European Union, June 26, 2013, p. 182-60 to 182-67). In order to respect the principle of comparability, financial statements shall present figures for year n and those for the previous year (n - 1). The annexes provide two balance sheet layouts, a horizontal one which is what the French General Accounting Plan calls balance sheet in table (Art. 521-1 PCG 1999) and a vertical one which is what the French General Accounting Plan calls balance sheet table (Art. 521-2 PCG 1999). One can consider that those two layouts, all other things being equal, represent a basic model, as the French basic model. But the European Union States have much leeway to permit or require merged items or, on the contrary, more detailed items than lines given in the annex of the directive.

Member States may permit or require all or certain categories of undertakings to base balance sheet items on a distinction between short-term and long-term elements, according to a different model from the one contained in Annexes III and IV, provided that the information to be set out therein is equivalent to the one that has to be given, in principle, in accordance with said Annexes III and IV. Only micro-enterprises shall present a condensed balance sheet: in this case the balance sheet may be limited to those items preceded by letters. The new balance sheet Items remain close to the former ones: the differences resulting from the application of IASB 1 do not appear.

Table 3

Horizontal layout of the balance sheet (Art.10/annex III, directive 2013/34/EU)

Assets	n	n-1	Capital, reserves and liabilities	n	n-1
A. Subscribed capital unpaid			*A. Capital and reserves*		
B. Formation expenses			I.Subscribed capital		
C. Fixed assets			II. Share premium account		
I. Intangible assets Costs of development, concessions, patents, licences, trade marks, payments on account			III. Revaluation reserve		
II. Tangible assets Land and buildings, Plant and machinery, Other fixtures and fittings, tools and equipment, Payments on account and tangible assets in the course of construction			IV. Reserves Legal reserve, Reserve for own shares, Reserves provided for by the articles of association, Other reserves (including the fair value reserve)		
III. Financial assets Shares in affiliated undertakings, Loans to affiliated undertakings, Participating interests, Loans to undertakings with which the undertaking is linked by virtue of participating interests, Investments held as fixed assets, Other loans			V. Profit or loss brought forward		
D. Current assets			VI. Profit or loss for the financial year		
I. Stocks Raw materials and consumables, Work in progress, Finished goods and goods for resale, Payments on account			*B. Provisions* Provisions for pensions and similar obligations, Provisions for taxation, Other provisions.		
II. Debtors Trade debtors, Amounts owed by affiliated undertakings, Amounts owed by undertakings with which the undertaking is linked by virtue of participating interests, Other debtors, Subscribed capital called but not paid, Prepayments and accrued income (possibly)			*C. Creditors* Debenture loans, showing convertible loans separately, Amounts owed to credit institutions, Payments received on account of orders, Trade creditors, Bills of exchange payable, Amounts owed to affiliated undertakings, Other creditors, Accruals and deferred income (possibly)		
III. Investments Shares in affiliated undertakings, Own shares, Other investments			*D. Accruals and deferred income*		
IV. Cash at bank and in hand					
E.Prepayments and accrued income					
Totals			Totals		

Table 3

Vertical layout of the balance sheet (Art.10 Annexe III, directive 2013/34/UE)

Items	n	n-1
A. Subscribed capital unpaid		
B. Formation expenses		
C. Fixed assets		
I. Intangible assets		
II. Tangible assets		
III. Financial assets		
D. Current assets		
I. Stocks		
II. Debtors		
III. Investments		
IV. Cash at bank and in hand		
E. Prepayments and accrued income		
F. Creditors: amounts becoming due and payable within one year		
G. Net current assets/liabilities		
H. Total assets less current liabilities		
I. Creditors: amounts becoming due and payable after more than one year		
J. Provisions		
K. Accruals and deferred income		
L. Subscribed capital		

- Two presentation layouts of the profit and loss account

For the presentation of the profit and loss account, two layouts set out in Annexes V and VI of the directive can be established. If a Member State prescribes both layouts, it may allow companies to choose which of the prescribed layouts to adopt, and all undertakings, or certain categories of undertakings may have to present another description of their performance instead of the presentation of profit and loss items, provided that the information given is at least equivalent to the one recommended by the directive.

The great innovation is the removal of exceptional items and of the extraordinary result. As in the current chart of accounts, Article R.123-193 of the Commercial Code provides that expenses shall be distinguished into operating expenses, financial costs and exceptional expenses and has the same requirements for incomes and Article R.123-194 sets out, since the adoption of Decree 83-1020 of November 29, 1983 that "The statement of income for the year, presented in list form in accordance with the second subparagraph of Article L. 133-13, also enables to successively identify operating revenue, financial income, current result before tax and extraordinary result". This confirmed the accounts of exceptional expenses (accounts 67) and those of extraordinary revenue (accounts 77) provided for under non-recurring items of annual accounts in article 431-1 of the GAP (General Accounting Plan) 1999 and accounting information supplements for prior years' exceptional income and expenses in accordance with Article 434-2. Once again, the exceptional elements, flagship of the old profit and loss account, itself stemming from the oldest 14th and 15th centuries accounting methods, experience further decline. But French

accounting has never been able to distinguish between truly extraordinary items and non-recurring items which can yet be common and not extraodinary. 17. Financial Year Profit and Loss.

Table 4

Layout of the profit and loss account – by nature of expense (Directive Art.13/ Annexe V)

Items	Exercice y	Exercice y - 1
1. Net turnover		
2. Variation in stocks of finished goods and in work in progress		
3. Work performed by the undertaking for its own purposes and capitalized		
4. Other operating income		
5. Raw materials and consumables, Other external expenses		
6. Staff costs		
7. Value adjustments in respect of current assets		
8. Other operating expenses		
9. Income from participating interests		
10. Income from other investments and loans forming part of the fixed assets		
11. Other interest receivable and similar income		
12. Value adjustments in respect of financial assets and of investments held as current assets		
13. Interest payable and similar expenses		
14. Tax on profit or loss		
15. Profit or loss after taxation		
16. Other taxes not shown under items 1 to 15		
17. Profit or loss for the financial year		

The layout of the profit and loss account by function of expense (Directive Art. 13 Annexe VI) is missing four headings and is composed of: Net turnover, cost of sales, gross profit or loss, distribution costs, administrative expenses, other operating income, income from participating interests, income from other investments and loans forming part of the fixed assets, other interest receivable and similar income, value adjustments in respect of financial assets and of investments held as current assets, interest payable and similar expenses, tax on profit or loss, profit or loss after taxation, other taxes and lastly profit or loss for the financial year.

- Specific case of consolidated accounts

As noted above, the 7th directive being repealed, its contents have essentially been transferred to the new directive (Chapter 6 articles 21 to 29). Previous consolidation criteria are stated in Article 22: The parent company has a majority of the shareholders' or associates' voting rights in another undertaking (a subsidiary company) or has the right to appoint or remove a majority of the members of the administrative, management or supervisory bodies of another undertaking (a subsidiary company) and is at the same time a shareholder in or a member of that company or has the right to exercise a dominant influence over an undertaking (a subsidiary company) of which it is a shareholder or

member, pursuant to a contract entered into with that undertaking or to a provision in its memorandum or articles of association, where the law governing that subsidiary company permits its being subject to such contracts or provisions. The scope of consolidation did not show any major changes either. In the new directive, contrary to the 7th, it is possible to enter a badwill in profit and loss particularly in case of loss on goodwill: "negative goodwill may be transferred to the consolidated profit and loss account where such a treatment is in accordance with the principles set out in Chapter 2". In the event of internal restructuring, pooling of interest shall be applied because article 25 provides that: "Member States may permit or require the book values of shares held in the capital of an undertaking included in the consolidation to be set off against the corresponding percentage of capital only, provided that the undertakings in the business combination are ultimately controlled by the same party both before and after the business combination, and that control is not transitory". Lastly, the last important measure concerns goodwill amortization: "The book values of shares in the capital of undertakings included in a consolidation shall be set off against the proportion which they represent of the capital and reserves of those undertakings, except in the case of shares in the capital of the parent undertaking held either by that undertaking itself or by another undertaking included in the consolidation, which shall be treated as own shares, that set-off shall be effected on the basis of book values as they stand on the date on which those undertakings are included in a consolidation for the first time. Differences arising from that set-off shall, as far as possible, be entered directly against those items in the consolidated balance sheet which have values above or below their book values. Member States may permit or require set-offs on the basis of the values of identifiable assets and liabilities as at the date of acquisition of the shares or, in the event of acquisition in two or more stages, as at the date on which the undertaking became a subsidiary. Any difference remaining after the application of the identifiable elements (and which is goodwill) shall be shown as goodwill in the consolidated balance sheet. Where the offsetting of positive and negative goodwill is authorized by a Member State, the notes to the financial statements shall include an analysis of the goodwill". Lastly, negative goodwill (that is a badwill) may be transferred to the consolidated profit and loss account where such a treatment is in accordance with the principles set out in Chapter 2.

- Content of the notes to the financial statements relating to all undertakings

The following information, for all companies, is disclosed in the notes:

- Accounting policies;
- Where fixed assets are measured at revalued amounts, a table showing movements in the revaluation reserve in the financial year, with an explanation of the tax treatment of items therein, and the carrying amount in the balance sheet that would have been recognized had the fixed assets not been revalued;
- Where financial instruments and/or assets other than financial instruments are measured at fair value, it is necessary to specify the significant assumptions underlying the valuation models and techniques where fair values have been determined in accordance with Article 8, for each category of financial instrument or

asset other than financial instruments, the fair value, the changes in value included directly in the profit and loss account and changes included in fair value reserves, for each class of derivative financial instrument, information about the extent and the nature of the instruments, including significant terms and conditions that may affect the amount, timing and certainty of future cash flows, and lastly a table showing movements in fair value reserves during the financial year;

- The total amount of any financial commitments, guarantees or contingencies that are not included in the balance sheet, and an indication of the nature and form of any valuable security which has been provided; any commitments concerning pensions and affiliated or associated undertakings are disclosed separately;
- The amount of advances and credits granted to members of the administrative, managerial and supervisory bodies, with indications of the interest rates, main conditions and any amounts repaid or written-off or waived, as well as commitments entered into on their behalf by way of guarantees of any kind, with an indication of the total for each category;
- the amount and nature of individual items of income or expenditure which are of exceptional size or incidence;
- Amounts owed by the undertaking becoming due and payable after more than five years, as well as the undertaking's entire debts covered by valuable security furnished by the undertaking, with an indication of the nature and form of the security;
- The average number of employees during the financial year.

As in the previous directives, more complete information is required for medium-sized and large undertakings and public-interest entities (Art.17-18).

3.5. Management reports and publication of consolidated financial statements

The management report must include a fair review of the development and performance of the company's business and of its position, together with a description of the principal risks and uncertainties that it faces. The review shall be a balanced and comprehensive analysis of the development and performance of the undertaking's business and of its position, consistent with the size and complexity of the business. The analysis shall include both financial and, where appropriate, non-financial key performance indicators relevant to the particular business, including information relating to environmental and employee matters. In providing the analysis, the management report shall, where appropriate, include references to, and additional explanations of amounts reported in the annual financial statements. The management report shall, where appropriate, include references to, and additional explanations of amounts reported in the annual financial statements. The undertaking’s likely future development, its activities in the field of research and development, its acquisitions of own shares, the existence of branches of the undertaking, its use of financial instruments, its financial risk management objectives and policies, including its policy for hedging each major type of forecasted transaction for which hedge

accounting is used should be spelled out clearly, and its exposure to price risk, credit risk, liquidity risk and cash flow risk. In the new directive, the vocabulary has slightly changed for the company management report, currently set up according to the specifications of Article L233-16 and following of the Commercial Code is very close from the one of the directive, whereas the group management report established in accordance with the requirements of Article L.233-16 is called consolidated management report in the new Directive (Art. 29). This report audit procedure – pursuant to Art.823-29-1 of the Commercial Code where appear the professional standards related to the works of the external auditor, who must, under Articles L.820-1/L.823-10 of the said Code, check the accuracy and consistency of the management report and of the group management report presented by the different management bodies with the audited annual accounts, with the added requirement for management to provide the auditors with these reports' original version before presenting them to the administrative bodies- is not expected to change significantly, except for the already mentioned vocabulary changes. When the annual financial statements and the management report are published in full (Art.32), they shall be reproduced in the form and text on the basis of which the statutory auditor or audit firm has drawn up its opinion. They shall be accompanied by the full text of the audit report. The members of the administrative, management and supervisory bodies of a company, acting within the competences assigned to them by virtue of national law, have collective responsibility for ensuring that the annual financial statements, the management report, the consolidated financial statements, the consolidated management reports are drawn up and published in accordance with the requirements of the directive and, where applicable, with the international accounting standards adopted in accordance with Regulation (EC) n° 1606/2002.

The statutory auditors or audit firm(s) express an opinion on whether the management report is consistent with the financial statements for the same financial year, and whether the management report has been prepared in accordance with the applicable legal requirements, state whether, in light of the knowledge and understanding of the undertaking and its environment obtained in the course of the audit, it has identified material misstatements in the management report, and give, if need be, an indication of the nature of any such misstatements. One can indeed see that the essentials once again remain but details and vocabulary will require some tidying up on the part of national authorities in each of the Union's 28 countries.

3.6. Unpublished reports related to payments made to governments

Chapter 10 of the directive (Art. 41 to 48) plans for two reports, one entitled Report on payments to governments, the other one entitled consolidated report on payments to governments. Article 42 of the directive gives Member States the option to impose upon large undertakings and all public-interest entities involved in the extractive industry or the logging of primary forests, to prepare and make public a report on payments made to governments on an annual basis. This report is for companies that made a payment below 100 000 €, whether they made as a single payment or as a series of related payments, within a given financial year. The second report, a consolidated report on payments to governments, gives Member States the possibility to require that any large undertaking or

any public-interest entity involved in the extractive industry or the logging of primary forests and governed by its national law, draw up a consolidated report on payments to governments in accordance with Articles 42 and 43 if that parent undertaking is under the obligation to prepare consolidated financial statements. A parent undertaking is considered to be involved in the extractive industry or the logging of primary forests if any of its subsidiary undertakings are involved in the extractive industry or the logging of primary forests. The consolidated report shall only include payments resulting from extractive operations and/or operations relating to the logging of primary forests. These two reports represent a first step in the publicity of large-scale operations related to sustainable development and social and solidary economy. IFRS standards had already partly given their attention to these problems in the IAS 41 standard devoted to agriculture and in the IFRS 6 standard on the protection and evaluation of mineral and energy resources.

Conclusions

We enter a cyclical period in which accounting principles and practices are again called into question. Considerable efforts have been made, but in light of global economic and financial instability, these are not sufficient and all the many regulations are not yet quite satisfactory. Some differences still exist, legislators and standardization bodies will need to specify many details, but the general European standardization policy remains on the same axis. The fact that the presentation principles of the annual financial statements of major companies and the presentation principles of the consolidated statements have been at last harmonized is a very good thing that was expected for several years. Some problems, such as the definition of fair value or of the financial products, have not yet found a definitive solution and more texts will be necessary, particularly the ones regarding the business model, the economic model. Drawing the lessons from its experience, the IASB has recently seen that the change in the economic model can have a driving role and a decisive influence over the new design of financial statements, in contradiction with the principle of consistent accounting methods, albeit sometimes misinterpreted. The conceptual framework, the cornerstone of accounting standardization, and its further development must therefore lead to the preparation and publication of annual accounts and financial statements which give a faithful representation of their groups and firms whilst safeguarding from two biassing elements.

The first one is the preference for immediate and raw market data, integrated in the financial statements without further reflexion. This dangerous approach does not allow depicting an undertaking while inscribing its performance over the long term. The second one is the systematic preference given to the immediate, almost always irrational, market values which lead to giving an unstable image, worsened by volatility rather than a stable, prudent, pertinent and verifiable image. The IASB today reached that realization and is working on giving its equilibrium back to the principles and practices underlying the conceptual framework; we can draw the temporary conclusion that the long road toward a converged and ideal accounting system is far from being over.

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