



New legal framework for financial statements

The current legal framework for financial statements was enacted three decades ago and has been heavily amended since. The Commission's proposal for a new directive aims at consolidating and simplifying the law, reducing the administrative burden for small undertakings, as well as enhancing the transparency of payments made to governments by the extractive industry.

Background

At present the financial statements of undertakings are regulated by the 1978 [Directive on annual accounts](#) and the 1983 [Directive on consolidated accounts](#). These Directives not only contain many cross-references, but have also been amended several times. As a result, the legal framework is very complex.

Commission proposal

In October 2011, the Commission adopted a [proposal](#) for a new Directive on annual financial statements, consolidated financial statements and related reports aimed at replacing the two existing directives.

It provides for full (maximum) harmonisation of the **definitions** of types of undertakings (small, medium, large) on the basis of balance sheet total, net turnover and number of employees. **Micro undertakings** were not defined in the original proposal. However, requirements for such undertakings have since been simplified in the recent [Directive on annual accounts of micro entities](#).

An important aspect of the proposal is the simplification and **full harmonisation** of rules regarding the preparation of financial statements by **small undertakings**. Small groups of undertakings would not need to file **consolidated financial statements**.

The proposal also contains rules aimed at making financial statements more **transparent, comprehensible and comparable** between Member States (MS). This is achieved *inter alia* by reducing the discretion enjoyed by MS when implementing the directive.

A major innovation is the introduction of a duty for large undertakings and public-interest entities active in the **extractive industry** or in the **logging of primary forests** (e.g. the Brazilian rainforest) to publish reports on any **payments made to national governments**. Reporting is to be done by country and project. However, undertakings would be exempted if reporting is prohibited by criminal law in the recipient country.

Positions of the institutions

In September 2012 the Legal Affairs Committee (rapporteur: Klaus-Heiner Lehne, EPP, Germany) adopted a [report](#) on the proposal. After a series of trilogues, a [compromise text](#) was agreed in April 2013.

The text integrates the 2012 [Directive on annual accounts of micro entities](#). It contains a definition of **micro undertakings** and a rule allowing MS to exempt them from a number of reporting obligations and to allow them to use abridged balance sheets. In addition, micro undertakings also benefit from all simplification measures available to small undertakings. At the same time, the maximum thresholds used to define **small undertakings** are lowered, although MS will be allowed to raise them within limits.

As regards payments made to governments by the extractive industry and loggers of primary forests, the exemption from reporting due to criminal sanctions in a third country has been deleted. Such payments need not in any case be reported if they are below €100 000 per year. Moreover, an anti-evasion clause ensures the duty to report cannot be avoided by splitting payments to levels under the threshold.

The Commission may lay down (in **delegated acts**) criteria of equivalence between third-country reporting rules and the Directive. It may also specify (in **implementing acts**) which national reporting regimes actually fulfil those criteria. An undertaking which has published such an equivalent report would not have to provide another report under the Directive.