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ΟΜΑΔΑ ΕΚΠΡΟΣΩΠΟΥ ΤΥΠΟΥ - GRUPPO DEL PORTAVOCE - BUREAU VAN DE WOORDVOERDER

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SEVENTH COMPANY LAW DIRECTIVE : CONSOLIDATED ACCOUNTS

The Council recently adopted the Seventh Directive on consolidated accounts after almost four years of discussion. This is a major step towards the harmonization of company law designed to ensure consistency in all Member States. In particular, it represents stage two in the creation of Community accountancy law following the adoption in 1978 of the Fourth Directive on the harmonization of the individual accounts of limited liability companies, of which there are about 2 million.

Detailed disclosure is essential in the case of such companies because of the limits to the liability of their shareholders. The Fourth Directive, however, is based on disclosure of the company's assets, liabilities, financial position and profit or loss, whether or not it belongs to a group. Consequently, a set of rules was also needed for groups.

The Seventh Directive specifies the circumstances in which a company must be included in the consolidated accounts, namely where the parent company

- has the majority of voting rights over another company;

- is entitled to appoint or dismiss the majority of the persons directing or managing another company;

- where a control contract has been concluded with another company; or

- where an agreement between shareholders permits one of them to control another company.

The general approach of the Directive is to require consolidation where there is a statutory power of control. However, the Member States are given the option of requiring consolidation also in respect of subsidiaries simply under de facto control.

The principle of consolidation is that of the "world balance sheet", that is to say the balance sheet includes all subsidiaries regardless of where their registered offices are situated. It will be possible to exclude groups of limited size from the obligation to consolidate.

The techniques of consolidation, which consists in

- presenting the group's accounts as those of a single company,
- eliminating intra-group transaction,

have also been extensively harmonized.

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The consolidated accounts must be presented using layouts already introduced by the Fourth Directive. Notes to the accounts will give information in addition to that included under such layouts. The consolidated accounts will have to be audited by an auditor independent of the parent company.

The Directive fills a legislative vacuum in most Member States, and that is why generous time limits have been allowed for its implementation :

- 1988 for the instruments of transposition in the Member States;

- 1990 for their application to companies.

- In 1995, the Directive's operation is to be reviewed.

In view of the difficulties it creates for small and medium-sized firms, the Directive provides for concessions linked to size criteria, which, during the final stage of the Directive's implementation, will be as follows :

- balance sheet total :	4 million EUA
- turnover :	8 million EUA
- number of employees :	250

Holding companies may be released form the obligation to consolidate provided they do not interfere in the management of their subsidiaries. Nevertheless, the obligation to draw up individual accounts remains, and where they do not consolidate they will have to identify their majority holding in such individual accounts.

This provision which is designed to ensure the transparency of holdings, goes further than the Fourth Directive.

The adoption of this Directive is not only an important milestone in the harmonization of company law but may also constitute a step forward for the proposed European company.
