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EC GRADUALLY ESTABLISHING EUROPEAN CAPITAL MARKET

With a future European capital market as its goal, the Commission of the European Community is proposing that any company that wants its transferable securities quoted on the stock exchange of EC member countries be required to publish information regularly about its business activities.

The new EC proposal calls for a brief report on the company's business for the first six months of each of its fiscal years. It complements two other directives proposed earlier by the Commission. The first of these laid down rules on the information needed for a company's prospectus when its stocks are accepted for official quotation. The second required companies that seek to be listed on the stock exchange of a member country to make their annual accounts available to investors of that country. The second proposal also required that the companies provide information as quickly as possible when exceptional circumstances would lead to substantial changes in the price of shares.

UNIFORM STANDARDS

These three proposals are intended to provide uniform standards for informing and protecting the investor in stock markets throughout the Community. The latest goes beyond admission requirements and takes into account minimum information that all companies should provide regularly during the entire period that their securities are quoted.

Companies that offer securities for sale on American stock exchanges face more stringent requirements, such as a continuous reporting system and the registration of financial data that includes identification of the principal security holders, certified financial statements, use of proceeds, an earnings summary, a listing of company properties, legal proceedings and various other information.

By establishing rules that all member countries are to follow, the Community hopes to make transferable securities more attractive to investors. It also hopes to make it easier for companies to have their shares listed on the stock exchanges of several or all of the nine member countries. This procedure would contribute to the eventual establishment of a genuine European capital market.

REQUIRED INFORMATION

The current proposal would require publication of a report within three months following the first six-month period in each of its financial years. The report would provide figures showing the company's net turnover and other operating income, its operating charges, gross profit, and the dividends it has paid or proposes to pay. It would include comparative figures for the corresponding period of the preceding fiscal year and an explanation of the business for the two six-month periods so that investors could judge how business had fared. This information would include: number of persons employed, investments made and those decided on for the future, outstanding orders, stocks on hand of finished products, use the company is making of its production capacity, and effects of new products or activities on its business.

These are minimum requirements only and represent no more than a first step in harmonizing the rules and regulations of the nine member countries. Any country that wishes to impose more stringent rules would be free to do so. It is required only to ensure equal treatment for all companies, whether or not they are from the member state in which the securities are quoted.

In December the Council of Ministers agreed in principle to the directive establishing conditions of admission to official stock exchange quotation. The Council is expected to take the next step during the first half of this year by approving the proposed requirements for a company's prospectus. Consideration can then be given to the third proposal.