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**NOTE D'INFORMATION  
NOTA D'INFORMAZIONE  
TER DOCUMENTIE**

Brussels, April 1976

**HARMONIZATION OF NATIONAL LAW CONCERNING  
GROUP ACCOUNTS**

(The seventh directive in the harmonization programme on company law)

The Commission has just adopted a proposal for a directive concerning group accounts<sup>(1)</sup>. At present, a growing number of companies are interrelated in what are normally called groups of companies. The annual accounts of a company belonging to a group are no longer sufficient to give a true and fair view of that company's position. In a group situation the true and fair view will only be obtained by the presentation of group accounts, i.e. by consolidation of the annual accounts of the companies members of the group. This is important in order to provide a minimum degree of protection for shareholders, employees and third parties, e.g. creditors.

Comparable information drawn up on uniform lines

This is the seventh proposal elaborated by the Commission on the basis of article 54 (3) (g) of the E.E.C. Treaty within the framework of its harmonization programme on company law (2).

This proposal is a necessary follow-up to the proposal for a fourth directive regarding the annual accounts of limited liability companies originally submitted to the Council in 1971, the amended version of which is now under discussion at the Council of Ministers (3).

The objectives of the Proposal for a Directive on group accounts are the same as those of the Proposal for a Fourth Directive on annual accounts: to ensure that companies situated within the Community publish comparable information drawn up on uniform lines in order to provide a minimum degree of protection for shareholders, employees and third parties. This process of harmonization is necessary to enable companies to exercise their right of establishment more easily, to create favourable conditions for the operation of a European capital market, and finally to prevent varying legal requirements with regard to the provision of information from distorting the conditions of competition for companies within the Community.

Multinational companies

The harmonization of laws relating to group accounts will also be a positive contribution to the work currently being carried out at various levels on multinational companies. Through this harmonization process, multinational companies whose registered offices are situated in the Community will have to publish group accounts relating to all their subsidiaries throughout the world and make clear the relationships and

(1) COM(76)170

(2) See annex

(3) See note P-12 (February 1974) and COM(74)191 (published as supplement 6/74 to the Bulletin of the European Communities.)

activities within the group. In addition, multinational companies whose registered offices are situated outside the Community will be subject to the same rules with regard to their activities that are carried out through companies established within the Community. 2

### Definition of a group

The proposed directive which has been finalized after thorough consultations of governmental experts, and interested bodies of accountants and financial analysts, first provides a definition of groups of companies in order to determine the scope of the required consolidation. A group is defined in two steps. Firstly, a company must be able to control another company, secondly this potential control must be exercised in practice to the effect that the companies concerned are managed on a central and unified basis.

The advantage of this definition is that it automatically excludes holdings, even majority holdings, in the capital of undertakings which are merely short-term investments, and also that it covers situations where an undertaking is controlled by another by virtue of a minority holding in its capital.

### Consolidation must be world-wide

A company within the Community which controls a group will have to draw up group accounts once the company itself or another member of the group is a company incorporated with limited liability. Consolidation must be world-wide: the annual accounts of all the undertakings belonging to the group, irrespective of where their registered office is situated, must be consolidated. A group undertaking may not be excluded from the consolidated accounts unless it is of only minor importance.

The Directive applies both to vertical groups, the usual kind of group dominated by a single undertaking, and to horizontal groups (consortia) in which central and unified management is provided by two or more companies heading the group.

Consolidated accounts must also be drawn up in respect of sub-groups within the Community encompassing several companies. This is particularly important where the company heading the group is situated outside the Community and does not publish group accounts.

### A true and fair view

Group accounts comprise the group consolidated balance sheet, the group consolidated profit and loss account and notes to the accounts. They must give a true and fair view of the group's assets, liabilities, financial position and results.

The proposal lays down a number of principles governing consolidation in order to ensure that it is carried out uniformly throughout the Community. Thus debts and claims and transactions between group undertakings must be eliminated to prevent group accounts from giving a false impression of the group's assets, liabilities and results. The annual accounts of undertakings to be included in the consolidation must also be drawn up as at the same date so that the consolidated accounts refer to the same period and cover comparable accounting items.

### Identical valuation methods

Finally, items incorporated in group accounts must be valued using identical methods in order to prevent values that are heterogeneous and incapable of comparison from being consolidated. A degree of flexibility is allowed in applying these principles since practical difficulties may arise in exceptional cases.

The proposal prescribes a special valuation method for group accounts in respect of holdings of group undertakings in the capital of other undertakings not belonging to the group where by such holdings a substantial influence is exerted on the running of those undertakings. A typical example of this kind of situation is a holding in a joint venture. The purpose of the valuation method laid down in the Directive is to put a more realistic value on such holdings. The fact that the use of this valuation method is compulsory, is justified on the ground that the information given on this subject must be comparable throughout the Community.

Finally, certain important information is required to be given in the notes to the group accounts, mainly to disclose the structure of the group, the identity of the group undertakings and the relationship between them. /.

Harmonisation programme on company lawGeneral programme

- 1st directive, adopted by the Council 9th March 1968, regards information to be published by companies and ways of disclosure (Registrar, Gazette), moreover some technical company law subjects (ultra vires, nullity of a company) of particular interest to third parties. Implemented in all Member States.
- 2nd directive, proposed 9th March 1970, regards formation requirements, the safeguarding of share capital, increase and reduction of capital of public companies. The amended proposal of 1972 currently being discussed at the Council of Ministers. Could be adopted this year.
- 3rd directive, proposed 16th June 1970, regards mergers of public companies incorporated under the same national law (preliminary to the convention on international mergers).  
The amended proposal of 1972 (a second amendment was submitted by the Commission in 1976) has been discussed in a first reading at the Council of Ministers. These discussions may continue once the 2nd directive has been adopted.
- 4th directive, proposed 16th November 1971, regards annual accounts of limited liability companies.  
The amended proposal of 1974 is being discussed in a second reading at the Council of Ministers. Its adoption by the end of 1976 is not at all excluded.
- 5th directive, proposed 9th October 1972, regards the structure of public companies and the powers and obligations of their organs. The original proposal is currently being discussed in the Legal Committee of the E.P.  
Green Paper on employee participation and company structure was published November 1975 in order to enlarge and contribute to the debate on the 5th directive.
- 6th directive On a prospectus to be published when securities are admitted to official Stock Exchange quotation.