

3. CHANGES RELATED TO EUROPE 1992

The changes related to Europe 1992 that affect the public accounting professions are due to both the regulatory changes introduced for the completion of the larger European common market and the accompanying general trend toward the "Europeanization" and internationalization of business.

3.1 Regulatory Changes

Regulatory changes can be divided into the two categories: (a) freedom of travel, practice and establishment, and (b) the harmonization of accounting standards.

a) Freedom of Travel, Practice and Establishment

Freedom of travel is now a reality. A directive regarding the equivalence of diplomas is being prepared and should be implemented in January 1991. However, as was pointed out for business lawyers, this directive stipulates that for regulated professions, an "aptitude test" or an "adaptation training period" may be required in addition to a recognized foreign diploma. The interpretation of this clause may vary depending on the country and could give rise to certain rearguard battles before the Court of Justice of the European Communities can impose a jurisprudence, however liberal. Finally, the establishment of offices abroad is currently not subject to any Community legislation. National laws govern and, in this respect, vary greatly.

b) Harmonization of Accounting Standards

The two principal European initiatives for the harmonization of accounting standards are the fourth and seventh directives of companies law. Member States were to harmonize their local legislation for the fourth directive by January 1, 1984, and for the seventh directive by January 1, 1990.

The fourth directive applies to the individual accounts of business corporations and provides for the use of standardized balance sheets and income statements, comparable valuation methods and a standardized appendix.

The seventh directive stipulates similar objectives for the consolidated financial statements of companies heading a group, but deals more particularly with the accounting techniques of consolidated financial statements.

By early 1989, 9 of the 12 Member States (except Italy, Portugal and Spain) had entered the fourth directive into their laws, and 5 (France, the F.R.G., Greece, Luxembourg and Holland) had implemented the seventh directive. However, in these countries, the new law will only apply to all groups as of 1990.³

The various harmonization measures have a dual effect. They promote the "Europeanization" of the profession, and they accelerate the trend toward the generalization of consolidated financial statements, thus resulting in a new demand for the accounting and auditing professions.

3.2 The "Europeanization" of Business

The process of Europeanization, previously discussed for business lawyers, is one of the principal consequences of Europe 1992. It generates a number of mergers and acquisitions and the rapid "Europeanization" or internationalization of businesses that, until now, were mainly centred in their domestic market. The result is a new demand for trans-European and international audits: consolidated financial statements, audits in cases of mergers and acquisitions, increased information needs resulting from increased recourse to capital markets. Similarly, as a result of the trend towards reorganization, business consulting needs are being extended, i.e., management and audit consulting and informatics management services, among others.