

## **Book Review**

**Alberto Incollingo, Andrea Lionzo (editors). *The European Harmonization of National Accounting Rules – The Application of Directive 2013/34/EU in Europe.* SIDREA Series in Accounting and Business Administration, Springer Nature, Switzerland: Cham 2023**

by Regine Buchheim\*

The European Union (EU) member states have been striving to harmonize their national accounting regulations for limited liability companies for decades. Limited liability companies shape the cross-border movement of goods and capital within the EU, which is why harmonizing national accounting regulations (including disclosure in the notes) and auditing these annual financial statements were already of great importance when the EU Single Market was created in 1992.

Nevertheless, no actual agreement on a European accounting law was reached, particularly between continental European member states such as France, Italy, and Germany, on the one hand, and the Anglo-American countries such as the United Kingdom (UK) and Ireland, on the other hand. For example, the differences were very significant between the valuation of balance sheet items through the historical cost model in Germany and the fair value in the UK.

In light of the above, when the EU created a single European capital market in 2001, it was impossible to use European accounting and valuation rules as a “common language” between issuers listed on an EU stock exchange and their investors. In the absence of a uniform set of European accounting standards, the EU legislator, therefore, turned to the International Financial Reporting Standards (IFRS), which have been mandated for the consolidated financial statements of all groups listed on an EU market since the entry into force of the Regulation 1606/2002/EC in 2005 and have since been incorporated into EU law in a laborious recognition procedure.

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As is well known, since the above Regulation came into force in 2005, the member states have had the option of allowing or requiring the IFRS for the consolidated financial statements of non-capital-market-oriented groups and the individual financial statements of corporations as an alternative to their national accounting law. Since then, most EU member states have not abandoned their national accounting rules for companies outside the capital markets, so in addition to the further development of the IFRS, the further harmonization of national accounting regulations is also of great interest to economic policy, practice, and academy.

The European policy unified the legal basis and modernized the provisions on the annual financial statements, consolidated financial statements, and related reports with the Directive 2013/34/EU of the European Parliament and of the Council of June 26, 2013. The Fourth Company Law Directive on annual (Directive 78/660/EEC) and the Seventh on consolidated financial statements (Directive 83/349/EEC) were revealed.

The book edited by Alberto Incollingo and Andrea Lionzo does particular credit to presenting the current state of national accounting practice in many different European countries based on Directive 2013/34/EU and examining their convergence with the IFRS.

In addition, critical current developments, such as the status of non-financial reporting by companies at the national level, are analyzed in cross-border terms, taking into account the initiatives of the EU to promote and standardize national regulations on non-financial reporting in line with the Green Deal (Communication 2019/640/EC).

The book is divided into two parts after a fundamental introduction to the development of national accounting regulations in the major EU states by André and Di Pietra. The first main part examines the national rules in eight countries: Germany (De Vito, Glaum, and Haller), the UK (Cascino and Correia), France (Bessieux-Ollier, Blum, and Walliser), Italy (Giunta and Pisani), Spain (Gisbert and Mora), Denmark (Thinggaard), Sweden (Hellmann and Hjelström), and the Netherlands (Hoogendoorn).

The second part is devoted to cross-cutting analyses based on EU Directive 2013/34/EU, including general provisions and principles, financial statement layouts, write-down for impairment losses, accounting for equity and profit distribution, and income taxes. Moreover, the issue of non-financial reporting is considered, which is particularly topical.

The presentation of the individual countries in Part I is undertaken by renowned national experts, like Martin Hoogendoorn, former president of the Dutch Accounting Standards Board, and Francesco Giunta and Michele

Pisani for Italy. In the case of Germany, Antonio de Vito, Martin Glaum, and Axel Haller worked in a cross-border team. Some authors, like Frank Thinggaard for Denmark and Andrea Lionzo for Italy, also sit in European expert bodies like the European Financial Reporting Advisory Group (EFRAG) Academic panel. These authoritative voices make each country's presentation detailed and insightful. Each of the eight-country presentations follows the same structure, which facilitates a direct comparison of the individual countries: Introduction to the national accounting scenario, the evolution of the national accounting regulation, the implementation of the EU Directive 2013/34/EU in the national accounting system, the national valuation approaches, and concluding remarks.

The doyen of comparative accounting research, Christopher Nobes, to whom former EFRAG president Jean-Paul Gauzès also refers in the Foreword, distinguishes many factors for differentiation of accounting rules and developed a Taxonomy of Accounting Classifications (Nobes & Parker, 2020). For comparing accounting systems, he uses four aspects for classifying national accounting laws: Firstly, accounting can serve both as a passive representation (extrinsic) and an active instrument likely to influence the behaviour of economic actors (intrinsic). Furthermore, some national standards have been developed at the micro level, either inspired by business or professional practices, whereas other standards were developed at the macro level in order to follow tax or legal orientations. They also show differences between a strong equity (class A like Dutch and UK domestic standards, IFRS, and US Generally Accepted Accounting Principles) and a weak equity (class B like French, Italian, and German domestic standards).

The eight chapters show that the EU is a setting where those four types of accounting standard-setting orientations manifest themselves. The authors begin by providing the context for their country by presenting the historical ecosystem based on their country's corporate and civil law rules, the accounting standards board or other professional standards, and the role of tax legislation for accounting laws. In doing so, they also address the earlier developments in implementing the Fourth (Directive 78/660/EEC) and the Seventh Directives (Directive 83/349/EEC). This provides an excellent starting point for understanding the initial diversity of accounting contexts and the measures needed to implement Directive 2013/34/EU.

Next, the authors look at the recent and current development of the standards, which generally testify to the convergence of their national accounting systems with IFRS. This is also an opportunity to discuss the modalities of the national movement towards non-financial reporting and to

understand the different national paths and speeds towards the Corporate Social Responsibility Directive (Directive 2022/2464/EU) by legislators and companies. Next, the current state and key features of national accounting regulations are presented, along with the more or less IFRS-aligned approaches to recognition and measurement. Nevertheless, there are still significant differences between individual countries, especially in the area of measurement. This approach makes it extremely useful for the reader to understand and compare across countries through the separate chapter on measurement.

Based on the details of national developments and the existing differences, Part II examines cross-border accounting issues in Europe at the highest academic level and very clearly. Carini, Quagli, and Teodori dedicate the first chapter to the evergreen of European harmonization, the purposes of accounting, and the significance of the true and fair view as an overriding accounting principle. The title “True and Fair View Still Resists!” arouses curiosity about the extent to which Directive 2013/34/EU has made progress in the discussion. Other principles, such as prudence, substance over form, and the measurement basis, are also analyzed.

After a short yet effective chapter on the comparison of national layouts and presentations of the balance sheet and the profit and loss account by Bertoni and Sostero, several particularly interesting topics on the cross-border comparison and analysis of the implementation of Directive 2013/34/EU are developed. Corbella, Florio, and Greco focus on the write-down for impairment losses, including reversals, disclosure requirements on value adjustments, and specific provisions for smaller companies. The chapter on accounting for capital and reserves, other comprehensive income, and profit distribution by Ghitti, Pugliese, and Rossignoli analyzes the regulatory and legal background for capital and reserves accounting as well as the key accounting items affecting equity formation. In turn, Zizzo investigates the accounting for income taxes by explaining the “single track,” the “double track,” and the “derivation” models for bridging the gap between taxable and accounting income in financial statements.

The implementation of the Corporate Responsibility Directive (Directive 2022/2464/EU) is currently of particular interest in all European jurisdictions. The Directive has not been implemented by the deadline of summer 2024 in Germany, for example. Accordingly, the chapter by Maglio and Lombardi on non-financial reporting in the EU provides interesting insights into the national implementation of the EU’s Non-Financial Reporting Directive (NFRD, Directive 2014/95/EU) in the eight member states. The NFRD has

given the companies too much flexibility because the reporting methodology and format for NFRD disclosure are neither required by the NFRD nor the member states. A summary of mandatory environmental, social and governmental data disclosure in the US is provided as well as a table of main similarities and differences between the EU and the USA.

Finally, the two editors, Incollingo and Lionzo, provide an insightful critical summary and outlook of the extensive research and analysis of the work done by all the authors. The title of the last chapter, *Private Firm Accounting in the EU - Still an Incomplete and Fragmented Picture*, is a statement by the editors that already shows the lack of a “real” degree of accounting harmonization in the EU. They structure the main problems that still exist and the prospects for solving them on the basis of the following topics: graduated requirements according to the size of unlisted companies, presentation and content of the financial statements, objectives, and purposes of financial reporting, and finally, the measurement basis, which showed the greatest differences in all country comparisons.

This fragmented picture of private companies’ accounting within the EU, as well as the results of some other comparative chapters in the book, e.g., on significant differences in impairment losses, is an important indication of the need for future research since most research on cross-country comparisons in the EU still focuses on the different application of IFRS (e.g., D’Arcy & Tarca, 2018). Eastern European EU members like Poland or Hungary are not considered in the comparison yet. This might be another interesting aspect of future research.

The book and its approach are an excellent foundation for further research. It is essential reading for all practitioners like accountants, financial analysts and auditors as well as young and senior academics who want to gain a deeper understanding of the development and differences in national accounting in Europe.

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