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THE IMPORTANCE OF THE EUROPEAN COMPANY FOR ACCOUNTING HARMONISATION AND THE MARKET IN THE EUROPEAN UNION

Abstract: *Legal form of a European company (SE) is a significant contribution to the unified European market. This legal form enables companies from various EU member countries to operate under common rules, uniform management and reporting system. Nowadays, the accounting harmonisation in the European Union is of a great importance for providing information from the European company. SE can transfer its registered office within EU member states without ceasing to exist, which creates a pressure on the member states to improve their market environment. Council Regulation No 2157/2001 on the Statute for an SE sets the ways of formation of an SE and also unifies different approaches to companies' management structures and involvement of employees in the SE. SE can be created in several ways: by means of a merger of two or more public limited-liability companies; formation of a holding SE by public and private limited-liability companies; formation of a subsidiary SE; and transformation of a public limited-liability company into the SE. Formalities not laid down in the council regulation on SE, e.g. accounting and financial reporting, are conducted in accordance with national laws of EU member countries.*

Key words: *European Company, Societas Europea, one-tier and two-tier management system, special negotiating body, representative body of employees, mergers, goodwill, holding, subsidiary, IFRS 3.*

JEL: D 02, M 16, M 41

Introduction

The legal form of the European Company (Societas Europea – SE) was created on the 8th of October 2001, when the European Council issued a regulation No. 2157/2001/ES (further as “the regulation“) on the statute for a European Company (further as “SE“) which was consequently supplemented with a council directive no. 2001/86/EC regarding the involvement of employees (further as “the directive“).

The aim was to create a European Company with its own legislative framework which would allow companies from different member states of the European Union (EU) to operate within the EU under one set of rules, management and reporting. SE does not need to create an expensive network of subsidiaries where each would operate under different legal establishment. The subscribed capital value of an SE should be at least EUR 120,000, and the name shall be preceded or followed by the abbreviation SE.

According to the regulation, an SE can be formed[1]:

1. by means of a merger of two or more public limited-liability companies (including SEs), provided that at least two of them are governed by the law of a different Member State;
2. as a holding company of two or more public and private limited-liability companies, provided that each of at least two of them are governed by the laws of different Member States or has for at least two years had a subsidiary or a branch governed by the law of a different Member State;
3. as a subsidiary SE of two ore more companies (including SE), firms or other legal bodies, provided that each of at least two of them is governed by the law of a different Member State or has for at least two years had a subsidiary or a branch governed by the law of a different Member State;
4. by means of a transformation into an SE if for at least two years it has had a subsidiary company governed by the law of another Member State.

The regulation is legally binding but in some areas, e.g. accounting, it only forms a framework and the practical legal attributes leaves for the rules applicable to public limited-liability companies under the law of the Member State in which the SE has its registered office. The regulation and the directive were applied to the legal system of the Slovak Republic (SR) through Act No. 562/2004 on the European Company (further as the SE act) making an SE in the SR governed by[2]:

1. the regulation;
2. where expressly authorised by this Regulation, by the provisions of its statutes;
3. in cases not regulated by the regulation:
   a. by provisions of the code on SE;
   b. by provisions of the commercial code on a public limited-liability company;
   c. by provisions of its statutes in the same way as for a public limited-liability company.

The objective of our paper is to outline the significance of the SE for the EU market, and to analyse attributes related to its formation and existence, mainly:

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[1] Article 2 of the regulation.

[2] Csach, K.: Societas Europea (SE) – Európska spoločnosť. www.pravo.upjs.sk. 2006.

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1. administration and management and involvement of employees on the management of an SE;
2. conditions under which the SE is formed;
3. protection of minority shareholders.

This article is written with regard to the conditions of setting up an SE in the SR, and when writing about forming of the SE by means of a merger, we also focus on accounting in line with the Act 431/2002 on Accounting (further as the Accountancy Act), Ordinance of the Ministry of Finance of the SR from 5 December, 2007 No. 16317/2007-74, which is amending the ordinance No. MF/23054/2002-92, which provides details concerning Accounting Procedures and the framework chart of accounts for businesses using double-entry book keeping system (further as the Accounting Procedures) and Ordinance of the Ministry of Finance, SR of the 12th of December 2006 No. 25812/2006-74, which is amending the ordinance No. MF/4455/2003-92, which provides details concerning forming, naming and content of items of individual financial statements and scale of entries from the individual financial statemets for publishing, for businesses using double-entry book keeping.

1 The Importance of SE for the EU Market

Improvement of Business Environment of the EU

The regulation and directive came into effect on the 8th of October 2004 finally allowing companies to plan and administer their reorganisation[3] within the whole business environment of the EU without being limited to legal form of one of the member states of the EU. With regard to the raising number of business activities, these forms are not sufficient enough for such a broad economic space and are a barrier to combination of companies from different member states.

The regulation allows for making business under laws directly applicable in all member states of the EU and in Norway, Iceland and Liechtenstein, hence avoiding legal and technical obstacles companies face when working under different legal systems of the EU. Under the regulation, the companies can make combinations, create holding companies or subsidiaries which would be capable of business activities within the whole EU market.

The regulation also puts pressure on the member states to simplify and improve their business environment. Areas such as company formation, administration, management and structure are governed by the regulation but issues of market regulation, bankruptcy and taxes are left for the regulation of the member states. As the companies with the legal form of an SE can freely move their registered office from one member state to another without moving their fixed capital, they would

[3] Reorganisation presupposes that existing companies from different Member States are given the option of combining their potential by means of mergers.

indeed always try to create their establishment in the country with the most attractive business environment.

Creation of this legal form is also of significance to companies from outside of the EU, in particular to companies from the USA where investors after the WorldCom and Enron scandals are more cautious about corporate governance and prefer legal system similar to the American one. As the British system is the closest to the American, we can expect that some companies would register its offices in the UK and the production site in Slovakia, for example.

Unification of Management Structures of Companies in the EU

Another contribution of the regulation is the provision for one-tier and two-tier systems, which synchronizes different approaches to management structures in the EU. Every company having a legal form of an SE can choose a system that better suits its nature. Under the two-tier system, an SE shall comprise of a supervisory body and a management body and under the one-tier system of an administrative organ. Within the legal system of SR, the SE act recognizes, under two-tier system, the board of directors and the supervisory board as set by the commercial code for the public limited-liability company; and makes provisions for the one-tier system so that companies can operate under this governance in SR also.

The statutory body under the one-tier system is the administrative board in the SR, which manages activities of the SE, determines objectives of its business activities, supervises its performance, and acts in the name of the SE. Only individual persons can be member of the administrative board. Unless the statutes state otherwise, the administrative board consists of at least three members, each of whom is entitled to act in the name of the SE. The administrative board can also appoint one or more executive directors to manage the company. These are consequently elected and withdrawn by the administrative board and can also be chosen from the members of the administrative board as long as the majority of the administrative board stays in a non-management executive positions.

The supreme body of an SE is its general meeting. According to the SE act, the general meeting can be called by a shareholder or shareholders whose shares on the registered capital are at least 5% or less if stated in the statutes. Apart from the shareholders, the general meeting can also be called by the board of directors or administrative board in the manner and term stated in the statutes of the SE.

Creating Provisions for Involvement of Employees in Management of an SE

A group of experts tried to establish statutes for the SE as early as in 1965. These were, however, rejected for being too complicated and insufficient in provisions for involvement of employees in management of the company. Current regulation was therefore supplemented with the already mentioned directive concerning the

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conditions for involvement of employees by means of information, consultation and participation through which employees' representatives may exercise an influence on decisions to be taken within the company, and in some cases their direct involvement in the supervision and strategic development of the company, especially formation and liquidation of an SE or its related subsidiaries, and in matters of employees number reduction.

The provisions for involvement of employees in the SR are described in part two of the SE act. It is conducted by a set of mechanisms upon which the employees can influence the decision-making process in the company. This involves the right to information[4] and consultation[5], and participation by way of the right to elect or appoint or the right to recommend and/or oppose some or all of the members of SE's supervisor and administrative board, if defined so in the Agreement on arrangements for the involvement of employees within the SE.

The Agreement on arrangements for the involvement of employees within the SE is negotiated by the Special negotiating body established to negotiate with the competent body of the participating companies directly involved in formation of the SE. In the SR, the appointment or election of the members of the Special negotiating body shall be conducted in line with the section 244 of the Labour Code. For every 10% of employees, there should be at least one member of the Special negotiating body. Agreement on arrangements for the involvement of employees within the SE shall be in writing and apart from the scope of the employee involvement it also establishes the Representative body of employees with the purpose of informing and consulting the employees and exercising participation rights in relation to the SE. The number of the members of the Representative body of employees, the way of their appointment or election and their right in relation to the Board of directors or Administrative board of the SE shall be set in statutes according to the negotiations on involvement of employees within the SE. It can also be negotiated that the involvement of the employees can be conducted in a different manner but it must be stated in the Agreement on arrangements for involvement of employees within the SE.

Transfer of a Registered Office of an SE

One of the objectives when the regulation was being prepared was to allow a SE to freely transfer its registered office to a member state of more favourable

[4] Information as defined in part 4 §36 of SE act means informing the body representative of the employees by the board of directors or administrative board of the SE on questions which concerns the SE itself and any of its subsidiaries or establishments.

[5] Consultation means the establishment of dialogue and exchange of views between the body representative of the employees and/or the employees' representatives and the competent SE authority, at a time, in a manner and with the content that allows the employees' representatives, on the basis of information provided, to express an opinion on measures envisaged by the competent organ which may be taken into account in the decision-making process within the SE.

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environment in regard of the SE's activities. As the SE is governed by laws of the country where it is registered, the opportunity to freely transfer its registered office puts a pressure on the member states to constantly improve their business environment to prevent these companies from leaving for a better legal framework. The transfer of an SE's registered office is determined by Article 8 of the regulation, where it is stated that such transfer shall not lead to a liquidation of the SE or formation of a new company. The management of the SE shall draw up and publicise a transfer proposal explaining the legal and economical aspects of the transfer and implication it may have for shareholders, employees, creditors and employees involvement within the SE. The shareholders and creditors are entitled, at least one month before the general meeting called upon to decide on the transfer, to examine the transfer proposal. The transfer proposal must be publicised for at least two months before a decision to transfer may be taken. The transfer shall take effect on the data on which the new registered office of the SE is registered.

In the legal system of the SR, the transfers of the registered office from abroad is described in section 26 of the Commercial Code and, in relation to the SE, in the second part of the first title of the SE Act. In this part the SE Act also contains a requirement that the transfer proposal shall contain a suggestion of a proportionate share price for shares which the SE must buy from the shareholders who do not agree with the transfer. This relates to the protection of the interest of minority shareholders.

Protection of the Interests of Minority Shareholders and Creditors

The regulation cedes the protection of the interests of minority shareholders and creditors to the legislation of the member states of the EU. In the Slovak SE Act, the means of protection are determined in parts about transfer of the registered office and formation of an SE by means of a merger and as a holding company. In the SR, according to the SE Act, every minority shareholder who at the general meeting voted against proposals such as to transfer the registered office, form the SE by means of a merger or a holding SE has the right to request the company to buy back his shares for a proportionate price. In case the set price has not been found proportionate, every shareholder has the right to request an additional payment through a court[6].

Creditors protection, in line with the SE Act, shall be ensured by appropriate protection of creditors' claims if, due to the transfer of the SE to abroad, these liabilities may become more difficult to settle. The SE Act however, does not determine any ways to asses the increase in difficulty to settle the liabilities nor does it state what should be understood under the „appropriate protection“.

[6] In case a minority shareholder disapproved a proposal to form an SE by means of a merger, under legal framework of the SR it is also necessary to take into account section 218j of the Commercial Code.

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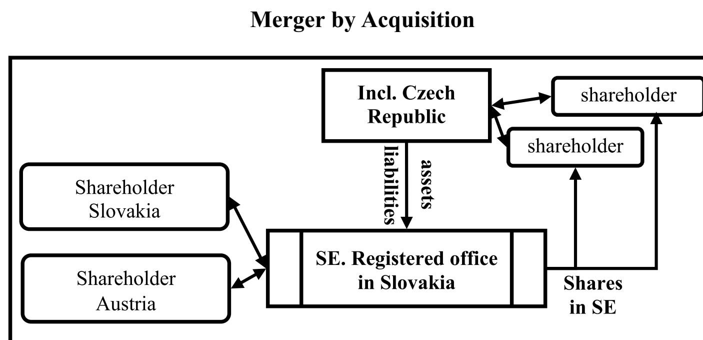
2 Formation of a European Company

Formation by merger

Formation of an SE by means of a merger is determined in Article 17 of the regulation. Formation can be carried out in accordance with the procedure for merger by acquisition or by the formation of a new company. In case of the merger by acquisition, one or more companies shall wind up without liquidation and transfer their assets and liabilities to another, acquiring company and the shareholders of the company being acquired become shareholders of the acquiring company or are paid cash which however shall not exceed 10% of the acquired shares.[7] In the case of the merger by acquisition, the acquiring company shall take the form of an SE when the merger takes place but it is not a newly formed company.

Figure 1

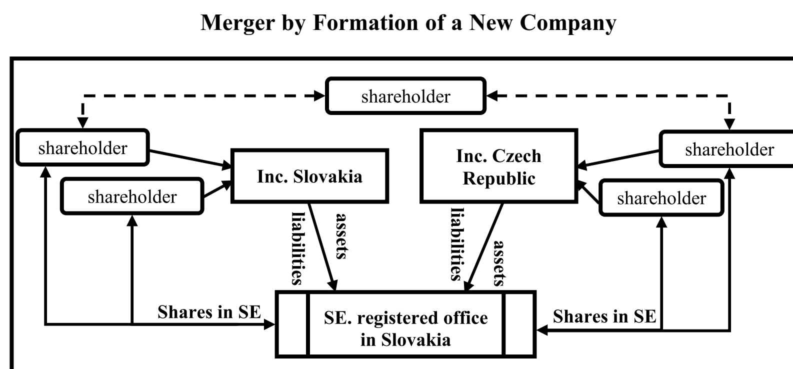
Merger by Acquisition



In the case of the merger by the formation of a new company, one or more companies shall wind up without liquidation and transfer their assets and liabilities on a newly formed company. In return, the shareholders of the merging companies become shareholders of the newly formed company or are paid cash which however shall not exceed 10% of the shares acquired.

Figure 2

Merger by Formation of a New Company



[7] Article 3, Section 1 of Directive (78/855/EEC).

According to Article 20 of the regulation, the management or administrative organs of merging companies shall draw up the term of merger which shall include the following particulars:

a) the name and registered office of each of the merging companies and of the SE;

b) the share-exchange ratio and the amount of any compensation;

c) the terms for the allotment of shares in the SE;

d) the date from which the holding of shares in the SE will entitle the holders to share in profits and any special conditions affecting that entitlement;

e) the date from which the transaction of the merging companies shall be treated for accounting purposes as being those of the SE;

f) the rights conferred by the SE on the holders of shares to which special rights are attached and on the holders of securities other than shares, or the measures proposed concerning them;

g) any special advantage granted to the experts who examine the draft terms of merger or to members of the administrative, management, supervisory or controlling organs of the merging companies;

h) the statutes of the SE;

i) information on the procedures by which arrangements for employee involvement are determined pursuant to Directive 2001/86/EC.

SE Formed as a Holding Company, Subsidiary or by Transformation from a Public Limited-liability Company

When forming a holding SE, the management of the company promoting the formation shall draw up draft terms for the formation, which shall include a report explaining and justifying the legal and economic aspects of the formation and indicating the implications for the shareholders and for the employees of the adoption of the form of a holding SE. The draft terms shall also set out the particulars provided for in Article 20, as mentioned above for the formation of an SE by means of a merger, and shall fix the minimum proportion of the shares which the shareholders of the companies promoting the operation must contribute to the formation of the holding SE. One or more independent experts shall examine the draft terms of formation and draw up a written report for the shareholders of each company. Finally, the general meeting of each company promoting the operation shall approve the draft terms of formation of the holding SE.

When forming a holding SE and a subsidiary SE a common factor is that new companies are formed. Therefore, under conditions of the Slovak legal system, particulars of laws determining formation of a public limited-liability company should be taken into account, especially sections 162–175 of the Commercial Code related to formation and registration of a company and section 7 of the Accounting procedures and section 16 of the Accountancy Act related to opening of books of accounts.

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The conversion of a public limited-liability company into an SE shall not result in the winding-up of the company or in creation of a new legal person. Also, the registered office may not be transferred from one member state to another at the time the conversion is effected. Similarly to the formation of a holding SE, when undertaking the conversion, management or administrative body shall draw up terms of conversion and submit them to the general meeting for approval. An independent expert shall be appointed to certify that the company has net assets at least equivalent to its capital and reserves which must not be distributed under the law or the Statutes.

Table 1

The Means of SE Formation

Creation	Legal Form	Conditions	Regulation	SE act	Other Slovak laws
merger by acquisition	Inc.	Wind-up without liquidation, at least two companies governed by laws of different member states, transfer of assets and liabilities on **existing** company	Title 1, Section 2	Section 3	Section 26 of the Accounting procedures
merger by formation of a new company	Inc.	Wind-up without liquidation, at least two companies governed by laws of other member states, transfer of assets and liabilities on **existing** company	Title 1, Section 2	Section 3	section 26 of the Accounting procedures
formation of a holding SE	Inc./Ltd. or their subsi-diary	At least two companies or their liabilities are governed by laws of different member states. Formation of a **new** company.	Title 1, Section 3	Section 4	sections 162–175 of the Commercial Code; Section 7 of the Accounting procedures; se-ction 16 of the″ Accountancy act
formation of a subsidiary SE	Inc./Ltd. or their subsi-diary	At least two companies or their liabilities are governed by laws of different member states. Formation of a **new** company.	Title 1, Section 4	-	Sections 162–175 of the Commercial Code; secti-on 7 of the Accounting procedu-res; Section 16 of the Accountancy Act
transformation into an SE	Inc. with its subsi-diary	A subsidiary has been for at least two years governed by laws of a different member state. **No wind-up or formation** of a company.	Title 1, Section 5	-	-

3 Accounting for Creation of an SE by Means of a Merger under Conditions of the Slovak Republic

In line with Article 61 on the regulation, the preparation of annual and consolidated accounts including the accompanying annual report and the auditing and publication of those accounts of an SE shall be governed by the rules applicable to public limited-liability companies under the law of the Member State in which its registered office is situated. In the SR, the creation of an SE by means of a merger will therefore be governed in line with Slovak laws. At the same time, the company which is taking part in the creation of an SE and has its registered office in Slovakia shall wind up without liquidation in line with Slovak legislation. The Accountancy Act states that the company which is being wound-up without its liquidation shall keep its books of accounts up to the date of its winding up without liquidation. At this date, the company shall draw up its extraordinary financial statements and measure the fair value of its assets and liabilities.[8]

The requirement to measure the fair value of the assets is also in line with International Financial Reporting Standards (IAS/IFRS), in particular with IFRS 3 – Business Combinations. IFRS 3 defines a business combination as a transaction or event in which an acquirer obtains control of one or more businesses.[9] One of the exceptions to the IFRS 3 is combination of entities or businesses which are, before and after the combination, under common control and this control is not transferred on a different subject. Therefore, if an SE is formed by combination of holding companies or subsidiaries, the proponents can choose whether they will undertake the combination as it is described in IFRS 3.

IFRS 3 requires that all business combinations must use the acquisition method which means that all identifiable assets and liabilities of the company, which is being wound-up without liquidation, are measured at their acquisition-date fair value. The total of the fair values at the day of the exchange of assets given, liabilities incurred and equity instruments[10] issued by the acquirer in exchange of the control of the acquiree together with any costs directly attributable to the business combination incurred by the acquirer represent the cost of the business combination. Steps in applying the acquisition method are:

1. identification of the acquirer[11];
2. determination of the acquisition date[12];

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8 The Accountancy Act defines the fair value as: a) market value, b) qualified estimate or expert appraisal, and c) value prescribed by section 95 of Collective investment act no. 594/2003.

9 A business is defined as an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing a return directly to investors or other owners, members or participants.

10 Equity instrument: According to IAS 32 Financial Instruments: Disclosures, it is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

11 Acquirer: the combining entity that obtains control of the acquiree.

12 Acquisition date: the date on which the acquirer obtains control of the acquiree.

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3. recognition and measuring the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree;

4. recognising and measuring of goodwill or a gain from a bargain purchase.

IFRS 3 requires that, as of the acquisition date, the acquirer or the new company measure and recognise, separately from goodwill, all assets acquired, liabilities assumed and non-controlling interests in the acquiring company no matter if they were disclosed in the financial statements, if the following criteria are met:

- an asset, other than intangible asset should be recognised only when it is probable that future measurable economic benefits from this asset will flow to the enterprise;
- a liability, other than contingent liability should be recognised only when it is probable that its settlement will result in an outflow of measurable economic benefits from the enterprise;
- intangible asset and contingent liability should be recognised only when their fair value is measurable.

We expect that if the company, which being wound up without liquidation, is from Slovakia and posts and recognises accounting transaction according to the Slovak legislation, it will recognise in its financial statements all assets and liabilities which meet the above criteria because it directly results from their definition, and it is required by the Accountancy Act and the Accounting Procedures.[13]

Accounting for mergers is determined in section 26 of the Accounting Procedures. Any difference between the net book values of the assets and liabilities and their fair values shall be posted to the respective accounts of assets and liabilities, and, if appropriate, the account 015 - Goodwill[14] shall be used, with a counter-entry to the account 416 - Gains or losses from revaluation upon mergers and splits. Hence the company cannot choose whether it will post the valuation differences directly to the respective accounts of assets to which the valuation difference is related, or it will recognise them as goodwill.

According to the Accounting Procedures, when posting goodwill, it is necessary to determine to what extent economic benefits will be increased in the future in connection with the goodwill, and to what extent economic benefits will be reduced in connection with negative goodwill. If the future increase of economic benefits is likely to be lower than the goodwill posted to the account 015 - Goodwill, the relevant portion of the goodwill shall be written off upon purchase or contribution

[13] Accountancy Act Section 2 and accounting Procedures Section 19.

[14] Section 37 of the accounting procedures characterize goodwill as a positive difference between the acquisition cost and the share attributable to the purchaser of the fair value of the purchased identifiable assets and liabilities on the date of purchase. If the difference is negative, there is a negative goodwill, which will be credited to account 015. Goodwill shall be posted upon merger and split or equity contribution if the book value of the equity interest held by one of the companies involved on the transaction in another involved company is higher than the fair value of the assets and liabilities attributable to such an equity interest. The term ”book value of the equity interest upon merger and split” shall mean the fair market value of the equity interest.

of enterprise or its part.[15] If the future reduction of economic benefits is likely to be lower than the negative goodwill posted to the account 015 - Goodwill, the relevant portion of the negative goodwill shall be written off upon purchase or contribution of enterprise or its part 15. This means that when posting goodwill it is recognised that the future increase or reduction of future economic benefits is zero, goodwill shall be written off upon purchase or contribution at 100% of its value.

Because the creation of an SE by means of a merger can only occur among companies under a common control, it is also necessary to take into account Section 26 Article 3 of the Accounting Procedures and set-off their mutual debts, receivables and payables. Upon mergers by acquisition, the set-off shall appear in the books of accounts and any difference shall be posted to the relevant accounts of expenses or revenues. Upon mergers by creation of a new company the set-off shall appear in the opening balance sheet of the successor company where any differences shall be posted to the account 428 – Retained earnings from previous years or the account 429 – Accumulated losses from previous years.

During the period between the date following the date of winding up of a company without liquidation and the date of its dissolution the books of accounts shall be kept by the succesor company.[16] The balance of the account 416 – Gains or losses from revaluation upon mergers and splits shall appear in the books of accounts of the successor company, if there is a merger by acquisition, and in the opening balance sheets of the companies resulting from the merger by creation of a new company, on the accounts comprised within the accounting groups 41 – Registered capital and capital funds and 42 – Funds established out of profits and retained earnings, in line with the provisions of the merger agreement. Upon experience, we suggest to have the merger agreement reviewed by an auditor so no problems occur when accounting for the merger on the basis of the agreement.

Goodwill upon mergers posted to the account 015 – Goodwill shall be written off in line with Section 28 Article 4 of the Accountancy Act in no later than five years from the moment it has been recognised in the books of accounts of the successor company. In case the successor company decided to post the difference between the value of assets and liabilities as registered in the accounting books and their fair value directly to the respective accounts of assets and liabilities, it shall write them off in line with the Accounting Procedures taking into account this new, increased amount. In line with the Tax Code, however, the successor company shall write off the original value of the assets only. According to Section 17 Article 18 of the Tax Code, goodwill and negative goodwill is not allowed to be taken into account for the tax purposes.

In procedures on depreciation of goodwill, Slovak legislation is not in line with IAS/IFRS yet. Goodwill according to IAS/IFRS shall not be depreciated

[15] Section 37, Article. 12 of the Accounting Procedures.
[16] the Accountancy Act, Section 4, Article. 3

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but as per IAS 36 – Impairment of asset should be tested for impairment at least once a year.[17] To test for impairment, goodwill must be allocated to each of the acquirer's cash-generating units[18], or groups of cash-generating units and the carrying amount[19] of the unit/group of units, including the goodwill, shall be compared to the recoverable amount[20] of the unit/group of units. If the carrying amount of the unit exceeds the recoverable amount of the unit, the entity must recognise an impairment loss and reduce the carrying amount of any goodwill allocated to the cash-generating unit (group of units); and then reduce the carrying amounts of the other assets of the unit (group of units) pro rata on the basis. The carrying amount of an asset should not be reduced below the highest of fair value less costs to sell, value in use[21], or zero. The negative goodwill, in contrary to goodwill, should be directly recognised in the statement of income.

When evaluating, it is also necessary to realise that an SE will be created by means of a merger of companies from a different member state of the EU, which has kept their book of accounts in their domestic currency. The successor company in the SR will therefore have to account for registered capital, debts receivable and debts payable, equity interests, securities, derivatives, valuables, cash as well as for any allowances, provisions for contingent liabilities, and technical reserves associated with property and debts denominated in foreign currencies in the Slovak and foreign currencies[22]. Due to the introduction of EURO in the SR, however, this duty will be reduced to countries outside of the EURO zone only.

Conclusion

It is obvious that creation of the European Company should not have led to unification of EU standards or even to creation of a "super standard" for one company. On the contrary, the objective was to create a simple legal form that would be applicable in the legal system of every member state of the EU. SE stayed universal because the regulation focuses only on the practical issues of creation, governance and management structure and wind-up/liquidation, eventually transfer of the registered office of the company, i.e. the issues, which from the point of view of a pan-European company, have to be regulated on the transnational level. Operatives such as accounting procedures are left for legislation of the member states. They should therefore create a business environment that would allow

[17] An asset is impaired when its carrying amount exceeds its recoverable amount
[18] The smallest identifiable group of assets.
[19] Carrying amount – the amount at which an asset is recognized in the balance sheet after deducting accumulated depreciation and accumulated impairment losses
[20] Recoverable amount – The higher of an asset's fair value less costs to sell (sometimes called net selling price) and its value in use
[21] The discounted present value of estimated future cash flows expected to arise from the continuing use of an asset, and from its disposal at the end of its useful life
[22] The Accountancy Act, Section 4, Article. 7.

companies to create SEs in a transparent and hassle-free manner. Necessity of the accounting standards harmonization is also at the forefront as well as is the precise compliance with all accounting principles and with the requirement for true and fair view of the financial statements.

From companies which have already been transformed to SEs we can mention the insurance company Allianz and the chemical company BASF. Allianz has, owing to its transformation, restructured its German insurance activities and integrated its Italian subsidiary RAS Holding to the group. It has also reduced its supervisory board and strengthened influence of its international branches on the management. BASF believes[23] that the transformation will bring further development of its management structures and optimisation of work of its divisions. Similarly to Allianz, BASF will also proceed with the reduction of its supervisory board.

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