

## EVOLUTION OF FINANCIAL REPORTING LEGAL REGULATIONS IN THE EUROPEAN UNION AND IMPLICATIONS FOR SERBIA

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Review Article

### *Abstract*

*Financial reporting is a key mechanism for ensuring transparency, accountability, and trust in the capital market and the broader economic system. The development of the European Union's legal framework reflects a long-term process of harmonisation aimed at improving the comparability and reliability of financial information among Member States. Foundational directives, later consolidated through Directive 2013/34/EU, established a modern framework for financial and non-financial reporting, further enhanced by Directive 2014/95/EU and the Corporate Sustainability Reporting Directive (CSRD). As an EU candidate country, the Republic of Serbia has made significant progress in aligning its legislation with European standards, particularly through the 2019 Law on Accounting. However, challenges remain in the full implementation of International Financial Reporting Standards (IFRS) and in strengthening institutional oversight and quality control. This paper analyzes the evolution of EU financial reporting regulations, evaluates the level of harmonisation in Serbia, and identifies key challenges and opportunities for further improvement.*

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## **Introduction**

The subject of the research in this paper is a detailed analysis of the development, basic characteristics and implications of the legal regulation of financial reporting within the European Union, with a special emphasis on its impact and significance for the Republic of Serbia. The focus of interest is the process of evolution of the normative framework that determines the manner, scope and quality of financial reporting, as well as the course of harmonization of domestic regulations with the *acquis communautaire*.

The aim of the research is to identify the main phases and directions of development of EU legal regulations in the field of financial reporting, to analyze the degree of compliance of Serbian legislation with European standards, as well as to point out contemporary challenges, limitations and opportunities for improving the regulatory framework in the Republic of Serbia. In addition, the aim is to demonstrate the importance of harmonizing accounting regulations in the process of accession to the European Union, as this increases the transparency of financial reporting, which is a basic prerequisite for creating a stable business environment and strengthening investor confidence (Gojkov, 2024).

Financial reporting plays a key role as an instrument of corporate transparency and accountability, and its legal regulations reflect the level of development of the institutional and economic system of each country. In the modern conditions of globalization and intensive integration of capital markets, the harmonization of accounting and reporting standards is becoming a necessity in order to ensure the comparability and reliability of financial information. The Republic of Serbia, as a country aspiring to membership in the European Union, is faced with the obligation of constantly harmonizing its laws with European directives and regulations governing the field of financial reporting. This topic is particularly important because the European Union has been undergoing dynamic changes in the regulatory framework in recent years - it is moving from traditional financial reporting to integrated and non-financial reporting, which is clearly seen through the adoption of the Sustainability Reporting Directive (SRRD). Therefore, it is of particular importance to consider how these European changes are reflected in the domestic financial reporting system and

to what extent Serbia manages to implement requirements that guarantee transparency, accountability and compliance with international standards.

Starting from the determined subject and set research objectives, the following research hypotheses were defined:

H1: The legal framework for financial reporting in the European Union has gone through several development stages, starting from the basic balance sheet directives to the formation of a comprehensive system that also includes non-financial reporting.

H2: The Republic of Serbia has largely harmonized its legislation with the EU legal framework, but there are still certain shortcomings in terms of full implementation of regulations and institutional support.

H3: The harmonization process contributes to improving the quality of financial reports, increasing their transparency and strengthening investor confidence, which has a positive impact on economic development and the European integration process.

The research used combined methodological approaches, based on the following methods:

- Analysis of legal acts - includes a systematic study of relevant European directives, regulations and national laws governing financial reporting.
- Comparative analysis - involves a comparison of legislative solutions of the EU and the Republic of Serbia in order to determine the degree of harmonization and identify existing differences.
- Normative approach - is used to examine legal norms in their institutional and systemic context.
- Analysis of EU and Serbian documents - includes the study of relevant sources, such as documents of the European Commission, EFRAG, IASB, as well as national regulations, reports and expert papers.

The methodological framework set out in this way enables a comprehensive and integrated approach to research, which includes legal, institutional and practical aspects of the development of financial reporting, with the aim of formulating conclusions that have both theoretical significance and practical application.

### **Theoretical-methodological framework of financial reporting**

Financial reporting is an organized and systematic process of collecting, processing, presenting and interpreting financial information about the business

activities of an entity over a period of time. Its primary purpose is to provide accurate, reliable, relevant and comparable information to users inside and outside the organization, so that they can make rational and informed economic decisions based on this data (Venturelli et al., 2019). In a narrow sense, financial reporting refers to the preparation and presentation of financial statements in accordance with internationally accepted accounting standards, such as IAS and IFRS. In a broader sense, however, this term also includes additional reports that go beyond traditional financial indicators, including reports on sustainability, corporate governance and identified risks in the business (Tarquinio & Posadas, 2020).

The importance of financial reporting is reflected in its role in ensuring the transparency of the capital market, in strengthening the reliability of investment decisions and in increasing management's accountability to owners, creditors and the general public (Quick & Inwinkl, 2020). High-quality and properly implemented financial reporting contributes to preserving the stability of the entire financial system, more efficient capital allocation and better protection of the interests of all stakeholders. Within the corporate sector, financial reports have a key communication function between management and external users – investors, banks, regulatory bodies and shareholders. The balance sheet, income statement, cash flow statement and statement of changes in equity together provide a comprehensive insight into the financial position, profitability and liquidity of a business entity (Golubović & Janković, 2023). In this way, financial reporting enables the assessment of business performance and supports the making of strategic decisions on investment, financing structure and profit distribution. When it comes to the public sector, financial reporting has a more pronounced social dimension. Its main function is to ensure transparency in the work of public institutions and accountability in the spending of budget funds (Guthrie & La Torre, 2020). Within the budget process, financial reports play a central role in planning, controlling and evaluating public spending. In modern management models known as New Public Management, financial reporting also becomes an instrument for measuring the efficiency and success of public services and institutions (Vukša & Milojević, 2024). Although the basic goals of both sectors – transparency and accountability – are essentially the same, differences exist in the regulatory frameworks and applicable standards. The private, or corporate, sector is based on International Financial Reporting Standards (IFRS), while the public sector relies on International Public Sector Accounting Standards (IPSAS). Both sets of standards strive to achieve harmonization and alignment with the principles and requirements of the European Union, which is of utmost importance in the process of European integration.

The quality of financial reporting is based on three basic principles: transparency, accuracy and comparability. Transparency means that the information from the report is fully accessible, clear and understandable to all interested users. In this way, the information asymmetry between management and investors is reduced, market confidence is increased and the functioning of financial markets is improved (Waymire, 2009). The principle of accuracy, or reliability, refers to the need for financial statements to realistically, truthfully and objectively present the financial position and performance of an entity. This principle implies the consistent application of accounting policies, standards and methods that enable the data presented to reflect actual business events (Radebaugh et al., 2006). The third key principle, comparability, allows users to analyze changes in the financial results of an entity over time, as well as to make comparisons between different entities. This characteristic is particularly important for international investors and regulatory bodies, which further justifies the European Union's aspiration to create a single financial reporting framework based on IFRS standards (Neševski & Bojičić, 2024). The application of these principles not only strengthens the integrity of the financial system but also encourages greater accountability of management structures, improves decision-making processes and contributes to more efficient functioning of economic entities at all levels.

Research into the legal framework of financial reporting involves the application of multiple methodological approaches – normative, comparative and analytical.

The normative approach is used to study and interpret legal sources, including directives, regulations, laws and accounting standards, with the aim of determining their legal nature, hierarchical relationship and mutual compliance.

The comparative approach allows for a comparison of legal solutions valid within the European Union and the Republic of Serbia, as well as the identification of similarities, differences and potential problems in the transfer of the EU *acquis communautaire*.

The analytical approach includes a quantitative and qualitative assessment of the effects that the implementation of legal regulations has on the quality of financial reporting, the investment climate and institutional capacities (Rykaczewski et al., 2022).

In empirical research in this area, case studies are often used, which analyze the implementation of IFRS standards in individual EU member states, surveys among professional accountants and auditors, as well as statistical analyses of changes in the quality of published financial statements. Combining these

methodological approaches allows for a comprehensive overview of the legal, economic and institutional aspects of the financial reporting system.

### **Historical development and evolution of financial reporting legislation in the European Union**

The development of the financial reporting regulatory framework in the European Union (EU) has been a long and complex process that has progressed through several development phases – from individual national accounting regulations to a single European framework based on international financial reporting standards. The essence of this process was to create a system that would ensure greater transparency, comparability and reliability of financial data within the EU single market, thereby contributing to the efficiency of capital markets, investor security and improving economic confidence.

#### ***Early legislative developments – Fourth and Seventh EU Directives on balance sheets and consolidation***

The beginning of the harmonisation of accounting regulations within the then European Economic Community dates back to the 1970s, when the European Commission recognised that different national accounting systems needed to be harmonised in order to facilitate economic integration. As a result of these initiatives, two key directives were adopted – the Fourth Directive (78/660/EEC) and the Seventh Directive (83/349/EEC). The Fourth Directive, adopted in 1978, concerned the preparation of annual financial statements of individual companies. It established basic rules on the content and structure of the balance sheet, the profit and loss account, as well as the principles of valuation of assets, liabilities and capital. In particular, the principles of “true and fair view” and consistency in the application of accounting methods were emphasised. This directive was of crucial importance because it introduced a single framework for the first time that enabled cross-border comparability of financial statements within the Community (Nobes & Stadler, 2023). The Seventh Directive, adopted in 1983, expanded the legal basis by introducing mandatory consolidation of financial statements for groups of related companies. It defined the concepts of control, connectivity and the methodology for preparing consolidated balance sheets. In this way, conditions were created for a more realistic presentation of the financial position and performance of corporate groups (Leuz & Wysocki, 2016). These two directives were the foundation of European accounting legislation for more than twenty years, forming a bridge between national and supranational regulations. However, the intensive globalization of the market and the rapid development of the financial

sector in the 1990s showed that the existing solutions were not sufficient, which opened the way for a new, deeper reform.

### ***Reform and transition to international standards (IAS/IFRS)***

In the late 1990s, the European Union realized that partial harmonisation through directives could not ensure a high level of transparency and comparability of financial statements. Therefore, in 2002, Regulation (EC) No. 1606/2002 was adopted, which stipulates that all companies whose shares are traded on regulated markets in the EU must apply International Financial Reporting Standards (IFRS) starting from 1 January 2005. This regulation marked a turning point as the EU moved from a partial approach based on directives to a single system of international standards issued by the International Accounting Standards Board (IASB). The aim of this step was to increase transparency, strengthen investor confidence and reduce the cost of capital. The implementation of IFRS was also a strategic commitment towards global harmonisation of accounting practices, since the same standards were already widely used internationally. In this process, the European Commission took on the role of a regulator that confirms the standards adopted by the IASB, while national bodies were responsible for their implementation within their jurisdictions.

### ***The role of the IASB, EFRAG and the European Commission***

Within the European financial reporting system, three institutions have key functions:

1. IASB (International Accounting Standards Board) – an independent global body responsible for adopting and revising IFRS standards;
2. EFRAG (European Financial Reporting Advisory Group) – an advisory body established in 2001, which prepares analyses and recommendations to the European Commission on the acceptance of standards;
3. European Commission – has the formal authority to decide on the introduction of IFRS standards into European legislation through the endorsement process. EFRAG has an important intermediary role because it assesses whether the proposed standards are in line with the EU public interest, market stability and the protection of users of financial statements (EFRAG, 2024). This ensures a balance between international harmonisation and the specific needs of the Union.

### ***Directive 2013/34/EU on annual financial statements and its importance***

In 2013, the European Union adopted Directive 2013/34/EU, which replaced the Fourth and Seventh Directives with a single document. This directive carried out a fundamental reform of accounting legislation, adapting it to modern economic trends and the requirements of users of financial information. Simplified reporting obligations were introduced for micro, small and medium-sized enterprises, which reduced administrative costs, while at the same time increasing transparency requirements for large companies. The directive also highlighted the importance of management reporting, which includes non-financial aspects and risk data (European Commission, 2024). In this way, the principle of proportionality was introduced, i.e. a more flexible reporting system that takes into account the size and importance of the company, while preserving the integrity and credibility of financial information.

### ***Introduction of the concept of non-financial reporting (Directive 2014/95/EU)***

Given the growing importance of social responsibility and sustainable business, Directive 2014/95/EU, known as the Non-Financial Reporting Directive (NFRD), was adopted in 2014. This regulation obliged large public-interest entities with more than 500 employees, including banks and listed companies, to publish information on environmental issues, social and labor relations, respect for human rights and the fight against corruption. The purpose was to expand financial reporting to include data on the social and environmental performance of businesses, thereby contributing to greater corporate responsibility and long-term sustainability. With this regulation, the European Union laid the foundations for integrated reporting that links financial and non-financial performance (Fiechter et al., 2022).

### ***Latest trends – CSRD (Corporate Sustainability Reporting Directive) and ESRS standards***

The latest step in the development of the European reporting system is Directive (EU) 2022/2464, known as the CSRD (Corporate Sustainability Reporting Directive), which entered into force in December 2022. This directive significantly expands the scope and mandatory nature of sustainability reporting, covering around 50,000 companies in the EU, including branches of foreign corporations. The CSRD introduces the application of the European Sustainability Reporting Standards (ESRS), developed by EFRAG, which cover areas such as climate change, circular economy, human rights, supply chain and corporate governance. The aim is to provide reliable, standardised and verifiable sustainability data. This directive represents a shift from voluntary to mandatory

sustainability reporting, making European financial reporting integrated, accountable and focused on long-term business sustainability and social interest.

### **Institutional and regulatory framework for financial reporting in the European Union**

The development of financial reporting regulations in the European Union (EU) has been in line with the broader strategic objective of building a single capital market and strengthening business transparency in the economy. The key actor in this process is the European Commission (EC), which has the competence to propose legal acts and implement policies in the field of accounting and financial reporting. Through the Directorate-General for Financial Stability, Financial Services and Capital Markets Union (DG FISMA), the Commission oversees the preparation and implementation of regulations relating to accounting and auditing standards (De Simone & Olbert, 2022). In cooperation with the European Financial Reporting Advisory Group (EFRAG), the Commission is responsible for approving International Financial Reporting Standards (IFRS) for use within the EU. The process itself includes the analysis of standards adopted by the International Financial Reporting Standards Board (IASB) and their adaptation to the European legal framework through the adoption of regulations (Breuer et al., 2018). In parallel, the European Parliament has both a legislative and control function in the process of adopting regulations governing financial reporting. It, in cooperation with the Council of the European Union, participates in the adoption of directives and regulations relating to accounting practice, auditing and the publication of financial statements. The role of Parliament is particularly evident in the field of political oversight of the implementation of regulations, especially in terms of corporate responsibility and business transparency (Savić & Bonić, 2022; Milanović & Gojkov, 2024). The joint action of the Commission and Parliament enables the creation of a dynamic and adaptable regulatory system that responds to global economic changes and the demands of modern users of financial information, including the growing need for non-financial and sustainable reporting (Arafat et al., 2020). Although the EU has a centralized framework for regulating financial reporting, the implementation and control of the implementation of this regulation is entrusted to the Member States. Each Member State has a national competent body responsible for the implementation of directives and regulations in the field of accounting and auditing. These are usually ministries of finance, capital market commissions, chambers of auditors and specialized agencies that supervise financial reporting (e.g. in Germany – Bundesanzeiger Verlag and BaFin; in France – Autorité des normes comptables; in Italy –

Organismo Italiano di Contabilità). These institutions are tasked with ensuring the consistent application of approved standards and guaranteeing the reliability, accuracy and public availability of financial reports (Lanfermann et al., 2021). In addition to national regulators, European Supervisory Authorities (ESAs), and in particular the European Securities and Markets Authority (ESMA), also play an important role in the system. ESMA ensures the uniform application of IFRS across the entire European capital market, issues guidelines and conducts regular quality checks of financial reporting. In this way, a high degree of compliance, comparability and transparency is achieved between companies from different member states (Velte, 2021). This multi-layered system of oversight, involving national and supranational institutions, allows the EU to maintain a high level of reliability of financial information, which contributes to greater efficiency of capital markets and strengthening investor confidence. The application of International Financial Reporting Standards (IFRS) in the EU is based on a clearly defined approval and legal adoption process. When the IASB adopts a new standard or amendments to an existing one, EFRAG conducts a detailed technical analysis of its potential effects on users of financial statements in the EU. Based on EFRAG's opinion, the European Commission proposes a regulation approving the standard for use, which is then confirmed by the Council of the European Union (Vitolla et al., 2019). This ensures that the standards are applied only if they are in line with the public interest and if they contribute to financial stability and market efficiency. Once adopted, IFRS becomes a binding legal instrument for all companies whose securities are traded on regulated markets in the EU (Tsalis et al., 2020). Supervision of the implementation of IFRS takes place at three hierarchical levels:

1. At the internal level, supervision is carried out by the management structures of companies and independent auditors;
2. At the national level, competent state bodies check the compliance of financial statements with the prescribed standards;
3. At the European level, ESMA coordinates the supervisory activities of the member states and publishes joint reports and findings (Lu & Wang, 2021).

This multi-tiered model of supervision ensures consistent and uniform application of IFRS across the EU, reducing the risk of regulatory arbitrariness and increasing the comparability of reports. Understanding the legal nature of the EU instruments is crucial for interpreting its financial reporting system. Within the European legal order, Regulations and Directives represent the basic legislative acts, but they differ in their degree of binding force and legal effects.

- Regulations are of general nature, binding in their entirety and directly applicable in all Member States, without the need for national transposition. In the context of financial reporting, the most significant is Regulation (EC) No. 1606/2002, which stipulates the mandatory application of IFRS for public joint-stock companies in the EU. This regulation has the legal force of directly applicable law and ensures uniform application of the standards in all Member States (Dašič et al., 2023).
- Directives, on the other hand, bind Member States only with regard to the objective set, while leaving them free to independently choose the methods and means of implementation in national legislation. An example is Directive 2013/34/EU, which regulates the annual and consolidated accounts of certain companies, and which replaced the former Fourth and Seventh Directives. Member States must transpose this directive into their laws, but they have the option of partially adapting certain provisions to national specificities (Khlif, 2016).

Viewed hierarchically, regulations have greater legal force than directives because they create direct rights and obligations. However, both instruments complement each other: regulations ensure the harmonisation of capital markets, while directives allow for flexibility within national systems. In this way, the EU achieves a balance between legal uniformity and regulatory subsidiarity, which is one of the fundamental principles of European law (Savić et al., 2025a).

### **Financial reporting regulations in the Republic of Serbia**

The development of financial reporting legislation in the Republic of Serbia can be observed through several developmental stages that reflect the process of gradual transition from a planned economy to a market economy, as well as progressive harmonization with European norms and international standards (Paspalj et al., 2024). The first important stage in this process began with the adoption of the Law on Accounting and Auditing from 2006 ("Official Gazette of the RS", No. 46/2006). This law introduced for the first time the mandatory application of International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) for large legal entities and public companies. Thus, Serbia began its official harmonization with global accounting rules and significantly moved away from the previous model of bookkeeping, which was based on the principles of a planned economy. This step represented an important milestone in the development of domestic financial reporting regulations. The second phase of development was the adoption of the Accounting Law of 2013 ("Official Gazette of the Republic of

Serbia", No. 62/2013), which introduced a clear division of legal entities by size - into micro, small, medium and large enterprises. The criteria for classification were determined based on the number of employees, the value of assets and revenues. This law more precisely regulated the application of IAS and IFRS, while IFRS for Small and Medium-sized Enterprises (IFRS for SMEs) was introduced for micro and small legal entities. In this way, the principle of proportionality and rationality in financial reporting was achieved, considering the volume of business and the importance of individual entities (Radovanović et al., 2024). The third, modern phase includes the Accounting Law of 2019 ("Official Gazette of the Republic of Serbia", No. 73/2019, 44/2021 - other laws and 123/2021), which represents an important step forward in improving the regulatory system. This regulation introduces new obligations regarding the digital submission of financial statements to the Business Registers Agency (BRA), and further strengthens the role of the Ministry of Finance in its normative, control and supervisory function. It also stipulates that official translations of international standards must be published in the "Official Gazette of the Republic of Serbia", thus ensuring greater legal certainty and transparency.

The Ministry of Finance of the Republic of Serbia plays a key role in shaping and implementing financial reporting policy. Its responsibilities include preparing and proposing laws and by-laws, harmonizing domestic regulations with the *acquis communautaire*, and issuing expert opinions regarding the application of accounting standards. The Ministry is also responsible for approving translations and publishing international standards, as well as maintaining the register of certified auditors and audit firms (Ministry of Finance, 2024).

The Chamber of Certified Auditors (KOR), as a professional and independent organization, plays a significant role in strengthening and developing the accounting and auditing profession. Its activities include conducting education and continuous professional development of auditors, issuing licenses, and supervising their work. The Chamber actively cooperates with the Ministry of Finance and international organizations on the implementation of new standards in the field of accounting and auditing (Guthrie et al., 2019).

The Business Registers Agency (BRA), established in 2005, is responsible for the collection, processing, and public publication of financial statements of all taxpayers. The electronic reporting system, introduced in 2013, has enabled a significant increase in the efficiency and transparency of financial information. BRA manages the Public Register of Financial Statements, which provides open access to data of legal entities to the public, investors, creditors, and state

authorities, thereby contributing to market discipline and strengthening trust in the financial system (BRA, 2024).

The implementation of IFRS and IAS in Serbia, which began in 2006, has been continuously improved through amendments to the law and accompanying regulations. The standards are taken directly from the original IASB (International Accounting Standards Board) documents, with mandatory publication of the translation in the "Official Gazette of the Republic of Serbia". Legal entities are classified by size, and their obligation to apply the standards depends on that classification. Large and medium-sized companies, as well as public interest entities (banks, insurance companies, public joint-stock companies), must apply IFRS in full, while smaller legal entities can use IFRS for SMEs.

The Ministry of Finance cooperates with the Chamber of Certified Auditors and the National Bank of Serbia in the process of harmonization, thus ensuring the compliance of accounting regulations with the regulations of the banking and insurance sectors (Žikić et al., 2024). This integration has contributed to greater comparability of financial statements of domestic companies with those from EU countries, which has had a positive impact on attracting foreign investment and easier access to international capital markets. The transparency of financial statements is the foundation of the functioning of a market economy and building investor confidence. In Serbia, the system of transparency and control is organized at multiple levels – normative, professional and institutional (Archel et al., 2011). On the normative front, the 2019 Accounting Law stipulates that all legal entities and entrepreneurs who maintain double-entry bookkeeping must submit annual and consolidated financial statements to the Serbian Accounting Authority within established deadlines. The Serbian Accounting Authority verifies the formal correctness of the report, while the accuracy of the content is verified through external audits and inspection supervision by the Ministry of Finance. Transparency is further enhanced by a publicly available register of financial statements, which enables easier analysis of the creditworthiness and business performance of companies. The Chamber of Certified Auditors supervises the quality of auditors' work and their reports, while the Ministry of Finance is authorized to conduct administrative supervision over the work of both the Chamber and the APR (Savić et al., 2025b). The process of harmonizing domestic legislation with the *acquis communautaire* in the field of financial reporting is an ongoing activity carried out under Chapter 6 – Company Law during the EU accession negotiations. Although Serbia has made significant progress in implementing IFRS and increasing transparency, there are still certain challenges in fully aligning with

European directives, especially in the segment of non-financial reporting (ESG) and the implementation of Directive (EU) 2022/2464 – CSRD (Corporate Sustainability Reporting Directive). The most important challenges relate to:

- strengthening the institutional capacities of the Ministry of Finance and the Chamber to monitor new regulations,
- harmonizing national criteria for company classification with Directive 2013/34/EU,
- ensuring high-quality and legally authentic translations of IFRS standards,
- improving public oversight of auditing in accordance with EU requirements.

In the coming years, further modernization of the legal framework, full implementation of European accounting standards, improvement of corporate governance and strengthening of investor confidence in the financial reporting of the Republic of Serbia are expected (Doni, 2019).

### **Comparative analysis – EU and Serbia**

#### ***Similarities and differences in the legal framework***

The legal framework for financial reporting in the European Union and the Republic of Serbia shows a high degree of convergence, although significant differences in institutional and normative structures still exist. The European Union, through the long-term process of establishing a single market, has developed a comprehensive set of rules that ensure the transparency, comparability and reliability of financial information. Key legal acts include Directive 2013/34/EU on annual and consolidated financial statements and related reports, Directive 2014/95/EU on non-financial reporting, and Regulation (EC) No. 1606/2002 on the application of International Financial Reporting Standards (IFRS) in the Member States. The Republic of Serbia, in line with the European integration process, has integrated the basic principles of these European regulations through the Accounting Law (Official Gazette of the Republic of Serbia, No. 73/2019) and the Audit Law (Official Gazette of the Republic of Serbia, No. 73/2019). These laws prescribe the application of international accounting standards issued by the International Accounting Standards Board (IASB), which is in line with EU guidelines. In addition, in Serbia, financial statements are publicly available through the Business Registers Agency (BRA), which achieves a similar level of transparency as in EU Member States. However, there are noticeable differences in terms of the

institutional independence of regulatory bodies, mechanisms for monitoring the implementation of standards and sanctioning irregularities. While the EU operates through a multi-layered supervisory system that includes the European Capital Markets Supervisory Authority (ESMA) and national regulatory commissions, in Serbia this function is primarily performed by the Ministry of Finance and the Chamber of Certified Auditors, which may affect the efficiency of regulatory implementation.

### ***Level of compliance of domestic regulations with EU directives and regulations***

Serbia's compliance with EU regulations in the field of financial reporting is assessed as high, especially in the segment of corporate reporting. The EU directive framework has been largely transposed through legislative reforms implemented between 2013 and 2019. In accordance with Directive 2013/34/EU, Serbia introduced a classification of legal entities by size (micro, small, medium and large) and prescribed the scope of financial statements in accordance with that categorization. However, full harmonisation has not yet been achieved. Differences are particularly noticeable in relation to non-financial reporting and the upcoming implementation of the Sustainability Reporting Directive (SRDD, 2022/2464/EU) and the European Sustainability Reporting Standards (ESRS), which have not yet been implemented in the Serbian legal system. Also, Serbia currently does not have a fully developed supervisory system that would be fully in line with EU practices. In the area of auditing, rules relating to auditor independence and public interest obligations are partially aligned with Directive 2006/43/EC, but limitations remain regarding the quality of control and the exchange of information between national regulators and European bodies.

### ***Problems in the transfer of the *acquis communautaire* into the domestic system***

The process of implementing the *acquis communautaire* into the domestic legal system faces numerous challenges (Contrafatto et al., 2019). The first problem concerns legal terminology and the harmonization of concepts, as certain terms from EU directives do not have direct equivalents in domestic legislation. The second challenge is the insufficient administrative and institutional capacity to implement complex regulations, especially in terms of supervision and quality control of financial reporting. The third problem relates to the lack of professional staff trained in the application of new standards, especially in the segment of sustainable and integrated reporting. Also, delays in the adoption of secondary legislation and uneven interpretation of regulations in practice are

common challenges. All of these factors slow down effective harmonization and reduce trust in financial statements, which is crucial for the development of the capital market and attracting foreign investment.

### ***Impact of Serbia's accession negotiations (Chapter 6 – Company law and corporate governance)***

Serbia's accession negotiations with the European Union, especially within Chapter 6 – Company Law, have a significant impact on the development of financial reporting regulations. This chapter covers the areas of accounting, auditing and corporate governance, which are directly related to standards of transparency and accountability in business (Savić et al., 2025b). So far, Serbia has made significant progress in regulatory alignment, but the European Commission in its progress reports regularly highlights the need to strengthen institutional enforcement and the independence of regulatory bodies. Serbia is also expected to adapt its legal framework to the new requirements imposed by the CSRD and ESRS standards in the coming period, which will require coordinated cooperation between the Ministry of Finance, the Securities and Exchange Commission, the National Bank of Serbia and business entities.

### ***Effects of harmonization on transparency and investment climate***

The harmonization of the legal framework for financial reporting with EU regulations has brought visible positive results in terms of business transparency in Serbia. The mandatory application of international accounting standards has contributed to greater comparability of financial reports, while the public availability of data through the APR increases investor confidence and facilitates the assessment of financial risk. Increased transparency also has broader macroeconomic consequences: it stimulates foreign direct investment (FDI), contributes to the development of the capital market and strengthens corporate governance. However, the full effects of harmonization can only be achieved when consistent application of regulations, continuous education of accountants and auditors, and effective supervision of reporting are achieved (Cho et al., 2015). Additionally, the introduction of mandatory non-financial and ESG (Environmental, Social, Governance) reports in the future could significantly improve corporate responsibility and position Serbia as a country that strives for modern EU business standards.

## **Implications and challenges for Serbia**

### ***Advantages of harmonization with European Union legislation***

The process of harmonizing the legal framework of financial reporting in the Republic of Serbia with European Union regulations represents a significant and

key step in strengthening the institutional infrastructure, improving business transparency and increasing investor confidence. Harmonization with European directives and regulations, in particular with Directive 2013/34/EU on annual financial statements and Directive 2014/95/EU on non-financial reporting, enables the application of common reporting standards, which contributes to greater comparability of financial data and information in the European Union market (Uyar et al., 2021). One of the most important advantages of harmonization is reflected in increasing transparency and improving the quality of published information, which directly affects the more efficient functioning of the capital market and reducing information asymmetry among participants. At the same time, harmonization contributes to creating a more favorable investment environment because EU investors can more easily assess the financial condition and business performance of companies in Serbia, thus encouraging greater attractiveness for foreign investments (Pizzi et al., 2021). An additional benefit comes from the integration of professional standards in the field of accounting and auditing, which further strengthens the institutional framework and increases the accountability of business entities. The introduction of international accounting standards (IFRS and IAS) into domestic legislation improves the credibility of financial statements, while alignment with the requirements of EU directives stimulates the development of corporate governance and strengthens the role of supervisory authorities (Caputo et al., 2021). Therefore, harmonization is not only a formal legal requirement in the process of joining the European Union, but also a strategic instrument for modernizing Serbia's financial system, improving business culture, and establishing sustainable economic development based on transparency and accountability.

***Risks and obstacles in the process of implementing new directives (especially CSRD)***

Although harmonization brings numerous benefits, the process of implementing European directives into the domestic legal framework is not without challenges. A particularly complex task is the alignment with the Corporate Sustainability Reporting Directive (CSRD), which is being implemented gradually from 2024 and introduces the obligation of detailed reporting on the impact of business on the environment, society and governance (ESG) (Nishitani et al., 2020). The main obstacles to the implementation of CSRD in Serbia relate to insufficient institutional preparedness and limited capacities of companies, especially small and medium-sized enterprises. Many companies that are obliged to report on financial performance do not yet have developed internal systems for collecting and processing data on non-financial indicators,

which makes the implementation of new standards difficult (Bučalina Matić, 2023; Škrbić et al., 2023). In addition, regulatory challenges include the need to adapt the domestic Accounting Law and the Law on Companies to the requirements of the CSRD, as well as the development of national guidelines and control mechanisms (de Sousa, 2024). The lack of domestic expertise in sustainability reporting may result in uneven application of standards and increased compliance costs, especially during the transition period. There is also a risk of formalism – that is, that reporting entities focus more on meeting the minimum legal requirements without truly integrating ESG principles into business strategies, which could reduce the actual impact of the directive itself (Tost et al., 2018).

### ***Impact on the accounting profession, auditing and reporting entities***

The implementation of new European directives is significantly changing the structure and role of the accounting and auditing profession in Serbia. Accountants are faced with the requirement to expand their competencies – in addition to traditional financial knowledge, knowledge of non-financial indicators, sustainability and ESG factors is necessary. These changes are transforming the accounting profession from a passive reporting function to an active participant in the strategic decision-making process (Rankin et al., 2011). According to the CSRD Directive, auditors will have expanded tasks that include verification and confirmation of non-financial reports, which requires additional education, new methodologies and quality control standards. This implies the need to modernize audit approaches and more intensive cooperation with experts in the fields of environmental protection, social sciences and risk management (Macellari et al., 2021; Majstorović & Obrić, 2023). For reporting entities, especially large companies and public companies, compliance with EU regulations means a significant increase in the scope of obligations. In addition to additional costs for preparing reports and training employees, there is a need to introduce system solutions and IT tools for monitoring sustainability data. In the long term, these changes contribute to greater transparency, a better corporate image, and easier access to financing from international investors.

### ***The need for institutional and educational adaptation***

Successful implementation of European regulations requires strengthening of institutions and comprehensive educational adaptation in Serbia. At the institutional level, it is necessary to strengthen the capacities of the Ministry of Finance, the Business Registers Agency (BRA), the Securities Commission and the Chamber of Certified Auditors, so that they can effectively monitor the implementation of new regulations and standards. The education system must

keep pace with these changes – faculties of economics and law should integrate into their curricula areas such as sustainability accounting, corporate responsibility and the EU regulatory framework for reporting (Gallego-Alvarez & Pucheta-Martínez, 2020). Also, continuous professional education through mandatory CPD programs is becoming a key factor in maintaining the quality of the profession. In this context, cooperation between academic institutions, professional bodies (such as IFAC, ACCA and the Chamber of Certified Auditors of Serbia) and regulatory authorities plays an important role, with the aim of creating an integrated knowledge system that follows the development of European legislation and market requirements. All of the above indicates that harmonization with EU regulations is not only a legal and technical process, but also a comprehensive transformation of the domestic financial and accounting system, which requires an interdisciplinary approach, coordination of institutions and continuous investments in human capital.

### **Conclusion**

The evolution of the financial reporting framework within the European Union reflects a long-term and systematic process of harmonizing legal, economic and institutional mechanisms with the aim of achieving a higher level of transparency, comparability and reliability of financial information. Starting from the first directives relating to balance sheets and consolidated financial statements in the 1970s, through the gradual adoption of International Financial Reporting Standards (IFRS), to the modern directives covering non-financial and sustainability reporting, such as the NFRD and the CSRD, the European Union has developed a comprehensive and robust legal framework that provides a high level of protection of the interests of investors, creditors and the general public.

The research identified several key findings that shed light on the process of harmonization of financial reporting in the EU:

- Harmonization of financial reporting in the European Union relies on a combination of directives and regulations that together provide a single legal basis, but at the same time allow for a certain degree of flexibility in national implementation, adapting to the specificities of each Member State.
- Directive 2013/34/EU marked a significant turning point in the simplification, standardization and harmonisation of accounting obligations among Member States, while Directive 2014/95/EU, together with the CSRD, further expands reporting obligations and covers non-financial and sustainable aspects of a company's business.

- Serbia has significantly aligned its legislation with relevant EU regulations, primarily through the 2019 Accounting Law, which provides for the application of IFRS and IAS standards, but also through strengthening institutional capacities through the Business Registers Agency (BRA), the Ministry of Finance and the Chamber of Certified Auditors.
- Despite the progress achieved, challenges remain in full harmonisation, especially when it comes to the implementation of sustainable reporting standards, the quality of audit supervision and the underdeveloped system of education on the application of new standards.

The hypotheses of this research, which related to the assumption that the harmonization of financial reporting legislation within the EU has a positive impact on the quality and transparency of financial reporting in candidate countries, were largely confirmed. The analysis showed that the transposition of European directives into domestic legislation contributes to greater comparability of financial information and strengthens the trust of users of such data. The hypothesis that Serbia is fully following the dynamics of EU reforms was partially confirmed - although there is a high degree of legislative harmonisation, the implementation practice still lags behind due to technical and institutional limitations.

In order to further improve the financial reporting system and better harmonization with EU regulations, the following measures are proposed:

- Further strengthening of regulatory oversight through expanding the capacities of the Ministry of Finance and the Business Registers Agency, especially in the area of controlling the accuracy and completeness of reports.
- Improving the education and professional development of accountants, auditors and lawyers in relation to the implementation of the new European Sustainable Reporting Standards (ESRS).
- Digitalization of the reporting process, including the introduction of a single electronic report format (ESEF), in line with EU practice.
- Increasing transparency and public availability of data from financial and non-financial reports, as well as establishing a national database to monitor sustainability reporting.
- Developing cooperation with European regulatory bodies and more active involvement of Serbia in the work of EFRAG in order to timely adopt new standards.

Future research could focus on:

- Analyzing the effects of the implementation of the Corporate Sustainability Reporting Directive (CSRD) on the business of Serbian companies;
- Examining the impact of digital transformation and artificial intelligence on the legal and accounting regulations of reporting;
- Comparative analysis of Serbia and other candidate countries, such as Montenegro and North Macedonia, in terms of the implementation of EU standards;
- Assessing the link between the quality of financial reporting and foreign direct investment in post-transition economies.

In conclusion, the evolution of financial reporting legislation within the EU is a dynamic and continuous process that has significantly improved corporate governance and market discipline. For Serbia, harmonization with the European legal framework represents not only a normative challenge, but also a development opportunity — through strengthening transparency, increasing investor confidence, and strengthening institutional stability, alignment with EU regulations becomes a key step towards a modern, responsible, and sustainable financial system.

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# EVOLUCIJA PRAVNE REGULATIVE FINANSIJSKOG IZVEŠTAVANJA U EVROPSKOJ UNIJI I IMPLIKACIJE ZA SRBIJU

## *Apstrakt*

*Finansijsko izveštavanje predstavlja ključni mehanizam za obezbeđivanje transparentnosti, odgovornosti i poverenja na tržištu kapitala i u širem ekonomskom sistemu. Razvoj pravnog okvira Evropske unije odražava dugoročan proces harmonizacije usmeren ka unapređenju uporedivosti i pouzdanosti finansijskih informacija među državama članicama. Temeljne direktive, kasnije objedinjene Direktivom 2013/34/EU, uspostavile su savremen okvir za finansijsko i nefinansijsko izveštavanje, dodatno unapređen Direktivom 2014/95/EU i Direktivom o korporativnom izveštavanju o održivosti (CSRD). Kao zemlja kandidat za članstvo u Evropskoj uniji, Republika Srbija ostvarila je značajan napredak u usklađivanju svog zakonodavstva sa evropskim standardima, posebno donošenjem Zakona o računovodstvu iz 2019. godine. Međutim, i dalje postoje izazovi u punoj primeni Međunarodnih standarda finansijskog izveštavanja (MSFI), kao i u jačanju institucionalnog nadzora i kontrole kvaliteta. U radu se analizira evolucija pravne regulative finansijskog izveštavanja u Evropskoj uniji, procenjuje nivo harmonizacije u Republici Srbiji i identifikuju ključni izazovi i mogućnosti za dalje unapređenje.*

***Ključne reči:*** *finansijsko izveštavanje, pravna regulativa, harmonizacija, međunarodni standardi finansijskog izveštavanja (MSFI)*

***JEL:*** *M41, K22, G38*

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