

Accounting: Commission welcomes adoption of Directive partially exempting more SMEs from financial reporting rules

The European Commission has welcomed the definitive adoption by the EU's Council of Ministers of a Directive which will allow thousands of small and medium-sized enterprises (SMEs) to be exempted from certain accounting requirements. The Directive amends the existing Accounting Directives by raising by about 17% the thresholds for turnover and balance sheet total under which Member States can apply the exemptions. The Council's move follows a Commission proposal in January 2003.

Internal Market Commissioner Frits Bolkestein said "This will lighten the regulatory burden on thousands of smaller and medium-sized companies in the EU, while maintaining sufficient transparency and protection against fraud. Allowing small and medium-sized businesses to spend more time on creating wealth and less on administration will also give the European economy as a whole a much-needed boost."

Under the 4th and 7th Company Law Directives (78/660/EEC and 83/349/EEC), also known as the Accounting Directives, Member States have the option of granting SMEs exemptions from certain financial reporting and disclosure requirements usually imposed on limited liability companies. For example, Member States may allow them to publish only an abridged balance sheet, abridged notes to the accounts and an abridged profit and loss account.

In addition, Member States may exempt small – though not medium-sized – companies from publishing a profit and loss account or an annual report, from disclosing certain types of information in their accounts and from having their accounts audited.

The definitions of SMEs in the Fourth Company Law Directive and the thresholds therein are for accounting purposes only. To qualify under the Directive as either a "small" company or a "medium-sized" one, there are three criteria, of which companies must meet at least two.

They must not have more than a certain number of employees and their balance sheet total (the value of the company's main assets – defined as the total of subscribed capital unpaid, formation expenses, fixed assets, current assets prepayments and accrued income) and net turnover (income from sales after deduction of rebates, value added tax and other turnover taxes) must be below certain figures.

Under EU law, these thresholds are revised every five years to take account of economic and monetary trends. On the basis of these trends since the last revision, the new Directive, which follows a Commission proposal in January 2003, increases the thresholds for balance sheet total and net turnover by 16.8% as follows:

| | "Small" companies | | "Medium-sized" companies | |
|----------------------------|-------------------|----------------|--------------------------|----------------|
| | Old | New | Old | New |
| Balance sheet total | € 3.125 million | € 3.65 million | € 12.5 million | € 14.6 million |
| Net turnover | € 6.25 million | € 7.30 million | € 25 million | € 29.2 million |

The Directive leaves the "employees" threshold unchanged, at 50 to qualify as a "small" company and 250 for "medium-sized" enterprises.

These definitions of SMEs in the accounting Directives are separate and distinct from the definitions laid down in Commission Recommendation 96/280/EC that are used by Member States, the Commission and the European Investment Bank inter alia for defining SMEs eligible for support programmes and loans. These were also recently modified (see [IP/03/652](#)).

The Council also recently adopted (6th May, see [IP/03/638](#)) a more wide-ranging Directive amending the Accounting Directives to bring existing EU rules into line with current best practice. These amendments will complement the International Accounting Standards (IAS) Regulation, adopted in June 2002, that requires all EU companies listed on a regulated market to use IAS from 2005 onwards and allows Member States to extend this requirement to all companies.

The full text of the new Directive can be found at:

http://europa.eu.int/comm/internal_market/accounting/officialdocs_en.htm