

Brussels, 29 September 2008

## **McCreedy announces major initiatives on accounting rules for small businesses**

***Charlie McCreedy, Commissioner for the Internal Market and Services has announced today, a Member State option to exempt micro entities and a review of the Accounting Directives for small businesses. Mr. McCreedy said:***

- "This is a difficult period. All the talk in the press is about the banks, the big financial institutions, the mortgage lenders. We are all affected by what is happening. What we must not forget is that for small businesses, life goes on. They remain the backbone of the European economy. Over the past few months, I have thought long and hard about what more we can do to ease the burden for SMEs.
- The Commission and Member States are committed to reducing the administrative burden on SME's by 25%. This is no easy task and translating it into action has not been easy. There are no quick fix solutions and it is not just about figures.
- In the area of company law, for which I am responsible, we have already adopted measures aimed at reducing the administrative burden on SMEs. These measures were fast tracked in 2007 and April 2008. Each of these measures, in one way or another, eases the reporting requirements on SMEs. The Commission adopted a further package which would reduce the reporting requirements of companies in the case of mergers and divisions. The total savings potential of the measures proposed, so far, in the area of company law is now 1 billion €/year. All of the measures that have so far been adopted were first floated in the 2007 Commission Communication on a simplified business environment for companies.
- Another proposal put forward in the 2007 Communication was the idea to allow Member States to exempt very small companies or so called "micro entities" from the EU's Accounting Directives.<sup>1</sup> When we consulted on this proposal, 59% of replies were in favour. These were mainly companies and public authorities. Those against included parts of the accountancy profession, and some Member States.
- In July 2008, the High Level Group of Independent Stakeholders on Administrative Burdens, headed by Edmund Stoiber, delivered its final opinion on burden reduction for companies. The Group had before it a Report prepared by outside consultants. That Report found that there could be an immediate saving of €5.7billion, if micro entities were exempted from the accounting framework and no longer had to prepare annual accounts.

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<sup>1</sup> Fourth Council Directive 78/660/EC and the Seventh Council Directive 89/349.

However, the Stoiber Group was not united on this issue. Discussions that had taken place in May of this year showed up sharp divisions within the Group on the question of whether to exempt micro entities from the Accounting Directives. After long deliberation, a "compromise" proposal of allowing Member States to decide for themselves whether to exempt micro entities emerged. It was decided that this should be put to the vote as no consensus could be reached. In July, the Stoiber Group voted in favour of this compromise proposal. There were 9 in favour of this compromise, 3 were against and there were 3 abstentions. The Group called on the Commission to bring forward a proposal to allow Member States to exempt micro entities from the accounting Directives

- I have since had the opportunity to meet Edmund Stoiber and discuss the findings of the Report with him. I listened to him carefully as he put his case as to why it would be a good thing for micro entities, if we were to follow the opinion of the majority of his Group. Herr Stoiber firmly believes that now is the right time to do this for European business.
- I should add that on 21 May of this year, in a report adopted by the European Parliament on a simplified business environment for companies, German MEP Klaus-Heiner Lehne also welcomed an exemption for micro entities from the accounting framework.
- The Accounting Directives have been around for 25-30 years and to date there has been no real attempt to update them. The Accounting Directives were designed as general rules with all businesses in mind –large or small. Furthermore, they already allow Member States to exempt certain types of companies from the requirements. With the move to IFRS for listed companies, the Accounting Directives have become less relevant. Many companies are now outside their scope altogether.
- As the deliberations of the Stoiber Group have shown, there are many sides to this debate and there is no easy solution to this. I am told that on average, micro entities would save as much as €1200 per year. In the current climate, that is no mean saving.

Therefore, I have decided to propose to the Commission, the following:

- I consider that, on balance, there is merit in the Stoiber Group's proposal that Member States should be allowed **the option** to exempt micro entities from the accounting requirements.
- I believe the time has now come to overhaul the Accounting Directives – indeed to modernise them. Of course, we can continue to make piecemeal changes- simplify the requirements for publication, disclosures and even the layout of the balance sheet. But there is no point in simply tinkering with the legislation. In this review, we will be guided by **the "think small first" principle.**