

European Commission
DG Internal Market and Services
Unit F3 – Accounting
SPA 2 (JII), 02/085
B-1049 Brussels

markt-review-consultation@ec.europa.eu

Your Reference

Our Reference

30 April 2009

Dear Sirs,

Response to DG Internal Market and Services working document: consultation on the review of the Accounting Directives

I am pleased to respond, on behalf of all Deloitte Touche Tohmatsu member firms in the European Economic Area, to the consultation launched by DG Internal Market and Services (the “Commission Services”) on the review of the Fourth and Seventh Company Law Directives (the “Accounting Directives”).

We welcome this timely review and modernization of the Accounting Directives and support a large number of the changes proposed in the consultation paper.

In our view the Accounting Directives should, in principle, not provide Member State options concerning pure accounting (i.e. the recognition and measurement of assets and liabilities). The harmonization of accounting within the European Union benefits users (increased comparability of accounts within the EU) and preparers (reduced costs for groups of companies and economies of scale generally) and generally facilitates cross-border trade and services, including accounting and audit. However, we recognize that Member States use accounting information in different ways and so the need to provide certain options may continue as regards additional information that may be required under tax or corporate governance law or practices or requirements that can be deemed to depend upon the specific business environment of a Member State. The onus will be on Member States to justify the additional costs to business of making use of these options, or providing additional requirements to those set out in the Accounting Directives, upon the basis of the specific Member State context.

We believe that certain options should be left for companies, to allow them some flexibility to prepare their financial statements so as to meet the needs of users.

We support principles-based revised Accounting Directives and believe these could be the foundation for Europe’s contributions to wider international debates on accounting standards.

In the short and possibly medium term the (revised) Accounting Directives will continue to form the European legal accounting framework for non listed companies. However, we do not believe this should remain the case in the long term as by their nature directives are not flexible enough to rapidly reflect changing economic needs and do not necessarily reflect views from beyond Europe. We support convergence towards a single set of high-quality global accounting standards, adapted as required for entities that are not publicly accountable and SMEs, prepared through a robust and independent standard-setting process that includes broad stakeholder participation. We believe that Europe needs to make a strong contribution to that process and that maintaining a parallel European accounting framework for the long term would not be a good use of resources or benefit European preparers and users.

We ask that the Commission work towards providing a mechanism for Member States to opt to use directly the forthcoming standard from the IASB on accounting for non-publicly accountable entities. This mechanism should be based on the test that the accounting requirements of the Directives are met through use of that simplified IFRS.

Please find attached replies to specific questions set out in the consultation paper.

If you have any questions on any of the points in this response, please do not hesitate to contact me at + 32 2 600 6536.

Yours faithfully,



Hendrik Descheemaeker
Partner



EUROPEAN COMMISSION

Internal Market and Services DG

FREE MOVEMENT OF CAPITAL, COMPANY LAW AND CORPORATE GOVERNANCE
Accounting

Brussels, 26 February 2009

F3/ D(2009)

WORKING DOCUMENT OF THE COMMISSION SERVICES (DG INTERNAL MARKET)

CONSULTATION PAPER ON REVIEW OF THE ACCOUNTING DIRECTIVES

Cutting Accounting Burden for Small Business / Review of the Accounting Directives

This project is the third step in the simplification of accounting rules for SMEs and other companies in the scope of the Fourth and Seventh Company Law Directives ("Accounting Directives"). It was preceded by the fast-track adoption in 2008 of a first series of amendments simplifying disclosure requirements for medium-sized companies and clarifying the obligation to draw up consolidated account. In a second step, the European Commission has decided to introduce a Member State option to create a new "micro" entity category that will be exempted from the accounting requirements under the Fourth Directive. A proposal to this end will be tabled at the same time as the launch of this stakeholder consultation.

The current consultation addresses issues relating to the modernization and simplification of the Accounting Directives. Positive effects of the review will include a reduction of burden mainly for small enterprises ("think small first") as well as qualitative improvements for all enterprises in the scope of the Directives. An additional objective is to increase the clarity of the text for lawmakers and users in general.

Following an analysis of the comments received to the consultation paper a legislative proposal will be presented before the end of 2009.

Stakeholders are invited to comment on the questions raised in this Consultation Paper. Ideas presented by the Commission Services in this paper are preliminary and may be changed in view of the comments received.

Comments should be submitted by **30 April 2009** by filling the word document and sending it to markt-review-consultation@ec.europa.eu

Received contributions will be published on the Internet. It is important to read the specific privacy statement attached to this consultation (link via cover page) for information on how your personal data and contribution will be dealt with.

Please provide the following details together with your response:

You are

Preparer: ☐ company ☐ subsidiary of foreign company ☐ organisation of companies

If company, please specify your sector ☐ services ☐ production ☐ agriculture

User: ☐ bank/credit provider ☐ analyst ☐ organisation of stakeholders
☐ private person

Public authority: ☐

Accountants and auditors: ☒ accounting ☒ audit ☐ organisation of accountants and auditors

Other ☐ (please specify)

Name of your organization / company: Deloitte Services and Investments NV, responding on behalf of Deloitte Touche Tohmatsu (“DTT”) member firms located in the European Economic Area (see below). DTT, a Swiss Verein, is an association of member firms that are legally separate and independent of one another.

Short description of the general activity of your organization/ company: the DTT member firms provide audit, accounting, tax and consulting services.

Country where your organization/ company is located: Deloitte Services and Investments NV is located in Belgium but is responding on behalf of DTT member firms located in each of the different European Economic Area Member States (except Liechtenstein).

Contact details incl. e-mail address: Hendrik Descheemaeker, Partner, Deloitte Services and Investments NV, 8b Berkenlaan, B-1831 Diegem, Belgium, + 32 2 6006537, hdescheemaeker@deloitte.com

Please provide, if applicable, for most recent annual period:

- Balance sheet total
- Net turnover
- Number of employees > 44,000 (approximate total figure for DTT member firms in the EEA on behalf of whom this response is made, at 31 May 2008, excluding Austria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovak Republic and Slovenia).

1. Introduction

The Fourth¹ and Seventh² Directives have served as the basis for general purpose financial reporting in the European Union for about three decades. During this period the business environment, accounting practices and user needs have changed significantly.

The Fourth Directive aimed at coordinating Member States' provisions concerning the presentation and content of annual accounts and annual reports, the valuation methods used and their publication and audit in respect of companies with limited liability. The Seventh Directive coordinates national laws on consolidated accounts.

The financial reporting environment in the EU changed in 2005 when international standards in the field of accounting were made mandatory for listed companies and those with listed debt securities³.

The Accounting Directives mainly follow a principles-based approach, but also provide for detailed rules in many accounting areas. They represent "minimum harmonisation" beyond which Member States can develop additional requirements. They currently contain around 40 options at Member State level, many of which aim at reducing the reporting requirements for small and medium-sized companies. Article 6.1 of the Seventh Directive furthermore allows Member States to exempt companies up to medium-size from consolidation requirements. The Directives have been amended several times, but they have not been subject to a fundamental revision since their inception.

The many amendments as well as the addition of new requirements have made the Directives unwieldy and difficult to read. They are sometimes also criticised for not providing the same level of detail concerning different accounting areas. The many options make comparisons of national financial statements from different Member States difficult. Many users believe that comparability at EU level needs to be improved. Constituents have also expressed that terminology as a whole may need to be updated and streamlined. These are some of the issues that will be discussed in Section 4 of this document.

2. Limitations

As mentioned before, the Commission - parallel to this consultation – has published a proposal for exempting micro entities⁴ from the scope of the Fourth Directive. This proposal was preceded by discussions with Member States as well as a public consultation in 2007⁵. Therefore, issues relating to the proposal on micro entities will not

¹ Fourth Council Directive (78/660/EEC)

² Seventh Council Directive (83/349/EEC)

³ Regulation on the application of international accounting standards (1606/2002/EC)

⁴ Companies which on their balance sheet dates do not exceed the limits of two of the three following criteria: balance sheet total: EUR 500.000, net turnover: EUR 1.000.000 and average number of employees during the financial year: 10.

⁵ Look for: Commission Communication *on a simplified business environment for companies in the areas of company law, accounting and auditing* (COM(2007) 394 final) and "reactions to the Communication", on the following webpage:

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be dealt with in this consultation.

The time constraints for this exercise limit the number of changes that can be done without reducing the quality of legislation. There will be a clear focus on certain issues of main interest for SMEs in the Fourth Directive, but the intention is also to do needed modernisation of rules in the Seventh Directive.

A revision of the Accounting Directives will have consequences for other Directives⁶ as well as other reporting rules (tax returns, prudential accounts, statistical reporting, etc.) at EU as well as national level. Often these other rules refer directly to requirements in the Accounting Directives or to national implementations of them. Changes made in the context of this project may therefore have intended or unintended effects on other legal and regulatory texts. Careful analyses at EU as well as Member State level therefore need to be undertaken.

3. Policy background

The review of the Accounting Directives has the overall objective to modernise and simplify the reporting requirements, as well as to make them more understandable and accessible. The work should be guided with the "think small first" principle in mind.

The Commission's Better Regulation strategy is aimed at measuring administrative costs and reducing administrative burdens. Estimates show that the Commission goal of reducing administrative burden by 25% by 2012 is attainable⁷.

The EU approach to better regulation aims at ensuring that the administrative burdens are proportionate to the benefits they bring. Financial reporting serves the needs of several stakeholders, including banks, business partners or creditors. They should also cover broader information needs, for example ensuring consumer, health and environmental considerations.

The "Small Business Act" (SBA)⁸, adopted in June 2008, reflects the Commission's political will to recognising the central role of SMEs in the EU economy. It puts in place a comprehensive SME policy framework for the EU and its Member States. The SBA aims at improving the overall approach to entrepreneurship and to anchor the "think small first" principle in policy-making from regulation to public service. The SBA applies to all independent companies with less than 250 employees, around 99% of all European businesses.

The Commission put forward several ideas for simplifying the current accounting

http://ec.europa.eu/internal_market/company/simplification/index_en.htm

⁶ The Directives that are affected most may be the Bank Accounts Directive (86/635/EEC) and the Insurance Accounts Directive (91/674/EEC)

⁷ European Commission: Better Regulation / Administrative costs
http://ec.europa.eu/governance/better_regulation/admin_costs_en.htm

⁸ Communication from the Commission to the Council, the European Parliament, the European Economic and Social Committee and the Committee of the Regions - "Think Small First" - A "Small Business Act" for Europe {SEC(2008) 2101} {SEC(2008) 2102}

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requirements for SMEs in a Communication dated July 2007⁹. Having considered the responses to the public consultation, the Commission presented in April 2008 a proposal for a Directive containing a number of targeted simplification measures.

The European Parliament has welcomed the Communication's objective of reducing administrative burdens and enabling them to compete more effectively¹⁰. The European Parliament furthermore encouraged the Commission "to continue its activities with regard to the simplification of company law, accounting and auditing for SMEs via the relevant legislative acts, in particular the Fourth and Seventh Company Law Directives"¹¹.

Most of the ideas presented in the Communication, along with a number of new ones, were taken up by the *High Level Group of Independent Stakeholders on Administrative Burdens*, in its Opinion of July 2008¹².

In view of the strong stakeholder support for further simplification for SMEs, Commissioner Charlie McCreevy announced in a public statement on 29 September 2008 that a review of the Fourth and Seventh Accounting Directives should be initiated¹³.

Most recently, on 18 December 2008, the European Parliament adopted a non-legislative Resolution stating that the Accounting Directives are "often very burdensome for small and medium-sized companies, and in particular for micro-entities". In the same Resolution, "the Commission is asked to continue its efforts to review the Fourth and Seventh Company Law Directives"¹⁴.

⁹ European Commission: Simplifying the business environment for companies
http://ec.europa.eu/internal_market/company/simplification/index_en.htm

¹⁰ EP resolution of 21 May 2008 (A6-0101/2008) on a simplified business environment for companies in the areas of company law, accounting and auditing (2007/2254(INI))

¹¹ EP resolution of 24 April 2008 on International Financial Reporting Standards (IFRS) and the Governance of the International Accounting Standards Board (IASB) (2006/2248(INI))

¹² See: http://ec.europa.eu/enterprise/admin-burdens-reduction/highlevelgroup_en.htm

¹³ See:
<http://europa.eu/rapid/pressReleasesAction.do?reference=MEMO/08/589&format=HTML&aged=0&language=EN&guiLanguage=en>

¹⁴ EP resolution of 18 December 2008 on accounting requirements as regards small and medium-sized companies, particularly micro-entities (B6-0626/2008)

4. Proposals for modernisation

4.1. Basic principles – qualitative characteristics

The Accounting Directives provide the general framework for financial reporting in the European Union. The Directives contain principles, more detailed rules as well as numerous options.

Section 7 *Valuation Rules* of the Fourth Directive highlights a number of fundamental recognition and measurement principles, which provide the underlying framework for the detailed rules in the Accounting Directives. It could be argued that such fundamental principles would be better placed in a separate section in the beginning of the Directive.

The principles in the Directives express general features in accounting and they have worked very well over the last three decades. To a large extent these principles are compatible with the international developments. Conceptual accounting debates tend to be very time-consuming and therefore the intention for this exercise is limited to ascertain that the principles serve their purpose, or whether there is a need for slight amendments. It is not foreseen that the exercise would lead to major changes to or removal of long-standing EU accounting principles.

The main principles in the Fourth Directive are the following:

1. true and fair view (Article 2 (3))
2. true and fair view override (Article 2 (5))
3. going concern (Article 31 (1) a)
4. consistent application of valuation rules (Article 31 (1) b)
5. prudence principle (Article 31 (1) c)
6. realisation principle (Article 31 (1) d)
7. gross principle regarding recognition of assets and liabilities (no setting-off) (Article 7)
8. separate valuation of components of assets and liabilities (Article 31 (1) e)
9. general principle of purchase price or production cost (Article 32)
10. opening balance sheet correspond to closing balance sheet of prior period (Article 31 (1) f)
11. clarity (Article 2 (2))
12. comparability (recitals)
13. equivalent information (recitals)

If those principles were concentrated in one dedicated section called, for instance, "General Principles", the principles-based nature of the Directives would be much more emphasised.

Question 1:

Do you agree with the approach described above?

☒ YES

☐ NO

☐ Don't know

Please comment: We agree with the Commission's proposal to regroup the main accounting principles it identifies in the Accounting Directives (including true and fair

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view, true and fair view override, going concern, comparability, ...) in a dedicated section.

We question the inclusion of the "realisation principle" in the list above. Article 31(d), to which reference is made, is more accurately described as the "accruals principle" and requires that "account must be taken of income and charges relating to the financial year, irrespective of the date of receipt or payment of such income or charges". The Directive does not include an explicit "realisation principle" although the prudence principle requires that "only profits made at the balance sheet date may be included". This is, in some jurisdictions, interpreted as a realisation requirement. However, realisation is not a principle under IFRS and therefore including it as a principle in EU law is a potential impediment to Member States that wish to converge with IFRS. The reference to the "realisation principle" in the list should therefore be replaced with a reference to the "accruals principle".

Question 2:

Are there any other principles that should be included in the "General principles" section? Should any of the current principles be clarified?

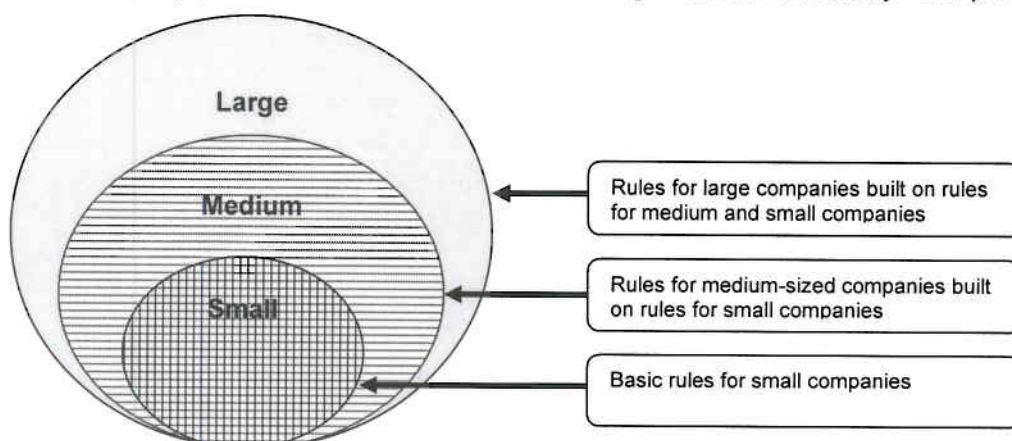
Please comment: The general principles in the Accounting Directives should also refer to the aim to adopt international accounting standards, where these meet criteria of efficiency, clarity and usability. The list of general principles is incomplete when compared to international accounting frameworks and contains some principles that are not commonly used in the accounting domain and could be usefully explained. These general principles should also be reviewed for compatibility with IFRS for not publicly accountable entities, so as to avoid creating an impediment for Member States that wish to allow the use of this standard.

4.2. Structure – "bottom-up" approach

The current Directive is based on a "top-down" approach. This means that it is drafted starting from the reporting needs of large companies. From this comprehensive set of rules, Member States can use options to make exemptions for small and medium-sized enterprises.

Considering the number of enterprises covered by each of the company categories (see Section 4.4.2.), it would seem logical to draft the Directive in a way that firstly suits the small enterprises and then adds on additional requirements for those fewer enterprises falling into the larger categories ("bottom-up" approach). This approach would be in line with the "think small first" principle since additional blocks of requirements have to be added for larger companies.

Bottom-up approach – the larger the company, the more demanding the reporting framework



Since the Accounting Directives are based on the principle of minimum harmonisation, Member States currently have the possibility to impose more demanding accounting requirements for certain categories than those required by the Directives ("gold plating"). Constituents have stressed that this possibility should also be available after the modernisation. For example, Member States should be allowed to impose a more sophisticated accounting regime for small enterprises as long as it is compatible with the principles set out by the section "General Principles" (see discussion under 4.1.)

It could be argued that the structure of the Directives is more important to national legislators than to companies following national laws. There are examples of Member States that have already implemented similar models (for example the "building block" approach in Denmark). In the context of a revision of the Directives, such a readily available structure would probably greatly facilitate implementation work in Member States.

Question 3:

Do you believe that a restructured Directive following a bottom-up approach would be useful to Member States in creating more simplified and straight-forward rules?

☒ YES

☐ NO

☐ Don't know

Please comment: We agree with the Commission's proposal to create first an accounting framework for smaller entities and then to add additional requirements for larger companies.

Question 4:

Do you think that current rules for small, medium and large companies are appropriate

☐ YES

☒ NO

☐ Don't know

Please comment: The current provisions in the Accounting Directives for small, medium and large companies are no longer appropriate. The number of Member State options means that the comparability of accounts throughout the EU is very limited.

Please indicate in broad lines what the minimum requirements for small entities should be according to the bottom-up approach

4.3. Member State options

The Directives currently include numerous Member State options. All options have been used by at least one Member State¹⁵. A number of options allow for simplification measures, e.g. the option to exempt small enterprises from the audit requirement. However, not all Member States have used the available simplification options and have therefore not "passed on" potential cost savings to their companies. Full use of the options already in place would lead to major savings for companies in many Member States (e.g. as shown by a recent Swedish analysis)¹⁶.

This issue can be addressed in different ways:

1: if the current structure of the Accounting Directives is kept, Member States should be encouraged to make full use of existing possibilities to reduce burdens for small and medium-sized enterprises.

Question 5:

Please provide reasons why Member States did not make full use of the options available in the current Accounting Directives.

Please comment.....

2: if a bottom-up approach as discussed under 4.1 is introduced, many of the current options would be eliminated through the formulation of minimum requirements for small and medium-sized entities instead of Member State options to exempt these from rules for large companies.

For example, currently the Fourth Directive provides for a Member State option to exempt small enterprises from an annual audit (Article 51). Most Member States, but not all, have used this option. A new "bottom-up" Directive would not require audits for small enterprises. The benefits of such an approach would be reduction of burden (at least for companies in certain Member States) as well as increased harmonisation by reducing the number of options.

Question 6:

What can be done to further simplify the Directives in respect of Member State options?

We believe that the Accounting Directives should, as a matter of principle, not include Member State options regarding pure accounting as such (i.e. recognition and measurement), to promote harmonisation of legislation in the EU. This should benefit

¹⁵ For analysis of option see Annex 1: Use of options by Member States

¹⁶ Analysis in Sweden showed that a full use of all options and threshold levels would reduce the administrative burden by 20%,
see: SOU. 2008. Enklare redovisning. SOU 2008:67, p.176

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users (increased comparability of accounts within the EU) and preparers (reduced costs for groups of companies and economies of scale generally) and generally facilitate cross-border trade and services, including accounting and audit. However, we recognise that in different Member States accounting information is used in different ways and so the need to provide options may continue as regards additional information that may be required under tax or corporate governance law or practices or requirements that can be deemed to depend upon the specific business environment of a Member State.

Companies should still be left with certain options, such as whether to revalue certain assets.

4.4. Definition of company categories

4.4.1. Criteria and threshold levels

The Accounting Directive traditionally define company categories based on three size criteria:

- balance sheet total,
- net turnover,
- average number of employees during the financial year.

The threshold levels for the current three company categories are displayed in the table below:

Threshold levels for small and medium size companies

Category Threshold	Small	Medium	Large
Balance sheet total	≤ € 4.400.000	≤ € 17.500.000	> € 17.500.000
Net turnover	≤ € 8.800.000	≤ € 35.000.000	> € 35.000.000
Average number of employees during the financial year	≤ 50	≤ 250	> 250

Source: Fourth Company Law Directive

According to discussions with stakeholders, the system with categories defined by the above mentioned criteria have worked reasonably well. The Commission Services do not foresee to change the three criteria of the thresholds in this revision exercise. We would however be interested to hear commentators' views on whether other aspects should be taken into account.

In the June 2007 Communication, it was discussed whether the rules for passing from one category to another should be adapted. The idea was to "tilt" the rules and thereby let more companies benefit from the less burdensome requirements (5 years before a company has to use the rules of a higher category, but only one year to fall down to simpler requirements). The Commission Services have further discussed this idea with stakeholders, and as the support was very small such an amendment will not be proposed in this revision.

The threshold values have been updated several times, last time in 2006. Although raising the thresholds is an efficient simplification measure, the current threshold levels are considered very high by many Member States. The current thinking in the Commission is that the thresholds are broadly relevant for their purposes. Commentators' views on the threshold levels will however be important for our further considerations.

Question 7:
Do you think the current criteria (balance sheet total, net turnover, average number of employees) have worked well?

☒ YES
 ☐ NO
 ☐ Don't know

If no, please indicate what other criteria should be considered.....

Question 8:
Do you believe that the current thresholds for small, medium and large companies are appropriate?

☒ YES
 ☐ NO
 ☐ Don't know

Please comment:

4.4.2. Number of company categories

The following table shows the number of companies in the current categories in the Fourth Directive:

Estimated number of companies in the categories

Micro	Small	Medium	Large	Listed	Total
5,369,738*	1,477,882	206,419	96,562	7,608	7,158,209
75%	21%	3%	1%	0.1%	100%

*when thresholds for turnover ($\leq \text{€}1\text{m}$) and employment (≤ 10) are combined.

Note: Figures for medium and large companies are estimations based on Ramboll 2007 and Ramboll 2005, the total figure and figure for micro entities is from CSES 2008. Figure for small companies is estimated based on all studies.

Source: CSES study "Evaluation of Thresholds for Micro-Entities" (2008), Ramboll "Study on administrative costs of the EU Company Law Acquis" (2007), Ramboll Management. 2005. Report on impacts of raised thresholds defining SMEs, own calculations

The recent Commission proposal would, if adopted, create the micro entities as an additional company category. For Member States not using the option to exempt micro entities, these would in fact be a sub-group of the small company category.

Looking at the number of companies in the different categories, the question arises

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whether different accounting regimes should really be kept for the medium-sized and large companies. To reduce the number of categories, the focus therefore seems to be on the medium-sized category:

1. it could either be merged with the small entities, or
2. it could be merged with the category of large entities.

However, both approaches seem to have drawbacks. In case 1 it is questionable whether the accounting regime for small enterprises would be applicable to medium-sized enterprises, keeping in mind that medium-sized companies can have up to 35.000.000 EUR net turnover, a balance sheet total of up to 17.500.000 EUR and up to 250 employees. For example, this option would entail the exemption of medium sized entities of the statutory audit obligations. A major drawback of this situation is that entities of a considerable size and/or with cross border activities would no longer be required to have an audit.

In case 2 the requirements for large companies would need to be reduced to avoid additional burdens for the medium-sized companies. Certain commentators have argued that the large companies in many cases rather look at IFRS for inspiration (and future stock listing) than at medium-sized rules.

A third option would be to leave the system as it is.

<i>Question 9:</i> <i>In your opinion, would it be appropriate to reduce the number of company categories in the Directives?</i> ☐ YES ☐ NO ☐ Don't know <i>If yes, would you prefer:</i> ☐ Option 1 ☐ Option 2 <i>Question 10:</i> <i>Do you see any other approached to reduce the number of company categories?</i> ☐ YES ☐ NO ☐ Don't know <i>Please comment:</i>

4.5. Elements of annual accounts

User needs regarding financial information may vary depending on the type of business, the financial position and the size of a company. Larger companies have more stakeholders and it is more important to have a full picture of assets, liabilities, equity and performance of the year. It could be argued that smaller companies are mainly monitored, for example by banks, with a focus on cash-based information.

The current requirements in the Directives can be summarized as follows:

Requirements of the Fourth Company Law Directive

	Small	Medium	Large	Listed*
Balance sheet	✓ possibility for abridged format	✓ certain possibilities for abridged format	✓	✓
Profit and loss account	✓	✓	✓	✓
Annual report	Can be exempted	✓	✓	✓
Audit report	Can be exempted	✓	✓	✓
Consolidated accounts	Can be exempted	Can be exempted	✓	✓
Cash flow analysis	–	–	–	✓
Note: ✓ Means mandatory requirement * IAS Regulation 1606/2002				

Source: Fourth Company Law Directive

When establishing the requirements, serious consideration has been paid not to overburden small and medium-sized entities. Some of the options available to Member States have however not been used in certain jurisdictions. A particular point of interest is whether the small company option not to prepare an annual report could be expanded to medium-sized companies.

Question 11:

Regarding the table above, do you see additional room for simplification, e.g. eliminating the requirement for annual reports for medium-sized enterprises?

☒ YES☐ NO☐ Don't know

Please comment: We agree that the requirement for medium-sized enterprises to prepare annual reports could be removed as they tend to be boiler-plate documents, without any useful information. However, other specific information that is useful for stakeholders would still be required (information on decisions where board members had a conflict of interest, acquisition of own shares, statements on risk, liquidity and going concern...).

Requiring a cash-flow statement?

Several stakeholders have indicated that in practice economic decisions for SMEs are often based not only on "historical" financial information provided by financial statements, but also on cash-based and forward-looking information. This kind of information is currently not required by the Accounting Directives, but practice shows that key stakeholders, e.g. banks, require it in the context of lending decision and therefore a large number of SMEs already prepare it. The question could be whether the requirements in the Directives should be broadened in this respect, although this may

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have some consequences, for example regarding audit requirements.

However, the point can be made that the information provided by the financial statements could be enriched by adding a requirement to provide cash-based information. Such a statement would increase the usefulness as there would be a more complete set of financial statements. In addition, it would remove some uncertainty in practice whether such information is required or not. According to practitioners, cash-flow statements would in many cases be provided automatically by modern software, and would therefore not increase the preparation burden significantly.

Providing cash-based information would be a real modernisation step, since it can be seen as a standard reporting element in many international financial reporting systems.

Such a requirement could be formulated in a general way and focus on the major elements in the cash-flow statement. This should leave however room for national, industry or company level adaptations.

Question 12:

Do you believe that cash-based information should be explicitly required in the Directives?

☒ YES

☐ NO

Don't know

If yes, for which company categories? Cash-based information is, in principle, of interest to users/stakeholders but reporting this information may in certain cases be disproportionately burdensome (for example, if transactions take place in a currency other than the reporting currency or for companies with significant investment and divestment activities). We therefore believe that cash-based information should be required for large companies and remain an option for SMEs.

Question 13:

Should the requirement be for a cash-flow statement based on a minimum layout defined by the Directive, e.g. requiring operating, investing, financing cash flows?

☒ YES

NO

☐ *Don't know*

*Please comment.....*Any requirement for a cash-flow statement should be based on minimum requirements and layout as set out in the Directive, as we believe that the IASB project on Financial Statement Presentation may take time to develop. As the IASB is likely in due course to alter the format of its cash flow statement, to move perhaps to cash and cash equivalents and to consider the direct versus the indirect method of preparation, we suggest that the Directive should avoid having too many detailed requirements.

Question 14:

If you are a preparer, have you provided a cash-flow statement in the past years?

☐ YES

☐ NO

☐ *Don't know*

Please comment.....

Could you indicate how burdensome cash flow statement is/will be to your company

☐ Not burdensome

☐ Significant burden

☐ Don't know

Could you quantify (in € or % of turnover)

Question 15:

If you are a bank or credit provider, how useful would a cash-flow statement be?

☐ Very useful

☐ Not useful

☐ Don't know

Question 16:

Is there currently a requirement in your jurisdiction to provide a cash-flow statement?

☒ YES

☐ NO

☐ Don't know

Please comment: Yes for jurisdictions mentioned:

Denmark: this is required by law for medium-sized and large companies, except if they are part of a group the parent of which prepares and publishes a consolidated cash-flow statement.

Germany: all consolidated accounts must by law include cash-flow statements and a new law extends this requirement to listed companies that do not issue consolidated accounts.

Netherlands: financial reporting standards require all medium-sized and large companies to provide cash-flow statements as part of their annual accounts, except if they are part of a group the parent of which prepares and publishes a consolidated cash-flow statement.

UK: financial reporting standards require certain medium sized and large companies to prepare and publish cash-flow statements as part of their annual accounts. Small companies and most subsidiaries are exempt.

4.6. Publication requirements – electronic filing

The Accounting Directives contain a number of major requirements on companies, such as the preparation, publication and audit of accounts. Small and medium-sized entities can benefit from exemptions/simplifications to these requirements. The current situation is as follows:

Publication requirements in the Fourth Company Law Directive

	Small (incl. micros)	Medium	Large	Listed
Prepare accounts	✓	✓	✓	✓
Publish accounts	MS option to publish abridged information	MS option to publish abridged information	✓	✓
Audit accounts	MS option to exempt	✓	✓	✓

Note: ✓ Means mandatory requirement

Source: Fourth Company Law Directive

The argument has been raised that in particular the publication requirement for small enterprises is costly and burdensome. On the other hand, many practitioners take the view that the actual publication, i.e. sending the annual accounts to the public register, is not at all costly, except for smaller fees required by authorities in some Member States.

Small companies are required to prepare annual accounts that comprise a balance sheet, the profit and loss account and notes to the accounts. According to Article 47 (2) they can be allowed to publish only abridged balance sheets and abridged notes. Some commentators have made the case that the publication option of abridged balance sheets and notes is not a real simplification unless there is also the possibility only to *prepare* abridged accounts (i.e. no profit and loss statement). (see discussion under 4.7.)

Question 17:

*Do you think that small companies should be exempted from the requirement to publish their accounts?*¹⁷

☐ YES

☒ NO

☐ Don't know

Please comment: The accounts of small companies may play an important role in providing relevant stakeholders, including other businesses supplying products and services to those entities, with information as to their financial capacity and worth. The transparency provided by annual accounts is viewed by many as a necessary counterweight to companies' limited liability. We therefore support this remaining a Member State option.

Question 18:

Do you think there should be a Member State option to allow small companies only to prepare abridged accounts only?

☒ YES

☐ NO

☐ Don't know

Please comment: The facility for small companies to file abridged accounts has been a feature of the Directive for many years. The option has been taken up by certain Member States and we are not aware that this has caused concern.

Question 19:

If you are a preparer, what is the annual cost of publishing your accounts?

(€, % of turnover)

Stakeholders have repeatedly highlighted that different reporting requirement for similar or identical information for different purposes is regarded as a big administrative burden in practice. A system whereby enterprises could fulfil most of their information requirements by providing the information following the "only once" principle (e-

¹⁷ Following the advice from the Opinion of the High-Level Group of Independent Stakeholders on Administrative Burdens, July 2008 High Level Group.

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government, BRITE etc.), would be seen as a major improvement. Such systems are already developed or in place in certain Member States. For example, in Belgium the National Bank collects financial information that is also automatically used for other purposes such as tax filing or statistical reporting. 90% of the financial reports are delivered in XBRL format via internet, an additional 2% are submitted via internet in pdf format and only 8% are sent in physical copy.

The EU Commission is supportive of "only once" filing system and encourages Member States to work further in this regard. The use of e-government portals should facilitate this. In this context we refer to a Commission proposal tabled on 17 April 2008, which proposes to limit publication obligations of all public-limited liability companies to the publication, on a national central electronic platform, of a reference to the company's file in the register where the accounts are filed electronically. The company should not be charged any specific fees for this publication. The proposal is currently under negotiation in the Council and the European Parliament.¹⁸

Question 20:

Do you have comments on the role of electronic tools and gateways, e.g. XBRL, in this context (costs - benefits)? Can you provide us with practical experience from your Member State?

For public authorities: Is it possible in your country to file using XBRL?

☐ YES

☐ NO

☐ Don't know

Can you quantify costs of developing an XBRL system in your country?

.....

For preparers: Can you quantify the initial costs of switching to XBRL reporting?

.....

After the initial costs, have you seen reduction of reporting costs (please quantify €, % of turnover)?

For users: Can you quantify the benefits of having access to XBRL reports?

.....

Question 21:

Should there be one XBRL taxonomy developed on the EU level?

☒ YES

☐ NO

☐ Don't know

Please comment: We believe that a single international XBRL taxonomy is desirable, and that should be the IASB taxonomy. We would support the creation of an XBRL taxonomy at EU level, to promote EU harmonisation and convergence of this taxonomy with a global taxonomy, if the IASB taxonomy is not fit for purpose for companies not adopting full IFRS in Europe.

¹⁸

European Commission 2008. Proposal for a Directive of the European Parliament and of the Council amending Council Directives 68/151/EEC and 89/666/EEC as regards publication and translation obligations of certain types of companies {SEC(2008) 466} {SEC(2008) 467}

4.7. Layout requirements

The Fourth Directive contains a number of different layouts for the balance sheet (Section 3, Article 8 to 10a) and the profit and loss account (Section 5, Article 22 to 27). Small and to some extent medium-sized companies can present an abridged balance sheets. The choice of layouts in fact reflects accounting practices at the time when the Directive was written. According to a study conducted by the Commission there has been convergence in practice in Member States as regards use of the layouts.¹⁹

In addition, the Directive gives Member States the right to require or permit balance sheet based on order of liquidity or a performance statement (both included in order to provide consistency with IFRS rules).

Whilst no fully harmonized approach regarding layouts has emerged in the EU, constituents argue that the current layouts have increased the comparability between annual accounts prepared by companies coming from different Member States. There are however concerns that some elements of the layouts are becoming outdated.

The Anglo-Saxon tradition normally is more flexible on the layouts, while continental Europe tends to use standardized formats (often combined with national charts of accounts).

Most stakeholders believe that the layouts should remain in the Directive, but many believe that there is a need to reduce the number of the available formats as well as to update the contents. Commentators often argue that the layouts should be less detailed, and that more use could be made of abridged balance sheets.

Question 22:

Do you believe that the Directive should provide prescriptive formats (layouts) for the balance sheet and the profit and loss account?

☐ YES

☒ NO

☐ Don't know

Please comment: We support the Directive referring to IFRS layouts, as amended from time to time. If layouts are to be retained in the Directive then we support the IFRS layouts being set out in the Directive.

Question 23:

Should the number of available layouts be reduced?

☐ YES

☐ NO

☐ Don't know

If yes, which layouts should be kept?

N/A

We note that the Directive allows considerable flexibility to amend the various layouts in the Directive and that these options are used principally to reflect the nature of the business in the financial statements. There are considerable differences between financial companies, charities, investment companies, manufacturing companies, and so on. For this reason we support the move for the Directive to require only particular limited information in the primary statements.

¹⁹ European Commission 2000. Implementation of the Fourth Directive in EU Member States as per 1 January 1998

Question 24:

Would it be sufficient to provide for a minimum structure for each, the balance sheet and the profit and loss account?

☒ YES

☐ NO

☐ Don't know

Please comment. If yes, can you please provide the key elements of such a minimum structure?

Minimum information for the balance sheet and P&L suffices for the reasons set out above.

Question 25:

What modernizations or amendments would you recommend to the current layouts?

Another idea would be to simplify the reporting format for small enterprises radically. This could be achieved by requiring the reporting of certain key financial figures in a certain format, but not necessarily in terms of traditional balance sheets or profit and loss statements. The following figures could be regarded as key figures:

1. Tangible Assets
2. Inventory
3. Accounts receivable and other debtors
4. Cash
5. Capital and Reserves
6. Provisions
7. Liabilities
8. Net turnover
9. Cost of sales
10. Interest
11. Tax
12. Profit or loss for the year

The preparation of this information should be done in accordance with the basic principles and the qualitative characteristics laid down in the revised Directive (see point 1.1.). Additional simplification can be achieved by aligning these key figures with the reporting requirement of small enterprises to other official bodies, e.g. tax authorities and statistical offices.

Question 26:

Do you have comments on the idea to require only a limited number of key financial data from small enterprises instead of a fixed balance sheet and profit and loss account structure?

Please comment. A limited number of key financial data may be required for small enterprises but these should be presented in a recognised balance sheet and P&L structure.

The figures listed are key, but intangible assets can also be significant, depending upon the type of business. Depreciation needs to be reflected in the key figures.

If yes, which key figures would you regard as absolutely essential?

The current layout for the profit and loss account includes line items labelled "extraordinary income" and "extraordinary charges"²⁰. In the context of international accounting frameworks the use of these items has been broadly eliminated (e.g. in IAS 1.87). The key argument being that it often is very arbitrary to decide whether certain effects are linked with the "normal" business or not. In some cases such extraordinary effects appear to become permanent and recurrent. This reduces the usefulness of the information provided.

Discussions have shown that the issue is controversial. Certain stakeholders believe that - in particular for smaller companies - the identification of extraordinary items is important for the analysis of the "real" income for the year and for projecting future earnings.

Question 27:

Do you believe that the separate line items for extraordinary effects should be removed?

☒ YES

☐ NO

☐ Don't know

Please comment:

If you are a preparer, can you please indicate how often you used the separate line item "extraordinary items" during the past years?

Question 28:

If you are user, do you find the extraordinary item useful?

☐ YES

☐ NO

☐ Don't know

Please comment:

4.8. Notes to the accounts

Appropriate disclosures are very important for the understanding of company financial statements. The need for disclosures depends on the number of external stakeholders and company size. The Directive requires different kinds of disclosures. For example there are disclosures about general information of the entity and/or owners of the entity (e.g. Section 8), disclosures about a particular accounting treatment dependent on options used, and disclosures of additional (often narrative) information not covered by the main financial statements.

The disclosure requirements are constantly criticized by SME representatives for creating a lot of administrative burden without creating additional value for users. However, on the other hand some users argue that information in the notes can be more useful than figures within the primary financial statements.

²⁰

Following the advice from the Opinion of the High-Level Group of Independent Stakeholders on Administrative Burdens, July 2008 High Level Group.

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An appropriate balance between cost for preparation and usefulness needs to be found. It could be argued that small companies should only be subject to a set of minimum disclosure requirements.

Depending on the complexity of the transactions, the business and the size of a company, additional disclosures may be necessary. Throughout the Accounting Directives almost every section includes requirements for additional disclosures. The bulk of the disclosures in the Fourth Directives are however concentrated to Section 8 *Contents of the notes to the accounts*²¹. In this context it is important to note that the current Directive already provides for an option to allow for abridged notes (Article 44).

Below you find a tentative listing of essential disclosures, which could constitute the minimum disclosure requirements for small enterprises. One of the purposes is to enable a more detailed discussion on what information is really needed from small entities. It could be argued that any additional disclosure should only be provided if it is necessary to get a true and fair view of the financial position or performance of a company and if it is material.

1. Valuation methods
2. Names, offices of undertakings with at least 20% stake in and all unlimited liability undertakings, if material
3. Total amount of financial commitments, pensions and affiliated undertakings, not in the balance sheet
4. Nature and business purpose of arrangements not in the balance sheet and their financial impact, if material
5. Transactions with related parties
6. Average number of persons employed
7. Emoluments to administrative, managerial and supervisory bodies, commitments on pensions for former members
8. Advances and credit to members of administrative, managerial and supervisory bodies and commitments entered on their behalf
9. Fees for audit, assurance, tax advisory, non-audit services

Question 29:

Are there any other items that should be disclosed for small entities?

Can you please indicate additional disclosure requirements for medium-sized and large entities?

Please comment: Certain of the essential disclosures listed could be eliminated for small entities: only material transactions with related parties need to be included (item 5) and items such as 7 and 8 do not really add value to users. The total amount of pensions may be a figure that is particularly burdensome to obtain (item 3).

Other sections of the Directives contain additional disclosure requirements of different nature (For a complete list please see: Annex 2 Current disclosure requirements of the Fourth Accounting Directive). The Commission Services would appreciate any additional

²¹

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input on those requirements.

Question 30:

What information has to be compiled especially for preparing the disclosures?

Can you say anything about the costs of preparing this information?

Please comment:

Question 31:

Can you please indicate whether other disclosure requirements in the Directives are not useful and relevant? Can you also provide indications of costs of their preparation (% of turnover)?

Please comment:

4.9. Valuation issues

Valuation issues (when and at which amount balance sheet and profit and loss items should be included) are at the heart of the Fourth and Seventh Directive. The rules have been in place for many years and have been updated only occasionally, e.g. by the so-called Fair Value Directive.

Regarding measurement, the current Directive allows a broad spectrum of approaches. According to Article 32 the general rule is that items shown in the annual accounts shall be measured based on the principles of purchase price or production cost. However, Article 33 provides Member States with an option (subject to official declaration) to permit or require either

- a) valuation by the replacement value method for tangible fixed assets with limited useful economic lives and for stocks; or
- b) valuation by other methods, which are designed to take account of inflation; or
- c) revaluation of fixed assets.

The purchase price or production cost of stocks of goods and fungible items can be calculated either on the basis of weighted average prices, "first in first out" (FIFO), "last in first out" (LIFO), or some similar method.

Member States can also permit or require, by way of derogation from Article 32, fair value measurement of financial instruments, including derivatives (Article 42a), or even implement IFRS requirements which have been endorsed in the EU.

In order to increase harmonisation one could argue that the Directives should be more restrictive regarding measurement principles. It could also be argued that for small companies a less demanding regime is appropriate, whereas for medium-sized and large companies more demanding measurement principles, for example the use of current value, should be required.

Question 32:

Do you see any potential for modernisation and simplification in the area valuation

rules?

☒ YES

☐ NO

☐ Don't know

Please comment: Certain of the valuation rules, such as “last in first out”, appear to be no longer relevant. It is, however, essential to avoid making changes to valuation rules that would cut across (international) accounting standards.

It has been argued that a number of valuation issues are addressed in very detail whilst others are not addressed at all, e.g. accounting for leasing contracts.

Although the objective of this review is not to reform the fundamental accounting principles of the EU accounting framework for non-listed companies, there could be the need to review the guidance in the area of recognition and measurement at least for some balance sheet and profit and loss items for certain companies.

Question 33:

Which of the valuation requirements should be more/less descriptive?

Please comment:

4.10. Creating one Accounting Directive – terms and technical language

The Seventh Directive contains specific requirements regarding the preparation of consolidated accounts for certain enterprises. One could argue that the consolidation requirements should be dealt with together with accounting, auditing and publication requirements in the same legal instrument, preferably the Fourth Directive. As a consequence the number of legal instruments (Directives) could be reduced.

Some commentators have argued that the Seventh Directives contains technical language and description of methods that are considered outdated today. As a part of the revision exercise, efforts could be made to simplify the Seventh Directive and make it more principles-based.

Furthermore, a general review of the technical terms and definitions throughout the Directives could usefully be done. The Directives include descriptions and terminology from accounting practice in the time of drafting (there are for example similar, but non-identical notions in the Fourth and Seventh Directives that reflect IAS/IFRS at that time).

Question 34:

Do you agree with the idea of integrating the Seventh Directive into the Fourth Directive?

☐ YES

☒ NO

☐ Don't know

Please comment: The Seventh Directive should be integrated into the Fourth Directive once the Seventh Directive has been subject to a comprehensive review. We do not support doing so at this time as we are conscious that this review has focused on the Fourth Directive.

Question 35:

Do you think there is a need for amendments or modernisation of the Seventh Directives? Could you indicate the areas where a revision would be particularly welcome?

☒ YES

☐ NO

☐ Don't know

Please comment: The inclusion of special purpose vehicles in consolidated accounts is one important area for modernisation. Extending the requirement to prepare consolidated accounts to medium-sized enterprises could usefully be examined, with the aim of increasing transparency.

Question 36:

Do you believe that there is a need to streamline and modernise the wording and terminology throughout the Directives?

☒ YES

☐ NO

☐ Don't know

Please provide examples: The wording and terminology of the Directives needs to be consistent and should be brought in line with IFRS as much as possible.

4.11. The future role of the Accounting Directives - Outlook

This review is limited for the reasons explained. In view of technical accounting developments at an international level and evolution of user needs over the last 30 years a more comprehensive modernisation of the Accounting Directives may be needed. In this context the underlying focus of the Directives could be re-discussed: should creditor protection still remain the key focus or should the emphasis be more on providing economic information that helps key users to make economic decisions?

If the focus would change to more investor oriented accounting this would most likely have consequences for the fundamental principles of the Accounting Directives, e.g. the prudence principle may become less accentuated. This could also have a number of consequences for other elements of the EU regulatory framework. For example, Directives that deal with the accounting for bank and insurance undertakings or capital maintenance, might be affected by substantial changes to concepts as defined in the Fourth and Seventh Directive.

International developments are going on, e.g. the work that is carried out by the International Accounting Standards Board (IASB) could more and more influence the international debate on accounting principles, even for small enterprises in the EU. Therefore it is very important to further modernise the EU Accounting Directives, in order to provide Member States with an up-to-date accounting framework that is tailored for EU private companies. The European Accounting Directives should also in the future remain the legal framework for non-listed enterprises and should be seen as real alternative to international accounting frameworks, e.g. the IFRS for Private Entities as developed by the IASB.

Question 37:

Do you have any comments relating to the long-term role of the EU Accounting Directives?

Please comment: The Accounting Directives have played an important role by creating

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an accounting framework for Europe. We support the proposed approach to review the Accounting Directives.

In the short and possibly medium term the (revised) Accounting Directives will continue to form the European legal accounting framework for non listed companies. However, we do not believe this should remain the case in the long term as by their nature directives are not flexible enough to rapidly reflect changing economic needs and do not necessarily reflect views from beyond Europe.

We support convergence towards a single set of high-quality global accounting standards, adapted as required for not publicly accountable entities including SMEs, prepared through a robust and independent standard-setting process that includes broad stakeholder participation. We believe that Europe needs to make a strong contribution to that process and we believe that in the long term maintaining a parallel European accounting framework would not be a good use of resources or benefit European preparers and users.

THANK YOU FOR YOUR CONTRIBUTION!

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Annex 1: Use of options by Member States

Based on the Final report: EU project on baseline measurement and reduction of administrative costs by Consortium²² (Ramboll, Capgemini, 2008) the following table presents the utilisation of Fourth Directive exemptions:

Utilisation of exemptions available in the Fourth Directive by Member State

Country	Abridged accounts			
	Fourth Art 11	Fourth Art 27	Fourth Art 44	Fourth Art 45
Austria	Article transposed	Article transposed	Article transposed	Article transposed
Belgium	Article transposed	Article transposed	Article transposed	Not transposed
Bulgaria	Article transposed	Partially transposed	Article transposed	Not transposed
Cyprus	Not transposed	Not transposed	Not transposed	Not transposed
Czech Republic	Article transposed	Article transposed	Article transposed	Not transposed
Denmark	Not transposed	Article transposed	Article transposed	Article transposed
Estonia	Not transposed	Not transposed	Not transposed	Not transposed
Finland	Article transposed	Not transposed	Article transposed	Not transposed
France	Article transposed	Article transposed	Article transposed	Article transposed
Germany	Article transposed	Article transposed	Partially transposed	Article transposed
Greece	Article transposed	Not transposed	Article transposed	Article transposed
Hungary	Article transposed	Article transposed	Article transposed	Article transposed
Ireland	Article transposed	Article transposed	Article transposed	Article transposed
Italy	Article transposed	Article transposed	Article transposed	Article transposed
Latvia	Article transposed	Article transposed	Article transposed	Not transposed
Lithuania	Article transposed	Article transposed	Article transposed	Not transposed
Luxembourg	Article transposed	Article transposed	Article transposed	Article transposed
Malta	Article transposed	Article transposed	Article transposed	Not transposed
Netherlands	Article transposed	Article transposed	Article transposed	Article transposed
Poland	Article transposed	Not transposed	Article transposed	Not transposed
Portugal	Article transposed	Article transposed	Article transposed	Not transposed
Romania	Not transposed	Not transposed	Not transposed	Not transposed
Slovakia	Article transposed	Not transposed	Not transposed	Not transposed
Slovenia	Article transposed	Not transposed	Article transposed	Not transposed
Spain	Article transposed	Article transposed	Article transposed	Not transposed
Sweden	Article transposed	Article transposed	Article transposed	Article transposed
United Kingdom	Article transposed	Article transposed	Article transposed	Article transposed

²²

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	Abridged accounts				
Country	Fourth Art 46 (3)	Fourth Art. 46 (4)	Fourth Art 47 (2) (3)	Fourth Art 51 (2)	Fourth Art 57
Austria	Article transposed	Not transposed	Article transposed	Article transposed	Not transposed
Belgium	Article transposed	Not transposed	Partially transposed	Article transposed	Not transposed
Bulgaria	Article transposed	Article transposed	Not transposed	Article transposed	Not transposed
Cyprus	Not transposed	Not transposed	Not transposed	Not transposed	Not transposed
Czech Republic	Not transposed	Not transposed	Article transposed	Article transposed	Article transposed
Denmark	Article transposed	Article transposed	Not transposed	Article transposed	Partially transposed
Estonia	Not transposed	Not transposed	Not transposed	Article transposed	Not transposed
Finland	Article transposed	Article transposed	Partially transposed	Article transposed	Article transposed
France	Article transposed	Article transposed	Article transposed	Article transposed	Not transposed
Germany	Article transposed	Article transposed	Article transposed	Article transposed	Article transposed
Greece	Not transposed	Not transposed	Article transposed	Article transposed	Not transposed
Hungary	Not transposed	Not transposed	Article transposed	Article transposed	Not transposed
Ireland	Not transposed	Not transposed	Article transposed	Article transposed	Partially transposed
Italy	Article transposed	Article transposed	Article transposed	Article transposed	Article transposed
Latvia	Not transposed	Article transposed	Not transposed	Article transposed	Not transposed
Lithuania	Article transposed	Article transposed	Not transposed	Article transposed	Not transposed
Luxembourg	Article transposed	Not transposed	Article transposed	Article transposed	Article transposed
Malta	Article transposed	Article transposed	Article transposed	Not transposed	Not transposed
Netherlands	Article transposed	Article transposed	Article transposed	Article transposed	Article transposed
Poland	Not transposed	Not transposed	Article transposed	Article transposed	Article transposed
Portugal	Article transposed	Article transposed	Article transposed	Article transposed	Article transposed
Romania	Not transposed	Not transposed	Not transposed	Not transposed	Not transposed
Slovakia	Not transposed	Not transposed	Not transposed	Not transposed	Not transposed
Slovenia	Not transposed	Not transposed	Article transposed	Article transposed	Article transposed
Spain	Article transposed	Article transposed	Not transposed	Article transposed	Article transposed
Sweden	Not transposed	Article transposed	Not transposed	Not transposed	Not transposed
United Kingdom	Not transposed	Not transposed	Article transposed	Article transposed	Not transposed

Source: Consortium study

Where:

- Art. 11: Small entities definition, abridged balance sheet
- Art. 27: Medium entities definition, simplified Profit and Loss account layout
- Art. 44: Abridged notes for Small,
- Art. 45: Certain simplification of disclosures in the notes
- Art. 46.3 Exemption for Small to prepare annual report
- Art. 46.4 Certain simplifications for Medium in the annual report
- Art 47.2 and 3 Simplifications of publication requirement for Small and Medium
- Art. 51.2. Exemption for Small from audit
- Art. 57: Exemptions for certain subsidiary undertakings

Annex 2 Current disclosure requirements of the Fourth Accounting Directive

In the table below a list of disclosure requirements of the Fourth Directive is presented. The analysis particularly highlights exemptions available for small and medium companies

Art.	Information requirement	MS Exemption option for	
		Small (Art. 11)	Medium (Art. 27)
	Section 1 General provisions:		
1	• Annual accounts shall comprise		
	○ Balance sheet		
	○ Profit and Loss account		
	○ Notes		
	• Member States may require other statements and disclosures		
	Section 2 General provisions for Balance Sheet and Profit and Loss		
4(4)	• For each item figures for preceding financial year must be presented		
6	• Appropriation of profit and treatment of loss may be required		
	Section 3 Balance sheet		
9-10	• 2 balance sheet layouts	Yes (Art 11) ²³	
10a	• Current/non-current layout for balance sheet possible		
14	• All guarantees must be disclose in the footnotes or notes		
	Section 4 Special provisions for Balance Sheet		
15(1), (2)	• Definition of assets		
15(3)	• Movements of the assets		
15(3) (a)	○ Should be shown on balance sheet or in notes (separately, with detail information)	Yes (Art 44(1)) (Art 11)	
15(3) (b)	○ For first time adoption residual value may be used as carrying value (must be disclosed in notes)		
15(3) (c)	○ valuation by replacement value or inflation adjusted value		
15(4)	• Formation expenses same as 15(3) (a) and (b)	Yes (Art 44(1)) (Art 11)	
17	• Participating interest		
18	• Prepayments and accrued income	Yes (Art 44(1))	
19	• Value adjustments		
20	• Provisions		
21	• Accruals and deferred income	Yes (Art 44(1))	

²³

Not for companies whose securities are admitted to trading on a regulated market within the meaning of Article 4(1), point (14) of Directive 2004/39/EC (Art. 53a)

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Art.	Information requirement	MS Exemption option for	
		Small (Art. 11)	Medium (Art. 27)
	Section 5 Profit and Loss		
23-26	4 layouts possible		Yes (Art 27) 23
22	Statement of performance possible instead of P&L		
	Section 6 Special Provisions		
28	Net turnover		
29(1)	Extraordinary income and charges		
29(2)	Amount and nature in the notes (also for previous year) if material	Yes (Art 44(1))	
30	Taxes can be shown in total (MS exemption)		
	Detailed disclosure in the notes.	Yes (Art 44(1))	
	Section 7 Valuation rules		
33	Other valuation methods (replacement value, inflation adjustments, revaluation)		
	Items concerned and method should be disclosed in the notes		
33(2) (a)	Difference from valuation according to Directive should be explained in the notes in form of detailed table (Revaluation reserve)		
33(2) (c)	Transfers from the Revaluation Reserve to P&L must be disclosed separately		
33(3)	Differences in valuation adjustment may be shown separately in P&L		
33(4)	In balance sheet or note must be disclosed		
	the value according to the general rules		
	cumulative value adjustment		
	difference between valuations		
	cumulative difference		
34(2)	Formation expenses must be explained in the notes	Yes (Art 44(1))	Yes (Art 45(2)) proposal
34(1) (c)(cc)	Valuation adjustments of fixed assets to the lower figure should be disclosed separately in P&L or in the notes		
35(1) (d)	Exceptional value adjustment of fixed assets for taxation purposes must be disclosed in the notes		
35(4)	Interest on borrowed capital included in the production cost must be disclosed in the notes		
37(1)	Cost of Research and Development (derogations from Art 34 treatment (5 year amortisation) must be disclosed in the notes)		
37(2)	Good will – amortisation over 5 years must be disclosed in the notes		
39(1) (c)	Exceptional value adjustment to current assets must be disclosed separately in the P&L or in notes		
39(1) (e)	Exceptional value adjustments of current assets for tax purposes must be disclosed in the notes		
40(2)	Differences in inventory value from the market value must be disclosed in the notes	Yes (Art 44(1))	
41(1)	Positive difference between debt and amount repayable must be shown as asset in balance sheet or in the notes		

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Art.	Information requirement	MS Exemption option for	
		Small (Art. 11)	Medium (Art. 27)
42	Material "other provisions" must be disclosed in the notes	Yes (Art 44(1))	
	Section 7a Valuation at fair value		
42d	If financial instrument are at FV, the notes shall include		
42d(a)	Assumptions underlying valuation models		
42d(b)	FV per category of instrument, changes in FV included in P&L and Fair Value Reserve		
42d(c)	Information about derivative financial instruments		
42d(d)	Movements in FV		
	Section 8 Contents of the notes on the accounts		
43	Notes to the account must contain at least the information on		
43(1)	Valuation methods		
(1)	Value adjustment calculation methods		
	Foreign currency conversion		
43(1)	Names, offices of undertakings with at least 20% stake in and all unlimited liability undertakings – unless not material		
(2)	MS Need not apply to financial holdings		
45(1)	May take for of a statement in a register (Art 3(1), (2) of Directive 68/151/EEC, the fact must be disclosed in notes		
(a)	May be omitted if seriously prejudicial to any of the undertakings, the fact must be disclosed in notes		
45(1)	Shares – number, nominal value, par value of subscribed for each class of shares		
(b)	Participation certificates, convertible debentures, or similar securities rights	Yes (Art 44(1))	
43(1)	Amounts owed, due and payable after more than 5 years and debts covered by valuable security, for each creditors item	Yes (Art 44(1)) only total figure	
(3), (4)	Total amount of any financial commitments not in the balance sheet if useful for analysing financial position	Yes (Art 44(1))	
43(1)	Commitments concerning pensions and affiliated undertaking, disclosed separately		
(7)	Nature and business purpose of arrangements not in the balance sheet and their financial impact, if material		Yes (43(1)(7a))
43(1)	Transactions with related parties (amount, nature, other information, materiality, under normal market conditions), may be aggregated unless doesn't distort		Yes ²⁴ (Art. 43(1)(7b))
(7a)	MS may exempt transactions between company and its fully owned subsidiary		
43(1)	Net turnover broken by categories of activity and geographical markets (if differ substantially)	Yes (Art 44(1))	Yes (Art 45(2))
(8)			

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point unless those companies are of a type referred to in Article 1(1) of Directive 77/91/EEC, in which case Member States may limit disclosure to, as a minimum, transactions entered into directly or indirectly between:

(i) the company and its major shareholders,
and

(ii) the company and the members of the administrative, management and supervisory bodies.

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Art.	Information requirement	MS Exemption option for	
		Small (Art. 11)	Medium (Art. 27)
45(2)	May be omitted if seriously prejudicial to any of the undertakings, the fact must be disclosed in notes		
43(1) (9)	Average number of persons employed, by categories, if not disclosed in P&L – the staff cost	Yes (Art 44(1))	
43(1) (10)	Tax induced distortions to P&L		
43(1) (11)	Deferred tax (the difference between tax charged and amount payable)		
43(1) (12)	Emoluments to administrative, managerial and supervisory bodies, commitments on pensions for former members		
43(3)	MS may exempt if it is possible to identify the position of specific members of these bodies		
43(1) (13)	Advances and credit to members of administrative, managerial and supervisory bodies and commitments entered on their behalf		
43(1) (14)	If valuation at FV not applied		
43(1) (14)(a)	FV of derivative instruments (if possible) and information on their extant and nature	Yes (Art 44(1))	
43(1) (14)(b)	FV of financial fixed assets carried at an excess of their FV without value adjustment to lower figure		
43(1) (15)	Fees for audit, assurance, tax advisory, non-audit services	Yes (Art 44(1))	Yes (Art 45(2)) ²⁵
	MS may exempt if company is included in Consolidated accounts (if the information is in the notes to these accounts)		
Section 9 Contents of the Annual Report			
46(1) (a)	Balance and comprehensive analysis of the development and performance of the company consistent with the size and complexity of the business	Yes (Art 46(3)) ²³	
46(1) (a)	Description of principle risk and uncertainties		
46(1) (b)	Financial and non-financial key performance indicators relevant to particular business including those relating to environmental and employee matters		Yes (Art 46(4)) ²³ non-financial only
46(1) (c)	References and additional explanations of amounts reported in the annual accounts (where appropriate)		
46(2) (a)	Indication of any important events that occurred since the end of the financial year		
46(2) (b)	The company's likely future development		
46(2) (c)	Activities in the field of Research and Development (R&D)		
46(2) (d)	Information on acquisition of own shares	Yes (Art 46(3)) ^{23,26}	
46(2) (e)	Existence of branches of the company	Yes (Art 46(3)) ²³	

²⁵ Provided that such information is delivered to the public oversight system (referred to in Article 32 of Directive 2006/43/EC on statutory audit) when requested by such a public oversight system

²⁶ Provided that the information referred to in Article 22 (2) of Directive 77/91/EEC concerning the acquisition by a company of its own shares is given in the notes to their accounts

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Art.	Information requirement	MS Exemption option for	
		Small (Art. 11)	Medium (Art. 27)
46(2) (f)	- Use of financial instruments (when material for annual accounts analysis): - Financial risk management objectives and policies - Policy for hedging each major forecasted transaction - Exposure to: - Price risk - Credit risk - Liquidity risk - Cash flow risk		
46a(1)	Corporate Governance Statement	Yes if not listed (Art 46a(1)) ²³ or with only bonds listed (Art 46a(3)) ²³	
46a(1) (a)	- Reference to - Corporate governance code which the company is subject to, - Code which company voluntarily applies - Additional corporate governance principles applied		
46a(1) (a)(i)			
46a(1) (a)(ii)			
46a(1) (a)(iii)			
46a(1) (b)	Departures from code of conduct with reasons for that		
46a(1) (c)	Description of internal control and risk management system (in relation to financial reporting process)		
46a(1) (d)	Takeover bids		
46a(1) (e)	- Shareholders meeting (unless described by national law) - Operation - Key powers - Shareholders rights and their exercise		
46a(1) (f)	Composition and operation of the administrative, management and supervisory bodies and their committees		
46a(3)	Companies with only bonds traded can be exempted from preparing Corporate Governance Statement.		
	Section 10 Publication		
47	Annual accounts must be published	Yes (Art 47(2)) ²³ abridge balance sheet	Yes (Art 47(3)) ²³ abridge balance sheet
48	Published accounts must be accompanied by auditor report	The fact that abridged balance sheet is published must be indicated, reference to register made, the auditor report shall not be attached but it must be disclosed what opinion the auditor made (Art 49) ²³	
50	- With annual accounts the following must be published (if they are not included in the annual accounts) - The proposed for appropriation of profit or treatment of loss - The appropriation of profit or treatment of loss		
50			
51-51a	Section 11 Auditing	Yes (Art 51(2))	

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Art.	Information requirement	MS Exemption option for	
		Small (Art. 11)	Medium (Art. 27)
		23	
	Section 12 Final provisions		
53a	Member States shall not make available the exemptions set out in Articles 11, 27, 43(1), points (7a) and (7b), 46, 47 and 51 in the case of companies whose securities are admitted to trading on a regulated market within the meaning of Article 4(1), point (14) of Directive 2004/39/EC.		
56(2)	The notes to the accounts must also disclose		
56(2) (a)	Name and office of undertaking drawing the consolidated accounts of the largest body of undertakings of which company forms a part		
56(2) (b)	Name and office of undertaking drawing the consolidated accounts of the smallest body of undertakings of which company forms a part, also included in (a) above		
56(2) (c)	The place where copies of the consolidated accounts referred to in (a) and (b) above may be obtained provided that they are available		
57	MS need not to apply the provisions of this directive concerning the content, auditing and publication of annual accounts to companies which:		
57(a)	the parent undertaking must be subject to the laws of a Member State;		
57(b)	all shareholders or members of the subsidiary undertaking must have declared their agreement to the exemption from such obligation; this declaration must be made in respect of every financial year;		
57(c)	the parent undertaking must have declared that it guarantees the commitments entered into by the subsidiary undertaking;		
57(d)	the declarations referred to in (b) and (c) must be published by the subsidiary undertaking as laid down by the laws of the Member State in accordance with Article 3 of Directive 68/151/EEC;		
57(e)	the subsidiary undertaking must be included in the consolidated accounts drawn up by the parent undertaking in accordance with Directive 83/349/EEC;		
57(f)	the above exemption must be disclosed in the notes on the consolidated accounts drawn up by the parent undertaking;		
57(g)	the consolidated accounts referred to in (e), the consolidated annual report, and the report by the person responsible for auditing those accounts must be published for the subsidiary undertaking as laid down by the laws of the Member State in accordance with Article 3 of Directive 68/151/EEC.		
57a	Requirements of the Directive need not apply to companies which are members having unlimited liability of any of the companies and firms listed in Article 1(1) second and third subparagraphs under certain conditions		
58	- Provisions of this directive need not apply to audit and publication of P&L account of parent companies that draw consolidated accounts and are included in these. - This fact must be disclosed in the notes to annual and consolidated accounts		
59	Participating interest in companies over which significant influence is exercised (20% or more) may be shown in the balance sheet under items "shares in affiliated undertakings" or "participating interest"		
59(2)	When first applied (Art 59) participating interest shall be shown:		
59(2)	At book value (deference between the value and amount		

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Art.	Information requirement	MS Exemption option for	
		Small (Art. 11)	Medium (Art. 27)
(a)	corresponding to proportion of capital represented by participating interest shall be disclosed separately in the balance sheet or notes)		
59(2) (a)	At the amount corresponding to proportion of capital represented by participating interest (the difference between value calculated according to section 7 or 7a shall be disclosed separately in the balance sheet or notes)		
59(2) (a)	Member States may prescribe (a) or (b) above, it must be indicated in the balance sheet or notes		
59(3)	If company in which participating interest is hold uses different valuation methods of those used by company drawing the accounts – they may be revaluated and the fact must be disclosed in the notes		
59(9)	The Art. 59 need not apply if participating interest is not material		
Note: Option for medium companies covers also small companies			

Source: Fourth Council Directive on the annual accounts of certain types of companies (78/660/EEC)