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EUROPÄISCHE UNION DES HANDWERKS UND DER KLEIN- UND MITTELBETRIEBE
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Comments and observations on the Discussion Paper of DG Internal Market on the simplification of accounting rules for small and medium-sized companies.

The following sets out UEAPME's comments and observations on the 'Discussion of possible amendments to the Fourth and Seventh Company Law Directives':

1. The initiation of a discussion on the meaningful reduction in regulatory burden on SMEs under the 4th and 7th Company Law Directive is timely and appropriate if SMEs are to prosper in the European single market. The problem of regulatory burdens on SMEs is invariably caused by the original regulations being designed for large business entities. Such regulations are not necessarily relevant to SMEs and often create a significant administrative cost burden.

Simplification based on the needs of SMEs and users of financial information

2. It is important that the principle guiding this discussion does not focus only on 'simplification' but also on the 'relevance' to SMEs of financial reporting needs vis-à-vis large listed companies. The issues associated with simplification tend to focus on costs whilst issues focused on relevance are concerned with the benefits of financial reporting and in particular users and their needs.
3. One of the problems of the Accounting Directives and the requirements for incorporated companies in the EU is that, in a significant number of SME entities the owner(s) is/are also responsible for the management and leadership of the entity. For such companies the need for financial reporting is particularly driven by the need to evaluate the position of the company to enable the development of the future strategy, rather than the need to report to a wide range of users on historical performance. In some member states, e.g. Belgium, the legal obligation to keep financial reports is also connected with an obligation to file a tax return, based on those financial reports. This often confuses discussions regarding the requirements of financial reporting over the range of SMEs who are subject to the Directives.
4. The Discussion Paper states that "*the Accounting Directive must take as its starting point the actual needs of SMEs and the users of their accounts*". If financial reports are to be useful and relevant, investigating users and their needs is critical in the development of a European financial reporting framework for SMEs.

It is also important to remember that SMEs themselves are an important user of financial information, e.g. as suppliers and contracting parties to other SMEs, when assessing credit-worthiness is important.

5. To date there has been a lack of research and supporting evidence to determine the needs of users, which may vary across EU member states. We therefore recommend that research in this area be undertaken in order to provide foundation for sensible policy proposals in the future.
6. In the context of the 'simplification' of accounting rules for SMEs, it is important that rigorous impact assessments are carried out, including the assessment of the benefits of financial reporting as well as cost/administrative burdens. This should include consideration of why financial reporting requirements were initially imposed and the interests, in terms of stakeholders, that they protect.

Harmonisation to create a level playing field in the EU

7. Cross border trading by SMEs is growing between member states within the EU. There is a strong case, therefore, for developing the harmonisation of financial reporting frameworks and rules to (a) support this growth in trade and (b) create a level playing field. This may require fewer options and a move to maximised harmonisation, e.g. in the field of publication of financial information and public access to such information.
8. The modernisation and harmonisation of financial reporting requirements, where possible, has to be encouraged. There are, however, recognised fiscal and cultural differences between EU member states, such as, for instance, the use of fair value accounting, that need to be taken into account. Such differences may be reflected in national financial reporting requirements in so far they do not jeopardize trade between member states or the creation of a level playing field between SMEs from different member states.

No Mandatory International Accounting Standards for SMEs

9. The IASB's SMEs project is a consequence of demands from standard setters, accountants and other stakeholders for an alternative to the full IFRS. Although originally reluctant to take on the project, the IASB was persuaded that it was the wishes of majority of the parties cited above that only the IASB had the perceived credibility and authority to issue high quality enforceable accounting standards. The starting point for this project was full IFRS, written for listed companies, however.
10. Full IFRS are written from a different viewpoint than that of the needs of listed companies and their stakeholders) regarding the use of financial reporting. As mentioned above, financial reporting for SMEs is more often written for an internal or informal use (in connection with suppliers, contracting parties, financial institutions, etc.) than because of legal or other obligations to report to a wide range of users.

11. The mandatory implementation of IFRS, or a different set of new rules, based on those developed for listed companies, would generate substantial administrative burden and a financial cost for SMEs that is likely to outweigh any positive effects. The close connection between annual accounts and the tax returns would also force SMEs in different member states to maintain two set of financial reports, also adding to the administrative burden.

Simplification of the Directives

12. Paragraph 6 of the Discussion Paper refers to “*Ways of Achieving Simplification for SMEs in the Accounting Directives*” which in the main are extensions of the current options for SMEs under the Directives.
13. It is important to investigate how the options already given to Member States are working prior to introducing new Directives. Prior to changes in financial reporting requirements of SMEs, the current position in terms of uptake of the options under the 4th and 7th Directive should be considered. This investigation should include (a) use of options, (b) motives cited by member states in introducing options and (c) a review of member states’ success in meeting their objectives.
14. The outcomes of the IASB’s SME project, even if they are not appropriate for mandatory implementation in the EU, may provide useful insights which can inform discussion on simplification of the Directives.
15. As mentioned above, a major problem with the current situation is a top down approach, which (a) results in administrative burdens on SMEs, and (b) reduces the relevance of financial accounting frameworks and standards for these entities (observation 1). A future review of financial reporting in the EU should re-address this problem by taking a bottom up approach. Such an approach would concentrate on the needs of SMEs, and would be informed by research into users and their needs as proposed above.

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