The Belgian presidency of the EU, 2010

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CONTACTS

For further Information, please contact:

- Cécile Bonino, Public Affairs and Media Relations Officer, EU
  cecile.bonino@accaglobal.com
  +32 (0)2 231 0465
  Mob: +44 (0)7809 595 008

- Roger Acton, Director, Europe and Americas
  roger.acton@ie.accaglobal.com
  +353 (0)872 577 159

COUNTRY HEADS

- Katka Benesova, Head of ACCA Czech and Slovak Republics and Hungary
  katka.benesova@cz.accaglobal.com
  +42 (0)22 224 0855

- Malgorzata Sawicka, Head of ACCA Poland
  malgorzata.sawicka@pl.accaglobal.com
  +48 (0)22 692 4110

- Andreia Manea, Head of ACCA South Eastern Europe
  andreia.manea@ro.accaglobal.com
  +40 (0)21 312 7945

- Nataliya Vovchuk, Head of ACCA Ukraine, Baltic, and Caucasus States
  nataliya.vovchuk@ua.accaglobal.com
  +38 (0)67 761 6801

- Ben Cottam, Head of ACCA Wales/Pennaeth ACCA Cymru
  ben.cottam@accaglobal.com
  +44 (0)29 2078 6494

- Andrew Leck, Head of ACCA UK
  andrew.leck@accaglobal.com
  +44 (0)131 247 7511

Introduction and context

1 July this year sees Belgium begin its six month stint as the rotating president of the European Union's Council. The primary concerns for the Belgians will be very similar to those of recent presidencies: financial stability of member states; a key environmental summit; and the problems of presenting a unified European front.

This year has already seen ongoing EU efforts to avert a full-blown economic collapse in debt-laden Greece, while there are mutterings about the economic stability of other EU member states, including Ireland, Portugal, Italy and Spain. In the meantime, December 2010 sees the world's nations regroup in Mexico for a second attempt to reach a binding deal on emissions reductions after the failure to do so at Copenhagen last December. As has happened before, (during, for example, the Russo–Georgia conflict in 2008) the EU conspicuously punched well below its combined weight at COP15, with key negotiating roles eventually played by individual countries.

Attempts to deal quickly with the Greek crisis have also been hampered by EU divisions, with internal German political divisions holding up a rescue package.

Getting the EU to 'speak with one voice' is a recurring desire amongst EU leaders, and with the Lisbon treaty now in force, it could be the Belgian presidency that finally realises this desire.

The Belgian presidency is the middle presidency of the first formal presidency 'trio', a new format for the rotating presidency to ensure consistency of message and direction that may have otherwise been missing from short six-month presidency terms. Belgium's presidency colleagues are Spain (current holders until 31 June 2010) and Hungary (1 Jan–31 June 2011).

The trio is the first set of presidencies to operate under the auspices of the Lisbon treaty. With the new set-up of the EU only months old, it remains to be seen how far the presence of a permanent Council president will affect the older rotating Council presidency. Commenting on the changes, Spain's ambassador to Paris noted:

'[the rotating presidency's] role is to provide impetus to each dedicated Council, not necessarily to stabilise it, as it is the case of the permanent presidency'.[1]

Recent presidencies have seen the incumbent use the role as an opportunity to express distinctive national concerns. Sweden's six months saw significant efforts to ensure that an EU-wide carbon tax was given room on the agenda, while Spain has afforded gender equality a key place during its presidency. With debates looming from July about the EU budget, economic regulation, and carbon taxes, the Belgian government's experience of conciliation could prove helpful for the EU.

However, Belgian attention may be distracted by the need to focus on domestic conciliation instead. The re-ignition of linguistic disputes in Belgium this April means that Belgium's assumption of the presidency in June could coincide with domestic elections. Given recent experience,[2] it could be some time after the election that a government is actually formed. Belgium's Europe minister, Olivier Chastel, assured his EU counterparts that:

'Whatever happens, Belgium will take up its responsibility.... Belgium will do everything it can to make sure European institutions function well after the reforms introduced by the Lisbon treaty'.[3]

The EU has previous experience of a presidency government collapsing mid-term: the Czech government fell to a 'no confidence' vote during its 2009 chairing of the Council.[4] While this did disrupt the EU to some extent, this occurred before the creation of a permanent EU president. Belgium's difficulties may therefore have less of an impact this time around, but this remains a test case.

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1. http://www.euractiv.com/en/priorities/belgium-hungary-set-eu-presidency-priorities/article-189203

2. http://euobserver.com/?aid=29917

3. http://www.europeanvoice.com/article/imported/eu-presidency-in-disarray-after-government's-collapse/67813.aspx

4. http://euobserver.com/?aid=29917

The working plan for the current presidency trio contains several goals and priorities, covering a very wide range of policy issues. Some of the core aspects of the trio's priorities are as follows.

- The revision of the Lisbon Strategy.
- The assessment and improvement of financial regulation in the wake of the financial crisis.
- A renewed social agenda.
- The implementation and review of the energy and climate package.
- The continuation of the enlargement process.
- The continued implementation of the Lisbon treaty.

According to Olivier Chastel, the Belgian presidency will focus on the following issues.

- Continuing the implementation of the Lisbon treaty (particularly the establishment of the 'External Action Service').
- Launching the successor framework to the Lisbon strategy, 'Europe 2020'.
- Pursuing international climate and energy negotiations.
- Implementing the Stockholm programme (the Justice and Home Affairs framework).
- Continuing enlargement negotiations.
- Preparing the 2011 budget and the 2007–13 budget revision.

Lisbon strategy/'Europe 2020'

By the time Belgium takes over the presidency, the financial crisis will have bottomed out for most, if not all, EU member states. As it was for their Spanish predecessors, Belgium's aim will be to prevent an occurrence of the mooted 'double-dip' recession. As with the Spanish before them, the Belgian government will be paying plenty of attention to replacing the EU's economic competitiveness framework, the Lisbon strategy.

The Lisbon strategy framework was inaugurated in 2000 and is set to expire by the end of this year. The strategy covers a wide variety of themes and issues, including: employment; innovation; competitiveness; economic growth; research and development; and financial regulation. Replacing *The Lisbon Strategy for 2010–2020* is *Europe 2020: A strategy for smart, sustainable and inclusive growth.*[5] The draft key points of 'Europe 2020' were agreed upon at the Council spring summit this March, and will be finalised at a meeting in June before the Belgian presidency begins.

According to the conclusions of the Council's spring summit, the 'headline targets' of 'Europe 2020' will be:[6]

- a 75% employment rate amongst those aged 20–64
- bringing combined public/private sector research and development investment to 3% of GDP
- reducing greenhouse gas emissions by 20% compared to 1990 levels, while increasing renewable energy usage to 20% of energy consumption
- the promotion of social inclusion.

One of the recurring themes within the 'Europe 2020' document as well as the trio work plan is the idea of 'sustainable growth'. In the run-up to taking over the presidency, the Belgian government has identified the 'green economy' and 'eco-innovation' as key concepts,[7] while the 'Europe 2020' document refers to:

'Promoting a more resource efficient, greener and more competitive economy'.[8]

With the broad aims finalised, it will be up to the Belgians to guide the framework through the early stages of its implementation. One of the first steps in this process will be a review of member states' and the Commission's plans for implementing 'Europe 2020', which are due to be presented this autumn. Additionally, autumn will see a Belgian-chaired EU Council debate the research and development aspects of the new strategy.

ACCA RECOMMENDS

ACCA welcomes the European Council's recent agreement on the new 'Europe 2020' strategy and supports the strategy's focus on knowledge and innovation, on a more sustainable economy, as well on high employment and social inclusion.

These objectives represent an encouraging step towards the further development of the single market, the creation of a knowledge-based society, and more and better jobs. Nevertheless a stable legal and macro-economic framework – in which businesses and individuals can thrive and invest – and greater coordination of national economic policies are urgently needed. It remains to be seen whether the EU has the tools to deliver on its ambitious objectives, and if the long-termism of this new vision will be able to respond to the current problems facing Europe.

5. http://ec.europa.eu/eu2020/pdf/COMPLET%20EN%20BARROSO%20%20%20007%20-%20Europe%202020%20-%20EN%20version.pdf

6. http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressData/en/ec/113591.pdf

7. The Belgians have also proudly declared that their presidency will be administered in 'a sustainable manner. This means that not only ecological impact will be taken into account but also the social and economic aspects. Organizational decisions concerning transport, conference rooms, catering, hotels, business gifts etc. should be sustainable and environmentally friendly.'

8. http://ec.europa.eu/eu2020/pdf/COMPLET%20EN%20BARROSO%20%20%20007%20-%20Europe%202020%20-%20EN%20version.pdf

However, ACCA feels that there are certain areas that have been neglected in the setting of this strategy, including:

- the setting of binding targets and, potentially, corresponding sanctions

- a stronger focus on a better integration and implementation of the 'think small first' principle and the crucial role of entrepreneurs in the EU would have been desirable

- a reference to the role to be played by the public sector and a target relating to the sustainability of public finances, since the 'Europe 2020' policy objectives will largely depend on the public finance situation in the member states.

For ACCA it is crucial that 'Europe 2020' avoids the mistakes of its predecessor, while at the same time ensuring continuity and addressing new priorities and challenges.

ACCA believes that the success of 'Europe 2020' will depend on:

- greater commitment to delivering on the objectives with a particular attention to be given to sound financial systems and the strict implementation of the Stability and Growth Pact.

- better implementation, enforcement and quality of the existing legislation and 'better regulation' including full consultation and economic impact assessments to avoid knee-jerk proposals

- setting realistic and clearly defined targets to measure progress in the priority areas and the flagship initiatives

- Closer monitoring of member states' implementation process based on structural indicators and benchmarking and opting for a mid-term assessment in 2014

- more robust accountability measures: member states should be encouraged to meet the targets with incentives, for example linking the implementation of the objectives to EU financing, but also be held accountable when they do not respect their targets (the current name and shame possibility might not be dissuasive enough)

- maximising synergies between the different policy areas and actors, with a stronger focus on the following.

  – Small businesses' access to market, to finance and to innovation, through equity, venture capital and simplified public procurement procedures. To ensure continued economic development across the EU, the entrepreneurial culture must be better supported. Regulatory and fiscal arrangements must be reconsidered to help achieve this. Ideas such as one-stop-shops that help reduce regulatory hoops for entrepreneurs and SMEs (small and medium enterprises) are useful

  – Greater emphasis on education with a better matching of qualifications/skills demand and supply – systematically integrating gender equality – and commitments regarding the implementation of the European Qualifications Framework and Training Partnerships between businesses universities

  – Green technologies and Innovation: Accountants have a key role in promoting innovation in the spirit of the 'Europe 2020' Strategy. ACCA appreciates that European businesses need to tackle falling asset values, low levels of growth and dependence on unsustainable natural resources in order to compete with emerging economies that do not face these problems. New ways of identifying assets and then managing them are a vital operational area where accountants can make a real difference

  – A 'bottom-up approach' involving national, regional and local level – including the public sector, in the definition and implementation of governance structures, with more attention to be given to Private–Public–Partnerships

  – Strong and effective public services able to provide high-performing education systems, adequate and efficient energy infrastructures, sustainable healthcare and social services, etc

The challenges of the next ten years are daunting but ACCA hopes that national targets that are being prepared, and subsequent national tailor-made plans will include concrete actions and reflect member states' commitments to achieving the agreed targets and flagship initiatives. They are central to the future of the EU, and must not be sidelined.

Sustainability and climate change

The United Nations Climate Change Conference 2009 (COP15) in Copenhagen failed to produce a legally binding agreement. Instead, the conference produced a non-binding 'accord'. European reaction to the failure of the talks to produce anything concrete was downbeat, with José Manuel Barroso,[9] Nicolas Sarkozy,[10] and Gordon Brown[11] all expressing disappointment at the talks' outcome. The failure of the talks to produce a legally binding agreement means that there will be a gap after the expiration of the Kyoto treaty in 2012, when there will be no truly global emissions limiting framework in place.

As with trade talks, the climate change negotiations will continue at future conferences. After the failure of COP15, attention now turns to COP16, to be held in Mexico in November-December 2010. This places the Belgian presidency at the centre of European efforts to secure a binding agreement on climate change at the second time of asking.

Outgoing Belgian prime minister, Yves Leterme had generally been a supporter of efforts to achieve an agreement on climate change, and was upbeat ahead of the Copenhagen talks, saying that:

'Compared to us, Obama promises a whole lot less. Europe wants to go further'.[12]

But it is not all just about climate change. The main driver of coordinated sustainability policy in the EU is the 2006 EU Sustainable Development Strategy. Its aim is to identify and develop actions to enable the EU to achieve a continuous long-term improvement of quality of life through the creation of sustainable communities able to manage and use resources efficiently, able to tap the ecological and social innovation potential of the economy and in the end able to ensure prosperity, environmental protection and social cohesion.

The strategy sets overall objectives and concrete actions for seven key challenges for the coming period until 2020, many of which are predominantly environmental:

- climate change and clean energy
- sustainable transport
- sustainable consumption and production
- conservation and management of natural resources
- public health
- social inclusion, demography and migration
- global poverty and sustainable development challenges.

ACCA RECOMMENDS

The failure to reach a binding agreement during the COP15 talks was disappointing, but it does not mean the EU should give up on trying to achieve a deal; the longer we go without a binding agreement, the more damage there will be to the environment. The meeting in Mexico at the end of 2010 is just as important as the meeting in Copenhagen last year. As rotating president of the Council, the Belgian government must ensure that the lessons of Copenhagen are taken on board to avoid disappointment in Mexico.

With regards to sustainability policies that should be pursued by the Belgian presidency, ACCA recommends the following.

- The European Union Emissions Trading Scheme (EU-ETS) is an important, market based mechanism to manage and reduce the EU's carbon emissions going forward. Two commendations would significantly improve the effectiveness of the scheme and underline the EU's global leadership efforts again dangerous climate change:
  - Implement ACCA's call for the creation of a mandatory, uniform carbon accounting and reporting standard for all businesses and organisations, taking their respective sectoral and national circumstances into consideration. This standard would aid overall carbon reduction efforts,

9. http://news.bbc.co.uk/1/hi/world/europe/8421935.stm
10. http://news.bbc.co.uk/1/hi/world/europe/8421935.stm
11. http://news.bbc.co.uk/1/hi/uk_politics/8423831.stm
12. http://www.guardian.co.uk/world/feedarticle/8851248

include all sectors which is currently not the case in the EU-ETS and create a uniform and meaningful, competitive comparison between sectors across the EU.

  - Reform the proposed EU-ETS emissions allocation scheme to ensure that emissions permits are auctioned – so the most efficient and cleanest, low emission technologies are incentivised and the ‘polluter pays’ principle is implemented.

- Adopt and implement a long-term and binding Green New Deal (GND) which identifies, prioritises and tackles converging economic, social and environmental challenges. Crucially the benefits the GND should not restricted to the arena of climate protection or the environment, as important as they are. A GND should provide a major boost to the economy, much needed in times of economic slowdown; lead to sustainable economic development and result in the creation of millions of new ‘green collar’ jobs in renewable energy and other future-oriented technologies.

- Renewables must be put at the centre of European energy policy for the 21st Century and the ACCA is calling for the creation of a European Renewables Commission to this end. A concerted investment drive in green technologies in which the European Investment Bank must play a role is crucial for any effective delivery. A real renewables boom requires a new approach to energy supply: truly unbundling ownership of distribution and production, while promoting a grid without borders and the smarter use of energy.

- Revolutionising how we use energy and ending our damaging dependence on oil means we must also ‘go green’. Transport is the fastest growing source of manmade greenhouse gas emissions. The EU needs to actively work to create a sustainable transport system. Ending the direct and indirect subsidisation of inefficient and polluting transport modes, like shipping, aviation and road transport, is an important step in ensuring the full environmental costs are taken into account. This must go hand-in-hand with the active promotion of more sustainable transport options like public transport, cycling and walking. Freight must be shifted from roads to rail and inland waterways on a much bigger scale.

Economic regulation

Aside from the Lisbon strategy revision, the Belgian presidency will be expected to oversee aspects of the design and implementation of several new economic tools and bodies. The primary concern, judging by the conclusions of the Council's spring summit,[13] is the need to improve the EU's performance in the area of financial regulation. In particular, the Council advocated that the European Systemic Risk Board (the ESRB), the three proposed Supervisory Authorities, and a European Supervisory Framework should all be operational by early 2011.

An agreement to create these bodies was initially signed in June 2009, but resistance from the UK forced the EU back to the drawing board. Work on the project was hoped to have been completed under the Swedish presidency (July–December 2009), but talks have continued into to the Spanish presidency. Despite the Council's support for the proposals, given the rate of progress so far, talks could realistically carry on throughout the Belgian presidency.

The difficulty in getting these new bodies established has not so far deterred the Belgian government from thinking 'big' about EU economic regulation. In response to the Greek debt problems, outgoing prime minister Yves Leterme called for the creation of a 'European Debt Agency' (EDA) or finance ministry, arguing that a currency union without common economic government was always likely to run into trouble. The EDA, Leterme suggested, could take over responsibility for the issue and administration of government debt within the Eurozone.

A bigger role for the EU in dealing with economic troubles is something that Leterme called for in January 2010, at the World Economic Forum in Davos:

'[The] presidency is a great opportunity for Belgium to present itself to the economic world. But I assure you, it will be a priority of the Belgian EU presidency to contribute to further European integration and consolidation, now that the Lisbon treaty has come into effect. The answer to the economic problems we are facing is the enactment of clear, strong and enforceable European rules for fair and open markets where access and competition go together with innovation and investment'.[14]

The Lisbon treaty, Leterme noted in another speech, '…gives us more [regulatory] instruments to tackle those you call the 'big boys''.[15]

Leterme's suggestion is one of several new ideas to have come out of the Greek problems, with Franco-German calls for a 'European Monetary Fund' (EMF) attracting the most attention. The EMF proposal may have Franco-German support, but its implementation could be held up by the need for further treaty changes to allow it, and disagreements with the European Central Bank. Leterme's proposals may not face such obstacles, and with Belgium occupying the Council presidency from July there is a chance of the proposals having some impact on EU policy (if, of course, Leterme or his Belgian allies are around to support the plans).

An additional consequence of the Greek debt crisis and the serious threat it posed to the stability and viability of the euro, is the potential re-examining of the entry process to the euro. Greek euro problems first emerged in 2004, when it was revealed that Greece had used false figures to support their euro entry. At the time this led to calls for rule changes,[16] and in light of Greece's subsequent serious problems, calls for changes may carry more weight.

Current rules stipulate that all EU members are obliged to join the euro (with the exceptions being the UK, Denmark, and de facto Sweden), so any clampdown on entry requirements could seriously hold up EU-accession negotiations, which would conflict with the EU's aim to speedily bring the Balkans into the EU, as well as hold up the euro's introduction in Eastern Europe.

Internal market and services commissioner Michel Barnier has also stressed that better corporate governance should be a priority of the work programme of the Commission under his mandate. A green paper is expected end of May 2010 and will therefore falls during the Belgian presidency. In the same vein, the French commissioner announced that in the light of the recent Greek crisis the role of audit and its supervision should be the object of a wide stakeholders consultation that is expected in September.

13. http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressData/en/ec/113591.pdf

14. http://premier.fgov.be/toespraak/toespraak-yves-leterme-word-economic-forum-davos

15. http://www.yvesleterme.be/nl/actua/toespraken/speech-by-prime-minister-yves-leterme-of-belgium-at-the-new-year-reception-of-kpn

16. http://www.independent.co.uk/news/world/europe/greece-admits-deficit-figures-were-fudged-to-secure-euro-entry-533389.html

Finally, in accordance with the conclusions of the Council's spring summit, the Belgian presidency will play a role in the creation of a Council taskforce aimed at improving the 'crisis resolution framework', to report to the Council by the end of the year.

ACCA RECOMMENDS

Markets don't work without effective regulation. Regulation that works ensures market stakeholders have confidence that all competitors are covered by the same rules, that those rules are effectively policed, and that the regulations have an effective balance between safeguards for stakeholders and scope for business growth.

Needless to say however, the economic crisis two years ago painfully demonstrated that regulatory standards as they stood were inadequate. Regulations do need to be tightened to prevent a repeat of the economic turmoil, but 'more' regulation isn't necessarily the same as 'better' regulation. Instead, the process of regulatory improvement requires a focus on securing the active engagement of those who actually have to work within proposed regulatory frameworks.

The EU should bear this in mind when they consider any amendments to the euro entry process. Once again, 'more' does not equal 'better' regulation. The issue with Greece's entry to the euro based on false figures was not that existing regulations did not go far enough but that existing regulations were not properly enforced. Only if the current rules didn't prevent countries from submitting false accounts would major changes be necessary.

Some of the problems caused have been down to the use of derivative swaps to disguise debt: from 2002 Greece was able to arrange an extra $1bn in credit through swap deals that were kept off their balance sheets.[17] Again, this should not require new, complicated regulations, but rather the effective application of existing rules. In this case, fair value accounting, a core part of International Financial Reporting Standards (IFRS), is the only realistic method of accounting for derivatives. IFRS is already in use in the EU, and should be properly enforced.

Any knee-jerk changes could seriously delay the EU's accession talks with several countries, which could directly and unnecessarily undermine the EU's intentions with regards EU enlargement. EU accession provides a degree of political and economic stability to young democracies, as well as expanding the single market, so any changes that could make accession or economic integration tougher must be approached with caution. In this case, making the euro-entry requirements tougher could cause problems for Eastern Europe, Turkey, and the Balkans.

We are pleased to note that the G20 in April 2009 echoed our call for the adoption of ethics-based corporate cultures by emphasising that strengthened regulation and supervision must promote propriety, integrity, and transparency.

ACCA has two papers on the future of financial regulation: *The Future of Financial Regulation*[18] and *The Future of Financial Regulation: An Update*.[19] We are pleased that many of the recommendations made in these documents have been adopted by policy makers, particularly the dropping of calls for a 'super-regulator' in Europe. It would have been perverse if the lesson learned from the problems of too-big-to-fail institutions had been to re-create a regulatory equivalent. Regulators should remain local and close to those being regulated.

Mechanisms which allow the sharing of knowledge and best practice between national regulators should be welcome but there will be difficulties in finding the right balance between the implementation of consistent international rules and the imposition of potentially inappropriate one-size-fits-all rules.

The Commission must move quickly on its 'Better Regulation' plans if it is to meet its own savings targets. However, moving forward it needs to find ways to control the flow of new EU regulation, as well as finding ways to ensure the regulation is of a consistently high quality. We hope that the Belgian presidency can take a key role in instigating changes.

17. http://www.spiegel.de/international/europe/0,1518,676634,00.html

18. http://www.accaglobal.com/pubs/general/activities/library/governance/cg_pubs/tech-tp-ffr.pdf

19. http://www.accaglobal.com/pubs/general/activities/library/governance/cg_pubs/tech-tp-ffr2.pdf

The Commission can begin by implementing, as soon as possible, the recommendations of the Dutch, Danish, and British governments regarding smart regulation. There should also be action on the findings on the European Court of Auditors' findings on regulatory impact assessments. ACCA would welcome work on qualitative, outcome-based measures of the quality of regulation and will be happy to contribute our thoughts to any proposed changes.

On corporate governance, ACCA published a paper entitled *Corporate governance and the Credit Crunch*.[20] This paper is the result of meetings held by ACCA with experts from financial services, academia and accounting about the causes of and lessons to be learned from the credit crunch. It takes a wide view of the factors leading to the credit crunch then explores how poor corporate governance contributed to the problems. The purpose of the paper is to aid understanding of how we have got to where we are and suggest some of the things which need to be done to avoid it happening again. It goes on to identify and explore ten corporate governance principles which could help prevent another financial crisis and illustrates how accountants can help to establish systems of good corporate governance.

For ACCA, the credit crunch has mainly been due to a failure in corporate governance and ethics. Financial institutions appear to have ignored that good corporate governance is about getting people to behave responsibly. Boards should operate in their shareholders' long term interests and be able to manage unintended consequences. Key to this must be ensuring an ethical culture and particular attention should be brought to the lack of legal rights[21] and the identity of shareholders (big risks talkers versus more conservative ones), the lack of transparency and available data regarding boards structures, the role of managers and their remuneration, acquisitions, the role of bondholders, and the issues of cross border winding-up of a financial institution (and the related bail-out behaviour) as well as deposit insurance (on which the EU Commission is currently working).

In addition to this, ACCA is preparing a further paper that will serve as a basis to its contribution to the EC green paper.

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20. http://www.accaglobal.com/pubs/about/public_affairs/unit/parliamentary_briefings/credit_crunch.pdf

21. This is however not true for all EU countries.

SMEs

Fitting in with the presidency trio's working plan, the Belgian government has acknowledged the importance of SMEs (small and medium enterprises) to the EU's economy; the government has labelled SMEs as 'the first important focus'. Key issues for the Belgians could be the simplification of the procedures for SMEs that give access to European research activities, and a follow-up of the Small Business Act.[22]

ACCA RECOMMENDS

As Belgium takes over the presidency from the Spanish, it is absolutely vital that SMEs are placed at the centre of their economic considerations. Any new proposals for legislation or regulation should pass the 'think small first' test, to ensure that new regulations are responsive to the unique needs of SMEs as opposed to simply adding to their burdens. As the main source of financial advice for many SMEs, qualified accountants are in an excellent position to provide business friendly input on draft legislation, and should be consulted with at the earliest possible opportunity.

The recent vote by MEPs to exempt SMEs from filing annual accounts is an example of well-intentioned legislation that may actually do more harm than good (see 'Accounting directives and standards' for more detail). It goes without saying that ACCA will continue to lobby against the exemption of micro-companies from the obligation to file financial reports. The Commission should recognise that removing false 'burdens' will only deliver false 'benefits', at a cost to SMEs themselves and to the credibility of Better Regulation.

SMEs will play a key role in a sustainable recovery of the EU's economy. However, many SMEs are still struggling to access the finance they need to help grow the economy out of recession. Support for SMEs shouldn't end just because the recession is over; if anything, continued support is now more important than ever. More needs to be done to ensure that funds already provided by the European Investment Bank are actually reaching the businesses they are meant to be helping.

If the Commission is serious about kick starting the creation of new, hi-tech industries in Europe, it needs to focus on improving access to equity finance for SMEs and to concentrate its efforts where market failure can be shown to exist.

ACCA would welcome a formal consultation on, and impact assessment of, the Demarigny proposals for a Small Business Listing Act for Europe, making sure to include business angels who have not had any direct input into the proposals so far. This will be a chance to 'think small first' on the supply as well as the demand side of the Venture Capital industry. It will also be a chance to hear first hand the information needs of individual rather than institutional equity investors – a group crucial to bringing liquidity to small business equity markets.

The Commission's micro-loans programme for entrepreneurs is very promising and we urge the Commission to closely monitor and report on its progress, including medium and long-term outcomes for beneficiaries. We believe that it should be possible to get much better value for money by combining this scheme with access to appropriate private sector business support.

It is important that any changes the EU makes to regulations are only made after proper consultation with stakeholders, particularly SMEs and consumers. Previous Directives have failed to reflect the needs of those they impact upon: Between October 2002 and June 2005 there were 1,680 responses to 46 European financial services consultations. Only 13 of these responses came from consumer groups. ACCA therefore believes that more effort should be made to ensure adequate consumer contributions to the formulation of legislation.

The Commission's consultation on a Community Innovation Strategy has strongly highlighted the need to direct attention and resources towards innovative SMEs. The Commission will respond to the consultation shortly, but it should start working on the implementation of the strategy straight away. The Commission should however be careful as to how it goes about this; 'picking winners' by directing targeted support to businesses that show the promise of innovation or high growth is a notoriously difficult task. The Commission must learn these lessons in deciding how best to support innovative SMEs.

22. http://www.ewi-vlaanderen.be/en/landschap/projects/belgian-eu-presidency-2010#3

We know that improving access to venture capital and other finance, to appropriate business support (especially on the management of intangibles) and to the public procurement market will all be crucial to this. It must be noted that current EU policy does not explicitly treat any of these issues from an innovation perspective – so the Commission must not assume its current interventions provide it with sufficient tools.

Finally, the role of SMEs in promoting the Commission's sustainability policies is as yet unexplored – but it could be crucial. The Commission's ambitions in this area are very substantial but they may not be realised if the small business sector is not given the opportunity to contribute.

As a point of departure, the Commission could consider a digest of best practice similar to that prepared for the Small Business Act goal of improving SME access to public procurement. It may also consider action towards the harmonisation of sustainability standards, as uneven national standards have the potential to provide member states with ways of pursuing protectionist public procurement and business support policies.

Accounting Directives and standards

In 2007 the European Commission set out a vision[23] for simplifying EU rules on company law, accounting and auditing. Elements of this were taken forward by the Commission in 2009 in a Directive[24] amending the 4th and 7th Company Law Directives (the Accounting Directives). Specifically, amendments were made to certain disclosure requirements for medium-sized companies and the obligation to draw up consolidated accounts.

The Accounting Directives set out a common set of principles and requirements with which member states have to comply within their national accounting legislation. The Directives require companies to prepare 'true and fair' annual accounts using one of a series of prescribed formats, comprising a balance sheet, a profit and loss account, as well as certain notes to the accounts. The Directives also lay down principles which govern the drawing up of the accounts and set out general valuation principles. The 4th and 7th Directives also set the thresholds which determine whether a company is large, small, or medium for reporting audit purposes.

In 2009, the then commissioner for the internal market, Charlie McCreevy, announced that micro-entities would be exempted from the Accounting Directives,[25] and that a modernisation and simplification of the Accounting Directives would be carried out in the near future.[26] McCreevy explained:

'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'.[27]

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23. http://ec.europa.eu/internal_market/company/docs/simplification/com2007_394_en.pdf

24. http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2009:164:0042:0044:EN:PDF

25. http://ec.europa.eu/internal_market/accounting/docs/news/legal_proposal_en.pdf

26. http://ec.europa.eu/internal_market/consultations/2009/company_law_dir_en.htm

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

The exemption of micro-entities

In March 2010, MEPs approved a proposal from the Commission to exempt micro-entities – those with turnover of up to €1 million euros and fewer than 10 staff – from filing annual accounts. The proposal must also be approved by the Council as part of the co-decision procedure. At the time of the vote however, there was a group of ten countries unhappy with the current proposals, on the basis that the changes would decrease transparency and distort the single market. Significantly, two of the member states in this group are Belgium and Spain, the current and upcoming Council presidencies; the proposals could thus be off the Council's agenda until next year.

ACCA RECOMMENDS

The decision by MEPs to approve the Commission's proposals to abolish the requirement for micro-entities to prepare and publish annual accounts, risks seriously undermining confidence in the EU's small business sector.

While ACCA agrees that needless or overly burdensome regulation needs removal or reform, the filing requirement simply doesn't come under either of those two categories. The move to abolish the requirement for micro-entities will mean that millions of stakeholders, including potential investors, trading partners and creditors will no longer be guaranteed access to credible accounting information from these small companies. That would make it more difficult for them to protect their financial interests and, as a consequence, makes it less likely that potential investors will risk their capital. The cost savings of not having to produce accounts, which the Commission's research puts at about €1,200 per year but which we consider is an exaggeration, will be outweighed by the loss in confidence, investment and trade in the most vulnerable businesses.

There is also the potential for increased corruption and fraud at a time when greater transparency is needed in the economy. Further, by deciding that individual member states can exempt micro-entities from having to produce annual accounts, we also face the prospect of a patchwork of accounting regimes within the EU. This will create uncertainty about stakeholder rights just when the EU is legislating for the standardisation of such rights in the context of larger companies and encouraging SMEs to conduct more cross-border trade.

Belgium's opposition to the changes is encouraging, and we hope that Belgium will be able to use its influence as holder of the presidency to limit or reverse many of the damaging aspects of the proposals. Ideally, the Commission should withdraw the current proposals and focus instead on a comprehensive revision of the 4th and 7th Company Law Directives as opposed to current piecemeal and, while well-intentioned, misguided reform efforts.

The overhaul of the Accounting Directives

The Accounting Directives were first enacted in 1978 and have been amended several times since. Over the past 32 years, attempts to update these Directives have made them increasingly complex, creating extensive red tape for small business owners.

It is therefore widely considered that there should be a general revision of their structure and a modernisation of their content, partly because of the proposed micro-entities exemption but also because the Directives previously applied to listed companies. This is largely no longer the case following the introduction of IFRS.

Announcing the intention to overhaul the Directives, Charlie McCreevey said: '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'.[28]

ACCA RECOMMENDS

ACCA has long supported a full overhaul of the Accounting Directives. We believe that the 'think small first' principle should be the guiding principle in undertaking this overhaul and we are urging the Commission to present a comprehensive set of measures by early 2011.

However, we encourage as exhaustive a consultation as possible with all of the relevant stakeholders. Furthermore, we believe that the new framework must be principles-based, reflect the needs of those using private businesses' financial reports and be compatible with IFRS for SMEs, remaining as a basic framework for accounting without setting out prescriptive rules. In areas such as accounting, being too prescriptive can backfire. Issuing guidance which results in mechanical rule-following would be a recipe for disaster. Principles-based standard setting and professional judgment have a vital role to play and should be safeguarded where possible.

Our view is that, following the overhaul, the new Accounting Directives should consist of a set of high-level requirements compatible with the key principles of international accounting.

This revision is also likely to entail a part on audit exemption thresholds. ACCA has held and will be holding in 2010 a series of roundtables throughout Europe and beyond, in order to produce a comprehensive study on the future of audit. The findings of this study will be available to feed into the preparation of the upcoming overhaul of the 4th and 7th Accounting Directives and also of two forthcoming EC green papers respectively on corporate governance and on the role of audit, to be published in September 2010.

Amazingly, the vast majority of European companies (around 98, 7%) are today exempted from statutory audit, covering almost half of all employees in Europe. Approximately 1.4 million audits are performed each year while the EU mandates only 0.3 million.

The audit exemption threshold also varies according to member states: some, such as Belgium and Germany, keep it close to the €8.8 million EU threshold, while others – such as Greece, Poland or Spain – keep it significantly lower. The value of audit needs to be considered in the context of a wider societal approach to checks and balances which provide assurance to all stakeholders and which drive confidence in markets. For ACCA, if incremental approaches to gradually raising the threshold could be envisaged, this should in any case be done at individual member state's level, and accompanied by an evidence-based impact assessment.

The role of audit in society is important and there is no doubt that having a respected form of auditors looking over the books helps businesses access finance. At a time when governments are looking to the private sector to lead the economies of Europe out of recession and into full recovery, auditing and accounting contribution to the achievement of business confidence – in instilling financial discipline and ensuring better corporate governance – should not be treated lightly, even at the small entities level.

However, as indicated in ACCA's paper on Restating the value of Audit,[29] to better tackle SMEs needs, we should start thinking about introducing a cheaper and quicker scaled-down version of the full audit and involve agreeing procedures with the business to provide assurance on the areas of risk which are of most importance to them, such as cash control, using a 'segmented' approach.

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

29. http://www.accaglobal.com/page/3305046

International Accounting standards

The EU decision to use International Accounting Standards Board (IASB) standards (IFRS) as the basis for EU accounting standards, together with the Securities and Exchange Commission's (SEC) recent decision to allow foreign SEC-registered companies listed in the US to use IFRS without reconciling to US GAAP, have been major milestones for EU listed companies and more generally for the development of IFRS as the global accounting language.

However, there has been political criticism that fair value accounting rules were partly responsible for the market volatility experienced over the past couple of years. As a result of the consequent scrutiny of fair value accounting, the EU has been able to persuade the IASB to revise its rules on fair value accounting. Some countries now want the EU to go further and seek exemptions from the international standards. ACCA believes this would be a serious step backwards.

Undue political influence in the standard-setting process is unfortunately becoming more common. In the EU, the Commission (and French and German governments) has put the IASB under pressure to relax the IAS 39 standards on asset impairment. Further, April 2010 saw the newly installed commissioner for the Internal Market, Michel Barnier, suggest that future EU funding of the IASB – currently £4.3m annually – could be contingent on how amenable the body is to the EU's views on the future of the accountancy profession.[30] In the US meanwhile, the Financial Accounting Standards Board (FASB) has been pressured by Congress to loosen FAS 157 standards on fair value and mark-to-market accounting.

In May 2009, members of the Financial Crisis Advisory Group (FCAG) – a group set up by the IASB and FASB in 2008 to advise them on the standard-setting implications of the global financial crisis and potential changes to the global regulatory environment – noted that political pressure on accounting standard-setters posed a threat to: '...the very existence of international accounting standards'.

30. http://www.ft.com/cms/s/0/75349480-4011-11df-8d23-00144feabdc0.html

ACCA RECOMMENDS

Political pressure on accounting standards-setters risks damaging the credibility and integrity of accounting standards. Reliable and credible accounting standards are absolutely integral to the successful operation of a sustainable capital market, while robust standards are essential for a speedy recovery from the financial crisis. In the same way that central banks set interest rates independently of politicians, accounting standards should be set by experts who are able to provide appropriate justifications for their decisions.

Because of this, ACCA supports the IASB as the accountancy profession's standards-setter. When the IASB was founded in 2001, all parties agreed that an independent, not-for-profit standard-setter, free from political interference, would be the best model for establishing a credible international set of standards; the need for such a standards-setter remains today.

If the independence of the IASB were to be compromised, we could see financial institutions and national standards-setters around the world questioning their support of the body. This must not be allowed to happen. Besides, the IASB is an international standards-setter and it should not be subject to disproportionate influence from one geographical region over others.

While the role of fair value should be carefully examined in the context of a wider review of the role of accounts and financial statements, a 'knee jerk' reaction in terms of watering down its impact is the wrong response. Any attempt to reduce the transparency of accounting should be resisted. Transparent accounting is in the interests of all business stakeholders, including the wider public. For more information on fair value accounting, please see our paper, *Fair Value*.[31]

The focus should now be on ensuring that IFRS continues to be a high quality, largely principles-based accounting language. An essential requirement for this is that the governance and process arrangements for the IASB (as the standard setting body), and its parent foundation, the IASCF, are in proportion to the global reach of its standards.

31. http://www.accaglobal.com/allnews/global/2009/NEWSQ1/News/3190155

We believe that the EU authorities should engage from the beginning of the standard setting process to ensure that the IASB is aware of their views on accounting issues. Additionally, the EU should also encourage EU companies and others to contribute to that process. As more and more countries adopt IFRS, it becomes ever more important that those with IFRS experience share their views and knowledge.

If this can be achieved through the consultative process, it should be possible for EU public and private sector parties to contribute to the evolution of individual standards, from the initial standard setting phase. In most cases, the EU authorities should then be in a position to give their support to new standards, as they are issued by the IASB.

In the interests of establishing a valid internationally accepted standard, the EU should avoid creating accounting exceptions and interpreting standards.

Budget

The EU is currently in the middle of a budgetary period (2007–13), with the next budgetary period set to begin in 2014. Discussions for the 2014 budget will not begin in earnest until the Hungarian presidency in 2011, and the Commission is hopeful of a draft budget being released in 2012. In the mean time however, there will be a mid-term review of the current budget in September.

This review was originally set for the end of last year, but was postponed because of the delays in the ratification of the Lisbon treaty. When originally planned (pre-financial crisis) in 2005, this review was supposed to be an opportunity to address the issues of the UK's rebate and future reforms of agricultural funding, as well as the contribution levels of all member states. However, with several member states waylaid by bulging budget deficits, the issue of 'who pays what' is likely to be very contentious this time around. In conjunction with the new EU president, the Belgian government will have their work cut out to reach an agreement at Council level.

ACCA RECOMMENDS

ACCA looks forward to the budget review as an opportunity to rebalance the EU's spending priorities. For too long the focus of funds on agriculture and fishing has been at odds with the EU's dedication to constructing a competitive knowledge-based economy; it is important that the divergence between words and deeds is corrected. The best way for the EU to achieve success with their EU 2020 framework would be to ensure that its aims are reflected in future EU budgets.

Conclusion

The current trio presidency is overseeing a key period for the EU. There are key areas of transition that are ongoing or upcoming: the implementation of the Lisbon treaty; the implementation of the 'Europe 2020' development strategy; and the negotiations over the EU's next budgetary period. There are also major opportunities for the EU to make its mark at a European and global level: upcoming climate change conferences; and the need to deal with the most serious economic problems ever experienced by any of its members.

If the EU wants to make an impact then it has to start acting in a unified manner. Divisions hit the EU's effectiveness in dealing with the Georgian crisis in 2008, COP15 in 2009, and now the Greek debt crisis in 2010.

At a time when real leadership is needed in the EU, it is a concern that domestic troubles in Belgium could deprive the EU Council of an influential presidency. The Commission and the Council must strive to ensure that Belgian problems have no undue effect on the efficient functioning of the EU.

There are important opportunities and challenges coming up over the next six months; the EU cannot let them slip by.

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ACCA 29 Lincoln's Inn Fields London WC2A 3EE United Kingdom / +44 (0)20 7059 5000 / www.accaglobal.com