



18 February 2010

ACCA and EFAA Joint Position Statement

The proposal for a Directive of the European Parliament and of the Council amending Council Directives 78/660/EEC and 83/349/EEC

Our position

In advance of the vote in the European Parliament on the report to amend Directive 78/660/EC on the annual accounts of certain types of company, ACCA (the Association of Chartered Certified Accountants) and EFAA (the European Federation of Accountants and Auditors for small and medium-sized enterprises) wish to make the following comments on the proposal.

Both ACCA and EFAA are committed to reducing administrative burdens for SMEs and making compliance easier and cheaper. We support efforts to reduce or eliminate burdens where their identifiable net benefits are exceeded by the costs of compliance. This position is shared by UEAPME, the voice of small businesses in Europe.

We do not believe that allowing member states to exempt micro-companies from the current, standard requirements to prepare and publish annual accounts would achieve any significant reductions in compliance costs. The main effect of adoption would be to reduce the amount of corporate information which is freely available to users via the public record. This could have adverse consequences for cross-border comparability of performance, standards of financial management in small companies, result in a lack of transparency and, potentially, have implications for the incidence of financial crime.

We would like to make the following specific points:

- 1) We welcome the report's acknowledgement of the importance, for the financial well-being of limited liability companies, of them keeping proper records of their financial transactions. ACCA and EFAA agree that effective internal controls are essential for every commercial business, regardless of their size. Given the special character of limited liability enterprises, such controls are particularly relevant to the objective of protecting the interests of members and third parties, which has always been one of the objectives of the Directive. However, the proposed additional wording to recital 6 and article 1.1 would not achieve the apparent intention of providing safeguards for shareholders and third parties. This is because the Directive as it stands does not in fact contain any standard provisions on internal controls which could be retained by member states in the event of their deciding to exempt micro-companies. Thus, if

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the intention of the report is to ensure that fundamental protections for stakeholders are maintained after a decision is made by a member state to exempt micro-companies, it would first be necessary either to incorporate such protections in the Directive or, alternatively, to provide that action by member states to exempt micro-companies be conditional on 'adequate' financial controls being adopted by them.

- 2) We do not believe that a convincing case has yet been made for the argument that the proposal to exempt micro-companies from the requirements of the Directive will achieve significant cost savings for those companies in practice. In particular, we strongly believe that the projected net savings figure of 1200 euros pa, as contained in the Report of the High Level Group of Independent Stakeholders on Administrative Burdens - which was however not unanimously adopted- is an exaggeration. We say this because accounting information needs to be prepared by businesses for reasons other than simply to comply with the requirements of the Directive: most obviously, such information must be prepared to meet the requirements of the tax authorities and, very often, of lenders of finance. The importance of obtaining reliable accounting information for the purpose of safeguarding the interests of shareholders should also not be under-estimated. We do not consider that any net financial advantage will accrue to micro-companies if they are exempted from producing financial information for company law purposes but continue to have to produce much the same information for other purposes. The only result of exemption on the basis proposed in the report will, in our view, be to reduce transparency and deny third parties, including prospective customers and business partners, the opportunity to access up-to-date information on a company before deciding whether or not to do business with it. This argument has also been put forward by UEAPME in its latest position paper. The European Commission has already accepted that exempting micro-companies from the existing requirement to publish their accounts would bring no direct cost benefit to the businesses concerned. Limitation of liability for a company's debts should always be accompanied by an obligation of transparency.
- 3) The Commission is already engaged in an on-going project to identify improvements, including simplifications, which could beneficially be made to the Fourth Directive. ACCA and EFAA both believe that there is considerable scope for such improvements to be made, for the benefit of reporting companies and users alike and with respect to all sizes of company. We understand also that the Commission is engaged in a further exercise to identify the average costs of financial reporting to small companies. In view of this on-going work we consider it to be unreasonable to deal with the reporting rules for one class of company separately. We say this not only because of the opportunities which currently present themselves to achieve an integrated framework of accounting and reporting for limited liability companies but also because of the real need for legislators and regulators to understand the information needs of those who deal with the different sizes of company. At a recent



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seminar held in Brussels by ACCA and the International Association for Accounting Education & Research (IAAER), which was convened to discuss the value and impact of business reporting by SMEs, it was stressed by Professor Brigitte Eierle, Chair of International Accounting and Auditing at the University of Bamberg in Germany, that further research was needed on micro-entities and on the information needs of external users of their accounts. We echo this concern and consider that any decision to remove the current, standard provisions on accounting and disclosure by micro-companies should be made on the strength of a full understanding not just of the potential for actual cost savings but of the benefits of financial reporting to shareholders and third parties.

In summary, we believe that the proposal before the Parliament to allow the exemption of micro-companies from the Directive would not be in the interests of the companies themselves or of their stakeholders. UEAPME itself does not accept that SMEs would benefit from this recommendation. We recommend that an integrated approach be taken to reform the rules on accounting and reporting by limited liability companies and that this process should incorporate thorough impact assessments.

The reduction of administrative burdens for SMEs must be realised in a coherent and comprehensive manner, which is why ACCA and EFAA, supporting the ECON committee's opinion on the matter, ask the members of the European Parliament to urge the European Commission to withdraw its current proposal, and to come back with a comprehensive proposal of revision of the 4th and 7th Company Law Directives.

About ACCA

ACCA is the global body for professional accountants. We aim to offer business relevant, first-choice qualifications to people around the world who seek a rewarding career in accountancy, finance and management.

We have 71,000 members across Europe. Globally, we support our 131,500 members and 362,000 students throughout their careers, providing services through a network of 80 offices and centres around the world.

59% of our members work in or for a small and mediums-sized enterprises (SMEs) and we have over 100 years' experience in understanding and supporting SMEs.

According to a study¹ by the IAB (the Belgian Accountants Association) and supported by UEAPME - the voice of the Small businesses in Europe – 83% of small businesses believe that accountants are a small business' first choice adviser, providing a trusted source of support and advice.

¹ Study 2004 IAB-Unizo-FVIB



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ACCA organises leading SME events across the Globe working with key local stakeholders, other international bodies and national Governments, and given that 72,000 of ACCA's members work in SMEs or small partnerships and many others advise their small business clients on a daily basis, we are well placed to comment on issues affecting SMEs.

About EFAA

EFAA is the umbrella organisation for national accountants and auditors' organisations individual members of which provide professional services primarily to SMEs. EFAA has members throughout Europe representing over 150,000 accountants and auditors.

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