



The Czech Presidency of the EU (January-June 2009)

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 122,000 members and 325,000 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 medium-sized enterprise (SMEs) and we have over 100 years' experience in understanding and supporting small firms. Independent research shows consistently that accountants are the first choice advisors of small businesses.

Given that our members advise their small business clients on a daily basis on tax matters, we are well placed to comment on issues affecting SMEs.

ACCA also organises leading SME events across the Globe working with key local stakeholders, other international bodies and national Governments.

Context

The main theme of Czech presidency will be "Europe without Barriers", which reflects the four basic freedoms: the free movement of goods, capital, workers, and services. The Presidency's priorities will be:

- Economy
- Energy
- External Relations

The following comments and recommendations outline measures that ACCA would like to see taken during the Czech Presidency to achieve these objectives. The paper covers the following areas:

- Small and Medium-sized Enterprises (SMEs)
- Financial services regulation
- Accounting
- The Lisbon Agenda
- Climate change

Small and medium sized enterprises

Small and medium sized enterprises (SMEs) make a huge contribution to the European economy, accounting for over 99% of all enterprises and providing over 100 million jobs or two-thirds of private sector employment.¹ The impact of EU policy on SMEs, at a European, national and regional level is increasing.

The Recovery Plan

- We call on the Czech Presidency to work closely with the Commission in ensuring that Member States give clear political priority to those measures contained in the 'recovery plan' which address directly the needs of SMEs – namely easing access to finance for SMEs through the rapid and direct devolvement of European Investment Bank loans and the creation of guarantee schemes and loan subsidies.
- In particular, we call on the Czech Presidency to address the ongoing and damaging malpractice of late payments by insisting that public authorities pay invoices to SMEs within the agreed payment terms, therefore making a meaningful contribution towards tackling the late payment culture.

Micro entities

In the last few months of 2008, there were various proposals aimed at assisting Micro entities across the EU. These included:

- Mr Lehne's amendments to leke van den Burg's report on the Directive amending Council Directives 78/660/EEC and 83/349/EEC as regards certain disclosure requirements for medium-sized companies and obligation to draw up consolidated accounts.
- The Motion for a Resolution to wind up the debate on the statement by the Commission pursuant to Rule 103(2) of the Rules of Procedure by Giuseppe Gargani on behalf of the Committee on Legal Affairs, on a further review of the accounting directives as regards Small and Medium sized Enterprises, in particular micro-entities.
- The possibility of the European Council conclusions on (11-12 December 2008) supporting the raising of the threshold of the EU SME-definition from 250 to 500 employees.

In the event, Mr Lehne's amendments were dropped, and the second item was not discussed at the European Council, however, ACCA is extremely concerned that "knee-jerk" measures aimed at assisting Micro Entities and SMEs may be brought in without proper impact assessments and may in fact have the effect of damaging the businesses they aim to assist.

While supporting initiatives that cut the red tape that stifles business innovation and entrepreneurship, ACCA believes that the relevant light touch regulation can bring benefits, with initiatives accompanied by a transparent cost-benefit assessment capable of independent evaluation.

¹ *Putting Small Businesses First*, European Commission, 2008

Arguably, this need is now even more keenly felt in the current economic climate where prolonged recession is a distinct possibility.

- ACCA recommends that no new “knee-jerk” legislation aimed at assisting micro entities and SMEs be brought in without full consultation and impact assessments.

Administrative burdens

The European Charter for Small Enterprises recognised in 2000 the need to cut red tape. Eight years on, it is estimated that of 300 new regulations introduced each year that impact on national businesses, 50% originate from the EU². This demonstrates that the Commission’s Better Regulation agenda has the potential to be directly felt on the ground by national SMEs. In recent years, the Commission has moved on from the general principles of administrative burden reduction to a specific commitment to an ambitious target of reducing the costs of administrative compliance by 25% by the year 2012. This target has been adopted at both European and, in some cases, national level³, but there are still some concerns about how progress towards meeting this target will be achieved.

In particular, these include:

- **Methodologies:** Are there adequate methodologies for measuring the existing administrative burdens on which the 25% target could be evaluated across 27 Member States? The Standard Cost Model provides indicative results as opposed to rigorous sample data. As a consequence it will be difficult to measure the extent to which businesses experience an improvement resulting from this initiative with precision.
- **Meaningful effects:** Ensuring that the 25% target delivers meaningful improvements to the business environment means targeting those pieces of regulation which most ‘irritate’ business and cause unnecessary frustration⁴. But some proposals indicate that the Commission is yet to take this principle on board. In 2007, for example, it recommended that small businesses with less than 10 employees be exempt from preparing financial accounts without adequately recognising that even if the legal requirement to prepare financial statement was removed, companies would still need to produce such information for other purposes such as accessing finance, filing tax returns as well as being part of efficient financial management practices⁵.
- **Impact Assessments:** A more robust Impact Assessment (IA) process at EU level should be introduced, as the EU accounts for a substantial amount of the new regulation (and regulatory burdens) imposed on business in member states. The

² *EU Small Business Act: UK Government Response to the European Commission’s Consultation*, BERR, April 2008

³ 18 member states have signed up to the target

⁴ *Reducing the Cost of Complying with Regulations: The Delivery of the Administrative Burdens Reduction Programme*, National Audit Office, 2007

⁵ *UEAPME’s position paper on the Communication from the Commission on a simplified business environment for companies in the areas of company law, accounting and auditing*, UEAPME, 2007

Dutch government estimates that administrative burdens equal to 2% of the Netherlands' GDP are directly attributable to EU regulation⁶, while the British Chambers of Commerce attributes 71% of all regulatory costs imposed on UK business since 1995 to the EU.⁷

- **Net Reduction:** The Commission should extend the 25% target to become a *net* reduction as the target currently only applies to existing legislation. Such a move would make a more effective contribution to improving the regulatory culture, and would support the 'think small' principle which should become a genuine consideration in future policy making.

European Small Business Act

While ACCA welcomes the endorsement of the Small Business Act in December 2008, we are concerned that, while the term 'Act' suggests a legal instrument, in reality the great majority of the initiatives included in the Small Business Act are principle-based. As such they do not include any obligation for action on behalf of member states. This raises an important question as to how this latest SME initiative on the part of the EU can bring about a meaningful change. In other words, how is Small Business Act different to previous initiatives such as the Small Business Charter?

- The future small business policy should consider whether limiting SME policy to a number of initiatives and targets may be an outdated approach and one which oversimplifies what, in reality, is the need for a more effective EU SME policy. The SME agenda is cross-cutting and far reaching and a fundamental change in the policy making culture is therefore required to reflect this.
- The Commission should provide a basis for opening up a more relevant debate, facilitated by increasing the consultation period for Commission proposals from 8 to 16 weeks. This would go some way towards recognising the wide reaching change of culture that is required in order to close the gap between the EU's ambitious SME targets and the actual benefits felt by small business on the ground.

Financial Services Regulation

ACCA strongly supports the better regulation principles, and welcomes the Commission's aim to cut down on unnecessary legislation by 25% by 2012.

The financial services industry has been subject to far-reaching regulatory reform in the past five years and we now await the comprehensive overhaul of the Accountancy Directives.

- We believe that the priority now should be to ensure that existing legislative and regulatory measures are implemented and enforced effectively across the EU.
- ACCA also believes that the body of EU financial services regulation must be

⁶ 'EU Regulation – Lightening the load' Stevenson, P. in *Beyond the European Social Model*. OpenEurope, 2006

⁷ BCC Burdens Barometer 2008

reviewed to ensure that it is appropriate and enforceable, before its transposition into national legislation.

- The EU has used regulation as an effective tool to promote a more efficient financial services market where there has been market failure. However, in the process of developing such regulation it is essential that all stakeholders are consulted, particularly consumers and SMEs, to ensure that their needs are reflected in Directives. Between October 2002 and June 2005 there were 1,680 responses to 46 European financial services consultations. Only 13 of these responses derived from consumer groups. ACCA therefore believes that the greater efforts should be made to ensure adequate consumer representation.

Accounting

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.

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.

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.
- 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.

The Lisbon Agenda

Overall, the Lisbon Agenda has made slow progress and not delivered the faster economic growth that was hoped. Indeed, it is facing its biggest test yet with several economic indicators declining across Europe. EU economic growth was at 1.4% for

2008, half of what it was in 2007, and is expected to drop even more sharply in 2009 to 0.2%⁸.

The spirit of the Lisbon Agenda lives on however and this is creating opportunities and challenges for the accountant in business. The financial discipline required for the prosperous European economy envisioned by the Agenda is all the more important in this period of economic uncertainty, when businesses need to remain in “good shape” to weather the financial storm.

- ACCA believes that the “Lisbon” economic reforms agenda should be promoted, with sharper, more realistic goals linked to action plans which commit the EU Member States to implementing reforms in the labour markets, financial services sector and discriminatory tax systems should be a key priority.

Climate change

The EU has put the Emissions Trading Scheme (ETS) at the heart of its efforts to cut greenhouse gas (GHG) emissions. The ETS provides a strong economic instrument to cut emissions and subsidise and support the market. Unlike taxation and direct regulatory intervention, the ETS delivers quantifiable reductions at the lowest possible cost to the economy. A carbon market price will encourage reduction of GHGs through, for example, switching to cleaner fuels or improving efficiency where cost-effective. Long-term targets for emission reductions are necessary to achieve a carbon price which provides incentives for reductions, creates a stable investment environment and encourages investment in renewable energy.

We call on the Czech Presidency to work towards:

- Enhancing co-operation with international partners to ensure that progress is made in the negotiations.
- Ensuring that work towards the EU becoming a low-carbon economy is managed effectively and completed without damaging the competitive of businesses (especially SMEs).
- Creating a regulatory framework that encourages investment in energy efficiency and renewable energy.
- Encouraging links between the EU ETS and other global ETS regimes.

For further information, please contact:

Veena Hudson

Public Affairs Manager

Veena.Hudson@accaglobal.com

(+) 44 (0) 207 059 5615

⁸ European Commission, 3/11/2008