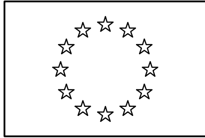
007728/EU XXIV.GP
Eingelangt am 26/02/09

EN



COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 26.2.2009
SEC(2009) 206

COMMISSION STAFF WORKING DOCUMENT

Accompanying document to the

Proposal for a

DIRECTIVE OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL

amending Council Directive 78/660/EEC on the annual accounts of certain types of companies as regards micro-entities

Impact assessment

{COM(2009) 83}
{SEC(2009) 207}

TABLE OF CONTENTS

1. Introduction 4

1.1. European Economic Recovery Plan 4

1.2. Policy Context 5

1.3. The EU acquis in company law, accounting and auditing 5

1.4. Definition of micro entities 6

1.5. Practices in the main trading partners of the European Union 7

1.6. Opinion of the Commission's Impact Assessment Board 8

2. Procedural issues, consultation of interested parties and subsidiarity 8

2.1. Commission Communication of 10 July 2007 and stakeholder consultation 9

2.2. Measurement of cost and determination of thresholds for micro-entities 10

2.3. High Level Group on Administrative Burden Reduction 11

2.4. European Parliament 12

2.5. Other related Commission's proposals 12

2.6. Subsidiarity 12

3. Problem definition 13

3.1. Disproportional administrative (compliance) cost as economic burden 14

3.2. Misalignment between requirements of the Directives and the needs of micro entities and the users of their financial statements 16

3.3. How large is the problem? 18

4. Objectives 20

5. Policy options and their expected impact 21

5.1. Description of policy options 21

5.2. Option 0. No change to the Directives 22

5.3. Option 1. Encourage a full use of existing options in the Accounting Directives 22

5.3.1. Summary 22

5.3.2. Analysis 23

5.4. Option 2. Obligatory exemption of micro entities from the scope of the Directives 24

5.4.1. Summary 24

5.4.2. Analysis 25

5.5. Option 3. Member State option to exempt micro entities from the scope of the Directives 25

5.5.1. Summary 25

5.5.2. Analysis 26

5.6. Option 4. Introduction of a simplified accounting regime for micro entities 30

5.6.1. Summary 30

5.6.2. Analysis 31

5.7. Option 5. Amendments to the Accounting Directive without introducing the micro category. 32

5.7.1. Summary 32

5.7.2. Analysis 32

6. Comparison of options **33**

7. Monitoring and evaluation **36**

7.1. Monitoring *36*

7.2. Evaluation *37*

Annex 1 Quantitative analysis of micro entities exemption **38**

CSES Study on Evaluation of thresholds for Micro-Entities *38*

Study by the Consortium *41*

Combination of the two studies *43*

Summary of the impact of option 3 .... *45*

Annex 2: Use of options by Member States **47**

Annex 3: Policy Option 5 .... **50**

Annex 4: Results from the stakeholder consultation **51**

Results of Public consultation of 2007 .... *51*

Annex 5 Users' and preparers' needs from the financial reporting **53**

Users needs from financial statements of micro-entities *53*
Banks 54
Public authorities 55
General Public 56
Statistical offices 56
Financial information providers 56
Accountants and auditors 57

Needs of micro-entities *57*
Cross-border trade and voluntary application 58

Annex 6 Current reporting requirements of the Fourth Directive **60**

Annex 7: Abbreviations **67**

References **68**

1. INTRODUCTION

The small and medium-sized enterprises are the backbone of the European economy, and they are the main contributors to the creation of employment in the EU. In accordance with the goals of Lisbon Agenda[1], the Commission is committed to release the growth potential of these companies by reducing their administrative burden.

This impact assessment presents the Commission's initiatives to simplify the business environment and particularly the financial reporting requirements for micro-entities. It describes the problems related to the current Accounting Directives[2], presents a number of policy options, analyses their feasibility and, where applicable, their expected impacts.

1.1. European Economic Recovery Plan

In the aftermath of the current financial crisis, the Commission issued a Communication: A European Economic Recovery Plan[3] setting out an ambitious action plan to restore consumer and business confidence by coordinating EU and national level actions. In the area of business, the European Economic Recovery Plan pledges to substantially reduce the burden on SMEs and micro-enterprises by among others "removing the requirement on micro-enterprises to prepare annual accounts". This exemption was already announced, together with the intention to proceed with an overhaul of the Accounting Directives, by Internal Market Commissioner Mr Charlie McCreevy[4] in September 2008. Public consultations will be held in early 2009, with legal proposal expected in the autumn of 2009. The proposal to remove the requirement on micro- enterprises to prepare annual accounts is thus interlinked to the more general overhaul of the Accounting Directives, including revised provisions suitable for micro enterprises. The general overhaul will require more time before it is able to bring effects and therefore the Commission considers that measures are needed to reduce the burden for micro entities in short term.

---

1 Webpage devoted to Lisbon Agenda: http://ec.europa.eu/growthandjobs/faqs/background/index_en.htm.

2 Accounting Directives are:

- Fourth Council Directive of 25 July 1978 based on Article 54 (3) (g) of the Treaty on the annual accounts of certain types of companies (78/660/EEC)
  Consolidated text: http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:01978L0660-20070101:EN:NOT.
- Seventh Council Directive of 13 June 1983 based on the Article 54 (3) (g) of the Treaty on consolidated accounts (83/349/EEC)
  http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:01983L0349-20070101:EN:NOT.

3 Communication from the Commission to the European Council: A European Economic Recovery Plan. COM(2008) 800 final. 26.11.2008, http://ec.europa.eu/economy_finance/publications/publication13504_en.pdf.

4 European Commission. 2008. Press Release. McCreevy announces major initiatives on accounting rules for small businesses: 29.09.2008, http://europa.eu/rapid/pressReleasesAction.do?reference=MEMO/08/589&format=HTML&aged=0&language=EN&guiLanguage=en.

1.2. Policy Context

The Accounting Directives as well as International Financial Reporting Standards (IFRS) were developed with the investor protection as an overarching objective. It has been a consensus for the last decades that such investor oriented financial statement will also serve most of the needs of other stakeholders in a satisfactory manner. The Directives have not introduced specific accounting rules for micro-entities or SMEs, but instead, they include certain opt outs from the rules designed for bigger companies.

It continues to be the Commission's view that appropriate bookkeeping is essential to sound management and prosperity of the business in the long term. It is in the interest of every entrepreneur, regardless of any legal obligations, to keep records of sales, and manage cash flows by monitoring receivables and liabilities to secure liquidity as well as keep track of cost to ensure profitability of the business.

It should be pointed out that any company, regardless of size or form, can also in the future voluntarily follow the requirements laid down in the Accounting Directives, as well as audit and publish such information.

Furthermore, should a micro entity be listed on regulated stock exchange, it would automatically fall into the scope of the Transparency Directive[5] and as a result be obliged to present periodic financial information according to Regulation 1606/2002 (IAS Regulation)[6] and/or Accounting Directives as implemented by Member States.

The proposals of the Commission that are discussed in this document are thus not intended to prohibit or limit bookkeeping, nor the preparation and audit of financial statements that Member States, financial regulators or companies consider necessary or useful. The aim is to reduce any administrative obligations deemed unnecessary and to facilitate alignment of reporting requirements to real needs of users and of preparers.

1.3. The EU acquis in company law, accounting and auditing

In the fields of accounting and auditing, the Company Law Directives establish minimum requirements for the annual accounts of mainly limited-liability companies (Fourth Directive)[7] and group accounts (Seventh Directive)[8]. A separate directive lays down the requirements for the audit of the annual accounts[9].

---

5 Directive 2004/109/EC of the European Parliament and of the Council of 15 December 2004 on the harmonisation of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market and amending Directive 2001/34/EC, http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:02004L0109-20080320:EN:NOT.

6 Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards, http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:02002R1606-20080410:EN:NOT.

7 See footnote 2.

8 See footnote 2.

9 Directive 2006/43/EC of the European Parliament and of the Council of 17 May 2006 on statutory audits of annual accounts and consolidated accounts, amending Council Directives 78/660/EEC and

The purpose of general financial statements is to inform stakeholders (investors, creditors, employees and other interested parties) about the financial position of a company. The Fourth Directive was adopted in 1978 in order to create a harmonised set of requirements for the external reporting of all limited liability companies in the EU. In 1983, the Seventh Directive was adopted and added a common set of requirements for consolidated financial statements.

In the time when Accounting Directives were developed the prevailing idea was that SMEs are not fundamentally different from large companies and should follow similar reporting requirements. This view has now changed with acknowledgment of distinct needs of the SME group as well as segments within that group – laid down as the "think small first" principle.

Moreover during the past 25 years there have been several modifications to the Accounting Directives[10], notably through adding new disclosure requirements and accommodating the use of International Financial Reporting Standards (IFRS) for the listed companies. Through the adoption of the IAS Regulation listed companies have to present IFRS accounts, and are consequently relieved from many of the requirements in the Fourth and Seventh Directives. These Accounting Directives, however, still form the basis for SME accounting in the EU.

The Accounting Directives have led to an improved financial reporting environment in the EU and that has been in the interest of preparers[11] as well as users[12]. However the development of the Accounting Directives was focused on the needs of large and listed companies. Every subsequent addition to the Accounting Directives has created new requirements, and whilst every added requirement may have been justified in its own right, it is now important to reconsider whether less useful requirements should be removed or replaced[13] to adapt accounting rules to the needs of the SMEs that have become the main target group of the Directives.

1.4. Definition of micro entities

The focus of the Commission proposal is simplifying the reporting and thus reducing the administrative burden of micro entities. Further simplification proposal for all SMEs will follow in autumn 2009 as part of Accounting Directives revision process, and thus are not discussed in this document.

83/349/EEC and repealing Council Directive 84/253/EEC (Text with EEA relevance), http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:02006L0043-20080321:EN:NOT.

[10] See Annex 6 Current reporting requirements of the Fourth Directive and http://ec.europa.eu/internal_market/accounting/index_en.htm.

[11] Defined as company / management preparing the financial information (See Annex 5 Users' and preparers' needs from the financial reporting).

[12] Defined as stakeholders relying on the financial information, such as for example investors, providers of financing, employees (See Annex 5 Users' and preparers' needs from the financial reporting).

[13] The Seventh Company Law Directive does not need to be amended, as already the present text of this Directive gives the Member States an option to exclude from the obligation to draw up consolidated financial statements companies which together do not exceed the limits of medium-sized company as defined in the 4th Company Law Directive (Art. 6(1) of the 7th Company Law Directive).

The Commission communication of 2007 suggests that a category of micro entities as the smallest companies could be introduced into the EU legislative framework with the following definition:

– no more than ten employees,

– balance sheet total not higher than € 500,000 and

– turnover not higher than € 1,000,000.

It should also be noted that a "micro entity" category has already been introduced in many Member States.

Table. 1. Thresholds for the different categories of companies.

Threshold \ Category	Micro	Small	Medium
balance sheet total	≤ € 500,000	≤ € 4,400,000	≤ € 17,500,000
Net turnover	≤ € 1,000,000	≤ € 8,800,000	≤ € 35,000,000
Average number of employees during the financial year	≤ 10	≤ 50	≤ 250

Source: The Fourth Directive 1978, Communication form the Commission on a simplified business environment for companies in the areas of company law, accounting and auditing 2007.

1.5. Practices in the main trading partners of the European Union

In other economically comparable jurisdictions and key trading partners of the European Union, the financial reporting requirements for small companies are generally less demanding than the requirements of the EU Accounting Directives.

In the US, only companies listed on stock exchanges regulated by the U.S. Securities and Exchange Commission (SEC) are required to prepare and publish their accounts under US Generally Accepted Accounting Principles (GAAP) (with exception of third country issuers that can also report under IFRS). For unlisted companies there is generally no legal obligation to prepare or publish financial statements. They may only prepare tax returns following the tax accounting rules, or they may choose to prepare financial statements on a voluntary basis to their stakeholders. If financial statements are prepared, companies may utilise simplifications available for private (not listed) companies, depart from some standards or follow standards other than US GAAP. It is estimated that around 30% of private companies do not release any financial information to external users.

There is no evidence that this situation has been a hindrance to US companies in obtaining external financing. On the contrary, the US has traditionally been generally regarded as having the most liquid markets for external SME financing, prior to the current financial crisis.

In Japan, small companies prepare financial statements under Japanese GAAP for taxation purposes.

In Canada, all companies must prepare financial statements for their shareholders. There are simplified options for small companies and no requirement to file them in a public register.

A comparison between the situation in the EU with its trading partners may provide an additional source of information in relation to the possible effects. Furthermore, the comparison is of relevance with regard to EU's relative competitiveness and the goals of Lisbon Agenda.

1.6. Opinion of the Commission's Impact Assessment Board

Due to the importance of rapidly implementing the European Economic Recovery Plan, work on the initiative was carried forward compared to original planning. As a result, no specific Inter-Service Steering Group was created and, following the Board's agreement, the report was submitted to it less than two weeks before examination. External stakeholders were, however extensively consulted on the basis of COM (2007)394 and, more recently, through the High Level Group of Independent Stakeholders on Administrative Burden.

This impact assessment has been prepared by the Commission staff. A draft of the impact assessment was submitted to the Commission's Impact Assessment Board, which provided its opinion on 2 February 2009. The recommendations of the board led to changes in the draft impact assessment, in particular providing an extended analysis of the impact on stakeholders as presented in Annex 5, analysis of the current accounting obligations as presented in Annex 6, more detailed analysis of the economic impact of the measure including the effect on the audit profession, impact on single market and level playing field (Chapter 5). Furthermore, the analysis on administrative burden (Chapter 3.1) the interaction between the proposal and the overhaul of the accounting Directives (Chapter 5) was improved.

2. PROCEDURAL ISSUES, CONSULTATION OF INTERESTED PARTIES AND SUBSIDIARITY

The Commission has already taken a number of simplification initiatives to reduce the administrative burden for small and medium-sized companies (SMEs). These are described below:

Target: reduction of 25% of administrative burdens by 2012

In 2005, the Commission launched a programme for measuring administrative costs and reducing administrative burdens in order to improve the business environment for EU companies and to make the EU economies fit to meet the challenges of a more competitive global business environment in which they have to operate.

The Commission outlined the way for achieving this by adopting, on 14 November 2006, an updated simplification programme[14] and the guidance on measuring administrative costs and reducing administrative burdens[15]. Both programmes emphasised the need to generate tangible economic benefits. They were complemented by the Action Programme adopted on 24 January 2007[16] which fixed the aim of reducing administrative burdens on businesses in the EU by 25% by the year 2012 and launched the first package of fast-track proposals.

The Action Programme was endorsed by the Spring European Council in March 2007[17]. The European Council underlined that reducing administrative burdens is important with a view to boosting Europe's economy, especially given the potential benefits this can bring for small and medium-sized enterprises (SMEs). It stressed that a strong joint effort of the European Union and the Member States is necessary to reduce administrative burdens within the EU.

A key part of the Action Programme consists of a large-scale measurement of administrative costs incurred by businesses in meeting legal obligations to provide information as explained in detail in point 2.2.

2.1. Commission Communication of 10 July 2007 and stakeholder consultation

Accounting and auditing have been identified as key areas for reducing administrative burden for European companies. Consequently, research was conducted on the Fourth and the Seventh Directives (the "Accounting Directives") in order to identify the potentially most burdensome requirements. The initial findings indicated that several amendments could be made to the Accounting Directives in order to simplify the reporting requirements, in particular for SMEs.

These initial ideas and suggestions were discussed with Member States in the Accounting Regulatory Committee[18] (ARC) and the Audit Regulatory Committee[19] (AuRC) at several meetings from December 2006 onwards. Following these discussions, the Commission published a Communication[20] in July 2007 setting out its ideas and identifying potential

[14] Communication from the Commission to the Council, the European Parliament, the European Economic and Social Committee and the Committee of the Regions - "A strategic review of Better Regulation in the European Union" (COM(2006)689 final, OJ C 78, 11.4.2007, p. 9), http://ec.europa.eu/enterprise/regulation/better_regulation/docs/docs_admin_b/en_689.pdf.

[15] Commission working document of 14/11/2006 – "Measuring administrative costs and reducing administrative burdens in the European Union" (COM(2006)691 final), http://ec.europa.eu/enterprise/regulation/better_regulation/docs/en_691.pdf.

[16] European Commission. 2007. Action Programme for Reducing Administrative Burdens in the European Union. COM(2007) 23, http://ec.europa.eu/enterprise/regulation/better_regulation/docs/com_2007_23_en.pdf.

[17] European Council. 2007. Presidency Conclusions of the Brussels European Council - doc. 7224/07 CONCL 1, http://europa.eu/rapid/pressReleasesAction.do?reference=DOC/07/1&format=HTML&aged.

[18] ARC website: http://ec.europa.eu/internal_market/accounting/committees_en.htm#arc.

[19] AuRC website: http://ec.europa.eu/internal_market/auditing/committee/index_en.htm.

[20] Communication from the Commission on a simplified business environment for companies in the areas of company law, accounting and auditing, COM (2007) 394 final, 10.7.2007. Available on DG MARKT's website at: http://ec.europa.eu/internal_market/company/simplification/index_en.htm.

amendments/changes to the Accounting Directives. Special attention was given to finding further relief for reporting by small and medium-sized companies.

In this Communication the Commission proposed to introduce a new category of so-called "micro entities" in the Fourth Directive, which could be optionally exempted by Member States from the Accounting Directives. Stakeholders were invited to submit comments on the proposals by mid-October 2007.

In all, 18 Member States' governments, the government of one EEA country and 110 stakeholders, including European bodies and associations, reacted to the Communication. These contributions originated from 23 countries in total, including 22 Member States[21].

Four fifths of all stakeholders who responded to the public consultations took either a positive or negative stance to the exemption of micro entities. The majority (59% of them) was in favour of exempting micro entities from the requirements of the Accounting Directives. The positions of the organisations representing small and medium-sized enterprises were varied[22]. The exemption was supported by the majority of the companies, public authorities, banks and insurance companies that replied to the consultation. The biggest opposition came from accountants and auditors, followed by commercial information providers.

Those respondents that welcomed the proposal considered it as a major reduction of the administrative burden for those entities, which would encourage new start-ups through removal of disincentives to incorporation. A smaller number of commentators took the view that this would lead to problems for smaller companies in raising external funding and communicate with stakeholders.

The proposal has been discussed with Member States in the ARC at several occasions. Several Member States supported the initiative and believed that it would be an important step towards tangible simplification of accounting rules for the smallest entities. It would also give freedom at national level to align financial reporting requirements with other types of reporting required by companies (tax, statistics, social security etc). Other Member States feared that the proposal would lead to significant reduction in information and to the de-harmonisation of financial reporting in the EU (for details please consult Annex 4: Results from the stakeholder consultation)

2.2. Measurement of cost and determination of thresholds for micro-entities

In connection with the aforementioned simplification initiative, a measurement exercise was launched in July 2007 in order to determine the costs created by the information obligations (IOs) contained in the EU company law acquis.

---

[21] A report on the reactions received from Member States and stakeholders between July and December 2007 is available on the website of the Directorate-General for Internal Market and Services (DG MARKT) at http://ec.europa.eu/internal_market/company/simplification/index_en.htm. See also Annex 4: Results from the stakeholder consultation.

[22] Some of the organisations were in favour (e.g. BUSINESSEUROPE) of the exemption while other opposed it (e.g. UEAPME). For all the responses please see: http://circa.europa.eu/Public/irc/markt/markt_consultations/library?l=/company_law/simplifying_environment&vm=detailed&sb=Title.

This measurement was carried out by the consortium Capgemini/Ramboll on behalf of the Commission. This baseline measurement covered obligations stemming from EU legislation and from national measures transposing that legislation. The methodology used was based on the 'EU Standard Cost Model', inspired by different variants of the Standard Cost Model (SCM)[23] currently used for measurements at national level by a number of Member States. The EU measurement focused on the areas with the most burdensome information obligations, which included among others the areas of company law/accounting and auditing.

The measurement started the mapping of EU IOs for company law in early August 2007 and finalized it in the beginning of September. Mapping of the national IOs was commenced during November 2007. The results of the national mapping were then validated via the High Level Group of National Regulatory Experts[24]. This high level group as well as the High Level Group of Independent Stakeholders on Administrative Burdens (HLG)[25] were also consulted on the question of whether to process certain proposals in a fast track procedure.

Relevant pre-final results of the measurement exercise are referred to in this impact assessment.

DG Internal Market and Services also launched in September 2007 a targeted study on the "Evaluation of Thresholds for Micro-Entities"[26] that was delivered in 2008. It simulated how large population of companies would be covered by different combinations of threshold levels. Results are used in the impact assessment.

The micro threshold levels proposed are consistent with previous proposal by the Commission. They are also consistent with the thresholds commonly used by statistical offices and Eurostat as well as Member States.

2.3. High Level Group on Administrative Burden Reduction

The High Level Group of Independent Stakeholders on Administrative Burdens (HLG)[27] spent a number of meetings discussing the ways to reducing the burden in the area of company law and accounting. A majority of the members of the HLG concluded that several of the accounting obligations stemming from the Fourth Directive were more of a hindrance than help. Therefore in their report[28] the HLG asked for rapid enactment of a Member State option to exempt micro entities and called for a general overhaul of the Accounting Directives with the "think small first" as guiding principle.

---

23 See footnote 15.

24 For details on the High Level Group of National Regulatory Experts see DG ENTR's website at http://ec.europa.eu/enterprise/regulation/better_regulation/high_level_group_en_version.htm.

25 For details on the High Level Group of Independent Stakeholders on Administrative Burdens see: http://ec.europa.eu/enterprise/admin-burdens-reduction/highlevelgroup_en.htm.

26 CSES. 2008. Evaluation of Thresholds for Micro-Entities, http://ec.europa.eu/internal_market/accounting/docs/studies/micro_entity_en.pdf.

27 See footnote 25.

28 High Level Group on Administrative Burden Reduction opinion, p. 6, http://ec.europa.eu/enterprise/admin-burdens-reduction/docs/080710_hlg_op_comp_law_final.pdf.

2.4. European Parliament

The European Parliament's resolution of 21 May 2008[29] welcomed the general objective of the Commission Communication on a simplified business environment, reducing the administrative burden for businesses in Europe and enabling them to compete more effectively and achieve greater success in highly competitive global environments. The Parliament furthermore welcomed the introduction of micro entities, which were to be exempt from the accounting, auditing and disclosure requirement under European law.

The European Parliament's resolution of 18 December 2008[30] reminds the Commission that very small undertakings (micro entities) are excessively burdened with the existing accounting rules and that the Member States should have the option of exempting these undertakings that conduct their activities at a local or regional level fully or partly from the statutory accounting obligations. Furthermore, the European Parliament calls on the Commission to come forward with a legislative proposal that allows Member States to exempt these undertakings from the scope of the Accounting Directive

2.5. Other related Commission's proposals

In late 2007 Commission launched a Fast Track[31] legislative action to introduce two technical changes to the Accounting Directives. These concern a Member State option to abolish formation expenses disclosure for medium size companies and an alignment of consolidation rules to those of the International Accounting Standards. These amendments were supported by the European Parliament on 18 December 2008[32]. Adoption is expected in the beginning of 2009.

2.6. Subsidiarity

Exempting micro entities from the requirements of Accounting Directives would decrease the level of harmonisation EU wide. However, any harmonisation is not an end to itself. Following the principle of subsidiarity, decisions should be taken as closely as possible to the citizens and constant checks should be made as to whether action at Community level is

---

[29] European Parliament resolution of 21 May 2008 (A6-101/2008), http://www.europarl.europa.eu/sides/getDoc.do?type=TA&reference=P6-TA-2008-0220&language=EN.

[30] European Parliament resolution of 18 December 2008 (B6-0626/2008), http://www.europarl.europa.eu/sides/getDoc.do?type=MOTION&reference=B6-2008-0626&language=EN.

[31] Proposal for a 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, http://register.consilium.europa.eu/pdf/en/08/st10/st10366.en08.pdf.

[32] European Parliament. 2008. European Parliament legislative resolution of 18 December 2008 on the proposal for a directive of the European Parliament and of the Council 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. P6_TA(2008)0631, http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//TEXT+TA+P6-TA-2008-0631+0+DOC+XML+V0//EN&language=EN.

justified in the light of the possibilities available at national, regional or local level. Principles of proportionality and necessity require that any action by the Union should not go beyond what is necessary to achieve the objectives of the Treaty. Therefore, when analysing the impacts of the proposed measure, it should be carefully considered whether EU level harmonisation is really necessary or not. The fact that EU harmonisation is required for bigger companies, may not be the case when micro entities are concerned, especially if they are operating only on local level.

Some simplification measures can already be taken in Member States. The Accounting Directives are "minimum harmonisation" instruments, i.e. Member States can put in place more extensive requirements nationally, or refrain from doing so. The Directives also contain numerous options for simplified rules for SMEs. However, many of those have not been taken up by Member States due to reasons including different characteristics of national economy, accounting and business cultures.

Only some Member States are fully utilising the simplification options already provided by the Directives[33]. In order for any simplification measures to be effective for preparers and users, Member States must make use of the possibilities offered by the changed directives. Further simplification could be achieved in those Member States that are not making full use of them. This first step of simplification would not need change of legislation at EU level but at the Member States. Therefore, a regular analysis of national legislation should take place, to assess which simplification measures can be possible in Member States at national level.

However, most obligations entailing administrative burdens derive from the Accounting Directives. In order to allow the Member States to exempt micro entities from the requirements of the Accounting Directives, the Directives themselves need to be changed. This action needs to be taken at EU level.

3. PROBLEM DEFINITION

The Accounting Directives cover companies with limited liability and certain types of partnerships. The stated purpose of this scope is to provide protection for external stakeholders, in particular creditors. However, many of the smallest companies in the scope of the Directives have a very limited number of external stakeholders. Very often the owners of these limited companies, de facto, have to pledge assets or provide personal guarantees in order to finance their business. In practice, the borderline between limited liability companies and unlimited liability companies is not clear-cut.

The requirements of the Accounting Directives apply to all limited liability companies without regard to other factors (e.g. size, financing or type of activities). Notwithstanding that the Directives contain exemptions for smaller companies, small and medium-sized companies, these are often still subject to the same rules as larger companies, and their specific accounting needs have rarely been assessed. In many situations, certain accounting

[33] See Annex 2: Use of options by Member States.

information must be collected and processed only to satisfy legal obligations where there is no corresponding business need. This corresponds to the definition of an administrative burden[34].

Under the general issue of administrative burden two elements can be further analysed:

- Economic burden from administrative (compliance) cost that is not related to the size of the company and therefore disproportional for the smallest enterprises as compared to the larger enterprises

- Misalignment between requirements of the Accounting Directives and the needs of the micro entities and the users of their financial statements

3.1. Disproportional administrative (compliance) cost as economic burden

National measurements carried out in the years until 2006 and the results of the stakeholder consultation identified company law, including the fields of accounting and auditing, as one of the most burdensome areas of the EU acquis.

Unnecessary and disproportionate administrative costs severely hamper economic activity. This is especially so for start-up businesses and small enterprises with limited administrative and financial resources which are sensitive to excessive administrative obligations. Companies, in particular SMEs, have indicated that the increasing complexity and widening scope of the accounting rules have led to extensive costs which divert resources from the core business activities of companies.

An expert group report[35] identified that on average, a business with fewer than ten employees has to face a regulatory burden (measured per employee) that is roughly twice as high as the burden of a business with more than ten but less than twenty employees and about three times as high as the burden of businesses with more than twenty but less than fifty employees. For bigger companies, the burden per employee is only one fifth or less of that of small enterprises.

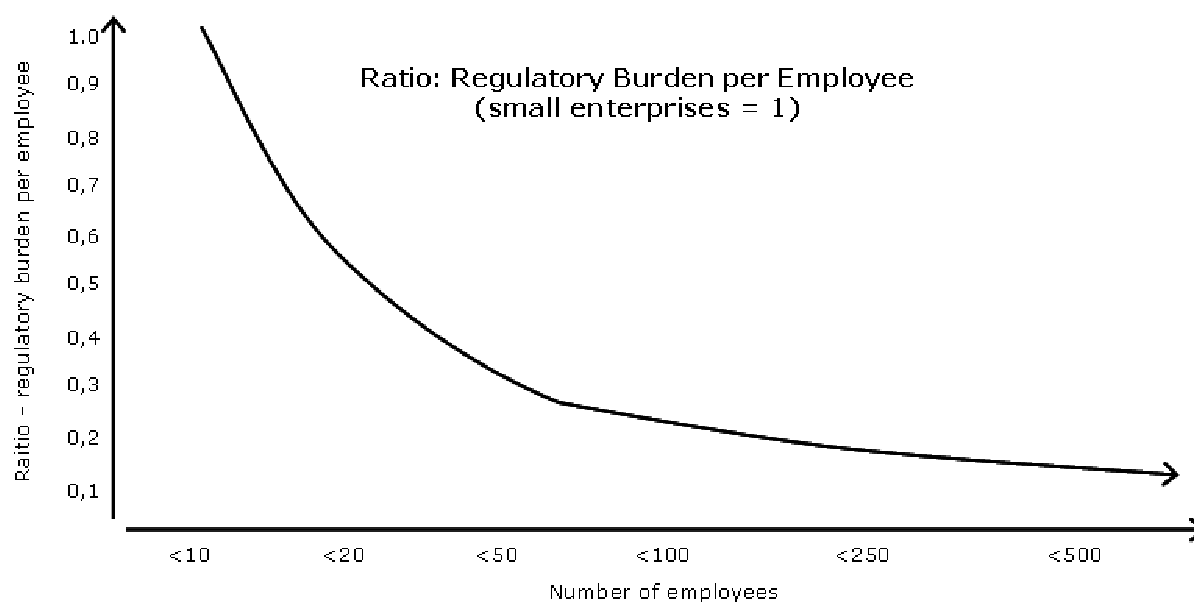
In other terms: where a big enterprise spends one Euro per employee to comply with a regulatory duty a medium-sized enterprise might have to spend around four euros and a small business up to ten euros. It is illustrated on the graph below.

---

[34] For definition of administrative costs and burdens see: http://ec.europa.eu/enterprise/admin-burdens-reduction/faq_en.htm.

[35] European Commission. 2007. Report of the Expert Group. Models to reduce the disproportionate regulatory burden on SMEs, pp. 16-17, http://ec.europa.eu/enterprise/entrepreneurship/support_measures/regmod/regmod_en.pdf.

Fig. 1. Administrative burden by company size.



Source: European Commission. 2007. Report of the Expert Group. Models to reduce the disproportionate regulatory burden on SMEs, p. 17.

Moreover, the substantial part of the administrative cost is fixed. It is further confirmed by a recent survey by Eurobarometer[36] that shows that micro entities sacrifice most resources to complying with the required paper work (9% of time) while this burden does not reach 0.5% for large scale enterprises.

The fact that there are approximately 7 million EU companies that are subject to reporting rules in the scope of the Directives inevitably creates a costs and can hinder efficient use of capital for productive purposes. Of course, not all of the workload can be considered "burdensome", as it also supports the business activities of the company. It is, however, important to reflect on the different types of reporting requirements that a company is exposed to and the associated costs. This is particularly important for small entities

As outlined in a study prepared by Ramboll Management for the Commission in July 2007[37], small enterprises are faced with a disproportionate regulatory burden in comparison with larger businesses. The disproportionate distribution of regulatory costs can be explained by several factors. First, a large part of the regulatory requirements results in costs that are fixed or not related to the size of a company. Filling in a form takes a certain amount of time, and as long as the information requested is the same, it makes no difference, in terms of time consumption, if it is a large or small company. Second, larger businesses can employ specialists to deal with regulatory obligations more efficiently. For larger businesses, investment in computerisation and rationalisation of regulatory obligations will often be worthwhile due to the larger number of cases to be dealt with. Third, in small companies the

---

[36] Eurobarometer. 2007. Observatory of European SMEs. Analytical report, p. 37, http://ec.europa.eu/public_opinion/flash/fl196_en.pdf.

[37] Ramboll Management, July 2007, Study on administrative costs of EU Company Law Acquis, pp. 20-35, http://ec.europa.eu/internal_market/company/docs/simplification/final_report_company_law_administrative_costs_en.pdf.

manager and owner himself will be ultimately legally responsible for taking care of the regulatory obligations. Very often these obligations, as typically in case of accounting and preparation of statutory financial reports, are outside his/her key competence and they are outsourced to external professionals. Nevertheless, the owner/manager will also need to use his/her time to ensure that outsourcing is well managed and, ultimately, that all the obligations are fulfilled. This means that the most valuable resource of the small business will be occupied with tasks that do not directly contribute to the success of the company.

Furthermore, as discussed in the following Chapter, this disproportional cost of complying with the Directives' requirements is combined with the fact that the micro entities usually have very low number of external stakeholders[38] and that the information needs of those stakeholders are generally not well served by the current requirements.

3.2. Misalignment between requirements of the Directives and the needs of micro entities and the users of their financial statements

The accounting cultures across Europe are different. In very general terms, the EU area encompasses Anglo-Saxon and continental accounting cultures, the latter also differs significantly even between close neighbours. In some Member States wide use of published financial accounting data is generally encouraged by the companies, whereas in others it is viewed as revealing sensitive information. Also tax authorities differ in their use of financial accounting numbers and the amount of reconciliation required.

Generally, stakeholders[39] of very small companies are limited and differ significantly from those of big corporations. These companies are effectively owner-managed and statutory financial statements do not have significant relevance for the owners in reviewing the company's performance. Moreover, investors in micro entities are often limited in number, often directly involved in running the company and with direct access/insight into company's accounts. The source of financing is not the stock market but own resources, credit from banks or other financial institutions.

The stakeholders of micro entities can be divided into two categories: those who have the power or ability to demand information above and beyond the statutory reporting requirements, and those who rely on information in the public domain. The first category usually includes banks, other providers of finance and tax authorities, while the second one includes, for example, suppliers, customers and employees.

Most of the stakeholders with power to request information can get extensive financial information from companies and are generally not dependent on the statutory accounts with exemption of statistical offices which can extract information from the statutory accounts in order to avoid additional burden on companies. Furthermore, as regards banks and other providers of finance, the statutory accounts prepared under requirements of the Accounting Directives have a number of limitations that make them less suitable for information purposes:

---

[38] Based on survey in other OECD member (US) 90% of all companies has no more than 2 owners Kauffman. 2008. Firm survey, p.11, http://www.kauffman.org/uploadedFiles/kfs_08.pdf.

[39] For additional information please see Annex 5 Users' and preparers' needs from the financial reporting.

- The information in statutory accounts is historical and very often out of date to bear relevance to the company's current circumstances.

- Disclosures are based on minimum standards and do not provide as such the necessary information. For example, in the absence of a cash flow statement, users of statutory accounts of small enterprises are not able to assess whether the company's day-to-day activities are generating cash.

- Statutory accounts do not provide any forward looking information, nor do they assess the risks and opportunities of the company.

Therefore, banks often require information beyond or not contained in the statutory accounts. Often they also ask for the information in a different format more suitable for them. In addition, they may wish to review other factors, for example the competence of the management or compare the budgeted figures with actual numbers. Thus banks demand more information that will allow them to assess recoverable amount of assets in case of bankruptcy and are not interested in sophisticated accrual accounting vehicles such as deferred tax or goodwill[40]. Furthermore, creditors, sometimes, request tailor made accounts for their needs so that do not need to perform additional analysis. On the other hand many of the data provided in statutory accounts include numerous disclosures that are not relevant to the main users. Having said that, due to their power to demand information, they can also require audited accounts even in a situation where this would not be a legal requirement.

It should be noted that tax authorities usually have special reporting needs which differ significantly from general financial reporting. As regards other stakeholders of micro entities, the usefulness of the statutory accounts is likewise hampered by the shortcomings discussed above. Customers may wish to know about a small company's ability to remain in business if it is a major supplier; potential suppliers may want to know about the company's policies toward paying its creditors; and external shareholders will want information on the value of their shares and the value of the company, as well as the future prospects, strategy and plans of the management. This information is only partly to be gained from the statutory accounts, and it is often out-of-date by the time the accounts are published. (e.g. in the UK it takes on average 10 months before accounts are published).

As regards suppliers and customers, small companies' relationships with them are often based on mutual trust rather than on (access to) financial information. Again, the information needs are usually not covered by the financial information provided by the Accounting Directives.

The insurers of the trade credit[41] are another group that may be interested in the accounts of micro entities. If necessary, a micro entity can always provide information on a voluntary basis. The same applies when providing more detailed information to those required by the Directives which can result in better credit rating and lower cost of insurance.

---

[40] E.g. DRSC. 2008, Financial Reporting from the Perspective of Banks as a major User Group of Financial Statements, p. 16, http://www.standardsetter.de/drsc/docs/press_releases/080917_ASCG_Surveyontheexpectationsofbanks.pdf.

[41] Trade credit insurance is an insurance of trade receivables against default, insolvency or bankruptcy of the trading partner.

Micro-entities themselves can also be the users of other micro entities' financial statements, for example, when they assess the creditworthiness of their potential clients. Discussions with stakeholders suggest that current complexity of accounting statements makes them useless for micro entrepreneurs, as they often cannot understand the content of the reports without help of specialised analyst/accountant. Thus usability of the micro-entities financial reporting is reduced both for managerial purposes and for investigating business partners.

Consequently, the main users of micro accounts are more likely to demand specific information (for example on recoverable amount of assets (banks) or taxable profit (tax authorities) rather than various disclosures or sophisticated accrual accounting information. At the same time, companies that have to produce essentially investor oriented accounts devote time and money to accounting techniques that use no purpose and only satisfy legal requirements. They often need help from external accountants to prepare these accounts as these techniques are often complex and not the core competence of the managers of micro business. For the same reason the statutory accounts seldom provide useful information for managers to utilise. Furthermore, most of the additional information is not of interest to stakeholders of SME's.

As illustrated in the Annex 6 Current reporting requirements of the Fourth Directive, many of the current requirements in the Accounting Directive are rather heavy and laborious to comply with and thus not suitable for the micro entities. Such requirements are for example: depreciation rules that are not aligned with tax accounting, accounting for deferred tax, goodwill and borrowing cost, and the numerous disclosure requirements, most importantly various notes on the accounts. Especially the latter requires a great deal of resources of micro entities, as it is not usually the area of their core competence. In case of micro entities, most of these notes have little informative value to stakeholders. Currently, Member States have a possibility to exempt micro entities only from some of those requirements, and only on a piecemeal basis, without a possibility to make a general exemption. This prevents Member States from designing accounting rules adapted to micro entities' needs.

3.3. How large is the problem?

A study conducted for the Commission[42] found that about 25% or 7m of all enterprises in Europe are subject to the requirements of the Accounting Directives, i.e. they are limited liability companies.

Table. 2. Number of all enterprises in the EU and number of enterprises covered by the Fourth Directive on Accounting.

No. of enterprises (all legal forms)	No. of companies covered by the Fourth Directive	%
28,207,491	7,158,209	25.4%

Source: CSES. 2008. Evaluation of Thresholds for Micro-Entities, p. 15.

42 See footnote 26, p. 15.

Calculations carried out for the Commission by the Centre for Strategy & Evaluation Services LLP show that some 5.4 million (around 75%) of the companies within the scope of the Fourth Directive are micro entities.

Table. 3. 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 (≤€1m) 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, Commission Services analysis.

A study prepared by Ramboll Management for the Commission in July 2007[43] concluded that the different reporting requirements took the following amounts of time to perform for micro entities (table below, left hand columns)[44]. For illustrative purposes, standard amounts for internal and external costs could be used and would give the results presented in the right hand columns of the grid.

Table. 4. Assessment of administrative burden: Abridged balance sheet, micro entities.*

Data requirement	Time per company (minutes)			Burden per company (EUR)		
	Internal time	External time	Total time	Internal cost	External cost	Total burden
Statement by Management		50	50		93	93
Balance sheet		200	200		371	371
Notes		220	220		408	408
Due approval		115	115		213	213
Publication		15	15		28	28
Total		600	600		1113	1113

Note: Internal cost: 45 EUR/hour
External cost: 111 EUR/hour

In this impact assessment an update cost per company of €1558 and burden of €1169 will be used (see Annex 1 Quantitative analysis of micro entities exemption). An updated study by the Consortium shows that up to 30% of the costs are internal.

Administrative cost is a total cost that a company incurs for collecting and processing of information.

Administrative burden is cost incurred solely due to legal obligation.

* Abridged balance sheet contains less information than complete balance sheet, as specified in Article 11 of the Fourth Directive.

Source: Ramboll Management, 2007, Study on administrative costs of the EU Company Law Acquis, p.22, Consortium Study 2008., Commission Services analysis.

The above gives an approximation that the aggregated administrative burden on the EU level would total €6.3 billion.

---

[43] See footnote 37, p.20.

[44] The Ramboll 2007 (see footnote 37) study also contains similar information for small entities, p. 20 and medium-sized entities, pp. 24, 31.

It is important to highlight that the above figures are very approximate, and relate to the complete preparation of the accounts and all disclosures. It is, however, important to keep in mind that also limited reductions in the requirements at aggregate level lead to considerable savings (See further Chapter 6).

The latest study by a Consortium[45] estimates the total administrative cost for the Annual Accounts / Company law priority area consisting of seven Company Law Directives[46] is €22.7bn. 84.9% of this administrative cost arises from the Fourth Council Directive. The total administrative burden (costs incurred solely due to the legal obligations) is estimated at €12.1bn, and that of accounting obligations at €10bn.

The study pointed out that small enterprises are faced with a disproportionate regulatory burden in comparison with larger businesses: on average, a business with fewer than ten employees has to face a regulatory burden (measured per employee) that is roughly twice as high as the burden of a business with more than ten but less than twenty employees and about three times as high as the burden of businesses with more than twenty but less than fifty employees. For bigger companies, the burden per employee is only one fifth or less of that of small enterprises. In other words, where a big enterprise spends one Euro per employee to comply with a regulatory requirement, a medium-sized enterprise might have to spend around four euros and a small business up to ten euros.

4. OBJECTIVES

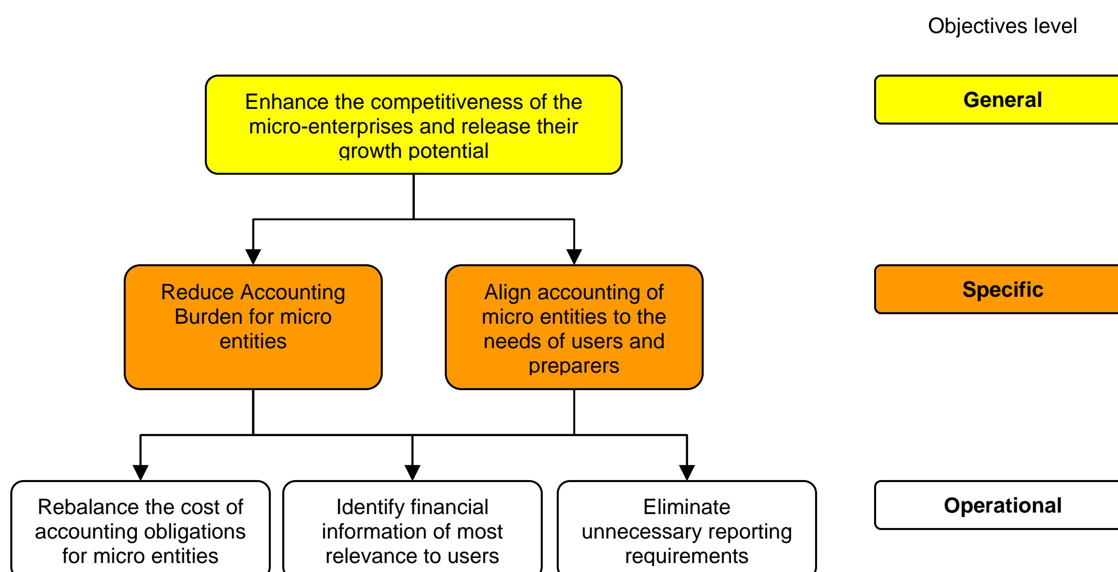
In order to enhance the competitiveness of the micro-entities and release their growth potential, the administrative burdens should be reduced to the minimum. The two specific objectives are, as illustrated in the table below:

- Reduction of the administrative burden of businesses in the EU, especially for SMEs and micro-entities, while safeguarding adequate protection and information to stakeholders.
- Enable alignment of the micro-entities' reporting requirements with the real needs of users and preparers.

[45] Ramboll, CapGemini (Consortium). 2008. Final report. Measurement data and analysis. EU project on baseline measurement and reduction of administrative costs. Please see: http://ec.europa.eu/enterprise/admin-burdens-reduction/action_program_en.htm#dd and http://ec.europa.eu/enterprise/admin-burdens-reduction/priority_annual_en.htm.

[46] The following directives were investigated: First Council Directive 68/155/EEC, Second Council Directive 77/91/EEC, Third Council Directive 78/855/EEC, Fourth Council Directive 78/660/EEC, Sixth Council Directive 82/891/EEC, Seventh Council Directive 83/349/EEC, Eleventh Council Directive 89/666/EEC, Twelfth Council Directive 89/667/EEC.

Fig. 2. Objectives tree.



Source: Commission Services analysis.

5. POLICY OPTIONS AND THEIR EXPECTED IMPACT

5.1. Description of policy options

The information needs of different users may vary significantly and there is no single solution to all accounting needs. Moreover, the limited administrative resources of the smallest enterprises cannot accommodate all potential user needs. Deciding on the most relevant information needs and defining to what extent they should be served is therefore always a matter of policy choices. In the case of micro entities, a balance needs to be struck between sufficiently serving the most relevant needs and the efficient use of their limited resources (reduction of administrative cost).

The Commission Services envisage following possible policy options that will be discussed in detail in the sub-chapters below. In the context of the economic crisis the timeliness of the reduction of the administrative burden is an important aspect:

Option 0. No change to the Directives.

Option 1. Encourage a full use of existing options in the Accounting Directives.

Option 2. Obligatory exemption of micro entities from the scope of the Directives.

Option 3. Member State option to exempt micro entities from the scope of the Directives.

Option 4. Introduction of a simplified mandatory accounting regime for micro entities.

Option 5. Amendments to the Accounting Directive without introducing the micro category.

5.2. Option 0. No change to the Directives

In the baseline scenario no action is taken and all 5.4 million micro entities will continue following the accounting rules of the Directives and spending annually around €6.3bn to comply with information obligations designed primarily for large companies with investor orientation in mind, save some exemptions that the Fourth Directive allows for a broader small enterprises segment[47] (as defined by Art. 11 of the Fourth Directive).

Table. 5. Expected impact of Option 0: No legislative actions.

Option	Rebalance the cost of accounting obligations for micro entities	Identify financial information of most relevance to users	Eliminate unnecessary reporting requirements	Protection of information for investors	Political Acceptability	Time to implement	Max Burden reduction € (% of burden reduction*)
0	0	0	0	0	0	0	0
Note: "+" favourable, "-" unfavourable; "0" neutral; "?" impact unknown * as %of total burden stemming from the EU Company Law legal acquis, estimated at: €12.1bn							

Source: Commission Services analysis.

5.3. Option 1. Encourage a full use of existing options in the Accounting Directives

5.3.1. Summary

Not all reductions of administrative burdens require changes to the Accounting Directives. Even in case no legislative changes are made, the Commission can nevertheless call on Member States to utilise all the simplification options already available in the Directives. This option targets mainly small companies and could in theory produce some significant burden reductions in those Member States which have not fully made use of them[48]. This would not, however, facilitate further reduction in those Member States that are already using the options. Furthermore, it would not address the substantial issue of discrepancy between the Accounting Directives to the user needs of smallest companies (see Chapter 3.2) and the administrative burden resulting from this.

The rules creating the reporting requirements are included in the Directives and more significant changes to the accounting requirements are not possible without changes to the Directives. A Commission recommendations or guidance is non-binding. In general, EU-wide substantial simplification in the area of accounting and auditing can only be achieved by revising the law.

---

[47] For definition of small segment threshold please see chapter 1.4.

[48] For example a recent 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, http://www.regeringen.se/content/1/c6/10/76/85/4f21026a.pdf.

5.3.2. Analysis

To mitigate (but not fix) the situation, the Commission can without resorting to legislative action try to use soft power on Member States to utilise the wide range of simplifying possibilities currently offered by the Accounting Directives.

There are around 40 Member State options in the Fourth Directive, some of which allow for a more business friendly-accounting regime for especially small and medium-sized companies as defined by Article 11 and 27 of the Directive[49]. For the small companies, these are:

- abridged balance sheet,
- simplified Profit and Loss account layout,
- abridged and simplified notes,
- exemption from preparation of annual report,
- simplified publication requirement,
- exemption from audit.

According to the data available to the Commission there is a significant number of Member States that do not fully utilise these options or impose additional restrictions to their use. Moreover, not all[50] Member States have transposed the thresholds for small and medium-sized entities to their maximum values – however in all but two cases the transposed thresholds cover the proposed micro entities segment.

The estimates of the potential savings of the full use of thresholds and exemptions amount to up to €3.8bn for all companies, and up to €1.8bn for the micro segment (as part of "small" segment).

The exemptions available, however, do not address the main concern that accounts are not suited to the real needs of user and preparers. These exemptions are in essence "carve-outs" from the full scope of the Fourth Directive, mainly in terms of disclosure. There is no special, tailor made regime for the smallest entities which would fulfil the usefulness criterion.

In addition to the requirements of the Accounting Directives, Member States can impose national rules ("gold plating") that further increase the burden on smallest entities. According to the estimations available to the Commission these additional requirement amount to €0.6bn for all companies, data for micro entities alone is not available.

In the public consultations of 2007 as well as from discussions with stakeholders during various meetings a call for better utilisation of the existing options was frequently mentioned.

---

[49] See Annex 2: Use of options by Member States.

[50] Based on Consortium study, that measured the situation in MS before the transposition deadline of 5 September 2008 for the latest threshold increases of Directive 2006/46/EC, there were 5 Member States that transposed the new thresholds in full.

The Commission Services acknowledge that there are legitimate reasons why some Member States do not fully utilise some of the options and set the thresholds to their maximum levels. The characteristics of national economies, accounting and business cultures are different. The options in the Directive were introduced precisely because there were different accounting legacies in Member States, and the Fourth Directive was one of the longest to negotiate. Therefore, without changes to the Directives, it seems very difficult to convince Member States to give up their options and pursue a standardised approach towards use of all options and maximum threshold levels. Also, the current Directive builds on general requirements with Member States possibility to exempt only from some of those requirements on a piecemeal basis. Thus there is no possibility to make a general exemption for targeted group like, for example, micro entities which hampers the usability of these options, and thus has made them generally less appealing to Member States.

The result of Option 1 is a maximum potential reduction of burden on micro business without changes to Directive. The total burden is €12.1bn. By transposition of all exceptions and threshold levels the maximum potential reduction for micro entities would be €1.8bn. However as explained above, this amount is unlikely to be attained.

Implementation timeline. As all the options are already available they could theoretically be readily implemented by Member States within their normal legislative timeline.

The summary of the option is presented in the table below:

Table. 6. Expected impact of Option 1: Encourage a full use of existing options in the Accounting Directives.

Option	Rebalance the cost of accounting obligations for micro entities	Identify financial information of most relevance to users	Eliminate unnecessary reporting requirements	Protection of information for investors	Political Acceptability	Time to implement	Max Burden reduction € (% of burden reduction*)
1	+	0	0/+	0	0/-	++	0 to €1.8bn (0 to 15%)
Note: "+" favourable, "-" unfavourable; "0" neutral; "?" impact unknown The more "+" or "-" the stronger the impact * as %of total burden stemming from the EU Company Law legal acquis, estimated at: €12.1bn							

Source: Commission Services analysis and calculations based on Consortium 2008 report.

5.4. Option 2. Obligatory exemption of micro entities from the scope of the Directives

5.4.1. Summary

Obligatory exemption of micro entities would eliminate all EU level accounting requirements for this group – a case of maximum harmonization. It must be born in mind, however, that accounting cultures across Europe are different and some Member States will find it difficult to dispose of the Directives' accounting obligations for micro entities as for example tax returns are based on those accounting numbers. Thus, it would be inappropriate to force

Member States to fully abolish their reporting traditions. It is unlikely that such a proposal would be politically acceptable for some EU Member States.

.

5.4.2. *Analysis*

As a complete exemption of micro entities from the scope of the Accounting Directives is not feasible, it will not be analysed in detail. The impact of this option is the same as the maximum impact of the option 3 (except for political acceptability), as discussed in the next section.

Table. 7. Expected impact of Option 2: Obligatory exemption of micro entities from the scope of the Directives.

Option	Rebalance the cost of accounting obligations for micro entities	Identify financial information of most relevance to users	Eliminate unnecessary reporting requirements	Protection of information for investors	Political Acceptability	Time to implement	Max Burden reduction € (% of burden reduction*)
2	++	++	++	0/-	---	++	€5.1 to 6.9bn (39 to 57%)
Note: "+" favourable, "-" unfavourable; "0" neutral; "?" impact unknown The more "+" or "-" the stronger the impact * as %of total burden stemming from the EU Company Law legal acquis, estimated at: €12.1bn							

Source: Commission Services analysis, See Annex 1 Quantitative analysis of micro entities exemption.

5.5. Option 3. Member State option to exempt micro entities from the scope of the Directives

5.5.1. *Summary*

Originally flagged in the 2007 Commission Communication on a simplified business environment for companies in the areas of company law, accounting and auditing – COM(2007)394 - the proposal to exempt micro-entities from the Accounting Directive 78/660/ECC (Fourth Company Law Directive) was re-launched by the European Economic Recovery Plan in view of its potential for administrative costs reduction and entrepreneurship promotion. The proposal has already received strong, albeit not unanimous, support as evidenced by the public consultation on COM(2007)394, the July 2008 Opinion of the High Level Group of Independent Stakeholders on Administrative Burdens and two separate resolutions of the European Parliament (A6-101/2008 of 21 May 2008 and B6-0626/2008 of 18 December 2008). The initiative would precede a proposal to modernise the more than 25-years old Accounting Directives in late 2009.

Due to the diversity of accounting needs of micro entities, the Commission Services believe that there should be more flexibility for solutions on national level. With an optional exemption in the Accounting Directives, it would be left to Member States to determine which rules micro entities should be required to comply with. This would allow the possibility

to determine the most relevant reporting requirements and, for example, integrate various reporting requirements (e.g. tax, statistics) into one.

Developments during the last years show more use of the simplification options and there is an increasing demand for more simplification measures. Changes in business practices and information tools open new opportunities for creating one-stop-shop reporting on the national level. Despite the fact that the different reporting traditions are one of the underlying reasons why some Member States have not used the maximum potential provided by the exemptions (as discussed in Option 1), they may still lean towards aligning the micro entities ' reporting requirements with tax or other national requirements. A voluntary compliance with national laws based on the Directives by the companies would be compatible with the exemption option. Thus, all exempted companies would be able to follow the accounting and auditing rules on a voluntary basis.

An alternative solution would be to have an exemption of micro entities from the scope of the Directives with a possibility for Member States to opt-in to these requirements nationally. The maximum impact of this option is likely to be the same as the impact of the option 3.

Politically, the possibility for opt in is likely to make it more acceptable than obligatory exemption (Option 2). However, there are no advantages compared with Member State option (Option 3).

5.5.2. Analysis

Exempting the micro entities from the requirements of the Accounting Directives enables the Member States to promptly curb the current burdensome reporting requirements for micro entities as discussed in Chapter 3.2. (see also Annex 6 Current reporting requirements of the Fourth Directive). It will not pre-empt the possibility to simplify the requirements included in the Directive for small and medium sized entities including micros in the context of the general overhaul.

Exempting micro entities from the scope of the Accounting Directive is expected to have the following impacts:

Reduction of administrative burden[51]. According to the estimations available to the Commission there are around 5.4m micro entities in the EU that meet at least two of the definition criteria[52]. It costs each company €1,558 on average to meet the reporting obligations of the Accounting Directives. The expert consulted by the Consortium assessed that without any legal obligations micro entities would still spend around 25% of that amount to meet their managerial and external information needs. Therefore the remaining 75% or €1,169 is an approximation of the accounting burden these companies face. Aggregated, this amounts to accounting burden of €6.3bn.

Thus, in the maximum scenario where all Member States exempt micro entities and do not impose additional requirements our best estimation of the potential savings stemming from the proposal is €6.3bn (with range of €5.9bn to €6.9bn).

---

[51] For details see Annex 1 Quantitative analysis of micro entities exemption.

[52] See Chapter 1.4 for thresholds defining micro entities.

During the public consultations two Member States (France and Belgium) indicated their initial disinclination towards the use of this option. Without these two states the maximum potential burden reduction would be around €4.9bn. However, as potential use of the option cannot be ruled out by any Member State on the basis of their earlier positions, the maximum saving potential of this option is the same as of option 2.

In the scenario where all three micro thresholds must be met simultaneously the maximum number of companies affected drops to around 4.7m. If all Member States took up the option our best estimation of burden reduction is €5.4bn (with range from €5.1bn to €6bn).

Where France and Belgium also not to utilise the option the savings could be reduce to around €4.1bn

Commission Services also acknowledge that the need for basic book keeping will remain and it is highly likely that Member States after exempting micro entities from the Directive's obligations would impose other accounting requirements, e.g. to align tax and financial reporting[53]. Such a "gold plating" is likely to decrease the realistic burden reduction for companies. However the Commission Services are not in possession of any realistic EU wide estimations to the extent of future Member States "gold plating". All that makes precise estimation of the realistic burden reduction of the proposal not possible. Rationally, these requirements will not be more burdensome than the current Directive's requirements and, as discussed below, they could be more aligned with other requirements (e.g. tax, statistical) so that duplication of work can be avoided. Sharing best practices between Member States could contribute to creation of appropriate set of national rules and minimization of the administrative burdens. The Commission is prepared to facilitate this process by, for example, implementation workshops, regular follow up and consultations as well as utilising the network of SME contact points[54] in the Member States.

More relevant and understandable information to management. The accounts could be made more relevant to the needs of managers of micro entities, taking into account the need for them to be understandable. Currently, it seems that managers of micro entities do not utilise and/or even understand all of the information that is gathered and processed due to statutory requirements. Consultations with various stakeholders indicated that managers of micro entities should have accounts that they can comprehend and utilise in their business.

More relevant information for main users, including tax authorities and creditors: The users of accounts of micro entities differ significantly from the users of accounts of large companies. The main concern is usually protection of creditors rather than information needs of investors. The main users of micro accounts are banks and tax authorities. According to some studies,[55] banks look mainly for standardised information that would allow for a quick determination of recoverable amount of assets and assessment of credit rating of micro client. Consequently, they are less interested in e.g. goodwill, deferred tax or similar sophisticated accounting information.

---

[53] E.g. UK ARC member informed the Commission that alignment of financial and tax reporting in the UK is expected to produce burden reduction of around £200 per micro company.

[54] SME Envoy: http://ec.europa.eu/enterprise/entrepreneurship/sme_envoy.htm.

[55] See footnote 40, pp.17, 21, 29.

Consequently, it is concluded that the proposal will not have significant negative impact on the information to the external stakeholders and creditors' protection. This is corroborated by the responses to the Commission Consultation of 2007[56] where respondents both from banks and industry were generally in favour of exempting the micro entities from the requirements of the Accounting Directives.

Impact on the single market and level playing field. On the national level, exempting micro entities from the requirements of the Accounting Directives (and possibly replacing them with other national requirements) will have no negative effect on the level playing field within the micro category. On contrary, it will put the limited liability (micro) companies in comparable position with the unlimited ones. As the minimal capital requirements for limited companies tend to be lowered (e.g. UK £1, project in DK to set at 1DK), the traditional division on limited and unlimited liability is increasingly meaningless. The idea that the capital and reserves of the limited liability company would provide the protection for creditors - and the accounts prove the maintenance of the capital - has become obsolete with the current (non-existing) minimum capital requirements.

Impact on single market is also expected to be insignificant. First of all, financial reporting needs of micro entities are rather basic and the statutory accounts not a generally important source of information. The basic book keeping and financial reporting of micro entities with very straight-forward transactions and reports will remain the same, regardless the legal framework. Furthermore, only a low number of micro entities are involved in cross border activities. The recent Eurobarometer[57] survey shows that 7% of all micro entities are involved in export. An analysis by Eurostat[58] demonstrate that for the number of micro entities (regardless of the legal form) engaged in intra EU trade could be as low as 2 to 4%. Moreover, 95% of companies with less than 10 employees did not have foreign subsidiaries.

As a consequence, the user needs of internationally active micro entities are generally not different from those of micro-entities active only domestically. Firstly, there is generally no dissimilarity as regards the ownership and financing structures. Secondly, the statutory financial reporting is not a generally important source of information for tax authorities as regards cross-border tax issues of micro-entities. The extent to which micro entities' financial statements are used by other enterprises in assessing, for example, their creditworthiness is also rather limited on cross-border level. Therefore, there is no indication that cross border trade would be significantly affected.

The above does not exclude that in some situations there remains a continued demand for internationally comparable financial statements of micro-entities, for example by their international trading partners or trade credit insures. However, this demand is not expected to be widespread and it can be alleviated with voluntary reporting.

Exempting micro entities from the requirements of Accounting Directives would decrease the level of harmonisation on EU level. However, following the argument of subsidiarity,

---

[56] See footnote 21.

[57] See footnote 36, p. 45.

[58] See Eurostat data from 2005: http://circa.europa.eu/Public/irc/dsis/trade/library?l=/basic_documentation/characteristics/reference_year_2005&vm=detailed&sb=Title,
and Annex 5 Users' and preparers' needs from the financial reporting.
Note that Eurostat acknowledges that these numbers are underestimated due to data collection method.

decisions should be taken as closely as possible to the citizen and constant checks should be made as to whether action at Community level is justified in the light of the possibilities available at national, regional or local level. In the view of the insignificant cross-border relevance of micro entities financial reports, it seems that solutions on local level are indeed more appropriate than EU level harmonisation.

Collection of Statistical information. The Commission is aware of the fact that published financial statements are an important source of statistical information in several Member States[59]. In cases where Member States will use the option to exempt micro entities from the publication requirements, the statistical offices may therefore need to re-design the system for data collection from these kind of entities including use of alternative sources or direct statistical surveys of the companies or, where feasible, reliance on tax accounts. In this context it will be important that Member States will carefully consider statistical reporting needs when defining the reporting requirements for micro entities.

Collection of information for taxation. There is a variation between Member States as regards to what extent the statutory financial reports prepared under the Accounting Directives' requirements serve the basis for taxation. However, as noted above, the tax authorities have the power to demand information according to their own reporting requirements. They have also the powers to carry out verifications (audits) of the financial information. It is, therefore, not expected that exemption of micro-entities from the Directives' reporting requirements as such will have a negative impact on collection of information by the tax authorities. In contrast, exempting micro-entities from the Directives' reporting requirements will offer a possibility of aligning micro accounting with their tax reporting.

Impact on the accounting profession. In the short term, the reduction to the need to prepare annual accounts in accordance with the requirements of the Directives might lead to a reduction of the demand for services of external accountants and auditors necessary to comply with formal obligation by the Directives.

Current estimations point that majority of accounting related cost incurred by micro entities are directed to external accountants and auditors. Albeit, the exemption from the formal requirements and administrative burden is likely to result in some cost savings by the micro entities as for their external accounting and audit cost, and therefore also impact adversely the revenues for accounting firms, there is also an opportunity to direct this cost towards more added value activities. Basic book keeping continues to be done, some national rules will still be present, as well as tax accounting and voluntary audit for external stakeholders (the Commission's discussions with UK government showed that some small companies in the UK continue to voluntarily audit their financial statements despite existing exemption[60]), all of which will require assistance of professional accountants. Reduced statutory requirements allow companies to use the accountants' professional expertise to tailor the financial reporting to suit better their business and tax purposes. Consequently, reduced use of professional accountants' help for statutory accounting purposes is expected to be partly substituted by their use to purposes adding more value to the micro entities - thus allocating the economic resources more effectively. Quantitative estimation on the impact on the accounting profession is therefore impossible at this stage.

---

59 Modernisation of European Enterprise and Trade Statistics (Decision No 1279/2008/EC of the European Parliament and Council).

60 According to UK ARC member 7% of exempted companies continue to voluntarily audit their financial statements.

Social aspects. As such, the exemption of micro-entities from the Directives' accounting and publication requirements may reduce information available to employees of the micro-entities. However, in the micro-entities the employees usually have direct contact with the management and owner(s), and the published financial statements have a lesser role in serving their information needs as compared to large companies. The situation of micro limited liability companies is expected to be similar to unlimited liability companies of the same size.

Environmental aspects. Minor positive impact due to reduction of reporting and filing activities.

Information to general public. There will be reduction of information available to external parties and general public about micro-entities. However, as indicated by the number of inquiries to the company registers this interest is generally very low (for example in UK, there is yearly on average less than 2 inquiries/company).

Assessing continued compliance with the micro company segment's criteria. The proposal will leave it to Member States to decide on how to check compliance with micro thresholds. However, there are number of possibilities, including using data from tax returns and VAT registers (for the turnover) and extended possibly by a declaration on the number of employees. The number on balance sheet totals may be not readily available as such, however some form of declaration based on tax accounting balance sheet could be required as supplement to tax returns.

Implementation timeline. The measure could be adopted by the EU in 2009, with national transposition deadline of the end of 2010, it could be effective starting from 2010/11.

Table. 8. Expected impact of Option 3: Optional exemption of micro entities from the Accounting Directives.

Option	Rebalance the cost of accounting obligations for micro entities	Identify financial information of most relevance to users	Eliminate unnecessary reporting requirements	Protection of information for investors	Political Acceptability	Time to implement	Max Burden reduction € (% of burden reduction*)
3	++	++	++	0/-	0/+	++	€4.1 to 6.9bn (39 to 57%)

Note: "+" favourable, "-" unfavourable; "0" neutral; "?" impact unknown
The more "+" or "-" the stronger the impact
* as %of total burden stemming from the EU Company Law legal acquis, estimated at: €12.1bn

Source: Commission Services analysis, See Annex 1 Quantitative analysis of micro entities exemption.

5.6. Option 4. Introduction of a simplified accounting regime for micro entities

5.6.1. Summary

One option to address the needs of "micro entities" is to include a micro-tailored accounting regime into the Accounting Directives. This would allow creating a standard that meets most of the needs of micro-stakeholders without imposing redundant reporting obligations to them.

In contrast to the "exemption option", the new regime would require a longer preparatory and implementing period. Therefore, it is not suitable to achieve quick burden reduction as requested by the Commission in the Economic Recovery Plan[61] - endorsed by the European Council of 12/13 December 2008. It needs further analysis to examine whether a common European solution should be a way forward, given the local differences in accounting needs of micro entities. On the other hand, the Commission acknowledges that it is not likely that all Member States will utilise the option to exempt "micro-entities" from the Directives' accounting obligations. Therefore, an alternative solution could be implementing a "micro" accounting regime into the Directives as an alternative as well as updating accounting rules for small and medium categories. These would make the Accounting Directives more tailored towards the needs of micro, small and medium enterprises, thus reducing their administrative burden regardless whether a Member State uses the micro exemption option or not. In practice, this could entail creating a rather basic set of rules applicable to micro entities. This basic set would be designed from bottom-up rather than the current top-down approach. It could also serve as the starting pointy when creating more sophisticated rules for bigger entities.

The Commission is already undertaking a revision of the Accounting Directives with the "think small first" principle. In addition to the micro exemption discussed in this paper (option 3), it also reflects an alternative set of basic micro accounting rules. This latter initiative is a medium term one with the first proposals expected in late 2009.

5.6.2. Analysis

Due to the long lead time needed for the preparation and adoption process, this revision of the Accounting Directives cannot be achieved as swiftly as the proposed exemption of micro entities from the Directives' requirements. A new proposal for a directive could be adopted in 2010. After the adoption by the EU, time is needed for national implementation. This means that a new accounting directive could be in force in all Member States by 2014, at the earliest.

At the moment it is not possible to quantify the potential impact of revision of the Directives (currently under development) to the micro administrative burden.

Table. 9. Expected impact of Option 4: Simplified accounting regime for micro entities.

Option	Rebalance the cost of accounting obligations for micro entities	Identify financial information of most relevance to users	Eliminate unnecessary reporting requirements	Protection of information for investors	Political Acceptability	Time to implement	Max Burden reduction € (% of burden reduction*)
4	++	++	++	0/?	?	--	+++
Note: "+" favourable, "-" unfavourable; "0" neutral; "?" impact unknown The more "+" or "-" the stronger the impact * as %of total burden stemming from the EU Company Law legal acquis, estimated at: €12.1bn							

Source: Commission Services analysis.

[61] See footnote 3.

5.7. Option 5. Amendments to the Accounting Directive without introducing the micro category.

5.7.1. Summary

It is also possible to create some quick fixes without major decisions such as that of exempting micro entities or overhauling the Accounting Directives. These are expected to produce limited burden savings in a short time span.

A number of ideas stem from Commission 2007 Communication and the HLG proposals:

- Compulsory exemption of micro entities from statutory audit
- Exemption from publication requirements
- Introducing limited review instead of full audit
- Other fast track measures in the field of accounting from 2008

Please note that first and third bullets are alternatives and fourth bullet will be adopted in the beginning of 2009.

5.7.2. Analysis

These proposals could produce a significant burden reduction (if micro entities were not exempted from the Accounting Directive). However, they do not address the main concern of discrepancy between the Accounting Directives and the user needs.

A compulsory exemption from statutory audit is not fully supported by all Member States. There is already an option to exempt small companies from audit that has been used by Member States willing to utilise it.

As an alternative to exemption from audit, an introduction of a limited review was proposed. The idea is expected to produce limited savings compared to full exemption from audit for micro entities.

On the exemption from publication requirement it is essential to point out that the publication culture differs among Member States with some that extensively utilise published statements.

Most other measures in the area of *accounting and auditing* addressed in the July 2007 Communication require a longer preparation time and are, therefore, not suited for a fast track procedure. However, rapid progress seemed possible with a view to some minor measures set out in the communication, i.e. the proposals to abolish the requirement to provide (for SMEs) the explanation on formation expenses and to clarify the relationship between the IAS Regulation and the Seventh Directive with a view to groups with only immaterial subsidiaries. These measures were proposed in April 2008, but they are far less significant in terms of reduction of administrative burden.

Environmental aspects. Minor positive impact due to reduction of reporting and filing activities.

Implementation timeline. The measures could be adopted by the EU in 2009, with national transposition deadline of the end of 2010, it could be effective starting from 2010/11.

Table. 10. Expected impact of Option 5: Amendments to the Accounting Directive without introducing the micro category.

Option	Rebalance the cost of accounting obligations for micro entities	Identify financial information of most relevance to users	Eliminate unnecessary reporting requirements	Protection of information for investors	Political Acceptability	Time to implement	Max Burden reduction € (% of burden reduction*)
5	0/+	-	+	0/-	0/-	+	0.1 to €1.4bn (0 to 12%)
Note: "+" favourable, "-" unfavourable; "0" neutral; "?" impact unknown The more "+" or "-" the stronger the impact * as %of total burden stemming from the EU Company Law legal acquis, estimated at: €12.1bn							

Source: Commission Services analysis and calculations based on Consortium 2008 report.

6. COMPARISON OF OPTIONS

The table below provides a summary of the expected impact of the analysed options.

The option that provides the biggest burden reduction is Option 3: Option to exempt micro entities. This option can also be implemented within shortest timeframe.

Table. 11. Comparison of options.

Option	Rebalance the cost of accounting obligations for micro entities	Identify financial information of most relevance to users	Eliminate unnecessary reporting requirements	Protection of information for investors	Political Acceptability	Time to implement	Max Burden reduction € (% of burden reduction*)
0	0	0	0	0	0	0	0
1	+	0	0/+	0	0/-	++	0 to €1.8bn (0 to 15%)
2	++	++	++	0/-	---	++	€5.1 to 6.9bn (39 to 57%)
3	++	++	++	0/-	0/+	++	€4.1 to 6.9bn (39 to 57%)
4	++	++	++	0/?	?	--	+++
5	0/+	-	+	0/-	0/-	+	0.1 to €1.4bn (0 to 12%)
Note: "+" favourable, "-" unfavourable; "0" neutral; "?" impact unknown The more "+" or "-" the stronger the impact * as %of total burden stemming from the EU Company Law legal acquis, estimated at: €12.1bn							

Source: Commission Services analysis and calculations based on Consortium 2008 report, CSES 2007 study.

The proposal to grant Member States an option to exempt micro entities from the scope of the Fourth Directive is expected to affect around 5.4m companies and produce potential maximum burden reduction of up to €6.9bn, with best estimate of reduction of €6.3bn.

The actual impact of the proposal will depend on the number of Member States that taking up the option, the thresholds to be set, eventual alternative accounting regimes (e.g. tax accounting) and the amount of companies that will voluntarily continue to produce and audit financial statements according to the Directives.

In their responses to the 2007 public consultation two Member States (France and Belgium) have indicated that they will not take up the option exempting the micro entities. It is also likely that many Member States after exempting micro entities from the Directive's obligation would impose other accounting requirements, e.g. to align tax and financial reporting. Such alternative requirements are likely to decrease the burden reduction for companies. However at this point of time it is not possible to quantify potential effect on EU level.

The expected impacts of the measure are summarised in the table below.

Table. 12. Summary of the expected impacts of micro entities exemption proposal.

Quantitative impact			
Scenario		No. of micro entities	Max. administrative burden reduction (€m)
1) All three criteria for micro entities must be met	Min	4,399,311	5,142
	Best estimation	4,659,665	5,446
	Max	5,155,917	6,026
1a) FR and BE do not take up the option	Best estimation	3,495,261	4,085
2) Two out of three criteria must be met	Min	5,069,907	5,926
	Best estimation	5,369,738	6,276
	Max	5,941,844	6,945
2a) FR and BE do not take up the option	Best estimation	4,205,334	4,915

Qualitative analysis	
Advantages	**Disadvantages**
• Encourage new start ups, boost economy. • Reduce unnecessary data collection and processing. • Alignment of financial reporting to user needs. • Improved usefulness and understandability of financial reports to managers. • Alignment of reporting requirements with the US. • Contribute to one stop shop reporting (one all purpose report). • Accountants' and auditors' work would be better directed towards real business needs.	• Potential loss of information to some stakeholders. • In short term, potential loss of jobs for accountants specialised in micro entities. • It will have an impact on availability of statistical information in a number of Member States leading to changes in the collection of statistical data. This could, for instance, be overcome by additional statistical surveys.
Attitude of stakeholders	
Preparers	++
Users	+
Public authorities	++
Accountants and auditors	--

Note: "++" very positive, "+" positive, "--" very negative

Source: Commission Services analysis.

In conclusion, the exemption of micro entities from the requirements under the information obligations of Fourth Directive is likely to have:

- A positive effect on relevance and understandability of financial information to management.
- Mainly positive or neutral impact for information for external stakeholders of micro entities , including creditors.
- Not significantly negative impact on credit protection.
- An impact on availability of statistical information in a number of Member States leading to changes in the collection of statistical data. This could, for instance, be overcome by additional statistical surveys.
- No negative impact on collection of information for taxation.
- Clearly positive impact on reduction of administrative burden.

On the basis of this analysis, the Commission considers that the Member States option to exempt micro entities from the requirements of the Accounting Directives is the most appropriate alternative in order to significantly reduce the administrative burden of the small business and align the reporting requirements with the needs of the users and preparers.

7. MONITORING AND EVALUATION

This proposal is a major step in the Commission initiative for simplification of accounting rules for SMEs and other companies in the scope of the Directives and revision of the Accounting Directives. Therefore, this proposal is closely linked to the general modernisation and simplification of the Accounting Directives. Due to the close connection between these measures the monitoring and evaluation will be carried out together. The second step, i.e. proposal to adopt a modernised framework for the Accounting Directives will be presented in autumn 2009.

7.1. Monitoring

The Commission will monitor the implementation of the changes to the Accounting Directives together with the Member States through the implementation period which is expected to extend until 2014. The Commission will also organise implementation workshops together with the Member States. This will help to clarify questions arising during the implementation and to share the best practices. As regards the Member States option to exempt micro entities from the scope of the Accounting Directives, the first indicators to be assessed starting from accounting year 2009 will include: extent of its application by Member States, alternative accounting regimes and the level of voluntary application of the Directives' requirements / other accounting regimes. A detailed monitoring plan will be part of the overall monitoring strategy in relation to the general revision of the Accounting Directives.

As regards monitoring trespassing of the micro thresholds, is proposed that it is up to the Member States to check and monitor whether the micro-entities criteria by companies excluded from the scope of the Fourth Company Law Directive continue or cease to be met. The Member States shall have relevant necessary information at their disposal (statistical, social data etc.). Following the principle of subsidiarity, the Commission has deliberately chosen this option.

7.2. Evaluation

The evaluation of effects and functioning of the exemption for micro entities will be integrated in the evaluation plan related to the general revision of the Accounting Directives. The evaluation will include an assessment as regards the key objectives of better alignment of the accounting rules with the needs of the users and preparers of the financial reports and overall reduction of administrative burden. Furthermore, consideration will be given to the quality and accessibility of relevant financial information to stakeholders. Possible indicators could be cost of financial reporting in relation to the current situation, and a qualitative analysis of the reporting practices of the micro entities including the reports required by stakeholders, especially the providers of financing.

The results and feedback from monitoring and evaluation will be considered with a view to propose further amendments when appropriate.

ANNEX 1 QUANTITATIVE ANALYSIS OF MICRO ENTITIES EXEMPTION

This chapter presents the Commission's analysis of the quantitative impact of micro entities exemption. The numbers presented are in most part estimates and as such should be treated as indicative of the magnitude of problems, rather than precise figures. In deriving the figures the Commission utilised all available studies (public as well as those under preparation), data from Member States as well as conducted own estimations.

CSES Study on Evaluation of thresholds for Micro-Entities

The Commission ordered a study to quantify the number of companies that could be exempted from the scope of the Accounting Directives.

The study found that about 25% or 7m of all enterprises in Europe are covered by the Accounting Directives, i.e. they are limited liability companies.

Table. 13. Number of all enterprises in the EU and number of enterprises covered by the Fourth Directive on Accounting.

No. of enterprises (all legal forms)	No. of companies covered by the Fourth Directive	%
28,207,491	7,158,209	25.4%

Source: CSES. 2008. Evaluation of Thresholds for Micro-Entities, p. 15.

The study than moved on to analyse how many of the limited liability companies meet the definition of micro entities as proposed by the Commission and discussed earlier in the Chapter 1.4.

The study concluded that in most EU countries data on balance sheet total is not collected, but based on the available evidence (Danish data) the number of micro entities according to balance sheet totals roughly matches the number according to the turnover criterion. Thus balance sheet total of €0.5m seems to be different from the levels of other two criteria and will result in lower amount of companies exempted than turnover threshold of €1m and employment of 10 persons (the study recommends a review of the appropriateness of balance sheet total as a Micro criterion). This observation was also made in Commission Recommendation on the definition of micro and SME[62] from 2003 that stated that:

> The statistical trend requires a greater increase to be made to the turnover ceiling. Since the trend differs according to the size-category of the enterprise, it is also appropriate to adjust the coefficient in order to reflect the economic trend as closely as possible and not to penalise micro enterprises and small enterprises as opposed to medium-sized enterprises. This coefficient is very close to 1 in the case of micro enterprises and small enterprises.

[62] Commission Recommendation of 6 May 2003 concerning the definition of micro, small and medium-sized enterprises (Text with EEA relevance) (notified under document number C(2003) 1422), recital (6), http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2003:124:0036:0041:EN:PDF.

To simplify matters, therefore, a single value must be chosen for those categories for the turnover ceiling and balance sheet total ceiling.

However the Commission initially proposed lower threshold for balance sheet totals to keep them in line with thresholds for other SMEs in the Fourth Directive. The threshold for the balance sheet proved also useful in discussions with the stakeholders for certain types of companies.

The data on balance sheet totals is expected to be provided even for the tax accounting, and could be disclosed, together with net turnover and number of employees to public authorities.

According to the study the following number of limited liability companies would qualify as micro entities if only employment criterion was used:

Table. 14. Table. 15. Number of "micro entities" according to different employment thresholds.

No. of employees	No. of micro-entities	% of all companies covered by the Fourth Directive	% of all enterprises
< 0	0	0%	0%
< 2	3,325,242	46%	12%
< 5	5,004,626	70%	18%
< 10	**5,979,737**	84%	21%
< 15	6,365,118	89%	23%

Source: CSES. 2008. Evaluation of Thresholds for Micro-Entities, p.39, Commission Services analysis.

These figures change slightly when only the turnover criterion is applied

Table. 15. Number of "micro entities" according to different turnover thresholds.

Turnover	No. of micro-entities	% of all companies covered by the Fourth Directive	% of all enterprises
< 0	0	0%	0%
< 250,000	4,037,819	56%	14%
< 500,000	5,065,292	71%	18%
< 750,000	5,513,370	77%	20%
< 1,000,000	**5,833,889**	81%	21%
< 1,500,000	6,164,780	86%	22%
< 2,000,000	6,384,358	89%	23%
< 5,000,000	6,805,203	95%	24%

Source: CSES. 2008. Evaluation of Thresholds for Micro-Entities, p.39, Commission Services analysis.

When the two thresholds of employment and turnover are combined, lower numbers of micro entities is received due to the fact that the two criteria do not overlap perfectly.

The study estimates that the criteria for number of employees and turnover are met by 5,263,707 to 5,475,770 companies with mid point of 5,369,738 companies. That represents around 75% of companies currently covered by the Accounting Directives. It must be noted that obligation to meet all three criteria could send these figures significantly lower.

Furthermore the study utilising the cost data from Ramboll 2007 analysis estimates that the compliance with the Directives costs these companies from €5.9bn to €6.1bn with midpoint of €6bn – which at the same time represents maximum potential savings from the exemptions

On the basis of the data in the study, the Commission services conducted a simple sensitivity analysis of the combination of the two thresholds, which is presented in the tables below.

Table. 16. The effect of combining thresholds for employment and turnover on the number of "micro entities".

Employment / Turnover	All levels	< 5	< 10	< 15
< €0.5 mil	5,065,292	4,317,305	4,659,665	4,666,159
< €1.0 mil	5,833,889	4,620,935	**5,369,738**	5,512,023
< €1.5 mil	6,164,780	4,669,183	5,530,422	5,813,570
All levels	7,158,209	5,004,626	5,979,737	6,365,118

Source: CSES. 2008. Evaluation of Thresholds for Micro-Entities, pp. 33, 39, Commission Services analysis.

Table. 17. The effect of combining thresholds for employment and turnover on the percentage of "micro entities" as share of all companies covered by the Accounting Directives.

Employment / Turnover	All levels	< 5	< 10	< 15
< €0.5 mil	71%	60%	65%	65%
< €1.0 mil	81%	65%	**75%**	77%
< €1.5 mil	86%	65%	77%	81%
All levels	100% (7,158,209 companies)	70%	84%	89%

Source: CSES. 2008. Evaluation of Thresholds for Micro-Entities, pp. 33, 39, Commission Services analysis.

If it is assumed that the balance sheet criterion will follow closely the turnover criterion this may imply that if all three criteria are required the number of companies exempted could fall as low as to 4.7m companies, i.e. 65% all companies covered by the Directive. This could bring potential savings of the exemption to €5.4bn.

Study by the Consortium

A Consortium (Capgemini/Ramboll) hired by the Commission conducted an extensive analysis based on data collection from 10 EU Member States and extrapolations for the others of the costs imposed by the EU Company Law legal acquis.

It concluded that EU Company Law rules cost European companies around €22.7bn, and around half of this – €12.1bn is a pure administrative burden

The Consortium identified and measured the costs of the following obligations stemming from the Fourth and Seventh Directives, deemed as the most burdensome for companies in Europe.

From Fourth Directive on annual accounts:

- Obligation to draw up annual accounts and disclosure of accounts.
- Preparation of Annual Report.
- Audit of annual accounts.

From the Seventh Council Directive:

- Preparation of consolidated accounts and consolidated annual reports.
- Audit of consolidated accounts.

The estimations by the Consortium distinguish between the total administrative cost of the obligation, part of the cost that would be incurred regardless of any legal rules (called 'business as usual' costs) and a residual value - the administrative burden, i.e. costs that are incurred solely due to the legal obligation.

The Consortium conducted several workshops with accounting experts in different Member States who estimated that around 25% of all administrative cost for micro entities are 'business as usual' costs.

The results for micro entities are as follows:

Table. 18. Administrative costs and burdens of information obligations incurred by micro entities.

Obligation	Administrative cost (€m)	Business as usual costs (€m)	Administrative Burden (€m)	Contribution to burden reduction*
Obligation to Draw up annual accounts and disclosure of accounts	5,439.2	1,359.8	4,079.4	34%
Annual Report	537.7	134.4	403.3	3%
Audit of annual accounts	1,737.5	434.4	1,303.1	11%
Consolidated accounts and consolidated annual reports	160.8	40.2	120.6	1%
Audit of consolidated accounts	25.5	6.4	19.1	0.2%
Total	**7,900.7**	**1,975.20**	**5,925.50**	**49%**
* As % of reduction of administrative burden due to EU Company Law legal acquis of €12,117m				

Source: Consortium study 2008, Commission Services analysis.

The figures present the costs and the maximum possible burden reduction of the exemption of micro entities from the Accounting Directives that amounts to €5.9bn.

The most burdensome obligations are preparation of annual accounts and associated disclosure requirements (i.e. content of the notes on the accounts) and audit of financial statements.

The following table presents estimations of costs per company per information obligation.

Table. 19. Administrative costs and burdens of information obligations per micro entity.

Obligation	No. of companies affected	Administrative cost (€m)	Cost per company €	Administrative Burden (€m)	Burden per company €
Obligation to Draw up annual accounts and disclosure of accounts	5,069,907	5,439.2	1,072.86	4,079.4	804.65
Annual Report	3,057,889	537.7	175.85	403.3	131.88
Audit of annual accounts	728,117	1,737.5	2,386.24	1,303.1	1,789.68
Consolidated accounts and consolidated annual reports	86,748	160.8	1,853.38	120.6	1,390.04
Audit of consolidated accounts	9,006	25.5	2,833.22	19.1	2,124.92
Total	**5,069,907**	**7,900.7**	**1,558.35**	**5,925.50**	**1,168.76**

Source: Consortium study 2008, Commission Services analysis.

The table shows similar number of micros to those presented in earlier study.

Combination of the two studies

Both studies discussed are partly based on on-ground measurements and partly on estimations. Below a combination of the two studies is presented.

There are differences in population figures between the studies. This can be in part explained by the method of extrapolation. Moreover the Consortium study uses older measurements for Austria, Denmark, Germany and Netherlands where no segmentation on Micro was used.

The table below presents the best estimation on the number of companies meeting criteria for micro entities. CSES study data was used where possible (i.e. the lowest of number of companies meeting employment, turnover, and balance sheet total criteria) for the remaining countries numbers come from the Consortium study.

Table. 20. Number of micro entities in EU Member States.

Country	No. of Micro entities covered by the Fourth Directive	% of all	M-measurement/ E-estimation
Austria	n/a	n/a	n/a
Belgium	153,569	3%	E
Bulgaria	165,377	3%	E
Cyprus	129,384	2%	E
Czech Republic	135,263	2%	M
Estonia	64,130	1%	E
Denmark	38,965	1%	M*
Finland	151,050	3%	M
France	1,010,835	17%	M
Germany	369,019	6%	M*
Greece	65,873	1%	E
Hungary	143,637	2%	M*
Ireland	149,422	3%	M
Italy	472,730	8%	M*
Latvia	39,218	1%	E
Lithuania	18,451	0%	M*
Luxemburg	12,539	0%	M*
Malta	20,710	0%	E
Netherlands	121,334	2%	M
Poland	86,701	1%	M*
Portugal	356,140	6%	M*
Romania	47,397	1%	E
Slovakia	72,097	1%	E
Slovenia	n/a	n/a	n/a
Spain	945,469	16%	M*
Sweden	183,269	3%	E
United Kingdom	989,265	17%	M*
Total	**5,941,844**	**100%**	
* data from CSES 2008 study n/a – not available			

Source: Consortium study 2008, CSES 2008, Commission Services analysis.

Please note that a number of values are estimated, they also come from various sources, and then from various national statistical offices which means that methodologies may differ. Thus these numbers should be treated as indicative only.

Summary of the impact of option 3

The following table presents summary of estimations of the impact of the proposal under assumption that all Member states would utilise the option to exempt "micro entities" from the accounting requirements. Or more accurately the administrative burden that micro entities currently incur due to the Fourth Directive requirements. The scenarios presented are calculated on the bases of data available from previously discussed studies and their combination and recalculation.

Table. 21. Estimations of burden reductions under different scenarios

Scenario		No. of micro entities	Max. administrative burden reduction (€m)
1) All three criteria for micro entities must be met	Min	4,399,311	5,142
	Best estimation	4,659,665	5,446
	Max	5,155,917	6,026
1a) FR and BE do not take up the option	Best estimation	3,495,261	4,085
2) Two out of three criteria must be met	Min	5,069,907	5,926
	Best estimation	5,369,738	6,276
	Max	5,941,844	6,945
2a) FR and BE do not take up the option	Best estimation	4,205,334	4,915
Under assumption that burden per company equals €1,168.76 (see table 19)			

Source: Consortium study 2008, CSES 2008, Commission Services analysis.

Therefore it is concluded that if the scenario one will be considered, i.e. all three thresholds defining micro entities will need to be fulfilled in order to qualify, the number of micro entities can be estimated between 4.4m and 5.1m with the best estimate (not a mid point) at 4.7m.

That would result in maximum potential burden reduction ranging from €5.1bn to €6bn, with the best estimate of €5.4bn.

Further taking into account the indications from the 2007 public consultations that certain Member States will not utilise the option the best estimate of the number of micro entities that would be freed from the obligation is 3.5m with resulting burden reduction of €4.1bn.

Under the scenario where (as is the case now for small and medium companies in the scope of the Fourth Directive) only two out of three criteria would have to be met, the number of micro entities covered would range from 5m to 5.9m with the best estimate at 5.4m.

That would result in maximum potential burden reduction ranging from €5.9bn to €6.9bn, with out best estimate of €6.3bn.

Further taking into account the indications from the 2007 public consultations that certain Member States will not utilise the option the best estimate of the number of micro entities that would be freed from the obligation is 4.2m with resulting burden reduction of €4.9bn.

The numbers presented are estimations based on the available studies. As such realised burden reduction might differ significantly. Moreover burden reduction depends on the utilisation of the option by Member States and on the cost of the national accounting regime that exempted companies would still be required to follow.

ANNEX 2: USE OF OPTIONS BY MEMBER STATES

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

Table. 22. Utilisation of exemptions available in the Fourth Directive by Member States.

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

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

Source: Consortium study 2008.

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 entities.

Art. 45: Certain simplification of disclosures in the notes.

Art. 46.3: Exemption for small entities to prepare annual report.

Art. 46.4: Certain simplifications for medium entities in the annual report.

Art 47.2 and 3: Simplifications of publication requirement for small and medium entities.

Art. 51.2: Exemption for small entities from audit.

Where all of these exemptions used the burden for Micro entities could be reduced (according to the calculation of the Consortium) by as much as: €1.8bn and for all companies by €3.8bn. These include:

Table. 23. Estimation of burden reduction through full use of existing exemptions.

Exemption	Estimated cost reduction (€)	
	Micro	**All companies**
Art. 11	91,078,221	117,225,663
Art. 27.	39,282,071	56,340,747
Art. 44	25,550,357	34,886,123
Art. 45	67,810,277	99,345,319
Art. 46.3	117,371,612	142,123,629
Art. 46.	69,453,028	90,962,726
Art 47.2 and 3	124,295,807	208,656,122
Art. 51.2.	1,303,125,000	1,798,950,000
Art. 57	No segment information	1,274,120,204
Total	**1,837,966,373**	**3,822,610,533**

Note: Art. 57 Exemptions for certain subsidiary undertakings
Please also note that the presented numbers with exception for Article 51.2, take into account only estimation for the countries that did not transpose the relevant articles at all, it does not deal with transpositions that impose additional restrictions for the utilization of the exemptions.

Source: Consortium study 2008, Commission Services analysis.

In terms of thresholds levels, all but two Member States have transposed Article 11 small companies' thresholds in a way that covers the proposed maximum threshold levels for micro entities in terms of balance sheet total and turnover. Thus there is a limited possibility to soft law approach simplification in this sphere.

ANNEX 3: POLICY OPTION 5

Based on the data provided by the Consortium report and assuming that "micro entities" exemption is not utilised the exemptions considered under Option 5 are expected to produce the following results:

Table. 24. Detail estimation of exemptions from audit and publication requirement.

Option	Administrative burden (€)	Maximum Estimated burden reduction (€)
Option 4.1 Exempting micro entities from statutory audit	1,303,125,000	1,303,125,000
Option 4.2 Introducing limited review instead of full audit	1,303,125,000	651,562,500
Option 4.3 Exemption from publication requirements	1,359,800,000	117,789,145
Option 4.3a Web based publication	1,359,800,000	54,912,928

Source: Consortium study 2008.

Please note that Options 4.1 and 4.2 as well as 4.3. and 4.3a are alternatives.

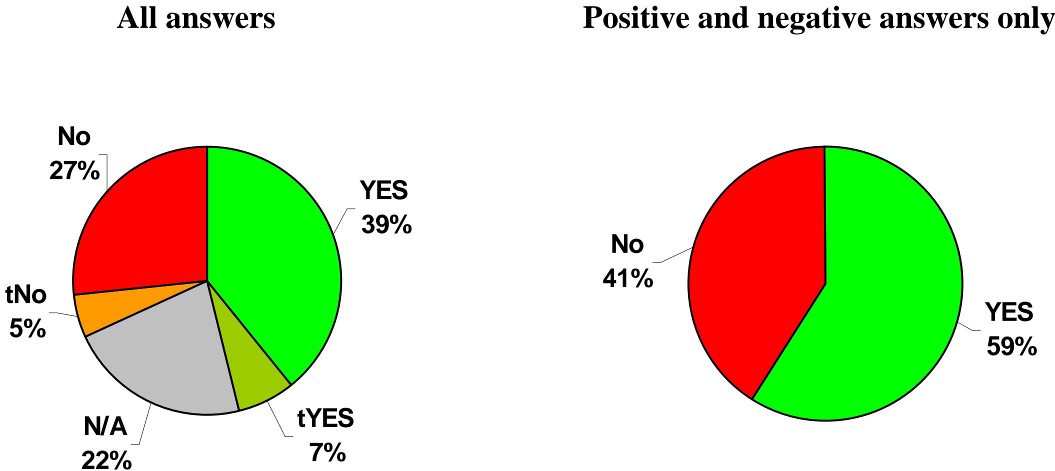
ANNEX 4: RESULTS FROM THE STAKEHOLDER CONSULTATION

Strategically important decisions, such as introducing a micro entity category, cannot be made without broad support from Member States and stakeholders. Calculations performed for the Commission by the Centre for Strategy & Evaluation Services LLP show that around 75% of companies in the scope of the Fourth Directive are micro entities.

Results of Public consultation of 2007

Commentators to the Commission communication expressed the following opinions on the possible introduction of micro entities:

Fig. 3. Support for introduction of micro entities exemption.



Legend: tYes: tentative Yes; tNo: tentative No; n/a: no answer to the question

Source: Commission Services analysis.

The proposal to introduce the micro entities definition into the Fourth Directive was welcomed by a majority of respondents: 100 responses were received to that question (about 80% of the total number of responses).

Those respondents that welcomed the proposal considered it a major reduction of administrative burden for those entities, which will encourage new start-ups through removal of disincentives to incorporation. Support was the strongest amongst public authorities and companies where more than four fifths expressed themselves in favour of the proposal. There were also comments suggesting that the thresholds for the micro entities should be as high as currently defined by Article 11 of the Fourth Directive for small companies. Those that opposed the proposal, primarily accountants and auditors, took the view that, despite the possibility for Member States to maintain equivalent requirements at national level, it would lead to an abolition of bookkeeping and preparation of accounting data in general for those entities (which is not the intention of the Commission proposal and is virtually impossible to occur). A smaller number of commentators took the view that exemption would result in problems for smaller companies to raise external funding and communicate with stakeholders.

The following table summarises responses to the micro question by field of activity of the respondent:

Table. 25. Reactions to Micro entities exemption by stakeholders.

Field	**No. of responses**	**Positive responses**	**Negative responses**
Companies	21	86%	14%
Public authorities	19	79%	21%
Accountants and Auditors	34	38%	62%
Banks, insurance, finance	8	75%	25%
Commercial information providers	3	0%	100%
Others	15	47%	53%
Total	**100**	**59%**	**41%**

Source: Responses to the 2007 Consultation, Commission Services analysis.

The measure was supported by the majority of companies, public authorities, banks and insurance companies that decided to participate in the survey. The biggest opposition and the biggest respondent group came from accountants and auditors, followed by commercial information providers. Respondents that could not be easily classified to any of the aforementioned groups were more or less evenly split on the issue.

During the 2007 consultations Commission Services received positive responses to the measure from public authorities from 13 Member States (AT, EE, ET, CZ, DE, DK, FI, IT, LT, PL, SE, SK, UK) and negative from 2 Member States (BE, FR)[63], the remaining Members States either did not respond to the question or did not submit their response to the consultation.

This consultation supports previous statements that the main users of the accounts of micro entities are banks and tax authorities and that they rely primarily on tailor made financial information rather than financial statements.

63 Please note that we received more than one response from public authorities from some Member States.

ANNEX 5 USERS' AND PREPARERS' NEEDS FROM THE FINANCIAL REPORTING

This annex presents the Commission's best estimate of the user needs and prepares expectations from the financial reporting. The situation may vary in different Member States and as such the list below is by no means comprehensive and complete.

Users needs from financial statements of micro-entities

The Accounting Directives as well as International Financial Reporting Standards were developed with the investor protection as an overarching objective. Thus they contain numerous measures to ensure that minority stockholders have proper information, that the valuation methods are appropriate and give a true and fair view of the company, that all subsidiaries are properly consolidated, and finally that independent auditor presents opinion on the quality of the reports.

It has been a consensus for the last decades that such investor oriented financial statement will also serve most of the needs of other stakeholders in a satisfactory manner. Therefore, the Directives have not introduced specific accounting rules for micro-entities or SMEs, but instead, they contain certain opt outs from the rules designed for bigger companies.

Generally, the stakeholders of very small companies are limited and differ significantly from those of big corporations. These companies are effectively owner managed and statutory financial statements do not have significant relevance for the owners in reviewing the company's performance. Moreover, investors in micro entities are often limited in number, frequently directly involved in running of the company and with direct insight into company's accounts. The source of financing is not stock market but own resources, credit from banks or other financial institutions.

Thus the main users are banks and tax authorities and other small companies, not an anonymous investor. It is common that especially tax authorities have special reporting needs known as tax accounting which differs significantly from financial reporting. Also banks demand more information that will allow them to assess recoverable amount of assets in case of bankruptcy and thus are not interested in sophisticated accrual accounting vehicles such as deferred tax or goodwill. Moreover banks and tax authorities have direct contacts (as opposed to anonymous investor) with small companies and often demand tailor made information.

Consequently, the users of micro accounts are more likely to demand information on recoverable amount of assets (banks) or taxable profit (tax authorities) rather than various disclosures or sophisticated accrual accounting information.

Therefore, companies that have to produce essentially investor oriented accounts devote time and money to accounting techniques that use no purpose and only satisfy legal requirements. They often need help from external accountants to prepare these accounts as the techniques are often complex and not the core competence of the managers of micro business. For the same reason the statutory accounts provide seldom useful information for the managers to utilise.

Micro category is however not homogenous. There are some micro entities with external investors such as e.g. venture capital investors. It is expected that they will continue to demand investor oriented financial accounts. There are also other reasons for continued demand for internationally comparable financial statements for some companies, by their international trading partners or trade credit insures. In these cases it may well be that the Directives' accounting and disclosure rules reflect the business needs of these companies. It is appropriate that these companies will be able to follow the Directives' accounting rules as transposed by the Member States on a voluntary basis as well as have their accounts audited if necessary. However, this concerns only a minority of all micro entities and it is not justified to keep the same burdensome requirements for all companies.

Banks

Banks are main providers of finance to the micro entities. They predominantly relay on direct contacts with their clients, and often ask for additional information.

From our consultations with banks, banks' organisations (European Banking Federation) and authorities responsible for bank oversight Commission learnt that in majority of cases financial data is obtained directly from the owner or from the accountant of the company.

Banks of course utilise public records where they are available, however lack of such record generally do not prevent them form obtaining information.

Moreover banks create internal databases to monitor history of their clients and rely on such databases primarily when assessing the risk of client and of sectors in which it operates. Banks often shear information between each other especially about delinquent borrowers and systematically collect information on them.

When it comes to analysis of financial statements both banks form Continental as well as Anglo Saxon cultures transform and recalculate financial statement to strip them of any information that does not contribute to the recoverable amount of assets, when assessing credit rating of a client.

They are also interested in the cash flow statements to forecast future cash flows, however these are not provided in the current framework of financial statements and banks must calculate them based on available data.

These all proves that financial accounting for SME is not tuned to the needs of their users, and contains numerous figures that serve no purpose.

Moreover where financial statements of micro entities are public, it often takes a lot of time after the year end before they are published, for instance 10 months in the UK and 5 months in Denmark. Such delays make financial information useless for the bank, thus banks prefer to contact a company directly to have real time results, and eventually afterwards confront them with financial statements.

Banks can of course always ask for audited financial statement before granting a loan, even if there is no legal obligation to do so.

However for instance, banks in United Kingdom are generally not interested in the annual accounts for loans of up to £2m, in Germany banks are obliged by law to consider financial statements only if the credit amount is higher than €0.75m.

It is also customary in the UK to check timeliness of filing of financial information rather than thorough analysis of their content as studies have shown that late filing is a key indicator of impending failure. Thus the same purpose could be served by information that the company is filing its tax return on a timely basis.

German Bank[64] survey reveals that banks see little or no need for goodwill or deferred tax calculation as they consider that recoverable amount resulting from these figures is too uncertain and they tend to set it off against equity for credit analysis.

In the survey banks also stated that they prefer to have information directly on the face of financial statements rather than hidden somewhere in the notes, and thus more difficult to extract. This indicates that notes to the accounts (which are most labours part of the financial accounting) can sometimes confuse more than inform.

Overall banks are mainly interested in:

- Calculating recoverable amount of assets,
- Calculating future cash flows to assess credit servicing potential of client

Public authorities

The interest of public authorities is in calculating and collecting taxes. There are various kinds of taxes on wealth (property taxes), income, and turnover.

Wealth taxes can depend on the value of a real estate, this value could be a prevailing market value in the area and is not necessarily based on statutory accounts.

Turnover taxes such as Value Added Tax are based on compulsory registration of all transactions. This is done by every company regardless of any accounting obligation. As such this register may also be utilised to determine whether threshold criteria are still met by a micro entity.

Income taxes such as CIT (Corporate Income Tax) are based on special form of accounting called tax accounting that often uses different concepts from those in financial reporting, generally based on realisation principle rather than for example fair value accounting, it also sometimes uses specific tax defined depreciation rates or other measurement basis.

These differences often result in companies preparing two sets of accounts, or reconciling one set to another which produces unnecessary costs.

---

[64] See footnote 40, p. 16.

From our consultation with UK financial services we learned that if the exemption for micro entities is granted the UK will try to produce one set of accounts for both financial and tax reporting that is expected to produce savings of £100 to £200 per company.

German government has also indicated its interest in merging the two sets together.

This situation differs by jurisdictions, with France for instance indicating that they have no problems with the double reporting, and the Netherlands where financial reports of small companies are at the same time tax reports.

The differences are due to the fact that the basis for tax accounting is not harmonised at EU level, and each country preserves its own tradition.

General Public

From our consultations with stakeholders we received clear indications that general public is mostly illiterate in terms of accounting. The most common error that ordinary financial statements readers make is to confuse accrual accounting numbers with cash accounting ones, e.g. people confuse reserves with cash, and the same can be said about profit figure.

All that means that financial accounts in order to be understood must be interpreted by financial analysts. And while there are plenty of financial analyses concerning listed companies it is almost impossible to find one for micro entities. Thus in most likely scenario an individual would have to pay for analysis service to accountant or other person knowledgeable in the accounts.

Therefore the general public mainly relies on public authorities to conduct oversight of small businesses on their behalf. And public authorities as explained earlier are most interested in tax returns for their control.

Statistical offices

Statistical offices collect data from companies in order to provide statistical information on a whole range of issues. That information is heavily dependent on the availability of financial information as a source of data to compile the indicators.

In order to avoid duplication of work, the National Statistical Offices in many Member States have built up a statistical system during the past few years that depends to a large extent on the usage of data available in the economy, among them accounting data.

Financial information providers

Financial information providers are specialised companies whose business model is based on collecting, analysing and selling on information regarding companies.

They will obviously be affected by the exemption of micro entities. However one must remember that already now in many countries small companies publish abridged accounts (see Annex 2: Use of options by Member States), so the source of information is limited.

Ultimately it should be left to the market to resolve the problem, if there will be demand both from users and from prepares the solution will be found. There is plenty to learn form countries with limited publication obligation. There are already know databases that focus on selected and often most sought after information, such as databases of delinquent borrowers.

The data from UK register shows for instance that there are about 1.7 searches per year per company in the register (average for all companies in the register). This data is allegedly further reused by other information providers, however the number is indicative of rather limited demand.

Accountants and auditors

Part of the turnover of accountants and auditors is based on statutory obligations to prepare and audit annual accounts. Furthermore, statutory accounts are often too complex to understand by the management of small companies and interpreting these accounts may also add to the turnover of accountants and auditors.

Exemption of micro entities is likely to reduce the demand for financial statements to the levels that are justified by the market.

On top of that most accounting expert of micro entities specialise in tax law as well, thus they will be able to shift their business model to tax assistance and generate more added value to companies in question.

The voluntary audit of accounts will continue to provide revenues to the audit profession. Commission received indications, that for instance in the UK around 7% of companies that are exempted decide to audit their financial statements, due to the needs of their stakeholders. So companies faced with demand on financial transparency respond to it, be the demand from banks, investors or foreign trading partners.

As for cost of voluntary preparation of financial statements and their audit, this need not to rise if companies will chose to follow national or international standards in which there already is great expertise in the accounting profession.

Needs of micro-entities

The needs of micro-entities should also be considered in drafting any new accounting law. Micro-entities themselves can also be the users of other micro entities' financial statements, for example, when they assess the creditworthiness of their potential clients. The extent to which financial statements are used for this purpose varies between different EU states.

Discussions with stakeholders suggest that current complexity of accounting statements makes them useless for micro entrepreneurs, they often cannot understand the content of the reports without help of specialised analyst/accountant. Thus usability of the financial

reporting is reduced both for managerial purposes and for investigating business partners. This supports the idea that small companies' accounting should be simplified.

Eurobarometer in 2005 conducted a survey on EU15 SMEs access to finance[65]. The population studied comprises all legal forms of companies, i.e. not only limited liability companies covered by the Directives. However due to lack of more precise studies the results of this survey may be indicative of general sentiment in the SME group that should not differ significantly for limited liability companies.

It found that 78% of micro companies considered banks as a main source of financing, followed by leasing companies (22%) and public institutions (10%). Private investors constituted only 7% and venture capital companies 2% of all answers[66].

This reinforced the earlier statement that banks are main stakeholders of micro-entities ' financial statements, and that anonymous investors constitute only marginal part of the micro financing market.

The study also asked Micro entities what should be done to ensure development of the company. Majority of respondents (31%) named regulations more suited to their activities followed by easier means of financing (15%).

The majority of micro companies (38%) took loans of less than €25,000 and 75% of less then €100,000. These loans were used primarily to purchase equipment (68%) followed by financing of working capital (34%).

Three quarters of micro companies did not expect any time soon to open up or increase their company's capital – thus saw limited prospect of external investors.

Cross-border trade and voluntary application

On the basis of information from the stakeholders also supported by statistical information[67] Commission estimates that approximately 5-7% of the micro-enterprises are involved in the cross-border activities. The recent Eurobarometer[68] confirms that only 7% of all micro companies in the EU (regardless of the legal form) are involved in export. Moreover, 95% of companies with less than 10 employees did not have any foreign subsidiaries.

Another analysis by Eurostat[69] on 2005 figures shows that the number of micro entities (regardless of the legal form) engaged in intra EU imports in 18 MS was 128,435 and in exports 58,277, making a simple estimation to 27MS these numbers are 192,653 and 87,416. Assuming that limited liability companies are more likely to engage in cross border trade, these numbers were compared to the estimated number of micro limited liability companies of

---

65 Eurobarometer. 2005. SME Access to Finance, http://ec.europa.eu/public_opinion/flash/fl174_en.pdf.

66 The percentages do not add up to 100% as it was possible to select more than one source of financing.

67 EUROSTAT 74/2007: Statistics in focus: Export of business services, http://epp.eurostat.ec.europa.eu/cache/ITY_OFFPUB/KS-SF-07-074/EN/KS-SF-07-074-EN.PDF.

68 See footnote 36, p. 45.

69 See footnote 58.

5,369,738 which results in 4% of micro companies engaged in imports and 2% engaged in exports. It must be noted that Eurostat cautious that numbers for micro companies engaged in intra EU trade are underestimated due to the data collection peculiarities (data is only collected from companies whose intra EU trade exceeds certain threshold level). Eurostat is now working on a better method on data collection that should produce more accurate results in the future.

For most of the internationally active micro-entities, the user needs are unlikely to be different from those of micro-entities that are trading only on national level. Firstly, there is generally no dissimilarity as regards the ownership and financing structures. Secondly, the statutory financial reporting is not a generally important source of information for tax authorities as regards cross-border tax issues of micro-entities. The extent to which micro entities' financial statements are used by other enterprises in assessing, for example, their creditworthiness is also rather limited on cross-border level.

ANNEX 6 CURRENT REPORTING REQUIREMENTS OF THE FOURTH DIRECTIVE

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

Table. 26. Information requirements in the Fourth Directive.

Art.	Information requirement	MS Exemption option for	
		Small (Art. 11)	Medium (Art. 27)
	Section 1 General provisions:		
1	• Annual accounts shall comprise		
	o Balance sheet		
	o Profit and Loss account		
	o 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)[70]	
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)	o Should be shown on balance sheet or in notes (separately, with detail information)	Yes (Art 44(1)) (Art 11)	
15(3) (b)	o For first time adoption residual value may be used as carrying value (must be disclosed in notes)		
15(3) (c)	o 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))	

[70] 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).

19	• Value adjustments		
20	• Provisions		
21	• Accruals and deferred income	Yes (Art 44(1))	
	Section 5 Profit and Loss		
23-26	• 4 layouts possible		Yes (Art 27) [70]
22	• Statement of performance possible instead of P&L		
	Section 6 Special Provisions		
28	• Net turnover		
29(1)	• Extraordinary income and charges		
29(2)	o Amount and nature in the notes (also for previous year) if material	Yes (Art 44(1))	
30	• Taxes can be shown it total (MS exemption)		
	o Detailed disclosure in the notes.	Yes (Art 44(1))	
	Section 7 Valuation rules		
33	• Other valuation methods (replacement value, inflation adjustments, revaluation)		
	o Items concerned and method should be disclosed in the notes		
33(2) (a)	o Difference from valuation according to Directive should be explained in the notes in form of detailed table(Revaluation reserve)		
33(2) (c)	o Transfers from the Revaluation Reserve to P&L must be disclosed separately		
33(3)	o Differences in valuation adjustment may be show separately in P&L		
33(4)	o 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 form 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		
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)	o Assumptions underlying valuation models		
42d(b)	o FV per category of instrument, changes in FV included in P&L and Fair Value Reserve		
42d(c)	o Information about derivative financial instruments		
42d(d)	o 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)(1)	• Valuation methods		
	• Value adjustment calculation methods		
	• Foreign currency conversion		
43(1)(2)	• Names, offices of undertakings with at least 20% stake in and all unlimited liability undertakings – unless not material		
43(2)	o MS Need not apply to financial holdings		
45(1)(a)	o 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		
45(1)(b)	o May be omitted if seriously prejudicial to any of the undertakings, the fact must be disclosed in notes		
43(1)(3), (4)	• Shares – number, nominal value, par value of subscribed for each class of shares		
43(1)(5)	• Participation certificates, convertible debentures, or similar securities rights	Yes (Art 44(1))	
43(1)(6)	• 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	
43(1)(7)	• Total amount of any financial commitments not in the balance sheet if useful for analysing financial position	Yes (Art 44(1))	
43(1)(7)	• Commitments concerning pensions and affiliated undertaking, disclosed separately		
43(1)(7a)	• Nature and business purpose of arrangements not in the balance sheet and their financial impact, if material		Yes (43(1)(7a))
43(1)(7b)	• Transactions with related parties (amount, nature, other information, materiality, under normal market conditions), may be aggregated unless doesn't distort		Yes[71] (Art. 43(1)(7b))
	o MS may exempt transactions between company and its fully owned subsidiary		
43(1)(8)	• Net turnover broken by categories of activity and geographical markets (if differ substantially)	Yes (Art 44(1))	Yes (Art 45(2))
45(2)	o May be omitted if seriously prejudicial to any of the undertakings,		

[71] 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.

	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)	o 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)	o FV of derivative instruments (if possible) and information on their extant and nature	Yes (Art 44(1))	
43(1) (14)(b)	o 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))[72]
	o 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))[70]	
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))[70] 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))[70,73]	

72 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.

73 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.

46(2)(e)	• Existence of branches of the company	Yes (Art 46(3))[70]	
46(2)(f)	• Use of financial instruments (when material for annual accounts analysis):		
	o Financial risk management objectives and polices		
	o Policy for hedging each major forecasted transaction		
	o Exposure to:		
	▪ Price risk		
	▪ Credit risk		
	▪ Liquidity risk		
	▪ Cash flow risk		
46a(1)	• Corporate Governance Statement	Yes if not listed (Art 46a(1)[70] or with only bonds listed (Art 46a(3))[70]	
46a(1)(a)	• Reference to		
46a(1)(a)(i)	o Corporate governance code which the company is subject to,		
46a(1)(a)(ii)	o Code which company voluntarily applies		
46a(1)(a)(iii)	o Additional corporate governance principles applied		
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)		
46a(1)(e)	o Operation		
46a(1)(e)	o Key powers		
46a(1)(e)	o 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))[70] abridge balance sheet	Yes (Art 47(3))[70] 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)[70]	
50	• With annual accounts the following must be published (if they are not included in the annual accounts)		
50	o The proposed for appropriation of profit or treatment of loss		
50	o The appropriation of profit or treatment of loss		
51-51a	**Section 11 Auditing**	Yes (Art 51(2))[70]	

	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)	o Name and office of undertaking drawing the consolidated accounts of the largest body of undertakings of which company forms a part		
56(2) (b)	o 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)	o 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)	o the parent undertaking must be subject to the laws of a Member State;		
57(b)	o 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)	o the parent undertaking must have declared that it guarantees the commitments entered into by the subsidiary undertaking;		
57(d)	o 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)	o 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)	o the above exemption must be disclosed in the notes on the consolidated accounts drawn up by the parent undertaking;		
57(g)	o 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) (a)	o At book value (deference between the value and amount corresponding to proportion of capital represented by participating interest shall be disclosed separately in the balance sheet or notes)		
59(2)	o At the amount corresponding to proportion of capital represented		

(a)	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)	o 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).

ANNEX 7: ABBREVIATIONS

ARC	Accounting Regulatory Committee
AuRC	Audit Regulatory Committee
DG	Directory General
EU	European Union
GAAP	Generally Accepted Accounting Principles
HLG	High Level Group of Independent Stakeholders on Administrative Burdens
IAS	International Accounting Standards
IFRS	International Financial Statements
IO	Information Obligation
SCM	Standard Cost Model
SEC	Securities and Exchange Commission
SME	Small and Medium Enterprises
UK	United Kingdom
US, USA	United States of America

REFERENCES

Consortium (Ramboll, CapGemini). 2008. Final report. Measurement data and analysis. EU project on baseline measurement and reduction of administrative costs.
http://ec.europa.eu/enterprise/admin-burdens-reduction/action_program_en.htm#dd
http://ec.europa.eu/enterprise/admin-burdens-reduction/priority_annual_en.htm

CSES. 2008. Evaluation of Thresholds for Micro-Entities.
http://ec.europa.eu/internal_market/accounting/docs/studies/micro_entity_en.pdf

DRSC. 2008, Financial Reporting from the Perspective of Banks as a major User Group of Financial Statements
http://www.standardsetter.de/drsc/docs/press_releases/080917_ASCG_Surveyontheexpectationsofbanks.pdf

Eurobarometer. 2005. SME Access to Finance
http://ec.europa.eu/public_opinion/flash/fl174_en.pdf

Eurobarometer. 2007. Observatory of European SMEs. Analytical report
http://ec.europa.eu/public_opinion/flash/fl196_en.pdf

European Commission. 2003.Commission Recommendation of 6 May 2003 concerning the definition of micro, small and medium-sized enterprises (Text with EEA relevance) (notified under document number C(2003) 1422)
http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2003:124:0036:0041:EN:PDF

European Commission. 2006. Working document of 14/11/2006 – "Measuring administrative costs and reducing administrative burdens in the European Union" (COM(2006)691 final)
http://ec.europa.eu/enterprise/regulation/better_regulation/docs/en_691.pdf

European Commission. 2007. Action Programme for Reducing Administrative Burdens in the European Union. COM(2007) 23.
http://ec.europa.eu/enterprise/regulation/better_regulation/docs/com_2007_23_en.pdf

European Commission. 2007. Communication from the Commission to the Council, the European Parliament, the European Economic and Social Committee and the Committee of the Regions - "A strategic review of Better Regulation in the European Union" (COM(2006)689 final, OJ C 78, 11.4.2007
http://ec.europa.eu/enterprise/regulation/better_regulation/docs/docs_admin_b/en_689.pdf

European Commission. 2007.Communication from the Commission on a simplified business environment for companies in the areas of company law accounting and auditing (COM(2007)394)
http://ec.europa.eu/internal_market/company/simplification/index_en.htm

European Commission. 2007. Communication from the Commission on a simplified business environment for companies in the areas of company law, accounting and auditing, COM (2007) 394 final, 10.7.2007. Available on DG MARKT's website at: http://ec.europa.eu/internal_market/company/simplification/index_en.htm.

European Commission. 2007. Report of the Expert Group. Models to reduce the disproportionate regulatory burden on SMEs
http://ec.europa.eu/enterprise/entrepreneurship/support_measures/regmod/regmod_en.pdf

European Commission. 2008. Communication from the Commission to the European Council: A European Economic Recovery Plan. COM(2008) 800 final. 26.11.2008:
http://ec.europa.eu/economy_finance/publications/publication13504_en.pdf

European Commission. 2008. Communication from the Commission to the European Council: A European Economic Recovery Plan. COM(2008) 800 final. 26.11.2008:
http://ec.europa.eu/economy_finance/publications/publication13504_en.pdf

European Commission. 2008. Proposal for a 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
http://register.consilium.europa.eu/pdf/en/08/st10/st10366.en08.pdf

European Commission.2008. Press Release. McCreevy announces major initiatives on accounting rules for small businesses: 29.09.2008
http://europa.eu/rapid/pressReleasesAction.do?reference=MEMO/08/589&format=HTML&aged=0&language=EN&guiLanguage=en

European Council. 1978. Fourth Council Directive of 25 July 1978 based on Article 54 (3) (g) of the Treaty on the annual accounts of certain types of companies (78/660/EEC)
Consolidated text: http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:01978L0660-20070101:EN:NOT

European Council. 1983. Seventh Council Directive of 13 June 1983 based on the Article 54 (3) (g) of the Treaty on consolidated accounts (83/349/EEC)
http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:01983L0349-20070101:EN:NOT

European Council. 2007. Presidency Conclusions of the Brussels European Council - doc. 7224/07 CONCL 1
http://europa.eu/rapid/pressReleasesAction.do?reference=DOC/07/1&format=HTML&aged

European Parliament and Council. 2002. Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards
http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:02002R1606-20080410:EN:NOT

European Parliament and Council. 2004.Directive 2004/109/EC of the European Parliament and of the Council of 15 December 2004 on the harmonisation of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market and amending Directive 2001/34/EC
http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:02004L0109-20080320:EN:NOT

European Parliament and Council. 2006. Directive 2006/43/EC of the European Parliament and of the Council of 17 May 2006 on statutory audits of annual accounts and consolidated accounts, amending Council Directives 78/660/EEC and 83/349/EEC and repealing Council Directive 84/253/EEC (Text with EEA relevance)
http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:02006L0043-20080321:EN:NOT

European Parliament. 2008. European Parliament legislative resolution of 18 December 2008 on the proposal for a directive of the European Parliament and of the Council 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. P6_TA(2008)0631
http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//TEXT+TA+P6-TA-2008-0631+0+DOC+XML+V0//EN&language=EN

European Parliament. 2008. European Parliament resolution of 18 December 2008 (B6-0626/2008)
http://www.europarl.europa.eu/sides/getDoc.do?type=MOTION&reference=B6-2008-0626&language=EN

European Parliament. 2008. European Parliament resolution of 21 May 2008 (A6-0101/2008)
http://www.europarl.europa.eu/sides/getDoc.do?type=TA&reference=P6-TA-2008-0220&language=EN

Eurostat. 2007. EUROSTAT 74/2007: Statistics in focus: Export of business services
http://epp.eurostat.ec.europa.eu/cache/ITY_OFFPUB/KS-SF-07-074/EN/KS-SF-07-074-EN.PDF

High Level Group of Independent Stakeholders on Administrative Burdens. 2008. Opinion on administrative burden reduction; priority area company law / annual accounts. 10 July 2008
http://ec.europa.eu/enterprise/admin-burdens-reduction/docs/080710_hlg_op_comp_law_final.pdf

Kauffman. 2008. Firm survey
http://www.kauffman.org/uploadedFiles/kfs_08.pdf

Ramboll Management. 2005. Report on impacts of raised thresholds defining SMEs
http://ec.europa.eu/internal_market/accounting/docs/studies/sme_thresholds_en.pdf
http://ec.europa.eu/internal_market/accounting/docs/studies/sme_appendix_a_en.pdf
http://ec.europa.eu/internal_market/accounting/docs/studies/sme_appendix_b_en.pdf

Ramboll Management. 2007. Study on administrative costs of EU Company Law Acquis. July 2007.
http://ec.europa.eu/internal_market/company/docs/simplification/final_report_company_law_administrative_costs_en.pdf.

SOU. 2008. Enklare redovisning. SOU 2008:67
http://www.regeringen.se/content/1/c6/10/76/85/4f21026a.pdf