4.3 The Committee points out that by intervening in such sensitive areas as publication and translation obligations, this proposal not only significantly reduces costs, as demonstrated in the impact assessment, but also increases the credibility of the EU by removing all possible temptation to raise artificial unjustified barriers to the free movement of goods and services.

4.4 It notes that the initiatives launched to date have followed careful assessment of the intended objectives and of the fundamental principles of subsidiarity and proportionality and have also been subject to the prior in-depth consultation of all stakeholders.

4.5 The Committee therefore approves of the content of the proposed directive, considering it a welcome step forward within the broader simplification strategy. It also fully backs the Council in calling on the Commission to intervene in other areas and fields in which there is also a need for simplification to reduce the many obligations that continue to burden companies.

Brussels, 18 September 2008.

The President
of the European Economic and Social Committee
Dimitris DIMITRIADIS

Opinion of the European Economic and Social Committee 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'

COM(2008) 195 final — 2008/0084 (COD)

(2009/C 77/07)

On 23 May 2008 the Council decided to consult the European Economic and Social Committee, under Article 44(1) of the Treaty establishing the European Community, 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.

On 21 April 2008 the Committee Bureau instructed the Section for Single Market, Production and Consumption to prepare the Committee's work on the subject.

Given the urgent nature of the work, the European Economic and Social Committee, in accordance with Rules 20 and 57(1) of the Rules of Procedure, appointed Mr Cappellini as rapporteur-general at its 447th plenary session, held on 18 September 2008, and adopted the following opinion by 59 votes to one.

1. Conclusions and recommendations

1.1 The EESC welcomes that the exemptions foreseen for small companies in the 4th Company Law Directive are extended to medium-sized companies as they lead to a reduction of reporting burden for those companies.

1.2 The EESC also welcomes the proposed changes to the 7th Directive as they simply clarify the interaction between consolidated rules set out in this Directive and in the International Financial Reporting Standards.

1.3 The EESC especially appreciates that the objective of simplifying financial reporting is respected: there is no significant loss of information for users of accounts, and other stakeholders are basically not affected. The proposed simplification is based on the needs of SMEs and users of financial information.

1.4 To date there has been a lack of research and supporting evidence to determine the needs of users, which may vary across EU Member States. Before introducing further changes to financial requirements for SMEs, the current position in terms of uptake of options under the 4th and the 7th Directives should be considered. This investigation should include (a) use of existing options, (b) motives cited by Member States to explain their choice of options and (c) a review of Member States' success in meeting their objectives.

1.5 The EESC therefore recommends that research in this area should be undertaken as a basis for rational policy proposals in the future.

1.6 Accounting requirements were among the first areas of legislation that were harmonised at European level. The EESC recalls that it is a central element to achieve the common market and stresses the importance that harmonisation creates a level playing field in the EU.

1.7 Cross-border trading by SMEs is growing within the EU. There is a strong case, therefore, for developing the harmonisation of financial reporting frameworks and rules to (a) support this growth in trade and (b) create a level playing field.

2. **Background**

2.1 In its Conclusions, the European Council of 8 and 9 March 2007 emphasised that reducing administrative burdens is important for boosting the European economy, especially considering the benefits this could bring for small and medium-sized companies.

2.2 It stressed that a strong joint effort by the European Union and the Member States is necessary to reduce administrative burdens by simplifying accounting rules for small and medium-sized companies; the legal basis for such measures would be Article 44(1) of the Treaty establishing the European Community ([1]).

2.3 Accounting and auditing have been identified as areas for reducing administrative burdens for companies within the Community ([2]).

2.4 Special attention was given to additional relief from reporting requirements for small and medium-sized companies.

2.5 In the past, a number of changes were made in order to enable companies falling within the scope of Directives 78/660/EEC and 83/349/EEC to use accounting methods in accordance with International Financial Reporting Standards (IFRS).

2.6 Pursuant to Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards ([3]), companies whose securities are admitted to trading on a regulated market of any Member State must prepare their consolidated accounts in accordance with IFRS, and are consequently relieved from most of the requirements in Directives 78/660/EEC and 83/349/EEC. Those Directives, however, still form the basis for accounting by small and medium-sized companies in the Community.

2.7 Small and medium-sized companies are often subject to the same rules as larger companies, but their specific accounting needs have rarely been assessed. In particular, the increasing number of disclosure requirements raises concerns for such companies. Extensive reporting rules create a financial burden and can hinder efficient use of capital for productive purposes.

2.8 The application of Regulation (EC) No 1606/2002 has also highlighted the need to clarify the relationship between the accounting standards required by Directive 83/349/EEC and IFRS.

2.9 Where formation expenses can be treated as an asset in the balance sheet, Article 34(2) of Directive 78/660/EEC requires that such expenses are explained in the notes to the accounts.

2.10 Small companies can be exempted from this disclosure requirement in accordance with Article 44(2) of that Directive. In order to reduce unnecessary administrative burdens, it should also be possible to exempt medium-sized companies from such disclosures.

2.11 Directive 78/660/EEC requires disclosure of a breakdown of turnover according to activity and geographical markets. This is required for all companies, but small companies can be exempted in accordance with Article 44(2) of that Directive. In order to reduce unnecessary administrative burdens, it should also be possible to exempt medium-sized companies from this disclosure requirement.

2.12 Directive 83/349/EEC requires a parent company to prepare consolidated accounts even if its only subsidiary, or all of the subsidiaries as a whole, are immaterial for the purposes of Article 16(3) of Directive 83/349/EEC. As a consequence these companies fall under Regulation (EC) No 1606/2002 and therefore have to prepare consolidated financial statements in accordance with IFRS. This requirement is considered burdensome where a parent company has only immaterial subsidiaries.

2.13 Therefore, it should be possible to exempt a parent undertaking from the obligation to draw up consolidated accounts and a consolidated annual report, if all the subsidiary undertakings of the parent undertaking, taken individually or as a whole, can be considered as immaterial.

2.14 Since the objectives of this Directive, namely reducing administrative burdens relating to certain disclosure requirements for medium-sized companies and the obligation to draw up consolidated accounts for certain companies within the

([1]) OJ C 325, 24.12.2002, p. 35.
([2]) *EU Project on baseline measurement and reduction of administrative costs*, Second interim report, 15 January 2008, page 37. To date the Final Report is not published yet. (See footnote 6 in COM(2008) 195 final).
([3]) OJ L 243, 11.9.2002, p. 1.

Community, cannot be sufficiently achieved by Member States and can therefore, in terms of scale and effects, be better achieved at Community level, the Community may adopt measures in accordance with the principle of subsidiarity as set out in Article 5 of the Treaty.

2.15 In compliance with the principle of proportionality, as set out in that Article, this Directive does not go beyond what is necessary in order to achieve those objectives.

2.16 Directives 78/660/EEC and 83/349/EEC should therefore be amended accordingly.

3. **General comments**

3.1 The purpose of changes to Directive 78/660/EEC (4th Company Law Directive) ([4]) is to simplify financial reporting for medium-sized companies ([5]) and relieve them from financial reporting burdens in a short term perspective. The changes should lead to a reduced administrative burden without loss of relevant information.

3.2 The purpose of changes to Directive 83/349/EEC (7th Company Law Directive) ([6]) is to clarify the interaction between consolidation rules set out in this Directive and in the International Financial Reporting Standards.

3.3 *Consultation and impact assessment*

3.3.1 The discussion on achieving meaningful reductions in the regulatory burden on SMEs under the 4th and 7th Company Law Directives was launched in good time by the EC together with the consultation process, taking into account the objective of ensuring that SMEs prosper in the European Single Market. The problem of regulatory burdens on SMEs is invariably caused by the original regulations being designed for large business entities. Such regulations are not necessarily relevant to SMEs and often impose a significant burden in terms of administration and cost.

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

3.4.1 It is important for discussions to focus not only on 'simplification' but also on the 'relevance' to SMEs — as opposed to large listed companies — of financial reporting requirements. The debate on simplification tends to focus on costs whereas the debate on relevance is concerned with the benefits of financial reporting and with particular users and their needs.

3.4.2 The simplification of 'the Accounting Directive must take as its starting point the actual needs of SMEs and the users of their accounts'. If financial reports are to be useful and relevant, investigating users and their needs is critical in the development of a European financial reporting framework for SMEs. The users are multiple: financial institutions (rating), public authorities (taxation, money-laundering, …).

3.4.3 It is also important to remember that SMEs themselves are major users of financial information, e.g. as suppliers and contracting parties to other SMEs, in situations where it is important to evaluate creditworthiness.

3.4.4 In the context of 'simplifying' accounting rules for SMEs, it is important that rigorous impact assessments are carried out, including assessment of the benefits of financial reporting as well as cost/administrative burdens. Such impact assessments should take into account the reasons for initially imposing financial reporting requirements and stakeholders' interests (transparency, …) which they were intended to protect.

3.5 *Harmonisation to create a level playing field in the EU*

3.5.1 Cross-border trading by SMEs is growing ([7]) within the EU. There is a strong case, therefore, for developing the harmonisation of financial reporting frameworks and rules to (a) support this growth in trade and (b) create a level playing field. This may require fewer options and a move to maximised harmonisation, e.g. in the field of publication of financial information and public access to such information.

3.6 *No mandatory international accounting standards for SMEs*

3.6.1 The IASB's SMEs project is a consequence of demands from standard setters, accountants and other stakeholders for an alternative to the full IFRS. Although originally reluctant to take on the project, the IASB was persuaded that the majority of these stakeholders wanted it to go ahead and that only the IASB had the perceived credibility and authority to establish high-quality, enforceable accounting standards. However the starting point for this project was the full IFRS, developed for listed companies.

([4]) OJ L 222, 14.8.1978, p. 11. Directive as last amended by Directive 2006/46/EC of the European Parliament and of the Council (OJ L 224, 16.8.2006, p. 1).

([5]) Definitions in Article 27 (medium-sized companies) of the 4th Company Law Directive.

([6]) OJ L 193, 18.7.1983, p. 1, Directive as last amended by Council Directive 2006/99/EC (OJ L 363, 20.12.2006, p. 137).

([7]) See EESC opinions on the importance of Internal Market:
— CESE 952/2006 on *A strategy for the simplification of the regulatory environment* (INT/296), OJ C 309 of 16.12.2008, p. 18;
— CESE 89/2007 on the *Review of the Single Market* (INT/332), OJ C 93 of 27.04.2007, p. 25;
— CESE 1187/2008 on *Policy measures for SMEs* (INT/390) (not yet published in the OJ);
— CESE 979/2008 on *International public procurement* (INT/394) (not yet published in the OJ).

3.6.2 The full IFRS were developed with the use of financial reporting by listed companies and their stakeholders in mind. As mentioned above, financial reporting for SMEs is more often for internal or informal use (in connection with suppliers, contracting parties, financial institutions, etc.) than because of legal or other obligations to report to a wide range of users.

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

3.7 *Simplification of the Directives*

3.7.1 Concerning the options for achieving simplification for SMEs in the Accounting Directives which are mainly extensions of the existing options for SMEs under the Directives, it is important to investigate how these options are working in the Member States prior to introducing new Directives. The EESC recommends in addition to systematically apply the *only once* principle at all levels ([8]).

3.7.2 Before introducing further changes to financial reporting requirements for SMEs, the current position in terms of uptake of options under the 4th and 7th Directive should be considered. This investigation should include (a) use of existing options, (b) motives cited by Member States to explain their choice of options and (c) a review of Member States' success in meeting their objectives.

3.7.3 A major problem with the current situation is a 'top-down approach' which (a) results in administrative burdens on SMEs, and (b) reduces the relevance of financial accounting frameworks and standards for those entities. A future review of financial reporting in the EU should address this problem by taking a 'bottom up approach'. Such an approach would concentrate on the needs of SMEs and other stakeholders, and would be informed by research into users and their needs, as proposed above.

Brussels, 18 September 2008.

The President
of the European Economic and Social Committee
Dimitris DIMITRIADIS

([8]) Opinion of the European Economic and Social Committee on 'The different policy measures, other than suitable financing, that would help SMEs to grow and develop' (exploratory opinion), INT/390. This principle means that Enterprises should not be obliged to provide all over again information that the authorities have already received by another route, at all levels (European, national, regional and local level).