



Brussels, 17.10.2023
C(2023) 7020 final

COMMISSION DELEGATED DIRECTIVE (EU) .../...

of 17.10.2023

amending Directive 2013/34/EU of the European Parliament and of the Council as regards the adjustments of the size criteria for micro, small, medium-sized and large undertakings or groups

(Text with EEA relevance)

EXPLANATORY MEMORANDUM

1. CONTEXT OF THE DELEGATED ACT

In its Communication on ‘Long-term competitiveness of the EU: looking beyond 2030’¹, the Commission has stressed the importance of a regulatory system that ensures that objectives are reached at minimum costs. It has committed therefore to a fresh push to rationalise and simplify reporting requirements, with the ultimate aim to reduce such burdens by 25%, without undermining the related policy objectives.

Reporting requirements play a key role in ensuring correct enforcement and proper monitoring of legislation. Their costs are overall largely offset by the benefit they bring, in particular in monitoring and ensuring compliance with key policy measures. Reporting requirements can however also impose disproportionate burdens on stakeholders, particularly affecting SMEs and micro-companies. Their cumulation over time can result in redundant, duplicating or obsolete obligations, inefficient frequency and timing, or inadequate methods of collection.

Streamlining reporting obligations and reducing administrative burdens is therefore a priority. In this context, the proposal will rationalise reporting obligations by making full use of the empowerment given to the Commission in Article 3(13) of Directive 2013/34/EU² (the Accounting Directive) to adjust size criteria applicable to the definition micro, small, medium-sized and large undertakings or groups the Accounting Directive for the effects of inflation³.

The Accounting Directive provides the legal framework for the preparation, presentation, publication, and audit of individual and consolidated annual financial statements for undertakings established in the European Union.

The Accounting Directive lays down presentation, publication and audit requirements based on size categories and types of undertakings. For example, the Accounting Directive requires that the annual financial statements of all public interest entities as well as medium and large undertakings are audited. But it does not require an audit of the annual financial statements of small undertakings (although it allows Member States to require an audit after considering the specific conditions and needs of small companies and the users of their financial statements).

The classification of undertakings or groups into “micro”, “small”, “medium”, or “large” undertaking or group is based on meeting two out of three size criteria: two monetary size criteria, the “balance sheet total” and “net turnover”, and the average number of employees.

Article 3(13) of the Accounting Directive requires the Commission to review the monetary size criteria every five years and, where appropriate, adjust the size criteria, for the effects of

¹ COM(2023)168.

² Directive 2013/34/EU of the European Parliament and of the Council of 26 June 2013 on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings, amending Directive 2006/43/EC of the European Parliament and of the Council and repealing Council Directives 78/660/EEC and 83/349/EEC (OJ L 182, 29.6.2013, p. 19).

³ This proposal concerns only the company definition of the Accounting Directive and is aimed at protecting the interests of investors and creditors in a limited liability company and facilitate cross border establishment and investment. It defines both SMEs, large companies and groups. It is different from the SME definition specified in Recommendation 2003/361, which targets wider policy purposes than accounting and financial services legislation. The benefits of also reviewing the SME definition in Recommendation 2003/361 will be further assessed separately, as announced in the SME Relief Communication [add reference once adopted].

inflation by virtue of a delegated act (Art. 49). Adjustments to the monetary size criteria aim to maintain the status quo, i.e. to avoid a situation where due to inflation, micro- and small companies in particular would become unwittingly subject to the more demanding requirements applicable to larger companies.

The monetary size criteria of the Accounting Directive have been revised regularly since the Council Directives 78/660/EEC was first adopted in 1978. The revisions have reflected inflation over the years and sometimes gone beyond that.

The Commission last reviewed the thresholds in the context of the Commission’s 2021 Report on certain review clauses in corporate reporting legislation⁴ (considering data from January 2013 to December 2019) and concluded that thresholds did not need to be revised at the time.

In view of the significant inflation trend during 2021 and 2022, it was decided to review the monetary size criteria for determining the size category of a company to account for the impact of inflation.

Geographical area

The Directive denominates the company size criteria in euro. The **euro area** (Austria, Belgium, Croatia, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Portugal, Slovakia, Slovenia and Spain) accounts for 75% of EU companies.

As regards Member States **outside the euro area** (Bulgaria, Czech Republic, Denmark, Hungary, Poland, Romania and Sweden), these would have to adjust national company size criteria depending on the exchange rates of their respective currencies when transposing into national law the Directive criteria expressed in euro.

As regards countries that belong to the European Economic Area (Norway, Iceland and Liechtenstein), these would normally also have to consider adjusting their national company size criteria.

Inflation

Over a period of 10 years from 1 January 2013 to 31 March 2023, the cumulated inflation reached 24.3% in the euro area and 27.2% for the EU27.⁵

Adjusting size criteria

In the light of that, it is appropriate that the size criteria be adjusted by 25% to account for inflation would be as follows (before rounding up):

SME threshold in the Accounting Directive, current and adjusted for 25% inflation

			Balance sheet		Net turnover
Micro	Current		350 000		700 000
	Adjusted		437 500		875 000

⁴ COM/2021/199 final.

⁵ Source: Eurostat, all items, Harmonised index of consumer prices (HICP), monthly index - 2015 base 100, (online data code: PRC_HICP_MIDX).

Small (lower end)	Current		4 000 000		8 000 000
	Adjusted		5 000 000		10 000 000
Small (higher end)	Current		6 000 000		12 000 000
	Adjusted		7 500 000		15 000 000
Medium / Large	Current		20 000 000		40 000 000
	Adjusted		25 000 000		50 000 000

Source: European Commission (DG FISMA)

Some rounding seems necessary to ensure, simple and meaningful size criteria for companies. Rounding should maintain the multiplying factor of 2 introduced by the legislator on net turnover versus the total balance sheet. Rounding up should be adapted for each size criterion to ensure meaningful results, in order to faithfully reflect inflation with significant rounding up.

The following rules for rounding are applied: (i) micro size criteria, to the next 25 000 with the exception of net turnover, to keep the relation net turnover equals twice the balance sheet total, (ii) small, to the next 100 000, (iii) medium/large, to the next 500 000.

The table below shows how inflation adjustment as at March 2023 could result in rounded size criteria, showing absolute values and percentage increase in current size criteria:

SME threshold in the Accounting Directive, current and adjusted for 25% inflation and rounding up

			Balance sheet		Net turnover
Micro	Current		350 000		700 000
	Adjusted		450 000		900 000
	Increase		28.6%		28.6%
Small (lower end)	Current		4 000 000		8 000 000
	Adjusted		5 000 000		10 000 000
	Increase		25.0%		25.0%
Small (higher end)	Current		6 000 000		12 000 000
	Adjusted		7 500 000		15 000 000
	Increase		25.0%		25.0%

Medium / Large	Current		20 000 000	40 000 000
	Adjusted		25 000 000	50 000 000
	Increase		25.0%	25.0%

Source: European Commission (DG FISMA)

As shown above, rounding results in size criteria increased by 25.0% to 28.6%. This is very close to intended inflation rate and consistent for each size criterion. The above size criteria are therefore used as a sound basis for analysing impacts.

Analysis of impacts in the EU27

The analysis of impacts focuses on the obligations of Member States and their impacts on companies in the EU27. The analysis was conducted per Member State, by applying inflation of 25.0% to the current national criteria and rounding rules in each Member State. It was considered that all Member States would adjust their size-criteria despite the leeway they would be offered, thus giving the higher bound of impacts.

The Commission ran a model for estimation of the number of limited liability companies (LLCs) in the Bureau Van Dijk ORBIS database⁶ that would benefit from an update of the thresholds of the Accounting Directive as they would see an alleviation of their reporting and audit obligations.⁷ The analysis is based on active LLCs with financial data for the two monetary size criteria (balance sheet total and net turnover) and non-financial data for the average number of employees during the financial year.

Number of companies that will benefit from an update of the size thresholds in the Accounting Directive				
Categories of companies by size	Current thresholds	New thresholds	How many companies will have an alleviation of reporting requirements as a result of the thresholds update	
	Number of companies	Number of companies	Number of companies	Percent
	(1)	(2)	(3)=(2)-(1) for micro companies, and (3)=(1)-(2) for the rest	(4)=(3)/(1)*100
Micro	5,578,689	5,827,944	249,255	4.5%
Small (lower end)	1,336,249	1,204,003	132,246	9.9%
Small (higher end)	150,663	121,052	29,611	19.7%
Medium	145,563	130,626	14,937	10.3%
Large	82,986	71,372	11,614	14.0%
Number of limited liability companies with financial data	7,294,150		437,663	6.0%
Number of limited liability companies without financial data	11,589,670		695,402	
Total number of limited liability companies	18,883,820		1,133,065	

Source: European Commission (DG FISMA), based on BvD ORBIS database, Downloaded in August 2023

The number of companies identified using the above criteria for the analysis (i.e. active LLCs with available financial and non-financial data) is around 7.3 million out of total number of LLC of around 18.9 million in the BvD ORBIS database. The estimated number of LLCs that would see an alleviation of their reporting and audit obligations is 6.0%.

⁶ The Bureau Van Dijk Orbis database contains information for more than 450 million enterprises worldwide and detailed financial data for about 45 million enterprises or about 10% of all companies. Most of the enterprises with available financial data are located in Europe.

⁷ For previous analysis and the development of a methodology for estimating the number of companies according to the Accounting Directive size thresholds based on firm-level data and the BvD ORBIS database, see: [Study on the accounting regime of limited liability micro companies by CEPS in June 2019](#).

This figure represents the lower bound for the number of LLCs that would benefit from an alleviated reporting framework as a large proportion of LLCs could not be identified due to incomplete data in the BvD ORBIS database on the size criteria. Therefore, the actual number of benefiting companies could be expected to be larger than the estimated 437 663 LLCs. Applying the same percentage (6.0%) to the number of companies for which there is no available financial data in the BvD ORBIS database result in the following figure for the number of LLC that would benefit from the alleviation of the framework: 1 133 065 LLCs.⁸

Conclusion

In view of the inflation trend in the euro area in recent years, especially in the last two years, the Commission considers it necessary to amend the size criteria in the Accounting Directive by 25% to adjust for the effects of inflation. This increase in the size criteria will not only reduce the scope of application of the presentation, audit, and publication requirements for financial statements set out in the Accounting Directive. But it would also reduce the scope of application of the sustainability reporting requirements under the Accounting Directive as amended by Directive (EU) 2022/2464 (CSRD)⁹, – and, consequently, under Article 8 of Regulation (EU) 2020/852 (Taxonomy Regulation)¹⁰ – for large undertakings, small and medium-sized undertakings that are listed, and large groups. The impact of reducing the undertakings in scope of the CSRD consist of one-off cost savings of an estimated EUR 150 million and recurring annual costs of an estimated EUR 700 million.¹¹

Regarding Explanatory Documents

In accordance with the Joint Political Declaration of 28 September 2011 of Member States and the Commission on explanatory documents¹², Member States have undertaken to accompany, in justified cases, the notification of their transposition measures with one or more documents explaining the relationship between the components of a directive and the corresponding parts of national transposition instruments. As the adjustments to the size criteria for micro, small and medium-sized undertakings only relate to the figures of the total balance sheet and the net turnover in Art. 3 in paragraphs (1), (2), (3), (4), (5), (6) and (7), and are therefore self-explanatory, there is no need for the Member States to provide further explanatory documents.

⁸ This estimation does not take into account the fact that most of the companies for which there is no available financial and non-financial data in the ORBIS database are likely to be small or medium-sized.

⁹ Directive (EU) 2022/2464 of the European Parliament and of the Council of 14 December 2022 amending Regulation (EU) No 537/2014, Directive 2004/109/EC, Directive 2006/43/EC and Directive 2013/34/EU, as regards corporate sustainability reporting (OJ L322, 16.12.2022, p. 15).

¹⁰ Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment and amending Regulation (EU) 2019/2088 (OJ L 198, 22.6.2020, p. 13).

¹¹ These estimations are based on the CSRD impact assessment and the cost benefit analysis of the first set of draft European Sustainability Reporting Standards (ESRS) that EFRAG submitted to the European Commission. The Commission has simplified ESRS, reduced disclosure requirements and phased in several disclosure requirements. This has reduced the cost for applying ESRS and hence the potential cost savings will be lower.

¹² OJ C 369, 17.12.2011, p. 14.

2. CONSULTATIONS PRIOR TO THE ADOPTION OF THE ACT

According to Article 49(3a) of the Accounting Directive, the Commission has to consult an Expert Group before adoption.

On 27 July 2023, this draft Commission Delegated Directive was presented to the Expert Group of the European Securities Committee (E02553) at its meeting. The experts were consulted to give comments to that draft delegated act.

Most of the experts welcomed Commission's initiative on adjusting the size criteria for micro, small, medium-sized and large undertakings or groups for inflation in the Accounting Directive and supported the assessment for an urgent need of action.

Some experts pointed out, whether there is a need to specify an application date and, if so, from which financial year the new size criteria should apply for the first time in order to ensure a level playing field in the Union.

The Commission made some changes to the draft delegated act in response to the comments made by the members of the expert group.

The public was also consulted during a 3-week public consultation that was published on 13 September 2023 on the EU Have your say portal in line with the Better Regulation guidelines. The consultation was open to all. The number of responses received was 64.

The majority of respondents supported the Commission proposal. However, some were in favour of a higher adjustment percentage, which should already consider the inflation expectation or called for the introduction of an automatic adjustment above a certain inflation threshold. Other respondents called for an adjustment of the average number of employees criterion, especially for the definition of large companies or groups, which should be 500 or more employees instead of the current 250 employees. Few respondents asked the Commission that the adjustments could already be applied for financial years starting on or after 1 January 2023.

Several respondents opposed the adjustment of the SME size criterion as it would weaken the ambition of the CSRD, especially regarding the new threshold for large companies, which would reduce the number of companies in scope of the CSRD.

After assessing the responses, it has been concluded to give Member States the option to allow companies to apply the adjusted size criteria already for financial year beginning on or after 1 January 2023.

3. LEGAL ELEMENTS OF THE DELEGATED ACT

This delegated act is based on Article 3(13) of the Accounting Directive. It amends the monetary thresholds for the categorisation of companies referred to in Article 3(1) to (7) taking into account the inflation as published in the Official Journal of the European Union. Member States are to apply these new thresholds at the latest from financial year 2024, with the possibility to opt for early application for financial year 2023.

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(Text with EEA relevance)

THE EUROPEAN COMMISSION,

Having regard to the Treaty on the Functioning of the European Union,

Having regard to Directive 2013/34/EU on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings, amending Directive 2006/43/EC of the European Parliament and of the Council and repealing Council Directives 78/660/EEC and 83/349/EEC¹³, and in particular Article 3(13) thereof,

Whereas:

- (1) Reporting requirements in the field of accounting pursue various objectives. They do not merely provide information for investors in capital markets but also give an account of past transactions and enhance corporate governance. It is important to streamline those requirements to ensure that they fulfil the purposes for which they were intended and to limit the administrative burden.
- (2) In view of the significant inflation during 2021 and 2022, the monetary size criteria for determining the size category of a company to account for the impact of inflation were reviewed.
- (3) According to Eurostat data, over a period of around 10 years from 1 January 2013 to 31 March 2023, the cumulated inflation reached 24.3% in the euro area and 27.2% in the whole Union.
- (4) Therefore, the Commission considers it necessary to adjust and round up the thresholds referred to in Article 3(1) to (7) of Directive 2013/34/EU by 25% for inflation.
- (5) Directive 2013/34/EU should therefore be amended accordingly.
- (6) To enable undertakings or groups to benefit from the adjusted thresholds as soon as possible, the laws, regulations and administrative provisions necessary to comply with this Directive should apply at the latest for financial years beginning on or after 1 January 2024. Member States may allow undertakings to apply those provisions for financial year beginning on or after 1 January 2023.
- (7) The Commission has consulted the Expert Group of the European Securities Committee in accordance with Article 49(3a) of Directive 2013/34/EU,

¹³ OJ L 182, 29.6.2013, p. 19.

HAS ADOPTED THIS DIRECTIVE:

Article 1

Amendments to Directive 2013/34/EU

Article 3 of Directive 2013/34/EU is amended as follows:

- (1) in paragraph 1, points (a) and (b) are replaced by the following:
 - ‘(a) balance sheet total: EUR 450 000;
 - (b) net turnover: EUR 900 000;’
- (2) paragraph 2 is amended as follows:
 - (a) points (a) and (b) are replaced by the following:
 - ‘(a) balance sheet total: EUR 5 000 000;
 - (b) net turnover: EUR 10 000 000;’
 - (b) the second subparagraph is replaced by the following
‘Member States may define thresholds exceeding the thresholds in points (a) and (b) of the first subparagraph. However, the thresholds shall not exceed EUR 7 500 000 for the balance sheet total and EUR 15 000 000 for the net turnover.’;
- (3) in paragraph 3, points (a) and (b) are replaced by the following:
 - ‘(a) balance sheet total: EUR 25 000 000;
 - (b) net turnover: EUR 50 000 000;’
- (4) in paragraph 4, points (a) and (b) are replaced by the following:
 - ‘(a) balance sheet total: EUR 25 000 000;
 - (b) net turnover: EUR 50 000 000;’
- (5) paragraph 5 is amended as follows:
 - (a) points (a) and (b) are replaced by the following:
 - ‘(a) balance sheet total: EUR 5 000 000;
 - (b) net turnover: EUR 10 000 000;’
 - (b) the second subparagraph is replaced by the following:
‘Member States may define thresholds exceeding the thresholds in points (a) and (b) of the first subparagraph. However, the thresholds shall not exceed EUR 7 500 000 for the balance sheet total and EUR 15 000 000 for the net turnover.’;
- (6) in paragraph 6, points (a) and (b) are replaced by the following:
 - ‘(a) balance sheet total: EUR 25 000 000;
 - (b) net turnover: EUR 50 000 000;’
- (7) in paragraph 7, points (a) and (b) are replaced by the following:
 - ‘(a) balance sheet total: EUR 25 000 000;

(b) net turnover: EUR 50 000 000;’.

Article 2

Transposition

1. Member States shall bring into force the laws, regulations and administrative provisions necessary to comply with this Directive by ... [*PO: Please insert the date = 12 months after the date of entry into force of this Directive*] at the latest. They shall forthwith communicate to the Commission the text of those provisions.

They shall apply those provisions for financial years beginning on or after 1 January 2024.

By way of derogation from the second subparagraph, Member States may allow undertakings to apply those provisions for financial year beginning on or after 1 January 2023.

When Member States adopt those provisions, they shall contain a reference to this Directive or be accompanied by such a reference on the occasion of their official publication. Member States shall determine how such reference is to be made.

2. Member States shall communicate to the Commission the text of the main provisions of national law which they adopt in the field covered by this Directive.

Article 3

Entry into force

This Directive shall enter into force on the third day following that of its publication in the *Official Journal of the European Union*.

Article 4

Addressees

This Directive is addressed to the Member States.

Done at Brussels, 17.10.2023

For the Commission
The President
Ursula VON DER LEYEN