

UEAPME¹ comments on 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

Introduction

UEAPME incorporates 82 member organisations from 34 countries consisting of national cross-sectorial SME federations, European branch federations and other associate members, which support the SME family. At EU level UEAPME represents 9 million enterprises. In the whole of “Europe” we represent 12 million enterprises.

For UEAPME and its member organisations², European harmonised accounting rules are useful and necessary **also for micro-enterprises**, although we have always³ stressed the need to simplify the 4th and 7th Directive. This can best be achieved through a general revision of the 4th and 7th directive. It would be unwise to exempt micro enterprises from a directive of which the future content is not known yet.

In UEAPME’s view enterprises, also small and micro-enterprises, will continue to need financial information, for example in order to have access to finance, public procurement (at local, national and European level), in their relations towards suppliers and clients, insurers, leasing companies, banks and to get information about potential business relationships and competitors.

Also in the case of transfer of a company, an exact and correct overview of the financial situation of a company is crucial. In addition, the legal obligation to keep financial reports is also connected, in a large number of Member States, with an obligation to file a tax return, based on those financial reports. There are also indications that without accounting the cost for access to finance, taken into account the Basel II requirements, will increase. In addition, the scarce research in this field indicates that the information needs of bank loan officers do not differ substantially between large public companies and small private companies⁴.

In a significant number of SME entities, the need for financial reporting is particularly driven by the need to evaluate the development of future strategies, rather than the need to report to a wide range of users on historical performance. **So financial reporting has a specific and central function also for micro-entities.**

Need for harmonised rules, also for micro-enterprises

Nonetheless due to the fact that the Member States will have the option to exempt micro-entities, according to the compromise amendment and the Commissions proposal, there is the tremendous risk of a competitive disadvantage for the companies in those countries where the Member states did not exempt. The large majority of **administrative burdens originate and operate at Member States' level.**

¹ UEAPME subscribes to the European Commission’s Register of Interest Representatives and to the related code of conduct as requested by the European Transparency Initiative. Our ID number is [55820581197-35](http://www.ueapme.com/spip.php?rubrique59).

² With the exception of ZDH.

³ For UEAPMEs position papers on which these comments are based, please see: <http://www.ueapme.com/spip.php?rubrique59>

⁴ Stanga & Tiller, 1983

The role of the European parliament should be to continue to defend the European common interest by developing the Single Market. This is particularly important for SMEs, and especially micro-enterprises, who are not in a position to exploit differences in Member States' regulatory systems; **therefore regulatory competition is not a viable policy option for SMEs.**

In conclusion, assimilating accounting in general to an administrative burden is contrary to business reality and a dangerously misleading assumption: robust accounting is essential to business management and growth, to the proper functioning of markets and to the development of a sound and sustainable economy. **A harmonised accounting framework is essential to the Single Market and more national regulation could enhance fragmentation and exclude micro enterprises from the Single Market, thus impeding growth and job creation.**

UEAPME advocates for the full application of the Think Small First principle also in the simplification of accounting standards. The more the legislator adopts the Think Small First principle, the less the enterprises will ask for simplification and/or exemption. We cannot imagine that the European Parliament, as a supporter of the European construction, will vote in favour of a measure that goes completely against the internal market for SMEs.

However, UEAPME request that the current rules to be simplified wherever possible without losing the essence of the objectives of the rules. In our view, it is essential that also the micro-entities are within the scope of the Fourth Directive and that all efforts towards further harmonisation should continue. Harmonisation does not imply more red tape or more administrative burdens, or more complex rules. It may be clear that the harmonisation level will diminish if the accounting standards for micro-entities differ from the “general” accounting standards. UEAPME once again welcomes all further modernisation and harmonisation efforts of the European Commission in the hope to simplify the requirements for the micro-entities and small companies instead of exempting the micro-entities from the Fourth Directive. The principles foreseen in the actual Directives have already led to a reduction of the many differences in valuation rules between the Member States. Exempting small enterprises such as micro-entities from the scope of the Fourth Directive will have an adverse effect on the quality, reliability, availability and comparability of financial information. This will also lead to a serious setback of the harmonisation process of accounting requirements leading to distortion of competition between countries.

Need for real harmonised publication requirements also fro micro-enterprises.

Small companies will have to prepare accounts anyway and the filling of documents for the public record is not burdensome and can be done (if Member States allow) at no or a very low cost. The amount companies have to pay to make their accounts public is however a national competence and is in no way a consequence of the actual directive. Indeed, in some Member States the publication can be done at no or very low cost. So, exempting micro-enterprises from the scope of the 4th Directive will NOT reduce the cost for publication.

The centralised publication of annual accounts is also the easiest and most efficient way for companies to make their financial information available to all their stakeholders (managers, directors, employees, investors, trading partners, banks, leasing companies, insurers, creditors, trade unions, tax authorities, statistical offices, and all the other stakeholders). This is also a good example of the application of the “only once principle”, which is promoted by the Small Business Act.

This information is also useful in order to avoid late or no payment. Enterprises, especially micro-enterprises, should use more the annual accounts of their clients, commercial partners, providers etc in order to check their seriousness and creditworthiness. UEAPME recalls the need for an in-depth discussion about which kind of information should be published or not, based on a preliminary in-depth study about the needs of SMEs and the needs of users. (This study is currently done by DG Enterprise).

It should also be mentioned that no real Impact Assessment has been conducted on this proposal to evaluate its short and long term effects. The impact assessment of the Commission has been done in 3 weeks and is not updated anymore. Indeed, it states that only 7% of the SMEs are internationally active, while a recent study of DG Enterprise (December 2009) indicates that **29% of all SMEs are internationally (import or export) active.**

If this centralisation is abandoned, each company will have to use the services of private companies, which will increase the cost for small companies rather than reducing it. Furthermore, once the accounts are obtained, it is not that burdensome to apply the publication requirement. At the moment there are quite different rules in Member States regarding the publication of annual accounts. Those different rules lead to competitive disadvantages for enterprises in countries with strict requirements. There is a clear need for harmonisation in this field as already stated by UEAPME in previous position papers. UEAPME calls once again for an in-depth discussion about which kind of information should be published or not and this on the basis of an in-depth study about the needs of SMEs and the needs of the users. Concerning these harmonisation process, if also in the other Member States of the European Union companies would be required to use the same minimum format of the balance sheet, the profit and loss statement and the notes, this publication would permit better comparability. This would also guarantee a more equal level playing field between the member states. This can be easily achieved with the use of the XBRL reporting language.

Finally and maybe most importantly, the publication requirements foreseen in the 4th Directive are also the counterbalance of the limited personal liability. Small business owners have a choice to trade under an incorporated entity or unincorporated entity, with the latter associated with significantly reduced levels of transparency and reporting. If a small business owner-manager chooses to opt for an incorporated entity, with considerably more acquired protection of limited personal liability vis-à-vis their business debts, it is not unreasonable for them to expect to be required by law to disclose certain financial information in the interests of those trading or investing in their entity. Also the Commission recognises that this is an important argument against exempting micro-enterprises.

Additionally, there seems to be a serious misunderstanding on the scope of the 4th Directive. The 4th Directive only applies to incorporated companies. So very small enterprises (bakeries, butchers...) that are not incorporated companies are not falling under the scope of the directive and exempting micro-companies will not change anything for them. It has to be mentioned that the so-called Stoiber group was not unanimous in its proposal: both the representatives of the SMEs and the profession were against the proposal. It may be clear that this proposal has nothing to do with the reduction of red tape but a simple protectionist measure in favour of some Member States. The proposal made by Mr. Stoiber is not applicable in practice, which has been confirmed by civil servants of the Commission, as it is not compatible with the Internal Market.

Finally, there is a huge pressure on Europe to introduce IFRS for SMEs. SMEs are not in favour of such an introduction. Exempting micro enterprises of the scope of the 4th directive will indirectly facilitate the introduction for SMEs, as it will significantly reduce the number of SMEs potentially concerned by IFRS for SMEs.

For all these reasons, UEAPME urges the members of the European Parliament to vote AGAINST the proposal of the Commission as amended by the Lehne report.

For further information on this position paper, please contact:

Luc Hendrickx
 Director Enterprise Policy and External Relations
 Rue Jacques de Lalaingstraat 4
 1040 Brussels
 Tel : +32.2.230.75.99
l.hendrickx@ueapme.com