



## *ESBA in favour of lighter and harmonised accounting requirements for small businesses*

### **Position Paper on the Proposal for a Directive of the European Parliament and of the Council on the Annual Financial Statements, Consolidated Financial Statements and Related Reports of Certain Types of Undertakings - [COM \(2011\) 684](#)**

- ESBA welcomes the initiative of the Commission to clarify the definitions of categories of undertakings and groups at EU level in order to create a level playing field as well as increased legal certainty.
- ESBA supports the exemption regime for small undertakings and small groups.
- To guarantee legal certainty, ESBA supports Rapporteur Klaus-Heiner Lehne's addition of micro-entities in his Draft Report.
- The preparation of financial statements in eXtensible Business Reporting Language (XBRL) should not be made mandatory by EU decision-makers.

#### **Background**

On 25 October 2011, the European Commission proposed a Draft Directive to repeal the so called "Accounting Directives": [4th Company Law Directive](#) (1978) and [7th Company Law Directive](#) (1983). These Directives require Member States to establish a legal framework for producing individual financial statements and consolidated financial statements for limited liability companies (LLC). To cope with the evolutions of the business environment, these Directives have been repeatedly amended, which has eventually affected their consistency and accuracy, especially to take into account the variety of needs and resources of different sized businesses.

The European institutions have identified the regulatory burden on SMEs as a drag on growth. The Small Business Act sets the objective to reduce by 25% the administrative burden on SMEs due to EU legislation by 2012<sup>1</sup>. Simplifying the Accounting Directives is part of the Single Market Act<sup>2</sup>. Thereby, when drafting its proposal, the European Commission committed itself to a "Think Small First" approach in order to cut red tape for the smallest businesses.

As a first step, on 14 March 2012, [Directive 2012/6/EU](#) was adopted providing an exemption regime from the 4<sup>th</sup> Company Law Directive for micro-entities. To be defined as micro-entities and benefit from this exemption regime, undertakings must not exceed the limit of two out of three of the following criteria on their balance sheets:

- Balance sheet total: € 350,000

<sup>1</sup> [A "Small Business Act" for Europe](#) p.9

<sup>2</sup> [Single Market Act](#) n°11: Regulatory environment for businesses



- Net turnover: € 700,000
- Average of employees during the financial year: 10<sup>3</sup>

The implementation of the exemption regime is optional to the Member States.

### **Objectives**

With this draft Directive, the Commission aims at, firstly, aligning accounting requirements with the needs and resources of different sized undertakings, which would result in € 1.5bn saving for small businesses<sup>4</sup>. Secondly, enabling the comparability of financial statements across the EU through harmonisation, which would facilitate cross-border exchanges<sup>5</sup>.

### **Content of the proposal regarding small businesses**

#### Harmonization:

In this Directive, definitions of undertakings and groups (a parent undertaking and its subsidiary undertakings included in a consolidation) are harmonized across the EU.

Small undertakings and small groups are companies which do not exceed the limits of two out of three of the following criteria on their balance sheets:

- Balance sheet total: € 5,000,000
- Net turnover: € 10,000,000
- Average number of employees during the financial year: 50<sup>6</sup>

#### Exemption regime:

The annual financial statements of small undertakings would at least comprise: a balance sheet, profit and loss account and the notes to the financial statements<sup>7</sup>. Disclosure to the notes to the financial statements will be limited to: accounting policies; guarantees, commitments, contingencies and arrangements that are not recognized in the balance sheet; long-term and secure debts; post-balance sheet events not recognized in the balance sheet; related party transactions<sup>8</sup>.

Member States would not be allowed to require small undertakings to include additional statements beyond what is required by the future Directive<sup>9</sup>. Small groups would be exempted from preparing consolidated financial statements<sup>10</sup>.

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<sup>3</sup> Article 1 [Directive 2012/6/EU](#)

<sup>4</sup> [Impact Assessment](#) p.37

<sup>5</sup> [Financial reporting obligations for limited liability companies – frequently asked questions](#)

<sup>6</sup> Article 3 [COM \(2011\) 684](#)

<sup>7</sup> Article 4 [COM \(2011\) 684](#)

<sup>8</sup> Article 17 [COM \(2011\) 684](#)

<sup>9</sup> Articles 4 and 17 [COM \(2011\) 684](#)

<sup>10</sup> Article 24 [COM \(2011\) 684](#)



### ***ESBA's position***

ESBA welcomes the gradual approach of the Commission regarding accounting requirements. **Disclosure regimes have to take into account the different administrative resources of the undertakings. The 'mini regime' for small undertakings providing some exemptions is necessary as these undertakings should not face the same accounting requirements as larger companies.** Besides, by cutting red tape small undertakings would be able to focus more on value-added tasks. If the information that has to be provided in annual statements is considered as insufficient for investors, small undertakings will still be able to provide specific financial disclosures on a case by case basis. Indeed, it would be disproportionate to require all small undertakings the disclosure of information that is needed on specific cases and does not correspond to the most common needs of users and preparers of financial statements.

### **Clarifying the definition for small undertakings across the EU is important.**

ESBA advocates increasing legal certainty. Micro-entities are not mentioned by the Commission in its proposal. Indeed it is unclear if they are included *de facto* in the definition of "small undertaking" or not. **It is essential to make sure that micro-entities enjoy at least the same benefits as small undertakings.**

**EU decision-makers are not entitled to decide which electronic filling tool should be used by businesses for their financial statements.** Businesses and their accountants are best equipped to decide which system best suits their needs. Better options may become available in the next years and businesses should be able to use them without being constrained by EU legislation. Moreover, requiring the preparation of financial statements in eXtensible Business Reporting Language (XBRL) was an option considered by the Commission. But it recognized that **small undertakings would have to pay important one-off system change costs or outsourcing costs<sup>11</sup>.**

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<sup>11</sup> [Impact Assessment](#) p.61