

Federation of European Accountants
Fédération des Experts comptables Européens

Mr. Klaus-Heiner Lehne
Chair of the Committee on Legal Affairs
European Parliament
Bât. Altiero Spinelli – 10E205
Rue Wiertz 60
B-1047 BRUSSELS

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Ref.: FRP/PRJ/OBT/TSI/SRO

Dear Mr. Lehne,

I am writing to present the views of FEE (Fédération des Experts-comptables Européens - Federation of European Accountants) on the Proposal for a Directive on the annual accounts of certain types of companies i.e. micro-entities that we believe is of importance to the EU economy.

The matter is coming to the Parliament in second reading after generating significant controversy in first reading and in Council. An overwhelming majority in the SMEs' and accountancy profession communities expressed major concerns with both the initial Commission's Proposal and the outcome of the first reading. The time it took for the Council to find a solution provides evidence of the complexity of the matter. Now that a viable and balanced compromise package has been reached, it should be supported.

Drawing on the experience of the 500.000 professionals accountants of our 45 member bodies from 33 European countries who work in different capacities in public practice of small and larger accounting firms and in small, mid-sized and large enterprises as well as in the public sector, we believe that Council's Common Position could be an acceptable compromise for the key stakeholders.

During this debate, FEE has continuously outlined the importance of accrual accounting which we believe is essential and contributes to sound business management and to the transparency and reliability of all financial information. From a business perspective, the idea to allow micro-entities to apply cash based accounting is based on an ill-informed view of the impact this will have for those eligible businesses if implemented. Such a rudimentary system of accounting cannot meet the needs of enterprises (whatever their size), managers, creditors, business partners or other stakeholders such as tax authorities. For example, there is evidence that tax receipts would decline as a result of a move to cash accounting¹.

¹ See for example: The Meade Committee (1978), The structure and reform of direct taxation, The Institute for Fiscal Studies, London, available at: <http://www.ifs.org.uk/publications/3433>



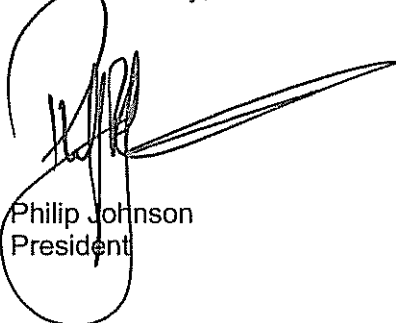
An adequate and proportionate system of accounting which is based on accrual accounting remains a necessity in companies of all sizes and most likely will still be required to obtain credit and funding. In addition, due to the requirements of the Second Council Directive (77/91/EEC), accrual based accounting is necessary in order to assess whether the capital maintenance requirements are met. If the information provided by proper annual account is no longer available, it would have to be provided by other means at member state level and therefore the expected burden reduction would not materialise.

Therefore, should the Parliament revert to full cash-based accounting, it would not help micro-entities. The Council has rightly chosen to re-enforce the role of accrual accounting and the importance of preserving minimal transparency and has, on that basis, managed to design a realistic compromise while effectively simplifying accounting requirement for micro-entities.

FEE supports the reduction of excessive and unnecessary administrative burdens and the simplification of the financial reporting requirements for micro and small companies within the scope of the 4th Directive. We still believe that accrual accounting and the publication of financial information are a benefit to businesses and stakeholders and do not represent a material additional cost to the enterprises affected by the Proposal.

We would be pleased to discuss this matter further with you. If you wish to do so then please contact FEE CEO, Olivier Boutellis-Taft (obt@fee.be).

Yours sincerely,



Philip Johnson
President

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