ROADMAP			
TITLE OF THE INITIATIVE	**Review of the accounting directives**		
TYPE OF INITIATIVE	• CWP • Non-CWP • Implementing act/Delegated act		
LEAD DG – RESPONSIBLE UNIT	DG MARKT – F3		
EXPECTED DATE OF ADOPTION	Month/Year: Q2 2011		
VERSION OF ROADMAP	No: 2	Last modification:	Month/Year: August/2010

This indicative roadmap is provided for information purposes only and is subject to change.
It does not prejudge the final decision of the Commission on whether this initiative will be pursued or on its final content and structure.

A. Context, problem definition

(i) What is the political context of the initiative?
(ii) How does it relate to past and possible future initiatives, and to other EU policies?
(iii) What ex-post analysis of the existing policy has been carried out and what results are relevant for this initiative?

(i) The Commission's Better Regulation strategy is aimed at measuring administrative costs and reducing administrative burdens, ensuring that these are proportionate to the benefits they bring. Furthermore, the "Small Business Act" (SBA), adopted in June 2008, reflects the Commission's political will to recognise the central role of SMEs in the EU economy. It puts in place a comprehensive SME policy framework for the EU and its Member States, aiming at improving the overall approach to entrepreneurship and to anchor the "think small first" principle in policy-making from regulation to public service. The SBA applies to all independent companies with less than 250 employees, around 99% of all European businesses.

This initiative concerns the revision/simplification of the 4th and 7th Company Law Directives (hereinafter the "Accounting Directives"), in order to reduce the administrative burden that the EU accounting requirements pose in particular on the SMEs. The main ideas for simplifying the current accounting requirements were already put forward in a Commission Communication dated July 2007. The European Parliament, whilst welcoming the Communication's objective of reducing administrative burdens and enabling SMEs to compete more effectively, encouraged the Commission "to continue its activities with regard to the simplification of company law, accounting and auditing for SMEs via the relevant legislative acts, in particular the Fourth and Seventh Company Law Directives". Most of the ideas presented in the Communication, along with a number of new ones, were then taken up by the High Level Group of Independent Stakeholders on Administrative Burdens, in its Opinion of July 2008. On this basis, and following up on the strong support expressed by the stakeholders for further simplification for SMEs, Commissioner Charlie McCreevy announced in a public statement on 29 September 2008 that a review of the Accounting Directives should be initiated.

(ii) A first fundamental change in the EU financial reporting environment occurred already in 2005, when the International Accounting Standards (IAS/IFRS) became mandatory for listed companies and those companies with listed debt securities. Through the adoption of the IAS Regulation N° 1606/2002 EU-listed companies have to present consolidated accounts according to IFRS. At this stage, consequential amendments were made to the Accounting Directives to accommodate the use of IFRS for the listed companies. The original objective of the Accounting Directives was to bring about harmonisation of financial reporting in the EU especially for the large companies. However, and more importantly since 2005, the Accounting Directives also form the basis for SME accounting in the EU.

Furthermore, a legislative proposal for exempting micro entities from the scope of the Fourth Directive was published by the Commission on 26 February 2009. Such proposal has been approved by the European Parliament and is now being dealt with by the Council. Consequently, issues relating to the proposal on micro entities will not be dealt with in this proposal or impact assessment.

Finally, this initiative could also impact a number of other policy areas and initiatives, including the Bank Accounts Directive (86/635/EEC) as well as the Insurance Accounts Directive (91/674/EEC). The relations with the Second Company law Directive (77/91/EEC) on capital maintenance should also be further analysed. More generally, a revision of the Accounting Directives will have consequences on other reporting rules (tax returns, prudential accounts, statistical reporting, etc.) at EU as well as national level.

(iii) Stakeholders have been consulted on the existing text through two public consultations carried out in 2009 and 2010. A stakeholders meeting was also organised on 25th May 2010. In all these occasions, the need for simplification of the Directives, specially as regards the administrative burden imposed on SMEs, was highlighted by the stakeholders. The conclusions of this consultation are published on the Commission's website. Several existing studies also confirm such concerns. *(see below for further details)*.

The current Directives have been amended several times, but they have not been subject to a fundamental revision since their inception. Especially, the Directives have not been adapted to the fact that the SMEs have now become the main user group of the Directives. Already on 18 December 2008, the European Parliament adopted a non-legislative Resolution stating that the Accounting Directives are "often very burdensome for small and medium-sized companies and in particular for micro-entities". In the same Resolution, "the Commission is asked to continue its efforts to review the Fourth and Seventh Company Law Directives". It is therefore of utmost importance to assess the administrative burden that the Accounting Directives pose upon SMEs, in order to reconsider whether less useful requirements should be removed or replaced and to fine-tune accounting rules to the specific needs of the SMEs.

What are the main problems which this initiative will address?

The Accounting Directives were developed under the prevailing idea that SMEs are not fundamentally different from large companies and should therefore follow similar financial reporting requirements. As a consequence, their provisions are mainly focused on the needs of large and listed companies. However, the business environment, accounting practices and user needs have changed significantly during the last three decades. This has led to the acknowledgment of the specific reporting needs of the SME group as well as the segments within that group, as laid down in the "think small first" principle. On this basis, the initiative is focused on addressing the following key problems:

1. Excessive regulatory burden

A number of surveys and the results of the stakeholder consultations have identified company law, including the fields of accounting and auditing, as one of the most burdensome areas of the EU acquis. Generally, unnecessary and disproportionate administrative costs hamper economic activity. This is especially true for start-up businesses and small enterprises with limited administrative and financial resources which are sensitive to excessive administrative obligations. Companies, in particular SMEs, have indicated that the increasing complexity and widening scope of the accounting rules have led to extensive costs which divert resources from the core business activities of companies. Moreover, an expert group report identified that on average, a business with fewer than ten employees has to face a regulatory burden (measured per employee) that is roughly twice as high as the burden of a business with more than ten but less than twenty employees and about three times as high as the burden of businesses with more than twenty but less than fifty employees. For bigger companies, the burden per employee is only one fifth or less of that of small enterprises. Moreover, the substantial part of the administrative cost is fixed. This is further confirmed by a recent survey by Eurobarometer that shows that micro entities sacrifice most resources to complying with the required paper work (9% of time) while this burden does not reach 0.5% for large scale enterprises.

2. Outdated requirements

A number of the Accounting Directives' requirements are dating back from 1970's, and are not necessarily optimal in serving neither the needs of the companies that have to comply with them nor are they longer fully aligned to the needs of the users and preparers. This applies especially to many of the standard disclosures. Many of the requirements that may be appropriate for larger companies are not necessarily so for the small ones. Sometimes there is an option for Member States to exempt SMEs from some of those requirements, such as certain disclosures, audit or publication, but these possibilities/options are not consistently used by all Member States, leading to a scenario of less/non-harmonisation. As explained above, such situation could result in an unnecessary administrative burden for the preparers – especially concerning the small and medium-sized entities.

3. Lack of clarity

During the past 25 years the Accounting Directives have been modified several times, introducing, inter alia, new disclosure requirements and valuation rules (fair value). Moreover, as explained above, a fundamental change occurred with the adoption of the IAS Regulation in 2005. Those several piecemeal amendments, as well as the addition of new requirements, have made the Directives unwieldy and difficult to read. The overarching principles are not clearly presented, and are often buried between detailed provisions. This makes it difficult to make a distinction between the general principles and specific provisions. In turn, the Accounting Directives do not provide a consistent level of detail throughout the different accounting areas, and contain many options for small entities which are used in various degrees by Member States. On a whole, this makes the Directives and the transposed national accounting legislation unclear and inconsistent across the EU.

Who will be affected by it?

The main effect will be on the preparers of financial statements across the EU (i.e. limited liability companies). Furthermore the users of financial statements and stakeholders across the EU, i.e. accountants and auditors, public authorities (national standard setters, tax and statistical offices), banks as main providers of finance to the smallest entities, investors and other stakeholders of the concerned entities.

(i) Is EU action justified on grounds of subsidiarity?
(ii) Why can Member States not achieve the objectives of the proposed action sufficiently by themselves? (Necessity Test)
(iii) Can the EU achieve the objectives better? (Test of EU Value Added)

(i) Yes - Most obligations entailing administrative burdens derive from EU directives, thus they must be amended on the EU (Directives) level.

(ii) The current Directives contain numerous options for simplified rules for SMEs. However, many of those have not been taken up by Member States, due to reasons including different characteristics of national economy, accounting and business cultures. No progress has been made in further harmonisation or simplification in past years.

(iii) Yes - Action at EU level is needed in order to further harmonise the accounting field and ensure a better functioning of the internal market. In general terms, common accounting principles are necessary for a well functioning internal market, particularly as regards those companies mainly operating cross-border.

B. Objectives of the initiative

What are the main policy objectives?

The general objective is to review the Accounting Directives with the "think small first principle" in mind, introducing a “bottom up” approach as opposed to the “top-down” one currently applied. This will allow meeting the distinct needs of the SMEs as well as of the different segments within that group. This general objective can be divided into two specific objectives:

1. The reduction of the administrative burden. This is consistent with the goals of the Lisbon Agenda, whereby the Commission committed itself to release the growth potential of these companies by reducing their administrative burden. The small and medium-sized enterprises are the backbone of the European economy, and they are the main contributors to the creation of employment in the EU. Especially for the small and medium-sized companies the elimination of unnecessary and outdated requirements could contribute to substantial reduction of administrative burden.

2. The alignment of the accounting requirements to the needs of users and preparers. For all companies, the qualitative improvements and alignment with the real needs is expected to reduce duplication of work and improve the usefulness and understandability of the financial statements. For the preparers of the financial statements, lack of clarity as regards the principles, requirements or terminology increases the reporting burden and impedes legal certainty. For the users of the financial information, the inconsistency in requirements can make it difficult to make comparisons of financial statements between different Member States.

Two additional objectives have also been identified:

- To increase the clarity of the EU legislation for legislators and users in general.

- To reflect and take into account international developments in the accounting field, notably the development of the International Financial Reporting Standards for Small and Medium Sized Entities (IFRS for SMEs) by the International Accounting Standards Board (IASB).

Do the objectives imply developing EU policy in new areas?

No.

C. Options

(i) What are the policy options being considered?
(ii) What legislative or 'soft law' instruments could be considered?
(iii) How do the options respect the proportionality principle?

(i) The financial information needs of different users may vary significantly and there is no single solution to all information needs, i.e. no “one size fits all”. Moreover, the limited administrative resources of the small and medium-sized companies cannot accommodate all needs of potential users.

Policy options remain therefore to be further developed. Issues to be addressed include the extent and precise scope of harmonisation necessary for achieving the outcomes identified, and the policy decisions concerning in particular the definition of the most relevant information needs and to what extent they should be served. In this respect, especially in the case of small and medium-sized companies, an accurate balance needs to be found between a sufficient fulfilment of the users' needs and an efficient use of the limited resources (i.e. reduction of administrative cost) of companies. Below is an indicative list of some of the possible policy options:

- Option 1 - No change to the Accounting Directives.
- Option 2 - Encourage a full use of existing options in the Accounting Directives
- Option 3 - Simplification and streamlining of the Accounting Directives, , by *inter alia* (tentative list): reducing/abolishing the disclosure requirements for small companies; eliminating some of the options currently available for the Member States; rationalising some of the basic principles; simplifying the layout requirements for profit and loss account and balance sheet; etc.
- Option 4 - Replacing the Accounting Directives and develop a new Directive starting with the bottom up approach.
- Option 5 - Replacing the Accounting Directives by a comprehensive set of accounting standards for SMEs, for example the “International Financial Reporting Standards for SMEs”.
- Option 6 - Facilitating the use of IFRS for SMEs by aligning the provisions of the Directives and IFRS for SMEs.

These options are not necessarily mutually exclusive, thus the optimal solution can be a combination of some of the above.

(ii) A new Directive or two amended/consolidated Directives are being considered as options for the review. Option 2 above represents a 'soft law' instrument.

(iii) The core goal of this project is to reduce the administrative burden and bring the accounting requirements in line with the needs of users and preparers. Therefore, an appropriate balance needs to be found between the proposed burden reduction measures and the users' needs, i.e. how to sufficiently serve the most relevant needs of users and an efficient use of the limited resources (i.e. reduction of administrative cost) of companies. In this respect, the incremental costs of change will need to be very carefully examined in relation to incremental benefits.

Moreover, as explained above, the revision exercise aims at shifting the focus of the Directives from large companies (as it is the case for the current text) to small and medium sized ones. Whilst common accounting principles are of fundamental importance for companies mainly involved in cross-border activities, less burdening requirements should be posed on the smallest entities that are mostly active within one Member State.

Results of the public consultations, independent studies and further detailed impact assessment work will be used to assess the scale and nature of such benefits so as to ensure options for change can be appropriately assessed.

The work relates to modification of the existing Community instruments (Directives). At the course of the revision the necessity of Community intervention (proportionality) will be reassessed, especially as regards the Small and Micro companies.

D. Initial assessment of impacts
What are the benefits and costs of each of the policy options?

Since policy options have yet to be defined in detail, a systematic analysis is not possible yet.

In general terms, the scope of the initiative could have significant impact in reducing the costs of financial reporting for all companies concerned. The impact is most likely to be greatest on the smallest entities for all change options, as the identified benchmarks would imply a significant administrative burden reduction for this category. The revised Directives would bring only relevant and useful information and align quantity of information with actual demand from users, allowing omitting information that is not necessary and burdensome for companies. The number and the scope of the modifications to the accounting requirements will determine the scale of savings for these companies. However, the more limited the changes to the existing regulatory framework, the more diluted the benefits for the companies concerned. The extent of modernisation/simplification of existing requirements will be the fundamental factor in defining such impact. The impact could also significantly vary depending on the use of existing options currently made by the Member States.

For these reasons, careful analysis of options against existing requirements and proposed capacity for delivering burden reduction will be necessary. Below find a preliminary list of potential impacts:

Economic Impacts

- Functioning of the internal market and competition: common accounting principles, further harmonisation and reduction in the number of options will contribute to ensure a better functioning of the internal market. Better and more relevant information from companies would also contribute to improve competition within the EU.
- Competitiveness, trade and investment flows: less options, increased comparability and focus on decision useful information will result in better investment decisions and better allocation of capital, thus facilitating cross border trade and competition.
- Operating costs and conduct of business/Small and Medium Enterprises: simplification and burden reduction is likely to lower significantly the operating cost of EU SMEs.
- Administrative burdens on businesses: foreseen reduction of administrative burden stemming mainly from the elimination of unnecessary and outdated requirements, which the smallest entities will particularly benefit from, will allow a better allocation of resources and ensure a considerable costs reductions.
- Public authorities: the revision will not have budgetary consequences for public authorities. It allows Member States to tailor accounting rules to local needs.
- Third countries and international relations: simplified requirements for SME accounting may contribute in increased investment from companies established in third countries with particular regard to reduced cost of preparation of consolidated accounts. Less complex rules will also attract foreign (outside EU) investors, venture capital firms, etc. Reduction of accounting burden on smallest companies will improve competitiveness of EU small businesses vis-à-vis companies from other jurisdictions that face lighter requirements (e.g. USA).
- Macroeconomic environment: the proposal is likely to contribute to economic growth by allowing informed decisions by both local and foreign investors and by freeing firms' resources for productive use. It would create a flexible framework that allows MS to tailor accounting rules to local environment as well as by focusing on key user needs and elimination of options and excessive burdensome and no-value-adding reporting, thus cutting red tape.

Social Impacts

- Employment and labour markets: the proposal, if utilised by MS, is likely to contribute to creation of jobs in the EU companies by freeing resources for productive use.
- Standards and rights related to job quality: the proposal will keep or improve the level of information available to employees by focusing on key information needs and simplified presentation.

Could any or all of the options have significant impacts on (i) simplification, (ii) administrative burden and (iii) on relations with other countries, (iv) implementation arrangements? And (v) could any be difficult to transpose for certain Member States?

Yes - the initiative is clearly aiming at to reduce the administrative burden especially for the smallest entities and simplifying the existing accounting regulatory framework. The amount of such reduction will vary depending on the chosen policy option.
(i) Will an IA be carried out for this initiative and/or possible follow-up initiatives? (ii) When will the IA work start? (iii) When will you set up the IA Steering Group and how often will it meet? (iv) What DGs will be invited?
(i) Yes. As preparative steps a number of consultations have been carried out with stakeholders in 2009 and 2010, including two public consultations and several meetings with stakeholders across the Member States. Additionally, an IA has already been completed for the proposal to exempt Micro-Entities from the requirements of the 4th Directive. (ii) IA work is ongoing during 2010. (iii) The first meeting of the Impact Assessment Steering Group took place on 13 May 2009. Since then the proposals were refined and modified following two public consultations. The Steering group restarted on 31st May 2010. Two further meetings are envisaged. The frequency of meetings depends upon the pace of future developments. Next meeting is tentatively foreseen for October/November 2010. (iv) Directorates-general and services invited: Secretariat-General, Economic and Financial Affairs, Legal Service, Health and Consumers Protection, Taxation and Customs Union, Enterprise and Industry, Eurostat, Employment and Social Affairs.
(i) Is any of options likely to have impacts on the EU budget above €5m? (ii) If so, will this IA serve also as an ex-ante evaluation, as required by the Financial regulation? If not, provide information about the timing of the ex-ante evaluation.
No.

E. Evidence base, planning of further work and consultation
(i) What information and data are already available? Will existing impact assessment and evaluation work be used? (ii) What further information needs to be gathered, how will this be done *(e.g. internally or by an external contractor)*, and by when? (iii) What is the timing for the procurement process & the contract for any external contracts that you are planning (e.g. for analytical studies, information gathering, etc.)? (iv) Is any particular communication or information activity foreseen? If so, what, and by when?
(i) A number of studies on the SME accounting is already available (see our website: http://ec.europa.eu/internal_market/accounting/sme_accounting/index_en.htm). These include extensive studies on administrative burden reduction from 2007 and 2009, analysis of best practices of SME accounting systems in Member States and a study on compatibility between Accounting Directives and IFRS for SMEs. (ii), (iii) Additionally, two new studies have also been initiated. The first one, sponsored by DG MARKT, is looking at the reduction in administrative burden following the introduction of specific changes to the Directives, and will evaluate the cost of applying the IFRS for SMEs. Final delivery is expected by end-August 2010.The second one, launched by DG ENTR, is focusing on the accounting requirements for SMEs with the aim of obtaining a thorough analysis of accounting information needs from both user and business perspective. It should be finalised by end-2010, however interim results should be available in the second half of 2010. There will probably be a need for further information and/or quantification to be used in a future impact assessment. The exact needs will be assessed following the receipt of the final version of the measurement report, commissioned by DG ENTR. We may need to draw on DG MARKT's framework contract for smaller studies. (iv) All the information and documents on the developments of the Accounting Directives Review project are available on a dedicated webpage: http://ec.europa.eu/internal_market/accounting/sme_accounting/review_directives_en.htm
Which stakeholders & experts have been or will be consulted, how, and at what stage?
A broad range of key stakeholders concerned have been consulted throughout 2009 and 2010, including public

authorities, national and international standard setters, academics, representatives of small and medium size businesses, banks, investors, preparers and accountants established in several Member States.

Two public consultations were conducted: on proposed changes to the Accounting Directives and on IFRS for SMEs. They were both followed by stakeholders' events where the outcome was discussed (meetings took place in Brussels on 12 June 2009 and 25 May 2010). Consultations were also carried out in the Commission organised expert panels, in the framework of the European Financial Reporting Advisory Group (EFRAG), and in a specific working group set up within the Accounting Regulatory Committee (ARC).