



**EUROPEAN COMMISSION**

Internal Market and Services DG

FREE MOVEMENT OF CAPITAL, COMPANY LAW AND CORPORATE GOVERNANCE  
**Financial reporting**

## **STAKEHOLDER MEETING – 12th June 2009**

### **DRAFT MINUTES**

#### **Context**

The stakeholder meeting took place as a follow-up to a public consultation, launched in February 2009, on the Review of the Fourth and Seventh Council Directives (78/660/EEC and 83/349/EEC).

For further background information, please follow the link below:

[http://ec.europa.eu/internal\\_market/accounting/sme\\_accounting/review\\_directives\\_en.htm](http://ec.europa.eu/internal_market/accounting/sme_accounting/review_directives_en.htm)

#### **Participants**

More than 40 stakeholders took part in this event, among them SME organisations, standard setters, the accountancy profession and other representatives of the private sector. Several representatives of the Commission services were also present.

#### **Agenda**

The participants were informed of the first preliminary results of the public consultation. A discussion then followed on various specific topics, as highlighted below.

#### **Stakeholder reactions to the introductory comments by the Commission**

Several participants expressed the view that the timeframe available for the Review was insufficient to provide revised Directives that will withstand the test of time. They considered it was necessary to form a modern view on the objectives of the Directives and on their relationship with IFRS which would require further time for discussion. The fact that some Member States are in the middle of revising their local GAAPs should also be considered. One speaker suggested that consequences to taxation and capital maintenance rules should be taken into account to the fullest possible extent. The outcome of an upcoming study ordered by the Commission on the accounting requirements for SMEs should also provide useful additional input for the review.

In terms of assessing the outcome of the consultation one representative challenged the Commission to find a way to deal with identical responses to consultations such as these. Another speaker highlighted the importance of the use of XBRL in the simplification process. One speaker argued that this review and the micro-company proposal were not

inseparable. Another participant said that the revised Directives should follow a bottom-up approach throughout, and not restrict the approach to disclosures only.

### **Cash flow statements**

There was broad support for introducing the requirement to present cash flow statements for medium-sized and large companies. Comments and questions included:

- Should there be a MS option to require small companies to prepare them?
- Would subsidiaries have to prepare them?
- To be useful they would need to be published (together with the rest of the financial statements) in a timely manner.
- An insurance industry representative said that cash flow statements would add little value for users of insurance company accounts as most insurance companies have a business cycle longer than one year.

### **Layouts**

There were considerable differences in opinion concerning the simplified layouts. Comments and questions included:

- Some thought that if harmonisation was the objective then a less prescriptive format would be needed; however, the current "prescriptive" approach was considered beneficial by many.
- Should layouts follow more closely the IFRS or IFRS for SMEs' approach?
- Simply reducing the layouts may not in effect reduce the burden on companies as they will probably continue to produce these numbers.
- The "only once" principle, as well as the use of XBRL, would be key to making savings.
- The presently applied "current/non current" approach should be kept, according to one speaker.
- There was support for deleting extraordinary items in the P&L.
- According to one speaker, presentation by function may not simplify things as it might see more notes added to explain the figures appearing in the P&L account.
- Value adjustments in general need to be considered further in terms of definition and presentation in the P&L account.
- One speaker underlined the need to think about comparability with IFRS for the listed sector as presently solus accounts can be prepared in accordance with domestic GAAP whereas group accounts must follow IFRS.

## **Disclosures**

There was much divergence among stakeholders when it came to disclosures. Comments included:

- Some commented that there comes a point where disclosures are so reduced that the accounts are meaningless.
- Disclosure is the price to pay for limited liability status, some argued.
- Others stated that reducing the number of options would simplify disclosure (e.g. on accounting policies or valuation methods). The only-once method was also cited as helpful in this context.
- One speaker (echoed by many) argued that transactions with related parties and off-balance sheet arrangements should be among the minimum disclosures.
- Another speaker thought that contingencies and commitments should be included.
- User needs vs. burdens must be carefully balanced to make sure that financial statements still remain useful and informative.
- Overall, the basic goal should remain the provision of sufficient information to users, one speaker emphasised.
- One speaker highlighted the importance to focus on what the Directives should contain to make general purpose financial statements useful, and not what is necessary for other purposes (e.g. disclosures helpful for tax authorities do not fulfil general purpose needs).

## **Modernisation of language and terminology**

Participants were of the view that a lot of meaning can be lost in translation. The term "management report" should be used instead of "annual report" (the latter was considered confusing by certain participants). Others suggested that changes should only be made where absolutely necessary.

## **Basic principles**

The debate under this heading revealed how complex it would be to change the principles currently in the Fourth Directive. Comments included:

- Nothing should be changed that could have a knock-on effect for tax or capital maintenance, according to one speaker.
- Another speaker highlighted reliability and cost-benefit as key principles.
- Others highlighted the importance of substance over form, but others argued this principle can produce problems in MS where tax and accounting regimes are in close alignment (recognition of assets in lease accounting was cited as an

example). Another speaker said that this could be overcome by using the term "should have regard to the substance of transactions" as in UK law.

- One participant asked that any revision to the definition of a liability should await the outcome of the IASB financial instruments project, so that the revised liability definition could accommodate an expected loss model.
- Other speakers pointed out that the principle of comparability was important; that the principles should align with IFRS; and that prudence is in the Directives but not in IFRS.

### **Other issues**

- In response to a question concerning stock valuation methods one speaker explained that "last in, first out" (LIFO) was still used in Germany.
- Some speakers commented on the pending release of the IFRS for SMEs. Several speakers said that as part of the ongoing review of the 4<sup>th</sup> and 7<sup>th</sup> Directives the obstacles in the way of IFRS for SMEs should be removed. One speaker pointed out that a "self-endorsement" of this new standard is not desirable but there should be some procedure at EU level. Some said they would like to see an outcome where IFRS for SMEs and Directives are considered compatible. One needs to remember, a speaker pointed out, that local MS GAAP is converging to IFRS all the time.
- One speaker was wondering whether the Commission would be in favour of developing an EU XBRL taxonomy once the reduced layouts have been developed and provide financial support for this.
- A participant was wondering whether there would be a fundamental reform of the 7<sup>th</sup> Directive.

### **End note**

Since the stakeholder meeting the initial end of 2009 deadline for the review of the 4<sup>th</sup> and 7<sup>th</sup> Accounting Directives was lifted in order to extend the consultation period. See also:

[http://ec.europa.eu/internal\\_market/accounting/docs/20090723\\_update\\_accounting\\_review\\_en.pdf](http://ec.europa.eu/internal_market/accounting/docs/20090723_update_accounting_review_en.pdf)