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DG Internal Market

Report on impacts of raised thresholds defining SMEs

Impact assessment on raising the thresholds in the 4th Company Law Directive (78/660/EEC) defining small and medium sized companies

December 2005

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1. Introduction

This report is a brief attempt to analyze the impact on company population as well as on Member State's policy based on six scenarios for raising the thresholds defining small and medium sized companies within twenty Member States of the European Union. The study was assigned to Ramboll Management by the European Commission to provide initial data serving as a knowledge base for further analysis and eventual amendments to the 4th Company Law Directive (78/660/EEC).

The study was carried out by direct conducting interviews with representatives of Member States and by analyzing data withdrawn from the AMADEUS company database. The database, AMADEUS, is a comprehensive, pan-European database containing financial information on 7 million public and private companies in 38 European countries. It combines data from over 35 information providers (IPs).

The interviews were based on updated questionnaires used by the European Commission in an earlier survey among Member States this year, and the interviews were conducted with representatives of the Member States responsible for policy handling related to small and medium sized companies in 20 Member States. This has typically been desk officers and higher level officials at finance- or justice ministries.

Although this study has been conducted thoroughly, due to the short time frame for the study's completion, there may be some issues or facts that may not have been investigated in sufficient detail, for example, issues concerning the Member States' transposition as well as for the statistical data used for the study.

We hope however, that this report will add to the understanding of the impacts of an eventual raise of thresholds defining small and medium sized companies in the 4th Company Law Directive (78/660/EEC).

The report is structured as follows:

- Chapter 1:** includes an introduction and a brief background to the report
- Chapter 2:** presents a summary of the conclusions made
- Chapter 3:** presents the approach and methodology used for the study.
- Chapter 4:** presents an analysis on changes in SME population related to the different scenarios
- Chapter 5:** presents an analysis on the individual Member States responses and preconditions to raised threshold levels

Appendix A: Country reports

Appendix B: Relation between bankruptcies and threshold levels

1.1 **Scope and background of the study**

The Competitiveness Council invited in November 2004 the Commission to consider raising the thresholds in the 4th Company Law Directive (78/660/EEC) defining small and medium sized companies. At the ECOFIN Council meeting the Commission then stated that it was willing to do consider raising the thresholds.

The Fourth Company Law Directive applies to all limited liability companies and according to the Directive, Member States have already several options to ease the financial reporting burden on small and medium sized companies as defined in Articles 11 and 27 of the Fourth Company Law Directive.

The directive defines companies as "small" companies, if they for two consecutive years, do not exceed the limits of two of the three following criteria:

- balance sheet total: EUR 3 650 000,
- net turnover: EUR 7 300 000,
- average number of employees during the financial year: 50.

and as "medium-sized" companies, if they for two consecutive years, do not exceed the limits of two of the three following criteria:

- balance sheet total: EUR 14 600 000,
- net turnover: EUR 29 200 000,
- average number of employees during the financial year: 250.

Member States have the opportunity to allow small companies to draw up abridged accounts and notes to the accounts and exempt small companies from the requirement for a statutory audit and audit opinion as well as from drawing up an annual report. Member States can also allow medium sized companies to adopt different layout for the profit and loss account, aggregate balance sheet information, not to draw up consolidated accounts and to leave out non-financial information from the annual report.

Since Member States apply the possibilities offered by the Directives very differently the Commission aims to assess the impact of various scenarios in relation to changes in population among SMEs, as well as predictions of policy changes among MS where possible, before considering raising the thresholds.

The scenarios are as follows:

1. Status quo (no change in the thresholds)
2. Increase of the thresholds by 3%
3. Increase of the thresholds by 9%
4. Increase of the thresholds by 16%

5. Increase of the thresholds by 20%
6. Increase of the thresholds by 25%

The purpose of this study is to map the potential effects and impacts of the different scenarios of raised or unchanged threshold levels to serve as a base for a decision on new levels of thresholds for small and medium sized companies.

2. Summary

In this report we have made a brief attempt to analyze the impact on company population as well as on Member State's policy based on six scenarios for raising the thresholds defining small and medium sized companies within twenty Member States of the European Union.

The analysis has focused on assessing the impact on the population of small and medium sized companies in Member States for different threshold levels, as well as the Member States national policy regarding definition of SMEs in relation to the 4th Company Law Directive's threshold levels. The aim of the latter has been to evaluate the likeliness of individual Member States to following possible increases to the threshold levels defining SMEs in the 4th Company Law Directive. The extents to which Member States implement higher thresholds influence the expected impacts of increased threshold levels in the 4th Company Law Directive.

In addition, considerations, posed by the Member States, related to increased thresholds are discussed as well as an attempt to test the hypotheses that there is a positive relationship between threshold levels and number of bankruptcies.

The impact on small and medium enterprise populations from the six scenarios with different threshold levels is, overall, modest in relative terms but still considerable in absolute terms. For the highest investigated level of increase the percentage change will be somewhere between 1.5 and 2 percent. The relative effects on the medium enterprise population is higher, for the highest investigated level of increase of the thresholds the change is expected to be somewhere between 16 and 19 percent.

The spread in relative change between countries is large for all investigated scenarios and categories. Implying that increased thresholds would in relative terms impact the SME populations in different Member States very differently.

The willingness of Member States to implement higher threshold defining SMEs seems to be related to their motivation to alleviate their companies from regulatory burdens. Companies that today fully implement the options, offered by the 4th Company Law Directive, to reduce the regulatory accounting burdens show more willingness to also implement higher levels of thresholds defining small and medium-sized companies, than those that today have much lower threshold levels compared to those of the Directive. There are large differences among Member States regarding how thresholds are set nationally, suggesting that some Member States will not follow an example by the European Commission raising threshold levels. Consequently there is a risk when Member States respond differently to the option to raising thresholds that the differences in defining SMEs among Member States becomes even larger than the already are.

Considering national differences in defining SMEs, one of the effects of raising the thresholds on the EU level could be that it becomes even more difficult to find common ground for benchmarking within this company category. We can also see an eventual impact on the competition strength of SMEs depending on the degree of implementation of the various options nationally. This could be related both to which data that companies have to present to be granted loans and risk capital, as well as related to how much time they have to spend on administration, since implementing the options means less administrative burdens for the individual business.

It is not possible to draw any conclusions from our very limited analysis on whether there is any correlation between threshold levels and bankruptcies, nor when it comes to the implementation of the options offered in the Directive. However, we can see that the Member States in our study with the largest amount of bankruptcies per 10 000 companies, also have chosen to fully implement the relief options.

3. Study methodology

In the following chapter we present the methodology used for the study as well as methodological concerns related to the data collection and its usability for the purposes of analysis.

The main base for the impact analysis has been financial and basic company data collected from the pan-European database, AMADEUS. The data has been complemented with interviews with officials at the Member States, as well as with data from a previously conducted survey administrated by the European Commission on this subject.

3.1 AMADEUS database

In order to portray the estimated potential changes in population for SMEs per Member States in relation to the posed scenarios, data has been collected from the database AMADEUS as sole source. The AMADEUS database is managed by Bureau van Dijk in the Netherlands.

Data availability

The portraying of SME population per Member State for the six different scenarios requires data on the number of companies in a country not exceeding the thresholds in the different scenarios. As previously mentioned the meaning of not exceeding the threshold is fulfilling two out of three size limit criteria during two consecutive years. Moreover, the criteria concern the variables; balance sheet total, net turnover and employees. The portraying consequently requires company data on the three criteria variables and for two consecutive years. The AMADEUS database contains aggregated data for the three variables on Member State level, under the condition that the balance sheet variable is substituted with total assets¹. The variables net turnover and number of employees have for some countries a large number of missing observations, (n.a). To make the collected dataset comprehensive the AMADEUS database has used estimates when data have not been available. The estimates are based on the available data for different industries within the database, as well as for the database as a whole².

The data is available for the years 2000 to 2003. Unfortunately, there is limited data for certain Member State, wherefore it is only meaningful to collect data on 20 Member States that are well covered in the database. In total the database provides a dataset with over four million companies in the 20 Member States included in this study. The large size of the sample was essential for the decision to use the AMADEUS database for the impact assessment.

¹ According to accounting principal these two variables shall have the same value.

² For a further discussion about the estimates see: <http://amadeus.bvdep.com>

Apart from providing a very large dataset, AMADEUS is, to our knowledge, the only source containing harmonized data for EU Member State on the three threshold criteria variables. Given those circumstances AMADEUS outperformed other sources such as Eurostat and national statistical offices.

Data collection approach

Data is collected for the following 20 Member States: Austria, Belgium, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Luxembourg, Netherlands, Poland, Portugal, Slovenia, Spain, Sweden and United Kingdom.

Data has only been collected for public and private companies who have the legal form of limited companies or limited liability companies, in line with the scope of the 4th Company Law Directive³.

For each Member State, data on the total number of companies in three different threshold categories under the conditions of each of the six scenarios has been collected. The three threshold categories are:

1. Total Asset – Turnover
2. Total Asset – Employees
3. Turnover - Employees

The categories are classified based on the criteria variables defining small and medium enterprises in the 4th Company Law Directive (78/660/EEC). The data has been collected for the combination of two consecutive years (2002-2003), meaning that companies are included in a category if they do not exceed the thresholds for the same two variables both years, i.e. are in the same category both years. An enterprise can of course, and most often do, qualify for more than one category. The total number of enterprises that end up in each category given certain threshold levels (conditioned by the scenarios) for the variables involved in the specific category is a measurement for the small and medium enterprise populations with those threshold levels.

The data are collected separately for the two groups, small and medium enterprises.

Data validity and limitations

Due to the lack of comparable sources for the collected data from AMADEUS, the data has been validated using more aggregate figures from AMADEUS and assuming that the validity of these implies that other data from the same source also is valid. The approach was undertaken by asking Member State representatives to validate the total number of companies in their country in 2003 as reported in AMADEUS. The data check allowed us to assume a fairly high validity for the dataset used, nonetheless recognizing that the dataset is incomplete.

Thanks to the large sample provided by AMADEUS we can assume that the distribution in the data sample corresponds to the actual population distribution. Nevertheless, the fact that we have no exact information about how the sample size corresponds to the actual population size, and no detailed information about the distribution within the sample and thereby population, since we only have access to aggregated figures, limits the analysis potential in terms of explaining outcomes.

Recall that those companies who have exceeded the standards of SMEs for one of the two consecutive years, 2003 and 2002, in each category are removed from the collected dataset. The fact that the data are on aggregated form, makes it impossible to account for the possibility that companies can change category between 2002 and 2003 and still be defined as a small or medium sized establishment, i.e. a company belonging to one category in 2002 does not have to belong to the same category the following year, but still be defined as a small or medium sized establishment. The fact that our analysis excludes companies which change category, but still should be defined as a SME, can be of concern for two reasons. First the measurements for the total populations are undervalued. Second, in case there are systematical differences between the countries, comparisons between countries will be misleading. For the analysis we assume that there are no systematical differences between the countries in our dataset subject to changes between the chosen categories within the Member States used.

A precondition for measuring the populations for small and medium sized companies by one category is that all SMEs fulfill all three criteria. Since this is not likely the measurement method necessarily adds to the underestimation of the population. However, most SMEs probably fulfill all criteria and the bias is therefore expected to be negligible.

This part has focused on data limitations. It is important to point out that though there are some limitations these are considered to be minor. The data offers good opportunity to analyse relative changes in the different scenarios and are well suited to apply to the threshold criteria variables stipulating the investigated scenarios.

3.2 Interviews

Interviews have been conducted, with Member State representative from each Member State included in the study, in order to find out the current implementation of thresholds and options for regulatory burden relief by individual Member States. Understanding the current situation is crucial for the potential to assess future impacts of changes to the 4th Company Law directive concerning raised thresholds defining SMEs. The interviews also included questions about expected responses from individual Member States to any raised thresholds in the Directive.

³ Article 1: Application of the Fourth Directive, 4th Company Law Directive (78/660/EEC).

The interviews were conducted over the phone. The respondents have been selected by the European Commission, and have typically been higher ranking officials or desk officers at the Member States' finance or justice ministries. Where a telephone interview has not been possible, the respondents have been offered to answer the questionnaire by e-mail.

The interviews have followed a questionnaire prepared by Ramboll Management, based on the scope of the study as defined by the European Commission. The questionnaire has also partly been based on the European Commission's previously conducted survey among the Member States as of earlier this year.

The following questions have served as a base for the interviews:

1. What thresholds (expressed in Euro) are being applied to define small and medium sized companies? (*compared to the Commission's thresholds*)
2. To which extent has the Member State made use of the options to alleviate accounting regulatory burdens on small and medium sized companies under national law in relation Directive 2003/51/EEC amending the Fourth and Seventh Company law Directives? (small and medium sized respectively!)
 - Publication of abridged balance sheet?
 - Publication of profit and loss account?
 - Preparation and publication of abridged notes on the accounts
 - Preparation and publication of annual report
3. Does the Member State use of the option to exempt small companies from statutory audit? If so, which category of companies?
4. Would an increase in threshold levels in the Fourth Company Law Directive affect the levels used in the Member State? Why – why not?
5. Could lowering of the accounting requirements for small and medium sized companies in the Fourth Company Law Directive be accompanied by any risks? If so – which and why?
6. What are the numbers of bankruptcies in your country for 2004 within the group of small- and medium sized enterprises? (Or where could we find such information for your country?)

For some Member States, the information collected within the European Commission's survey has been used as complementary data⁴.

Due to the short time frame for this study, interviews with Poland and Belgium are not completed, due to contact persons' absence.

⁴ MARKT/F.3/JT D(2005)

3.3 **Impact analysis**

Based on the collected data from the database and interview data, Ramboll Management has conducted an impact analysis of increased thresholds defining SMEs. The analysis has focused on the following issues:

- Impact on potential changes of SME populations in Member States given the implementation of threshold levels for each of the six scenarios, no change of thresholds, 3, 9, 16, 20 and 25 percent increase of thresholds.
- Impact on Member States' national policy concerning definition of SMEs.
- Risks and advantages posed by Member States concerning raising threshold levels for SMEs as well as potential relationship to number of bankruptcies for this category of companies.

The data collected from AMADEUS is the base for the first point for analysis. Percentage changes as well as absolute changes to SME populations due to raised threshold levels are analysed using the data retrieved from the database. The focus is on percentage changes.

The two final points are mainly carried out using the interview data. However, in order to verify certain suggested impacts, the analysis is also based on complementary material. This analysis is not focused around the specific scenarios, as the first point of analysis is. On the other hand, the options of granting SMEs exemptions from certain regulatory burdens offered by to Member States in the 4th Company Law Directive are central.

4. Impact on SME population

This chapter presents the analysis of changes in SME population in relation to the five scenarios of raised thresholds defining SMEs. The data used for the analysis has been collected from the database AMADEUS, discussed in chapter 3.

For each Member State included in this study, the total number of companies in each threshold category, Total Asset – Turnover, Total Asset – Employees and Turnover – Employees, has been collected. The data was collected for the combination of two consecutive years (2002-2003), meaning that companies are only included if they are in the same threshold category both years. This data collection approach provides proxies of the total populations for small and medium enterprises respectively in each Member State as defined within the current scope of the 4th Company Law Directive (78/660/EEG) as well as in the five different scenarios with increased thresholds.

4.1 Status quo – the baseline scenario

The situation regarding the number of small and medium sized enterprises in each Member State in the two consecutive years 2002 and 2003 is referred to as status quo. The status quo makes up the baselines for the impact assessment of increased thresholds. Table 1 shows the status quo numbers for each Member State and in total. By showing the status quo numbers Table 1 reports the results for the first scenario, no change in the thresholds.

Table 1 Status quo

Category Country	Small companies			Medium companies		
	Total Assets-Turnover	Total Assets-Employees	Turnover-Employees	Total Assets-Turnover	Total Assets-Employees	Turnover-Employees
Austria	145	150	30597	238	169	1219
Belgium	242209	245682	248401	3396	1360	1620
Denmark	94608	96198	99514	2350	1579	1872
Finland	58200	58199	59242	959	779	822
France	614029	614710	625723	12345	7564	8127
Germany	9012	9271	398372	1498	1195	12927
Greece	15826	15667	18065	723	688	650
Ireland	74035	74895	76583	1242	718	1070
Italy	153213	134018	172119	11165	5965	7080
Luxembourg	699	708	796	57	24	38
Netherlands	169980	178176	179002	3550	1922	2007
Portugal	13472	13453	14743	876	708	876
Spain	488335	484452	507670	7044	4773	4934
Sweden	193352	193972	197422	2905	1980	2359
UK	979178	978650	1001457	14004	11370	12682
Estonia	37077	36204	36426	147	147	130
Poland	7962	5000	5959	1520	1546	1322
Czech Republic	24098	21882	22248	880	1201	813
Hungary	9601	7343	9201	624	358	358
Slovenia	2370	2153	3511	191	187	167
Total	3187401	3170783	3707051	65714	44233	61073

In total for the 20 Member States the status quo for the small enterprise population is according to the data 3 707 051 companies and the medium sized company population is more than 65 714 companies. The figures are from the Turnover-Employees and Total Assets –Turnover categories respectively. The category with the largest value within the size group is selected for the proxy of the total population of that size group. Any other selection would mean exclusion of companies that obviously are defined as small alternatively medium sized companies according to the applied threshold criteria.

The data seems reasonable for most countries across both size groups and all three threshold categories. However, some data for Austria and Germany appears to be incorrect. Thus, explaining why the company population for medium enterprises is expected to exceed 65 714 companies.

The data for Austria and Germany within the categories involving Total Assets appears to be substantially underestimated. The outcome is due to missing data in AMADEUS. AMADEUS referees to the Total Asset variable as not applicable for most companies from these countries, but does not replace the missing values with estimates. Given that the baseline data are so obviously incorrect, one could argue that these countries should be excluded from analysis of the categories including total assets. Nevertheless, we have chosen to report all figures for all scenarios independent of the quality of the data, but pointing out problem areas. It is important that the analysis take the limitations into consideration in its interpretation of results.

An analysis of the results in the status quo table should also consider the spread between the different categories within countries and size groups on the one hand but also within categories and size groups but between countries on the other. Similar values between categories signal that most SMEs fulfil all three SME criteria, hence that the underestimation of the population measured as one category is minor. Similar values between countries show that they have similar sizes of the SME populations under current threshold conditions.

In total for the 20 Member States the Total Assets-Employees category is much lower than the two categories involving Turnover, 44 233 compared to 65 714. The pattern is observable for almost all countries as well, particularly for example Italy and Portugal.

Figure 1 and Figure 2 display the same numbers as Table 1 but with bars, providing compilations of the status quo that are easier to overview.

Figure 1 Status quo small companies

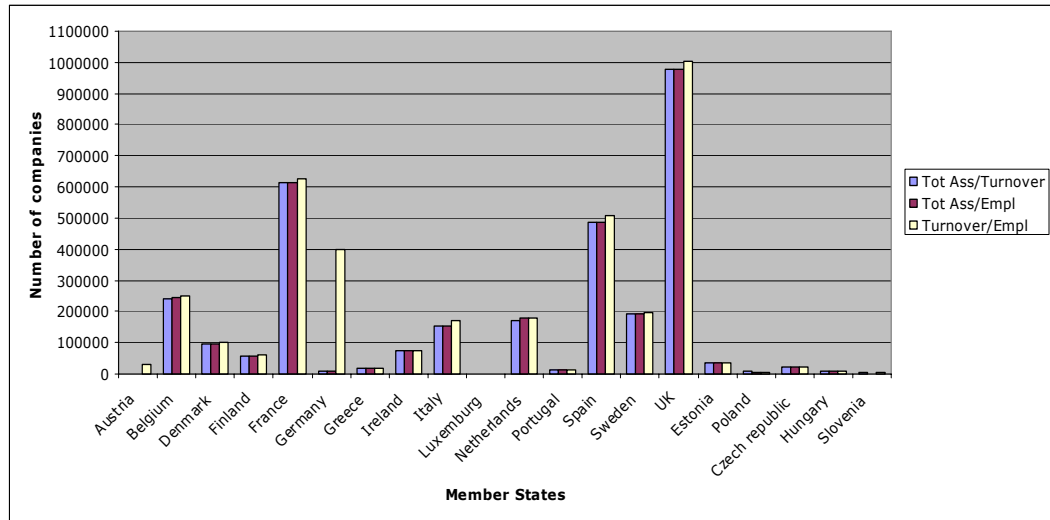
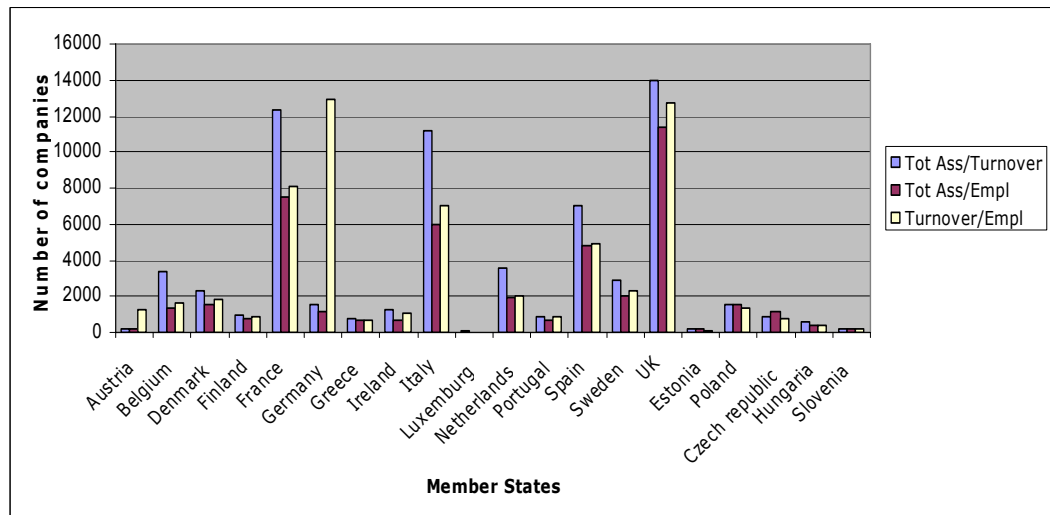


Figure 2 Status quo medium sized companies



4.2 Increased threshold scenarios

The potential impact on small and medium sized company population from increased threshold levels defining small and medium sized companies according to 4th Company Law Directive (78/660/EEG), are assessed in five different increased threshold scenarios. The scenarios differ with regard to the level of increase.

1. Status quo (no change in thresholds)
2. Increase of the thresholds by 3%
3. Increase of the thresholds by 9%
4. Increase of the thresholds by 16%
5. Increase of the thresholds by 20%

6. Increase of the thresholds by 25%

The impact is assessed both in terms of percentage and absolute changes to the populations. The assessment focuses on percentage changes since the statistical reliability for these figures is assumed to be higher compared to the absolute numbers. The samples from AMADEUS used for analysing the percentage change are for most countries relatively large. Therefore we have reason to believe that the analysis can provide percentage change results that are representative for the population, even though we do not know the exact relation between samples and populations.

4.2.1 Percentage change

Small companies

Increased threshold levels are estimated to increase the number of small enterprises in all Members States included in the study. Poland and Italy are, according to the estimations, countries that will experience the largest impact on their small enterprise population from increased threshold values.

Table 2 below reports the percentage change in the small enterprise populations for all five scenarios, per threshold category and Member State.

Table 2 Percentage change – small companies

Scenario Country	Total Assets – Turnover					Total Assets – Employees					Turnover – Employees				
	3 %	9 %	16 %	20%	25 %	3 %	9 %	16 %	20%	25 %	3 %	9 %	16 %	20%	25 %
Austria	3,55	8,51	16,31	19,15	22,70	2,74	9,59	19,18	26,03	30,14	0,56	1,47	2,69	4,14	4,94
Belgium	0,26	0,66	1,09	1,31	1,53	1,06	1,38	1,72	1,02	2,09	0,21	0,51	0,81	0,97	1,12
Denmark	0,32	0,89	1,56	1,95	2,36	0,30	0,81	1,38	1,70	2,06	0,26	0,67	1,10	1,35	1,65
Finland	0,20	0,56	0,90	1,11	1,34	0,20	0,58	0,93	1,12	1,38	0,17	0,49	0,77	0,96	1,17
France	0,13	0,39	0,65	0,79	0,94	0,14	0,39	0,63	0,76	0,91	0,12	0,31	0,50	0,61	0,74
Germany	0,92	2,91	5,10	6,19	7,60	1,01	3,00	4,81	5,82	7,16	0,56	1,16	1,86	2,61	3,13
Greece	0,96	2,74	4,54	5,47	6,69	0,93	2,75	4,47	5,71	6,90	0,59	1,60	2,45	3,33	3,99
Ireland	0,24	0,69	1,16	1,42	1,72	0,17	0,52	0,88	1,19	1,42	0,21	0,57	0,87	1,10	1,32
Italy	0,94	2,63	4,43	5,40	6,48	0,94	2,66	4,46	5,44	6,51	0,69	1,85	2,98	3,65	4,36
Luxembourg	1,00	2,44	3,30	5,16	6,59	0,99	2,26	3,39	4,67	5,80	0,38	1,13	2,02	2,77	3,40
Netherlands	0,46	1,37	2,71	3,28	3,79	0,39	1,11	1,82	2,23	2,72	0,31	0,96	2,00	2,44	2,75
Portugal	0,71	1,92	3,15	3,93	4,69	0,73	1,93	3,09	3,89	4,70	0,58	1,63	2,67	3,31	4,03
Spain	0,28	0,82	1,35	1,64	1,97	0,36	0,97	1,55	1,88	2,26	0,24	0,62	0,95	1,14	1,38
Sweden	0,17	0,48	0,82	1,00	1,22	0,18	0,47	0,80	0,98	1,19	0,15	0,44	0,69	0,85	1,03
UK	0,19	0,48	0,80	0,94	1,16	0,19	0,51	0,83	1,01	1,23	0,12	0,34	0,57	0,70	0,85
Estonia	0,07	0,19	0,32	0,40	0,49	0,16	0,43	0,64	0,83	1,01	0,14	0,39	0,58	0,75	0,90
Poland	1,44	4,41	7,72	9,48	11,62	1,93	5,49	9,17	13,15	16,29	1,93	5,15	8,35	12,46	15,62
Czech republic	0,38	1,21	2,07	2,46	3,04	0,15	0,46	0,79	0,98	1,17	0,13	0,40	0,64	0,78	0,90
Hungary	0,56	1,73	3,18	3,88	4,66	1,31	3,16	5,32	6,52	8,01	1,21	2,95	4,92	5,95	7,26
Slovenia	0,88	2,00	2,88	3,62	4,50	1,18	3,02	4,82	5,84	6,86	0,84	2,17	3,72	4,69	5,58
Total	0,27	0,74	1,26	1,52	1,83	0,34	0,81	1,28	1,49	1,86	0,24	0,62	1,02	1,28	1,54

The positive percentage changes to the small companies' population for the 20 Member States together are quite modest across all scenarios and categories. The range between categories for the first scenario is 0.24-0.34 percent, 0.62-0.81 percent for the second scenario, 1.02-1.28 percent for scenario three, 1.28-1.52 for scenario four and 1.54-1.86 percent in the fifth scenario. The largest changes for all scenarios are found in the Total Assets-Employees category. The ranking shall be viewed in

light of the most probably overestimated results for Austria and Germany in the categories including total assets, compared to other countries.

The countries, apart from Germany and Austria, showing somewhat deviant patterns between threshold categories are Greece, Italy, Luxemburg, Spain, Belgium and Estonia. The impacts that the first four of these countries experience in the Turnover-Employees category are much lower compared to the other two categories. For Belgium, the Total Assets – Employees category are lower in all scenarios compared to the other categories. The impact faced by Estonia is lower in the Total Assets – Employees category compared to other categories for all scenarios but the 3 percent scenario.

Apart from analysing differences between the categories within countries and size groups, an analysis of the percentage changes to small enterprise population caused by increased threshold should also investigate the spread between countries within categories and size groups. It is assessing to what extent different Member States experience different impacts. For this analysis we look at the mean values and standard deviations for each category per scenario. The table below show the figures.

Table 3 Mean and Standard deviation – Small companies (%)

	MEAN	ST.DEV.	MEAN Without Austria and Germany	ST.DEV. Without Austria and Germany
Total Assets – Turnover				
3 %	0,68	0,77	0,51	0,39
9 %	1,85	1,91	1,42	1,11
16 %	3,20	3,61	2,37	1,87
20 %	3,93	4,27	2,96	2,33
25 %	4,75	5,10	3,60	2,87
Total Asset – Employess				
3 %	0,71	0,69	0,58	0,52
9 %	2,03	2,25	1,56	1,41
16 %	3,49	4,33	2,55	2,33
20 %	4,54	5,93	3,27	3,21
25 %	5,45	6,95	3,98	3,95
Turnover – Employess				
3 %	0,47	0,45	0,46	
9 %	1,24	1,17	1,23	
16 %	2,06	1,92	2,03	
20 %	2,73	2,77	2,65	
25 %	3,31	3,45	3,22	

There is no standard deviation for any specific category that is more prominent than other in some way. Overall the standard deviations are large in relation to the mean values, showing that there is a large spread between the percentage changes experienced by different Member States. The relative impact of increased thresholds will be very divers on different countries small enterprise populations.

Medium sized companies

Contrary to the impact on the population of small enterprises, the number of medium sized enterprises is estimated to decrease in response to increased threshold values in the vast majority of Member States included in the study. The reason is related to the fact that the share of smaller companies to most countries' total enterprise populations is high. There are fewer larger companies than smaller companies in the population⁵. Hence, dealing with groups of relatively larger companies almost always means fewer companies. When the threshold for defining small companies is increased the medium sized companies automatically becomes a group of relatively larger and fewer companies, even though the upper threshold for medium sized enterprises are also increased.

Table 4 presents the percentage change in the medium enterprises populations for all five scenarios, per threshold category and Member State.

Table 4 Percentage change – medium sized companies

Scenario Country	Total Assets – Turnover					Total Assets – Employees					Turnover – Employees				
	3 %	9 %	16 %	20 %	25 %	3 %	9 %	16 %	20 %	25 %	3 %	9 %	16 %	20 %	25 %
Austria	2,15	1,29	-2,58	-1,72	-1,29	7,23	3,61	3,01	1,81	1,20	-0,89	-4,52	-9,31	-12,32	-13,56
Belgium	-1,59	-8,48	-14,37	-18,03	-19,37	-1,07	-5,79	-10,66	-12,72	-17,75	-3,81	-8,59	-11,94	-14,01	-18,92
Denmark	-1,42	-7,13	-11,21	-12,18	-15,20	-1,32	-9,07	-12,38	-15,62	-19,32	-2,77	-5,37	-9,02	-11,62	-14,71
Finland	-0,85	-4,06	-8,43	-10,57	-12,59	-0,13	-6,07	-12,14	-14,64	-18,87	-3,85	-5,33	-10,17	-12,03	-15,14
France	-2,54	-9,59	-14,30	-17,69	-21,62	-2,84	-9,40	-12,52	-15,60	-19,80	-3,74	-8,80	-12,92	-15,35	-19,59
Germany	-0,28	-4,41	-7,71	-9,64	-11,64	-0,44	-4,19	-6,11	-8,03	-10,57	-2,67	-6,50	-9,66	-14,01	-17,52
Greece	-0,55	-8,30	-8,99	-13,42	-15,35	-2,76	-12,50	-13,08	-20,06	-21,95	-3,69	-9,69	-12,31	-18,00	-20,92
Ireland	-0,43	-10,11	-15,11	-18,83	-21,38	0,56	-5,57	-7,42	-16,14	-19,11	-2,40	-5,31	-5,44	-15,93	-15,68
Italy	-0,54	-7,45	-13,15	-15,71	-19,62	-2,30	-9,65	-14,57	-17,75	-22,13	-4,25	-9,54	-15,36	-18,44	-22,68
Luxembourg	0,00	5,45	0,00	5,45	7,27	0,00	0,00	8,33	12,50	12,50	0,00	2,63	-2,63	-7,89	-18,42
Netherlands	-0,94	-6,76	-12,09	-14,23	-16,34	-1,38	-6,37	-7,48	-10,19	-12,10	-0,96	-3,10	-4,31	-5,53	-6,24
Portugal	-1,67	-7,14	-10,95	-13,69	-14,52	-0,74	-8,41	-13,72	-16,22	-17,99	-2,98	-5,85	-10,62	-14,68	-17,06
Spain	-0,62	-7,06	-11,99	-14,19	-17,12	-2,91	-10,48	-14,92	-18,85	-22,96	-4,00	-8,15	-11,79	-15,32	-19,61
Sweden	-3,27	-9,95	-12,63	-14,56	-16,52	-2,73	-9,70	-14,19	-16,26	-20,30	-3,94	-9,92	-12,29	-15,52	-19,42
UK	0,31	-4,90	-8,77	-11,06	-13,26	-1,42	-7,19	-11,43	-14,12	-17,64	-2,12	-5,09	-7,84	-9,94	-13,31
Estonia	0,00	-7,64	-15,97	-19,44	-20,14	-2,74	-6,85	-14,38	-18,49	-20,55	-3,97	-13,49	-21,43	-26,98	-32,54
Poland	0,16	-2,82	-6,84	-8,45	-11,84	-0,30	-3,31	-4,82	-6,48	-9,26	-2,46	-6,26	-10,33	-7,30	-11,66
Czech republic	-2,27	-7,27	-10,11	-10,80	-14,32	-2,83	-7,58	-14,24	-16,49	-19,82	-2,95	-8,98	-13,04	-15,99	-21,65
Hungary	0,50	-3,80	-5,45	-6,94	-7,44	-2,60	-2,31	-8,38	-10,12	-10,69	-0,29	-1,44	-2,87	-3,16	-4,31
Slovenia	0,00	-1,12	-3,93	-10,11	-14,61	1,10	1,66	8,29	11,60	8,84	-5,03	-8,81	-5,66	-5,66	-6,92
Total	-0,78	-6,80	-11,31	-13,73	-16,44	-1,79	-7,95	-11,90	-14,85	-18,46	-2,94	-6,85	-10,30	-13,33	-16,85

As for the percentage changes to the small enterprise population, the percentage changes to the number of medium sized companies are fairly similar between threshold categories within scenarios for most countries. The positive percentage changes to the medium sized companies' population for the 20 Member States together are quite modest in the first scenarios but become larger for the later scenarios. The range between categories for the first scenario is -0,78 to -2,94 percent, -6,85 to -7,95 percent for the second scenario, -10,3 to -11,31 percent for scenario three, -13,33 to -14,85 in the fourth scenario and -16,44 to -18,46 percent in the fifth scenario.

⁵ According to the data in AMADEUS the almost all Member States included in the study have a share of SMEs to their enterprise population exceeding 80%.

There is no general pattern for the relationship between impacts on small and medium sized company populations. Member States experiencing similar impacts on their small enterprise populations rarely seem to face similar effects on the number of medium sized enterprises.

The spread between countries are as for the small companies high. Standard deviations and mean values confirming this are presented in the table below. Countries will experience quite different relative impacts on their medium sized company populations as well from increased thresholds.

Table 5 Mean and Standard deviation – Medium sized companies (%)

	MEAN	ST.DEV.	MEAN. Without Austria and Germany	ST.DEV. Without Austria and Germany
Total Assets – Turnover				
3 %	-0,69	1,21	-0,87	1,06
9 %	-5,56	3,94	-6,01	3,78
16 %	-9,73	4,34	-10,24	4,19
20 %	-11,79	5,93	-12,47	5,70
25 %	-13,85	6,90	-14,67	6,56
Total Asset – Employess				
3 %	-0,98	2,31	-1,47	1,32
9 %	-5,96	4,18	-6,59	3,68
16 %	-8,64	7,26	-9,43	7,07
20 %	-11,09	9,41	-11,98	9,37
25 %	-13,91	10,22	-14,94	10,08
Turnover – Employess				
3 %	-2,84	1,39		
9 %	-6,60	3,51		
16 %	-9,95	4,46		
20 %	-12,98	5,46		
25 %	-16,49	6,38		

4.3 Increase in threshold scenarios – absolute change

The absolute changes presented in this section shall be interpreted with caution. The reason is that the reliability of the data is not as high as for the percentage changes. We present similar tables as for percentage change, but do not extend the analysis, since the results are difficult to relate to due to lack of comparative and explanatory information.

Table 6 Absolute change – small companies

Scenario Country	Total Assets – Turnover					Total Assets - Employees					Turnover – Employees				
	3 %	9 %	16 %	20 %	25 %	3 %	9 %	16 %	20 %	25 %	3 %	9 %	16 %	20 %	25 %
Austria	5	12	23	27	32	4	14	28	38	44	93	245	448	691	824
Belgium	603	1515	2505	2992	3500	438	1181	1971	2378	2825	498	1196	1891	2269	2630
Denmark	293	820	1441	1804	2185	279	761	1294	1600	1942	252	645	1069	1304	1592
Finland	116	320	515	636	767	117	333	532	644	790	101	286	450	562	684
France	687	1977	3331	4020	4788	739	1997	3245	3883	4659	615	1599	2574	3144	3820
Germany	76	241	422	512	629	86	255	409	495	609	1826	3755	6029	8432	10120
Greece	152	434	719	866	1059	146	431	701	895	1081	107	289	443	602	721
Ireland	153	445	748	919	1112	109	338	577	777	928	143	382	580	734	879
Italy	1294	3623	6093	7439	8919	1307	3679	6177	7529	9009	1074	2872	4635	5676	6786
Luxembourg	7	17	23	36	46	7	16	24	33	41	3	9	16	22	27
Netherlands	782	2319	4596	5559	6413	695	1967	3227	3965	4832	554	1713	3566	4344	4899
Portugal	90	245	401	501	597	93	245	393	494	598	81	228	373	462	563
Spain	1369	3962	6559	7967	9575	1720	4665	7485	9061	10898	1187	3118	4771	5742	6956
Sweden	321	922	1591	1942	2363	349	915	1552	1893	2310	304	860	1370	1671	2025
UK	1825	4707	7777	9210	11320	1808	4955	8092	9854	11991	1190	3446	5679	6976	8535
Estonia	27	67	116	144	177	56	151	226	294	355	49	138	207	265	318
Poland	92	282	494	606	743	79	225	376	539	668	95	253	410	612	767
Czech republic	91	291	499	592	732	32	100	173	215	256	28	90	143	173	200
Hungary	47	144	265	323	388	82	197	332	407	500	94	229	382	462	564
Slovenia	19	43	62	78	97	23	59	94	114	134	27	70	120	151	180
Total	8049	22386	38180	46173	55442	8169	22484	36908	45108	54470	8321	21423	35156	44294	53090

Table 7 Absolute change – medium sized companies

Scenario Country	Total Assets – Turnover					Total Assets - Employees					Turnover – Employees				
	3 %	9 %	16 %	20 %	25 %	3 %	9 %	16 %	20 %	25 %	3 %	9 %	16 %	20 %	25 %
Austria	5	3	-6	-4	-3	12	6	5	3	2	-10	-51	-105	-139	-153
Belgium	-52	-278	-471	-591	-635	-14	-76	-140	-167	-233	-59	-133	-185	-217	-293
Denmark	-32	-161	-253	-275	-343	-20	-137	-187	-236	-292	-50	-97	-163	-210	-266
Finland	-8	-38	-79	-99	-118	-1	-46	-92	-111	-143	-31	-43	-82	-97	-122
France	-128	-483	-720	-891	-1089	-82	-271	-361	-450	-571	-120	-282	-414	-492	-628
Germany	-4	-64	-112	-140	-169	-5	-48	-70	-92	-121	-326	-793	-1179	-1710	-2138
Greece	-4	-60	-65	-97	-111	-19	-86	-90	-138	-151	-24	-63	-80	-117	-136
Ireland	-4	-95	-142	-177	-201	3	-30	-40	-87	-103	-19	-42	-43	-126	-124
Italy	-56	-772	-1363	-1629	-2034	-128	-537	-811	-988	-1232	-283	-635	-1022	-1227	-1509
Luxembourg	0	3	0	3	4	0	0	2	3	3	0	1	-1	-3	-7
Netherlands	-33	-237	-424	-499	-573	-26	-120	-141	-192	-228	-19	-61	-85	-109	-123
Portugal	-14	-60	-92	-115	-122	-5	-57	-93	-110	-122	-25	-49	-89	-123	-143
Spain	-43	-491	-833	-986	-1190	-137	-494	-703	-888	-1082	-195	-397	-574	-746	-955
Sweden	-95	-289	-367	-423	-480	-54	-192	-281	-322	-402	-93	-234	-290	-366	-458
UK	44	-684	-1225	-1545	-1853	-161	-816	-1298	-1603	-2003	-269	-645	-993	-1259	-1685
Estonia	0	-11	-23	-28	-29	-4	-10	-21	-27	-30	-5	-17	-27	-34	-41
Poland	2	-35	-85	-105	-147	-4	-44	-64	-86	-123	-26	-66	-109	-77	-123
Czech republic	-20	-64	-89	-95	-126	-34	-91	-171	-198	-238	-24	-73	-106	-130	-176
Hungary	3	-23	-33	-42	-45	-9	-8	-29	-35	-37	-1	-5	-10	-11	-15
Slovenia	0	-2	-7	-18	-26	2	3	15	21	16	-8	-14	-9	-9	-11
Total	-439	-3841	-6389	-7756	-9290	-686	-3054	-4570	-5703	-7090	1587	-3699	-5566	-7202	-9106

4.4

Conclusions

The analysis of the impact on SME population from increased threshold levels arrives at two major conclusions. First, for the Member States in total there will be modest relative effects on the population of small enterprises from raised threshold levels all scenarios. For the highest investigated level of increase the percentage change will

be somewhere between 1.5 and 2 percent. However, the absolute effects are considerable. The relative effects on the medium enterprise population is higher compared to the small company population, for the highest investigated level of increase of the thresholds the change is expected to be somewhere between 16 and 19 percent. These correspond, opposite to the small company population case to, less considerable absolute changes.

Second, the spread in relative change between countries is large for all investigated scenarios and categories. Implying that increased thresholds would in relative terms impact the SME populations in different Member States very differently.

The conclusions are based on the analysis of percentage changes as we, due to data consideration, assess these to be the most reliable results.

5. Impact on Member State's policy

This chapter discusses how the Member States of the European Union have interpreted and then implemented the options for various exemptions and different types of relief that the 4th Company Law Directive allows for, as well as how the Member States position themselves as regards raising the thresholds defining small and medium sized companies. The fact that Member States apply the possibilities offered by the Directives very differently makes it interesting for the study to assess the impact on Member States' policy in regards to raising the threshold levels.

In the analysis we have tried to display the Member States preconditions to apply possibly raised thresholds, seen in relations to their level of implementation today as well as their attitude towards raised thresholds. These two factors give us an indication on how the Member State possibly would react to raised thresholds, and what implications or effect that may have in general, as well as some Member States individual concerns.

We begin this chapter with a discussion about the various relief options for SMEs that are offered Member States through the 4th Company Law Directive to set the stage for the following analysis.

At the end of the chapter we will try to analyze the possible correlation between the use of exemptions and relief options, and number of bankruptcies in a selection of the Member States.

5.1 Options offered to Member States under the 4th Company Law Directive

Under the 4th Directive (78/660/EEC), Member States have the option of granting SMEs certain exemptions from the financial reporting and disclosure requirements imposed on limited liability companies.

The 4th Company Law Directive gives the Member States the following options to relieve small and medium-sized companies within the scope of the Directive within the below areas as stipulated by articles 11, 47 and 51 in the Directive.

Article 11

To draw up abridged balance sheets showing only those items preceded by letters and roman numerals in Articles 9 and 10, disclosing separately the information required in brackets in D (II) under "Assets" and C under "Liabilities" in Article 9 and in D (II) in Article 10, but in total for each. Member States may waive the application of Article 15 (3) (a) and (4) to the abridged balance sheet.

Article 47

By way of derogation from paragraph 1, the Member States may permit the companies referred to in Article 11 to publish: (a) abridged balance sheets showing only those items preceded by letters and roman numerals in Articles 9 and 10, disclosing separately the information required in brackets in D (II) under "Assets" and C under "Liabilities" in Article 9 and in D (II) in Article 10 but in total for all the items concerned; and

(b) abridged notes on their accounts without the explanations required in Article 43 (1) (5) to (12). However, the notes must disclose the information specified in Article 43 (1) (6) in total for all the items concerned.

In addition, the Member States may relieve such companies from the obligation to publish their profit and loss accounts and annual reports and the opinions of the persons responsible for auditing the accounts.

Article 51

1. The annual accounts of companies shall be audited by one or more persons approved by Member States to carry out statutory audits on the basis of the Eighth Council Directive 84/253/EEC of 10 April 1984 on the approval of persons responsible for carrying out the statutory audits of accounting documents.

The statutory auditors shall also express an opinion concerning the consistency or otherwise of the annual report with the annual accounts for the same financial year.

2. The Member States may relieve the companies referred to in Article 11 from the obligation imposed by paragraph 1.


As shown above, Member States may allow small and medium-sized companies to draw up and publish only an abridged balance sheet, abridged notes on the accounts and an abridged profit and loss account. Moreover, in the case of small companies only, Member States may allow them not to publish a profit and loss account or an annual report, not to disclose certain defined categories of information in the accounts and not to have their accounts audited.


5.1.1 **Member States' implementation of relief options**

The implementation of the various options offered to Member States in order to relieve small and medium-sized companies of administrative work as shown in the above section, varies a lot between countries. The study has made an effort to collect data on which option-categories that the twenty Member States contacted for this study have implemented. Detailed data on which options and to which extent they have been implemented is presented in Appendix A (Country reports). However a brief overview of the Member States' level of implementation is shown in the figure below.

The figure shows whether or not the Member State has implemented options offered in the Directive as regards to publication of abridged balance sheets, publication of

profit and loss account, preparation and publication of abridged notes of the accounts as well as publication and preparation of annual report and exemptions from statutory audit. The following labels are used in the figure:

 = fully implemented

 = some of the options or variations thereof have been implemented


 = the options offered in the Directive have not been implemented

Figure 3: Implementation of Directive options

	Publication of abridged balance sheet		Publication of profit and loss account		Preparation and publication of abridged notes on the accounts		Preparation and publication of annual report		exempt small companies from statutory audit	
	<i>S</i>	<i>M</i>	<i>S</i>	<i>M</i>	<i>S</i>	<i>M</i>	<i>S</i>	<i>M</i>	<i>S</i>	<i>M</i>
<i>Small/Medium</i>										
Austria	yes	yes	yes	yes	yes	yes	no	no	yes	no
Belgium										
Czech republic	yes	no	yes	no	yes	no	some	no	yes	no
Denmark	no	no	no	some	some	no	no	no	no	no
Estonia	no	no	no	no	no	no	no	no	some	no
Finland	yes	no	some	no	yes	no	no	no	no	no
France	yes	yes	yes	no	yes	no	no	no	yes	yes
Germany	yes	yes	yes	yes	yes	yes	no	no	yes	no
Greece	yes	no	yes	no	yes	no	yes	no	no	no
Hungary	yes	no	yes	no	yes	no	yes	no	some	no
Ireland	yes	yes	no	no	yes	yes	some	some	some	no
Italy	yes	no	yes	no	yes	no	some	no	no	no
Latvia	no	no	yes	no	some	some	some	no	some	no
Lithuania	yes	no	yes	no	no	no	no	no	yes	no
Luxembourg	yes	yes	yes	yes	yes	yes	yes	yes	yes	yes
Netherlands	yes	yes	yes	yes	yes	yes	yes	yes	yes	yes
Portugal	yes	yes	yes	yes	yes	yes	yes	yes	yes	yes
Poland										
Spain	yes	yes	no	no	yes	yes	yes	yes	yes	yes
Sweden	no	no	no	no	no	no	no	no	no	no
UK	some	some	yes	yes	yes	Yes	yes	yes	yes	yes

The aim of the figure above is to give a brief overview of the Member States' willingness to implement the options offered.

A conclusion to be drawn from the data presented above is that the most commonly implemented options are in relation to publication of abridged balance sheet and publication of profit and loss account, whereas the implementation of exempting

small or medium-sized companies from statutory audit is only implemented fully in four of the twenty Member States asked.

Comparing the data above with the Member States' individual threshold levels for small and medium-sized companies shows in many cases a correlation between threshold levels and the willingness to implement the options presented in the Directive. For example have Germany, Luxembourg, and Austria have higher threshold levels than those stipulated in article 11 in the 4th Company Law Directive, whereas Latvia, Sweden and Lithuania have fairly lower thresholds when defining SMEs.

5.1.2 **Considerations on implementing the relief options**

When conducting the interview survey on level of implementation, we have also asked the Member States to express their view on the potential effects of implementing the various options.

5.1.2.1 **Insight and control**

The main concern expressed among the Member States has been that a large raise of thresholds means inclusions of fairly large companies where an insight is relevant to financial institutions, as well as public and private shareholders and to the public in general. Depending on the thresholds settings and on the size of the companies there is always a risk of less transparency for the public. The insight and control concern however, is clearly connected to whether the Member State chooses to implement the options of exemptions or not. Effects of lesser insight and control of the companies' financials may also affect the preconditions for smaller companies to receive investment support and acquire loans from credit institutions and banks, if the lesser insight means that the loan institutions become more cautious.

Another possible effect to consider is the how the relief options when implemented would affect the small and medium-sized companies' financial routines, and thus their preparedness to meet the qualifications often demanded to become listed. If the routines slacken to the extent that fewer companies become listed, these companies may also miss an evident opportunity to receive risk funding.

5.1.2.2 **Relation between bankruptcies and implementation of relief options**

The insight and control issue can also be related to the soundness of the company's financials, and seen as a means to keep and support the national companies business.

We have made a brief effort to investigate an eventual correlation between number of bankruptcies in Member States of the European Union and the national thresholds set to define small and medium-sized companies. The reason for this is to see whether the eventual loss of insight due to the relief options affect the number of bankruptcies. We have worked under the assumption that a Member State with high threshold levels, also to a large extent has chosen to implement the options offered in the 4th Company Law Directive.

For this analysis we have used data from twelve individual Member States from which updated data on number of bankruptcies was found. For some countries there are no thresholds set to define either small or medium sized companies, and the data has thus been excluded. The data on number of bankruptcies has been collected from UC AB⁶ - Sweden's largest and leading business and credit information agency, and the data has been compared to national data from four Member States. The data from UC AB includes all legal forms and is therefore not entirely comparable to the number of bankruptcies within the group of small and medium-sized companies. Data for this group only has not been able to collect within the time frame of this report.

The figures below show the relation between the number of bankruptcies per 10 000 companies and the Member State's imposed thresholds on net turnover for small and medium sized companies. For full information on all different thresholds please see Appendix B.

Figure 4: Relation between MS threshold levels form small companies and number of bankruptcies

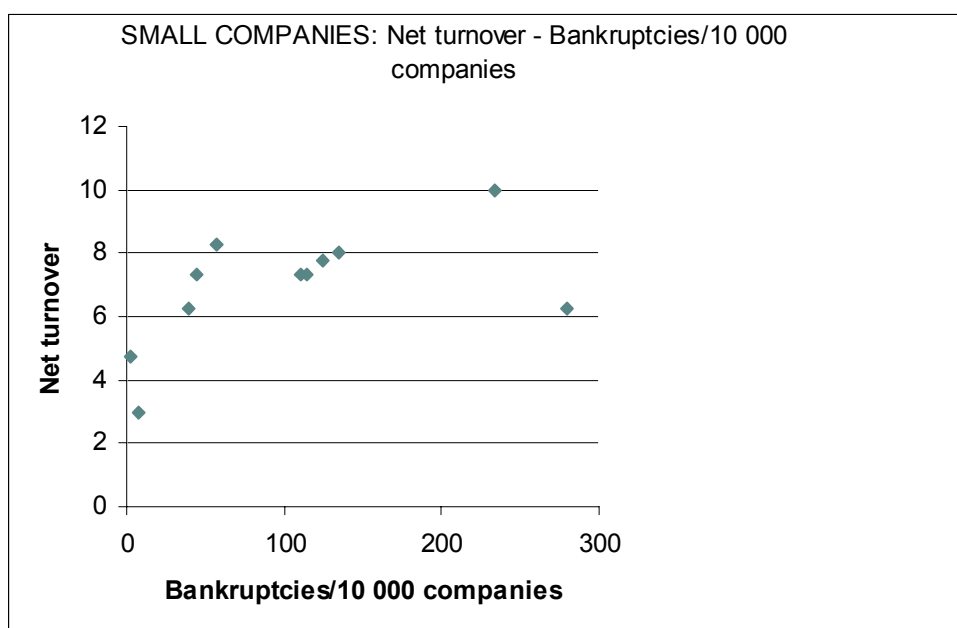
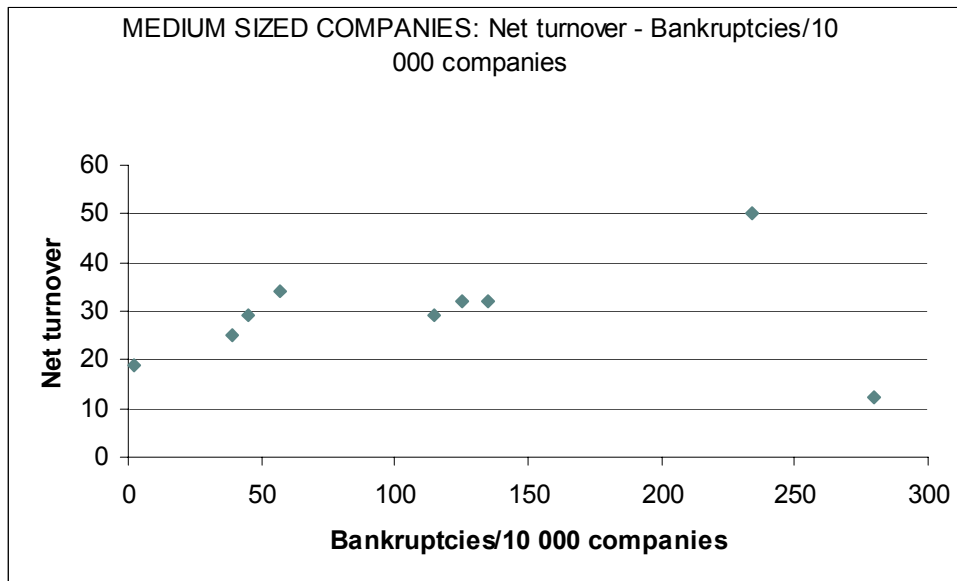


Figure 5: Relation between MS threshold levels form medium sized companies and number of bankruptcies

⁶ <https://www.uc.se/en/frameset.php>



It is very difficult to draw any conclusions from the figures above, due to the limitations in data, as well as the limited parameters that has been included in the analysis. In general there seem to be no close relationship between the number of bankruptcies and the level of threshold that defines small and medium-sized companies. However, it could be noted that among the six highest number of bankruptcies per 10 000 companies, five of those belong to Member States that has implemented the relief options fully. We would not like to draw any conclusions from this, but we note that this analysis would be interesting to develop further to investigate any eventual correlation.

5.1.2.3 **Effects on competition**

Large differences between Member States in the definition of small and medium-sized companies combined with differences in implementation of the various options for relieves and exemptions, may also have the potential to cause a negative effect on competition strength between companies in Member States with a large population of SMEs which has less administrative burdens.

As seen above the level of implementation of the different options offered in the Directive varies a lot between the Member States. Based on the interviews with Member States we can draw the conclusion that these differences will remain with raised threshold levels or become even larger. The Member States that have already fully implemented the options offered tend to be willing to continue to do so even if the group of small and medium-sized companies increases largely.

5.1.2.4 **Lowering administrative burdens**

Among Member States that are willing to follow the Commission's thresholds for defining small and medium-sized companies, tend to view higher levels as a key way of limiting the administrative burdens for companies.

5.2 Threshold levels in Member States

This section aims to describe what thresholds that are used in various Member States, compared to those of the 4th Company Law Directive's thresholds, to define small and medium-sized companies. The individual Member States thresholds vary a lot, and in some Member States there are for example no thresholds defining medium-sized companies.

The analysis is made to evaluate how likely it is that the Member States will apply the eventually raised thresholds.

5.2.1 Small company threshold

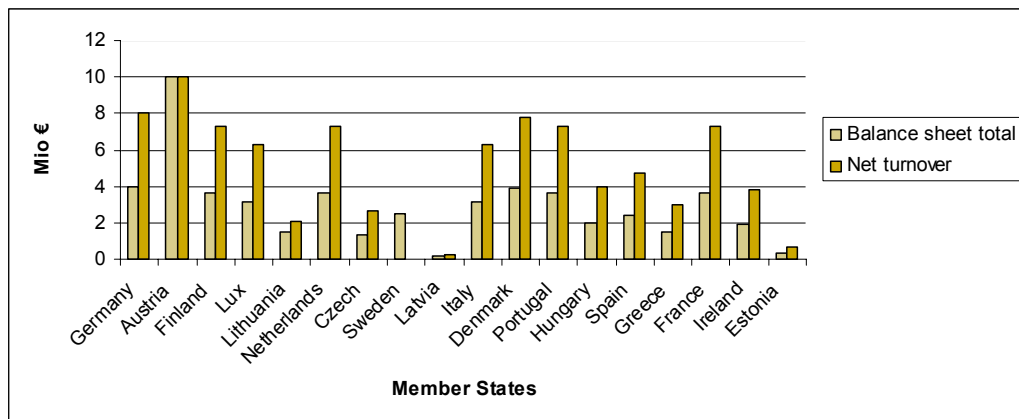
The definition of what constitutes a small company varies a lot between Member States. The use of the Directive's thresholds for what is defined as small companies is used in far from all Member States. In below figure we have tried to display each Member State's threshold levels, displayed in millions of Euro, for the three categories, balance sheet total, net turnover and number of employees.

Figure 6: Threshold levels in MS defining small companies (million €)

Country	Balance sheet total	Number of employees	Net turnover
EU	3,65	50	7,3
UK	4,1	50	8,3
Germany	4,01	50	8,03
Austria	3,65	50	7,3
Finland	3,65	50	7,3
Luxembourg	3,15	50	6,25
Lithuania	1,45	10	2,03
Netherlands	3,65	50	7,3
Czech	1,33	50	2,67
Sweden	2,5	10	
Latvia	0,14	25	0,28
Italy	3,125	50	6,25
Denmark	3,9	50	7,8
Portugal	3,65	50	7,3
Hungary	2	50	4
Spain	2,37	50	4,75
Greece	1,5	50	3
France	3,65	50	7,3
Ireland	1,9	50	3,81
Estonia	0,32	10	0,64

For some Member States, the threshold for small companies is only used to define which companies that are exempted from statutory audit, or to prepare and publish an annual report, and thus not defining small companies as such. As figure ten shows, there are seven Member States out of nineteen that has implemented higher or the same thresholds as in the Directive. Most Member States however, make use of the threshold level for employees of 50.

In the figure below the differences in the use of thresholds for the two categories balance sheet total and net turnover, are presented in a staple diagram to visualize the large differences between the Member States.



5.2.2 Medium-sized company threshold

Also the thresholds defining medium-sized companies vary a lot from those set by the 4th Company Law Directive. Member States such as Finland, Lithuania, and Hungary etc do not even set a special threshold defining this group. In the below figure we present the different threshold used in Member States to define medium-sized companies.

Figure 7: Threshold levels in MS defining medium-sized companies (million €)

Country	Balance sheet total	No of employees	Net turnover
EU	14,6	250	29,2
UK	17	250	34
Germany	16,06	250	32,12
Austria	14,6	250	29,2
Finland	0	250	0
Luxembourg	25	250	12,5
Lithuania	0	0	0
Netherlands	14,6	250	29,2

Czech	11,67	250	23,3
Sweden	3,76	200	0
Latvia	1,42	250	3,41
Italy	12,5	250	25
Denmark	16	250	32
Portugal	14,6	250	29,2
Hungary	0	0	0
Spain	9,5	250	18,9
Greece	0	0	0
France	14,6	250	29,2
Ireland	7,62	250	15,24
Estonia	0	0	0

5.3 Considerations to raising the thresholds

Raising the thresholds that defines what constitutes a small or medium sized company may have various effects and impacts, both when it comes to lowering the administrative burdens for this group of companies, as well as effects on available data and financial statistics, depending on how Member States choose to make use of the various options presented in the 4th Company Law Directive. This section of the report aims to portray some of the Member States initial reactions to raising the thresholds in the Directive. We would at the same time like to put emphasis on the fact that these views are not those of small or medium-sized companies, but those of officials at the national authorities. These views are also not necessarily the official views of the Member State, and should merely be seen as an initial response to the posed questions.

In the scope of this study we have also aimed to picture how raised thresholds from the European Commission's part would have any effect on Member States' threshold levels. In this respect we have found a clear division between the old EU 15 and the more recent Member States. In many new Member States to the European Union the major part of the country's company population is constituted by small or medium-sized companies. A raise of threshold would according to these Member States mean that a vast majority of the national companies would be regarded as an SME and could be subject to exemptions. Many of the newer Member States have therefore already chosen lower thresholds than those of the 4th Company Law directive.

We have to verify the share of small and medium-sized companies for the Member States that have been part of this study⁷. The data of total population of companies have been withdrawn from the AMADEUS database. In order to receive data of the total population of companies in Member States, we have used data for 2003 for companies with 0 or more employees. All legal forms for businesses are included in

⁷ We have judged the data for Poland to be too unreliable to include in this calculation.

this set of data except sole proprietorships, for which data has is not available in AMADEUS.

Figure 8: Share of small and medium-sized companies

	Small	Medium	Small + Medium
Country			
Austria	89,88%	2,93%	92,82%
Belgium	95,40%	0,71%	96,12%
Denmark	92,60%	2,03%	94,63%
Finland	94,06%	1,56%	95,62%
France	94,43%	1,41%	95,84%
Germany	89,23%	3,01%	92,24%
Greece	84,82%	3,31%	88,13%
Ireland	93,71%	1,55%	95,26%
Italy	84,53%	4,24%	88,76%
Luxembourg	77,01%	6,22%	83,24%
Netherlands	89,04%	1,64%	90,68%
Portugal	85,22%	5,47%	90,69%
Spain	94,78%	1,15%	95,94%
Sweden	95,01%	1,35%	96,37%
UK	94,98%	1,34%	96,32%
Estonia	96,59%	0,47%	97,06%
Czech republic	82,80%	2,79%	85,59%
Hungary	66,61%	4,45%	71,06%
Slovenia	78,40%	5,19%	83,60%
Total	93,97%	1,80%	95,77%

We have verified some of the data with national figures, and there are variations between some of the national figures and those collected from AMADEUS. Despite this, we believe that the analysis made with data from AMADEUS can be used as an indicator on the share of small and medium-sized companies out of the total number of companies in the Member States.

As figure ten shows, over 95 percent of the total population is small or medium sized companies. We have not been able to see a clear distinction between the newer Member States and the older ones, when it comes to the share of small and medium-sized companies out of the total population. Many of the older Member States' share does however show figures below 90 percent.

In many of the older Member States the general view seems to be positive towards raising the threshold levels. Some of the Member States have already higher thresholds defining SMEs than those of the Directive.

Considerations to raising the thresholds have among the contacted Member States largely been focused to the following areas: Loss of baseline for benchmarking and Loss of statistical data.

5.3.1.1 Loss of benchmarking data

Raising the thresholds largely may cause an even larger difference in how Member States choose to implement the definition and national thresholds. Since the attitude towards raising the national thresholds are quite different – some Member States are eager to raise the thresholds with 25 percent if possible, whereas some Member States are very restrictive in their national legislation, the differences between what is defined as a small or medium-sized company may become even larger with raised EU-thresholds. This may cause difficulties when it comes to comparison and benchmarking between Member States when it comes to small and medium sized enterprises.

5.3.1.2 Loss of statistical data

Raising the thresholds means that the group of small and medium sized companies will increase in total. Depending on how Member States choose to make use of the options of relief for this group when it comes to abridged account and balance sheet reporting, this may also lead to a loss in essential statistics affecting the knowledge base for policymaking.

However, it is difficult to state that any relevant information will be omitted from SMEs' accounts. Of course the situation would be different if, for example, the information requirement in notes will be radically lowered; however this has not yet been discussed according to our knowledge.