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## Opinion

**Title**                                    **Impact Assessment on: Proposal for amendments to the Directive 78/660/EEC (4th Company Law Directive) and 83/349/EEC (Seventh Council Directive) to simplify financial reporting for micro-enterprises (draft version of 16 January 2009)**

**Lead DG**                                    **DG MARKT**

### 1) Impact Assessment Board Opinion

#### **(A) Context**

Originally flagged in the 2007 Commission Communication on a simplified business environment for companies – COM(2007)394 -, the proposal to exempt micro-enterprises from the Accounting Directives 78/660/ECC (4<sup>th</sup> Company Law Directive) and 83/349/EEC (7<sup>th</sup> Council Directive) was made part of the European Economic Recovery Plan and supported by the High Level Group of Independent Stakeholders on Administrative Burdens. According to the Commission work programme, the initiative is to be followed up by a more encompassing proposal to modernise the Accounting Directives in late 2009.

#### **(B) Positive aspects**

The report is on the whole well-written and accessible to the non-specialised reader. It provides a wide range of policy options, making a valuable effort to estimate their respective burden reduction potential.

#### **(C) Main recommendations for improvements**

*The recommendations below are listed in order of descending importance. Some more technical comments have been transmitted directly to the author DG and are expected to be incorporated in the final version of the impact assessment report.*

**General recommendation: While the report provides a good overview of the potential benefits for micro-enterprises, it needs to clarify a number of important issues. First, it should link this revision more clearly to the full review of the accountancy directives that will take place later in 2009. In this context, it should present more details and hard evidence on the regulatory shortcomings affecting micro-entities, providing at least a preliminary indication of whether these might**

also apply to small if not medium sized enterprises. Second, given that many Member States have failed to use existing exemptions for SMEs, the report should address more fully the likelihood that they will use this new exemption (without further "gold-plating"), and how they might be encouraged to do so. Third, the report should strengthen the assessment of the impacts on the accountancy profession, identifying more clearly the type of accountancy firm that might be affected. Finally, the report should strengthen evidence that the proposed exemption will not have an impact on the internal market or the level playing field given the nature of micro-enterprises. During the IAB meeting, DG MARKT accepted to take on board these recommendations.

**(1) Better explain the Accounting Directives' regulatory shortcomings and the two-stage strategy to address them.** The report should provide a more thorough analysis of the regulatory failures of the Accounting Directives in the specific case of micro-enterprises. This should illustrate in greater detail the choice for requirements that would be waived and how this would add to the existing exemptions. More clarity is also needed on the extent to which individual requirements impose an administrative burden (as opposed to an unavoidable cost for the book-keeping and financial reporting systems needed for managing a micro-enterprise and responding to its stakeholders' information needs, including the public at large). Making use of this more detailed information, the report should provide a more evidence-based justification for front-loading action on micro-enterprises while giving at least a preliminary indication of whether the identified shortcomings might also apply to small if not medium sized enterprises. In this context, more clarity is required on the nature of the regime that would apply after the full revision of the Directives, to micro-entities from Member States that would not apply the proposed exemption

**(2) Provide a more comprehensive analysis of options.** The analysis of options should be more balanced across all alternatives. Whilst avoiding prejudging the final position of individual Member States, the assessment of the favoured option should be supported by a more comprehensive analysis of Member States' incentives to opt for the proposed exemption given their national traditions in financial reporting and the only partial use of existing exemptions. Finally, a more in-depth evaluation of the risk that transposition may lead to the substitution of one type of administrative burden with another as a result of gold-plating by Member States would be welcome. In this context, the possible use of an opting-in mechanism (rather than the currently proposed opting-out approach) could be discussed.

**(3) Strengthen the assessment of impacts on the accountancy profession.** In analysing the possible impacts on the accountancy profession, the report should strive to make greater use of quantitative data and estimates on the share of the administrative burden necessitating the involvement of accountants while identifying more clearly the type of accountancy firm (for example, small firms) that might be most affected when these burdens are removed.

**(4) Reinforce the analysis of the impact on the single market.** Making use of available data on micro-enterprises activities, the report could show more compellingly that the proposed exemption will not have an impact on the internal market or the level playing field.

**(D) Procedure and presentation**

Due to the importance of rapidly implementing the European Economic Recovery Plan, work on the initiative was carried forward compared to original planning. As a result, no specific Inter-Service Steering Group was created and, following the Board's agreement, the report was submitted to it less than two weeks before examination. External stakeholders were, however, extensively consulted on the basis of COM(2007)394 and, more recently, through the High Level Group of Independent Stakeholders on Administrative Burdens.

Adding an annex providing a summary of the Accounting Directives would further improve the readability of the report for non-specialized readers.

## 2) IAB scrutiny process

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External expertise used	No
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