EUROPEAN COMMISSION
Directorate General Internal Market and Services

FREE MOVEMENT OF CAPITAL, COMPANY LAW AND CORPORATE GOVERNANCE
Financial Reporting

Brussels, 3 February 2010
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To whom it may concern

Study on the Evaluation of Simplification and Modernisation of EU Accounting Rules and on the International Financial Reporting Standard for Small and Medium-sized Entities

I am writing to kindly request your co-operation with a study being carried out by the Centre for Strategy & Evaluation Services "CSES" for the European Commission (Directorate General Internal Market and Services).

The study concerns the 4th Company Law Directive (78/660/EEC) and the International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs), recently issued by the International Accounting Standards Board. The purpose of the study is to provide additional information on cost/benefit as regards possible future changes to the 4th Company Law Directive. The study will also consider the likely costs and benefits to European companies were a policy decision taken to incorporate the IFRS for SMEs into the European Accounting Legal Framework. The results and conclusions of the study will be used by the Commission for its impact assessment on the subject.

As part of the study CSES is planning to carry out a number of interviews in the near future and may contact you.

We would be grateful if you would assist CSES with this research. Should you have any question, please do not hesitate to contact either me, or Mr Michael Gardiner at CSES (email mgardiner@cses.co.uk and telephone +44 1915 525122)

Yours faithfully,

Jeroen HOOIJER

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BACKGROUND

As you are aware, EU 4th and 7th Company Law Directives provide a common set of accounting principles, prescribed layouts for the profit and loss account and balance sheet and a set of minimum disclosures for limited liability companies. The 4th Company Law Directive deals with the annual accounts[1].

The Commission Services are currently considering options for simplifying the layout of the profit and loss account and balance sheet and substantially reducing disclosure requirements especially for small companies. Large and medium-sized companies would be required to prepare a cash flow statement. The proposals may also need to take account of the International Financial Reporting Standard for Small and Medium Sized Enterprises. A summary of the existing 4th Company Law Directive disclosure requirements and the proposed changes is attached

The purpose of this interview is to assess the reaction of professional service firms companies to these proposals and in particular to understand better the administrative requirements of the proposals.

The outcome of this consultation will be crucial for the Commission's decision making.

ACCOUNTS PREPARATION

Please let us know the approach you take to accounts preparation for your clients.

Do you normally use a generic software program to assist in accounts preparation or are most accounts prepared on a one off basis?

How often is any generic program updated, and what are the likely costs of updating these programmes to take account of changes?

CASH FLOW STATEMENT

The first of the draft changes being suggested to the 4th Company Law Directive on annual accounts. The first of these changes suggests that <u>medium-sized and large</u> companies should publish an annual cash flow statement including the following minimum information

- cash flows from operating activities
- cash flows from investing activities
- cash flows from financing activities
- net increase/decrease in cash and cash equivalents
- cash and cash equivalents at the beginning of the period
- cash and cash equivalents at the end of the period

Are you able to say what proportion of your small or medium sized clients prepare a similar cash flow statement either for internal purposes or for publication?

Do you think that it is possible to prepare a cash flow statement with the information shown above quickly from existing data?

[1] Latest consolidated version: http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CONSLEG:1978L0660:20090716:EN:PDF

Where companies do not have such data, what costs would be involved in its preparation? What will the effect be on fees?

BALANCE SHEET AND PROFIT AND LOSS ACCOUNT FORMATS

One of the draft changes being suggested is a simplification of the required format for the balance sheet and profit and loss account. Of course, firms may continue to use the existing formats if they wish. The new formats require the following minimum information

<table>
<tr>
<td>Balance sheet:

intangible assets
investment property
property, plant and equipment
financial assets
inventories
trade and other receivables
cash and cash equivalents
issued capital and reserves
provisions
deferred tax liabilities and deferred tax assets (separately disclosed)
financial liabilities
liabilities and assets for current tax (separately disclosed)
trade and other payables

</td>
<td>Profit and loss account:

net turnover
cost of sales (including value adjustments)
gross profit or loss
distribution costs (including value adjustments)
operating income
income from investments
interest receivable
other value adjustments
interest payable
tax on profit or loss
profit or loss for the financial year

</td>
</tr>
</table>

To what extent are you likely to recommend taking advantage of the simplification of the formats for preparing the balance sheet and profit and loss account for your clients?

Do you think that the simplified format might result in any time or cost saving to your clients?

What would be the cost effect of the introduction of these changes? What will the effect be on fees?

SPECIFIC DISCLOSURES – GUARANTEES, COMMITMENTS ETC

It is proposed to delete the requirements for some companies to provide information on guarantees, commitments and other related items. To provide this information, companies often have to carry out a specific analysis. The disclosures which may be removed are:

- Information on guarantees
- An analysis of amounts payable after more than 5 years
- Details of amounts payable where valuable security had been given
- Commitments concerning pensions and affiliated undertakings
- Any other financial commitments not in the balance sheet if this information would be useful for analysing the financial position

We would like to know whether you will make any time savings from these changes, and whether there are any costs such as set up costs that will be incurred. What will the effect be on fees?

Would you wish to retain any of the above (disclosures? Which ones? Why?

SPECIFIC DISCLOSURES – INCOME RELATED

It is proposed to delete the requirements for some companies to provide information on certain specific analyses of income. To provide this information, companies often have to carry out additional analysis. The disclosures that may be removed are as follows.

- Information on the amount and nature of extraordinary income (if material)
- An analysis of net turnover broken by categories of activity and geographical markets (if they differ substantially)

We would like to know whether you will make any time savings from these changes, and whether there are any costs such as set up costs that will be incurred. What will the effect be on fees?

Would you wish to retain any of the above (disclosures? Which ones? Why?)

SPECIFIC DISCLOSURES – TAXATION AND DEFERRED TAX

It is proposed to delete the requirements for some companies to provide information on some specific analyses of taxation and deferred tax. To provide this information, companies often have to carry out additional analysis. The disclosures which may be removed are as follows.

- A detailed breakdown of taxation amounts
- Information on any tax induced distortions to the profit and loss account
- Information on deferred tax (the difference between tax charged and amount of tax payable)

We would like to know whether you will make any time savings from these changes, and whether there are any costs such as set up costs that will be incurred. What will the effect be on fees?

Would you wish to retain any of the above (disclosures? Which ones? Why?)

CHANGES TO VALUATION RULES

It is proposed to simplify valuation rules and move to a general position where most valuation is on the basis of cost with an option for fair value. It is also proposed that detailed disclosures of movement of assets will no longer be required.

We would like to know whether you will make any time savings from these changes, and whether there are any costs such as set up costs that will be incurred. What will the effect be on fees?

Does your organization have any preferences as regards historical cost or fair value?

Would this differ in terms of different items?

ADDITIONAL DISCLOSURES

It is proposed to include certain additional disclosures as shown below. To provide this information, companies may have to carry out specific analyses.

- Transactions with related parties. The amount and nature of these transactions, together with other information, must be shown. Transactions may be aggregated provided there is not distortion

- Nature and business purpose of arrangements which are not shown in the balance sheet and their financial impact, if material

We would like to know what the resource impacts would be of these changes, and whether there are any costs such as set up costs that will be incurred. What will the effect be on fees?

Do you need this information? Which ones? Why?

OTHER CHANGES

Finally, certain other changes are proposed. Disclosures that could be removed include the following
- Information on movements in share capital
- Participation certificates, convertible debentures, or similar securities rights
- Emoluments to administrative, managerial and supervisory bodies and commitments on pensions for former members of these bodies
- Advances and credit to members of administrative, managerial and supervisory bodies and commitments made on behalf of them
- Fees for audit, assurance, tax advisory, non-audit services
- Separate disclosure of prepayments and accrued income
- Separate disclosure of accruals and deferred income
- Average number of persons employed, by categories and the staff costs, if not disclosed in P&L

We would like to know whether you will make any time savings from these changes, and whether there are any costs such as set up costs that will be incurred.

Would you wish to retain any of the above (disclosures? Which ones? Why?

What will the effect be on fees?

IFRS for SMEs

Do you think that it would be possible to implement the IFRS for SMEs quickly from existing information/systems?

Would you be able to provide an approximate estimate of the time and cost needed?

What will the effect be on fees?

How helpful would the implementation of IFRS be to you and your clients, and why?

GENERAL VIEWS

Looking at the proposed changes generally, how helpful will they be to you or your clients?

Why is that?

What do you think the overall impact of all the proposed changes to the 4th Directive on overall accounting and audit cost will be?

Please let us have any other comments on the proposed changes