EFAA, EUROPEAN FEDERATION OF ACCOUNTANTS AND AUDITORS FOR SMES

EFAA

Implementing the New European Accounting Directive

Making the right choices

8 April 2014

About EFAA

The European Federation of Accountants and Auditors for SMEs ("EFAA") represents accountants and auditors providing professional services primarily to small and medium-sized entities ("SMEs") both within the European Union and Europe as a whole. Constituents are mainly small practitioners ("SMPs"), including a significant number of sole practitioners. EFAA's members, therefore, are SMEs themselves, and provide a range of professional services (e.g. audit, accounting, bookkeeping, tax and business advice) to SMEs.

EFAA is an umbrella organisation for national accountants and auditors' organisations whose individual members provide professional services to SMEs within the European Union and Europe as a whole. More information about EFAA can be found at www.efaa.com.

Acknowledgments

This report was produced by the members of the EFAA Accounting Expert Group. EFAA would like to acknowledge the assistance of the following institutions in particular:

ACCA, The Association of Chartered Certified Accountants
CAAR, Chamber of Auditors of Azerbaijan Republic
CGCEE, Consejo General De Economistas
CNDCEC, Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili
DSTV, Deutscher Steuerberaterverband e.V.
NBA, Nederlandse Beroepsorganisatie van Accountants
OTOC, Ordem dos Técnicos Oficiais de Contas
SKWP, Stowarzyszenie Księgowych w Polsce
WPK, Wirtschaftsprüferkammer

Abbreviations

Country by Country Reporting	CBCR
European Commission	EC
European Union	EU
European Federation of Accountants and Auditors for SMEs	EFAA
International Financial Reporting Standards	IFRS
International Financial Reporting Standards for small and medium-sized entities	IFRS for SMEs
Small and medium-sized entities	SMEs
Small and medium-sized practitioners	SMPs
Member State Options	MSOs
Member States	MS
National Standard Setters	NSS

Contents

1. Executive summary 1

1. Objective of the report 1

2. Introduction to the Accounting Directive (Section 2) 1

3. Changes to the Accounting Directive (Section 3) 1

4. Member State Options within the Directive (Section 4) 1

2. Introduction to the Accounting Directive 3

1. Background 3

2. Implementing the New Accounting Directive 3

3. Changes to the Accounting Directive 6

1. Maximum harmonisation for small undertakings 6

2. Reduction in Member State Options 6

3. Micro company regime 6

4. Country by Country Reporting 6

5. Simplification of presentation within the directive 6

4. Member State Options within the Directive 7

1. Introduction 7

2. The criteria that should be used in making the right choices when assessing MSOs 7

3. Member State Options that have been newly introduced within the Directive 9

4. The opportunity to reassess some important Member State Options – better accounting preferences 14

5. The opportunity to reassess some important Member State Options – judgement based on national conditions 16

Appendix 1, Analysis of Member State Options included within the Directive 19

Appendix 2, EFAA Survey on Harmonisation of Filing Deadlines of Annual Financial statements 51

Appendix 3, Examples of UK and German implementation of the Micro Option 55

1. Executive summary

1. Objective of the report

The paper will support governments, standard setters, EFAA member organisations and other interested stakeholders in the efforts to transpose the new Accounting Directive ("Directive") into National Legislation. It will assist in making the right decisions for implementing the new Accounting Directive in their jurisdictions.

2. Introduction to the Accounting Directive (Section 2)

Member States have until 20 July 2015 to incorporate the rules of the Directive within their national law, that is, a period of 24 months from the date of its entry into force.

The Directive contains within it provisions concerning exemptions for micro-undertakings. Specifically, Article 36 includes those rules that were contained in Directive 2012/6/EU of the European Parliament and the Council of 14 March 2012 which amended Directive 78/660/EEC and implemented what has become to be known as the "Micro Directive". These rules are already in effect within certain Member States who have decided to adopt this Member State Option ("MSO").

The remainder of the Directive will now require implementation into national law. As part of the transposition process Member States will have the opportunity to decide for themselves which MSOs they should adopt into their own national law.

3. Changes to the Accounting Directive (Section 3)

The main changes introduced by the Directive can be noted as follows.

- Reduction in MSOs;
- Maximum harmonisation for small companies;
- Micro company regime;
- Country by Country Reporting; and
- Simplification of presentation within the directive – more logical presentation, merging the current two Accounting Directives.

4. Member State Options within the Directive (Section 4)

The extant Directives include within them numerous MSOs that reduce the overall consistency of accounting and comparability of financial statements within Europe. An overall reduction in these MSOs, whilst set as an objective, was not ultimately realised to the extent expected. Many of the latter stage negotiations at European Council and European Parliament level resulted in new MSOs being introduced or existing MSOs being maintained in order to allow for the political compromise that ultimately helped conclude the Directive negotiations.

This paper seeks to provide commentary that might inform the decisions of those who need to transpose the European Requirements into their own national laws. In particular we deal with the criteria that should be considered namely:

- Better accounting;
- Comparability;
- Relevance;
- Minimising the costs of change;
- Enabling the adoption of IFRS for SMEs; and
- Transparency and market efficiency.

We believe that the above criteria are important in assessing which MSOs be applied in national law. In particular, these criteria can be used to determine the actions needed in respect of:

- MSOs that have been newly introduced within the Directive;
- Reassessment of some important MSOs in terms of better accounting preferences; and
- Reassessment of some important MSOs in terms of judgement based on national conditions.

2. Introduction to the Accounting Directive

1. Background

The Accounting Directive[1] ("Directive") published on 26 June 2013, entered into force on 20 July 2013 and will take effect in Member States (date of transposition) on 20 July 2015.

The Directive replaces the existing Fourth and Seventh Directives on company law which addressed reporting by companies generally and by groups. It is the culmination of much debate addressing the accounting acquis in Europe. EFAA has been active in this debate through its commentary to proposals for changes to amendments suggested by the European Parliament[2] and the issuance of position papers to address the needs of SMEs and to highlight the importance of good accounting as a cornerstone of good business in the European Union ("EU").

EFAA stated in its position paper, The Revision of the Accounting Directives – Missed Opportunity?[3] that it believed that the overall result of the review of the Directive and modernisation of the existing accounting acquis would fall short of expectations of the market. This is because the majority of effort in reviewing the Directive was focused on Country by Country Reporting ("CBCR") and, importantly, a real opportunity for the EU to develop a better accounting European framework was not maximised.

One of the implications of this shortfall is that a significant amount of MSOs has been left within the Directive which will neither enhance the "level playing field" nor comparability across Europe. These also create an issue for member states on implementing the Directive and this report aims to provide a commentary on these options to try to assist that implementation.

2. Implementing the New Accounting Directive

Timetable

The Directive entered into force twenty days after it was published in the Official Journal of the European Union and replaced the Accounting Directives 78/660/EEC and 83/349/EEC.

Member States have until 20 July 2015 to bring into force the laws, regulations and administrative provisions necessary to comply with this Directive (incorporate the rules of the Directive within their national law), that is, a period of 24 months from the date of its entry into force. The new rules must be used by companies for periods beginning 1 January 2016 at the latest.

---

1 Directive 2013/34/EU of the European Parliament and of the Council of 26 June 2013 on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings, amending Directive 2006/43/EC of the European Parliament and of the Council and repealing Council Directives 78/660/EEC and 83/349/EEC Text with EEA relevance

2 EFAA Response to Draft Opinion dated 28.2.2012 on the Proposal for a Directive of the European Parliament and of the Council on the annual financial statements, consolidated financial statements prepared by the Committee on Economic and Monetary Affairs and EFAA Response to the Draft Report dated 21.3.2012 on the Proposal for a Directive of the European Parliament and of the Council on the annual financial statements, consolidated financial statements prepared by the Committee on Legal Affairs April 2012

3 EFAA Position Paper The Revision of the Accounting Directives – Missed Opportunity? May 2013 http://www.efaa.com/files/pdf/Publications/Comment%20letters/2013/EFAA%20Position%20Paper%20Missed%20Opportunity%2013%2005%202013a.pdf

The Directive contains within it Chapter 9 (Provisions concerning exemptions and restrictions on exemptions) and Article 36 (Exemptions for micro-undertakings). Article 36 includes those rules that were contained in Directive 2012/6/EU of the European Parliament and the Council of 14 March 2012 which amended Directive 78/660/EEC and implemented what has become to be known as the "Micro Directive".

These rules are already in effect within certain Member States who have decided to adopt this Member State Option.

Member state legislation and hard or soft law

The Directive is a European Framework that prescribes the accounting requirements for annual financial statements of certain undertakings which include those with limited liability such as public and private limited liability companies.

However, there are a number of very significant accounting issues on which the Directive is silent and provides no requirement to harmonise practice across Europe. These include treatments governing:

- Definitions of assets and liabilities;
- Accounting for leases;
- Accounting and presentation of pension obligations, including the measurement of the liability, disclosures and netting-off pension obligations with assets or insurance policies held to settle them;
- Use of the percentage-of-completion method for recognising revenue on construction or other long-term contracts; and
- Translation of amounts in foreign currencies, for example, the rates to be used in the balance sheet, profit and loss account and in dealing with the consolidation of foreign operations.

In 2010, EFAA's study "Comparison of IFRS for SMEs and national GAAP of nine European countries"[4] highlighted a number of issues where the accounting varied significantly between Member States. Some such instances represented areas where the directive was in effect silent, and still is, in the areas of:

- Deferred tax;
- Restatements of prior period results for the effect of changes in accounting policy or for the correction of errors; and
- Compound financial instruments.

Other differences noted by that study arose through either the use of specific options, or insufficiently specific guidance in the Directive. Such examples include:

- Investment properties;
- Other tangible fixed assets; and
- Provisions and commitments.

SME accounting in Europe is therefore not only framed under the requirements of the Directive but is influenced and driven by the requirements of National Standard Setters ("NSSs"). Where the Directive is silent on how to account for certain matters then National GAAP is usually followed. These requirements in turn often follow International Financial Reporting Standards ("IFRS") pronouncements. For example, in the UK and the Netherlands there is no difference between how an SME accounts for a lease and how a listed company accounts for a lease.

4 http://www.efaa.com/Reports,Studies,36.html

Such instances often result in hard law (European legislation under the Directive) and soft law (National Accounting Standards).

Post implementation review

EFAA has in the past[5] made representation that the economic impact of standards has not played a visible role in the standard setting process (whether it be in relation to a new or revised standards) and has questioned whether the interpretation of such standards has reflected the economic reality and whether the revisions have succeeding in meeting their objectives.

We believe that post implementation review should form part of all standard setting processes and we further note that this should extend to the Directive as introduced by the European Commission.

5 EFAA response to APB and EFRAG Discussion Paper ("DP") - Considering the effects of accounting standards http://www.efaa.com/files/pdf/Publications/Comment%20letters/2011/FINAL%20EFAA%20response%20to%20EFRAG%20_%20Considering%20the%20effects%20of%20accounting%20standards.pdf

3. Changes to the Accounting Directive

In general the key themes can be noted as follows.

1. Maximum harmonisation for small undertakings

One of the main changes that the Directive has introduced is the maximum harmonisation regime for small undertakings. Harmonisation will be achieved by way of a reduction in Member State Options to add any further disclosure requirements that are needed for a true and fair view or to meet user needs in their national context.

The result will be harmonisation at the bottom end through the small undertaking reporting requirements and harmonisation at the top end in the case of listed companies via IFRS. This is because Member States will have the option to require medium-sized and large companies to increase disclosures for certain financial statement items. There is no such option in respect of small undertakings.

2. Reduction in Member State Options

The extant Directives included within them numerous MSOs that reduced the overall consistency of accounting and comparability of financial statements within Europe. An overall reduction in these MSOs, whilst set as an objective, was not ultimately realised to the extent expected. Many of the latter stage negotiations at European Council and European Parliament level seemed to result in new MSOs being introduced or existing MSOs being maintained in order to allow for the political compromise that ultimately helped conclude the Directive negotiations.

3. Micro company regime

The Directive incorporates the requirements of Directive 2012/6/EU; the Micro Directive as previously mentioned. These requirements pertain to the very smallest of companies and offer a reduced disclosure regime for micro-undertakings in those Member states that wish to use this Member State Option.

4. Country by Country Reporting

Chapter 10 of the Directive introduces requirements for companies to report payments to governments. Its aim is to increase transparency of the payments made by the extractive and logging industries to governments all over the world. The provisions will apply to EU privately-owned large companies or companies listed in the EU that are active in the oil, gas, mining or logging sectors.

Country by Country Reporting ("CBCR") requires financial information to be presented for every country that a company operates in rather than a single set of information at a global level and the reporting of taxes, royalties and bonuses that a multinational pays to a host government will show a company's financial impact in host countries. The intention of this more transparent approach is to encourage more sustainable businesses.

5. Simplification of presentation within the directive

The Directive represents the amendment and merger of the previous directives (78/660/EEC and 83/349/EEC) and is a step towards simplification (more logical presentation and the merger of the two directives) of accounting regulation for EU undertakings.

4. Member State Options within the Directive

1. Introduction

An analysis of all of the MSOs included within the Directive is attached at Appendix 1. Within this analysis we have identified circa 100 options. These are available for Member States to determine what action should be taken within its jurisdiction in respect of accounting matters.

It is important to note that Appendix 1 includes a summary of the options that we have identified together with the relevant paragraph to which the option relates. Whilst we have provided the summary to assist consideration of the matter, the Directive should be read in its entirety in order to gain both context and a full understanding of the impact.

Appendix 1 also includes an EFAA comment alongside the option which either explains the option or recommends that particular action be taken to deal with the option.

Of further note is the fact that the Directive also includes entity accounting options. These are matters that can be decided upon by the entity. They have not been considered within this paper.

Some of the MSOs are clearly of greater significance or importance. We have highlighted what seem to be the most significant ones in this section but the complete list is included as Appendix 1.

Of these important options some will require the Member State to make new choices because the Directive has now introduced a further MSO that was not in existence in the Fourth and Seventh Directive.

The new Directive now enables the Member States to reassess what its action should be in respect of important existing options. These have then been divided between those where*:*

- Better accounting would support the choice one way or the other; and
- Member States will have to judge the choices based on national conditions.

In an attempt to help the implementation of the Directive, EFAA has provided some general commentary to these options.

2. The criteria that should be used in making the right choices when assessing MSOs

Better accounting

We have referred to the demands of better accounting in many of our comments on the options. As accountants and auditors for SMEs we consider that we are able to determine what is "better accounting" based on our professional experience and what is generally accepted practice.

We are also very much aware that SMEs should not be burdened with requirements when these are not justified.

In general better accounting reflects the preparation of accounts and the disclosure of information in a manner that provides valuable and relevant information to users. Better accounting is often evidenced in national accounting standards and also in international systems such as IFRS and IFRS for SMEs.

As an overview better accounting provides accounting information that meets the requirements of the tax authorities and, very often, creditors. There is a fundamental concept within European Law that financial information be published for the protection of investors and creditors. The importance of obtaining reliable accounting information for the purpose of safeguarding the interests of shareholders and the general stewardship of the business should not be under-estimated. Better accounting reflects that information prepared and published satisfies this requirement and also furthers economic growth and enables access to finance through transparency and market efficiency.

Transparency and market efficiency

If Member States choose not to take up certain MSOs there will, as a result of the maximum harmonisation approach, be a loss of a significant number of disclosures that are currently required for small undertakings. Such disclosures may vary from country to country but they often reflect the needs of users in those member states identified over the years. Some examples of what the law or accounting standards of member states would no longer be allowed to require are:

- Significant post-balance sheet events;
- Movements on reserves including dividends;
- Components of the change in tangible fixed assets – purchases, depreciation and disposals;
- Details of subsidiaries and associates;
- Identity of the ultimate parent company; and
- Related party transactions.

Comparability

The extent of the MSOs in this Directive has meant that one of the objectives of the new directive to increase comparability across the EU will not have been fully realised. Comparability in company accounts particularly in terms of recognition and measurement of items in the accounts, remains in our view the right objective, but we recognise that it will be difficult for Member States to choose options on that basis. However, choosing the better accounting option will tend to increase comparability across Europe.

Comparability is well accepted as being a contributor to:

- The better functioning of the single market;
- An increased access to finance;
- A reduction in the cost of capital; and
- Increased levels of cross border trade, mergers and acquisition activity.

We also note the significance of short term trade credit within the SME sector. For example, in the UK it represents twice the amount of any other source of short term credit (Wilson, 2008) and information on the public record can serve to enable such credit.

Relevance

EFAA has always advocated that any change in regulation should follow the 'think small first' principle. Legislation should address the needs and characteristics of the smaller entities first which is not only good practice but also by default addresses the overwhelming majority of companies within the European Union.

Relevance requires a complete understanding of the environment in which SMEs operate. EFAA believes that the changes proposed should be relevant to SMEs. In this regard it is necessary to understand the requirements of the users of SMEs accounts and the cost/benefit of the changes to those accounts. That is, it is our contention that simplification ceases to be relevant to the extent that it has not comprehensively considered the impact of the change in regulation.

Minimising the costs of change

For SMEs in particular change always costs time and resources to assess and implement even if the change leads to reductions in the longer term. Many of the MSOs are not new but the Directive's implementation offers the chance to reassess existing choices. Member states will have to judge in their own national circumstances the balance between the cost of change and the improvement in accounting that may result.

International Harmonisation

We are in favour of a harmonised system of financial accounts preparation within the EU. In this context IFRS for SMEs might be particularly relevant in respect of internationally operating companies and may also reduce reporting costs of many groups in respect of subsidiary reporting across Europe.

To date, IFRS for SMEs has been adopted by at least 58 jurisdictions around the world (including 8 in Europe). The new Directive has removed most of the obstacles that EU law formerly posed for adoption of IFRS for SMEs. The UK and Ireland have shown that it is possible to adopt IFRS for SMEs in compliance with the Directive albeit certain MSOs need to be taken up in order to do so.

Without the disclosure of the above information it is possible that in some cases accounts could be positively misleading. All of the above could be required via MSOs. Whilst it is true that the "true and fair view" is still a requirement and companies might supply some of this information to satisfy the true and fair requirement, the above disclosures will not be made on a consistent and comparable basis as if they were specific legal requirements. The impact of such transactions will not be transparent and user needs may not be satisfied which could result in a reduction in market efficiency.

EFAA comment

However, a number of member states have policies discouraging national law from adding to European directives. The practice of adding to European requirements is often referred to as "gold plating" and refers to national bodies exceeding the terms of European Union directives when implementing them into national law[6].

In some countries the adoption of some MSOs will be seen as "gold plating". The important maximum harmonisation approach to small company disclosure requirements in Article 16 means that "gold plating" is not possible in that regard.

3. Member State Options that have been newly introduced within the Directive

Articles 3.2 and 3.5 - categories of small undertakings and small groups

Issue

This article introduces strict size thresholds for small entities and will be a key decision for Member States. Member States will not be able to reduce the size limits but will have the ability to increase them up to the maximum flexibility allowed (50%).

EFAA comment

EFAA has always asserted that the thresholds will have differing effects in Member States as the proportion of undertakings qualifying as a small undertaking varies state by state. EFAA notes that Germany, the Netherlands and the UK will likely increase the thresholds to the maximum level. The choice of threshold for small entities is of particular importance given the maximum harmonisation approach of Article 16.3 which will restrict the disclosures that can be made for small entities.

EFAA believes that Member States should carefully decide what will be the most appropriate limits for themselves.

6 "Better Regulation- Simplification". European Commission

Article 16.2 - Content of the notes to the financial statements relating to all undertakings

Issue

This article generally sets out the complete disclosures that Member States may require in the notes to the financial statements for small undertakings to which they may not add, as a maximum harmonisation. However 16.2 allows an option for them to add a few others from points (a), (m), (p), (q), (r) of Article 17 (i).

Issue

(a) Components of fixed assets including purchase price or production cost, additions and disposal, accumulated value adjustments and capitalisation of interest;

EFAA comment

If users have just the opening and closing balance in the fixed assets they are unable to work out the balance between new expenditure on acquiring and replacing the assets and the depreciation or disposal of assets that make up that net movement. The relative balance between these components may point to different conclusions about the financial direction of the undertaking.

Issue

(m) the name and registered office of the undertaking which draws up the consolidated financial statements of the smallest body of undertakings of which the undertaking forms part as a subsidiary undertaking and which is also included in the body of undertakings referred to in point (l);

EFAA comment

For companies that are part of a group the existence of that relationship can be very significant in understanding the financial statements. When undertakings are closely integrated into a group then the overall picture given by the consolidated accounts can be more helpful to users in assessing the financial position and performance of the undertaking. This disclosure alerts them to the existence of the group relationship and where the relevant consolidated accounts might be obtained.

Issue

(p) the nature and business purpose of the undertaking's arrangements that are not included in the balance sheet and the financial impact on the undertaking of those arrangements, provided that the risks or benefits arising from such arrangements are material and in so far as the disclosure of such risks or benefits is necessary for the purposes of assessing the financial position of the undertaking;

EFAA comment

The law or accounting standards may allow for the exclusion from the accounts of significant obligations or resources. This disclosure is widely drawn to require that undertakings consider whether there are material matters which are not otherwise included in the balance sheet. This reinforces other disclosures like those of commitments, but also the substance over form principle and the overall true and fair requirement.

Issue

(q) the nature and the financial effect of material events arising after the balance sheet date which are not reflected in the profit and loss account or balance sheet;

EFAA comment

Users of accounts work on the assumption that recent performance is the best guide to current and future performance. This additional disclosure is of events in the period between the balance sheet date which do not affect conditions at the balance sheet date but which could nevertheless challenge that assumption and so which is required for a true and fair view. Of critical importance will be where events after the balance sheet date may challenge the going concern assumption that is fundamental to most accounts.

Issue

(r) transactions which have been entered into with related parties by the undertaking, including the amount of such transactions, the nature of the related party relationship and other information about the transactions necessary for an understanding of the financial position of the undertaking. Information about individual transactions may be aggregated according to their nature except where separate information is necessary for an understanding of the effects of related party transactions on the financial position of the undertaking;

EFAA comment

Users of accounts assume that transactions of the company have been conducted on the commercial or arm's length terms. If the transactions are with related parties, that assumption may not be correct. Adjusting transaction values to commercial ones is very difficult and so this disclosure requirement is there to alert users to the possible existence and likely extent of any such distortions of performance or of the financial position. Without this disclosure some accounts may be misleading and so fail to give a true and fair view. The issue of related party transactions applies to small companies as much, if not more so, as to larger ones.

There is also the option to exclude transactions which are on commercial terms. This may appear to be a reduction in burden and in principle raises no problem. In practice however it may not be as helpful as it seems because the decision as to whether a transaction is or is not under normal market conditions may not be straightforward for management or their auditors to make. It would be better to require all the information to be presented and the reader of the accounts can then determine the effect and relevance as they deem fit.

EFAA comment in summary

EFAA believes that all these Member State Options should be taken on board. These disclosures are best practice and result in better accounting and better information being disclosed. They are all required by IFRS for SMEs.

Article 25.1 - Business combinations within a group

Issue

This article allows a Member State to permit or require the book values of shares held in the capital of an undertaking included in the consolidation to be set off against the corresponding percentage of capital only, provided that the undertakings in the business combination are ultimately controlled by the same party both before and after the business combination, and that control is not transitory.

EFAA comment

This option allows 'pooling of interests' or merger accounting, which will no longer be allowed in other cases, to continue in the case of combinations under common control. Merger accounting is recognised as an appropriate treatment in the circumstances when entities have in substance not been acquired but there may simply have been a group reconstruction. EFAA believes that Member States should themselves retain this option to allow the undertaking to follow the accounting treatment that would be of most relevance and of most value to the users of the financial statements.

Article 30.1 - General publication requirement

Issue

The Directive has introduced a time limit for filing accounts such that Member States shall ensure that undertakings publish their accounts within a reasonable period of time, which shall not exceed 12 months after the balance sheet date.

EFAA comment

In May 2013 EFAA published a short survey[7] on the filing deadlines across the EU which was undertaken to examine the existing time limits that companies have to submit their financial statements to the public register. We did so because we acknowledged that the timeliness of financial information about a company is a desirable quality criterion as well as the harmonised basis of preparation and the information disclosed.

The results of the survey provided evidence that the period before financial statements should be available to users varies significantly across the survey group, and therefore within the EU, from a period of 3 months to 13 months. The most common period is 7 months. The proposed limit in the new Directive of 12 months on its own is unlikely to lead to much improvement in the timeliness of information.

The timeliness of financial statements is of great importance to enabling third parties to make informed decisions. Events can quickly reduce the usefulness of information and some would argue that even at 7 months information is already out of date. That said, a deadline of 7 months would have been a significant improvement on the compromise position reached of 12 months.

In this respect we would urge Member States to go beyond the limits established by the Directive and increase the value of accounts on the public record. A maximum period of 7 months would seem sensible.

7 EFAA survey on HARMONISATION OF FILING DEADLINES OF ANNUAL FINANCIAL STATEMENTS

http://www.efaa.com/files/pdf/Publications/Comment%20letters/2013/EFAA%20Survey%20and%20report%20on%20the%20harmonisation%20of%20filing%20deadlines_02%2005%202013.pdf

Article 34 – Auditing – General Requirement

Issue

Small companies under the previous directives were exempted from the general audit requirement as a MSO. In the new Directive there is a requirement for the audit of just medium and large companies.

EFAA comment

It is clear that Member States can nevertheless choose to require the audit for small companies. National circumstances will need to be considered, including the impact of any increase in the thresholds from Article 3.2 which may increase substantially the number of companies otherwise falling out of the audit requirement.

Article 36 – Exemptions for micro-undertakings

Issue

This is already available to Member States but our information indicates that this exemption has not yet been widely taken up. It is an attempt to reduce the disclosure requirements on micro companies. Significant information in the balance sheet (for example any analysis of current assets between stocks, debtors and cash) together with note disclosures would be removed from micro company accounts via this option.

EFAA comment

As with other initiatives it seems likely to reduce the information available to users of the accounts more than it reduces the costs of preparation. Each member state must consider where the balance between these two factors should be set in their context (see our comments on Article 3 above) and whether micro companies should have this separate regime is desirable or whether the small company regime is appropriate instead. We note that the small company regime is now going to reduce disclosures as compared to the previous requirements.

EFAA's study (Appendix 3) indicates limited adoption at this point – our study was only of Germany and the UK. It is an attempt to reduce the requirements on micro companies, but as with other initiatives it seems likely to reduce the information available to users of the accounts more than it reduces the costs of preparation.

Article 36 allows for an exemption from the obligation to accrue for certain costs. Our concerns are that the accounts might in some cases be materially incomplete and subject to significant discretion by the management of the undertaking as to the extent of other costs recognised in any one period. We note that both Germany and the UK chose not to adopt this aspect of the micro company regime on these grounds, including the possible fiscal impact.

The EFAA study also highlighted that the UK made some adaptations of the EU directive in terms of the scope of undertakings allowed to use the micro regime and the implications of the true and fair requirement.

4. The opportunity to reassess some important Member State Options – better accounting preferences

As stated above the Directive has now enabled some existing options to be reconsidered. Some of the more important options within this category are noted below together with guidance from EFAA.

Article 6 – Substance over Form

Issue

Member States may exempt undertakings from the requirements of point (h) of paragraph 1. (h) items in the profit and loss account and balance sheet shall be accounted for and presented having regard to the substance of the transaction or arrangement concerned;

EFAA comment

EFAA supports the principle of substance over form. We consider this to be better accounting and that the true and fair principle requires that transactions should be accounted for according to their substance. To do otherwise, even where this is based on their legal form, is potentially misleading for the readers of the accounts. While the substance over form principle is a general one the treatment of leases is an important example of its application. An asset is in substance acquired for the whole of its expected useful life, but the arrangement takes the legal form of a lease. Without this substance over form principle such an arrangement will be accounted for on the basis of rentals paid. No asset will be recorded on the balance sheet of the lessee. Potentially this may significantly distort the amount of capital employed in the undertaking. We therefore do not believe that Member States should use this option.

Article 9 – General provisions concerning the balance sheet and the profit and loss account

Issue

In the balance sheet and in the profit and loss account the items set out in Annexes III to VI shall be shown separately in the order indicated. Member States shall permit a more detailed subdivision of those items, subject to adherence to the prescribed layouts. Member States shall permit the addition of subtotals and of new items, provided that the contents of such new items are not covered by any of the items in the prescribed layouts. Member States may require such subdivision or subtotals or new items.

Issue

The layout, nomenclature and terminology of items in the balance sheet and profit and loss account that are preceded by arabic numerals shall be adapted where the special nature of an undertaking so requires. Member States may require such adaptations for undertakings which form part of a particular economic sector.

EFAA comment

This article is to allow the prescribed formats for the balance sheet and profit and loss account to be amended by companies to some degree where nevertheless broadly equivalent information is provided. The option for some of these amendments to be required by Member States, we think, will be helpful in a number of contexts (for example different sectors or forms of incorporation).

Article 12 – Special provisions relating to certain balance sheet items

Issue

Member States may permit the purchase price or production cost of stocks of goods of the same category and all fungible items including investments to be calculated either on the basis of weighted average prices, on the basis of the 'first in, first out' (FIFO) method, the 'last in, first out' (LIFO) method, or a method reflecting generally accepted best practice.

EFAA comment

Good accounting practice generally is in favour of FIFO or average cost as the formula which is most likely to represent the reality of actual consumption. LIFO tends to make the valuation of stocks lower even with only moderate inflation.

Article 23 – Exemptions from consolidation

Issue

Member States may exempt medium-sized groups from the obligation to draw up consolidated financial statements and a consolidated management report, except where any affiliated undertaking is a public-interest undertaking.

EFAA comment

Consolidated accounts are very important for users of accounts to understand the financial statements of the holding company and hence IFRS and IFRS for SMEs require consolidated accounts in these circumstances. Medium-sized groups are significant entities and arguably they should not need the exemption from consolidation that is required for small ones on cost/benefit grounds.

Article 24 – Preparation of consolidated financial statements

Issue

A Member State may permit or require set-offs on the basis of the values of identifiable assets and liabilities as at the date of acquisition of the shares or, in the event of acquisition in two or more stages, as at the date on which the undertaking became a subsidiary.

EFAA comment

This option allows the value of the shares in a subsidiary to be compared to the value of the assets and liabilities acquired in exchange for them rather than their historical book values when calculating the goodwill. This is the treatment required by IFRS and IFRS for SMEs. EFAA believes that this is better accounting and Member States should require this for undertakings.

5. The opportunity to reassess some important Member State Options – judgement based on national conditions

As stated above the Directive has now enabled some existing options to be reconsidered. Some of the more important options within this category are noted below together with guidance from EFAA.

Article 7 – Alternative measurement basis of fixed assets at revalued amounts

Issue

A Member State may permit or require fixed assets to be measured at revalued amounts.

EFAA comment

We support this as a Member State Option as there may be sectors or circumstances where the alternative (current value) measurement basis that Article 7 provides would be the most relevant measurement basis. An example could be for long-life assets such as property where the historical cost may be significantly less than the current value because of past inflation. The current returns on capital employed may be significantly overstated as a result.

Article 8 – Alternative measurement basis of fair value

Issue

A Member State shall permit or require the measurement of financial instruments, including derivative financial instruments, at fair value also including the possibility of including the fair value changes in profit or loss for the year.

EFAA comment

We believe that this should remain an option for Member States as there may be sectors or circumstances where the alternative measurement basis that Article 8 provides would be the most relevant measurement basis. For example, often for listed investments, derivatives and for financial instruments held for trading, but also commodities held for trading, agricultural assets and investment properties.

Article 12 – Special provisions relating to certain balance sheet items

Issue

Member States may permit or require that interest on capital borrowed to finance the production of fixed or current assets be included within production costs, to the extent that it relates to the period of production. Any application of this provision shall be disclosed in the notes to the financial statements.

EFAA comment

Both the capitalisation of interest costs or their recognition as expenses as incurred represent good accounting practice. IFRS requires capitalisation of interest in such cases. IFRS for SMEs prohibits capitalisation.

Article 12 – Special provisions relating to certain balance sheet items

Issue

Intangible assets shall be written off over the useful economic life of the intangible asset. In exceptional cases where the useful life of goodwill and development costs cannot be reliably estimated, such assets shall be written off within a maximum period set by the Member State. That maximum period shall not be shorter than five years and shall not exceed 10 years. An explanation

of the period over which goodwill is written off shall be provided within the notes to the financial statements.

EFAA comment

Given the nature of goodwill a useful life can be difficult to estimate. The expected life of development costs may often be more capable of estimation. This seems a reasonable range of deemed lives for these intangible assets for member states to choose from. IFRS for SMEs for example sets a 10 year maximum life in such cases.

Article 14 - Simplifications for small and medium-sized undertakings

Issue

Member States may permit small undertakings to draw up abridged balance sheets.

EFAA comment

The preparation of abridged accounts does not lead to reduced costs because the omitted information will be readily available from the accounting records. This is a measure that recognises a reduced need for transparency for SMEs to external parties not a cost saving issue. Small undertakings should be transparent with their shareholders and so we consider this option should not be taken up.

Article 19 - Contents of the management report

Issue

Member states may exempt small undertakings from the obligation to prepare management reports, provided that they require the information referred to in Article 24(2) of Directive 2012/30/EU concerning the acquisition by an undertaking of its own shares to be given in the notes to the financial statements.

EFAA comment

The management report may be beneficial in some cases particularly where shareholders are not involved in the management of the company. In a comparable way to setting the thresholds in Article 3.2, a decision whether to require such a report or not, should be determined on the basis of the costs/benefits of preparation and the need or otherwise for transparency to stakeholders.

Article 31 - Simplifications for small and medium-sized undertakings

Issue

Member States may exempt small undertakings from the obligation to publish their profit and loss accounts and management reports.

EFAA comment

Omitting the profit and loss account from the published financial statements significantly reduces the quality of the information available to readers of the accounts. The preparation of abridged accounts does not lead to reduced costs because full accounts need to be produced in the first instance. Member states will have to balance in their national context the concern for the confidentiality of the financial information of SMEs against the need for information by their stakeholders. It is not a cost saving issue for SMEs.

Appendix 1, Analysis of Member State Options included within the Directive

POTENTIAL OPTION	EFAA COMMENT ON MEMBER STATE OPTION
Article 2	
Definitions	
Definition of public interest undertakings	
(1.d) designated by Member States as public-interest undertakings, for instance undertakings that are of significant public relevance because of the nature of their business, their size or the number of their employees;	Whilst the implication is as yet unknown it is possible that Member States may decide to designate different types and different sizes of undertakings as public-interest undertakings which could lead to similar types and sizes of undertakings being treated differently in different Member States.
(2)'Participating interest' means rights in the capital of other undertakings, whether or not represented by certificates, which, by creating a durable link with those undertakings, are intended to contribute to the activities of the undertaking which holds these rights; The holding of part of the capital of another undertaking is presumed to constitute a participating interest where it exceeds a percentage fixed by the Member States which is lower or equal to 20%;	Member States will be able to define different percentages to qualify as a "Participating interest" which may not improve comparability. Unless there are specific national circumstances that require a different level, EFAA would recommend that 20% be selected as the presumed level of interest. This corresponds for example with the equivalent for associates in IFRS and IFRS for SMEs.
7) 'production cost' means the purchase price of raw materials, consumables and other costs directly attributable to the item in question. Member States shall permit or require the inclusion of a reasonable proportion of fixed or variable overhead costs indirectly attributable to the item in question, to the extent that they relate to the period of production. Distribution costs shall not be included;	Member States should require the inclusion of raw materials, consumables and other costs directly attributable to the item in question in the definition of production cost. To do so is to recognize the better accounting treatment and to improve comparability and harmonisation.
Article 3	
Categories of undertakings and groups	
2. Small undertakings shall be undertakings which on their balance sheet dates do not exceed the limits of at least two of the three following criteria: (a) balance sheet total: EUR 4 000 000; (b) net turnover: EUR 8 000 000; (c) average number of employees during the financial year: 50. Member States may define thresholds exceeding the thresholds in points (a) and (b) of the first subparagraph. However, the thresholds shall not exceed EUR 6 000 000 for the balance sheet total and EUR 12 000 000 for the net turnover.	This is a key decision for Member States. Member States will not be able to reduce the limits but will be able to increase them up to the maximum flexibility allowed. EFAA has always asserted that the thresholds will have differing effects in Member States as the proportion of undertakings qualifying as a small undertaking is likely to be higher in some states than others. The choice of threshold for small is of particular importance given the maximum harmonisation approach of Article 16.3. Member States should carefully decide what will be the most appropriate limits for themselves based on rational criteria reflecting the costs and benefits of the requirement and the need for greater or less transparency of businesses to their stakeholders.

POTENTIAL OPTION	EFAA COMMENT ON MEMBER STATE OPTION
5. Small groups shall be groups consisting of parent and subsidiary undertakings to be included in a consolidation and which, on a consolidated basis, do not exceed the limits of at least two of the three following criteria on the balance sheet date of the parent undertaking: (a) balance sheet total: EUR 4 000 000; (b) net turnover: EUR 8 000 000; (c) average number of employees during the financial year: 50. Member States may define thresholds exceeding the thresholds in points (a) and (b) of the first subparagraph. However, the thresholds shall not exceed EUR 6 000 000 for the balance sheet total and EUR 12 000 000 for the net turnover.	See comments above.
12. When calculating the thresholds in paragraphs 1 to 7, Member States may require the inclusion of income from other sources for undertakings for which "net turnover" is not relevant.	For certain sectors such as banking, insurance or not for profit undertakings the net turnover may not be relevant and so member states will probably need to take up this option.
Member States may require parent undertakings to calculate their thresholds on a consolidated basis rather than on an individual basis.	EFAA believes that Member States should require this because calculations on a consolidated basis are the more meaningful measure of the economic impact of undertakings than on an individual basis.
Member States may also require affiliated undertakings to calculate their thresholds on a consolidated or aggregated basis where such undertakings have been established for the sole purpose of avoiding the reporting of certain information.	This seems a very difficult requirement to enforce. Whether an affiliate has been set up solely to avoid disclosure is a judgement only those directly involved can make. The principal risk is that activities of a medium or large group could be spread among many small companies to allow access to disclosure exemptions. However this risk is principally addressed by the requirement for consolidated accounts and taking up the preceding option.

POTENTIAL OPTION	EFAA COMMENT ON MEMBER STATE OPTION
CHAPTER 2	
GENERAL PROVISIONS AND PRINCIPLES	
Article 4	
General provisions	
1. The annual financial statements shall constitute a composite whole and shall for all undertakings comprise, as a minimum, the balance sheet, the profit and loss account and the notes to the financial statements. Member States may require undertakings other than small undertakings to include other statements in the annual financial statements in addition to the documents referred to in the first subparagraph.	We are of the opinion that the scope of this allowance is very wide. In general, EFAA does not see a requirement for any further reports to be included other than a cash flow statement which EFAA believes should be required for medium and large undertakings.
4. Where in exceptional cases the application of a provision of this Directive is incompatible with the obligation laid down in paragraph 3, that provision shall be disapplied in order to give a true and fair view of the undertaking's assets, liabilities, financial position and profit or loss. The disapplication of any such provision shall be disclosed in the notes to the financial statements together with an explanation of the reasons for it and of its effect on the undertaking's assets, liabilities, financial position and profit or loss. The Member States may define the exceptional cases in question and lay down the relevant special rules which are to apply in those cases.	EFAA does not believe that Member States should define the exceptional cases because this is a matter of accounting practice not legislation. Such an option would undermine the principle of a “true and fair view” and could lead to a lack of comparability between financial statements. In addition, the Member State Option may result in a situation where it is defined in such a manner that it can never be used which may then have an adverse effect on the financial statements in these exceptional cases and create a problem for the audit where an opinion is given on whether financial statements are “true and fair”.
5. Member States may require undertakings other than small undertakings to disclose information in their annual financial statements which is additional to that required pursuant to this Directive.	We support the possibilty of extra disclosure requirements for medium and large undertakings to reflect national conditions and to allow better accounting, for which the requirements of IFRS for SMEs might be looked to.
6. By way of derogation from paragraph 5, Member States may require small undertakings to prepare, disclose and publish information in the financial statements which goes beyond the requirements of this Directive, provided that any such information is gathered under a single filing system and the disclosure requirement is contained in the national tax legislation for the strict purposes of tax collection. The information required in accordance with this paragraph shall be included in the relevant part of the financial statements.	EFAA believes that this derogation whilst trying to enable a "one stop shop" may have broadened the scope of what undertakings need to publish. For example, we would not expect that Member States extend this publication to the tax information. It would also be of value to monitor the future implementation of this clause to determine any implementation issues or abuse.

POTENTIAL OPTION	EFAA COMMENT ON MEMBER STATE OPTION
Article 6	
General financial reporting principles	
2. Notwithstanding point (g) of paragraph 1, Member States may in specific cases permit or require undertakings to perform a set-off between asset and liability items, or between income and expenditure items, provided that the amounts which are set off are specified as gross amounts in the notes to the financial statements.	Set offs sometimes reflect national legal requirements so we support this option and would expect it to be implemented. There is no net loss of information to users.
3. Member States may exempt undertakings from the requirements of point (h) of paragraph 1. *(h) items in the profit and loss account and balance sheet shall be accounted for and presented having regard to the substance of the transaction or arrangement concerned;*	EFAA supports the principle of substance over form. We consider the true and fair principle to be better accounting and therefore assert that transactions should be accounted for according to their substance. To do otherwise, even where this is based on their legal form, is potentially misleading for the readers of the accounts. We therefore do not believe that Member States should use this option.
4. Member States may limit the scope of point (j) of paragraph 1 to presentation and disclosures. *(j) the requirements set out in this Directive regarding recognition, measurement, presentation, disclosure and consolidation need not be complied with when the effect of complying with them is immaterial.*	The principle of materiality should be applied to recognition, measurement, presentation, and disclosure. Restricting its application to only presentation and disclosure could have a significant impact on the practical implementation of this principle and could therefore result in a lack of clarity as to what undertakings should do. We therefore do not believe that Member States should use this option.
5. In addition to those amounts recognized in accordance with point (c)(ii) of paragraph 1(text in italics below), Member States may permit or require the recognition of all foreseeable liabilities and potential losses arising in the course of the financial year concerned or in the course of a previous financial year, even if such liabilities or losses become apparent only between the balance sheet date and the date on which the balance sheet is drawn up. *(ii) all liabilities arising in the course of the financial year concerned or in the course of a previous financial year shall be recognized, even if such liabilities become apparent only between the balance sheet date and the date on which the balance sheet is drawn up.*	EFAA rejects this option. The difference between all liabilties arising and all foreseeable liabilities and potential losses is not clear without any definitions in the Directive. The recognition of liabilities will depend on how these phrases are interpreted in the different Member States. We would want all liabilities that existed at the balance sheet and that will probably lead to an outflow of economic benefits be provided for. All liabilities which have arisen on or before the balance sheet date and become apparent before the balance sheet is drawn up should be recognized. See also our comments on Article 12.12.

POTENTIAL OPTION	EFAA COMMENT ON MEMBER STATE OPTION
Article 7	
Alternative measurement basis of fixed assets at revalued amounts	
1. By way of derogation from point (i) of Article 6(1), Member States may permit or require, in respect of all undertakings or any classes of undertaking, the measurement of fixed assets at revalued amounts. Where national law provides for the revaluation basis of measurement, it shall define its content and limits and the rules for its application.	We support this as a Member State Option as there may be sectors or circumstances where the alternative (current value) measurement basis that Article 7 provides would be the most relevant measurement basis. An example could be for long-life assets such as property where the historical cost may be significantly less than the current value because of past inflation. The current returns on capital employed may be significantly overstated as a result.
2. Where paragraph 1 is applied, the amount of the difference between measurement on a purchase price or production cost basis and measurement on a revaluation basis shall be entered in the balance sheet in the revaluation reserve under 'Capital and reserves'. The revaluation reserve may be capitalized in whole or in part at any time. The revaluation reserve shall be reduced where the amounts transferred to that reserve are no longer necessary for the implementation of the revaluation basis of accounting. The Member States may lay down rules governing the application of the revaluation reserve, provided that transfers to the profit and loss account from the revaluation reserve may be made only where the amounts transferred have been entered as an expense in the profit and loss account or reflect increases in value which have actually been realised. No part of the revaluation reserve may be distributed, either directly or indirectly, unless it represents a gain actually realised. Save as provided under the second and third sub-paragraphs of this paragraph the revaluation reserve may not be reduced.	The rules on the revaluation reserve set out here may be sufficient in many cases and need not be added to by member states' law.
3. Value adjustments shall be calculated each year on the basis of the revalued amount. However, by way of derogation from Articles 9 and 13, Member States may permit or require that only the amount of the value adjustments arising as a result of the purchase price or production cost measurement basis be shown under the relevant items in the layouts prescribed in Annexes V and VI and that the difference arising as a result of the measurement on a revaluation basis under this Article be shown separately in the layouts.	In our view this option should not be taken up. Better accounting requires that where fixed assets have been revalued then the value adjustments (depreciation) should be based on the revalued amount. It may mislead users of accounts if the value adjustment appears in two places in the profit and loss account.

POTENTIAL OPTION	EFAA COMMENT ON MEMBER STATE OPTION
Article 8	
Alternative measurement basis of fair value	
1. By way of derogation from point (i) of Article 6(1) and subject to the conditions set out in this Article: (a) Member States shall permit or require, in respect of all undertakings or any classes of undertaking, the measurement of financial instruments, including derivative financial instruments, at fair value.	We support this as a Member State Option as there may be sectors or circumstances where the alternative measurement basis that Article 8 provides would be the most relevant measurement basis. For example often for listed investments, derivatives and for financial instruments held for trading.
(b) Member States may permit or require, in respect of all undertakings or any classes of undertaking, the measurement of specified categories of assets other than financial instruments at amounts determined by reference to fair value.	There may be some cases where fair value is the most relevant method for other sorts of assets such as commodities held for trading, agricultural assets or investment properties.
Such permission or requirement may be restricted to consolidated financial statements.	Individual financial statements in some member states serve significantly different purposes to consolidated ones. For many users the consolidated financial statements are going to be the more informative and so this restriction of Article 8 seems fair.
5. By way of derogation from point (i) of Article 6(1), Member States may, in respect of any assets and liabilities which qualify as hedged items under a fair value hedge accounting system, or identified portions of such assets or liabilities, permit measurement at the specific amount required under that system.	In most cases member states allowing fair values for derivatives for example will also want to take up this option for fair value hedge accounting.
6. By way of derogation from paragraphs 3 and 4, Member States may permit or require the recognition, measurement and disclosure of financial instruments in conformity with international accounting standards adopted in accordance with Regulation (EC) No 1606/2002.	In some cases (e.g. for the subsidiaries of listed companies) it reduces complexity if the fair value accounting can be based on IFRS and so be the same as that required for the consolidated accounts of the group.

POTENTIAL OPTION	EFAA COMMENT ON MEMBER STATE OPTION
8. Notwithstanding point (c) of Article 6(1), where a financial instrument is measured at fair value, a change in value shall be included in the profit and loss account. However, such a change shall be included directly in a fair value reserve, where: (a)the instrument accounted for is a hedging instrument under a system of hedge accounting that allows some or all of the change in value not to be shown in the profit and loss account; or (b)the change in value relates to an exchange difference arising on a monetary item that forms part of an undertaking's net investment in a foreign undertaking. Member States may permit or require a change in the value of an available for sale financial asset, other than a derivative financial instrument, to be included directly in a fair value reserve. That fair value reserve shall be adjusted when amounts shown therein are no longer necessary for the implementation of points (a) and (b) of the first subparagraph.	This option allows for financial assets that may be best stated at fair value in the balance sheet but their effect in the profit and loss account is best measured using historical cost. This available for sale treatment is used in IFRS, but not in IFRS for SMEs.
9. Notwithstanding point (c) of Article 6(1), Member States may permit or require, in respect of all undertakings or any classes of undertaking, that, where assets other than financial instruments are measured at fair value, a change in the value be included in the profit and loss account.	There may be some cases where fair value accounting is the most relevant method for other sorts of assets such as commodities held for trading, agricultural assets or investment properties.
CHAPTER 3	
BALANCE SHEET AND PROFIT AND LOSS ACCOUNT	
Article 9	
General provisions concerning the balance sheet and the profit and loss account	
2. In the balance sheet and in the profit and loss account the items set out in Annexes III to VI shall be shown separately in the order indicated. Member States shall permit a more detailed subdivision of those items, subject to adherence to the prescribed layouts. Member States shall permit the addition of subtotals and of new items, provided that the contents of such new items are not covered by any of the items in the prescribed layouts. Member States may require such subdivision or subtotals or new items.	This clause allows undertakings some flexibility in applying the formats which we welcome as this will tend to allow for more appropriate and relevant presentations. Member states may need to require some adaptations to ensure that certain sectors such as banking, insurance or not for profit undertakings prepare comparable and relevant accounts.

POTENTIAL OPTION	EFAA COMMENT ON MEMBER STATE OPTION
3. The layout, nomenclature and terminology of items in the balance sheet and profit and loss account that are preceded by arabic numerals shall be adapted where the special nature of an undertaking so requires. Member States may require such adaptations for undertakings which form part of a particular economic sector.	For the reason stated above we believe that this could be helpful.
Member States may permit or require balance sheet and profit and loss account items that are preceded by arabic numerals to be combined where they are immaterial in amount for the purposes of giving a true and fair view of the undertaking's assets, liabilities, financial position and profit or loss or where such combination makes for greater clarity, provided that the items so combined are dealt with separately in the notes to the financial statements.	This option involves no net loss of information as there will be disclosure in the notes if not in the main statement. The ability for undertakings to adapt the format in this way is helpful and so the option to permit should be taken up. We see no case for this combination to be required in national law.
4. By way of derogation from paragraphs 2 and 3 of this Article, Member States may limit the undertaking's ability to depart from the layouts set out in Annexes III to VI to the extent that this is necessary in order for the financial statements to be filed electronically.	This clause may remove the flexibility that the clauses above enabled.
5. In respect of each balance sheet and profit and loss account item, the figure for the financial year to which the balance sheet and the profit and loss account relate and the figure relating to the corresponding item for the preceding financial year shall be shown. Where those figures are not comparable, Member States may require the figure for the preceding financial year to be adjusted. Any case of non-comparability or any adjustment of the figures shall be disclosed, with explanations, in the notes to the financial statements.	In some member states the principle of the adjustment of comparatives is well accepted. In others the principle is that opening balances must equal the closing balances reported for the previous year. This option is either to restate or provide in effect the equivalent information by disclosure. There could be a problem in requiring the note disclosure from small companies given Art 16.3.
6. Member States may permit or require adaptation of the layout of the balance sheet and profit and loss account in order to include the appropriation of profit or the treatment of loss.	The information about the appropriation of profit can be communicated either by adapting the presentation format or in the notes to the financial statements. This is again an item where there could be a problem in requiring the note disclosure from small companies given Art 16.3.

POTENTIAL OPTION	EFAA COMMENT ON MEMBER STATE OPTION
7. In respect of the treatment of participating interests in annual financial statements: (a) Member States may permit or require participating interests to be accounted for using the equity method as provided for in Article 27, taking account of the essential adjustments resulting from the particular characteristics of annual financial statements as compared to consolidated financial statements;	Accounting for the investments in participating interests using the equity method is well established in some member states, but not in others. It is also being proposed to be allowed as an option in IFRS. The key information for investors and other users will tend to be in the consolidated accounts.
(b) Member States may permit or require that the proportion of the profit or loss attributable to the participating interest be recognized in the profit and loss account only to the extent of the amount corresponding to dividends already received or the payment of which can be claimed;	We see no reason for Member States to use this option because this would in effect not be using the accounting under the equity method but the divdends received or receivable basis which is already permitted.
Article 10	
Presentation of the balance sheet	
For the presentation of the balance sheet, Member States shall prescribe one or both of the layouts set out in Annexes III and IV. If a Member State prescribes both layouts, it shall permit undertakings to choose which of the prescribed layouts to adopt.	Member States should exercise the option and allow other layouts where equivalent information is provided to be used. We think this will be helpful in a number of contexts, for example, different sectors or forms of incorporation.

POTENTIAL OPTION	EFAA COMMENT ON MEMBER STATE OPTION
Article 11	
Alternative presentation of the balance sheet	
Member States may permit or require undertakings, or certain classes of undertaking, to present items on the basis of a distinction between current and non-current items in a different layout from that set out in Annexes III and IV, provided that the information given is at least equivalent to that otherwise to be provided in accordance with Annexes III and IV.	Member States should exercise the option and allow other layouts where equivalent information is provided to be used. We think this will be helpful in a number of contexts, for example, different sectors or forms of incorporation.
Article 12	
Special provisions relating to certain balance sheet items	
6. Value adjustments to fixed assets shall be subject to the following: (a) Member States may permit or require value adjustments to be made in respect of financial fixed assets, so that they are valued at the lower figure to be attributed to them at the balance sheet date;	As better accounting would require that financial assets be stated at the lower of cost and net realisable value we believe that the Member States should require this treatment.
8. Member States may permit or require that interest on capital borrowed to finance the production of fixed or current assets be included within production costs, to the extent that it relates to the period of production. Any application of this provision shall be disclosed in the notes to the financial statements.	Both the option of capitalisation of interest costs or their recognition as expenses as incurred represent good accounting practice. IFRS requires capitalisation of interest in such cases. IFRS for SMEs prohibits capitalisation.
9. Member States may permit the purchase price or production cost of stocks of goods of the same category and all fungible items including investments to be calculated either on the basis of weighted average prices, on the basis of the 'first in, first out' (FIFO) method, the 'last in, first out' (LIFO) method, or a method reflecting generally accepted best practice.	Good accounting practice generally is in favour of FIFO or average cost as the formula which is most likely to represent the reality of actual consumption. LIFO tends to make the valuation of stocks lower even with only moderate inflation.
10. Where the amount repayable on account of any debt is greater than the amount received, Member States may permit or require that the difference be shown as an asset. It shall be shown separately in the balance sheet or in the notes to the financial statements. The amount of that difference shall be written off by a reasonable amount each year and completely written off no later than at the time of repayment of the debt.	As better accounting would not see this amount treated as an asset we do not believe that Member States should permit this treatment.

POTENTIAL OPTION	EFAA COMMENT ON MEMBER STATE OPTION
11. Intangible assets shall be written off over the useful economic life of the intangible asset. In exceptional cases where the useful life of goodwill and development costs cannot be reliably estimated, such assets shall be written off within a maximum period set by the Member State. That maximum period shall not be shorter than five years and shall not exceed 10 years. An explanation of the period over which goodwill is written off shall be provided within the notes to the financial statements.	Given the nature of goodwill a useful life can be difficult to estimate. The expected life of development costs may often be more capable of estimation. This seems a reasonable range of deemed lives for these intangible assets for member states to choose from. IFRS for SMEs for example sets a 10 year maximum life in such cases.
Where national law authorises the inclusion of costs of development under 'Assets' and the costs of development have not been completely written off, Member States shall require that no distribution of profits take place unless the amount of the reserves available for distribution and profits brought forward is at least equal to that of the costs not written off.	On the recognition of development costs there is divergence in good accounting practice. Subject to some prudential tests, IFRS requires development costs to be treated as assets. IFRS for SMEs does not allow that. This directive is implicitly allowing national law to specify either treatment. We agree that where the authorisation of these assets is recognised then the restriction on profits available for distribution is appropriate to ensure consistency in terms of creditor protection.
Where national law authorises the inclusion of formation expenses under 'Assets', they shall be written off within a period of maximum five years. In that case, Member States shall require that the third subparagraph apply mutatis mutandis to formation expenses.	As better accounting would not allow formation expenses to be treated as an asset, in our view national law should not take up this implicit option. However we agree with the restriction on profits available for distribution were nevertheless such costs to be treated as assets.
In exceptional cases, the Member States may permit derogations from the third and fourth subparagraphs. Such derogations and the reasons therefore shall be disclosed in the notes to the financial statements.	EFAA does not believe that Member States should allow these assets to be distributed as noted above.
12. Provisions shall cover liabilities the nature of which is clearly defined and which at the balance sheet date are either likely to be incurred or certain to be incurred, but uncertain as to their amount or as to the date on which they will arise. The Member States may also authorise the creation of provisions intended to cover expenses the nature of which is clearly defined and which at the balance sheet date are either likely to be incurred or certain to be incurred, but uncertain as to their amount or as to the date on which they will arise.	The difference between provisions for liabilities on the one hand and provisions for expenses to be incurred on the other is not entirely clear. However, we think the option to authorise the creation of provisions for expenses to be incurred might include what were sometimes referred to as internal liabilities or provisions for future maintenance, for example. We would not support the exercise of this option as these types of provision do not meet the definiton of a liability and may leave to too much discretion to management to determine their extent.

POTENTIAL OPTION	EFAA COMMENT ON MEMBER STATE OPTION
Article 13	
Presentation of the profit and loss account	
1. For the presentation of the profit and loss account, Member States shall prescribe one or both of the layouts set out in Annexes V and VI. If a Member State prescribes both layouts, it may permit undertakings to choose which of the prescribed layouts to adopt.	Member States should exercise the option and allow other layouts where equivalent information is provided to be used. We think this will be helpful in a number of contexts, for example, different sectors or forms of incorporation.
2. By way of derogation from Article 4(1), Member States may permit or require all undertakings, or any classes of undertaking, to present a statement of their performance instead of the presentation of profit and loss items in accordance with Annexes V and VI, provided that the information given is at least equivalent to that otherwise required by Annexes V and VI.	This option would enable the use of IFRS for SMEs, as this standard allows for a combination. Given that it may be of value to enable certain Member States and undertakings to use IFRS for SMEs, then EFAA believes that Member States permit all undertakings to use the option.
Article 14	
Simplifications for small and medium-sized undertakings	
1. Member States may permit small undertakings to draw up abridged balance sheets showing only those items in Annexes III and IV preceded by letters and roman numerals, disclosing separately: (a) the information required in brackets in D (II) under 'Assets' and C under 'Capital, reserves and liabilities' of Annex III, but in the aggregate for each; or (b) the information required in brackets in D (II) of Annex IV.	The preparation of abridged accounts does not lead to reduced costs because the omitted information will be readily available from the accounting records. This is a measure that recognises a reduced need for transparency for SMEs to external parties not a cost saving issue. Small undertakings should be transparent with their shareholders and so we consider this option should not be taken up.
2. Member States may permit small and medium-sized undertakings to draw up abridged profit and loss accounts within the following limits:	As noted above this is not a cost saving issue. SMEs should be transparent with their shareholders who are entitled to the accounts covered by this article. Article 31 recognises a reduced need for transparency by SMEs to other parties. This option should not be taken up.
Article 16	
Content of the notes to the financial statements relating to all undertakings	
2. Member States may require mutatis mutandis that small undertakings are to disclose information as required in points (a), (m), (p), (q), (r) of Article 17 (i)	EFAA asserts that the disclosures in question are required to enable a reader of financial statements to assess the position and performance of an undertaking and this information is of particular importance for small undertakings. Member States should require these disclosures. See our comments in section 4 of the main report.

POTENTIAL OPTION	EFAA COMMENT ON MEMBER STATE OPTION
Article 17	
Additional disclosures for medium-sized and large undertakings and public-interest undertakings	
(d) the amount of the emoluments granted in respect of, the financial year to the members of administrative, managerial and supervisory bodies by reason of their responsibilities and any commitments arising or entered into in respect of retirement pensions of former members of those bodies, with an indication of the total for each category of body. Member States may waive the requirement to disclose such information where its disclosure would make it possible to identify the financial position of a specific member of such a body;	EFAA believes that PIEs should disclose this information. Related party disclosures should not be different depending on the size of the undertaking.
(g) Member States may allow the information required to be disclosed by the first subparagraph** of this point to take the form of a statement filed in accordance with Article 3(1) and (3) of Directive 2009/101/EC; the filing of such a statement shall be disclosed in the notes to the financial statements. Member States may also allow that information to be omitted when its nature is such that it would be seriously prejudicial to any of the undertakings to which it relates. Member States may make such omissions subject to prior administrative or judicial authorization. Any such omission shall be disclosed in the notes to the financial statements; **the number and the nominal value or, in the absence of a nominal value, the accounting par value of the shares subscribed during the financial year within the limits of the authorised capital, without prejudice as far as the amount of that capital is concerned to point (e) of Article 2of Directive 2009/101/EC or to points (c) and (d) of Article 2 of Directive 2012/30/EU;	These both seem reasonable options for a member state to allow. The information in question is the details of a company's participating interests. A separate statement still allows for equivalent information to be available. In some cases disclosure of the name of participating interests can entail serious prejudice. Subject to safeguards over its proper use, the option to omit can be reasonable.

POTENTIAL OPTION	EFAA COMMENT ON MEMBER STATE OPTION
(r) Member States may permit or require that only transactions with related parties that have not been concluded under normal market conditions be disclosed.	These disclosures are best practice and result in better accounting and better information being disclosed for the reasons set out in section 4.3 above. The use of that option, i.e. the issue of commercial / non commercial grounds is not necessarily a helpful exemption, because the decision as to whether a transaction is or is not under normal market conditions may not be straightforward for the companies' management or for their auditors.
Member States may permit that transactions entered into between one or more members of a group be not disclosed, provided that subsidiaries which are party to the transaction are wholly owned by such a member.	Transactions with group companies may not be on commercial terms. When there are minority shareholders their interest could be prejudiced by such transactions. The issue does not arise for wholly-owned subsidiaries. This option is trying to reduce the disclosure burden by removing unnecessary requirements and should be taken up by member states in our view.
Member States may permit that a medium-sized undertaking limit the disclosure of transactions with related parties to transactions entered into with: (i) owners holding a participating interest in the undertaking; (ii) undertakings in which the undertaking itself has a participating interest; and (iii) members of the administrative, management or supervisory bodies of the undertaking.	Related party disclosures should not be different depending on the size of the undertaking in our view. Furthermore this may not lead to a very significant reduction in related party disclosure given that these parties are those most commonly found in practice.
2. Member States shall not be required to apply point (g) of paragraph 1 to an undertaking which is a parent undertaking governed by their national laws in the following cases: 1. (a) where the undertaking in which that parent undertaking holds a participating interest for the purposes of point (g) of paragraph 1 is included in consolidated financial statements drawn up by that parent undertaking, or in the consolidated financial statements of a larger body of undertakings as referred to in Article 23(4); 2. (b) where that participating interest has been dealt with by that parent undertaking in its annual financial statements in accordance with Article 9(7), or in the consolidated financial statements drawn up by that parent undertaking in accordance with Article 27(1) to (8).	The intention here is to reduce unjustified disclosures. If this information about subsidiaries will be available in the accounts of a parent company there seems little point in duplicating it in the accounts of intermediate holding companies.

POTENTIAL OPTION	EFAA COMMENT ON MEMBER STATE OPTION
Article 18	
Additional disclosures for large undertakings and public-interest undertakings	
1. In the notes to the financial statements, large undertakings and public-interest undertakings shall, in addition to the information required under Articles 16 and 17 and any other provisions of this Directive, disclose information in respect of the following matters: (a) the net turnover broken down by categories of activity and into geographical markets, in so far as those categories and markets differ substantially from one another, taking account of the manner in which the sale of products and the provision of services are organised; and (b) the total fees for the financial year charged by each statutory auditor or audit firm for the statutory audit of the annual financial statements, and the total fees charged by each statutory auditor or audit firm for other assurance services, for tax advisory services and for other non-audit services. 2. Member States may allow the information referred to in point (a) of paragraph 1 to be omitted where the disclosure of that information would be seriously prejudicial to the undertaking. Member States may make such omissions subject to prior administrative or judicial authorisation. Any such omission shall be disclosed in the notes to the financial state ments.	Member States should take up this option in Article 18.2. Disclosure of the turnover in some countries could, in a few cases, be seriously prejudicial to a company's interest. We concur with this ability to allow omission, subject to suitable safeguards to ensure that the concerns of prejudice are substantive.
3. Member States may provide that point (b) of paragraph 1 is not to apply to the annual financial statements of an undertaking where that undertaking is included within the consolidated financial statements required to be drawn up under Article 22, provided that such information is given in the notes to the consolidated financial statements.	The information in question is fees paid to auditors. In the case of groups of companies, audit fees may often be determined at a group level and so allocations to individual companies may not be very relevant information for users.

POTENTIAL OPTION	EFAA COMMENT ON MEMBER STATE OPTION
MANAGEMENT REPORT	
Article 19	
Contents of the management report	
3. Member states may exempt small undertakings from the obligation to prepare management reports, provided that they require the information referred to in Article 24(2) of Directive 2012/30/EU concerning the acquisition by an undertaking of its own shares to be given in the notes to the financial statements.	The managment report may be beneficial in some cases particularly where shareholders are not involved in the management of the company. In a comparable way to setting the thresholds in Article 3.2, a decision whether to require such a report or not, should be determined on the basis of the costs/benefits of preparation and the need or otherwise for transparency to stakeholders.
4. Member States may exempt small and medium-sized undertakings from the obligation set out in the third subparagraph of paragraph 1 in so far as it relates to non-financial information.	EFAA is of the view that non-financial information should not be required for SMEs and we would expect this exemption to be used by Member States.
Article 20	
Corporate governance statement	
2. Member States may permit the information required by paragraph 1 of this Article to be set out in: (a) a separate report published together with the management report in the manner set out in Article 30; or (b) a document publicly available on the undertaking's website, to which reference is made in the management report. That separate report or that document referred to in points (a) and (b), respectively, may cross-refer to the management report, where the information required by point (d) of paragraph 1 of this Article is made available in that management report.	Whether the information is in the management report or available in some other form, will still allow for equivalence of information.
4. Member States may exempt undertakings referred to in paragraph 1 which have only issued securities other than shares admitted to trading on a regulated market, within the meaning of point (14) of Article 4(1) of Directive 2004/39/EC, from the application of points (a), (b), (e) and (f) of paragraph 1 of this Article, unless such undertakings have issued shares which are traded in a multilateral trading facility, within the meaning of point (15) of Article 4(1) of Directive 2004/39/EC.	Holders of debt securities as opposed to equity shareholders are exposed to fewer risks that may be mitigated by corporate governance, which may justify the reduced disclosures allowed here.

POTENTIAL OPTION	EFAA COMMENT ON MEMBER STATE OPTION
Article 22	
The requirement to prepare consolidated financial statements	
1. A member state shall require any undertaking governed by its national law to draw up consolidated financial statements and a consolidated management report if that undertaking (a parent undertaking): (a) has a majority of the shareholders' or members' voting rights in another undertaking (a subsidiary undertaking); (b) has the right to appoint or remove a majority of the members of the administrative, management or supervisory body of another undertaking (a subsidiary undertaking) and is at the same time a shareholder in or member of that undertaking; (c) has the right to exercise a dominant influence over an undertaking (a subsidiary undertaking) of which it is a shareholder or member, pursuant to a contract entered into with that undertaking or to a provision in its memorandum or articles of association, where the law governing that subsidiary undertaking permits its being subject to such contracts or provisions. A Member State need not prescribe that a parent undertaking must be a shareholder in or member of its subsidiary undertaking. Those Member States the laws of which do not provide for such contracts or clauses shall not be required to apply this provision, or	If one undertaking controls another then the application of the economic substance of the position would require consolidation whether the first is a member of the second undertaking or not.
d) is a shareholder in or member of an undertaking, and: (i) a majority of the members of the administrative, management or supervisory bodies of that undertaking (a subsidiary undertaking) who have held office during the financial year, during the preceding financial year and up to the time when the consolidated financial statements are drawn up, have been appointed solely as a result of the exercise of its voting rights; or (ii) controls alone, pursuant to an agreement with other shareholders in or members of that undertaking (a subsidiary undertaking), a majority of shareholders' or members' voting rights in that undertaking. The Member States may introduce more detailed provisions concerning the form and contents of such agreements. Member States shall prescribe at least the arrangements referred to in point (ii). They may subject the application of point (i) to the requirement that the voting rights represent at least 20% of the total.	The 20% limit on the member state ability to specify the circumstances seems a reasonable one and one that is unlikely to be significant in practice. In most such cases of de facto control at least a 20% holding would be required.

POTENTIAL OPTION	EFAA COMMENT ON MEMBER STATE OPTION
7. Without prejudice to this Article and Articles 21 and 23, a Member State may require any undertaking governed by its national law to draw up consolidated financial statements and a consolidated management report if: (a) that undertaking and one or more other undertakings to which it is not related as described in paragraphs 1 or 2, are managed on a unified basis in accordance with: (a) that undertaking and one or more other undertakings to which it is not related as described in paragraphs 1 or 2, are managed on a unified basis in accordance with: (i) a contract concluded with that undertaking, or (ii) the memorandum or articles of association of those other undertakings; or (b) the administrative, management or supervisory bodies of that undertaking and of one or more other undertakings to which it is not related, as described in paragraphs 1 or 2, consist in the majority of the same persons in office during the financial year and until the consolidated financial statements are drawn up.	These seem good grounds for all member states to require consolidation.
8. Where the Member State option referred to in paragraph 7 is exercised, the undertakings described in that paragraph and all of their subsidiary undertakings shall be consolidated, where one or more of those undertakings is established as one of the types of undertaking listed in Annex I or Annex II.	These seem good grounds for all member states to require consolidation.
Article 23	
Exemptions from consolidation	
2. Member States may exempt medium-sized groups from the obligation to draw up consolidated financial statements and a consolidated management report, except where any affiliated undertaking is a public-interest undertaking.	Consolidated accounts are very important for users of accounts to understand the financial statements of the holding company and hence IFRS and IFRS for SMEs require consolidated accounts in these circumstances. Medium-sized groups are significant entities and arguably they should not need the exemption from consolidation that is required for small ones on cost/benefit grounds.

POTENTIAL OPTION	EFAA COMMENT ON MEMBER STATE OPTION
4. The exemptions referred to in paragraph 3 shall fulfill all of the following conditions: (a) the exempted undertaking and, without prejudice to paragraph 9, all of its subsidiary undertakings are consolidated in the financial statements of a larger body of undertakings, the parent undertaking of which is governed by the law of a Member State; (b) the consolidated financial statements referred to in point (a) and the consolidated management report of the larger body of undertakings are drawn up by the parent undertaking of that body, in accordance with the law of the Member State by which that parent undertaking is governed, in accordance with this Directive or international accounting standards adopted in accordance with Regulation (EC) No 1606/2002; (c) in relation to the exempted undertaking the following documents are published in the manner prescribed by the law of the Member State by which that exempted undertaking is governed, in accordance with Article 30: 1. (i) the consolidated financial statements referred to in point (a) and the consolidated management report referred to in point (b), 2. (ii) the audit report, and 3. (iii) where appropriate, the appendix referred to in paragraph 6. That Member State may require that the documents referred to in points (i), (ii) and (iii) be published in its official language and that the translation be certified;	This clause refers to the exemption of intermediate holding companies from the consolidation requirement. The member state option simply concerns a requirement for the translation of the superior holding company's accounts where this is the case.
5. In cases not covered by paragraph 3, a Member State may without prejudice to paragraphs 1, 2 and 3 of this Article, exempt from the obligation to draw up consolidated financial statements and a consolidated management report any parent undertaking (the exempted undertaking) governed by its national law which is also a subsidiary undertaking, including a public-interest undertaking unless that public-interest undertaking falls under point (1)(a) of Article 2, the parent undertaking of which is governed by the law of a Member State, provided that all the conditions set out in paragraph 4 are fulfilled and provided further:	This clause refers to the exemption of intermediate holding companies from the consolidation requirement. The superior consolidation will tend to be more informative to users than those of intermediate holding companies and so the option should remove an unnecessary requirement.

POTENTIAL OPTION	EFAA COMMENT ON MEMBER STATE OPTION
6. A Member State may make the exemptions provided for in paragraphs 3 and 5 subject to the disclosure of additional information, in accordance with this Directive, in the consolidated financial statements referred to in point (a) of paragraph 4, or in an appendix thereto, if that information is required of undertakings governed by the national law of that Member State which are obliged to prepare consolidated financial statements and are in the same circumstances.	See our comments on clause 5 above.
8. Without prejudice to paragraphs 1, 2, 3 and 5 of this Article, a Member State which provides for exemptions under paragraphs 3 and 5 of this Article may also exempt from the obligation to draw up consolidated financial statements and a consolidated management report any parent undertaking (the exempted undertaking) governed by its national law which is also a subsidiary undertaking, including a public-interest undertaking unless that public-interest undertaking falls under point (1)(a) of Article 2, the parent undertaking of which is not governed by the law of a Member State, if all of the following conditions are fulfilled:	See our comments on clause 5 above.
Article 24	
The preparation of consolidated financial statements	
3 (b) a Member State may permit or require set-offs on the basis of the values of identifiable assets and liabilities as at the date of acquisition of the shares or, in the event of acquisition in two or more stages, as at the date on which the undertaking became a subsidiary;	This option allows the value of the shares in a subsidiary to be compared to the value of the assets and liabilities acquired in exchange for them rather than their historical book values when calculating the goodwill. This is the treatment required by IFRS and IFRS for SMEs. EFAA believes that this is better accounting and Member States should require this for undertakings.

POTENTIAL OPTION	EFAA COMMENT ON MEMBER STATE OPTION
8. Consolidated financial statements shall be drawn up as at the same date as the annual financial statements of the parent undertaking. A Member State may, however, permit or require consolidated financial statements to be drawn up as at another date in order to take account of the balance sheet dates of the largest number or the most important of the undertakings included in the consolidation, provided that: (a) that fact shall be disclosed in the notes to the consolidated financial statements and reasons given; (b) account shall be taken, or disclosure made, of important events concerning the assets and liabilities, the financial position and the profit or loss of an undertaking included in a consolidation which have occurred between that undertaking's balance sheet date and the consolidated balance sheet date; and (c) where an undertaking's balance sheet date precedes or follows the consolidated balance sheet date by more than three months, that undertaking shall be consolidated on the basis of interim financial statements drawn up as at the consolidated balance sheet date.	EFAA believes that alignment of accounting dates is better accounting and Member States should require this for undertakings.
11. An undertaking which draws up consolidated financial statements shall apply the same measurement bases as are applied in its annual financial statements. However, Member States may permit or require that other measurement bases in accordance with Chapter 2 be used in consolidated financial statements. Where use is made of this derogation, that fact shall be disclosed in the notes to the consolidated financial statements and reasons given.	EFAA believes that alignment of measurement bases is better accounting and Member States should require this for undertakings.
Article 25	
Business combinations within a group	
1. A Member State may permit or require the book values of shares held in the capital of an undertaking included in the consolidation to be set off against the corresponding percentage of capital only, provided that the undertakings in the business combination are ultimately controlled by the same party both before and after the business combination, and that control is not transitory.	Member States should permit this option, for the reasons set out in Section 4.3 above.

POTENTIAL OPTION	EFAA COMMENT ON MEMBER STATE OPTION
Article 26	
Proportional consolidation	
1. Where an undertaking included in a consolidation manages another undertaking jointly with one or more undertakings not included in that consolidation, Member States may permit or require the inclusion of that other undertaking in the consolidated financial statements in proportion to the rights in its capital held by the undertaking included in the consolidation.	Where there is a jointly managed entity that is not a subsidiary then better accounting would require that it be accounted for using the equity method. Assets should be controlled by the reporting undertaking – if they are not because they are subject to joint control then it may be misleading to include even the relevant proportion of those assets.
Article 27	
Equity accounting of associated undertakings	
1. Where an undertaking included in a consolidation has an associated undertaking, that associated undertaking shall be shown in the consolidated balance sheet as a separate item with an appropriate heading. 2. When this Article is applied for the first time to an associated undertaking, that associated undertaking shall be shown in the consolidated balance sheet either: (a) at its book value calculated in accordance with the measurement rules laid down in Chapters 2 and 3. The difference between that value and the amount corresponding to the proportion of capital and reserves represented by the participating interest in that associated undertaking shall be disclosed separately in the consolidated balance sheet or in the notes to the consolidated financial statements. That difference shall be calculated as at the date on which that method is used for the first time; or (b) at an amount corresponding to the proportion of the associated undertaking's capital and reserves represented by the participating interest in that associated undertaking. The difference between that amount and the book value calculated in accordance with the measurement rules laid down in Chapters 2 and 3 shall be disclosed separately in the consolidated balance sheet or in the notes to the consolidated financial statements. That difference shall be calculated as at the date on which that method is used for the first time. A Member State may prescribe the application of one or other of the options provided for in points (a) and (b). In such cases, the consolidated balance sheet or the notes to the consolidated financial statements shall indicate which of those options has been used.	Member states could use either approach because similar information (either on the balance sheet or in the notes) will be available to users of the accounts whichever approach is used. Member states should permit this option.

POTENTIAL OPTION	EFAA COMMENT ON MEMBER STATE OPTION
In addition, for the purposes of points (a) and (b), a Member State may permit or require the calculation of the difference as at the date of acquisition of the shares or, where they were acquired in two or more stages, as at the date on which the undertaking became an associated undertaking.	Better accounting would require this option because the extent of the difference reflects conditions at the date of acquisition and not some other date, for example, at the end of the reporting period of the investing undertaking.
3. Where an associated undertaking's assets or liabilities have been valued by methods other than those used for consolidation in accordance with Article 24(11), they may, for the purpose of calculating the difference referred to in points (a) and (b) of paragraph 2, be revalued by the methods used for consolidation. Where such revaluation has not been carried out, that fact shall be disclosed in the notes to the consolidated financial statements. A Member State may require such revaluation.	Better accounting would require revaluation but if an undertaking is not able to get the information without undue cost compared to the benefit, then that should be a reason not to comply.
Article 28	
The notes to the consolidated financial statements	
3. Member States may allow the information required by points (a) to (d) of paragraph 2 to take the form of a statement filed in accordance with Article 3(3) of Directive 2009/101/EC. The filing of such a statement shall be disclosed in the notes to the consolidated financial statements.	See our comments under Article 17.1(g)
Member States may also allow that information to be omitted when its nature is such that its disclosure would be seriously prejudicial to any of the undertakings to which it relates. Member States may make such omissions subject to prior administrative or judicial authorisation. Any such omission shall be disclosed in the notes to the consolidated financial statements.	See our comments under Article 17.1(g)

POTENTIAL OPTION	EFAA COMMENT ON MEMBER STATE OPTION
Article 29	
The consolidated management report	
2. The following adjustments to the information required by Articles 19 and 20 shall apply: (a) in reporting details of own shares acquired, the consolidated management report shall indicate the number and nominal value or, in the absence of a nominal value, the accounting par value of all of the parent undertaking's shares held by that parent undertaking, by subsidiary undertakings of that parent undertaking or by a person acting in his own name but on behalf of any of those undertakings. A Member State may permit or require the disclosure of those particulars in the notes to the consolidated financial statements; (b) in reporting on internal control and risk management systems, the corporate governance statement shall refer to the main features of the internal controls and risk management systems for the undertakings included in the consolidation, taken as a whole.	In our view this disclosure might be better in the accounts than in the management report given that the information explains changes in share capital.
CHAPTER 7	
PUBLICATION	
Article 30	
General publication requirement	
1. Member States shall ensure that undertakings publish within a reasonable period of time, which shall not exceed 12 months after the balance sheet date, the duly approved annual financial statements and the management report, together with the opinion submitted by the statutory auditor or audit firm referred to in Article 34 of this Directive, as laid down by the laws of each Member State in accordance with Chapter 2 of Directive 2009/101/EC. Member States may, however, exempt undertakings from the obligation to publish the management report where a copy of all or part of any such report can be easily obtained upon request at a price not exceeding its administrative cost.	As EFAA noted the revision of the directive was an opportunity to rectify a significant gap in the current directives by harmonising the maximum periods required for the publication of accounts by undertakings across Europe. The timeliness of financial information about a undertaking is also a desirable quality as well as the harmonised basis of preparation and the information disclosed. An EFAA Quick Poll (see Appendix 3) showed that currently the period before financial statements should be available to users such as trade creditors, varies significantly across the EU from a period of 3 months to 13 months with the most common being 7 months. We therefore believe that Member States should take this opportunity to reconsider the deadlines to ensure that more timely information is available to users.

POTENTIAL OPTION	EFAA COMMENT ON MEMBER STATE OPTION
2. Member States may exempt an undertaking referred to in Annex II to which the coordination measures prescribed by this Directive apply by virtue of point (b) of Article 1(1) from publishing its financial statements in accordance with Article 3 of Directive 2009/101/EC, provided that those financial statements are available to the public at its head office, in the following cases: (a) all the members of the undertaking concerned that have unlimited liability are undertakings referred to in Annex I governed by the laws of Member States other than the Member State whose law governs that undertaking, and none of those undertakings publishes the financial statements of the undertaking concerned with its own financial statements; (b) all the members of the undertaking concerned that have unlimited liability are undertakings which are not governed by the laws of a Member State but which have a legal form comparable to those referred to in Directive 2009/101/EC.	EFAA agrees with this option because creditors are protected by the guarantee.
Article 31	
Simplifications for small and medium-sized undertakings	
1. Member States may exempt small undertakings from the obligation to publish their profit and loss accounts and management reports.	Omitting the profit and loss account from the published financial statement significantly reduces the quality of the information available to readers of the accounts. The preparation of abridged accounts does not lead to reduced costs because full accounts need to be produced in the first instance. Member states will have to balance, in their national context, the concern for the confidentiality of the financial information of SMEs against the need for information by their stakeholders. It is not a cost saving issue for SMEs.
2. Member States may permit medium-sized undertakings to publish abridged balance sheets and notes.	The preparation of abridged accounts does not lead to reduced costs because full accounts need to be produced in the first instance. As above this is a measure that recognises a degree of confidentiality for SMEs, not a cost saving issue.

POTENTIAL OPTION	EFAA COMMENT ON MEMBER STATE OPTION
Article 35	
Amendment of Directive 2006/43/EC as regards the audit report	
2. The audit report shall be signed and dated by the statutory auditor. Where an audit firm carries out the statutory audit, the audit report shall bear the signature of at least the statutory auditor(s) carrying out the statutory audit on behalf of the audit firm. In exceptional circumstances Member States may provide that such signature(s) need not be disclosed to the public if such disclosure could lead to an imminent and significant threat to the personal security of any person. In any case the name(s) of the person(s) involved shall be known to the relevant competent authorities.	In a few cases the identification of individuals connected with a company pose a threat to them. It seems right for a member state to allow the information to be omitted in these very restricted circumstances.
CHAPTER 9	
PROVISIONS CONCERNING EXEMPTIONS AND RESTRICTIONS ON EXEMPTIONS	
Article 36	
Exemptions for micro-undertakings	
1. Member States may exempt micro-undertakings from any or all of the following obligations:	The micro company regime in this article is already available to member states. EFAA's study indicates limited adoption at this point – our study was only of Germany and UK. It is an attempt to reduce the requirements on micro companies, but as with other initiatives it seems likely to reduce the information available to users of the accounts more than it reduces the costs of preparation. Each member state must consider where the balance between these two factors should be set in their context (see our comments on Article 3 above) and whether micro companies should have this separate regime is desirable or whether the small company regime is appropriate instead. The EFAA study also highlighted that the UK made some adaptations of the EU directive in terms of the scope of undertakings allowed to use the micro regime and the implications of the true and fair requirement.

POTENTIAL OPTION	EFAA COMMENT ON MEMBER STATE OPTION
(a) the obligation to present 'Prepayments and accrued income' and 'Accruals and deferred income'. Where a Member State makes use of that option, it may permit those undertakings, only in respect of other charges as referred to in point (b)(vi) of paragraph 2 of this Article, to depart from point (d) of Article 6(1) with regard to the recognition of 'Pre payments and accrued income' and 'Accruals and deferred income', provided that this fact is disclosed in the notes to the financial statements or, in accordance with point (b) of this paragraph, at the foot of the balance sheet;	This relaxation of the accruals principle of Article 6 applies to uninvoiced costs included as other charges. Invoiced costs will still have to be included among creditors. Our concerns with removing the obligation to accrue will be that the accounts might in some cases be materially incomplete and subject to significant discretion by the management of the undertaking as to the extent of other costs recognised in any one period. We note that both Germany and the UK chose not to adopt this aspect of the micro company regime on these grounds, including the possible fiscal impact.
(b) the obligation to draw up notes to the financial statements in accordance with Article 16, provided that the information required by points (d) and (e) of Article 16(1) of this Directive and by Article 24(2) of Directive 2012/30/EU is disclosed at the foot of the balance sheet;	Significant disclosures would be removed from micro company accounts via this option. Micro company accounts would have disclosures only of commitments, contingencies, advances to management and own shares acquired. The small company regime in Article 16 already represents a reduction of requirements. See also our comments against the member state options with regard to Article 16 and the significance of some of the items involved.

POTENTIAL OPTION	EFAA COMMENT ON MEMBER STATE OPTION
(c) the obligation to prepare a management report in accordance with Chapter 5, provided that the information required by Article 24(2) of Directive 2012/30/EU is disclosed in the notes to the financial statements or, in accordance with point (b) of this paragraph, at the foot of the balance sheet;	See our comments on Article 24.
(d) the obligation to publish annual financial statements in accordance with Chapter 7 of this Directive, provided that the balance sheet information contained therein is duly filed, in accordance with national law, with at least one competent authority designated by the Member State concerned. Whenever the competent authority is not the central register, commercial register or undertakings register, as referred to in Article 3(1) of Directive 2009/101/EC, the competent authority is required to provide the register with the information filed.	This does not represent a significant difference as compared to the small company regime in Article 31.
2. Member States may permit micro-undertakings:	
(a) to draw up only an abridged balance sheet showing separately at least those items preceded by letters in Annexes III or IV, where applicable. In cases where point (a) of paragraph 1 of this Article applies, items E under 'Assets' and D under 'Liabilities' in Annex III or items E and K in Annex IV shall be excluded from the balance sheet;	This would represent some further reduction on the items that will be available to users of accounts including for example any analysis of current assets between stocks, debtors and cash.
(b) to draw up only an abridged profit and loss account showing separately at least the following items, where applicable: (i) net turnover, (ii) other income, (iii) cost of raw materials and consumables, (iv) staff costs, (v) value adjustments, (vi) other charges, (vii) tax, (viii) profit or loss.	The reduction of information here is less but in effect only one of the formats would be available to micro companies. This is a less significant issue in terms of confidentiality and transparency where the profit and loss account would not be published (see 1(d) above).

POTENTIAL OPTION	EFAA COMMENT ON MEMBER STATE OPTION
Article 37	
Exemption for subsidiary undertakings	
Notwithstanding the provisions of Directives 2009/101/EC and 2012/30/EU, a Member State shall not be required to apply the provisions of this Directive concerning the content, auditing and publication of the annual financial statements and the management report to undertakings governed by their national laws which are subsidiary undertakings, where the following conditions are fulfilled: (1) the parent undertaking is subject to the laws of a Member State; (2) all shareholders or members of the subsidiary undertaking have, in respect of each financial year in which the exemption is applied, declared their agreement to the exemption from such obligation; (3) the parent undertaking has declared that it guarantees the commitments entered into by the subsidiary undertaking; (4) the declarations referred to in points (2) and (3) of this Article are published by the subsidiary undertaking as laid down by the laws of the Member State in accordance with Chapter 2 of Directive 2009/101/EC; (5) the subsidiary undertaking is included in the consolidated financial statements drawn up by the parent undertaking in accordance with this Directive; (6) the exemption is disclosed in the notes to the consolidated financial statements drawn up by the parent undertaking; and (7) the consolidated financial statements referred to in point (5) of this Article, the consolidated management report, and the audit report are published for the subsidiary undertaking as laid down by the laws of the Member State in accordance with Chapter 2 of Directive 2009/101/EC.	Given that the creditors are protected by the guarantee EFAA agrees with the option.

POTENTIAL OPTION	EFAA COMMENT ON MEMBER STATE OPTION
Article 38	
Undertakings which are members having unlimited liability of other undertakings	
1. Member States may require undertakings referred to in point (a) of Article 1(1) which are governed by their laws and which are members having unlimited liability of any undertaking referred to in point (b) of Article 1(1) ('the undertaking concerned'), to draw up, have audited and publish, with their own financial statements, the financial statements of the under taking concerned in accordance with this Directive; in such case the requirements of this Directive shall not apply to the under taking concerned.	Given that the creditors are protected by the unlimited liability EFAA agrees with the option.
2. Member States shall not be required to apply the requirements of this Directive to the undertaking concerned where: (a) the financial statements of the undertaking concerned are drawn up, audited and published in accordance with the provisions of this Directive by an undertaking which: (i) is a member having unlimited liability of that under taking concerned, and (ii) is governed by the laws of another Member State; (b) the undertaking concerned is included in consolidated financial statements drawn up, audited and published in accordance with this Directive by: (i) a member having unlimited liability, or (ii) where the undertaking concerned is included in the consolidated financial statements of a larger body of undertakings drawn up, audited and published in conformity with this Directive, a parent undertaking governed by the laws of a Member State. This exemption shall be disclosed in the notes to the consolidated financial statements.	Given that the creditors are protected by the unlimited liability EFAA agrees with the option.

POTENTIAL OPTION	EFAA COMMENT ON MEMBER STATE OPTION
Article 39	
Profit and loss account exemption for parent undertakings preparing consolidated financial statements	
A Member State shall not be required to apply the provisions of this Directive concerning the auditing and publication of the profit and loss account to undertakings governed by its national laws which are parent undertakings, provided that the following conditions are fulfilled: (1) the parent undertaking draws up consolidated financial statements in accordance with this Directive and is included in those consolidated financial statements; (2) the exemption is disclosed in the notes to the annual financial statements of the parent undertaking; (3) the exemption is disclosed in the notes to the consolidated financial statements drawn up by the parent undertaking; and (4) the profit or loss of the parent undertaking, determined in accordance with this Directive, is shown in its balance sheet.	This is often seen as a sensible option to take up because the consolidated profit and loss account of a parent undertaking will often be more relevant to the shareholders and creditors than the parent's own.
Article 53	
Transposition	
1. Member States shall bring into force the laws, regulations and administrative provisions necessary to comply with this Directive by 20 July 2015. They shall immediately inform the Commission thereof. Member States may provide that the provisions referred to in the first subparagraph are first to apply to financial statements for financial years beginning on 1 January 2016 or during the calendar year 2016.	This seems a reasonable time period to allow member states to transpose the directive into national law.

Appendix 2, EFAA Survey on Harmonisation of Filing Deadlines of Annual Financial statements[8]

[First published 2 May 2013]

Background

EFAA has monitored and input to the debate on the European Commission Proposals for the Revision of the 4th and 7th Accounting Directives ("the Accounting Directives" issued 25 October 2011) issuing commentary and detailed position statements on SME matters.

On 9 April 2013 (at the seventh trilogue) a preliminary agreement was reached which should see the revision of the Accounting Directives brought to a conclusion. Contained within that compromise is a requirement [Chapter 7 Publication, Article 30] that ***"***Member States shall ensure that undertakings ***within a reasonable period of time which shall not exceed 12 months after the end of the financial year*** publish the duly approved annual financial statements".

Harmonisation of publication and filing deadlines

The revision of the directive provided an opportunity to rectify a significant gap in the current directives by harmonising the minimum periods required for the publication of accounts by companies across Europe.

This is because the timeliness of financial information about a company is a desirable quality as well as the harmonised basis of preparation and the information disclosed. The current 4th and 7th Accounting Directives require information to be filed but do not specify a period of time for doing so. EFAA's submissions on the revision suggested that a time limit be included. To that extent we welcome the introduction of a time limit but feel that more could have been done. Our conclusions are drawn from the survey performed and results shown below.

Evidence

During 2012 EFAA carried out a short survey to examine the existing rules of countries within the European Union in regard to the time limits that companies have to submit their financial statements to the public registrar.

The survey included 16 countries and the results are shown below:

8

http://www.efaa.com/files/pdf/Publications/Comment%20letters/2013/EFAA%20Survey%20and%20report%20on%20the%20harmonisation%20of%20filing%20deadlines_02%2005%202013.pdf

Country	Filing period in months	Explanatory information
Bulgaria	6	-
Czech Republic	7	The Commercial Register does not state a date by which the accounts must be filed, stating only that it must be done without delay. Companies are required to publish their accounts within 30 days of their accounts being audited and approved by the General Assembly and there is an obligation to convene the General Meeting approving the accounts within six months of the last day of the accounting period. Therefore, the latest day that this could be done would be 30 July, in the case of a 31 December year end. However, the reality is that more than one half of companies either does not file their accounts or file them late (as evidenced by a short survey undertaken by the World Bank). It is believed that the reason for this is a lack of enforcement.
Spain	7	Companies have the obligation to deposit their financial statements within seven months after they have closed the accounting period which is usually 31 December. Therefore, they should present their information no later than 31 July to the Registrar.
Norway	7	The accounts must be adopted by the General Assembly within 6 months of the year end. No later than one month after the adoption of the annual accounts, the entity shall file a copy of the annual accounts, the directors' report and the auditor's report with the Register of Company Accounts.
Sweden	7	As above.
Finland	7	As above.
Portugal	7.5	The accounts must be adopted by the General Assembly within 3 months of the year end and the company must publish the duly approved annual financial statements by the 15th of July. For those adopting an accounting period other than the calendar year, the accounts must be submitted by the 15th day of the 7th month after the expiry of that period.
Slovenia	3	Accounts for companies should be produced and submitted to the AJPES (Agency of the Republic of Slovenia for Public Legal Records and Related Services) within 3 months of the period end.
France	7	Companies must hold their Annual General Meeting within 6 months of the financial year end and then they have one month to file them on the public record.

Country	Filing period in months	Explanatory information
Poland	6.5 to 8.5	Financial statements are approved within 6 months (consolidated within 8 months) from the end of the accounting period and the Managing Director has 15 days to submit the approved financial statements to the registrar.
Germany	12	All entities have not later than 12 months from the end of their accounting period to file their accounts with the registrar.
United Kingdom	9	Non listed entities must (in general) file their accounts with the Registrar of Companies within 9 months of the end of the accounting period.
Netherlands	13	Public filing is required not later than 13 months of the period end.
Italy	5 to 7	The commercial law says that companies must approve the balance sheet within 120 days of the end of the accounting period although there is a possibility of extending this to 180 days. Accounts must be filed within 30 days of approval. In general companies approve their accounts by 30 April and file them by 30 May with the latest possible date being 30 July.
Ireland	10	Accounts must be filed within 10 months of the period end.
Romania	5	The general rule is that companies have to submit their financial statements to the regional representatives of the Ministry of Finance within 150 days of the year end; this is usually by 31 December.
AVERAGE	**7**	

Conclusions

The results of the survey provide evidence that the period before financial statements should be available to users varies significantly across the survey group, and therefore within the EU, from a period of 3 months to 13 months. The most common period is 7 months.

The proposed limit in the new directive of 12 months on its own is unlikely to lead to much improvement in the timeliness of information. Certain member states are clearly significantly less demanding than most in this regard (for example in our survey the UK, Netherlands, Germany and Ireland) and might take the opportunity of the implementation of the new directive to remedy that position. This would result in more timely information being provided for the benefit of users which is of particular importance in the case of investment decisions.

We believe that an opportunity was missed and that the deadlines could have been shortened to 7 months, the most common period demonstrated in the above survey. The timeliness of financial statements is of great importance to enabling third parties to make informed decisions. Events can quickly reduce the usefulness of information and some would argue that even at 7 months information is already out of date. That said, a deadline of 7 months would have been a significant improvement on the compromise position reached of 12 months.

Appendix 3, Examples of UK and German implementation of the Micro Option

	Question	UK implementation	German implementation
1	When was the implementation of the micros directive effective?	Financial years ending on or after 30 September 2013	Financial years ending on or after 31 December 2012
2	Was it considered that implementation of the micro entity directive should coincide with the new accounting directive?	No. The objective seems to have been not to wait to apply a deregulatory measure	No. The objective seems to have been not to wait to apply a deregulatory measure
3	What were the thresholds used for the definition of a micro entity?	Following the maximum allowed in the directive - approximate € to £ translation. There were some elaborations on the application of thresholds.	Total Assets up to €350.000; Revenues up to €700.000; employees up to 10; two of these three requirements have to be met in two consecutive financial years
4	The exemptions cannot be applied to investment or financial holding undertakings. Were any other scope restrictions placed on the use of the micro entity exemptions?	Yes. Credit institutions, insurance undertakings and charities were also excluded.	Yes. Micro entities which are included in group consolidated financial statements need to prepare their financial statements in accordance with the accounting rules for small companies.
5	Was the exemption from the need to recognise accruals and prepayments of 'other charges' used? If not why not?	This was not used. There were considered to be problems in relation to the definition of realised profits available for distribution. There were no tax advantages perceived and very little advantages in terms of reductions in complexity of preparation.	This was not used. There were no tax advantages perceived and very little advantages in terms of reductions in complexity of preparation.
6	Was the exemption used from providing notes to the financial statements (except for information on financial commitments guarantees and contingencies and on credits to management)?	Yes.	Yes.
7	Were any other disclosure requirements added in?	No.	Micro entities are not obliged to prepare the notes if they show contingent liabilities and loans to members of the board/owners below the balance sheet.

	Question	UK implementation	German implementation
8	Will micro entities be obliged to prepare management reports?	Yes.	No.
9	Is the balance sheet requirement restricted to:	2 formats provided	
	Subscribed share capital unpaid	Yes	Yes
	Formation expenses	No - not recognised in UK	Yes
	Fixed assets	Yes	Yes
	Current assets	Yes	Yes
	Prepayments and accrued income	Yes	Yes
	Capital and reserves	Yes	Yes
	Provisions	Yes	Yes
	Creditors	Yes, but amounts due in more than one year to be shown separately	Yes
	Accruals and deferred income	Yes	Yes (but also available in the small regime)
10	Is the P&L account restricted to		
	Net turnover	Yes	Yes
	Other income	Yes	Yes
	Cost of raw materials	Yes	Yes
	Staff costs	Yes	Yes
	Value adjustments	Depreciation and other amounts written off assets	Depreciation and other amounts written off assets
	Other charges	Yes	Yes
	Tax	Yes	Yes
	Profit or loss	Yes	Yes
11	Micro entities cannot use the fair value alternative measurement basis. Were any other amendments made to the accounting by micro entities?	Yes. The revaluation measurement basis from Art 7 is also not allowed.	No.
12	Are the accounts regarded as giving a true and fair view?	Yes.	Yes.

	Question	UK implementation	German implementation
13	Did this produce any significant difficulties?	Yes. Special clauses were needed in the legislation to guide Directors and auditors in the application of these with accounting standards - especially disclosure requirements in those standards.	No.
		Special ethical guidance may be needed for accountants to deal with accounts which may be misleading without some of the disclosure requirements that would be needed for a true and fair view by accounting standards or the legislation.	-
14	Any further implications from the implementation of the micro entities directive?	The tax authorities will accept these as the basis of their assessments, though they have the ability to ask for further information.	No.
		The accounting standard for smaller entities is being amended to comply with the new law	-
15	Any other observations on the implementation?	-	Micros are not obliged to publish their financial statements when they meet the thresholds in two of the last three years