



Standing for trust and integrity

Fédération des Experts-comptables Européens  
Federation of European Accountants

# Introduction to the New EU Accounting Directive

## FEE federates professional institutes across Europe

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- 45 professional institutes of accountants and auditors
- 33 European countries, including all EU 28
- 700.000 professionals incl. all sections of the profession: large, medium, small practices, business public sector


Austria	Belgium	Bulgaria	Croatia	Cyprus	Czech Rep.
Denmark	Estonia	Finland	France	Germany	Greece
Hungary	Iceland	Ireland	Israel	Italy	Latvia
Lithuania	Luxembourg	Malta	Monaco	Netherlands	Norway
Poland	Portugal	Romania	Slovak Rep.	Slovenia	Spain
Sweden	Switzerland	UK			




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## FEE adds value to Members

- Representation toward stakeholders**


**EC, EP, Council, ESMA, EBA, EIOPA, IOSCO - IASB, EFRAG, IIRC, IFAC, IAASB, IESBA, IPSASB, CAGs, PCAOB, OECD etc.**
- Analysing and influencing public policy developments**


**Informs, advises & influences** EU & international regulation, public policy, standard setting etc.
- Promoting cooperation among Members**


**Facilitates** consensus between Institutes, accountancy firms (big & small)...

**FEE**

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## EC Accounting Directive of 26 June 2013

**Combining and amending** the existing 4<sup>th</sup> (single companies) and 7<sup>th</sup> (consolidated accounts) Accounting Directives

**Amending** the existing Transparency Directive for listed entities

**To be transposed** in EU Member States by mid 2015 (20 July 2015)

**Scope** : All companies and limited liability partnerships under Member State Law

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## General financial reporting principles – The fundamental five

- **Financial statements must be prepared using:**
  - **Going concern basis** (disclosed in accounting policies)
  - **Prudence** – recognising the imbalance of treatment between assets and liabilities
  - **Accruals basis**
  - **Substance over form**
  - **Materiality** applies to recognition, measurement, presentation, disclosure and consolidation



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## General financial reporting principles – Five more

- Assets and liabilities to be **valued separately**
- **No set-off** between assets and liabilities
- Items to be recognised at **purchase price** or production cost
- **Consistency** between accounting periods
- Opening balance sheet **must correspond** to preceding closing balance sheet



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## General financial reporting principles – Increasing the options

- However, available Member State (MS) options **could reduce comparability** between countries:
  - **Set-off**: may be permitted if disclosed
  - **Substance over form**: may be disappplied
  - **Materiality**: may be restricted to presentation and disclosure only
  - **Prudence**: recognition of foreseeable liabilities and losses may be extended to include subsequent events



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## FEE's Position on financial reporting principles

- **FEE's view:**
  - **Substance over form** and **materiality** are crucial concepts and should always be applied
  - This recast is a useful first step in the development of a **principle-based** framework suitable for the 21<sup>st</sup> century
  - **Profession** can add value in **assisting Member States in transposing the Directive** and in choosing the most suitable options



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## Threshold criteria: A snapshot

<i>In million EUR</i>	<i>Small</i>		<i>Medium</i>		<i>Large</i>	
	Old	New	Old	New	Old	New
Balance Sheet	<4.4	4><6	<17.5	<20	>17.5	>20
Net Turnover	<8.8	8><12	<35	<40	>35	>40
Average number of employees	<50	<50	<250	<250	>250	>250

- The undertaking moves up a category if it exceeds 2 of the 3 thresholds for 2 consecutive years



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## How to define a micro-undertaking?

<i>EUR</i>	<i>Micro-undertakings</i>
Balance Sheet	<350 000
Net Turnover	<700 000
Average number of employees	<10

- Simplifications not available to investment or financial holding undertakings
- Member States have option to apply some, all or none of the following simplifications:



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## Micro-undertakings: Summing up the simplifications

- Prepare abridged balance sheet and profit & loss account
- No obligation to prepare notes to the financial statements and management report
- Use of “Cash +” accounting: accruals basis only for revenue, raw materials\consumables, staff costs, value adjustments to assets and tax
- No Fair Value accounting
- Need only to publish an abridged balance sheet
- **However** - still need to keep accounting records



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## Small undertakings: “Think small first” approach

<i>Million EUR</i>	<i>Base Threshold</i>	<i>MS Option</i>
Balance Sheet	<4	>4<6
Net Turnover	<8	>8<12
Average number of employees	<50	<50

- Member States may vary either or both of the turnover and balance sheet thresholds up to the maximums shown in the MS option



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## Small undertakings: Summing up the simplifications

- **Must be exempted** from preparing consolidated financial statements and management report
- **Member States have option** to apply some, all or none of the following simplifications:
  - Prepare abridged balance sheet, profit and loss account and notes to the financial statements
  - No obligation to prepare management report
  - No obligation to publish profit & loss account and management report



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## Medium-sized undertakings: Meeting the threshold

<i>Million EUR</i>	<i>Thresholds</i>
Balance Sheet	<20
Net Turnover	<40
Average number of employees	<250

- The undertaking moves up a category if it exceeds 2 of the 3 thresholds for 2 consecutive years



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## Medium-sized undertakings: Summing up the simplifications

- **Member States have option** to apply some, all or none of the following simplifications:
  - Exemption from preparing consolidated financial statements
  - Prepare abridged profit & loss account
  - Prepare abridged management report
  - Publish abridged balance sheet
  - Publish abridged notes to the financial statements



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## Large undertakings: Full disclosure

<i>Million EUR</i>	<i>Thresholds</i>
Balance Sheet	≥ 20
Net Turnover	≥ 40
Average number of employees	≥ 250

- There are no exemptions for large undertakings
- True comparability between financial statements only exists for large undertakings and those that have adopted IFRS?





## Fair Value measurement and cash flow statements: Options to pursue

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- **Alternative measurement basis of Fair Value**
  - MS option to permit or require Fair Value as an alternative measurement basis but only for restricted categories of items
- **Cash flow statements**
  - No requirements for cash flow statements for any entity (MS may require additional statements but not for micro or small undertakings)
  - Required under IFRS and IFRS for SMEs



## More thoughts from FEE

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- **FEE's view:**
  - Supports the one **combined accounting Directive**
  - Supports the “**think small first**” approach and the simplification and cost reductions for SMEs
  - But allow to go beyond the fully prescribed small entity disclosures if need be for **true and fair view**
  - **Fair value accounting** should be extended beyond that currently permitted
  - **Cash flow statements** should be mandatory for large undertakings and a MS option for medium undertakings



## International Financial Reporting Standards: Interacting with the Directive

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- Directive encompasses all companies governed by Member State law
- The 2002 IAS Regulation: adoption of **IFRSs mandatory for listed undertakings** in the EU
- If the IFRSs are silent, the Directive takes precedence
- If there is conflict between IFRSs and the Directive, the treatment prescribed in the IFRS takes precedence (Regulations take precedence over Directives in EU law)



## IFRS for SMEs: A burdensome advantage?

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- Commission's view: discourage use of IFRS for SMEs as unnecessarily burdensome and complex
- ... Directive **takes precedence** over IFRS for SMEs
- Amortization of goodwill under IFRS for SMEs is consistent with a particular MS option in Directive
- ... but IFRS for SMEs still inconsistent with Directive in presentation of unpaid subscribed share capital
- **FEE view:** IASB should change its position on this
- **FEE view:** Properly targeted, IFRS for SMEs represent a good basis for preparing accounts



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## Payments to governments: The threshold for transparency

- Affects large companies and PIEs active in the **extractive or forestry industries**
- Disclosure of any payment (or series of payments) totalling **EUR 100 000 or more** in a financial year
- Payments to include taxation, royalties and dividends
- **Annual disclosure** in a public report - outside the annual financial statements
- Reporting on country-by-country and project-by-project basis
- No requirement for auditor's involvement



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## Audits for small undertakings: To audit or not to audit?

- Audit is mandatory on **EU level** for **medium and large** sized undertakings and public-interest entities
- **Member States** (MS) have the option to impose an audit on all or part of their **small** undertakings
- Audit of small undertakings to take into account their needs and those of the users of their accounts
- **FEE view**: Audit should not be characterised as a burden – profession should stress the benefits that an audit gives
- **FEE view**: MS option for audit of small undertakings to be based on size of economy and undertakings



## Audit thresholds for small undertakings: A step too far?

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- Audit thresholds based on the Directive's accounting thresholds for defining undertakings, which have changed:

<i>In million EUR</i>	<b>Old</b>	<b>New</b>	<b>MS Option</b>
Balance Sheet	<4.4	<4.0	<6.0
Net Turnover	<8.8	<8.0	<12.0
Average number of employees	<50	<50	<50

- If MS adopt the maximum threshold, many more small undertakings will not require an audit



## Management reports: The auditor's opinion



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- **Scope:** medium and large undertakings and public-interest entities
- **Auditor** shall express an **opinion** on:
  - Management report **consistent with financial statements**?
  - Management report prepared **in accordance** with the applicable **legal requirements**?
  - Based on knowledge and understanding - any **material misstatements** in the management report?



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## Let's discuss



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