Disclosure requirements for medium-sized companies and obligation to draw up consolidated accounts

2008/0084(COD) - 17/04/2008 - Legislative proposal

PURPOSE: to amend Council Directives 78/660/EEC and 83/349/EEC in order to ease the administrative burden linked to certain disclosure requirements for medium-sized companies and obligation to draw up consolidated accounts.

PROPOSED ACT: Directive of the European Parliament and of the Council.

BACKGROUND: at its meeting of 8 and 9 March 2007, the European Council agreed that the administrative burden on companies should be reduced by 25% by 2012 in order to improve the competitiveness of companies in the EU. Accounting and auditing have been identified as key areas for reducing administrative burden for European companies.

The 4th Company Law Directive (78/660/EEC) was adopted in order to create a harmonised set of requirements for the external reporting of all limited liability companies in the EU. In 1983, the **7th Company Law Directive** (83/349/EEC) was adopted and added a common set of requirements for consolidated financial statements. During the past 25 years the Accounting Directives have been modified several times. Through the adoption of the Regulation (EC) No 1606/2002 on the application of international accounting standards (IAS Regulation) listed companies (and those with listed debt) have to present IFRS accounts, and are consequently relieved from most of the requirements in the 4th and 7th Directives. These Directives however still form the basis for SME accounting in the EU. Directive 83/349 /EEC requires a parent company to prepare consolidated accounts even if the only subsidiary or all of the subsidiaries as a whole are not material. As a consequence these companies are scoped in the IAS Regulation and therefore have to prepare their consolidated financial statements in accordance with IFRS. This consequence of the particular Article in Directive 83/349/EEC is considered to be excessive where a parent company has only immaterial subsidiaries.

The objective of the amendment to the 4th Company Law Directive is therefore to simplify financial reporting for small and medium-sized companies (SMEs) and relieve SMEs from financial reporting burden in a short term perspective. The objective of the amendment to the 7th Company Law Directive is to clarify the interaction between consolidation rules in this Directive and in the International Financial Reporting Standards.

CONTENT: the proposed measures form part of the second fast track package and the general programme for the reduction of administrative burden for companies by 25% by 2012 (see also COD/2008/0083):

Removal of disclosure requirement for formation expenses: formation expenses are different types of costs related to the creation of a company. For example, registration fees or legal assistance costs. These can under some circumstances be treated as an asset in the balance sheet. If this is the case, the 4th Company Law Directive requires that these “formation expenses” be explained in the notes to the accounts. Small companies can be exempted from this disclosure requirement in accordance with the Directive. The Commission suggests extending the scope of these exemptions to also include medium-sized companies.

Removal of disclosure requirements for breakdown of turnover into activity and geographical markets for SMEs: the 4th Company Law Directive requires that a breakdown of turnover into activity and geographical markets is disclosed. This is required for all companies, but small companies can be excluded in accordance with the same Directive. The Commission suggests extending the scope of these exemptions also to include medium-sized companies.

Amendment to the 7th Company Law Directive in order to clarify the relationship of its consolidation rules with the rules of International Financial Reporting Standards: the relationship between the IAS Regulation and the 7th Company Law Directive is not clear in cases where parent companies have no material subsidiaries. The problematic issue is whether such a parent company would fall under the IAS Regulation – and therefore have to prepare IFRS accounts – or not. The Commission considers it excessive to require the preparation of consolidated accounts in the situation where a parent company has only immaterial subsidiaries. It therefore proposes to exempt any parent undertaking governed by its national law from the obligation to draw up consolidated accounts and a consolidated annual report if this parent undertaking has only subsidiary undertakings considered as not material, both individually or as a whole.