



DRSC e. V. • Zimmerstr. 30 • 10969 Berlin

Mr Jörgen Holmquist  
Director General  
European Commissioner for  
Internal Market and Services  
European Commission  
1049 Brussels  
Belgium

Telefon +49 (0)30 206412-11

Telefax +49 (0)30 206412-15

E-Mail knorr@drsc.de

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## **Communication from the Commission on a simplified business environment for companies in the areas of company law, accounting and auditing**

Dear Mr Holmquist,

we would like to take the opportunity to contribute to the simplification exercise for SMEs in Europe by commenting on the Commission's communication on a simplified business environment for companies in the areas of company law, accounting and auditing of 10 July 2007. The German standard setter deals primarily with accounting issues. Hence, we will focus our comments on the accounting part of the document.

First of all we would like to express our support to the Commission initiative to reduce the administrative burden for small and medium-sized enterprises, which is especially important as the vast majority of enterprises (in Germany, but certainly also in Europe as a whole) are small and medium-sized enterprises. Over the past years and decades more and more administrative requirements had been introduced to the existing company law regulation in Europe. This is especially burdensome for small and medium-sized enterprises as they have fewer resources to deal with those requirements. Therefore, we see the simplification exercise in the area of accounting as one promising step in the right direction amongst others to be taken in other areas.

Amongst the various measures proposed in the communication we see the introduction of a new category of "micro entities" as a crucial and very important one. We welcome the suggestion that in future it should be left to Member States only to determine which rules micro entities should be required to comply with. It appears to us that for micro entities it might be sufficient to focus on tax accounting mainly. Please

Zimmerstr. 30 · 10969 Berlin · Telefon +49 (0)30 206412-0 · Telefax +49 (0)30 206412-15 · E-Mail: info@drsc.de

Bankverbindung: Deutsche Bank Berlin, Konto-Nr. 0 700 781 00, BLZ 100 700 00

IBAN-Nr. DE26 1007 0000 0070 0781 00, BIC (Swift-Code) DEUTDE33

Vereinsregister: Amtsgericht Berlin-Charlottenburg, VR 18526 Nz

Vorstandsausschuss:

Heinz-Joachim Neubürger (Vorsitzender), Dr. Helmut Perlet (Stellvertreter), Prof. Dr. Rolf Nonnenmacher (Schatzmeister), Dr. Kurt Bock, Dr. Werner Brandt  
Generalsekretär: Prof. Dr. Manfred Bolin



note that in Germany as well as in other jurisdictions the focus for micro entities is on the tax accounts already, so that the exclusion from the scope of the Directive will enable Member States to get rid of some potential unnecessary add-on requirements. We believe that for this category it should be left to the addressees to decide when and how to request statutory financial statements. In the case of micro entities there hardly seems to be a need to protect external users to a great extent as creditors, for example, will still have the right to request the information they would like to see before lending the requested capital to the entity. So it is a matter of cost benefit analysis what these micro entities should be required to provide without having been specifically asked for by external users.

In respect of the threshold proposed in the communication for forming this new category we believe that for German purposes the numbers seem rather small. We would encourage the Commission being even more courageous and exclude from the scope of the 4<sup>th</sup> Directive the so far called small entities in accordance with article 11. It might be helpful to collect some statistical data in order to find out the potential number of entities which would be affected by the proposal. Beyond the size criteria referred to in article 11 and below those referred to in article 27 of the 4<sup>th</sup> Directive (the so called medium-sized entities) we could also see some reasoning for excluding those entities on the grounds of the following qualitative criteria:

- Less than 5 % of their shareholders request a financial report of the company
- No creditor requests the financial report.

In general we believe that no enterprise (independent from size criteria) should be required to produce a financial report if it is wholly owned by another enterprise if this enterprise is preparing its financial report and provide a sufficient securitisation to the subsidiary and its shareholders and creditors.

The proposal to extend the transition period for SME's crossing the thresholds from two to five years when exceeding the thresholds and down to one year for those ceasing to exceed the thresholds seems unfavourable to us. We believe that this will lead to an inappropriate result. E.g. fast growing entities will be enabled not to give the -according to their size- appropriate financial information the users of their financial statements would like to see for too long time. Hence, we recommend keeping the transitional period as laid out in the 4<sup>th</sup> Directive. We also believe that the same transition rules would serve best for the new to be implemented category of micro entities.

We would agree with the notion in the communication that accounting for deferred taxes is rather complex and difficult to understand and calculate, especially for small businesses. However, we still believe it contains valid information to external users. So we suggest to scale the proposal in the way that there should be no requirement at all for micro (respective "small" in accordance with our proposal above) entities in line with the introduction of this new category. This kind of information should only be a mandatory part of the balance sheet (and income statement) for the size of medium-sized entities upwards.

To our knowledge publication requirements really create a major part of the administrative burden for small entities. As we suggest excluding the small entities from the 4<sup>th</sup> Directive, we are in favour of this proposed measure. In case the Commission will



not take up our proposed extension of scope exclusion we still fully support the Commission's proposal to abolish this requirement for small entities.

A convincing proposal in the communication refers to a potential simplification through a clarification of the relationship between the IAS Regulation 1606/2002 and the 7<sup>th</sup> Directive. The clarification would clearly state that an entity that only has immaterial subsidiaries, should not be within the scope of the IAS Regulation and, therefore, not be required to prepare IFRS financial statements. We support this clarification. Given that there are more problems around the interaction of the accounting directives and the IAS regulation we encourage the Commission to work on an overall clarification in this area on a more detailed basis. In doing that it might be revisited whether or not listed companies, which do not form part of a group, should be required to prepare their separate financial statements in accordance with IFRS.

Having given some detailed comments on most of the individual measures proposed we would like to conclude that in general we are in favour of the direction taken by the Commission and encourage you to continue along the line above described as well as doing an impact assessment and preparing the legislative proposals in early 2008 as outlined in your communication.

Should you or your staff have any more questions on our comments please feel free to contact us. In any case, we hope to discuss the issue in our upcoming meeting with you on 10 October 2007.

Yours sincerely

*Liesel Knorr*