



THE INSTITUTE
OF CHARTERED
ACCOUNTANTS
IN ENGLAND AND WALES

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By email: markt-review-consultation@ec.europa.eu

Dear Jeroen

CONSULTATION PAPER ON REVIEW OF THE ACCOUNTING DIRECTIVES

The Institute of Chartered Accountants in England and Wales is pleased to respond to your request for comments on the consultation paper *Cutting Accounting Burden for Small Business / Review of the Accounting Directives*.

Please do not hesitate to contact me or my colleague Pablo Portugal at the ICAEW Office in Brussels (pablo.portugal@icaew.com; 022303272), should you wish to discuss any of the points raised in the attached response.

Yours sincerely

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ICAEW Representation

ICAEW REP 59/09

CUTTING ACCOUNTING BURDEN FOR SMALL BUSINESS / REVIEW OF THE ACCOUNTING DIRECTIVES

Memorandum of comment submitted in May 2009 by The Institute of Chartered Accountants in England and Wales, in response to the European Commission consultation paper on *Cutting Accounting Burden for Small Business / Review of the Accounting Directives* published in February 2009

Contents	Paragraph
Introduction	1
Who we are	2 - 3
Major points	4 - 11
Responses to specific questions	12 – 66

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INTRODUCTION

1. The Institute of Chartered Accountants in England and Wales (the Institute) welcomes the opportunity to comment on the consultation paper *Cutting Accounting Burden for Small Business / Review of the Accounting Directives*, published by the European Commission in February 2009.

WHO WE ARE

2. The Institute operates under a Royal Charter, working in the public interest. Its regulation of its members, in particular its responsibilities in respect of auditors, is overseen by the Financial Reporting Council. As a world leading professional accountancy body, the Institute provides leadership and practical support to over 132,000 members in more than 160 countries, working with governments, regulators and industry in order to ensure the highest standards are maintained. The Institute is a founding member of the Global Accounting Alliance with over 750,000 members worldwide.
3. Our members provide financial knowledge and guidance based on the highest technical and ethical standards. They are trained to challenge people and organisations to think and act differently, to provide clarity and rigour, and so help create and sustain prosperity. The Institute ensures these skills are constantly developed, recognised and valued.

MAIN POINTS

Support for the Initiative

4. We welcome the Commission's initiative in undertaking an overhaul of the Accounting Directives. We have in the past called for a root-and-branch modernisation of the Directives to be undertaken according to the 'think small first' principle. Within the constraints of the Accounting Directives, the UK's recent Company Law Review adopted this approach, and this proved highly effective in reforming the regulatory regime. We thus fully endorse the objectives of the review of the Directives, its comprehensive nature and key guiding principles. We particularly welcome the open, forward-looking approach embraced by the Commission, which provides stakeholders with an opportunity to comment on a wide range of issues.

Principles, Not Prescription

5. We believe strongly that the most effective simplification of the Directives would be achieved by setting out in the legislation a basic framework of principles, together with the key requirements applicable to small, medium and large companies respectively. A more prescriptive regime would not, in our view, serve the objectives of the simplification programme. Past experience in the accounting sphere strongly suggests that embedding prescriptive rules in legislation stifles development of best practice and hinders the ability of financial reporting to keep pace with market developments. Detailed accounting practices beyond the essential requirements enshrined in legislation can be best addressed at the standard-setting level, where new and revised guidance can be developed promptly as the need arises.

6. A principles-based approach would satisfy the overall purpose of the Directives to provide a common framework of financial reporting principles for the internal market. It would also provide the best possible opportunity to deliver real simplification to SMEs as it would give Member States flexibility to implement the common EU principles in the manner most appropriate to their national environment. We therefore believe that the basic legal framework should include solely the fundamental accounting, reporting, publication and auditing principles, leaving more specific requirements to be addressed at national level.
7. It would be difficult to achieve greater harmonisation across the EU than has been achieved under the current regime. Given the perceived differences of view among Member States, it is also likely that compromise solutions would entail the continued inclusion of a large number of options in the text of the Directives, which would militate against reductions in the overall complexity of the legislation. We do, however, appreciate that certain Member States might support the inclusion of more prescriptive material in the Directives - for instance, on layouts or valuation rules - which could be implemented directly into their national legislation. If the Commission considers that the availability of additional guidance would be of benefit to Member States, we would therefore recommend that any other non-binding guidance is included in other appropriate material outside of the principles set out in the legally-binding text of the Directives, for Member States to make use of as they see fit. It is important that any additional material remains clearly outside the legislation (ie, there is no ambiguity over its non-binding status) and is easily adaptable.

Compatibility with IFRS

8. We are of the view that the fundamental principles and conceptual approaches in international accounting as developed in the IFRS framework should be reflected in the regime for European SMEs in an appropriately simplified form. Indeed, we believe that it is crucial that the provisions of the Directives remain fully consistent - or at least compatible - with the general IFRS framework. Point 4.11 in the consultation document suggests that the Accounting Directives might be regarded as a 'real alternative to international accounting frameworks'. We reject this point of view, not least given the tendency for financial reporting to evolve over time, both globally and in the internal market. Consistency with IFRS principles will be in the interest of those small, medium and large companies with an expectation of and ambition for growth and international expansion. In the long-term, it is in the interest of all stakeholders - including preparers and users of financial statements - that there is a basic commonality running through the regime for all categories of reporting entities that is consistent with the evolution of financial reporting concepts and thinking internationally.
9. The Directives should, in particular, be compatible with the proposed simplified IFRS for non-publicly accountable entities. A number of Member States are likely to support the adoption - or permit the use - of this standard in their jurisdiction; this should be an appropriate route for Member States to comply with the Directives' requirements. The standard is likely to be of particular use to many European companies that trade across borders or have cross-border investment partners. We believe that its voluntary use would be advantageous from an internal market perspective as it would encourage best accounting practice and bring benefits in terms of comparability. Therefore it is important that the revised Directive does not include provisions that might be seen as inconsistent with the use of the IASB's standard as national GAAP.

Micro-entities

10. Although it is not specifically within the scope of this consultation, we would like to take the opportunity to welcome the Commission's proposal regarding the exemption of micro-entities from the Accounting Directives. We support the consideration of this bold proposal to enhance the long-term competitiveness of European business. It carries significant simplification potential as it can provide the flexibility needed for each Member State to instigate a comprehensive debate as to the financial reporting regime that most appropriately meets the needs of its very small businesses. We consider that such a debate at national level is likely to achieve the fullest simplification for micro-entities, as the majority of such companies do not generally conduct their operations across borders. They rely on local clients, suppliers and banks, and thus the benefits of comparability across European borders are less compelling.
11. If this proposal is adopted, we expect an exhaustive debate to take place in the UK – and no doubt in other jurisdictions – on the future financial reporting regime for these businesses, with due consideration of the reporting obligations that remain necessary for the protection of the public interest and those that could be removed.

RESPONSES TO SPECIFIC QUESTIONS

Basic principles – qualitative characteristics

Question 1

Whether the main principles in the directives should be listed in a section called 'General Principles' at the beginning of the Fourth Company Law Directive

12. We concur with the Commission's proposed approach. Listing the fundamental principles at the start of the Fourth Directive would provide clarity and serve to highlight the principles-based nature of the Directives.

Question 2

Are there any other principles that should be included in the 'General Principles' section? Should any of the current principles be clarified?

13. Our comments on this question reflect our overall view that the principles should be consistent with the broad IFRS framework. It is equally important that only fundamental accounting principles are addressed in EU legislation in order to maximise the adaptability of the Member State financial reporting regimes to future developments in international accounting. This would also facilitate the potential amendment of any of the key EU principles in line with long-term developments in international standard-setting.
14. The consultation document refers to the 'realisation principle' in Article 31(1)d. This article concerns the accruals concept, which is widely acknowledged in modern international accounting. We agree that this should be retained. However, the 'prudence principle' in Article 31(1)(c) refers to 'profits made', which may be interpreted as 'realised profits' in some jurisdictions. The distinction should be clarified. As we have previously explained in more detail in our letter to the Commission of 12 May 2008, we believe that this reference to 'profits made'

should be removed (and certain other amendments made) to reduce complexity and facilitate convergence with IFRS. IFRS do not require only 'profits made' to be included in the profit and loss account; rather, all gains and losses are allocated to the income statement or other comprehensive income depending on other criteria (not realisation), arising from the use of a variety of different measurement models.

15. We propose that an additional principle be included, along the following lines:

'The directors of a company must, in determining how amounts are presented within items in the profit and loss account and balance sheet, have regard to the substance of the reported transaction or arrangement, in accordance with generally accepted accounting principles or practice.'

Such a principle, which has been included in UK company law since 2005, would clarify that the presentation of shares as liabilities (and related dividends as expenses), for example in accordance with a standard converged with IAS 32, is permitted by law.

16. We wish to draw attention to a possible inconsistency arising from the reference to the true and fair principle in the context of small companies. These companies are permitted to submit only abbreviated accounts; however, abbreviated accounts are inconsistent with the true and fair principle since they give insufficient information to provide, on their own, a true and fair view. We suggest that the Commission clarifies the interpretation of these concepts in the Directive. As we argue under question 18 below, the requirement for small companies to prepare full accounts that give a true and fair view should be retained.

Structure – 'bottom-up' approach

Question 3

Do you believe that a restructured directive following a bottom-up approach would be useful to Member States in creating more simplified and straightforward rules?

17. We fully support the proposed bottom-up approach as it is consistent with the 'think small first' principle which underpins this review. As noted above, the UK Companies Act 2006 adopts this approach successfully even within the confines of the existing Accounting Directives. Our preference would be to first determine the fundamental principles of the future Directive and minimum requirements for small companies (see our response to question 4) and then apply a 'building block' approach in relation to the other categories of companies. In terms of simplification, this approach would:

- a. assist regulators and stakeholders in articulating a minimum benchmark of principles for small companies;
- b. provide appropriate justification and transparency on additional or expanded requirements in relation to the other company categories;
- c. show with greater clarity whether Member States have introduced additional requirements in their national implementation ('gold-plating') or whether they have not taken up options available in the Directive; and
- d. help improve the overall structure and presentation of the Directive.

Question 4

Do you think that current rules for small, medium and large companies are appropriate? Please indicate in broad lines what the minimum requirements for small companies should be according to the bottom-up approach

18. The current rules are a reflection of various compromises at EU level, as well as the historical context of the Directives' initial development and evolution. In general, we believe that there is need for a comprehensive revision of the requirements and text of the Directives in the manner discussed in the Main Points section above.
19. In our view, the three basic requirements for small companies should be the preparation of a balance sheet, a profit and loss account and a deemed minimum of supporting accompanying notes.

Member State options

Question 5

Please provide reasons why Member States did not make full use of the options available in the current Accounting Directives

20. We are not best placed to comment on this question as we consider the UK has taken up the key exemptions under the current Directives. It is natural to expect that the use of options/exemptions reflects the specific regulatory, business and policy environment in Member States.

Question 6

What can be done to further simplify the Directives in respect of Member State options?

21. We would question whether the large number of options in the current Directives brings benefits in terms of comparability and commonality in the internal market. We recognise, however, that these options reflect compromises between divergent policy orientations among Member States. For this reason, we believe that the most appropriate approach to achieve the fullest simplification of the Directives would be to determine a set of principles-based requirements applicable to small, medium and large companies in the EU on a minimum harmonisation basis. This approach would formally satisfy the key aim of the Directives of providing a general framework for financial reporting in the EU. Should it not be possible to reach consensus on such common principles, we would support the inclusion of options, but these should be kept to a minimum.
22. We appreciate that some Member States might have a preference - for national reasons - for retaining more prescriptive requirements in the text of the Directives. We therefore suggest that, in addition to the legally binding requirements of the Directives, any additional prescriptive rules - for instance, in relation to formats - should be included in other non-legislative material for Member States to consider and add to their national legislation as they deem fit.

Criteria and threshold levels

Question 7

Do you think the current criteria (balance sheet total, net turnover, average number of employees) have worked well)?

23. These criteria have a proven record of serving market needs. We are not aware of a market demand for considering other criteria, although we remain open to considering the merits of criteria such as owner-management on the basis of appropriate research. A key point is that the criteria must remain workable and easy to apply in practice.

Question 8

Do you believe that the current thresholds for small, medium and large companies are appropriate?

24. We believe that the current EU threshold values are appropriate and do not require revision at this stage. We appreciate that views on these thresholds may vary according to the national environment in Member States; it is therefore important that national authorities continue to retain full discretion to set thresholds below the EU maxima.
25. We welcome the Commission's decision not to pursue a change in the transition period in relation to companies crossing the threshold categories.

Number of company categories

Question 9

In your opinion, would it be appropriate to reduce the number of company categories in the Directives?

26. We are not aware of a market demand to reduce the number of company categories. We do, however, consider that there could be a case on simplification grounds for considering merging the medium and large company categories in the long-term. The differences between the small and medium categories - both in the current legislation and in the general nature of these businesses - are much more significant than those between the medium and large categories. The statutory audit is a case in point: there are compelling public interest reasons why the exemption available to small companies should not be extended to the medium and large categories.
27. Combining the medium and large categories would involve a long-term exercise. There are currently a number of important differences in the Directives between these categories which would need to be addressed, such as on the preparation of consolidated accounts, where medium-sized companies can be exempted. The threshold values for this potential new category would also need to be carefully considered. If the timetable of this revision does not permit sufficient consultation and exhaustive consideration of these issues, we would suggest that the current categories remain unchanged.
28. As noted in the consultation document, there is an important need for consistency with the IFRS framework in the interests of large and medium-sized companies

seeking to grow and extend their areas of operation. This should be particularly taken into account when considering the framework for the company categories in view of the bottom-up approach.

Question 10

Do you see any other approach to reduce the number of company categories?

29. No, we have not identified any other approach.

Elements of the annual accounts

Question 11

Regarding the table above [see consultation document], do you see additional room for simplification, eg, eliminating the requirement for annual reports for medium-sized companies ?

30. We refer to our answers to questions 12-13 and 17-18 in relation to the simplification of requirements noted in the table. We see no demand for a revision of the requirements.

31. We do not consider that the annual report (described as a directors' report in the UK) requirement should be eliminated at EU level for medium-sized and large companies. Narrative reporting is a relevant aspect of the overall financial reporting package for such companies. The case is much weaker for small companies, particularly if they are required only to place on the public record abridged accounts that do not include this report (see our answer to question 18 below).

Question 12

Do you believe that cash-based information should be explicitly required in the Directives?

32. We support in principle the inclusion of a requirement for a cash flow statement in the Directives for medium and large companies only. Cash flow information is useful when assessing the liquidity of a business and its overall growth potential, as well as in providing clarification regarding the cash flows generated from trading as opposed to other sources of finance. A cash flow statement has been required for many years under UK GAAP apart from for small companies.

33. Recent discussions in the UK have shown that there is significant scepticism about introducing such a requirement for small companies. We therefore urge the Commission to limit the application of any potential cash flow requirements to medium and large businesses only. It is preferable to allow market forces - ie, users of small company financial statements - to determine whether a particular small business should prepare a cash flow statement.

Question 13

Should the requirement be for a cash-flow statement based on a minimum layout defined by the Directive, eg, requiring operating, investing, financial cash flows?

34. We believe that it is unnecessary for the Directive to specify the format of the cash flow statement. This could be best addressed at national level. A simple requirement for medium and large businesses would be consistent with the principles-based nature of the text.

Question 14

If you are a preparer, have you provided a cash-flow statement in the past years?

35. Although many individual members of this Institute prepare cash flow statements, we consider that the Institute as an organisation is not best placed to comment on this question.

Question 15

If you are a bank or a credit provider, how useful would a cash-flow statement be?

36. This question is not applicable to the Institute.

Question 16

Is there currently a requirement in your jurisdiction to provide a cash-flow statement?

37. In the UK there is a requirement for companies to prepare a cash flow statement, with the exception of small companies and subsidiaries.

Publication requirements – electronic filling

Question 17

Do you think that small companies should be exempted from the requirement to publish accounts?

38. We believe that small companies should be required to prepare and publish statutory accounts. The primary purpose for preparing accounts is to provide relevant financial information for the management of a business and for other stakeholders monitoring its performance, both during the year and by reporting on its performance after the end of the year. The size of small companies, as defined by the EU thresholds, justifies a robust level of public reporting. These businesses are likely to involve a number of stakeholders in their operations, such as managers, shareholders, credit rating agencies, employees, clients, suppliers, creditors, pension funds and investors, all of which benefit directly from the level of transparency engendered by these financial reporting obligations. We would also note that an approach based merely on cash flows would not provide owners with meaningful financial information about the true financial position of the business, including information on debtors, creditors and stocks.

39. The additional costs of publication and distribution where a company is already preparing its financial statements are, in our view, negligible. Companies should be able under the law to publish or file these accounts with the relevant authorities for confidentiality reasons in an abbreviated format (see our comments under question 18). We would, however, emphasise that there is clear benefit in having all relevant information available in the country's official trade register as stakeholders trading with a particularly company can seek information through this channel. The procurement of additional documents not available in the register would constitute an additional hurdle for these stakeholders and would not necessarily deliver simplification in the overall business environment.
40. Finally, for the avoidance of doubt, we would note that the minimum requirements we propose for these Directives are addressed to small companies as defined in the current EU thresholds. While we argue that the reporting requirements for micro-entities could be addressed at the national level, we believe these minimum requirements should be retained for small companies, other than micros, at the level of EU legislation.

Question 18

Do you think there should be a Member State option to allow small companies to prepare abridged accounts only?

41. We believe that a requirement for full accounts to be prepared is in the public interest. The information contained in full accounts is fundamental to the sound running of a small business - an optional provision would not entail real simplification as businesses will always need to fully record transactions and economic performance. Eliminating this requirement will reduce transparency, particularly where there is any separation between ownership and management, and may open a path for abuse. We are, furthermore, not aware of any demand from small businesses for such a measure.
42. The current option to publish abbreviated information was not originally introduced on simplification or deregulation grounds; its primary justification related instead to the confidentiality of information available in the public domain. This reasoning would not apply in relation to the preparation of accounts, as owners, managers and stakeholders with a direct interest in a company's financial position rely on the full information.
43. The very definition of abbreviated accounts refers to an 'abbreviation' that *emanates* from the full accounts, which give a true and fair view of the company's assets, liabilities, financial position and profit or loss. In other words, abbreviated information is actually a product of the full accounts, not vice versa. If the Directives were to allow a cut-down version of the full accounts to be filed which was not a product of the full accounts, the cut-down version should be called something other than 'abbreviated'; say, for example, 'short form accounts'.
44. We believe that the three items referred to under question 4 (preparation of a balance sheet, a profit and loss account and the necessary accompanying notes) constitute the minimum benchmark expected for small companies and we are not aware of a credible case for contracting these minimum requirements. Further to the conceptual issues noted in the paragraph above, in practical terms it is difficult to envisage how the balance sheet and additional notes - whether full or abbreviated - could, contrary to the suggestion in the consultation document, be

appropriately prepared without the availability of the profit and loss statement. We do, however, consider that the notes accompanying the profit and loss statement are not necessary in all cases; we would therefore agree that this specific element should not be compulsory. For the avoidance of doubt, we do not consider that this specific suggestion deviates from the concept of full accounts, the preparation of which should continue to be a requirement in the Directive.

Question 19

If you are a preparer, what is the annual cost of publishing your accounts?

45. Although the ICAEW as an organisation prepares and publishes accounts, we believe that the potential costs referred to in this question should be primarily considered on the basis of data provided to the Commission by small companies. The timetable to respond to this consultation made it difficult to conduct appropriate research with our members, but we would be pleased to consider a request for such an exercise to be undertaken if that would be helpful.

Question 20

Do you have comments on the role of electronic tools and gateways, eg, XBRL, in this context (costs – benefits)? Can you provide us with practical experience from your Member State?

46. We are supportive of efforts by governments to articulate combined reporting solutions that reduce the costs of compliance or achieve greater governmental efficiency. If satisfactory solutions are reached, electronic reporting format standards such as XBRL should be encouraged and used as widely as possible in order to maximise the efficiency of the processing that supports the use of the data. If, however, the data and reporting requirements for the different purposes continue to be sufficiently different - as we believe is currently the case in the UK - then combined reporting may not necessarily be the most appropriate option for achieving the simplification objectives. In such cases, moreover, the use of an electronic reporting standard will not of itself ensure that the reporting process is simplified, nor that the reported data is processed or used more efficiently.
47. We acknowledge the simplification potential of an 'only once' filing system that combines reporting for different purposes (tax, statistics, etc). There are, however, various matters to consider in implementing such a system. In the UK context, some of these matters were recently addressed in a consultation exercise which suggested that statutory accounts might be prepared using 'tax GAAP' in order to reduce administrative burdens, because only one set of accounts would need to be prepared. Responses to the consultation have shown that preparers believe that this will increase costs and complexity, and users expressed no demand for it, so this approach will not be pursued further in the UK for the time being. As a general point, we anticipate there would be difficulties in determining EU policy-making in this area, given that the taxation and social security environment is largely shaped at national level.

Question 21

Should there be one XBRL taxonomy developed on the EU level?

48. We advise against the development of a taxonomy at EU level as it could soon become inconsistent with developments in IFRS taxonomy, which should become a global benchmark.

Layout requirements

Question 22

Do you believe that the Directive should provide prescriptive formats (layouts) for the balance sheet and the profit and loss account?

49. We believe that the Directives should set out the key principles and statements in relation to layouts but without prescribing specific formats. It is important that the framework of the Directives allows the fullest possible flexibility to allow national authorities to keep pace with the evolution of accounting practices and developments in standard setting; embedding prescriptive formats in the law would hinder this need for adaptability.
50. We believe that the aim should be to maintain the compatibility of the principles in the Directive with IASB projects on the presentation of financial statements and the simplified IFRS. The latter is likely to be used by a number of medium and large EU companies.

Question 23

Should the number of available layouts be reduced?

51. Yes, as per our comments on questions 22 and 24.

Question 24

Would it be sufficient to provide for a minimum structure for each, the balance sheet and the profit and loss account?

52. Yes. In the interest of ensuring compatibility with modern international practices, we suggest that the Directive defines only the minimum line items for the different company categories; the specific format and order should be addressed at national level.

Question 25

What modernisations or amendments would you recommend to the layouts?

53. We refer to our comments on questions 22 and 24.

Question 26

Do you have comments on the idea to require only a limited number of key financial data from small enterprises instead of a fixed balance sheet and profit and loss account structure?

54. We are not convinced that this proposal would deliver real simplification. Preparers and users of financial statements are accustomed to the balance sheet and profit and loss structure, which is also incorporated in various software packages. It would, in any case, be necessary to prepare the full financial statements in order to obtain the figures suggested in the consultation document; there could therefore be an entirely-unjustified loss of transparency in this approach, in that it would not save costs. We would also refer to our comments on questions 17-18 on the benefits of small companies' full financial statements.

Question 27

Do you believe that the separate line items for extraordinary effects should be removed?

55. We agree that it is unnecessary to require in the Directives a separate line item for extraordinary effects in the profit and loss account, but this should not be prohibited either, as this level of detail would not fit into our view of the Directives as framework documents. Appropriate disclosure would be expected of 'unusual' items where they are material and disclosure is necessary to give a true and fair view along the lines required by IAS 1. However, the description attached to such items and their positioning within the profit and loss account and notes should not be specified at EU level.

Question 28

If you are a user, do you find the extraordinary item useful?

56. We do not consider this question to be applicable to the Institute.

Notes to the accounts

Question 29

Are there any other items that should be disclosed for small entities?

57. We do not see a need for additional disclosures for small entities.

Question 30

What information has to be compiled especially for preparing disclosures? Can you say anything about the costs of preparing this information?

58. A number of current disclosure requirements require the compilation of information not readily available from accounting systems. We as a professional body do not directly prepare this information, hence we would need to collect data from our members in order to provide a meaningful answer. If the Commission has insufficient data on this issue we would be pleased to undertake a survey of our members, on request.

Question 31

Can you please indicate whether other disclosure requirements in the Directives are not useful or relevant? Can you also provide indications of costs of their preparation (% of turnover)?

59. As noted under the Main Points section above, we believe that the provisions of the Directive should be restricted to a basic framework of principles and key requirements. We are not of the view that this should extend to a long list of detailed disclosure requirements. Companies should be required to disclose their key accounting policies and key judgements involved in applying those policies. They should also be required to provide such other minimum note disclosures as are deemed necessary, in the particular circumstances, to give a true and fair view. Most of the items listed in Annex 2 of the consultation document could be omitted from the revised Directive. It would be open to Member States to specify more specific requirements.

Valuation issues

Question 32

Do you see any potential for modernisation and simplification in the area of valuation rules?

60. We advise the Commission to consider the case for entirely excluding valuation requirements from the Directives. As a matter of principle, we are not convinced that there is a strong rationale for setting out valuation provisions in an EU regime that does not, for instance, include a definition of assets or liabilities. There are other important financial reporting practices not specifically addressed in the Directives; thus it would appear rather arbitrary to include a valuation section while other accounting issues are dealt with at the standard-setting level. It should also be emphasised that current international debates on measurement could lead to an evolution in valuation practices applicable to the SME sector; we would therefore again refer to the drawbacks of embedding prescriptive accounting requirements in the legislation. We would be pleased to provide further commentary in support of this general view.
61. If fundamental valuation principles are ultimately retained in the text of the Directives, the priority should be to ensure they remain fully consistent with the IFRS framework. The valuation section should be updated according to developments in international accounting, as has been the case in the past. We believe cost or amortised cost less impairment should be the main measurement basis, with the use of fair value being permitted in relation to certain assets. It is important to avoid a detailed specification of those assets in the law as this would constrain the standard-setting process. The aim should be a reported value that is meaningful and understandable. We consider that the application of these principles is already incorporated in the current text of the Directives; the revision should therefore aim to clarify the content of the texts and eliminate unnecessary provisions rather than modify the substance of the valuation section.

Question 33

Which valuation requirements should be more/less prescriptive?

62. We believe the Directives should, at most, cover the fundamental valuation principles only and that more prescriptive requirements are best addressed at the standard-setting level and should not be incorporated into the law. The current rules are too detailed and are more complex than necessary because of the way in which they have developed over time. There is duplication between the alternative accounting rules and the fair value accounting rules; these should be rationalised into a single set of rules. The fair value accounting rules are themselves complicated in that they have been amended to introduce exceptions to the original rules (to permit alignment with IAS 39, as revised). The new rules would deal first with the types of assets and liabilities that may be revalued and the acceptable bases of valuation for each type. They would then, separately, deal with the recognition of the resulting gains and losses (eg. in the profit and loss account or revaluation reserve, etc) to the extent that prescription is thought to be necessary at EU level. The rules should be set at a sufficiently high level to accommodate future changes to IAS 39 without the need for amendment of the Directive.

Creating one Accounting Directive – terms and technical language

Question 34

Do you agree with the idea of integrating the Seventh Directive into the Fourth Directive?

63. Although there could be merit in having one text that addresses both the individual and consolidated accounts, we believe that the integration of the Directives would be an onerous exercise that would perhaps not yield practical benefits in terms of true simplification for SMEs. We do not in principle oppose the integration of the texts as long as the end product is a simplified European framework incorporating the principles and requirements we have supported in this submission.

Question 35

Do you think there is a need for amendments or modernisation of the Seventh Directive? Could you indicate the areas where a revision would be particularly welcome?

64. We reiterate our view that the Directives should remain consistent with the overall IFRS framework. As regards the Seventh Directive, we would particularly make reference to the IASB Consolidation project. The principle of consolidation in the Directives should be fully in line with these international developments and we therefore recommend a revision of the Seventh Directive - or its integration with the Fourth Directive - is considered when this project is finalised.

Question 36

Do you believe there is a need to streamline and modernise the wording and terminology throughout the Directives?

65. In the interest of enhancing their presentation and overall purposefulness, we would support updating the terminology of the Directives to ensure consistency with recent developments in international accounting. Please see our comments under question 2.

The future role of the Accounting Directives - Outlook

Question 37

Do you have any comments relating to the long-term roles of the EU Accounting Directives?

66. We would refer to our comments in the Major Points section above.

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