



Federation of European Accountants  
Fédération des Experts comptables Européens

DG Enterprise and Industry, Unit D.4  
SME Policy development and Small  
Business Act

Sent via e-mail:  
ENTR-SBA@ec.europa.eu

16 December 2014

**Re: FEE responds to the public consultation on the Small Business Act**

Dear Sir /Madam,

FEE fully supports the European Commission's (EC) objective to review the Small Business Act (SBA) and make the EU a better place for SMEs.

We are not in a position to answer all consultation questions in the online survey. The 27 questions contain a large number of proposals that cover many legislative areas and that are in different stages of development. In our view, it is not possible to form a reasoned assessment on these proposals without further information on their content. Overall, the success of the revised SBA will depend on what will be the final details of the various proposals and on how they will be implemented, especially at member state level.

Therefore, we briefly respond to the key issues of the consultation on pages 2-7 below, instead of responding to the very detailed consultation questions.

For further information on this letter, please contact Laura Buijs from the FEE Team on +32 2 285 4071 or via e-mail at [laura.buijs@fee.be](mailto:laura.buijs@fee.be).

Yours sincerely,

André Killesse  
President

Olivier Boutellis-Taft  
Chief Executive

## Reducing the administrative burden

FEE welcomes the Commission's efforts towards regulatory simplification. FEE has always actively contributed to this important initiative. Ensuring that EU legislation is 'fit for purpose' is essential for putting Europe back on track towards more growth and jobs.

We are very supportive of the EC's most recent focus on coordinating the work on better regulation within the Commission, ensuring the compliance of EU proposals with the principles of subsidiarity and proportionality, and removing unnecessary 'red tape' at both European and national level. This includes the Regulatory Fitness and Performance Programme (REFIT) of EU legislation and ensuring the quality of impact assessments underpinning EC activities.

In this process the Commission should bear in mind that recent history shows a considerable number of similar attempts and that this has affected the public opinion. Increasing public awareness on the EU's efforts to cut red tape for SMEs should thus be carefully considered. When SMEs and other stakeholders do not see any effect of reducing their administrative burden, such a campaign may cause the EC to lose credibility with them.

Regarding the proposal in the Consultation (page 5) to adopt an EU Regulation to achieve regulatory simplification, such a Regulation would need careful and extensive preparation among member states. A necessary first step would be to ensure that all member states have high quality independent and objective impact assessments. Member states would also need to have measures in place to prevent that the outcome of an impact assessment would be ignored in later stages of the legislative process. Once adopted, it will be critical that the Commission fully plays its role of guardian of EU law and ensures that member states comply with the Regulation.

An ongoing dialogue between legislators and SMEs and the organisations representing them is vital to reducing regulatory burden for companies while also achieving public policy goals. However, SMEs are often highly labour-intensive enterprises where owners have time and resource constraints, which could make it difficult to put this objective into practice.

On the EC's proposal to encourage Member States to adopt simplified tax regimes for newly created companies (page 5), we wonder what these simplified tax regimes would entail in practice. Tax regimes need to be simplified in general: the limits of complexity have long been reached in most member states for individuals, SMEs and large companies alike. We therefore support the EC's proposal to encourage Member States to adopt simplified tax regimes for newly created companies although this is only part of the solution. If member states would consider such regimes to be interim regimes, it will be equally critical to ensure that when the normal regime starts applying it has no adverse impact on the company. We would also support that such regimes include special incentives to support SMEs growth. However in many member states, one of the problems is often the multiplicity and complexity of schemes and incentives. This lack of visibility blurs tax policy's signals, reduces the benefits and effectiveness of tax incentives for SMEs and enhances legal uncertainty. When providing such incentives, lawmakers should ensure their predictability and reliability over time as lack of stability has a very negative impact on business, especially SMEs, and that competition and allocation of resources are not distorted.

Finally, the mass and intricacy of incentives should not result in companies being criticised for not paying their 'fair share of tax' because they use incentives created by lawmakers. In addition to encouraging Member States to simplify tax regimes, the Commission should simplify a regime for which it is in charge, namely the Value-Added Tax. As opposed to today's highly complex VAT regime, which contains few true simplification measures for SMEs, a SME-friendly VAT regime would consist of a quite simple core VAT legislation which is easy to comply with by SMEs, and of additional layers applicable only to larger businesses to the extent that such layers are necessary. This would also improve SMEs' access to markets. Furthermore, we find that the VAT Portal proposed by the EC would be a very useful measure for facilitating cross border business by SMEs by providing detailed information about each jurisdiction's VAT rules.

### How professional accountants can help

FEE represents a combined membership of over 800.000 accountants. A majority of them provide their services to SMEs and their small practices are SMEs in their own right. These professional accountants have first-hand experience with the complexity of regulation for SMEs in many fields. The European accountancy profession is eager to use this experience in actively contributing to the Commission's efforts to reduce the regulatory burden of SMEs by identifying burdensome EU regulations and administrative procedures as well as examples of how to simplify these.

### Access to finance

FEE has been very supportive of the Commission on its initiatives to improve SMEs' access to finance based on its 2011 Action plan and along the lines proposed in the 2013 Communication on Long Term Financing of the European economy. Where possible, FEE has aimed at supporting or cooperating with the Commission on this important public interest issue.

FEE applauds the work that has been done in setting up programs for SMEs (such as the Programme for the Competitiveness of enterprises and SMEs (COSME) and Horizon 2020), and making those more accessible for SMEs. FEE appreciates this long-term holistic approach including legislative action, financial instruments and policies and involving a wide range of stakeholders. However, we encourage the Commission to actively increase the audience that is aware of these initiatives. In our experience few SMEs have heard of EU financial instruments and even local financial intermediaries are not familiar with EU funding sources. To increase the awareness of professional accountants, FEE has already issued the [SMP Info Pack on Access to EU Finance](#) on how they can help their SME clients gain access to EU sources of finance.

### Alternative sources of finance

FEE finds innovation to be an important element in developing sustainable funding of SMEs. Therefore FEE encourages exploring 'non-traditional' or alternative sources of finance with a clear assessment of their risks and benefits, especially considering their potential long-term effects. Please see also our 2012 report [Access to Finance for SMEs - In Search of Innovative Solutions](#).

The lack of a harmonised regulatory and policy framework for upcoming practices, such as crowd funding, deserves attention. At the same time, the (potentially negative) impact of regulation on innovation should be carefully assessed. A proper balance needs to be struck between ensuring that promising initiatives are not stifled and meeting critical public interest objectives such as investor protection. Different tax laws, for example, significantly hinder cross-border investment. FEE would recommend the Commission to investigate best practices in this regard, but also the impact on free movement of capital and the need to take legal action. The existing guidelines on microfinance could potentially offer a template for common rules.

In addition, new instruments, especially hybrid instruments, will automatically introduce an additional layer of complexity and potential uncertainties as they may generate a new series of questions, for instance regarding their accounting or tax treatment. Furthermore, new instruments need to strike the right balance between sophistication and transparency. Lessons of the crisis will have to be kept in mind when advancing on this matter as we have learned that transparency should not be compromised.

## Securitisation

Another source of funding that FEE would suggest exploring would be high quality securitisation. Pooling financial resources and structuring financing packages according to different classes of risk can help institutional investors with diversification and risk spreading. Developing new high quality securitisation instruments for SMEs on an EU level could thus make them more willing to invest in SMEs.

However, FEE stresses that in this case it should be very clear who will perform the underwriting/investment selection function and who bears the economic risk of these decisions. The importance of this issue is demonstrated by the developments in the securitisation market in the period before 2008, where loans were underwritten by banks and subsequently securitised without significant retention of default risks by those banks. As a consequence, there was an unacceptable information asymmetry between those responsible for the underwriting decisions and those who bore the economic risk. This asymmetry should be avoided when creating pooled investment vehicles on a European level.

## Equity markets

Similarly, equity funding to SMEs through the European Investment Fund and the European Regional Development Fund (ERDF) (e.g. for regional venture capital funds) should be further explored in order to provide additional realistic options to smaller businesses. This may have to include a re-evaluation of regulations that unintentionally raise the costs or constrain the availability of funding for SMEs e.g. through second tier stock markets.

However, the small scale of equity funding for SMEs should be taken into account. Currently only around 1% of European SMEs are acquiring funds by issuing shares on capital markets or by calling on investors. Among the reasons for this are that many equity investors consider the average SME too small and also seem to perceive it as too risky to invest in. Small companies themselves can also be rather less willing to call on external capital and share decision-making power. Furthermore, the costs of 'going public' makes this possibility available for only very few SMEs.

## Increased cooperation with financial institutions

FEE welcomes the EC working together more and more with financial institutions to raise awareness about European financial instruments for SMEs and to encourage the provision of better feedback to clients whose credit applications are declined.

Strong local intermediaries are needed to reduce the information gap between the providers and beneficiaries of European financial instruments for SMEs. Professional accountants, as the trusted business advisors of SMEs, can be especially relevant in helping SMEs navigate the tough European financing landscape. Their professional advice can help steer SMEs through all available financing options, including the public support available at national and EU level.

Furthermore, addressing the information asymmetry between lenders and SMEs will be crucial in increasing the prospects for SMEs to access funds. EU standards for credit scoring assessment and credit mediation by professional accountants could be further investigated to reduce this information asymmetry.

**EU Standards for credit scoring assessment:** In order for information asymmetries to be reduced, the EU institutions should encourage the production and publication of accurate accounting data for SMEs. This would enable banks, other finance providers and credit rating mechanisms to obtain reliable information that can be easily interpreted. Developing standards for credit scoring assessments of SMEs could help address the lack of reliable information about SMEs and the related difficulty for potential investors in evaluating their credit worthiness. Developing common European minimum quality standards on external evaluation of mid-caps and SMEs could further facilitate their access to finance, including across borders, and deepen market integration.

**Credit mediation:** FEE believes that raising awareness on the benefits of credit mediation could significantly advance SMEs' access to funding. Professional accountants are uniquely equipped to support their SME clients in this regard. They can advise SMEs on the range of financial instruments available to them and assist them in adequately presenting the SME's requests to the potential lender. Mediation works best in an environment of disclosure where objective evaluation is possible and universally trusted, as already discussed above.

## Benefits of reporting for SMEs

Reporting plays an instrumental role in facilitating access to finance and reducing cost of capital, particularly for SMEs where information asymmetries between managers (owners) and capital providers and creditors can be much higher. Reporting is critical to transparency. It facilitates stakeholders' information, investors' and creditors' protection, market stability, the reduction of transaction costs and the cost of capital. It enhances trust amongst market participants and stakeholders. It should be reminded that even before the reporting stage, accounting is a vital management instrument that benefits first and foremost the manager, including manager-owners. Real world experience shows that, however, some ignore this good practice if it is not made mandatory.

It is important that reporting requirements are relevant and proportionate. FEE has consistently been supportive of proposals aimed at better regulation and simplification. Measures seeking to reduce excessive and unnecessary administrative burdens have a

significant role to play in increasing productivity and promoting entrepreneurship, especially for SMEs.

However, in order to achieve real benefits for companies and society, in our view, the simplification objective needs to be meaningful and balanced with other public policy goals such as the ones mentioned above. It appears necessary to restate that accounting and auditing are not 'administrative burdens' but essential tools to enable managers to manage, investors to invest and enterprises to trade, grow and create wealth and employment. Accounting and auditing also have a public interest dimension by contributing to improving the functioning of markets and enhancing corporate governance, transparency and stability.

### **How professional accountants can help**

Professional accountants can bring an important contribution to increase the financial and investment readiness of SMEs. Professional accountants support enterprises throughout the fund-raising process, e.g. by increasing their financial literacy, negotiating with creditors or with equity investors, and taking care of project finance and evaluation. We therefore offer the help of the accountancy profession in helping SMEs get ready for financing and investment. We are particularly keen to offer support to the Enterprise Europe Network which is reinforcing its advisory capacity in this regard and has the capacity to reach SMEs on a local level. Professional accountants also have the knowledge and skills to provide a wider range of business advice to SME owners, such as in planning for their succession. Accountants can be crucial in facilitating business transfers and in supporting (prospective) owners throughout this process. We thus commend the Commission for emphasising the importance of developing more effective support services for business transfers and make the whole transition process easier altogether.

### **Promoting market access and internationalisation**

FEE encourages the EC's efforts to increase SMEs' access to markets, especially the focus on developing local cooperation by upgrading the Enterprise Europe Network. We appreciate the legal framework for mobility of professional services that the Services Directive and the Professional Qualifications Directive offer. As their trusted business advisors, accountants can play a vital role in helping SMEs in increasing their internationalisation. Accountants are connecting more and more with their international peers to advise efficiently on cross-border issues. They are therefore a key source of support for SMEs going international.

FEE has been an active participant of the EC Working Group 'Bolstering the Business of Liberal Professions' since its inception in 2013. This group was established for the very reason that the EC recognised that liberal professions make a significant contribution to the EU economy. We encourage the EC to continue actively supporting liberal professions and strengthen their representation and participation in the fora and conferences for SMEs at European level.

Together with national and international professional bodies and European organisations, the EC can assess the needs for new skills for new jobs and mobility on the labour market for liberal professions facing the emergence of new social risks, changing career patterns and working conditions. Other issues for them to consider



would be opportunities and resources to improve training, continuous professional development and skills for adapting to changes in demography and technology. Their combined effort can also be directed to facilitating the access to markets in third countries. For example by looking into business support services, such as these of accountants, that will help liberal professionals expand beyond the EU. Other support for increasing their market access could include inviting liberal professionals to Missions for Growth, supporting partnerships for the international expansion of liberal professions and exploring of available tools, for instance within the European Enterprise Network.

### **Releasing entrepreneurial and innovation potential and boosting skills development**

FEE supports the EC's continued actions to boost Europe's entrepreneurial and innovation potential and to enhance the training and skills of entrepreneurs and their staff. Particularly in small businesses, entrepreneurs lack the time to develop their skills and knowledge. Consequently, they rely heavily on members of the profession to fill in these gaps.

The accountancy profession can contribute to increasing the financial literacy of entrepreneurs. A professional accountant is a highly skilled professional qualified by examination, supervised by public authorities and bound to ethical rules. Professional accountants can offer their SME clients a continuing professional relationship characterised by trust and integrity, and provide them with a wide range of business advisory services to help them flourish.