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Your Excellency,

I am writing to present the views of FEE (Fédération des Experts-comptables Européens - Federation of European Accountants) on a matter of importance to the EU economy that the Council is currently debating. FEE represents 45 professional institutes of accountants and auditors from 33 European countries, including all 27 EU Member States; together these organisations comprise more than 500.000 professionals in Europe.

Given its importance, the Council is right to focus its attention on the EC proposal for a Directive on the annual accounts of certain types of companies i.e. micro-entities as per (SEC(2009) 206 of 18 March 2009).

FEE supports the reduction of excessive and unnecessary administrative burdens and the simplification of the financial reporting requirements for micro and small companies within the scope of the Directive. This should be achieved by the recast of this Directive which the European Commission announced and noted as a priority in the Single Market Act approved on 13 April 2011.

However, in terms of the current proposals, FEE would like to stress the importance of accrual accounting which we believe is essential and contributes to sound business management and to the transparency and reliability of all financial information. The current proposal to allow micro-entities to apply cash based accounting is in our opinion a backwards step in terms of these attributes and represents an ill-informed view of the impact this will have for those eligible businesses if implemented. Such a rudimentary system of accounting cannot meet the needs of enterprises (whatever their size), creditors, business partners or other stakeholders such as tax authorities. For example, there is evidence that tax receipts would decline as a result of a move to cash accounting.<sup>1</sup>

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<sup>1</sup> See for example: The Meade Committee (1978), The structure and reform of direct taxation, The Institute for Fiscal Studies, London, available at: <http://www.ifs.org.uk/publications/3433>

The legislator would not help micro-entities in allowing totally or partially cash-based accounting. An adequate and proportionate system based on accrual accounting remains a necessity in companies of all sizes and most likely will still be required to obtain credit and funding. In addition, due to the requirements of the Second Council Directive (77/91/EEC), accrual based accounting is necessary in order to assess whether the capital maintenance requirements are met.

The objectives of Article 50 (g) of the Treaty on the functioning of the EU apply to all limited liability companies. Scoping micro-entities out of the Directive would not per se reduce administrative burdens on companies.

We would be pleased to discuss this matter further with you. If you wish to do so then please contact FEE Secretary General Henri Olivier ([henri.olivier@fee.be](mailto:henri.olivier@fee.be)).

Yours sincerely,



Philip Johnson  
President

Cc:

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