



OPENING SPEECH JACQUES POTDEVIN
FEE PRESIDENT
SCHEVENINGEN CONGRESS – 5 SEP. 2007

1. I am pleased to open the Congress which has been jointly organised by FEE - the European Federation of Accountants and the two professional bodies for the accounting and auditing profession in the Netherlands - The Royal NIVRA and NOVAA.

This is the third European Congress organised by FEE, especially focused on small and medium-sized enterprises and small and medium-sized accounting firms.

However, I should also remind you that FEE has previously organised a Congress in the Netherlands, back in 1994. This event was organised jointly with IFAC, our global organisation. Also we held events more recently on the introduction of the Euro and Sustainability Reporting.

2. This year, the European Federation of Accountants is celebrating its 20th anniversary. I am pleased that our Congress is taking place in the Netherlands because the Dutch profession has played an important role in the development of the European profession and especially the establishment of FEE.

Some of you will remember that FEE resulted from the merger between UEC, the Union Européenne des Experts Comptables, économiques et financiers and the Groupe d'études des experts comptables de la CEE. At that time, Mr. Wim de Bruijn, from the Netherlands was Vice-President of the UEC.

I should also mention that the former Royal NIVRA Secretary General, Henk Volten, played a major role in the Haverman group that prepared the merger.

And last but not least the FEE Deputy President - and our next President - is our Dutch colleague, Hans van Damme.

3. FEE has now been in existence for twenty years. It has developed its activities in many areas; financial reporting; auditing and ethics but also in the public sector, sustainability reporting and even taxation.

We must recognise that much of our work over the years focused on international business which means business mainly of interest to large companies. International Accounting Standards, group audits and various similar subjects are not directly addressing the needs of smaller companies or smaller practitioners. Therefore, it was necessary to review the scope of our activities.

We must remember how important SMEs are for our economy. We know how important small accounting firms are to our profession.

Under the leadership of Vice-President José Maria Bové, to whom I would like to pay tribute, FEE developed specific activities directed to SMEs and SMPs.

This is the reason why we are here today, following the successes of Sitges and Versailles.

4. The theme of this year's Congress is "New opportunities for SMPs and SMEs". We intend to look at transparency, finance and simplification in a European context.

First, I want to emphasise the role of SMEs in the EU internal market. An argument that is often voiced is that SMEs are active within national boundaries. They are not interested in developing their business abroad.

This argument may sound strange to professionals of our host country. Unfortunately, it is more frequent in larger countries like my own. Anyway the argument exists but it is wrong.

The development of an EU internal market is important for SMEs. Large businesses have their solutions. Similarly large accounting firms have their solutions.

Smaller companies increasingly understand that they will have difficulty surviving and competing within national boundaries which no longer provide any protection.

The speed of communication nowadays is such that the market for small business can only be larger. It is not only the developments in communication technology; it's also the progress in logistics and transport that reduce the distance between EU Member States for information, services and goods.

SMEs must take advantage of Europe. They must benefit from the internal market. There are new opportunities for them in a European context.

5. The same applies to our accounting firms. It is a reality that existing partnerships are still established on a local basis. Even in larger firms global partnerships do not fully describe a complex situation where national partnerships still play the major role.

I am sure that this situation will not continue. Under pressure from international regulators and supervisors, large and medium-sized audit firms in Europe will change their network structures sooner or later.

Smaller practitioners also have new opportunities in the EU internal market. Directives on the recognition of professional qualification make free movement of practitioners much easier than it used to be. Professional services can be delivered with a local establishment but also on a temporary and occasional basis.

Let us be clear, medium-sized accounting firms need to serve medium-sized clients who will increasingly operate on an enlarged environment.

6. If the accountancy profession wants to help business in today's economic environment, it can do so in two ways:

Firstly, we can offer our clients the benefit of international contacts that we will develop through Congresses and other European or more global events.

The second way is more institutional. The profession can work at reducing regulatory obstacles. We can work at increasing transparency.

We have transparency at national level. Now we also need transparency at an EU and global level. Cost reduction and reduction of the cost of capital are good reasons for large businesses. The same applies to SMEs.

7. In this congress we will discuss: How does IFRS for SMEs fit within the European scene?

This is an important question. We know that there is some opposition in the European Parliament and also small business organisations like UEAPME on the issue. One of the questions to address is the scope of the project.

Clarifying the scope is a priority if we want the project to move forward and this is certainly what FEE wants. The expression "Small and Medium-sized Enterprise" has different meanings in Member States. What is big in a certain economy can be medium-sized in another - moreover it is not only a matter of size.

8. The European Commission's policy on better regulation, simplification and administrative cost reduction is welcome. This is a political programme which exists in many countries, sometimes for many years. It is difficult to make it a reality.

Regulators should not focus on simplification only but also on relevance to SMEs. In terms of administrative burdens, we should not forget issues such as tax or social regulations, but there are other examples at EU level on labelling or safety regulations.

9. Access to finance and cost of capital are key issues for small companies as well as for large companies. The point is that sources of finance might not be the same. The banking sector plays a key role in making finance available to SMEs which have a more difficult access to capital markets.

Relationships between SMEs and their bankers and the role of accountants as advisors of SMEs have been the subject of many research works. The Round Table of Bankers and SMEs organised by the Commission and to which FEE takes an active part put the issue of transparency and dialogue on the agenda in order to promote a better mutual understanding.

Research shows that poor information from a banking client is a main obstacle to bank lending to SMEs. This is recognised in the final report of the Fifth Round Table published in May 2007.

The report also argues that ratings will have an important influence on future credit allocation. From the SME perspective, this means that learning about determinants of ratings becomes highly desirable. It may give SMEs the opportunity to improve the quality of information and obtain better credit terms. Here also, accountants have an advisory role to play.

10. As accountants, we must develop expertise on matters relating to finances with an ever-increasing range of financial products becoming available. In cooperation with bankers, venture capitalists and others we should work on improving access to equity financing at various stages of development: from start up to expansion of an SME.

However, once again, innovative SMEs seeking funding from investors who will provide a higher risk must be prepared to provide full disclosure on their financial position and the risk they ask others to take.

We speak about administrative burden, but this is an agency cost, a cost which is directly related to the cost of capital that the enterprise wants to obtain.

11. I mentioned that accountants should be ready to advise SMEs seeking finance. We could also have a broader look at the services that the profession is ready to deliver to smaller clients.

FEE published last year a survey on provision of accountancy, audit and related services in Europe. This survey shows the great variety of professional services offered by accountants but also some difference among the Member States in the scope of the services permitted to accountants.

Existing restrictions in some Member States in areas such as tax or legal support to companies should be put into question.

Also the profession needs to be ready to develop new competences in new areas which are important for our clients.

The European Commission proposes the reduction of administrative burdens.

The first possibility to reduce cost is to avoid requiring companies to file so many times similar information. To be fair, this possibility was identified in a

Commission working paper in January this year. Unfortunately, it is only briefly mentioned in the communication of 7 July.

The problem is that this means a substantial effort by government in Member States.

I hope that the panel discussion, later today will put forward some concrete proposals that we could suggest to the EC.

12. In assurance services, there is also a lot to be achieved. The panel workshop on the subject is also very important:

- Are we providing the right service to our clients?
- Are we delivering the best quality?
- Is it any area where companies need assurance that we are not ready to deliver?
- Are our ethical rules fully appropriate in an SME environment?

These questions are key to the future of auditing as a profession.

Conclusions

13. In conclusion, I believe that the third congress of European SMEs/SMPs can be an important event. It depends however very much upon the new ideas that you participants will want to put forward.
14. Very important topics are on our agenda because we are living in a changing environment. The Accountancy Profession must be a leading partner for SMEs in many areas that we will discuss in these two days.
15. One of the themes that I personally consider to be essential is financing the creation and the development of SMEs. Methods to finance SMEs are changing. Private equity financing becomes more important.

This might be partly due to restrictions on normal banking loans resulting from banking regulations such as Basle II. This is also an evolution which is more visible in certain countries where the banking industry had previously a dominant role in business finance. Accountants have a major role to play in helping SMEs to seek finance.

16. If SMEs evolve in a changing environment, this is also true for SMPs. Our profession has to adapt constantly to a technical, administrative and regulatory environment. The complexity of this environment, the development of the EU internal market and more widely the reality of globalisation lead to more concentration in the profession, most probably too much in certain markets.

In a well-balanced profession SMPs must have an appropriate place. They must be able to develop, including in segments of the market where they lost much of their activities, that is listed companies. It would not be good for the profession as a whole that medium-sized firms would not have the opportunity to stay as significant players for instance in the market of listed companies in the group of small caps for instance.

17. Dear colleagues, I will be very happy to continue the debate with you in the round tables later today and tomorrow and I wish you a very fruitful congress.