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European Commission
Internal Market and Services
DG Unit F3 – Financial Reporting Policy
BE – 1049 Brussels

29 April 2009

Re: *Consultation Paper on Review of the Accounting Directives*

Dear Sir,

We are pleased to provide our comments on Consultation Paper on Review of the Accounting Directives.

We appreciate the initiatives undertaken by the European Commission as part of the project to modernize and simplify the accounting directives, which aims, on the one hand, to reduce the administrative burden (especially for small and medium-sized enterprises) and, on the other, to increase the competitiveness and improve the quality of the information as well as the clarity of the texts.

However, we believe that this simplification must at the same time be accompanied by adequate information that safeguards the interested parties.

The scope of application of the Fourth Directive covers joint stock companies, limited liability companies and limited share partnerships, and, therefore, entities with a legal personality and limited responsibility. Thus, for such entities, an excessive simplification of accounting requirements that could affect the preparation and communication of economic, financial and balance sheet information would not provide a guarantee of transparency for all those interested parties that have business relations with the entities and would not ensure proper protection of their rights.

Furthermore, it should be borne in mind that, as it currently stands, the Fourth Directive allows Member States to exempt from audit those entities that meet the requirements for presenting their financial statements in an abridged form. This makes it all the more necessary that the financial statements be characterized by an adequate level of transparency and clarity in relation to the size of the entity, the magnitude of the values and the other information contained therein.

The OIC does not believe that exempting small enterprises from the requirement to publish their financial statements constitutes a useful simplification.

Question 1:

Do you agree with the approach described above?

YES

NO

Don't know

We believe that the inclusion of a specific section that brings together the basic principles enables the development of a clear and organic framework that can be used as a point of reference for the accounting 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?

We believe that the "General principles" section should include those principles pertaining to the structure of financial statements as indicated in Art. 4 of the Fourth Directive. Moreover, the principle of the importance of substance over form is mentioned in that article.

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 straight-forward rules?

YES

NO

Don't know

We believe it appropriate that the premise for any review of the approach adopted in the accounting directives and in standard setting should be a proper analysis of the information needs of the stakeholders. To this end, we suggest a field test.

However, the mere rewriting of the Fourth Directive without substantive changes could give rise to new interpretational doubts with related applicational uncertainties and the risk of disputes.

Question 4:

Do you think that current rules for small, medium and large companies are appropriate?

YES

NO

Don't know

We believe that the rules on valuation and financial statement reporting are applicable without being excessively burdensome also for SMEs. However, some new simplifications could be examined, especially in regard to the information provided in the notes to the accounts. In essence, the actual introduction of such simplifications should be assessed in terms of costs and benefits in the light of the real needs of the stakeholders of the SMEs. Therefore, before making any changes to the accounting directives, we would suggest a field test that takes into account stakeholders' information needs and the appropriate forms of safeguards.

Question 5:

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

Italy makes broad use of the options in terms of the simplification measures for medium-sized entities envisaged under the current accounting directives. A project is under consideration concerning the reform of financial statement rules with a view to making use also of the further simplifications envisaged for medium enterprises.

Question 6:

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

Please refer to the comment on Question 4.

Question 7:

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

YES

NO

Don't know

Question 8:

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

YES

NO

Don't know

As the current thresholds for SMEs already cover a large number of enterprises, it does not appear necessary to make further changes to said thresholds.

Question 9:

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

YES

NO

Don't know

Question 10:

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

YES

NO

Don't know

As pointed out by you, the reduction in the number of company categories through the merging of the medium-sized entities with the small entities or with the large entities would require appropriate modification of the regime applied to those categories.

Question 11:

Regarding the table above, do you see additional room for simplification, e.g. eliminating the requirement for annual reports for medium-sized enterprises?

YES NO Don't know

The only simplification possible seems to concern the elimination of the requirement for medium-sized entities to present an annual management commentary to integrate the annual accounts. Therefore, a field test should be conducted to verify whether the cost/benefit analysis justifies this measure.

Question 12:

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

YES NO Don't know

We believe that the presentation of a cash-flow statement should be a requirement for large entities. Indeed, information of a financial nature is important to determining a considered opinion on the situation of the company. Making the cash-based information compulsory would put into practical effect the provision contained in Art. 2, para 3 of the Fourth Directive, whereby the annual accounts must also provide a true picture of the financial situation of the company. It would be a real contribution to the modernizing of the accounting directives.

As regards SMEs, and especially those that would fall into the category of microenterprise, we believe the requirement to present a cash-flow statement could constitute an excessive burden.

Question 13:

Should the requirement be for a cash-flow statement based on a minimum layout defined by the Directive, e.g. requiring operating, investing, financing cash flows?

YES NO Don't know

The directives should limit themselves to defining the requirement to present a cash-flow statement. For the detailed rules on the specific content of the statement, the entities can look to their national legislation and to the national and international accounting standards. In this way, it will also be possible to avoid problems of having to update the directives as any new accounting issues arise.

Question 14:

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

Not applicable.

Question 15:
If you are a bank or credit provider, how useful would a cash-flow statement be?

Not applicable.

Question 16:
Is there currently a requirement in your jurisdiction to provide a cash-flow statement?

YES NO Don't know

Currently, in Italy, under the legislation introduced to implement the Fourth Directive, there is no express requirement to provide a cash-flow statement. However, national accounting principles do recommend that one be provided. We would like to point out that there is a project under consideration that would make it a requirement for the large entities.

Question 17:
Do you think that small companies should be exempted from the requirement to publish their accounts?

YES NO Don't know

Please refer to the introduction above.

Question 18:
Do you think there should be a Member State option to allow small companies only to prepare abridged accounts only?

YES NO Don't know

We see no reason to prevent a company from voluntarily providing a full set of accounts and so providing more complete and high-quality information. Moreover, it should not be forgotten that among those eligible to present accounts in abridged form are also group holding companies that have a streamlined organizational structure and that have not received significant dividend income from their subsidiaries for several accounting periods.

Question 19:
If you are a preparer, what is the annual cost of publishing your accounts? (€ , % of turnover)

Not applicable.

Question 20:

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

In Italy, we are introducing XBRL with a view to reducing the communication requirements set by the various rule and the authorities. XBRL can also help to improve the speed and uniformity of the flow and analysis of financial information also for accounting purposes.

Question 21:

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

YES NO Don't know

This would facilitate the process of standardization of financial communications at European level and lead to cost savings at national level.

Question 22:

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

YES NO Don't know

Prescriptive formats would enhance comparability at European level and avoid the risk of excessive discretion being left to preparers.

Question 23:

Should the number of available layouts be reduced? If yes, which layouts should be kept?

YES NO Don't know

The "current/non-current" layout should be retained for the balance sheet and for the profit and loss account, with items grouped by category. However, it should be borne in mind that the international accounting standards are likely to prescribe new financial statements layouts in the near future.

Question 24:

Would it be sufficient to provide for a minimum structure for each, the balance sheet and the profit and loss account? If yes, can you please provide the key elements of such a minimum structure?

YES NO Don't know

We believe that a minimum content should be provided that in substance does not differ too much from the current requirement as adapted in the light of the most recent developments in accounting that have occurred in the meantime.

Question 25:

What modernizations or amendments would you recommend to the current layouts?

We would suggest eliminating the reference to the concept of fixed asset as it no longer appears to be in line with a balance sheet classification based on the current/non-current distinction.

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?

We do not agree with the idea of requiring particularly simplified statements that would come at the expense of clarity in the accounts without generating any significant savings in terms of administrative costs.

Question 27:

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

YES NO Don't know

We are in favour of this elimination as a way of aligning the directives with the international standards in this matter. This would avoid the risk of non-homogeneous behaviours among entities and the possibility that they may use the classification in an inconsistent way with regard to revenues and costs.

Question 28:

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

Not applicable.

Question 29:

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

We suggest a requirement to indicate the calculation methods used for value adjustments and the conversion criteria for currency items. We would also like to highlight the importance of providing information on other provisions made in the accounts, where these are significant.

Can you please indicate additional disclosure requirements for medium-sized and large entities?

We believe that, overall, the disclosure requirements are appropriate for these categories. However, we would recommend a field test to assess the appropriateness of any simplifications.

Question 30:

What information has to be compiled especially for preparing the disclosures?

It is necessary to retain the disclosure requirements concerning the application of both compulsory and optional derogation as provided under the Fourth Directive. It is also necessary to retain the requirement to provide any additional information necessary to ensure a true and correct view of the situation of the company.

Furthermore, in view of their importance, we would also suggest that information be provided on the composition of and change in some asset items. In particular, we would highlight information on multiannual charges, goodwill, holdings, current value of stock where lower than book value, issue discount/premium, as well as the measure of and reasons for reductions made to value. Appropriate information should be provided when the fair-value valuation criterion is applied. It is appropriate to provide specific information on cost capitalization criteria.

Other information should be given on items in the profit and loss account such as current and deferred revenues and taxes.

Explanation of the reasons thereon should be provided when it is not possible to provide comparative data in the accounts.

Question 31:

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

No comment.

Question 32:

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

YES

NO

Don't know

We believe that reducing the valuation criteria options, especially for SMEs, could facilitate the comparability of accounts.

Question 33:

Which of the valuation requirements should be more/less descriptive?

In line with international developments, we would suggest the requirement that valuation criteria be more specific in regard to items in foreign currency, real-estate investments, biological assets and leasing. However, it would be appropriate to evaluate whether to introduce some adjustment or simplification concerning the valuation of financial instruments.

Question 34:

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

YES NO Don't know

Yes, it would facilitate the tracing and consulting of accounting legislation relating to the accounts.

Question 35:

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

YES NO Don't know

It would be appropriate to take into account the international developments on the matter of consolidation. For example, one can think of the current differences concerning the determining of the area of consolidation and the requirements for exclusion from that area as provided by the Fourth Directive and international accounting principles.

Question 36:

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

YES NO Don't know

We would suggest a review of the translation of the directives in the national languages with the aims of updating the accounting terminology used and of eliminating terminological inconsistencies among parts of the directives translated at different times.

Furthermore, in the task of translating the accounting directives, we would emphasize the importance of involving the national bodies, such as the standard setters, in order to guarantee the quality of the translations.

Question 37:

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

The OIC expresses its support for retaining European accounting requirements for private entities. The users of the information in the accounts are different and, hence, the rules to be applied must be different. With public entities, the investors are of greater importance and this fact is reflected in the IAS/IFRS governing the requirements for such entities. However, with private entities, other stakeholders and, in particular, business creditors are important. Therefore, the OIC is in favour of retaining a structured European regime in order to meet the needs of these different stakeholders within the European socio-economic context. Indeed, the more stringent the requirements are, the greater are the potential benefits in terms of European comparability of these entities. It should not be forgotten that also private entities often operate transnationally and so in an extended competitive context. The requirement of providing uniform financial rules would facilitate comparisons among entities and so provide greater guarantees to clients of suppliers that prepare their accounts in another European country. In line with the logic of having accounting rules that

are useful to an ever-widening range of entities, the OIC hopes that the opportunity will be taken to develop a new European accounting directive that governs, in optional form, the accounting rules relating to unlimited liability entities, in such a way as to provide a homogeneous framework at European level.

Yours sincerely,

Angelo Casò
(OIC Chairman)