



Financial Reporting EU Update

10th Anniversary of the Organismo Italiano di Contabilità
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Internal Market & Services DG



IFRS in the EU

- 2002: IAS Regulation adopted
- 2005: Listed companies' consolidated reports prepared in conformity with IAS/IFRS
- 2006: MoU between the Commission and EFRAG on working arrangements
 - « the Commission supports the further integration efforts between EFRAG and national standard setters in order to make efficient use of available know-how within the EU »
- To date all IAS/IFRS/IFRIC in effect endorsed in the EU

Role of the Institutions

- **The IASB:**
 - Standard setter
 - Request from stakeholders for ex-ante field-testing and post-implementation reviews (EC letter to IASB agenda consultation)
- **IFRIC:**
 - Interpretation committee (higher level of activity expected)

Role of the Institutions

- **ESMA:**
 - Coordinating consistent application and enforcement of IFRS in the EU
 - *But* the ultimate responsibility for the enforcement of IFRS financial statements rests with the national competent authorities
- **EFRAG:**
 - Provides technical advice to the European Commission (see endorsement advice)
 - Pro-actively influences the standard-setting – in close coordination with National Standard Setters

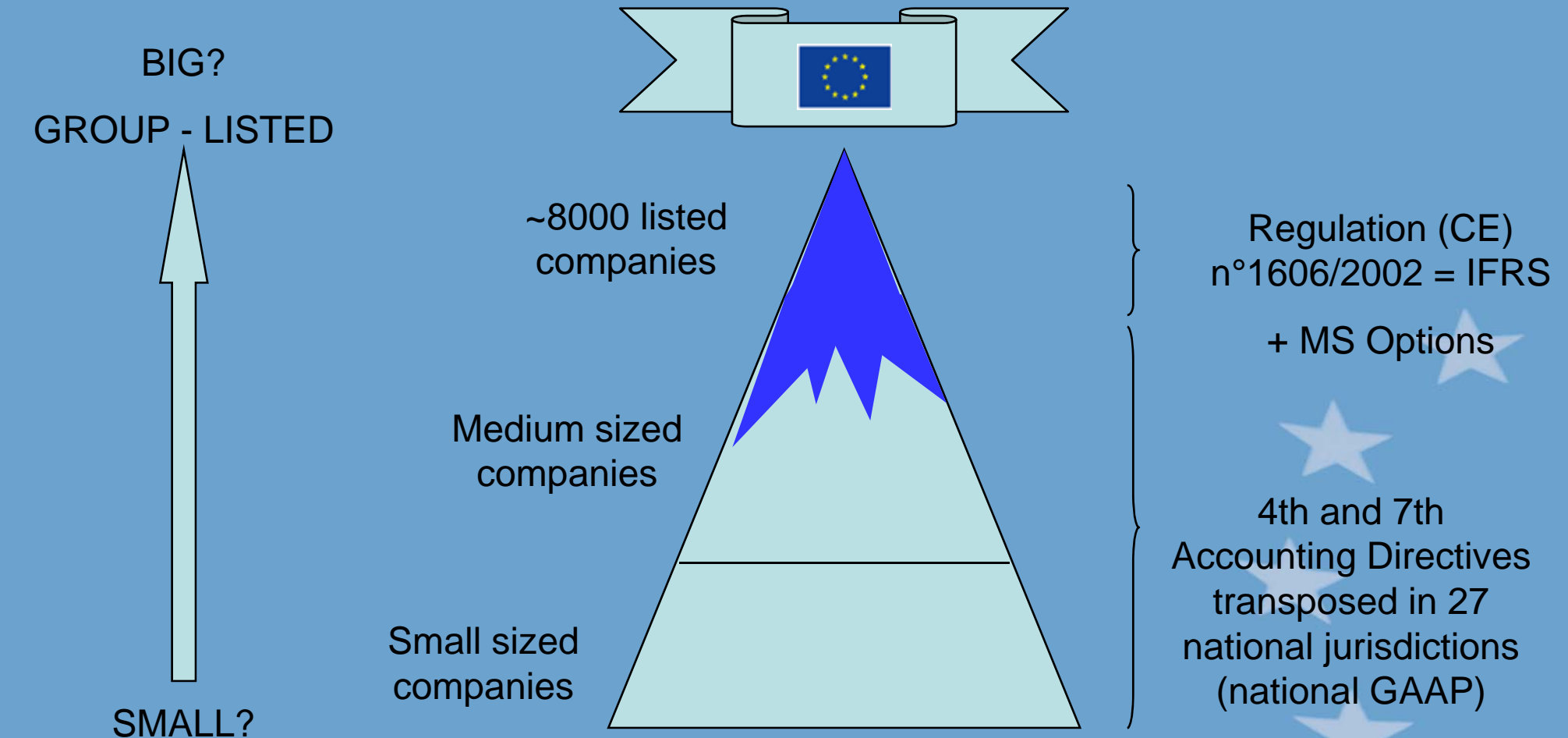
EFRAG Governance Review

- Thorough governance reform in 2008 – with a review clause
- The process has just begun
- “Don’t fix what is not broken”
- Assess the National Standard Setters role in pro-active activities
- Failing to cooperate, risk of doubling the work and loosing the force of unity

National Standard Setters

- Important role in liaising with national stakeholders (preparers, auditors, users)
- EFRAG's role as the accounting voice of Europe
- Upstream input to the IASB to be reinforced (the EU to loose weight with more and more countries adopting IFRS)
- EU-wide coordination indispensable, National Standard Setters crucial to the success of EFRAG's pro-active activities
- National Standard Setters to buy in more to EFRAG's work

EU Financial reporting regimes



ALONE - UNLISTED

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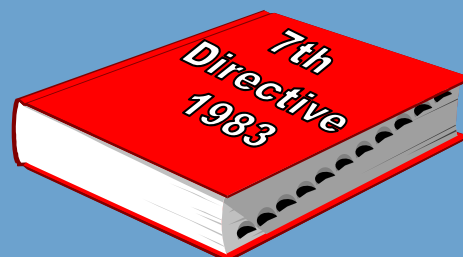


Commission proposals: legal texts

- Commission proposal for micro-entities: Feb 2009
- Commission proposal for a general revision (excluding micro-entities) Oct 2011

What are the main issues?

- Target group has changed: now mainly SMEs
- The business environment and accounting practices have changed - the 4th and 7th Accounting Directives have been in place for 25-30 years
- Disproportionate burden on micro and small entities
=> unnecessary disclosure from user perspective
=> companies of similar size may be small, medium or large



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Micro entities in Italy*

Italy has the highest proportion of micro and small companies in Europe:

- 4.3 million SMEs,
- 4.1 million companies employing fewer than 10 employees each,
- accounting for 69% of private sector jobs,
- producing 71% of Italy's GDP

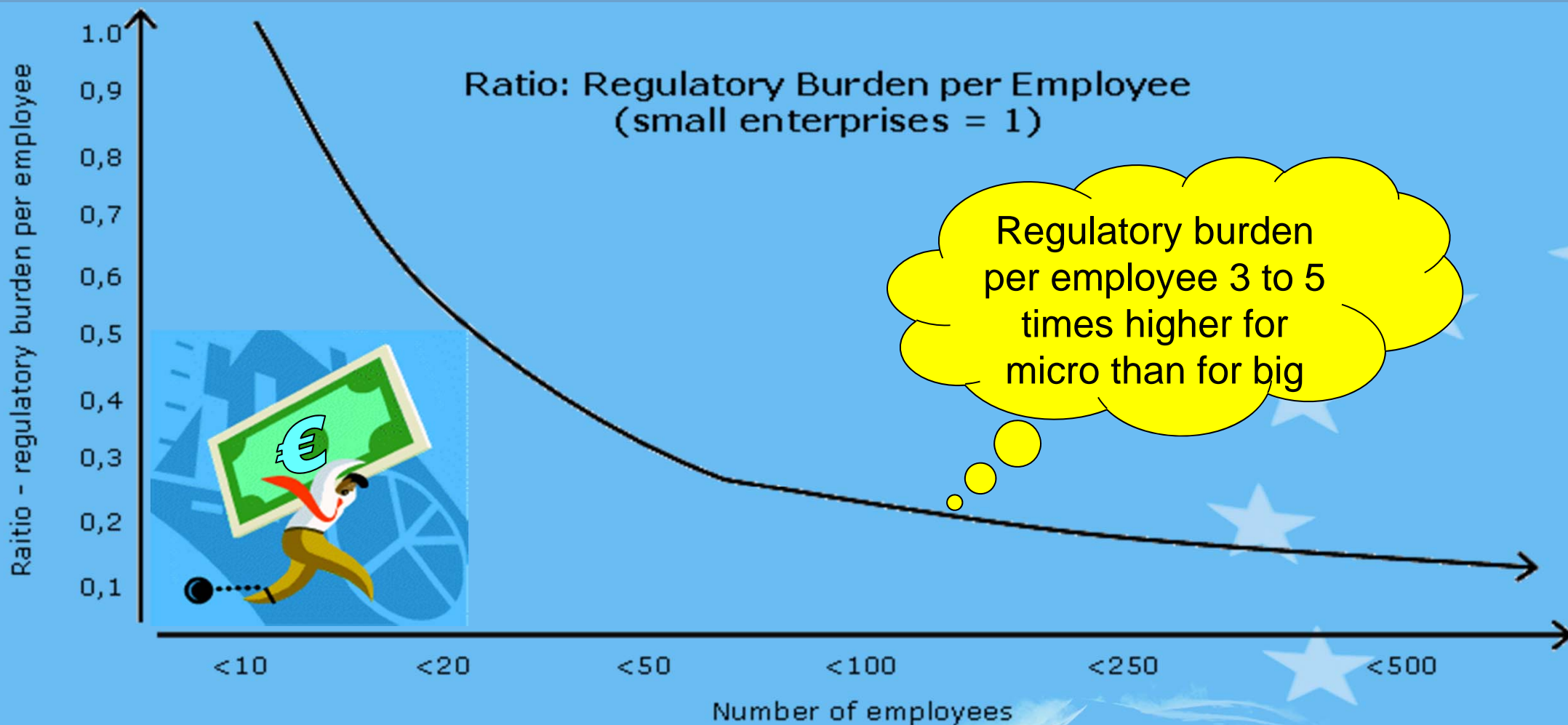
*Financial Times data 5/12/2011



Micro-entities

- Commission proposal Feb 2009 : outright exemption companies with less than 10 employees, €1m T/O and/or €0.5m B/S
- European Parliament and Council agreed on:
 - keeping micro companies in scope with lower thresholds (10 employees, €0.7m T/O and/or €0.35m B/S)
 - possibility to require very simplified financial statements
 - Simplified publication

Disproportionate burden



Objectives

- Reduce the administrative burden on companies that are relatively small in size to free up resources for growth and employment creation;
- Increase effectiveness, relevance and understandability of financial reporting; and
- Protect the needs of users

How to meet objectives?

- Simplify / eliminate excessive requirements
- Think small first / proportionate
- Increased clarity and comparability
- Retain necessary information to meet users' needs

Key evolutions

- Overarching accounting principles
- “Mini regime” for small companies
- Harmonised definition of companies / building blocks
- Less options

Small companies

- Disclosures limited to key items
- No ability for Member States to add statements or disclosure
- Ability for companies to prepare and file abridged accounts
- Audit: now full responsibility of the Member States (not in EU scope)

Particular issue: IFRS for SMEs

- Not an alternative to the Directive
- 6 differences with extant Directives have been incidentally reduced to 2 (large and medium-listed unlisted companies)
- MS could base national GAAP *to large extent* on IFRS for SMEs, however not fully



Miscellaneous proposals

- Public Interest Entities (PIEs) – no exemptions
- Disclosure regime harmonised for medium-sized and large companies
- Thresholds increased
- Special treatments for financial holding companies and investment companies removed
- Directives now merged



Revision of the Directives - Conclusions:

- Full IFRS for **listed companies** remains
- **Directives** remain the basis for **unlisted companies**
- **Simplification** of Directives, **reduction of burden** especially for Small companies
- Further harmonisation and modernisation

Challenges ahead

- Need for rebuilding trust – transparency in the markets crucial
- One global accounting language promoted
- EU 2020 – growth strategy
- SMEs = backbone of economy




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