



The World Bank Centre for Financial Reporting Reform



Key Elements of Accounting Reform in Europe

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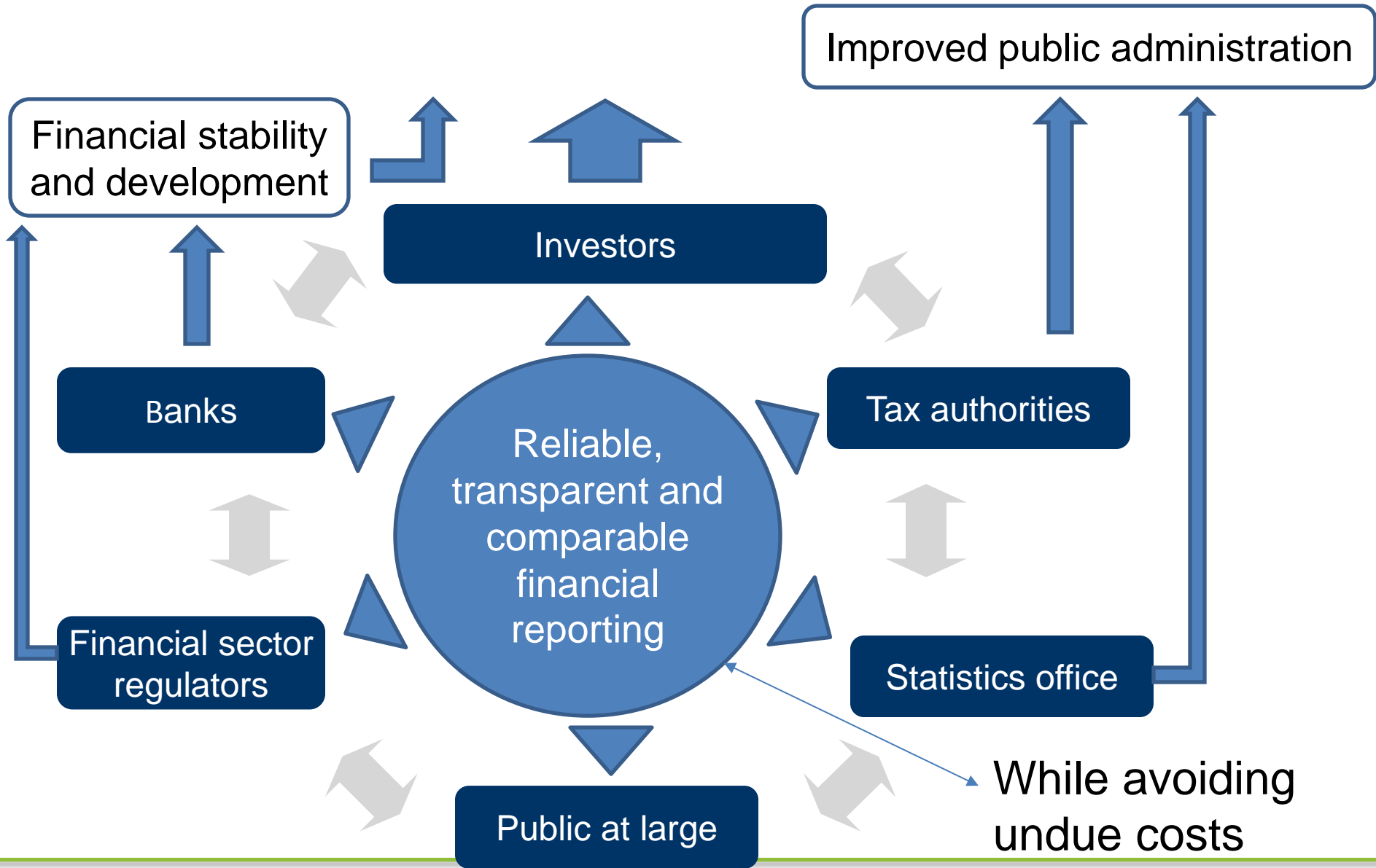
Centre for Financial Reporting Reform (CFRR), The World Bank

CECCAR Congress – 12 September 2014

Objectives of the session

- » Review key elements of accounting reform
- » Explain key features of the new EU accounting directive

Why financial reporting reform is important?



Financial reporting: multiple uses and benefits

Investors / shareholders*
(+ broker-dealers, rating agencies, advisers, etc.)

* Includes State ownership entity

Financial institutions
Trade creditors
Employees, job applicants
Public procurement agency

Tax authorities

Statistical agency, central bank

Degree of sophistication
in the information provided

Make investment decisions
and protect value of assets

+ Financial-sector
supervision

Make credit decisions,
monitor credit quality/risk
Protect rights as creditors
Ensure solvency of bidders

Monitor/enforce tax collections
(corporate income taxes and VAT)

Collect data for macroeconomic policies

User(s)

Benefit(s)

Reform in itself is important....

Reform is not only about law making but also developing capacity

Conduct change:

- Raise awareness
- Build partnership with stakeholders and end users
- Monitor progress

Develop a legal framework

Establish and empower institutions

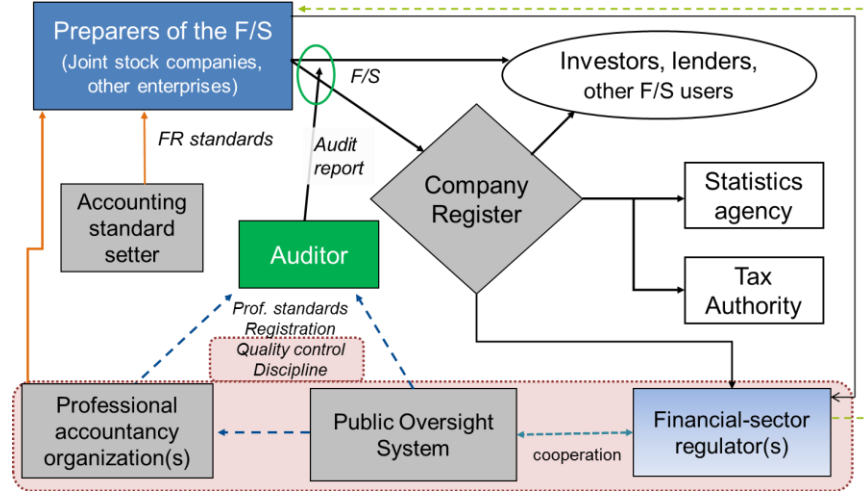
Develop capacity of institutions and individuals

Develop institutions' processes

Build individuals' capacity

... how to make reform happen is essential

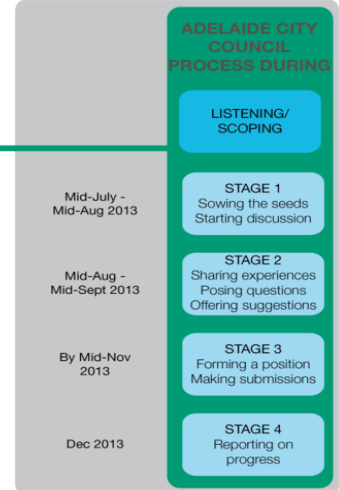
» The change process is a lot about planning....



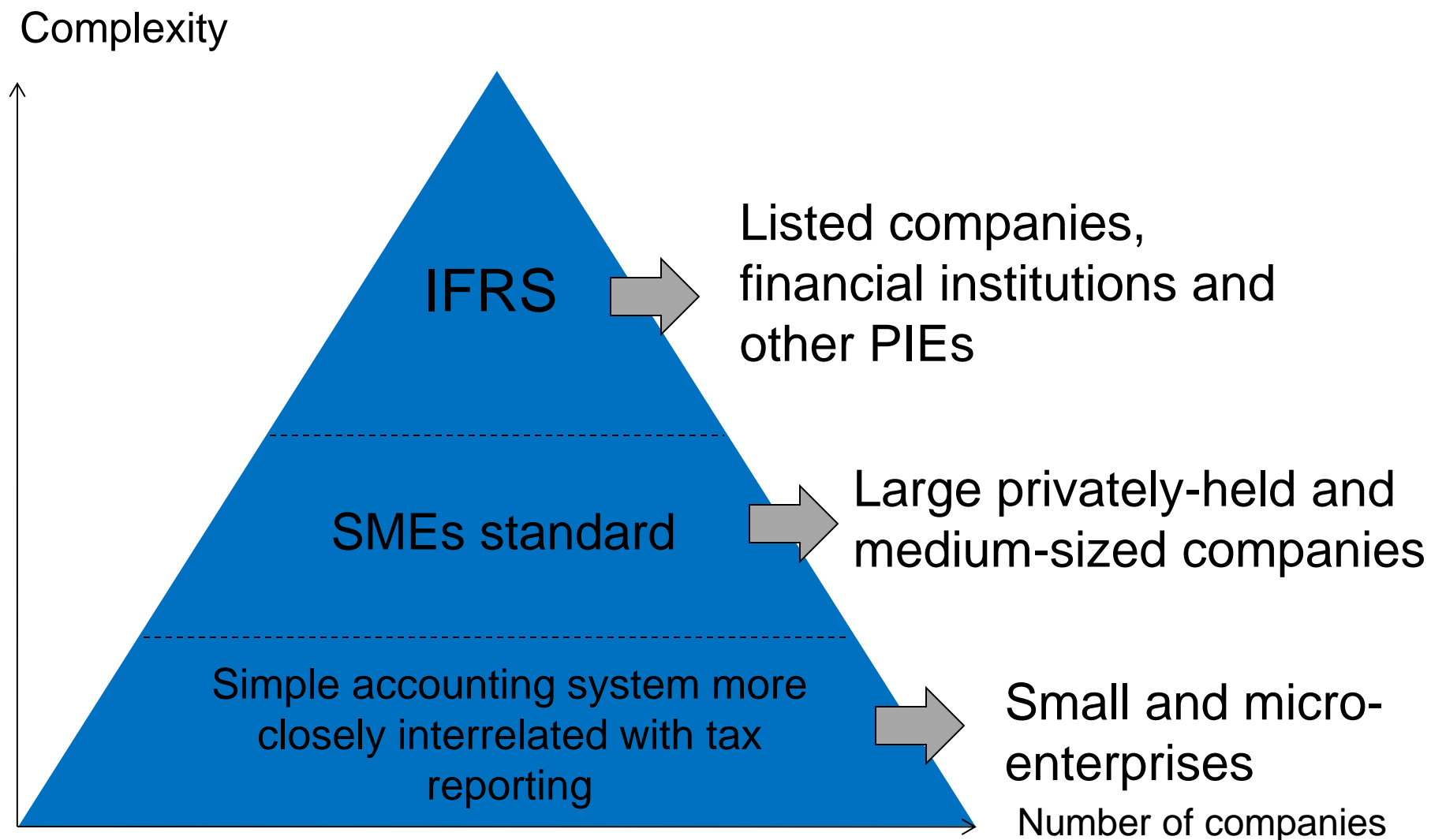
STATE GOVERNMENT'S PROCESS - EXPERT PANEL



COUNCIL INVOLVEMENT



Accounting reform – adopting a differential reporting





THE NEW ACCOUNTING DIRECTIVE

- » **Overall Objective: better functioning of the Single Market:**
 - Increased access to finance
 - Reduction in the cost of capital (transparency effect)
 - Increase level of cross-border trade
 - Merger and acquisition activity

- » **By establishing the requirements for limited liability companies to:**
 - To have less burden in preparing financial statements
 - Increase clarity and comparability of financial statements within the EU
 - Protection of essential user needs

- » Not endorsed in the EU
- » Some inconsistencies with EU 4th and 7th directives have been reversed with the new Accounting Directive:
 - Extraordinary items
 - Useful life of goodwill (10 years)
- » Some inconsistencies remain but are not major
 - Accounting for unpaid capital...
- » It is still possible to adapt IFRS for SMEs to be compliant with the directive (and call it something else...)_

Context of the new accounting directive

- » The EU accounting directives were drafted more than 30 years ago
- » Many requirements added by amendments: disclosures, valuation rules
- » Less attention to simplify or remove existing requirements, including Member State (MS) options that do not favor comparability
- » PIE have now their own regime: the IAS Regulation
- » SMEs represents 99 per cent of the market and supported the same burden as large entities

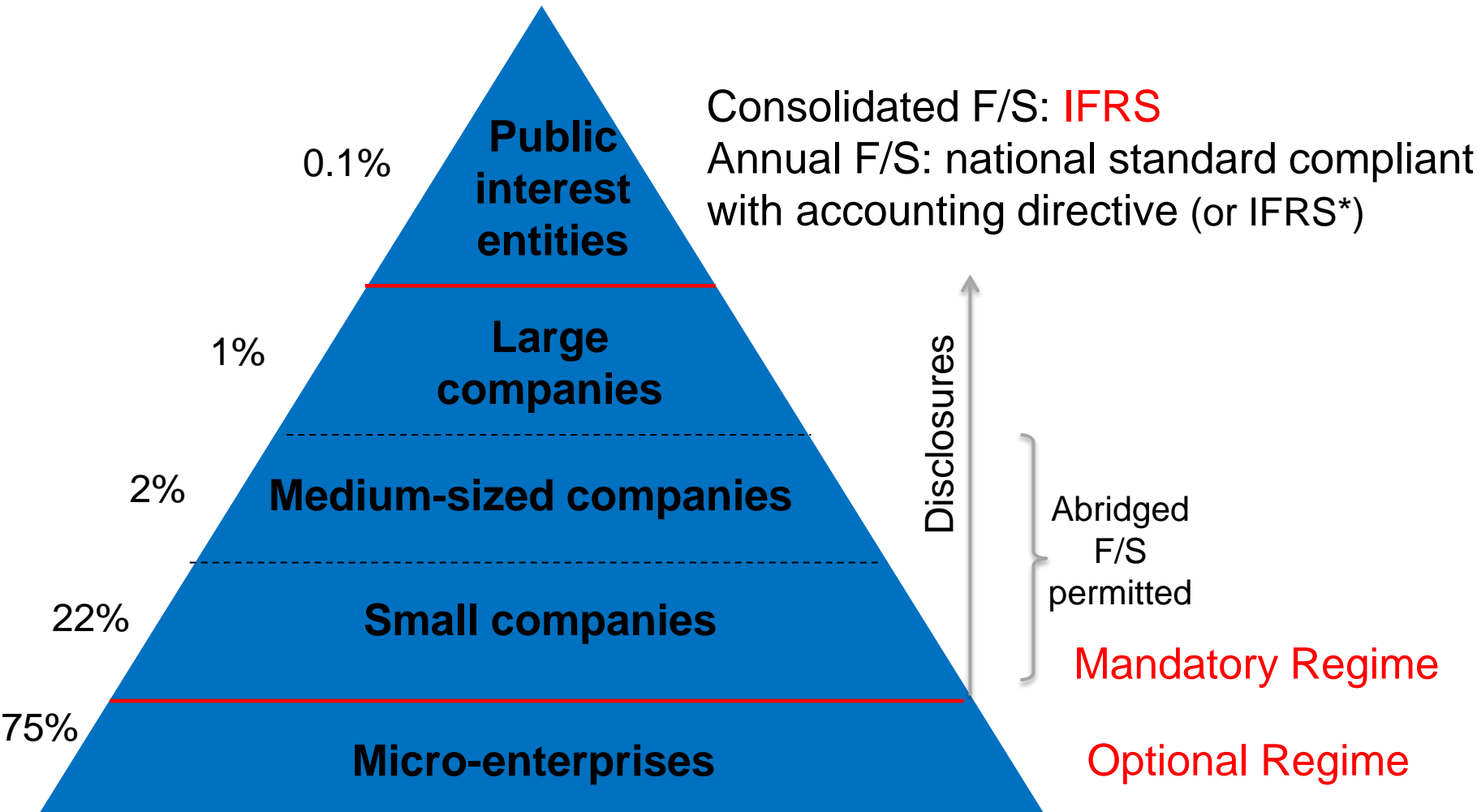


“Think small first” approach

Content of the accounting directive

- General provisions: Preparation, publication and audit of annual financial statements
- Contents of management report
- Formats for presentation (P/L and B/S)
- Recognition and valuation rules
- Notes to the accounts - contents

A design adapted to the economic reality



* member-state option

Accounting obligations per type of entity

Medium – sized and large undertakings	Key changes in the new accounting directive	Small undertakings	Key changes in the new accounting directive	Micro-undertakings	Key changes in the new accounting directive
<p>3 % of the companies</p> <p>New thresholds (medium)</p> <p>B/S total: <EUR 20 million</p> <p>Net turnover <EUR 40 million</p> <p>Employees <250</p> <p>Large undertakings above those thresholds</p>	<p>Few changes</p> <p>Bottom-up approach to disclosures</p> <p>New mandatory disclosures: (i) post-balance sheet events, (ii) related parts transactions including with wholly-owned companies</p>	<p>22 % of the companies</p> <p>New thresholds</p> <p>B/S total <EUR 4 million</p> <p>Net turnover: <EUR 8</p> <p>Employees: <50</p>	<p>Maximum harmonization</p> <p>Notes to the accounts limited</p> <p>Post-balance sheet events</p> <p>New mandatory disclosures: (i) post-balance sheet events, (ii) related parts transactions including with wholly-owned companies</p> <p>No requirement for statutory audits</p>	<p>75 % of the companies</p> <p>New thresholds micros:</p> <p>B/S total < EUR 0.3 million</p> <p>Net turnover < EUR 0.7 million</p> <p>Employees < 10</p>	<p>Optional regime</p> <p>Simplified accruals No fair value</p> <p>Simplified B/S and P/L</p> <p>Simplified notes</p> <p>No management report</p> <p>No requirement for statutory audits</p>

Implementation challenges and opportunities

- » From historical costs to full fair value: too numerous options opened for transposition will not favor maximum harmonization
- » Member state have the choice of requiring operations to be accounted for there substance or ... anything else (not reference to form or legal requirements)
- » Full fair value is a MS option
- » Some issues on reevaluation of tangible assets can be full fair value or anything else at the discretion of the MS

Guiding principles for reform

- » Developing a clear vision
- » Raising awareness and ownership
- » Setting expectations at the right level
- » “Keep It Simple”



THANK YOU FOR YOUR ATTENTION