



May 2009
AK Position Paper

AK Statement on the “Consultation Paper on the Review of the Accounting Directives”

About us

The Federal Chamber of Labour is by law representing the interests of about 3.2 million employees and consumers in Austria. It acts for the interests of its members in fields of social-, educational-, economical-, and consumer issues both on the national and on the EU-level in Brussels. Furthermore the Austrian Federal Chamber of Labour is a part of the Austrian social partnership.

The AK EUROPA office in Brussels was established in 1991 to bring forward the interests of all its members directly vis-à-vis the European Institutions.

Organisation and Tasks of the Austrian Federal Chamber of Labour

The Austrian Federal Chamber of Labour is the umbrella organisation of the nine regional Chambers of Labour in Austria, which have together the statutory mandate to represent the interests of their members.

The Chambers of Labour provide their members a broad range of services, including for instance advice on matters of labour law, consumer rights, social insurance and educational matters.

Herbert Tumpel
President

More than three quarters of the 2 million member-consultations carried out each year concern labour-, social insurance- and insolvency law. Furthermore the Austrian Federal Chamber of Labour makes use of its vested right to state its opinion in the legislation process of the European Union and in Austria in order to shape the interests of the employees and consumers towards the legislator.

All Austrian employees are subject to compulsory membership. The member fee is determined by law and is amounting to 0.5% of the members' gross wages or salaries (up to the social security payroll tax cap maximum). 560.000 - amongst others unemployed, persons on maternity (paternity) leave, community- and military service - of the 3.2 million members are exempt from subscription payment, but are entitled to all services provided by the Austrian Federal Chambers of Labour.

Werner Muhm
Director

Executive Summary

The AK considers a revision of the Fourth and Seventh Directive as an opportunity to improve significantly the quality of accounting and the respective publication towards the stakeholders.

The Commission intends to modernise and simplify the accounting rules. The aim is to reduce administration costs for companies. The objective of the EU Better Regulation Strategy is to achieve cost savings of 25 % by 2012.

In general it can be said that the significance of a diligently run accounting system has markedly increased over the past years and in particular during the current financial market crisis. Company collapses and wide ranging discussions about the causes have led several sections of the public to demand clear improvements. Stricter Corporate Governance Directives, more transparency and more efficient audits are only some of issues included in the wide range of measures, which were demanded and which have indeed been implemented at European and national level.

The account presentation rules are a contributory cause of the current financial market and economic crisis. The strengthened weight of the market price principle has resulted in the fact that during the economic boom not yet realized values were set at values, which are now leading to enormous depreciations. Over the past years, most companies and Groups have built up risks, which are far too high, in particular in the investment sector. Often these risks were managed via subsidiaries or special purpose vehi-

cles, so that they were not or only partially disclosed in the relevant balance sheets. These shortcomings both with respect to accounting systems and publications significantly contributed to the breakdown of trust in the financial markets.

In the opinion of the Chamber of Labour (AK), a revision of the Fourth and Seventh Directive can only go in one direction: the quality of accounting as well as the respective publication towards the stakeholders must be improved significantly.

This applies to all companies - even to small and medium-sized ones. From the point of view of employees, creditors or even customers, the benefit of diligently prepared, audited and published annual accounts is as significant for a small to medium-sized company as it is for a major capital company.

The quality of accounting has a direct and immediate effect on the credit accommodation and the borrowing costs of a company. The Austrian, but also the European SME (small and medium-sized enterprises) economy is strongly oriented towards outside capital. Anticipated savings in the administrative sector would be confronted with higher access barriers regarding financings as well as higher borrowing costs. The financial crisis has significantly exacerbated this problem; loans are now only

granted on the basis of significantly more thorough credit assessments. Annual accounts are an indispensable basis for assessing an investment risk also for investors. Less transparency and fewer publications could be counterproductive. The fact that companies now have to provide their financiers with detailed information in any case, leaves actually no room for arguing that savings could be made in practice, for example by adopting lower quality of publication standards.

In addition, it must be taken into account that annual accounts also are an instrument of company management and control. Serious shortcomings occur in particular with respect to small and micro companies. Accounting shortcomings - such as the lack of up-to-datedness - result in the fact that economic decisions are taken without sufficient bases. This bears the risk of wrong decisions being made, resulting in corporate crises. This is the main reason why these companies should not be allowed to lower their accounting standards.

The quality of accounting systems, however, is not only important for financiers and management; annual accounts are also an important basis for the decision-making procedure of other stakeholders such as suppliers, customers and employees. With respect to employees, knowing about the economic situation of their employer is a decisive factor of choosing a job and for any questions associated with remuneration. In particular with regard to small and micro companies,

salaries are often the result of direct negotiations between employee and employer; they are based on the company's economic level of performance. In addition, profit-sharing models have significantly increased, in particular in the sector of small and medium-sized enterprises, a condition of which, however, is that carefully ascertained economic data of the company in question is available. Due to flexibilisation measures, more and more company risks are transferred to the workforce; this, however, must be matched with an appropriate transparency of the economic situation. Simplifications of the accounting rules as well as reducing the transparency would therefore entail significant disadvantages for all employees affected.

In the opinion of the AK SMEs should not be allowed to lower their accounting standards.

The AK position in detail

Question 1

Do you agree with the approach described above?

YES

Comment: The AK agrees with the general accounting principles as defined in the Fourth Directive. The AK attaches particular importance to the prudence principle within the meaning of creditor protection. In particular the current crisis has demonstrated, how important it is to apply this principle in order to strengthen the crisis resilience of companies. Unfortunately, this principle has been further and further pushed back even with respect to individual financial statements and a mixture of market value and historical cost principle is more and more applied to individual items of the annual accounts. Here, the AK sees the necessity of adhering strictly to the prudence principle.

Question 3

Do you believe that a structured Directive following a bottom-up approach would be useful to Member States in creating more simplified and straightforward rules?

NO

Comment: The AK comes out in favour of retaining the top-down approach.

In the opinion of the AK it is the proper way to define all fundamental requirements on a high-quality accounting system as a first step and then to consider as a next step, which exceptions to these could be sensible for certain companies. The reverse approach - a principle oriented on the requirements of small companies adding on additional requirements for large and medium-sized companies is in most cases difficult to achieve and would ultimately result in a race to the bottom and to lowering the standards respectively, which would in turn impair the quality of accounting.

Question 4

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

NO

Comment: No, in particular the publication rules for small companies do not go far enough and are therefore not particularly meaningful for external balance sheet recipients such as suppliers, creditors and employees.

Please indicate in broad lines what the minimum requirements for small entities should be according to the bottom-up approach.

The AK agrees with the general accounting principles as defined in the Fourth Directive.

Comment: This question does not apply to the AK as we do not regard the bottom-up approach as sensible.

Question 5

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

Comment: The AK regards it as wrong to make full use of all simplification options. Even in the case of small and medium-sized companies, the Annual Financial Statement is the most important instrument for stakeholders such as suppliers, employees, creditors etc. to obtain information about their economic partner. Making use of simplification options reduces the significance of the annual accounts; the respective stakeholders are consequently excluded from obtaining relevant information.

Question 6

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

Comment: The AK sees absolutely no necessity in simplifying accounting methods. Companies - including small and medium-sized enterprises - have to carry out relevant bookkeeping in any case, on the one hand for tax assessment purposes, but also to generate relevant information for managing and controlling the company on the other. Their financiers too will request relevant information on which they base their decisions on granting loans.

A simplification does therefore not have any benefits as the Annual Financial Statement has to be prepared diligently and qualitatively sound in any case.

Question 7

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

X YES

Comment: The criteria are adequate in principle. Other criteria should only be considered for holding companies. In most cases, holding companies only employ a small number of staff and have no regular turnovers. As a result, it can happen that holding companies of large Groups fall under the limits of small companies.

Question 8

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

X NO

Comment: In the opinion of the AK, the limits have been set far too high. Over the past years, legal separations of companies and company sections have resulted in the fact that company sizes became increasingly smaller. Hence, more and more companies

The AK sees no necessity in simplifying accounting methods because companies have to carry out relevant bookkeeping in any case.

are falling under the category “small” and “medium-sized” enterprises. The structure of European companies is greatly oriented towards micro and small companies; only 4 % of all European companies are medium-sized or large. This also means that the stakeholders of 96 % of European companies do get increasingly less information about the economic situation of the company they are interested in. In the opinion of the AK, the limits should be significantly oriented downwards.

Question 9

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

X NO

Question 10

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

X NO

Question 11

Regarding the table above, do you see any additional room for simplification, such as eliminating the requirement for annual reports for medium-sized enterprises?

X NO

Comment: In the opinion of the AK it is unimaginable that any element of the

annual accounts could be eliminated for medium-sized companies. All elements required, such as balance sheet, profit and loss account, notes, audit report and if required also the consolidated financial statements are essential elements, which contain basic information about the company, which are essential for an external balance sheet recipient to understand the economic situation. This is already a catalogue of minimum requirements, which must not be reduced any further.

Question 12

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

X YES

If yes, for which company categories?

Comment: All companies (including small companies in form of a simple income and expenditure account) must present cash-based information within the scope of bookkeeping in any case. The preparation of a cash flow statement is normally an automatic procedure, which is automatically carried out by means of appropriate software; this is a standard tool of all bookkeeping programmes. The preparation of cash-based information does therefore not require any significant additional time and effort.

In the opinion of the AK it is unimaginable that any element of the annual accounts could be eliminated for medium-sized companies.

The AK would welcome clear structuring rules for cash flow statements; this would significantly facilitate the comparativeness and interpretation of data.

Question 13

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

X YES

Comment: Yes, clear structuring rules for cash flow statements have to be welcomed; this would also significantly facilitate the comparativeness and the interpretation of data in general.

Question 17

Do you think that small companies should be exempt from the requirement to publish their accounts?

X NO

Comment: No, under no circumstances must it for reasons of transparency come to a softening or limitation of publication rules. Saving administration costs is also not comprehensible as small companies too have to prepare this data among others for banks, tax authorities etc.; therefore the publication does not generate any additional costs and no significant additional effort.

Question 18

Do you think there should be a Member State option which allows small companies only to prepare abridged accounts?

X NO

Comment: No, there should be absolutely no option for Member States to be exempt from publishing their annual accounts. In the opinion of the AK, these are already too few. Any more softening of the rules would only result in a further race to the bottom by the Member States.

Question 20

Do you have any comments regarding the role of electronic tools and gateways, such as XBRL in this context (costs - benefits)? Can you provide us with any practical experience made by your Member State? For users: Can you quantify the benefits of having access to XBRL reports?

It enables, provided technical conditions are in place and the systems are clarified, the relatively easy data and information flow to interested analysts and stakeholders.

Question 21

Should there be one single XBRL taxonomy developed at EU level?

X YES

Comment: This would of course be welcome in principle; it is, however, necessary to clarify first the form requirements and subsequently all technical possibilities. Austrian experiences have shown that the current data flows do not yet work smoothly

together with XML procedures and the current conversion software, so that difficulties still frequently occur. Due to the flexible form requirements, implementation appears to be difficult to achieve EU level.

Question 22

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

X YES

Comment: In particular with regard to comparability, both layout and structuring proposals in the Directives are extremely helpful. In particular the flexible Anglo-Saxon tradition makes any comparability difficult for analysts. The AK would therefore regard an increased standardisation and clear structural rules as desirable.

Question 23

Should the number of available layouts be reduced?

X YES

Comment: A large number of different "layouts" is definitely not required. With respect to the rules, one should with regard to the choice of "layout" differentiate less in the direction of company sizes. A differentiation between rules for the respective divisions (banks, insurance companies, trade, industry) would be more than appropriate with

regard to the comparability and the difference for example between the banking and insurance sector with other branches.

Question 24

Would it be sufficient to provide for a minimum structure for the balance sheet and the profit and loss account?

X YES

Comment: A minimum requirement regarding the structure of the balance sheet and the profit and loss account is necessary.

Question 26

Do you have any comments on the idea to require only a limited amount of key financial data from small enterprises instead of a fixed balance sheet and a profit and loss account structure?

Comment: The Federal Chamber of Labour is strictly against any considerations of further reducing the publication of data.

Question 27

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

X NO

Comment: In the opinion of the Feder-

The AK regards an increased standardisation of layouts and clear structural rules as desirable.

al Chamber of Labour the requirement of disclosing extraordinary expenditure and income is also essential for preparing a diligent Annual Financial Statement. It is completely irrelevant, if this concerns a small, a medium-sized or a large company. The extraordinary result can present a significant factor for all companies. The argument that extraordinary effects occur frequently and regularly must be disregarded. The central role of a profit and loss account is to provide all stakeholders with an overview of the core business.

Question 29

Are there any other items that should be disclosed for small entities? Would you please indicate additional disclosure requirements for medium-sized and large entities?

X NO

Comment: The AK firmly rejects any further softening of publication rules and criteria.

Question 30

What information has to be compiled especially for preparing disclosures? Can you say anything about the costs of preparing this information?

Comment: As every company is obliged to provide its financiers (owners as well as finance providers such as banks) with detailed information in any case, it is possible to prepare all requirements without having to invest

additional time and effort. The argument, which savings could be made by this measure resp. how new costs would actually be incurred, does not hold.

Question 32

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

X NO

Comment: In the opinion of the Federal Chamber of Labour, there is no scope for any kind of simplification or modernisation. What is needed are clear and precise rules.

Question 33

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

Comment: In particular with regard to valuation requirements there are still too many options to choose from, which among others have their origin in tax referrals. Here, a simplification resp. reduction of valuation options would be desirable.

Question 34

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

X NO

The AK firmly rejects any further softening of publication rules and criteria.

Comment: As the independence and the regulations of the 7th Directive have been proven, an integration of the 7th into the 4th Directive would not facilitate matters.

Question 35

Do you think there is a need for amending or modernising the Seventh Directive? Could you indicate the areas where a revision would be particularly welcome?

X NO

Comment: There is currently no requirement for amending or modernising the 7th Directive.

Question 36

Do you believe that there is a need for streamlining and modernising the wording and terminology throughout the Directives?

X NO

Comment: No, in the opinion of the AK the current terminology has been proven to be appropriate.

Question 37

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

Comment: In particular the financial crisis has partly revealed the failure

of transparency and accounting rules. In the opinion of the AK a change of thinking is more and more required. The increased weight of the market price principle resulted in the fact that during the economic boom, not yet realized profits were included, which have now led to enormous depreciations. Therefore a return to the prudence principle, which is governed by the creditor protection concept, is absolutely vital.

In the opinion of the AK the current terminology has been proven to be appropriate.

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