

European Commission
Internal Market and Services DG
1049 Brussels
Belgium

Weinheim, 04/05/09

EC Consultation paper on review of the accounting directives – cutting accounting burden for small business / review of the accounting directives

Dear Sir or Madam,

We appreciate the opportunity to comment on the consultation regarding cutting accounting burden for small business / review of the accounting directives

The Association for Participation in the Development of Accounting Regulations for Family-owned Entities (VMEBF) was founded in 2006 and consists of German companies with a strong family-shareholder background. Beyond its members, the association represents a vast majority of family-owned small and medium-sized entities in Germany, often legally organised in the form of partnerships. The objective of the VMEBF is to monitor new developments in accounting regulations as well as to make the role of German family businesses as stakeholders in the development of international accounting more visible. We act as a constructive partner for the standard setters and work closely with the Accounting Standards Committee of Germany (ASCG) and the German Institute of Chartered Auditors (IDW) as well as further political institutions.

Unfortunately, this consultation takes place in a period of the year when our member companies are predominantly occupied with preparing their annual reports and figures. To properly review the proposed regulations we consider it necessary to allow for a consultation period of at least 4-6 months.

We decided to participate in this consultation by responding to at least a few chosen questions that tackle the core interests of our member companies directly. However, we are not able to comment on certain important issues, such as cash-based information (Questions 12 – 16) or valuation items (Questions 32, 33) as a more in-depth analysis and proper exchange of views among our member companies is required. Still, we would appreciate further discussion and exchange of views on these issues also.

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As a whole, we agree with the bottom-up approach of the concept in accounting rules (Question 3). However, we are not sure whether it is appropriate to use this approach to eliminate member state options.

As for the long-term role of the EU accounting directives (Question 37) our comments are as follows: As the directives are supposed to represent an alternative to international accounting regulations, it has to be kept in mind that especially the fundamentals of European accounting like creditor protection and stewardship have to be retained. Although we welcome a modernization of the directives, we disagree with an overall convergence of the regulation with IFRSs, especially as we perceive IFRSs to be developing towards a rules-based set of standards.

Please refer to the appendix to this letter for our detailed answers to the selected questions 7, 9, 11, 17, 27 and 30/31 in the consultation paper.

Kind regards,

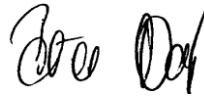
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Frank Reuther



Dr. Dieter Truxius



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Appendix

Question 7

Do you think the current criteria have worked well?

Yes. The current criteria have worked reasonably well and provide a reasonable and operable system. If another criterion like “ownership of company” is to be added, we propose facilitation for family businesses disregarding their size as described under question 30 /31.

Question 9

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

No. The categories small, medium-sized and large companies should be kept. However, if categories are reduced, current medium-sized companies should be categorised as small companies rather than large companies as their structure usually has more in common with small companies than with large companies. For example, in most instances the organisational structure and the number of management levels of medium-sized companies are rather comparable to that of small companies.

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. Medium-sized companies should be exempted from preparing an annual report. The recent past has shown an increase in requirements regarding future-related information, especially in the annual report. However, we are of the opinion that providing such information should not be prescribed by a European Directive.

The costs of preparing the information for SMEs might exceed the benefits of users, especially in the cases where it is hardly possible to predict future developments, for example in the current financial and economic crisis. Therefore, preparing the information is just a formal exercise to fulfil the legal requirements without additional benefits for the users. This argument is all the more valid because predictions will, in addition, have to be evaluated by auditors unfamiliar with the sector.

Question 17

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

Yes. Firstly, we think that requiring small companies, especially such companies producing/trading only one single product, to publish their accounts forces those companies to present strategic information about their business models that is highly confidential and leads to a decrease in competitive advantages.

Secondly, we think that publishing their accounts imposes unnecessary costs on small companies. Capital providers of small companies as primary addressees of their financial information usually are able to obtain the information required directly

without having to fall back on the published accounts. Regarding small companies being part of a group, several of our member companies criticized the high administrative costs they face when publishing accounting information of their small subsidiaries. This is especially true if the preparation process is optimized to also serve internal financial needs or when data regarding inactive companies is involved.

Question 27

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

No. Extraordinary effects should still be addressed in the P&L statement. Instead of recognizing a separate line item, we recommend showing the figures in the notes.

Question 30/31

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

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)?

We would recommend reviewing the usefulness of the following disclosure requirements of the 4th and 7th Directive depending on the legal form of the entity. For non-publicly listed companies, independent of their size, the following information might be less relevant. The vast majority of our member companies pleaded for the omission of the data shown below.

4th Directive:

Art. 43 par. 1 no. 7a off-balance-sheet items

Art. 43 par. 1 no. 7b related party disclosures

Art. 43 par. 1 no. 8: net turnover by activities and areas Art. 43 par. 1 no. 11: deferred tax (if reconciliation mandatory)

Art. 43 par. 1 no. 12: emoluments to administrative, managerial, supervisory bodies

Art. 43 par. 1 no. 13: advances and credits to administrative, managerial, supervisory bodies.

7th Directive:

Art. 34 no. 7b: related party disclosures

Art. 34 no. 8: net turnover by activities and areas

Art. 34 no. 11: deferred tax (if reconciliation mandatory)

Art. 34 no. 12: emoluments to administrative, managerial, supervisory bodies

Art. 34 no. 13: advances and credits to administrative, managerial, supervisory bodies

Regarding Art. 43 par. 1 no. 8 it was mentioned that this information is misleading in several cases.