

Policy Statement

Standing for trust and integrity

December 2008



The Accountancy Profession's Contribution to the Debate on the Crisis (III)

Call for Action for European SMEs

This paper presents the views of FEE, the Federation of European Accountants – Fédération des Experts comptables Européens, on issues of relevance to SMEs against the background of the current crisis. It aims at contributing to the debate on the ways to mitigate the effects of the crisis on SMEs and to speed up recovery. Two other papers have been published, one presenting background information and analysis on the crisis (I) and another on the matters of specific relevance for statutory auditors during the financial crisis (II). Other papers will be issued as needed.

About FEE

FEE represents 43 professional institutes of accountants and auditors from 32 European countries, including all 27 EU Member States. It has a combined membership of more than 500.000 professional accountants. In representing the profession, FEE recognises the public interest. Professional accountants work in different capacities in public practice, business, and public sector; based on the practical experience gained in this daily involvement in all aspects of the economy and the set of values underpinning the profession's practice, FEE believes it has a contribution to make in the current discussions.

Introduction

In the current drastic circumstances, most of the attention has been concentrated on the banking industry. The attention of many politicians has then increasingly been drawn to the wider impact of the financial crisis and its evolution into a far ranging economic crisis calling for effective remedial measures.

Over 90% of businesses in Europe are SMEs; forming the "backbone of the economy". SMEs have a key role in terms of the resilience of the economy and the dynamics of the job market. Many SMEs form an essential part of the supply chain, supporting larger business, since SMEs are often best placed to provide flexibility, innovation and cost efficiencies from which society as a whole will benefit; however, **SMEs often suffer more rapidly and more severely from falling demand or a tightening in the availability of credit.** Due to the scope of the current crisis, the reflection on remedies should not be limited to larger industries

or specific sectors. There is also an increasing need for improving framework conditions and supporting SMEs.

Access to finance needs to be improved

As a result of recent events beyond their control, many SMEs are facing, or are likely to face in the near future, extreme difficulties in their day-to-day business, not least in respect of their ability to attract sufficient financing at reasonable cost.

FEE believes that the accounting profession has much to offer to help ease the "credit crunch" situation. Rather than being viewed as an administrative burden, experience shows that financial information plays a key role in helping to address some of the problems encountered in this crisis. For example, with appropriate financial information, managers are in a better position to navigate efficiently through the turmoil; potential providers of credit and financing will offer more credit under more favourable terms, if they have more confidence in

the financial information related to the business.

In this respect the accountancy profession helps SMEs in preparing liquidity diagnostics and forecasts, negotiating with lenders and in providing assurance services to enhance the reliability of financial reporting.

The **reliability, transparency and standardisation of financial reporting are essential in enhancing third party perceptions of SMEs' credit worthiness and thus increasing their access to finance.** Achieving this is essential, especially in times of crisis. This is certainly not the time to compromise on transparency. Due to the importance of the SME sphere, information regarding SMEs has also become crucial for the governability of the whole economy¹. FEE recognises an urgent need for a common accounting "language" in which to express the performance and financial position of business entities.

SMEs' liquidity position needs to be improved

Certain Member States have made taxpayers' support to banks conditional on their supplying necessary credit to support business. **Governments may have to consider schemes for underwriting SMEs' loans** as is already the case in a number of Member States, or set up mutual guarantee schemes, or where these exist, improve their efficiency.

In practice, delayed payment by creditors often results in a need for SMEs to seek credit and enhances the risk of knock-on effects. To date, the impact of legislative intervention in this field has proven limited; FEE suggests three courses of action that could, however, be envisaged to alleviate liquidity problems in the short term.

Disclosure of the average payment delay could be recommended as a useful incentive; in order to avoid creating administrative burdens, this could be limited to the payment practices of large companies vis-à-vis their SME suppliers.

Public procurement is important to SMEs who secure 42% of the value and 64% of EU public procurement², representing 16% of EU GDP (around 25% in certain Member States). **In public procurement, public authorities should lead by example and significantly reduce their payment cycles.** This could benefit SMEs by increasing their liquidity, reducing their reliance on bank financing, and thus help to soften the impact of the credit crunch.

One further initiative that could significantly help to ease financial problems, especially for those SMEs experiencing delays in payment by their customers, would be a **deferral of Value Added Tax remittances.**

Access to publicly funded aid should be simplified

Often when public money is to be made available to SMEs, many small entrepreneurs perceive significant administrative burdens, which dissuade them from submitting claims. **Opportunities for simplification, harmonisation and**

administrative centralisation of public aid schemes should be investigated to make these forms of support as effective and efficient as possible, while respecting the EU framework to prevent any distortions of competition in the internal market, as, on the longer term, no one will gain from a distorted market. Certain Member States are already implementing such good practices; it is important that others follow.

Administrative costs may be reduced through further harmonisation

Harmonisation of accounting requirements contributes to reducing administrative costs both for the SMEs preparing the information (and also using the same information in respect of their business partners), accountants verifying the information and creditors and public administrations using the information for decision-making. Standardised information is easier to understand and interpret. Legal certainty is increased; learning costs, errors rates, and compliance costs are reduced. In this context, **simplification of regulation may be beneficial, notably to contribute reducing SMEs administrative costs, but insofar as quality, reliability and transparency of information is not reduced.**

SMEs' need further access to the opportunities of the Internal Market

It would be wrong to believe that all the objectives of the Internal Market have been achieved. Accountants assisting enterprises of all size know by experience that, in practice, many obstacles remain and further harmonisation and simplification will be essential to enable business, and in particular, SMEs, seize the opportunities of the Internal Market.

Company law is an essential enabler of the Internal Market. SMEs need legal instruments that are simple and easy to understand and to use. The SPE (the European Company Statute) will be a useful vehicle, but as evidenced by the stakeholders' consultation, only if an appropriate degree of harmonisation is reached.

Recently the European Parliament called on the European Commission to deliver a harmonised, coherent and comprehensive accounting framework for Europe³; the Commission should be encouraged to pursue this work which is also requested by the most relevant stakeholders, the SMEs⁴. **The time is right for Member States to make the necessary political compromises to provide SMEs with a true and effective Internal Market.**

Conclusion

Unless effective measures are taken to ease SMEs' access to funding and support them through the current crisis, possibly along the lines suggested in this paper, many smaller and medium sized entities, could become victims of circumstance and may not survive in the short term; the widespread impact on society as a whole of knock-on effects should not be underestimated. FEE calls for effective and timely action to allay many of the current concerns and prevent a further downward spiral in the EU economies. ■

¹ See European Committee of Central Balance-Sheet Data Offices' Opinion on the Communication from the European Commission on Simplified business environment for companies in the areas of company law, accounting and auditing (COM 2007 394 final). See below footnote 4 referring to the position of UEAPME, the European organisation representing SMEs who also opposes a reduction of transparency and a dismantling of the European mandatory accounting framework.

² i.e. the number of contracts above the thresholds set by the EU directives on public procurement.

³ European Parliament Report on the proposal for a directive of the Commission and of the Council amending Council Directives 78/660/EEC and 83/349/EEC as regards certain disclosure requirements for medium-sized companies and obligations to draw up consolidated accounts (2008/0084(COD)), Rapporteur Ieke van den Burg.

⁴ UEAPME's position paper on the Communication from the Commission on a simplified business environment for companies in the areas of company law, accounting and auditing (COM (2007)394 final).