

Mr Didier MILLEROT  
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DG Markt  
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Brussels, 8 January 2013

Dear Mr Millerot,

**Subject: Revision of 4<sup>th</sup> and 7<sup>th</sup> Accounting Directives**

We are writing to you to express concerns of European Credit Sector Associations' members on four amendments proposed by the JURI.

#### *Country by country reporting*

First the European Credit Sector Associations<sup>1</sup> believe that country by country reporting is an issue beyond the scope of financial reporting. They also question whether such reporting requirements would provide investors with decision useful information. It is believed that the existing disclosure requirements provide sufficient transparency and adding new requirements would further increase the entities' burdensome reporting and administrative requirements.

The question should also be raised as to whether the requested information would meet the objectives pursued. In this context, it is not clear if country by country information in the consolidated accounts based on IFRS can provide meaningful information and improve tax governance since tax information in many Member States is based on statutory accounts prepared under local GAAPs, not IFRS. There is a risk of potential confusion for users rather than a potential to enhance transparency. In addition, there is also a risk arising from the potential conflicting legislation at local level, which may represent an additional burden for the reporting entities.

To conclude, the ECSAs do not see appropriate to adopt common EU rules on the disclosure of financial information on a country by country basis and believes the requirements currently in place (e.g. IFRS, Transparency Directive, measures in the area of CSR, anti fraud and anti –money laundering) sufficiently meet the transparency objective.

#### *Materiality principle*

In addition, the associations are concerned with the limitation proposed by the European Parliament to the materiality principle.

Application of the principle of materiality is a tried and tested accounting tradition in Europe. The materiality principle requires measurement to take account of all information, if necessary in the notes, which users of financial statements will find significant. Information of secondary importance, by contrast, which has no influence on the company's results or accounting, can be ignored.

The amendment submitted by the European Parliament on 25 September 2012 proposes that the Directive should make application of the materiality principle mandatory only to presentation and disclosure, but no longer to recognition, measurement and consolidation. The associations do not believe it would be feasible in practice to limit application of the materiality principle in this way.

At present, application of the materiality principle allows many companies of all sizes and in various industries to refrain from preparing consolidated accounts. This relieves them of a considerable accounting, auditing and disclosure burden while still substantially satisfying the need of owners and creditors for information. The European Parliament's proposed limitation of the materiality principle to presentation and disclosure would place enormous strain on companies.

#### *Substance over form principle*

Also, the ECSAs believe the substance over form principle must be maintained as it is one of the key accounting principles and also standard international practice. It allows transactions to be reported in financial statements according to their economic substance and not just their legal form.

The associations are concerned that the above mentioned amendments of the European Parliament consist a departure from the international practice that is not a desirable trend for Europe to follow.

#### *Public Interest Entities always treated as large undertakings*

The European Parliament JURI Final Report suggests that a public interest entity shall always be treated as a large undertaking regardless of its net turnover, balance sheet total or average number of employees during the financial year.

The ECSAs would like to stress that it must be ensured that Public Interested Entities that are SMEs are able to comply with the requirements without undue costs. Otherwise, the revision may result in disproportionality and introduction of additional administrative burdens for such entities even where that is not the objective. In addition, it must be ensured that the introduction of such a general rule will not be in contradiction with the principle of proportionality that has been enshrined in the EU Treaty (Article 3 of the EU Amsterdam Treaty) and is today being accepted as a general principle of law. This is in particular important in the context of future amendments to the Directive. Any new requirements need to be carefully assessed against relevance, materiality and proportionality in relation to all the entities in the scope of the Directive.

Please note that the same letter is being sent to the persons mentioned in copy.

Yours faithfully,



Guido RAVOET  
Chief Executive  
EBF



Chris DE NOOSE  
Managing Director  
ESBG



Hervé GUIDER  
General Manager  
EACB

Copy to:

- Klaus-Heiner Lehne - MEP, JURI Rapporteur
- Arlene McCarthy – MEP, Rapporteur for the Transparency Directive
- Sirpa Pietikäinen - MEP, Rapporteur for Opinion on Transparency Directive
- Wolf Klinz - MEP, ECON Rapporteur for the Accounting Directive
- William Reid, Irish Presidency of the Council of the European Union

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<sup>i</sup> *The European Banking Federation is the voice of the European banking sector from the European Union and European Free Trade Association countries. The EBF represents the interests of almost 5000 banks, large and small, wholesale and retail, local and cross-border financial institutions. Together, these banks account for over 80% of the total assets and deposits and some 80% of all bank loans in the EU only.*

*The European Savings Banks Group is an international banking association that represents one of the largest European retail banking networks, comprising of approximately one-third of the retail banking market in Europe, with total assets of over €7,470 billion, non-bank deposits of €3,400 billion and non-bank loans of €4,000 billion (31 December 2010). It represents the interests of its members vis-à-vis the EU Institutions and generates, facilitates and manages high quality cross-border banking projects. ESG members are typically savings and retail banks or associations thereof. They are often organised in decentralised networks and offer their services throughout their region. ESG member banks have reinvested responsibly in their region for many decades and are a distinct benchmark for corporate social responsibility activities throughout Europe and the world.*

*The European Association of Co-operative Banks (EACB) is the voice of the co-operative banks in Europe. It represents, promotes and defends the common interests of its 28 member institutions and of co-operative banks in general. Co-operative banks form decentralised networks which are subject to banking as well as co-operative legislation. Democracy, transparency and proximity are the three key characteristics of the co-operative banks' business model. With 4.000 locally operating banks and 63.000 outlets co-operative banks are widely represented throughout the enlarged European Union, playing a major role in the financial and economic system. They have a long tradition in serving 176 million customers, mainly consumers, retailers and communities. The co-operative banks in Europe represent 50 million members and 750.000 employees and have a total average market share of about 20%.*