



**Mr. Jeroen Hooijer**

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Brussels, 30<sup>th</sup> April 2009  
B16/VH/JC/09-092

**E-MAIL**

**Re: EACB contribution to the European Commission Consultation on modernisation of the EU accounting Directives.**

Dear Mr. Hooijer,

The European Association of Co-operative Banks, EACB, gladly takes the opportunity to comment on the Consultation Paper published by the European Commission on 26<sup>th</sup> February 2009 concerning the Modernisation of the Fourth Directive (78/660/EEC) and the Seventh Directive (78/660/EEC) on Accounting.

Please find enclosed our answers to the European Commission's questions, which are shared by all our members organisations expanded on the following pages.

We welcome any questions regarding our comments.

Yours sincerely,

Hervé GUIDER  
Secretary General

Volker HEEGEMANN  
Head of Legal Department

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**AN ASSOCIATION ON THE MOVE**



*European Association of Co-operative Banks  
Groupement Européen des Banques Coopératives  
Europäische Vereinigung der Genossenschaftsbanken*

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## EACB Answer to the European Commission Consultation on Modernisation of the EU Accounting Directives

30<sup>th</sup> April 2009

The **European Association of Co-operative Banks** (EACB) is the voice of Co-operative Banks in Europe. It represents, promotes and defends the common interests of its 28 members and co-operative banks in general. Co-operative banks form decentralised networks which are governed by banking as well as co-operative legislation. The co-operative banks business model is based on three pillars: democracy, transparency and proximity. Through those pillars co-operative banks act as the driving force of sustainable and responsible development by placing the individual at the heart of their activities and organization. In this respect they widely contribute to the national and European economic and social objectives laid down in the Lisbon Agenda. With 63.000 outlets and 4.200 banks, co-operative banks are widely represented throughout the enlarged European Union playing a major role in the financial and economic system. In other words, in Europe one out of two banks is a co-operative. Co-operative banks have a long tradition in serving 160 million customers, mainly consumers, retailers and SMEs. They have also developed a strong foothold in the corporate market providing services to large international groups. Quantitatively co-operative banks in Europe represent about 50 millions members, 750,000 employees with a total average market share of about 20%.  
For further details, please visit [www.eurocoopbanks.coop](http://www.eurocoopbanks.coop)

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## EACB Contribution

Please provide the following details together with your response:

You are

- Preparer:**             company                       subsidiary of foreign company             organisation of companies
- If company, please specify your sector**             services                       production                       agriculture
- User:**                       bank/credit provider             analyst                       organisation of stakeholders
- private person
- Public authority:**
- Accountants and auditors:**     accounting                       audit                       organisation of accountants and auditors
- Other**                       (please specify) .....

Name of your organization / company: European Association of Co-operative Banks

Short description of the general activity of your organization/ company:

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## EACB Responses to Questions

### 1. Basic principles –qualitative characteristics

**Question 1: Do you agree with the approach described above?**

X YES                       NO                       Don't know

We support the European Commission initiative to bring together the main principles of the Fourth Directive in one area. These "General Principles" approach will help to promote the intelligibility of accounting standards.

**Question 2: Are there any other principles that should be included in the "General principles" section? Should any of the current principles be clarified?**

We generally support the "General principles" as mentioned above. The 13 accounting principles mentioned in the Consultation Paper are derived from long-standing market practice and have stood the test of time; in essence, they should therefore be upheld. Additionally, we suggest including the principle of "substance over form".

### 2. Structure – "bottom-up" approach-

**Question 3: Do you believe that a restructured Directive following a bottom-up approach would be useful to Member States in creating more simplified and straight-forward rules?**

X YES                       NO                       Don't know

We endorse the introduction of a "bottom-up" approach for the revision of the Directive. This approach ensures that Member States will use their option to make exemptions for SME's.

**Question 4: Do you think that current rules for small, medium and large companies are appropriate**

X YES                       NO                       Don't know

The European Accounting Directives have been in place for many years and amendments were needed in the past. The proposals for changing are appreciated by the co-operative banking sector. However, we also think that a simplification of the current requirements for smaller companies would be useful (see comment under question 3).

*Please indicate in broad lines what the minimum requirements for small entities should be according to the bottom-up approach: N/A*



### **3. Member State options**

***Question 5: Please provide reasons why Member States did not make full use of the options available in the current Accounting Directives.***

In our view, this question can only be comprehensively answered by the national governments of the individual Member States. In this regard, the use of accounting options needs to strike the balance between the legitimate interests of preparers of annual reports and the legitimate interests of users of annual reports. If and to what extent an accounting standard is promulgated in the form of an option, the Member State would therefore decide on a case by case basis. Here, the decision will be strongly influenced by the respective, national company law and the prevailing framework conditions for economic policy.

***Question 6: What can be done to further simplify the Directives in respect of Member State options? N/A***

### **4. Definition of company categories**

Criteria and threshold levels

***Question 7: Do you think the current criteria (balance sheet total, net turnover, average number of employees) have worked well?***

X YES  NO  Don't know

*If no, please indicate what other criteria should be considered. N/A*

***Question 8: Do you believe that the current thresholds for small, medium and large companies are appropriate?***

X YES  NO  Don't know

### **5. Number of company categories**

***Question 9: In your opinion, would it be appropriate to reduce the number of company categories in the Directives?***

YES  NO  Don't know

*If yes, would you prefer:*

Option 1  Option 2

Should the need arise to reduce the number of categories, we would prefer option 2 merging the medium-sized category with the category of large entities since medium-sized entities have more similarities with large entities.

***Question 10: Do you see any other approaches to reduce the number of company categories?***

YES  NO  Don't know



In our view, the philosophy of implementing company categories based on size has proven successful. However, should there be any plans for merging several categories into one; we would like to caution against addressing the next smaller or larger category. Instead - if notwithstanding our foregoing reservations the decision to consolidate several categories were to be made - we feel that a consolidation between the medium-sized category into the large-sized category would be preferable.

## **6. Elements of annual accounts**

***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                      X NO                       Don't know

We feel that medium-sized companies in individual Member States play an important macroeconomic role. Hence, it is unlikely that there will come a time where elimination of annual reports would be justified.

***Question 12: Do you believe that cash-based information should be explicitly required in the Directives?***

YES                      X NO                       Don't know

For the companies concerned, preparing cash flow statements ties up a considerable additional amount of administrative resources. Based on its specific economic situation, each company should decide for itself if the information obtained as a result of cash flow statements would be meaningful. When it comes to companies that are not traded publicly, we are definitively opposed to any compulsory need for cash flow statements.

***Question 13: Should the requirement be for a cash-flow statement based on a minimum layout defined by the Directive, e.g. requiring operating, investing, financing cash flows?***

X YES                       NO                       Don't know

In our opinion, during the definition of minimum standards for the cash flow statement there should always be incorporation by reference of IAS 7.

***Question 14: If you are a preparer, have you provided a cash-flow statement in the past years?***

YES                       NO                       Don't know

Please comment: N/A

Could you indicate how burdensome cash flow statement is/will be to your company

Not burdensome                       Significant burden                       Don't know

N/A

Could you quantify (in € or % of turnover): N/A



**Question 15: If you are a bank or credit provider, how useful would a cash-flow statement be?**

Very useful                       Not useful                       Don't know

In this regard we would like to refer to our answer to question 12.

**Question 16: Is there currently a requirement in your jurisdiction to provide a cash-flow statement?**

YES                       NO                      X Don't know

## **6. Publication requirements – electronic filing**

**Question 17: Do you think that small companies should be exempted from the requirement to publish their accounts?<sup>1</sup>**

X YES                       NO                       Don't know

In matters of competition environment, we feel that it would be judicious to give especially small companies a certain room for discretion as regards the disclosure obligations.

**Question 18: Do you think there should be a Member State option to allow small companies only to prepare abridged accounts only?**

YES                       NO                      X Don't know

**Question 19: If you are a preparer, what is the annual cost of publishing your accounts? (€, % of turnover) : N/A**

**Question 20: Do you have comments on the role of electronic tools and gateways, e.g. XBRL, in this context (costs - benefits)? Can you provide us with practical experience from your Member State?**

For public authorities: Is it possible in your country to file using XBRL?

YES                       NO                       Don't know

Can you quantify costs of developing an XBRL system in your country? N/A

For preparers: Can you quantify the initial costs of switching to XBRL reporting? N/A

After the initial costs, have you seen reduction of reporting costs (please quantify €, % of turnover)? N/A

For users: Can you quantify the benefits of having access to XBRL reports?

Lower costs of supply of financial statements for banks and for transformation into the it-systems for creating analysis and ratings.

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<sup>1</sup> Following the advice from the Opinion of the High-Level Group of Independent Stakeholders on Administrative Burdens, July 2008 High Level Group.



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**Question 21: Should there be one XBRL taxonomy developed on the EU level?**

YES                      X NO                       Don't know

## **7. Layout requirements**

**Question 22: Do you believe that the Directive should provide prescriptive formats (layouts) for the balance sheet and the profit and loss account?**

X YES                       NO                       Don't know

Since standards formats would increase the comparability of annual reports they might be helpful. However, we should like to draw the attention to the fact that the respective format rules should not curtail the room for discretion of reporting entities using the IFRS.

**Question 23: Should the number of available layouts be reduced?**

YES                       NO                      X Don't know

In our view there is no compelling and overriding need for harmonisation of the format. On the one hand, harmonisation would without doubt contribute towards greater comparability (cf. question 22). On the other hand, we should like to point out that market participants are familiar with the formats currently used in the various Member States which were rolled out many years ago and which basically stood the test of time. Any harmonisation of the formats would thus lead to additional administrative costs; for instance, despite the fact that they have already been tested and tried, the banks' analytical tools would have to be changed completely.

**Question 24: Would it be sufficient to provide for a minimum structure for each, the balance sheet and the profit and loss account?**

X YES                       NO                       Don't know

*Please comment. If yes, can you please provide the key elements of such a minimum structure?*

**Question 25: What modernizations or amendments would you recommend to the current layouts?**

In this regard we would like to refer to our answer to question 23.

**Question 26: Do you have comments on the idea to require only a limited number of key financial data from small enterprises instead of a fixed balance sheet and profit and loss account structure?**

We doubt that for small-sized companies, the limitation to key financial data would deliver any tangible cost advantage. This is due to the fact that the preparation of key financial data presupposes a corresponding book keeping effort and a certain degree of accounting logistics.



*If yes, which key figures would you regard as absolutely essential?*

In this regard, we would like to refer to our answer to question 23.

***Question 27: Do you believe that the separate line items for extraordinary effects should be removed?***

YES                      X NO                       Don't know

*If you are a preparer, can you please indicate how often you used the separate line item "extraordinary items" during the past years? N/A*

***Question 28: If you are user, do you find the extraordinary item useful?***

YES                      X NO                       Don't know

Is it not necessary. The real information you will find for every item in the notes. In this way you can prepare the financial statements for analysis.

## **8. Notes to the accounts**

***Question 29: Are there any other items that should be disclosed for small entities? Can you please indicate additional disclosure requirements for medium-sized and large entities?***

In our opinion, the scope of the disclosures in the notes needs to be kept to a minimum, lest this would drive up the consequent administrative costs for preparing the annual accounts.

***Question 30: What information has to be compiled especially for preparing the disclosures?***

*Can you say anything about the costs of preparing this information? N/A*

***Question 31: 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)? N/A***

## **9. Valuation issues**

***Question 32: Do you see any potential for modernisation and simplification in the area valuation rules?***

X YES                       NO                       Don't know

We feel that the principle of purchase price or production costs enshrined in article 32 of the Fourth Council Directive is essentially fit for purpose. However, if and when assets held for trading are affected, the option provided under Article 42 a of the Fourth Council Directive, i.e. fair value measurement of financial instruments, should not be conceived as optional but, instead, as mandatory for Member States. Bank assets held for trading are subject to a high degree of turnover and will regularly only be held for a short period. In order to increase market transparency at this



uncture, we feel that a fair value measurement would be fit for purpose. Mandatory fair value measurement of financial instruments held for trading would help to reduce options and thus improve comparability.

Regardless of the valuation principles envisaged by the EU Commission, we feel that these should apply irrespective of company size. Our concern is that otherwise the comparability of annual accounts might suffer severely.

**Question 33: Which of the valuation requirements should be more/less descriptive?** N/A

## **10. Creating one Accounting Directive – terms and technical language**

**Question 34: Do you agree with the idea of integrating the Seventh Directive into the Fourth Directive?**

X YES                       NO                       Don't know

Integrating the Seventh Council Directive into the Fourth Council Directive might promote leaner and more modern European accounting rules. For instance, it would be possible to incorporate the provisions on drafting consolidated annual accounts in a separate section within the Fourth EU Council Directive.

**Question 35: Do you think there is a need for amendments or modernisation of the Seventh Directives? Could you indicate the areas where a revision would be particularly welcome?**

X YES                       NO                       Don't know

The Fourth and Seventh Council Directive should be consistent. Hence, in order to identify any need for adjustment, the scope of the review and update of the Fourth EU Council Directive should also include the Seventh Council Directive. In this regard we would like to refer to our answer to question 34.

**Question 36: Do you believe that there is a need to streamline and modernise the wording and terminology throughout the Directives?**

X YES                       NO                       Don't know

N/A

## **11. The future role of the Accounting Directives – Outlook**

**Question 37: Do you have any comments relating to the long-term role of the EU Accounting Directives?**

The Fourth and Seventh EU Council Directive constitute a sound regulatory framework for accounting within the European Union. We therefore advocate strongly in favor of using these Directives as the basis for further development of European accounting rules. This is particularly important when it comes to providing companies which are not publicly traded with a sustainable and reliable basis for their accounting in lieu of the international accounting standards. We feel that also during the review of the Fourth and Seventh Council Directive, the main focus should



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remain on protection of creditors.

Without expanding the mandatory scope of application of the IFRS, publicly traded companies should be allowed to opt for the exempting application of IFRS also for their individual accounts. Currently, this is conceived of as an option which is incumbent upon Member States and which is being exercised in a very heterogeneous manner thus leading to competitive distortion both within the European Union and also with regard to third country issuers.

**Contact:**

The EACB trusts that its comments will be taken into account.

For further information or questions on this paper, please contact:

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Ms Johanna Cariou, Adviser, Accounting and Banking legislation ([j.cariou@eurocoopbanks.coop](mailto:j.cariou@eurocoopbanks.coop))