

# ZENTRALER KREDITAUSSCHUSS

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## CONSULTATION PAPER ON REVIEW OF THE ACCOUNTING DIRECTIVES AZ ZKA: Überarbeitung Vierte Richtlinie 78/660/EWG und Siebte Richtlinie 83/349/EWG

Dear Mr Hooijer,

We appreciate the opportunity to submit our comments on the Consultation Paper presented by the European Commission on 26 February 2009 concerning a review of the Fourth Council Directive (78/660/EEC) and the Seventh Council Directive (83/349/EEC). This is the jointly agreed response by the leading German banking associations, which together make up the Zentraler Kreditausschuss. We welcome the proposed review of said EU Directives and would like to submit the following comments:

### **Question 1:**

*Do you agree with the approach described above?*

YES

NO

Don't know

*Please comment:*

We are supportive of systematically incorporating the principles presented in the Fourth Council Directive in the form of one section (e.g. “General Principles”). Gearing European accounting rules towards a recognised list of principles could help to promote the intelligibility and transparency 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?*

*Please comment:*

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".

**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?*

YES                       NO                       Don't know

*Please comment:*

Basically, we endorse the introduction of a bottom-up approach. In our view, this approach helps to ensure that Member States will use options to make exemptions for small and medium-sized enterprises. Hence, it is helpful in filling the principle "think small first" with life. We assume that the Directive's structural design change will not incur any tightening of the requirements concerning accounting standards for company categories based on the three size criteria.

**Question 4:**

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

YES                       NO                       Don't know

*Please comment:*

Essentially, the European accounting directives have stood the test of time in the past. Notwithstanding the foregoing, we feel that a number of the following changes proposed by the European Commission in its Consultation Paper are meaningful. Hence, after more than 30 years we feel that a careful adjustment of the Directives seems warranted.

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

n./a.

**Question 5:**

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

*Please comment:*

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 a balance between the legitimate interests of preparers of annual reports and the legitimate interests of users of annual reports. If and when 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.

**Question 7:**

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

YES

NO

Don't know

*If no, please indicate what other criteria should be considered*

**Question 8:**

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

YES

NO

Don't know

*Please comment:*

**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

**Question 10:**

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

YES  NO  Don't know

*Please comment:*

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.

**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  NO  Don't know

*Please comment:*

We feel that medium-sized companies in individual Member States have an important macroeconomic role to play. 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  NO  Don't know

*If yes, for which company categories?*

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 therefore reject 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?*

YES                       NO                       Don't know

*Please comment:*

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 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                       Don't know

*Please comment:*

Under the German Commercial Code, publicly traded companies will be obligated to prepare a cash flow statement as of 2010.

**Question 17:**

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

YES                       NO                       Don't know

*Please comment:*

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                       Don't know

*Please comment:*

**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)?*

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

n./a.

**Question 21:**

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

YES

NO

Don't know

*Please comment:*

**Question 22:**

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

YES

NO

Don't know

*Please comment:*

Since standard formats would increase the comparability of annual reports they might be helpful. However, we should like to point out that the respective format rules should not curtail the room for discretion of reporting entities using the international accounting rules (IFRS).

**Question 23:**

*Should the number of available layouts be reduced?*

YES

NO

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 proved and tested, the banks' analytical tools would have to be changed completely.

*If yes, which layouts should be kept?*

**Question 24:**

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

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? Please comment.*

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                       NO                       Don't know

*Please comment:*

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

**Question 28:**

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

YES                       NO                       Don't know

*Please comment:*

n./a.

**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?*

*Please comment:*

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?*

*Please comment:*

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)?*

*Please comment:*

n./a.

**Question 32:**

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

YES

NO

Don't know

*Please comment:*

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 juncture, 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?*

*Please comment:*

**Question 34:**

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

YES

NO

Don't know

*Please comment:*

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?*

YES

NO

Don't know

*Please comment:*

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?*

YES

NO

Don't know

*Please provide examples:*

**Question 37:**

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

*Please comment:*

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 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 financial statements. 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.

Please feel free to contact us for any further queries.

Yours sincerely,

for

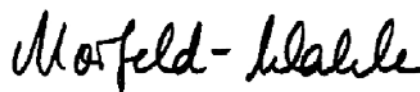
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