

Discussion paper – comparability of SME reporting for CMU

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Background

In March 2024, the Eurogroup (EG) in inclusive format called on the Commission “to further harmonise accounting frameworks in a targeted manner to **enhance cross-border comparability of available information on companies**, without increasing administrative burden, to allow in particular small and medium-sized businesses (SMEs) and other non-listed firms to better benefit from the new European Single Access Point (ESAP) and thus facilitate investment in those companies”, and to that end ‘to consider making appropriate proposals, including with regard to the **development of a voluntary IFRS-light regime for SMEs**’.¹

Corporate financial reporting is aimed at providing a true and fair view of companies’ financial performance and financial position. The EU financial reporting framework addresses mainly investor protection, dividend distribution and it may also serve as a starting point for national corporate tax computation. As suggested by the EG+ statement, the framework can also be used by potential investors to compare investment opportunities across different companies.

For SMEs and non-listed firms, the reporting rules are mainly national Generally Accepted Accounting Principles (nGAAP), which are partially harmonised by the Accounting Directive (Directive 2013/34/EU). The Accounting Directive allows for significant flexibility as regards the recognition and valuation of certain assets, but limited flexibility as regards the presentation of balance sheet and profit and loss statements. Thus, financial reporting for SMEs and unlisted companies is not easily comparable across Member States. This lack of comparability limits the potential benefit of the European Single Access Point (ESAP) in facilitating cross-border investment in these companies.

Points for discussion

Reflections on enhancing cross-border comparability of financial reporting of companies must take into account the actual needs of both investors and companies looking for funding while avoiding unnecessary reporting burden. It is for this reason that the Commission has organised some exchanges with stakeholders.

In these exchanges, investors emphasised the importance of easy access to relevant and usable information on future investments, highlighting the time-consuming and resource-intensive nature of the exercise. Notably, investors indicated that an investment decision typically starts with a screening phase for potential opportunities before a deeper investigation of financial performance.

SMEs and non-listed companies had mixed views on whether the accounting regime needs to be further harmonised in the EU. However, those in favour of a more harmonised financial reporting

¹ <https://www.consilium.europa.eu/en/press/press-releases/2024/03/11/statement-of-the-eurogroup-in-inclusive-format-on-the-future-of-capital-markets-union/>

regime (replacing the nGAAP) that would enable them to expand business in other Member States insisted that it should be optional and not result in a further significant increase in reporting burden.

Against this background, DG FISMA has looked at a number of possible approaches to financial reporting for SMEs and non-listed companies with the aim of ensuring better comparability of financial reporting and hence improved access to finance. Each of these options implies a different balance between meeting the needs of investors and companies respectively and limiting any increase in reporting burden.

The Commission would therefore like to have Member States' views on the following possible avenues to address the EG+ statement:

- **First**, the EU could envisage adopting an amendment to the Accounting Directive. This amendment would further increase the harmonisation of items of nGAAPs that represent useful information for cross-border investors by removing existing national discretion in the Accounting Directive (e.g. the area of leasing was mentioned by stakeholders). This would achieve a more genuine convergence of reporting across companies in the EU on the relevant issues. At the same time, this approach is likely to imply additional costs for all companies covered by the Accounting Directive (>13 million), whereas possibly only a few hundred thousand companies would want to benefit from outside investment.
- **Second**, the IFRS Foundation has adopted in 2009 the standard '*IFRS for SMEs*'. The EU has so far not endorsed this standard. The EU could consider endorsing this standard and give companies, who wish to use it, an option to use it instead of nGAAP.

Alternatively, the EU could adopt a legal act setting out its own EU accounting standards that take into account the situation of SMEs and unlisted companies ("EU IFRS light for SMEs"), again for optional use by SMEs that wish to do so.

Stakeholders consider that SMEs are unlikely to take up an optional IFRS for SMEs/EU IFRS-light regime if they would still be required to report under nGAAP, as it would duplicate reporting and increase costs. In order not to increase the reporting burden and to encourage uptake of the new accounting framework (that should remain fully voluntary), an EU "IFRS-light for SMEs" or IFRS for SMEs would have to replace respective nGAAP reporting requirements, including for tax purposes.

- **Third**, another approach could be to provide SMEs and unlisted companies with the possibility to file voluntarily on the European Single Access Point (ESAP) a set of key performance indicators (KPIs) and possibly other key information of particular interest to cross-border investors. To ensure the information would be comparable across the EU the definitions for key variables underpinning these KPIs would have to be harmonised, probably with reference to the IFRS standards to ensure comparability, so some increase in reporting burden would be implied for those companies opting to provide the KPIs.

While the coverage of financial reporting would not be as comprehensive as in the other two options, the disclosure of such KPIs on financial information would still enable investors to perform a meaningful initial screening of investment opportunities across the EU. This approach would resemble somewhat the planned voluntary European Sustainability Reporting Standards (ESRS) for SMEs and might not need legislative action. However, to ensure that such information could be available as soon as possible, amendment of the ESAP Regulation might be needed as currently voluntary information can only be submitted to ESAP by 2030.

Questions to FSC Members

How do FSC Members assess the three options presented in this non-paper for achieving the objective of the Eurogroup's statement with regard to further harmonising accounting frameworks? Do FSC members see any additional options?

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