



The accounting profession and SMEs

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SMEs in the EU

- 99% of all enterprises in the EU are SMEs, that is more than 23 million, providing more than 75% of jobs
- 29.8% jobs are in micro-sized enterprises, 20.8% are in small-sized enterprises and 16.5% are in medium-sized enterprises
- SMEs are defined on quantitative basis according to the EU thresholds
- However, there is a distinction between economic and regulatory thresholds

- Economic thresholds as defined by the EC recommendation from 2003

| | Number of employees | Balance sheet (€) | or | Net turnover (€) |
|--------|---------------------|-------------------|----|------------------|
| Medium | <250 | 50 million | | 43 million |
| Small | <50 | 10 million | | 10 million |
| Micro | <10 | 2 million | | 2 million |

- Regulatory thresholds as defined by the 4th accounting directive

| | Number of employees | Balance sheet (€) | or | Net turnover (€) |
|--------|---------------------|-------------------|----|------------------|
| Medium | <250 | 7.3 million | | 29.2 million |
| Small | <50 | 3.650 million | | 14.6 million |



Attention from the regulators

- At EU level, the implementation of an SME policy by the EC and especially DG Enterprise has been driven since 2000 by the “Think small first” motto.
- Unfortunately, it is not the case when it comes to accounting and auditing.



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- DG Markt has to deal with IAASB and IASB who are mainly driven by large companies needs
 - This is the case of the Clarity Project of the IAASB and the IFRS for SMEs ED of the IASB. These projects have generated particular concerns at SMP level
 - Lack of knowledge of 1) who the users of SMEs' financial statements are and 2) what their needs are
 - The accounting profession must act for a change of perspective



The attention from the financial/bank institutions

- Less than 1% of enterprises are listed companies and 99% are non listed companies
- Listed companies have their financial market to cover the needs of their specific business
- SMEs (often undercapitalised) cover the needs of their business mainly with loans
- In this field, the profession has also a strong role to play in promoting the development of new financing instruments for SMEs and improve venture capital to flow towards SMEs businesses

- **The legal forms of enterprises in the EU**

| Legal form | Italy 2007 | UK 2005 | France 2004 |
|-----------------------|-------------------|----------------|--------------------|
| Sole entrepreneurship | 57% | 63% | 59% |
| Partnership | 20% | 12% | 3% |
| Company | 20% | 25% | 36% |



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- Sole entrepreneurs and partnerships represent the majority
 - Together with the SMEs included in the companies they are a large number of enterprises out of the scope of the 4 and 8 Directives
 - For sure even with different regulatory requirements all these entities have in common that they run a business



The attention from the accounting profession and the challenge: from pure accounting to managerial advising

- Accountants for SMEs have very close relationship with their clients that often goes beyond providing pure accounting services
- They are their main advisors, in particular when it comes to access to finance



- The challenge for the profession: **making the administrative department a real tool for the development of the business** by
 - ✓ enhancing relations between the client and the banks
 - ✓ helping the entrepreneur set a proper balanced structure between the administrative and commercial duties of his business
 - ✓ helping the entrepreneur set up the right procedures to provide useful information not only for tax purpose but also for good external communication



Conclusion

An efficient internal structure of a small business is key to its activities and financial growth

The accounting profession for SMEs has a crucial role to play in providing good managerial advising