



COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 19.01.1999
COM(1998) 724 final

Proposal for a

COUNCIL DIRECTIVE

amending Directive 78/660/EEC

as regards the revision

of amounts expressed in ecus

(presented by the Commission)

Explanatory memorandum

I. General considerations

The Fourth Council Directive of 25 July 1978¹ introduced for all limited companies equivalent rules on the drawing-up, audit and publication of annual accounts and annual reports.

The Directive of 8 November 1990² extended the scope of the Fourth Directive to partnerships and limited partnerships where all of the fully liable members are public or private limited companies.

The Fourth Directive allows the Member States to provide for derogations for certain companies on the basis of their minor economic and social importance. Articles 11 and 27 define the companies entitled to such derogations. They fall into the category of either "small companies" or "medium-sized companies", and are defined on the basis of three criteria: balance sheet total, net turnover and number of employees.

The thresholds laid down in Article 27 also serve as a reference for Article 6 of the Seventh Directive on consolidated accounts³ for the definition of small groups which may be exempted from the obligation to draw up consolidated accounts.

As a result of economic and monetary trends in the Community since the Fourth Directive was adopted on 25 July 1978, the amounts expressed in ecus defining small, medium-sized and large companies have been revised on a number of occasions.

The first revision was effected by the Directive of 27 November 1984⁴ and covered the five-year period from 25 July 1978 to 24 July 1983. The second five-year revision was effected by the Directive of 8 November 1990⁵, covering the period from 25 July 1983 to 24 July 1988. The final five-year revision covering the period from 25 July 1988 to 24 July 1993 was effected by the Directive of 21 March 1994⁶.

This proposal does not reflect the definition of Small and Medium Sized enterprises contained in the Commission Recommendation 96/280/EC of 3 April 1996⁷. In accordance with that Recommendation this question will be addressed at the occasion of a next amendment of the 4th Directive which is anticipated before the end of the year 2000.

¹ Directive 78/660/EEC, OJ No L 222, 14.8.1978.
² Directive 90/605/EEC, OJ No L 317, 16.11.1990.
³ Directive 83/349/EEC, OJ No L 193, 18.7.1983.
⁴ Directive 84/569/EEC, OJ No L 314, 4.12.1984.
⁵ Directive 90/604/EEC, OJ No L 317, 16.11.1990, p. 57.
⁶ Directive 94/8/EC, OJ No L 82, 25.3.94, p. 33.
⁷ Recommendation 96/280/EC, OJ No L 107, 30.4.96, p 4

Thresholds for small companies

| | Fourth Directive 25.7.78 | Directive 27.11.84 | Directive 8.11.90 | Directive 21.3.94 |
|---------------------|-----------------------------|-----------------------|----------------------|----------------------|
| Balance sheet total | ECU 1 000 000 | ECU 1 550 000 | ECU 2 000 000 | ECU 2 500 000 |
| Net turnover | ECU 2 000 000 | ECU 3 200 000 | ECU 4 000 000 | ECU 5 000 000 |
| Number of employees | 50 (unchanged) | | | |

Thresholds for medium-sized companies

| | Fourth Directive 25.7.78 | Directive 27.11.84 | Directive 8.11.90 | Directive 21.3.94 |
|---------------------|-----------------------------|-----------------------|----------------------|----------------------|
| Balance sheet total | ECU 4 000 000 | ECU 6 200 000 | ECU 8 000 000 | ECU 10 000 000 |
| Net turnover | ECU 8 000 000 | ECU 12 800 000 | ECU 16 000 000 | ECU 20 000 000 |
| Number of employees | 250 (unchanged) | | | |

The amounts expressed in ecus may be increased by not more than 10% for the purposes of translation into national currency.

II. Commentary

Article 1(1) and 1(2)

Article 11 of the Fourth Directive allows the Member States to permit companies which do not exceed the limits of two of the three following criteria:

- balance sheet total: ECU 2 500 000
- net turnover: ECU 5 000 000
- number of employees: 50

to draw up and publish an abridged balance sheet;

to draw up and publish abridged notes on the account;

to draw up an abridged profit and loss account;

not to publish the profit and loss account;

not to draw up an annual report provided that they disclose information in the notes on the accounts, on any acquisition of own shares;

not to disclose certain information in the accounts (there are eight different cases, e.g. movements in fixed assets, explanations concerning accruals and prepayments where they are of a certain size);

not to have their accounts audited.

Article 27 of the Fourth Directive allows the Member States to permit companies which do not exceed the limits of two of the three following criteria:

- balance sheet total: ECU 10 000 000
- net turnover: ECU 20 000 000
- number of employees: 250

to draw up and publish an abridged profit and loss account;

to publish an abridged balance sheet;

to publish abridged notes to the accounts.

Economic and monetary trends over the past five years have led to a diminution of the real value of the amounts expressed in ecus in Articles 11 and 27, with the result that the Member States now have less scope for easing the accounting and disclosure requirements imposed on small and medium-sized businesses.

Following a detailed review of the statistical data, and having regard to the outcome of discussions with representatives of the Member States in the Contact Committee for Accounting Directives, it is proposed to raise the thresholds for the balance sheet total and net turnover by 25%.

Article 2

In accordance with Article 53(2) of the Fourth Directive every five years the Council, acting on a proposal from the Commission, is to examine and, if need be, revise the amounts expressed in ecus.

Council Regulation 98/974/EC provides that as from 1 January 1999, the currency of participating Member States shall be the euro and that the euro shall be substituted for the currency of each participating Member State at the fixed conversion rate. Council Regulation 97/1103/EC provides that during the transitional period (1 January 1999 to 31 December 2001) the euro shall be divided into national currency units according to the conversion rates. It is therefore appropriate that amounts in this Directive be expressed in euro. Amounts in euro appearing in this Directive shall be converted into the national currency units of Member States adopting the euro according to the conversion rates. Amounts in euro appearing in this Directive shall be converted into the national currency of Member States not adopting the euro according to the exchange rate published in the Official Journal of the European Communities of 4 January 1999.

Article 3

As the decision to revise the thresholds is at the discretion of the Member States, there is no need to lay down a time limit for them to comply with the Directive.

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The Council of the European Union,

Having regard to the Treaty establishing the European Community,

Having regard to the Fourth Council Directive 78/660/EEC of 25 July 1978 based on Article 54(3)(g) of the Treaty on the annual accounts of certain types of companies¹, and in particular Article 53(2) thereof,

Having regard to the proposal from the Commission,

Whereas Articles 11 and 27 of Directive 78/660/EEC and, by way of reference, Article 6 of Directive 83/349/EEC² and Articles 20 and 21 of Directive 84/253/EEC³ contain thresholds expressed in ecus for the balance sheet total and the net turnover within which the Member States may grant derogations from the provisions of those Directives;

Whereas, in accordance with Article 53(2) of Council Directive 78/660/EEC, every five years the Council, acting on a proposal from the Commission, is to examine and, if need be, revise the amounts expressed in ecus in that Directive, in the light of economic and monetary trends in the Community;

Whereas to date the Council, in accordance with Article 53(2) of Directive 78/660/EEC, has on three occasions revised the amounts expressed in ecus by Directives 84/569/EEC of 27 November 1984⁴, 90/604/EEC of 8 November 1990⁵ and 94/8/EC of 25 March 1994⁶;

Whereas the fourth five-year period following the adoption of Directive 78/660/EEC of 25 July 1978 ends on 24 July 1998 and a review of those amounts is thus justified;

Whereas over the last five years, the ecu has lost part of its value, measured in real terms; whereas, on the basis of the economic and monetary trends in the Community, an increase in the amounts expressed in ecus is necessary;

¹ OJ No L 222, 14.8.1978, p. 11.

² OJ No L 193, 18.7.1983, p. 1

³ OJ No 126, 12.5.1984, p. 20.

⁴ OJ No L 314, 4.12.1984, p. 28.

⁵ OJ No L 317, 16.11.1990, p. 57.

⁶ OJ No L 82, 25.3.1994, p. 33.

Whereas Council Regulation 98/974/EC provides that as from 1 January 1999, the currency of participating Member States shall be the euro and that the euro shall be substituted for the currency of each participating Member State at the fixed conversion rate; whereas Council Regulation 97/1103/EC provides that during the transitional period (1 January 1999 to 31 December 2001) the euro shall be divided into national currency units according to the conversion rates; whereas it is therefore appropriate that amounts in this Directive be expressed in euro; whereas amounts in euro appearing in this Directive shall be converted into the national currency units of Member States adopting the euro according to the conversion rates; whereas amounts in euro appearing in this Directive shall be converted into the national currency of Member States not adopting the euro according to the exchange rate published in the Official Journal of the European Communities of 4 January 1999.

HAS ADOPTED THIS DIRECTIVE:

Article 1

1. Article 11 of Directive 78/660/EEC is hereby amended as follows:
 - in the first indent "balance sheet total: ECU 2 500 000" is replaced by "balance sheet total: euro 3 125 000";
 - in the second indent "net turnover: ECU 5 000 000" is replaced by "net turnover: euro 6 250 000";

2. Article 27 of Directive 78/660/EEC is hereby amended as follows:
 - in the first indent "balance sheet total: ECU 10 000 000" is replaced by "balance sheet total: euro 12 500 000";
 - in the second indent "net turnover: ECU 20 000 000" is replaced by "net turnover: euro 25 000 000";

3. The revision of the above amounts in euros shall constitute the fourth five-yearly revision provided for in Article 53(2) of Directive 78/660/EEC.

Article 2

For Member States not adopting the euro, the equivalent amount in national currency shall be that obtained by applying the exchange rate published in the *Official Journal of the European Communities* published on 4 January 1999.

Article 3

1. Those Member States which intend to make use of the option provided for in Articles 11 and 27 of Directive 78/660/EEC, as amended by this Directive, shall bring into force the measures necessary for them to comply with this Directive at any time after its publication. They shall forthwith inform the Commission thereof.
2. When Member States adopt these measures, they shall contain a reference to this Directive or shall be accompanied by such reference on the occasion of their official publication. The methods of making such reference shall be laid down by Member States.
3. The Member States shall communicate to the Commission the texts of the main provisions of national law which they adopt in the field governed by this Directive.

Article 4

This Directive shall enter into force on the date of its publication in the *Official Journal of the European Communities*.

Article 5

This Directive is addressed to the Member States.

Done at Brussels,

For the Council,
The President

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DOCUMENTS

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Catalogue number : CB-CO-98-729-EN-C

Office for Official Publications of the European Communities

L-2985 Luxembourg