

Brussels, 19 June 2020

EFAA Position Statement – Non-Financial Reporting by SMEs

Introduction

EFAA, the European Federation of Accountants and Auditors for SMEs¹, welcomes the European Commission's [public consultation](#) on possible revisions to the provisions of the Non-Financial Reporting Directive (NFRD) to which it has responded. For over 26 years, EFAA has been the voice of small- and medium-sized accountancy practices in Europe, speaking exclusively in their interests. More recently, EFAA has played an essential and unique role in gathering relevant information on non-financial reporting for SMEs. Therefore, EFAA is eager to share with the European Commission the acquired expertise and knowledge and with any other relevant stakeholder.

EFAA's [response](#) was shaped by dialogue with various stakeholders, in particular EFAA events held in [Vienna](#) in November 2018 and [Brussels](#) in February 2019, and insights from the EFAA [Survey of Non-Financial Reporting Requirements for SMEs in Europe](#) published in November 2018.

EFAA would like to reiterate those aspects of this response most relevant to SMEs - standardisation and personal scope.

Standardisation

EFAA **agrees** that consistency and comparability of NFR, over time and across companies, is best achieved through a requirement on companies to apply a common standard for NFI.

Furthermore, EFAA **agrees** that a simplified standard and/or reporting format for SMEs would be useful. Indeed, it must be emphasized that the development of a simplified standard is extremely important, for several reasons which are detailed below. EFAA also strongly believes that the relevant market players should be involved in the definition of the simplified standard.

Firstly, SMEs generally do not have the technical expertise nor the resources necessary to prepare reports in accordance with complex standards. Requiring SMEs to conform to the same standards as large companies would therefore impose a disproportionate burden on them.

Indeed, some SMEs are already keen to voluntarily report NFI and would be encouraged to do so if a simplified standard were available. More generally, a simplified standard would be an effective mean of limiting the burden on SMEs arising from information demands they may receive from other companies. Many SMEs are under increasing pressure to provide NFI to other businesses, especially if they are suppliers for large companies. In addition, financial institutions are increasingly likely to request certain NFI from companies to whom they provide capital, including SMEs.

¹ EFAA, the [European Federation of Accountants and Auditors for Small and Medium-sized enterprises](#), is the umbrella organisation for national accountants and auditors' organisations whose individual members provide professional services primarily to SMEs. EFAA has 12 members throughout Europe representing over 350,000 accountants and auditors.

In this respect, and in the absence of a simplified standard for SMEs, there is a real risk of a trickle-down effect, whereby national regulators, standard setters and, indirectly, financial institutions or large companies supplied by SMEs, could broaden the scope of complex standards so as to impose them also on some SMEs. As a result, SMEs unable to provide NFI may experience a negative impact on their commercial opportunities as suppliers of larger companies or on their access to capital and may not be able to benefit from new sustainable investment opportunities.

EFAA **strongly agrees** that if the EU were to develop a simplified standard for SMEs then the use of such a simplified standard by SMEs should be voluntary. In addition, **EFAA strongly advises** that representatives of SMEs as well as of consultants that prepare financial and non-financial reports for them, typically small and medium-sized accountancy practices (SMPs), should be involved in the development of such a simplified standard.

In developing a simplified NFR standard for SMEs, one would need to carefully determine the appropriate key performance indicators.

Personal Scope

EFAA **strongly disagrees** with expanding the scope to include *all* limited liability companies regardless of their size. The great majority of limited liability companies are micro or small companies. Individually these companies typically have an insignificant impact on society and the environment. Moreover, the burden of preparation of NFR would be particularly onerous for these companies such that the costs would likely outweigh the benefits.

EFAA, however, supports extending the scope of the NFRD to companies which have a significant impact on the environment and society or are of public interest. Accordingly, EFAA **agrees** with expanding the scope to include all PIEs, regardless of their size and **strongly agrees** with expanding the scope to include all large public interest entities (PIEs) (aligning the size criteria with the definition of large undertakings set out in the Accounting Directive: 250 instead of 500 employee threshold). EFAA also **strongly agrees** with expanding the scope to include all EU companies with securities listed in regulated markets, regardless of their size, large non-listed companies, large companies established in the EU but listed outside the EU, and large companies not established in the EU that are listed in EU regulated markets. EFAA, however, **strongly disagrees** with removing the exemption for companies that are subsidiaries of a parent company that reports NFI at group level in accordance with the NFRD.