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EPSAS issue paper on relief for smaller and less risky entities

Paper by Ernst & Young on behalf of Eurostat

- for discussion

Relief for smaller and less risky entities from financial reporting requirements under the future European Public Sector Accounting Standards (EPSAS)

16 June 2016

Building a better working world

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1. Objectives of the Issue Paper

The aim of this paper is to develop an analysis on providing relief for smaller and less risky entities (SLREs) for EPSAS.

This paper takes into account:

(a) provisions for smaller and less risky entities under the following international financial reporting frameworks, i.e. IPSAS, European Union Accounting Rules, IFRS, ESA 2010, and
(b) reflections or analyses on this issue made in five Member States as well as in three non-EU countries
(c) other international approaches and experiences with regards to the provision of relief for smaller and less risky entities.

The issue paper will address the following three issues:

- What are the advantages and disadvantages of either simplifying and reducing accounting and/or financial reporting requirements or excluding completely small and less risky entities from the scope of EPSAS? Under this issue the paper will also discuss possible options for the provision of relief to SLREs.
- What are the possible criteria to identify SLREs?
- Which way of reducing the burden on SLREs seems to be most fruitful and what are the consequences of that?

2. Background

The Report from the Commission to the Council and the European Parliament "Towards implementing harmonised public sector accounting standards in Member States" assessing the suitability of IPSAS for the EU Member States, outlines with regards to the adoption of European Public Sector Accounting Standards (EPSAS) that "the way forward should be selective and take particular account of the perspective of small and medium-sized entities and the aspect of materiality."[1] Also in Part 6 "A way forward", the report states that "It is also to be expected that the extent of implementation for smaller entities would be limited, or at least that the more important entities would be prioritised, taking into account their materiality."

This underlines that when it comes to the design and implementation of the EPSAS, specific consideration should be given to smaller public sector entities. Given that the International Public Sector Accounting Standards (IPSAS) represent an "indisputable reference for potential EU harmonised public sector accounts"[2], a first source of information would be potential relief provided by IPSAS.

Description of the problem

Small entities do often not have the necessary skills and capacities to cope with complex accounting/financial reporting standards. This also applies with respect to first-time adoption of accrual accounting standards like it is envisaged for EPSAS. As suggested by Eurostat it is therefore necessary that future accounting requirements take into account the limited administrative capacities and capabilities of small entities.[3] For first-time adoption, relief with regards to the length of the required conversion period could be considered.
IT requirements are another aspect to be considered in this context as an implementation of EPSAS based on the full suite of IPSAS will likely impose higher requirements on the IT accounting system than a reduced set of standards (e.g. the requirement to provide segment information). As a consequence, by providing relief for small and less risky entities implementation costs for EPSAS will likely be significantly lower. This will especially be the case for entities already applying the accrual basis of accounting. In the Staff Working Document it was argued that in case that the costs of applying IPSAS for small government entities are too high in relation to the expected benefits it could lead to unharmonised or lower quality compilation approaches.[4] This effect would be avoided by reducing the ongoing accounting requirements for SLREs.

The European Commission's/Eurostat's public consultation on the "Assessment of the suitability of the International Public Sector Accounting Standards for the Member States" also showed that the (perceived) complexity of the IPSAS standards was used as one of the main arguments against the implementation of IPSAS. A further point of criticism raised by respondents was the heaviness of the IPSAS requirements on disclosure.

Potential solutions

With regards to the main obstacles and disadvantages concerning a future implementation of IPSAS in EU Member States, respondents to the consultation raised the issue that a single set of standards may not be appropriate for the entire range of public sector entities.[5] Standards should therefore differentiate between the size of entities, the resources available to those entities and capabilities issues which may exist for smaller

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1 See European Commission, Report from the Commission to the Council and the European Parliament, Towards implementing harmonised public sector accounting standards in Member States, The suitability of IPSAS for the Member States, COM(2013) 114 final, Brussels, 6 March 2013, p. 10.

2 See ibid., p. 8.

3 See ibid., p. 11.

4 See Commission Staff Working Document, Brussels, 6 March 2013, p. 106.

5 See European Commission/Eurostat, Public consultation – Assessment of the suitability of the International Public Sector Accounting Standards for the Member States, Summary of Responses, Luxembourg, 18 December 2012, p. 5.

entities (or entities in rural or remote areas). Related to the complexity of the IPSAS requirements a possible "over-reliance on consultants for the preparation of the financial statements" was raised. Also the administrative burden for small general government entities was considered to be too "heavy".

On 12 February 2014 the Task Force EPSAS discussed the issue of having a reduced set of standards for smaller and less risky government entities. In this meeting Eurostat referred to the examples of the arrangements for the EU private sector as well as the New Zealand public sector. The Task Force recognised that the reporting practices of smaller entities needed to be less demanding and commensurate to their risks, whilst maintaining transparency and accountability. One of the main issues coming out of that meeting was that the characteristics of the category of smaller and less risky government entities needed to be defined.

The PwC Report from 2014 suggested that "materiality and pragmatism should […] be considered in applying the new EPSAS requirements to smaller and less risky entities".[6] According to the report two options could be considered for providing relief to such entities:

1. Design of separate accounting rules specifically for smaller and less risky entities
2. Provision of specific guidance on how to apply the EPSAS requirements for all entities with specific considerations of the materiality aspects

For the first approach parallels are drawn to the "IFRS for SME" standard of the IASB (see Chapter 4.3 of the issue paper) and for the second approach to the IPSASB's project description on "Differential Reporting" in its Consultation Paper on its strategy for the period 2015-2019 (see Chapter 4.1). Based on examples from New Zealand and UK, it was suggested that scope exclusions or relaxation of certain rules on the basis of defined materiality thresholds could constitute a suitable approach.

With regards to the definition of smaller and less risky entities the PwC report recommends that particular attention should be paid to the specific characteristics of government entities in each Member State when determining the regulations that define which entities are considered as smaller and less risky entities and the rules that are applicable to them.[7]

From the point of view of future discussion of consolidation, smaller and less risky entities that are not considered being material to the government as a whole could be either removed from the EPSAS scope or EPSAS reporting requirements could be limited to what is needed for the purpose of the EU budget surveillance.

The PwC report qualifies that where certain entities are individually insignificant, these should be left out of the consolidation scope only if all excluded entities, taken together, are also immaterial in the total consolidated figures. The same applies in the case of providing relief. Also in that case the overall consolidated picture should be taken into account.

Furthermore, the decision to exclude entities from the consolidation scope could also lead to exempting smaller and less risky entities from applying EPSAS at **individual** level. So given the two options of dealing with SLREs proposed by PwC, this adds another option:

3. Define criteria for SLREs to fully exempt them from application of EPSAS.

The advantages and disadvantages of all three options measured against the objectives of the EPSAS project will be further assessed in chapter 5.1.

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6 See PwC, Collection of information related to the potential impact, including costs, of implementing accrual accounting in the public sector and technical analysis of the suitability of individual IPSAS standards, 2013/S 107-182395, 1 August 2014, p. 163.

7 See ibid., p. 164.

3. Description of accounting guidance available

The following paragraphs provide an overview of the existing accounting guidance with respect to accounting for SLREs.

3.1 IPSAS

Under IPSAS there is no separate set of standards specifically designed for SLREs. No specific relief from financial reporting/accounting requirements are provided to entities based on their size and/or riskiness under IPSAS.

However, the materiality principle allows that accounting policies need not to be applied when the effect of applying them is immaterial (cf. IPSAS 3.10 and IPSAS CF 3.35 ff.). Based on the materiality principle small (and less risky) entities are able to not apply certain IPSAS complex accounting policies, e.g. when it comes to the application of IPSAS 28-30 with regards to financial instruments.

Furthermore, IPSAS require controlling entities to present consolidated financial statements by consolidating all their controlled entities (see IPSAS 6.15 and 35.38/.14). However, based on materiality considerations controlling entities have some discretion as to how to include entities in the consolidation scope.

With regard to future standard-setting of the IPSASB, it has to be noted that in its Strategy Consultation 2015-2019 the IPSASB suggested a project on “Differential Reporting“.[8] In this Consultation Paper (CP) the IPSASB addresses the burden that smaller government entities have in adopting full IPSASs. The paper also outlines that some governments that have adopted IPSASs have developed guidance documents to assist smaller entities with adopting the standards. Such an approach was considered by the CP to be a model for a possible IPSASB project on “Differential Reporting”.

The document “The IPSASB’s Strategy for 2015 Forward: Leading Through Change” provides an overview of the approved projects to be added to the IPSASB’s work plan starting in 2015 and 2016. Given that IPSASB’s stakeholders indicated a strong preference to focus on public sector-specific projects as well as to ensure that the existing IPSAS are maintained, a project on “Differential Reporting” was not included in IPSASB’s work plan for 2015/2016.

3.2 European Union Accounting Rules

The European Union (EU) Accounting Rules (EAR) shall be applied to all individual financial statements prepared and presented by the institutions and bodies referred to in Article 141 of the Financial Regulation[9] (FR) and to the consolidated financial statements of the EU referred to in Article 141 of the FR. In accordance with Article 143 of the FR the EU Accounting Rules are based on the IPSAS.

The findings with regards to relief for SLREs within the EU Accounting Rules are consistent with IPSAS. There is no separate set of EU Accounting Rules for SLREs and the EU Accounting Rules also do not offer specific relief for SLREs.

The concept of materiality is also subject to the EU Accounting Rules (EAR 1, section 6.2 para. 2). EAR 1 provides that the relevance of information is affected by its nature and materiality. Materiality is dependent on the

[8] See International Public Sector Accounting Standards Board (IPSASB), IPSASB Strategy Consultation, published March 2014 by the International Federation of Accountants (IFAC), p. 34.

[9] Regulation (EU, Euratom) No 966/2012 of the European Parliament and of the Council of 25 October 2012 on the financial rules applicable to the general budget of the Union and repealing Council Regulation (EC, Euratom) No 1605/2002 (OJ L 298, 26 October 2012, p. 1).

nature or size of the item or error judged in the particular circumstances of its omission or misstatement. . Reliable information is also characterized by the fact that it is free from material error and bias (EAR 1, section 6.3). With respect to completeness EAR 1, section 6.3 states that the information in financial statements should be complete within the bounds of materiality and cost.

With regard to consolidated financial statements EAR 2 provides that the determination of the scope of consolidation shall take into account the general principle of materiality (see EAR 2, section 4.7). This implies that an entity could be excluded from the scope of consolidation in those cases where its non-consolidation would not influence the economic decisions of users of the financial statements. This typically applies to smaller entities. In the context of disclosure requirements EAR 2 refers in section 7 to the concept of materiality (e.g. in sections 7.1.1, 7.2.1, 7.2.3, 7.2.4, 7.5 etc.). Based on this it is possible to disclose less information in consolidated financial statements for entities that are not material to the reporting entity.

3.3 IFRS for SMEs

Next to the International Financial Reporting Standards (IFRSs) the IASB also "develops and publishes a separate standard intended to apply to the general purpose financial statements of, and other financial reporting by, entities that in many countries are referred to by a variety of terms, including small and medium-sized entities (SMEs), private entities, and non-publicly accountable entities".[10] That standard is the so-called "International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs)".

According to the IASB, SMEs are estimated to account for over 95 per cent of all companies around the world. The IFRS for SMEs has been prepared on IFRS foundations but it is a stand-alone pronouncement of the IASB that is separate from the full set of IFRSs. The IFRS for SMEs offers simplifications that reflect the needs of users of SMEs' financial statements, the capabilities of SMEs and cost-benefit considerations. The standard comprises approximately 240 pages, including accompanying guidance in non-mandatory appendices. This equals approximately 10 per cent of the size of the full suite of IFRS.

In the EU at present, there is no differentiated accounting reporting regime for SMEs listed on EU regulated markets. So far the IFRS for SMEs has not been endorsed in the EU.[11] The question of whether a lighter regime should apply to smaller companies has been regularly raised (e.g. ARC meeting of December 2011, Evaluation of the IAS Regulation of June 2015 - SWD, ARC meeting of September 2015), but not accepted.

3.3.1 Definition of SMEs

The IASB's term for small and medium-sized entities is defined and explained in Section 1 of the IFRS for SMEs. The IFRS for SMEs is intended to be used by entities that have no public accountability and that are required, or choose, to publish general purpose financial statements for external users. General purpose financial statements are directed towards the common information needs of a wide range of users. Examples of external users include owners who are not involved in managing the business, existing and potential creditors, and credit rating agencies.

An entity has public accountability if its debt or equity instruments are traded in a public market or it is in the process of issuing such instruments for trading in a public market or it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses (e.g. banks or insurance companies). The definition of an SME is therefore based on the nature of an entity rather than its size.

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10 See paragraph (para.) P9 of the Preface to the IFRS for SMEs.

11 From 17.11.2009 to 12.03.2010 a public consultation was held with the objective to gain an understand-ding of EU stakeholders' views on the IFRS for SMEs. The results of this public consultation can be found here: http://ec.europa.eu/internal_market/accounting/docs/ifrs/2010-05-31_ifrs_sme_consultation_summary_en.pdf .

However, para. P10 of the Preface to the IFRS for SME clarifies that many jurisdictions around the world have developed their own definitions of SMEs including prescribing financial reporting obligations. Those national or regional definitions frequently include quantified criteria based on revenue, assets, employees or other factors. Often, the term SMEs comprises very small entities without regard to whether they publish general purpose financial statements for external users.

Therefore, despite of the definition of SMEs the Standard clarifies that the decisions on which entities are required or permitted to use the IASB's standard rest with legislative and regulatory authorities and standard-setters in individual jurisdictions (see para. P13 IFRS for SME).

With respect to group accounting it has to be considered that a subsidiary whose parent or group uses full IFRSs may use the IFRS for SMEs if the subsidiary itself does not have public accountability. However, if the subsidiary chooses to use the IFRS for SMEs, it must follow the standard in its entirety, as it cannot mix and match between the requirements of the IFRS for SMEs and those of full IFRSs.

3.3.2 Simplifications

The IFRS for SMEs is a self-contained set of accounting principles that are based on full IFRSs, but that have been simplified for SMEs. The simplifications from full IFRS are based on the following considerations:

- The users of financial statements of SMEs focus primarily on short-term cash flows, liquidity and solvency (rather than longer-term forecasts of earnings and share prices).
- Cost-benefit considerations.

It is important to note that entities which are eligible to apply the IFRS for SMEs, and choose to do so, must apply that Standard in full. In the absence of specific guidance on a particular subject an entity may, but is not required to, consider the requirements and guidance in the full IFRS standards when dealing with similar and related issues.

According to the IFRS for SME Fact Sheet the key simplifications made with respect to full IFRS are the following:

(1) Some topics in IFRSs are omitted given that they are not relevant to typical SMEs;
(2) Simplification of many of the recognition and measurement principles in full IFRSs (details see under 4.3.3);
(3) Substantially fewer disclosures;
(4) Revisions to the IFRS for SMEs are not expected to be made more frequently than once every three years.
(5) Simplified language and explanations throughout the standard.

3.3.3 IFRS for SMEs vs full IFRS

In comparison to full IFRSs, the IFRS for SME is less complex in different aspects. The following accounting topics are not addressed in the IFRS for SMEs as they are considered to be not relevant to SMEs:

- Assets held for sale;
- Earnings per share;
- Interim financial reporting;
- Segment reporting;

- Insurance contracts (because entities that issue insurance contracts will not be eligible to use the IFRS for SMEs).

Furthermore, many of the principles for recognizing and measuring assets, liabilities, income and expenses in full IFRSs are simplified. Where full IFRSs allow accounting policy choices, the IFRS for SMEs narrows the option to just one. Thus, the IFRS for SMEs does not allow the following accounting treatments that are available under full IFRS:

- Capitalization of borrowing costs;
- Capitalization of development costs;
- Deferral of actuarial gains and losses of defined benefit pension plans;
- Regarding investment property: if an entity can measure the fair value of an item of investment property reliably without undue cost or effort, it must use fair value. Otherwise cost is applied;
- Various options for government grants permitted by IAS 20, Accounting for Government Grants and Disclosure of Government Assistance;

With regard to financial instruments, the Standard drops the “available-for-sale” and “held-to-maturity” categories of IAS 39, it has no fair value option, and has simplified hedge accounting and derecognition requirements. However, there is a fallback that allows entities to choose applying IAS 39 in its entirety instead of the financial instrument requirements in the *IFRS for SMEs*. This is the only fallback option to full IFRSs in the *IFRS for SMEs*.

The reason why significantly fewer disclosures are required in the IFRS for SMEs are twofold:
- they relate to topics in full IFRS that have been replaced by simplifications in the IFRS for SMEs;
- they are not considered appropriate based on user´s needs and/or cost benefit considerations.

3.4 ESA 2010

The European System of National and Regional Accounts (ESA 2010) is the counterpart of the System of National Accounts (SNA) 2008 in Europe. ESA 2010 is an accounting framework for a systematic and detailed description of an economy focusing on the macro level of an economy.
For the purposes of reporting under ESA 2010, the institutional units are grouped together into five mutually exclusive domestic institutional sectors.
Institutional units (entities) which are classified as belonging to the general government sector are within the scope of ESA 2010. Under ESA, the general government sector is divided into four sub-sectors: central government, state governments, local governments and the social security funds.

The general government sector under ESA 2010 includes all entities that meet the following three conditions: (1) The entity must be a resident unit; (2) the entity must be controlled by a government unit; and (3) the entity must be ‘non-market’, in the sense that the prices it charges for its goods or services are not economically significant (ESA 2010 2.34). Thus, the classification of an entity as “general government” under ESA is independent of its size and/or riskiness.

ESA 2010 requires Member States to ensure timely and regular reporting of fiscal data for all sub-sectors of general government on an annual as well as quarterly basis. According to Council Directive 2011/85 data has to be reported by central and state government on a monthly basis, while local governments are only required to report on a quarterly basis (Art. 3, para. 2).[12]

Based on our findings, no relief (concerning extent and/or detail of information to be submitted) is provided to entities within the general government sector based on their size and/or riskiness. The only relief provided is based on subsector classification and relates to the frequency of reporting, which is lower for entities belonging to the local government subsector than for entities belonging to the central or state government subsectors.

3.5 National Accounting Frameworks

This chapter describes the provisions regarding relief in selected national accounting frameworks. The criteria for selection were to focus on European countries where, according to the research, relief for SLREs was provided. For Europe, the sample included smaller Member States (e.g. Belgium, Portugal) as well as larger (France, United Kingdom). Additionally, the chapter includes information on non-European countries with a high accounting maturity, where relief is provided for specific entities (Australia, New Zealand and Switzerland). The feedback provided by EY's country subject matter experts showed that relief for SLREs is more frequent in common law countries than in civil law countries.

3.5.1 Belgium

No distinction is made in Belgian public sector accounting with regard to size or riskiness of an entity. In Belgium, public sector entities are classified according to their function (i.e. there are different 'functionality groups' like the ministries (SPF), the social security agencies (CPAS), police zones, municipalities, which can have their own specific accounting rules), but no distinction is made with regard to size and/or risk. So there are different categories/types of public entities, having distinct accounting rules, but within each category the same rules apply to all entities, regardless of their size and/or 'riskiness'.

One exception to the above is given for not-for-profit institutions in Belgium, which follow a different accounting regime than the (local) governments / public administrations. Within the category "not-for-profit institutions", a distinction is made based on size (very large – large – small) with different accounting rules applying to the different entity sizes.

To sum up, for government entities in Belgium there are no exceptions allowed and no relief is provided for the application of the government accounting requirements neither based on a size-criterion nor based on a risk-criterion.

3.5.2 France

For the central government level in France we analysed the Central Government Accounting Standards as well as the Public Establishments´ Accounting Standards Manual and found that no relief is provided for smaller and less risky entities within the scope of the two accounting frameworks.

Instructions M71 for regions and M52 for departments show that none of them provide relief for smaller and less risky entities. However, municipalities and other entities that apply instructions M14 are provided relief depending

[12] Directive 2011/85 on requirements for budgetary frameworks, Art. 3, para. 2: Member States shall ensure timely and regular public availability of fiscal data for all sub-sectors of general government as defined by Regulation (EC) No 2223/96. In particular Member States shall publish:

a) cash-based fiscal data (or the equivalent figure from public accounting if cash-based data are not available) at the following frequencies:
   - monthly for central government, state government and social security sub-sectors, before the end of the following month, and
   - quarterly, for the local government sub-sector, before the end of the following quarter;

b) a detailed reconciliation table showing the methodology of transition between cash-based data (or the equivalent figures from public accounting if cash-based data are not available) and data based on the ESA 95 standard.

on a threshold based on the number of inhabitants (ie using a size-criterion). Municipalities with less than 3.500 inhabitants have the possibility to use a simplified model. Those provisions are rooted in the law and related regulations.

To sum up, except for municipalities with less than 3.500 inhabitants, in France there are no exceptions allowed for public sector entities and no relief is provided for the application of government accounting requirements for them.

3.5.3 Lithuania

In Lithuania no relief is provided for the accounting of smaller and less risky government entities. Smaller government entities apply the same rules in Lithuania as the larger ones.

3.5.4 Portugal

Portugal is currently on its way to adopt an IPSAS-based accounting system in their public sector. IPSASs are adapted to the context of the Portuguese public sector and also Portuguese standards are added to the suite of IPSAS, namely for budgetary accounting and management accounting. It is envisaged that a three tier approach is used. Micro government entities, which are entities with a budget less than 1 Million Euro (so called "micro entities") are only required to apply the Standard on budgetary accounting and reporting. This Standard – Public Sector Accounting Standard 26 – requires budgetary accounting and reporting for all revenue receivables, receipts, pre-commitments, commitments, payables and payments. Budgetary accounting is a balanced double entry system and can be classified as a modified cash based system. Important to note is that the budget threshold refers to the accomplished budget of an entity, i.e. not its planned budget. Micro entities are therefore not required to implement the accrual basis of accounting and to apply the other public sector accounting standards which are based on the accrual basis IPSAS. Small government entities with a budget between 1 Million and 5 Million Euro (so called "small entities") are required to apply the already mentioned Standard for budgetary accounting and reporting but at the same time have to use the accrual basis framework for their financial reporting (as those government entities within the general accounting and financial reporting regime).[13] It is envisaged that small entities in Portugal (in comparison to the entities in the general accounting and financial reporting regime) will get relief with regard to the financial statements that they have to prepare, with regard to the notes disclosure and the measurement approach (use of cost instead of fair value). Micro entities can opt to use the standard for small entities or the full set of IPSAS-based financial reporting and small entities can also use the full set of IPSAS-based standards. It is envisaged that the Ministry of Finance, based on a risk assessment, can impose the application of the full set of standards. For consolidation purposes, micro and small entities would have to comply with the accounting policies adopted by the economic entity (the entity that has the legal responsibility to prepare consolidated financial statements). A different issue is to exclude entities from the consolidation scope based on materiality criteria (for instance, the micro entities category). For the last matter a discussion still needs to be initiated in Portugal. All other entities than micro entities and small entities should apply the accrual IPSAS-based financial reporting.
It needs to be stressed that the outlined regulations are currently waiting for political approval.

3.5.5 United Kingdom

The accounting policies for government entities in the UK are primarily determined by HM Treasury through the Financial Reporting Manual (known as FReM). Public sector accounting standards in the United Kingdom are based on EU-adopted IFRS with modifications as outlined in the FReM. Para. 1.2.1 states that the FReM "provides guidance on the application of IFRS, adapted and interpreted for the public sector context".

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13 It has to be noted that the limits (1 Million Euro and 5 Million Euro) currently foreseen are the proposal of the Accounting Standards Board – Public Sector Accounting Committee. This proposal is currently reviewed by the Ministry of Finance. Based on the feedback we received from the subject matter expert there is a possibility that the Portuguese government does not agree with the proposed limits. This information was provided by Prof. Dr. Susana Jorge, Member of the Portuguese Accounting Standards Board – Public Sector Accounting Committee and Assistant Professor at the University of Coimbra.

The scope of the FReM includes all entities, funds, flows of income and expenditure and any other accounts that are prepared on an accruals basis and which are consolidated within Whole of Government Accounts (with the exception of the accounts of any reportable activities that are not covered by an Accounts Direction). Local Governments, Public Corporations that are not Trading Funds, NHS Trusts and NHS Foundation Trusts are not within the scope of the FReM. According to para. 2.1.5 of the FReM, entities that fall within the scope of the Financial Reporting Manual are not able to apply the IFRS for SME.[14]

Arm's length bodies (ALBs) refer to non-departmental public bodies (NDPBs), trading funds, and other entities designated to the departmental group, excluding the core department and its agencies.[15] ALBs in the legal form of companies need to comply with the Companies Act 2006 and provide additional disclosures required by the FReM where these go beyond the Companies Act. Those entities could be permitted to use the disclosure exemptions under the small companies' regime (see para. 1.5.2 of the FReM). To use the disclosure exemptions approval is required by the relevant authority (e.g. HM Treasury).
Sections 381 to 383 of the Companies Act 2006 define the qualifying criteria for the small companies' regime. According to Section 382 para. 3 of the Companies Act a company qualifies for the small companies' regime when it satisfies two or more of the following requirements:

(1) Turnover of not more than £5.6 million
(2) Balance sheet total of not more than £2.8 million
(3) Number of employees of not more than 50.

The relief that is provided to small ALBs in the legal form of companies relates solely to certain disclosure requirements (e.g. disclosures relating to going concern assessments or the description of the nature of an entity's operations and its principal activities).
Finally, also ALBs in the legal form of charities can choose to use the statement of recommended practice (SORP) for financial reporting standards for smaller entities (FRSSE) when they meet the size criteria (see FReM para. 1.4.2).

According to the "Accounts and Audit Regulations, Local Government England and Wales" relevant authorities[16] at the local government level are classified as either Category 1 or Category 2 authorities. The distinction is based on annual turnover (the greater of annual income or expenditure in any year) and the threshold is set at £6.5m. Category 2 authorities have reduced financial reporting and audit requirements. Such entities are required to report their annual Statement of Accounts and Statement on Internal Control (SIC) using an annual return determined by the National Audit Office. According to section 11(2) of the Accounts and Audit Regulation a Category 2 authority Statement of Accounts consist of an income and expenditure account and a statement of balances. The annual return will be subject to audit leading to a limited assurance opinion. Smaller authorities with less than £200,000 gross income or expenditure have only to prepare a record of receipts and payments.

In the UK, the Whole of Government Accounts does exclude smaller bodies on the grounds of practicability and materiality.[17] The criteria to be defined as a minor body is gross annual income during the year, gross annual expenditure during the year, gross assets at year end and gross liabilities at year end must all be below £10 million in all four criteria. If anyone criteria exceeds £10m then the body cannot be classified as minor and must complete a WGA data collection return. The minor entities excluded from the consolidation are listed in the Appendix of the Whole of Government Accounts. Departments also follow a similar approach when preparing their group accounts. However, the individual bodies do still prepare full accrual accounts.

14 See HM Treasury, The Financial Reporting Manual 2015-16, December 2015, Para. 2.1.5.

15 See ibid., para. 1.4.1.

16 Relevant authorities are specified in Schedule 2 of the Local Audit and Accountability Act 2014.

17 See for example the Whole of Government Accounts for the year ended 31 March 2014, p. 57.

3.5.6 Other non-European Union countries

Australia

Australia has a differential reporting regime, which also applies to public sector entities:[18]

- Tier 1:
  - applies for Australian Government and State, Territory and Local Governments
  - full-IFRS or full-IFRS as modified for not-for-profits (which includes public sector modifications).
- Tier 2:
  - applies to public sector entities, other than the Australian Government and State, Territory and Local Governments and which also are required to prepare General Purpose Financial Statements
  - has substantially reduced disclosure requirements (but consistent recognition and measurement (including consolidation) with Tier 1). The disclosures required by Tier 2 and the disclosures required by the IFRS for SMEs are highly similar. However, Tier 2 requirements and the IFRS for SMEs are not directly comparable as a consequence of Tier 2 including recognition and measurement requirements corresponding to those in IFRSs, whereas the IFRS for SMEs includes limited modifications to those requirements.

Some jurisdictions in Australia do have some level of differential reporting for some very small entities e.g. special purpose accounts.
To sum up, in Australia relief is provided on the basis of the type of entity rather than on the basis of size or risk.

New Zealand

In New Zealand so-called public benefit entities (PBE, which comprises government entities) are required to apply accounting/financial reporting standards that are based on accrual-IPSAS. Also in New Zealand the general government sector is divided into Tiers. Tier 1 entities comprise entities with expenses[19] greater than $30 million or entities that are publicly accountable[20]. Tier 1 entities are required to apply the full suite of PBE Accounting Standards. For Tier 2 entities a reduced disclosure regime is offered. Tier 2 entities are considered as not “publicly accountable” per IFRS definition and as not large (being less than or equal to $30m expenses). Similar to Australia, recognition and measurement requirements for Tier 2 entities are the same than for Tier 1 but there are a number of disclosure concessions. For Tier 3 which are entities with $2m expenses or lower and not publicly accountable there is a simple format reporting standard (based on the accrual basis of accounting). Tier 4 entities are entities allowed by law to use cash accounting. For them a simple format reporting standard is available based on the cash basis of accounting.

To sum up, other than in Australia in New Zealand relief is provided to entities on a size criterion and the criterion of “public accountability”. Similar to Australia Tier 2 entities can elect to use the reduced disclosure regime. For Tier 3 and Tier 4 entities there is a simple format reporting standard.

Switzerland
In Switzerland, currently no direct relief is provided to small and less risky public sector entities. However, for the preparation of consolidated financial statements at the local government level as well as the cantonal government level a differentiated approach is applied. According to the Harmonized Accounting Model II entities

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18 See AASB 1053, Application of Tiers of Australian Accounting Standards.

19 Expenses comprise such expenses that are recognized in the Statement of Financial Performance (as defined by the PBE Accounting Standards).

20 An entity is publicly accountable if it meets the IASB definition of public accountability.

are grouped into three circles. Entities within circle number three (these are public agencies ("Anstalten") and other public sector organisations) are exempted from consolidation. If a controlling entity makes use of that option appropriate notes disclosures need to be provided. However, if a controlling entity decides to consolidate entities within the third circle, it can use the equity-method or fully consolidate these entities.

4. Discussion of matters relevant for a European harmonization

The three matters raised by Eurostat for this issue paper were:

- What are the advantages and disadvantages of either simplifying and reducing accounting and/or reporting requirements or excluding completely small and less risky entities from the scope of EPSAS?
- What are the possible criteria to identify SLREs?
- Which way of reducing the burden on SLREs seems most fruitful and what are the consequences of that?

4.1 Advantages and disadvantages of different relief approaches

In general three different approaches of providing relief can be identified:

1. To simplify and reduce accounting and/or reporting requirements (the “simplification approach”),
2. To have a separate set of accounting standards (or just one standard for SLREs) (the “separate standard approach”)
3. To exclude completely small and less risky entities from the scope of EPSAS (the “exclusion approach”).

An approach of excluding SLREs from the entity-level reporting requirements (EPSAS) but including them in the consolidation basis of a controlling entity is not further analysed as it is not considered to be appropriate: In such case SLREs would have to fulfil the EPSAS reporting requirements for consolidation purposes and the potential relief would be rather limited.

The advantages/disadvantages of these three approaches are first assessed separately. In Chapter 5.3 “Which way of reducing the burden on SLREs seems most fruitful and what are the consequences of that?” the three approaches are assessed against each other and a recommendation is made. It has to be noted that advantages of one approach can be disadvantages of the other approach/approaches and vice versa.

1. **Simplification approach**	
Advantages	*Disadvantages*
+ With a simplification approach it can be ensured that all government entities apply the same general recognition, measurement and presentation requirements for public sector accounting.	- All SLREs will have to implement EPSAS requirements and some SLREs even have to undertake a conversion to accrual accounting. This might lead to transition costs such as changes in the IT systems, costs for preparing the necessary information, training staff etc. Some of these costs are one-off costs. This disadvantage mainly affects preparers of financial statements.
+ Simplified accounting and/or reporting accounting requirements will increase acceptance of EPSAS by SLREs (assuming that the EPSAS requirements are customized to SLRE's capabilities and capacities). Responsibles in smaller and less risky entities will be able to better comprehend the EPSAS accounting requirements. In addition, audit outcomes might be better. Compliance with accounting requirements can be increased.	- Exact relief for SLREs needs to be defined. The determination of sufficient reporting requirements for smaller entities might be complex. This disadvantage only affects the standard setter(s), and not preparers.
+ Given the reduced materiality of SLREs, an appropriate cost-benefit ratio between information cost and information value can be realized without completely sacrificing insights into these entities on a harmonized and comparable information basis. A complete and reliable picture of the financial and economic position and performance of a SLRE can still be provided.	- Certain information (depending on relief) relevant for public financial management might not be prepared/disclosed. This disadvantage relates mainly to users of financial information.
+ Such an approach makes SLREs' financial statements more transparent and by that better addresses the needs of users of these financial statements (e.g. by a reduced set of disclosures).	
+ Providing relief with regards to the timing of the EPSAS implementation for SLREs could respond to their needs.	
+ Given that entities prepare EPSAS-based financial statements consolidation of such entities will be easier.	
+ The effort (cost, capacity, time) required by the standard-setter is considered to be moderate.	

2. Separate standard approach	
Advantages	*Disadvantages*
+ With such an approach it can also be ensured that all government entities apply the same general recognition, measurement and presentation requirements for public sector accounting.	- All SLREs will have to implement EPSAS requirements and some SLREs even have to undertake a conversion to accrual accounting. This might lead to transition costs such as changes in the IT systems, costs for preparing the necessary information, training staff etc. Some of these costs are one-off costs. This disadvantage mainly affects prepares of financial statements.
+ A separate set of accounting standards (or just one standard for SLREs) will also increase acceptance of EPSAS by SLREs as it will better correspond to the needs of such entities. Responsibles will be able to better comprehend the EPSAS accounting requirements. In addition, audit outcomes might be better. Compliance with accounting requirements can be increased.	- A separate set of accounting standards or the accounting/reporting standard for SLREs can only be developed when a substantial part of the suite of EPSAS is approved. This disadvantage does affect all stakeholders of the EPSAS project.
+ An appropriate cost-benefit ratio between information cost and information value (given the reduced materiality of SLREs) can be realized without completely sacrificing insights into these entities on a harmonized and comparable information basis. A complete and reliable picture of the financial and economic position and performance of a SLRE can still be provided.	- Assuming that SLREs would be consolidated into whole-of-government accounts, they would be required to prepare reporting packages for consolidation purposes. This disadvantage affects preparers of consolidated financial statements. However, the consolidation requirements could be lowered by requiring to provide only basic information from controlled entities and arranging the consolidation process in a centralised manner.
+ Such an approach makes SLREs' financial statements more transparent and that better addresses the needs of users of these financial statements (e.g. by a reduced set of disclosures).	- Certain information (depending on the defined accounting requirements) relevant for public financial management might not be prepared/disclosed. This disadvantage mainly affects users of financial statements.
+ Given that entities prepare EPSAS-based financial statements consolidation of such entities will be easier.	- The effort (cost, capacity, time) required by the standard-setter is considered to be high because a separate set of standards has to be developed and maintained.

3. Exclusion approach	
Advantages	*Disadvantages*
+ SLREs would not be required to implement the accrual basis of accounting and to apply EPSAS and could realize cost savings with regard to implementation.	- Accrual accounting will not be implemented in all government entities in Europe. All the identified disadvantages of having cash-based accounts still apply. As a consequence harmonization of public sector accounting would not be realized for all EU public sector entities. This disadvantage affects the EPSAS project as a whole.
+ Possibly an increased political acceptance of EPSAS. Acceptance would possibly be not limited to the SLREs themselves.	- An improvement of the effectiveness and efficiency of those SLREs will not be achieved. This disadvantage affects preparers and users alike.
+ Given that SLREs would most likely be exempted from being consolidated, the transaction cost of preparing consolidated financial statements can be lower based on a reduced number of entities being included in the process.	- Objectives of transparency, accountability and comparability would not be achieved for SLREs. This disadvantage affects the EPSAS project as a whole.
+ Simplicity of the approach. It could be positively defined which entities fall under SLREs. Also effort for the standard-setter would be low, being limited to defining the exclusion criteria.	

With regards to the simplification approach it has to be noted that there are different ways of achieving relief. The approach for providing relief can have an impact on the extent of the advantages/disadvantages to be realized.

In general it can be differentiated between accounting-related relief (i.e. limiting the application of certain accounting requirements) and reporting-/presentation-related relief (e.g. reduced disclosure requirements or a limited set of statements to be published). A third category of relief relates to the first-time adoption of an accounting framework.

The following overview outlines the possible options for simplifying and/or reducing accounting and/or reporting requirements:

A. Accounting-related relief

Limited application of certain accounting requirements	A limited application of certain accounting requirements with regard to EPSAS means that simplifications are made to standards. This could imply that certain standards have not to be applied or that only specific provisions in the standards have not to be applied. Also a combination of both is possible. The effect of providing such relief would be that certain accounting/financial reporting information would not be generated in the books of the SLRE.

B. Reporting-/presentation-related relief

1. Reduced notes disclosure requirements	Given the substantial amount of disclosures required by IPSAS it could be envisaged that for EPSAS significantly less mandatory disclosures could be required. For example, it could be envisaged to exclude certain provisions of IPSAS 17.89 for the disclosures related to property, plant and equipment from the notes disclosure requirements or to distinguish between disclosure requirements for separate financial statements and for consolidated financial statements.
2. Relief with regards to the set of statements to be published within the financial statements	IPSAS 1 requires a full range of statements in analogy to IFRS. For SLREs it could be envisaged that they don't need to prepare certain statements, e.g. a statement of changes in net assets/equity. Also the format of certain statements (e.g. that of the balance sheet) could be simplified.
3. Exclusion of SLREs from consolidation scope of a controlling entity	Excluding SLREs from the consolidation scope does offer relief for the controlling entity of a SLRE but also for the SLRE´s itself as they would not have to report to the controlling entity based on a group–wide accounting/reporting guideline.[21]

21 See also the Exclusion approach above in Chapter 5.1.

C. First-time adoption-related relief

Offering relief for SLREs at first-time adoption of EPSAS	Given the reduced capacities and capabilities of SLREs the implementation of EPSAS might face a more considerable challenge than for other entities. It could therefore be envisaged to grant a longer implementation period for them and /or more extensive transitional relief (e.g. regarding generating the necessary information to prepare the opening balance sheet or with regard to retrospective application).

4.2 Possible criteria to identify SLREs

Criteria to identify small entities

Smaller government entities can generally be characterized by the fact that they enter into simpler and more routine transactions. The accounting complexity of their activities is supposed to be much less than that of larger government entities. However, in a public sector context it needs to be considered that small municipalities in most cases have services, functions, and transactions comparable to larger cities. So for them the assumption that the accounting complexity concerning smaller cities' activities is automatically less than of their counterparts in large local governments might not hold true. On the other hand, it can be argued that larger cities with considerable more inhabitants have substantially larger balance sheets and a considerably higher number of transactions compared to smaller governments.
A further issue that needs to be taken into consideration is the different nature of the entities within the scope of the general government sector. Some of those entities provide more market-oriented services whereas others focus solely on the provision of public services. Also with respect to the financial management of entities differences can be identified. Whereas some entities prepare financial statements on an accrual basis others prepare financial statements on a cash basis. In case that an exclusion approach is taken there will be some entities that will not apply accrual basis EPSAS. Therefore, criteria that relate to accrual-based information are not applicable to identify small entities.
Also headcount measures such as the number of inhabitants or the number of employees could be an appropriate approach to measure the size of an entity. In our analysis of relief for SLREs we found that headcount figures are often used for the definition of the size of entities as this measure is objective and easily verifiable. However, depending on the nature of the entities different headcount measures might be better suited. For government agencies the number of employees might be a suitable approach whereas for local governments the number of inhabitants is a better indicator for the size of an entity.

A further aspect that needs to be considered is consolidation. Consolidation takes place at different levels of government and might vary from sub-sector to sub-sector of government. Depending on the sub-sector also different materiality thresholds might apply.

In the following we analyse different size criteria:

a) Size-criteria relating to financial statements

The analysis has shown that in the private as well as the public sector size criteria for providing relief refer to measures relating to the statement of financial position (e.g. balance sheet total) and/or statement of financial performance (e.g. turnover or expenses).
The following advantages and disadvantages were identified for size-criteria relating to financial statements:

Advantages	*Disadvantages*
+ Simplicity of approach + Precision of approach	- Approach requires that entities prepare financial statements on an accrual basis which leads to considerable implementation costs. - Given the requirement that entities need to prepare financial statements on an accrual basis the approach will not be suitable for an exclusion approach.

b) Headcount-based measures

A criterion that is often used in the public sector to determine the size of an entity relates to the number of inhabitants (especially for local governments where often size categories are defined). Under headcount-based measures also the number of employees of an entity is considered.

Advantages	*Disadvantages*
+ Simplicity of approach + Precision of approach + Criteria are based on existing information and will therefore also be suitable for an exclusion approach	- The inhabitant-measure applies well for jurisdictions with inhabitants, but for other public sector entities, such as certain government business enterprises or agencies, the correlation between inhabitants and size of the entity could be weak. - Both measures (inhabitants and number of employees) do not directly reflect financial characteristics of an entity and might therefore not consider sufficiently the financial impact that they might have from a consolidation perspective.

c) Budget-based measures

Budget-based measures could also be appropriate to determine an entity’s size. The analysis in Section 4 has shown that total expenditure/expenses within an entity’s budget are used to determine the size of an entity’s budget.

Advantages	*Disadvantages*
+ Precision of approach + Given that budgets are prepared by more or less all public sector entities, expenses/expenditures can be determined easily + Expenses/expenditures measures the scope of the services provided by an entity	- As most budgets of government entities are prepared on a cash or modified cash basis, they might not give a full view of an entity's financial situation, i.e. an entity's financial performance and financial position.

Criteria to identify risky entities

Given that size criteria alone might not be able to reflect the full risk exposure of an entity it could be envisaged that in addition to size criteria also risk indicators should be considered. In practice small entities can be subject to significant risks, for example when such entities have entered into financial instruments transactions like swap or hedging transactions. So the size criteria alone might not be sufficient to identify entities for providing relief.

Therefore, the question is which public sector entities generally face considerable risk exposure. In our view, it is not possible to generally define clusters of government entities according to their risk profile on a European level. Therefore, certain evidence groups have to be identified which reflect potential risks. With regards to the IASB's criteria of public accountability it can be said that governments whose debt or equity instruments are traded in a public market do face risks but – different to the private sector - the indicator "publicly traded debt" on its own does not sufficiently indicate the risk level a public sector entity could be exposed to. So other types of transactions might be a better indicator for risk exposure in the public sector.

We propose the following three approaches for identifying less risky entities:

1. **Transaction-based approach:** In such an approach it would need to be considered whether an entity enters into specific transactions that can have a significant impact on their financial position and performance. In our view the following transactions would be suitable indicators for identifying risky entities:
   - financial instruments transactions that fall in the scope of IPSAS 28-30 such as swaps, options, and other derivatives;
   - significant investments in relation to the entity's own financial situation;
   - lending of significant funds to other entities or providing guarantees to other parties;
   - certain contracts such as service concession arrangements where it can be assumed that the entity faces considerable risk exposure;
   - material foreign exchange transactions that are subject to exchange rate risks.

The following advantages and disadvantages were identified for a transaction-based approach:

Advantages	*Disadvantages*
+ Precision of approach + No need to prepare accrual-based financial statements	- Depending on the volume of the transactions assessment whether an entity performs certain transactions can be onerous - There can be grey areas, where it is not completely clear whether a transaction falls under a certain category or not

2. **Complexity-based approach:** Another approach to reflect the risk position of an entity could be to look at the complexity of its operating model. For example, it can be argued that where a government entity provides a limited range of services and as a result has simple and standardized business, financial reporting and IT processes, the complexity of the entity can be considered as low – consequently the risk exposure could also be assessed as low. Here it is assumed that a non-complex entity is less exposed to risk than a complex one. This correlation might not be true in every case.

The following advantages and disadvantages were identified for a complexity-based approach:

Advantages	*Disadvantages*
+ No need to prepare accrual-based financial statements	- Categorization of entities based on the complexity of their operating model on a European level may be difficult - Weaker relationship between complexity and risk exposure of an entity - Judgement required for the assessment of the complexity of an entity, therefore approach is less precise

3. **Indicator-based approach:** A further possible approach to identify less risky entities is to define risk indicators that reflect an entity's risk level. In such an approach certain financial ratios could be defined that function as threshold for the definition of a less risky entity (e.g. a certain level of debt compared to the balance sheet total or the amount of contingent liabilities compared to total debt). Such an approach could be combined with the other two approaches for identifying less risky entities (e.g. an entity could be considered as less risky if it has not entered into service concession arrangements and its debt to balance sheet total is under x%).

Advantages	*Disadvantages*
+ Precision of approach + Approach can be combined with other two approaches	- Indicators might not be able to capture the full risk exposure of an entity - Preparation of accrual-based financial statements likely required - Approach can be less precise than a transaction-based approach - Definition of indicators on a European level might be difficult

4.3 Which way of reducing the burden on SLREs seems most fruitful and what are the consequences of that?

The advantage of excluding SLREs completely from the scope of EPSAS would be that likely a considerable number of entities would not be required to implement EPSAS and therefore considerable cost and efforts savings would be achieved, both for the entities and for the standard-setter. The main disadvantage of such an approach is that harmonization of public sector accounting within Europe will not be achieved and as such a major objective of the EPSAS reform will not be achieved. Financial accounting and government statistics would remain disconnected and the cost savings on a single entity level would be limited as such entities would have to report for statistical purposes anyway. These disadvantages could be mitigated by setting a threshold in a way that transparency and accountability at General Government Level would not be impacted..

The main advantage of simplifying and reducing accounting and/or reporting requirements is that by this approach it can be ensured that all government entities would implement accrual accounting and apply the same general recognition, measurement and presentation requirements for public sector accounting. A complete and reliable picture of the financial and economic position and performance for all government entities within the EU could be achieved. Major objectives of the EPSAS reform, like transparency, accountability and comparability, would be realized by such an approach. Provided that the indicators for defining SLREs would be chosen appropriately, a reasonable cost-benefit relationship could possibly be achieved. However, even if cost savings could be realized by this approach, they would be less compared to the option of excluding SLREs completely from the scope of EPSAS.

As a summary, given the objectives of the EPSAS reform (fiscal transparency, comparability and accountability on a general government level as well as at entity-level), in our view, a simplification approach would be preferable for SLREs. The main disadvantage of the exclusion approach is that accrual accounting would not be implemented in all government entities in Europe. All the identified disadvantages of having cash-based accounts still apply. As a consequence, harmonization of public sector accounting would not be realized for all EU public sector entities. From the point of view of standard setters, a simplification approach could imply less efforts than to define a reduced EPSAS accounting framework for smaller and less risky entities (separate standard approach). As outlined before, the latter approach would require, from our point of view, that a substantial part of the suite of EPSAS is already approved. As the work on a reduced set of standards can be started only when the full suite of EPSAS is developed it is suggested that a simplification approach should be considered. Section 5.1 outlines the various possibilities of providing relief to SLREs.

Given the large amount of small and less risky entities and their likely materiality in total from a consolidation perspective it is not suggested to exclude them from the consolidation scope. But given the reduced capacities and capabilities of SLREs for the implementation of EPSAS it should be envisaged to grant a longer implementation period for EPSAS to them.

Lastly, a combined approach of the simplification and the exclusion approach could be considered. Such an approach would be based on the definition of a third category of entities ("micro entities") which are even smaller than the currently envisaged category of "small and less risky entities". While using the simplification approach for SLREs, for such micro entities it could be envisaged that they would be completely excluded from the scope of EPSAS. Micro entities would not have to apply accrual-basis EPSAS and would not be consolidated. Depending on the thresholds defined for such micro entities the number of these entities might still be considerably high but from a consolidation perspective the materiality of them in total might be low. Given that this will only apply to an immaterial part of all entities major objectives of the EPSAS reform can still be achieved.

Appendix 1: Matters relevant for future standard-setting

When drafting the issue paper the following matters have been identified that could possibly be of relevance for future standard-setting:

1. The question is whether the advantages and disadvantages of the three approaches for providing relief for SLREs as outlined in the three tables on pages 17-19 are complete and/or whether they need to be amended.

2. The table on page 20 f. provides an overview of the possible options for providing relief to SLREs. The question is whether the proposed simplifications would be appropriate and/or whether there might be further options for simplification to consider.

3. Given the different nature and the specificities of government entities, this issue paper suggests to consider criteria to identify small entities for each sub-sector of general government separately. The question is whether the proposal to consider criteria to identify small entities for each sub-sector separately is appropriate.

4. The question is whether the advantages and disadvantages for the different measures of size of an entity as discussed on pages 22 f. are complete and appropriate.

5. Given that even small government entities can have considerable risk exposure that could impact an entity's financial situation (or that of its controlling entity) the question is whether in addition to the size criteria also risk criteria should be considered when defining criteria for SLREs.

6. The question is whether the advantages and disadvantages of the three approaches towards measuring the risk exposure of an entity are complete and appropriate (see pages 24 f.).

7. With regard to the three approaches towards measuring the risk exposure of an entity (see pages 24 f.) the question is:
   a) Whether the proposed approaches are appropriate or whether there are any further approaches that needs to be considered;
   b) Whether a transaction-based approach is more suitable than the other two approaches (based on an assessment of the advantages and disadvantages);
   c) Whether there are any other specific transactions reflecting risk with regard to the transaction approach.

8. Against the background of the EPSAS reform objectives the approach to simplify and reduce accounting and/or reporting requirements seems to be more fruitful than to exclude SLREs completely from the scope of EPSAS. The question is whether a combined approach based on the definition of a third category of entities (micro entities) could strike a balance between the two opposing approaches.

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