Federation of European Credit Management Associations

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FECMA – Press release

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Audit thresholds and abridged accounts

A widely publicised consequence of the financial meltdown of 2008/9 and the resulting "credit crunch" has been the substantial reduction in bank lending for businesses – indeed in some areas of trade, such lending dried up altogether. Less well publicised has been the increased pressure that this placed upon trade credit managers across Europe to try to ensure the continued support of their customers by way of trade credit. At the same time, however, equal pressure has been applied to make responsible lending decisions.

It is the considered view of FECMA Council that responsible decisions are founded upon information being available to the credit grantor that is as up-to-date and as complete as can be established. Availability of such information is therefore crucial to the decision making process and the restriction of such information can only be to the overall detriment of both credit grantor and recipient alike.

As businesses have to prepare detailed accounts for both their bankers and the tax authorities, the argument used in defence of ever increasing audit thresholds and abridged filed accounts, namely reduced administrative burden, is both erroneous and grossly misleading. Furthermore, a turnover not exceeding £6.5m cannot be considered "small" by any reasonable measure, any more than a turnover not exceeding £25.9m could be considered "medium sized". On the contrary, with small also being defined as up to 50 employees, and such businesses now numbering some 4.6m in the UK alone, the sector represents a substantial chunk of any supplier's portfolio.

The successful business owner should know at all times the financial state of his business, and that would entail the maintenance of detailed accounts. Most insolvency practitioners agree that "inadequate", "poor", or just plain "bad" management represent the major cause of business failure. FECMA Council believes that the maintenance of detailed accounts is a business discipline which must be a fundamental requirement of any company owner or manager. The whole concept of abridged accounts sends out to the business sector entirely the wrong signals - "you need not do this or do that" and actually encourages poor management.

The various governmental bodies also miss the point, especially now following the financial meltdown of 2008. Unsecured trade credit is the lifeblood of business, even more important since the flow of funding support from the financial sector slowed to a mere trickle. If trade suppliers are expected to continue to support their customers by trade credit funding, then they are entitled to access to the same financial data as a bank or any other financial institution. When governments across the world, and especially across Europe, make it increasingly more difficult for suppliers to make sensible risk decisions they are in effect both cutting of the lifeblood and in a bizarre way actually encouraging irresponsible lending. Limited liability, as far as corporate bodies are concerned, has always been a privilege - the privilege being that the entrepreneur can operate without the fear of losing his home or his personal assets. Privilege has to come at a price, and that happens to be full disclosure.

FECMA – Federation of European Credit Management Associations - is a not-for-profit organisation, consisting of members who are European national credit management associations.

FECMA promotes best practice in credit management by enabling the members of all the FECMA associations to share their knowledge and experience. It also seeks to promote the development of the profession of the credit manager and encourages, whilst promotes research, study, knowledge, and the publication of that knowledge, relating to all aspects of credit management.

MACM – Malta Association of Credit Management is member of FECMA