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IASB

Dear Sirs,

I attach some comments on the ED of February 2007 on SMEs.

In general, I find the draft to be clear. Indeed, it is much easier to read than full IFRS. In general, I supports its approach.

I have not replied to your questions, but attach other comments, in approximately the order of the material in the ED. I do not separate substantive points from drafting points, because my drafting points are not merely typographical or grammatical.

Yours,

Christopher Nobes
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Comments by Chris Nobes on the SME ED

- (i) P15 gives equal authority to all paragraphs in the standard. This includes the “Framework” material in Section 2. This is a philosophical difference from full IFRS. It is not clear why this is justified. There is no explanation in BC 66-69.
- (ii) Related to (i) above, the ED does not directly address the case where a specific requirement in the ED conflicts with Section 2. Paras. 2.32 and 10.2/3 are not strictly relevant to this because they all deal with cases where there are *no* specific requirements.

I suggest that a sentence be added to say directly that specific requirements outrank general ones.
- (iii) (para. 2.40) I would not say “historical cost” for a liability. Assets have a cost; liabilities have the opposite (i.e. proceeds).
- (iv) (para. 4.2) In “k”, why not also exclude “l”?
- (v) (para. 5.1) Should it not say “presents *some of* the income and expenses”?
- (vi) Para. 9.18 requires a single measurement policy for all “group” investments, whereas IAS 27, 28 and 31 would, for example, allow cost for subsidiaries and fair value for associates. Why should this choice be removed for SMEs?
- (vii) Why does para. 9.19 (a) demand an explanation of why an entity chooses to prepare financial statements? Could this not be deleted?
- (viii) Is the coverage of “combined financial statements” in paras. 9.21 and 9.22 found in full IFRS? It could be deleted.
- (ix) In 11.2, if a financial instrument is a “contract”, then cash cannot be an example of one. The list is presumably a list of financial assets and liabilities, not of financial instruments. Item (f) would be clearer if it ended with “of another entity”.
- (x) In 11.3 (e) and 11.4, I think that it should not refer to “the lessor or the lessee” and “the buyer or seller”. It should refer to “the entity (whether lessor or lessee)”, etc.
- (xi) Paras. 11.6 or 11.7 could tell us how to initially measure items.
- (xii) (p.88) It would be helpful to remove the word “ordinary” in para. 12.1 (a), because nothing is “extraordinary” (see para. 5.6). I know that IAS 18 uses it. However, the Draft improves other aspects of IFRS (e.g. removing “either” at the end of para. 7.14; and changing from NRV in para. 12.3), so it could try to find another phrase here. Presumably, IAS 18 should say “selling to customers” or “trading”.

- (xiii) In 13.2, the (a) to (c) list needs a lead-in. What is it a list of?
- (xiv) Section 13 should tell us that it is not dealing with accounting for associates in an investor's unconsolidated statements. A similar point applies to Section 14.
- (xv) (p.95) Presumably, the disclosure of para. 13.7 (b) is only needed if fair value is not used in the balance sheet.
- (xvi) (p.103) I believe that those valuing investment property at cost should be required to disclose fair value (as in IAS 40), but para. 15.6 does not require this.
- (xvii) (p.129) It might be helpful if para. 19.13 used a few more words than "lease payments", such as "the total contracted payments less any incentives and rebates".
- (xviii) (p.129) At the end of the first sentence of para. 20.8, I would add some of the words from the first sentence of IAS 37.37. I would also improve the confusing "may be" in 20.8 (b) to "might sometimes be", which is what the IASC meant to say.
- (xix) (p.144) Suggest include in para. 21.1 some words about shares that are debt, from IAS 32.18.
- (xx) In para. 21.2, what is the list a list of?
- (xxi) (p.147) In para. 22.2, I suggest rephrasing the first line, because items (c) (d) and (e) are *not* "revenue", whatever IAS 18 says. None of them are "gross inflows".
- (xxii) (pp.169/70) I would take paras. 26.2 to 26.4 to Section 12. Part of it is already there. Inventories can be added to the list in para. 26.1.
- (xxiii) The location of Sections 32 and 36 is strange. I would put them much earlier.