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Sir David Tweedie  
Chairman of the  
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United Kingdom

02.05.2007 / fo

**Official statement against the application of IAS/IFRS for SMEs  
- Exposure draft IFRS for SMEs by the IASB of February 15, 2007 -**

Dear Sir David

enclosed herewith you can find an official statement against the application of IAS/IFRS for SMEs. In this statement we comment on the Exposure draft IFRS for SMEs by the IASB of February 15, 2007.

This official statement we have designed together with the Association of the Bavarian Chambers of Business, the Bavarian Chamber of Industry and Commerce and the Association of Bavarian savings banks.

Yours sincerely

Bavarian Association of cooperatives



Erhard Gschrey  
Managing Director  
Vice-Chairman

Enclosure

Arbeitsgemeinschaft der bayerischen Handwerkskammern  
(Association of the Bavarian Chambers of Business)

Bayerischer Industrie- und Handelskammertag  
(Bavarian Chamber of Industry and Commerce)

Genossenschaftsverband Bayern e.V.  
(Bavarian Association of cooperatives)

Sparkassenverband Bayern  
(Association of Bavarian savings banks)

**Official statement against the application of IAS/IFRS for SMEs  
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We represent the interests of 1085 cooperatives with more than 2.7 million members, 75 savings banks, 168471 craft companies and 746583 commercial businesses in the state of Bavaria, Germany. In these entities more than 1.7 million people are employed.

Already on October 1, 2004 and June 16, 2005, we published common official statements against the application of IAS/IFRS for SMEs.

In respect of the publication of the exposure draft of IFRS for SMEs on February 15, 2007, we would like to point out the interests and arguments of medium-sized businesses.

The International Accounting Standards Board (IASB) - a standard-setting body of civil law without any political legitimation - principally is of the opinion that the IAS/IFRS are applicable for small and medium-sized entities. The IASB has worked out a draft for IFRS for SMEs to overcome the severe doubts concerning the complex rules of IAS/IFRS.

This exposure draft is supposed to offer simplified accounting standards in comparison to the full IFRS.

In our opinion the draft of these simplified standards is **not** satisfying. The interests of the German SMEs have not been taken into account in a satisfying manner.

Already the definition as well as the differentiation between big enterprises and SMEs has been severely criticized. The draft proposes that the IFRS for SMEs are only applicable to those enterprises which have no public accountability. Consequently all enterprises which hold assets in fiduciary capacity for a broad group of outsiders are forced to apply the full IFRS. Therefore all banks, insurance entities, pension funds and investment banking entities are exempted from the application of the simplified IFRS for SMEs. The primary interests of the investors to secure their deposits are protected in the entities mentioned above by the banking supervisory regulations. The investor has no supplementary benefit in the application of the full IFRS; only the circle of enterprises subjected to the full IFRS would be wider.

The criteria set by IASB for the definition of SMEs imply for many medium-sized enterprises the danger to be subjected to the full IFRS.

It is essentially to restrict the compulsory application of IAS/IFRS to enterprises which file its financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market because there are principal doubts concerning the application of IAS/IFRS to medium-sized enterprises which can not be destroyed by partial simplification of the IAS/IFRS:

**The following aspects are the main aspects of criticism towards this exposure draft of the IFRS for SMEs of February 15, 2007:**

**1. IAS/IFRS are no applicable basis to a distribution of profits and taxation**

Financial statements conforming to IAS/IFRS are no applicable basis to a distribution of profits and taxation. For the purposes of taxation you will need a separate financial report.

Following the cost-benefit restraint the SMEs are just able to produce one financial statement. In German legislation the financial statements on German GAAP basis are authoritative for those on tax basis and double work can be avoided. The parallel duty of providing financial statements on IAS/IFRS basis would be an excessively burdening.

**2. Complexity of IAS/IFRS and the extensive notes**

This exposure draft contains 254 pages in comparison to the full IFRS of more than 2400 pages. However, many different fall-backs to the full IFRS, some difficulties in the understanding of the standards as well as the general impact of the full IFRS could require a mandatory fall-back within the application of the IFRS for SMEs. The IFRS for SMEs cannot simplify the complexity of the full IFRS in a satisfying manner.

An additional aspect is the extensive duty to report too many details in the notes. For example, enterprises which already converted to IAS/IFRS have to dedicate more than 100 pages for the notes. Despite a reduction of the reporting duty for SMEs in comparison to the IFRS the requirements of the draft for SMEs are an additional restraint in comparison to the rules on German GAAP basis. These additional restraints cannot be accepted, especially not for SMEs.

**3. The users of financial statements of SMEs do not need any IAS/IFRS**

The standards for SMEs do not take into account the users in a satisfying manner. IFRS for SMEs just emphasize the interests of shareholder values and do not consider the peculiarities of medium-sized enterprises. If you regard medium-sized entities you will often find ownership and management in one person. The often long-term strategies of medium-sized entities implying a conservative accounting policy with hidden reserves are not taken into consideration in these standards.

Also regarding aspects of financing, financial statements on IAS/IFRS basis are not necessary. If banks grant a loan to SMEs they get their information in a different way as if they take part in a public market. All banking associations of Germany declared unanimously they would not demand any financial statements on IAS/IFRS basis from their clients. The individual methods of accounting and measurement of the different accounting standards have to be adapted within the analysis of financial statements by banks.

#### 4. No change of IAS 32

The difficult differentiation between equity and liability in IAS 32 which has been criticized by the EU commission and the experts for years has not been solved in this exposure draft. Following IAS 32 the shares of cooperatives, the equity of partnerships and sole proprietors, hidden deposits and beneficial rights to share in profits cannot be qualified as equity in some cases any more.

According to IAS 32, equity is reduced in cooperatives and (limited) partnerships. This means a severe threat for the existence of SMEs and therefore IAS/IFRS are not appropriate for small and medium-sized enterprises.

#### 5. Fair-value-accounting

An additional problem is the so-called fair value measurement. According to this method some assets and liabilities have to be measured at fair value on the measurement date and therefore future profits have to be recognized in advance. As far as you will find price quotations in an active market for financial assets or liabilities the fair value could be an adequate basis for measurement. In 60 to 70 percent of all financial asset and liabilities in the financial statements, there are no price quotations in an active market. Thus you have to measure fair value by external experts instead which means heavy extra costs for medium-sized entities. These fair values are only fictitious and cannot be exactly measured. Therefore they have to be qualified as extremely doubtful. Expert opinions are no substitution for an active market.

The main principles of German GAAP, the protection of creditors and the due diligence in business affairs, will be eliminated by the IAS/IFRS. The IAS/IFRS follow the aspects of disclosure and international comparability.

### Result

For these reasons we vote against the endorsement of the IAS/IFRS for SMEs. We request the decisive persons to stop the adoption of the IAS/IFRS rules for SMEs.

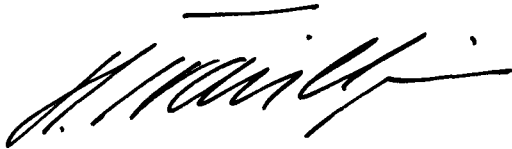
The German State Ministers of Economic Affairs took up the legitimate doubts of the economy concerning a mandatory application of IAS/IFRS for SMEs in their meeting on December 2006. In this conference they fundamentally resolved against a mandatory application of IFRS for SMEs or full IFRS.

We will only approve a change of the accounting rules by the EU commission in advance of a mandatory application of the IFRS for SMEs if the new standards could be a basis for the distribution of profits, taxation and the solvency test in a manner appropriate for medium-sized entities. In our opinion the revised version of German GAAP is superior to IFRS for SMEs. The German Federal Minister of Justice works out a revised version of a modernized German GAAP at present (BilMoG = Bilanzrechtsmodernisierungsgesetz). The key principles of German GAAP such as the protection of creditors, prudence and due diligence in business affairs and historical costs have to be valid in future as well. This revised and modernized version of German GAAP could be another step towards international accounting standards without adoption the severe disadvantages and unsolved problems of IAS/IFRS.

Therefore, we support the reform efforts of the Federal Minister of Justice as a first step towards a modernization of German GAAP including the key elements “**protection of the creditors**” and “**prudence**” for the medium-sized entities.

The mutual acknowledgement of Anglo-Saxon and European financial statements of each country would be another decisive step to the right direction.

Munich, April 3, 2007



Heinrich Traublinger, Member of Parliament  
President

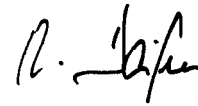


Bernd Lenze,  
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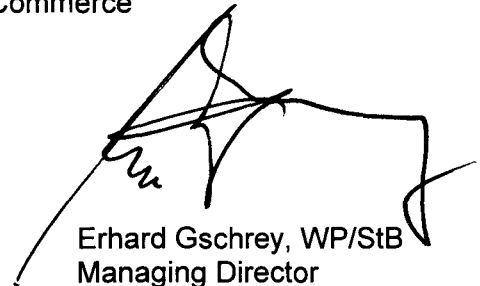


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