



20.07.2007 № 08/05-07

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International Accounting Standards Board,
30 Cannon Street,
London EC4M 6XH,
United Kingdom.

Dear Sirs,

Subject: Comments on Exposure Draft of IFRS for Small and Medium-sized Entities

We are responding to your invitation to comment on the above exposure draft on behalf of the members of the Institute of Professional Accountants of Russia, the largest professional organisation of accountants in Russia.

This response summarises the views of potential preparers of financial statements in accordance with IFRS for SMEs, banks, investors and accountants who commented on the exposure draft IFRS for SMEs. It was prepared with direct assistance of the project "Implementation of Accounting Reform in the Russian Federation" sponsored by the EU as the result of extensive consultations and debates, and finalised at a roundtable discussion organised and co-chaired by the Ministry of Finance of Russia.

Overall Comments

We support the IASB in its intention to develop an International Financial Reporting Standard tailored to meet the needs of – and intended for use only by – small and medium-sized entities (SMEs) as a simplified, self-contained set of standards that are appropriate for smaller, non-listed companies but still based on full IFRSs, with modifications based on user needs and cost-benefit considerations.

Our more detailed observations are provided below.

If you require any further clarification, please do not hesitate to contact us.

Yours faithfully,

Oleg M. Ostrovsky
General Director

Annex A

Detailed observations based on the questionnaire and roundtable discussion

1. Scope

In general the limitations on the use of the standard were considered sufficient.

However, there was some concern raised in relation to the scope of the Standard. We noted that in the invitation to comment the IASB states that in developing the Standard it focused on the types of transactions and other events and conditions typically encountered by SMEs with about 50 employees, while in the scope section of the Standard the small and medium-sized SMEs are described as entities that do not have public accountability. In addition, IASB has indicated that it is a matter for each jurisdiction to decide which entities without public accountability should be required to produce general purpose financial statements. In a number of countries IFRS is not part of national regulation and therefore entities use IFRS but are not required to produce such financial statements publicly. In that situation the jurisdiction will not be able to introduce additional criteria for applying IFRS for SMEs.

In Russia this may make a big difference. There are a number of entities with hundreds of employees which are private and do not intend to become publicly accountable in near future and provide their IFRS financial statements to some external users, for example banks. In this context in Russia much larger companies than originally intended by the Board may opt to apply IFRS for SMEs. We believe that this aspect of the scope of the Standard may be also relevant to a number of other jurisdictions as well.

In view of the above, we suggest clarifying the scope of application of the Standard, the name of the Standard and the definition of the SMEs. For example, if the Board retains the decision to keep the scope of the Standard unchanged, we suggest considering renaming the standard to reflect that it is intended for non-publicly accountable entities rather than for small and medium entities.

Several other questions related to the scope of the Standard may need to be addressed. For example, it may be worth clarifying if the definition of the entity should be applied equally to the parent entity and the group in view of public accountability. We have come across a number of situations when the parent entity is not publicly accountable and has got one or more out of a number of subsidiaries that are publicly accountable. It may be worth providing guidance on such situations in the Standard.

2. Use of consolidated financial statements

In a number of cases the users of IFRS for SMEs financial statements indicated that they may not require consolidated financial statements, especially in the situation when the parent and subsidiaries have less 50 employees in total. Therefore we suggest that the requirement to prepare consolidated financial statements should be driven by the needs of the users of financial statements, especially if those are few in number and do not need consolidated financial statements.

3. Intentions of potential users of IFRS for SMEs

You may be interested to find out that most (42%) potential preparers of financials statement under IFRS for SMEs indicated that they intend to use IFRS for SMEs, 35% intended still to use the full IFRSs and 22% were hesitant as to which version they are going to apply.

4. Keeping alternative accounting treatments

We support keeping alternative treatments in IFRS for SMEs.