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Brussels, 1 October 2004

**IASB DISCUSSION PAPER : PRELIMINARY VIEWS ON ACCOUNTING
STANDARDS
FOR SMALL AND MEDIUM-SIZED ENTITIES**

POSITION OF THE FEDERATION OF ENTERPRISES IN BELGIUM

The Federation of Enterprises in Belgium is the only multisector organisation of employers that represents industry in all three regions of this country. Its members are the federations, which represent the important industrial and service sectors.

The FEB brings together 34 professional sectoral federations as full members, with the addition of applicant and corresponding members. Altogether it represents more than 30,000 business, of which 25,000 are SME's.

In job terms, it is estimated to represent about 1.5 million workers. The FEB represents industry in nearly 150 national, European and international bodies.

Executive summary

FEB considers overall that the full IFRS standard is not able to respond to the specific needs of SMEs users. We therefore welcome the discussion paper and agree with the board that a separate set of standards must be developed in order to meet these requirements.

However, we strongly believe that the development of the SMEs standard should be based on users' needs and on a determined scope of entities (in our opinion, the SME standard should apply to consolidated statements of non regulated entities). Both criteria must consequently be clearly identified and considered as a starting point for any work. It seems therefore to be too early to conclude on the degree of remoteness between full IFRS and the SME standard.

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Issue 1. Should the International Accounting Standards Board (IASB) develop special financial reporting standards for SMEs?

Question 1a. Do you agree that full IFRSs should be considered suitable for all entities? If not, why not?

The present set of IFRSs is focused on the investors' needs, and in our view of the context of SMEs, we believe that it is not suitable to all entities.

However, we agree with the issue that the SME standard should be built on the basis of users' needs, the latter being very different from those required for public entities. We therefore believe that an appraisal of these needs should be the prerequisite to any supplementary work. From this first analysis, three needs might be identified: 1) assessment of the ability of the enterprise to pay and provide other benefits to its employees and to meet its obligation towards lenders and the other stakeholders 2) assessment of the financial reporting needed by the management 3) easy determination of distributable profits and dividends.

In a more general view, in our preliminary analysis of their needs, SME users do not need as much sophisticated and complex financial reporting as established in IFRSs. On the contrary, SMEs need financial reporting as close to the entity's specific underlying economic reality.

In addition, we believe that the scope of a standard for SMEs should be exclusive of very small entities.

Question 1b. Do you agree that the Board should develop a separate set of financial reporting standards suitable for SMEs? If not, why not?

As we strongly believe that SMEs have specific needs, we agree with the development of a separate set of financial reporting standards. In addition, this will allow achieving comparability and harmonization in consolidated financial statements between companies within Europe.

Concerning the issue that a standard for SMEs should be close to full IFRS in order to make easier a potential transition, we believe that the board should not consider it as an objective. Indeed, if a new standard is created, that would be mostly aiming to respond to specific needs of users, which are not totally in line (i.e. with stronger focus on, for example, liquidity and solvency, and less importance being given to market value) with those generally targeted within the full version. We could therefore expect a standard for SMEs as different from the full IFRS as are the needs of users.

Question 1c. Do you agree that IASB Standards for SMEs should not be used by publicly listed entities (or any other entities not specifically intended by the Board), even if national law or regulation were to permit this? Do you also agree that if the ASB Standards for SMEs are used by such entities, their financial statements cannot be described as being in compliance with IFRSs for SMEs? If not, why not?



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The scope of the SMEs standards must be determined exclusively by each national law.
The role of the board must be only to develop the financial reporting standard.

Issue 2. What should be the objectives of a set of financial reporting standards for SMEs?

Question 2. Are the objectives of IASB Standards for SMEs as set out in preliminary view 2 appropriate and, if not, how should they be modified?

We generally agree with the proposition set out by the board concerning the objectives of the standard SMEs.

However, we are reserved about the point aiming to facilitate the transition to full IFRS, which should not be an objective itself.

Issue 3. For which entities would IASB Standards for SMEs be intended?

Question 3a. Do you agree that the Board should describe the characteristics of the entities for which it intends the standards but that those characteristics should not prescribe quantitative 'size tests'? If not, why not, and how would an appropriate size test be developed?

We agree that the board should describe the characteristics of the entities for which it intends the standards but that those characteristics should not prescribe size tests.

In addition, we believe that each national law should determine whether or not an entity belongs to one or to the other group and therefore has to apply one or the other set of standards.

Moreover, we believe that very small entities need to be excluded from the scope of the SMEs standard, the board keeping that in mind to develop the standard.

Question 3b. Do you agree that the Board should develop standards that would be suitable for all entities that do not have public accountability and should not focus only on some entities that do not have public accountability, such as only the relatively larger ones or only the relatively smaller ones? If not, why not?

We agree that IFRS should not be focused only on larger companies or on smaller ones. The board should draw application principles according to which, both standard would be established, and then national legislation would determine which entity should use each standard.

Question 3c. Do the two principles in preliminary view 3.2, combined with the presumptive indicators of 'public accountability' in preliminary view 3.3, provide a



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workable definition and appropriate guidance for applying the concept of ‘public accountability’? If not, how would you change them?

We believe indeed that the definition of the scope is better using the notion of public accountability rather than quantitative criteria.

Nonetheless, we do not agree with criteria c) and d) respectively because of a too large scope and a reference to quantitative elements as the term “economically significant” increase that risk of distortion between each country given its subjectivity.

Question 3d. Do you agree that an entity should be required to use full IFRSs if one or more of the owners of its shares object to the entity’s preparing its financial statements on the basis of IASB Standards for SMEs. If not, why not?

We do not agree with this proposition, because we believe that this problematic exclusively depends on national company law and is therefore not an accountability issue. Besides, we consider that it would be hard to implement from a practical point of view.

Question 3e. Do you agree that if a subsidiary, joint venture or associate of an entity with public accountability prepares financial information in accordance with full IFRSs to meet the requirements of its parent, venturer or investor, the entity should comply with full IFRSs, and not IASB Standards for SMEs, in its separate financial statements? If not, why not?

We do not agree with this proposition either. This has to be decided at the group level or according to national company law.

Besides, required information is not always available at the subsidiary level, as most of the reconciliation between local GAAP and IFRS is made by the parent. It means that the subsidiary has neither the skill nor the experience of some complex processing done for the consolidation purpose. Likewise, as the materiality threshold would be lower than the group one, new processing would be necessary. Finally, users’ needs cannot be presumed to be the same for a subsidiary as for a group, which also justifies not linking the two statements.

Issue 4. If IASB Standards for SMEs do not address a particular accounting recognition or measurement issue confronting an entity, how should that entity resolve the issue?

Question 4. Do you agree that if IASB Standards for SMEs do not address a particular accounting recognition or measurement issue, the entity should be required to look to the appropriate IFRS to resolve that particular issue? If not, why not, and what alternative would you propose?

We agree that mandatory fallback to appropriate IFRS should be possible if a particular accounting recognition is not addressed by the SME standard. However, this fallback must be consistent with the framework of the SME standard.



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We would add the following conditions to choose fallbacks: 1) any use of a mandatory fallback should be disclosed 2) be clearly identified 3) restricted to a few cases.

Issue 5. May an entity using IASB Standards for SMEs elect to follow a treatment permitted in an IFRS that differs from the treatment in the related IASB Standard for SMEs?

Question 5a. Should an SME be permitted to revert to an IFRS if the treatment in the SME version of the IFRS differs from the treatment in the IFRS, or should an SME be required to choose only either the complete set of IFRSs or the complete set of SME standards with no optional reversion to individual IFRSs? Why?

We believe that the SME standard should not allow any optional reversion. First, this is a way to make the preparation of financial reporting easier as there would be no ambiguity regarding rules which have to be applied. Second, accept options would lead to comparability and comprehensiveness problems.

However, it could be useful to make an exception to the previous principle: an SME should be allowed to revert to an IFRS which fixes only presentation principles (i.e. IAS 34) if such a standard does not exist in the standard for SMEs, without having to apply the whole set.

Question 5b. If an SME is permitted to revert to an IFRS, should it be:

- (a) required to revert to the IFRS in its entirety (a standard by standard approach);***
- (b) permitted to revert to individual principles in the IFRS without restriction while continuing to follow the remainder of the SME version of the IFRS (a principle by principle approach); or***
- (c) required to revert to all of the principles in the IFRS that are related to the treatment in the SME version of that IFRS while continuing to follow the remainder of the SME version of the IFRS (a middle ground between a standard by standard and principle by principle approach)?***

Please explain your reasoning and, if you favour (c), what criteria do you propose for defining 'related' principles?

Not relevant considering the answer to the previous question.

Issue 6. How should the Board approach the development of IASB Standards for SMEs? To what extent should the foundation of SME standards be the concepts and principles and related mandatory guidance in IFRSs?



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Question 6. Do you agree that development of IASB Standards for SMEs should start by extracting the fundamental concepts from the Framework and the principles and related mandatory guidance from IFRSs (including Interpretations), and then making modifications deemed appropriate? If not, what approach would you follow?

We agree that the development should start by extracting the fundamental concepts from the framework and the principles from IFRSs and then making modifications to render the standard more suitable for SMEs.

The condition would be to analyse and justify standard by standard which one SMEs need or do not need.

Likewise, this development should be based on users' needs.

Issue 7. If IASB Standards for SMEs are built on the concepts and principles and related mandatory guidance in full IFRSs, what should be the basis for modifying those concepts and principles for SMEs?

Question 7a. Do you agree that any modifications for SMEs to the concepts or principles in full IFRSs must be on the basis of the identified needs of users of SME financial statements or cost benefit analyses? If not, what alternative bases for modifications would you propose, and why? And if so, do you have suggestions about how the Board might analyse the costs and benefits of IFRSs in an SME context?

We agree that modifications for SMEs to the concepts or principles in full IFRSs must be based on the identified needs of the users of SME financial statements together with cost benefit analyses. Other criteria should also be taken into account (see §7c).

This approach requires identifying clearly users' needs before modifying any standard.

In a more general view, we consider that, regarding the specific characteristics of SMEs, it will be necessary to complete the cost benefit analysis for each principle considered for SMEs with a global analysis of the SMEs standards in order to determine if the total cost of financial reporting is relevant compared to the users' needs and the SMEs 'means. Indeed, the cost benefit analysis can be positive for some principles taken one after the other but not relevant in a global view. On that point, it would be necessary to adopt an approach different from full IFRS, as transparency needs may justify larger investment for financial information for listed companies than for SMEs.

Question 7b. Do you agree that it is likely that disclosure and presentation modifications will be justified on the basis of user needs and cost benefit analyses and that the disclosure modifications could increase or decrease the current level of disclosure for SMEs? If not, why not?



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This discussion paper does not deal with users' needs and we are therefore not able to give a clear position at this stage. However, we expect that disclosure and presentation requirements will decrease in the SME standard compared to full IFRS.

Question 7c. Do you agree that, in developing standards for SMEs, the Board should presume that no modification would be made to the recognition or measurement principles in IFRSs, though that presumption could be overcome on the basis of user needs and a cost benefit analysis? If not, why not?

Again, at this stage, as the analysis of users needs is not done, it should be considered as impossible to prejudge the relevant modification of the recognition and measurement principles.

Thus, we do not agree with the proposition of the board to presume that no modification should be made to the recognition or measurement principles in IFRSs, though that presumption could be overcome on the basis of users' needs and cost benefit analysis.

On the contrary, we consider that each principle used in IFRS should be analysed and challenged taking into account specific identified users' needs. Then, full IFRS standard would be adapted as required by these identified needs and there is therefore no more simple presumption to overcome.

Overall, we believe that full IFRS cannot be deemed suitable for SMEs and in particular for the following reasons:

- SMEs may not have the required technical skills,
- SMEs would have practical difficulties to provide such technical and massive information on their own and at a reasonable price,
- SME users' needs are very different and definitely not as broad as those of general investors taking part to regulated markets.
- On several points, we believe that the cost benefit analysis will overcome the above mentioned presumption.
- SME managers may be confused because of the differences between the SME standard and their proper financial reporting needs.

Issue 8. In what format should IASB Standards for SMEs be published?

Question 8a. Do you agree that IASB Standards for SMEs should be published in a separate printed volume? If you favour including them in separate sections of each IFRS (including Interpretations) or some other approach, please explain why.

We agree with the proposition to publish the standard for SMEs in a separate printed volume, comprehensive and readable as an independent work.



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Question 8b. Do you agree that IASB Standards for SMEs should be organised by IAS/IFRS number rather than in topical sequence? If you favour topical sequence or some other approach, please explain why.

We agree with the first proposition i.e. organised by the same IAS/IFRS number. This allows easy and logical reference to full IFRS.

Question 8c. Do you agree that each IASB Standard for SMEs should include a statement of its objective, a summary and a glossary of key terms?

We agree that each IASB standard for SMEs should include a statement of its objective, a summary and a glossary of key terms, which should be readable as an independent work.

Question 9. Are there any other matters related to how the Board should approach its project to develop standards for SMEs that you would like to bring to the Board's attention?

We strongly believe that the board should determine precisely the users' needs as a prerequisite to any start of development of a standard for SMEs.

Generally speaking, we are concerned by the timing of the development of the SMEs standard. We believe that it would be appropriate to first observe the practical transition to full IFRS of European listed companies as it will be a test of a massive application of IFRS, then to derive therefrom adapted consequences for SMEs.
