

30 September 2004

CL 96

Mr Paul Pacter
Director of Standards for SMEs
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

(By post and email: CommentLetters@iasb.org)

Dear Mr Pacter

DISCUSSION PAPER ‘PRELIMINARY VIEWS ON ACCOUNTING STANDARDS FOR SMALL AND MEDIUM-SIZED ENTITIES’

1. We are writing to provide our comments on the *Discussion Paper ‘Preliminary Views On Accounting Standards For Small And Medium-Sized Entities’* issued by the International Accounting Standards Board (IASB) in June 2004.
2. We would like to highlight to the IASB that Singapore accounting standards are almost completely harmonised with IFRS. Currently, all Singapore companies are required to comply with the Singapore Financial Reporting Standards (“FRS”) that are very similar to International Financial Reporting Standards (“IFRS”). In most cases, the provisions in FRS and IFRS are identical.
3. To allow some modifications to the recognition and measurement principles in the FRS for Singapore SMEs could be seen to be taking several steps backwards on the progress that Singapore companies have made in elevating themselves to a high degree of compliance with FRS and hence IFRS. In comparison, for countries where SMEs currently do not have to comply with any accounting framework, the justification for modifications from recognition and measurement principles would be higher as they would need to incur higher “start-up” cost of compliance with a full or comprehensive accounting framework.
4. In addition, to allow for modifications in recognition and measurement principles for SMEs would necessarily impede comparability among SMEs and other companies in Singapore. Furthermore, when an SME expands its operations and needs to access the capital markets (for e.g. in an IPO or other fund raising activities), there would be higher costs of transition into full IFRS.
5. Consequently, our general view is that the full IFRSs are suitable and should be complied with by all entities. Our responses to the specific questions for the issues raised are

provided with this backdrop and our responses to Questions 1c onwards are based on the assumption that the IASB will proceed to develop a separate set of standards for SMEs.

Issue 1

Should the 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?

Conceptually, we are of the view that the full IFRSs are suitable for all entities. However, the existing IFRSs may contain excessive disclosure requirements for SMEs based on a cost-benefit analysis. This is because SMEs generally have fewer resources, limited access to capital markets, less business complexity and fewer external users of its financial statements.

Question 1b

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

We are of the view that the IASB should not develop separate financial reporting standards for SMEs based on the above considerations although some simplification of the presentation and disclosure requirements should be considered for SMEs. We would like to highlight the following possible consequences of developing a separate set of reporting standards for SMEs:

- 1. There may be a lack of uniformity, transparency and clarity in the financial reports;**
- 2. There would not be meaningful comparison and benchmarking among companies;**
- 3. Some SMEs may have complex transactions;**
- 4. Collectively, the SMEs may be a major component of an economy, therefore the effect of a change in reporting standards may have significant implications;**
- 5. Certain smaller-sized entities are already exempt from audit in many countries including Singapore, and therefore, having a separate set of simplified accounting standards for SMEs may be perceived as an erosion of the importance of financial reporting;**
- 6. When SMEs expand, the transitional compliance from a simpler set of accounting standards to full IFRS may be more costly than starting out with full IFRS in the first place; and**

7. A separate set of accounting standards for SMEs would be costly to accountants (having to master two sets of standards), academics (having to instill two sets of standards in their students) and standard setting bodies (having to bring forth the due process of setting and maintaining two sets of accounting standards).

Instead of a separate set of accounting standards for SMEs, we propose modifications to, exemptions/thresholds within the existing IFRS, in terms of presentation and disclosure requirements, to be applied to SMEs. Such an approach is in fact currently in practice as evident in *IFRS 14 – Segment Reporting*, *IFRS 27 – Consolidated and Separate Financial Statements* and *IFRS 33 – Earnings per Share*. Such an approach (hereafter referred to as the “modification approach”) maintains “the” standard in the accounting profession, makes expansion, consolidation or even subsequent “increase” in disclosure and presentation less tedious and costly and most importantly minimizes confusion.

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 IASB 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?

We agree that IASB Standards for SMEs should not be used by publicly listed entities (or any other entities not specifically intended by the Board) and if the IASB Standards for SMEs are used by such entities, their financial statements cannot be described as being in compliance with IFRSs for SMEs.

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 are of the view that the objectives as set out in preliminary view 2 are appropriate.

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 characteristics should be qualitative and the IASB should not prescribe quantitative ‘size tests’. However, the definition of an SME, be it qualitative or quantitative, must be clearly drawn up to prevent any potential ambiguity, dispute and abuse.

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 the Board should develop standards that would be suitable for all entities that do not have public accountability.

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

We are of the view that the two principles provide a workable definition and appropriate guidance. However, we would like to request for a clarification on or a definition of the phrase “high degree of outside interest” referred to in Preliminary View 3.2 (a). We would also like to clarify if large charitable organizations may be considered as having public accountability under Preliminary View 3.3 (d).

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 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.

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?

Assuming a separate accounting framework is used for SMEs, we 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. On the other hand, if exemptions in presentation and disclosure are introduced for SMEs, then we are of the view that the subsidiary, joint venture and associate should continue to enjoy such exemptions for their separate financial 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 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. (Please also see our response to Issue 5.)

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 are of the view that an SME should 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 for consistency and to facilitate comparison across companies using the same set of standards.

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?

We are of the view that if and when an SME is permitted to revert to an IFRS, it should be required to revert to the IFRS in its entirety (a standard-by-standard approach) because of the interrelation of principles in an IFRS. There should also be a requirement to disclose the reason and justification for the reversion.

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?

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 IASB 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.

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 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 analysis. Factors like the complexity, length and applicability of an IFRS to SMEs and the number, type and nature of users could be considered in evaluating the balance of costs and benefits of an IFRS respectively.

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?

We 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.

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?

We 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.

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 do not agree that IASB Standards for SMEs should be published in a separate printed volume. In our opinion, the most efficient and effective way is to have only one set of standards, but identify some standards or part of the standards as being not applicable to the SMEs. Having separate volumes of Big GAAP and Small GAAP is counter-productive. Furthermore, having a single printed volume of IASB Standards for SMEs and non-SMEs would have the advantages of allowing a one-stop reference for IASB Standards and easy comparison of accounting treatment. We would also

suggest that the differences in accounting treatments for SMEs and non-SMEs be compiled and published as an appendix to each standard.

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 that IASB Standards for SMEs should be organised by IAS/IFRS number.

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?

In the event that SME standards are published in a separate printed volume, we agree that each IASB Standard for SMEs should include a statement of its objective, a summary and a glossary of key terms.

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 would like to reiterate that Singapore companies are already in compliance with local FRS (and hence, to a large extent, IFRS). We are of the view that there should be limited modifications to the recognition and measurement principles in FRS, whilst there is possibly more scope for a reduction or simplification of disclosure and presentation requirements for the SMEs.

In addition, we would propose that the application of SME accounting standards be made voluntary and SMEs be given the option to apply full IFRS.

6. Should you require any further clarification, please contact Mr Ramchand Jagtiani, Deputy Director, at the Institute of Certified Public Accountants of Singapore via email at jagtiani@icpas.org.sg. Thank you.

Yours sincerely,

Derek How
Secretary, CCDG