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

UNICE Response

Executive summary

First of all, we would like to point out that UNICE is basically in agreement with the statements made by EFRAG in its response to the discussion paper.

UNICE considers overall that the full International Financial Reporting Standards (IFRS) are not able to respond to the specific needs of users of small and medium-sized entities (hereinafter SMEs) annual financial statements. We therefore welcome the discussion paper and agree with the Board that development of a separate set of voluntary standards could be considered. Furthermore, we see this as an opportunity to harmonise accounting standards in Europe. At present many different national standards for SMEs are being developed in Europe. As cross-border activities are developing quite rapidly and are no longer the exclusive arena of large international groups, we see the IASB project as a chance to harmonise accounting standards and to achieve comparability in financial statements over time and between entities within Europe and worldwide. Adoption of a common set of accounting standards is an important objective, also for SME financial reporting.

However, UNICE strongly believes that the standards for SMEs should be geared towards the individual information needs of users of SMEs' annual financial statements. Therefore, we believe that an analysis of specific user needs should be performed first, to determine whether and how they differ from user needs for listed companies. Furthermore, cost-benefit factors (and in this respect preparer needs) must also be taken into account. In this process it must be kept in mind that harmonisation should not be seen as a greater priority than the needs of enterprises.

In our opinion, the IASB Board needs to formulate its working definition of entities for which the standards are intended first, before continuing development of standards for SMEs, even if it will be left to national jurisdictions to determine the final scope of the standards for SMEs. We believe that the public accountability principle is too broad to be used as a working definition. Moreover, we believe that very small entities need to be excluded from the scope of the SME standards. In addition, we do not support the public accountability principle as the dividing line between entities complying with full IFRS and those complying with IFRS for SMEs. In our opinion only listed entities should be formally excluded by IASB from the scope of IFRS for SMEs. Further restrictions on the scope of applicability of IFRS for SMEs should remain the sole responsibility of the appropriate level of jurisdiction. We therefore recommend that the Board renames the standards as "IFRS for unlisted entities".

At the same time, development of separate standards must not result, even in the long term, in any legal obligations on SMEs to apply international accounting standards. Companies must retain the option of preparing financial statements on the basis of national accounting

standards only. In many countries (e.g. Germany, Belgium, Greece) annual financial statements prepared according to national GAAPs serve as a basis for determining taxable income and profit distribution. If SMEs were required to apply IFRS for SMEs in the future, they would have to prepare individual financial reports according to both national and international accounting standards. An obligation to apply IFRS for SMEs would therefore double the workload for these companies which is neither justifiable nor in line with the objective in view. In addition, if these companies do not see any advantages in using international accounting standards, they must be able to continue to apply national standards. Therefore, IFRS for SMEs should only be applied on a voluntary basis.

We acknowledge the current work pressures on the Board. We therefore suggest that the IASB could set up a panel or committee to oversee this process and relieve the pressure on the Board. Such a panel would need to be made up of experts with special SME knowledge and experience. Both users and preparers should be part of the panel.

In our opinion further research on user needs of SMEs and how they can be best addressed is necessary. There is also the need for significant examples where application of full IFRS leads to inappropriate results from both a cost and a complexity perspective. The real issue is to what extent IFRS are relevant for SMEs. Proper benchmarking is needed for SMEs. Furthermore, UNICE believes that field tests have to be carried out while the standards for SMEs are being developed to allow an assessment of their adequacy.

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

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

We believe that the application of the full IFRS/IAS is basically unsuitable for SMEs - even on the basis of voluntary application (e.g. fulfilling the extensive disclosure requirements places a high burden on SMEs that cannot necessarily be justified by the information needs of users in light of the cost-benefit ratio). The main target user of the present IFRS is the publicly traded investment world. Investors need financial information to analyse and conclude whether to keep, buy or sell their equity investments. For this purpose they need detailed financial information to prepare an indicative valuation of the entity including expectations of future profits. The needs of users of SME financial statements might be different. In this respect, we believe that an appraisal of these needs should be the prerequisite for any supplementary work. From a first analysis, we suppose these might be different as these statements are mainly used to:

1. assess the ability of the enterprise to pay and provide other benefits to its employees, and to meet its obligations towards lenders and the other stakeholders,
2. assess the financial reporting needed by the management, and
3. determine distributable profits and dividends.

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

It must however be ensured that these also lead to a reduction in the cost burden. This should mean, we believe, that preparers' needs for accounting standards which reduce the financial reporting burden should be also taken into account.

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 users of SME financial statements have different needs compared with public listed companies, we agree with development of a separate set of financial reporting standards that are geared towards the specific needs of these users. However, in our opinion the cost-benefit argument for preparer needs also has to be taken into account. We believe that the Framework to be applied for SMEs can be based on the same principles as the present IFRS Framework, although it may have to be adapted to accommodate the characteristics of SMEs. The Framework as well as the full IFRS/IAS standards can be used as a starting point to develop standards for SMEs. Development of standards for SMEs will make it possible to achieve comparability and harmonisation in financial statements between companies within Europe and worldwide. See also our comments in the executive summary and our response to question 1a).

After a whole set of standards has been developed it is important to ensure that IFRS for SMEs are not constantly revised. Constant changes to standards would place too much of a strain on SMEs. Furthermore, we would like to clarify that, given the current situation, we reject a legal obligation by the European or national legislator to introduce mandatory application by SMEs of the future IFRS for SMEs.

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 IFRS for SMEs? If not, why not?

The scope of the SME standards must be determined exclusively by each national jurisdiction. The role of the IASB board must merely be to develop the financial reporting standards. However, to ensure consistency, we believe that IASB should formulate as clearly as possible the Board's working definition of SMEs for which the SME standards are intended. Such a working definition can be used by the appropriate jurisdiction as guidance.

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 assumptions set out by the board concerning the objectives of the standards for SMEs, although it is uncertain whether these objectives can be reconciled with the principles of the IAS/IFRS Framework. However, the objectives must be defined more precisely to allow this to be analysed. In our opinion the objective of reducing the financial reporting burden (and thereby implicitly also the costs) should be considered a particular priority in the development of standards for SMEs.

On the other hand we have concerns regarding the objective that a standard for SMEs should be close to full IFRS in order to make a potential transition easier. In our opinion the vast majority of SMEs will never move to full IFRS. Therefore this objective could involve unnecessary additional constraints and result in standards for SMEs that might not be as close to user needs as possible. We expect that a standard for SMEs will be as different from the full IFRS as are the needs of users and preparers. For this reason "easy transition"

should not be one of the main objectives, but should still be taken into consideration as an auxiliary condition.

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 quantitative size tests. Furthermore we agree that it should be left to national jurisdictions to determine whether or not an entity should prepare financial statements according to full IFRS, standards for SMEs or national standards (exception: entities which are required to report on the basis of IFRS according to EU IAS regulation 1606/2002). All entities not required to use IFRS/IAS according to the IAS regulation or national law should therefore be able to use the standards for SMEs.

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 IASB Board should not focus only on relatively large/small companies. The board should draw up application principles whereby, both sets of standards would be established, and then national legislation would determine which entity could use the set of standards for SMEs. As already stated in our response to question 3 a), all entities not required to use full IFRS/IAS according to the IAS regulation or national law should be able to use the standards for SMEs.

Moreover, we do not believe that any focus in relation to the size of the entity would be relevant. Very large or complex entities might enter into transactions that require the level of sophisticated financial reporting as required by full IFRS and would therefore logically not fall within the scope of IFRS for SMEs. At the other end of the scale, the benefits of globally accepted accounting standards are likely to be of minimal use to very small entities and therefore jurisdictions would be justified in deciding to leave them out of the scope.

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 have our doubts that the public accountability approach as defined and explained through criteria a) to d) can serve as a universal definition for the scope of IFRS. In particular, we do not agree with criteria c) and d) respectively because of too wide a scope and a reference to quantitative elements such as the term “economically significant” increases the risk of distortion between countries given its subjectivity. Also, rendering of public services should not exclude companies from applying IFRS for SMEs. These companies, as well as banks and insurances companies, are often placed under the control

of national regulatory agencies. It is not in the area of responsibility of the IASB board to formulate additional reporting requirements for these companies.

We believe that only listed companies (with regard to their consolidated financial statements) should be formally excluded from the scope of IFRS for SMEs. Further restrictions on the scope of IFRS for SMEs should as mentioned above (see our answer to question 3 a)) remain the sole responsibility of the appropriate level of jurisdiction. However, it should be possible for national jurisdictions to accept the IASB's working definition as the final scope.

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 problem 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 IFRS to meet the requirements of its parent, venturer or investor, the entity should comply with full IFRS, 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 GAAPs and IFRS is done by the parent. This means that the subsidiary has neither the skill nor the experience of some complex processing done for consolidation purposes. 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 a mandatory fallback to full IFRS should be possible if a particular accounting issue is not addressed by the respective standard for SME. However, this fallback must be consistent with the framework of the standards for SMEs. Therefore we would suggest adding the following conditions:

1. any use of a mandatory fallback should be disclosed,
2. should be clearly identified and

3. should be limited to only a few circumstances (e. g. addressed in the respective standard for SMEs).

Allowing entities to develop their own accounting recognition or measurement rules would put the consistency and significance of financial statements at risk. However, fallback should not place an unjustifiable burden on SMEs. In this regard we suggest that there should be the possibility (if no mandatory fallback is addressed in the respective standard for SME) to solve the issue by using the same hierarchy as in the present IAS 8 paragraphs 10 to 12.

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 IFRS or the complete set of SME standards with no optional reversion to individual IFRS? Why?

No optional reversion should be permitted in principle. First, this is a way to make the preparation of financial reporting easier as there would be no ambiguity regarding the rules which have to/could be applied. Second, accepting options would lead to comparability and comprehensiveness problems. However this can only be decided when the draft core set of standards for SMEs is in place. The possibility to full IFRS depends on the development of the standards for SMEs and the subjects and treatment not covered in this core set of standards for SMEs.

However, it could be useful to make an exception to the previous principle: an SME should be allowed to revert to an IFRS which lays down only presentation principles (e.g. IAS 34) if such a standard does not exist in the standards for SMEs, without having to apply the whole set. Also, additional disclosure should always be permitted if relevant for the understanding of the financial statements.

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?

See our response to Question 5 a. This question cannot be answered until a drafts of SME standards has been prepared.

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 IFRS?

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 IFRS (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 full IFRS and then making modifications to render the standard more suitable for and decrease the financial reporting burden on SMEs. For this reason modifications should be discussed, e.g. in connection with the introduction of measurement options.

The condition would be to analyse and justify standard by standard which ones are relevant for SMEs and may have to be modified. The identified users' and preparers' needs as well as cost-benefit considerations must play an important role by defining the SME principles.

Issue 7. If IASB Standards for SMEs are built on the concepts and principles and related mandatory guidance in full IFRS, 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 IFRS 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 IFRS in an SME context?

We agree that modifications for SMEs to the concepts or principles in full IFRS must be based on the identified needs of the users of SME financial statements together with cost-benefit analyses. Nevertheless, other criteria should also be taken into account (see our response to question 7 c). User needs have to be analysed and clearly defined first before the IASB starts to modify any standard. Furthermore, the framework for the standards for SMEs has to be established first.

On 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 SME standards in order to determine if the total cost of financial reporting is relevant for 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 on a general 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?

The 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 standards for SMEs compared with full IFRS and that this will provide considerable alleviations for SMEs. Simplified measurement and recognition principles should, however, also be discussed.

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 user needs have not yet been analysed, it should be considered impossible to prejudge the need for 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 full IFRS, 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 full IFRS should be analysed and challenged taking into account identified specific user needs. Then, full IFRS standards would be adapted as required by these identified needs.

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 extensive 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 in 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 standards and their own 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 proposal to publish the standards for SMEs in a separate printed volume, comprehensive and readable as an independent work. We believe that this would be more practical than integrating them in the IFRS. Furthermore, we suggest that the IASB should also consider free internet access. This would reduce the financial burden for SMEs and also simplify worldwide dissemination of the standards for SMEs.

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 believe that the IASB Standards for SMEs should be organised by topical sequence because this is more user friendly, particularly where preparers and users are unfamiliar with the structure and content of full IFRS. The numbering of IAS/IFRS reflects the historical sequence in which they were addressed rather than any internal logic. If the SME version follows the IAS/IFRS numbering it will not be sequential as some of the IFRS are not relevant to SMEs. However, to enable comparison with full IFRS, a concordance table is needed. Updates of the SME standards may be considered for every amendment or endorsement of an IFRS/IAS standard. However, it is important to ensure that IFRS for SMEs are not constantly revised. Constant changes to standards would place too much of a strain on SMEs. We believe that changes in IASB standards for SMEs should not be published more frequently than on an annual basis.

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 easier to read as an independent work, although the section "glossary of key terms" should not lead to definitions essential to the standard being taken out.

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?

A transparent and open development of IFRS for SMEs and also of IFRS is of great importance for their acceptance among users. The comments, especially those of companies, to the IASB should therefore receive due consideration. UNICE urges IASB to put its project for developing separate standards for SMEs on hold until the users' and preparers' needs are fully assessed and the responses to the IASB Discussion Paper have been analysed and discussed. In addition, the question of whether and to what extent the IFRIC interpretations concerning the IFRS for SMEs are included should be discussed. We acknowledge the current work pressures on the Board. We therefore suggest that the IASB could set up a panel or committee to oversee this process and relieve the pressure on the Board. Such a panel would need to be made up of experts with special SME knowledge and experience. Both users and preparers should be part of the panel.

We strongly believe that the board should determine precisely the users' needs as a prerequisite to starting development of a standard for SMEs. Generally speaking, we are concerned by the timing of development of the SME standards. We believe that it would be appropriate first to observe the practical transition to full IFRS of European listed companies, as it will be a test of massive application of IFRS, then to derive therefrom the consequences for SMEs. In any case, this subject that UNICE considers of high importance must be tackled with sufficient periods of time to comment on each topic. It would be extremely difficult to work on a broad consultation, for instance as on the "Improvements" project.

In our opinion further research on user needs of SMEs and how they can be best addressed is necessary. There is also the need for significant examples where application of full IFRS leads to inappropriate results from both a cost and a complexity perspective. The real issue is to what extent IFRS are relevant for SMEs. Proper benchmarking is needed for SMEs.

Furthermore, UNICE believes that field tests have to be performed while developing the standards for SMEs to be able to assess the adequateness of the standards developed by the board.

We also suggest that the IASB takes into consideration the fact that SMEs do not have the same financial possibilities as public listed companies. In this respect, free internet access for SMEs would be appropriate to lessen the financial burden and to facilitate the worldwide dissemination of the standards. Furthermore, the standards have to be translated into various different languages. A glossary of key terms and consistent application of the key terms would simplify the translation and the uniform handling of the standards for SMEs.
