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European Federation of Equipment Leasing Companies Association

Fédération Européenne des Associations des Etablissements de Crédit-bail

Europäische Vereinigung der Verbände von Leasing-Gesellschaften

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International Accounting Standards Board

30 Cannon Street

London EC4M 6XH

United Kingdom

24 September 2004

TS/MS/

2/4.10

Re: IASB discussion paper on 'Preliminary views on accounting standard for small and medium-sized entities'

Dear Madam, Dear Sir,

We have the honour and pleasure to enclose the official comments of Leaseurope to the IASB discussion paper on '*Preliminary views on accounting standard for small and medium-sized entities*'.

Leaseurope is the European Federation of Leasing Company Associations, with currently 28 National Member Associations covering some 1,300 individual leasing companies in Europe. As a Federation representing the leasing industry in Europe, LEASEUROPE counts 28 National Associations among its members, which in turn represent some 1300 European leasing companies. Moreover, members of LEASEUROPE represent around 90% of the equipment leasing industry in Europe. According to Leaseurope statistics, new leasing businesses accounted for over 193 billion EURO in the year 2003.

We would like to point out at this stage that the current standards are clearly confined to listed companies and their consolidated financial statements, since the main purpose of IFRS financial statements is to provide relevant information to investors in order to make economic decisions. As soon as IFRS would be applied by non-capital market oriented companies, either in their group or individual accounts, there would be a conflict between the purpose of the standards

and the multiple purposes of the respective financial statements. In that respect, we welcome the Board's decision to develop a separate set of financial reporting standards for SMEs.

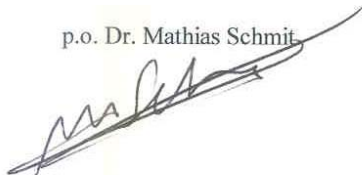
In our view, IASB standards for SMEs should focus on the user needs that are non-capital market oriented. Therefore, we are strongly for the case of a separate set of IFRS for SMEs with their own guidance notes and illustrations provided in a separate printed volume.

And, given the key relevance of Financial Statements to lessors in making decisions on leasing assets to SMEs, and the importance of our industry as a source of finance to the economic well being of the SME sector, Leaseurope would like to be consulted over the overall content and approach of any future standards for SMEs.

We remain at your disposal to provide any information you would need as well as any investigation we possess on lease accounting issues.

Yours sincerely,

p.o. Dr. Mathias Schmit



Dr. Thomas Schröer

Chairman of Accounting and Taxation Affairs Committee

Mr. Marc BAERT
SECRETARY GENERAL



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?

No. We strongly support a set of separate standards for SMEs. They should reflect the non-capital market orientation and hence different user needs than those for listed companies. Hence, prime objectives for building a set of IFRS for SMEs should be:

- a decrease in the reporting burden;
- a simplification of the concepts;
- a reduction in the cost to apply IFRS;
- understandability for less sophisticated users of accounts; and
- the presentation of the financial results of an SME in a consistent way to facilitate financing.

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 welcome the IASB's decision to think about the development of a separate set of financial, reporting and accounting standards for SMEs.

We believe that the users' needs for a general set of SME-financial-reporting-standards are different to IFRS-users (as IFRS is primarily used by major / listed companies). Hence, IASB-Standards for SMEs should provide their own framework, guidance notes and illustrations to be understandable by the SMEs. Users in an SME environment require a financial reporting, which is of less complexity and less sophistication.

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. Indeed, in the EU's case, listed companies are required to present their consolidated accounts according to IFRSs (EU Regulation 1606/2002/EC). However, a listed company using IFRS for SMEs (that would not be possible in Europe) should clearly state that it is not applying full IFRS but only IFRS for SMEs, making clear that it is not applying IFRS as required by the fact that it is publicly traded.

However, the ultimate decisions on who should use the SMEs standard should remain within the hands of the national regulatory authorities (e.g. mini or micro-entities could be excluded from applying SMEs standards).

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?

A framework should exist for SMEs since the current IFRS / IAS framework has been built on the needs of capital market users / participants. Hence, we agree with preliminary view 2 except with paragraph c that *standards for SMEs should be built on the same conceptual framework as IFRSs* (cf. answer to question 1b).

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 SME-Standards should not be used by publicly listed companies. In our opinion a SME-Framework should start with a clear identification of the users and the users needs. There should also be guidelines of the scope of entities for which the future SME-standards are intended. But the determination of the characteristics of the entities - whether to use IFRS or SME-standards - should be left to national jurisdictions according to their national realities.

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?

In our view, no additional concept of public accountability should emerge. Currently, the scope of application of the current IFRS relies on the distinction between listed and non-listed companies. Yes, IFRSs for SMEs should be suitable for all non-listed entities (except mini or micro-entities). Any further rules should be left to the discretion of national jurisdiction or EU rules in the case of European Union.

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?

In our opinion public accountability is a very broad notion and difficult to be applied. We would prefer that IASB state in the framework the purpose and intended use of the IASB Standards for SMEs. Therefore, we think that only the national regulatory authorities are in the position to provide an appropriate definition of public accountability in their respective countries given their own realities.

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?

No. In order to avoid conflict of interests, only the majority of shareholders / owners (or any other qualified majority as stipulated in the company's statutes) should decide to apply full IFRS instead 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?

No. Indeed, benefit of IASB standards for SMEs is to adapt the relevance of financial reporting to the users of SME financial reporting. Thus an entity may provide to the users of its separate accounts a relevant set of accounts prepared in accordance with IASB standards for SMEs while providing its parent with the adequate level of information for consolidated accounts to be prepared in accordance with full IFRS.

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?

No, the entity should not be required. To resolve the particular issue, the SME will refer to the framework for SMEs and secondly might look at other internationally accepted rules bearing in mind that these situations should be limited as much as possible.

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?

In our opinion no optional reversion should be allowed in the IASB Standards for SMEs, since an entity has to comply with the full set of standards, either IFRS or IASB standards for SMEs. We think that if the set of Standards is based on a framework related to the users' needs, entities should not have the option to choose individual standards from the two different sets of standards (avoid 'cherry picking'). However, we propose to use options within IFRS for SMEs allowing the use of the method prescribed in an IFRS. In the case an option is taken into account, disclosures should be requested in the notes.

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?

Given our answer in question 5a, this question is not pertinent. Additionally, the complexity of the question shows the difficulties and the risks of confusion that may arise from 'cherry picking standards' resulting from the coexistence of two sets of accounting standards.

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?

IFRS for SMEs should follow user needs specific to SMEs. Hence, a SME framework should be the basis for IFRS for SMEs. A consistency with the current IFRSs is obvious although the

priority should be the respect of the framework and principles given in the IFRS for SMEs (i.e. see the goals prescribed in answers of questions 1a and 1b).

Adapting standards from the IFRS should also be accompanied by illustrations and guidance written specifically for SMEs. Otherwise, difficulties in applying the standards would appear and leave room for interpretations with the risk of discouraging SMEs to use IFRS for SMEs.

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?

Yes, the user needs should be the prime orientation. However, cost benefit, simplification and understandability are other factors that should be taken into account and stipulated in the framework 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?

We expect that the requirements will decrease and be lightened in the SME standards compared to ones given in the current 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?

We are not able to prejudge the relevant modification of the recognition and measurement principles before the outcome of the extensive analyses of users' needs is known. In our opinion both recognition criteria and measurement requirements could be different for SMEs compared to listed entities even for the same assets or liabilities, as a result of differences in user needs, although the conceptual definitions of the elements of financial statements remain unchanged. Therefore, there should be no presumption that no modification should be made to recognition or measurement principles. As indicated in our answer to question 6, we believe that both changes and retentions of IFRS recognition and measurement principles and disclosure requirements should be justified in relation to users' 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.

Yes.

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.

Yes, since IFRS for SMEs should be an adapted version of IFRS. Indeed, by using the same IAS/IFRS number there is a logical reference to 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?

Yes, since IFRS for SMEs should be readable in one separate printed volume.

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?

No.