

Sir David Tweedie  
Chairman of the  
International Accounting Standards Board  
30 Cannon Street

London EC4M 6XH  
United Kingdom

Düsseldorf, September 24, 2004  
543/511/520

Dear Sir David

**Re: Discussion Paper – Preliminary Views on Accounting Standards for  
Small and Medium-sized Entities**

We appreciate the opportunity to comment on the Discussion Paper mentioned  
above and would like to submit our comments as follows:

**General Matters**

We agree in principle with the Board's intention to consider developing special financial reporting standards for SMEs ('IASB Standards for SMEs') based on the needs of users of SME financial statements as well as cost-benefit considerations. In our view, IFRS must be understandable, user friendly and easily applied by all entities. Therefore, the Board should consider whether a restructuring and a reduction of complexity would be useful from a general point of view – not only for SMEs.

In our view, the discussion about accounting standards for SMEs should be lead by the purpose of those standards. A reduction of the requirements for SMEs compared to full IFRS could be acceptable provided that the intention to develop those standards is to establish minimum requirements for SMEs. Nevertheless, one has to bear in mind that such a reporting framework for SMEs represents "a second tier" reporting system and SMEs might be forced by the market to prepare financial statements pursuant to full IFRS.

In our opinion, the IASB is responsible for developing accounting standards. However, only national jurisdictions have authority to enforce those accounting standards. Therefore, the Board should not deal with issues of national company law.

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?***

We do not agree that full IFRS should be considered suitable for all entities. At present, IFRS are focused on listed companies and therefore reflect investors' needs and the complexity of transactions characteristic for entities whose securities are listed on the capital market. As appropriately mentioned in the Discussion Paper users of SMEs may have different needs and these need to be sufficiently explored in order to justify a separate set of financial reporting standards for SMEs – see also our response to Question 1b. In this regard complexity of the IFRS is of particular importance when considering standards for SMEs. As far as we know, even large listed entities encounter serious difficulties in applying the full IFRS. Given that SMEs usually have difficulty gaining access to enough qualified personnel, we have reservations as to the practicability of applying the full IFRS for SMEs.

***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 agree that the Board should develop specific financial reporting requirements suitable for SMEs, since the needs of users of SME financial statements appear to be different from the investors' needs typically to be served by full IFRS.

Therefore, the project analysing and identifying the needs of users of SME financial statements should be started with high priority, since specific requirements for SMEs should be justified by the identified needs of users of SME financial statements and cost-benefit analyses.

In our opinion, the advantage of IASB Standards for SMEs as a comprehensive and self-contained system addressing all accounting recognition or measurement issues as well as the issues concerning presentation and disclosure is that those not conversant in full IFRS will be able to apply the IFRS for SMEs more easily. On the other hand, the differences between the two sets of standards can be more effectively limited and therefore the transition to full IFRS would be facilitated by incorporating the exemptions for SMEs within the full IFRS. Furthermore, such incorporation of exemp-

tions may be easier for the Board to implement. On balance, however, we would tend to support the first alternative, i.e. IASB Standards for SMEs as a comprehensive and self-contained system, due to the greater benefits for the users of SMEs financial statements and the SMEs themselves.

As mentioned before, however, and irrespective which alternative is finally adopted, simplified requirements for SMEs will result in the development of "second tier" standards suitable for SME purposes only as mentioned before.

***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?***

In general, we agree with the Board's view 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 because these standards are not expected to follow the needs of the capital markets. However, the Board does not have authority to exclude entities from using IASB Standards for SMEs since defining the scope of IASB Standards for SMEs is the responsibility of the particular national jurisdiction. Where a publicly listed entity makes use of IFRS for SMEs, the standards used must be re-labelled, i.e., the entity's financial statements cannot be described as being in compliance with IFRSs for SMEs according to IASB's definition of SMEs. We believe that the capital markets' forces will prevent in most cases that publicly listed entities will adopt IASB Standards 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 agree that financial reporting standards for SMEs should provide high quality, understandable and enforceable accounting standards suitable for SMEs globally, should focus on meeting the needs of users of SME financial statements, should reduce the financial reporting burden on SMEs that want to use global standards and should allow easy transition to full IFRSs for those SMEs that become publicly accountable or choose to switch to full IFRSs. In our opinion, the objectives of IASB Standards for SMEs as set out in preliminary view 2 (a), (b), (d) and (e) are appropri-

ate. Furthermore, we agree that the same conceptual framework should be used for IFRSs and IASB Standards for SMEs. However, we have concerns with respect to the current IFRS framework, because we recognise a need for developing conceptual criteria for measurement in the IFRS framework. Moreover, the Board should consider that consistent criteria with respect to performance reporting and revenue recognition are still missing. We therefore suggest that the framework should be modified and completed as soon as possible.

**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?***

The Board needs a definition of SME’s in order to determine their specific user needs. Therefore, we agree that the Board should describe the characteristics of the entities for which it intends and recommends the standards and that those characteristics should not prescribe quantitative ‘size tests’. Probably the definition and characteristics respectively as currently described might need revision when the determination of the needs of the users of SMEs financial reporting is completed. By all means the development of the definition and characteristics should focus on achieving the highest level of clarity and conciseness in order to avoid any discussions resulting later on from ambiguities in that regard. One example is the characteristic of ‘public interest’ which in our view is ambiguous. Refer to our response to Question 3c for other issues noted.

Nevertheless, we expect that the question which set of standards ought to be applied in which circumstances will be regulated by local governments (see also our answer to Question 1c). The scope of application and additional size criteria might also be determined in a national context by the national jurisdictions.

If this becomes true, the IASB should consider whether it should restrict the use of the brand “IFRS” or “IFRS for SME’s” for the circumstances as defined by the Board.

**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.

**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 principal, we agree with the overriding characteristic 'public accountability' that distinguishes SMEs from other entities. It should be noted that the language used in the Discussion Paper in this regard might be misleading when read without the underlying context, i.e. herein it should read "**non-existing** public accountability distinguishes SMEs from other entities".

According to preliminary view 3.2 (b) combined with preliminary view 3.3 (c), a public utility or similar entity that provides essential public service would be regarded as having public accountability, and therefore should follow full IFRS. We share the Board's view that a public utility has an essential public service responsibility because of its operations. However, in our view only national jurisdictions have authority to establish accounting requirements for public utilities and other enterprises that provide essential public services and, therefore, we believe that the fact that an enterprise produces or delivers essential public services ought not to be a criterion for public accountability. Actually, those entities are commonly subject to state supervision of some sort.

Furthermore, we would like to propose that economic significance should not be introduced as a presumptive indicator of public accountability in preliminary view 3.3 (d), since issues of economic significance like the determination of size criteria should also be left to national jurisdictions.

**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 believe that national jurisdictions rather than the Board have authority to regulate that an entity should be required to use full IFRSs if owners of its shares object to the

entity's preparing its financial statements on the basis of IASB Standards for SMEs. Hence, we disagree with this proposed rule. Also, we disagree that only one owner should be in a position to object; at least there should be a kind of "de minimis" threshold.

***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?***

In our opinion, it is not appropriate to exclude an SME from using IASB Standards for SMEs in its separate financial statements if it prepares financial statements in accordance with full IFRSs to meet the requirements of its parent, venturer or investor. The reporting unit should be allowed to comply with IASB Standards for SMEs if this entity does not have public accountability on its own. If IASB Standards for SMEs are designed to satisfy the needs of users of the separate financial statements neither subsidiaries nor individual enterprises should be required to comply with full IFRS provided that they do not have public accountability.

**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?***

As noted in our answer to Question 1b we favour that IASB Standards for SMEs should be developed as a comprehensive and self-contained system. This includes a framework that meets the needs of users of financial statements of SMEs. Users and preparers should use that framework to resolve the issue concerned. As noted in our answer to Question 6, such a framework for SMEs should be developed by extracting the fundamental concepts from the existing framework and the principles and related mandatory guidance from IFRSs, and then making modifications deemed appropriate in order to develop an appropriate framework and principles for SMEs. Having developed such a framework specifically for SMEs, a mandatory fallback to full IFRS should then neither be allowed nor necessary and the preparers of SME financial statements should not be required to follow full IFRS.

**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 principle we believe that an SME should be required to choose only either the complete set of IFRSs or the requirements for SMEs. Optional reversions should not be allowed because the comparability of SME financial statements could be impaired and there is a risk of 'cherry-picking'. In our opinion, however, it should always be possible for SMEs to provide additional disclosures provided that they are not misleading.

***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 refer to our answer regarding Question 5a. However, if an SME would be permitted to revert to an IFRS it should be required to revert to the IFRS in its entirety (standard-by-standard approach) provided that the comparability of SME financial statements would not be impaired.

**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?**

The starting point for developing IASB requirements for SMEs should be the identification and analysis of the needs of users of SME financial statements. Extracting the fundamental concepts from the framework and the principles and related mandatory guidance from IFRSs, and then making modifications deemed appropriate in order to develop an appropriate framework and principles for SMEs, should be regarded as the second step. Otherwise we see the risk of extensive deletion in the existing IFRSs without appropriate justification.

**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?**

As noted in our answer to Question 1b, we support that any modifications for SMEs to the concepts or principles in full IFRSs must be on the basis of both the identified needs of users of SME financial statements as well as cost benefit analyses. Such an analysis requires a careful comparison and appropriate weighting of both but no detailed suggestion can be provided as of today. Again the first step is to determine the needs of the users of SME financial statements. In a second step the cost implications of such needs and requirements are to be analysed.

**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. We believe that different



presentation and disclosure requirements according to the specific needs of users of financial statements might be reasonable for SMEs as in principle their activities and transactions are of a less complex nature when compared to listed companies and the needs of their users might be less demanding than the requirements of the capital markets. We therefore support a reduction of presentation and disclosure requirements in comparison to those applicable to larger companies but retaining such requirements which are relevant for SMEs. Hence, we expect that the disclosure modifications will decrease the current level of disclosure for SMEs. Otherwise the objective of the entire project to reduce the financial accounting burden on SMEs that want to use global standards would not be achieved.

***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?***

With regard to the comparability of the main features of financial statements prepared by different enterprises measurement and recognition principles basically should be the same for all entities. However, we recognize that the complexity of IFRS means that there may be questions over the cost-benefit balance and relevance of certain complex measurement and recognition requirements for SMEs. We believe that in these cases simplifications should be considered where the needs of users of SME financial statements would lead to the acceptance of different measurement and recognition requirements for SMEs. Hence, modification of the recognition or measurement principles in IFRSs should depend on the analysis of specific users' needs. On that basis the Board should start with a fresh look and should not use such a presumption albeit the fact that the IASB is already taking into account that this presumption could be overcome on the basis of user needs and a cost benefit analysis. Such a 'fresh look' might also help to identify appropriate simplifications for the full IFRS.

**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 that IASB Standards for SMEs should be published in a separate printed volume when the requirements for SMEs are a self-contained system. Otherwise, a single volume would be more appropriate.

***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 do not agree that IASB Standards for SMEs should be organised by IAS/IFRS number rather than in topical sequence. In our view, the Board should ensure that IASB Standards for SMEs are consistent with the underlying framework and with one another and create a systematic whole. This implies that major accounting issues currently only covered by general practice or accounting textbooks or literature are addressed by projects in a systematic manner. Furthermore, it also means that additional projects that deal with pressing issues, and their results are seamlessly incorporated into and are consistent with the underlying framework and the overall structure of existing principles.

Thus, we favour an organisation in logical or topical sequence and recommend that the Board should evaluate the existing formats of organisation in different jurisdictions.

***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.

A glossary of key terms, which at the first glance might help to simplify the definitions section, should not be used as a kind of substitution of proper definitions. All key terms used need to be appropriately described in the definitions sections. The glossary might be seen as part of the standard but an increase in splitting up relevant sections is confusing the reader.

***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 discuss the relevance of interpretations issued by IFRIC after the development of separate standards for SMEs. We favour separate interpretations for IASB Standards for SMEs if the standards for SMEs are to be developed as a comprehensive and self-contained system.
- The IASB project to develop standards for SMEs should be transparent. Whereas the Exposure Draft should be issued after the entire project has been finalised the results of analysing and identifying the needs of users of SME financial statements should be published as soon as possible.

We would be pleased to answer any questions that you may have or discuss any aspect of this letter.

Yours sincerely

Klaus-Peter Naumann  
Chief Executive Officer

Norbert Breker  
Technical Director  
Accounting and Auditing