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**Position Paper of
DATEV eG
Nuremberg**

**referring to the discussion paper
of the International Accounting Standards Board
(IASB)**

regarding

**„Preliminary Views on Accounting Standards
for Small and Medium-sized Entities“
of June 2004**

(the original and official version is German)

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Preliminary Views on Accounting Standards for Small and Medium Sized Entities

Discussion Paper

Question 1a

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

No - the costs (i.e. for additional accounting know-how or for the implementation of information systems) would exceed the benefits SMEs would have from applying full IFRSs.

Question 1b

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

Yes, but according to the following premises:

- A separate set of financial reporting standards suitable for SMEs should not be mandatory but voluntary to comply with.
- The preparation of financial statements according to IASB Standards for SMEs should not be more elaborate than that of financial statements according to national reporting standards (i.e. HGB), not considering efforts needed to get acquainted with the IASB Standards for SMEs.
- In case of voluntary compliance of IFRS for SME disclosure should not be mandatory.
- The taxable income is further determined by national provisions.

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?

No.

No - the decision which accounting standards an entity has to comply with should be made by the national legislative authorities (see Regulation (EC) N° 1606/2002 of 19 July 2002) or the competent supervision authority.

Entities orientated in the capital market not exceeding certain quantitative size criteria should have the option to prepare their financial statements complying either with full IFRSs or with IASB Standards for SMEs (see answer to Question 3a).

Financial statements prepared in accordance with IASB Standards for SMEs must refer to these standards correctly. The principle of comparability must apply and guarantees that entities can not arbitrarily choose between sets of standards.

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?

Yes (in principle) - the amount of reporting notes has to be reduced considerably.

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 preparation of financial statements according to IASB Standards for SMEs on a voluntary basis should generally be possible for all entities which are not orientated in the capital market. Furthermore, the determination of quantitative size criteria should be possible. Thus, certain entities which are orientated in the capital market but do not fulfill these size criteria could have the option to prepare their financial statements either according to full IFRSs or according to IASB 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 the relatively larger ones or only the relatively smaller ones? If not, why not?

Yes. The entities actually being obliged to follow SME Standards should be defined by supranational (i.e. EU) or national law or regulation. A voluntary application of SME Standards should be possible for all SMEs.

Question 3c

Do the two principles in preliminary view 3.2, combined with the presumptive indicators of "public accountability" 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?

3.2 a) No - what is "a high degree of outside interest"? Proposal: at least 50% of stakes

3.2 b) Yes

3.3 a) Yes

3.3 b) Yes

3.3 c) Yes

3.3 d) No - the term "economically significant" is too undetermined. Thus, the term is not useful for reliable classifications of entities.

If a supranational / national legislative authority estimates full IFRS appropriate for any other business entity than defined in 3.3 a) - c) these authorities should define the criteria according to their supranational / national needs. These entities should then provide information in their financial statements why they are obliged to apply full IFRS.

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 of IASB standards for SMEs? If not, why not?

No - which kind of reporting standards (IFRS, IASB standards for SMEs or no international reporting) the entity has to apply should be regulated by supranational / national law. In cases of voluntary compliance the decision can definitely not be that of one or more owners. The issue has to be handled according to national company law. If the majority of owners demands for financial statements complying with full IFRSs, it can enforce a change of the articles of association.

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?

No - this issue lies not within the responsibility of the Board to decide, but concerns the relationship between the subsidiary, joint venture or associate and its parent, venturer or investor. If the parent, venturer or investor wants the subsidiary, joint venture or associate to comply with full IFRSs it should do so. Otherwise it should be regarded as a "normal" SME and report in accordance with IASB standards for SMEs. The particular entity must be able to decide on its own according to which Standards it wants to prepare its financial statements.

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 reversion to the framework is more appropriate (same procedure as using full IFRSs). Reason: the applicant otherwise has to provide the full knowledge of IFRSs and especially the cost / benefit factor of the implementation of IASB Standards for SMEs would be questioned.

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 SME standards with no optional reversion to individual IFRSs? Why?

An SME should have the option to revert to an IFRS, if the entity considers the full IFRS more suitable for its accounting policy. Transparency can be ensured by referring to the application of full IFRS 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 (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 the IFRS (a middle ground between a standard-by-standard and principle-by-principle approach)?*

(b) - see answer to question 5 a

Question 6

Do you agree that development of IASB Standards for SMEs should start by extracting 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?

Yes.

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 Board could analyse the costs and benefits of IFRSs in an SME context on the basis of an anonymous survey among possible users of SME Standards. The entities should give information on certain quantitative criteria, such as turnover, balance sheet numbers, numbers of employees, subsidiaries/joint ventures/associates in a foreign country. This way it could be determined which kind of SMEs would actually favour the use of IFRSs 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?

Yes.

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 cost-benefit analysis? If not, why not?

No - simplified standards call for simplified recognition and measurement principles. I.e. an annual impairment test according to IAS 36 - Impairment of Assets - seems to be far too complex for SMEs and not objective enough. Moreover, current German taxation regulations contradict the impairment principle according to IFRS.

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 organized by IAS/IFRS number rather than in topical sequence? If you favour topical sequence or some other approach, please explain why.

No - topical sequence is more comfortable for the applicant to work with than 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?

Yes.

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.

Nuremberg/Brussels, 24 September 2004
DATEV eG