

24 September 2004

EVCA's response to the IASB's discussion Paper:

**Preliminary Views on Accounting Standards
for Small and Medium-sized Entities.**

The European Private Equity and Venture Capital Association (EVCA) welcomes the opportunity to comment on the discussion paper "Preliminary Views on Accounting Standards for Small and Medium-sized Entities", published by the International Accounting Standards Board (IASB).

EVCA's responses to the questions asked by the IASB are driven by three following needs, all of which are of equal importance to EVCA:

1. Providing high quality, comparable and understandable accounting standards suitable for SMEs in Europe
2. Accounting standards that meet the needs of the users of SME financial statements
3. Standards that reduce the financial reporting burden on SMEs who want to use global standards.

Question 1a

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

No, the European Private Equity and Venture Capital Association considers that IAS 27 does not suit Private Equity and Venture Capital entities.

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, in order to meet the objectives 1, 2 and 3 stated above.

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?

It is important to have accounting standards that meet the three objectives presented above for both SMEs and listed companies. The fact of being listed or not should be used to determine who would be recommended to use IASB Standards for SMEs. The applicable regulation in a specific jurisdiction should only be addressed by the legitimate regulatory bodies.

Question 2

Are the objectives of IASB Standards for SMEs set out in preliminary view 2 appropriate and, if not, how should they be modified?

As stated above, EVCA emphasizes the objectives (a), (b) and (d). The need of comparability should be stressed.

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?

Yes

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 relative larger ones or only the relatively smaller ones? If not, why not?

Yes

Question 3c

Do the 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?

The Board should consider adopting a clearer definition of public accountability by restricting the use of the IASB Standards for SMEs to unquoted companies. It would then be up to the national regulatory authorities and standard setters to specify further which entities should use either full IFRSs or IASB standards for SMEs.

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?

This decision should ultimately depend upon the national regulatory authorities.

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?

Yes, in order to meet the objective (d) of the Board (i.e. reduce the financial burden on SMEs that want to use global standard).

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 at the appropriate IFRSs to resolve the particular issue? If not, why not, and what alternative would you propose?

Yes, but IASB Standards for SMEs should be designed in such a way that those events would rarely occur in order to meet the objective of reducing the financial reporting burden on 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 non optional reversion to individual IFRSs? Why?

SMEs should not have an optional reversion to individual IFRSs in order to achieve a high degree of comparability.

Question 5b

If an SME is permitted to revert to an IFRS, should it be:

- (a) Required to revert to the IFRS in its entity (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 favour (c), what criteria do you propose for defining "related principle"?

See the answer to Question 5a.

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?

Yes, with the limitation expressed in the answer to question 1a (i.e. the definition of control is currently not adapted to the way venture capitalists operate).

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

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, but the balance between increase and decrease of disclosure should consequently reduce the financial burden for SMEs adopting those accounting standards.

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?

Yes. EVCA has previously mentioned several times the fact that consolidated accounts do not provide investors in Private Equity and Venture Capital funds with appropriate financial information. The cost-benefit analysis should lead to the conclusion that consolidated accounts are not required for SMEs if appropriate information is provided on the evolution of the fair value of the investments.

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, in relation with the answer given to the question 5a.

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.

Yes.

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.