



20 September 2004

Paul Pacter
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International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
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Dear Mr Pacter,

Discussion paper – Preliminary Views on Accounting Standards for Small and Medium-sized Entities

Norsk RegnskapsStiftelse (the Norwegian Accounting Standards Board - NASB) is pleased to comment on the International Accounting Standards Board's (the Board's or IASB's) Discussion Paper *Preliminary Views on Accounting Standards for Small and Medium-sized Entities*. Our responses to the questions raised in the Discussion Paper are set out in the Appendix to this letter.

Yours sincerely
Norsk RegnskapsStiftelse

Idar Eikrem
Chairman

Discussion paper - Preliminary Views on Accounting Standards for Small and Medium-sized Entities

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 agree that IFRSs in principle are suitable for all entities including SMEs as the objectives of general purpose financial statements are fundamentally the same for all entities. But the term 'suitable' can be interpreted in different ways: related to the users' needs, or related to the relevance of the standards in terms of cost/benefits. There is a difference between asking whether the standards are suitable for use or are suitable for imposition. Because of differences in user needs and differences in terms of cost-/benefit, SMEs should not be imposed to use full IFRS. Presumably, compared to publicly listed companies, SMEs have a need for less sophisticated and comprehensive requirements. In addition to the user needs and cost-/benefit perspectives, practicability is also an important issue, especially for the smallest entities. If the requirements are in practice too difficult to apply, it does not help that they are suitable in theory.

Question 1b. Do you agree that the Board should develop a separate set of financial reporting standards suitable for SMEs? If not, why not?

In question 1a we concluded that full IFRS should be allowed, but not imposed on SMEs. We agree that there are some important advantages from IASB developing a separate set of financial reporting standards suitable for SMEs, including:

- need by countries which have not developed accounting requirements nationally
- need for comparability in financial statements worldwide also in the SME segment, as also this group of companies is increasingly internationalised
- cost effectiveness from centralised development of accounting requirements
- to lighten a potential subsequent transition to IFRS

However, we do not think that IASB should currently give priority to this project. Even if it is an important project to develop a separate set of financial reporting standards suitable for SMEs, we think IASB should rather use resources to accelerate the progress on important full IFRS projects and delay the SME project.

With regards to the need by countries, which do not have existing national regulation on SME accounting, they already have some guidance in the paper issued by UNCTAD on Accounting and financial reporting guidelines for small and medium-sized enterprises (SMEGA).

This being said, we have replied to the rest of the questions assuming that IASB will go forward with the project. In the process of continuing with the project, IASB should consider taking on a partner standard setter in this project with experience/knowledge in developing accounting standards for SMEs. We also believe that the areas of experience needed to issue accounting standards for SMEs can be quite different from the areas of experience needed to issue accounting standards for publicly listed companies. We therefore suggest that a separate board/body is set up to issue the standards for SMEs. The suggested board/body will not only be needed in the start, but should also ongoing have a responsibility for the international standards for SMEs, including dealing with the need for changes to the SME standards whenever there are changes to the full IFRSs.

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 the IASB Standards for SMEs should not be used by publicly listed entities. As replied in 3c, we believe that IASB should scope out publicly listed entities from the definition of SMEs. If national law or regulation elects IASB Standards for SMEs as the set of standards for publicly listed entities, they should in our opinion have to re-name the standards as it should in that case not be allowed to state compliance with IASB Standards for SMEs. To leave this question to national jurisdiction would not be appropriate. Deciding which other entities to scope out should however be left to the jurisdictions.

The question includes a wording: "...publicly listed entities (or any other entities not specifically intended to use the standard)." In the IFRS preface it is stated: "IFRSs are designed to apply to the general purpose financial statements and other financial reporting of all profit-oriented entities. ...Although IFRSs are not designed to apply to not-for-profit activities in the private sector, public sector or government, entities with such activities may find them appropriate." Would that imply that no such entities are allowed to use the IASB Standards for SMEs, because they are not specifically intended to use the standard? We believe this is not intended. However, no entities specifically not intended by the Board to use the IASB Standards for SMEs, can describe their financial statements as being in compliance with IASB Standards for SMEs (see also our reply to 3a).

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 with the objectives, with the following comments/exceptions:

Re. (c) Be built on the same conceptual framework as IFRSs;

We question whether objective (c) should be stated as a separate objective. The conclusion on whether there should be a common conceptual framework or not, may rather be an issue, which should be derived based on the other stated objectives (ie. a separate question after the question about the objectives).

Objective (e) *Allow easy transition to full IFRSs* favours a common conceptual framework. However, differences in user needs and the objective of reducing the financial reporting burden on SMEs, may cause a need for amendments. We agree with IASB that the SMEs Framework should not be built on a totally separate conceptual framework. We think the SMEs Framework should be the IASB Framework with modest amendments. Amendments in order to make the Framework more appropriate for SMEs may include for instance:

- explanation on the different needs of users of SMEs financial statements
- include examples more relevant for SMEs

Re. (e) Allow easy transition to full IFRSs for those SMEs that become publicly accountable or choose to switch to full IFRSs

We agree that to allow easy transition to full IFRSs is one of the objectives. This objective should however not be exaggerated, at the expense of the objectives (b), (d) and (a). Objective (e) will probably be important to a minority of the SMEs, because a majority of SMEs will continue to be SMEs and not change to full IFRSs for the foreseeable future of those entities. As a result of this, requirements and guidance related to transition may be de-emphasised in the main Standard(s) for SMEs, and rather be taken out into a separate section or book on transition to full IFRSs and concordance with full IFRSs.

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'. We support describing the characteristics "negatively" like IASB has done, by defining the entities that are not intended to use the standard, rather than specified the entities, which are intended to use the standard.

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 Board should develop standards that do not focus only on the relatively larger ones or only the relatively smaller ones, rather the opposite. User needs in a micro-sized SME like for instance the local bakery with 4 employees, a medium sized/average SME and in the largest SMEs are likely to have significant differences. Therefore it may be necessary for the Board to have a main focus when developing the Standards, providing illustrative examples etc. In our opinion the Board should mainly have the medium sized/average SME in mind. If this result in requirements which are not appropriate for the largest entities and/or publicly accountable non-listed companies, this should in our opinion not result in the requirements being changed to fulfill the user needs for those entities, but rather be handled by the jurisdictions requiring those entities to use full IFRSs.

With regards to the smallest SMEs, the Standards may be too demanding. We do not think that IASB should scope out the smallest entities from the definition of entities which are allowed to use the Standard. The focus on middle-sized/average SMEs rather indicates that individual jurisdictions need to consider whether to leave out the smallest entities when requiring use of the IASB Standards for SMEs. Currently in Norway, the requirements in the Norwegian Accounting Act applying to small companies have relives in measurement, recognition, disclosures and presentation requirements, compared to the regulations for the larger and/or publicly listed companies. The Norwegian Accounting Standards Board (NASB) has issued a separate accounting standard for the small companies. Small companies are defined by a quantitative size-test based on the lowest of the two size-tests in the EU Directives (ie. a size-test set by the jurisdiction, not by the standard setter). The smallest entities are typically less exposed to international users of the financial statements, and the nationally developed accounting standard is widely supported by the users of the standard (producers and users of financial statements).

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 agree that in theory publicly accountable companies should use full IFRSs rather than IASB Standards for SMEs. The concept of "public accountability" is however likely to be too complex to apply in practice for the definition of an SME. We agree to give a negative definition of an SME. Instead of scoping out entities with "public accountability", we think IASB should only scope out publicly listed companies from the definition, and leave to the jurisdictions to scope out further entities. The two principles in preliminary view 3.2 and the presumptive indicators of "public

accountability” in preliminary view 3.3 will be helpful guidelines for the jurisdictions, when considering entities required using full IFRSs. However they should be put in more concrete terms by the jurisdictions. For instance, in 31 (d) the criteria of total assets, total income, number of employees etc. must be defined. Further, there may be national differences for instance in how the public utility sector is structured, which should be taken into consideration. For a public utility entity serving only a small community, the IASB Standards for SMEs may sufficiently meet the user needs.

We still agree, as replied in 3b, that IASB should not have companies with “public accountability” in mind when developing IASBs Standards for SMEs.

The term “SMEs” is a bit misleading because it stands for “Small and Medium-sized Entities”, but non-public or non-listed companies may also be large in size. A more appropriate term for the IASB Standards could be the “IASB Standards for unlisted companies”.

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 this question is not relevant for the discussion at IASB level, and should be left to the national jurisdictions. It is not an accounting issue, but a company law issue or related to individual shareholder agreements for the jurisdiction concerned. However, if IASB continues to address the issue, one shareholder as a threshold is too low and impractical, and defining the threshold should be left to national jurisdictions.

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, we do not believe that a subsidiary, joint venture or associate of an entity with public accountability, which prepares financial information in accordance with IFRSs, should comply with IFRSs in its separate financial statements. This is to be decided by the group or national company law. However, if IASB continues to address this issue, in our view separate financial statements of parent, subsidiaries, joint ventures or associates of a group with public accountability is just a type of financial statements IASB Standards for SMEs may be relevant for, giving reliefs in disclosure requirements etc. compared to full IFRSs.

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 the IASB Standards for SMEs should have a mandatory fallback to the IFRS principles in the event that the IASB Standards for SMEs do not address a particular accounting recognition or measurement issue. IASB (or a separate body/board for SMEs) will have to review all existing and new accounting recognition and measurement requirements in the IFRSs on an ongoing basis, to consider whether there should be the same or different requirements for the SMEs. All accounting recognition or measurement issues typical for SMEs should be dealt with by the IASB Standards for SMEs. If the SMEs have an issue which is not typical for SMEs, and

the conclusion is that the treatment should follow full IFRSs, this should normally be addressed by a mandatory fallback.

IASB has suggested that each IASB Standard for SMEs should explicitly mention the required fallback to IFRSs. In our view the IASB Standards for SMEs should be in a topical sequence (see 8b). There should be an explicit reference in the IASB Standards for SMEs to any mandatory fallback to full IFRSs (referring to the relevant IFRSs by at least the number of the IFRS, and probably also the required paragraphs). However, to ensure that the main Standard(s) for SMEs focus on issues typical for SMEs and does not get excessive, this should be considered taken out into a separate section or book on transition to full IFRSs and concordance with full IFRSs.

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 view the Standards for SMEs should not restrict options that are available under the full IFRSs. One important argument for this is the objective to allow easy transition to full IFRSs. Consequently, we do not believe that this scenario should arise.

Further, a SME should not need to look into both the IASB Standards for SMEs and the full IFRSs to identify which range of accounting options they have for one issue. That could happen if there is an optional reversion to full IFRS.

The focus when writing the SME Standards should however be on the options addressing the special needs of SMEs, ie. normally the least burdensome options. Allowing all options in full IFRSs in the SME Standards may therefore primarily be done by a reference to the relevant requirements in the full IFRSs. To ensure that the main Standard(s) for SMEs focus on issues typical for SMEs and does not get excessive, additional guidance needed should be considered taken out into a separate section or book on transition to full IFRSs and concordance with full IFRSs.

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 standardbystandard 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 principlebyprinciple 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 standardbystandard and principlebyprinciple approach)?***

Please explain your reasoning and, if you favour (c), what criteria do you propose for defining 'related' principles?

Based on our view in question 5a, the question here is how the options in full IFRSs should be implemented into the SME Standards by IASB, when the SME Standards also allow alternative options intended for SMEs. We believe that options to use the principles of full IFRSs should normally only be done on a standard-by-standard basis, but in exceptional cases on a principle-

by-principle basis. When deciding on the level of options, IASB should balance the need for options to enable the companies to change only the principles for the intended type of transactions, and the need for comparability.

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?

We agree. IASB should however make sure that full IFRSs is only a starting point, and ensure that IASB Standards for SMEs are developed to be suitable for the “typical”/average SMEs, and that the focus on easy transition to full IFRSs is not over-emphasised. The necessary modifications and additions should be made to make the standards suitable for SMEs based on user needs and cost/benefit analysis. In particular, the overall considerations of fair presentation should be looked at, to make sure that for SMEs fair presentation is understood in the context of IASB Standards 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?

We agree. The two reasons mentioned (user needs analysis, cost benefit analysis) are important, and we expect them to result in simplifications compared to full IFRSs.

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 substantial decreases in the level of disclosure and presentation requirements. We expect additional disclosure requirements to happen only in exceptional cases. It could however happen as a result of relives in recognition and measurement requirements.

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?

In our opinion the presumption made in the preliminary views is too restrictive as a starting point. The recognition criteria and measurement requirements could in our view be different for SMEs because the users’ needs are different from those of full IFRSs, and the cost benefit analysis may give different results.

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. Based on our experience with the Norwegian accounting standard for small companies, this choice is the most user-friendly. As mentioned before, we suggest that requirements and guidance related to transition may be de-emphasised in the main Standard(s) for SMEs, and rather be taken out into a separate section or book on transition to full IFRSs and concordance with full IFRSs.

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.

In our opinion the IASB Standards for SMEs should be organised by topical sequence because this is more user friendly for the majority of users of the SME Standards. We presume that the majority of users of the SME Standards will not be familiar with the structure and content of full IFRS. The Norwegian Accounting Standard for small entities is organised by topical sequence, and it is our impression that this structure is favoured by the users. The numbering of IAS/IFRS reflects the historical sequence in which they were addressed rather than any internal logic.

There will however be need for concordance tables from subjects to the relevant IFRS number, and from the IFRS number to the subjects, so that cross referencing can easily be performed in order to facilitate the use of the standards and the transition between them.

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?

As we prefer the IASB Standards for SMEs to be organised by topical sequence, it is not each standard but rather each main topic, or the IASB Standard for SMEs in total, which should include objective, summary and glossary of key terms.

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?

According to IASBs tentative view expressed in paragraph 90c of the discussion paper, the effective dates of the new or revised IASB Standards for SMEs would probably be the same as the effective date of the new or revised IFRSs (including Interpretations). Because of the objective of easy transition to full IFRSs, we agree with IASB that concurrently with each exposure draft of an IFRS and each draft Interpretation, the Board should issue exposure drafts to the related IASB Standard or Interpretation for SMEs. However, the need for a stable platform of standards without constant changes may be greater in the SME segment than for listed companies, because of the costs to keep up to date with all the changes. We therefore suggest that the changes to IASBs Standards for SMEs may have a later effective date than changes to full IFRSs. Still, earlier application can be encouraged. One solution may be to have only one effective date each year to catch up with all changes that year, and if there are no or few important changes one year, the effective date may be moved to the update next year.

It is also mentioned that changes of IASBs standards for SMEs will most likely be a part of the IFRS exposure draft. However, we believe that in addition, it will need to be published as a

separate exposure draft including only the part relating to SMEs. There is likely to be a large number of users of the standards that are only users of the IASB Standards for SMEs, and not of the full IFRS, and they are likely to request exposure drafts for SMEs on a stand alone basis