

16 September 2004

International Accounting Standards Board  
Attn.: Mr. Paul Pacter  
Director of Standards for SME's  
30 Cannon Street  
London EC4M 6XH, United Kingdom

Ladies and Gentlemen:

This letter is in response to your preliminary views on developing standards for small and medium enterprises.

For over forty years I have been working in the financial side of an international religious order in the Catholic Church. The last twelve years have been at the headquarters in Rome, where efforts to install a single set of accounting norms have been proceeding internally. For an order that works in over 125 countries, this is not a trivial matter.

For several years it has appeared that the IASB offered the best hope of finding professionally sound norms that would cross boundaries. This hope grew notably when the decision to seek convergence between FASB and IASB norms was announced. (FASB norms can go beyond U.S. charitable entities if potential U.S. funding sources or lenders require reports based on U.S. GAAP.) While convergence would not be something quickly accomplished, this seemed to be an excellent decision, and one could look forward to its implementation.

Now, however, one may wonder if this hope has been misplaced. If there is a possibility of a second set of standards under IASB auspices, convergence will deal with one of these sets, but not necessarily with the other. In that case, there would still be multiple sets of standards from sources that are highly regarded. One side-effect of a second set of IASB standards for small and medium entities could be to undermine, or at least limit, the convergence project. For those who oppose convergence, the adoption of a second set of standards by IASB could become a powerful argument against all attempts to converge.

The unique product IASB has to offer the accounting world is its single set of sound, carefully developed accounting standards that can cross boundaries. The value of this single set is hard to imagine because it will help so many people. Establishing, improving, and

then protecting this single set are the reasons for the existence of IASB. Undercutting this set by publishing a second parallel set of standards, or exceptions to standards, would be like contaminating the currency of a country. As the adage says, the bad money [any non-convergent set of standards] will eventually drive out the good money. So my main recommendation (and an answer to your very basic question 1.1) is that, as you proceed, you not unwittingly corrupt your set of standards.

This is not to say that the application of standards at small and medium entities will or should be free of difficulty. But I believe there is a solution to that problem without resorting to a second set of standards for small and medium entities.

If I may, I would like to cite the experience of the Financial Accounting Foundation (FAF) in the 1970's. As you already know, this foundation is the parent body of two boards, FASB and GASB. I recall participating in discussions leading to comment letters at meetings of financial officers of U.S. non-profit entities on whether it would be better to be under FASB or GASB, or whether a third board would be needed for the charitable sector. Perhaps "CASB" or something similar could be started.

The CASB option faded quickly because there was little or no publicly expressed need to compel non-profit charities to set up and finance a separate charitable board. That left the choice between FASB and GASB.

Some non-profit entities favored being under GASB. They argued that many accounting issues facing education, health-care, welfare, and other non-profit institutions in the private sector were often quite similar to, though not always identical with, those facing public-sector institutions doing similar work.

Other non-profit entities preferred being under FASB. They maintained that a governmentally oriented board would probably not give sufficient attention to the differences between the public- and private-sector institutions, and that the governmental board would be less likely to have much experience or expertise in the private sector. At least in my personal experience, this latter view was predominant; eventually it prevailed at the FAF in Norwalk, Connecticut. The division of

responsibility between the two boards was fixed so that all governmental entities would be under GASB, and all non-governmental entities would be under FASB.

Again in my own experience, this arrangement has worked well. FASB did establish a non-profit department and issue some standards pertaining almost entirely to the needs of non-profit organizations; FASB was also receptive to comments on exposure drafts.

Some examples of these largely non-profit standards are SFAS 93 (depreciation), SFAS 116 (contributions), SFAS 117 (financial statements), and SFAS 124 (reporting all securities at fair value). Sometimes FASB has also issued standards that explicitly state that they do not apply to non-profit entities, for instance, SFAS 141 (business combinations).

As a result, non-profit entities in the U.S. have learned to distinguish those standards that do apply to them from those that do not. The same is true of for-profit entities. But all of the standards form part of one set, and all of them are intended to follow from one group of concept statements. (The standards may not always succeed in complying fully with the concept statements, but compliance is the intent. Subsequent amendments can remedy any deficiencies.)

The crucial point for IASB that I wish to draw from this perhaps lengthy description of the FAF background is that a single set of standards with a varying breadth of applicability but with a common conceptual basis is both possible and preferable by far to two sets of standards that may not mesh with one underlying conceptual framework.

Let me stress that I am not at all suggesting that you discard a project to deal with application problems found mainly in smaller and medium entities. What I have suggested would, however, affect your approach to such a project.

As you go ahead, I would make another recommendation based on the FAF experience: that non-governmental non-profit entities be included among the smaller and medium organizations. The distinction of constituencies between GASB and FASB has, as I stated above, worked very well.

If private non-profit entities in the U.S. had gone under GASB, I fear that many, especially the smaller ones, could have been overwhelmed by the encumbrance system that is necessary to track appropriations in some governmental accounting systems. Yet those entities that truly needed an audited report for lenders or donors would have had little choice but to go along with GASB norms. Their alternatives would have been to merge with a larger and perhaps more sophisticated organization or to go out of existence. But neither of these decisions ought to be driven primarily by accounting standards.

In my opinion, IASB already has in place standards that would cover most of the needs of non-governmental non-profit entities. The only noteworthy gap seems to be in the area of contribution accounting. Therefore, it should not add appreciably to the IASB workload to include the non-governmental entities that are charitable and non-profit in nature within the scope of small and medium entities.

If you have any questions about these comments, please do not hesitate to let me know.

Very truly yours,

Henry T. Chamberlain, S.J.