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Paul Pacter  
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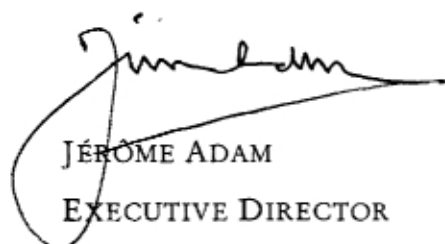
Dear Mr. Pacter

**DISCUSSION PAPER: PRELIMINARY VIEWS ON ACCOUNTING  
STANDARDS FOR SMALL AND MEDIUM-SIZED ENTITIES**

MRI Europe\* welcomes the opportunity to comment on the International Accounting Standards Board's (IASB's) Discussion Paper "Preliminary Views on Accounting Standards for Small and Medium-sized Entities (SMEs)". Our detailed answers to the questions posed in the discussion paper are set out in the appendix to this letter. Please note that we have not addressed every question set out in the discussion paper, only the matters that we believe are conceptually significant at this stage.

If you have any questions regarding our response, please contact David Main (DGM@hazlewoods.co.uk)

Yours sincerely;



JÉRÔME ADAM  
EXECUTIVE DIRECTOR

\* MRI Europe is the coordinating organization of the European members of Moores Rowland International (MRI). MRI is one for the top ten International Accounting Networks.

Appendix

***Question 1a: Do you agree that full IFRS should be considered suitable for all entities? If not, why not?***

We believe that full IFRS is suitable for all entities preparing general-purpose financial statements, however we also believe that full IFRS may not always be appropriate when financial statements are prepared for a limited group of users.

***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 strongly support the development by the IASB of a separate set of financial reporting standards suitable for SMEs which are designed to meet the needs of this sector. The objective of financial statements as set out in the IASB's Framework for the Preparation and Presentation of Financial Statements is "... to provide information about the financial position, performance and changes in financial position of an enterprise that is useful to a wide range of users in making economic decisions." SMEs typically have a limited range of users. 'Useful information' for users of SME financial statements is likely to be less complex than that required by users of larger or publicly traded entities. We believe that these standards should be developed by the IASB (as opposed to, for example, national standard setters) in order to ensure that such standards are developed within the IASB framework and for part of a coherent vision for financial reporting.

***Question 1c: Do you agree that IASB Standards for SMEs should not be used by publicly listed entities (or any 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 IASB Standards for SMEs should not be used by any entities except those specifically intended by the IASB. We also believe that publicly listed entities should not be included in the scope of IASB Standards for SMEs (see our response to Question 3). We agree that if IASB Standards for SMEs are used in the preparation of their financial statements by entities not specifically intended by the Board, then it would be inaccurate to describe such financial statements as being in compliance with IASB 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?***

Preliminary view 2 states that financial reporting standards for SMEs should:

- (a) Provide high quality, understandable and enforceable accounting standards suitable for SMEs globally;
- (b) Focus on meeting the needs of users of SME financial statements;
- (c) Be based on the same conceptual framework as IFRSs;
- (d) Reduce the financial reporting burden on SMEs that want to use global standards;
- (e) Allow easy transition to full IFRSs for those SMEs that become publicly accountable or choose to switch to IFRS.

We believe that these objectives are indeed appropriate. In particular, we believe that it is important that standards for SMEs should allow easy transition to full IFRS. If this is not the case we believe that SME standards may be less attractive to their prospective user-base. This could lead to a reduced acceptance and adoption and a consequent undermining of their credibility. We believe this would be an unfortunate outcome for all concerned.

## 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?***

It is our view that, unless the characteristics of the entities which are included in the scope of standards for SMEs include a quantitative size test, the standards finally developed may be inappropriate for most SMEs. Without a quantitative size test it is inevitable that, in some jurisdictions, there will be large entities which are not held to be 'in the public interest' and which are therefore within the scope of the standards for SMEs. This being possible, the drafting of the standards will have to take the needs of the users of the financial statements of such entities – which will be different from the needs of the users of the financial statements of the majority of SMEs – into account. We would suggest that the EU definition of medium-sized entities would be the appropriate cut off point when developing a quantitative size test.

## 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?***

As implied in our answer to Question 3a above, we believe that the Board should restrict the scope of standards for SMEs to entities that have no public accountability and that do not exceed a quantitative size threshold. We believe that 'larger' entities with no public accountability should nevertheless 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 on the basis of IASB Standards for SMEs? If not, why not?*

We agree in principle that there should be consent from all owners to an entity adopting standards for SMEs rather than full IFRS. However, we question whether this is actually a matter for the Board to determine.

**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 do not agree that there should be mandatory fallback to full IFRS for issues not addressed in IASB standards for SMEs. We believe that this runs contrary to the stated objective of reducing the 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 no optional reversion to individual IFRSs? Why?*

In our view, SMEs should be required to choose either the complete set of IFRSs or the complete set of SME standards, with no optional reversion to individual IFRSs. The alternative approach suggested in the preliminary view, which would allow selection of some full IFRS standards and some SME standards would lead to confusion, lack of comparability and would be unlikely to reduce the burden on SMEs. Such an approach might also undermine acceptance and hence credibility of standards for SMEs.

We note that if entities that had adopted standards for SMEs were to choose to give more information in their financial statements than the minimum required on particular issues, this would not constitute reverting to the relevant individual IFRS.

**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?*

We agree that disclosure and presentation requirements should be based on user needs.

**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?*

We believe that the Board should consider user needs first and foremost.

**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 believe that Standards for SMEs should be published in a standalone manner rather than incorporated into existing (and future) IFRS. We consider the emphasis on publication in a 'printed volume' to be at variance with the way in which many preparers access standards.

**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.*

As stated above, we believe that the standards for SMEs should be published in a standalone manner. Further, we believe that the IASB should publish one IFRS for SMEs along the same lines as the UK Financial Reporting Standard for Smaller Entities. This will have the advantage of reducing the scope for confusion and thus reducing the burden on SMEs.

**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?*

No. As stated above, we believe the Board should publish one concise standard for SMEs. The alternative suggested (essentially a series of mini-IFRSs) would not reduce the burden on SMEs sufficiently to encourage take-up.