

22 December 2004

Our ref: RME/CM

Mr Paul Pacter  
Director of Standards for SMEs  
International Accounting Standards Board  
30 Cannon St  
London EC4M6XH  
UNITED KINGDOM

**NATIONAL OFFICE**

Level 2 National Australia Bank House  
255 George Street Sydney  
NSW 2000 Australia  
TELEPHONE 02 8248 6600  
FACSIMILE 02 8248 6633  
aicd@companydirectors.com.au  
www.companydirectors.com.au

Dear Sir,

**Discussion Paper – “Preliminary Views on Accounting Standards for Small and Medium-sized Entities” (Discussion Paper)**

I am writing on behalf of the Australian Institute of Company Directors (AICD) to express our views on the Discussion Paper.

The Australian Institute of Company Directors is the peak organisation representing the interests of company directors in Australia. Current membership is over 19,000 drawn from large and small organisations, across all industries, and from private, public and the not-for-profit sectors. The Australian Institute of Company Directors has had a standing policy committee focusing on financial and other reporting issues for over thirty years.

**Threshold remarks**

The AICD believes that a deficiency in the Discussion Paper is that it does not identify an overall philosophy regarding the nature and extent of financial reporting by SMEs. The AICD believes that the Discussion Paper should make the following points clear:

- 1) Financial reporting standards have four elements:
  - a) Recognition
  - b) Measurement
  - c) Disclosure
  - d) Presentation
- 2) The preferred view of the AICD is that the elements of recognition and measurement should be mandatory for all enterprises
- 3) Any reduction in the level of reporting required for SMEs should be in the elements of disclosure and presentation.

These elements and their implications emerge obliquely under Issue 7 below.

It should be noted however that there is a body of opinion in Australia that does not support the preferred view indicated in 2) above. This alternate view believes that the elements of recognition

and measurement should only be mandatory for a “reporting entity”.<sup>1</sup> A major factor influencing the AICD in reaching the above views is the importance of consistency in financial reporting. It is also considered that the costs of implementation of the preferred view should not be great; for example, capitalisation of finance leases versus expensing of lease payments with or without disclosure.

**Issue 1**

*Should the International Accounting Standards Board 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?*

**Answer**

The AICD does not believe full IFRS are suitable for all entities because they are too complex for SMEs and they are not significant in managing these types of enterprise.

**Question 1b**

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

**Answer**

No the Board should not develop a separate set of financial reporting standards for SMEs the current IFRS should be modified for SMEs.

**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?*

**Answer**

The AICD agrees with both statements in this question.

**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?*

**Answer**

The AICD believes the objectives set out are appropriate.

---

<sup>1</sup> A “reporting entity” is defined in Australia as “an entity (including an economic entity) in respect of which it is reasonable to expect the existence of users dependent on general purpose financial reports for information which will be useful to them for making and evaluating decisions about the allocation of scarce resources”, Australian Accounting Standards Board Glossary of Defined Terms at [www.aasb.com.au](http://www.aasb.com.au).

### **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?*

#### **Answer**

The AICD agrees with the Board's proposal.

#### **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?*

#### **Answer**

The AICD agrees with the Board's proposal to focus on entities that do not have public accountability.

#### **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?*

#### **Answer**

The AICD agrees that the principles and the presumptive indicators provide a workable definition.

#### **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?*

#### **Answer**

The AICD does not agree with the threshold of "one of the owners", as it is too onerous. A less onerous test would be the owners of 10% of the shares or of the shareholders of the entity.

#### **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?*

#### **Answer**

The AICD does not agree with the proposition. These investors should have separate access to any further information they require.

### **Issue 4**

*If IASB Standards for SMEs do not address a particular issue 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?*

#### **Answer**

The AICD agrees that if an IASB standard for SMEs does not address a particular issue the entity should look to the appropriate IFRS to resolve the issue.

#### **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?*

#### **Answer**

Based on the Threshold Remarks set out above these situations should not arise as the principles of recognition and measurement would apply to all enterprises.

#### **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 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 you favour (c), what criteria do you propose for defining 'related' principles?*

#### **Answer**

##### **Question 5(b)(a)**

The AICD believes the standard-by-standard approach is appropriate.

##### **Question 5(b)(b)**

The AICD does not believe the principle-by-principle approach is appropriate.

##### **Question 5(b)(c)**

The AICD does not believe a "middle ground" is feasible.

#### **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?*

**Answer**

The AICD believes the proposed approach to development of IASB Standards for SMEs is appropriate.

**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?*

**Answer**

The AICD agrees that any modification for SMEs to the concepts or principles in full IFRS should be on the basis of the identified needs of users and not on the basis of cost benefit analyses.

**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?*

**Answer**

The AICD agrees that the modification would decrease the current level of disclosure, but should not increase the level of disclosure.

**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?*

**Answer**

The AICD agrees that in developing standards for SMEs the Board should presume no modification will be made to the recognition and measurement principles in IFRS, see the Threshold Remarks above. The AICD does not agree that the presumption could be overcome.

**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.

**Answer**

The AICD believes that either approach is acceptable.

**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.*

**Answer**

The AICD does not believe that this is a significant issue.

**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?

**Answer**

The AICD agrees with the proposal.

**Question 9**

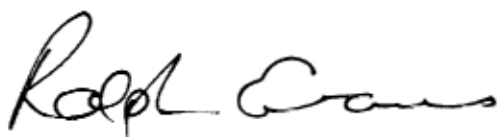
Are there any other matters related to how the Board should approach its project to develop standards for SMEs that you would like to bring to the Board's attention?

**Answer**

The AICD does not have any other matters it wishes to raise.

If you have any questions in connection with this letter please contact Rob Elliott or Catherine Maxwell.

Yours faithfully,



**Ralph Evans**

**Chief Executive Officer**

C.C. Australian Accounting Standards Board