Colegio de Contadores Públicos de Costa Rica
Teléfono: (506) 297-0045 • Fax: (506) 240-2467
Apdo. Postal 4368-1000 San José, Costa Rica
Correo Electrónico: ccpacr@racsa.co.cr
Página Web: www.ccpa.or.cr

CL 102

September 20th, 2005
CCP-SAJD 1015-2005

Mr. Paul Pacter
Director of Standards for SMEs
International Accounting Standards Board
30 Cannon Street

Dear Mr. Pacter:

Costa Rican Association of Public Accountants
Our position and point of view about the Discussion Paper of Preliminary Views on Accounting Standards for Small and Medium-sized Entities

About preliminary views on accounting standards for small and medium-sized entities.

Issue1. Should the International Accounting Standards Board (IASB) develop special financial reporting standards for SMEs?

1.1. Preliminary view of IASB. Full IFRSs are suitable for all entities. The objective of financial statements as set out in the *IASB Framework* is appropriate for SMEs as well as for entities required to follow full IFRSs.

Our response: We agree with this position because the accountant language is universal and it is possible to cover all kind of entities; small, medium and big-sized.

1.2. Preliminary view of IASB. The board will develop standards for SMEs. The board will develop a set of financial reporting standards that is suitable only for those entities that do not have public accountability ("IASB Standards for SMEs"). Those standards would not be intended for use by publicly accountable entities, including those whose securities have been listed for trading in a public securities market, even if national law or regulation were to permit this.

Our response: We do not agree with this position because it is not reasonable to create two different sceneries based on the size of the entity. This would harm the main objective of IFRs: transparency. All entities have public accountability; therefore all of them are subject of public regulations: the law.

Colegio de Contadores Públicos de Costa Rica
Teléfono: (506) 297-0045 • Fax: (506) 240-2467
Apdo. Postal 4368-1000 San José, Costa Rica
Correo Electrónico: ccpacr@racsa.co.cr
Página Web: www.ccpa.or.cr

1.3. Preliminary view of IASB. Disclose the basis of presentation. If an entity follows IASB Standards for SMEs, the basis of presentation note and the auditor's report should make that clear.

Our response: There should be a unique and integrated group of standards that would be intended for the use by all entities. Any difference should be made.

Issue2. What should be the objectives of a set of financial reporting standards for SMEs?

Preliminary view 2 of IASB. Objectives of IASB Standards for SMEs. 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 SMEs financial statements;
c. be built on the same conceptual framework as IFRSs;
d. reduce the financial reporting burden on SMEs that want to use global standards; and
e. allow easy transition to full IFRSs for those SMEs that become publicly accountable or choose to switch to full IFRSs.

Our response: The objectives of the current financial reporting standards are intended for all entities and it is not necessary to change them. The IASB has developed and will continue doing so in the near future, very important standards according to particular economic circumstances. Subsequently IASB is able to define in the current group of financial reporting standards; some of them to be followed by small and medium-sized entities as well as the ones developed for the banking sector.

Issue 3. For which entities would IASB Standards for SMEs be intended?

Colegio de Contadores Públicos de Costa Rica
Teléfono: (506) 297-0045 • Fax: (506) 240-2467
Apdo. Postal 4368-1000 San José, Costa Rica
Correo Electrónico: ccpacr@racsa.co.cr
Página Web: www.ccpa.or.cr

3.1 Preliminary view of IASB. No size test. The Board should describe the characteristics of the entities for which IASB Standards for SMEs are intended. Those characteristics should not describe quantitative "size tests". National jurisdictions should determine whether all entities that meet those characteristics, or only some, should be required or permitted to use IASB Standards for SMEs.

Our response: It is easy from a theoretical point of view to describe the characteristics of the entities for which IASB Standards for SMEs are intended. As a social science Accountancy presents its theory using general and universal concepts. Thus it is not convenient that the IASB develops a set of financial reporting standards that is suitable only for a group of entities based in their size and the definition if they have or not a public responsibility. This can introduce a subjective element into the development of International Financial Reporting Standards. Who is going to define if an entity applies as small or medium- sized at national and at international level? It is healthier if the IASB introduces some variation to each standard if necessary, in order to facilitate these entities the implementation of IFRSs.

3.2 Preliminary view of IASB. Public accountability principle. Public accountability is the overriding characteristic the distinguishes SMEs from other entities. Full IFRSs, and not IASB standards for SMEs, are appropriate for an entity that has public accountability. An entity has public accountability if:

a. there is a high degree of outside interest in the entity from non-management investors or other stakeholders, and those stakeholders depend primarily on external financial reporting as their only means of obtaining financial information about the entity; or
b. the entity has an essential public service responsibility because of the nature of its operations.

Our response: It is not convenient that the IASB develop a set of financial reporting standards that is suitable only for a group of entities based if they have or not have a public responsibility or if this public responsibility is less or higher than another ones. Again, this situation can introduce a subjective element into the development of International Financial Reporting Standards. It is quite important that all entities follow rigorous

financial reporting standards as IFRSs based in the public interest and transparency. It is better if IASB introduces some variations to each standard in order to facilitate these entities the implementation of IFRSs.

Preliminary view 3.3 of IASB. Presumptive indicators of public accountability. A business entity would be regarded as having public accountability, and therefore should follow full IFRSs, if it meets any of the following criteria:

a. it has filed, or it is in the process of filing, its financial statements with a securities commission or other regulatory organization for the purpose of issuing any class of instruments in a public market;
b. it holds assets in a fiduciary capacity for a broad group of outsiders, such as a bank, insurance company, securities broker/dealer, pension fund, mutual fund or investment banking entity;
c. it is a public utility or similar entity that provides an essential public service; or
d. it is economically significant in its home country on the basis of criteria such as total assets, total income, number of employees, degree of market dominance, and nature and extent of external borrowings.

Our response: We agree with IASB according to the two principles described in preliminary view 3.2, combined with the presumptive indicators of "public accountability" described in preliminary view 3.3, to provide a practical definition and appropriate guidance for applying the concept of "public accountability" but only if they mean an appropriate guidance for the reasonable application the IFRSs to all entities taking in account its size and importance.

Preliminary view 3.4 of IASB. Required assent of all owners. An entity that does not satisfy any of the presumptive indicators of public accountability would nevertheless be regarded as having public accountability unless it has informed all of its owners, including those not otherwise entitled to vote, that it intends to prepare its financial statements on the basis of IASB Standards for SMEs rather than on the basis of IFRSs, and none of those owners objects to using IASB Standards for SMEs.

Preliminary view 3.5 of IASB. Scope: all entities that do not have public accountability. The Board intends to include all entities that do not have public accountability as potential adopters of IASB Standards for SMEs.

Colegio de Contadores Públicos de Costa Rica
Teléfono: (506) 297-0045 • Fax: (506) 240-2467
Apdo. Postal 4368-1000 San José, Costa Rica
Correo Electrónico: ccpacr@racsa.co.cr
Página Web: www.ccpa.or.cr

Our response: We agree that all entities should be required to use full IFRSs and the IASB should introduce some variations to each standard if necessary, in order to facilitate to Small and Medium-sized Entities the implementation of IFRSs.

Preliminary view 3.6 of IASB. Subsidiaries, joint ventures and associates. If a subsidiary, joint venture or associate of an entity with public accountability prepares financial information in accordance with full Firs to meet the requirements of the parent, venturer or investor, it should comply with full IFRSs, not IASB Standards for SMEs, in its separate financial statements.

Our response: We agree all entities, subsidiaries, joint ventures and associates should be required to use full IFRSs in the preparation of their individual financial statements, as well as the ones of joint nature.

According to our previous comments it is not necessary to make any comments on issues 4, 5, 6, 7 and 8.

At the same time we conclude that it is not necessary for the IASB to develop special financial reporting standards for SMEs due to the following reasons:

1. **The accounting principles and standards are built on a general and universal theoretical base.**

2. **That would affect negatively the application of International Financial Reporting Standards.**

3. **IASB would introduce a subjective element in the application of IFRSs affecting negatively the main purpose of IFRSs: transparency and defense of the public interest.**

4. **According to the current dynamics of the economic development and the enforcement of the market economy as Adam Smith thought, all countries and all entities any be their complexity and nature, public or private, small, medium or big-sized have to be competitive. This means they have to be efficient. So the regulations should be rigorous including financial reporting standards.**

Colegio de Contadores Públicos de Costa Rica
Teléfono: (506) 297-0045 • Fax: (506) 240-2467
Apdo. Postal 4368-1000 San José, Costa Rica
Correo Electrónico: ccpacr@racsa.co.cr
Página Web: www.ccpa.or.cr

5. **To define small and medium-sized entity is not easy. Each country will have its own definition.**

6. **The convergence toward international accounting principles based on IFRSs can be affected.**

7. **IASB has practical means to introduce some concepts into IFRSs in order to facilitate its implementation to SMEs.**

   An example. See page 29 of the discussion paper.

Example 5A

IAS 16 *Property, Plant an Equipment* requires disclosure of a reconciliation of the carrying amount of each class of property, plant and equipment at the beginning and end of the period, showing changes classified into eight categories.

Hypothetically, the related IASB Standards for SMEs might require an SME to present the reconciliation for all its property, plant and equipment in the aggregate, rather than by class, or might require fewer than eight categories within the reconciliation, or might not require the reconciliation.

Our comment

If necessary but only if necessary, the IASB should change the standard to present the reconciliation for all of SMEs property, plant and equipment in the aggregate, rather than by class, or let fewer than eight categories within the reconciliation or let any reconciliation. This aggregate should be part of the IAS 16 as an addition.

Yours sincerely,

Guillermo Smith Ramírez
President of the Directing Board

mchr