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Dear Mr Pacter,

**Discussion Paper *Preliminary Views on Accounting Standards for SMEs***

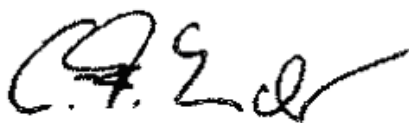
The German Cooperative and Raiffeisen Confederation (DGRV) is pleased to set out its comments to you. The DGRV is the national apex organisation of the German cooperative sector. Cooperatives comprise the strongest form of economic organisation in Germany representing some 8,500 cooperatives with more than 20m. members.

The IASB should keep in mind that almost all cooperatives are small or medium-sized entities (SME) which are not publicly listed. The business activities of cooperatives are often statutory limited to small regional markets, certain businesses and groups of customers which are normally acting as the members of the cooperatives in one person. Therefore we strictly reject that public accountability should be an overriding principle to identify non-SMEs. The IASB should focus on accounting matters and must not establish a definition of SME which is clearly a matter of political discussions.

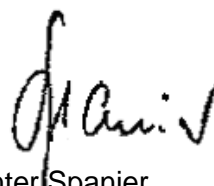
The needs of users and preparers of financial statements are not addressed applying the principle of investor orientation. We assume the reduction of financial reporting burden as being the main objective of SME standards. This objective is closely linked to SME standards that qualifies as basis for other reporting requirements like tax calculation and profit distribution purposes. IASB should investigate possible multi functional purposes of the SME standards.

We would be happy to explain details to you in further dialogues. As proposed in recent letters to you we prefer to install and work together with the IASB on the level of a working group on accounting issues of cooperative entities.

Sincerely,



Dr. Carl-Friedrich Leuschner  
CEO



Günter Spanier  
Member of the Board

## 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?**

No, we believe that the existing IFRSs focus on investors' needs and are definitely not suitable to the real needs of preparers and users of financial statements of most cooperative enterprises. Looking on the recent IFRS development we maintain an increasing volume, complexity and quantity of required financial information. Full IFRS are putting enormous administrative burden especially on credit institutions required to apply IAS 39 and IAS 32. Users needs of nearly all cooperatives are quite different from information needs of professional or institutional investors. Thus we enthusiastically support IASB's intention to develop special IFRS suitable for the needs of users and preparers of SMEs allowing them to present financial statement in accordance with international accounting standards.

As examples for accounting requirements that have a useless cost-benefit relation for SMEs we mention disclosure requirements concerning financial instruments in IAS 32, classification of equity and liabilities according to IAS 32, fair value measurement requirements in IAS 39, hedge accounting in IAS 39, impairment tests in IAS 36 and the purchase methods described in IFRS 3 for business combinations as to mention only some sophisticated issues.

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

Yes, we would prefer to develop a separate set of SME standards rather than to supplement exemptions or differences to the existing 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 do not agree that accounting standards should determine which entities are required or allowed to apply the standards. National jurisdiction is responsible to determine those requirements. If national or European law or regulation permits the use of SME standards, financial statements should always be described being in compliance with IFRSs for SME.

**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?***

Firstly we would like to emphasize that the acceptance and usefulness of SME standards will clearly depend on addressing the real needs of the designated users of these standards. Instead we observed that IASB staff and the Board already started to draft SME standards *before* broadly accepted conclusions on the objectives of SME standards as expressed by commentators in comments letters are confirmed.

The objectives of SME standards as listed in preliminary view 2 generally seem suitable but we identified internal conflicts between them. In our opinion the top priority for SMEs and cooperatives in Germany are cost-benefit considerations as covered by objectives (b) and (d), i.e. to reduce the financial reporting burden for preparers and focus on the needs of users of SME financial statements. As regards the reduction of financial reporting burden for preparers it is most essential whether those SME financial statements qualify as basis for tax calculation and profit distribution purposes. We predict that SME standards will not be accepted in Germany and Europe as long as they do not serve these purposes – at least as an adequate basis. There is only a small minority of enterprises willing and able to prepare financial statements complying SME standards *in addition* to local requirements concerning tax reporting and profit distribution.

But regarding the proposed concept of SME standards we doubt that they might be an adequate basis for these different reporting requirements and are consistent with IFRS conceptual principles at the same time. Unfortunately the IASB did not address these contradictions in its discussion paper. Instead the IASB links SME standards to basic IFRS principles and also to the principle of usefulness for information needs of investors. We believe that this is not an adequate approach for the development of SME standards.

What could be the solution? The main problem is that the objective to serve different reporting requirements stands in direct contradiction to principles set out in the IFRS conceptual framework. The discussion paper adopts these restrictive IFRS principles to SME standards in the objectives (c) and (e) in preliminary view 2, i.e. adopting the conceptual framework of IFRSs and allowing easy transition to full IFRSs. We strongly recommend that the IASB puts further analysis on these objectives, whether they allow divergence to full IFRSs in order to fulfil the additional reporting requirements beside the financial reporting.

The outcome of these investigations – including the opinions expressed in the comment letters – should be described and clearly defined in a separate framework for SME Standards that should itself being published for comment. After that is done single SME standards should be drafted.

**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 generally refuse that SME standards or reporting standards at all should cover the question whether its application is required or not. For European companies the regulation EC 1606/2002 (IAS-regulation) and national law described reporting duties. In our clear understanding the related standard setting task concerning SME standards comprise

1. the definition of fundamental objectives and principles of reporting standards for SMEs in a separate framework and
2. the development of an adequately designed set of standards.

The IASB should limit its standard setting work to technical accounting and financial reporting issues, but leave political questions in the responsibility of national legislators. The responsibility for the definition of entities which have to apply those standards definitely lies in the hand of national (European) legislation. Therefore the definition of size tests for entities which should apply SME standards or not is in our view no question of technical accounting but an original political matter.

**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 do not agree with the public accountability principle to distinguish SME from other entities. According to European and German accounting law or regulation reporting requirements depend on the size of an enterprise, whether its securities are publicly traded, whether consolidated or single financial statements are required and sometimes they depend on the legal form of an entity. Establishing public accountability as a new, overriding principle for determining reporting requirements is no matter of accounting (see our statements under question 3a).

Additionally this new principle stands in our opinion in contrast to fundamental objectives of SME standards as described in preliminary view 2. For example requiring "public accountable" small cooperative banks to apply full IFRSs would not reduce financial reporting burden on preparers and the information overflow for users of their financial statements which we believe are both primary objectives of SME standards.

In our mind accounting standards should not establish public accountability as single decisive factor which determines the information needs of the users of financial statements. It should rather be treated as only *one indicator* of non-SMEs beside others like criteria of size, public listed securities and single or consolidated 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?**

As already stated under 3a and b we do not agree that public accountability should be the overriding characteristic of non-SMEs. The presumptive indicators generally put the

label of public accountability on all credit institutions irrespective their size, publicly listed bonds or their limited business activities. A typical small cooperative bank has no subsidiaries, is not publicly listed, acts only in a confined geographical region and does not incur abnormal risks. Sometimes just one or two persons are responsible for the reporting work. This bank should not be required to apply the same IFRSs as a publicly listed international credit institution.

**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 do not agree. This question is definitely not a matter of an accounting standard but of competent legislators (see our comments to questions 3a, b, c)

**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?**

We don not agree. As indicated in our comments on question 2 we observed conflicts between the objectives in preliminary view 2 to reduce financial reporting burden of SMEs on one hand and to be consistent with full IFRSs on the other hand. In those cases we would stress the importance of the objective to reduce financial reporting burden.

**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 do not agree to a mandatory fallback to appropriate IFRS because this might put unbearable reporting burden on an SME. Therefore we support alternative (b), i.e. the use of IFRSs as guidance for exercising judgement.

**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?**

No, we do not support the optional application of IFRS or SME-IFRSs. The application of SME standards should be treated as minimum reporting requirements. If an entity chooses to show more detailed information which covers the minimum reporting requirements it should be permitted to do this. The general permission to choose either of the two sets of standards would in fact establish a huge number of optional accounting rules for SMEs

which we do not support. The final answer to that question depends on the concrete differences between IFRS and SME-IFRS which are not yet available.

**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?**

The answer depends on concrete differences between IFRS and SME-IFRS which are not available at the moment. As explained in answer to question 5a we do not support to permit to revert to IFRSs. If, however, this will be permitted, we tend to support alternative (b).

**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?**

As we recommended in answer to question 2 the Board should further investigate single objectives of SME standards and make suggestions how conflicts between objectives could be resolved. The needs of users and preparers should be examined and described separately. On that basis a clear priority of the objectives should be found. We support to put the objective of reducing financial reporting burden on a high level and to downgrade or eliminate the goal of investor orientation. Single over-sophisticated recognition and measurement requirements in IFRSs as well as overcharged disclosure and presentation issues should be identified causing reporting burden. The outcome of that research labour and the opinions expressed in the comment letters should be evaluated and then described in a separate framework for SME Standards. This framework should itself being published for comment. After that is done SME standards should be drafted.

Starting with the concepts of the IFRS frameworks and making modifications limits the possible outcome. It is in our view necessary to investigate the needs of users and prepares independent from current framework principles. As we explained under question 2 we believe that standards for SME should be an adequate basis for other legal reporting requirements beside financial information obligations, especially tax calculation and profit distribution purposes. The IASB should discuss these topics with national standard setters, governments and experts in order to find out acceptable solutions.

**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 generally agree to the approach that 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 and cost benefit analyses. The IASB should expose a draft of identified needs and differences to the IFRS framework for comment.

***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 modifications should always decrease and not increase the current level of disclosure requirements.

In this context we would like to draw your attention to a presentation issue for SMEs that has extraordinary importance for SME cooperative enterprises. As we did it comment letters before we urge the Board to find appropriate and practicable definitions of equity and liabilities and the related classification rules in the upcoming IAS-SME 32. The special information needs of users of financial statements published by cooperatives justify modifications of IAS 32. The presentation of member's shares as equity in SME financial statements is in our opinion adequate provided they exhibit ownership interests.

***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?***

No, we do not agree that recognition and measurement requirements should be adopted from IFRS without modifications. Some over-sophisticated IFRS requirements put unbearable burden on SMEs. Users and preparers needs justify fundamental modifications. As we explained concerning question 2 the IASB should evaluate how far SME standards could be the basis for other reporting requirements of SMEs in order to achieve the objective to reduce financial reporting burden. For example measurement at fair value through profit or loss stands in conflicts with information needs to show distributable profits. We could imagine that SME standards prohibit the recognition of unrealized gains through profit or loss deriving from measurement at fair value.

**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 to publish a separate printed volume of SME standards. Most essential for users of SME standards is that they are available in all common languages.

***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.***

We agree to organize standards for SME analogue to IAS/IFRS numbers.

***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?***

Yes, we agree.

***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?***

We refer to our answer on question 2: As regards the objective to reduce financial reporting burden for preparers it is most essential that those SME financial statements qualify in principle as basis for tax calculation and profit distribution purposes. IASB should investigate and make suggestions how this objective could be achieved.