Paul Pacter
Director of Standards for SMEs
International Accounting Standards Board
30 Cannon Street, London EC4M 6SH, United Kingdom

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Dear Mr Pacter,

The association of Swedish Accounting consultants (Sveriges Redovisningskonsulters Förbund – SRF) was formed in 1936, and is the country's leading organisation in the field of Financial and Accounting Consultancy. Today SRF has around 2.350 members active all over Sweden, engaged by more than 130.000 Swedish and overseas companies.

SRF demand that all their consultants are highly-qualified, with a commitment to quality in their work as well as personal development. A consultant's competence for the roll is thoroughly screened during recruitment stage.

SRF's ethics are underpinned by the rigorous pursuit of quality, in addition to the continual update of its members' knowledge base through training and development. This is crucial in their role as a company's advisor and partner.

Comments on the Discussion Paper, Preliminary Views on Accounting Standards for Small and Medium-sized Entities

Below you find short answers to the questions in the paper:

Q 1 a. *Do you agree that full IFRSs should be considered suitable for all entities? If not, why not?*

No. The full version of IFRSs will be much too complicated for SME. IFRSs are not designed for them.

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

Yes. They must be written from the SMEs point of view.

Q 1 c. *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?*

Yes, they should not meet the needs of users of listed entities

Q 2. *Are there objectives of IASB Standards for SMEs as set out in preliminary view 2 appropriate and, if not, how should they be modified?*

Objective (a): "provide high quality, understandable and enforceable accounting standards for SMEs globally".

We agree, but we want to point out that understandable is difficult to reach for most of the readers of SMEs financial reports.

Objective (b): ”focus on meeting the needs of users of SME financial statements”.

We do agree.

Objective (c): ”be built on the same conceptual framework as IFRSs”.

No, in reality the standards will not be simplified.

Objective (d): ” reduce the financial reporting burden on SMEs that want to use global standards”.

Yes we agree.

Objective (e): ”allow easy transition to full IFRSs for those SMEs that become publicly accountable to choose to switch to full IFRS”.

No, if the standards for SMEs will be as we want them there will be too big difference between the sets of standards.

Q 3 a. *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? How would an appropriate size test be developed?*

Yes, we agree that the Board should use qualitative criteria in defining SMEs rather than a quantitative size test.

Q 3 b. *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 large ones or only the relatively small ones? If not, why not?*

No. It will only be possible to use for big not listed entities.

Q 3 c. *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?*

Yes.

Q 3 d. *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 entities preparing its financial statements on the basis of IASB Standards for SMEs. If not, why not?*

No, an entity can be forced to change principles too often.

Q 3 e. *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, venture of investor, the entity should comply with full IFRSs, and not IASB Standards for SMEs, in its separate financial statements? If not, why not?*

Yes.

Q 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?*

The IASB Standards are not suitable for very small entities and there will be a heavy burden for these entities if they have to consult the whole IAS/IFRS regulation in the case where the SME regulation does not provide an answer. The simplified SME regulation must be comprehensive from the SME point of view. Guidance could possibly be suitable when it comes to questions of evaluation of certain balance sheet items, but the SMEs should not have to fulfil the all the requirements on supplementary disclosure in the financial reports.

Q 5 a. *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. There will be too many different sets of standards if this should be permitted.

Q 6. *Do you agree that the 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 the making modifications deemed appropriate? If not, what approach would you follow?*

No. We think that the IASB Standards for SMEs should start with the needs of the SMEs and their skills to provide the information needed. If not the administrative burden for the SMEs would be too big.

Q 7 a. *Do you agree that any modifications for SMEs to the concepts of 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 basis for modifications would you propose, and why? And if so, do you have any suggestions about how the Board might analyse the costs and benefits of IFRSs in an SME context?*

Yes, we agree.

Q 7 b. *Do you agree that it is likely that disclosure and presentation modifications will be justified on the basis of users needs and cost benefit analyses and that the disclosure modifications could increase or decrease the current level of disclosures for SMEs? If not, why not?*

Yes, we agree.

Q 7 c. *Do you agree that, when developing standards for SMEs, the Board should presume that no modification will 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 disagree. On the basis of user needs and the cost/benefit question it is inevitable that recognition and measurement principles will have to be modified. If we want simple standards there should be no presumption.

Q 8 a. *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?*

Yes. Since we want a complete new set of standards they should be published in a separate volume.

Q 8 b. *Do you agree that IASB Standards for SMEs should be organised by IAS/IFRS number rather than i topical sequence? If you favour topical sequence or some other approach, please explain why.*

No. Since we want a complete new set of standards they should not be organized by IAS/IFRS number. A topical sequence could be used but there are also other options.

Q 8 c. *Do you agree that each IASB Standard for SMEs should include a statement of its objective, a summary and glossary of key terms?*

Yes and no. We want the new standards to be presented as short and simple as possible.

Q 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?*

The Board should ask what accounting standards the SME really need and their ability to fulfil them.

In Sweden, as well as in Finland, most of the entities are very small. They need a very simple set of rules. It is not possible to try to make the existing IASB standards simpler. For the small entities you have to make a completely new set of standards.

Our arguments are following:

- Very often the owner of the company is also the only employee.
- Preparation of statutory annual reports is often seen as a burden to the management of a company. Directors do not understand the statutory accounts and annual reports.
- Statutory accounts and annual reports are profit based whereas the directors of very small enterprises often focus on the cash position of the company in their day-to-day management.
- Statutory accounts and annual reports are often seen as reports prepared merely to fulfil statutory obligations which bear no relevance to how they control the company.
- Abbreviated accounts are of strictly limited use and prepared and filed simply to fulfil an obligation under company law. The complex legal regime concerning statutory accounts and annual reports is not designed to fit the needs of small companies or of users.
- The users of small entities´ annual reports (for example owner, employees and banks or providers of finance) already have very good knowledge of the company. If they lack information it can easily be given to them.
- The users of small company annual reports want to see if the company is profitable and solvent. There is no need for a lot of details in disclosures.

Here are some examples of what we want.

General provisions including the components of Financial Statements

Small companies should not have to show

- cash flow statement
- a full set of disclosures of information

The layout of Balance sheet

The layout of the balance sheet can follow IAS .
That means

- Assets in two groups of assets, Non-current and Current
- Equity and liabilities in three groups, Capital and reserves, Non-current liabilities and Current liabilities.

Very few demands on disclosures, see below.

The layout of Income Statement

The layout of the income statement can follow the IAS.
That provides a possibility for the company to choose one of two methods:

- The classification of expenses by nature
- The classification of expenses by function

The demand of disclosures

We want that there will be very few demands for disclosures. If this cannot be handled in the project it is a matter for national standard setting bodies.

The disclosure regarding *Non-current assets* and *Depreciation* can be

- The depreciation method used
- The useful lives or depreciation rates used
- Total depreciation allocated for the period
- The gross amount of depreciable assets and the related accumulated depreciations

Taxes

Smaller companies should not show deferred tax liabilities and deferred tax assets

Leases

Smaller companies must not show leased assets in the balance sheet.
They can inform of the amount of leased assets and leasing periods in a disclosure.

Financial instruments

The fair value should also be a possibility to the smaller companies to use.
If they do so, they have to give a disclosure of how it has been handled in the income statement.

Segment reporting

In smaller companies there is no need for segment reporting and therefore it should not be a demand for disclosures in this matter.

Present value of an asset

In smaller companies the present value of a tangible and intangible asset must **never** be a demand for making an estimation of future cash flows expected to arise. In these companies that will not be made due to lack of experience in doing so. A prudence policy in valuing the assets will be good enough.

Regards

Mats Dahlberg
Managing Director