

SOUTHERN SOCIETY OF CHARTERED ACCOUNTANTS**Submission from the Regional Technical Advisory Committee Meeting (No. 14)**

Paper: IASB Discussion Paper Preliminary Views on Accounting Standards for Small and Medium Sized Entities

Date: 16th September 2004

Reporter: Richard Davis

The committee has reviewed the noted document at their meeting on the above date and has made the following comments:

Questions:

- 1a. Full IFRS's are not considered suitable for smaller entities. In many instances they are too complicated and the cost of complying with certain measurement requirements are disproportionate to the associated benefits. In addition to this some of the measurement criteria are not necessarily appropriate for smaller entities.
- 1b. The Board should develop separate reporting standards for small and medium sized entities and this project should be given a high level of priority. Whether this development should be in the form of a complete set of standards or separate stand alone document in a different perhaps more traditional format is discussed below in question 1c.
- 1c. Whilst the committee do not believe that any standards developed for small and medium sized entities should be used for listed companies we do not see the need for the IASB to be involved in this matter but should leave this to the jurisdictions of the countries concerned to decide as long as the accounts state which set of standards have been followed.
2. We agree in principal with objectives set out in preliminary view 2 although the objective of allowing easy transition to full IFRS's for those companies that become publicly accountable should not be given a high level of priority. Those companies represent a minority of small and medium sized entities and therefore this transition is a specialist area. Tailoring SME standards towards this group of businesses may not allow the other objectives to be met effectively.
- 3a. We do not feel that it is essential for the Board to describe the characteristics as this could perhaps be better left to the national jurisdictions to decide. It is agreed that the characteristics do not necessarily need to be sized based and could perhaps be based on a public interest criteria. The Board could simply state that the standard for SME's can be used by all companies that do not have to use full IFRS.

- 3b. We agree that that standards should be broadly based at all entities but should also be looking to achieve a simplified standard. This is more of a bottom up approach rather than a top down approach which should help produce fresh thinking and be less based on the full IFRS's with just minimal disclosure exemptions.
- 3c. We do not believe that the Board needs to get too involved in the issue of public accountability as this can be primarily left to the national jurisdictions who would be applying the standards. There will be so many differing views on what is publicly accountable in the different countries that specific definitions could not be internationally workable.
- 3d. Again the decision on who can and cannot use the SME standards should be left to the national jurisdictions but in principal we would agree that this should be subject to a veto by a significant minority of shareholders but not any one individual shareholder.
- 3e. Again we believe that this decision could be left to the national jurisdictions but can not see that it is necessary for there to be a compulsion for the individual entities to prepare full IFRS statements. This may otherwise lead to the incurring of costs in the production of information that is of little real value.
- 4. We do not see that companies adopting the standards for SME's should be compelled to look to the appropriate IFRS to resolve particular issues not covered in the standard. Our preference would be for option B as discussed in paragraph 41 where this is left to judgement with full IFRS for a reference point. This therefore enables companies to use what is considered to be GAAP at the time.
- 5a. We do not believe that companies should be able to revert to full IFRS on a piecemeal basis. Measurement must follow consistently either the full IFRS's or the full SME version. If additional disclosures are considered appropriate then it has always been the case that these can be voluntarily made by those companies following the SME version.
- 5b. We do not believe that companies should be able to revert to individual IFRS's either on a full individual standard basis or on particular principles. However where matters are not addressed in the SME version then we would prefer option B where companies are allowed to refer to full IFRS's to determine the principles to be used in that particular area.
- 6. We agree that any SME standard would need to stem from the generally accepted practice covered by the full IFRS standards. However adopting a top down approach by using the full standards as the initial basis is unlikely to lead to the simplification required by the majority of SME's. We would prefer the SME standard to be in a more appropriate structure possibly using a profit and loss account, balance sheet followed by a notes approach. Each section would require

all the IFRS's to be examined to determine which principles are needed in each area and which are not. This will produce a more useable format because in each particular area there may be a number of IFRS's that need to be considered.

- 7a. We believe that the modifications required for the SME's should be based on a combination of the users needs and cost benefit analysis. These will obviously differ from area to area where appropriate. The Board will have to use its judgement as to which criteria is more appropriate in the various circumstances. In considering the cost benefit analysis we consider that external costs to the business such as the employment of experts are more relevant than the assessment of internal time used on a particular issue. We believe that a happy compromise of what is practical for the smaller business needs to be achieved.
- 7b. There is the potential for significant reductions in disclosure but in practise smaller businesses will see a lesser reduction than larger ones. We cannot see that the SME standard will increase disclosure as compared to IFRS but agree that it will not necessarily reduce disclosure as compared to the current standards in use in a number of countries.
- 7c. We agree that where possible the recognition and measurement criteria used in the SME standard should be the same but we also agree that the Board should be prepared to move from this where the costs benefit analysis is not persuasive.
- 8a. We agree that the SME standard should be published in a separate printed volume. We do not believe that it should be in IFRS format but, as detailed above, some other more appropriate format perhaps based on a profit and loss account, balance sheet and notes ordering system.
- 8b. The difficulty in adopting an IFRS or topical ordering system is that there will be a number of IFRS's that may be relevant in a particular area. This document is designed for smaller businesses who will not necessarily have the expertise to pull together the relevant issues which therefore need to be presented as a separate considered view on each area. Once the initial SME standard has been prepared the development of this needs to be run in conjunction with the development of full IFRS to avoid any time lag which could lead to confusions over the approach to be adopted in new areas. As noted above we believe that there should be one standard as opposed to numerous individual standards and therefore it is essential for there to be an objective summary and a glossary. If there are to be a number of standards then the volume containing these standards should also have these in addition to a table of derivation and references in case you need to refer to the full standards.
- 9. We believe that the formulation of a standard for SME's should be started as quickly as possible, given adequate resources and exposed and tested at the appropriate level with sufficient time for proper comment.

We would also hope that the Board would give sufficient weight to responses to the exposed document from small businesses and those advising small businesses.