

24 September 2004

Mr. Paul Pacter
Director of Standards for SMEs
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
UNITED KINGDOM
E-mail: CommentLetters@iasb.org

Dear Mr. Pacter,

Re: Discussion Paper: Preliminary Views on Accounting Standards for Small and Medium-sized Entities (SMEs)

The Australian Government Department of Finance and Administration welcomes the opportunity to respond to the request for comments on the International Accounting Standards Board's (IASB) Discussion Paper on accounting standards for Small and Medium Enterprises.

Even though the primary focus of International Financial Reporting Standards is the application to commercial enterprises, our interest in the IASB Discussion Paper arises from the application of Australian Equivalents to International Financial Reporting Standards (AEIFRS) to public sector entities in Australia.

The main users of Australian Government financial statements include elected representatives, the general public with interest in government activities and the media. We believe that the provision of information that is useful to the users of financial statements is paramount. Compliance with AEIFRS, particularly the extensive disclosure requirements, may clutter small agency financial statements and hence reduce the usability of those reports.

Please find attached our detailed comments, limited to questions applicable to the public sector.

Yours sincerely

Roger Cobcroft
Acting Branch Manager
Accounting Policy Branch

Question 1b. Do you agree that the Board should develop a separate set of financial reporting standards suitable for SMEs?

We support this proposal, as it would be more useful for preparers of financial statements for SMEs to have a single source of reference.

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 agree that the IFRS for SMEs should not be used by publicly listed entities and use of IFRS for SMEs by such entities would not be in compliance with IFRS for SMEs, as they would not be supplying the required information for financial statement users to make informed decisions.

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?

Preliminary View 2 – 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 SME 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.*

We agree with the objectives outlined in Preliminary View 2. In preparing a standard for SMEs, the qualities of financial reporting outlined in the IASB Framework, such as relevance and reliability are paramount.

IFRS for SMEs should have the same conceptual basis as the IFRS Framework. However, the application of the framework could be simplified for SMEs due the cost involved in the calculation and because the information derived is too complicated for the users to digest.

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 believe that a set of characteristics for IASBs for SMEs should include size. We see SME Standards as being particularly appropriate for small entities, wholly owned by a parent entity that produces publicly available consolidated financial reports in line with IFRS, and whose assets, liabilities, revenues and expenses are not material to that parent's consolidated financial reports.

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?

In the public sector, all entities are considered to have public accountability. However, we see SME standards as being appropriate for small entities with public accountability, where they are wholly owned by a parent entity that produces publicly available consolidated financial reports in line with IFRS and where their assets, liabilities, revenues and expenses are not material to that parent's consolidated financial reports

Question 3c. Do the two principles in Preliminary View 3.2, combined with the presumptive indicators of 'public accountability' in Preliminary View 3.3, (interest from non-management investors or other stakeholders/essential public service responsibility) provide a workable definition and appropriate guidance for applying the concept of 'public accountability'? If not, how would you change them?

We do not agree that the IASB should develop standards that would be suitable for all entities that do not have public accountability. Our view is that all Government agencies are subject to public accountability. While all Australian Government entities are publicly accountable, the smaller agencies are not only burdened by the compliance cost of the disclosures required by AEIFRS, but the volume and complexity of some of the disclosures arguably detracts from the readability, and hence the usefulness of their financial reports.

The use of public accountability as a differentiator would prohibit smaller agencies from using IASB SME standards and hence would not be address the problems referred to in the previous paragraph. The use of IASB SME standards by small public sector entities could result in more meaningful outcomes in enabling the users to focus on the agency objectives and the use of funds in achieving those objectives.

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 agree with this proposal.

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?

Entities should comply with either IFRS or IFRS for SMEs. An entity should only revert to IFRS if the SME version of the IFRS does not address an issue.

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)?

We prefer option (a) as it would provide certainty to the reader that either a specific IFRS or SME version of the IFRS was used to prepare the financial statements. The other options would tend to confuse the reader and could inhibit comparability between agencies. They would also raise the issue of what was a 'principle' within an IFRS.

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?

We agree with this proposal. We suggest the first step should be to review the disclosure requirements in each IFRS and decide whether, and when, they should be required of agencies using the SME standards.

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 agree that any modifications must be based on the needs of users and 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?

We agree that disclosure and presentation modifications will be justified on the basis of user needs and cost-benefit analyses. Our expectation is the current level of disclosure for smaller agencies would decrease.

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?

We agree that the focus should be on streamlining disclosures, rather than changing recognition or measurement rules. We are particularly concerned that the financial statements of SMEs as not made so different that they cannot be consolidated into the accounts of groups that use IFRS.

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 that IASB Standards for SMEs should be published in a separate printed volume.

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.

The optimal solution would be to provide both views to enable speedy access to the required IASB Standards for SMEs information.

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?

We agree with this proposal, as it is consistent with international and Australian standards.

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 would like to reiterate that, although the IASB does not currently develop standards for the public sector, IFRSs will have a major impact on public sector entities in Australia.