

Treuhand-Kammer
Limmatquai 120
8001 Zurich
Phone +41 44 267 75 75
Fax +41 44 267 75 85
Postal address:
P.O. Box 6140
8023 Zurich
Switzerland
Internet:
www.treuhand-kammer.ch

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

Zurich, 17 September 2004

Comments on Discussion Paper:

Preliminary Views on Accounting Standards for Small and Medium-sized Entities

Dear Mr. Pacter,

We welcome the opportunity to comment on the discussion paper "preliminary views on accounting standards for small and medium-sized entities". We consider this project an important step towards, and opportunity to achieve, harmonised statutory accounting requirements throughout Europe and the world. In order to achieve this, it will be important to relax some of the more onerous recognition and measurement principles, for instance in the areas of fair value and / or financial instruments accounting. Those deviations, however, should be of limited nature and clearly identified in order to enhance a user's understanding of what an implementation of full IFRS would mean. This seems important to us in light of increased cross-border M&A as well as financing activities of SMEs. In addition, the project should focus on a significant reduction of presentation and disclosure requirements in comparison with full IFRS.

Our responses to the individual questions are as follows:

Question 1a

We agree that full IFRS are suitable for all entities in the sense that application results in a true and fair presentation of financial statements, and user needs will be satisfied. Nevertheless, we believe that the user needs of SMEs without public accountability may also be satisfied with a less complex and extensive set of standards.

Question 1b

Yes, we agree. A separate set of global accounting standards applicable to SMEs is consistent with the IASB's objectives. It supports harmonisation of national GAAP and enhances comparability and understandability across the borders, thereby facilitating the development of SMEs.

Question 1c

We believe that this issue should be delegated to the local regulators. For instance, we could envisage that such standards may be acceptable at the "Local Caps" segment of a national stock exchange.

Question 2

We agree with the individual objectives. Though there is some inherent contradiction, e.g., in respect of the objectives to provide high quality accounting standards and to reduce the financial reporting burden.

We believe that the IFRS Preface should be amended by clarifying objective (a) to require a high quality that is based on both the needs of users of financial statements and a cost benefit analysis, thereby taking into account the lack of public accountability of SMEs. A reasonable balance between objectives is necessary.

Question 3a

Yes, we agree.

Question 3b

Yes, we agree.

Question 3c

Yes, they do.

Question 3d

No, we do not agree. Basically, entities are subject to national laws and regulations, which define the formal and material requirements for financial reporting. In the long term, we would expect the local laws to refer to SME GAAP for statutory purposes – provided that they address user needs.

We believe that applying IASB Standards to SMEs will often still provide a better quality of financial reporting than applying the minimum requirements of national laws and regulations. Therefore SMEs should be encouraged to apply IASB Standards. It seems inappropriate and not in the scope of the IASB's activities to empower minority shareholders in the way proposed. This may detain entities from applying IASB Standards at all.

Question 3e

No, we do not agree. As stated in our comments above, entities are subject to national laws and regulations. Internal reporting based on full IFRS should not trigger external reporting. SME should be encouraged to apply IASB Standards for SMEs on a voluntary basis. A subsidiary might be interested in presenting true and fair financial reports - without preparing a full set of notes in accordance with IFRS, e.g. to their banks and investors.

Question 4

Yes, conceptually we agree, though we do not expect that this situation will occur often.

Question 5a

We believe that entities should only be allowed to apply one specific set of standards in its entirety. An option to revert to full IFRS partially would lead to a confusing mix of accounting policies and therefore impair comparability of financial reports.

Question 5b

As stated in our comment above, SMEs should be required to apply a set of standards in its entirety.

Question 6

Yes, we agree.

Question 7a

Yes, we agree. For analyzing the costs and benefits of an IFRS, the IASB should perform field tests or at least inquiries of SMEs. A close co-operation between the IASB and the national standard-setters and / or regulators would be desirable.

Question 7b

Disclosure requirements for SMEs may well increase compared to the current level based on national GAAP. As compared with full IFRS, certain disclosures may be replaced by others, but the focus of this project should clearly be to reduce disclosure requirements, e.g. in the areas of sensitivity analyses, pension accounting, financial risk disclosures, purchase accounting, etc.

Question 7c

On balance we agree that SMEs should generally be subject to the same recognition and measurement principles as publicly listed entities, and accordingly, performance reporting should generally be the same irrespective of whether the full set of IFRS or the SME standards are applied. The reduced complexity of SME activities is expected to facilitate the implementation of full IFRS in many areas. Nevertheless, some of the more onerous recognition and measurement principles of full IFRS, for instance in the areas of fair value and / or financial instruments accounting should be relaxed, and historical cost should be used where reliable fair value information is difficult to obtain. Those deviations, however, should be of limited nature and clearly identified in order to enhance a user's understanding of what an implementation of full IFRS would mean. In addition, the standards for SMEs should be dedicated to the development of a reduced set of presentation and disclosure requirements.

Question 8a

Yes, we agree that IASB Standards for SMEs should be published in a separate printed volume. Implementation guidance and illustrative examples should be kept at a minimum in order to reduce complexity.

Question 8b

Yes, we agree. Using the same sequence as full IFRS enhances access to the higher set of standards.

Question 8c

Yes, we agree.

Question 9

We would like to raise the following other issues:

- We would be opposed to any piecemeal introduction of SME standards. In our opinion, IASB Standards for SMEs should only be published once they comprise a complete set of standards compared to full IFRS.
- Any subsequent amendments to full IFRS should be adopted into the SME standards without significant delay.

Yours sincerely,

Swiss Institute of Certified Accountants and Tax Consultants

Accounting and Auditing Practices Committee

Philipp Hallauer

Hansjörg Stöckli