



Setting the global standard for investment professionals

4 October 2004

CL 83

Sir David Tweedie
Chair of the International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

RE: Discussion Paper, “Preliminary Views on Accounting Standards for Small and Medium-sized Entities”

Dear Sir David:

The CFA Institute¹ is pleased to respond to the International Accounting Standards Board (IASB) Discussion Paper, *Preliminary Views on Accounting Standards for Small and Medium-sized Entities* (SMEs).

CFA Institute members are primarily concerned with the financial reporting of companies whose securities are listed for trading in public capital markets. However, CFA Institute members do sometimes invest in or advise others on investments in companies that are not publicly traded. Therefore, we believe our views on this issue should be taken into consideration.

We recognize that investors in nonpublic companies and their advisors can often demand additional information not provided in the financial statements. However, if the financial reporting system was not set up to provide the information it may not be available on a timely basis without excessive cost. In addition, the information, when produced, may not be as reliable as it would have been if it had come from a financial reporting system designed to produce it. Also, competitors may not ask for this information putting the investor that wishes to do sound due diligence at a disadvantage. Therefore, CFA Institute strongly supports Preliminary view 1.1, “Full IFRS are suitable for all entities.” However, we do NOT support Preliminary view 1.2, “The Board will develop standards for SMEs.”

CFA Institute does not believe the IASB should develop special financial reporting standards for SMEs. This does not mean we believe others, either globally, country by country, or at the regional level should do so either. This would likely result in standards or practices that are not consistent with the IASB’s Framework, or IFRS, and certainly would detract from our objective which is to have one set of high-quality globally accepted accounting standards.

¹With headquarters in Charlottesville, VA and regional offices in Hong Kong and London, the CFA Institute [formerly, the Association for Investment Management and Research® (AIMR®)] is a non-profit professional association of more than 70,000 financial analysts, investment managers, and other investment professionals in 117 countries of which 60,000 are holders of the Chartered Financial Analyst® (CFA®) designation. The CFA Institute membership also includes 129 affiliated societies in 50 countries.



We believe that any proposal to develop a secondary set of standards violates several long-standing and strongly held views of CFA Institute:

- There should be a single set of high quality global financial reporting standards.
- Companies should not be permitted free choices in selecting their financial reporting standards.
- Similar transactions should be accounted for using the same standards regardless of company size, economic environment or management intent.

A Single Set of High Quality Global Standards

We believe that the development of special financial reporting standards for SMEs violates the principal objective of the IASB, as set out in its *Constitution* and in the *Preface to International Financial Reporting Standards*, that is “to develop, in the public interest, *a single set* of high quality, understandable and enforceable global accounting standards that require high quality transparent and comparable information in financial statements and other financial reporting to help participants in the various capital markets of the world and other users of the information to make economic decision”(emphasis added.) In paragraph 8 of the discussion paper, the Board tries to rationalize the development of SME standards with this principle by stating that a *single set* “means that all entities in similar circumstances globally should follow the same standards. The circumstances of SMEs can be different from those of larger, publicly accountable entities in a number of ways....” We believe that suggesting that a *single set* of standards may be appropriate in one circumstance but not in another is dangerous. This argument can be used by critics of IFRS to defend the need for another accounting treatment in their particular circumstances. We have seen this already occur in Europe with regard to IAS 39. European Banking interests contend that they have different circumstances than others following IFRS. Unfortunately, their arguments seem to have been persuasive to the regulators in Europe

Companies Should not be Permitted to Freely Choose Their Accounting Standards

Paragraph 3 states “The special standards for SMEs would be a choice available to an SME, but not to entities that do not meet IASB’s definition of SME.” Further, Preliminary view 5 provides for optional reversion to IFRS. Paragraph 52 states “an entity that uses IASB Standards for SMEs would not be prohibited from applying the related IFRS in its entirety, while otherwise continuing to use IASB Standards for SMEs.” Thus, it appears that the Board intends to give *some* companies, those qualifying for use of SME standards, the option to provide financial statements based on full SME standards, full IFRS or a set of statements that is a combination of SME standards and IFRS at management’s discretion. CFA Institute has never supported “free choices” in accounting standards. We do not believe that there is sufficient justification to deviate from that view. Permitting SMEs to choose to follow SME standards or IFRS or a combination of the two will result in SME financial statements that are not comparable to those of non SMEs and not even comparable to other SMEs, potentially impairing the usefulness of information.

The Same Standard Should Apply to a Transaction Regardless of Company Size, Location, or Management Intent

Preliminary view 7.1 states that “Any modifications to the concepts or principles in IFRS must be based on the identified needs of users of SME financial statements or cost-benefit analyses.” Preliminary view



7.3 states that there is a “rebuttable presumption of no recognition and measurement modifications.” We do not believe that there is ANY justification for changing a recognition or measurement principle.

It is a long standing position of the CFA Institute that financial statements should portray economic reality to the greatest extent it can be depicted by accounting numbers. A corollary to that belief is that the economics of a transaction is the same regardless of the size of the company undertaking the transaction, the geographic location of the company undertaking the transaction, or the intent of management undertaking the transaction. Certainly, the economics of the transaction is not changed by who is using the information about the transaction.

Concluding Remarks

CFA Institute is concerned that IASB is using its scarce resources (Board and staff time, money) in an effort that is doomed to failure. We do not believe that the limited modifications to IFRS that the Board currently envisages will satisfy those calling for exemptions, and/or modifications of IFRS for SMEs. At the same time, we believe that others will use any modifications as a lever to reopen the debate about alternative accounting treatments that the Board thought resolved when it issued the relevant IFRS.

While we do not believe that there should be any modifications to full IFRS, we strongly concur with the first part of the Board’s preliminary view cited in paragraph 76 that “users of financial statements that bear the title of International Financial Reporting Standards for SMEs need and expect a level of financial reporting that is based on full IFRS...”

The CFA Institute appreciates the opportunity to comment on this Exposure Draft. If you or the IASB staff have any questions or require further elaboration of our views, please do not hesitate to contact Rebecca McEnally (rebecca.mcenally@cfainstitute.org or 01.434.951.5319).

Sincerely,

A handwritten signature in blue ink, appearing to read "P. McConnell".

Patricia McConnell
Chair, Corporate Disclosure Policy Council

A handwritten signature in blue ink, appearing to read "Rebecca McEnally".

Rebecca McEnally, Ph.D., CFA
Vice-President, Advocacy, CFA
Institute

Cc: Raymond DeAngelo, Executive Vice President, CFA Institute
Kurt N. Schacht, CFA, Executive Director, CFA Centre for Financial Market Integrity, CFA
Institute
Corporate Disclosure Policy Council

