

Institute
of Certified
Public Accountants
in Israel

ל ש כ ח
רואי חשבון
בישראל



September 20, 2004

Mr. Paul Pactor
Director of Standards for SMEs
International Accounting Standards Board
30, Cannon St
London EC4M6XH
United Kingdom

RE: Comments on preliminary views on Accounting Standards for Small and Medium sized Entities

In response to your invitation to comment on the proposed preliminary views on Accounting Standards for Small and Medium sized Entities, following are our comments on behalf of the Institute of Certified Public Accountants in Israel.

We welcome the project of setting accounting standards for SME's based on IFRSs modified for the needs of such entities and the users of their financial statements .

Comments on IASB Discussion Paper

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

No, we do not agree. Full IFRSs are generally suitable for large entities as they are primarily prepared to fulfill the needs of the users of financial statements of such entities. The adoption of full IFRSs by SMEs will give rise to high compliance costs, limited potential of compliance with limited benefits and questionable relevance of the reported information for the users of SMEs financial statements.

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

Yes, we agree. We believe there is a need for a set of modified accounting rules, but it should be compatible with the needs of the users of the SMEs and should be derived from complete set of the accounting standards.

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?*

Yes, we agree that IASB Standards for SMEs should not be used by publicly listed entities. We agree as well that if such standards would be used for financial statements of a certain publicly listed entity, its financial statements should not be considered in compliance with IFRSs.

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?*

The objectives are appropriate. Furthermore, we believe that fundamental concepts for the SME's should be the same as full IFRSs and therefore, no significant revisions to the Framework are required

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?*

Yes, we agree. If "size tests" were to be set, they apparently should have been different for each economy and related to size and other attributes of that economy.

- 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?*

No, we do not agree. We believe that the special standards to be developed should apply to **small and medium size entities** as originally intended. Experience proves that large entities – even publicly listed and even if their financial statements are not publicly published – have similar characteristics compared with those of publicly listed entities. Furthermore, the term "public accountability" is not determined in particular and in its general meaning, it may apply also to unlisted entities, which are large enough to affect the local economy, even if their financial statements are not publicly published formally.

- Question 3c.** *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.

- Question 3d.** *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 entity's preparing its financial statements on the basis of IASB Standards for SMEs. If not, why not?*

We agree on principle. However **only a shareholder or a group of shareholders whose holdings, constitute together significant influence** (as defined in IAS 22), be able to object to the preparing of the entity's financial statements according to **IASB's standards for SME's**.

We believe as well that the significant influence test is appropriate for this matter.

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

Yes, we agree.

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?*

Yes, we agree. We support the mandatory fallback approach as it will lead to a consistent treatment by SMEs and therefore provide a greater comparability, rather than management judgment with IFRSs as a source of guidance.

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?*

We support the approach that SMEs should be permitted under some rules to revert to IFRSs if the treatment according the SME version of IFRS differs from the treatment in the IFRS, although it leaves the option for the SMEs to "pick and choose."

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);*

No

(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*

No

(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)?*

Yes

Please explain your reasoning and, if you favour (c), what criteria do you propose for defining 'related' principles?

- 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?*

Yes, we agree that the basis for IASB Standards for SMEs should be the fundamental concepts from the framework.

We do not support the approach that IASB should establish a separate framework for SMEs resulting from the full separate concepts for standards for SMEs.

- 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?*

Yes, we agree that the modification level of the full IFRSs for SMEs would be evaluated in light of the needs of the users of SME's financial statements and the cost and benefit analysis of modified IFRS to the SMEs and their users.

- 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?*

Yes, we agree.

- 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?*

Yes, we agree.

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.*

No, we do not agree. SMEs Standards should be an integral part of the IFRS. We would prefer that SMEs perspective should be added to each specific IFRS (as the last section or as an annex).

We believe that in this way, the standards (usual IFRS and those of the SMEs) will be easier for understanding and handling, as each topic will include all the relevant rules regarding that topic.

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.*

Yes, we agree. Our explanation of answer 8b was based on the same grounds.

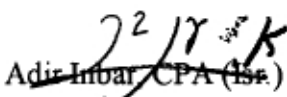
Question 8c. *Do you agree that each IASB Standard for SMEs should include a statement of its objective, a summary and a glossary of key terms?*


Yes, we agree.

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 attention?*

No, at the current stage.

Sincerely yours,


Adir Inbar, CPA (Isr.)
Chair, Professional Council


Arnon Ratzkovsky, CPA (Isr.)
Chair, Accounting Principles &
Financial reporting Committee