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DT/69/04

Mr. Paul Pacter  
Director of standards for SMEs  
International Accounting Standards Board  
30 Cannon Street, London EC4M 6XH  
United Kingdom  
Lisbon, 24 September 2004

**Subject: OROC response on IASB's discussion paper "Preliminary Views on Accounting Standards for Small and Medium-sized Entities".**

Dear Sir,

The Portuguese Institute of Statutory Auditors (OROC) appreciates the opportunity to comment on the above discussion paper.

Before answering the question, we would like to emphasize that:

1. We believe that it is necessary to identify the users and users' needs of SME Financial Reporting and compare them with the users and users' needs of other entities financial reporting, before going forward on the project.
2. We support our following answers on the assumption that the IASB standards for SMEs would follow the existing IFRSs on a cost-benefit basis to preparers and users' needs of SME financial reporting and that the majority of the modifications to existing standards would be on the required disclosures.

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

Yes, we agree that full IFRS's should be suitable for all entities, including SME's but there are some IAS that provide more information than necessary and they are too complex and expensive to be used by SME's financial reporting preparers and users.

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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. The Board should develop a separate set of financial reporting standards specific to SMEs that should be simpler than full IFRS's

**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. As matter of fact, there is no reason for a listed company to use a specific set of standards suitable for SMEs.

**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?**

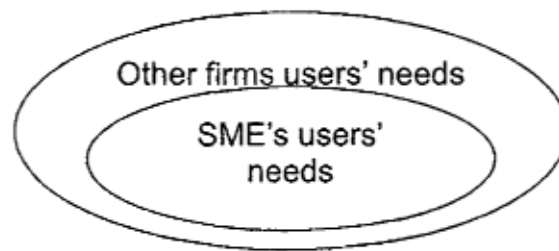
The objectives set in the preliminary view 2 are suitable. However, we believe that the term "enforceable" in objective 2.a) is not in proper use.

As in objective 2.b), we believe that the focus is on meeting needs of the users of SME's financial reporting. Although, the board must primarily identify the users and the users needs, and refer them and other entities' users needs in the conceptual framework.

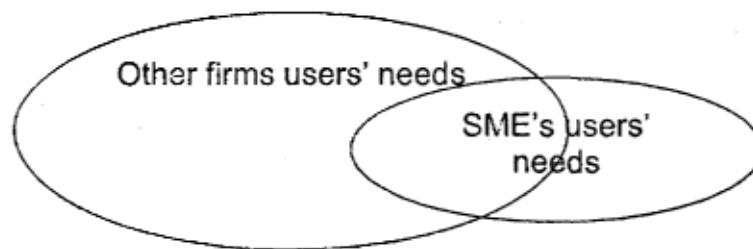
We believe that the board should adapt the existing conceptual framework to SME's, where the users and the users' needs of financial reporting are identified for SME's and for other entities. Probably, the users and users' needs of other entities financial reporting are the same of the users and users' needs of SME's, and some others, as in figure 1.

Because, the users and users needs of SME's financial reporting are less than other users and users' needs (and are not different as in figure 2), we believe that the

existing framework is suitable for SME's after some modifications concerning users and users' needs. Those modifications should include illustrative examples.



**Figure 1**



**Figure 2**

**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. The Board should describe the presumptive indicators of those entities on which the standard would apply and a sized test should be mandatory on a country basis, i.e., the accounting professional body of each country should set the boundaries, based on the specific characteristics of the country economy, for certain type of entity be classified as SMEs.

**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?**

Yes, we agree that the IASB standard should not only focus on the relatively large SME's or the relatively small SME's. Instead, the standards should focus all SME's.

**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?**

We agree with the public accountability principle.

**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 believe that this is not an accounting issue but a commercial law issue to be defined locally. However, we believe that one or more owners are not enough, a majority owners' assent should be considered.

**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, venturer 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. The reasons behind the existence of Standards for SMEs (cost and complexity) are not applicable in this situation and these entities should present separate financial statements complying with full IFRSs.

**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. For sure the best practice to comply with the framework are the appropriate IFRS. For example, if IAS 39 is not applicable to SMEs and an SME have a financial instrument it is not reasonable not applying the appropriate standard (IAS 39).

**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?**

Again we emphasises that one of the objectives of SME Standards are to facilitate the transition to full IFRS, so if one entity that applies SMEs standards wants to apply one standard in full it should be allowed because it represents a more complete or appropriate information for the users. The comparability is achieved with information describing the departure from the SMEs standard in one particular issue in the Notes.

**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 standardbystandard 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 principlebyprinciple 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 standardbystandard and principlebyprinciple approach)?**

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

In our opinion a) is more appropriate because it facilitates the comparison and understanding when there are a departure from one treatment in the SMEs version.

**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. The procedure proposed is adequate and will allow adapting the IFRSs to the specific SMEs financial reporting users needs.

**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, any modification should be based on the needs of the users on cost benefit basis.

**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 that this procedure to modify a SMEs Standards would have this outcome.

**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.

**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.**

Yes, we agree that IASB Standards for SMEs should be printed in a separate 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.**

Yes, we agree that IASB Standards for SMEs should be organised by IAS/IFRS number. Although, because some IAS and IFRS have the same number (e.g. IAS 1 and IFRS 1), the name of SMEs standards should use the words IAS and IFRS. Using IAS 1 and IFRS 1 as an example, the SMEs Standards should be SME IAS 1 and SME IFRS 1.

**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 also believe that a implementation guide and illustrative examples should be included.

**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?**

Yes. As already said, we believe that is of the most importance to define users and users' needs of SME financial reporting.

Should you wish to discuss the comments above or require clarification of any issues, please do not hesitate to contact us.

Yours sincerely,

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**José Vieira dos Reis**  
President