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N°586

PARIS, 24TH SEPTEMBER, 2004

M. Paul PACTER
Director of Standards for SMEs
IASB
30 Cannon Street
LONDON EC4M 6XH
UNITED KINGDOM

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

Dear Paul,

On behalf of the Conseil National de la Comptabilité, I am pleased to comment on the Discussion Paper you issued on the accounting for SMEs.

The newly implemented two-step process of consultation (first a Discussion Paper, then an Exposure Draft) is a valuable improvement that allows commentators to express their views on the principles underlying the standard to be issued at a relevant timing.

Regarding the Exposure Draft, we support in principle separate IFRSs for SMEs. Even if we consider that the IFRS's framework and most of major principles are suitable for all entities, it appears that the complexity of the standards do not fit the simplicity of the operations of most SMEs. It is therefore highly important that preparers of SMEs accounts have at their disposal a set of standards that they can easily understand, apply and which directly relates to their usually less sophisticated operations. User needs of SMEs accounts might also be slightly different than the ones of the users of listed companies, and this should be also taken into account.

Regarding the scope of the project, we believe that the IASB's project should not address the accounting for « micro companies », being described as very small entities, as their accounting



capabilities and possibly needs are very different from those of other companies. We consider that National legislation should deal with this subject.

Even if we support in principle a separate set of standards for SMEs, we question the timing of the project. The IASB is currently undertaking a large number of projects, many of which will have far reaching practical (performance reporting....), or conceptual consequences (revenue recognition, measurement....). We consider that a priority order should be made by the IASB, and be strictly respected. Considering the urgency of some of the mentioned above projects, the IASB should concentrate on finalising these before undertaking any other major project. Besides, providing SMEs with a set of accounting rules which are in the process of undertaking major changes may seem untimely. This should be taken into account in the priority order the IASB is currently finalising.

Regarding the timing, it is essential that the IASB provides its constituents with sufficient time for comments. We wish to stress that the building of a specific set of accounting rules for SMEs is a process requiring large national consultation.

Two facts ask for a larger than usual comment period:

- the process will involve the revision of many standards at one time,
- It will involve many users. Not having translated IFRSs may be problematic for some of them.

A period of one year seems to be necessary if insolvable concerns are to be adequately dealt with.

You will find enclosed our detailed comments on the Discussion Paper. If you have any comments, don't hesitate to contact us.

Yours sincerely,

Antoine BRACCHI



Discussion Paper
Preliminary Views on Accounting Standards for Small and Medium-sized Entities
CNC COMMENTS

Issue 1: Should the International Accounting Standards Board (IASB) develop special financial reporting standards for SMEs?

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

We consider that:

1) The fundamental concepts and principles developed by the IASB, in its Framework and in its standards, might be suitable for all entities.

2) However, IFRSs as they stand now are not suitable for all entities, and thus for the following reasons:

a) « Full IFRS » are too complex to be suitable for most SMEs; their complexity does not fit the relative simplicity of the operations of most SMEs. It is essential that preparers of SMEs accounts have at their disposal an accounting system they can easily understand, apply and which directly relates to their usually less sophisticated operations.

b) The complexity of IFRSs might induce a cost that would be too high for SMEs, notably if the accounts were to be produced with a short delay.

c) The cost induced would not be justified by users needs. Although we consider that it is not sustainable to consider that users of accounts of SMEs are different in nature from users of other types of companies, it also appears that their needs might be different, less sophisticated. Fewer disclosures may be required by the users of SMEs accounts.

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

We welcome the Board's decision to develop a separate set of financial reporting standards for SMEs whose major characteristic should be that they are easily understandable, applicable and which directly relates to their usually less sophisticated operations.

However, we consider that the IASB is currently undertaking a large number of projects, many of which will have far reaching practical (performance reporting....), or conceptual consequences (revenue recognition, measurement....). We consider that a priority order should be made by the IASB, and strictly respected. Considering the urgency of some of the mentioned above projects, we consider that the IASB should concentrate on finalising these before undertaking any other major project.

Moreover, we wish to highlight that the building of a specific set of accounting rules for SMEs will be a process that will need large consultation. Being the building of a new specific global

system, the consultation process will have to give sufficient time to the concerned parties in order to be able for them to carefully envisage all consequences. At least, a period of one year will be required.

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 consider that it is up to national jurisdictions to decide which accounting systems are to be applied locally, not the IASB.

As far as Europe is concerned, the European Commission indicated in its proposed comments to the DP:

“Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards¹ requires all publicly traded companies governed by the law of a Member State to prepare their consolidated accounts in conformity with the international accounting standards as adopted in the EU. Having said this, it is clear that the Commission does not favour IASB Standards for SMEs to be applied by publicly traded companies. The legal position is very clear in this respect in the EU.”

We support this position.

Issue 2: What should be the objectives of a set of financial reporting standards 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?

Regarding the objectives as set out in preliminary view 2, we support what is stated under criteria a), b), and d).

Regarding criteria c), we consider that the Framework of IFRS for SMEs should be mostly identical to the one of “full IFRS”. However, we consider that the applications deriving from the principles of the conceptual Framework could diverge in both systems, with regards the needs for simplification for SMEs. The description should be less detailed and more focused on SMEs and the examples would need to be removed or adapted. On that matter, we consider that the application of the fair value principle could be different in IFRSs for SMEs than in full IFRSs. At this stage, we would also mention for simplification of the treatment of impairment tests, and the use of actualisation.

Regarding criteria e), we consider that «allow easy transition to full IFRSs » should be a consequence of the project rather than an objective.

We consider that the criteria for issuing specific IASB standards for SMEs should be specified, and notably the criteria to transpose IFRS into IASB Standard for SMEs.

¹ Official Journal L 243 , 11/09/2002 P. 0001 - 0004

Issue 3: For which entities would IASB Standards for SMEs be intended?

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 agree that the Board should describe the characteristics of the entities for which it intends the standards to be applicable and that those characteristics should not prescribe quantitative size tests. We agree with the Board that it is not feasible to develop a quantified size test that would be applicable and long lasting in all countries.

We also consider that it should be left to the national jurisdictions to determine whether all entities that meet those characteristics, or only some, should be required or permitted to use IASB Standards for 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?

We disagree with the fact that the IASB’s project should address the accounting for “micro companies”, being described as very small entities, as their accounting capabilities and possibly needs are very different from other companies. This would make it too difficult for the IASB to come up with a system addressing the needs of both micro and other SMEs. We consider that national legislation should deal with this subject.

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 consider “public accountability” is a very broad and high-level notion and we believe that IASB is not in the position to describe and consider this. We believe that only the national jurisdictions are in the position to provide an appropriate definition of public accountability in the respective countries. This is not the responsibility of the standard setter to determine the criteria, but IASB should state very clearly in the framework the intended use of the IASB Standards for SMEs and the defined user’s needs considered, when preparing the standards.

We wish the following issues to be highlighted:

- Listed companies in one end of the scope and micro companies in the other end should definitively be scoped out from the project for SMEs,
- As for other companies, we consider that the concept of public accountability is not very useful as it is currently described, due to the large diversity of situations in different parts

of the world; therefore, it should be left to local jurisdictions to define which entities should be considered public accountable.

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 do not agree.

We consider this issue to be a matter of national law, not the IASB's.

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?

We disagree.

This issue is to be decided by the group or national company law.

Issue 4: If IASB Standards for SMEs do not address a particular accounting recognition or measurement issue confronting an entity, how should that entity resolve the issue?

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 that if IASB Standards for SMEs do not address a particular accounting recognition or measurement issue, it should be solved by mandatory fallback to IFRS. In our view, the scope of the fallback should be as limited as possible and IASB Standards for SMEs would apply for the remainder of its financial statements. The relevant IFRS should in our opinion be applied in a way that all of the principles (recognition, measurement and disclosure) related to transactions not addressed in the SME Standards are applied. This approach ensures consistency between recognition, measurement and disclosure.

Each SME Standard should explicitly mention whether mandatory fallback is required with a reference to the specific IFRS.

Issue 5: May an entity using IASB Standards for SMEs elect to follow a treatment permitted in an IFRS that differs from the treatment in the related IASB Standard for SMEs?

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?

In our opinion no optional reversion should be permitted in the IASB Standards for SMEs, since an entity has to comply with the full set of standards, either IFRS or IASB standards for SMEs. We believe that if the set of Standards is based on a framework related to the users' needs, entities should not have the option to choose between the two different sets of Standards.

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?

This question is not applicable in respect of our answer in Q5A.

Issue 6. How should the Board approach the development of IASB Standards for SMEs? To what extent should the foundation of SME standards be the concepts and principles and related mandatory guidance in IFRSs?

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 consider that the IASB should use a mix of the two methods described in Question 6. In any case, the modification should lead to a set of rules more practicable for the preparers, as described in our answer to question 1.

We agree that the practical development of IASB Standards for SMEs might first be elaborated starting from fundamental concepts and principles extracted from the Framework and related mandatory guidance from IFRS. After this extraction has been made, necessary modifications and additions should be made to come up with standards more suitable for SMEs

Issue 7: If IASB Standards for SMEs are built on the concepts and principles and related mandatory guidance in full IFRSs, what should be the basis for modifying those concepts and principles 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?

We consider that the needs of preparers, users, as well as an analysis of cost and benefits should be the base of the proposed modifications.

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 consider that this question is premature.

Users expressed a need for standard formats during our working sessions. This need appears to be different and supplementary from what is needed for other companies.

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 are not able to prejudge the relevant modification of the recognition and measurement principles before the outcome of the extensive analyses of users' needs is known.

We consider that the various needs for IFRSs for SMEs should first be established, before any comments regarding the changes that should be made

In our opinion both recognition criteria and measurement requirements could be different for SMEs compared to listed entities even for the same assets or liabilities, as a result of differences in user needs, although the conceptual definitions of the elements of financial statements remain unchanged. Therefore, there should be no presumption that no modification should be made to recognition or measurement principles. As indicated in our answer to question 6, we believe that both changes and retentions of IFRS recognition and measurement principles and disclosure requirements should be justified in relation to users' needs of simplification.

Issue 8: In what format should IASB Standards for SMEs be published?

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 the IASB standards for SMEs should be published in a separate printed volume and be comprehensive and readable as a stand-alone book.

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.

We consider that both solutions have advantages and drawbacks.

Organising the standards by IASB/IFRS numbers would facilitate the liaison between full IFRSs and IFRSs for SMEs.

On the other hand, we consider that the IASB's current numbering is in need of revision, and a topical order could be useful to newcomers to IFRSs.

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 that each IASB Standard for SMEs should include a statement of its objective and a summary. We consider that the glossary should be made for the whole set of standards, and not standard by standard.

The printed volume should be readable as a stand-alone document.

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 share the comments of EFRAG :

- It is of high importance that users' needs are clearly defined by the Board before continuing the SME project. Based on the definition of the user needs the SME Framework or Preface should be exposed for public comment to obtain support of the direction for the IASB standards for SMEs.
- We ask the Board to reconsider the comment deadline, so that the respondents have a reasonable period of time to provide their comments.
- We recommend that the Board does not wait until all documents are drafted before public exposure of the standards. We recommend exposure drafts of the standards to be made available to the public on a standard by standard or on a batch basis. We expect various benefits from such an approach:
 - Comments received would be all the more relevant and justified that proposed standards would be issued progressively over time
 - Analysis of comments received might be a source of corrective actions for the Board to consider in preparing the following standards
 - A project such as the "Improvements" project has shown how difficult it is to manage a group of different standards all at the same time

Nevertheless, the full set of standards should ultimately be exposed for public comment, since IASB's own recent experience shows that there is often overlap between standards and constituents need to be asked to consider the package as a whole.

Moreover, we wish to point out that in our working group, a strong need for standardised format has been expressed.