

**COMMENTS ON DISCUSSION PAPER  
ON  
PRELIMINARY VIEWS ON ACCOUNTING STANDARDS  
FOR  
SMALL AND MEDIUM-SIZED ENTITIES**

**Summary of the issues, preliminary views and questions**

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

***Preliminary view 1.1 – Full IFRSs are suitable for all entities.** The objective of financial statements as set out in the IASB Framework is appropriate for SMEs as well as for entities required to follow full IFRSs. Therefore, full IFRSs should be regarded as suitable for all entities. ('Full IFRSs' are Standards and Interpretations adopted by the IASB. They comprise International Financial Reporting Standards, International Accounting Standards and Interpretations originated by the International Financial Reporting Interpretations Committee or the former Standing Interpretations Committee.)*

***Preliminary view 1.2 – The Board will develop standards for SMEs.** The Board will develop a set of financial reporting standards that is suitable only for those entities that do not have public accountability ('IASB Standards for SMEs'). Those standards would not be intended for use by publicly accountable entities, including those whose securities have been listed for trading in a public securities market, even if national law or regulation were to permit this. Public accountability is discussed in issue 3 and preliminary views 3.1-3.6.*

***Preliminary view 1.3 – Disclose the basis of presentation.** If an entity follows IASB Standards for SMEs, the basis of presentation note and the auditor's report should make that clear.*

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

**Comment:** We do not agree to the preliminary view 1.1 that full IFRS should be considered suitable for all entities as Small and Medium entities lack resources and technical expertise to fully implement IFRS. Also the cost benefit ratio of applying IFRS in full cannot be established for SMEs.

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

**Comment :** We agree that a separate set of standards should be developed for SMEs.

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**Question 1c.** Do you agree that the 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?

**Comment:** Agreed. However, considering that the economic conditions differ from country to country, a universal criterion for public accountability / size cannot be defined due to the fact that a large company of a developing country may be considered as an SME in the developed country. Therefore, setting the criterion as to which entities would constitute SMEs should be left to the individual national regulators.

**Issue 2. What should be the objectives of a set of financial reporting standards for SMEs?**

**Preliminary view 2 – Objectives of IASB Standards for SMEs.** Financial reporting standards for SMEs should:

- (a) provide high quality, understandable and enforceable accounting standards suitable for SMEs globally;
- (b) focus on meeting the needs of users of SME financial statements;
- (c) be built on the same conceptual framework as IFRSs;
- (d) reduce the financial reporting burden on SMEs that want to use global standards; and
- (e) allow easy transition to full IFRSs for those SMEs that become publicly accountable or choose to switch to full 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?

**Comment:** Yes the objectives of IASB standards for SMEs as set out in preliminary view 2 are appropriate, with more focus on objectives (a) and (d).

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

**Preliminary view 3.1 – No size test.** The Board should describe the characteristics of the entities for which IASB Standards for SMEs are intended. Those characteristics should not prescribe quantitative ‘size tests’. National jurisdictions should determine whether all entities that meet those characteristics, or only some, should be required or permitted to use IASB Standards for SMEs.

**Preliminary view 3.2 – Public accountability principle.** Public accountability is the overriding characteristic that distinguishes SMEs from other entities. Full IFRSs, and not

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*IASB Standards for SMEs, are appropriate for an entity that has public accountability. An entity has public accountability if:*

- (a) there is a high degree of outside interest in the entity from non-management investors or other stakeholders, and those stakeholders depend primarily on external financial reporting as their only means of obtaining financial information about the entity; or*
- (b) the entity has an essential public service responsibility because of the nature of its operations.*

### ***Preliminary view 3.3 – Presumptive indicators of public accountability.***

*A business entity would be regarded as having public accountability, and therefore should follow full IFRSs, if it meets any of the following criteria:*

- (a) it has filed, or it is in the process of filing, its financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market;*
- (b) it holds assets in a fiduciary capacity for a broad group of outsiders, such as a bank, insurance company, securities broker/dealer, pension fund, mutual fund or investment banking entity;*
- (c) it is a public utility or similar entity that provides an essential public service; or*
- (d) it is economically significant in its home country on the basis of criteria such as total assets, total income, number of employees, degree of market dominance, and nature and extent of external borrowings.*

***Preliminary view 3.4 – Required assent of all owners.*** *An entity that does not satisfy any of the presumptive indicators of public accountability would nevertheless be regarded as having public accountability unless it has informed all of its owners, including those not otherwise entitled to vote, that it intends to prepare its financial statements on the basis of IASB Standards for SMEs rather than on the basis of IFRSs, and none of those owners objects to using IASB Standards for SMEs.*

***Preliminary view 3.5 – Scope: all entities that do not have public accountability.*** *The Board intends to include all entities that do not have public accountability as potential adopters of IASB Standards for SMEs.*

***Preliminary view 3.6 – Subsidiaries, joint ventures and associates.*** *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 the parent, venturer or investor, it should comply with full IFRSs, not IASB Standards for SMEs, in its separate financial statements.*

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**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?

**Comment:** Agreed. The Board should describe the characteristics on the basis of which the local standard setters should develop the criterion for identifying SMEs and would be required to comply with SME standards.

**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?

**Comment:** We 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, as defining relatively larger or smaller entities on a global basis would be an impossible task.

**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?

**Comment:** In our opinion, a size test should be introduced with the size characteristics described by the Board and the local regulators determining the size as per those characteristics.

While for the public accountability, the assumption should be such that entities are not publicly accountable unless they meet more than one criterion mentioned in the preliminary view 3.3.

**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?

**Comment:** Allowing for entities to opt for either of IFRS and SME standard would affect comparability of financial statements amongst similar sized entities. The option may also be used to maneuver operating results of the company to bring it in favor of the shareholders.

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If the Board still agrees to continue with this option, then a one time option should be given which should be subject to the approval of the local regulator i.e. a framework whether IFRS or SME once adopted would not be permitted to be changed without producing conclusive evidence to the local regulator.

**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?

**Comment:** Agreed. Considering nature and size of SMEs, it may be considered to exclude associates from this requirement.

**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?**

**Preliminary view 4 – Mandatory fallback to IFRSs.** *If IASB Standards for SMEs do not address a particular accounting recognition or measurement issue that is addressed in an IFRS, the entity would be required to look to that IFRS to resolve that particular issue only. The entity would continue to use IASB Standards for SMEs for the remainder of its financial reporting. Each IASB Standard for SMEs should explicitly mention the required fallback to 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?

**Comment:** Agreed.

**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?**

**Preliminary view 5 – Optional reversion to an IFRS.** *If an IASB Standard for SMEs provides an exemption or simplification from a recognition or measurement requirement in the related IFRS, 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. Optional reversion would not be permitted for only some, but not for all, principles in the related IFRS.*

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**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?

**Comment:** To ensure that SME financial statements are comparable, optional reversion to individual IFRSs should not be introduced. On the same basis, the SME should also not have the option to choose either the complete set of IFRS or the complete set of SME standards. Also, allowing these options may also be exploited to produce financial results in favor of such entities.

Each local regulator (who adopts IASB's SME standards) should develop a criterion for identifying Small and Medium entities whether it be on public accountability basis or size, and the entities falling in such criterion should be mandatorily required to comply with the SME 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 standard-by-standard 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 principle-by-principle 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 standard-by-standard and principle-by-principle approach)?

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

**Comment:** See response to 5(a) above.

***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?***

***Preliminary view 6 – IFRSs are the starting point for developing SME standards. Development of IASB Standards for SMEs should start by extracting the fundamental concepts from the IASB Framework and the principles and related mandatory guidance from IFRSs (including Interpretations).***

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**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?

**Comment:** Agreed.

**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?**

**Preliminary view 7.1 – Justification for modifications.** Any modifications to the concepts or principles in IFRSs must be based on the identified needs of users of SME financial statements or cost-benefit analyses.

**Preliminary view 7.2 – Likelihood of disclosure and presentation modifications.** It is likely that disclosure and presentation modifications will be justified on the basis of user needs and cost-benefit analyses. The disclosure modifications could increase or decrease the level of disclosure relative to full IFRSs.

**Preliminary view 7.3 – Rebuttable presumption of no recognition and measurement modifications.** There would be a rebuttable presumption that no modifications would be made to the recognition and measurement principles in IFRSs. Such modifications can be justified only on the basis of user needs or cost-benefit analyses.

**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?

**Comment:** It should be based on the identified needs of users. Though a cost benefit analysis cannot be conducted on a global basis however, consideration must be given to the fact that proposed standards do not end up being onerous for the 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?

**Comment:** See response to 7(a) above

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**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?

**Comments:** Agreed

### ***Issue 8. In what format should IASB Standards for SMEs be published?***

***Preliminary view 8.1 – Separate volume.*** IASB Standards for SMEs should be published in a separate printed volume. The Board may also use other means of publication, such as Web publishing.

***Preliminary view 8.2 – Organised by IAS/IFRS (and Interpretation) number.*** IASB Standards for SMEs should:

- (a) follow the IAS/IFRS (and Interpretation) numbering system – i.e. SME-IAS 1, SME-IAS 2 etc and SME-IFRS 1, SME-IFRS 2 etc; and*
- (b) not be reorganised by topic, such as integrated in a balance sheet-income statement line item sequence like the UK Financial Reporting Standard for Smaller Entities (FRSSE).*

***Preliminary view 8.3 – Foreword material in each Standard.*** Each IASB Standard for SMEs should include a statement of its objective and a summary.

**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.

**Comment:** Agreed. For ease of use and to avoid confusion amongst the users, the SME standards should be published in a separate printed 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.

**Comment:** It is understood that this project is focused on developing easy to understand basic set of standards for the users that are unable to comprehend and implement the lengthy and complex set of accounting standards in place. Adopting IAS/ IFRS based numbering would be a deviation from the core objective of this project. In our opinion, it would be beneficial if a topical sequence is adopted. A subject matter based



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numbering may also be considered as is adopted by the IAASB for numbering International Standards on Auditing.

**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?

**Comment:** Agreed.

**Question 9.** Are there any other matters related to how the Board should approach its project to develop standards

**Comment:** The framework and standards should be prepared bearing clearly in mind that the end users of these would not have a reasonable level of understanding of the issues nor they are educated enough to handle a mix of IFRS and SME standards. The standards should therefore have to be kept as simple as possible for our effort is to standardize and harmonize accounting recognition, measurement and presentation in the small and medium entities all over the world.

The most difficult task amongst all is to determine the user needs of extremely diversified origins. For this regional accounting bodies may be consulted for they must be more aware of the user needs of the countries falling in their respective regions.