

**Views of the Accounting Standards Board of the Institute of Chartered Accountants of India on the Discussion Paper on  
‘Preliminary Views on Accounting Standards for Small and Medium-sized Entities’**

The following are the views of the Accounting Standards Board (ASB) of the Institute of Chartered Accountants of India on the Discussion Paper on ‘Preliminary Views on Accounting Standards for Small and Medium-sized Entities’:

<b>Issue as per the Discussion Paper</b>	<b>Question as per the Discussion Paper</b>	<b>Response of the Accounting Standards Board</b>
<b>Issue 1</b>  Should the International Accounting Standards Board (IASB) develop special financial reporting standards for SMEs?	<b>Question 1 (a)</b>  Do you agree that full IFRSs should be considered suitable for all entities? If not, why not?	<b>Response</b>  We do not agree that full IFRSs should be considered suitable for all entities because cost of implementing the same would be disproportionate to the benefits expected on their implementation in the context of SMEs. Further, it may not be possible to implement the full IFRSs uniformly by all SMEs in view of various complexities involved in certain sophisticated measurements and disclosures. In some cases, implementation of full IFRSs by the SMEs may result in distortion in measurements and disclosures. Also, the SMEs may not be able to apply full IFRSs, as required and, as a result, be described as complying with full IFRSs though strictly, they may not be fully compliant. Thus, in our view, adoption of full IFRSs by the SMEs would not serve any useful purpose.
	<b>Question 1 (b)</b>  Do you agree that the Board should develop a separate set	<b>Response</b>  We agree that the IASB should develop a separate set of financial reporting standards suitable for SMEs since that would impart

<p><b>Issue 2</b></p> <p>What should be the objectives</p>	<p>of financial reporting standards suitable for SMEs? If not, why not?</p> <p><b>Question 1 (c)</b></p> <p>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?</p> <p><b>Question 2</b></p>	<p>clarity in accounting and reporting.</p> <p><b>Response</b></p> <p>We are of the view that so far as publicly listed entities are concerned, the IASB Standards for SMEs should not be used by them even if national law or regulation were to permit this. So far as other entities (not specifically intended by the IASB) are concerned, we are of the view that application of SME Standards to specific entities should be left to nations and not be prescribed by IASB as conditions in each country are variable.</p> <p><b>Response</b></p>
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<p>of a set of financial reporting standards for SMEs?</p>	<p>Are the objectives of IASB Standards for SMEs as set out in preliminary view 2 appropriate and, if not, how should they be modified?</p>	<p>We broadly agree with the objectives of IASB standards for SMEs as set out in preliminary view 2 subject to the following:</p> <p>(i) It is suggested that objective at (a) may be modified as below:</p> <p>“provide high quality, understandable and enforceable accounting standards suitable for generating financial information useful for various stakeholders in the financial reports of the SMEs globally”.</p> <p>(ii) the objective at (c) may be modified as below:</p> <p>“be built on conceptual framework for IFRSs suitably modified for SMEs”.</p> <p>(iii) the objective at (d) may be modified as below:</p> <p>“reduce the financial reporting burden on SMEs that want to use global financial reporting standards”.</p>
<p><b>Issue 3</b></p> <p>For which entities would IASB Standards for SMEs be intended?</p>	<p><b>Question 3 (a)</b></p> <p>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</p>	<p><b>Response</b></p> <p>Although we agree that the Board should not prescribe quantitative ‘size tests’, by itself, we are of the view that the Board should prescribe the measures indicating the size tests such as turnover, borrowings, number of employees, etc. and leave it to each country to specify the quantitative test, if so desired. We are of the view that such size measures should be indicative of the public accountability criteria.</p>

	<p>tests'? If not, why not, and how would an appropriate size test be developed?</p> <p><b>Question 3 (b)</b></p> <p>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?</p> <p><b>Question 3 (c)</b></p> <p>Do the two principles in preliminary view 3.2, combined with the presumptive indicators of 'public accountability' in preliminary view 3.3,</p>	<p><b>Response</b></p> <p>We agree that the IASB should develop standards that would be suitable for <u>all</u> entities that do not have public accountability.</p> <p><b>Response</b></p> <p>We are of the view that the two principles stated in preliminary view 3.2 are narrower compared to the presumptive indicators of public accountability stated in preliminary view 3.3. In our view, the two principles should be modified in accordance with the indicators stated in preliminary view 3.3.</p>
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	<p>provide a workable definition and appropriate guidance for applying the concept of ‘public accountability’? If not, how would you change them?</p> <p><b>Question 3 (d)</b></p> <p>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?</p> <p><b>Question 3 (e)</b></p> <p>Do you agree that if a subsidiary, joint venture or associate of an entity with public accountability prepares financial</p>	<p>We are further of the view that the ownership of a business enterprise by a Government or by an institution largely controlled by Government or having public participation should also be considered as an indicator of public accountability. Also, a holding, subsidiary, or a joint venture of a publicly accountable entity should be considered as publicly accountable. Appropriate changes in this regard may, therefore, be made.</p> <p><b>Response</b></p> <p>We do not 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. Such a requirement might result in creating conflict situation amongst various shareholders which should be avoided.</p> <p><b>Response</b></p> <p>We are of the view 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</p>
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<p><b>Issue 4</b></p> <p>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?</p> <p><b>Issue 5</b></p> <p>May an entity using IASB Standards for SMEs elect to</p>	<p>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?</p> <p><b>Question 4</b></p> <p>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?</p> <p><b>Question 5 (a)</b></p> <p>Should an SME be permitted to revert to an IFRS if the treatment in the SME version</p>	<p>not IASB Standards for SMEs, in its separate financial statements. This would avoid the need for preparing two sets of financial statements - one for the use by the parent prepared in accordance with full IFRSs and the other as general purpose financial statements prepared in accordance with IASB Standards for SMEs.</p> <p><b>Response</b></p> <p>We 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. This would avoid the varied accounting practices.</p> <p><b>Response</b></p> <p>We are of the view that an SME be required to choose either the complete set of IFRSs or the complete set of SME standards with no</p>
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<p>follow a treatment permitted in an IFRS that differs from the treatment in the related IASB Standard for SMEs?</p>	<p>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?</p> <p><b>Question 5 (b)</b></p> <p>If an SME is permitted to revert to an IFRS, should it be:</p> <p>(a) required to revert to the IFRS in its entirety (a standard-by-standard approach);</p> <p>(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);</p>	<p>optional reversion to individual IFRSs because allowing the SMEs to pick and choose would create confusion. Further, IFRSs for SMEs should be required to be followed by SMEs on compulsory basis because that would impart comparability and understandability to the financial statements of SMEs.</p> <p><b>Response</b></p> <p>No response in view of the response to question 5(a) above.</p>
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<p><b>Issue 6</b></p> <p>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?</p>	<p>(c) required to revert to all 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 round between a standard-by-standard and principle-by-principle approach)?</p> <p>Please explain your reasoning and, if you favour (c) what criteria do you propose for defining ‘related’ principles?</p> <p><b>Question 6</b></p> <p>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</p>	<p><b>Response</b></p> <p>We are of the view that for developing IASB Standards for SMEs, the corresponding IFRSs should be considered as a base / guidance only and those concepts and principles should not be straightaway applied to SMEs.</p>
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<p><b>Issue 7</b></p> <p>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?</p>	<p>interpretations), and then making modifications deemed appropriate? If not, what approach would you follow?</p> <p><b>Question 7 (a)</b></p> <p>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?</p> <p><b>Question 7 (b)</b></p> <p>Do you agree that it is likely</p>	<p><b>Response</b></p> <p>We are of the view that modifications for SMEs to the concepts or principles in full IFRSs must be on the basis of the following:</p> <ul style="list-style-type: none"> <li>(i) identified needs of users of SMEs financial statements <u>and</u> cost benefit analyses</li> <li>(ii) need for avoiding complexities in the sophistication of the accounting treatments prescribed in the full IFRS.</li> <li>(iii) General difficulty of SMEs to engage qualified personnel due to cost and other constraints.</li> </ul> <p><b>Response</b></p> <p>We agree that it is likely that disclosure and presentation</p>
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	<p>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?</p> <p><b>Question 7 (c)</b></p> <p>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?</p>	<p>modifications will be justified on the basis of the user needs and cost-benefit analysis and that the disclosure modifications could increase or decrease the current level of disclosures for SMEs. However, we are of the view that only those disclosures should be prescribed which are useful for taking economic decisions which outweigh the cost of making such disclosures.</p> <p><b>Response</b></p> <p>While we agree that no modification should be made to the recognition principles, some modifications may be warranted to measurement principles in IFRSs keeping in view the complexity of sophisticated measures involved coupled with cost-benefit analysis.</p>
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<p><b>Issue 8</b></p> <p>In what format should IASB Standards for SMEs be published?</p>	<p><b>Question 8 (a)</b></p> <p>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.</p>	<p><b>Response</b></p> <p>We are of the view that IASB Standards for SMEs should be published in a separate printed volume.</p>
	<p><b>Question 8 (b)</b></p> <p>Do you agree that IASB Standards for SMEs should be organized by IAS/IFRS number rather than in topical sequence? If you favour topical sequence or some other approach, please explain why.</p>	<p><b>Response</b></p> <p>We are of the view that IASB Standards for SMEs should be organized by IAS/IFRS numbers. In case a subject covered by IAS/IFRS is not issued for SMEs being considered not appropriate for SMEs, the corresponding number should not be assigned to any IFRS for SMEs. This would facilitate cross-referencing to various IFRSs.</p>
	<p><b>Question 8 (c)</b></p> <p>Do you agree that each IASB Standard for SMEs should include a statement of its</p>	<p><b>Response</b></p> <p>We are of the view that each IASB Standard for SMEs should be a complete standard by itself and should include a statement of its objective, a summary and glossary of key terms.</p>

	<p>objective, a summary and a glossary of key terms?</p> <p><b>Question 9</b></p> <p>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?</p>	<p><b>Response</b></p> <p>We are of the view that all IFRSs for SMEs should be issued and published together and not standard-by-standard. As an interim measure, the Board may consider providing relaxations and/or exemptions to particular requirements of individual IFRSs.</p> <p>We feel that the approach to be followed for formulation of IFRSs for SMEs should be as if a new standard is being formulated rather than merely relying on simply modifying the requirements of the IAS/IFRS currently available.</p>
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