

Sir David Tweedie  
Chairman  
International Accounting Standards Board  
30 Cannon Street  
London EC4M 6XH

24 September 2004

Dear Sir David,

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

We are responding to your invitation to comment on the above discussion paper on behalf of worldwide organisation and Global IFRS Board of PricewaterhouseCoopers.

**Overall Comments**

We support the Board giving consideration to the different needs of users and costs of compliance that are faced by small and medium-sized entities. This is an important project which needs to be approached in the right way. Involvement of the national standard-setters in this project is particularly important.

Consideration should be given to looking to partner standard setters to help deliver this project working under the guidance and control of the Board. The Board should look to partner standard setters from countries that have widespread statutory audit requirements and are proposing to adopt IFRS in full, and not just for the consolidated accounts of listed companies. We believe that these partner standard setters will have a significant advantage by being much closer to SME constituents, and therefore better able to investigate and evaluate the relevant cost/benefit issues.

There is a cost/benefit case to be made for a set of standards that are not as demanding as full IFRS. All companies should have the ability to use full IFRS if they wish. However, we are concerned about the potential proliferation of different versions of IFRS, as this could lead stakeholders to become confused about what has been applied in practice. For example, there are amended IFRS standards for the public sector, exemptions in IFRS for wholly owned subsidiaries, and the project on SMEs might lead to further differences. If entities are able to “cherry pick” different recognition or measurement standards on an item by item basis, then we believe that stakeholders will find it very difficult to understand what IFRS represents. The issue of SMEs has attracted attention There may be similar issues in emerging economies for large unlisted entities, and we suspect that other

cases will come to light upon closer examination. There is a need for a detailed evaluation before embarking upon a particular strategy. The project needs to reflect the findings of this evaluation.

Key decisions need to be made, including:

- what are the needs of the relevant users?
- having identified the relevant needs, can they be grouped into different segments? For example, are the needs of users of financial statements of wholly owned subsidiaries with no listing, sufficiently similar to the needs of users of financial statements of owner managed businesses for those needs to be satisfied by one model?
- how might the cost-benefit criteria be evaluated? Are there some principles that can be identified, and then consistently applied to the selection of recognition, measurement and disclosure requirements?

There is a particular need for these standards to be consistent, clear, user friendly and to use plain English. All user groups would welcome less complex standards. The opportunity should not be missed during this project to improve clarity in the full standards if possible.

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

Full IFRS financial statements should be suitable for any reader for any purpose. The board should address separately the needs of users of other than full IFRS standards. We believe that there may be different needs to be satisfied in relation to owner-managed businesses, wholly owned subsidiaries and other entities which may include SMEs. Some of the IASB's partner standard setters may be best placed to lead and to carry out this work.

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

Full IFRS are suitable for all entities but are designed to provide information for capital markets. All entities should have the ability to use IFRS if they wish. However, there may be circumstances where cost-benefit considerations taking into account the needs of users will dictate a different approach.

The first step in looking for a possible alternative model is to determine who are the users of the financial statements and then determine how their needs may best be satisfied. The IASB should ask its partner standard setters to help with this challenge.

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

The work to be carried out in looking at the needs of different users of financial statements may define a wider group. For example, we already have different versions of IFRS for wholly owned subsidiaries. The Board should restrict the number of models to a minimum by seeking to group the needs of different users of financial statements.

**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. IASB Standards for SMEs should not be used by publicly listed entities. We also agree that if the IASB Standards for SMEs are used by such entities, their financial statements should not be described as being in compliance with IFRSs or IFRS for SMEs.

We believe that the basis of presentation of financial statements should be disclosed both in the financial statements and in the auditors' report.

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

We believe that a wider exercise is necessary to determine the way forwards. The needs of the users of the financial statements should dictate their content and enable due consideration to be given to cost-benefit issues.

**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?**

We agree with the objectives set out in preliminary view 2. The key question (as set out in preliminary view 2(b)) is to determine the needs of users of such financial statements, and thus seek to meet those needs. The cost-benefit considerations of prepares are also important and these should be reflected in the need to reduce the financial reporting burden on SMEs

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

As we have commented above, we believe the Board should resist a proliferation of different versions of IFRS. The Board needs to consider the needs of different users of financial statements and then decide what cut off points there should be. The Board should look to partner standard setters to help them with this project.

**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?**

The Board needs to consider the needs of different sets of users of financial statements. We believe that this is unlikely to lead to metrics determined by size.

We agree with the Board's preliminary view 3.1, that there should be a description of the characteristics of the entities and the stakeholders of such entities for which IASB Standards for SMEs are intended.

**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 the only relatively larger ones or only the relatively smaller ones? If not, why not?**

Yes. We see no reason to restrict the SME standards to relatively large or relatively small entities. The benefits of IFRS for the SME should be available to all entities that do not have public accountability.

**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. The indicators of public accountability are appropriate for applying the concept of public accountability.

**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 support a de minimis threshold.

**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?**

No, we do not agree that this should be automatic. For example, some subsidiaries are able to take advantage of certain exemptions from IFRS at present.

Further consideration needs to be given to the needs of users of these financial statements. That should drive whether full IFRS needs to be applied. This is particularly the case for entities that may not be material in a group context.

**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?**

Entities should refer to the framework in cases where standards for SMEs do not address a particular 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?**

The Board needs to establish the needs of users of financial statements of SMEs and other entities for which full IFRS is not justified. Based on this work an assessment needs to be made as to whether a separate framework is required. Alternatively the existing framework could be revised such that a single framework can meet the needs of all user groups.

**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?**

We believe that all entities should have the ability to select full IFRS. But in the interests of users, there should be a limited number of models. We do not consider a ‘cherry pick’ approach to be appropriate.

**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?**

An SME should be required to choose from the complete set of IFRSs or the complete set of SME standards with no optional reversion to individual IFRSs. We do not consider a ‘cherry pick’ approach in respect of recognition or measurement to be appropriate. However, nothing should stop an SME from providing additional disclosures and using the full IFRS as their guide.

**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)?

We support option (a). Please also see our response to Question 5a. above.

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

See our earlier comments.

**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?**

The Board needs to examine the needs of users and then develop a coherent set of principles to be able to objectively determine what differences there should be from full IFRS.

**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?**

See our comments above. The Board needs to start by considering the needs of users of financial statements of SMEs and other relevant entities.

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

We support the preliminary views. Modification to the concept or principles must be based on user needs or cost benefit analysis.

**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 agree that Standards for SMEs must take into account both: identified needs of users and cost-benefit analyses.

**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. But it is too early to suggest which differences can be supported.

**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?**

No, we disagree that the Board should presume no modifications to the recognition and measurement principles of IFRSs. The Board first needs to address the needs of users of financial statements of SMEs.

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

We would prefer that the standards should address recognition, derecognition, initial measurement, subsequent measurement and disclosure requirements organised by component of the financial statements. However, the Board should consider the experience of partner standard setters in making this assessment.

**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, as separate printed volume. Please see our response to Issue 8 above.

**Question 8b. Do you agree that IASB Standards for SMEs should be organised by IASB/IFRS number rather than in topical sequence? If you favour topical sequence or some other approach, please explain why.**

We see significant benefits from organising the material to follow the line items in the income statement and balance sheet.

**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?**

No. Please see our response to Issue 8 above. We believe that a single document covering all requirements should have one introduction and statement of objectives.

**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?**

Any material prepared for SMEs needs to recognise that preparer and users may be less sophisticated than for large listed companies. The new standards and guidance must achieve a high level of consistency, clarity and understandability.

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If you have any questions in relation to this letter please do not hesitate to contact Jochen Pape, Chair of the PwC Global IFRS Board (49 211 981 2905), or Ian Wright (44 207 804 3300).

Yours faithfully

PricewaterhouseCoopers LLP