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24 September 2004

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Dear Mr. Pacter

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

The Chartered Institute of Management Accountants (CIMA) is pleased to have the opportunity to comment on this discussion paper. CIMA is a global professional body representing accountants in business. CIMA represents over 62,000 members and 81,000 students in 154 countries. CIMA is committed to high quality, global, principle-based, neutral financial reporting standards and supports the widespread adoption of International Financial Reporting Standards.

Our responses your specific questions are attached below, and there are also general points that we think it important to make.

We would normally expect that a fundamental review of the needs of the users of SME financial statements would be needed before a sensible and comprehensive set of standards for SMEs could be drawn up. However, in many countries SME are already doing statutory financial reporting and we would encourage the IASB to look for common ground urgently. This work should take place within a logical methodology allowing the necessary time to reach robust conclusions.

We believe that a prerequisite for such an approach is a realistic assessment of the available expertise and resources within the IASB. We welcome the use by the IASB of an Advisory Panel for SMEs but also recognise the current time and work pressures on the IASB staff. We suggest that a separate SME accounting committee be formed to develop the SME standards. Final approval of the standards would still be the responsibility of the full Board but a smaller dedicated group would be more likely to reach conclusions speedily but having fully taken into account the specifics of the SME environment.

We would be pleased to discuss with you any aspect of this letter that you may wish to raise with us. A hard copy of this response will be put in the post to you today.

Yours sincerely

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## Responses to specific questions raised in the invitation to comment

### **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 agree that IFRSs in principle are suitable for all entities.

Although the objectives of general-purpose financial statements are fundamentally the same for all entities, the user needs can be very different for SMEs. In smaller, privately owned companies, there are fewer users of accounts, those users tend to be closer to the entity's management and there are less significant amounts involved, so the cost of preparation of accounts to a full IFRS standard may not be justifiable. However, it requires careful thought to decide which complexities can be eliminated.

#### ***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 agree with the decision to develop a separate set of financial reporting standards for SMEs.

As with full IFRS, we support the development of global standards for SMEs that will help to achieve comparability in financial statements over time and between entities. We believe that the IASB should satisfy itself that it is able to devote sufficient expertise and resources to thoroughly consider all of the SME issues. If this is not possible then the appropriate expertise should be acquired.

#### ***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 agree that IASB standards for SMEs should not be used by publicly listed entities. If a national law or regulation permits the use of IFRS for SMEs as the set of standards for publicly listed entities, then we do not believe that the financial statements should be described as being in compliance with IFRS for SMEs.

The use of IFRS for SMEs in a situation for which the standards are not designed to be used is inappropriate as users might be deprived of information relevant to the economic decisions that they need to make.

### **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?***

We agree with the objectives as set out in preliminary view 2.

**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 main characteristics of the entities for which the IASB Standards for SMEs are intended and should not prescribe quantitative size tests.

***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 agree that the IASB should not only focus on the smallest entities or the largest entities. National jurisdictions should then decide whether some, otherwise appropriate, entities should be ineligible to use IFRS for SMEs due to their size or complexity.

***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 that the principles and presumptive indicators in 3.2 and 3.3 provide a workable definition for applying the concept of “public accountability”, except for paragraph 31(d).

We believe that criterion (d) has no clear relationship with the notion of public accountability. Assessing economic significance in an individual national jurisdiction should be left to the regulatory authorities in that jurisdiction, because it is not possible for IASB to determine economic significance in each country.

***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 question is more appropriately addressed by national jurisdictions. It is not an accounting issue, but a company law issue. However, if IASB continues to address the issue, our view is that one shareholder as a threshold is too low and impractical and that defining the threshold should be left to national jurisdictions.

***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?***

No, we do not believe that a subsidiary, joint venture or associate of an entity with public accountability, which prepares financial information in accordance with full IFRSs should be

required to comply with full IFRS in its separate financial statements.

The objective of the financial statements should be to satisfy the needs of the relevant users. The needs of the users of the individual financial statements will be different from that required by the parent company for consolidation or control purposes and these differences should be recognised by allowing the subsidiary to use IFRS for SMEs.

**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 support a mandatory fallback to full IFRS, if this fallback is consistent with the framework applicable to SMEs. The scope of the fallback should be limited and IFRS for SMEs should apply for the remainder of the financial statements. Each SME standard should contain a reference to the appropriate IFRS for fallback purposes.

**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?***

We believe that the set of SME standards should be based upon a framework related to users' needs and as such entities should be required to adopt a complete set of standards whether they be IFRS for SMEs or full IFRS.

The optional reversion to individual IFRS would lead to a potentially confusing disclosure of accounting policies within the financial statements.

***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?***

We do not believe that an SME should be permitted to revert to an individual IFRS.

**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 believe that the starting point for the development of standards for SMEs should be an analysis of the users' needs, in particular how they differ from the needs of the users of full IFRS. Thereafter existing standards should be modified to make them more suitable to the needs of the users of SME financial statements.

**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 do 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 together with 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?***

We expect that the disclosure and presentation requirements will significantly decrease in the SME standards compared to IFRS.

***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 believe that both changes and retentions of IFRS recognition and measurement principles and disclosure requirements should be justified in relation to users' needs. Therefore, we do not believe that there should be a presumption of no modification to the recognition and measurements principles in full IFRS.

**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 IFRS for SMEs should be published in a separate comprehensive 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.***

We believe that the more user-friendly approach would be for IFRSs for SMEs to be organised by topical sequence. This is particularly the case where preparers and users are unfamiliar with the structure and content of full IFRS. Furthermore, if SME standards follow the same numbering sequence as full IFRS then it will not be sequential, as some of the IFRSs are not relevant to SMEs.

There will clearly be a need for appropriate cross-referencing aids and in particular reference to the relevant full IFRS for mandatory fallback purposes.

***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; although we assume that there will be one glossary of key terms contained with the standalone printed volume rather than a glossary of terms per SME standard.

***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?***

Please refer to the additional points contained within our covering letter.