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**SME ACCOUNTING STANDARDS**

**Answers to questions submitted by the IASB**

**III WORKING GROUP ON IFRS IMPACT AND CBSO DATABASES**

**European Committee of Central Balance Sheet Data Offices (ECCBSO)**

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Members of the III WG on IAS impact and CBSO databases				
Manuel Ortega (chairman)	<a href="mailto:manuel.ortega@bde.es">manuel.ortega@bde.es</a>	Banco de España	Saskia Vennix	<a href="mailto:saskia.vennix@nbb.be">saskia.vennix@nbb.be</a> Banque Nationale de Belgique
José Ramón Cano	<a href="mailto:joser.cano@bde.es">joser.cano@bde.es</a>	Banco de España	Vincenzo Favale	<a href="mailto:v.favale@centraledei Bilanci.it">v.favale@centraledei Bilanci.it</a> Centrale dei Bilanci
Antonio Sánchez	<a href="mailto:antonio.sanchez@bde.es">antonio.sanchez@bde.es</a>	Banco de España	Michael Weisbecker	<a href="mailto:michael.weisbecker@bundesbank.de">michael.weisbecker@bundesbank.de</a> Deutsche Bundesbank
Ana Costa e Silva	<a href="mailto:acsilva@bportugal.pt">acsilva@bportugal.pt</a>	Banco de Portugal	Sabine Wukovits	<a href="mailto:Sabine.Wukovits@oenb.co.at">Sabine.Wukovits@oenb.co.at</a> Oesterreichische Nationalbank
Sylvie Marchal	<a href="mailto:sylvie.marchal@banquefrance.fr">sylvie.marchal@banquefrance.fr</a>	Banque de France		
Jean Bernard Salles	<a href="mailto:jean.bernard.salles@banquefrance.fr">jean.bernard.salles@banquefrance.fr</a>	Banque de France		
Camille Dümm	<a href="mailto:camille.dumm@nbb.be">camille.dumm@nbb.be</a>	Banque Nationale de Belgique		

## **I. INTRODUCTION**

This document presents the opinion of the technical group of experts of the III WG of the ECCBSO on the questions submitted by the IASB in its discussion paper “Preliminary Views on Accounting Standards for Small and Medium-sized Entities”. These opinions do not necessarily reflect the viewpoint of the central banks to which the members of the III WG belong.

The III WG on IFRS impact is a working group of the European Committee of Central Balance Sheet Data Offices (ECCBSO), responsible for monitoring the IFRS implementation process in Europe, and for studying the impact of this change on the databases and systems of analysis currently used by the different CBSOs.

The document is structured in three points besides this introduction: Point II makes some general remarks on some of the needs of users of annual accounts other than stakeholders, providing some examples on the use of annual accounts by risk analysts. Point III looks at some key aspects of standard formats and supports the idea that they are necessary not only for all kinds of users of financial statements, but also for those that produce the data, that is to say, for the small and medium enterprises that feel burdened by the obligation to provide their data to external users. Point IV includes a summary table containing the answers to the questions submitted by the IASB, with some additional comments on the questions.

The III WG of the ECCBSO trusts that this brief information will help the IASB to identify the important needs still not covered by full IASB standards, due to its bias towards one of the possible users, the stakeholders. We, the members of the III WG, strongly believe in and support the idea of producing a common set of rules for European SMEs that: a) takes into account the needs of all users, and b) creates standard formats to be used by European SMEs in order to improve the value of the information available for all users and, at the same time, reduce the reporting burden falling on SMEs.

## II. ANNUAL ACCOUNTS: NEEDS OF USERS OTHER THAN STAKEHOLDERS

The Central Balance Sheet Data Offices in Europe currently employ annual accounts of non-financial corporations for different purposes: risk analysis, economic and financial analysis under both micro- and macro-economic approaches, statistics, the legal obligation to deposit and publish the annual accounts, and others. Information prepared on a fair value basis will be invaluable for some of these purposes (statistics, macroeconomic analysis, etc.). Nevertheless, the extension of fair value, specifically in the frame of SMEs, raises the issue of measurement reliability. Moreover, this approach does not meet, in a fully satisfactory way, the needs of all users. For instance, lenders are presumably looking for something slightly different<sup>1</sup>:

- Financial statements which favor the calculation of the structural performance of the company. Accounting standards should avoid that the impact of general economic trends or financial market fluctuations affect the definition of performance; also should make it possible to distinguish between recurrent and non-recurrent items on the income statement.
- Accounting standards which grant sufficient space to the caution principle by, at least, isolating what is due to positive changes in the value of assets and liabilities over time.
- Accounting methods which are not unduly sophisticated

In other words, accounting methods which are unencumbered by hypotheses, models, discount rate, etc. and which, when really necessary, are based on conventional parameters (i.e. identical for all).

- So that they can be correctly applied and easily understood by the users of SME financial statements.
- And, at the same time, so they will not leave too much room for manoeuvre to the preparers of financial statements (limit the options allowed by the standards).

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<sup>1</sup> IIIWG has not under its targets the study of the system of analysis employed in CBSO; for this reason this ideas must be taken only as an example. Anyway, ECCBSO, in the event it is asked for, could share its complete experience on the use of annual accounts for different purposes (not only risk assessment), throughout the combination of the knowledge of their different working groups (document attached provides more information on aims of ECCBSO 's working groups).

### **III. STANDARD FORMATS AND THEIR ADVANTAGES**

The Brussels European Council of 20 and 21 March 2003, concluded that: “Further efforts at EU and National levels are needed to... reduce the administrative and regulatory burden on business”. A Communication from the Commission to the Council and the Parliament is being prepared on “Streamlining of reporting requirements for EU enterprises”, taking advantage of the foreseeable change in different countries to the IFRS framework and standards, and to the fact that probably IFRS will be applied, in a certain extent, to individual accounts.

All corporations that limit the liability of their shareholders currently have, under European legislation, the obligation to draw up and deposit their annual accounts in an official register, with the aim of providing public information to all agents that have relations with these companies. In some of these countries (Belgium and Spain, among others), the accounts are deposited in standard format. Moreover, most of the European companies required to report to the statistical authorities have to send data on standard questionnaire forms.

Also, when a new regulation comes into force, the different agents affected take a more positive view if they know clearly what information they have to provide. A standard format provides this help. Software companies that have to change their accounting programmes also welcome knowing exactly what documents their products have to create.

Analysis of full, non-standard annual accounts is possible, but it is very complicated when the analyst is not an expert (some users, such as employees or suppliers of the company, are in this group), or when the user needs to access a large number of annual accounts of different companies and to aggregate afterwards the information, as happens with the statistical units in Europe. For these purposes, standard formats are necessary.

These, among other reasons, are the basis of a requirement that, if met, will not only profit the users, but will also be advantageous to the producers of the data, the SMEs themselves: the SME standards prepared by the IASB should contain a set of standard formats. It would also be very valuable if an electronic standard specification were created to facilitate data exchange, such as XBRL.

## IV. ANSWERS TO QUESTIONS SUBMITTED BY THE IASB

QUESTIONS	Answers	COMMENTS
Question 1a. Do you agree that full IFRSs should be considered suitable for all entities? If not, why not?	No	IFRS are focused on the needs of investors. Other needs are not well covered (lenders, tax authorities, management, employees, statisticians, etc.). For more details, see Point II of this document.
Question 1b. Do you agree that the Board should develop a separate set of financial reporting standards suitable for SMEs? If not, why not?	Yes	Specific rules for large companies and less detailed rules for smaller companies or for companies with a specific legal form like partnerships or entrepreneurs has a long tradition in Europe.
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	Anyway, final decision on which companies apply which standards is a political decision that will be decided in a national basis.
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?	Yes	An objective of a process of harmonization would be to offer standard formats of annual accounts, in order to make easier and reduce the reporting burden on SMEs. It seems difficult to build the Standards for SMEs in the same framework as IFRS. To build a new framework, account should be taken of the needs of users (lenders, suppliers, employees, statisticians, etc.).
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'?	Yes	
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?	Yes	
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'?	No	The notion of "public accountability" seems too complex to be easily defined. A distinction between listed and non-listed companies could be an interesting alternative in line with the needs of main users.
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.	No	
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	No	

QUESTIONS	Answers	COMMENTS
entity should comply with full IFRSs, and not IASB Standards for SMEs, in its separate financial statements?		
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?	Yes	But only for those IFRS that are in agreement with the SME framework. Fallback option should be clearly delimited
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?	No	SMEs should be subjected to the complete IASB SME framework and standards, without an option to revert to IFRS in some cases.
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?	No	See answer 5.a
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?	No	The approach should be to create it independently, beginning with the analysis of the needs of the information users. Anyway, WG has not raised total agreement in this issue; for some members of the WG, it could be acceptable to build the new framework taking IFRSs as an starting point.
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 so, do you have suggestions about how the Board might analyse the costs and benefits of IFRS in an SME context?	Yes	Suggestion: analyse current accounting systems in several European countries, in which one set of accounts is suitable for various needs. Any modification to the concepts and principles in IFRSs should be developed on the basis of users' needs as well as cost-benefit considerations.
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?	Yes	
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?	No	
Question 8a. Do you agree that IASB Standards for SMEs should be published in	Yes	

QUESTIONS	Answers	COMMENTS
<b>a separate printed volume?</b>		
<b>Question 8b. Do you agree that IASB Standards for SMEs should be organised by IAS/IFRS number rather than in topical sequence?</b>	Yes	There is no total agreement on this issue within the WG.
<b>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?</b>	Yes	
<b>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?</b>	Yes	WG would like the IASB to take into account the opinion of European statisticians; as discussions are in progress to reduce the information burden on enterprises, and XBRL is developing in Europe, we think that it will also be very valuable if the IASB adopts the objective of developing a taxonomy and a set of formats once the IASB SME standards have been established. See Point III of this document



## Document Management

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This document presents the answers agreed unanimously by the members of the III WG to the questions submitted by the IASB in its discussion paper on "SME accounting standards"

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WGIII_SMEprojectCommonviews_2004D2	21/9/2004	Second draft, including changes proposed by Belgium
WGIII_SMEprojectCommonviews_2004D3	21/09/2004	Third draft, including stile English translations changes, and other changes to try to get and agreement.
WGIII_SMEprojectCommonviews_2004D4	21/09/2004	Fourth draft, including remarks from Germany and France.
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