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# Comments on IASB discussion paper: Preliminary views on accounting standards for small and medium-sized entities

General

Although we obviously support the general purpose of the discussion paper, we wish to point out a number of areas for improvement. We will start with some general comments.

The title of the paper is [doubtful]. It reads: small and medium-sized entities, referring to size. It becomes very clear, however, that size is not a prerequisite for these standards to apply, except in the rare situation (at least in developed countries) that the enterprise in question is a large company in its home country. Therefore, we have used quotation marks for "SMEs". We note that the related discussion paper of the AICPA refers to private (or: privately held) companies.

Our substantive comments pertain to the areas that we believe should be reviewed. We agree as far as the other areas are concerned.

Substance

The paper is a well-considered study of what users of financial statements of "SMEs" need and do not need. Those needs are formulated after a process of deduction, (refer to Section 71 ). We know that there is an EFRAG draft comment that criticises the lack of research of user needs. Naturally, the issuance of the standards could have been delayed to allow for detailing of user needs, but this would have resulted in loss of time. We understand the choice made by the IASB, but we are also of the opinion that more research is required as soon as standards have taken effect: the proof of the pudding is in the eating. Evaluation of the first versions' compliance with user demands can be used to evaluate where they meet user needs and where not.

As stated above, size does not matter in this paper, except in rare situations. However, the discussion paper is correct in referring to a cost-benefit analysis as one of the main criteria. Indeed, for cost-benefit analyses, size is the key criterion. We note that, in European Union accounting legislation, companies are classified as large, medium-sized and small. The characteristics of "SMEs" as defined in the paper will result in the majority of large private companies in the European Union qualifying as "SMEs" for the purposes of this discussion paper.

It is attractive to use a conceptual assessment, instead of looking at size, but for the purposes of cost-benefit analyses that will not work. A large private company may be able to perform an annual impairment test of goodwill, but for most small private companies that will be []onerous.

Therefore, if you adhere to the conceptual approach, it will be necessary to develop separate standards for large "SMEs" and for small "SMEs", and to define exemptions for small "SMEs".

When taking the conceptual approach, we agree with your concept of public accountability. We also agree that there is public accountability unless all owners agree with treatment as "SME". We know that the draft EFRAG comments consider this requirement as too far-reaching, but we are of the opinion that it is not EFRAG's duty to dilute the position of minority owners. We believe that all minority owners should have the choice between opting for full IFRS if they do not receive the information they need. However, after a reasonable period, they should be able to give their opinion and the company should have the possibility to proceed with "SME" IFRS if no minority owner objects (Question 3d).

EFRAG is also of the opinion that it is not the task of standard-setters to guard the public interest with financial institutions (bank, insurance, mutual fund, trust, securities broker), but that government is responsible for doing so. Government authorities do not have an undisputed track record in guaranteeing the good behaviour of financial institutions. Therefore, we support the IASB position (Question 3c).

EFRAG has more reason to be critical of the application of public accountability to essential utility companies. This most clearly applies to telephone companies, where competition is so widespread that all criteria for essential utility functions are completely inappropriate. But also for other utility companies competition is increasing, as they are becoming private enterprises, at least in developed countries (Question 3c).

Having said that the paper is a well-considered study, we are worried about the actual scope of the standards for "SMEs". In the last sentence of Section 76, we read that only a relatively limited number of modifications for recognition and measurement to full IFRSs are expected.

We believe that standards for "SMEs" have to be based on the same framework as full IFRSs and that anomalies should be apparent only where necessary. We do not believe, however, that this is a limited number, at least not as far as measurement is concerned. Recognition will be subject to more limited modifications. In the appendix, we indicate where we believe modification shall be made (Question 7c).

In Section 59 (and Question 5b), the Board asks us to comment on the question of whether there is a middle ground between choosing either a standard-by-standard or a principle-by-principle approach without relation to other recognition or measurement principles in that IFRS. We believe there is. Firstly, the burden of proof that the principle chosen is unrelated to other principles in IFRS in its entirety should rest with the enterprise that makes the choice. Secondly, where it is unclear whether there are other related principles, we still have the IFRIC (Question 5b).

In Section 90, we see that the IASB intends for a big bang to happen when issuing all IASB statements for "SMEs" at once. This is a wise approach only if the IASB wants to fend off criticism. If it intends to make any use of valuable comments, gradual issuance would result in a learning process (Question 9).

Appendix

Standards subject to modification

**IAS 12: Income taxes**
For small "SMEs", recognition of deferred taxes (assets) should be limited to three to five years. On the other hand, with the relaxation of measurement requirements for "SMEs", it would no longer be necessary, under full IFRS, to state deferred taxes at nominal value where discounted value is appropriate and not onerous.

**IAS 14: Segment reporting**
The discussion paper already refers to this standard as being irrelevant for "SMEs".

**IAS 19: Employee benefits, defined benefit schemes for pensions**
We believe relaxation to be inappropriate if a company bears the economic risks of a pension plan or insurance policies. The transparency of IAS 19 in this respect is correct.

However, IAS 19 is overstretched to situations where there is a standard premium contract with an insurance company, without onerous exit clauses, with risks resting only with the insurance company. If the company has some type of profit-sharing scheme with the insurance company, the scheme qualifies as a defined benefit scheme for the purposes of IAS 19. This rule must be relaxed for "SMEs", or at least for small "SMEs".

Moreover, the valuation of pension obligations at market interest, where that only makes a transfer to obligation for inflation indexation (as is usually the case in a system of "open" indexation), does not contribute to calculating actual profit and the aggregate amount of pension obligations.

**IAS 24: Related parties**
The discussion paper refers to this standard as being irrelevant for "SMEs". This should be adjusted to the situation of privately held companies.

**IAS 26: Accounting and reporting by retirement benefit plans**
This standard is not relevant for "SMEs".

**IAS 27: Consolidated financial statements and accounting for investments in subsidiaries**
Since December 2003, the equity method has been forbidden. Profits disclosed in the company accounts is no longer measured by performance but by the shareholders' decision to distribute them. Privately held companies are even more held closely and therefore the cost price method is even less relevant. Therefore, the equity method should be become available to "SMEs" again.

**IAS 30: Disclosures in the financial statements of banks and similar financial institutions**
Naturally, this standard is not relevant for "SMEs"; it will be superseded by IFRS 7.

**IAS 33: Earnings per share**
The standard has already been declared irrelevant for "SMEs".

**IAS 39 Financial instruments: recognition and measurement**
Requirements for hedge accounting are too strongly focused on avoiding abuse. The requirements for qualifying a financial instrument as a hedge involve red tape that is much too stringent for small "SMEs".

**IAS 40 Investment property**
This standard is a clear example of the relevance of measurement at fair value for outside owners. It has limited relevance for "SMEs", however.

**IFRS 2 Share-based payment**
This standard is very relevant for listed companies, but has little relevance for "SMEs", both of the large and small varieties. If recognition of share options at fair value is required, a simpler method than e.g. Black-Scholes is necessary.

**IFRS 3 Business combinations**
An annual impairment test of goodwill is prohibitive for most "SMEs". Moreover, the choice for an annual impairment test instead of amortisation is a political rather than a technical choice. Therefore, "SMEs" should be allowed to apply standard amortisation.

**IFRS 4 Insurance contracts**
This standard is not relevant for "SMEs".

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