

Bogotá – Colombia 24 September 2004

Mr.
Paul Pacter
Director of Standards for SMES
International Accounting Standards Board
30 Cannon Street, London EC4M 6XH, United Kingdom

Dear Mr. Pacter:

Thank you for allowing us to comments on the discussion paper, "***Preliminary Views on Accounting Standards for Small and Medium-sized Entities***", these comments are been included with this letter.

We are interested in the development of international standards of financial information to SMEs, factor that constitutes a main concern in the migration of the Colombian accounting system to IFRS standards.

Best regards,

CLEMENTE DEL VALLE BORRAEZ
Superintendence of Securities Chairman

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

Questions responses by
**Colombian Superintendence of Securities' Chairman
Clemente del Valle Borraez**

Question 1a. Do you agree that full IFRSs should be considered suitable for all entities? If no, why not?

NO. They must differentiate between basics IFRS (applied to all entities, including SMEs) and specific ones (applied to particular situations, i.e., banks, insurance companies, profits to employees)

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

NO. The separation between basics IFRS and specific IFRS is the most suitable option.

Question 1c. Do you agree that IASB Standards for SMEs should not be used by publicly listed entities (or any other entities not specifically intend by the Board), even if national law or regulation were to permit this? Do you 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, nor to other entities different from 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?
Yes, they are appropriate.

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?

Yes. It's important that all SME's characteristics are described to specify the differences with those entities oblige to full application of IFRS standards. In addition, lack of regulatory completeness must be avoided, exceptions to full application of IFRS standards should be clear and precisely defined. The 'size test' corresponds to a very deep-rooted legal habit, it's suitable to let those definitions to the discretion of national regulators.

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?

YES. The 'public accountability' criteria are the most important (notwithstanding it's unawareness and short publicity). It's important to avoid the creation of different systems; this fact could eliminate the objective of procuring high quality global standards around the world.

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 definition is workable for business entities. However, those entities that don't have public accountability duties must be subdued to the same requirements of those entities that have public accountability duty. That's the case of some NGOs entities, these are securities issuers or have high debt levels. The same problem is suffered by mutuals, employee funds of big enterprises, etc.

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?

NO. Owners' discrecionability isn't a dependable criterion, because that would facilitate subjective actions, especially in SMEs that are characterized by low professional accounting and financial standards.

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 IFRS, and not IASB Standards for SMEs, in its separate financial statements? If not, why not?

NO. It's irrelevant if the IASB Standards for SMEs have the same IFRSs standards with any simplification grade. A gap between the IFRSs and the IASB standards for SMEs, could cause incomparability and situations like the one presents in the question.

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, it's the most useful criteria to guarantee that IFRS standards be global and have a common reference point.

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 and 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?

NO. In all cases, must be avoided the existence of different approaches. Grant a privilege to simplified schemes it's different than to establish differential treatments.

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?

The (b) approach is consistent with the general approach that IFRS are a 'principles-based-approach'. (b) and (c) is a return to a 'rules-based-approach.' It's necessary to grant a privilege to simplified schemes for the SMEs requirements but that schemes shouldn't generate differences. To do that, it's basic the differentiation between basic IFRS and specific ones.

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 IFRS (including Interpretations), and then making modifications deemed appropriate? If not, what approach would you follow?

YES. Full IFRS must be always the reference points and to simplify is necessary to eliminate the unnecessary charges to SMEs.

A similar concept to the 'public accountability' one, but that is not developed in the paper, is the 'value chain'. To the economical development of the SMEs is fundamental the integration in the value chains of 'public accountability entities' by means of been suppliers, distributors, agents, intermediaries, etc. Additionally, these could facilitate the SMEs to have access to different market options and the objective to "allow easy transition to full IFRS for those SMEs that become publicly accountable or close to switch to full IFRS".

Facilitate SMEs access to public capital markets is an strategically matter, this eliminates barriers, reduces costs and unnecessary charges to achieve new financial options. In the other hand, would guarantee that the SMEs to have the organizational discipline required to reach and maintain the investors' trust. The information is the basis of capital acquisition.

Question 7a. Do you agree that any modifications for SMEs to the concepts or principles in the full IFRS 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 IFRS in an SME context?

NO. Are valid criteria's to use as a base, the demands identification of SMEs financial statements user and the cost-benefit analyses? These conditions must to be employ to do simplifications and facilitates the transit to a common system and not to do different systems.

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?

NO. Are valid criteria to use as a basis the demands of financial statements users and the cost-benefit analyses. These conditions must to be used to do simplify and facilitate the transit to a common system and not to create different systems. The simplification (or maybe elimination) of mandatory MEs' information disclosure is the way to avoid unnecessary charges, and simultaneously to preserve the users information quality.

Question 7c. Do you agree that, in developing standards for SMEs, the Board should presume that no modifications would be made to the recognition or measurement principles in IFRS, though that presumption could be overcome on the basis of user needs and a cost-benefit analysis? If not, why not?

YES. No modifications would be made to the recognition or measurement principles in IFRS. A simplification of the basis must be privilege and a cost-benefit analysis must be used.

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 If they are a simplified version of IFRS standards it is useful for the SMEs and for distributional purposes to have a separated printed volume.

To Include in it a separate section of each IFRS (in the manner of the *International Auditing Standards*, or the *Internal Control – Integrated Framework by COSO*) should to generate a high editorial and commercial cost (the bound volume 2004 has more than 2.000 pages) and cause the SMEs understanding to be very difficult.

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.

The style and numeration of IAS/IFRS must be maintained. Other presentations helps the loss of comparison processes The IFRS standards must to be a solid and global whole.

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?

The style and numeration of IAS/IFRS must to be maintained.

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?

1. The SMEs sector needs sponsor and training. In such direction, we support the simplification and not the modification focus, a guide of any SMEs implementation standard would be a very useful matter. This work, which the IAS lack is necessary for an effective implementation of the IFRS standards to SMEs.
2. The 'value chain' focus understanding is basic to the SMEs integration in the economic chain, to reach the markets and new financial options. We suggest an IASB profundization in this issue and a similar treatment to the 'public accountability'. To the SMEs a margination of the international financial information is more dangerous than a IFRS new standards implementation.