

**Consiglio Nazionale Dottori Commercialisti
Consiglio Nazionale Ragionieri
Commissione per i Principi Contabili**

Rome, 20 September 2004

CL 18

Sir David Tweedie
Chairman
International Accounting Standards Board
30 Cannon Street, 1st floor
GB – LONDON EC4M 6XH

Email: commentletters@iasb.org.uk

Re: comment letter on IASB discussion paper ‘Preliminary Views on Accounting Standards for Small and Medium-sized Entities’.

Dear Sir David Tweedie,

The Italian accountancy profession represented by the “Commissione per i principi contabili” appointed by the Consiglio Nazionale dei Dottori Commercialisti and the Consiglio Nazionale dei Ragionieri (thereinafter “we”) is pleased to submit its comments on the IASB discussion paper ‘Preliminary Views on Accounting Standards for Small and Medium-sized Entities’.

EFRAG’s preliminary views issued on 30th July 2004 have been very useful in the Commission’s discussion. In this specific circumstance, we decided to refer to EFRAG’s draft answers because of the short period of time of the comment deadline.

We propose the following general comments and concerns:

- we generally support the objective of developing a separate set of financial reporting standards suitable for SMEs;
- we strongly support an analysis of the users needs of SME financial statements in order to identify differences from the users needs as reflected in IFRSs and in the existing Framework. Only then, we believe, it will be possible to ascertain to what extent the current IFRSs need to be modified or adapted to SMEs;
- the Framework of IFRSs should be generally suitable for the financial statements of all entities. However, We believe that the existing Framework has to be adapted to the users needs of all type of entities;

Consiglio Nazionale Dottori Commercialisti
Consiglio Nazionale Ragionieri
Commissione per i Principi Contabili

- we agree that “public accountability” is the main and overriding characteristic to distinguish entities required to apply full IFRSs from entities allowed to apply IASB’s standards for SMEs;
- we agree with the definition of “public accountability”, except for principle (b) of preliminary view 3.2 (paragraph 28, point (b) of the Discussion Paper) and criterion (c) of preliminary view 3.3 (paragraph 31, point (c)). We support criterion (b) of preliminary view 3.3 (paragraph 31, point (b)) as all financial institutions are accountable to the public and should follow full IFRSs (See answer to Question 3c for details);
- we do not believe that a subsidiary, joint venture or associate of an entity with public accountability, which prepares financial reporting in accordance with IFRSs, should comply with full IFRSs in its separate financial statements (see Question 3e for details);
- we believe that the fallback to IFRSs, when IASB standards for SMEs do not address a specific issue, is a relevant criterion to support the IFRSs adoption by entities, comparability of financial statements and certainty of principles adopted;
- we believe that SME financial statements have to comply with a single set of accounting standards (full IFRSs or IASB standards for SMEs);
- we agree that IFRSs should be the starting point in the development of IASB Standards for SMEs.

We enclose our answers to the questions raised in the IASB’s Discussion Paper.

We would be pleased to discuss any aspect of this letter with you.

Yours sincerely,

Dott. Antonio Tamborrino
Presidente del Consiglio Nazionale dei Dottori Commercialisti

Dott. Santorelli
Presidente del Consiglio Nazionale dei Ragionieri

**Consiglio Nazionale Dottori Commercialisti
Consiglio Nazionale Ragionieri
Commissione per i Principi Contabili**

Response on IASB discussion paper “Preliminary Views on Accounting Standards for Small and Medium-sized Entities”.

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?

Efrag draft response:

Suggested response:

Alternative 1

We agree that IFRSs in principle are suitable for all entities including SMEs as the objectives of general purpose financial statements are fundamentally the same for all entities. But suitability of IFRSs for SMEs depends in our opinion on users’ needs. Before those users’ needs are analysed in the context of SMEs, we cannot evaluate whether IFRSs, as they stand, are suitable for SMEs. Such an analysis is, in our view, the first step of a project of drafting an international set of accounting standards for SMEs, derived from the present IFRSs

If users’ needs in the context of SMEs appear to require less sophisticated or less comprehensive requirements than users’ needs as reflected in the IFRSs designed for an investors’ world, we believe that IASB standards for SMEs should be different from IFRSs. A focus on the specific users’ needs will add more value to the users of SME financial statements. We believe that greater sophistication and more comprehensive financial reporting are not necessarily for the better, and should be avoided, if the information provided is not essential for the main users of the financial statements.

Alternative 2

We believe that IFRSs meet the users’ needs whether the financial statements concern publicly listed entities or small and medium sized entities. As stated in the framework, when investors’ needs are satisfied, all users are satisfied. Based on this, we find no reason to develop a separate set of financial reporting standards for SMEs.

We disagree with the Alternative 2 response.

We broadly support the last part of EFRAG’s draft Alternative 1, according to the fact that greater sophistication and more comprehensive financial reporting do not necessarily mean giving better information, and should be avoided, if this information is not essentially oriented to the main users of the financial statements of SMEs.

Anyway, we do not agree with EFRAG’s uncertainty on whether IFRSs are suitable or not for all entities, including SMEs. Strictly answering to the IASB’s question, we believe that IFRSs are not suitable for all entities, because the needs of users of SMEs

Consiglio Nazionale Dottori Commercialisti
Consiglio Nazionale Ragionieri
Commissione per i Principi Contabili

financial statements are different from the ones of 'bigger' entities. Reasons supporting this stronger position are well set out in EFRAG's draft Alternative 1 response to Question 1b (see below).

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

Efrag draft response:

Suggested response:

Alternative 1

We welcome the Board's decision to develop a separate set of financial reporting standards for SMEs. At present many different national standards for SMEs are being developed in Europe. As cross-boarder business is developing quite rapidly and is no longer the exclusive arena of large international groups, we see the IASB project as a chance to harmonise accounting standards and to achieve comparability in financial statements over time and between entities within Europe and worldwide. Adoption of a common set of accounting standards is an important objective, also for SME financial reporting.

In addition, as IASB standards for SMEs are meant to be as close to IFRS as is reasonable, it would make transition to IFRS easier for those entities that have to adopt IFRS because they become listed or have public debt obligations or have other reasons to apply IFRS.

We believe, as suggested by the Board, that IASB standards for SMEs should be designed on the basis of users' needs. We therefore suggest that first a thorough appraisal of users' needs should be prepared, in the context of SMEs. From that analysis, differences from the users' needs as reflected in IFRS would be identified. Only then, we believe, it will be possible to ascertain to what extent the present IFRS needs to be modified for SMEs.

However, on the basis of the knowledge we have of both IFRS and the context of SMEs, and without presuming on the outcome of the necessary analysis, we believe that differences in users' needs might substantiate the need for a set of financial reporting standards for SMEs different from IFRS. We also believe that users in an SME environment might require less complex and less sophisticated financial reporting. Our knowledge of the SME environment suggests the following.

The main target user of the present IFRSs is the investment world. Investors need financial information to analyse and conclude whether to keep, buy or sell their equity investments. For this purpose they need detailed financial information to prepare an indicative valuation of the entity including expectations of future profit. However the needs of users of SME financial statements might be different as these financial statements are mainly used to:

Consiglio Nazionale Dottori Commercialisti
Consiglio Nazionale Ragionieri
Commissione per i Principi Contabili

- Assess stewardship or accountability of management;
- Assess ability of the enterprise to pay and provide other benefits to its employees and to meet its obligations towards lenders, creditors and customers and
- Determine distributable profits and dividends.

A separate set of standards for SMEs should not only focus on the users' needs, but also take into account the ability of each user category to access financial information beyond statutory financial statements.

Users of SME financial statements focus more on the ability of the entity to generate future cash and cash equivalents in the context specific to the entity's strategy and nature of operations than on the present value of the entity and future profit, determined with the market reference being given the highest priority. User needs in relation to buying and selling of equity investment are probably of less relevance to SMEs given their private and closer ownership structure. The shareholders need to determine easily distributable profits and dividends, this being one of the important decisions they have to make.

Alternative 2

As mentioned in question 1a we believe that IFRSs meet the users' needs whether the financial statements concern publicly listed entities or small and medium sized entities. As stated in the framework, when investors' needs are satisfied, all users are satisfied. Based on this, we find no reason to develop a separate set of financial reporting standards for SMEs.

We do not agree with draft Alternative 2.

We agree with draft Alternative 1, but we would prefer its contents to be moved to answer to Question 1a.

Anyway, we strongly support an analysis of the users needs of financial statements of SMEs in order to identify differences from the users needs as reflected in IFRSs. Only then, we believe, it will be possible to ascertain to what extent the current IFRSs need to be modified or adapted for SMEs.

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?

Efrag draft response:

Suggested response:

We 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. If a jurisdiction elects IFRS for SMEs as the set of standards for publicly listed entities, they should in our opinion have to re-label the

**Consiglio Nazionale Dottori Commercialisti
Consiglio Nazionale Ragionieri
Commissione per i Principi Contabili**

standards as it should not be allowed to state compliance with IASB standards for SMEs.

As mentioned, the priority in developing a set of accounting standards for SMEs is to focus on the users' needs from a SME perspective and not to give e.g. publicly listed entities the opportunity to apply a new set of standards. Applying the Standards for SMEs without meeting the definition of a SME could generate financial statements that would not comply with the Framework. It is therefore inappropriate. Users might be deprived of relevant information to them and be misled into wrong economic decisions.

We broadly agree with EFRAG's draft response.

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?

Efrag draft response:

Suggested response:

Alternative 1

We agree with the objectives as set out in preliminary view 2, although we have some observations in relation to the framework.

We believe that a SME Framework should be as close as possible to the IFRS Framework in order to accommodate and facilitate transition to IFRS. In our opinion, however, the framework still has to be adapted.

For example: As mentioned in Q1a, the users' needs for financial information in SME financial statements might differ from the users' needs of IFRS financial statements. In our opinion a Framework for SMEs should start with a clear identification of users and users' needs and a clear definition of the scope of entities for which IASB Standards for SMEs are intended. We believe that the users should be given the following priority: 1. Lenders, 2. suppliers, 3. employees, 4. customers and 5. existing shareholders (in the private equity world, potential investors have access to detailed financial information beyond financial statements, if they identify the need for such supplementary information).

The reasons for issuing specific IASB Standards for SMEs including a related framework should be addressed;

- Criteria to transpose IFRS into IASB Standards for SMEs should be stated in the framework;
- The descriptions should be less detailed and more focused on SMEs and the examples would need to be removed or adapted;

**Consiglio Nazionale Dottori Commercialisti
Consiglio Nazionale Ragionieri
Commissione per i Principi Contabili**

- Comparability over time may be more relevant for SMEs than comparability between businesses given the greater focus on liquidity and solvency, and the lesser focus on investment decisions. It remains essential that similar transactions are treated in a similar way.

Alternative 2

The objectives as set out by IASB are fully supported. In particular we believe there is no need to adjust the present IFRS framework. If a guidance specific to SMEs is deemed required, it should not, in our opinion, amount to more than an interpretation of IASB standards for SMEs. An interpretation could emphasise that essentially the same principles are being applied in the IASB standards for SMEs as in IFRS though permitting some exemptions in the context of a lower degree of complexity in the entities involved.

We broadly agree with EFRAG's draft Alternative 1 answer, except for the following points.

As EFRAG, we believe that objectives of IASB Standards for SMEs as set out in preliminary view 2 are in principle appropriate.

Anyway, we believe that the existing Framework has to be adapted to the users of all type of entities. The identification of users could include an explanation on the different users needs of SMEs financial statements. Specific examples could be adapted or included in order to provide SMEs with a more appropriate Framework.

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?

Efrag draft response:

Suggested response:

We agree that the Board should describe the characteristics of the entities for which it intends the standards to be applicable and that those characteristics should not prescribe quantitative size tests. We agree with the Board that it is not feasible to develop a quantified size test that would be applicable and long-lasting in all countries.

We furthermore agree that it should be left to the national jurisdictions to determine whether all entities that meet those characteristics, or only some, should be required or permitted to use IASB Standards for SMEs.

We agree with EFRAG's draft response.

**Consiglio Nazionale Dottori Commercialisti
Consiglio Nazionale Ragionieri
Commissione per i Principi Contabili**

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?

Efrag draft response:

Suggested response:

We agree that the Board should not only focus on the relatively larger entities or the relatively smaller entities in setting the IASB Standards for SMEs. The main focus should be on the users' needs for the identified SME entities, and then it should be left to the national jurisdiction to decide whether some entities should be scoped out.

However, we recommend the Board prepares some guidance to point out for which entities the IASB Standards for SMEs may not be suitable. Indeed, very large or complex entities might enter transactions that require the level of sophisticated financial reporting that IFRS allow. On the other end of the scale, the benefits of worldwide accepted accounting standards are of no use to very small entities.

We agree with EFRAG's draft response.

We agree that "public accountability" is the main and overriding characteristic to distinguish entities required to apply full IFRSs from entities allowed to apply IASB standards for SMEs.

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?

Efrag draft response:

Suggested response:

Alternative 1

We have sympathy for the notions "public accountability" and "non-public accountability" however we disagree with paragraph 28 and we reject criteria b) and c) in paragraph 31.

Criterion b): Clearly financial institutions are accountable to the public; however we do not believe that customers of a bank or an insurance company will ever analyse financial reporting in order to determine whether the institution under scrutiny can be entrusted their money. The public relies upon governments and/or regulators to assess the credit worthiness of financial institutions. The governments and/or the regulators have the power to obtain comprehensive and sophisticated financial reporting beyond information contained in the financial statements, if and when required. Based on this we do not support the criteria b) in paragraph 31.

Consiglio Nazionale Dottori Commercialisti
Consiglio Nazionale Ragionieri
Commissione per i Principi Contabili

Criteria c) are defined in order to encompass the needs of stakeholders that remain external to the entity, whose operations might interfere with those stakeholders' interests.

We do not believe that the needs for financial reporting of stakeholders external to the entity might in any situation be greater than the needs of lenders, employees, customers and suppliers or shareholders. We therefore believe that in all situations where financial reporting, prepared in accordance with IASB standards for SMEs, will be satisfactory to this collection of users, it will also be satisfactory for external stakeholders. Moreover, governments or official agencies are in a position, when entrusting an entity the operations of public utilities, to obtain and analyse all information needed in order to safeguard public interest.

In conclusion, although we disagree with the development of the notion of public accountability as proposed in paragraph 28 we believe criterion a) and d) in paragraph 31 should be retained as the right direction into the definition of SMEs. A definition on that basis would in our view help identify a relevant subset of users' needs justifying IASB standards for SMEs.

Alternative 2

In our opinion public accountability is a very broad and high-level notion and we believe that IASB is not in the position to describe and consider this. We believe that only the national jurisdictions are in the position to provide an appropriate definition of public accountability in the respective countries. This is not the responsibility of the standard setter to determine the criteria, but IASB should state very clearly in the framework the intended use of the IASB Standards for SMEs and the defined user's needs considered, when preparing the standards.

We disagree with EFRAG's draft Alternative 2 response.

About EFRAG's draft Alternative 1, we agree with EFRAG's comments on criterion (c) of paragraph 31 of the Discussion Paper, but we do not agree with the other comments provided in the answer. Contrary to EFRAG's view, we support criterion (b) as all financial institutions are accountable to the public and should follow full IFRSs.

We believe that the "public accountability" definition provided by principle (a) of IASB's preliminary view 3.2 (paragraph 28, point (a)) is suitable; Otherwise, we would delete principle (b) of preliminary view 3.2 (paragraph 28, point (b) of the Discussion Paper) and criterion (c) of preliminary view 3.3 (paragraph 31, point (c)).

Criterion (c) of paragraph 31 is defined by IASB in order to encompass the stakeholders needs external to the entity, whose operations might interfere with stakeholders' interests.

We do not believe that the needs for financial reporting of stakeholders external to the entities supplying essential public services might in any situation be greater than the needs of lenders, employees, customers and suppliers or shareholders. We, therefore, believe that financial reporting prepared in compliance with IASB standards for SMEs satisfying this collection of users will also be satisfactory to external stakeholders.

**Consiglio Nazionale Dottori Commercialisti
Consiglio Nazionale Ragionieri
Commissione per i Principi Contabili**

In conclusion, we believe criteria (a), (b) and (d) in paragraph 31 (but not (c)) should be retained as the right direction into the definition of SMEs. A definition on that basis would in our view help to identify a relevant subset of users needs justifying IASB standards for SMEs.

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?

Efrag draft response:

Suggested response

We agree that an entity should be required to use IFRSs if shareholders object to the entity's preparing its financial statements on the basis of IASB standards for SMEs to protect the minority shareholders that are depending on the information in the financial statements as they are their only source for information, However we believe that one shareholder as a threshold is too low. It should be left to the national jurisdictions to define a threshold.

We do not agree with EFRAG's draft response.

We believe that the "public accountability" definition should be followed to determine entities required to apply IASB standards for SMEs; different rules can be adopted by 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?

Efrag draft response:

Suggested response:

Alternative 1

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 IFRSs, should comply with IFRSs in its separate financial statements. This is to be decided by the group or national company law. In our view, the greatest benefit of IASB standards for SMEs is to increase the relevance of financial reporting to the users of SME financial reporting. We therefore believe that an entity may provide to the users of its separate accounts a relevant set of accounts prepared in accordance with IASB standards for SMEs while providing its parent with the adequate level of information for consolidated accounts to be prepared in accordance with IFRS.

Consiglio Nazionale Dottori Commercialisti
Consiglio Nazionale Ragionieri
Commissione per i Principi Contabili

As stated in our answer to question 1 b), we do not believe that the more information, sophistication and detail, the better financial reporting.

Alternative 2

We agree that if a subsidiary, joint venture or associate of an entity with public accountability prepares financial information in accordance with IFRSs to meet the requirements of its parent, venturer or investor, the entity should comply with IFRSs, and not IASB Standards for SMEs, in its separate financial statements.

We agree with EFRAG's draft Alternative 1 response.

Furthermore, we set out that information provided by controlled entities for consolidated financial statements purposes are different and fewer than the ones needed for annual financial statements fully compliant with IFRSs.

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?

Efrag draft response:

Suggested response:

We agree that if IASB Standards for SMEs do not address a particular accounting recognition or measurement issue, it should be solved by mandatory fallback to IFRS, if and only if however, this fallback is consistent with the framework applicable to SMEs. In our view, the scope of the fallback should be as limited as possible and IASB Standards for SMEs would apply for the remainder of its financial statements. The relevant IFRS should in our opinion be applied in a way that all of the principles (recognition, measurement and disclosure) related to transactions not addressed in the SME Standards are applied. This approach ensures consistency between recognition, measurement and disclosure.

Each SME Standard should explicitly mention whether mandatory fallback is required with a reference to the specific IFRS. If there is no mandatory fallback paragraph in the SME Standard, the entity should fall back to the framework applicable to SMEs to solve the recognition or measurement issue.

We agree with IASB and disagree with EFRAG's draft response.

We believe that the fallback to IFRSs, when IASB standards for SMEs do not address a specific issue, is a relevant criterion to support IFRSs adoption by entities, comparability of financial statements and certainty of principles adopted.

**Consiglio Nazionale Dottori Commercialisti
Consiglio Nazionale Ragionieri
Commissione per i Principi Contabili**

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?

Efrag draft response:

Suggested response:

Alternative 1

In our opinion no general optional reversion on recognition and measurement issues to IFRSs should be allowed. To revert to an IFRS should be permitted, if the change by applying the IFRS standard results in financial statements that provide more reliable and more relevant information about the effects of transactions, other events or conditions on the entity's financial position, financial performance or cash flows (IAS 8). Such reversions should always be compatible with the SME framework.

In accordance with the principle related to a change in accounting policy, the justification and consequences of using IFRS instead of SME standards should be disclosed in the financial statements not only on first time adoption of the IFRS principle but also thereafter.

We expect the optional reversion to be used only in rare circumstances. The intended use of the reversion should be as restricted as possible and consistently applied.

Additional disclosures should always be permitted.

Alternative 2

In our opinion no optional reversion should be permitted in the IASB Standards for SMEs, since an entity has to comply with the full set of standards, either IFRS or IASB standards for SMEs. We believe that if the set of Standards is based on a framework related to the users' needs, entities should not have the option to choose between the two different sets of Standards.

Furthermore we are concerned about the issue of what set of standards should be referred to in the accounting policies and in the audit report in the absence of application of one unique comprehensive set of standards.

We agree with EFRAG's draft Alternative 2. We believe that SME financial statements have to comply with a single set of accounting standards (IFRSs or IASB standards for SMEs).

Question 5b. If an SME is permitted to revert to an IFRS, should it be:

**Consiglio Nazionale Dottori Commercialisti
Consiglio Nazionale Ragionieri
Commissione per i Principi Contabili**

- (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?

Efrag draft response:

Suggested response:

(If alternative 1 in Q5a)

If a SME entity reverts to an IFRS, because it results in financial statements providing more reliable and more relevant information about the effects of transactions, other events or conditions on the entity's financial position, financial performance or cash flows, it should in our opinion be permitted to revert to the IFRS standard by using a principle by principle approach. An SME should be 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). Principle by principle means in our opinion that all requirements in the specific IFRS standard on recognition, measurement and disclosure related to the transactions for which the entity reverts to the IFRS are complied with.

If the requirement to revert to IFRS is on a standard by standard approach, it will not be logical or relevant that the entity might have to change accounting principles for more than the intended transactions.

(If alternative 2 in Q5a)

This question is not applicable in respect of our answer in Q5A.

See Question 5a.

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

**Consiglio Nazionale Dottori Commercialisti
Consiglio Nazionale Ragionieri
Commissione per i Principi Contabili**

and related mandatory guidance from IFRSs (including Interpretations), and then making modifications deemed appropriate? If not, what approach would you follow?

Efrag draft response:

Suggested response:

We agree that IFRS should be the starting point in the development of IASB Standards for SMEs because:

- IASB standards for SMEs should be as close to IFRS as feasible,
- From a pragmatic standpoint, it is easier and less costly to identify differences than to start from a blank sheet.

Proceeding by extraction of the fundamental concepts from the framework and the principles and related mandatory guidance from IFRSs seems therefore appropriate. We however do not believe this should be the “starting point”. In our view the following steps should be followed:

- analysis of specific users’ needs and how they differ from users’ needs best served by IFRS,
- definition of the Framework for IASB Standards for SMEs as outlined in our answer to question 1b) Alternative 1, or if it is decided that there is no framework specific to SMEs, definition of a preface that present the rationale used for setting a separate set of accounting standards for SMEs and differentiating them from IFRS
- only then, modifications and additions to render the standards more suitable for SMEs.

Standards, or part of standards, which are not of high relevance for SMEs, if any, should be left out of the scope of standards for SMEs

Clear criteria should be provided (either in the framework or in a preface) to transpose IFRS into IASB standards for SMEs. Analyses on the extracted standards should be conducted: both changes from and retained requirements should be justified in the Basis for Conclusions standard by standard, based on users’ needs.

Interpretations should in our opinion not be modified but their relevance for SMEs should be determined as it is not possible to extract fundamental concepts of Interpretations.

Extracting the fundamental concepts from the IFRS should not result in the elimination of all illustrations and guidance. “Bare” principles would indeed be difficult to apply or leave so much room for interpretations that, either consistency with IFRS and comparability would never be achieved, or fallbacks to IFRS guidance would be needed all along. The necessary illustrations and guidance will have to be sorted out, adjusted or created very carefully.

**Consiglio Nazionale Dottori Commercialisti
Consiglio Nazionale Ragionieri
Commissione per i Principi Contabili**

We support EFRAG's draft response. We agree with the proposal for a separate preface that presents the rationale for the SME standard, the criteria and process for developing a set of SME standard.

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?

Efrag draft response:

Suggested response:

We do agree that any modifications for SMEs to the concepts or principles in IFRS must be based on the identified needs of users of SME financial statements together with cost benefit analyses.

When modifying the concept of disclosure and presentation, clear connection between recognition and measurement and the modified disclosure should be ensured.

In our opinion it is not useful to start modifying IFRS before the users' needs are clearly defined and a SME framework (or preface) is determined, and have been exposed for public comment. We are concerned that as long as the SME framework (or preface) has not been submitted to the public comment, this process might imply difficulties in achieving the SMEs project. Nevertheless, it would help respondents if the solicitation of views on user needs were accompanied by examples of the sort of changes to IFRS that might follow from various possible definitions of user needs.

We support EFRAG's draft response.

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?

Efrag draft response:

Suggested response:

As extensive analyses of users' needs are not part of this discussion paper we are not able to prejudge the outcome of these, but we expect that disclosure and presentation requirements will decrease in the SME standards compared to IFRS.

**Consiglio Nazionale Dottori Commercialisti
Consiglio Nazionale Ragionieri
Commissione per i Principi Contabili**

We support EFRAG's draft response.

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?

Efrag draft response:

Suggested response:

Alternative 1

We are not able to prejudge the relevant modification of the recognition and measurement principles before the outcome of the extensive analyses of users' needs is known.

In our opinion both recognition criteria and measurement requirements could be different for SMEs compared to listed entities even for the same assets or liabilities, as a result of differences in user needs, although the conceptual definitions of the elements of financial statements remain unchanged. Therefore, there should be no presumption that no modification should be made to recognition or measurement principles. As indicated in our answer to question 6, we believe that both changes and retentions of IFRS recognition and measurement principles and disclosure requirements should be justified in relation to users' needs.

Alternative 2

Our initial presumption is that the recognition and measurement principles are equal, unless the users' needs demonstrate the opposite.

We support EFRAG's draft Alternative 2.

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.

Efrag draft response:

Suggested response:

We agree that the IASB standards for SMEs should be published in a separate printed volume and be comprehensive and readable as a stand-alone book.

We agree with EFRAG's draft response.

**Consiglio Nazionale Dottori Commercialisti
Consiglio Nazionale Ragionieri
Commissione per i Principi Contabili**

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.

Efrag draft response:

Suggested response:

Alternative 1

We agree that IASB Standards for SMEs should be organised by IAS/IFRS number rather than in topical sequence because of the reversion or transition to IFRS. By using the same IAS/IFRS number there is a logical reference to IFRS. In addition IASB could provide a concordance table cross referencing issues to the relevant standards.

Updates of the SME standards shall be considered for every amendment or endorsement of an IFRS/IAS standard. We however believe that changes in IASB standards for SMEs should be less frequent.

Alternative 2

In our opinion the IASB Standards for SMEs should be organised by topical sequence because this is more user friendly, particularly where preparers and users are unfamiliar with the structure and content of full IFRS. The numbering of IAS/IFRS reflects the historical sequence in which they were addressed rather than any internal logic. If the SME version follows the IAS / IFRS numbering it will not be sequential as some of the IFRSs are not relevant to SMEs. If this Alternative is not followed, Alternative 1 should include a fully cross-referenced index by topic.

We agree with both of the two IASB alternatives, but we encourage to provide a concordance table between SME standard and IFRSs.

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?

Efrag draft response:

Suggested response:

We agree that each IASB Standard for SMEs should include a statement of its objective, a summary and a glossary of key terms. The printed volume should be readable as a stand alone document.

We support EFRAG's draft response.

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?

Efrag draft response:

**Consiglio Nazionale Dottori Commercialisti
Consiglio Nazionale Ragionieri
Commissione per i Principi Contabili**

Suggested response:

- It is of high importance that users' needs are clearly defined by the Board before continuing the SME project. Based on the definition of the user needs the SME Framework or Preface should be exposed for public comment to obtain support of the direction for the IASB standards for SMEs.
- We ask the Board to reconsider the comment deadline, so that the respondents have a reasonable period of time to provide their comments.
- We recommend that the Board does not wait until all documents are drafted before public exposure of the framework and standards. We recommend exposure drafts of the standards to be made available to the public on a standard by standard or on a batch basis. We expect various benefits from such an approach:

- Comments received would be all the more relevant and justified that proposed standards would be issued progressively over time
- Analysis of comments received might be a source of corrective actions for the Board to consider in preparing the following standards
- A project such as the "Improvements" project has shown how difficult it is to manage a group of different standards all at the same time

Nevertheless, the full set of standards should ultimately be exposed for public comment, since IASB's own recent experience shows that there is often overlap between standards and constituents need to be asked to consider the package as a whole.

We agree with EFRAG's draft response.