



**Position paper on the International Accounting Standards Board's (IASB) discussion paper
regarding the development of international accounting standards for small and
medium-sized entities (SMEs)**

According to the regulation on the application of international accounting standards (IAS regulation), as of 01/01/2005, only publicly listed companies must prepare their consolidated financial statements according to IFRSs/IASs. Companies not listed on public markets are not required to use international accounting standards. This also applies to the individual financial statements of publicly listed companies. However, for various reasons, these companies could be interested in examining international accounting standards more closely. The scope of application of IFRSs for SMEs should therefore be left open for all interested enterprises.

However, for many companies, the International Financial Reporting Standards (IFRSs) are in some aspects too complex. In particular, the IFRSs/IASs contain extensive disclosure requirements that place high demands on companies but do not offer benefits that justify the additional work involved. One alternative to this could be to develop separate accounting standards that are geared toward the individual information needs of users of annual financial statements of SMEs and also take into account cost-benefit factors.

At the same time, the development of separate standards must not result, even in the long-term, in any legal obligations of SMEs to apply international accounting standards. Companies must retain the option of preparing financial statements on the basis of national accounting standards only. In Germany, annual financial statements prepared according to national accounting standards serve as a basis for determining taxable income and profit distribution. In Germany, discussions on the further development of national accounting standards and the separation of financial statements and tax statements have only just begun. If SMEs were required to apply IFRSs for SMEs in the future, they would have to prepare individual financial reports according to both national and international

accounting standards. An obligation to apply IFRSs for SMEs would therefore double the workload for these companies which is neither justifiable nor in line with the objective at hand. In addition, if these companies do not see any advantages in using international accounting standards, they must be able to continue to apply national standards. Therefore, IFRSs for SMEs should be applied only on a voluntary basis.

We welcome the fact that the IASB has opened the debate on the development of international accounting standards for small and medium-sized enterprises in the form of an open consultation. The discussion shows that there cannot be a standard regulation for all entities regardless of their structure and size. The needs of SMEs must therefore be precisely analysed to identify which accounting standards best meet these needs. In this process it must be kept in mind that harmonisation should not be seen as a greater priority than the needs of the enterprises. The development of separate international accounting standards for small and medium-sized companies by the International Accounting Standards Board (IASB) can be seen by interested companies as an interesting optional alternative and an access to international accounting standards.

Based on our basic position presented above, we would like to make the following responses to the issues raised in the discussion paper:

Question 1: Should the International Accounting Standards Board (IASB) develop special financial reporting standards for SMEs?

1a.) Do you agree that full IFRSs should be considered suitable for all entities? If not, why?

We believe that the full application of IFRSs/IASs is basically unsuitable for SMEs - even on the basis of voluntary application. Fulfilling the extensive disclosure requirements (e.g. regarding pension requirements or deferred taxes) places a high burden on SMEs that cannot necessarily be justified by the information needs of the users in light of the cost-benefit ratio. The typical characteristics of SMEs (inc. a smaller number of owners in contrast to publicly owned companies, who are usually also actively involved in the management or are in very close contact to the management) mean that they have different information needs and different disclosure requirements from publicly listed companies. In view of this, we are in favour of the development of separate standards for SMEs on a voluntary basis. It must however be ensured that these are attuned to the needs of the users and also lead to a reduction in the cost burden.

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

The development of separate standards can be an interesting **option** for certain companies and can facilitate the transition to the international financial reporting standards, in so far as these standards take account of the typical needs of SMEs. The existing scope of the current IFRSs by far exceeds the needs and requirements of SMEs. It is important to ensure that also IFRSs for SMEs are not constantly revised. Constant changes to standards would place too much of a strain on SMEs. We would like to clarify that given the current situation we reject a legal obligation by the European or national legislator to introduce a mandatory application by SMEs of the IFRSs for SMEs. Especially in view of the fact that in Germany the determination of taxable income is based on the annual statements drawn up according to the (national) regulations of commercial law. Companies should be free to decide whether they want to apply national accounting standards or IFRSs for SMEs or the normal IFRSs. For example, international comparability of financial statements is not relevant for some companies.

1c.) Do you agree that IASB Standards for SMEs should not be used by publicly listed entities, even if national laws or regulations were to permit this? If not, why?

In principle, the general framework for publicly listed entities should be standardized. If a publicly listed entity voluntarily decides to prepare its individual statements on the basis of both national and additionally international standards, that entity should focus mainly on accounting according to IFRS standards.

At the same time, we doubt that medium-sized, publicly owned entities would consider IFRSs/IASs to be a very appealing option for individual statements. However, as long as IFRSs for SMEs are based on the same conceptual and measurement standards as IFRSs, alleviations for such entities could be considered. One option would be to differentiate between the quality of listings, such as the primary and general listing in Germany.

Question 2: Are the objectives of IASB Standards for SMEs as set forth in preliminary view 2 appropriate and, if not, how should they be modified?

We basically agree with the objectives as set forth in the discussion paper, although it is uncertain whether these objectives can be reconciled with the principles of the IAS/IFRS framework. However, the objectives must be defined more precisely in order to be able to analyse this. If IFRSs for SMEs are developed, they must be reliable and must not be changed too often. The information needs of the

management and other users should still be taken into account so that the application of international accounting standards can also make a convergence of external and internal accounting possible. The objective of reducing the financial reporting burden (and thereby implicitly also the costs) should be considered a priority in the development of standards for SMEs.

Question 3: For which entities should IASB Standards for SMEs be intended?

3a.) Do you agree that the Board should describe the (qualitative) characteristics of the entities to which it intends to apply the standards but that those characteristics should not prescribe quantitative “size tests”? If not, why?

We believe that entities should be able to decide whether they prepare statements according to IFRSs, IFRSs for SMEs or national standards (exception: entities which are required to report on the basis of IFRSs according to IAS regulation 1606/2002). It is therefore questionable whether the IASB should define the application area for IFRSs for SMEs at all. We do not think it is necessary to define additional exclusion criteria. Only the IAS regulation of the European Commission requires the use of IFRS/IASs at the European level. **All entities not required to use IFRS/IASs according to the IAS regulation should therefore be able to use the standards for SMEs.**

3b.) Do you agree that the Board should develop standards which 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?

We do not think it makes sense to focus only on relatively large/small entities. However, as we already stated in our response to question 3a, all companies not required to use IFRS/IAS according to the IAS regulation of the EU Commission should be able to use IFRS for SMEs. Regarding the criterion of public accountability we refer to our answer 3c.)

3c.) Do the two principles described above, combined with the indicators of “public accountability” also described above, provide a workable definition and appropriate guidance for applying the concept of “public accountability”? If not, how would you change them?

We do not agree with the IASB's definition of publicly accountable entities. We do not think it is appropriate to define an entity as publicly accountable if it is in the focus of investors. This is because basically every entity is potentially in the focus of investors as part of its obligation to offer favourable investments or returns. This should not be defined as public accountability, however. Also, rendering of public services should not exclude companies from applying IFRSs for SMEs. Overall, we think the definition of publicly accountable entities is too broad.

We generally do not understand why the IASB wants to incorporate public accountability, into international accounting issues. See also our responses to questions 3a) and 3b).

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?

In principle: There must not be a legal obligation to use IFRSs for SMEs. For this reason, the line of argument of the IASB cannot be followed. If an entity is not obliged to use IFRSs, but not all shareholders approve the use of IFRSs for SMEs this cannot lead to an obligation to apply IFRSs. In our opinion, the requirement for all shareholders in a publicly owned entity to approve the use of IFRSs is not appropriate. A minority shareholder should not have the possibility of ruling out the use of standards of SMEs. Operational company decisions are usually not made unanimously. We see no reason why the use of the standards of SMEs requires the vote of all shareholders when all other operational decisions usually do not require this.

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?

We do not agree with the opinion of the IASB. The reporting requirements of subsidiaries usually differ in the degree of detail to the annual accounting requirements. Firstly, the information required by the parent company for drawing up the annual accounts are often specifically requested from the subsidiaries in the form of so-called reporting packages. This is not comparable to drawing up annual statements according to the current IFRS/IAS. Secondly, subsidiaries are often prescribed group accounting and measurement methods for the purposes of the consolidated accounts so that the current IFRS/IAS are, in principle applied, but in a form tailored to the needs of the consolidated financial statements (e.g. restricted measurement methods etc.). The entity must be able to decide

freely whether to draw up its separate financial statements according to the current IFRS/IAS, the IFRSs for SMEs or according to national accounting standards.

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?

Fallback to the appropriate IFRAS/IAS should be mandatory if standards do not address a particular issue. Allowing entities to develop their own accounting recognition or measurement rules would put the consistency and significance of financial statements at risk. However, fallback should not place an unjustifiable burden on SMEs. Therefore, some companies would prefer a fallback option to the respective national or alternative regulations.

Question 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?

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?

It is questionable whether these options would not impede the comparability of financial statements, cf. answer to question 4. This point cannot be answered until a rough concept of standards of SMEs has been settled on.

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)?

This question cannot be answered until a draft of standards of SMEs has been drawn up. We basically support a "standard-by-standard" approach, i.e. variant a) above. However, some entities would like to adopt a "principle-to-principle" approach.

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 basically agree with the opinion of the IASB. Using the same starting basis is the only way to guarantee that e.g. the financial statements of entities are comparable and that a smooth transition to IFRS/IAS is possible without major difficulties. On the other hand, it is questionable whether this would relieve the burden on SMEs in a significant way. For this reason the modifications should be discussed in connection with the introduction of measurement options.

Question 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?

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?

The modifications of the IAS/IFRS should primarily be derived from the needs of SMEs, and particularly the cost-benefit ratio. The legitimate information interests of the users should also be taken into account here.

7b). 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? Do you think the board should allow modifications on the basis of user needs and a cost-benefit analysis? If not, why?

A reduction of the disclosure requirements would, in our opinion, provide considerable alleviation. An exact evaluation of the question is however not possible before a draft of the IFRS for SMEs has been presented. Simplified measurement procedures should, however, also be discussed.

**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?
Do you think the board should allow modifications on the basis of user needs and a cost-benefit analysis? If not, why?**

We refer to our comments in 7 b.). We do not support revoking alternatives for recognition or measurement principles. Entities should keep all their alternatives. Instead, additional alleviation measures should be created that meet users' needs more effectively. This issue cannot however be satisfactorily addressed until a draft version of standards for SMEs is available.

Question 8: In what format should IASB Standards for SMEs be published?

8a.) What format should the standards for SMEs have?

The IASB Standards for SMEs should be published in a separate, independent form. We believe that this would also be more practical than integrating them in the IFRSs.

8b.) How should the standards for SMEs be numbered?

The IFRS for SMEs should be oriented to the IFRS/IAS numbering. Especially if the fallback option put to discussion above by the IASB is granted.

8c.) What structure should the standards for SMEs have?

We agree with the IASB, although the section "Glossary of key terms" should not lead to the definitions essential to the standard being taken out.

Question 9: Any other questions and comments?

A transparent and open development of IFRSs for SMEs and also of IFRSs is of great importance to their acceptance among users. The comments, especially those of the companies, to the IASB should therefore receive due consideration. In addition, the question of whether and to what extent the IFRIC interpretations are included should be discussed.