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Internal Market and Services DG

FREE MOVEMENT OF CAPITAL, COMPANY LAW AND CORPORATE GOVERNANCE
Financial reporting

DIRECTORATE GENERAL FOR INTERNAL MARKET AND SERVICES

CONSULTATION ON THE INTERNATIONAL FINANCIAL REPORTING STANDARD FOR SMALL AND MEDIUM-SIZED ENTITIES

Please send this answer sheet only.

Consultation deadline: 12 March 2010

Preferred form of submission – email to: markt-review-consultation@ec.europa.eu

Postal address:

European Commission
DG Internal Market and Services
Financial Reporting Unit-F3
SPA 2/JII - 01/112
B-1049 Brussels
Belgium.

Submissions after the deadline will not be considered.

Please provide the following details together with your response:

You are:

Preparer:	<input type="checkbox"/> small company	<input type="checkbox"/> Other (please specify)	Legal Form:
	<input type="checkbox"/> medium-sized company		<input type="checkbox"/> unlimited liability
	<input type="checkbox"/> large company		<input type="checkbox"/> limited liability
User:	<input type="checkbox"/> bank/credit provider	<input type="checkbox"/> analyst	<input type="checkbox"/> Other organisation of stakeholders
	<input type="checkbox"/> private person	<input type="checkbox"/> investor/investor organisation	
Public authority:	<input type="checkbox"/> audit/market regulator	<input type="checkbox"/> Government Ministry/Agency	<input type="checkbox"/> other (please specify)
Accountants and Auditors:	<input type="checkbox"/> accounting firm	<input type="checkbox"/> audit firm	<input type="checkbox"/> organisation of accountants and auditors
Other:	<input checked="" type="checkbox"/> (please specify)	National Accounting Standard Setter	

Name of your organisation / company: [German Accounting Standards Board \(GASB\)](#)

Country where your organisation / company is located: [Germany](#)

Name and location of parent company: [n.a.](#)

Contact details incl. e-mail address: knorr@drsc.de

Short description of the general activity of your organisation / company:

[The statutory duties under Section 342 \(1\) of the German Commercial Code are:](#)

- [to develop recommendations \(standards\) for the application of accounting principles for consolidated financial reporting,](#)
- [to advise the Federal Ministry of Justice on planned legislation on accounting regulations, and](#)
- [to represent the Federal Republic of Germany on international accounting standardsetting bodies](#)

Do you trade cross-border? Yes No

Is your organisation registered in the Interest Representative Register? Yes No

If yes, please specify the address of your organisation and the Register ID number in the Interest Representative Register¹:

¹ If your organisation is not registered, you have the opportunity to register here (<https://webgate.ec.europa.eu/transparency/reg/in/welcome.do?locale=en#en>) before you submit your

Publication:

Do you object to publication of the personal data on the grounds that such publication would harm your legitimate interests? I object

Question 1:

Do you think the IFRS for SMEs is suitable for widespread use within Europe?

YES NO Don't know

Please comment, indicating whether there are any type(s) or size(s) of company that would benefit from adopting the Standard:

The GASB has closely followed the work and progress of the IASB in developing the IFRS for SMEs. We have conducted studies in Germany to get a picture of the views on the Exposure Draft (ED IFRS for SMEs) from the perspective of companies and banks as users of SME financial statements. There were several main points of criticism that were brought forward by the GASB and the various constituents in Germany. Examples of such major issues were the fallback to full IFRSs or the proposed impairment only approach for goodwill (based on triggering events).

In our opinion the IASB carefully considered the comments received in the comment letters as well as the input of various discussions and the results of field tests conducted worldwide. As a consequence the IASB decided in favour of significant changes compared to the ED IFRS for SMEs. It decided, for example, to delete (almost) all references to IFRS and to make the IFRS for SMEs a self-contained standard which only mirrors those transactions that usually occur in SMEs. Furthermore, the IASB decided to further simplify accounting provisions by – for example – requiring amortisation of goodwill instead of implementing an impairment only approach. The GASB carefully considered the final outcome of the IFRS for SMEs. Despite some remaining points of criticism the GASB believes that this standard is suitable to be applied by a wide range of companies in Europe and Germany.

In our view the IFRS for SMEs will especially benefit companies with transnational and international business activities or companies which are part of an international group structure. However, these qualitative company characteristics are hardly useful when trying to define the scope of companies eligible to apply the IFRS for SMEs. For simplification we therefore suggest referring to size criteria instead. The sizes of companies that we believe would benefit from the IFRS for SMEs are:

*small*² *medium*³ *large*⁴

contribution. Responses from organisations not registered will be published separately from the registered organisations.

² Generally companies with turnover less than €4.4 million, balance sheet total less than €8.8 million and 50 or fewer employees (see Fourth Company Law Directive)

³ Generally companies with turnover less than €17.5 million, balance sheet total less than €35 million and 250 or fewer employees (see Fourth Company Law Directive)

other criteria (please explain)

Another criterion for permitting or requiring the application of the IFRS for SMEs in separate and/or consolidated financial statements is whether companies are listed or non-listed.

Please comment:

The GASB believes the IFRS for SMEs is suitable for a wide spectrum of companies in Europe. We therefore propose to allow all non-listed companies as well as small listed companies to individually choose to apply the IFRS for SMEs for their separate and/or consolidated financial statements. In addition large and medium-sized listed companies should be allowed to apply the IFRS for SMEs in their separate financial statements only. Hence, their consolidated financial statements would have to be prepared in accordance with full IFRSs.

We are fully aware of the fact that our proposal contradicts the scope as intended by the IASB (in IFRS for SMEs, section 1) as well as the EU-Regulation on the application of international accounting standards (EC No 1606/2002). However, the companies that we see as eligible for the application of the IFRS for SMEs share many features. This includes small listed companies, which are mostly more comparable to large unlisted companies than to other listed companies. In addition, the IASB has always emphasised the role of national legislators in deciding on the scope of the IFRS for SMEs in the individual jurisdictions. Regarding the European financial reporting system, it seems that the review of the European Accounting Directives (Directives) also encourages new ideas to be discussed in the course of modernising these accounting provisions.

Figure 1 provides an overview of our proposal for the application of the IFRS for SMEs in Europe.

SEE FIGURE 1 (Slide).

Question 2:

If you are a preparer of company accounts can you indicate any costs (both one-off and recurring) or benefits, and any other effects of adopting the IFRS for SMEs?

Please comment:

The following comments are based on our survey and the field tests, both conducted in 2007. In the survey 4,000 German SMEs (of at least 8 Mio. annual turnover) were asked to fill in a questionnaire. 410 SMEs responded, providing a representative sample of those SMEs in Germany. Our conclusions regarding the field tests are based on the 16 companies participating in the field test and preparing financial statements in accordance with the ED IFRS for SMEs. While the results of the survey are representative for the SMEs in Germany, the results of the field tests cannot be generalised, but remain contributions by these 16 specific companies only.

Both, the survey and the field tests were based on the Exposure Draft of the IFRS for SMEs (ED) and – where applicable – the ED was compared to the national GAAP existing at that time.

⁴ Generally companies with turnover greater than €17.5 million, balance sheet total greater than €35 million and more than 250 employees (see Fourth Company Law Directive)

However, in 2009 the IASB published an improved final IFRS for SMEs. About the same time, the German legislator passed a law modernising national GAAP that mirrors international accounting developments to some extent. As a result, the basis for evaluating the IFRS for SMEs (in comparison with local GAAP) has changed. Therefore, the relevance of the results presented is now somewhat limited.

Nevertheless, we received valuable input on both advantages and disadvantages of applying international accounting standards. We asked those companies that had identified a need to prepare financial statements in accordance with international requirements (72 out of a total of 409 respondents). The benefits listed most often were:

- international comparability of financial statements (benefit for business partners, group accounts, comparability amongst competitors and amongst companies of the same industry),
- requirement of the parent company / simplification for the preparation of group accounts, and
- increased transparency.

With regard to the ED, the advantages listed above were also mentioned by the 16 companies participating in the field tests. They added that the likelihood of applying IFRS for SMEs instead of local GAAP greatly depended on the extent that the IFRS for SMEs was applicable and chosen to be applied by other companies across Europe (e.g. competitors).

Out of the 16 companies that participated in the field tests seven companies also estimated the one-off and (annually) recurring costs for their company. The information provided by these companies needs to be seen in connection with their company-specific characteristics and their company-specific estimations of future costs. Figure 2 provides the details of those seven company-specific cost estimates.

SEE FIGURE 2 (slide).

The seven companies expect most cost increases to result from necessary changes in IT, training of employees and external consulting. Furthermore, companies expect audit costs to rise. Against these costs companies expect the largest benefit to be the internationally understandable, comparable and accepted presentation of financial statements resulting from applying the IFRS for SMEs. Companies feel that the application of the IFRS for SMEs will likely be necessary due to their international activities or because of merger or acquisitions. Furthermore, the companies expect an easier access to international capital markets. Some of them argued that they face the demand to provide IFRS information expressed by international business partners or suppliers.

In particular, do you think increased international comparability of accounts prepared under the IFRS for SMEs will benefit your business?

YES NO Don't know

Please comment:

The increased international comparability was the most important advantage mentioned in the company survey and the field tests conducted by us. Please refer to our answer on Question 1 above.

Question 3:

If you are a user of accounts (for example a bank) do you think the IFRS for SMEs will provide more useful information than national GAAP accounts?

YES

NO

Don't know

Please comment:

The GASB conducted a study in 2008 among German banks as one of the main groups of users of SME financial statements. The design of the study was by way of semi-structured personal interviews with 59 representatives from 32 banks. These 32 banks are representative of the current banking market in Germany with regard to corporate lending. The informative value of these results might be somewhat limited for the question at hand for two reasons. Firstly, this study was also based on the ED and the local GAAP as of that time. Secondly, the German banks interviewed in this survey so far have very divergent experience in evaluating IFRS financial statements. Overall it can be concluded that IFRS financial statements are by far outnumbered by local GAAP financial statements, accordingly the vast majority of respondents had very limited experience with the analysis of IFRS financial statements.

As for the question of more useful information of the ED compared to local GAAP the bank representatives argued that their decision to provide a loan (or not) does not depend on the accounting regime applied, but on the underlying business model and business activities. Furthermore, the interviewees had doubts about the proper application of IFRS (for SMEs) in small and medium-sized companies and, hence, expected a lower quality of IFRS (for SMEs) financial statements. Against this background the interviewed bank representatives argued that financial statements prepared under national GAAP provide more useful information than financial statements prepared under the ED. 72% of the respondents assign a high or very high information value to national GAAP financial statements; 49% of the interviewees assign a high or very high information value to financial statements prepared under IFRS (not the ED-). At the same time the cost to analyse financial statements is said to be lower for financial statements prepared under national GAAP.

From the results of our study we gathered the impression that it is not yet possible to provide a concluding answer to the question of the usefulness of information. In some years time banks will have gathered more experiences with the application of IFRS and possibly the IFRS for SMEs.

Question 4:

Does increased international comparability of accounts prepared under the IFRS for SMEs benefit users?

YES

NO

Don't know

Please comment:

About 50% of the bank representatives that were interviewed in our study saw a need for internationally comparable financial information depending on the characteristics of the company. The larger a company and the more a company is involved in international business activities the

more likely that the interviewees saw the need for such a company to prepare internationally comparable financial information.

If full IFRSs (or the IFRS for SMEs) were applied, the bank representatives assigned the highest benefits to the fact that these financial statements were internationally comparable and that the application of full IFRSs (or the IFRS for SMEs) would result in increased transparency of SME financial statements. Furthermore, they believe that international comparability could result in less complex analysis tools in the bank. Overall, they believe international accounting standards and the international comparability that comes with it are beneficial – yet not for all companies, but only for companies with international business activities.

Question 5:

Do you think adoption of the IFRS for SMEs should be provided for within the EU accounting legal framework?

YES NO Don't know

Please comment:

Yes, the EU accounting legal framework should provide for the adoption of the IFRS for SMEs.

Question 6:

If yes, should such an option be limited to a Member State option (i.e. that each Member States would have a possibility but no obligation to accept IFRS for SME)?

YES NO Don't know

Please comment:

The GASB suggests a company option instead of a Member State option. As laid out in Figure 1 the GASB believes that the option should be passed on to the individual companies, allowing them to choose the accounting regime most suitable for their needs (IFRS for SMEs, full IFRSs or national GAAP based on the European Accounting Directives). As stated before, the GASB suggests allowing the application of the IFRS for SMEs for a wide spectrum of companies in Europe: all non-listed companies as well as small listed companies should be eligible to individually choose whether or not to apply the IFRS for SMEs for their separate and/or consolidated financial statements. In addition, large and medium-sized listed companies should be allowed to apply the IFRS for SMEs in their separate financial statements. Their consolidated financial statements would have to be prepared in accordance with full IFRSs.

All of those European companies which in our view are eligible to apply the IFRS for SMEs should be treated equally, i.e. they should all have the equal possibility to use the opportunities the IFRS for SMEs might offer to them. However, this can only be achieved by implementing a company option. Any kind of Member State option would again offset the otherwise level playing field for all European companies since – keeping in mind the current various opinions on accounting provisions – Member States are not likely to all implement an option to apply the IFRS for SMEs.

Question 7:

Do you have other views on the possible adoption of the IFRS for SMEs within the EU accounting framework?

Please comment:

Please see our comments to question 1 and question 6.

Question 8:

Is there a case for giving companies, at EU level, an option to adopt the IFRS for SMEs?

YES

NO

Don't know

If yes, for which categories:

small

medium

large

other criteria (please explain)

Please comment:

Based on the results of our studies mentioned above the GASB believes that SMEs with a large proportion of international business activities or SMEs that are part of an international group structure would greatly benefit from applying the IFRS for SMEs. In Figure 1 and our comments to questions 1 and 6 we argue that all companies eligible to apply the IFRS for SMEs across Europe should be treated equally, i.e. given the same opportunities. The companies should be allowed to choose the accounting system most suitable for them. If Member States were given the option to decide about the application of the IFRS for SMEs we doubt there will be a level playing field for all European companies. Some would – because of a Member State's decision – be allowed, others required and still others prohibited from applying the IFRS for SMEs.

We believe that – despite the suggested company option – the application of the IFRS for SMEs can contribute to the harmonisation of the accounting provisions applied across Europe, making financial statements of SMEs more comparable across Europe. Some may argue that a company option on the accounting regime (IFRS for SMEs, full IFRSs or national GAAP based on the European Accounting Directives) hardly contributes to harmonising the accounting of SMEs across Europe. However, the GASB believes that the suggested approach is carrying greater potential for harmonisation than any form of Member State option.

Question 9:

What should be done, in your view, where there is incompatibility between the Directives and the IFRS for SMEs?

Please comment:

We believe that the European Accounting Directives and the IFRS for SMEs should be regarded as separate but equal frameworks that should not be adjusted with regard to each other's provisions. Hence, in our view, it does not matter whether there are incompatibilities between the two regimes.

However, please also consider our comments to questions 10 and 11 in which we lay out that the Directives should be revised, where appropriate. Nevertheless, this does not necessarily result in the reduction of (all) possible differences. In our view, the preparers relying on the IFRS for SMEs will be different from those relying on the Directives; therefore, there is room for differences between these provisions.

Question 10:

In the light of the publication of the IFRS for SMEs, do you see a need for "rules-based" Accounting Directives in the future?

YES NO Don't know

If yes, for what type(s) or size(s) of company are detailed rules required?

small medium large

other criteria (please explain)

Other than the 5 items listed in paragraph 4.3 of the consultation document, what aspects of financial reporting should the revised Directives address, and to what level of detail?

Please comment:

Considering our proposal there would be no need to substantially revise the Directives currently. Rather, it seems more sensible at this point to gain experience as to which companies choose to apply the IFRS for SMEs. That knowledge will then indicate which companies will further rely on the Directives. This will allow for a more specific revision of the Directives in the mid to long run.

As laid out in our comment letter to the European Commission in April 2009 (referring to the EU-consultation paper) we generally supported the structure and degree of detail of the content of the Directives. The current level of detail seems appropriate for the Directives, which provide a framework for national GAAP. This level of detail allows for a necessary harmonisation of accounting provisions throughout European SMEs while at the same time respects the specific characteristics of the Member States. For this reason we do not believe that the limitation to the principles suggested in par. 4.3 of the consultation paper is sufficient. While the Directives should include appropriately detailed provisions (and not only principles) we do not see the need for "rules-based" Directives, either.

The GASB suggests that the Directives be reviewed from time to time in order to address all accounting issues as well as to consider the more current accounting practices across Europe. When reviewing the Directives the content of the IFRS for SMEs should be considered and evaluated in the light of possible improvements of the Directives. However, the Directives should not try to reflect accounting provisions of the IFRS for SMEs without further consideration. Rather,

the Directives should be revised aiming for modernised and appropriate accounting provisions suitable for the needs of the companies relying on these Directives. The needs of these SMEs will significantly differ from those SMEs choosing to apply the IFRS for SMEs. Furthermore, the IFRS for SMEs will probably be revised more often than the Directives. Even if the two accounting frameworks were to be synchronised now, ultimately differences between them will emerge due to the review of the IFRS for SMEs. The IASB expects amendments to the IFRS for SMEs approximately every three years.

Other comments

Question 11:

Are there any elements of the IFRS for SMEs that should be incorporated within revised Directives?

Please comment:

Despite our general agreement with the current level of detail provided in the Directives, the GASB believes that there are important elements of an accounting regime that are missing in the Directives. So far, the Directives focus on accounting treatments of specific transactions. However, in our view some truly important accounting issues are not but should be addressed in the Directives, e.g. accounting issues such as foreign currency translation or revenue recognition.

Question 12:

Do you have any other observations or comments on the IFRS for SMEs or the project to overhaul the Accounting Directives?

Please comment:

The GASB proposes that the IFRS for SMEs or IFRS should be applicable for separate financial statements (without having to prepare additional accounts in accordance with national GAAP). There are Member States, like Germany, who currently do not allow IFRS to be applied in separate financial statements. For these countries there will be issues to be solved before the introduction of the IFRS for SMEs. This issues touch on questions of capital maintenance and profit distribution as well as the connection to national tax regulations.

However, we believe that these issues can be solved irrespective of the accounting system applied in the separate financial statements. This was demonstrated in the feasibility study on an alternative to the capital maintenance regime established by the Second Company Law Directive and an examination of the impact on profit distribution of the new EU accounting regime (conducted by KPMG for the European Commission, published in January 2008) and through the experience in other European Member States.

Furthermore, for the review of the Directives we would like to propose excluding small-sized companies (including micro-companies) from any requirement to prepare general purpose financial statements, since we do not see the need for those companies to prepare financial

statements. However, if these companies choose to prepare financial statements they could choose the accounting system appropriate for their needs.

Thank you for your contribution

SLIDE 1: GASB comment letter to European Commission, Question 1, Figure 1

Company IFRS for SMEs	listed				not listed						
	large/medium-sized		small		large		medium		small (incl. micro)		
	s f/s	c f/s	s f/s	c f/s	s f/s	c f/s	s f/s	c f/s	s f/s	c f/s	
prohibited	-	X	-	-	-	-	-	-	-	No requirement to prepare general purpose financial statements; but company option: - local GAAP, - IFRS for SMEs or - IFRS	
allowed (company option)	X*	-	X*	X*	X*	X*	X*	X*	X*		
required	-	-	-	-	-	-	-	-	-		

List of abbreviations:

- s f/s: separate financial statements
 c f/s: consolidated financial statements
 IFRS: International Financial Reporting Standards
 IFRS for SMEs: International Financial Reporting Standards for Small and Medium-sized Entities

* Companies should also be allowed to apply IFRS.



SLIDE 2: GASB comment letter to European Commission, Question 2, Figure 2

<u>Companies' legal form</u>	<u>Annual turnover</u>	<u>Balance sheet total</u>	<u>Employees</u>	<u>One-off costs</u>	<u>Recurring (annually) costs</u>
Stock corporation	> 100 m €	> 50 m €	3.800	500.000 €	100.000 €
Stock corporation	< 8 m €	< 4 m €	28	25.000 €	not specified
Limited liability company (GmbH)	8-32 m €	4-16 m €	85	150.-200.000 €	10.-15.000 €
Limited liability company (GmbH)	< 8 m €	< 4 m €	20	10.-15.000 €	2.5-5.000 €
Cooperative	51-100 m €	4-16 m €	102	200.000 €	60.000 €
Limited partnership with a limited liability company as general partner (GmbH&Co. KG)	8-32 m €	17-25 m €	150	30.000 €	10.000 €
Limited partnership with a limited liability company as general partner (GmbH&Co. KG)	< 8 m €	< 4 m €	not specified	20.000 €	5.000 €