Final Report of the Survey on the IFRS for SMEs among German “small” publicly traded entities

Berlin 2010

Contents

1 OBJECTIVES OF THE SURVEY

After a long lasting development process the International Accounting Standards Board (IASB) published the *International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs)* on 9 July 2009. This standard was requested primarily by supranational institutions like the World Bank, the International Monetary Fund and the UN, as well as by numerous standard setters and governments from emerging countries and countries in transition. The objective was, to have apart from the (full) IFRS a set of international accounting requirements that take into account the particular needs of SMEs in terms of costs involved in the presentation of financial statements and the benefits provided to the users of these statements.

The standard has had a diverse reception all over the world. While there has been a considerable number of countries that have already introduced the standard in their national regulatory system or are willing to do so[1], others have been very critical about the concept and the necessity of the standard and are therefore reluctant to accept it in their national legal environment.[2] This controversial situation is also found within the EU, there are countries in favour and countries against an introduction in the EU and/or national law. [3]

Against the background of the embracing revision act of the German Commercial Code (*Handelsgesetzbuch*, HGB), the so-called "*Bilanzrechtsmodernisierungsgesetz*" (BilMoG), that became effective in summer 2009 and that was intended to create a less costly and less complex alternative to the IFRS in general and the IFRS for SMEs in particular for German entities[4], it is of interest whether German entities see a need to apply the IFRS for SMEs and how they assess the content of the standard in comparison with the BilMoG. To seek empirically based answers to these two questions the German Accounting Standards Committee (GASC) has initiated two surveys. To guarantee the independence and the quality of the studies the GASC commissioned two researchers, Prof. Dr. Brigitte Eierle from the University of Bamberg and Prof. Dr. Axel Haller from the University of Regensburg, to carry out the studies. To get broader coverage and a higher public profile for the two studies, as well as additional expertise, the GASC cooperated with the Federation of German Industries (BDI). The studies were carried out in early summer 2010.

The first survey included 4,000 entities that complied with the IASB's definition of SMEs. The results of this survey are part of a separate research report that has also been published by the GASC.[5] The second survey, of which the results are presented below, targets "small" publicly traded entities. Although the IASB has explicitly excluded publicly traded entities from the scope of the IFRS for SMEs[6], the argument that the standard should also be applicable for "small"

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1 The standard is already applicable on a voluntary or compulsory basis e.g. in South Africa, Brazil, the Philippines, Hong Kong, Tanzania, Sierra Leone, Costa Rica, Namibia, Nigeria und Mauritius; IASB (2010).

2 See e.g. Fülbier, R. U./Gassen, J. (2010); Janssen, J./Gronewold, U. (2010); Kirsch, H. (2010); Schildbach, T. (2009).

3 According to the results of the most recent survey of the EU Commission thirteen Member States are in favour of a broad application of the IFRS for SMEs and eight are against; EU-Commission (2010). The Member States in favour are: UK, Denmark, Spain, Sweden, the Czech Republic, Poland, Cyprus, Greece, Ireland, Malta, Estonia, Portugal and the Netherlands. For the role of the IFRS for SMEs within Europe see Biebel, R. (2010).

4 See Deutscher Bundestag (2008), p. 1.

5 Vgl. Eierle, B./Haller, A. (2010a).

6 Publicly accountable entities are those which file, or are in the process of filing, their financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market; or which hold assets in a fiduciary capacity for a broad group of outsiders (e.g. a bank, insurance entity, securities broker/dealer etc.); IFRS for SMEs 1.2. In addition the IASB leaves it up to the national regula-

publicly traded entities has been put forward in the national and international discussions during the due process of the standard and after its effectiveness. It was argued that an inclusion of "small" publicly traded entities in the scope of the standard would be sensible with regard to the cost/benefit relation of financial reporting of those entities and the users of their statements. In order to provide empirical data for this discussion in Germany the second study, that is presented below, had the objective to give insight into how accountants of "small" publicly traded entities assess the accounting requirements of the IFRS for SMEs in particular and whether they perceive any potential advantage of applying this standard in Germany in general. As there were results from two parallel surveys it was also intended to compare the responses received from non-publicly traded entities with those received from publicly traded entities. The two studies aim to contribute to a more facts based discussion on the regulation of financial reporting for small and medium-sized entities in Germany.

2 DESIGN OF THE SURVEY

2.1 Questionnaire

The survey is based on a questionnaire that was sent by mail to "small" publicly traded entities, asking the director in charge of the annual accounts to fill it in. Return envelopes with postage paid were provided and confidentiality was guaranteed.

The content of the questionnaire aimed to get answers to the following areas of questions:

a) How do "small" publicly traded entities in Germany assess specific requirements of the IFRS for SMEs in general and in comparison to the corresponding requirements in (full) IFRS?

b) Would the application of the IFRS for SMEs be advantageous for those entities?

As the German Commercial Code (Art. 315a HGB) requires all publicly traded parent entities regardless of their size to present their consolidated financial statements under "full" IFRS the respondents of the questionnaire were expected to have an appropriate knowledge of "full" IFRS. However, answering the questions did not require any knowledge of the IFRS for SMEs. In order to increase the reliability of the answers, each question (where appropriate) had the answer category "impossible to say".

The questionnaire was four pages long and was developed in collaboration with the participating institutions and in consultation with other experts during the period from February till May 2010. After pre-testing the questionnaires were sent out in June.

2.2 Sample selection

The basis for the sample selection was a list provided by the Federal Financial Supervisory Authority (*Bundesanstalt für Finanzdienstleistungen, BaFin*) that included all entities domiciled in Germany and that are covered by the German financial reporting enforcement system.[7] Using the data-base Datastream of Thompson Reuters all entities with an annual sales volume of less

tors to ultimately define the scope of the standard and decide which entities should use the IFRS for SMEs. Therefore, regulators may also use additional qualitative and/or quantitative characteristics for their national decisions on the application of the IFRS for SMEs; see *Eierle, B.*/Haller, A. (2010). Accordingly, it is possible that national regulatory institutions transfer the IFRS for SMEs into their national regulatory systems and open the scope of application for (specific) entities with public accountability on a voluntary or obligatory basis. However, such financial statements should not be described as conforming to the IFRS for SMEs (IFRS for SMEs 1.5).

7 In Germany all entities whose equity or debt securities have been admitted to trading on the regulated market of a German stock exchange are covered by the enforcement system (§ 342b Abs. 2 S. 2 HGB).

than 130 m Euros were selected from this list. By applying this procedure we finally came up to a sample of 342 entities. The size threshold of 130 m Euros was derived from the German Disclosure Act (*Publizitätsgesetz,* PublG). This Act defines – largely independent from the legal form of an entity – in Art. 1 para. 1 the characteristics of "public accountability" as applied in the German financial reporting environment. The German Disclosure Act uses three different size criteria to define "public accountability", one of which is an annual sales volume above 130 Mio. Euros.[8] Since the IASB based its decision on the scope of the IFRS for SMEs on the "non-public accountability"-principle we also used that principle (however as defined and applied in the German legal environment for more than forty years) for defining the sample entities for our study. For practical reasons we did not use all three criteria of the PublG but based our sample selection only on the sales volume.

2.3 Questionnaire returns

The entities were asked to send the questionnaires back within four weeks. 33 completed questionnaires were returned. This represents a response rate of 9.6%.

Questionnaire response rate		
Questionnaires sent out	342	
Questionnaires returned	33	
= Analysable questionnaires	33	(9,6%)

Figure 1: Questionnaire response rate

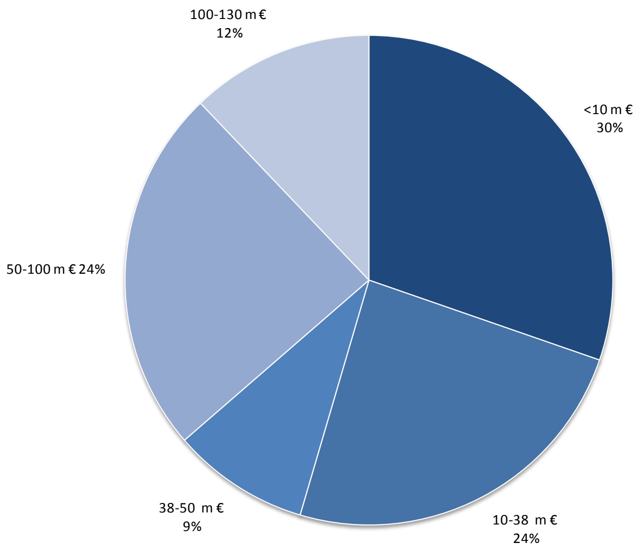
Due to the fact that not all questionnaires were comprehensively filled in, the following presentation of the results and answers given always provide the number of responses that were included in the analysis of a particular question (symbol "n").

[8] Others are the balance sheet total above 65 Mio Euros and the number of employees exceeds 5,000.

2.4 Characterisation of the participating entities

Figure 2 shows the size-distribution of the participating entities according to their annual sales volume.

Annual sales volume of the responding entities in the last financial year



Usable answers: n=33

Figure 2: Participating entities according to their annual sales volume

All of the responding entities were stock corporations (*Aktiengesellschaften*). As figure 3 depicts, a large part of them is in the service industry, much less in the manufacturing industry.

Responding entities according to their industries on the basis of the federal statistical office's official classification of economic activities (WZ 2008):

Mining and quarrying	3%
Manufacturing	12%
Electricity, gas, steam and air conditioning supply	6%
Wholesale and retail trade, repair of motor vehicles	3%
Transportation and storage	9%
Information and communication	9%
Real estate activities and accomodation	3%
Other service activities	55%

Usable answers: n=33

Figure 3: Participating entities according to industry

3 ASSESSMENT OF PARTICULAR ACCOUNTING ISSUES

The major justification for the IFRS for SMEs is the objective, postulated by the IASB, to improve the cost/benefit relation taking into account the particular needs of SMEs and their financial statements´ users.[9] With regard to the potential applicability of the standard for „small“ publicly traded entities the representatives of the entities were asked to assess the perceived costs and benefits of particular accounting requirements of the IFRS for SMEs. Concerning the benefits they were asked to differentiate between the information benefit for external users (e.g. investors, banks, suppliers and costumers) and the benefit for internal information and control purposes. The questionnaire focused on those requirements of the IFRS for SMEs that are different to (full) IFRS and that therefore are assumed to be relevant for "small" publicly traded entities when evaluating the advantageousness of applying the IFRS for SMEs instead of (full) IFRS. In order to focus the assessments on the particular requirement of the IFRS for SMEs and to avoid other influences, the respondents were asked not to consider in their assessments the specific German accounting environment and potential consequences resulting from the current German tax and commercial laws.

3.1 Development costs

The accounting treatment of development costs is regarded as one of the major simplifications included in the IFRS for SMEs compared to (full) IFRS. Contrary to IAS 38.57 that requires capitalising development costs if specific conditions are met, Sec. 18.14 of the IFRS for SMEs prohibits capitalising such costs and instead requires expensing them. The accounting treatment provided for by the IFRS for SMEs is assessed positively by the respondents. 39% of the respondents assessed the benefits of expensing for external users to be (rather or much) higher than capitalising. With regard to internal control purposes the majority (45%) evaluates the benefits of capitalising and expensing to be "about the same", while 27% perceive expensing to be more useful. In addition 39% mention lower costs for expensing compared to capitalising (see figure 4).

[9] The IASB assumes that differences between (full) IFRS and the IFRS for SMEs are justified by an improved relation between the information benefit for the users of financial statements and the costs caused by the presentation of those statements; see IFRS for SMEs BC46, also Köhler, A./Köhler-Braun, K. (2010), para 4ff.

Question: How do you evaluate the accounting method available under the IFRS for SMEs for development costs (immediate expensing) in comparison to the accounting method available under (full) IFRS (obligatory capitalising)?

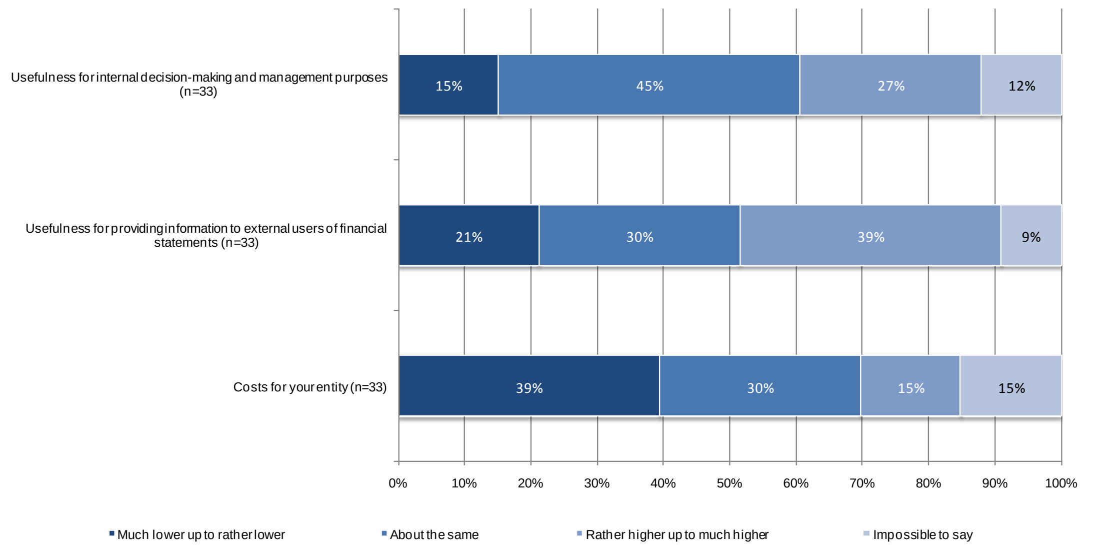
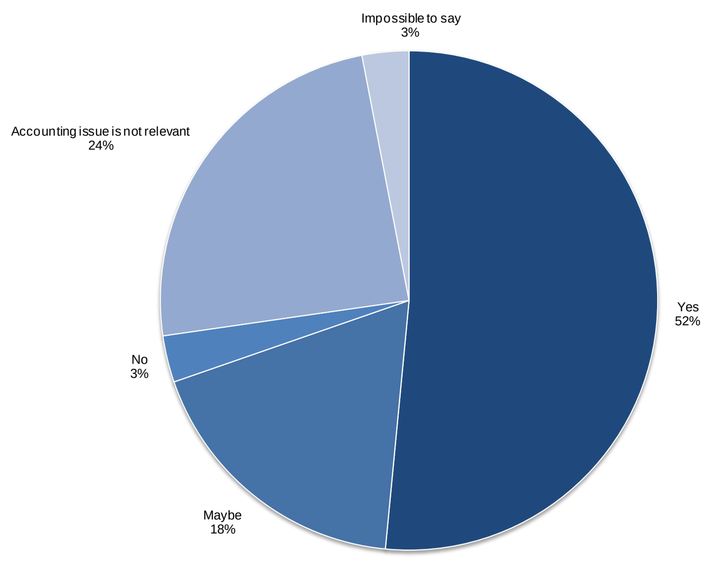


Figure 4: Evaluation of expensing versus capitalising development costs

Against the background of these results the answers to the question whether the respondents would consider applying the accounting treatment required by the IFRS for SMEs for preparing their financial statements if possible, is not surprising. 52% answered ”yes” and only 3% “no”; 18% stated “perhaps”, and for the rest the issue was not relevant or an answer was not possible.

Question: For development costs, would you consider applying the accounting method available under the IFRS for SMEs (immediate expensing) instead of the accounting method available under (full) IFRS (obligatory capitalising)?



Usable answers: n=33

Figure 5: Potential expensing of development costs instead of capitalising

3.2 Goodwill

Another difference between the IFRS for SMEs and (full) IFRS is the obligatory amortisation of goodwill over its useful life according to Sec. 19.23 of the IFRS for SMEs. The majority of the respondents evaluates the amortisation of goodwill compared to the so-called “impairment only approach” of IAS 36.80, that prohibits amortisation and requires instead at least an annual impairment test, as favourable. 44% expect (rather or much) lower costs when amortising goodwill instead of applying the “impairment only approach”. In addition 38% assess a (rather or much) higher benefit for internal as well as for external users compared to the “impairment only approach” (see figure 6), 28% and 31% evaluate the benefits of the alternative treatments as being “equal”.

Question: **How do you evaluate the accounting method available under the IFRS for SMEs for goodwill (amortisation) in comparison to the accounting method available under (full) IFRS (annual impairment test)?**

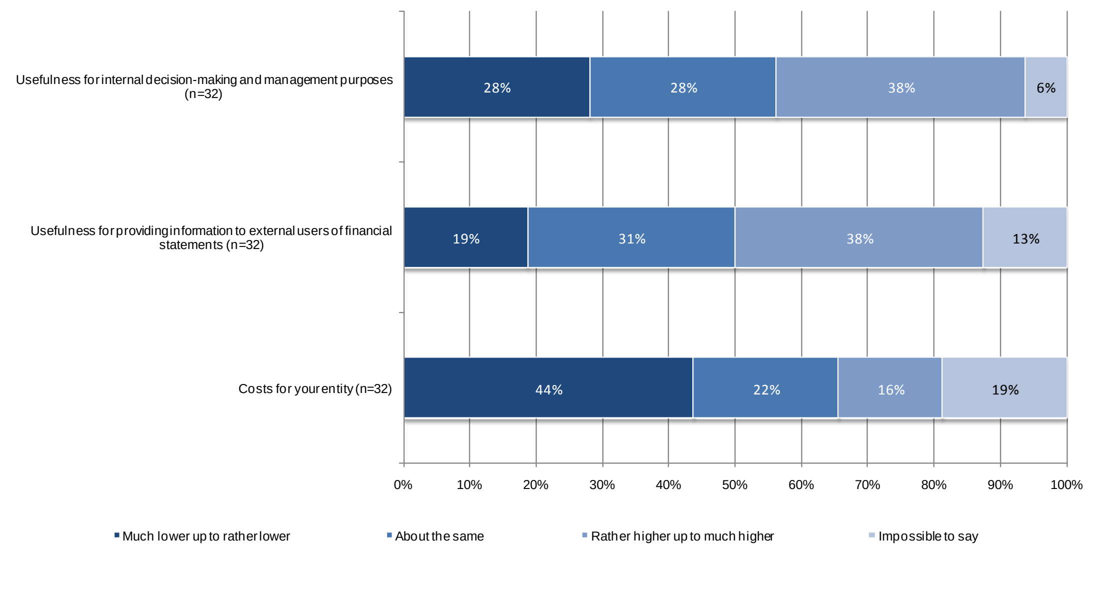
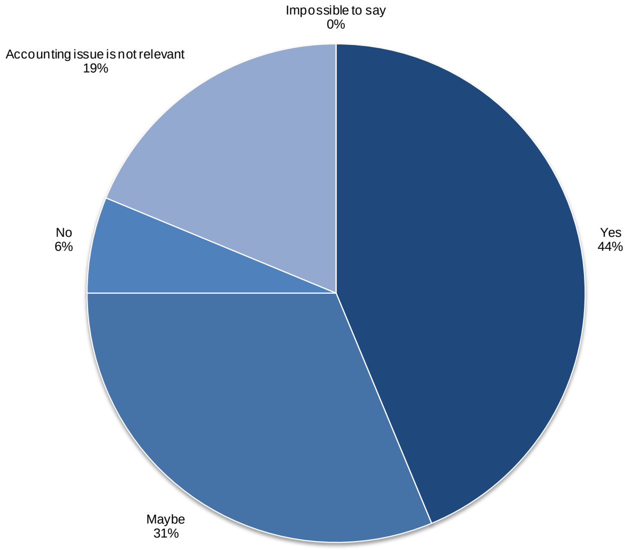


Figure 6: Evaluation of the amortisation of goodwill compared to the “impairment only approach”

Also with regard to this issue the majority of entities (44%) would consider to amortise goodwill and therefore apply the requirement of the IFRS for SMEs, if it were possible, whereas only 6% would favour the “impairment only approach” of IAS 36 (see figure 7).

Question: For goodwill, would you consider applying the accounting method available under the IFRS for SMEs (amortisation) instead of the accounting method available under (full) IFRS (annual impairment test)?



Usable answers: n=32

Figure 7: Potential application of the amortisation of goodwill instead of an annual impairment test

3.3 Property, plant and equipment

In contrast to IAS 16.29 the IFRS for SMEs does not provide the option to revalue property, plant and equipment in subsequent periods (revaluation model). Instead, Sec. 17.15 of the IFRS for SMEs requires measuring those assets at depreciated cost (cost model). This difference to (full) IFRS (again) is assessed as being positive. Although 44% of the respondents think that the benefits of both models with regard to internal information and control purposes are equal, the benefit for external users is evaluated by 41% to be (rather or much) higher when the cost model is used. Also the costs involved with the cost model are expected by 44% to be (rather or much) lower than with the revaluation model (see figure 8). So, the perceived benefit/cost relation of the cost model is obviously considerably higher than for the revaluation model.

This positive evaluation of the cost model is also reflected in the consideration of a potential application. 57% would consider to apply the cost model, if it were possible according to the conditions of the legal environment, 13% would refuse to apply this model (see figure 9). However, against the background of the fact, that the revaluation method is rarely applied in German consolidated accounts[10], the rates of 13%, who rejected the application of the cost model, and of 17%, who stated only a probable application of the cost model, may be seen as astonishingly high.

[10] See Theile, C. (2009), para. 1191.

Question: How do you evaluate the accounting method available under the IFRS for SMEs for property plant and equipment (obligatory application of the cost model) in comparison to the accounting method available under (full) IFRS (option to apply the revaluation model)?

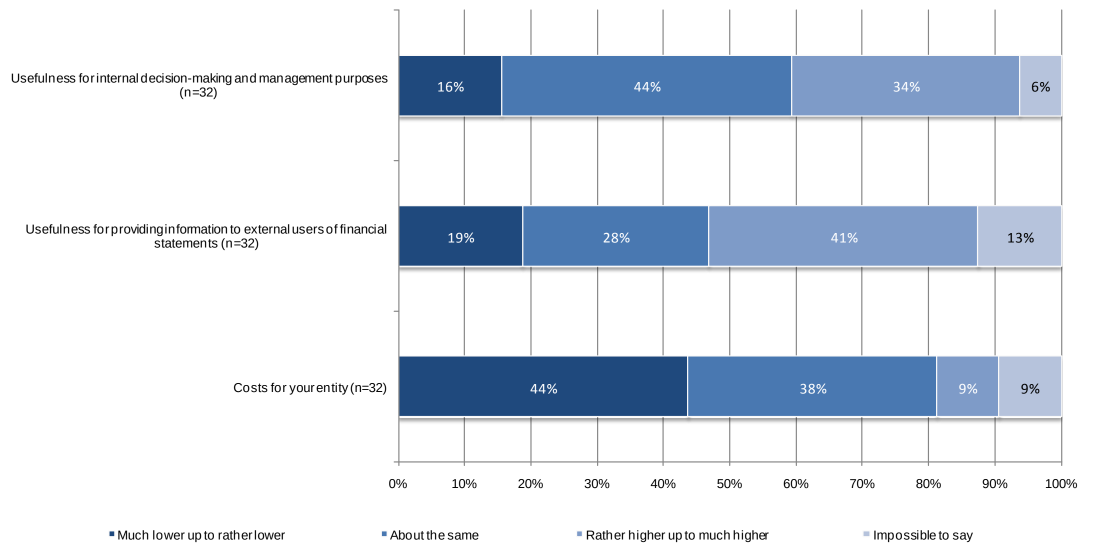
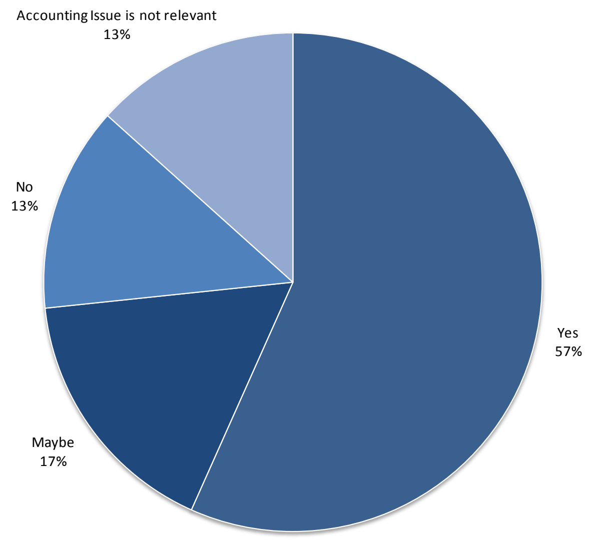


Figure 8 Evaluation of the cost model compared to the revaluation model to measure property, plant and equipment

Question: For property plant and equipment, would you consider applying the accounting method available under the IFRS for SMEs (obligatory application of the cost model) instead of the accounting method available under (full) IFRS (option to apply the revaluation model)?



Usable answers: n=30

Figure 9: Potential application of the cost model versus the revaluation model in measuring property, plant and equipment

3.4 Borrowing costs

While IAS 23.8 requires the capitalisation of borrowing costs for qualifying assets, IFRS for SMEs 25.2 requires expensing these costs without any exceptions. With this strict expensing requirement the IASB wanted to increase the benefit/cost relation for preparers as well as users of financial statements. The responses of the survey lead to the assumption that the IASB has achieved its objective. The majority of the representatives of “small” publicly traded entities evaluate the expensing of borrowing costs as more beneficial for external as well as internal purposes and as less costly than the partial capitalisation of those costs as required under (full) IFRS (see figure 10).

Question: **How do you evaluate the accounting method available under the IFRS for SMEs for borrowing costs (obligatory expensing) in comparison to the accounting method available under (full) IFRS (obligatory capitalisation for qualifying assets)?**

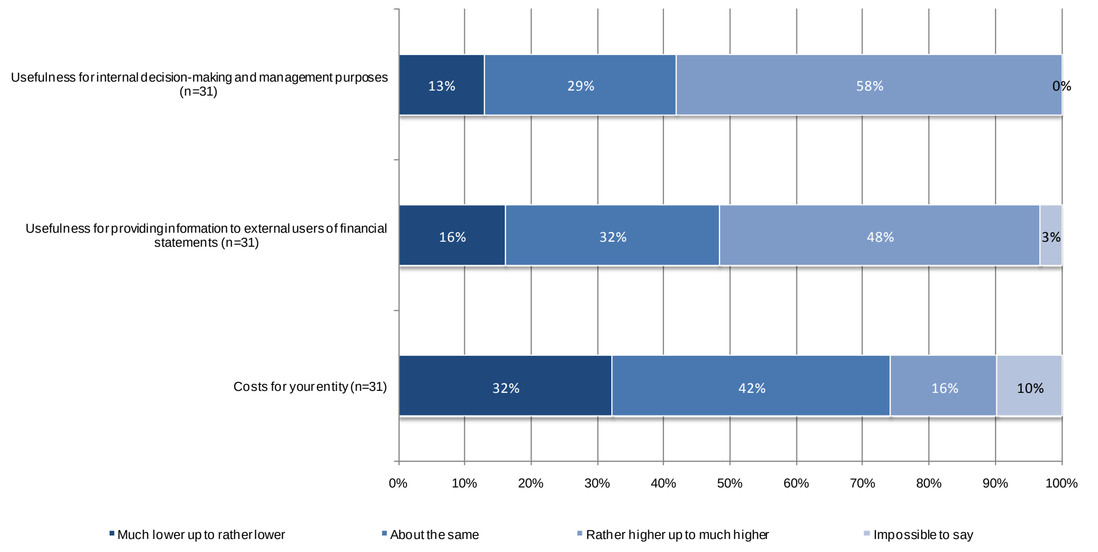
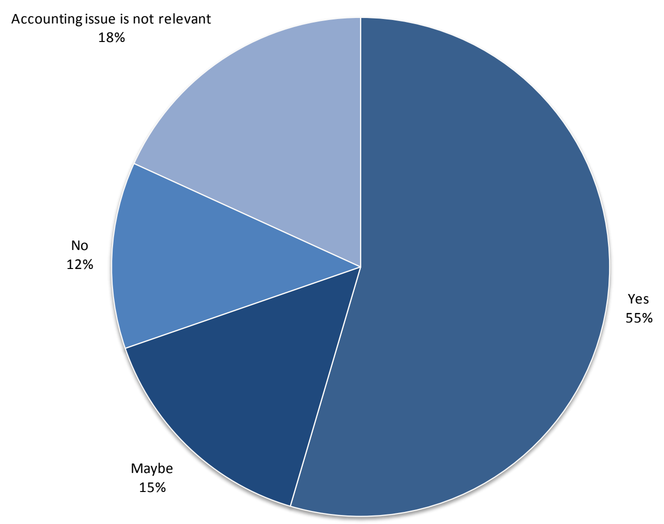


Figure 10: **Evaluation of expensing borrowing costs compared to the required capitalisation for qualifying assets**

Consequently the majority of the respondents (55%) would consider to apply the accounting treatment of the IFRS for SMEs for borrowing costs if possible; only 12% would not do so (see figure 11).

Question: **For borrowing costs, would you consider applying the accounting method available under the IFRS for SMEs (obligatory expensing) instead of the accounting method available under (full) IFRS (obligatory capitalisation for qualifying assets)?**



Usable answers: n=33

Figure 11: **Potential application of expensing borrowing costs instead of the required capitalisation for qualifying assets**

3.5 Pension liabilities

Similar to the measurement of property, plant and equipment (see chapter 3.3) there are other accounting issues for which the IASB did not incorporate the accounting options included in (full) IFRS in the IFRS for SMEs. The reason for eliminating several accounting options available under (full) IFRS from the IFRS for SMEs was (apart from others) to prevent SMEs from time consuming and costly accounting policy choices. One of these accounting options that are not included in the IFRS for SMEs is the optional use of the corridor method for measuring the liability of a defined benefit plan. This option allows an entity to refrain from recognising changes in actuarial gains and losses when measuring a defined benefit liability as long as the amount of the changes is within a particular corridor (see IAS 19.92). According to IFRS for SMEs 28.24 actuarial gains and losses must be recognised in full either in net income or in other comprehensive income (option). The abolition of the corridor method in the IFRS for SMEs is assessed indifferently by the respondents. The majority evaluates the benefits and the costs of having or not having the option available to apply the corridor method as more or less equal. In addition, slightly more persons see (rather or much) higher internal as well as external benefits and (rather or much lower) costs related with the requirement of the IFRS for SMEs (non-acceptance of the corridor method) than with the acceptance of the corridor method according to IAS 19 (see figure 12). A large part of entities did use the category "impossible to say" for the cost as well as for the benefit evaluations (16% and 19%). In no other question of the survey this category was used that often. One of the reasons for this may be that defined benefit plans are an issue that is not relevant for most of the entities (as is also indicated by figure 13).

Question: How do you evaluate the accounting method available under the IFRS for SMEs for defined benefit plans (corridor approach is not allowed) in comparison to the accounting method available under (full) IFRS (corridor approach is allowed)?

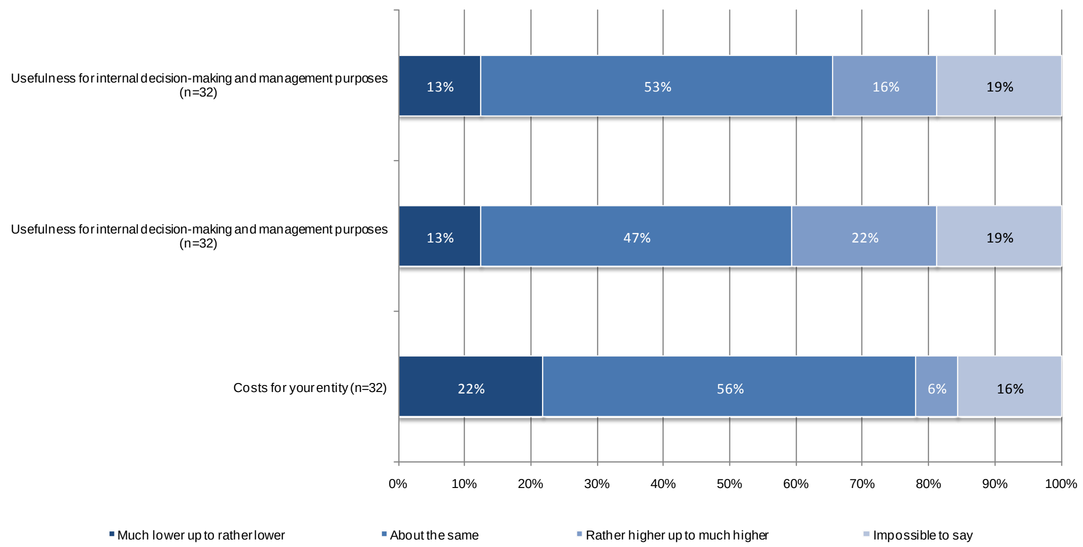
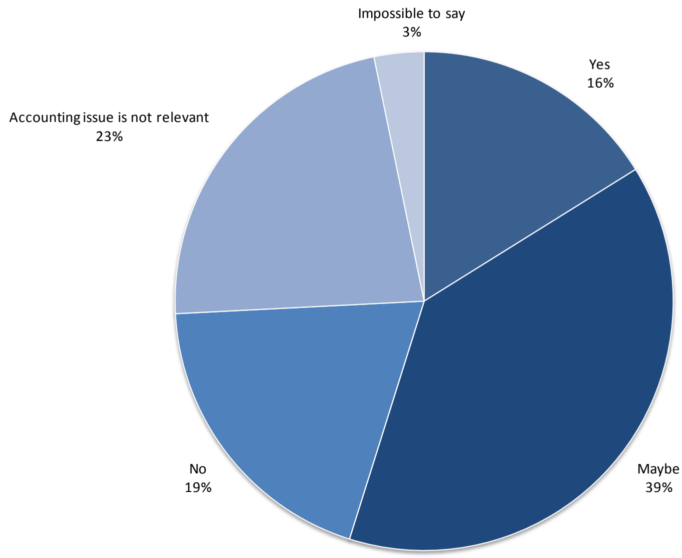


Figure 12: Evaluation of the non-availability of the corridor approach

Question: For defined benefit plans, would you consider applying the accounting method available under the IFRS for SMEs (corridor method is not allowed)?



Usable answers: n=31

Figure 13: Potential willingness to dispense with the application of the corridor method for recognising actuarial gains and losses

The indifferent attitude is also reflected by the answers with regard to the question whether the entities would consider applying the requirement of the IFRS for SMEs (no optional application of the corridor method) instead of the (full) IFRS. Here 16% answered "yes" and 19% "no". The majority of respondents stated "perhaps". For 23% of the respondents the issue of actuarial gains and losses does not seem to be relevant (see figure 13). This might be the reason for the relatively high number of respondents that stated "impossible to say" when asked to assess the costs and benefits for the accounting method available under the IFRS for SMEs.

3.6 Investments in associates and joint ventures

Sec. 14.4 and 15.9 of the IFRS for SMEs provide several options for measuring investments in associates and joint ventures in consolidated financial statements. Those investments may be measured at cost, at fair value or at equity. Figure 14 shows that the benefits for internal (34% of the respondents) and for external information purposes (53% of the respondents) of these options is assessed to be (rather or much) lower than the obligatory application of the equity method under IAS 28.13 (for investments in joint ventures the proportionate consolidation method is also allowed according to IAS 31.30). In addition, the related costs are assessed by most of the respondents (41%) as being equal (see figure 14).

Question: **How do you evaluate the accounting methods available under the IFRS for SMEs for investments in associates and joint ventures (option to measure these investments at cost, fair value or at equity in consolidated financial statements) in comparison to the accounting methods available under (full) IFRS (obligatory application of the equity method for investments in associates and option to apply the equity method or proportionate consolidation for joint ventures)?**

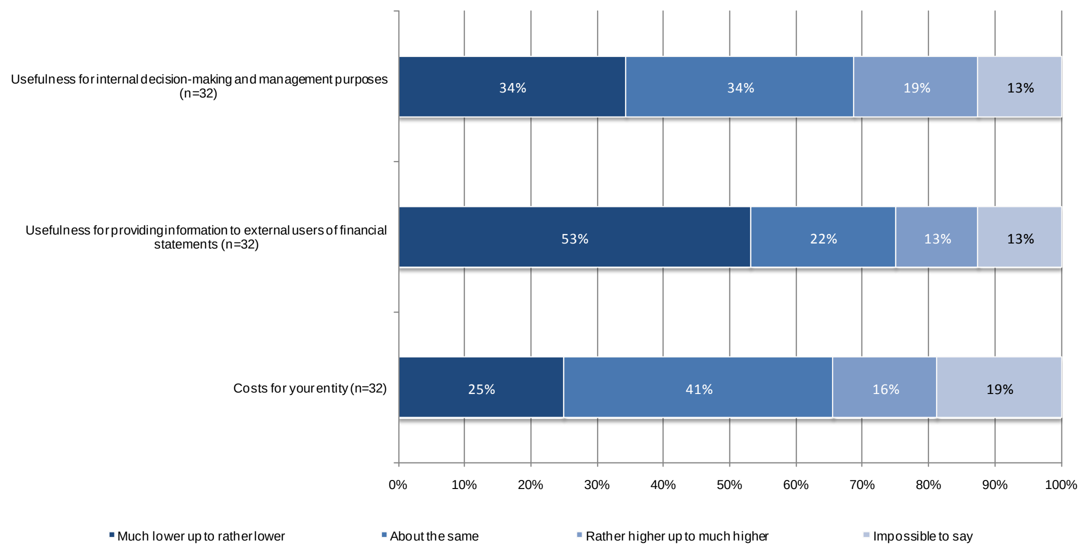
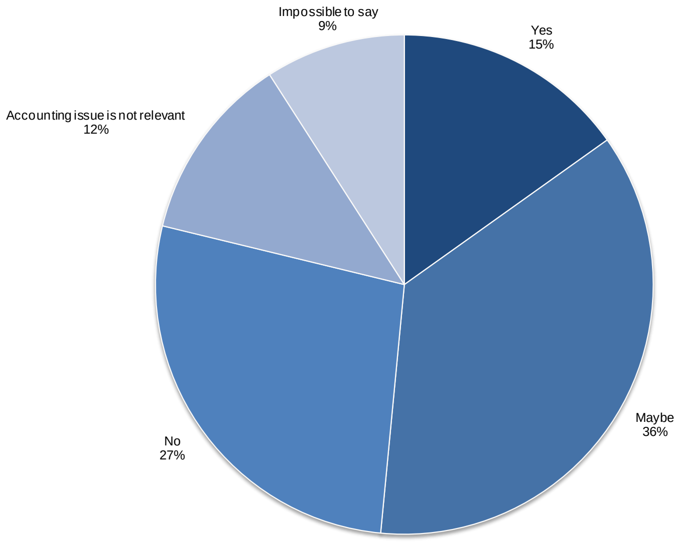


Figure 14: Evaluation of the options available under the IFRS for SMEs for measuring investments in associates and joint ventures in consolidated financial statements in comparison to the measurement methods required under (full) IFRS

Related to the less enthusiastic assessment of the benefits of the accounting option only 15% of the respondents stated that they would consider to use the option provided by the IFRS for SMEs in measuring investments in associates/joint ventures if it were possible, 27% refused the potential use of these options (see figure 15)

Question:	For investments in associates and joint ventures, would you consider applying the accounting methods available under the IFRS for SMEs (option to measure those investments at cost, fair value or at equity) instead of the accounting method available under (full) IFRS (obligatory measurement of investments in associates at equity and option to apply the equity method or proportionate consolidation for investments in joint ventures)?



Usable answers: n=33

Figure 15: Potential application of the measurement options available under the IFRS for SMEs for investments in associates and joint ventures for consolidated financial statements

3.7 Segment reporting

A further simplification of the IFRS for SMEs is that it does not require segment reporting. According to IFRS 8.2 segment reporting is only required for publicly traded entities and is therefore regarded to be not appropriate and necessary for SMEs. The responses show that a segment report is supposed to be very beneficial for internal and external information purposes. 85% expect a (rather or much) lower benefit for external and 52% for internal purposes (see figure 16) if a segment report is not provided. However, 73% expect (rather or much) lower cost for the reporting entities if segment information does not need to be given. It is noticeable that (except for the benefit assessment for external users) everybody was able to answer these questions.

The question, whether participants would consider applying the requirement under the IFRS for SMEs and thus dispense with the presentation of a segment report if it were possible, brought up very interesting responses. 58% of the respondents stated that they would stop to present a segment report if they were allowed to do so, despite the very high assessment of the benefit of segment reports for external users (see figure 17). Only 24% would continue to present a segment report as required by IFRS 8. This reveals that (also) publicly traded entities attach more importance to the costs of financial statements´ presentation than to the expected benefits for the users.

Question: How do you evaluate the missing segment reporting requirements under the IFRS for SMEs in comparison to the obligatory segment reporting requirements under (full) IFRS?

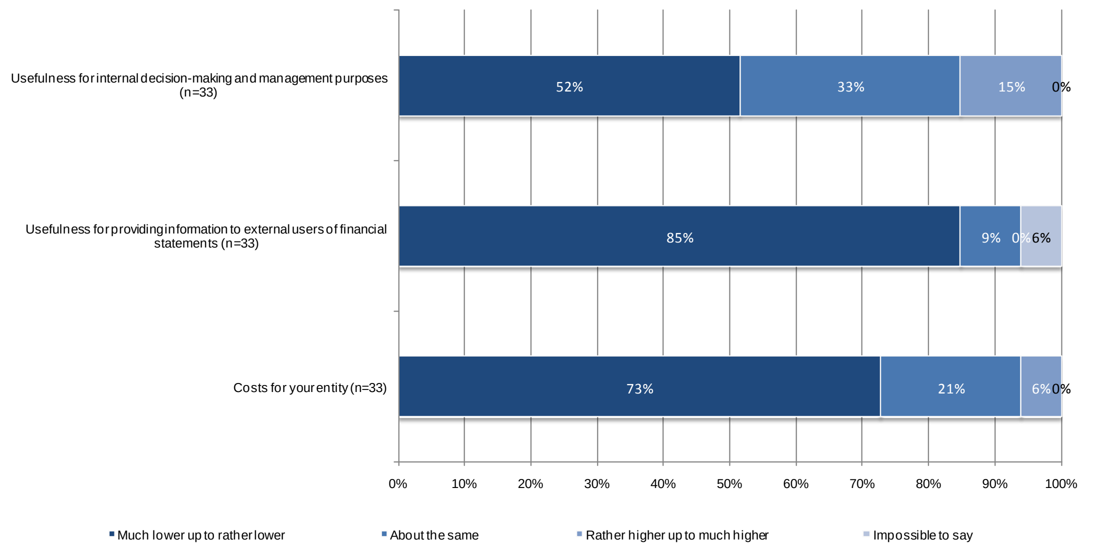
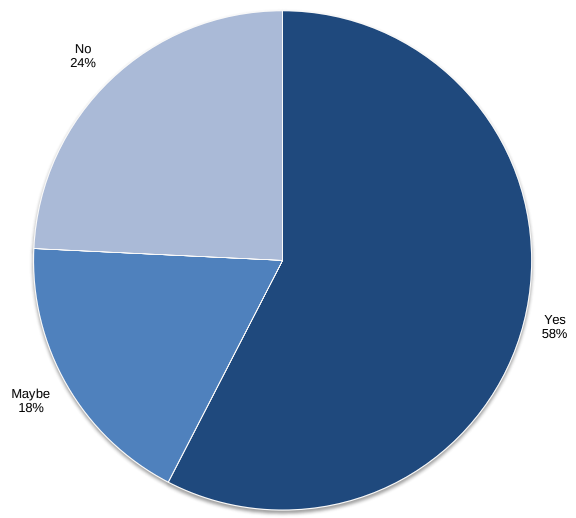


Figure 16: Evaluation of the missing requirement to prepare a segment report under the IFRS for SMEs compared to the obligatory requirement for providing segment information under (full) IFRS

Question: Would you (as it is possible under the IFRS for SMEs) consider dispensing with the preparation of a segment report?



Usable answers: n=33

Figure 17: Potential willingness to dispense with the preparation of a segment report

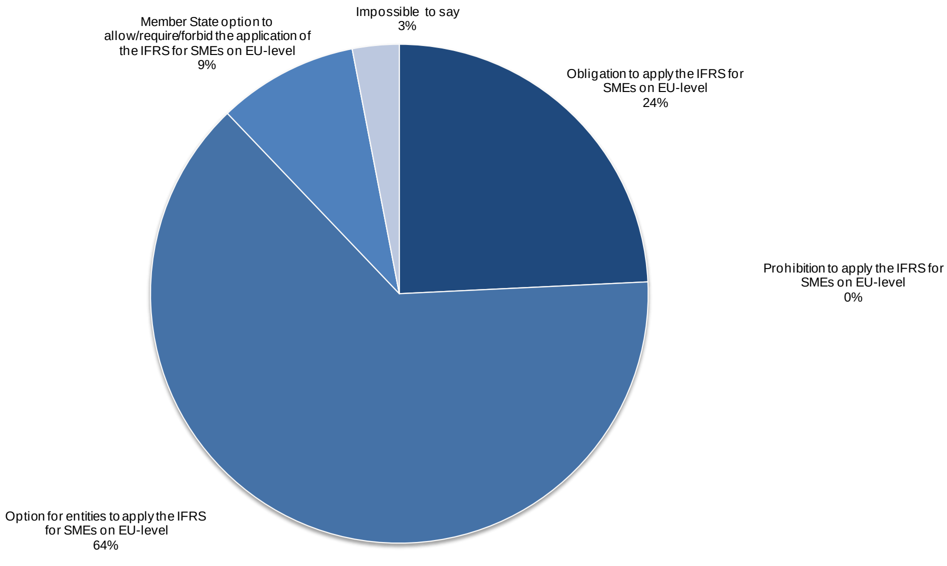
4 POTENTIAL APPLICATION OF THE IFRS FOR SMES

At the end of the questionnaire the participants were asked about the regulatory framework they would prefer for the application of the IFRS for SMEs and whether or under which conditions they would consider (if possible) applying the IFRS for SMEs instead of (full) IFRS.

With regard to the regulatory framework for the IFRS for SMEs in the European legal system the survey depicts that all respondents reject prohibiting the application of the standard in Europe and that most respondents (64%) instead favour an entity option on the EU-level. 24% even favour a compulsory application of the standard for publicly traded entities, 9% are in favour of a Member State option (see figure 18). It becomes obvious that a majority of the publicly traded entities questioned see the IFRS for SMEs as a sensible regulatory alternative that should be available to them. According to 32% of the respondents this option should be provided to all publicly traded entities, albeit the majority (45%) is in favour to restrict the application of the IFRS for SMEs to publicly traded entities with an annual sales volume of less than 130 m Euros (like the size restriction of the sample of the survey) (see figure 19).

This attitude is in clear contrast to the IASB's intention to explicitly exclude publicly traded entities from the scope of the IFRS for SMEs. The IASB even makes clear that financial statements of publicly traded entities that are presented in accordance with the IFRS for SMEs shall not be described as conforming to the IFRS for SMEs.[11]

Question: Which legal accounting framework would you prefer for publicly traded entities based in the EU regarding the IFRS for SMEs?

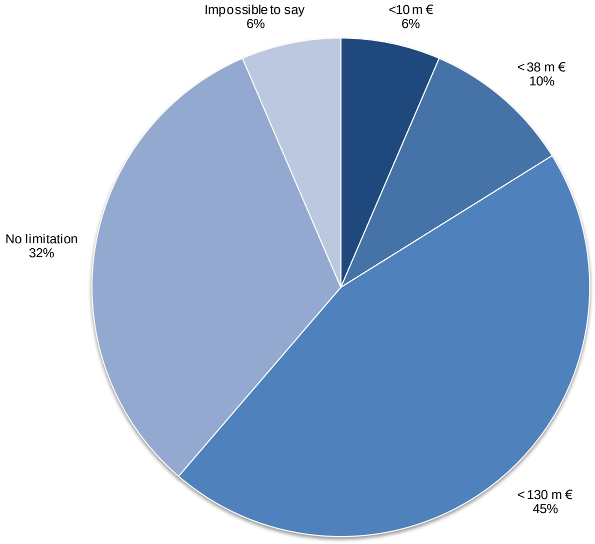


Usable answers: n=33

Figure 18: Evaluation of the normative integration of the IFRS for SMEs in the legal accounting framework of the EU

11 See IFRS for SMEs 1.5 and BC77.

Question: Which publicly traded entities shall be given an option or shall be required to apply the IFRS for SMEs?

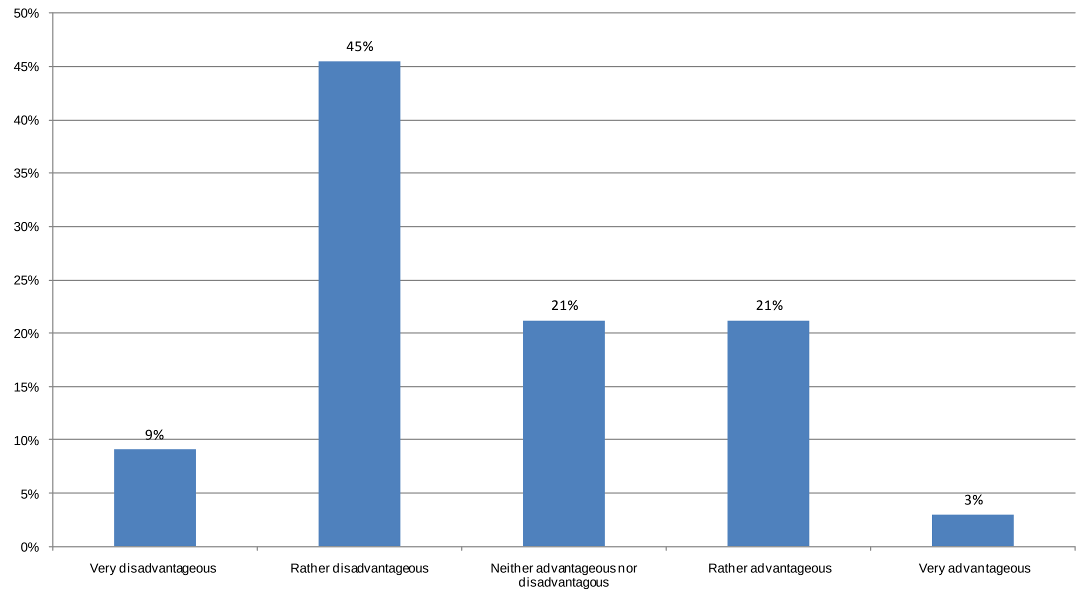


Usable answers: n=31

Figure 19: Size thresholds regarding the application of the IFRS for SMEs

The assessments of the respondents concerning the advantageousness of a potential application of the IFRS for SMEs for their own entities are much less positive than it might be expected according to the responses to the previous questions. 24% regard a switch from (full) IFRS to the IFRS for SMEs as (rather or very) advantageous, yet the majority (54%) considers an application of the IFRS for SMEs as (rather or very) disadvantageous for their entities (see figure 20).

Question: How do you evaluate for your entity to switch from (full) IFRS to the IFRS for SMEs?



Usable answers: n=33

Figure 20: Evaluation of the advantageousness to switch from (full) IFRS to the IFRS for SMEs

The major arguments for a switch to the IFRS for SMEs are cost related. As shown in figure 21 the most material issues that make an application of the IFRS for SMEs advantageous for the respondents are the smaller number of note disclosures, the lower frequency of changes of the standard, the lower level of complexity of the accounting treatments, and lower costs for the preparation and audit of the statements. A better or adequate level of information for the users of the financial statements seems to be less important for the assessment of the advantageousness of the standard.

Question: **How do you evaluate the importance of following arguments for a potential transition of your entity to the IFRS for SMEs?**

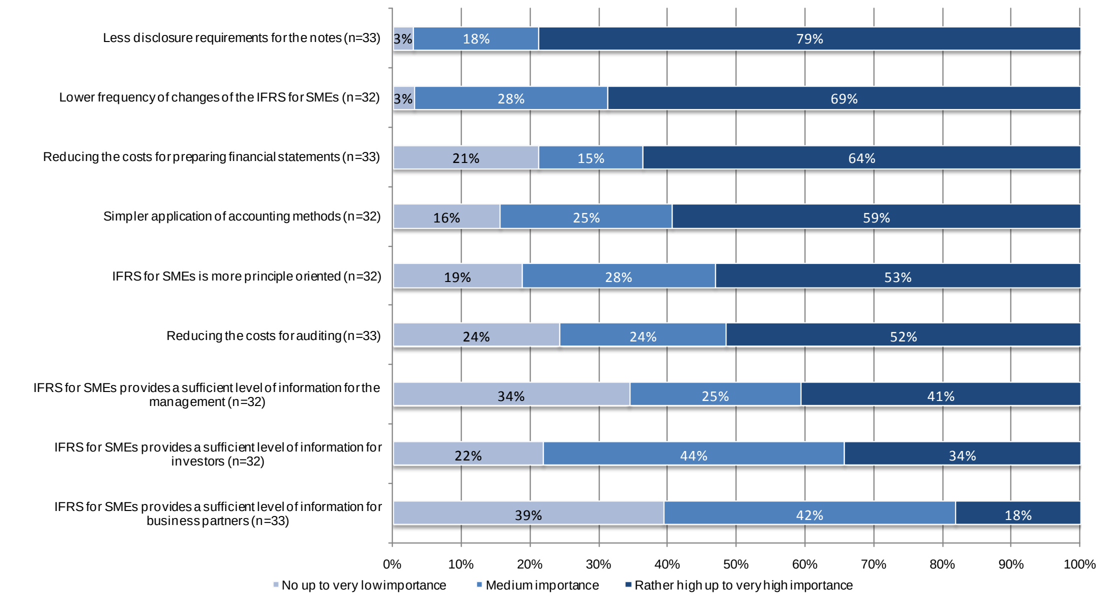
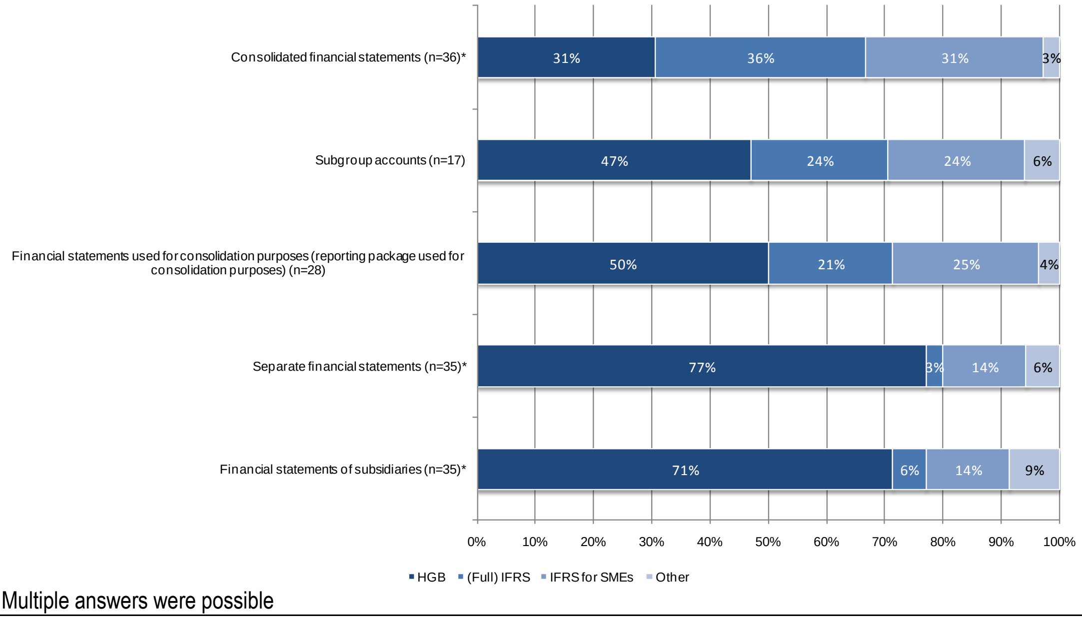


Figure 21: Evaluation of the importance of specific arguments for switching to the IFRS for SMEs

Finally the participants were asked which set of accounting requirements they would like to use for which types of financial statements if allowed by the legal framework. Here it becomes obvious (see figure 22) that the responding publicly traded entities are still in favour of the HGB requirements with regard to the separate financial statements. However, for (sub-)group accounts the respondents prefer IFRS with almost equal preference for (full) IFRS and the IFRS for SMEs.

In order to investigate whether the representatives of "small" publicly traded entities have already had a closer look at the IFRS for SMEs the participants of the survey were asked to make a self-evaluation of their level of knowledge of the IFRS for SMEs. The responses disclose considerable differences between the participants. 14% evaluated their knowledge as being good, while 54% say that they know the IFRS for SMEs "to some extent". 32% evaluate their knowledge of the IFRS for SMEs as "little" or respond to have "no" knowledge of that standard (see figure 23).

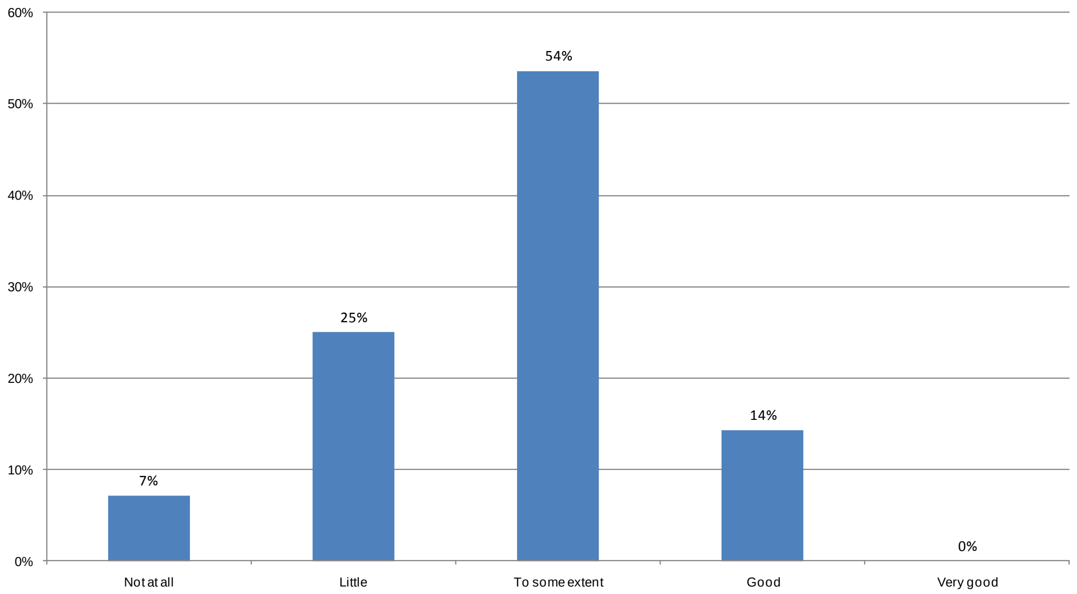
Question: Which set of accounting standards would you like to apply for which types of financial statements if allowed by the legal framework without preparing additional German GAAP financial statements?



* Multiple answers were possible

Figure 22: Preferred set of accounting standards

Question: How well do you know the IFRS for SMEs?



Usable answers: n=28

Figure 23: Knowledge level of the IFRS for SMEs

In combining the self-evaluated knowledge of the IFRS for SMEs with the responses to all the other questions it becomes obvious that the respondents who stated to have good knowledge or to know the standard to some extend give much less frequent the answer “impossible to say” than respondents who said to have little or no knowledge. They also evaluated the benefit/cost relation of the investigated accounting methods available under the IFRS for SMES more positive than the corresponding requirements in (full) IFRS.

In addition approx. a third of the persons who stated to have at least to some extend knowledge of the IFRS for SMEs favoured an obligatory introduction of the IFRS for SMEs in the EU legal framework, while no one of the respondents with little or no knowledge of the IFRS for SMEs chose this regulatory alternative. However, in the group of the latter approx. 11 % were in favour of a Member State option on EU-level that should not be exercised on the national level. The majority of the respondents with little or no IFRS for SMEs knowledge preferred the HGB norms for all required types of financial statements except for consolidated financial statements. For consolidated accounts even this group of respondents showed almost equal preference for the HGB-norms, (full) IFRS and IFRS for SMEs (approx. 30% for each set of standards). These findings lead to the assumption that their might be an influence of the knowledge level on the evaluations and attitudes of people with regard to the content of the IFRS for SMEs and the scope of integration of the standard in the EU legal environment.

Against this background an analysis of the evaluation of the advantageousness to switch from (full) IFRS to the IFRS for SMEs in relation to the respondents knowledge level of the IFRS for SMEs reveals interesting results. No person who indicated its knowledge of the standard as “good” evaluated a switch to the IFRS for SMEs as (rather or very) advantageous for his entity (see figure 24). A comparable result is seen with regard to the respondents with “little” knowledge. The standard was mostly evaluated as being advantageous by persons, who said that they would not have any knowledge of the standard, as well as (almost to the same extent) by persons who stated to know the standard to some extent. Hence it becomes obvious, that the assessment of the advantageousness of the application of the IFRS for SMEs is most likely not directly related with the assessment of the benefit/cost-relation of the individual requirements of the standard but certainly also depends on several other factors, such as the integration of the entity in a group, and/or the expectations of numerous stakeholders with regard to the applied set of standards etc.

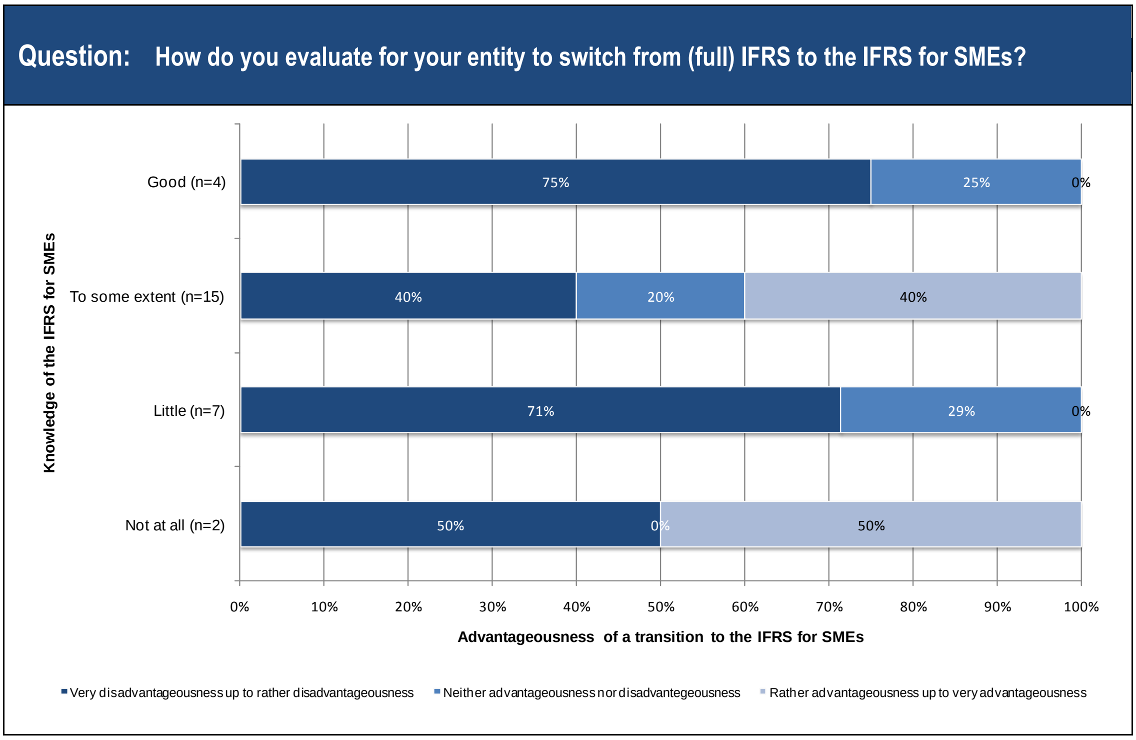


Figure 24: Evaluation of the advantageousness to switch from (full) IFRS to the IFRS for SMEs in relation to the knowledge of the IFRS for SMEs

5 SUMMARY

The results of the survey show clearly that the majority of the “small” publicly traded entities in Germany[12] associate higher benefits and/or lower costs with the simplifications to (full) IFRS as incorporated in the IFRS for SMEs and therefore these simplifications are assumed to have a positive benefit/cost-relation (see table 1-3). Higher benefits for external information purposes (mostly also for internal purposes) and/or lower costs for the reporting entities are assessed by the participating persons with regard to the following requirements that were constructed as a simplification of the (full) IFRS requirements: Expensing development costs in the period of their occurrence, amortisation of goodwill, measurement of property, plant and equipment only at depreciated cost, as well as expensing all borrowing cost in the periods of their occurrence. As to the non-availability of the corridor method for recognising actuarial gains and losses, the benefit and cost assessments are mostly indifferent, however, in tendency the assessment of the benefits and the cost effects is more positive than negative.

A negative benefit evaluation (for external purposes as well as – although to a smaller extent – for internal purposes) was made with regard to the various options available for measuring investments in associates (and/or joint ventures), and the missing requirement to present a segment report. However, these negative benefit assessments are contrasted with cost reductions expected by the representatives of the participating entities (especially with regard to the missing requirement to present a segment report).

[12] It can be expected that most of the surveyed entities have experiences with the application of (full) IFRS due to the requirement for publicly traded entities in Germany (and the EU) to apply these standards in their consolidated accounts.

Assessment of the usefulness of the accounting requirement mentioned ***for providing information to external users of financial statements***	**(rather or much) higher**	**about the same**	**(rather or much) lower**
Recognition of development costs as expense according to the IFRS for SMEs compared to their capitalisation according to (full) IFRS (n=33)	39%	30%	21%
Amortisation of goodwill according to the IFRS for SMEs compared to the “impairment only approach” according to (full) IFRS (n=32)	38%	31%	19%
Required measurement of property, plant and equipment at depreciated cost according to the IFRS for SMEs compared to the option using the revaluation model according to (full) IFRS (n=32)	41%	28%	19%
Recognition of borrowing costs as expense according to the IFRS for SMEs compared to the (partial) capitalisation according to (full) IFRS (n=31)	48%	32%	16%
Prohibition to use the corridor method in recognising actuarial gains and losses according to the IFRS for SMEs compared to the optional usage of the method according to (full) IFRS (n=32)	22%	47%	13%
Three measurement alternatives for investments in associates and joint ventures according to the IFRS for SMEs compared to the required usage of the equity method (or proportionate consolidation for joint ventures) according to (full) IFRS (n=32)	13%	22%	53%
No requirement to present a segment report according to the IFRS for SMEs compared to a required segment report according to (full) IFRS (n=33)	0%	9%	85%

Table 1: Evaluation of the usefulness of particular simplifications of the IFRS for SMEs for the provision of information to external users of financial statements compared to the requirements of (full) IFRS

Assessment of the usefulness of the accounting requirement mentioned ***for providing information for internal control purposes***	**(rather or much) higher**	**about the same**	**(rather or much) lower**
Recognition of development costs as expense according to the IFRS for SMEs compared to their capitalisation according to (full) IFRS (n=33)	27%	45%	15%
Amortisation of goodwill according to the IFRS for SMEs compared to the “impairment only approach” according to (full) IFRS (n=32)	38%	28%	28%
Required measurement of property, plant and equipment at depreciated cost according to IFRS for SMEs compared to the option using the revaluation model according to (full) IFRS (n=32)	34%	44%	16%
Recognition of borrowing costs as expense according to the IFRS for SMEs compared to the (partial) capitalisation according to (full) IFRS (n=31)	58%	29%	13%
Prohibition to use the corridor method in recognising actuarial gains and losses according to the IFRS for SMEs compared to the optional usage of the method according to (full) IFRS (n=32)	16%	53%	13%
Three measurement alternatives for investments in associates and joint ventures according to the IFRS for SMEs compared to the required usage of the equity method (or proportionate consolidation for joint ventures) according to (full) IFRS (n=32)	19%	34%	34%
No requirement to present a segment report according to the IFRS for SMEs compared to a required segment report according to (full) IFRS (n=33)	15%	33%	52%

Table 2: Evaluation of the usefulness of particular simplifications of the IFRS for SMEs for the provision of information for internal control purposes compared to the requirements of (full) IFRS

*Assessment of the **costs** connected with the application of the accounting requirement mentioned*	**(rather or much) higher**	**about the same**	**(rather or much) lower**
Recognition of development costs as expense according to the IFRS for SMEs compared to their capitalisation according to (full) IFRS (n=33)	15%	30%	39%
Amortisation of goodwill according to the IFRS for SMEs compared to the “impairment only approach” according to (full) IFRS (n=32)	16%	22%	44%
Required measurement of property, plant and equipment at depreciated cost according to IFRS for SMEs compared to the option using the revaluation model according to (full) IFRS (n=32)	9%	38%	44%
Recognition of borrowing costs as expense according to the IFRS for SMEs compared to the (partial) capitalisation according to (full) IFRS (n=31)	16%	42%	32%
Prohibition to use the corridor method in recognising actuarial gains and losses according to the IFRS for SMEs compared to the optional usage of the method according to (full) IFRS (n=32)	6%	56%	22%
Three measurement alternatives for investments in associates and joint ventures according to the IFRS for SMEs compared to the required usage of the equity method (or proportionate consolidation for joint ventures) according to (full) IFRS (n=32)	16%	41%	25%
No requirement to present a segment report according to the IFRS for SMEs compared to a required segment report according to (full) IFRS (n=33)	6%	21%	73%

Table 3: Evaluation of the costs related with particular simplifications of the IFRS for SMEs compared to the requirements of (full) IFRS

These benefit/cost-assessments were most likely the reason why the majority of the respondents in most cases would (at least probably) consider applying the specific accounting requirement of the IFRS for SMEs in their entity, if it were possible under the legal framework. The requirements that are regarded to be less favourable are the measurement options for measuring investments in associates and joint ventures (see figure 15) as well as the prohibition of the corridor method for the recognition of actuarial gains and losses (see figure 13).

As mentioned above, the GASC did carry out a parallel survey on non-publicly traded entities.[13] Despite the merely similar focus of both studies, most of the questions of the surveys were different. With regard to accounting requirements of the IFRS for SMEs, only the question to assess the accounting treatment for development costs was addressed in both questionnaires. The responses to these questions were quite different. Non-publicly traded entities assessed the requirement to expense development costs according to IFRS for SMEs 18.14 with regard to the information benefits for external as well as internal users, and with regard to the costs involved, compared to the capitalisation requirement according to (full) IFRS, considerably more negative than publicly traded entities. This could perhaps be explained by the lower experience of non-publicly traded entities with capitalising development costs as required under (full) IFRS or allowed under HGB norms.

Another difference can be depicted with regard to the level of knowledge of the IFRS for SMEs. This seems to be higher in publicly traded entities than in non-publicly traded ones (see figure 24).

13 Vgl. Eierle, B./Haller, A. (2010a): IFRS for SMEs – Ergebnisse einer Befragung von nicht kapitalmarktorientierten Unternehmen in Deutschland, Berlin 2010.

Question: How well do you know the IFRS for SMEs?

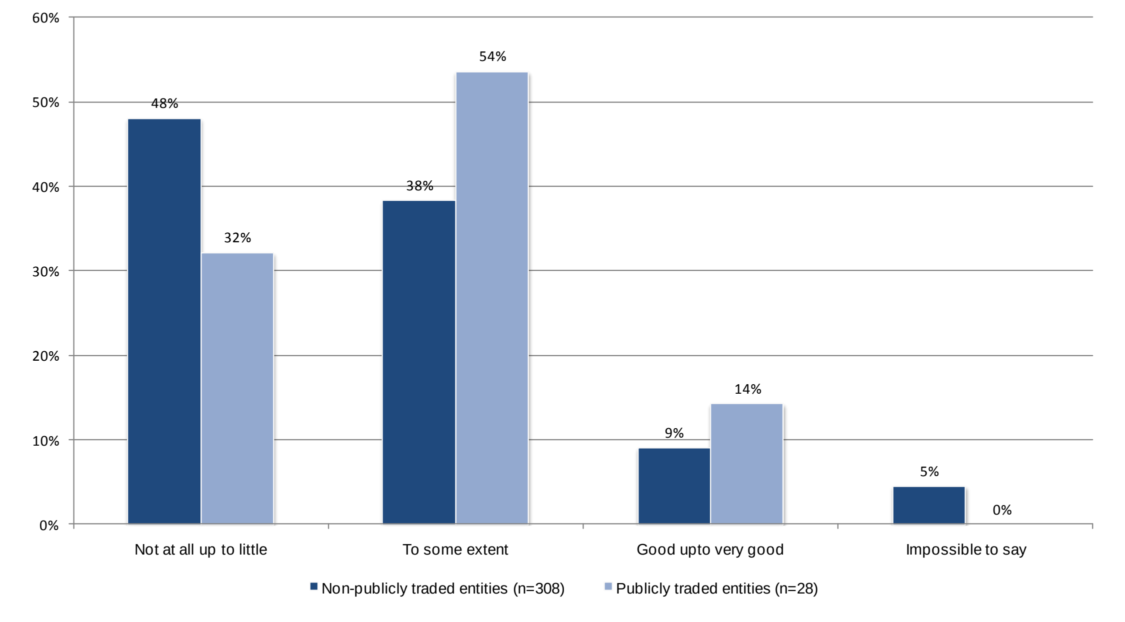


Figure 25: Knowledge level of the IFRS for SMEs of publicly traded and non-publicly traded entities

The comparison of the results of the two surveys also reveals that publicly traded entities assess a switch to the IFRS for SMEs as being more advantageous than non-publicly traded ones. While 24% of the respondents of publicly traded entities assessed a switch to the IFRS for SMEs as being (rather or very) advantageous, only 14% of the respondents of non-publicly traded entities stated that they would consider applying the IFRS for SMEs, if allowed by the accounting environment. This result is not surprising as publicly traded entities could benefit from the simplifications of the IFRS for SMEs by lower costs for presenting their financial statements when exempted from the application of (full) IFRS.

6 Conclusion

It is not possible to derive general conclusions from the study with regard to the appropriateness of the IFRS for SMEs as a global standard and the advantageousness of its application in the EU and/or in Germany due to the return rate, the particular concept and design of the survey in terms of the entities included in the sample (German publicly traded entities with an annual sales volume of less than 130m Euros) and its form as a questionnaire based survey. Nevertheless the following summarising statements can be made as a result of the study:

- "Small" publicly traded entities do pay attention to the IFRS for SMEs.
- A large part of the simplifications incorporated in the IFRS for SMEs compared to the (full) IFRS is assessed as being positive with regard to the benefit/cost relation by the responding publicly traded entities (exceptions are the missing requirement to present a segment report and the measurement options concerning investments in associates and joint ventures).
- The majority of the responding entities would prefer to apply the requirements of the IFRS for SMEs instead of (full) IFRS in their financial statements, if they had the chance

to do so (exceptions are the measurement options concerning investments in associates and joint ventures as well as the prohibition to use the corridor method for recognising actuarial gains and losses).

- The assessments of the advantageousness of specific requirements of the IFRS for SMEs can differ between publicly traded and non-publicly traded entities.
- The level of knowledge of the IFRS for SMEs seems to be higher in publicly traded entities than in non-publicly traded ones.
- It also seems that publicly traded entities evaluate a switch from (full) IFRS to the IFRS for SMEs more positively than non-publicly traded enterprises.
- The respondent’s level of knowledge regarding the IFRS for SMEs does not seem to have an influence on how respondents assess the advantageousness of a switch from (full) IFRS to IFRS for SMEs for preparing their financial statements.

For the accounting regulation it can be derived, that the IFRS for SMEs – in contrast to the intention of the IASB – may be seen as an regulatory alternative also for “small” publicly traded entities on a European as well as a German level that could – especially as an option – most likely have a perceptible acceptance in practice. However, the study that was focused on “small” publicly traded entities (like the parallel study focused on non-publicly traded entities) shows that the responding entities assess the IFRS for SMEs in total as well as its requirements in a differentiating way and evaluate the advantageousness of the application of the standard in relation with the regulatory and structural environment of their business. As it can be expected that this environment is going to evolve on the international as well as European and national level in the future, it may be regarded as a matter of time, whether the IFRS for SMEs will – as already in numerous other countries – be assessed more and more favourable in the EU and/or Germany for particular entities, that comply with the SME definition of the IASB or not, and whether its applicability will be increasingly demanded by entities and/or their stakeholders. Due to the fact that – as the study reveals – the simplifications introduced in the IFRS for SMEs are in most of the cases assessed as being positive with regard to the benefit/cost relation of the particular requirements, there will for sure be a considerable need for the IASB in the future to justify why these simplifications are only provided for non-publicly traded entities and not also for entities with public accountability.

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