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**Financial reporting**

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**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](mailto:markt-review-consultation@ec.europa.eu)

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**Submissions after the deadline will not be considered.**

Commission européenne, B-1049 Bruxelles / Europese Commissie, B-1049 Brussel - Belgium. Telephone: (32-2) 29 65 199.

[http://ec.europa.eu/internal\\_market/accounting/sme\\_accounting/review\\_directives\\_en.htm](http://ec.europa.eu/internal_market/accounting/sme_accounting/review_directives_en.htm)

E-mail: markt-f3@ec.europa.eu

Please provide the following details together with your response:

You are:

<b>Preparer:</b>	<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
<b>User:</b>	<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	
<b>Public authority:</b>	<input type="checkbox"/> audit/market regulator	<input type="checkbox"/> Government Ministry/Agency	<input type="checkbox"/> other (please specify)
<b>Accountants and Auditors:</b>	<input type="checkbox"/> accounting firm	<input type="checkbox"/> audit firm	<input type="checkbox"/> organisation of accountants and auditors
<b>Other:</b>	<input checked="" type="checkbox"/> (please specify)	<a href="#">National Accounting Standard Setter</a>	

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](mailto: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 Register<sup>1</sup>:

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<sup>1</sup> 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 critique that were brought forward by the GASB and the various constituents in Germany. Examples for such major issues were the fallback to IFRS or the proposed impairment test for goodwill (based on triggering events).

The IASB carefully considered the comments received in the comment letters as well as the input of various discussions and the results of the field tests conducted worldwide. As a consequence, the IASB decided in favor of far reaching proposals. 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 critique 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 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 GASB further proposes allowing companies - rather than member states - to choose the accounting system to be applied (IFRS for SMEs, IFRS or national GAAP based on the European Accounting Directives).

From our point of view all non-listed companies should be allowed to prepare their annual and consolidated accounts in accordance with IFRS for SMEs. Moreover, the company option should - to our understanding - expand to annual accounts of listed companies. The following figure provides an overview of our proposal for the application of the IFRS for SMEs in Europe.

SEE FIGURE 1 (Slide).

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

We believe that - despite a 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 across Europe more comparable. One could argue that a company option regarding the accounting system (IFRS for SMEs, IFRS or national GAAP based on the European Accounting Directives) hardly contributes to harmonise accounting in SMEs across Europe. However, the GASB believes this approach to bear greater potential for harmonisation than some form of member state option. On the one hand, given the current diversity of views of European member states it seems that the (non-)application of the IFRS for SMEs would vary tremendously across member states. On the other hand, we expect many companies to make use of the provided option, thereby contributing to the harmonisation of SME financial statements across Europe.

As Figure 1 displays, the GASB also suggests excluding micro- and small-sized companies from any requirement to prepare and publish general purpose financial statements. However, if these companies choose to prepare financial statements they could choose the accounting system appropriate for their needs.

*small*<sup>2</sup>

*medium*<sup>3</sup>

*large*<sup>4</sup>

*other criteria (please explain)*

*Please comment:*

....

### ***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 across German SMEs and field tests conducted in 2007. Both were based on the Exposure Draft of the IFRS for SMEs (ED). In addition companies evaluated the ED in the light of existing national GAAP. However, in 2009 the IASB published an improved final IFRS for SMEs. At the same time the German legislator passed a law in order to modernise national GAAP and to also mirror international accounting

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<sup>2</sup> 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)

<sup>3</sup> Generally companies with turnover less than €7.5 million, balance sheet total less than €35 million and 250 or fewer employees (see Fourth Company Law Directive)

<sup>4</sup> Generally companies with turnover greater than €7.5 million, balance sheet total greater than €35 million and more than 250 employees (see Fourth Company Law Directive)

developments. As a result, the basis for evaluating the ED on the one side and the final IFRS for SMEs on the other side has changed. Therefore, the relevance of the results presented is now somewhat limited.

Nevertheless, we received valuable input both on advantages and disadvantages. Moreover, seven companies that prepared financial statements in accordance with the ED also estimated the one-off and (annually) recurring costs for their company. Figure 2 provides the details of their cost estimates.

SEE FIGURE 2 (slide).

These seven companies expect most cost increases due to 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 resulting internationally understandable, comparable and accepted presentation of financial statements. Companies feel that these will be necessary due to their international activities or because of merger or acquisitions. Furthermore, companies expect an easier access to international capital markets. Some even face the demand of international partners or suppliers to provide IFRS information.

In our study we asked about possible benefits 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 mother company / simplification for the preparation of group accounts and
- increased transparency.

*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 16 companies. See answer 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:*

Again we would like to refer to the results of our study among German banks as one of the main groups of users of SME financial statements. It was conducted in 2008 by way of semi-structured personal interviews among 59 representatives from 32 banks (which reflect the current banking market in Germany). 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-IFRS for SMEs. Secondly, the German banks do not have broad experience in evaluating IFRS financial statements. About 10% of the bank representatives interviewed in this survey regularly worked with IFRS financial statements (20-50% of all financial statements). The vast majority of respondents explained they usually work with national GAAP.

While about 50% of the bank representatives saw a need for internationally comparable financial information, almost as many believe that the application of an international accounting standard for SMEs would be disadvantageous. Many interviewees feared that SMEs would not be capable of applying the ED-IFRS for SMEs. In addition they doubted that an additional accounting standard (in addition to national GAAP) would be necessary. More specific they criticised the implicit options provided in the ED-IFRS for SMEs and the high complexity of the ED (compared to than current German GAAP). Furthermore, bank representatives felt that the prudence principle should be more relevant. On the other hand they were in favour of the limited possibilities to build up hidden reserves/liabilities under the ED-IFRS for SMEs compared to German GAAP. Furthermore, the bank representatives believe the disclosures required under the ED-IFRS for SMEs to be helpful in analysing financial statements.

The bank representatives saw most benefits in the international comparability and increased transparency of SME financial statements. Therefore, to them international accounting standards are most useful (and necessary in the mid- to longterm) for companies with international business activities.

Overall, the bank representatives believe financial statements prepared under national GAAP to provide more useful information than ED-IFRS for SMEs financial statements. 72% 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 ED-IFRS for SMEs). At the same time the cost to analyze financial statements is said to be lower for financial statements prepared under national GAAP.

**Question 4:**

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

YES

NO

Don't know

*Please comment:*

Please see the answer to question 3.

**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:*

[Please see our answer to question 1.](#)

**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:*

As laid out in Figure 1 and in our answer to question 1 the GASB believes that the option should be passed on to companies, allowing them to choose the accounting system most suitable for their needs. We argued that certain companies, such as companies with mainly international business activities or companies that are part of an international group structure would greatly benefit from applying the IFRS for SMEs. All of these companies in Europe should be treated equally, opening up the opportunities of the IFRS for SMEs for all of them. However, this can only be achieved by implementing a company option. Any Member State option would again offset the otherwise level playing field for all European companies since - keeping in mind the current various opinions - 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:*

[See Figure 1 and our comments to question 1 and question 6.](#)

**Question 9:**

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

*Please comment:*

In the scenario laid out above there is no need to further discuss or evaluate possible conflicts between the Directives and the IFRS for SMEs.

**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:*

According to our proposal for the integration of the IFRS for SMEs in the European framework the application of the IFRS for SMEs is only an option. There will be many companies still referring to their national GAAP which is based on the European Accounting Directives. Therefore, the Directives still provide a valuable frame for the national accounting provisions.

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

As laid out in our comment letter to the European Commission in April 2008 (referring to the EU-consultation paper) we generally support the structure and degree of detail of the content of the Directives. However, the Directives should be modernised in order to address all accounting issues as well as consider the more current accounting practice across Europe. When revising 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. Instead 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 ongoing process at the IASB.

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 respecting the specific characteristics of the Member States. We do therefore not believe that the limitation to the principles suggested in par. 4.3 of the consultation paper is sufficient.

*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 system missing in the Directives. So far, the Directives focus on accounting treatments of specific transactions. However, in order to provide a complete framework overarching topics such as correction of mistakes should be addressed in the Directives as well.

***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:*

In explaining our proposal as laid out in Figure 1 it needs to be added that this does not reflect the current legislation in Germany. In exercising the member state options provided in the IAS-Regulation the German legislator decided not to allow the application of IFRS for single accounts. Contrary to this current legal state we believe that companies should be allowed to apply the IFRS for SMEs or IFRS in their annual accounts (without having to prepare additional accounts in accordance with national GAAP). The GASB is of the opinion that European SMEs should be able to choose the appropriate accounting system as it can be more reasonable for some to apply internationally comparable accounting standards. So far, these - most likely international - companies are subject to the individual decision of their national legislator. This does not coincide with the idea of equal treatment across Europe.

The German legislator refers to open questions such as tax regulations and profit distributions. However, we believe that these issues can be solved irrespective of the accounting system applied in the annual accounts. This was demonstrated in KPMG's feasibility study and through the experience in other European Member States.

*Thank you for your contribution*