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Dear Mr Pacter

The German Accounting Standards Board commends the IASB for taking the SME project on its agenda. Small and medium sized entities will benefit from a single set of high quality, understandable and enforceable global accounting standards just as listed companies. We envisage a common set of standards in Europe in due course. When developing the SME standards the IASB should base its decisions on the user needs of SME financial reporting and cost benefit analyses.

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

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

No, full IFRSs cannot be considered suitable for all entities because of cost benefit considerations. Full IFRS are developed with clear investor orientation; the number and sophistication of parties interested in financial information from SMEs will in general be different from that of listed companies.

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

Yes, we agree that the IASB should develop a separate set of financial reporting standards suitable for SMEs. We see this as an opportunity to further convergence of financial reporting, a necessary step in more global markets for SMEs too.

Question 1c. Do you agree that IASB Standards for SMEs should not be used by publicly listed entities (or any other entities not specifically intended by the Board), even if national law or regulation were to permit this? Do you also

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agree that if the IASB Standards for SMEs are used by such entities, their financial statements cannot be described as being in compliance with IFRSs for SMEs? If not, why not?

Yes, we agree that all listed entities should apply full IFRS. Under the EU regulation all capital market oriented groups have to apply IFRS; this decision should not be reversed.

Issue 2: What should be the objectives of a set of financial reporting standards for SMEs?

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

Yes, we see the objectives as set out in the preliminary view as appropriate. It remains to be seen how these objectives are transformed into specific requirements.

Issue 3: For which entities would IASB Standards for SMEs be intended?

Question 3a. Do you agree that the Board should describe the characteristics of the entities for which it intends the standards but that those characteristics should not prescribe quantitative ‘size tests’? If not, why not, and how would an appropriate size test be developed?

Yes, we agree that the IASB should describe characteristics, but not prescribe criteria triggering mandatory application. The characteristics should not entail quantitative size tests as it would be impossible to set these for worldwide application.

Question 3b. Do you agree that the Board should develop standards that would be suitable for all entities that do not have public accountability and should not focus only on some entities that do not have public accountability, such as only the relatively larger ones or only the relatively smaller ones? If not, why not?

Yes, we agree that the standards should be suitable for all entities that do not fall under full IFRS. The scope of application will be set by national legislators; very small businesses will most likely not be required to prepare any financial report beyond tax accounts.

Question 3c. Do the two principles in preliminary view 3.2, combined with the presumptive indicators of ‘public accountability’ in preliminary view 3.3, provide a workable definition and appropriate guidance for applying the concept of ‘public accountability’? If not, how would you change them?

We support IASB’s attempt at defining public accountability. However, we doubt that the guidance given on ‘public accountability’ provides a basis workable in a consistent manner worldwide. We appreciate the difficulties in finding a solution. At



least for the time being we rather see national legislators mandating the use of full IFRS than the IASB.

Question 3d. Do you agree that an entity should be required to use full IFRSs if one or more of the owners of its shares object to the entity's preparing its financial statements on the basis of IASB Standards for SMEs. If not, why not?

No, the requirement should be set by national legislation; setting the hurdle at one owner seems overly burdensome.

Question 3e. Do you agree that if a subsidiary, joint venture or associate of an entity with public accountability prepares financial information in accordance with full IFRSs to meet the requirements of its parent, venturer or investor, the entity should comply with full IFRSs, and not IASB Standards for SMEs, in its separate financial statements? If not, why not?

We do not see a need for IASB to require the application of full IFRS in separate financial statements. The decision which financial reporting requirements to apply in separate financial statements lies with the national legislator; if left with a choice the parent entity might force the decision.

Issue 4: If IASB Standards for SMEs do not address a particular accounting recognition or measurement issue confronting an entity, how should that entity resolve the issue?

Question 4. Do you agree that if IASB Standards for SMEs do not address a particular accounting recognition or measurement issue, the entity should be required to look to the appropriate IFRS to resolve that particular issue? If not, why not, and what alternative would you propose?

We favour a set of SME standards that is comprehensive; if an SME enters into transactions not dealt with in the SME standards, there should be a clear reference to how an entity should develop its accounting policy. This reference should not be IFRS but a more general notion of fair presentation. SMEs should not be burdened with acquiring and keeping an in-depth knowledge of IFRS so as to be aware of 'appropriate' solutions.

Issue 5: May an entity using IASB Standards for SMEs elect to follow a treatment permitted in an IFRS that differs from the treatment in the related IASB Standard for SMEs?

Question 5a. Should an SME be permitted to revert to an IFRS if the treatment in the SME version of the IFRS differs from the treatment in the IFRS, or should an SME be required to choose only either the complete set of IFRSs or the complete set of SME standards with no optional reversion to individual IFRSs? Why?



SMEs should not be permitted to revert to individual IFRSs. The outcome of permitting individual reversion would be a multitude of possible sets of accounting policies hindering comparability.

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

- (a) required to revert to the IFRS in its entirety (a standard-by-standard approach);**
- (b) permitted to revert to individual principles in the IFRS without restriction while continuing to follow the remainder of the SME version of the IFRS (a principlebyprinciple approach); or**
- (c) required to revert to all of the principles in the IFRS that are related to the treatment in the SME version of that IFRS while continuing to follow the remainder of the SME version of the IFRS (a middle ground between a standardbystandard and principlebyprinciple approach)?**

Please explain your reasoning and, if you favour (c), what criteria do you propose for defining 'related' principles?

Not applicable.

Issue 6. How should the Board approach the development of IASB Standards for SMEs? To what extent should the foundation of SME standards be the concepts and principles and related mandatory guidance in IFRSs?

Question 6. Do you agree that development of IASB Standards for SMEs should start by extracting the fundamental concepts from the Framework and the principles and related mandatory guidance from IFRSs (including Interpretations), and then making modifications deemed appropriate? If not, what approach would you follow?

IFRS and interpretations should be seen as the starting point; the IASB should not restrict itself though by precluding modifications or even deviations at the outset.

Issue 7: If IASB Standards for SMEs are built on the concepts and principles and related mandatory guidance in full IFRSs, what should be the basis for modifying those concepts and principles for SMEs?

Question 7a. Do you agree that any modifications for SMEs to the concepts or principles in full IFRSs must be on the basis of the identified needs of users of SME financial statements or cost benefit analyses? If not, what alternative bases for modifications would you propose, and why? And if so, do you have suggestions about how the Board might analyse the costs and benefits of IFRSs in an SME context?

We agree that user needs and cost benefit analyses should be the main consideration when deciding on SME requirements. The IASB will likely have to strike the balance between users' needs and the important objective of developing



standards that can be easily applied and that leave room to apply common sense. SME should not be forced to consider complex standards and voluminous guidance.

Question 7b. Do you agree that it is likely that disclosure and presentation modifications will be justified on the basis of user needs and cost benefit analyses and that the disclosure modifications could increase or decrease the current level of disclosure for SMEs? If not, why not?

We agree that user needs and cost benefit analyses should be the main consideration when deciding on disclosure requirements. Indeed, the current level of disclosure might increase or decrease depending on the diversity of recognition and measurement requirements permitted.

Question 7c. Do you agree that, in developing standards for SMEs, the Board should presume that no modification would be made to the recognition or measurement principles in IFRSs, though that presumption could be overcome on the basis of user needs and a cost benefit analysis? If not, why not?

We view making presumptions as unhelpful; when developing the requirements for SMEs IASB should not restrict the possible outcome at the outset, rather approach its decisions with an open mind.

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

Question 8a. Do you agree that IASB Standards for SMEs should be published in a separate printed volume? If you favour including them in separate sections of each IFRS (including Interpretations) or some other approach, please explain why.

Yes, we agree that the requirements for SMEs should be issued as a stand-alone volume. Although preparers might want to refer to full IFRS occasionally, preparers should be able to refer to just one comprehensive 'framework'.

Question 8b. Do you agree that IASB Standards for SMEs should be organised by IAS/IFRS number rather than in topical sequence? If you favour topical sequence or some other approach, please explain why.

We favour a topical approach. While we can see the merit in following the IAS/IFRS numbers, these represent the historically grown sequence of issues taken up by IASB / IAS; it is not a logical user-friendly sequence. Choosing the topical sequence will ease finding guidance on issues to be solved by preparers; an example would be integrating the treatment of borrowing costs into the measurement requirements rather than issuing a stand-alone document.

Question 8c. Do you agree that each IASB Standard for SMEs should include a statement of its objective, a summary and a glossary of key terms?

Yes, each Standard should include a statement of its objective, a summary and a glossary of key terms.



Question 9. Are there any other matters related to how the Board should approach its project to develop standards for SMEs that you would like to bring to the Board's attention?

We believe that the IASB should pursue the SME project with the aim of finalisation in the near future. We see calls for basic research, developing a specific framework as unhelpful as this might defer the project without providing greater insight. The IASB should base its deliberations on a set of assumption that is clearly articulated and published for comment with the proposed financial reporting requirements.

Given the experience specifically with the consequential amendments arising from the improvements project, we recommend that the full set of requirements is published for comments at the same time so as to enable readers to comment on implications arising from decisions on one issue for other areas of financial reporting. If IASB concludes that the full set has one common comment period, we suggest considering a relatively long period (eg 120 days). If IASB decides to issue exposure drafts successively no final decision should be taken before the comments on the last document have been analysed.

If you would like any clarification of these comments, please contact me.

Yours sincerely,

Prof. Dr. Klaus Pohle
President