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Date : Amsterdam, 22 September 2004
Re : Discussion paper re Preliminary Views on Accounting Standards for Small
and Medium-sized Entities

Dear Sirs,

The Netherlands Council for Annual Reporting (CAR) is pleased to submit its views on the discussion paper re Preliminary Views on Accounting Standards for Small and Medium-sized Entities.

Hereafter we answer the specific questions.

Yours sincerely,

Martin N. Hoogendoorn
Chairman CAR

Response of the Council for Annual Reporting (CAR) on discussion paper re Preliminary Views on Accounting Standards for Small and Medium-sized Entities.

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?

We agree that the objectives of general purpose financial statements which are reflected in IFRSs are in principle suitable for all entities including SMEs. However, full IFRS will contain overkill for SMEs, especially in the field of disclosures and possibly in the field of recognition and measurement. In the first place suitability of IFRSs for SMEs depends on users needs. Further analysis of the user needs of SMEs is necessary to assess whether full IFRSs are most suitable or a tailor-made, less comprehensive, SME set.

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 support the development of a tailor-made framework for SMEs, taking into account the needs of the users. This SME framework should be based on, and as a result match with, the existing IFRS framework,

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 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, publicly listed entities should always apply full IFRSs, the size of the entity is not relevant. We also agree that if the IASB Standards for SMEs are used by such entities, their financial statements should not be described as being in compliance with IFRSs or IFRS for SMEs.

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 agree with the objectives as set out in preliminary view 2. The SME set should have a close relationship with the existing IFRS framework, but again we emphasize the importance of determining the needs of users of such financial statements, and thus of seeking to meet those needs. The cost-benefit considerations from the perspective of preparers should also be taken into account.

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?

We agree with the Board’s preliminary view that there should be a description of the characteristics of the entities for which IASB Standards for SMEs are intended. Furthermore we agree that it is not feasible to develop quantitative size test for all SMEs in this world.

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 the only relatively larger ones or only the relatively smaller ones? If not, why not?

Although we in general support the development of SME-standards for all entities that do not have public accountability, we believe that an analysis of user needs might result in the conclusion that one set of IFRS for all those entities is not feasible. The user needs and cost-benefit considerations for relatively large and relatively small companies might differ significantly; when as a result the SME-standards are focussed primarily on the larger companies, these standards might not be cost-beneficial for smaller companies.

Furthermore, if public accountability and not size would be the main differentiator between applying full IFRS or SME-IFRS, the IASB should reconsider whether the term ‘small and medium sized enterprises’(SME) is still suitable.

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?

Although we have sympathy for the notions of "public accountability" and "non-public accountability" we wonder whether an appropriate and objective definition can be found and made operational.

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?

We do not agree, because it would result into too much unfairness, yet we do believe that a significant minority should be capable to decide not to use the SME standards, but instead the full IFRSs.

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, venture or investor, the entity should comply with full IFRSs, and not IASB Standards for SMEs, in its separate financial statements? If not, why not?

In principle no, there should be a freedom to choose, yet in our view the ultimate decision will be made by the parent company.

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?

Yes, we agree that under certain circumstances a mandatory fallback to full IFRSs is recommended or required. However, we consider it essential that the situations of a fallback should be explicitly mentioned in the SME standards.

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?

If the reversion results in more reliable and more relevant reporting we believe an SME should be permitted to revert to full IFRSs for a particular standard; however, we do not support the possibility of cherry-picking, in which an SME chooses the most appropriate standard without any further explanation.

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 principle-by-principle approach); or*
- (c) required to revert to all of the principles in the IFRS that are related to the treatment in the SME version of that IFRS while continuing to follow the remainder of the SME version of the IFRS (a middle ground between a standard-by-standard and principle-by-principle approach)?*

We prefer a principle-by-principle approach, be it that it should be clear what a principle exactly means. For a principle-by-principle approach to be effective, it should be possible to determine from full IFRS which requirements are elements of a certain principle and they should be applied as a package. Currently, IFRS is not organised in that way.

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?

Yes, we do, but the needs of the users should play an important role by defining the SME principles. In The Netherlands the CAR is currently more or less working in this way, making modifications from the full set of principles to develop Dutch SME standards.

Issue 7. If IASB Standards for SMEs are built on 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 Standards for SMEs must take into account both identified needs of users and cost-benefit analyses.

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?

Yes, although an analysis of users' needs is necessary to confirm this view.

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?

No, because a further field analysis may indicate that modifications for recognition or measurement principles are necessary to accommodate user needs and to achieve a balance between costs of reporting and the benefits thereof. We urge the IASB to perform such a field test, incorporating real-life users of SME accounts.

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.

In The Netherlands we have developed two different layers: standards for the medium-sized entities and for the small entities. For the medium-sized entities the differences with the requirements for large non-listed entities were not of such significance that publishing a separate volume would have been efficient. Therefore, we included the exemptions and deviations in our main volume. For small companies, however, we prepared a very much condensed separate set in a separate volume, comparable with the UK practice. The number of pages involved is reduced from about 1500 to 200. This volume would be suitable for about 80% of all small companies; for the remaining 20% that are involved in relatively more complex issues, like derivatives, a pointer is made to the main volume.

In principle we support a separate volume, but only when the differences are significant enough. You might consider to build in different layers and focus the special volume only on the smaller entities (see also our answer to question 3b).

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

Although we support in principle the more natural sequence of balance sheet, profit and loss, and disclosure, we recognize the disadvantages of having both a topical sequence of the SME standards and the existing chronological organisation of the IASB/IFRS standards. Therefore, in the short run we support the view to organise the standards by IASB/IFRS number. This would also help to monitor the consistency of both sets of standards and to ease the transition from SME-standards to full IFRSs.

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, we agree.

Other comments

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?

As indicated before we consider the users' needs as the most important starting point for the development of an SME framework. Furthermore, we consider it essential that specific SME specialists are involved in the process of developing the SME standards.