



## Foreningen af Statsautoriserede Revisorer

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30 September 2004

enj/osj/dor (X:\Udvalg\REGU\KOR\2004\SME\_FSR\_høringssvar\_200904.doc)

Dear Sirs

### **Discussion Paper: Preliminary Views on Accounting Standards for SMEs**

We welcome the opportunity to provide comments on the discussion Paper on behalf of the Danish Institute of State Authorised Public Accountants (FSR).

FSR's Accounting Standards Committee has reviewed the Discussion Paper and we summarize our comments below. Our comments have been presented for the Danish Accounting Advisory Panel which represents users and prepares of financial statements.

#### **General comments**

Overall, we are supportive of the Board's efforts to bring about Financial reporting Standards for SMEs.

Appendix 1 sets out our answers to the questions raised in the draft Standard.

We enclose the Danish Reporting Guidance for smaller entities "Regnskabsvejledning for Mindre Virksomheder". We are aware of the fact that it has not been translated into English, but still it may give some useful inspiration. We enclose an English version of the table of contents.

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If you have questions to our comments or to the information enclosed, please do not hesitate to contact us. If you find it appropriate to set up a meeting for a discussion of the Danish Reporting guidance for smaller entities, we welcome this.

Yours sincerely

Eskild Nørregaard Jakobsen  
Chairman of FSR's Accounting  
Standards Committee

Ole Steen Jørgensen  
Head of Department

Enclosure

## Appendix 1

### Discussion Paper: Preliminary Views on Accounting Standards for SMEs

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

No, we do not agree. We find it appropriate that there should be separate standards for SMEs as we find that users do not have the same needs for information in SMEs and in listed companies. In Denmark the Accounting Standards Committee developed a standard for SMEs in 2003 and it was well met by the users.

*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 in the development of standards for SMEs. We also agree that the IASB should be the organisation to take care of the project.

*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?*

We agree that publicly listed entities should not be permitted to prepare financial statements complying with standards for SMEs. We also agree that such entities should not be permitted to describe their financial statements as being in compliance with 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?*

We find the objectives appropriate for SME standards.

*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?*

In principle we agree with general characteristic for applying the concept "public accountability". We find, however, that size test should be the appropriate test to preclude non listed entities from preparing their financial statements in accordance with Standards for SMEs. A size test will be of better understanding for users and it will be in accordance with Preliminary view 2. Besides, the standards are named "Standards for Small and Medium-sized Entities". As answered to 3b, we think it could be necessary to develop separate standards for "small" and for "large" SMEs. !

Public interest will in most cases compare with the size of an entity.

In general, IASB cannot decide which entities a SME standard should apply as only national jurisdictions have the authority to establish accounting requirements for enterprises as well as for entities with public accountability.

We find that all non-listed Small and Medium-sized, public accountability entities should be permitted to use the standards for SMEs if they decide not to prepare the financial statements in accordance with full IFRS.

We recommend the size test to comprise: Turnover, Total assets and Number of employees.

*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?*

We agree that the board should develop standards for all entities that are not listed and do not exceed the size test recommended in answer 3a. We therefore find that IASB with regard to this project should not focus on the largest entities, but on medium-sized entities and small entities. In Denmark the regulation of financial reporting is based on a building block method onto which rules and burdens are increasing in complexity as the companies increase in size. This building block method is split into 4 levels.

*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?*

As set out in answer 3a, we find size appropriate as a definition of Small and Medium-Sized Entities. We find that the board should not exclude entities from using IFRS for SMEs as an alternative to national GAAP in entities with special public interest provided this would lead to better accounting compared to local GAAP.

We find it appropriate to let national law deal with requirement of full IFRS for entities with public interest. On this basis the preliminary views 3.2 and 3.3 will be useful guidance. In Denmark, however, we have a lot of small water supply entities. These entities "provide an essential public service". They prepare very simple financial statements, and full IFRS accountability will be too much of a burden and not necessary for the public. Therefore, it ought not be a criterion for public accountability that an entity produces or delivers essential public services.

Companies that meet criteria a) and perhaps criteria d) may follow full IFRS. Criteria b) and c) are not appropriate requirements for full IFRS in general.

*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. We find that a majority of the company's board should decide which GAAP to use – in accordance with national law and the company's articles of association.

*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 agree. We find that focus would be on the consolidated accounts of the parent company. We also find that the Standards for SMEs will be a very suitable GAAP in the above mentioned entities. Furthermore, it may be impracticable for a shareholder to require full IFRS in an associate or joint venture.

*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 agree in principle. The requirement must not lead to further burdens on SMEs, for example in a situation where there is no SME regulation. The standard setting for SMEs has to be very careful not to lead to fall back situations.

*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?*

We find that SMEs preparing their financial statements in accordance with IFRS Standards for SMEs should be permitted to revert to an IFRS when the treatment in those standards differs. We find that SMEs using IFRSs shall give separate information on this practice in the summary of accounting policies. We also find that using IFRSs in SME-IFRS accounts still will be regarded as preparing the financial statements in accordance with IFRS Standards for SMEs.

*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)?*

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

The difference between (b) and (c) is not quite clear to us. We agree with the EFRAG recommendation on the principle-by-principle approach as it is described in the EFRAG comment letter, but we believe that this description is alternative (c).

We find principle (c) most relevant and in accordance with Preliminary view 2. SMEs reverting to principles from full IFRS should be required to select this in a way, which is consequent IFRS for that type of transaction. This means using a particular IFRS for recognition and measurement also provides presenting full IFSR disclosure for this subject.

We do not support requirement for using a full IFRS standard, when this standard deals with several individual kinds of transaction, but on the other hand reverting to IFRS for a subject may require comparing with regulation in more than one standard to be consequent in preparing the financial statements.

*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?*

We agree.

*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 may analyse the costs and benefits of IFRSs in an SME context?*

We agree. Identification of user needs may be discovered by asking a test panel, representing a wide group of users. Furthermore we are sure that the hearing process will show the board, when users and preparers find certain matters too complex and difficult.

*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.

*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 do not agree. Preparing standards for SME may deal with some needed modifications on recognition or measurement. In our opinion the purpose of the SME project will not be reached if modifications are not made. Modifications must be considered in the treatment of financial instruments including embedded derivatives and hedge accounting.

*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.*

We prefer a separate printed volume.

*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 have no preferences on this subject. In Denmark we published an Accounting Guidance for Smaller Entities. We decided to publish this as a booklet in topical order (balance sheet item, income statement items and so on). The booklet also included a set of model financial statements.

*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?*

No, this may not be necessary in all standards.

*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?*

None.