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24 September 2004

**CL 51**

Mr. Paul Pacter  
Director of Standards for SMEs  
International Accounting Standards Board  
30 Cannon Street, London EC4M 6XH  
United Kingdom

Dear Mr. Paul Pacter:

The International Accounting Standards Review Committee (IASRC) of the Korea Accounting Standards Board (KASB) has finalized its comments on the Discussion Paper, *Preliminary Views on Accounting Standards for Small and Medium-sized Entities*. I would appreciate your including our comments in your summary of analysis that will be presented to the IASB.

The enclosed comments are those of the IASRC and do not represent an official position of the KASB. The official position of the KASB is determined only after extensive due process and deliberation, to which this letter has not been subjected.

Please do not hesitate to contact us if you have any inquiries regarding our comments. You may forward your inquiries either to Mr. Jae-ho Kim (jhkim@kasb.or.kr) or Mr. Kyoung-chun Yu (yukc@kasb.or.kr), both of whom are full-time research staff of the KASB.

Best regards,

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Dr. Suk Sig Lim  
Chairman, International Accounting Standards Review Committee  
Vice Chairman, Korea Accounting Standards Board

Encl: IASRC comments on the Discussion Paper, *Preliminary Views on Accounting Standards for Small and Medium-sized Entities*

**IASRC Comments on the Discussion Paper,  
*Preliminary Views on Accounting Standards for  
Small and Medium-sized Entities***

■ Question 1

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

We do not agree that full IFRSs should be considered suitable for all entities. Because there are few users of SME financial statements, if SMEs provide accounting information by applying full IFRSs, the cost of providing such information can be greater than the benefit. Moreover it may be very difficult for SMEs to apply full IFRSs.

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

We believe that the Board does not need to develop a full separate set of financial reporting standards suitable for SMEs. Instead, we prefer that all provisions of IASB standards for SMEs be united in a single standard. In principle, all SMEs should apply the full set of IFRSs. However, SMEs may apply alternative accounting treatments prescribed in the single standard for SMEs.

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?

In general, we believe that IASB standards for SMEs should not be applied to publicly listed entities since many users of SME financial statements exist. However, on the condition that national law or regulation permits, individual country should be allowed to determine which factor has priority.

■ Question 2

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 believe that IASB Standards for SMEs do not provide high quality accounting standards. In addition, paragraph 16(c) should be excluded because IASB standards for SMEs allow adoption of accounting treatments that are different from full IFRSs.

■ Question 3

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 that the Board should not prescribe quantitative size test since individual nations already determine their respective definitions of SMEs considering their unique economic and social environments. We believe that such individual determination should be respected.

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 do not 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. In Korea, the single standard for SMEs defines an SME pursuant to the definition of the special national law for SMEs. The prime objective of issuing such a special accounting standard is to reduce the financial reporting burden of SMEs. In conclusion, we believe that special factors of individual countries should be respected.

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?

No. We prefer preliminary view 3.3 to preliminary view 3.2 because paragraphs 28(a) & 28(b) of preliminary view 3.2 are too abstract.

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 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. This is not an issue of concern under generally accepted accounting principles. Each nation's commercial law or tax law should be referred to in dealing with such an issue.

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. Mandatory application of full IFRSs by SMEs in such circumstances will also result in greater costs than benefits, and hence, we believe that such SMEs should also be granted with the exceptional option of choosing whether to apply full IFRSs just like their investors or to apply IASB Standards for SMEs in their separate financial statements.

#### ■ Question 4

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 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 an entity is not required to look to the appropriate IFRS, it may determine accounting treatments arbitrarily.

## ■ Question 5

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 believe that an SME should be permitted to revert to an IFRS if the treatment in the SME version of the IFRS differs from the treatment in the IFRS because such permission would raise the usefulness of financial information.

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?

We favour (b). If the main objective of IASB standards for SMEs is the exemption from or simplification of a requirement in the related IFRS, IASB standards for SMEs should permit an entity to follow the remainder of the SME version of the IFRS while reverting to individual principles in the IFRS.

## ■ Question 6

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. If the main objective of IASB standards for SMEs is the exemption from or simplification of a requirement in the related IFRS, such an approach is appropriate. Such an approach is also appropriate if the contents of IASB standards for SMEs are the basic principles stated in the related IFRS..

■ Question 7

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 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. Because there are few users of SME financial statements, if SMEs provide accounting information by applying full IFRSs, the cost of providing information can be greater than the benefit. When the Board analyses the cost and the benefit of providing information, it should first consider accounting treatments, disclosures, and presentation requirements deemed burdensome to SMEs in the light of cost, then consider their benefits.

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. On the basis of user needs of SME financial statements and cost-benefit analyses, IASB standards for SMEs can exempt or simplify disclosure and presentation requirements.

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 agree that the Board should presume that no modification would be made to the recognition or measurement principles in IFRSs could be overcome on the basis of user needs and cost-benefit analysis.

#### ■ Question 8

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 agree that IASB standards for SMEs should be published in a separate printed volume so as for SMEs to be able to search and locate their standards with ease. To that end, we believe that one of the most efficient means is to include all provisions of IASB standards for SMEs in a single standard

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 do not agree that IASB Standards for SMEs should be organised by IAS/IFRS number. Instead, we believe that it will be much more concise and easier to understand if all provisions of IASB standards for SMEs are included in a single standard, covering topics in financial statement line item sequence.

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?

We believe it is quite unnecessary that each IASB Standard for SMEs should include a statement of its objective, a summary and a glossary of key terms. Once all provisions of IASB standards for SMEs are included in a single standard, covering topics in financial statement line item sequence, it is sufficient to include a statement of the objective, a summary, and a glossary of key terms just once.

■ Question 9

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 have no special comment.