



IASB's DISCUSSION PAPER: PRELIMINARY VIEWS ON ACCOUNTING STANDARDS FOR SMALL AND MEDIUM-SIZED ENTERPRISES

Issue 1 - Question 1a.

In principle, it might be agreed that, strictly under a technical viewpoint, IAS/AFRS are compatible with the needs of all kind of entities. But we cannot forget that the question here is strategic as well as technical. The burden for SMEs to apply full IFRS may prevent those entities that are not obliged to adopt such standards from using sound, consistent accounting practices since the earliest stages of their lives. Their owners/managers will prefer not to invest in accounting capabilities until it becomes strictly necessary (inevitable, could be said). This situation will, and already does, lead most SMEs to face an enormous amount of energy, disruption and expenses when the time comes for them to change their information/accounting structures to adapt to sound, internationally accepted accounting standards.

Taking the above into consideration, it seems convenient to encourage standard setters around the world (and, specially, in most developing countries) to develop a set of standards, completely tuned to IASB pronouncements and interpretations, to be adopted by SME since their earlier stages, in order to make easier the way to full adoption of IAS/IFRS at some point in the future. One important issue should be reinforced: as stated after Issue 6 - Question 6: **recognition and measurement**, the spirit of the Framework should be maintained intact. As these are substantial principles, they accept no change or softening in their interpretation and adoption.

When we think specifically about developing countries, which in general are capital importers and are always in need of attracting foreign investors, the need to somehow standardise accounting principles becomes still stronger. It has been observed in the last two decades a significant increase of SMEs of developed countries becoming "international". This means that small and medium entrepreneurs in developed, capitalised countries began to venture in selected developing countries, in search of new fields to expand their businesses, often by means of direct investment in enterprises existing in those developing countries (mostly SMEs). In these circumstances, as the small and medium investors do not have in-house capabilities to understand accounting principles different from those in use in their countries, negotiation is usually more difficult and many investments may have been collapsed or aborted because the investors are unable to have a clear view of the real financial situation of the potential investee.

Reasoning in the previous paragraph point at the need of an accounting framework and set of principles that apart from being 100% tuned with IAS/IFRS be somehow simplified, to make adoption by smaller administrative structures easier.

Issue 1 - Question 1b.

We agree.

Issue 1 - Question 1c.

We agree. The “turning point” definition may pose some degree of difficulty, but this should not deviate us from our primary goal (explained in 1a. above)

Issue 2 - Question 2.

Objectives of IASB Standards seem to match perfectly with the reasoning in our comments to Question 1a.

Issue 3 - Questions 3a. through 3c.

We agree, specially with the all-inclusive condition. Entities not expected to apply IAS/IFRS for SME should be specifically defined by local standard setters, the overall definition having been set forth by IASB. Size tests should be left to local governments and/or standard setters.

Issue 3 - Question 3d.

We do not agree. If an entity does not meet the criteria to be qualified as “publicly accountable”, it should be, in principle, allowed (and forced) to adopt IAS/IFRS for SMEs. The owners and people/entities having a genuine interest in such entity should mandatorily apply full IAS/IFRS and should be given complete responsibility for it only when the entity has met the conditions. Early “conversion” to full IAS/IFRS may be allowed and even encouraged, but specific mention of the principles adopted and the reasons to do so should be clearly made in the explanatory notes.

Issue 3 - Question 3e.

We agree.

Issue 4 - Question 4.

We fully agree and have no further comments.

Issue 5 - Question 5a.

The entity should be allowed to use any IFRS in its entirety, since clear mention is made in the explanatory notes. In principle, reversion and/or annual (kind of erratic) election of a

mix of principles should be prohibited. If the circumstances that led an entity to use one or more IFRS in their entirety disappear in a manner that can be judged permanent, reversion should be permitted. Responsibility for the final judgement should be left with the auditor.

Issue 5 - Question 5b.

We agree with option (b), principle by principle approach. We consider (a) too tough an option, what can jeopardise the willingness that embeds and motivated this effort to “bring” SMEs to better accounting standards. We think that option (c) may be somehow difficult (tricky) to define and would be subject to some degree of manoeuvring by Management.

Issue 6 - Question 6.

We are of the opinion that the Framework should remain intact. Principles should be adapted focusing mainly on decreasing the need of disclosure and on certain aspects. Recognition and measurement should be kept substantially as they are. UNCTAD’s ISAR work on IAS for SMEs (carried out with the valuable assistance of IASB’s Collin Fleming), published this year as SMEGA - Small and Medium-sized Enterprises Guide of Accounting should contribute a lot to this end.

Issue 7 - Question 7a.

Modifications should be made by IASB and cover a general universe. Aspects such as “need of users” should be defined by local standard setters, by applying and respecting the general principles set forth by IASB.

Issue 7 - Question 7b.

We agree; yet, we think that, in general, the level of disclosure would decrease in the vast majority of cases.

Issue 7 - Question 7c.

We agree.

Issue 8 - Question 8a.

We think that the IAS/IFRS for SMEs should be published as a separate volume. They may also be included in an ad hoc section in the website (easily downloadable by local standard setters). Principles should follow the very same numbering system as general use (full) IAS/IFRS with an “SM” or “SME” expression added immediately at number right side. This would facilitate reference to “full” principles when needed.

Issue 8 – Questions 8b and 8c.

We agree (see above). Important note: in addition to the above, each principle applicable to SMEs should have a section dealing with the conditions that may make that principle not suitable and lead to adoption of full IAS/IFRS.

Issue 9 - Question 9.

We are convinced that the most relevant non-technical issue is the need to encourage national standard setters around the world to pass legislation and implement actions to lead SMEs to adopt better, sound accounting principles. We suggest that IASB considers the likelihood of working in conjunction with UCTAD with this objective in mind.

Other comments

The accounting profession in Brazil is willing to fully collaborate in this project, what should also represent a great degree of co-ordination between the authoritative body (CFC - Accounting Federal Council) and IBRACON - Brazilian Independent Accountants Institute.

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São Paulo, August 2004.

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