

Luxembourg, 28 November 2007  
Ref CMFB/HPG/mjk D(2007) 12

Dear Mr Pacter,

**Subject: Joint reply of the Business Statistics Directors' Group (BSDG) and the Committee on Monetary, Financial and Balance of Payments Statistics (CMFB) to the IASB proposed IFRS for small and medium sized entities (SMEs)**

The Business Statistics Director's Group (BSDG) and the Committee on Monetary, Financial and Balance of Payment Statistics (CMFB) carried out consultation processes among their members on the draft IASB Exposure Draft for small and medium sized entities (SMEs).

The BSDG is an advisory body to the Statistical Programme Committee (SPC) that was created in 1998 and supervises all working groups of Eurostat in the area of business statistics. Its main aims are to launch strategic discussions for further developing business statistics and on cross-cutting technical issues of high importance and to closely follow the compliance with legal acts in the domain. Its membership consists of the directors of business statistics in the National Statistical Institutes of the Member States.

The CMFB is an advisory committee established in 1991 to assist the European Commission in drawing up and implementing work programmes concerning monetary, financial and balance of payments statistics. It also offers advice on these areas of statistics and on their links with other areas of economic statistics, in particular national accounts and government finance statistics. Its membership consists of senior managers in charge of economic and financial statistics at the national statistical institutions (NSIs), national central banks (NCBs), the Commission (Eurostat) and the ECB (Directorate General Statistics).

The BSDG and the CMFB have the following general comments, which are expressed from a purely statistical viewpoint and do not pre-empt any comments from other EU Institutions as regards accounting technical and legal issues.

Firstly, common accounting standards for SMEs are much welcome as they could in principle enhance comparability of business data, financial statements and taxation data as well as comparability of data between large companies and SMEs. However, any accounting standards oriented towards SMEs should take the fullest account of the need to limit the reporting burden on SMEs.

Secondly, accounting standards for SMEs should take into account the general idea that this group of economic operators should report the same information only once even if the data are used for a variety of purposes.

Thirdly, and closely linked with the previous, the construction and the concepts of accounting standards for SMEs should be designed – to the extent possible – in such a way that it would allow a smooth translation and use of the accounting information for statistical purposes.

The BSDG and the CMFB would also like to offer some more detailed comments based on the considerations set out above.

We would be grateful if you would take account of our comments in your further deliberations.

Yours truly,

*Signed*

*Signed*

Peter Bekx

Hans-Peter Glaab

BSDG Chairman

CMFB Chairman

Annex: Joint reply of the Business Statistics Directors' Group (BSDG) and the Committee on Monetary, Financial and Balance of Payments Statistics (CMFB) to the IASB proposed IFRS for small and medium sized entities (SME)

**JOINT REPLY OF THE BUSINESS STATISTICS DIRECTORS' GROUP (BSDG) AND THE  
COMMITTEE ON MONETARY, FINANCIAL AND BALANCE OF PAYMENT STATISTICS**

**28 NOVEMBER 2007**

**TO THE IASB PROPOSED IFRS FOR SMALL AND MEDIUM SIZED ENTITIES (SME)**

**1. Background and General comments**

In response to the publication by the IASB of a questionnaire on possible modifications of the recognition and measurement principles in IFRS for use in IASB standards for small and medium-sized entities (SMEs), the Business Statistics Directors' Group (BSDG) and the Committee on Monetary, Financial and Balance of Payments Statistics (CMFB) have collected the views of the National Statistical Institutes and Central Banks in the European Union. The following is their joint reply to the questionnaire covering statistical viewpoints only and not pre-empting comments from other EU Institutions as regards accounting technical and legal issues.

The BSDG and the CMFB have the following positions of principle, and the more detailed comments should be seen in this light:

Firstly, common accounting standards for SMEs are much welcome as they could in principle enhance comparability of business data, financial statements and taxation data as well as comparability of data between large companies and SMEs. However, any accounting standards oriented towards SMEs should take the fullest account of the need to limit the reporting burden on SMEs.

Secondly, accounting standards for SMEs should take into account the general idea that this group of economic operators should report the same information only once even if the data are used for a variety of purposes.

Thirdly, and closely linked with the previous, the construction and the concepts of accounting standards for SMEs should – to the extent possible – be designed in such a way that it would allow a smooth translation and use of the accounting information for statistical purposes.

In this regard, particular attention should be paid to the alignment of the accounting reporting requirements to the existing statistical requirements, as well as to other reporting requirements such as supervisory ones. In any case, unnecessary deviations should be avoided.

From a statistical point of view, comparability of data and their underlying concepts and definitions across all enterprises is an important aim. Sampling and grossing-up could be greatly enhanced, thus leading to a reduced population of actual reporting agents and a better quality of statistics. Hence, it is preferable that, in the medium to long run, all corporations can be covered by an explicit harmonised standard. At the same time, as few as possible different standards should exist, even when they are consistent. Moreover the different types of standards should aim at limiting the options for different treatments of any specific transaction or event.

Ideally, there are at most two standards, which are aligned to the maximum extent and do not unnecessarily deviate from the standards for the national accounts (System of National Accounts - SNA93<sup>1</sup> - and the European System of Accounts - ESA95<sup>2</sup>). Furthermore, it may be necessary to define a clear and harmonised borderline for corporations that must apply either the IFRS or the SME standard. This borderline should be based on a combination of qualitative characteristics<sup>3</sup> of an SME and simple quantitative (employment) size tests. Against this background, using the concept of 'public accountability' to determine which standards an enterprise should use may be suboptimal, considering especially also micro-enterprises and unlisted companies. Indeed, this borderline may be subject to differing interpretations, even if it recognises the case in which SMEs are affiliates of listed corporation that report consolidated accounts. Moreover, from an economic and statistical viewpoint, international accounting standards for SMEs are not sufficient for large unlisted enterprises or for enterprises in the financial sector. In many respects the economic behaviour of these enterprises is comparable to that of a similarly sized listed corporation. If only for statistical purposes, it would thus be helpful if large unlisted enterprises and the financial sector are subject to the full IFRS. This also has the advantage of keeping the number of standards to a minimum. If so desired, statisticians can provide the expertise and data to distinguish large unlisted enterprises from SMEs on the basis of quantitative criteria such as the turnover, the number of employees or total balance sheet figures. In addition, such quantitative information, if included in the reports could much help for the stratification of corporations, and thus could become a way to also reduce the reporting of additional information by many SMEs.

Summarising, we suggest the reinforcement of the proposed qualitative borderline for the SME standards through the addition of quantitative criteria. Such quantitative criteria could be included in the guidelines that accompany the standards. We stand ready to advice on the operationalisation of such size criteria.

Moreover, the SME rules should be sufficiently comprehensive in order to avoid any need for a fallback to the full IFRS. Certainly, enterprises should not be allowed to 'cherry pick' from both sets of standards (no optional reversion to an IFRS, issue 5 in the preliminary views of the IASB). On the other hand the IFRS for SMEs should strive to find a balance between the information needs of users and the administrative and reporting burden on SMEs. If the latter is not taken sufficiently into account and the IFRS for SMEs are considered too complex for smaller SMEs, this may prompt national standard setters and/or governments to push for retention of existing simplified standards for such businesses leading finally to greater incomparability across countries.

---

<sup>1</sup> SNA 93, <http://unstats.un.org/unsd/sna1993/introduction.asp>

<sup>2</sup> ESA 95, <http://circa.europa.eu/irc/dsis/nfaccount/info/data/esa95/en/titelen.htm>

<sup>3</sup> For example, the European Commission in its recommendation 2003/361/CE takes into consideration three criteria; staff headcount, annual turnover, and annual balance sheet. According to these criteria, SMEs are defined as enterprises which employ fewer than 250 persons and whose annual turnover or annual balance sheet total does not exceed 50 million euro and 43 million euro respectively.

An impact assessment on the implications for SMEs to follow the IFRS would certainly be useful in this respect and follow normal practice in the EU, where new regulative measures always need to be accompanied by such an impact assessment.

Finally, we suggest creating, with the IFRS for SMEs, a stable accounting environment for the millions of enterprises involved. To minimise the reporting burden, changes to the standards should occur in batches and preferably in combination with changes in the statistical requirements.

Concluding, we think that the IASB Draft Exposure for international financing reporting standards for SMEs, should seriously take into account the reservations concerning their impact on SMEs as outlined above and especially the comment that it should contribute to a reduced reporting burden on SMEs. The less options there are in the standard, the more consistent and comparable the aggregated statistics are, and the less the burden on SMEs for additional detailed data. We consider that the IFRS for SMEs should point to the greatest extent possible to a single standard with barely any options. We would also like to draw the attention of the IASB to the ongoing and planned work on developing taxonomies in different frameworks (e.g. the use of XBRL for enterprise reporting), which may help the SMEs to use these standards and to reduce their reporting burden.

## **2. Reply to the IASB Questionnaire on SMEs**

Some issues may deserve a closer look and possibly further consideration, so as to help reducing the statistical reporting burden for SMEs. Comments below only refer to those standards where statistical consequences are to be expected.

### **IAS 1: Presentation of financial statements**

Statisticians make use of accounting data for compiling a range of economic and statistical indicators, which are used by a large variety of European and National policy makers. This includes the credit risk assessment, at individual company level and for populations of companies, on the basis of accounting data.

In general, it is desirable that the accounting data produced by the large majority of enterprises (i.e. the SMEs) are comparable over time and across different countries and different types and sizes of enterprises.

These objectives require a certain degree of standardisation, not only of the data produced but also of the format in which they are disseminated. Standard formats for income, balance sheet, changes in equity and cash flow statements would assist the assessment of the individual SMEs' performance and value and would support their aggregation for statistical purposes.

This means that the SME standard equivalent to IAS 1 could prescribe, inter alia, an income statement broken down by nature of the expenses and presented in a standardised format.

The use of such a standardised format will assist both preparers and users of the financial statements. These statements will then be easier to establish, transmit, read, interpret and incorporate in IT applications. Moreover, the use of such format will reduce the reporting burden to which SMEs are particularly sensitive.

A breakdown by nature of expenses and revenues also allows preparers and users to better assess the performance of the SME.

This argument is also valid for making a clear distinction between current and non-current operations.

In order to serve better also for statistical purposes it is desirable to include employment variables (e.g. the number of persons employed) into the financial statement. The definition of this variable could be formulated as follows: the number of persons employed is the total number of persons who work in the observation unit (inclusive of working proprietors, partners working regularly in the unit and unpaid family workers), as well as persons who work outside the unit who belong to it and are paid by it (e.g. sales representatives, delivery personnel, repair and maintenance teams).

### **IAS 18: Revenue**

Further to the comments made under IAS 1 the income statement should at least distinguish between revenues from operational activities and revenue from financial activities (interest, dividends etc.). Clearly any netting should be reduced to a minimum.

### **IAS 39: Fair value measurement**

In principle, the inclusion of the fair value measurement in the SME standards (apart from debts and loans) is welcomed, but it may be restricted to specific parts of the business of SMEs. A typical example would be if an SME hedges its trade receivables and payables in foreign currency against exchange rate risk.

### **Other comments**

In general, it seems that the major part of the required information for statistical needs will be presented in the financial statements, however, not properly structured and thus not possible to be used. Although the main (total by groups) financial indicators can be readily retrieved from the balance sheet and income statement, this is not the case for important detailed information such as on inventories or long-term assets by kind for which there is the option to be presented either on the face of the balance sheet or in the notes. Therefore, it is suggested either for the notes to be more structured or to define where to present the information which has currently an alternative (i.e. either on the face of the balance sheet /income statement or in the notes).

### 3 Answers to the questions put forward by the IASB

#### ***Question 1 – Stand-alone document***

Additional transactions to be simplified for SMEs:

- Accounting of exchange of properties, plant and equipment (section 16).

Transactions that are not relevant to typical SMEs:

- Sale and lease back transactions (section 19, paragraphs 24 to 27).
- Share-based payments (section 25)

#### ***Question 2 – Recognition and measurement simplifications that the Board adopted***

The standard should simplify the segment reporting for SMEs to cater for the objective of a reduced reporting burden on SMEs.

The same effort should be made to simplify the treatment in the case of hyperinflationary economies (section 29).

Other simplifications that may be considered:

- *Financial instruments must be valued at cost or at fair value* (section 2, paragraph 41; and section 11, paragraphs 8 and 41): it should be clearly stated which financial instruments are allowed to be measured at fair value (i.e., those with an active market, only), by classifying them by instruments (bonds, shares, loans, etc.).
- *Investment property can be measured at cost or at fair value* (section 15, paragraph 4): valuation at fair value is not simplified as it makes reference to IAS 40. This option should be allowed only to certain sectors of activity (real estate among others) and further simplified.
- *Impairment of goodwill* (section 26, paragraph 22): this could also be more simplified since, although rather simplified from the full IFRS, it is still quite complicated for a SME.

#### ***Question 3 – Recognition and measurement simplifications that the Board did not adopt***

Some definitions need also to be included, whereas other issues to be further exploited:

- *Government grants* (section 23): should be categorised into two groups, depending on the item they refer to, an asset (capital grant) or an expense (operations grant).
- In section 21, paragraph 2, the way to account for the issued capital not paid for is not clear, since it seems not to fit in any of the categories provided. It is suggested to explicitly mention it in this section, in order not to give rise to ambiguity.
- In section 28, paragraph 19, the wording used “rather than” does not clarify whether an option is allowed recognising the difference in profit or loss or equity.
- The provision in section 2, paragraph 27, according to which ‘*when an estimate can not be made, the element shall not be recognized*’, may lead to misuses (with relevant elements unrecognised in financial statements).

***Question 4: Whether all accounting policy options in full IFRSs should be available to SMEs***

In order to improve the comparability of the financial information provided by SMEs, the majority of accounting options should be eliminated, allowing only the most appropriate that, in general, coincide with the simpler alternative. More specifically:

- Balance sheet can be presented under current-non current criteria or under liquidity criteria (section 4, paragraph 5). Liquidity criteria are more used in financial entities, which are not in the scope of this exposure draft, so only the current-non current classification should be maintained.
- *Cash-flow statement can be presented either by the direct method or by the indirect method* (section 7, paragraph 7). Since the direct method requires more resources and can not be directly deduced from the income statement, the IASB could consider removal of this option.
- Similarly, section 16, paragraph 13 and section 17, paragraph 21, allow property, plant and equipment, and intangible assets to be accounted for at cost or at revalue amount. However, these captions are usually the main ones in the balance sheet, so that no alternatives should be provided in this section, and remaining cost should be the only valuation method. If the revalue amount is kept, however, only the option of revaluation of gross amounts should be allowed, in order to guarantee a certain degree of comparability.
- Section 35 paragraph 1 allows two alternative methods for valuation of biological assets: cost or fair value. In order to guarantee comparability in financial statement, only one of the two options should be allowed.
- When accounting for government grants (section 23, paragraphs 3), the amount granted should not be offset against the assets or the expense, but separately disclosed.

***Question 5 - Borrowing costs***

The recently issued IAS 23 has removed the option of capitalisation of certain expenses, making capitalisation compulsory if some conditions are met (paragraph 8). We consider this option acceptable, allowing capitalisation of some interest expenses, since the maintaining coherence with the full IFRS must be a top priority.

***Question 6 – Topics not addressed in the proposed IFRS for SMEs***

Acknowledging the important effort in simplifying the rules, we consider it appropriate that SMEs follow the relevant full IFRS in case that they encounter such transactions or events. Regarding issues that should be clearly defined in the exposure draft, please refer to our comments in question 3.

***Question 7 – General referral to full IFRSs***

We consider the approach followed in the standard as appropriate.

***Question 8- Adequacy of guidance***

The development of common formats would help the entities when preparing their financial statements. Moreover, SMEs may welcome further guidance on these common formats. As mentioned in the general comments, a common taxonomy could uniquely define the elements to

be disclosed. Overall, such actions can lead to a significant increase in comparability amongst reporting entities.

Other points to be addressed could be the following:

- A format to which no heading but sub items can be added could be included in the IFRS for SMEs. These formats could be modified under exceptional circumstances as stated, for instance, in section 4, paragraphs 3 and 10; in section 5, paragraph 5; or in section 11, paragraphs 41 and 48. If a line in these formats has no value for a concrete entity because the amounts are insignificant, the preparer should leave it empty, rather than aggregating it with other items or removing it from the financial statements.
- The use of words “balance sheet” and “finance position” with fairly similar meanings can lead to misunderstandings when reading the standard. The term balance sheet is widely known, even for those not specialised in accounting, and should be predominantly used.

### ***Question 9 – Adequacy of disclosures***

The following disclosures from the exposure draft could be enhanced:

- The idea of merging the income statement and the statement of changes in equity when certain conditions are met (section 3, paragraph 16; and section 6, paragraph 4) would complicate the information requirements for SMEs and should be removed.
- Section 5, paragraph 3, defines the minimum lines to be disclosed in an income statement, which are considered to be too few, as they lead to an extremely summarised statement. Some lines could be added in this paragraph.
- Some paragraphs in different sections (section 16, paragraph 15; section 17, paragraph 21; section 20, paragraphs 10 and 11; section 27, paragraphs 3.b, 13.b and 21) allow some expenses (employee expenses, and depreciation among others) to be directly capitalized if they are linked to the development of some assets. This operation may hide relevant information about expenses, since the accounting entry will only involve items from the balance sheet (cash and the item where the expenses are capitalized), not having any impact on the income statement. If the expense recognised in the income statement were offset by an income for the same amount, this kind of capitalization would give relevant information in income statement, not distorting the amount of expenses involved. If this solution is not accepted then a way forward to obtain this information nevertheless is for it to be given in the notes to the accounts as a memorandum item (perhaps in the note that describes/sets out the details of acquisitions of assets).
- Section 3, paragraph 20 does not include any information about employment to be disclosed. It is suggested that, at least, the total number of employees is required.
- Section 9, paragraph 18 states that individual financial statements are not compulsory to be issued if certain conditions are met. It is considered that this paragraph may interfere with national legislations and, therefore, proposes its deletion.
- As accumulated impairment losses can provide relevant information (also for statistical purposes) (section 26, paragraph 11), it is proposed to be disclosed in the notes.
- Concerning employee expenses, section 27, paragraph 36, does not require specific information to be disclosed on short-term employee benefits, which are considered as very important for SMEs. It is proposed that some information requirements are defined.

- A movement chart of financial assets could be considered by the IASB to be included in the standards (section 11, paragraph 41), in order to better assess the changes in the reporting period (whether, for instance, changes in the balance sheets of SMEs are due to the purchase of assets or to a fair value gain).

***Question 10 – Transition guidance***

We do not have a comment to this topic.

***Question 11 – Maintenance of the IFRS for SMEs***

It is suggested that a higher retention period is considered (for instance a five year period or even more). The amended version could also take advantage of the experience of various European countries such as France and Spain that have had rather stable set of accounting rules, which obtained a high degree of quality in the financial information as well as a substantial level of satisfaction in the entities, and the remaining users.