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IFRS for SMEs

Survey of the expectations and needs of SMEs including field tests

Conseil National de la Comptabilité

MINISTÈRE DE L'ÉCONOMIE
DE L'INDUSTRIE ET DE L'EMPLOI

The President of Conseil National de la Comptabilité thanks the services of the Banque de France for their participation in the CNC/BDF study, as well as the services of the Compagnie Nationale des Commissaires aux Comptes and the Conseil Supérieur de l'Ordre des Experts Comptables for their collaboration in the organisation of field tests

Publication by the IASB[1] of the exposure draft of the IFRS for SMEs[2] and the communication of the two drafts prepared by the European Commission bearing on the simplification of the fourth[3] and seventh[4] directives and the definition of the accounting recommendations applicable to entities not covered by the directives[5], have resulted in the CNC continuing the work which has been begun to prepare the answers to the various discussion papers and to the exposure draft of the IASB on October 4th, 2007. The draft standards of the IASB aims at defining an international accounting standard for SMEs following World Bank wishes for their application to emergent countries, for which the full IFRS are too complex. The drafts prepared by the Commission aim to simplify the accounting provisions applicable to SMEs.

Several Member States of the European Union carried out investigations on companies to identify their needs and expectations. The CNC in collaboration with the French banking services organized an investigation on 10 000 companies listed in the financial statements database in order to better meet their needs and expectations relative to the transition to the international accounting standards and to address the specific accounting problems raised by the IFRS project for SMEs. The CNC received 678 answers which can be found below in appendix I.

In addition, the CNC, with the participation of the Compagnie Nationale des Commissaires aux Comptes (National Auditing Council) – CNCC – and the Conseil Supérieur de l'Ordre des Experts Comptables (National Council of Accountants) – CSOEC - asked eleven French companies to carry field tests organized by the IASB. The synthesis of these field tests made up of answers to a questionnaire and the restatements of the financial statements according to the provisions of the IFRS project for SMEs can be found below in appendix II.

Does the IFRS/PME project meet the needs and expectations of the companies?

Analysis of the investigations and tests mostly corroborates the stance taken by the CNC in its response available on the Internet site of the CNC under the heading "Responses of the CNC to international consultations".

Non-identified needs

The CNC/Banque de France survey above all demonstrates that the companies consider that the individual financial statements should cover all their needs, i.e. respond fully to banks' requests (94% of the answers), to their own management needs (86% of the answers), to the tax authorities (77% of the answers) and to the calculation of dividends (69% of the answers).

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[1] International Accounting Standards Board

[2] *Exposure draft of a proposed International Financial Reporting Standard for Small and Medium-sized Entities* published by the IASB on February 2007

[3] Fourth Council Directive 78/660/EEC of 25 July 1978 based on Article 54 (3) (g) of the Treaty on the annual accounts of certain types of companies

[4] Seventh Council Directive 83/349/EEC of 13 June 1983 based on the Article 54 (3) (g) of the Treaty on consolidated accounts

[5] European expert group « *Requirements for accounting systems from the point of view of small enterprises* »

On the other hand, only 3.7% of the companies questioned say they are asked to provide accounting information comparable at an international level, 7.5% of the companies say they do need to have comparable accounting information at an international level while a third of these companies have activity abroad.

Moreover 80% of the companies questioned have no or only weak knowledge of IFRS and the non-response rate, which is more than 50% when IFRS is compared to the chart of accounts, is revealing.

The stances taken by the SMEs appear to be justified by the fact that the standard suggested is unsuited to their environment and that France has a reference frame which has already proved reliable with the PCG[6] for individual accounts and rule n° 99-02[7] for the group accounts of non-listed companies. In the same way, without underestimating the importance of the objective of comparability, one could consider that the IASB should be concerned above all with the issue of the comparability of the financial statements of group accounts of the companies which apply IFRS before considering the comparability of the financial statements of SMEs.

Finally it is pointed out that companies have the possibility of implementing the option offered by the ordinance of December 20th, 2004 and of establishing their group accounts according to IFRS standards, if they wish to enter the regulated market.

An undefined scope

The IFRS project for SMEs does not define the scope of the standard which is the responsibility of the States or the European Union according to the case. A real difficulty is represented by trying to define a standard without knowing to whom or what it will apply: To the group accounts of non-listed companies? To the individual accounts of SMEs at the perimeter of IFRS consolidation? Large SMEs? SMEs?

Taking into account this uncertainty and possible fields of application, it would be a good idea to ask for feedback statements before the publication of the standard.

Standard which is not "stand alone"

Concerning the "stand alone" character of the draft standard, the synthesis of the tests clearly reveals that the project is not really "stand alone" or directly operational for the companies, because for each basic restatement, the preparers have to refer to the basic provisions of IAS or IFRS standards applicable to group accounts. In other words, the use of only the handbook translated into French of the IFRS for SMEs project of does not enable a company to establish the financial statements when its treatment is a little more elaborate.

On the complexity and the cost of the treatment of certain subjects

The tests also reveal, depending on the activity, real difficulties in apprehending issues such as those relating to the recognition of income, leasing agreements, the treatment of grants, bonus shares for employees, pension commitments and factoring.

In the same way, the CNC/Banque de France study demonstrates that companies are confused about or even tend to reject certain provisions because of their lack of relevance, the cost and the complexity of implementation. The same is true for the accounting and derecognition of

[6] French GAAP to separate financial statement

[7] French GAAP to consolidated financial statement

financial assets; the breakdown of financial liabilities between debt and equity; recognition of and of the resulting changes in profit and loss; the accounting for deferred taxes and share-based payments.

The special interest shown in certain issues

It is worth underlining that the CNC/BDF investigation highlights an interest for certain problems developed in the IFRS project for SMEs such as the option of accounting for the costs of research and development, the calculation of impairment at market value when this is lower than the book value, the treatment of leasing agreements and discount long-term provisions and the treatment of construction contracts.

The results of the investigation highlight the absence of identified needs by SMEs and requests from them to be able to use information which is comparable at an international level. Nevertheless, the SMEs underline the relevance of certain proposals from which the current rules could be developed.

Appendix I: CNC/Banque de France Survey on French SMEs

Summary appendix 1

As part of the work undertaken by the Conseil National de la Comptabilité (CNC) on the IFRSs for SMEs, it seemed essential to request the opinion of those involved in these businesses.

Currently, in France, the international standards apply on a purely obligatory basis only for the group accounts of listed companies. However the international accounting regulator (the IASB), has drawn up a project of IFRSs for SMEs, suitable for individual and group SME accounts.

This investigation of national dimension has been organized to complement the response of the CNC to the exposure draft addressed to the IASB on October 4th, 2007 and the field tests[8] carried out jointly with Compagnie nationale des commissaires aux comptes (CNCC) and the Conseil supérieur de l'ordre des experts comptables (CSOEC), in which only a limited number of SMEs took part.

The objective of the investigation is to enable the CNC to have an idea of expectations and needs as regards the international accounting framework for SMEs, not only to take a stance concerning the IASB project, but also to contribute to the development of the European accounting directives. A similar study was undertaken by the German accounting regulator (the GASB), but on a higher population of companies, corresponding to the population of German SMEs.

The proposed questionnaire enables the identification of companies and the problems which they come across, to understand their expectations as regards international financial information and, as well as helping them understand the IFRS for SMEs project, to interpret their reactions to the developments suggested by the IASB.

1 – Presentation of the survey

The operation was carried out in close cooperation with the French banking system that authorized access to companies through their network of SMEs, contributing their experience, technical and logistical resources.

1.1 – Questionnaire

The questionnaire for the SMEs has been based on the German questionnaire, in order to allow for European comparability, and is organized in four major parts:

- questions of a general nature concerning the company;
- questions relating to the relevance of certain accounting issues of the company;
- questions concerning the positions and expectations relative to the transition to international accounting standards;
- specific accounting issues addressed by the IFRSs for SMEs.

It comprises 173 closed questions (not free text), organized around various topics. The possible types of answers are: a direct answer (yes/no/do not know), a qualitative or quantitative appreciation on a varying scale (without/slight/average/high/do not know) or preset choices (for example "your personnel at the end of the last exercise: 1 to 10/11 to 50/51 to 250/> 250). The nature of the wording has been adapted to the questions. The answers are compiled in the following 68 graphs.

[8] See appendix II

1.2 – How the investigation was organized

The Banque de France placed at the disposal of the CNC a list of 10.000 companies randomly selected from the financial statements database of member companies. No restriction in terms of size or method of financing was operated on the selected sample. The procedure of putting the questionnaire on line of was outsourced to the Kynos Company. The restitution was carried out by means of MODALISA software.

A letter of presentation from the Banque de France and the CNC was addressed at the end of November 2007 to the 10,000 selected companies. This invited them to connect to a dedicated Internet site on which, using their SIREN number, they could answer the questionnaire on line. The site was active over the period November 27th 2007 to January 11th 2008.

The file used for the results of the study contains the answers of 678 companies which is a rate of return of almost 7%, regarded as significant by the professionals.

The questionnaire could be filled in by the Managing Director, the CFO or the Chief Accountant.

The teams at the CNC ran a hotline via electronic messaging and by telephone throughout the whole investigation.

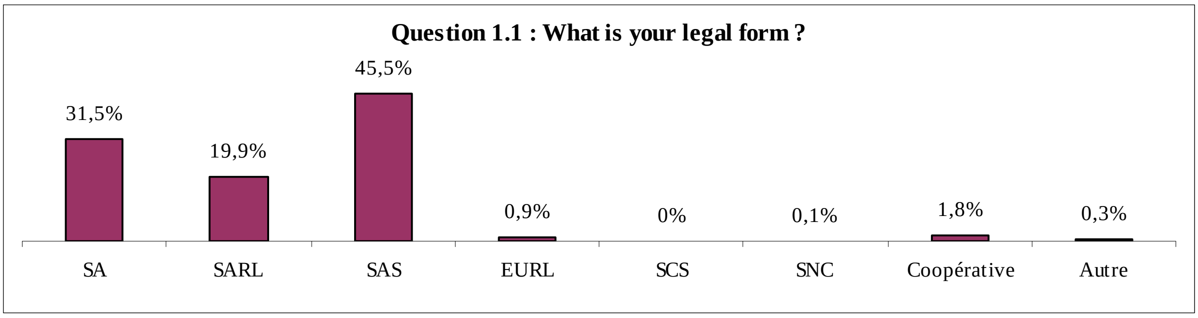
2 – Company profiles

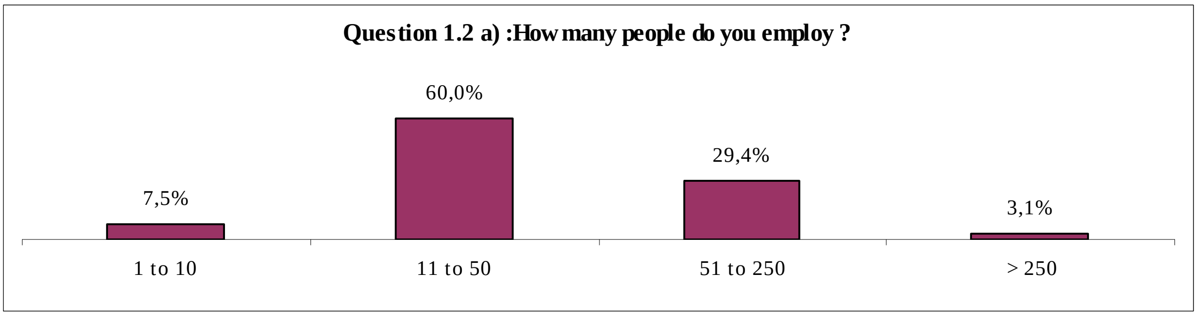
The first part "questions of a general nature concerning the company" enables the identification of the companies which answered the questionnaire.

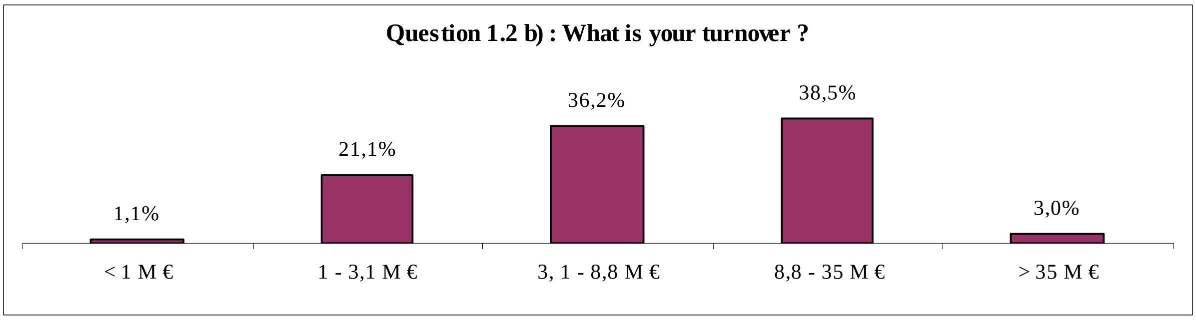
- 45.5% of the companies are simplified joint stock companies;
- 60% of the companies have between 11 and 50 paid employees;
- 38.5% have a sales turnover ranging between 8.8 and 35 million euros;
- 54% only have one directing shareholder;
- 58.5% are family companies;
- 31.6% have an activity abroad which is primarily commercial;
- for 30% of the companies having an activity abroad, the competitive market is international and 18.5% have at least one subsidiary company abroad;
- 57% do not belong to a group;
- 25% of the companies belonging to a group are the parent company;
- 80% of the subsidiary companies have a French parent company.

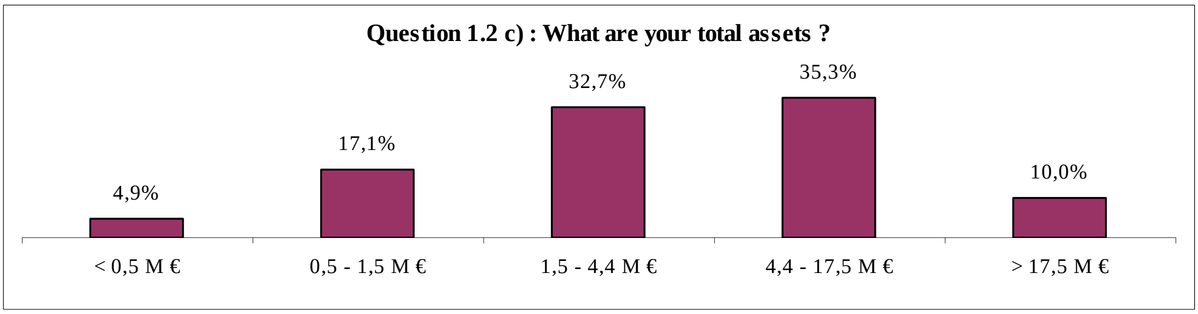
2.1 – Nature of the companies

The companies which answered the questionnaire are of various size and legal form. The legal form most represented is the simplified joint stock company (SAS) 45.5%, followed by limited companies (SA) 31.5%, and limited liability companies (SARL) These are mainly average-sized SMEs taking into account personnel figures (nearly 90% of the companies have personnel of between 10 and 250) and sales turnover (more than 95% of the companies have a sales turnover ranging between 1 and 35 M€).

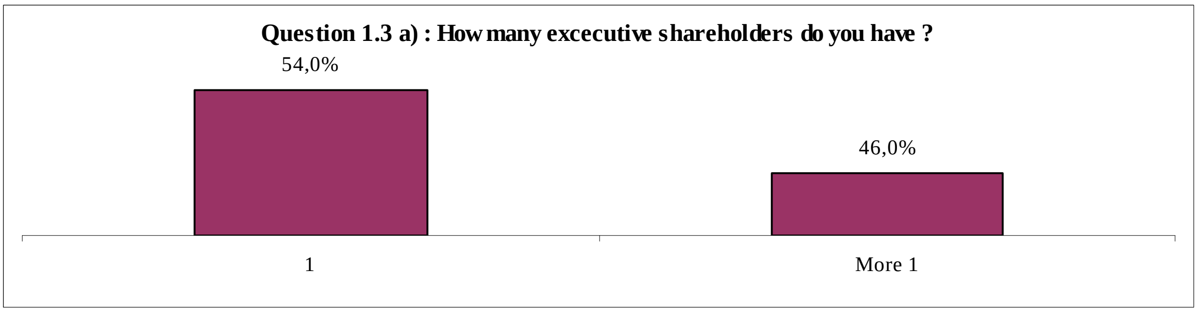


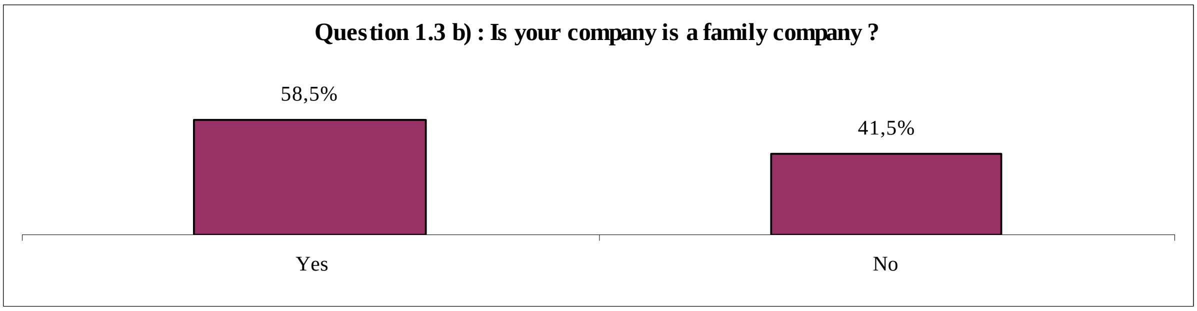






54% of the companies have only one directing shareholder and nearly 60% are family companies, which confirms the significance of the role of associate directors. This assertion is backed up by the fact that 96.7% of the companies questioned said they had one or more director shareholders.

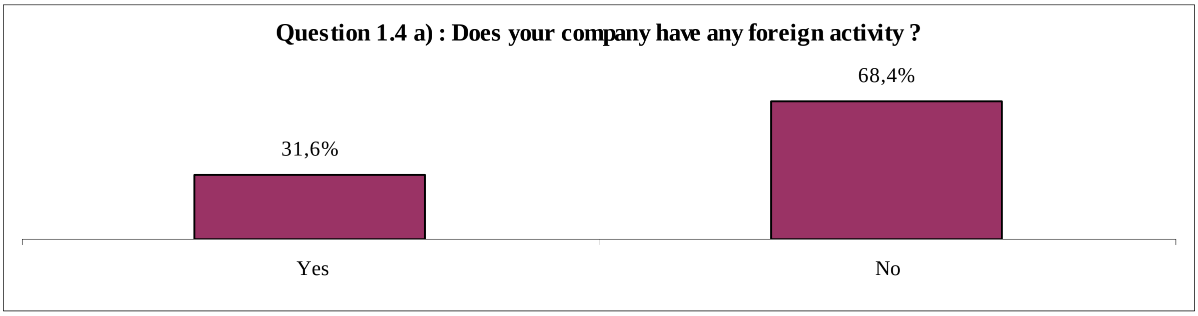


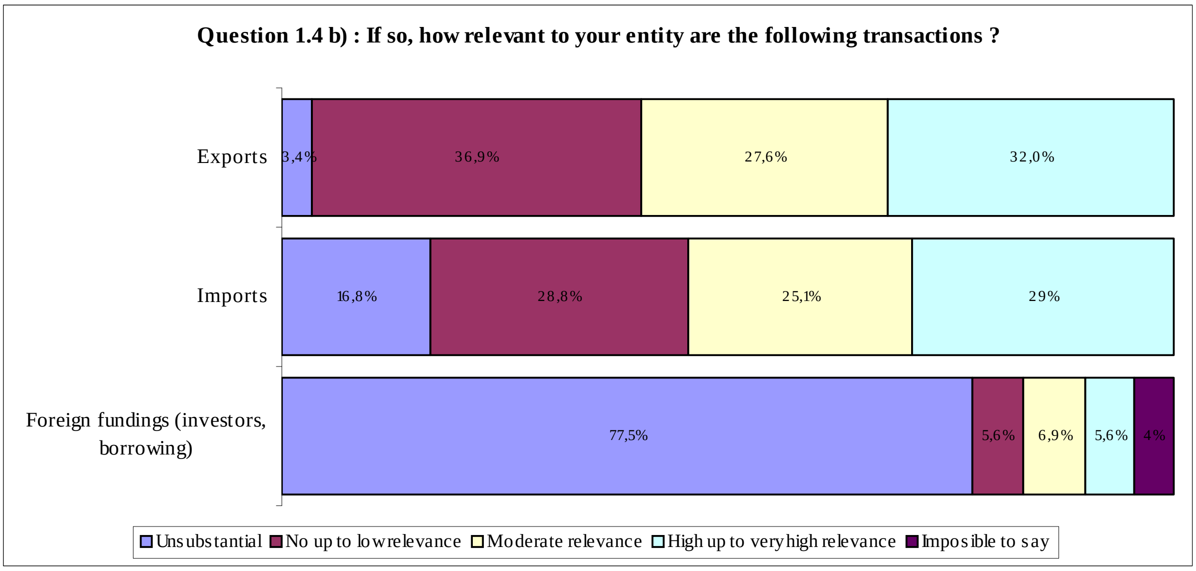


2.2 – The importance of international activities

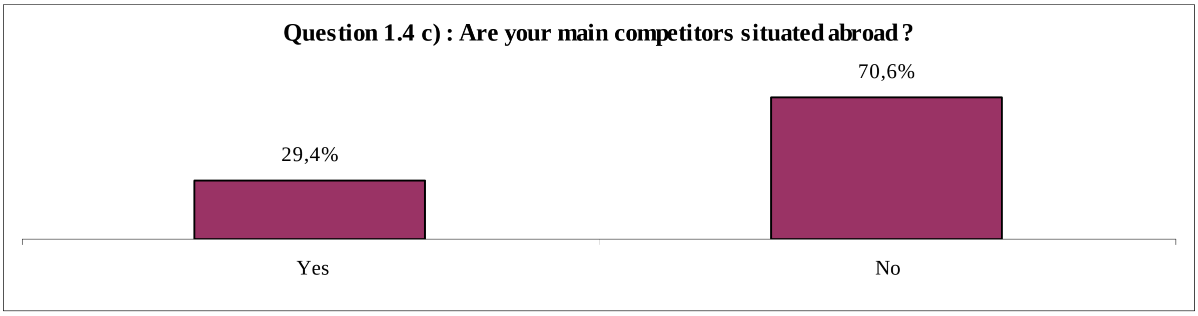
A third of the companies questioned had an activity abroad which was primarily commercial: imports and exports are average or high for more than half the companies having an activity abroad (55% for imports and 60% for exports).

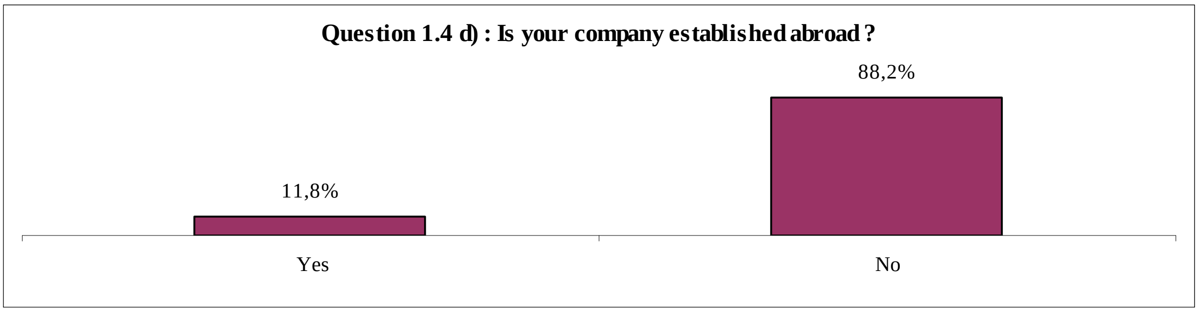
On the other hand, even for companies having activities abroad, the financing from abroad (investors and loans) is very low or zero for 83% of the companies.

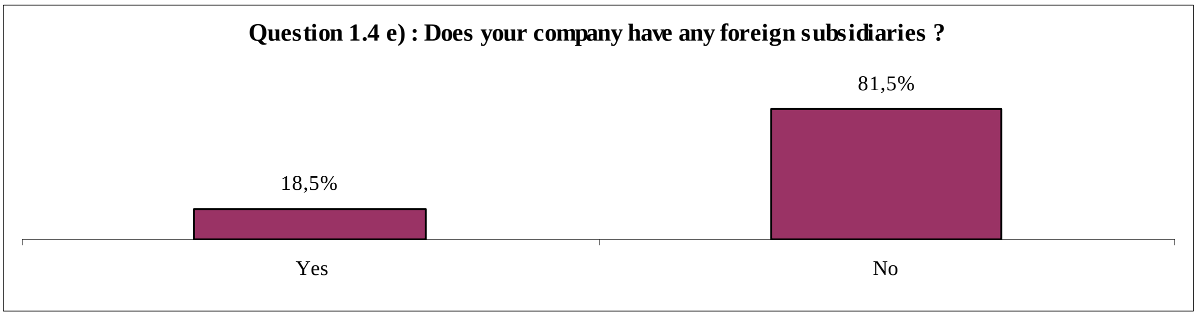




For a third of the companies having an activity abroad, the competitive market is located outside their own country but this does not inevitably result in the company setting up abroad (only 11.8% of these companies are established abroad) or in owning a local subsidiary company (only 18.5% of these companies have a local subsidiary company).

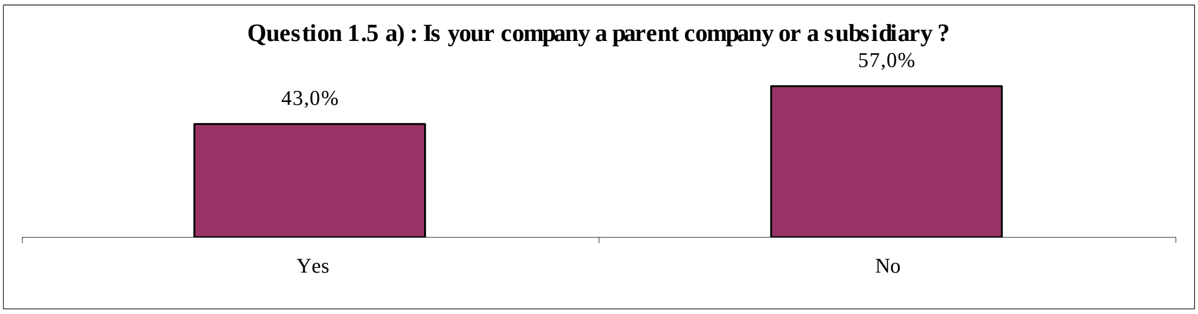


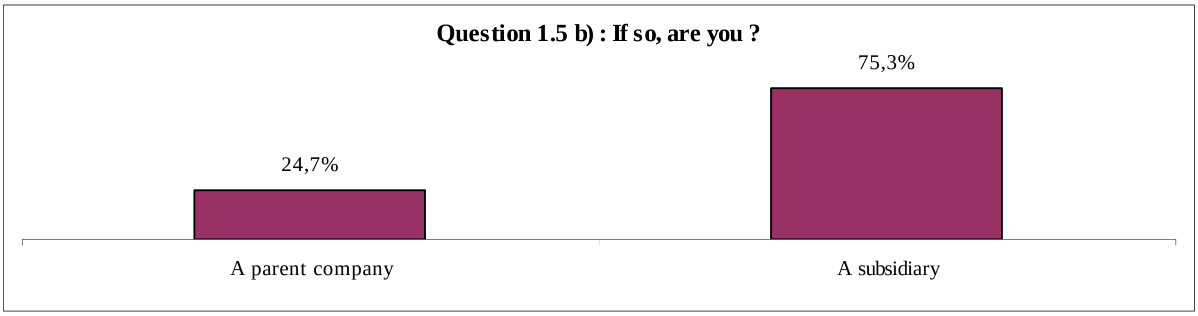




2.3 – Membership of a group

Of the companies questioned, 43% concern the perimeter of a group of companies either in the capacity of parent company for 25%, or in the capacity of subsidiary company for 75% of the companies belonging to a group.

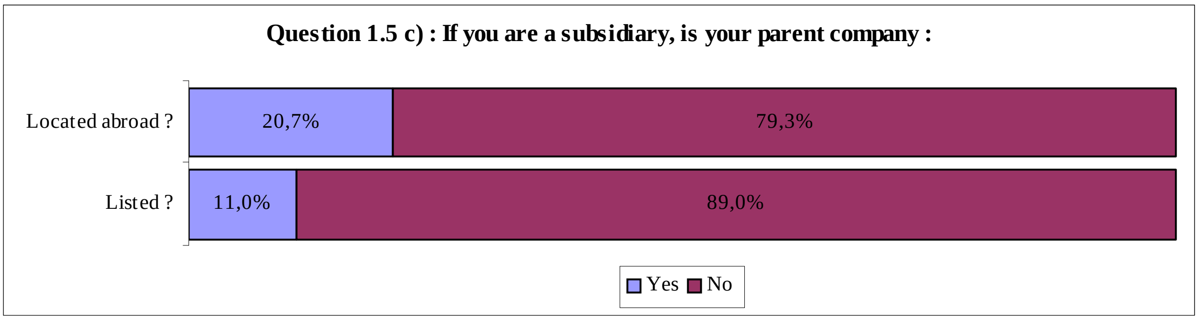


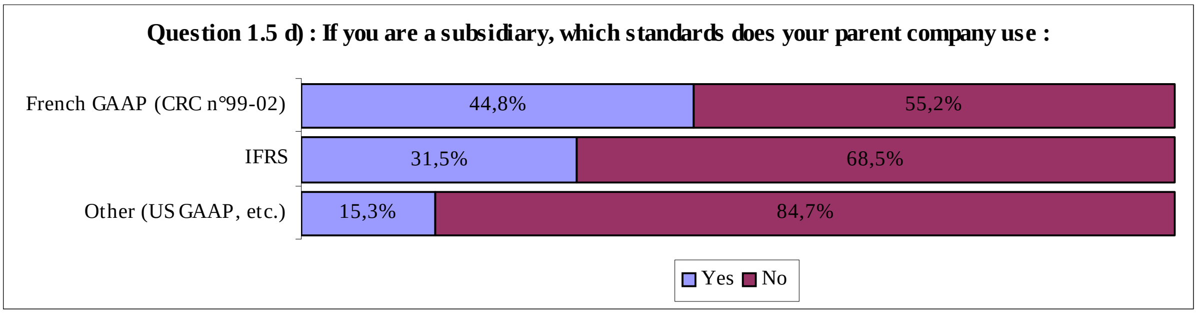


20.7% of the subsidiary companies belong to a group whose parent company is not French.

In the same way, 89% of the subsidiary companies questioned come from groups which do not call for public funding and thus are not subjected to the obligation of establishing their group accounts according to the international reference frame of the IASB as envisaged by ordinance n°2004-1382 of December 20th 2004.

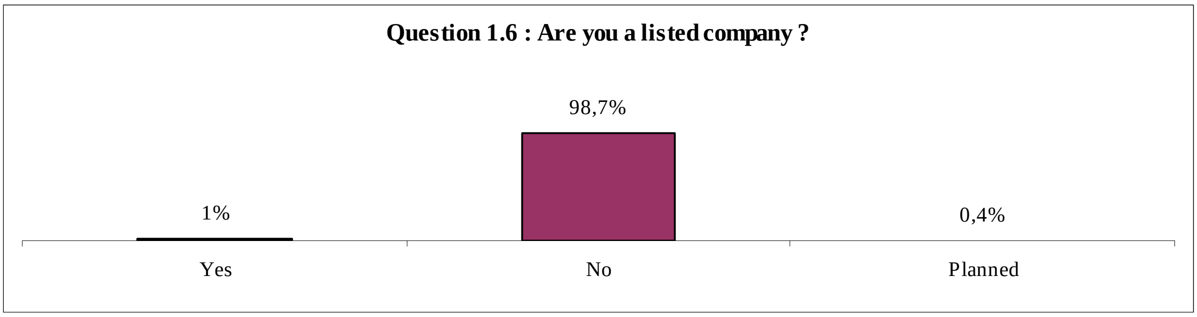
Nevertheless 31.5% of the subsidiary companies declare that their parent company prepares accounts according to IFRS standards.

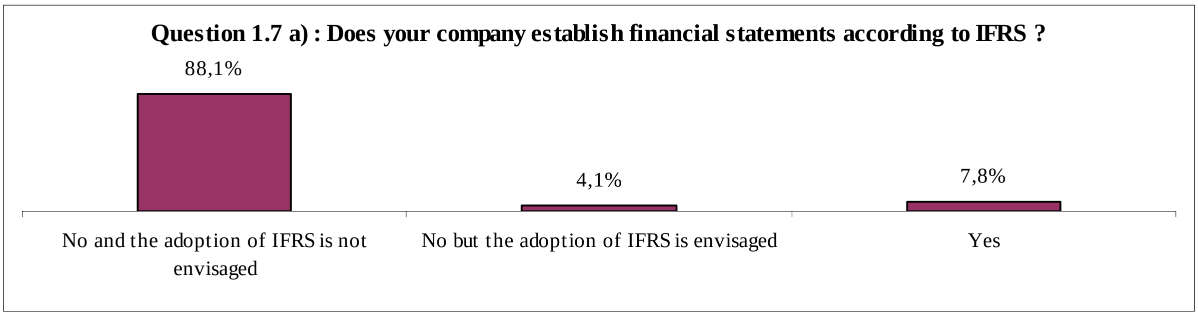


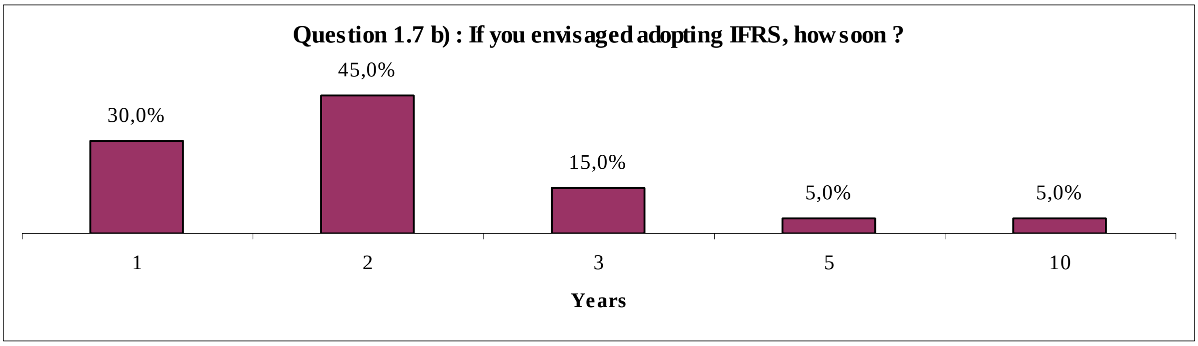


Only 1% of the companies which do not raise funds from the public, but 7.8% of them prepare accounts or consolidated income tax return forms according to IFRS standards. Indeed, a third of the subsidiary companies of a group declare that their parent company prepares accounts according to IFRS standards (in absolute value the number of answers is nearly identical: 51 companies state they prepare consolidated financial statements according to IFRS and 46 companies declare that their parent company prepares these same financial statements according to IFRS).

Moreover, 4% of the companies questioned say they are considering adopting IFRS, most of them within three years.





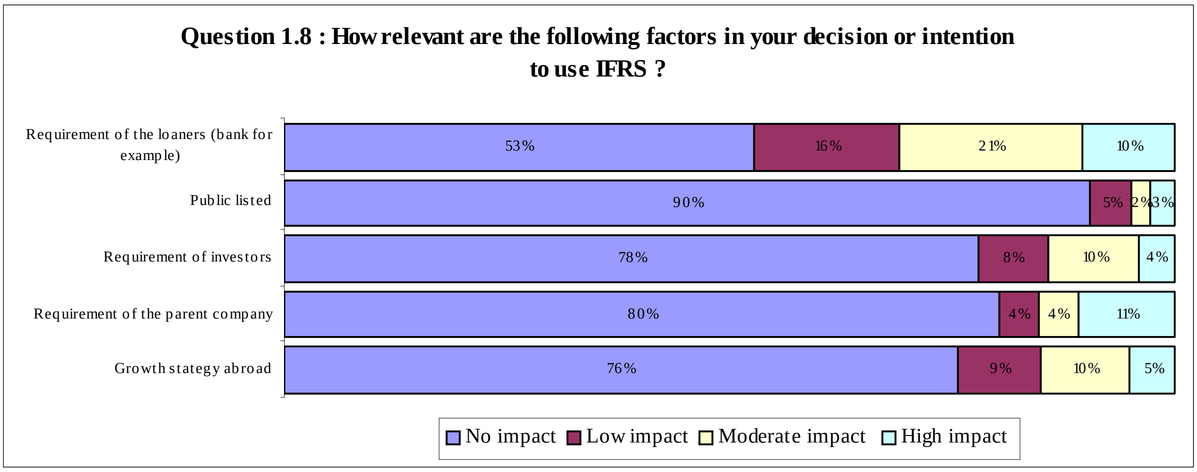


2.4 – Assessment of users' needs

The purpose of question 1.8 is to compile companies' user needs as regards their financial statements in an international reference framework.

The most notable issue raised by the companies is the request for information from lenders and particularly banks with 31% average or strong incidence. This result is explained by the requirements in financing for the companies and the numerous guarantees required by lenders in particular for SMEs.

Requests from head office, international development strategy (15% average or high incidence for the two criteria) or requests from investors (14% average or high incidence) highlight the fact that a considerable number of users, including banks, would be interested by the level of information required by IFRS for SMEs.

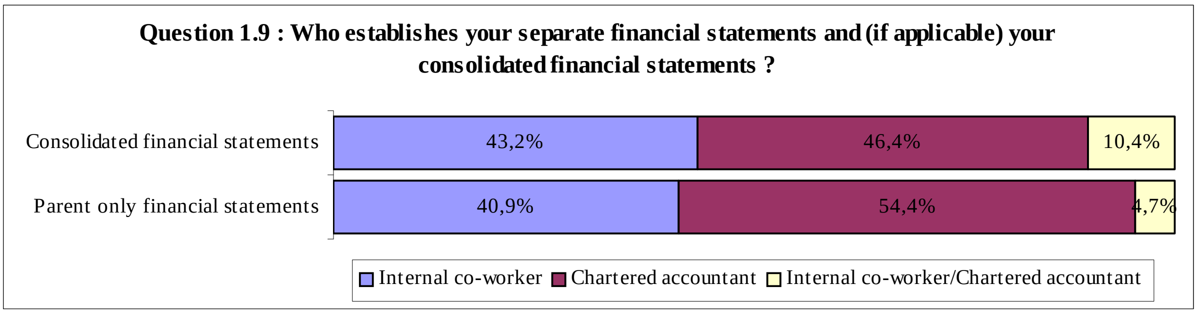


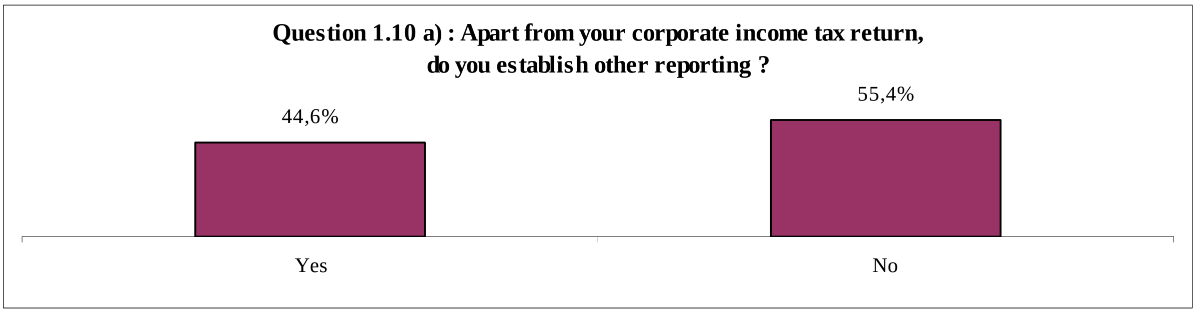
2.5 – Company accounting environment

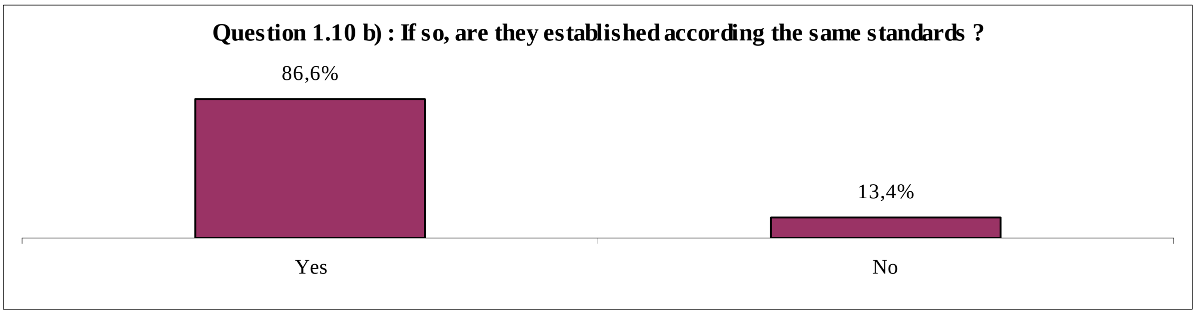
An analysis of the accounting environment of SMEs shows that financial statements are initially used for tax purposes and are mainly prepared by external accountants.

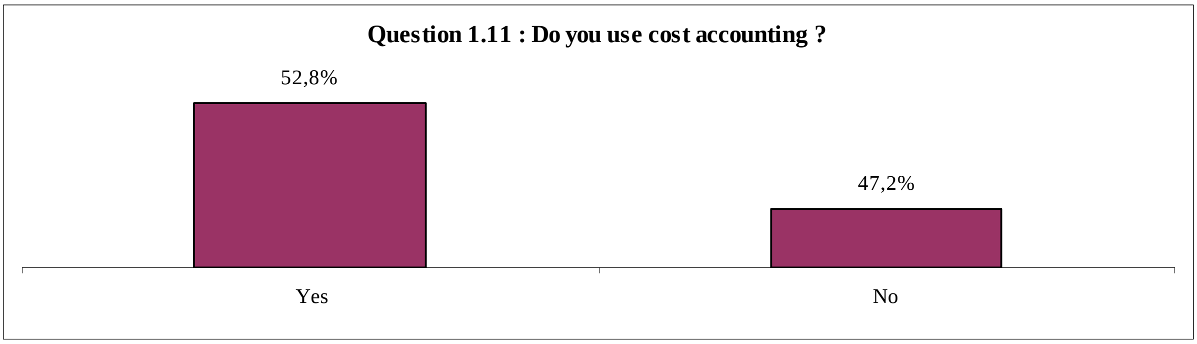
However, the recourse to cost accounting in 52.8% of the companies answers management needs.

Moreover, if the company produces financial statements for needs other than taxation, the principles used remain identical.







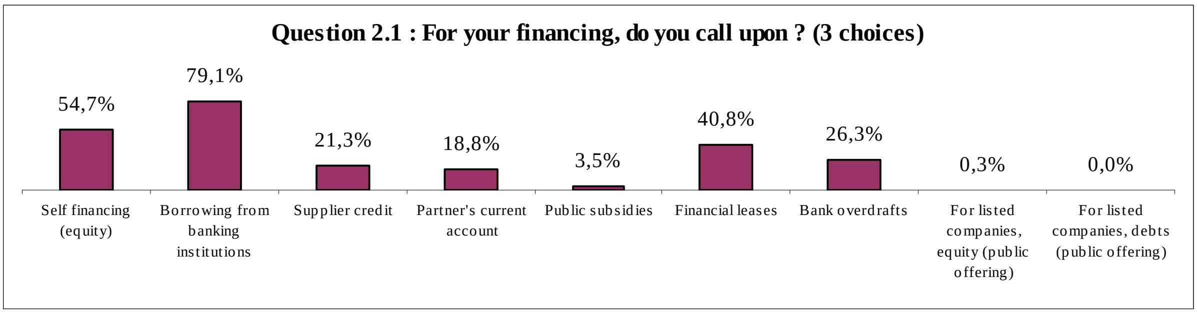


3 – Company accounting issues

A series of questions was asked in order to understand the frequent business translations of SMEs and to define the accounting procedures which are necessary to record them.

3.1 – Company financing

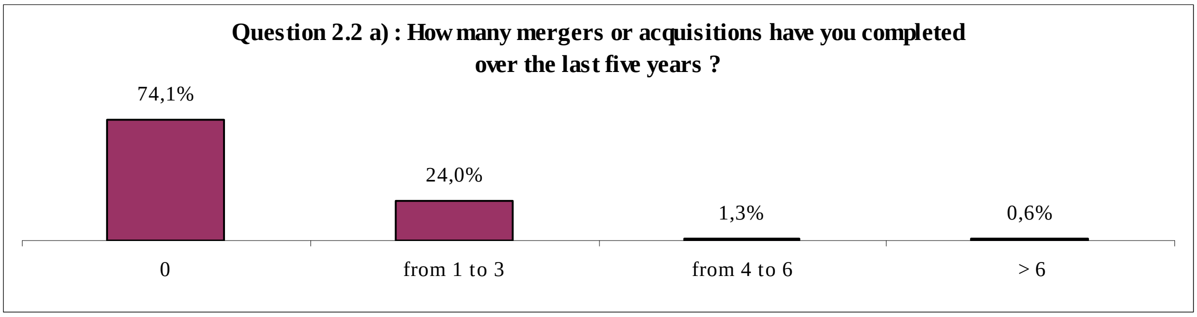
This multiple choice question highlights the three modes of financing mainly used by the companies: loaning from credit institutions for 80% of them, the recourse to stockholder's equity for 55% and subscribing to leasing contracts for 40%. This analysis, backed up by answer 1.8 emphasizing the main needs for lenders as regards IFRS information, makes it possible to measure their influence and particularly that of credit institutions in the behaviour of companies as regards international standards.

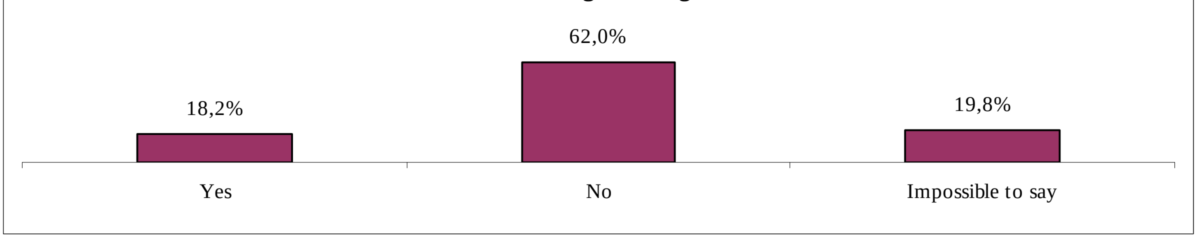


3.2 – Mergers and acquisitions

Question 2.2 aims on the one hand to evaluate the needs for financial information of companies to carry out mergers and acquisitions and on the other hand to determine the best accounting treatments.

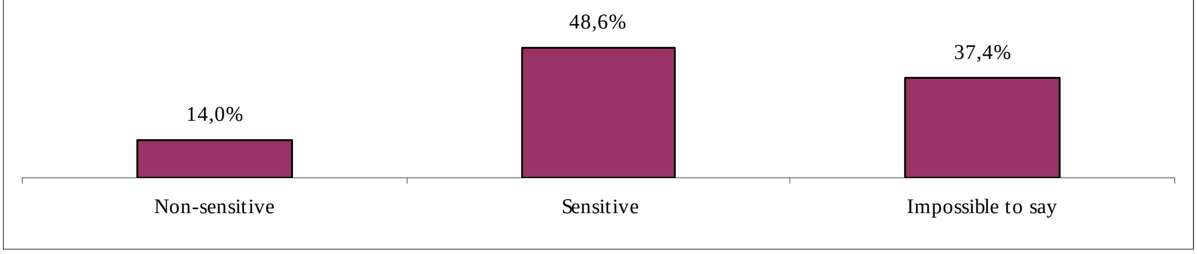
These transactions concern only a quarter of the companies (25.9%) which, for the majority, have realized less than 3 business combinations over the last 5 years. The needs for more complete financial statements (of full IFRS or IFRS for SMEs) which would facilitate reorganization operations are limited to this percentage of companies. 62% of these transactions did not generate goodwill which leads us to suppose that they are complete transfers of assets and liabilities at book value.





Question 2.2 b) : If you have implemented a business combination over the last five years, did this transaction generate goodwill ?

Moreover, the companies are reticent to communicate on this type of operation which for SMEs has all the more consequences as they are not very frequent: the information given at the time of reorganization operations can go beyond the framework of these operations alone and will force them to disseminate the competitive information which they regard as strategic.

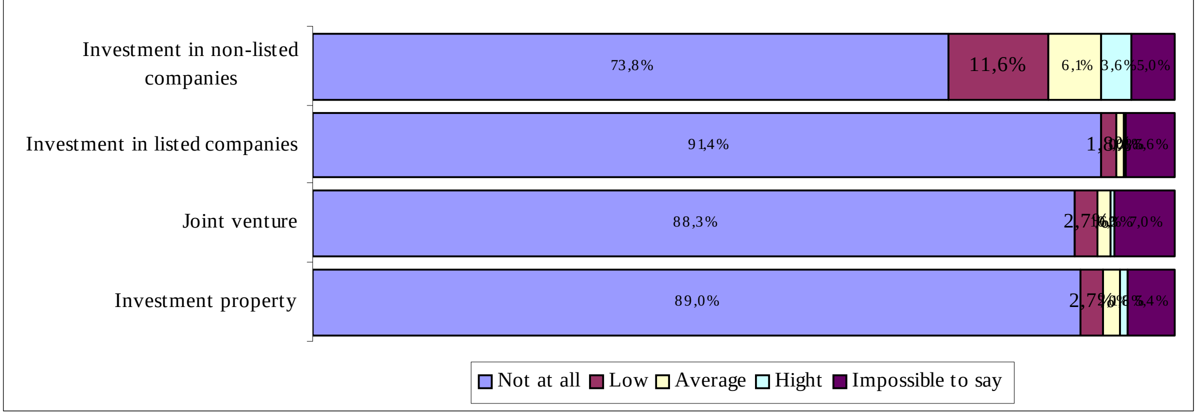


Question 2.2 c) : Do you consider that publishing information about goodwill is :

3.3 – Asset structure

The international standards envisage specific procedures for certain asset categories which are justified by their economic characteristics. These are in particular investments in real estate or in joint ventures.

Unlike the listed companies subjected to IFRS, SMEs consider that these assets are a negligible item of their balance sheet. Consequently, these categories of assets are not sufficiently material to justify the setting up of specific treatments which would defeat the objective of simplicity.

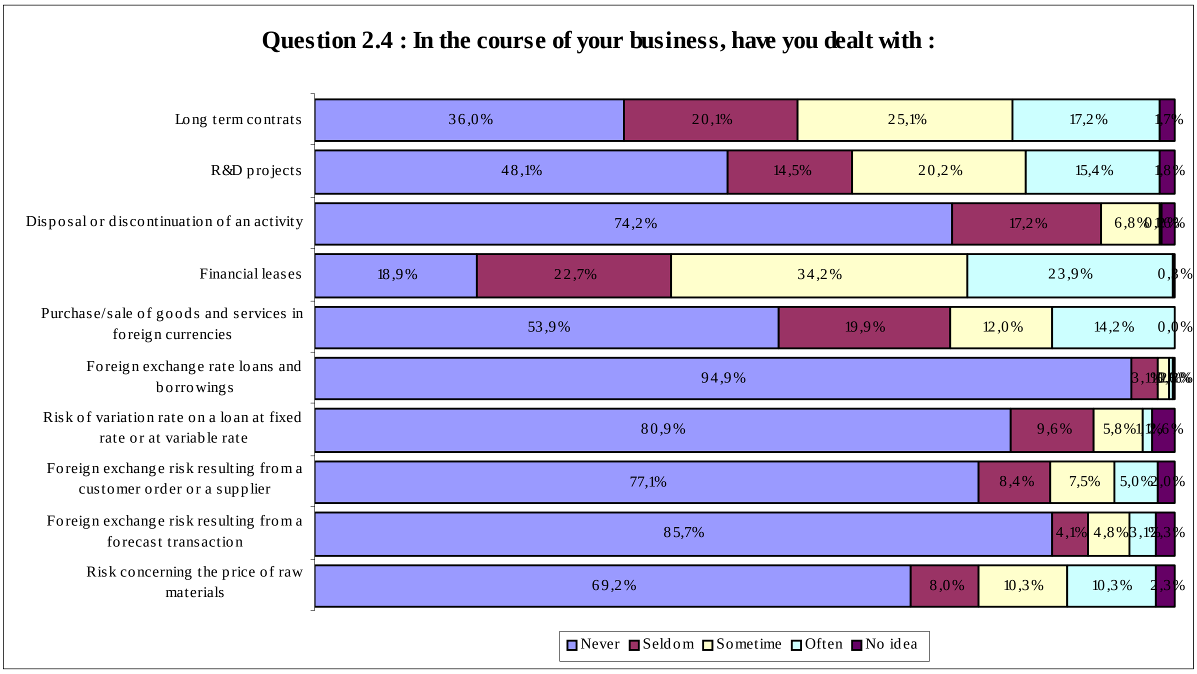


Question 2.3 : How significant are the following assets in your balance sheet ?

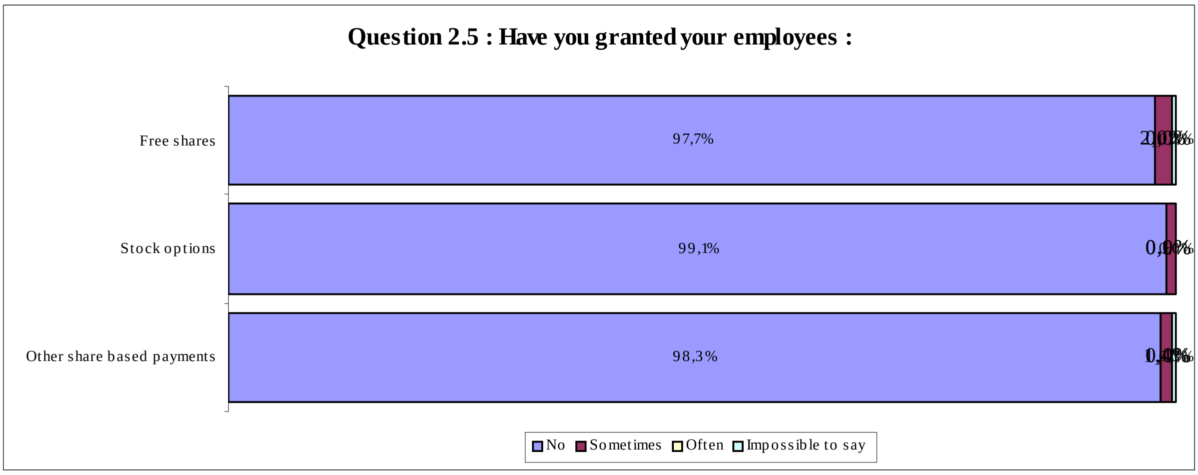
3.4 – Types of transactions encountered

In the same way as there are provisions for particular assets, certain transactions receive a specific treatment under international standards.

Unlike assets, some of these operations also concern SMEs. They are mainly the recourse to leasing contracts (nearly 60% of companies use this type of contract), long term contracts (42.3% sometimes have or often have this type of contract) and internal research and development projects (35.6% sometimes have or often have this type of contract).



On the other hand, SMEs only rely very little in their management on mechanisms such as free shares, stock options and other share-based payments.

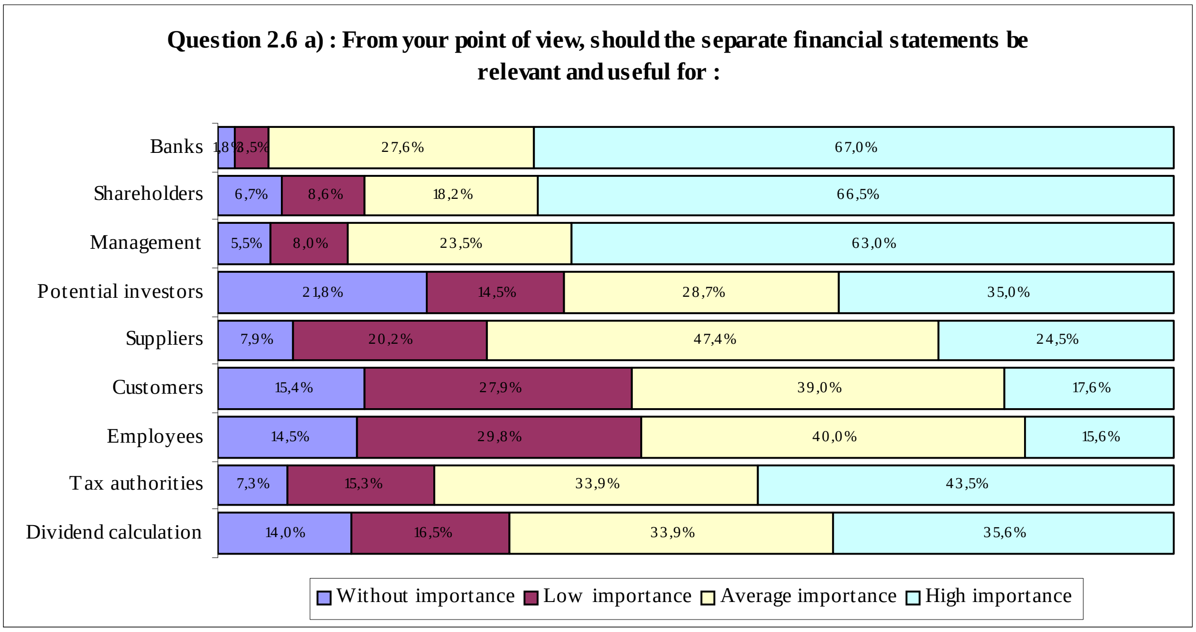


3.5 – Usefulness of individual and consolidated financial statements

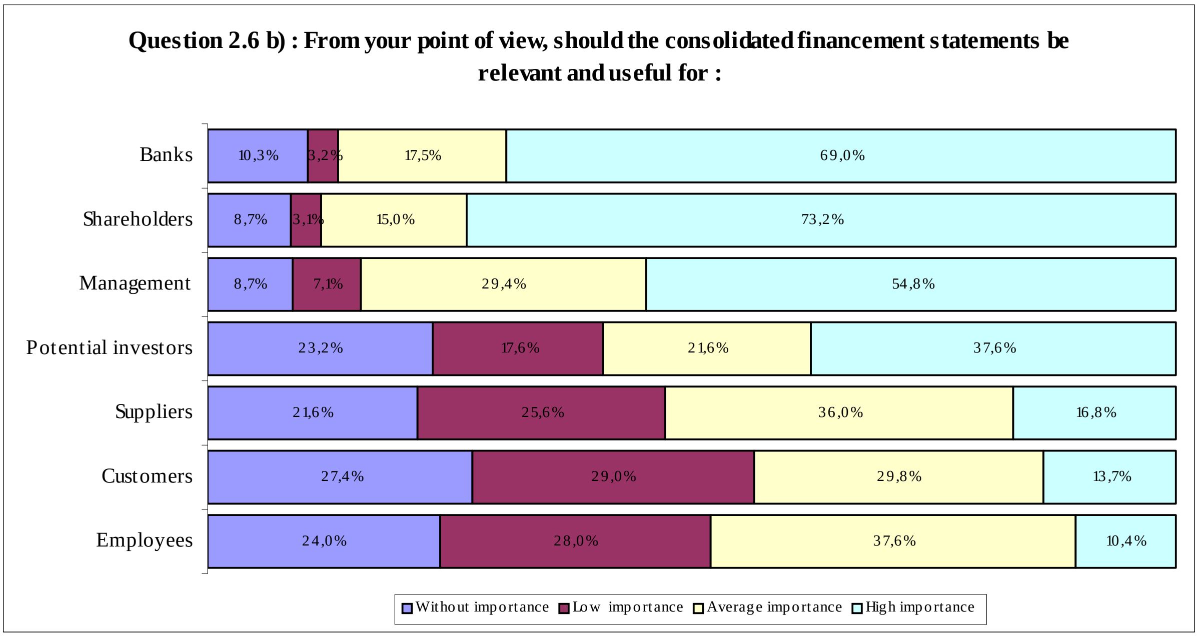
The two following graphs make it possible to establish a hierarchy of users of individual and consolidated financial statements and their usefulness.

It appears that banks, shareholders and management are the first users of both individual and consolidated financial statements.

Concerning individual financial statements the tax authorities are also a predominant user with nearly 80% of answers giving them average or high importance.



In the same way, potential investors are in fourth position for consolidated financial statements with 60% answering average or high importance.



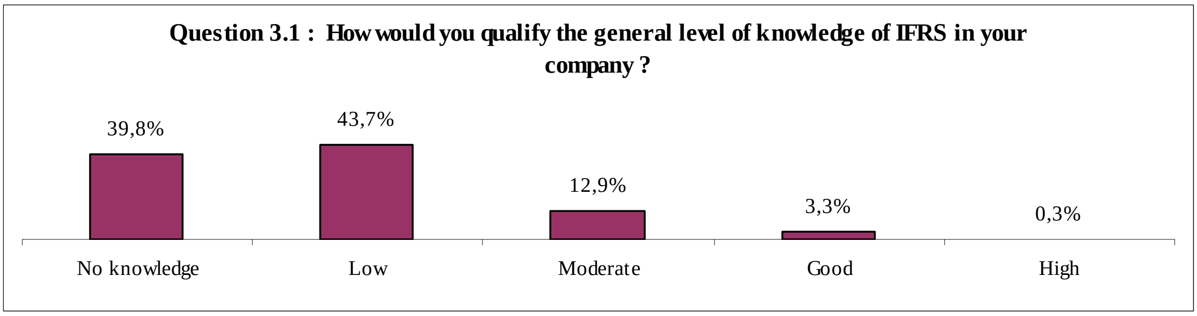
4 – Defining companies' positions and expectations

4.1 – Knowledge of IFRS

The level of knowledge of the mechanisms of IFRS is extremely low for 83% of French SMEs (zero for 40% of them). This observation is backed up by a great number of comments to the last question of the questionnaire which invited companies to make general remarks about the IASB project (cf. part 6 - Conclusions).

Moreover, even in the companies which prepare consolidated financial statements to IFRS standards (cf. paragraph 2.3), 41% of them estimate that internal knowledge of IFRS is low or zero.

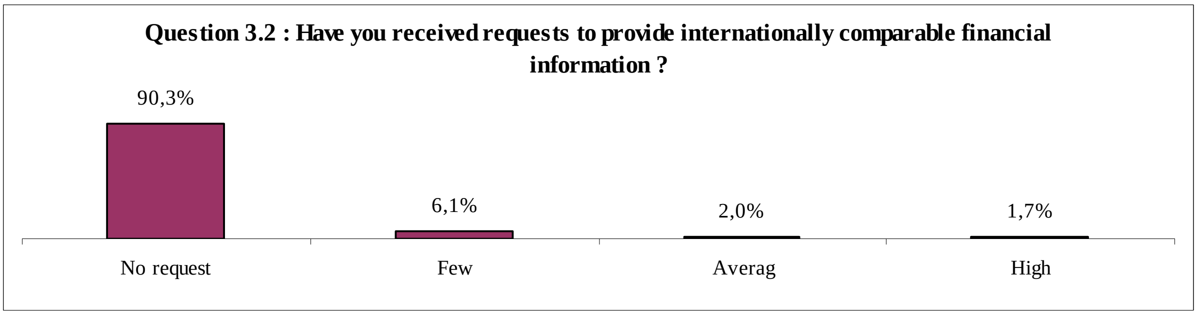
Lastly, only two companies estimate that the level of in-house knowledge is very good: both already establish their group accounts in IFRS.



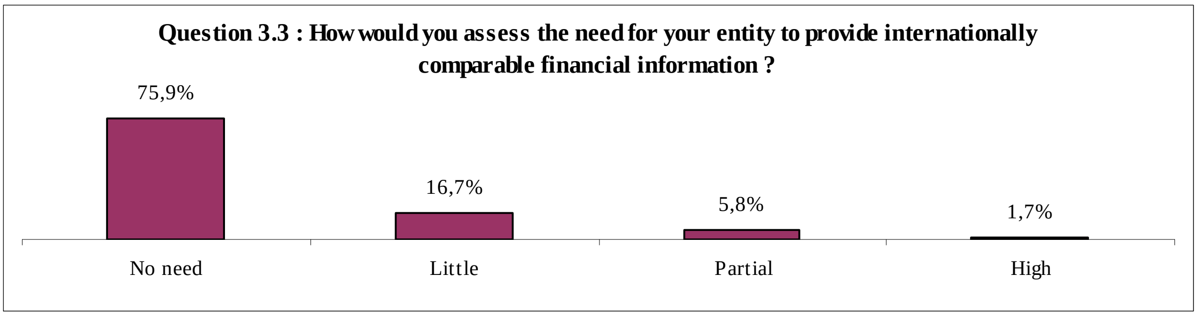
4.2 – Needs and requests to meet international reporting requirements

The present needs for companies to provide comparable accounting information on an international level are weak even if some SMEs have international activity (cf. analysis question 1.4). Indeed 90% of the companies stating to have activity abroad affirm having few or no requests and 82% of them to have few or no needs.

However, in 4% of the companies providing comparable accounting information on an international level, the majority are companies having an activity abroad (80%) and/or are companies belonging to a foreign group and/or establishing group accounts according to IFRS (60%).



In the same way, in the 8% of companies having partial or high needs as regards comparable accounting information on an international level, 74% of them have activity abroad. On the other hand, 83% of the companies which have activity abroad estimate that they have few or no needs in this respect.

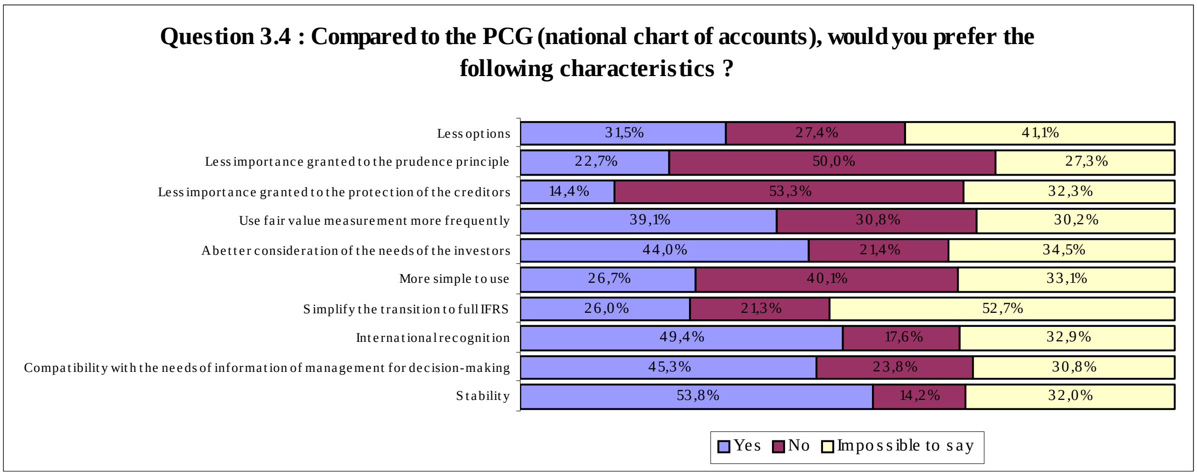


4.3 – Position as compared to the current situation

The companies would be interested in asset of accounting standards that is:

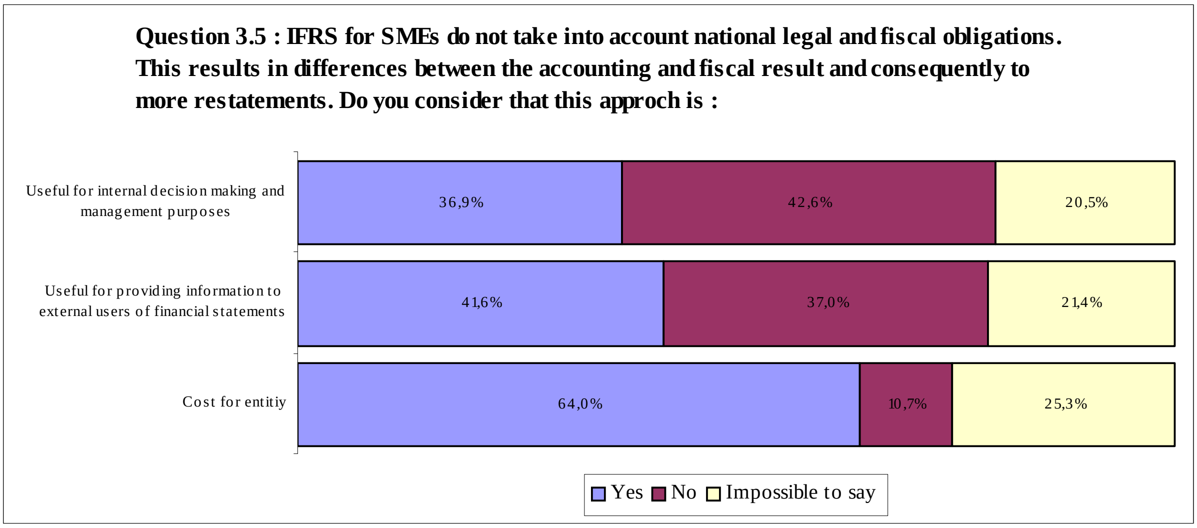
- stable;
- compatible with the needs for information of management for decision-making;
- recognized at an international level.

NB: The non-response rate to this question is particularly high (over 50%) and many companies did not have an opinion (response rate “impossible to say” ranging between 27% and 53%).



Moreover the companies estimate that separating accounting and tax rules would be expensive for the company whereas the benefit to be gained from not very relevant information is not clear.

NB: these conclusions should be interpreted with caution because of the high non-response rate compared to the other questions in this part of the questionnaire.



5 – Accounting issued raised by the IFRS for SME

The fourth part of the questionnaire is devoted to specific questions relating to the IFRS project for SMEs. In order that the questions raised be analysed quickly, the questions are preceded by a short reminder of the IASB proposals and developments compared to the current rules (text in italics). The questions are classified into broad topics.

For the major developments suggested by the IFRS for SMEs, we asked for the companies' position on them compared to the existing rules:

- concerning relevance for internal decision-making and management needs;
- concerning relevance for external users;
- concerning cost for the company;
- and concerning complexity.

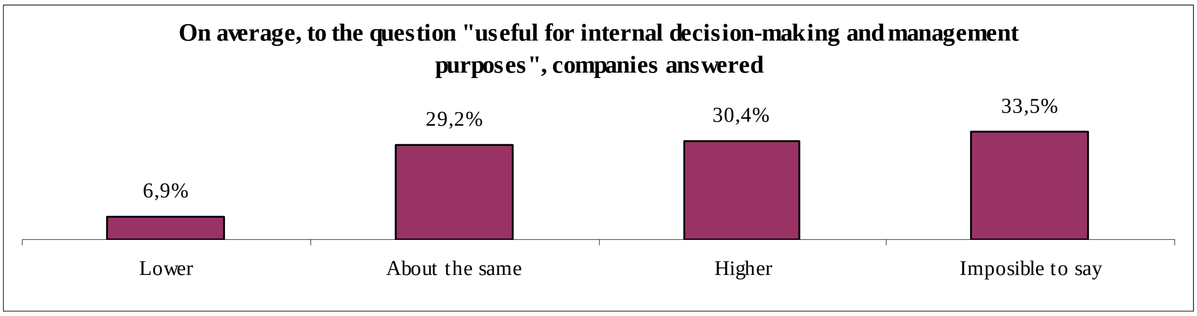
Even if the perception of companies is different depending on which one answers, the main tendencies are illustrated by the four following graphs.

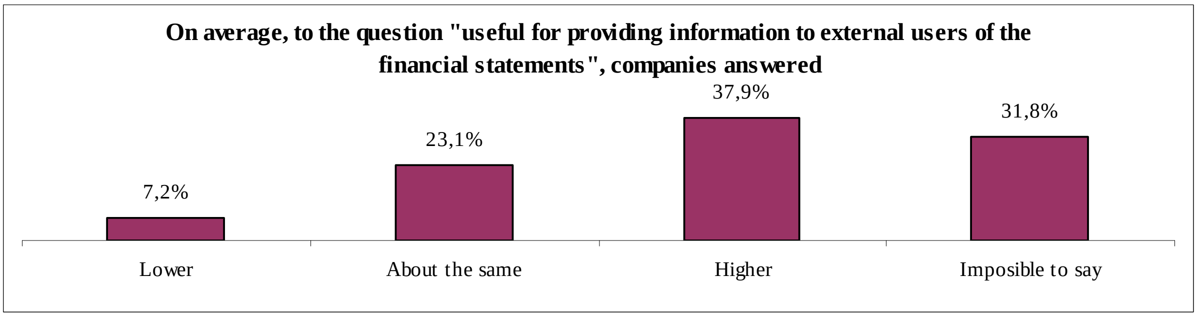
For more than a third of the companies, the developments suggested by the IFRS for SMEs are relevant for the internal and external needs of the companies. However the companies regard these developments as more expensive and complex and this could be a major obstacle to the transition to IFRS for SMEs.

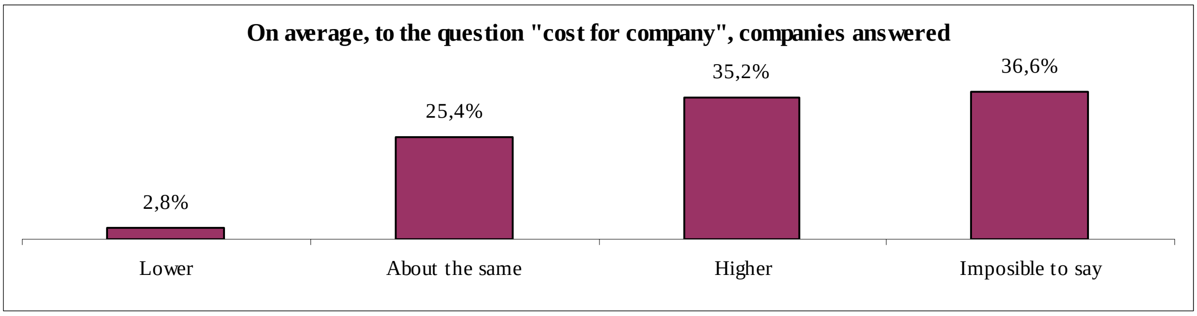
Moreover the high number of "neutral" or "do not know" answers confirms the lack of knowledge of IFRS.

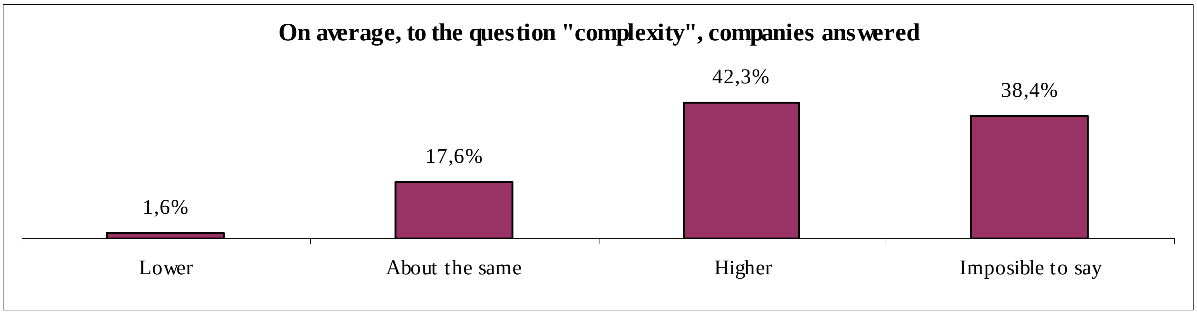
The analysis of the answers relating to specific developments highlights the reluctance or the lack of knowledge of the companies for certain subjects such as financial instruments.

On the other hand, this same analysis shows that the companies are open to the developments of certain subjects such as the treatment of leasing contracts or discounting provisions with a remote due date.





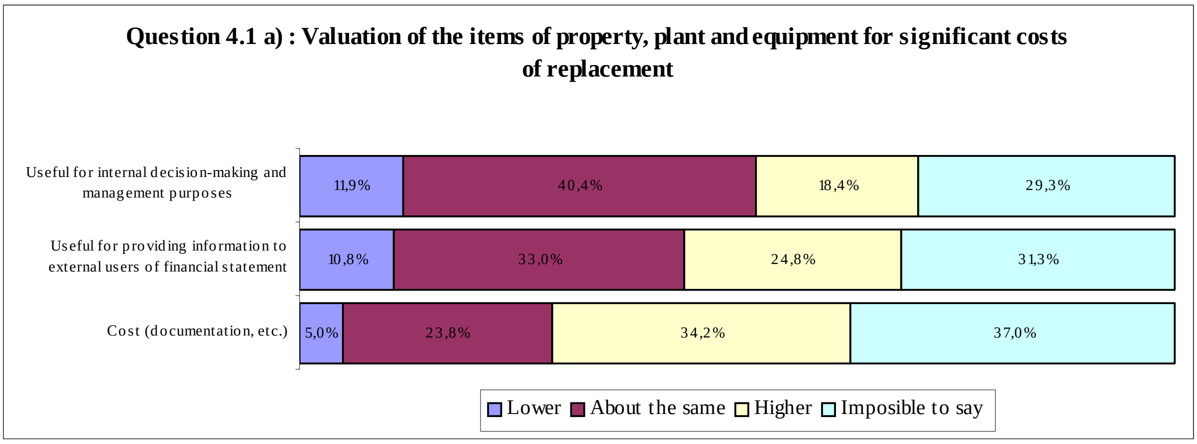




5.1 – Plant, property and equipment

The project of IFRS for SMEs requires, as for the French rules, the separate accounting and the separate depreciation of material parts which have a different useful life (for example, to depreciate over different periods the roof and joineries of a building). This is called component depreciation. But unlike the French rules, expenditure on large maintenance projects or large renovation must be treated by components and cannot involve provisions.

Companies do not think of this provision as improving information already available and do not take a stance on it (high rate of “About the same” or “Impossible to say” answers). One is reminded that the method of component accounting is obligatory in individual accounts (article n°311-2 of rule n°99-03 of the CRC).



The project of IFRS for SMEs makes it possible, as an option, to enter intangible assets either at cost (cost model), or according to the revaluation model.

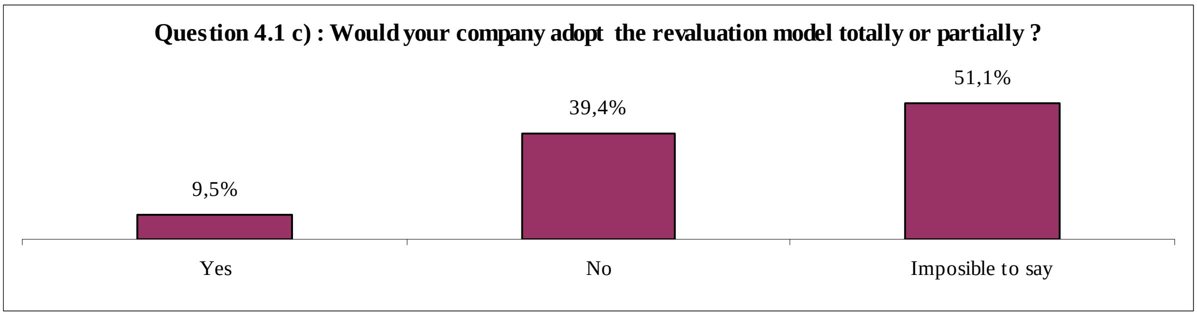
According to the revaluation model, the asset is valuated at market value. Revaluations must be carried out regularly. If there is no observable market value, for example because of the specialized characteristics of the asset, and insofar as the type of asset is seldom sold, it can prove necessary to estimate the correct value by a calculation of the cash flows generated by the asset or by reference to its duly depreciated replacement value. The variations of values *are recorded in stockholders' equity in the Revaluation Reserve. The choice between cost model and revaluation model must be applied to a whole class of tangible assets (for example revaluation for all buildings and not obligatory for equipment).*

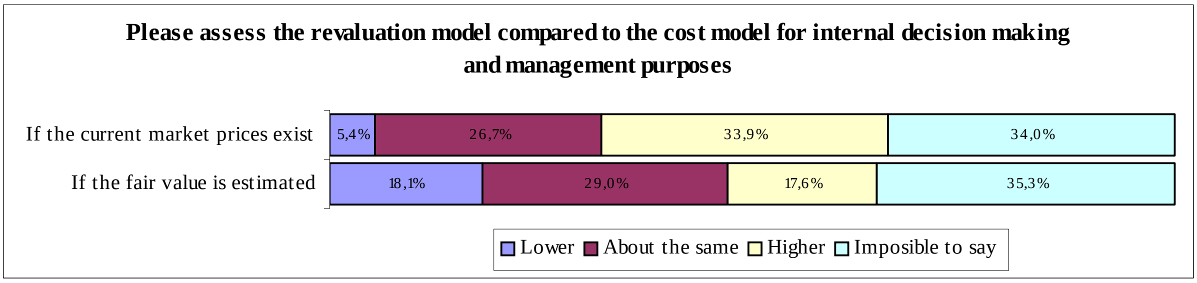
Question 4.1 b) asked the companies to evaluate the revaluation model compared to the cost model according to:

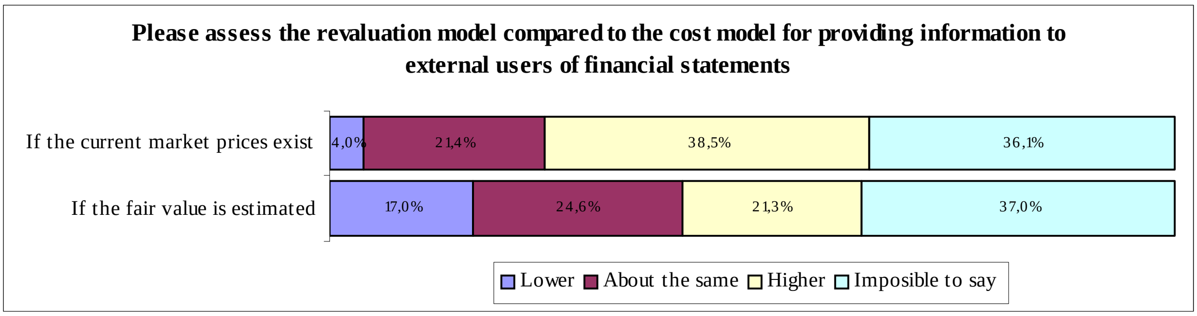
- relevance for internal decision-making and management needs;
- relevance of information for external users of the financial statements;
- cost of documentation and follow-up.

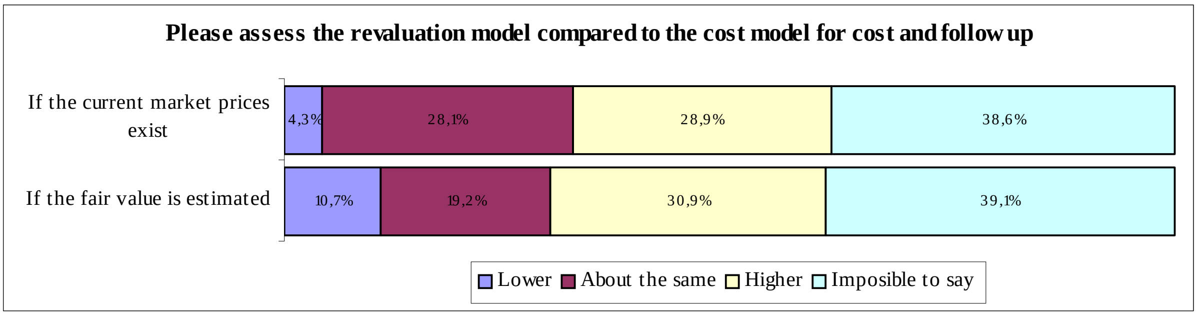
When there is a market, the companies are interested in the revaluation model. However, a significant proportion of companies find it difficult to take a stance on this question (on average more than 50% of the companies answer “About the same” or “Impossible to say”) and only 10% of companies would be ready to take this option.

The companies estimate that the revaluation model is more relevant but they are not ready to adopt it, even partially.



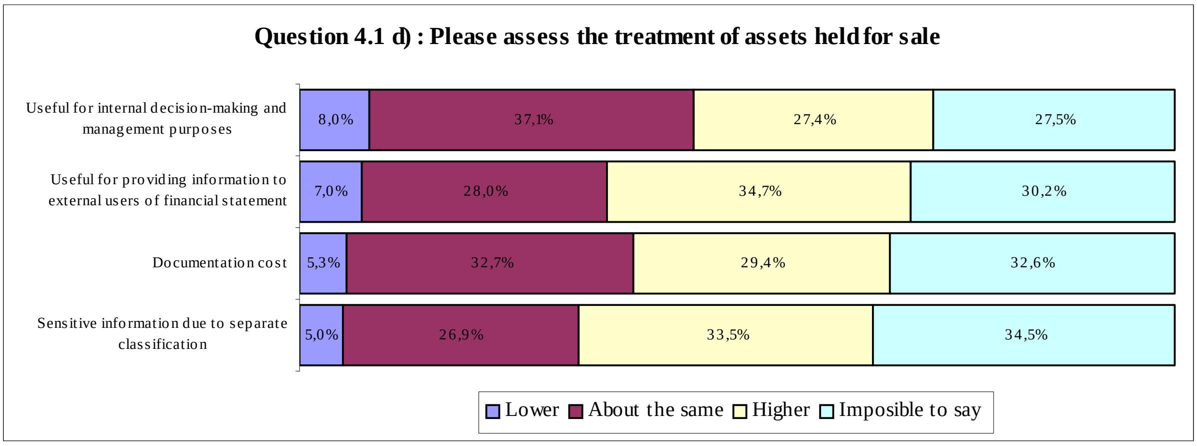






In the IFRS for SMEs, if it is very likely that an asset be sold in the next 12 months, it must be separately classified in the category "non-current assets held for sale", and does not have to be depreciated any longer contrary to the French rules. If the estimated selling price is lower than the net accounting value, depreciation must be entered. Information on the transaction must be provided in the appendix.

A third of the companies estimate that the treatment suggested for assets held for sale provides better information. However the rate of undecided companies remains high for this question.



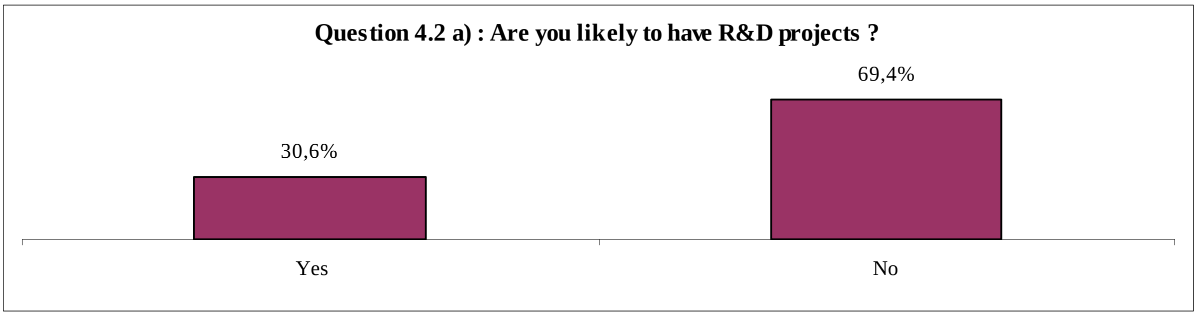
5.2 – Intangible assets

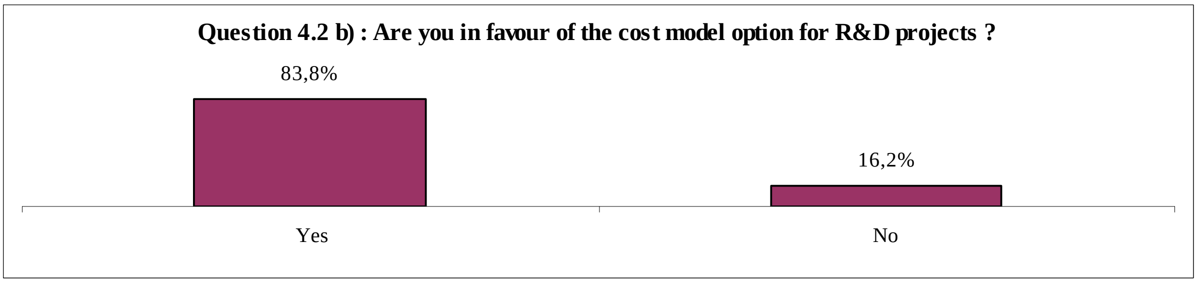
The objective of the questions relating to intangible assets is to understand the expectations of the companies as regards the treatment of the costs of research and development.

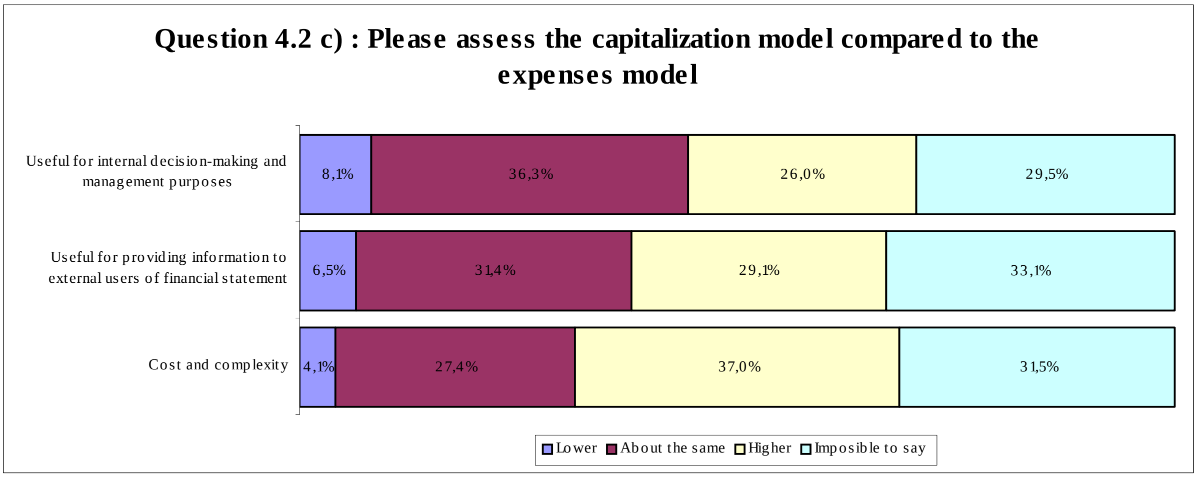
This issue is likely to interest more than 30% of the companies.

The project of IFRS for SMEs allows for, as in the French rules, a choice between two options for development costs: either to recognise them as expenses of the period, or as intangible assets, under certain conditions, and to depreciate them.

The companies would prefer to maintain the option, without however favouring one of the two methods (more than 30% of the companies are neutral when it comes to one or the other of the solutions offered).





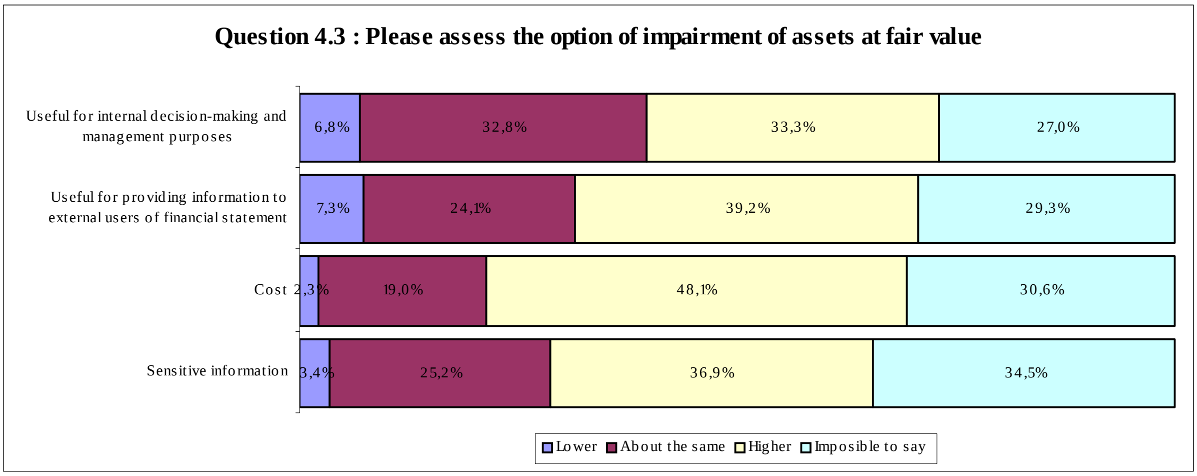


5.3 – Impairment of tangible and intangible assets

According to the IFRS for SMEs, to determine if an asset is to be depreciated, the company must check if there are external or internal depreciation indicators: i.e. a reduction in the market value of the asset market, technological developments or the perspective of lower than expected economic performance. If the market value, after deduction of sales costs, is lower than the book value, impairment must be recognised.

Contrary to the French rules, the depreciation must be systematically based on the assets' market value however long it is held or the way in which it is used. The French rules introduced value in use as an alternative to fair value if it is higher than the market value.

A considerable number (between 30% and 40%) of companies estimate that this mechanism is more appropriate both for decision-making and for the information given to users. But these advantages are counterbalanced by the cost for the companies: 50% of them consider the cost to be higher and 37% consider the information to be sensitive.



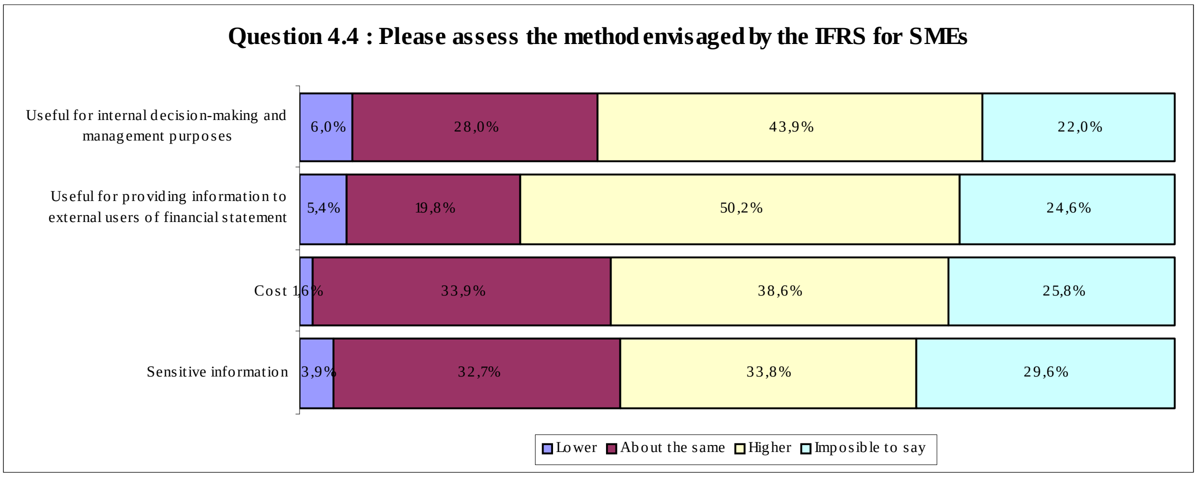
5.4 – Accounting for financial leases

In the IFRS project for SMEs, financial leases, unlike operating leases, must be recognised by the lessee as folow:

- *the amount of the leased asset is recorded in assets at fair value;*
- *a debt is recorded in liabilities for the corresponding amount.*

The distinction between operating and financial leases is carried out according to qualitative criteria (for example the length of the contract compared with the lifespan of the item in question).

44% of the companies estimate that this method is more appropriate for internal management and 50% for external information, at higher cost however in the opinion of 36% of them.



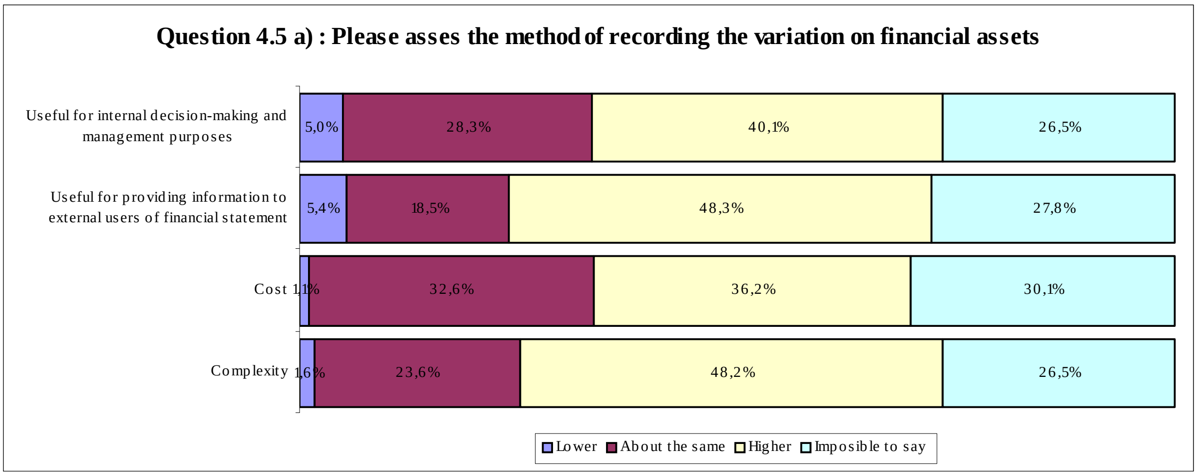
5.5 – Financial assets

According to the IFRS project for SMEs:

- *loans, receivables and unlisted securities are recognised on the BS at cost. As in the French rules, any impairment is recognised;*
- *other financial assets (primarily short-term investments: listed securities, shares in mutual funds, etc.) are recognised at fair value, the variations being recorded in profit and loss, contrary to what the French rules require.*

Fair value can be higher or lower than the original cost. The fair value of financial assets generally corresponds to an estimate of their market value.

About half of the companies estimate that information given in this way is more relevant but that the system is much more complex and expensive.



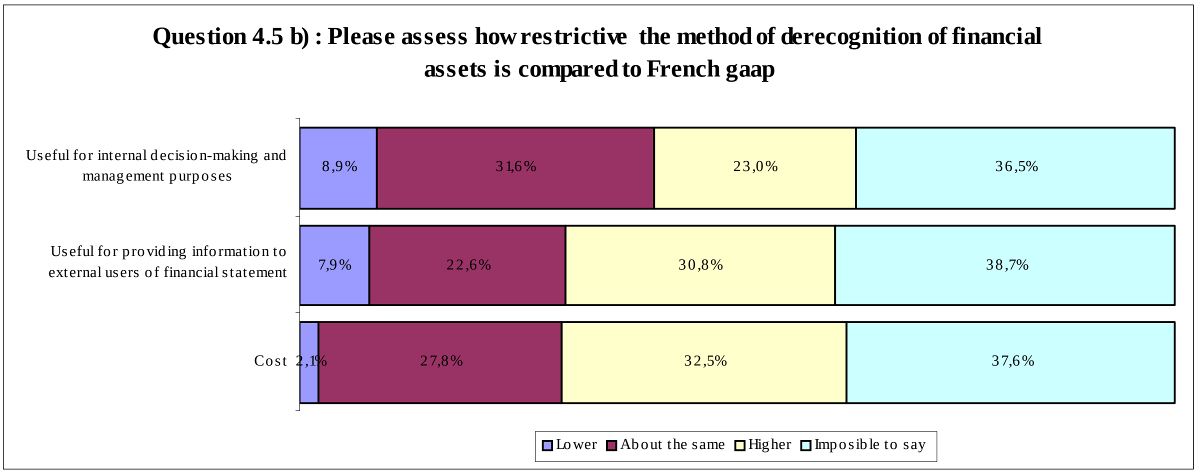
In the IFRS for SMEs, the derecognition rules for financial assets are more restrictive than the French rules. For certain operations (including those listed below) the application of the provisions of IFRS for SMEs would result in maintaining certain financial assets on the BS, with recognition of a debt, contrary to the French rules.

The principal transactions concerned are: factoring transactions, discounting with or without recourse, assignment of receivables under the Dailly law with or without recourse, and pledging transactions under the Dailly mechanism, with or without recourse.

These transactions would be recognised in the BS of the company.

Two thirds of the companies are unable or do not say anything concerning the impact of this model (on average more than 60% of the answers are “neutral” or “do not know”). It should be noted that a third of the companies estimate that this changeover would be costly even though no complementary evaluations are necessary.

Finally it is stressed that 9% of the companies consider the current system more appropriate for management needs.

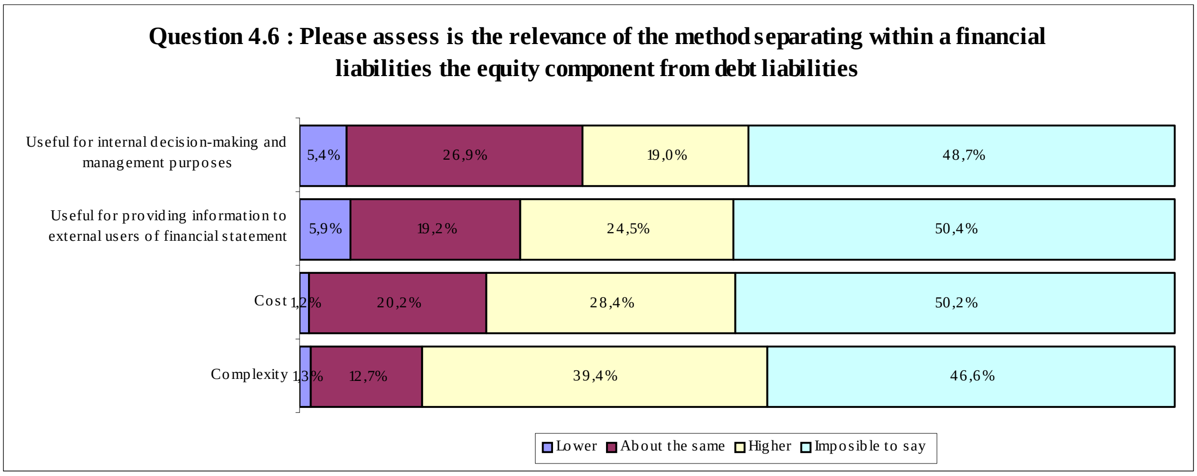


5.6 – Financial liabilities

According to the IFRS project for SMEs, when an issued instrument includes both a debt component and an equity component (bonds which are convertible or exchangeable into shares for example),the issuer recognises separately the debt and equity components, contrary to the French rules, by calculating the corresponding debt and equity component.

Most companies do not have a definitive viewpoint on these issues, i.e. for the three criteria, the rate of “About the same” or “Impossible to say”“ is very high.

The companies do not seem to want this development which is regarded as complex and unable to improve information compared to the current system.



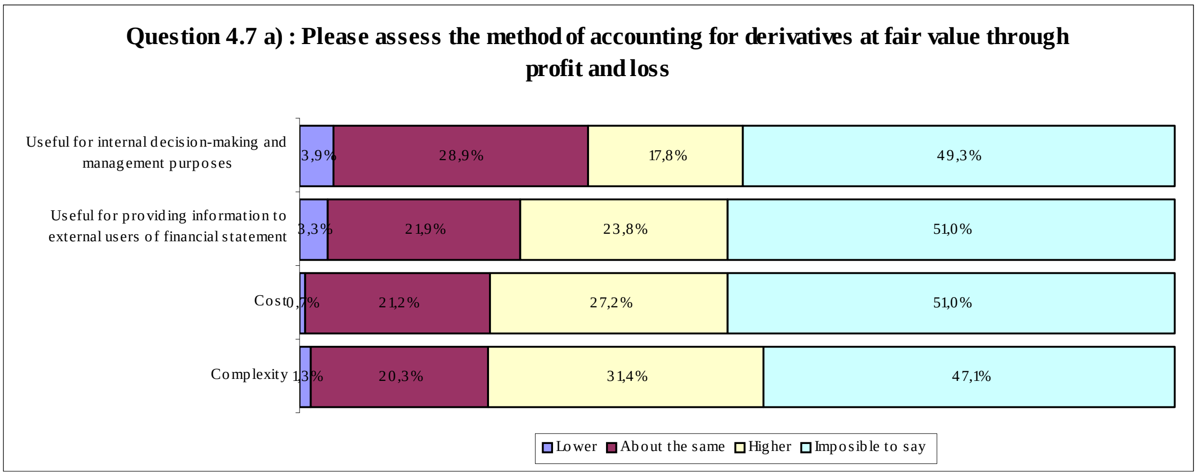
5.7 – Derivatives

In the introduction companies are asked to answer this question only if they use derivatives. Because of this the response rate is only 20% whereas for the other questions it ranges between 90% and 100%.

According to the IFRS project for SMEs, all derivatives must be entered in the BS at fair value at the reporting date. Variations in value (unrealised (capital) gains/losses) are recorded in profit and loss, contrary to the French rules where derivatives are off balance sheet items and in which only the unrealized losses are recognized.

Specific provisions nevertheless are planned for cash flow hedging instruments.

Concerning derivative issues, even for companies using these instruments, more than half of the companies do not say anything about the relevance and the possible contribution of the suggested solutions. Moreover 30% of the potential users estimate that the proposed mechanism would be more costly and complex for the company.



According to the IFRS project for SMEs, there are specific provisions relating to hedge accounting and in particular:

1 / The need to document the hedging relationship, namely: to specify a hedging instrument and a hedged instrument and to show the effectiveness of the hedge

2 / If the hedging relationship is the hedging of the interest rate risk of an asset or financial liability at a fixed rate (a loan at a fixed rate swapped for a various rate for example):

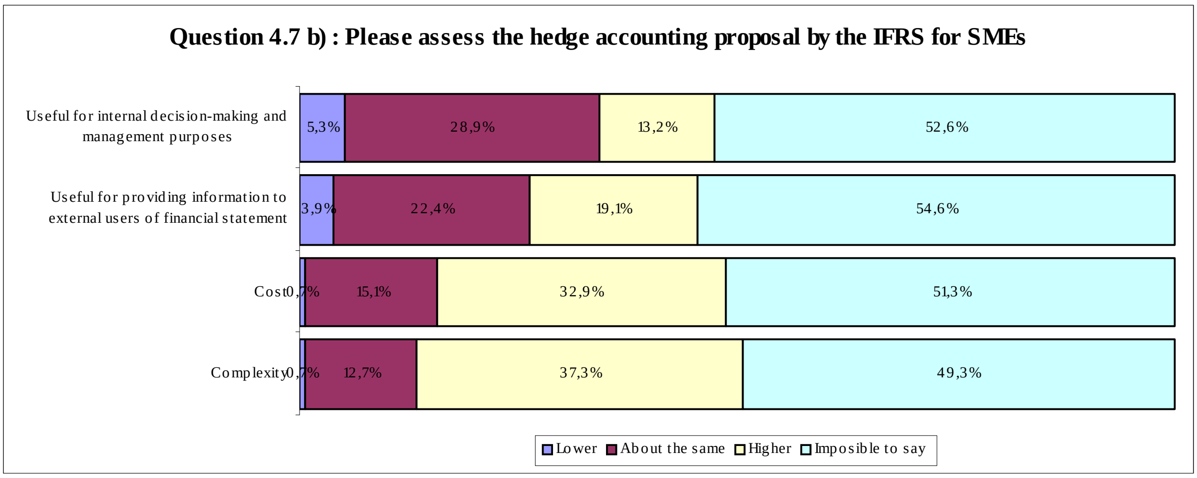
- *valuation of a hedged item at fair value through profit or loss*
- *valuation of the hedge at fair value through profit and loss*

3 / If the hedging relationship is the hedging of price or exchange risk of a highly probable future transaction or the exchange rate risk of net foreign investments (hedging the future purchase of material in currency for example):

- *Recording of the variations in value of the hedge in stockholders' equity until the transaction occurs*

4 / The inefficiency of the hedging relationship or the consequences of the interruption of a hedging relationship must be recorded in profit and loss.

The rate of “Impossible to say” answers here is the highest of the survey which implies that the companies are not able to answer this question because of its complexity. In the same way, the rate of “higher relevance” answers is the weakest of the questionnaire. Finally more than one third of the companies consider the mechanism proposed to be more expensive and more complex.



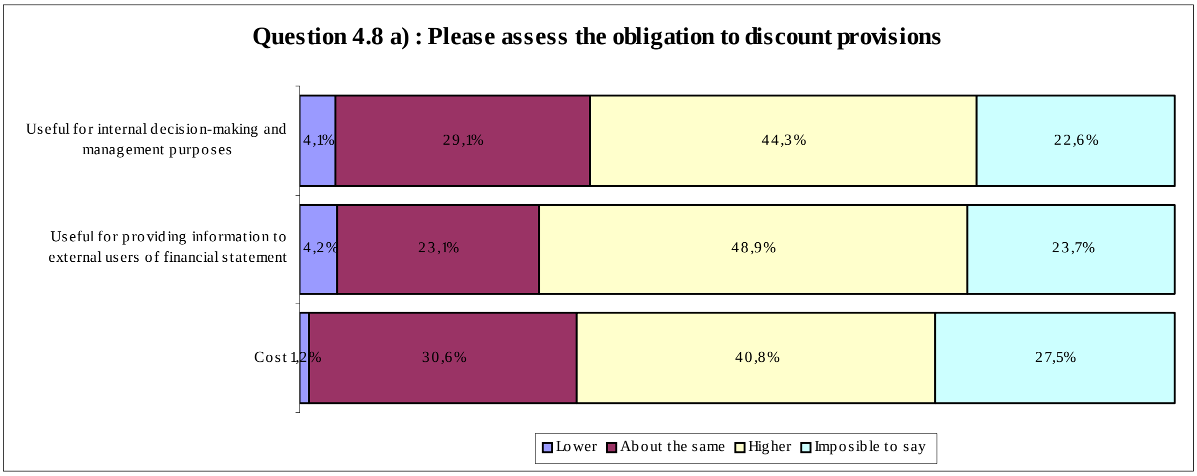
5.8 – Provisions

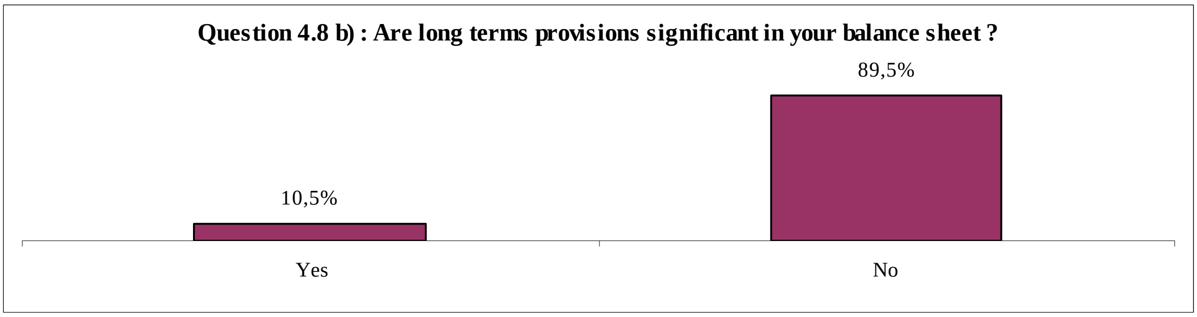
According to the IFRS project for SMEs, an entity recognise, as in the French rules, a provision when:

- *the entity has a current obligation resulting from past events and whose settlement should result for the entity in an outflow of funds representing economic benefits*
- *the amount of the obligation can be estimated reliably.*

But contrary to French principles, the provision must be discounted.

Even provisions for long term liabilities are significant only for 10% of the consulted companies, the principle of updating provisions does not appear to upset any of the companies and nearly 50% of them estimate that this method would be more appropriate both for management and external users.



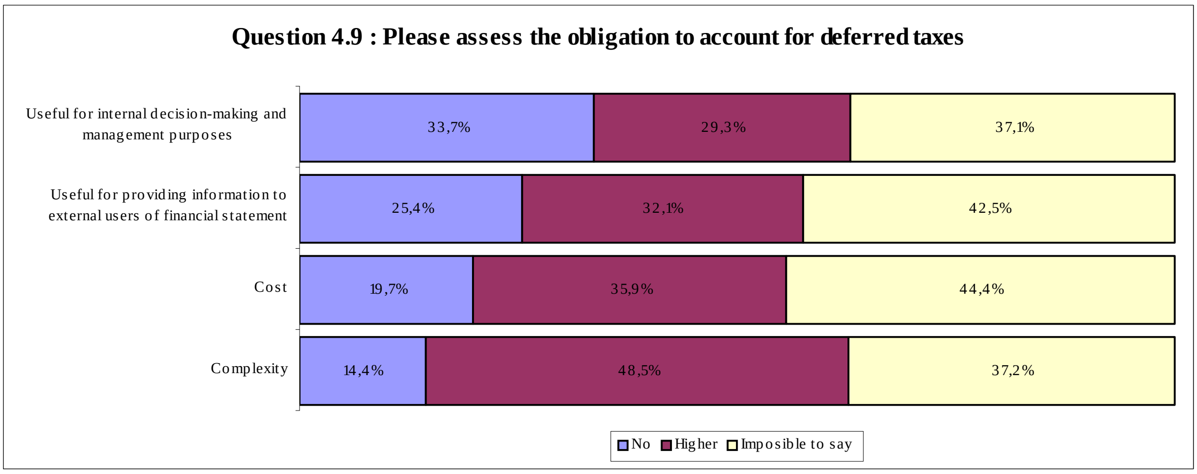


5.9 – Deferred taxes

According to the IFRS project for SMEs, deferred tax assets and liabilities are systematically recognised in order to reflect the tax consequences of the future realization of assets and the future payment of liabilities at book value, as for unused tax deficits and tax credits. Accounting for deferred taxes occurs frequently since there are divergences between the financial statements in conformity with the IFRS project for SMEs and those used to determine tax base.

On the other hand, transactions which are only for tax purposes (such as depreciation required by tax law) are not authorized.

48.5% of the companies consider the accounting of deferred taxes as being very complex whereas only a third consider that the information obtained is more appropriate.



5.10 – Transactions between related parties

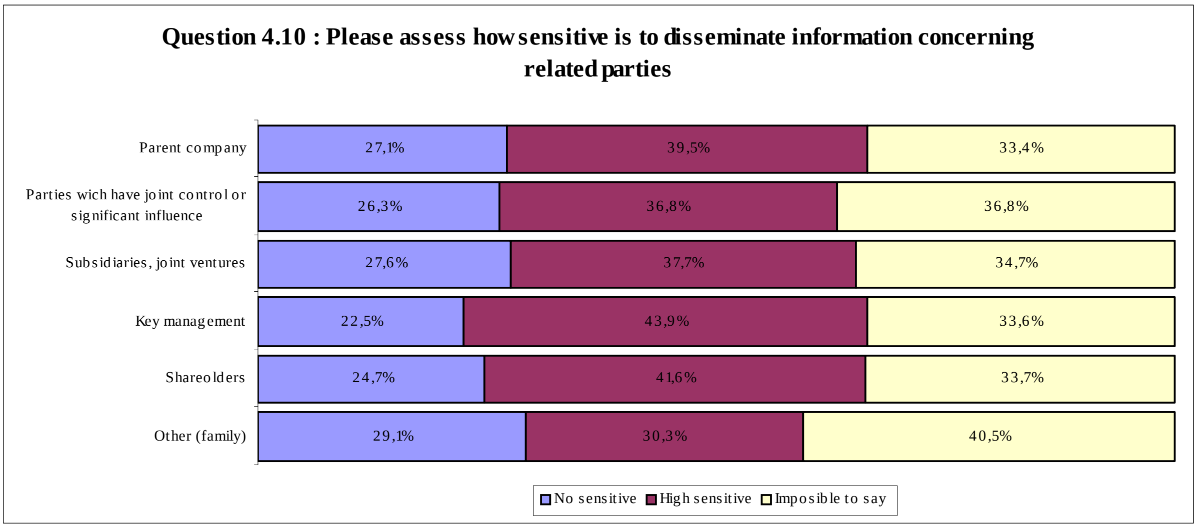
According to the IFRS project for SMEs, an entity must provide information on the transactions between related parties. These are for example:

- *the purchase and sale of goods and services at arms length,*
- *leasing agreements and license agreements,*
- *financing agreements and supplies of guarantees or collateral,*
- *the use of research and development centres,*
- *the payment of liabilities,*
- *participation in defined benefits plans*

Where transactions take place between related parties, an entity must indicate the nature of the relationship between these parties, as well as information on the transactions and the balance recognised in the BS which are necessary to the comprehension of the potential impact of the relationship on the financial statements.

An entity must indicate the remuneration of key management (short-term benefits, long term benefits, post- employment benefits as well as share-based payments) cumulatively and for each category of benefits.

On average 40% of the companies estimate that the information relating to transactions between related parties is sensitive information (except for information relating to members of the close family for which the rate drops to 30%), which suggests a certain reticence to diffuse this type of information.



Question 4.10 : Please assess how sensitive is to disseminate information concerning related parties

5.11 – Accounting for construction contracts (long-term contracts)

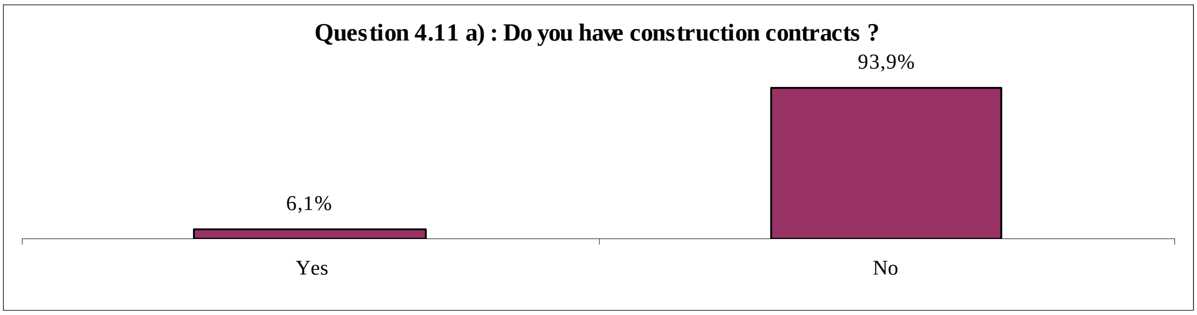
The IFRS project for SMEs makes accounting for profit or loss arising from long-term contracts by reference to the stage of completion of the contract mandatory (stage of completion) when the profit or loss of the construction contract can be estimated reliably and there is no option as in the French rules. This implies setting up budgetary controls in order to determine a contract while using the most reliable method of valuation for the work carried out.

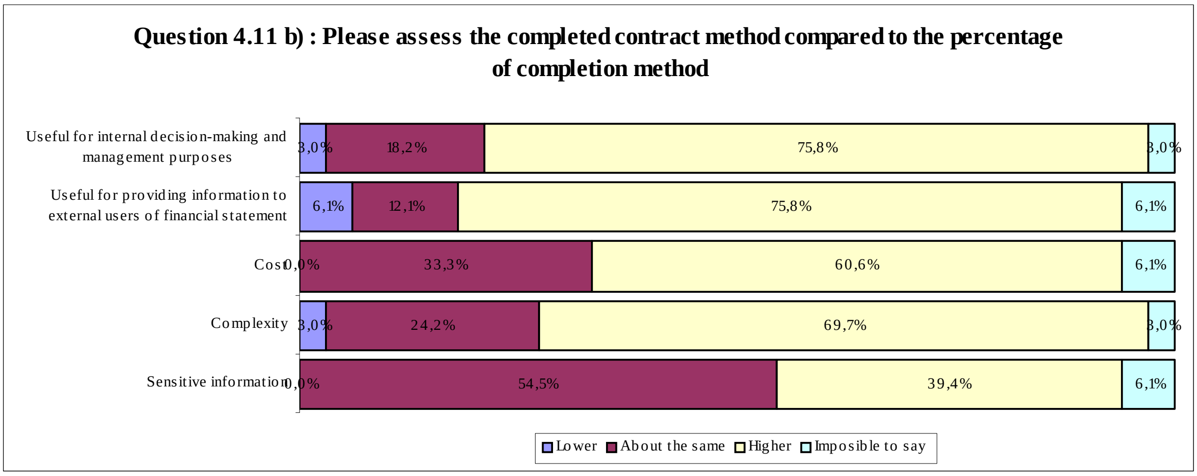
In the SME environment, construction contracts are rather rare because only 6% of companies carry out such contracts.

However, this has to be compared with the results of paragraph 3.4 which 45% companies answered saying they sometimes or often have long-term contracts.

An extra sorting of the responses was carried out to identify companies which declared having long term contracts and at the same time stating they did not have construction contracts: these are primarily service firms. The issue of the recognition of incomes thus concerns more companies than the analysis of the following graph might lead us to believe.

Lastly, the companies which use this type of contract estimate that the information is more appropriate both for management and externally, even if it is more complex and expensive.



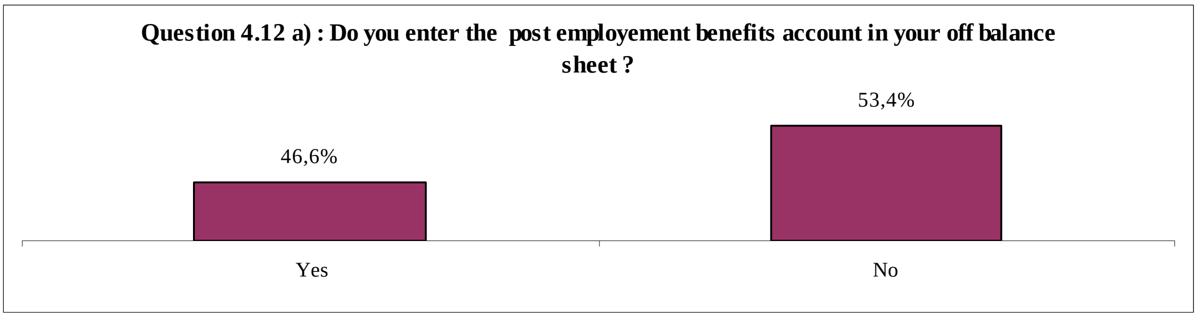


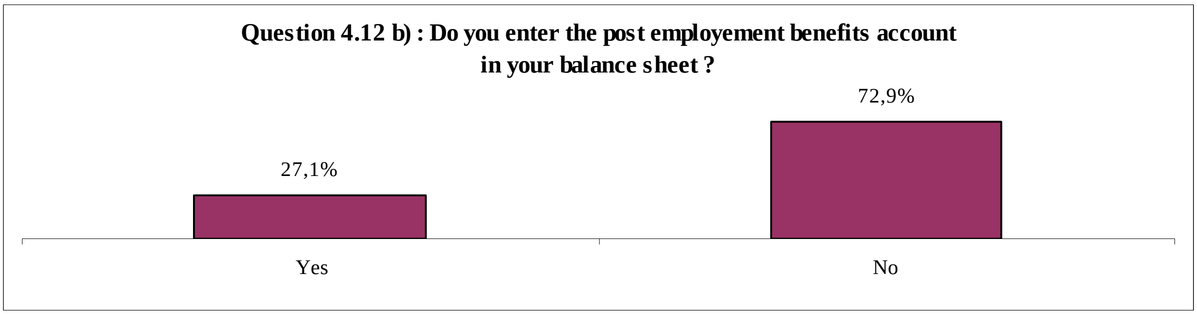
5.12 – Pensions and other post-employment benefits

Contrary to the French rules, in the IFRS project for SMEs, it is mandatory to provide for retirement liabilities (for example termination payments at retirement). Fixed contribution schemes do not require provisions.

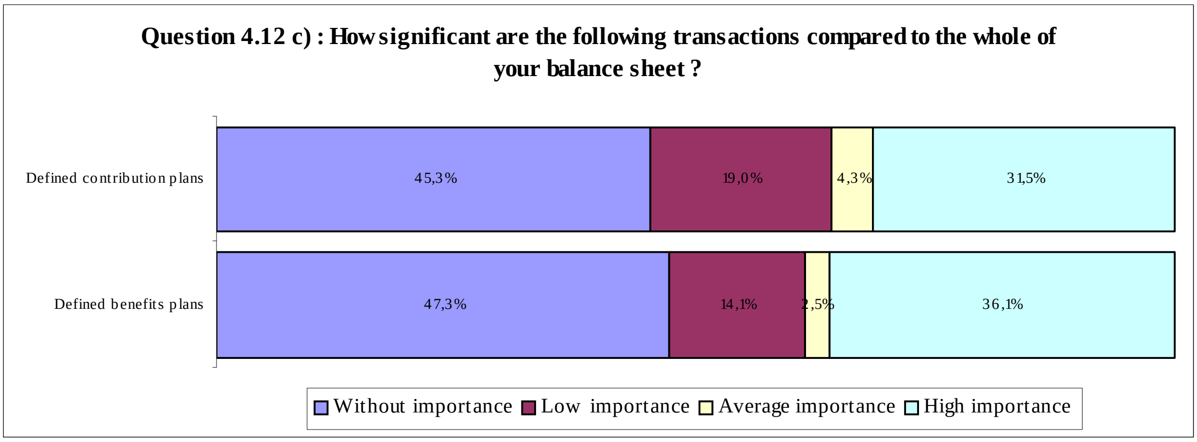
About half of the companies mention the amount of retirement commitments in the disclosures, and 27% recognise them in the form of provisions.

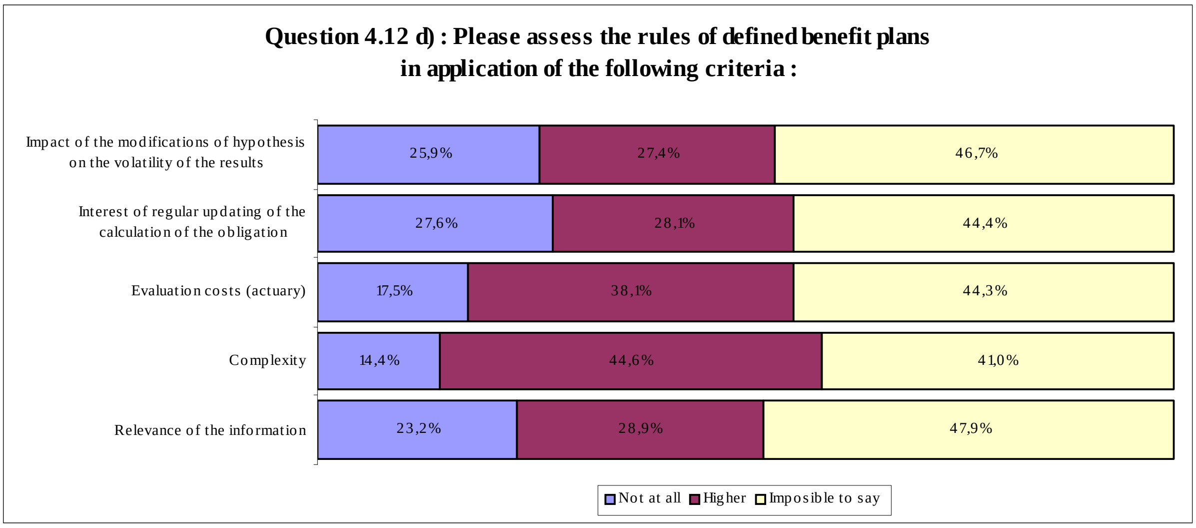
Question: 20% of the companies have no opinion; does this reflect non-respect of accounting obligations or no liabilities?





The question is either badly put or not adapted to the French situation and has apparently not been understood. Defined contribution plans consist of payments to the social security and do not have to be backed up by provisions. In France, these plans essentially relate to termination payments at retirement which, according to the IFRS project, must be provided.

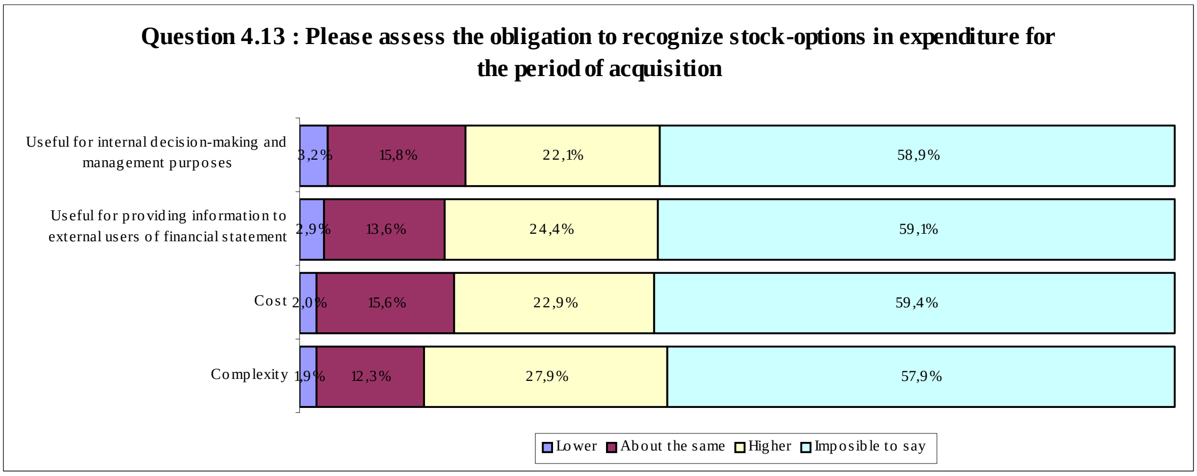




5.13 – Share-based payments

The IFRS Project for SMEs provides that the issue of free shares or stock-options is recognised as expenditure over the acquisition period, contrary to the French rules which do not have specific provisions concerning the accounting and valuation of these transaction.

The majority of SMEs (60%) do not know about or do not comment these issues. The rate of "Impossible to say" answers is in itself significant.



6 – Conclusions

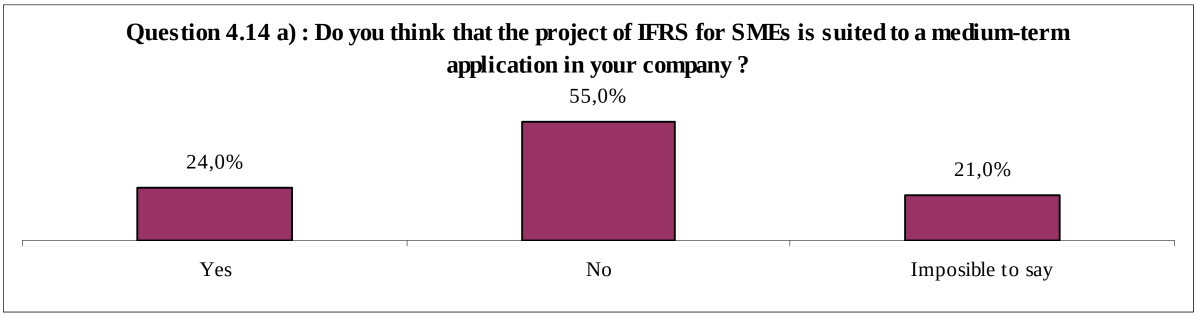
The companies agree with some of the proposals and consider that in some cases the proposed accounting treatments can improve the relevance of information both for internal decision-making and external communication. These are:

- the option of accounting for research and development costs (expenses or capitalisation);
- impairment calculated by reference to market value when it is lower than the book value;
- the treatment of leasing agreements;
- the discounting of long-term provisions;
- information relating to the transactions of related parties;
- treatment of construction contracts.

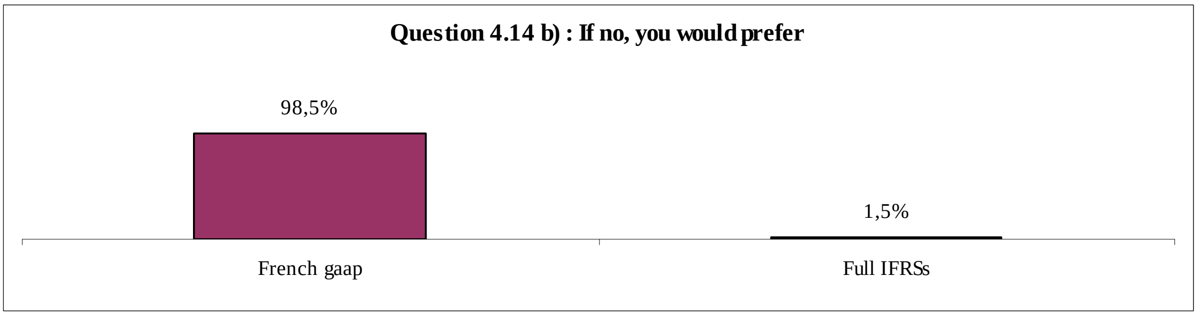
But even for these topics, the increase in the cost necessary to provide this information and the complexity of the mechanisms proposed by the IFRS for SMEs is underlined by all concerned.

Moreover, certain subjects such as financial instruments or share-base payment are not well understood by the companies probably because of an insufficient level of knowledge on these subjects.

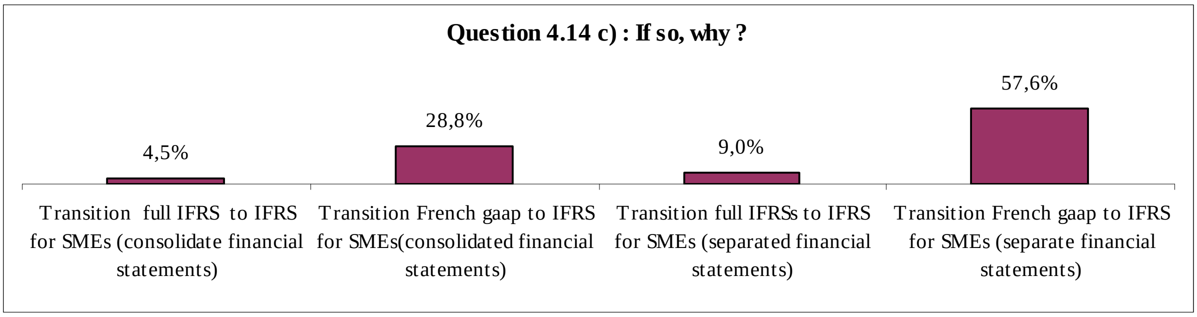
55% of the companies consider that the IFRS project for SMEs is not adapted to medium-term application. Analysing this result in more detail reveals that 60% of the companies with over 250 salaried employees answered YES to this question, while 59% of the small companies (less than 50 employees) answered NO.

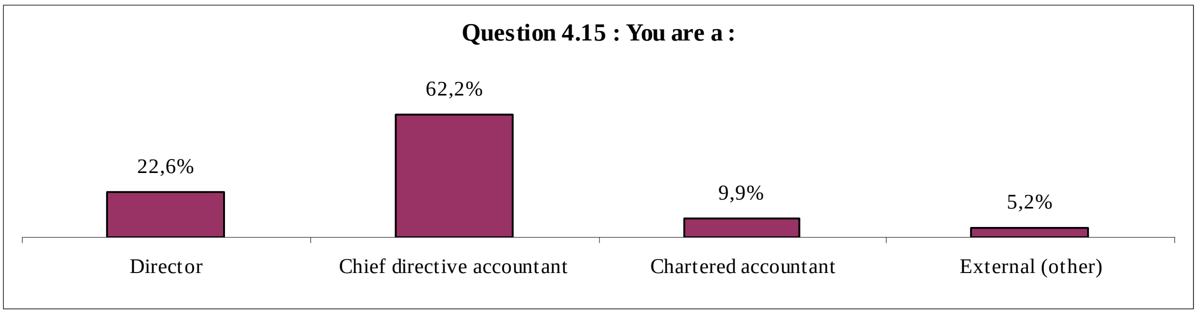


The rare companies who preferred full IFRS to the French rules or to IFRS for SMEs are companies who already use or plan to apply IFRS for their group accounts in the very near future.



The companies who say they can apply IFRS for SMEs in the medium-term, consider for more than half of them that the introduction can be made in individual accounts. These companies, who say they can apply the IFRS for SMEs in the medium-term in individual accounts are mainly large sized companies, belonging to a group already applying IFRS at the level of the group accounts.





Annexe II : Summary of Field tests relating to the implementation of IFRS for SMEs carried out on French SMEs

Summary appendix II

In parallel to the invitation to comment on the exposure draft of IFRS for SMEs, the IASB wished to obtain the opinions and reactions of preparers by organising Field tests intended to simulate the application of the project (preparation of a restated opening balance sheet and a set of financial statements and replies to a questionnaire).

The Conseil national de la comptabilité (the French standard setter) supervised these tests in France in conjunction with Conseil supérieur de l'ordre des experts comptables (Institute of public accountants) and the Compagnie nationale des commissaires aux comptes (Institute of legal auditors).

The tests took place in the fourth quarter of 2007 with the assistance of audit firms [9]. This tight deadline instigated by the IASB and extended by two months in particular at the request of the CNC was difficult for some companies to meet. Some of the results were submitted incomplete or late. However, the IASB took into account all of the tests collected by the CNC (10) including those that were late or incomplete .The results of all of the tests received by the IASB (117 tests) will be published at a later date.

1 – Presentation of the tests

The main objective of the exposure draft field tests is to determine whether the IASB has attained its objectives in publishing IFRS for SMEs and if not, which changes should be made in order to better achieve those objectives.

Objectives of the tests identified by the IASB

- Assessing understandability: identify the parts that are difficult to understand.
- Assessing scope: identify subjects not covered for which SMEs have a need.
- Assessing implementation burden.
- Assessing the impact of changes as compared to existing GAAP or practices.
- Assessing user needs.
- Assessing accounting policy choices.
- Assessing micro and developing country problems.

[9] The following audit firms took part in France:
- Cabinet AUDIAL;
- Cabinet FIDUCIAL;
- Cabinet GRANT THORTON;
- Cabinet In EXTENSO - DELOITTE;
- Cabinet KPMG;
- Cabinet MAZARS
- Cabinet PWC;
- Cabinet TUILLET.

- Assessing the adequacy of implementation guidance.

The aim of the test procedures is not to obtain the opinion of participants on the exposure draft but to determine whether the IASB has attained its objectives in publishing IFRS for SMEs and if not, which changes should be made in order to better achieve those objectives.

Target of the tests

The IASB sought the participation of small entities (with between 10 and 50 employees) and very small entities (less than 10 employees).

For France, it was decided to extend the tests to larger entities .The ten replies received by the CNC comprise:

- 3 with less than 10 employees ;
- 3 with between 11and 50 employees ;
- 4 with more than 50 employees, and a maximum of 350 employees.

Form of the tests

Participants were asked:

- to prepare and submit financial statements for the most recent reporting period in accordance with IFRS for SMEs;
- to submit financial statements for the same period under the GAAP currently applied by the SME;
- to reply to a number of questions based on the experience gained from applying each of the sections.

The results of the ten tests collected by the CNC comprise:

- 5 that include replies to the questions and the financial statements;
- 4 that contain only the replies to the questions and,
- 1 only the financial statements.

Overview of French companies participating

The IASB and the CNC made a commitment to guarantee the confidentiality of data contained in the replies. In order to respect that commitment no indication of the identity of companies participating is given in the following summary .The following business sectors are represented:

- Industry (3 companies) ;
- Software (4 companies) ;
- Public buildings and works sector(1 company) ;
- Personal services (2 companies)

With the exception of the two smallest entities created as private limited companies (“SARL”), the selected companies operate as public limited (“SA”) or “simplified” public limited companies (“SAS”).

The selection of companies was left to the audit firms. Their familiarity with their clients enabled them to select those where the management was open to changing to IFRS.

Test procedures

The tests were supervised by participating audit firms. The involvement of the companies' general or financial management was variable.

On average it takes around 90 hours to complete a test. This estimation depends on the completeness of the reply (questionnaire or questionnaire + financial statements), on the problems encountered by the company and on the quality of existing information systems.

2 – Analysis of the results

The overall trends revealed by an analysis of the replies received and discussions with staff of the audit firms provide additional input to the conclusions which the CNC working group arrived at in commenting on the IASB exposure draft on IFRS for SMEs.

2.1 – General issues

The overall reaction of SMEs management in the companies selected by audit firms was favourable. The resistance to change was overcome in most of the SMEs selected and positive points were brought to light.

Accordingly the project would enable:

- improvements in internal administration;
- improvements in presentation to third parties;
- an easier change over to full IFRS for companies going public.

However, several criticisms of the proposed standard were made unanimously:

- the new rules brought more work;
- considerable training was necessary;
- will the banks accept the new financial statements;
- the standard is not self-contained and requires reference to full IFRS for fundamental issues of accounting treatment;
- the standard does not provide sufficient examples and explanations;
- the standard is insufficiently pedagogical;
- the style is difficult to understand;
- requires professional valuations for certain transactions (such as pension liabilities for example);
- too much information in the notes.

Moreover, this first approach shows that PME management knows nothing about the proposed IFRS for SMEs even if they have some knowledge of IFRSs. None of the SMEs was able to complete the test on its own without the assistance of the auditors.

2.2 – Specific issues

The companies' comments on certain issues provide an indication of recurrent difficulties encountered in applying the proposed IFRS for SMEs and in particular:

- the application of section 22 relating to revenue recognition, the principles of which diverge from the French accounting regulation 99-03;
- application of section 19 relating to finance leases;
- the treatment of grants received;
- the treatment of equity-settled share-based payments to employees;
- the treatment of mutual funds;
- the treatment of provisions for pension liabilities and in particular their measurement;
- treatment of factoring;
- separating out debt and capital components of convertible bonds.

Furthermore, it was difficult to apply certain sections to one company included in the sample because of its own particular circumstances .The summary of the detailed analysis by section is intended to represent the impressions of companies tested on the basis of the IASB's proposals.

Section 1 – Scope

Overall, companies had little difficulty in determining whether they met the definition of an SME as set out in the standard .One company questioned whether it would be automatically excluded from the scope because of its forthcoming ALTERNEX Paris quotation, given that companies quoted on ALTERNEX are not required to prepare consolidated financial statements according to IFRS.

The management of a health farm asked for a clearer definition of the term "public responsibility" used in section 1.

Section 2 – Concepts and pervasive principles

Overall, companies rarely used this section. The main cases where it was used related to:

- substance over form : this concept had to be explained to most managers;
- balance between benefit and cost which should be clarified when applied to small organisations as numerous adjustments could prove excessive for small or medium sized entities;
- use of this section for determining the fair value of property (1 case).

Section 3 – Financial Statement Presentation

Two of the financial statements are not mandatory under French GAAP for individual accounts: the Statement of Changes in Equity and the Cash Flow Statement.

Moreover under French GAAP the balance sheet and income statement present information different to that required by IFRS for SMEs (in particular exceptional items).

The notes are far more detailed under IFRS for SMEs than under French GAAP for a company of this size. One of the companies estimated it would take two days to prepare the additional notes for a reporting period and considers that this represents an excessive burden for this type of entity.

Lastly, the concept of materiality is hard to apply in small organisations.

Section 4 – Balance Sheet

Apart from the differences in presentation which necessitate changes to the reporting model, some of the balance sheet information required by section 4 of IFRS for SMEs caused difficulties, in particular:

- measurement of deferred taxes;
- fair valuing stock options;
- measurement of refundable advances;
- measurement of pension liabilities;
- measurement of credit derivatives.

Section 5 – Income Statement

All the companies chose presentation “by nature». Although some consider a presentation “by function” more relevant for investors they consider that it is too burdensome to implement.

In addition, some companies had difficulty in applying the requirements of section 22 with respect to revenue recognition (see comments on section 22).

Section 6 – Statement of Changes in Equity and Statement of Income and Retained Earnings

All companies submitted a statement of changes in equity. One company encountered difficulties with the treatment of share-based payments to employees (see comment on section 25). No other difficulties were revealed by the tests whilst it should be remembered that this statement is not required in the French individual accounts.

Section 7 – Cash Flow Statement

Only one company presented the cash flow statement according to the direct method .The companies encountered difficulties in dealing with the first application of IFRS for SMEs. 3 companies complied with the requirement to provide information on non-cash items.

Section 8 – Notes to the Financial Statements

Subjects requiring management judgment:

- deferred tax rate;
- assumptions for calculating pension liabilities;
- evaluation of the advancement of contracts;
- lack of amortization of certain intangible assets;
- fair valuation of share-based payments;
- estimation of future benefits related to payments capitalised on balance sheets;
- evaluation of provisions.

Information about key sources of estimation uncertainty disclosed by companies:

- pension liabilities;
- deferred taxes;
- stage of completion of contracts;
- litigation.

Section 9 – Consolidated Financial Statements

Only three companies were required to prepare consolidated financial statements, the others were not part of a group or were not required to do so.

Section 10 – Accounting Policies, Estimates and Errors

Companies did not need to apply paragraph 10.2 i.e. IFRS for SMEs were applicable in all circumstances.

Section 11 – Financial Assets and Financial Liabilities

None of the companies opted for the application of IAS 39.

Section 12 – Inventories

No apparent difficulties due to the fact that the accounting treatment is the same under French GAAP and IFRS for SMEs.

Section 13 – Investments in associates

Not applicable to the companies taking part in the field test.

Section 14 – Investments in joint ventures

Not applicable to the companies taking part in the field test.

Section 15 – Investment Property

Not applicable to the companies taking part in the field test.

Section 16 – Property, Plant and Equipment

The only difficulty noted by a company related to determining the fair value of its head office.

No other major difficulties for this section. None of the companies used the revaluation model.

Section 17 – Intangible Assets other than Goodwill

One of the companies used the revaluation model for its intangible assets.

Some difficulties were encountered in identifying intangible assets.

Section 18 – Business Combinations and Goodwill

No business combinations were reported during the period .The section was not applicable.

Section 19 – Leases

Companies frequently enter into leasing contracts (operating and finance leases). The treatment of operating leases did not raise any problems because of the identity of treatment under French GAAP and IFRS for SMEs.

Inversely, finance leases required significant restatements and research for additional information. This was more or less difficult according to the information provided by the lessor .In some cases the disclosures in the notes were not provided because they were considered too burdensome.

Section 20 – Provisions and Contingencies

Apart from providing for pension liabilities (see comments on section 27), companies did not identify any particular difficulties as compared to French GAAP.

One company indicated that it reverted to full IFRS to determine how to deal with tax-driven reserves.

The examples were not often used.

Section 21 – Equity

The following items required adjustment under IFRS for SMEs**:**

- shareholders' frozen current accounts;
- convertible bonds;
- minority interests;
- other items of equity.

Only one company held financial instruments that required separate recognition of debt and equity components.

Section 22 – Revenue

All companies encountered difficulties in applying this section. This was because income had to be restated on an economic basis (IFRS for SMEs) instead of being presented according to the legal principles applicable under French GAAP. The implementation burden varies according to:

- the complexity of the company's contracts;
- the quality and quantity of information available in the company's systems.

In some cases, the company's information system did not enable the restatements to be carried out and it was necessary to rely on management's judgment. Even where the information was available because the transactions are common, this section caused considerable work and research which preparers considered excessive.

Three companies had to apply the "stage of completion" method for recognising their revenue.

The examples were rarely used.

Section 23 – Government Grants

This section was applicable to four companies .The companies mainly used section 23 but some of them had to refer to IAS 20.Difficulties were encountered in determining fair value (in particular for refundable advances) and the amortisation of grants that finance several different assets.

Moreover, companies drew attention to the lack of guidance in dealing with non-financial grants (for example those government grants that take the form of a reduction in social charges).

Section 24 – Borrowing Costs

Borrowing costs were treated as an expense by the companies taking part. No particular problems were raised.

Section 25 – Share-based payment

Only one company referred to this section to deal with its stock-options .No other comments on this section.

Section 26 – Impairment of non-financial assets

Companies had no problems with inventories and assets other than goodwill because there were no differences between French GAAP and IFRS for SMEs.

Inversely, one company had difficulty in applying the requirements for impairment of goodwill due to the lack of a market providing a reference for similar transactions. It was not possible to determine selling costs.

Section 27 – Employee Benefits

All the companies applied this section .The main difficulty relates to long-term benefits (pensions and termination benefits). The companies consider that implementation costs are excessive for organisations of this size .The calculations were not carried out by actuaries and the reliability of the information about pension liabilities cannot be guaranteed. Moreover, some companies considered the disclosures required in the notes too burdensome and did not provide the information for the field test.

These criticisms were more moderate for companies that are required to produce consolidated financial statements that deal with this information.

Section 28 – Income Taxes

Most companies had to recognise deferred taxes according to the requirements of section 28 whereas there is no such requirement for individual accounts under French GAAP.

Measurement difficulties were encountered as a result of the relief available to SMEs in the form of beneficial tax rates .In addition, many companies found the disclosures in the notes too burdensome and did not provide the information for the period.

Section 29 – Financial Reporting in Hyperinflationary Economies

This section was not applicable to any of the companies taking part in the field test.

Section 30 – Foreign Currency Translation

No foreign currency transactions were declared by these companies so that section 30 was not used.

Section 31 – Segment Reporting

Only one company currently provides this information which can be adapted to meet the requirements of IFRS 8 .The other companies consider that this requirement is not adapted to the size of their business.

Section 32 – Events after the End of the Reporting Period

None of the companies had events to report. Moreover, this section is similar to requirements under French GAAP.

Section 33 – Related Party Disclosures

As well as being excessively burdensome, the disclosure of management's remuneration is considered undesirable in small organisations with a limited number of managers because it leads to disclosing information of a personal nature.

Section 34 – Earnings per Share

Only two companies applied this section although two others would have done so if the section had been simpler to apply.

Section 35 – Specialised Industries

The section is not applicable to companies taking part in the field test.

Section 36 – Discontinued operations and Assets Held for Sale.

The section is not applicable to companies taking part in the field test which have no relevant transactions to report.

Section 37 – Interim Financial Reporting

The section is not applicable to companies taking part in the field test .No interim reporting was provided.

Section 38 – Transition to IFRS for SMEs

Differences between IFRS for SMEs and French GAAP led to adjusting companies' assets and liabilities for the following transactions:

- finance leases;
- provisions for pension liabilities;
- deferred taxes;
- certain intangible assets;
- the fair value of short term investments;
- certain deferred income;
- sales accruals.

Additionally, the application of IFRS for SMEs requires many reclassifications as compared to the presentation under French GAAP.

Conclusion

The companies consider that even without referring to full IFRS (two state that they used full IFRS) the application of IFRS for SMEs increases significantly the time required for drawing up the financial statements as well as their cost.

The conclusions of these field tests, with the results of the SMEs survey[10], will contribute to the overall position of the CNC in relation to the work carried out on the subject of SMEs by the IASB and the European authorities.

[10] A survey covering 10 000 companies on the needs of SMEs in relation to international accounting standards was carried out by the CNC.