

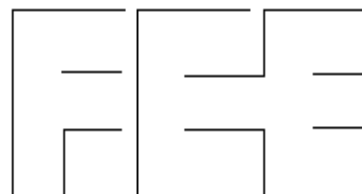
Date
23 September 2004

Le Président

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Mr. Stig Enevoldsen
Chairman TEG
EFRAG
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Dear Mr. Enevoldsen,

Re: FEE Response to EFRAG Draft response to IASB Discussion Paper “Preliminary Views on Accounting Standards for Small and Medium Sized Entities”

General

1. The EFRAG comment letter should indicate that its comment letter is not addressing the IASC Framework in general, recognising that there is a project on the IASB agenda to revise the Framework. There is for example a need to develop conceptual criteria for measurement in the Framework. Consistent criteria on performance reporting and revenue recognition are still missing. The EFRAG letter should stimulate IASB to give its Framework revision high priority.
2. Although in certain countries there is an urgent need for SME accounting standards, even for 2005, proper attention needs to be given by the IASB to the responses to the Discussion Paper; the outcome and implications need to be fully considered. Global accounting standards for SMEs will reflect user and preparer needs different from full IFRS for the larger companies. It is therefore important that the IASB monitors the introduction of individual accounting standards for SMEs in terms of whether they are meeting the needs of users. In this respect IASB could set up a panel or group to oversee this process. Such a panel would need to be made up of experts with special SME knowledge and experience.

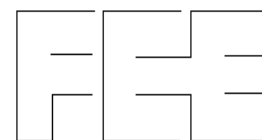
Questions

Issue 1: Should the International Accounting Standards Board (IASB) develop special financial reporting standards for SMEs?

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

We agree with the alternative 1 of the suggested response and support paragraph 5 of the discussion paper. IFRS are suitable for all entities as the objectives of financial statements are fundamentally the same for all entities. But the term ‘suitable’ can be interpreted in different ways: related to the users’ needs, as EFRAG mentions, or related to the relevance of the standards in terms of cost/benefits. Full IFRS may be suitable to SMEs in theory but not applicable in practice. Practicability is an important issue to be taken into account.

FEE welcomes further research on user needs of SMEs and how they can be best addressed. There is also the need for significant examples where application of full IFRS leads to inappropriate results both from a



cost perspective and a complexity perspective. The real issue is to what extent IFRS are relevant for SMEs. A proper benchmarking is needed for SMEs.

The EFRAG position should make clear that all IASB standards including standards for SMEs should be developed with user needs as a starting point, which should also be reflected in the Framework.

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

We support the alternative 1 of the suggested response. We agree with the decision to develop a separate set of financial reporting standards for SMEs as long as these standards are applicable on an optional basis. We support EFRAG's comment that harmonisation of reporting in Europe for non-listed entities is desirable, in particular for subsidiaries forming part of an IFRS group and SMEs engaged in cross-border trading. However also the cost / benefit argument for the preparer needs to be taken into account.

In developing a separate set of standards it is important that sufficient attention is given to the transition to full IFRS. However, transition should not be the primary objective, since it is not relevant for the majority of SMEs. We appreciate that the extent to which an IFRS for SMEs may differ from IFRS depends on the individual standard concerned.

Question 1c. Do you agree that IASB Standards for SMEs should not be used by publicly listed entities (or any other entities not specifically intended by the Board), even if national law or regulation were to permit this? Do you also agree that if the IASB Standards for SMEs are used by such entities, their financial statements cannot be described as being in compliance with IFRSs for SMEs? If not, why not?

We support EFRAG's response in principle that IASB standards for SMEs should not be used by publicly listed entities. These financial statements cannot be described as in compliance with IFRS for SMEs. However, we believe it is not within the mandate of IASB to determine national requirements of law or regulation specifying to which enterprises its standards should apply. IASB can indicate which companies full IFRS are aimed at, e.g. publicly listed entities or SMEs, but has to leave the actual requirement and enforcement to national jurisdictions.

Issue 2: What should be the objectives of a set of financial reporting standards for SMEs?

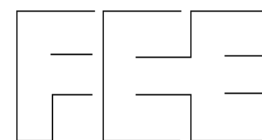
Question 2. Are the objectives of IASB Standards for SMEs as set out in preliminary view 2 appropriate and, if not, how should they be modified?

We agree with the objectives as set out in preliminary view 2 and prefer alternative 1 in the EFRAG letter. As stated in paragraph 16(c), standards for SMEs should be based on the same conceptual framework as IFRS. The SMEs Framework should be included within the IASC Framework with any necessary amendments and interpretations for SMEs. The EFRAG response should not give the impression that there should be two totally separate frameworks. We do not believe that a separate framework for SMEs should be developed, as the framework for IFRS is in principle suitable for the financial statement of all entities with some adaptation.

However, we suggest that the existing Framework be adapted to the users of all type of entities. The identification of users could include an explanation on the different needs of users of SMEs financial statements. The descriptions could be less detailed and the examples could be adapted or specific examples for SMEs could be included, in order to make the Framework more appropriate for SMEs.

We emphasize that one of the objectives is to reduce the reporting burden on SMEs by developing standards that are more appropriate for the users.

Issue 3: For which entities would IASB Standards for SMEs be intended?



Question 3a. Do you agree that the Board should describe the characteristics of the entities for which it intends the standards but that those characteristics should not prescribe quantitative ‘size tests’? If not, why not, and how would an appropriate size test be developed?

We agree with the response suggested by EFRAG that the Board should describe the main characteristics of the entities for which the IASB Standards for SMEs are intended and should not prescribe quantitative size tests.

Question 3b. Do you agree that the Board should develop standards that would be suitable for all entities that do not have public accountability and should not focus only on some entities that do not have public accountability, such as only the relatively larger ones or only the relatively smaller ones? If not, why not?

We agree with the response suggested by EFRAG, that the IASB should not only focus on the smallest entities or the largest entities.

Question 3c. Do the two principles in preliminary view 3.2, combined with the presumptive indicators of ‘public accountability’ in preliminary view 3.3, provide a workable definition and appropriate guidance for applying the concept of ‘public accountability’? If not, how would you change them?

Broadly we have sympathy for the notion “public accountability” and we agree that the principles and presumptive indicators in 3.2 and 3.3 provide a workable definition for applying the concept of “public accountability”, except for paragraph 31(d). Criterion (a) is the most important to differentiate SMEs from listed entities. In contrast to EFRAG, we support criterion (b), as all financial institutions are accountable to the public and should follow full IFRS. However we believe that paragraph 31 could be better formulated to require entities to follow IFRS unless one of the criteria is met and to formulate the criteria in a different way, so that it is clear that an entity that meets one of the criteria is regarded as an SME. Criterion (c) may not be helpful since it is too vague in terminology and public utilities differ in size in countries. We would support therefore deletion of paragraphs 28 (b) and 31 (c) as criteria.

We believe criterion (d) is of a different nature and has no clear relationship with the notion of public accountability. Assessing economic significance in an individual national jurisdiction should be left to the regulatory authorities or standard-setter in that jurisdiction, because it is not possible for IASB to determine economic significance in each country. In contrast to EFRAG, we believe that criterion (d) should not be retained, but left to national jurisdictions or be differently formulated.

We are concerned that the notions “economic significance”, “high degree” and “essential public service” will cause inappropriate differences in application of the IASB Standards for SMEs in the respective countries, because of differences in the size of businesses and in the economy of the countries. It would imply that full IFRS would apply to much smaller companies in smaller countries than in larger economies. This can, in our opinion, create competitive disadvantages for the entities and inconsistent application across countries because of an unbalanced and irrelevant cost/benefit trade-off. At a European level it might be useful to introduce the existing European size criteria as an additional criterion in that perspective.

Question 3d. Do you agree that an entity should be required to use full IFRSs if one or more of the owners of its shares object to the entity's preparing its financial statements on the basis of IASB Standards for SMEs. If not, why not?

We believe that this question is not relevant for the discussion at IASB level and should be left to the national jurisdictions. It is not an accounting issue, but a company law issue or related to individual shareholder agreements for the jurisdiction concerned. However, if IASB continues to address the issue, we agree with the EFRAG response that one shareholder as a threshold is too low and impractical and that defining the threshold should be left to national jurisdictions.

Question 3e. Do you agree that if a subsidiary, joint venture or associate of an entity with public accountability prepares financial information in accordance with full IFRSs to meet the requirements of its parent, venturer or investor, the entity should comply with full IFRSs, and not IASB Standards for SMEs, in its separate financial statements? If not, why not?

We believe that if a subsidiary, joint venture or associate of an entity with public accountability prepares financial information in accordance with full IFRSs to meet the requirements of its parent, venturer or investor, the entity should be allowed to apply full IFRS, and not IASB Standards for SMEs in its separate financial statements, but should not be required to do so. This is to be decided by the parent, venturer, investor or management. We therefore support alternative 1 of the EFRAG response.

Issue 4: If IASB Standards for SMEs do not address a particular accounting recognition or measurement issue confronting an entity, how should that entity resolve the issue?

Question 4. Do you agree that if IASB Standards for SMEs do not address a particular accounting recognition or measurement issue, the entity should be required to look to the appropriate IFRS to resolve that particular issue? If not, why not, and what alternative would you propose?

We would not support a mandatory fallback to full IFRS. The mandatory fallback should be to the underlying principles as contained in the IASC Framework (adapted for SMEs, or made relevant for SMEs) as set out in paragraph 41(b) of the Discussion Paper. If a mandatory fallback to full IFRS were to be introduced there is a need for concrete examples to demonstrate the necessity. A fuller debate is needed based on concrete examples before a decision on a mandatory fallback to full IFRS should be taken. Hence we suggest the introduction of gateways to full IFRS in compliance with the Framework as adapted for SMEs and for particular recognition or measurements issues on a standard by standard basis which are not addressed by IASB Standards for SMEs.

Issue 5: May an entity using IASB Standards for SMEs elect to follow a treatment permitted in an IFRS that differs from the treatment in the related IASB Standard for SMEs?

Question 5a. Should an SME be permitted to revert to an IFRS if the treatment in the SME version of the IFRS differs from the treatment in the IFRS, or should an SME be required to choose only either the complete set of IFRSs or the complete set of SME standards with no optional reversion to individual IFRSs? Why?

We support alternative 2, but it needs to be indicated that this can only be decided when the draft core set of international standards for SMEs is in place. The possibility of reverting to full IFRS depends on the development of the standards for SMEs and the subjects and treatments not covered in this core set of standards for SMEs.

Question 5b. If an SME is permitted to revert to an IFRS, should it be:

- (a) required to revert to the IFRS in its entirety (a standard-by-standard approach);**
- (b) permitted to revert to individual principles in the IFRS without restriction while continuing to follow the remainder of the SME version of the IFRS (a principle-by-principle approach); or**
- (c) required to revert to all of the principles in the IFRS that are related to the treatment in the SME version of that IFRS while continuing to follow the remainder of the SME version of the IFRS (a middle ground between a standard-by-standard and principle-by-principle approach)?**

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

See our response to Question 5a.

Issue 6. How should the Board approach the development of IASB Standards for SMEs? To what extent should the foundation of SME standards be the concepts and principles and related mandatory guidance in IFRSs?

Question 6. Do you agree that development of IASB Standards for SMEs should start by extracting the fundamental concepts from the Framework and the principles and related mandatory guidance from IFRSs (including Interpretations), and then making modifications deemed appropriate? If not, what approach would you follow?

We support the response suggested by EFRAG. However, we do not support the idea of a separate framework for SME (see our responses to questions 1 and 2). We agree with the suggestion of a separate preface that presents the rationale for the SME standards and the criteria and process for developing the set of standards for SMEs.

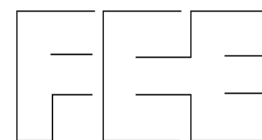
Issue 7: If IASB Standards for SMEs are built on the concepts and principles and related mandatory guidance in full IFRSs, what should be the basis for modifying those concepts and principles for SMEs?

Question 7a. Do you agree that any modifications for SMEs to the concepts or principles in full IFRSs must be on the basis of the identified needs of users of SME financial statements or cost benefit analyses? If not, what alternative bases for modifications would you propose, and why? And if so, do you have suggestions about how the Board might analyse the costs and benefits of IFRSs in an SME context?

We support the response suggested by EFRAG. However, as indicated earlier we would not favour a separate framework for SMEs. The SME Framework should be within the IASC Framework with any necessary amendments (see Question 2). The EFRAG response could also address other reasons for SME standards such as comparability and cost / benefit considerations.

Question 7b. Do you agree that it is likely that disclosure and presentation modifications will be justified on the basis of user needs and cost benefit analyses and that the disclosure modifications could increase or decrease the current level of disclosure for SMEs? If not, why not?

We support the response suggested by EFRAG.



Question 7c. Do you agree that, in developing standards for SMEs, the Board should presume that no modification would be made to the recognition or measurement principles in IFRSs, though that presumption could be overcome on the basis of user needs and a cost benefit analysis? If not, why not?

We support the response suggested by EFRAG in alternative 1. We suggest EFRAG also to refer to cost / benefit considerations that are as important as user needs.

Issue 8: In what format should IASB Standards for SMEs be published?

Question 8a. Do you agree that IASB Standards for SMEs should be published in a separate printed volume? If you favour including them in separate sections of each IFRS (including Interpretations) or some other approach, please explain why.

We support the response suggested by EFRAG.

Question 8b. Do you agree that IASB Standards for SMEs should be organised by IAS/IFRS number rather than in topical sequence? If you favour topical sequence or some other approach, please explain why.

We support the suggested response in alternative 2. The EFRAG response should be completed by indicating the need for a concordance table from subjects to the relevant IFRS number, so that cross-referencing can easily be performed in order to facilitate the use of the standards.

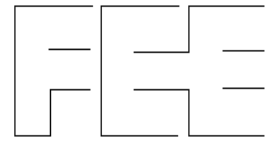
Question 8c. Do you agree that each IASB Standard for SMEs should include a statement of its objective, a summary and a glossary of key terms?

We support the suggested response, although if one objective is to reduce the length of the standards, the statement of objectives in each standard is not seen as necessary. We assume that there will be one glossary of key terms and not a glossary of terms per standard.

Question 9. Are there any other matters related to how the Board should approach its project to develop standards for SMEs that you would like to bring to the Board's attention?

We support the EFRAG comments. The first bullet point should not only refer to user needs but also to the outcome of the consultation on the IASB discussion paper. We suggest deleting the second bullet point since this message is no longer relevant.

Based on the proposed definition of SMEs we suggest changing the current name ("IASB Standards for SMEs") to, such as perhaps "IASB Standards for Entities without Public Accountability". In most countries of the world SMEs are for financial reporting purposes characterised by size criteria. In those countries this is a smaller group of entities than the group which consists of entities without public accountability. The current name, IASB Standards for SMEs, can therefore be confusing and misleading.



We would be pleased to discuss any aspect of this letter you may wish to raise with us.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'David Devlin'. The signature is fluid and cursive, with the first name 'David' being more prominent than the last name 'Devlin'.

David Devlin
President