



EUROPEAN COMMISSION

Internal Market and Services DG

FREE MOVEMENT OF CAPITAL, COMPANY LAW AND CORPORATE GOVERNANCE
Financial reporting

DIRECTORATE GENERAL FOR INTERNAL MARKET AND SERVICES

CONSULTATION ON THE INTERNATIONAL FINANCIAL REPORTING STANDARD FOR SMALL AND MEDIUM-SIZED ENTITIES

Please send this answer sheet only.

Consultation deadline: 12 March 2010

Preferred form of submission – email to: markt-review-consultation@ec.europa.eu

Postal address:

European Commission
DG Internal Market and Services
Financial Reporting Unit-F3
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Submissions after the deadline will not be considered.

Commission européenne, B-1049 Bruxelles / Europese Commissie, B-1049 Brussel - Belgium. Telephone: (32-2) 29 65 199.

http://ec.europa.eu/internal_market/accounting/sme_accounting/review_directives_en.htm
E-mail: markt-f3@ec.europa.eu

Please provide the following details together with your response:

You are:

Preparer:	<input type="checkbox"/> small company	<input type="checkbox"/> Other (please specify)	Legal Form:
	<input type="checkbox"/> medium-sized company		<input type="checkbox"/> unlimited liability
	<input type="checkbox"/> large company		<input type="checkbox"/> limited liability
User:	<input type="checkbox"/> bank/credit provider	<input type="checkbox"/> analyst	<input type="checkbox"/> Other organisation of stakeholders
	<input type="checkbox"/> private person	<input type="checkbox"/> investor/investor organisation	
Public authority:	<input type="checkbox"/> audit/market regulator	<input type="checkbox"/> Government Ministry/Agency	<input type="checkbox"/> other (please specify)
Accountants and Auditors:	<input checked="" type="checkbox"/> accounting firm	<input checked="" type="checkbox"/> audit firm	<input type="checkbox"/> organisation of accountants and auditors
Other:	<input type="checkbox"/> (please specify)		

Name of your organisation / company: This response is submitted on behalf of Deloitte Touche Tohmatsu ("DTT") member firms located in the European Economic Area. DTT, a Swiss Verein, is an association of member firms that are legally separate and independent of one another.

Country where your organisation / company is located: This response is submitted on behalf of DTT member firms located in the European Economic Area Member States.

Name and location of parent company:

Contact details incl. e-mail address: Hendrik Descheemaeker, Partner, Deloitte Services and Investments NV, 8b Berkenlaan, B-1831 Diegem, Belgium, + 32 2 6006537, hdescheemaeker@deloitte.com

Short description of the general activity of your organisation / company:
The DTT member firms provide audit, accounting, tax and consulting services.

Do you trade cross-border? ☐ Yes ☐ No

Is your organisation registered in the Interest Representative Register? ☐ Yes ☒ No

If yes, please specify the address of your organisation and the Register ID number in the Interest Representative Register¹:

¹ If your organisation is not registered, you have the opportunity to register here (<https://webgate.ec.europa.eu/transparency/reg/in/welcome.do?locale=en#en>) before you submit your contribution. Responses from organisations not registered will be published separately from the registered organisations.

Publication:

Do you object to publication of the personal data on the grounds that such publication would harm your legitimate interests? ☐ I object

Question 1:

Do you think the IFRS for SMEs is suitable for widespread use within Europe?

☒ YES

☐ NO

☐ Don't know

Please comment, indicating whether there are any type(s) or size(s) of company that would benefit from adopting the Standard:

☒ small²

☒ medium³

☒ large⁴

☐ other criteria (please explain)

Please comment:

We believe that the IFRS for SMEs is suitable for widespread use within Europe and for companies of any type and size, providing such entities are preparing general purpose financial statements. IFRS for SMEs is a high quality, global, principles-based standard that has been developed by specialists from around the world through an extensive consultative process and we believe its adoption would benefit users (by increased comparability of financial statements) and preparers (through reduced costs for groups of companies and economies of scale generally) and would serve to facilitate cross-border trade, services, including accounting and audit, and movement of capital. In the European context, we believe this can contribute to making the internal market a reality for smaller businesses as well as benefit the many companies not listed on a regulated market that do operate across borders in the EU. There may also be reduced costs for Member State standard setters.

Under the current EU accounting legal framework, there is no requirement for non-listed entities and entities that are listed on an unregulated market within the European Union to prepare financial statements in accordance with IFRSs. Regulation No. 1606/2002 provides Member States with an option to mandate, allow, or prohibit the use of IFRSs by such entities in their individual and/or consolidated accounts. We are aware that certain entities listed on an unregulated market would like to see this option extended to the IFRS for SMEs. Although we

² Generally companies with turnover less than €4.4 million, balance sheet total less than €8.8 million and 50 or fewer employees (see Fourth Company Law Directive)

³ Generally companies with turnover less than €17.5 million, balance sheet total less than €35 million and 250 or fewer employees (see Fourth Company Law Directive)

⁴ Generally companies with turnover greater than €17.5 million, balance sheet total greater than €35 million and more than 250 employees (see Fourth Company Law Directive)

acknowledge that the IFRS for SMEs does not appear to contemplate including such entities in the scope of the Standard, the Commission might want to consider allowing such entities to use the IFRS for SMEs. If so, we recommend that the Commission consider whether entities should be allowed to claim "compliance with the IFRS for SMEs" or not, given their apparent public accountability.

With regard to possible means of implementation, we believe that the Commission should provide for a Member State option to mandate, allow, or prohibit the use of the IFRS for SMEs by entities domiciled in that Member State if they are not listed on a regulated market (please see our answer to Question 6.)

Question 2:

If you are a preparer of company accounts can you indicate any costs (both one-off and recurring) or benefits, and any other effects of adopting the IFRS for SMEs?

Please comment:

N/A

In particular, do you think increased international comparability of accounts prepared under the IFRS for SMEs will benefit your business?

☐ YES

☐ NO

☐ Don't know

Please comment:

N/A

Question 3:

If you are a user of accounts (for example a bank) do you think the IFRS for SMEs will provide more useful information than national GAAP accounts?

☐ YES

☐ NO

☐ Don't know

Please comment:

There are 27 Member States in the European Union and three EEA countries providing some 60 different GAAPs. Given that the firms on whose behalf we are responding operate in all these countries, we will not answer this question from a specific national GAAP point of view. Generally speaking, we believe that the IFRS for SMEs provides information that is useful for a user of general purpose financial statements prepared on that basis, including users making lending decisions.

Question 4:

Does increased international comparability of accounts prepared under the IFRS for SMEs benefit users?

☒ YES

☐ NO

☐ Don't know

Please comment:

International comparability of accounts was the main driver for the Commission to introduce Regulation No. 1606/2002. We believe that the rationale contained in that document equally applies to the IFRS for SMEs: information that is prepared and provided using the same set of principles leads to a higher degree of comparability among entities and lowers the cost of analysing the financial statements. It also fosters users' understanding of the accounting framework used and facilitates cross border trade, services and movement of capital by users.

Question 5:

Do you think adoption of the IFRS for SMEs should be provided for within the EU accounting legal framework?

☒ YES

☐ NO

☐ Don't know

Please comment:

We believe that there should be a provision within the EU accounting legal framework for the adoption of the IFRS for SMEs. Of the alternatives available for achieving adoption (i.e., by incorporating all of the requirements contained in the IFRS for SMEs directly into the present Accounting Directives, or by amending the Accounting Directives and giving Member States an option to adopt the IFRS for SMEs in place of the detailed accounting requirements in the Directives) our preference would clearly be for the latter. We strongly believe that the Accounting Directives should remain principles-based and should not be overburdened with detailed requirements. Rather, the IFRS for SMEs and the Accounting Directives should be treated as two similar frameworks having the same degree of authority within the EU as regards financial reporting requirements for general purpose financial statements.

Regarding future amendments to the IFRS for SMEs (which are only currently expected to take place at three year intervals), given the due process used by the IASB to adopt these amendments and the wide stakeholder participation as well as the overall goal of increased comparability of financial statements, we would suggest that the EU legislation provide that Member States who have opted to mandate or allow IFRS for SMEs are deemed to have opted for the then current version of the IFRS for SMEs except if the Commission has decided that such version is not to be adopted. We would suggest that the reasons for any such decision by the Commission could be that the amendments would be contrary to the principle that the annual or consolidated accounts should give a true and fair view as set out in the Accounting Directives or would not be conducive to the European public good or would not meet the criteria of understandability, relevance, reliability and comparability required of financial information (as set out in Article 3 of Regulation (EC) N° 1606/2002 on the application of international accounting standards). Appropriate processes and timing should be used to ensure that the Accounting Regulatory Committee, the European Parliament and the Council take part in any such decision and that EFRAG is duly consulted. We believe that this approach would be proportionate and would provide the European Union with the necessary means of rejecting any revised IFRS for SMEs that would be wholly unacceptable for Europe.

Question 6:

If yes, should such an option be limited to a Member State option (i.e. that each Member States would have a possibility but no obligation to accept IFRS for SME)?

☒ YES

☐ NO

☐ Don't know

Please comment:

In our opinion, the goal of introducing the IFRS for SMEs for use within Europe should be achieved by providing an option to the Member States. In theory, we would favour a situation where Member States are obliged to give certain companies the option to use the IFRS for SMEs, leaving the use of this Standard in the hands of preparers and indirectly users. However, given that a substantial number of European countries have amended their national accounting framework over recent years, we would expect implementation of an entity option on a European level to take significant time in order to address all relevant implications that might prevail in the Member States. Hence, if the IFRS for SMEs is to be made available as quickly as possible (and we believe it should be) the individual Member States are best placed to judge whether or not they would require, permit or prohibit its use by individual entities (whether it be for the consolidated or separate financial statements).

As a final comment, in some Member States the threshold for the requirement to publish annual accounts is currently very low and for these smallest companies, the IFRS for SMEs, and indeed the requirement to publish accounts, may not be appropriate.

Question 7:

Do you have other views on the possible adoption of the IFRS for SMEs within the EU accounting framework?

Please comment:

Please refer to our answer for Question 1.

Question 8:

Is there a case for giving companies, at EU level, an option to adopt the IFRS for SMEs?

☐ YES

☒ NO

☐ Don't know

If yes, for which categories:

☐ small

☐ medium

☐ large

☐ other criteria (please explain)

Please comment:

We believe that bypassing individual countries' legislation by providing companies with an option to adopt the IFRS for SMEs would most likely slow down the implementation process within Europe considerably. We anticipate this to be of particular concern to those jurisdictions where there is a strong link between the tax legislation and the annual accounts. However, we ask the Commission to seek to ensure that Member States adopting the IFRS for SMEs do so as issued and that national variants of the IFRS for SMEs are discouraged.

Question 9:

What should be done, in your view, where there is incompatibility between the Directives and the IFRS for SMEs?

Please comment:

It was our expectation that there would be very few incompatibilities between the Accounting Directives and the IFRS for SMEs. The draft advice the EFRAG Working Group has issued (see <http://www.efrag.org/files/EFRAG%20public%20letters/IFRS%20for%20SMEs%20compatibility%20analysis/Draft%20compatibility%20analysis%20letter.pdf>), comparing the requirements contained in the Directives with the equivalent sections in the IFRS for SME to find out whether or not there are irreconcilable conflicts between the two frameworks, confirms this. Taking into account that the IASB has made changes to the Exposure Draft in areas where there were considerable requests from European voices (e.g. on goodwill impairment), we expected the final Standard to have been brought even closer in line with the Accounting Directives. Further, taking the IASB's proposed review policy for the IFRS for SMEs into account, there will be no changes to the Standard until at least 2014 so that the likelihood of potential future conflicts is also low for the foreseeable future.

Moreover, we believe that the same principle that governs the applicability of full IFRSs in the EU - i.e. companies with securities listed on a regulated market in a Member State and preparing consolidated financial statements are exempt from applying the requirements contained in the Seventh Directive and only apply the requirements set forth by IFRSs - should apply to potential applicants of the IFRS for SMEs too: a company either applies the Accounting Directives in the version applicable in the Member State in which the company is domiciled, or it uses the IFRS for SMEs. We see no compelling reason why a different principle should apply when considering the IFRS for SMEs.

Question 10:

In the light of the publication of the IFRS for SMEs, do you see a need for "rules-based" Accounting Directives in the future?

☐ YES

☒ NO

☐ Don't know

If yes, for what type(s) or size(s) of company are detailed rules required?

☐ small

☐ medium

☐ large

☐ other criteria (please explain)

Other than the 5 items listed in paragraph 4.3 of the consultation document, what aspects of financial reporting should the revised Directives address, and to what level of detail?

Please comment:

We believe that the Accounting Directives ought to be and remain principles-based and not contain detailed financial reporting requirements.

Other comments

Question 11:

Are there any elements of the IFRS for SMEs that should be incorporated within revised Directives?

Please comment:

No. As mentioned in our answer to Question 10, we are of the opinion that the Accounting Directives ought to be and remain principles-based and not contain detailed financial reporting requirements.

Question 12:

Do you have any other observations or comments on the IFRS for SMEs or the project to overhaul the Accounting Directives?

Please comment:

We believe that principles-based revised Accounting Directives could be the foundation for Europe's contributions to wider international debates on accounting standards. We support convergence towards a single set of high quality global accounting standards, adapted as required for entities that are not publicly accountable and for SMEs, prepared through a robust and independent standard-setting process that includes broad stakeholder participation. We believe that Europe should make a strong contribution to that process and that maintaining a parallel European accounting framework for the long term would not be a good use of resources or benefit European preparers and users, providing of course that the single set of high quality global standards continues to meet the fundamental principles for accounting agreed within Europe.

Thank you for your contribution