



## Accounting Standards Board

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Jeroen Hooijer  
Head of Accounting Unit  
European Commission  
Internal Market and Services DG  
Brussels  
By e-mail to: [markt-review-consultation@ec.europa.ec](mailto:markt-review-consultation@ec.europa.ec)

25 February 2010

Dear Jeroen

### **Consultation Paper on the International Reporting Standard for Small and Medium-Sized Entities**

The Accounting Standards Board (ASB) welcomes the opportunity to respond to the Commission's consultation paper on the review of the International Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs).

The document accompanying this letter sets out the ASB comments on the questions raised in the consultation paper. In this covering letter, I would like to make some wider comments that reflect the view of the ASB on the response to question 12, which asks for general observations on the IFRS for SMEs and the review of the Accounting Directives.

As I have made clear to you in previous correspondence (my letters dated 3 April 2009 and 3 September 2009), the ASB considers that the IFRS for SMEs could play a significant role in the future reporting requirements for UK and Irish entities. As you know, we have recently consulted on a proposed three-tier approach to developing UK GAAP converged with IFRS as follows:

- Tier 1 – publicly accountable entities would apply IFRS as adopted by the EU ('EU-adopted' IFRS).
- Tier 2 – all other UK entities other than those who can apply the Financial Reporting Standard for Smaller Entities (FRSSE) could apply the IFRS for SMEs.
- Tier 3 – small entities could choose to continue to apply the FRSSE.

Entities within Tier 2 and Tier 3 would have the option of using EU-adopted IFRS if they wished, and those in Tier 3 would have the option of using the IFRS for SMEs.

The ASB is currently analysing the responses to that consultation, in which constituents were asked – among other things – whether they agreed with the Board’s proposal that the IFRS for SME should be the basis of UK GAAP to be applied by Tier 2 entities. The comment letters indicate that there is significant support within the UK and Ireland for the Board’s proposal for the adoption of the IFRS for SMEs as UK GAAP (please refer to our response to Question 1 of your consultation).

As I have made clear to you in my letter of 3 September, our ability to use the IFRS for SMEs in the approach outlined above is, of course, dependent on confirmation that it is compatible with the requirements of the Accounting Directives. In that context, we have been monitoring closely the work that EFRAG has been undertaking on the compatibility of the IFRS for SMEs with the Accounting Directives and we will respond in due course to any public consultation EFRAG will conduct on that exercise. Our initial view remains that there are no legal conflicts that would present an insuperable barrier to using the IFRS for SMEs as outlined above, but – as we state in our answer to question 9 – any incompatibilities identified should be removed by revising the Accounting Directives.

If you wish to expand on any aspect of this response, please contact me, David Loweth (Technical Director), [d.loweth@frc-asb.org.uk](mailto:d.loweth@frc-asb.org.uk), or Peter Godsall (Project Director) [p.godsall@frc-asb.org.uk](mailto:p.godsall@frc-asb.org.uk).

Yours sincerely



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**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](mailto:markt-review-consultation@ec.europa.eu)

**Postal address:**

European Commission  
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Financial Reporting Unit-F3  
SPA 2/JII - 01/112  
B-1049 Brussels  
Belgium.

**Submissions after the deadline will not be considered.**

Please provide the following details together with your response:

You are:

|                                  |  |   |   |
|----------------------------------|--|---|---|
| <b>Preparer:</b>                 | <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                        |
| <b>User:</b>                     | <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 |   |
| <b>Public authority:</b>         | <input type="checkbox"/> audit/market regulator      | <input type="checkbox"/> Government Ministry/Agency     | <input type="checkbox"/> other (please specify)                   |
| <b>Accountants and Auditors:</b> | <input type="checkbox"/> accounting firm             | <input type="checkbox"/> audit firm                     | <input type="checkbox"/> organisation of accountants and auditors |
| <b>Other:</b>                    | <input checked="" type="checkbox"/> (please specify) | <a href="#">National Standard Setter</a>                |   |

Name of your organisation / company: [UK Accounting Standards Board \(ASB\)](#)

Country where your organisation / company is located: [UK](#)

Name and location of parent company: [N/A](#)

Contact details incl. e-mail address: [David Loweth, Technical Director, ASB](#)  
[d.loweth@frc-asb.org.uk](mailto:d.loweth@frc-asb.org.uk)

Short description of the general activity of your organisation / company:

[The role of the ASB is to oversee the financial reporting requirements for UK entities. This is done by maintaining and improving UK Financial Reporting Standards \(FRS\) and influencing the development of international standards. The ASB achieves this influence by collaborating with accounting standard-setters from other countries and the International Accounting Standards Board \(IASB\).](#)

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 Register<sup>1</sup>: [N/A](#)

Publication:

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

<sup>1</sup> 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.

**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:

small<sup>2</sup>  medium<sup>3</sup>  large<sup>4</sup>  
 other criteria (please explain)

Please comment:

The ASB, as demonstrated by its recent public consultation on the Future of UK GAAP, considers that the IFRS for SMEs is suitable as a basis for accounting requirements within Europe.

As outlined in our covering letter, the ASB has recently consulted on its proposals on the Future of UK GAAP. Our initial analysis of the feedback from the UK and Irish constituents would indicate that 87% of respondents who commented on the issue consider that UK GAAP based on the IFRS for SMEs should be used by Tier 2 entities (see our covering letter for an explanation of Tier 2) and 85% consider that Large Non- Publicly accountable entities should be allowed to adopt the IFRS for SMEs. In terms of the applicability of the IFRS for SMEs to small entities, a majority of respondents to the ASB's consultation consider that the standard could be used as the basis of UK GAAP by such entities in the foreseeable future, replacing the Board's existing Financial Reporting Standard for Smaller Entities (FRSSE).

**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:**

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<sup>2</sup> 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)

<sup>3</sup> Generally companies with turnover less than €7.5 million, balance sheet total less than €5 million and 250 or fewer employees (see Fourth Company Law Directive)

<sup>4</sup> Generally companies with turnover greater than €7.5 million, balance sheet total greater than €5 million and more than 250 employees (see Fourth Company Law Directive)

*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:*

N/A

**Question 4:**

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

YES  NO  Don't know

*Please comment:*

**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:*

The ASB's view is that the EU accounting legal framework should not present an obstacle to the use by Member States of the IFRS for SMEs as the basis for their national requirements. It is not necessary for the Accounting Directives to include a specific reference to the IFRS for SMEs or for the standard to be formally adopted for use in the EU.

**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:*

See the answer to Question 5 above. In the ASB's view, no reference in the Accounting Directives to the IFRS for SMEs is necessary. But if it was decided to include a reference the ASB agrees it could be limited to include a Member State option to permit or require use of the IFRS for SMEs as the basis for their national accounting requirements by all entities covered by the Accounting Directives that are not listed. The text of the revised Accounting Directives should not include any conflicts with the IFRS for SMEs.

**Question 7:**

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

*Please comment:*

No

**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:*

It is unlikely that this is a realistic option given the current accounting requirements in EU Member States. As noted above, the ASB's view is that Member States, rather than individual companies, should have the ability to permit or require use of the IFRS for SMEs as the basis for their national accounting requirements.

**Question 9:**

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

*Please comment:*

The revision of the Accounting Directives should remove any incompatibilities between the IFRS for SMEs and the Directives.

**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) N/A

*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:*

The ASB agrees with the suggestion set out in paragraph 4.3 of the consultation document.

*Other comments*

The ASB has a strong preference for the legislation to adopt a principle-based approach. The reporting requirements should introduce the main accounting principles and basic accounting requirements, leaving more detailed accounting requirements to national standard setters.

**Question 11:**

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

*Please comment:*

Refer to question 10.

**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:*

In the ASB's view there is a need for a more comprehensive modernisation of the Directives, which should be assessed as part of a wider review of the legislation, rather than continuing with the piecemeal proposals for change that have been put forward in recent years. Such a review should encompass other related EU company law, in particular the Second Company Law Directive, where the ASB believes there is a pressing need to modernise the capital maintenance requirements.

The ASB believes that the long-term role of any EU accounting legislation should be to provide the high-level legal framework and principles within which Member States can determine their own

accounting requirements. Such an approach would then allow individual jurisdictions to apply the most appropriate standards in conformity with the principle of subsidiarity.

*Thank you for your contribution*