Economia Aziendale Online©

N. 2/2008
Double Issue

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Economia Aziendale Online©
International Business Review
Editor in Chief: Piero Mella
ISSN 1826-4719
Reg. Trib. Pavia - n. 685/2007 R.S.P.

Pavia, April, 2008
No. 2/2008 – Double Issue

Working Paper discussed at

IX^th Workshop Gruppo di Attenzione AIDEA "Comunicazione ai mercati finanziari"

Novara, 11.01.2008

General observations about the adequacy of the proposed ED IFRS for SMEs issued by IASB as a suitable accounting framework for SMEs

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Abstract

The goal of this document is to analyse the main structural features of the Exposure Draft of a proposed International Financial Reporting Standards for Small and Medium Sized Entities – ED IFRS for SMEs [ED], to find out if the some of its basic assumptions are consistent with the targeted entities to which it is addressed.
With its ED IFRS for SMEs, IASB has made a strong effort towards the creation of a set of high-quality, harmonized accounting standards for Small and Medium-Sized entities as a mean to reduce differences among the various accounting framework currently in use worldwide, however the results achieved are not completely satisfactory fot the time being.
The major criticisms that this working paper moves to the architecture of the standard deal with i) the lack of consistency between the real information needs of SMEs Financial Statements users and the method chosen by IASB in determining its actual content (paragraph 1), (ii) the actual stand-aloneness of the ED as a consequence of the choices made by IASB in terms of relationship between the definition of SME and the content of the ED (paragraph 2). A tentative conclusion of the criticisms made is to carry out a University Research among SMEs and their major stakeholders in order to identify the actual needs of the users of SMEs Financial Statements and to establish the real compliance of the framework used by IASB in drafting the proposed ED with them.
The third paragraph shows the potential relationships between the proposed ED once issued and the EU accounting legislation so as to underline the need for a strong reform of the present structure of EU Accounting directives, the content of which has been notably complicated because of the various changes which from time to time were due to the advances in accounting theories and resulted in adding new options in representation, recognition and measurement of the transactions and other events to the formers.
The risk, which is at present only a far threat, is to underestimate at EU level the urge for a change in the text of the accounting directives delaying the reduction of the above-mentioned options (and the multiplied effect they can have in spreading heterogeneity in the actual content of the accounting legislation which introduces their rules at national level) because of the lack of agreement among Member States about the simplifications to be made. In the mid term, such a stalemate situation, added to the need for really harmonised standards in order to ease the creation of the EU Internal Market, could force EU institutions to adopt the version of the IFRS for SMEs at that time issued and enacted as the framework for non listed limited liability companies, by means of a Regulation immediately enacted and adoptable in each Member State. It could happen the same process which led in ten years to the adoption of Full IFRSs for the preparation and presentation of consolidated Financial Statements for listed companies in the EU financial markets.

1 – Criticism about the basic assumptions of the ED IFRS for SMEs: the lack of an actual investigation about the differences in information needs of SME Financial Statements stakeholders

Accounting theory acknowledges internationally that the first goal of financial statements is to give a fair representation of an entity's financial position, performance and changes in the financial position so as the users of the information provided can make correct economic decisions. The users of SME financial statements are all the existing and potential SMEs stakeholders, i.e. a wide range of individuals and institutions who need information about the entity's activity. In this view financial statements are by far the most important mean of communication between an entity and its social and economic environment.

Examples of the main entity's stakeholders are the ones indicated by IASB in its *Framework for the preparation and presentation of financial statements,* i.e. "present and potential investors, employees, lenders, suppliers and other trade creditors, customers, governments and their agencies and the public" ([1]). In addition to them, IASB's ED IFRS for SMEs considers also owners who are not involved in managing the business, potential creditors, and credit rating agencies ([2]). All of them are external users "who are not in a position to demand reports tailored to meet their particular information needs" ([3]) and for that reason, the aim of financial reporting is to give a shared basis of information useful to them in making economic decisions.

satisfy only their common information needs, in order to let them have information which is useful in making their economic decisions ([4]).

In the Basis for conclusions of the ED IFRS for SMEs, IASB explains the rationale for the structure of the standard. The ED has been based on a "top-down" approach. The basic assumption is that the framework valid for FULL-IFRSs can be adopted at SMEs level with adequate measurement and disclosure simplifications, which are consequential to the different users needs of SMEs financial statements. Arguably it doesn't seem that IASB has really investigated the real consequences of the above mentioned differences in users information needs in terms of consistent simplifications and changes to the contents of the draft. In other words, it is not possible to prove that the simplifications and changes IASB made in drafting ED IFRS for SMEs be really consistent with the actual information needs of SMEs financial statements users. Actually some disclosure and measurement simplifications adopted in the draft (such as the ones related to measurement of financial instruments, hedge accounting, goodwill impairment, government grants and others) even create further differences and related inconsistencies between the proposed ED

[1] See IASB, Framework for the Preparation and Presentation of financial statements, § 9.
[2] See IASB, ED IFRS for SMEs, § 1.1
[3] See IASB, ED IFRS for SMEs, § 2.1

and Full IFRSs. In this way differences are increased and so are the costs of transition from one set to the other.

According to the IFAC Information paper entitled “Micro-Entity Financial Reporting: Perspectives of Preparers and Users” the results of most national and regional studies on the subject show that the main users of SMEs financial statements are really different from those of the entities which adopt FULL-IFRS. In order of importance they can be identified as follows: 1) finance providers (banks and other financial institutions, venture capitalists, business angels, government and regional development agencies, factoring companies); 2) tax authorities, 3) competitors; 4) customers and suppliers, while other users such as non-owner managers and employees seem to be of lesser importance ([5]).

Comparing these findings with the contents of the Framework set in Full IFRSs, one can clearly conclude that its basic assumptions are hardly adaptable to the preparation and presentation of the financial statements of entities whose main stakeholders are different from the ones of listed companies (i.e finance providers, and, among them, credit lenders in the first place, rather than investors).

As IASB states in the Framework, ([6]), at large listed companies level the main information needs to be satisfied are the ones of investors, who expect information to help them determine whether they should buy, hold or sell financial securities, so that “the provision of financial statements that meet their needs will also meet most of the needs of the other users that financial statements can satisfy”. This kind of information is broadly satisfied recurring to fair value measurements.

If the above-mentioned approach was to be followed by IASB while issuing an accounting framework at SMEs level, the main information needs to satisfy should have been the ones of credit lenders. As a consequence, the satisfaction of their information needs would give to all other users enough information which is useful to them in making economic decisions.

It is crystal-clear that the information needs of an SME credit lender are different from those of an investor of a large listed companies.

The Framework itself acknowledges these differences when it stetas that “…Lenders are interested in information that enables them to determine whether their loans, and the interest attaching to them, will be paid when due…”([7]).

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[4] See IASB, Framework, § 12
[5] See IFAC Information paper “Micro-Entity Financial Reporting: Perspectives of Preparers and Users”, § 3.29-3.38.
[6] See IASB, Framework for the Preparation and Presentation of Financial Statements, §§ 10 and 9.a
[7] See IASB, Framework for the Preparation and Presentation of Financial Statements, § 9.(c).

Accordingly, in a lender's view financial statements have to be focused on information that can improve his perceptions about the capacity of the entity to service its financial debts by means of its operating activity.

In other words the information needs are focused on the entity's free cash flows from operations, on its profitability and balance sheet strength, both present and perspective([8]). Lenders are not interested in fair value measurements, which are often determined recurring to valuation techniques rather than to active market prices.

In such instances, fair values are extremely judgmental because they are calculated as discounted cash flows, the results of which are often biased by the variability of the discount rate used and/or by the actual consistency of the other assumptions used to determine the fair value of a particular item. Furthermore the determination of fair value based on valuation techniques implies either the use of administrative skills of the entity's employees or the recourse to external experts. Both solutions are often very expensive for SMEs([9]) and sometimes the cost of the information provided outweighs the real information benefits for SMEs financial statements users.

Irrespective of the approach used to define SMEs and the related selection of accounting policies consistent with the SMEs scope and definition (for further details on this subject, please refer to paragraph 2) it is likely that the issue of an appropriate standard for SMEs should provide a strong limitation in reference to fair value based measurements, allowing them only when fair values are readily determinable without undue effort, that is only if active market prices are available.

In any case, IASB should have better surveyed the differences in identifying the main users of SMEs Financial Statements and their information needs on one side and the consequences that this will have in terms of actual suitability of the FULL IFRSs framework at SMEs level on the other.

This alleged inconsistency between the perceived information needs of the SMEs Financial Statements users and the methodology used by the Board in drafting the content of the standard is going to be adequately tested with the forwarding of a questionnaire to SMEs and their major stakeholders in the North-western part of Italy.

An example of the above-mentioned need for redrafting in fair value based measurements is the area of impairment test for non-financial assets and goodwill, where the concept of "value in use" has been completely abolished in favour of a "fair value only" approach.

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8 See IASB, Basis for Conclusions on ED IFRS for SMEs, § BC24.

9 As a matter of fact, an SME required to provide for fair value based measurements must either have a specific staff unit to it dedicated or buy in this service from external expert(s). In both instances, the related cost may well be relevant.

In this case it is extremely pertinent the European Financial Reporting Advisory Group [EFRAG's] view, based on the distinction between an "exchange scenario" and an "in use scenario", where the entity must choose fair value or value in use consistently with the scenario which is more relevant for the particular asset to be measured ([10]).

To conclude this section, there seems to be room for improvements of the ED contents in order to take SME financial statements user information needs into real consideration. Obviously this may imply a lot of redrafting.

2 – The actual stand aloneness of the IASB ED IFRS for SMEs

Another major criticism which has to be raised with regard to the ED is about its alleged stand-aloneness. In spite of IASB's beliefs, the present version of the ED IFRS for SMEs cannot be judged as a stand-alone document.

A stand-alone, comprehensive standard dealing with adequate accounting policies for SMEs should allow its users to deal with most of the solutions to ordinary issues encountered when preparing financial statements according. And the proposed ED doesn't. At present the proposed ED is not self-contained because of the possibility given to an individual SME to apply the content of a Full-IFRS by cross-reference, rather than the requirements of the ED IFRS SMEs in relation to a specific matter. This is allowed either explicitly – in many sections of the ED (the text of the ED IFRS for SMEs retains the simpler measurement option of Full IFRSs, the more complex one being available by cross by cross-reference to the contents of the related IFRS), or as a general rule – when the adoption of the specific accounting policy set by Full-IFRS results in better information about the entity's financial position, performance and cash flows. Moreover, the ED IFRS for SMEs Basis for conclusions itself explains the way in which the "top-down approach" has been achieved, rather than focusing on the explanation of the concepts underlying the accounting policies that were selected and included in IASB's tentative draft.

As a consequence, the way in which both the proposed ED and its Basis for Conclusions have been conceived force an SME willing to adopt them to consider the content of Full-IFRS as well, because of i) the above-mentioned frequent cross-references to Full-IFRS both in measurement and disclosures; ii) the lack of any mention in the basis for conclusions to a rationale for the choices made in writing the ED (without Full-IFRSs beside, one cannot have any idea of the basis for conclusion from which the contents of the different sections in the ED were derived) and iii) the inadequacy of guidance provided in the standard and in the illustrative examples attached to it.

[10] See EFRAG, Draft Comment Letter on ED IFRS for SMEs, Attachment 1, page 5.

In other words, this ED IFRS for SMEs is lacking in self-understandability rather than in stand-aloneness only, which can be even worse than the latter. Accordingly, an entity can adopt it properly if and only if its employees and/or external consultants have a good knowledge of the IAS/IFRS background. So the real point is: why should an SME adopt a simplified internationally harmonized framework, if, to apply it properly, its employees or consultants must learn the more complex framework (Full IFRSs) in advance or in addition?

The main reason of the above mentioned lack of stand-aloneness of the document rests with the inconsistency between the definition of SME included in § 1.1. of the proposed ED and its actual content. The ED IFRSs for SMEs defines SMEs as Not Publicly Accountable Entities – NPAEs publishing general purposes financial statements. Public accountability is a characteristic of ([11]):

a. entities which file, or are in the process of filing, their financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market;

b. entities which hold assets in a fiduciary capacity for a broad group of outsiders, such as a banks, insurance entities, securities brokers/dealers, pension funds, mutual funds or investment banking entities.

In IASB's view the definition of SMEs is qualitative and it is irrespective of their size in terms of turnover, total assets and or number of employees.

Each Non Publicly Accountable Entity [NPAE] that publishes general purposes financial statements is included in the scope of the ED.

In IASB's view, SMEs are not publicly accountable either if they do not operate in the financial sector (i.e. entities operating in sectors like manufacturing, services, utilities, and so on) or if they do not have any intention to "go public" (i.e. to issue any kind of financial instruments to be quoted in active markets).

According to this definition, SMEs quantitative dimensions can vary from those of very small entities (the so called "micros") to those of large unlisted companies. This causes problems in drafting a really self-contained document.

If the range of potential accounting policies to include in the standard has to take into consideration the needs for preparing financial statements for as many different entities as the above-mentioned ones, it is difficult to decide what has to be explicitly included as ordinary content and what has to be excluded instead, because the selection depends on what segment of SMEs (in the definition given above) is the real focus of the proposed standard.

11 See ED IFRS for SMEs, § 1.2.

IASB, which perceived to limit the length of the proposed ED to 250 pages as one of its major goals in undertaking the IFRS for SMEs project, solved the issue represented by the relationship between the width of the scope and the actual content of the standard by recurring to a large number of cross-references to the content of Full IFRSs. In fact, the contents of the standard is tailored to the preparation needs of an "ordinary" SME with specified quantitative dimensions. IASB acknowledges this assumption in paragraph BC56 of the ED Basis for Conclusions, which states that "IFRS for SMEs is intended to be a stand-alone document for a typical small entity with about fifty employees".

This means that an SME bigger than that size is likely to adopt IFRS for SMEs recurring to a potentially wide range of cross-references to the contents of Full-IFRSs, because the ordinary requirements included in the proposed ED do not explicitly address most of the transactions and circumstances such an SME normally encounters. The real question is if such an entity should better adopt Full-IFRSs in the first place. IASB itself is aware of that and in many paragraphs of the ED Basis for Conclusions suggests that "big" SMEs (in relation to their economic significance in their home jurisdiction) should better adopt Full-IFRSs straight-forwardly (12).

The above demonstrates quite clearly that the present version of the ED is not self-sufficient. The solutions to remove the lack of stand-aloneness of the document, which we think is one of the weakest points in IASB's project, have to do with the recovery of a real consistency between the scope and the content of the standard.

In other words, the larger is the scope of the standard (i.e. the width of the target included in definition of SMEs), the larger has to be the content in terms of accounting policies explicitly included in the standard itself. If the definition of SMEs is qualitative, i.e. irrespective of economic size criteria, as the one adopted in the proposed ED, it implies that every potential SME should be able to find in the contents of the standard the rules and requirements which allow it to address the most of the transactions and other events it is likely to encounter ordinarily. At the current stage of ED IFRS for SMEs, this would imply a need for major redrafting, because in many sections of the proposed ED there are cross-references to Full-IFRSs.

Nevertheless, such a redrafting could cause the entire project to address more deeply the financial statement preparation needs of "large" SMEs rather than real target of the standard, that is the average SME, it being an unlisted companies the dimensions of which are not economically significant in its economic environment. Issuing such a draft would be probably pointless, because i) it would contain a lot of similarities to Full-IFRSs, ii) it might not be addressing the actual financial statement preparation needs of ordinary SMEs, iii) it could even be perceived by the latter as an impracticable standard to adopt because of its complexity and iv) might cause “large” SMEs to opt in favor of the straight-forward adoption of Full-IFRSs (if legally permissible), due to the very few gaps between the two accounting systems, which erase the simplification benefits of the revised and self-contained IFRS for SMEs in comparison to Full IFRSs.

Accordingly an alternative solution to the lack of consistency between the scope and the content of the standard could build upon the point of view of simpler entities in terms of accounting policies to be addressed. In this case the scope of the standard could retain the qualitative definition SME, but at the same time providing a scope-out rule to divert to Full IFRS all of the SMEs the financial statement preparation needs of which need more sophisticated rules than those included in the standard. Accordingly, the content of proposed ED could be on the one hand very basic and featured so as to achieve strong simplifications in measurement and disclosures requirements, to comply with the different information needs of SMEs Financial Statememts users. Furthermore, to simplify the use of the standard and spatial comparability, it should prevent the scoped entities form applying Full IFRSs by cross-reference. On the other hand, in order to keep a sufficient degree of consistency between IFRS for SMEs and Full-IFRSs it should be made clear that pervasive principles of the ED are based as much as possible on the same assumptions, concepts and definitions of Full-IFRSs, so as to keep reasonably low the transitional costs in case of a shift from IFRS for SMEs to Full IFRSs. To ensure at the same time flexibility and spatial comparability, the scope-out rule for SMEs entitled to adopt Full-IFRSs rather than IFRS for SMEs might even be conditioned to exceeding a conventional number of departs from the requirements of the standard. In other words, the scope-out rule might provide the need for adopting straight-forwardly Full-IFRSs if, in preparing the financial statements of a specific SME, the number of departs from the content of the various sections of the standard were, say, higher than five.

In this way, it should be possible to achieve the goal of drafting an SMEs accounting standard using a “reasoned” top-down approach. This would imply the issue of a self-containing document in which the selected accounting policies should be, among all the recognition and measurements options available in Full IFRSs, the ones which are consistent with the view expressed in paragraph 1, i.e. the ones closer to the perspective of credit lenders, who are the main users of an SMEs financial statements, but which, at the same time has the following features:

4. It is really a self-contained document, in which the SMEs included in its scope can find most of the accounting policies to address the transactions and other events they are likely to encounter in their ordinary activity;

[12] See IASB, Basis for Conclusions on ED IFRS for SMEs, § BC27, BC39, BC40, BC48. In addition see also IASB, IFRS for SMEs – a staff overview, page 7, answer to the question: “should large unlisted companies use FULL-IFRSs rather than the Proposed IFRS for SMEs?”.

5. It has a real section dedicated to the basis for conclusions related to the illustration and explanation of the assumptions, concepts and accounting policies which form its content (something that, as of today, is completely missing);

6. It is sensitive to the more sophisticated preparation needs of large unlisted companies, letting them adopt straight-forwardly Full-IFRSs if they feel to, without any reference to any national standard setter or legislator interference[13];

7. In considering the differences between SMEs and publicly accountable entities, it allows an easy transition from one set of accounting standards to the other.

3 – The relationship between the ED IFRS for SMEs, EU accounting legislation and National Standard Setters:

As explained above, the ED gives a definition of SMEs based on qualitative assumptions, without any reference to size or economic significance. This definition is different from the one indicated in the EU accounting directives (above all the Fourth Directive 78/660/CEE), which identifies as such manufacturing and services companies with limited liability which do not exceed contemporarily two out of three of the following quantitative thresholds:

Quantitative Indicators	**"Small" (Article 11 companies)**	**"Medium-sized" (Article 27 companies)**
Turnover	< € 8.800.000,00	< € 35.000.000,00
Balance sheet total (i.e. gross assets)	< € 4.400.000,00	< € 17.500.000,00
Number of employees	< 50	< 250

[13] IASB mentioned the reasons that caused it to drop the scope concept which was included in the Discussion Paper that led to the proposed ED. In the DP economic significance of an unlisted entity in its home jurisdiction was conceived as a feature of public accountability. As explained in paragraph BC40 of the ED Basis for Conclusions, many respondents to the DP argued that economic significance does not automatically result in public accountability. As a consequence "The Board concluded that economic significance may be more relevant to matters of political and societal accountability. Whether such accountability requires general purpose financial statements using Full-IFRSs is a matter best left to local jurisdictions to decide. As far as we are concerned, we think that leaving such a choice at national level, without imposing any general reference to an explicit scope-out rule in the standard will cause a higher degree of heterogeneity among different countries, determining what we are going to describe in paragraph 3 and finally causing lack of spatial comparability due to the differences in the range of SME allowed or required to apply Full-IFRSs rather than IFRS for SMEs at regional, national or multinational level.

The range of SMEs defined by EU accounting directives is much more restricted if compared to the qualitative criteria indicated by IASB in ED IFRS for SMEs. As a matter of fact "big" European companies (if judged in EU directives' view) without any intention to "go public" must be considered SMEs in IASB's IFRS for SMEs view. If such companies wanted to adopt Full IFRS they could not do it, because, by their nature, they are under the scope definition of IFRS for SMEs.

The EU Regulation n. 1606/2002, which obliged EU listed companies to adopt Full IFRS for consolidated financial statements, allowed also the Member States to enlarge the range of potential adopters (both for consolidated and separate financial statements) to not listed, limited liability companies (irrespective of any potential intention to be listed in the future) if their parents were EU listed companies or obliged to publish consolidated financial statements under EU Directives (Italy for instance permitted these enlargements).

When these enlargement options are given to a particular big-sized NPAE entity in an EU Member State, there may be a paradoxical circumstance in which the same "big" company (in EU directives' view) which is not publicly accountable (according to IASB's IFRS for SMEs scope definition) can adopt both sets of IASB's Standards:

4. Full IFRS because it is allowed/obliged by EU Regulation 1606/2002 in the Member State enlarged perspective (this happens now in Italy for the above mentioned companies);
5. IFRS for SMEs if it wanted to adopt the IFRS set consistent in IASB's view with its nature.

If such a company adopted the Full IFRS standards, its financial statements could not be declared as "IFRS compliants", because in IASB's view, this company must adopt IFRS for SMEs instead of Full IFRSs.

As a consequence, in any case ([14]), it seem to us that the ED IFRS for SMEs scope definition has to be integrated to avoid this potential paradox, indicating that IFRS for SMEs must be adopted by NPAEs (in the sense specified above), which publish general purposes financial statements and which are not required or allowed by their domestic legislation to adopt Full IFRSs. Like this large unlisted companies will have the same stakeholders scheme as the publicly accountable entities.

In this perspective National Standard Setter (and Legislators, of course) can have a strategic role in defining the scope of the ED IFRS for SMEs, either by adopting appropriate criteria to translate the notion of public accountability at a national level or by causing IASB to integrate the scope of the standard so as to let large unlisted companies to adopt straight-forwardly Full-IFRSs.

[14] I.e. without any reference to the scope revision proposed in paragraph 2 of the present paper.

In the first case, the national standard setters' and legislators' contribution to the ongoing debate about SMEs accounting could lead to a fine-tuning in fixing quantitative ([15]) or qualitative ([16]) criteria (or even a combination of both types) to identify the "perfect mix" of features proper of public accountability at local level, and, of course, by derivation, those entities which are not given this status, which are accordingly eligible to use IFRS for SMEs. Anyway, to promote spatial comparability among different countries, national standard setters (and legislators) should refrain from adopting a "curved out" principle, that is prohibiting the adoption of specific measurement or disclosure options included in the proposed ED. Otherwise the risk is to re-create at IFRS level the same heterogeneity which there is at EU level, because of the highly customized adoption of accounting directives by every EU Member State.

In the second case, it will be possible to achieve in the standard the general scope-out we are referring to in paragraph 2 of the present paper, which, in our opinion is more general and international harmonization-oriented.

At the time being the issue of the IASB ED IFRS for SMEs is not enforced in the EU by means of any EU regulation and no precise plans on that have ever been advertised . Most of the European SMEs which are within the scope of the ED must follow the rules set by the Accounting Directives. As a consequence, this ED IFRS for SMEs can be adopted at present only on a voluntary basis, and it has to be made clear that it would not substitute the information set by preparing the financial statements according to EU directives.

As specified above, the current version of the standard does not yet bring a satisfactory outcomes. So it should not be made adoptable by EU Member States under an IFRS for SMEs EU Regulation, because this could force European SMEs to adopt an unsuitable set of accounting standards for them.

Anyway accounting harmonisation continues to be an important goal in achieving a really integrated internal market in the EU, so the publication of this ED can have a very important side effect as it will inevitably be starting a serious discussions about the restructuring of the EU accounting directives. In a future and enhanced version, the proposed ED IFRS for SMEs can be either suitable for adoption at EU level or influential on the complete redraft of the Accounting Directives.

Accounting directives are at present full of alternative options in representation, recognition, measurement and disclosure. The decision about the way in which these options can be intro-

[15] I.e. based on fixing thresholds for turnover, total assets and number of employees that are consistent with the features of their national social and economic environment.

[16] Assuming, for instance, that non-listed companies of a particular industry can achieve public accountability – i.e. the public utilities sector.

duced at national level rests with national legislators and the action of the major pressure groups at local level. The result is that, in spite of a unique framework at EU level about the accounting rules for limited liability companies, we have now in Europe 25 accounting legislations which are not fully harmonised. At present the urge for the creation of an Internal Market at SMEs level seems not to be a point of the EU Institutions agenda, but this may change in the near future. International harmonisation in accounting is by far one of the most effective mean for ensuring spatial comparability, that is a way to achieve the integration of formerly separated markets.

Member States are hardly capable to decide where to cut the "jungle" of options that has came out of the uninterrupted interventions on the structure of the accounting directives, which is the result of the deep differences between the accounting framework which existed in each Member State before the enactment of the Accounting Directives. It is not strange if at present, in the recent Recommendation of the European Commission about the simplification of the accounting directives ([17]) the references to the reduction of the various options included in the text of the Accounting Directives are very few.

This weakness, or better this deadlock situation, which today is not deemed relevant, tomorrow could result in the abandonment of the pattern based on the dualism between the accounting directives at EU level and the national legislation which introduces them or their changes at Member State level, in favor of a system in which, to ease the creation of the EU Internal Market, every SME is forced by a regulatory procedure to adopt an unique accounting standard which can well be a represented by a revised, more "user-friendly" version of the proposed ED IFRS for SMEs ([18]).

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[17] See the Communication of the European Commission (2007) 394 on a simplified business environment for companies in the areas of company law, accounting and auditing, downloadable at: http://ec.europa.eu/internal_market/company/docs/simplification/com2007_394_en.pdf .

[18] IASB is aware of this and relatively confident in the fact that the impossibility to achieve an agreement at EU level mighit result in the adoption of its proposed ED as the accounting standard for all SMEs in the EU, as it is clearly indicated in the following paragraphs of the ED Project summary:: "(….) *32. The Board believes that IFRSs are suitable for all entities, listed and unlisted, large and small. Nonetheless, the Board recognises that in most developed countries where IFRSs are used, the primary adopters are entities whose securities are publicly traded. In Europe, where all listed companies will be adopting IFRSs in 2005, only two or three small EU and EEA member states (out of 28 total) will require IFRSs for SMEs. Most of the others will permit IFRSs, but they will also permit SMEs to follow national GAAP. Many of those countries are moving to align their national GAAPs with IFRSs, but no two are doing it in the same way. And most of those countries already include, either in their national GAAPs or national laws and regulations, accounting exemptions and simplifications for SMEs. In some cases, there is a separate body of accounting standards for SMEs. 33. There is a real possibility, in Europe alone, that there could be two-dozen or more sets of national standards that purport to be adaptations of IFRSs suitable for SMEs. This is true not only in Europe, of course, but also elsewhere in the world. The problems that the Board sees in that event include: • Claims of extraction from, convergence with, alignment with, or similarity with IFRSs are often somewhat exaggerated; • National standards for SMEs would not necessarily be consistent with the IASB's Framework or Standards; • National standards for SMEs would not necessarily address the needs of external users of financial statements*

It is the same process that led in ten years, from 1995 to 2005, to the adoption of Full-IFRSs as the accounting legislation to be adopted in the preparation and presentation of consolidated financial statements for listed companies with financial securities quoted in EU financial markets.

4 – Final Thoughts

This paper was aimed at analyzing the major inconsistencies in the structure of the proposed ED IFRS for SMEs issued by IASB. The results achieved are still tentative, but very promising as far as further research is concerned. It seems that the content of the standard is not really consistent with information needs of the SMEs financial statements users, but this will have to be adequately tested by means of a survey among SMEs and their stakeholders. If the results confirm our predictions, we could have a strong argument for a methodological criticism against the top-down approach in projecting the actual content of the proposed ED.

References

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IASB, Exposure Draft of a proposed International Financial Reporting Standards for Small and Medium Sized Entities – ED IFRS for SMEs;

IASB, IFRS for SMEs – a staff overview

IASB, Basis for Conclusions on ED IFRS for SMEs

IFAC, Information paper "Micro-Entity Financial Reporting: Perspectives of Preparers and Users";

EFRAG, Draft Comment Letter on ED IFRS for SMEs

European Commission, Communication of the European Commission (2007) 394 on a simplified business environment for companies in the areas of company law, accounting and auditing.

(which is the IASB's objective); • Financial statements of SMEs would lack comparability across national boundaries or even within a country;• National standards for SMEs would not necessarily allow for an easy transition to full IFRSs for entities that wish to enter the public capital markets. 34. Simply put, in Europe it makes more sense to have one set of accounting standards for SMEs based on IFRSs developed by the IASB rather than 28 different sets. The same is true globally (….)". See the Project Summary *of the ED IFRS for SMEs*, paragraphs 32-34.