



**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  
DG Internal Market and Services  
Financial Reporting Unit-F3  
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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="#">Representative European SME organisation</a>	

Name of your organisation / company: [UEAPME](#)

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

Name and location of parent company:

Contact details incl. e-mail address: [Luc Hendrickx- Rue Jacques de Lalaingstraat 4- 1040 Brussels; e-mail \[l.hendrickx@ueapme.com\]\(mailto:l.hendrickx@ueapme.com\)](#)

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

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>: [55820581197-35](#)

Publication:

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

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<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:*

Contrary to the first draft, the standards have become a stand-alone document. In the first draft, there was always a reference to the full IFRS (which apply to listed companies). This reference has now been skipped. Nevertheless there is still a reference to the full-IFRS and for some standards there is still the option that if the standards do not require/prescribe anything, one can always refer to the full-IFRS, but it is not necessary anymore to know the complete full IFRS to apply these standards.

Although this is a positive evolution and a certain improvement, the starting-point remains fundamentally wrong. Indeed the starting-point remains the full IFRS which has been "simplified" for SMEs. This is done by skipping some standards which are not applicable to SMEs or by introducing procedures or fewer options, but the basis remains full-IFRS.

In addition, the full -IFRS are drafted from the point of view of an enterprise which has, in the first place, to report towards its stakeholders and the financial markets (listed companies).

Consequently, this is a completely different approach then what accounting in a SME is about.

Indeed apart from the management, the stakeholders of SMEs, employees, customers, suppliers, credit institutions, leasing companies, creditors, public authorities, trading partners,... have different information needs.

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

<sup>4</sup> 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)

The IASB mentions in the standards that they also apply to SMEs which make “general purpose financial statements”, meaning financial reporting for external users. Also SMEs have external users of their financial statements as e.g. suppliers, creditors, etc...but their accounts are in the first place a management tool for the manager itself.

The IFRS for SMEs standards, on the other hand, which start from full IFRS which are oriented towards the external shareholders, are exclusively conceived to give information towards third parties.

In addition, this approach – to start from full IFRS, then to skip something and to simplify other things, is in contradiction with the bottom-up approach proposed by the European Commission in the consultation on the revision of the 4th and 7th directive (“Think small first- principle”: meaning starting from the requirements and the needs of SMEs). Once again the starting point are the big enterprises and the SMEs have to follow.

The IFRS for SME- standards remain too complex for SMEs (230 pages!!). It is difficult to imagine how the IFRS for SMEs project is compatible with the objective of the European Commission to reduce the administrative burdens for SMEs.

In some Member States where the tax system is based on the accounting legislation, the introduction of the IFRS for SME standards will request a change of the fiscal system or SMEs will be obliged to draft a fiscal balance in addition to their accounts.

The IASB itself mentions explicitly that the IFRS standards do not take into account the taxation system.

In its opinion on the IFRS standards, the European Parliament (Radwan report 2008) has pointed on the non-transparent way of working of the IASB, in addition Europe does not have a say in it and there is no European control on it.

In view of the upcoming revision of the accounting directives, the IFRS (for SMEs) can only be a source of inspiration. The modernisation of the accounting directives should provide for a adapted framework for each category of company in the European Union.

### ***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:*

Not relevant

*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:*

Not relevant

**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:*

Not relevant

**Question 4:**

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

YES                       NO                       Don't know

*Please comment:*

Not in our opinion. UEAPME does not agree that IFRS increases comparability of the accounts. As already requested by UEAPME in 2008, the Commission should investigate properly who the users of accounts are and what their needs are.

**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 IFRS for SMEs is not designed to improve the exigencies of reporting. Especially the needs of SMEs themselves are – in contrast to the interests of investors - not taken into account. The IFRS for SMEs as well as the full IFRS are based on a top-down-approach. This is completely incompatible to the important "think small first"-principle of European legislation.

Even providing "IFRS for SMEs" as an option will endanger the harmonisation, which is necessary for the competitiveness of companies in the European Internal Market and the comparability of the annual accounts within the European Internal Market.

UEAPME urges the Commission to further study the simplification of the requirements for SMEs in the 4th and 7th directive. Indeed SMEs in general require less complex and less sophisticated external financial reporting.

In addition, as already mentioned in previous position papers, the Commission should analyse and investigate on the real information needs of the different and diverse users of financial statements of enterprises and especially SMEs.

**Question 6:**

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

YES                       NO                       Don't know

*Please comment:*

A Member State option will lead to the fragmentation of the internal market. SMEs will come under pressure from clients/providers in Member States with an option to present their accounts according to the IFRS for SMEs. We see this phenomenon already for high tech SMEs that are active at the US market. All efforts for a further harmonisation by reviewing the existing directives should continue.

**Question 7:**

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

*Please comment:*

If "IFRS for SMEs" will be introduced in the EU accounting framework it will have a negative impact on SMEs. Indeed it creates a disproportional high burden and is completely useless for companies which are not internationally active. Furthermore the costs to train employees and the personal exigencies will be too high and thus unacceptable. The majority of SMEs are in fact not able to handle the requirements caused by the IFRS for SMEs. Considering the actual financial crises, the consequences of such additional burdens are even worse and will cause a rise of insolvencies. It will increase the administrative burden for the majority of enterprises in Europe. Even if the IFRS for SMEs leads to advantages for some single entities this cannot justify the European-wide implementation of the standard. The actual financial crises has shown that the IFRS framework has its limits and important consequences. UEAPME does not support the introduction of the "IFRS for SMEs" in the European accounting framework. The presentation and content of the annual accounts and annual reports, as well as the used valuation methods, should be dealt with in the Fourth and Seventh Directive. There is also a serious risk that the introduction of "IFRS for SMEs" will lead to a concentration in the accounting profession, which will in addition increase the costs for SMEs.

**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:*

Providing an option will undo all former measures taken to enhance the comparability and harmonisation within Europe.

**Question 9:**

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

*Please comment:*

As UEAPME is against the introduction of "IFRS for SMEs" this question is not relevant. UEAPME also wonders why no impact assesment has been carried out on the cost and benefits of IFRS for SMEs before launching a consultation on it. Therefor UEAPME urges the Commission to do such an impact assesment before taking any further steps.

It has also to be noticed that the reporting standard has been developed by the IASB, an undemocratic and unconstitutional private board. The IASB does not consider different interests and focuses mainly on the creation of a standard which is as close as possible to the rules of the us-GAAP instead of developing the actual European law.

**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)*

We would like to refer to our answer in the " UEAPME position on the consultation paper "Cutting Accounting Burden for Small Business / Review of the Accounting Directives". ".... The concentration of the principles in one dedicated section will underline not only the principles-based nature of the directives but even more the importance of those principles. Indeed, International Standard setting should be based on principles since it is neither possible nor necessary to provide specific rules for the many different situations that exist throughout the world. The use of the principles of the Fourth and Seventh Directives has so far resulted in a basis level for harmonisation of financial reporting in the European Union and it has undoubtedly led to improvements in the quality, comparability and transparency of financial statements of companies throughout the European Union over the last twenty years. For example, the prudence and realisation principle guarantee sustainable company structures, even in times of crisis. As the economic reality is evolving faster then the legislator, a principles based accounting remains necessary. For SMEs especially detailes rules need more efforts and create more bureaucratic burdens.

*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:*

*Other comments*

***Question 11:***

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

*Please comment:*

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***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:*

UEAPME has some doubts concerning the content of the consultation document of the Commission, as it is not neutral and objective. Indeed on page 3 of the consultation document it is stated that "The IFRS for SMEs is a 230-page standard tailored to the needs and capabilities of smaller businesses." UEAPME wonders on which "evidence" this is based. Also for the statement under "SPECIFIC ISSUES" 4.1 Initial reaction to the Standard:

"Some commentators have expressed the view that the IFRS for SMEs will allow international comparison of financial statements and that may lead inter alia to increased access to finance, reductions in the cost of capital, increased trade, and increased levels of cross-border merger and acquisition activity. International groups that are eligible to use it may see compliance costs fall and increased information usefulness from dispensing with different local reporting regimes." no evidence or reference is given. Ueapme in any case does not agree with this comment.

***Thank you for your contribution***