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POSITION PAPER ON INTERNATIONAL ACCOUNTING STANDARDS FOR SMALL AND MEDIUM-SIZED ENTITIES (SMEs)

The current International Financial Reporting Standards (IFRS) are not able to respond to the specific needs of the users of small and medium-sized entities annual financial statements. Therefore UNICE basically supports the development of a separate set of international accounting standards that are geared toward the individual information needs of users of annual financial statements and also take into account cost-benefit factors. The aim must be to develop a separate set of international accounting standards, which is derived from the full IFRS but takes appropriate account of the qualitative differences between SMEs and publicly listed companies. The following points have to be considered in the development of these standards. The consideration of these aspects will have a significant impact on the ease of acceptance of these standards in Europe.

- 1. Development of a separate body of standards:** The IFRS for SMEs must be a comprehensive and stand-alone set of standards that are derived from the full IFRS. The individual rules of the full IFRS should be examined to ascertain their suitability for the separate SME standards, or whether different principles must be found. A mandatory fallback on the full IFRS if the standards for SMEs do not address a particular accounting recognition or measurement issue is rejected. Instead, where an issue is not addressed - apart from explicit limited exceptions - reference should be made to the (adjusted) framework.
- 2. Using the same framework:** The SME standards should generally be based on the same framework as the current IFRS. This is the only way in which a certain degree of comparability between the financial statements of listed and non-listed companies can be achieved. However, in order to do justice to the requirements and needs of SMEs, the framework should be adjusted where necessary to take into account the distinguishing features of SMEs, such as the different users of the financial statements and their different information requirements. While investors are the main users of the financial statements in the case of listed companies, the financial statements of non-listed companies are mainly addressed to its shareholders, the financial authorities and credit institutions. The primary concern of SMEs is to secure its value in the long term. Therefore, we suggest incorporating an explicit and stronger emphasis of the principle of prudence into the framework, in particular with regard to issues of valuation difficult to determine and carrying risks.
- 3. Simplicity and stability of the standards:** Companies, like the users of financial statements, need international accounting standards that are easy to apply and understand. Excessive amendments and revisions should be avoided. For one,

frequent amendments result in high adjustment costs for companies. They also increase the degree of uncertainty for medium and long-term corporate planning. In addition, the volume of the standards must be reduced considerably in comparison to the present IFRS. A body of regulations, comprising over 2,000 pages, is not suitable for small and medium-sized entities. The development of accounting standards using a principle-based-approach should be given preference over a rule-based approach. There is no need for more extensive standards for SMEs.

4. **Group of users:** The application of the international accounting standards for SMEs should be open to as many companies as possible. For this reason all non-listed companies should be allowed to apply these standards on a voluntary basis. We do not believe that the definition of additional exclusion criteria by the IASB would be helpful.
5. **Taking account of the different information requirements of the users of financial statements:** The information requirements of SMEs and their stakeholders differ considerably from those of listed companies. Supplying information to the capital markets has little relevance to SMEs. The shareholders, lenders and contractual partners of SMEs are often closely tied to the company and its owners often actively participate in the company's management. SMEs are usually financed through bank loans rather than through the capital market. The primary concern of SMEs is to secure its value in the long term, which makes the principle of prudence much more relevant to them. These different requirements for information should be taken into account in drawing up the standards, especially in identifying possible simplifications in recognition and measurement.
6. **Simplifications to recognition and measurement principles as well as to the notes of the financial statements are needed:** The current IFRS should be simplified substantially for SME purposes. Complex accounting and valuation rules should be replaced by practicable principles that enable smaller companies to apply them. This applies particularly to fair value measurement. The financial reporting burden should also be cut down in the SME standards. Especially, a substantial reduction of the disclosure requirements is needed. The preparation of the notes is burdensome and cost intensive, and it is doubtful whether this degree of detailed information provides an added value to SME financial statement users.
7. **Tax accounting and distribution of profits:** In some EU states annual financial statements prepared according to national accounting standards serve as a basis for determining taxable income and profit distribution. Even if these purposes are not part of the objectives of the current IFRS, they should still be taken into account in the development of the separate standards for SMEs. SMEs cannot afford to double their costs of preparing financial statements. An option would be, for example, to introduce a "reserve for unrealised profits". The portion of earnings reported here could then be excluded from taxation and profit distribution.
8. **Greater consideration of SME representatives in the relevant bodies:** In Europe a large number of companies fall into the possible scope of application of

these standards. However, members with a SME background are insufficiently represented in the relevant bodies, such as the working group set up for this project. To ensure the practical value of the regulations developed, the presence of SME representatives with their experience and expertise is urgently required. For this reason the composition of the relevant bodies should be adjusted accordingly.