DUTCH ACCOUNTING STANDARDS BOARD (DASB)

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EFRAG
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Our ref : AdK
Date : 18 September 2007
Re : Comment on your letter regarding the Exposure Draft of a Proposed IFRS for Small and Medium-sized Entities

Dear members of the EFRAG Technical Expert Group,

The Dutch Accounting Standards Board (DASB) appreciates the opportunity to respond to your draft comment letter regarding the Exposure Draft of a Proposed IFRS for Small and Medium-sized Entities.

The DASB believes that the release of this Exposure Draft raises some important issues of principle and our comments should be read in that context.

We recognize the need for a global standard (i.e. IFRS) for listed companies that are active on public capital markets, but we believe that the need for a new global standard for companies that are not listed is significantly less. Such a standard may be particularly relevant in situations where no local standard is available.

Our doubts about such a new global standard have increased on reviewing the exposure draft. Where expectations were raised of a standard that on the one hand would simplify financial reporting and the other hand would contribute to comparability across borders, we are now faced with a standard that potentially could significantly raise the cost of financial reporting, both in respect of recognition and measurement as well as disclosures, compared to the financial reporting framework currently available in the EU (national GAAP). In our view the standard would not significantly improve financial reporting, certainly not in countries where the present standards have been shown to be adequate enough in satisfying reporting needs, and as such the benefits of this standard may be rather limited for companies based in the EU.

Also, we have conceptual objections to the approach taken by the IASB. It has used a top-down approach, i.e. to alleviate full IFRS requirements where this would not be considered applicable for SMEs. A bottom-up approach, whereby first the users' needs would be investigated, might have identified better, more balanced and more useful information needs for relevant stakeholders. In our view the research of those needs is still pending.

We are not opposed to a standard that would provide those with a constituent interest in financial reporting with what they need. However, it is those needs that should be the underlying premise for the standard. In our view, the approach take so far by the IASB has ignored these. We have also noted the request from the IASB to field test the draft standard. That is the reverse of what should have been done. They should have gone to the field before drafting the standard.

Furthermore, we believe that consideration should be given to the subject of “Better Regulation”, where the European Commission has decided to simplify the regulatory environment for European businesses. The objective is to ensure that Community legislation in the fields of company law, accounting and auditing corresponds to today's business needs and allows European businesses to compete more effectively and to be more successful in a highly competitive global environment. We would not consider the current exposure draft of IFRS for SMEs to be a simplification in that context.

Although it is not within the IASB’s authority to require the application of IFRS for SMEs, we believe it should be very clear from the outset that this standard should at most be an additional and optional platform for companies in the preparation of their financial reporting.

For the above reasons, we are of the view that EFRAG should express a different opinion on the exposure draft than the one that is currently reflected in its draft response. The risk inherent in the current EFRAG response is that commenting on and responding to the exposure draft will only lead to a revised version that still would not meet what would be needed. EFRAG should clearly express to the IASB that the current draft is not the one that was expected. Improving the present draft is not sufficient; the standard should be re-written on the basis of the approach outlined before. Moreover, this exposure draft is a standard that accepts as a premise that “one size fits all”. It cannot be that such a standard would not recognize size as a criterion with regard to the extent to which financial reporting should be applicable to company reporting.

In conclusion, given the above, instead of providing a further or more detailed reaction to the questions raised with regard to the exposure draft and your draft comments, we have limited ourselves to a number of key comments in the annex to this letter.

We will respond to the IASB in similar fashion.

We would be happy to discuss our reactions with you.

Yours sincerely,

Hans de Munnik
Chairman DASB

Key comments IFRS SME – IASB

1. Users' needs ought to be analysed further. A bottom-up approach will provide better, more balanced and more useful information to stakeholders. We would expect that such an analysis could provide more focus to the key areas and result in more changes to recognition and measurement principles. The following key comments should be read in this context.
2. The standard should be a comprehensive stand alone document. Therefore all cross-references to full IFRS should be replaced by a simplified version of this IFRS.
3. We believe that the scope of the standard is currently too wide and tries to be a "one size fits all". We believe that both the user needs and types of transaction differ too much between the companies that may currently be within the scope of the standard. As a result it will not be possible to come to an appropriate and comprehensive standard. We suggest limiting the scope (e.g. excluding small and micro companies).
4. "IFRS for SMEs" is not the most appropriate label as the term "SME" is open for different interpretations.
5. We believe that the Standard could benefit from a revised structure, whereby the lay-out of financial statements (e.g. balance sheet line items) should be the primary driver for this structure.
6. More simplifications in recognition and measurement should be considered from a cost-benefit perspective. Disclosures should be limited further, when there is no appropriate balance between cost and benefit, taking into account users' needs. Examples are:

- **Section 10**: Only the correction of fundamental errors should be accounted for retroactively.
- **Section 11:** It should be an option to measure all financial instruments that are not actively traded in a deep and liquid market, at (amortized) cost less impairment, where required. This choice should be irrespective of the fact whether the fair value can or cannot be measured reliably (11.7c).
- **Section 17/18:** The impairment approach should not be the only approach in respect of goodwill. The costs involved with impairment calculations and the processing of any impairment in the financial statements accounts in our view exceed the benefits. Other approaches could be considered, like for instance the amortization of goodwill over the estimated useful life with a rebuttable presumed maximum of 20 years. A similar approach could be considered for assets that would have an indefinite life under full IFRS.
- **Section 26:** By removing the 'value in use' comparison, the IASB reduces the complexity of the impairment calculation, but enhances the likelihood of impairment and thus the overall costs of preparing the financial statements. Therefore the 'value in use' comparison should be maintained.
- **Section 27:** We believe that from a cost-benefit perspective the standard should include a general waiver from IAS 19 for multi-employer pension plans in the sense that these should qualify for DC accounting regardless of the details of the plans.