POSITION PAPER

ESBG Response to: EFRAG's Draft Comment Letter on the IASB's Exposure Draft on IFRS for SMEs

26 September 2007

EUROPEAN SAVINGS BANKS GROUP

INTRODUCTION

The European Savings Banks Group (ESBG) welcomes this opportunity to comment on EFRAG's Draft Comment Letter on the IASB Exposure Draft (ED) on international financial reporting standards for small and medium-sized enterprises (IFRS for SMEs). We believe in the importance of working towards the improvement of accounting regulations and, in line with this, we welcome the efforts made to develop the best accounting standards for SMEs. This being said, in order for the ESBG to be fully supportive of introducing new standards, we believe it to be of great importance to prove that these new standards will benefit SMEs and that they do not result in the creation of additional administrative burden.

As decentralised financial institutions with local and regional ties, Europe's retail and savings banks have a long-standing relationship as partners of SMEs and micro enterprises. Because of a locally rooted network, our member banks are proximity banks, able to provide the whole range of financial products to SMEs at local level, giving access to loans, guarantees, micro credits as well as to the equity and capital markets. This local presence explains why the ESBG Members are the main providers of finance to SMEs in many European countries. As ESBG members are by tradition natural business partners of SMEs, the ESBG is committed to take an active part in working towards a better business and financial environment for European SMEs.

In general, Europe's retail and savings banks do not have any strong preference as regards the accounting standards that their SME clients apply. More specifically, the Members of ESBG can adapt to the accounting standard used by an SME for the purpose of conducting a credit assessment, be it a national GAAP or an international accounting standard specifically designed for SMEs. In that sense, our major interest in this regard is to contribute in order to ensure that our SME clients benefit from the best possible accounting standards.

GENERAL REMARKS

IFRS for SMEs should be an option

In our view, the first question to be addressed is whether there is an added-value at all in the development of an international accounting standard specifically designed for SMEs. In this context, it is important to stress again that the perspective of a locally-active SME is very different from that of an internationally-active company, the securities of which are listed on a stock exchange. In that sense, the benefits of drafting an international accounting standard for SMEs are not the same as the benefits of an international accounting standard for listed companies.

As regards the scope of application of the proposed accounting standard, we are of the opinion that it would not be appropriate to make it mandatory for all the SMEs active in the EU, given that while some might benefit from such a standard, especially those active in several countries, others might find it excessively burdensome and might prefer to continue applying their national standard. Against this background, we believe that for the moment, each SME should be given the option whether to use any forthcoming IFRS for SMEs standard or not.

The scope of entities obliged to use full IFRS

IFRS are applicable to all listed companies. In fact, according to article 4 of the regulation 1606/2002/EC (the so-called IAS Regulation), all companies in EU Member States shall prepare their consolidated accounts in accordance with the international financial reporting standards if, at their balance sheet date, their securities are admitted to trading on a regulated market. Alternatively, IFRS for SMEs should be applicable to the rest of the companies, the ones which do not have public accountability. However, this is currently not the case as through the definition of public accountability in the IFRS for SMEs ED the IASB has chosen to exclude from the new standard further entities, such as banks and insurance companies, not taking into consideration whether these are capital market oriented or not. The ESBG questions this exclusion, as it widens the scope of entities obliged to use full IFRS in relation to the requirements set out in the IAS Regulation. We believe that it is not the role of the IASB to make this exclusion. The applicability of regulations is rather a decision to be taken by the respective EU legislators.

A stand-alone document

We believe that although some reduction in the complexity of the IFRS for SMEs has already been achieved by the cut in disclosure requirements, the anticipated simplification becomes to some extent absent due to a large number of cross- references to the full IFRS. Moreover, in order to be able to use the new standards in an efficient way, it seems as if one must to some extent also be familiar with the content of the full IFRS. We are of the opinion that it is very important to make these standards more user-friendly. Therefore, we agree with EFRAG's view on the importance of making the IFRS for SMEs a stand-alone document.

User needs

In line with the opinion put forward by EFRAG, we tend to think that the needs of the users have been somewhat neglected in the new standards. We believe there are different user needs as regards financial statements from listed companies in relation to statements of non-publicly accountable entities. Users of SMEs financial statements tend to be less interested in value and, especially when speaking of banks, more interested in how the entity will be able to meet its obligations towards its creditor on time. This is generally a question of long-term vs. short-term investment, where shareholders of large corporations look for the fair value of their investment at any given moment, while the stakeholders of SMEs are typically interested in another kind of information. This ought to be reflected in the standards. The view that users' needs differ to a large extent between SMEs and larger corporations has been shared by the IASB but for some reason it has not been taken into account to a large extent when creating the standards.

Possibility of linear amortisation of goodwill

We fully support EFRAG's view on the need to reinstate the option of linear amortization of goodwill, which has been excluded from the standards. We are of the opinion that re-introducing the possibility of linear amortization of goodwill and other intangible assets will lead to a simplification in reporting. This would mean taking one step further away from the focus on fair value, a measure we believe will result in more adequate information brought to the users of SME financial statements.

Tax reporting vs. IFRS

Additionally, we believe that the effects of having different sets of standards must be assessed before any measures are taken towards imposing the new standards on SMEs. SMEs are generally under a legal obligation to report to their national tax authorities according to national accounting standards. Unless national tax authorities accept reporting according to IFRS for SMEs, an obligation to use them, would lead to double reporting.

Adequacy of disclosures

In line with EFRAG's view, the ESBG welcomes that in the IASB's exposure draft the disclosure requirements have been reduced compared to the full IFRS. We also find that the reduction in complexity has been reached to some extent and we welcome this decreased burden and hope that it will facilitate the reporting of SMEs using the new standards. However, we believe that further reductions in disclosures requirements could be achieved. We are of the opinion that IFRS for SMEs disclosure requirements should not go beyond the requirements set by national accounting regulations.

As mentioned above, we also agree with EFRAG's comment that the differences in users' needs have a big impact on disclosures.

Maintenance of the IFRS for SMEs

A revision of the standards is suggested by the IASB to be carried out once every two years. The ESBG is of the opinion that modifications and further development of the standards ought to take place over longer periods of time; a too short timeframe may create unnecessary instability and certainly additional administrative burden for SMEs.

About ESBG (European Savings Banks Group)

ESBG (European Savings Banks Group) is an international banking association that represents one of the largest European retail banking networks, comprising about one third of the retail banking market in Europe, with total assets of € 5215 billion (1 January 2006). It represents the interest of its members vis-à-vis the EU Institutions and generates, facilitates and manages high quality cross-border banking projects.

ESBG members are typically savings and *retail* banks or associations thereof. They are often organised in decentralised networks and offer their services throughout their *region*. ESBG member banks have reinvested *responsibly* in their region for many decades and are one distinct benchmark for corporate social responsibility activities throughout Europe and the world.

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