



28th August 2007

The AASB  
standard@asb.com.au  
and  
The IASB  
[CommentLetters@iasb.org](mailto:CommentLetters@iasb.org)

Dear Sirs

**RE: RESPONSE TO INVITATION TO COMMENT ON IFRS for SMEs**

I write to express my concern with the proposal to require all small entities which are not publicly accountable, and who lodge financial reports with a regulator, to apply Australian Equivalents to International Financial Reporting Standards (A-IFRS) for Small and Medium Entities (SMEs).

**Application of A-IFRS for SMEs**

All Incorporated Associations, all Aboriginal Corporations and all Companies Limited by Guarantee are required lodge annual financial reports with a regulator. None of these entities ever have any equity investors, most would have no public borrowings (or any long term debt at all) and most are exempt from income tax. In these circumstances, it is highly unlikely that there is anyone who requires their financial reports to make economic decisions.

To require all small associations in Australia to adopt the IFRS for SMEs, with the concomitant significant accounting and reporting burden would be unacceptable. It would also be contrary to the Australian Government's Red Tape Reduction Program.

In addition, I question whether the IASB has over stated the users of SME Financial Statements. From my experience with the Reporting Entity Concept, creditors of most small not for profit organisations do not rely just on the financial statements but rather they do their own due diligence which may include individual guarantees from the entity and its executives and directors.

I do not support the AASB's 16 February 2007 announcement "...that all public sector entities should be regarded as publicly accountable...". I have a real concern that neither full IFRS nor IFRS for SMEs are necessary for smaller sized public sector entities.

The Not-for-Profit sector generally needs special consideration given that IFRS and IFRS for SMEs is directed at Reporting Entities in the Private Sector. For those Non-Reporting Not-for-Profit Entities, application of either IFRS or the IFRS for SMEs Standard is concerning, given that the Standards are not intended for such entities.

I note the AASB's concern that some of the disclosures in the IFRS for SMEs ED might be too onerous and therefore a third tier of reporting with reduced disclosures might be necessary. In my view, a better solution would be to maintain the Non-Reporting Entity Concept for the smaller SMEs.

**IFRS for SMEs**

In relation to the proposed reporting standard for SMEs, I question as a fundamental issue whether the simplification of only measurement is sufficient for an SME; particularly given the Australian experience of implementing IFRS where the use of Fair Values has proved difficult, time consuming and expensive. I believe that the requirement to fair value transactions adds significant costs with few benefits for SMEs. Instead I advocate a simple Impairment Trigger Test, with the use of historical cost as the measurement base.

**CONCLUSION**

If the wholesale application of A-IFRS for SMEs goes ahead, I expect widespread non-compliance due to the unreasonable cost imposts on those who try to comply. I urge the AASB to retain the notion of special purpose financial reports.

Yours faithfully,

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