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The Project Manager
International Accounting Standards Board (IASB)
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Via 'Open to Comment' page, www.iasb.org

Dear Project Manager

Exposure Draft of a Proposed IFRS for Small and Medium-sized Entities

Thank you for the opportunity to comment on the Exposure Draft of a Proposed IFRS for Small and Medium-Sized Entities. CPA Australia's responses to the specific questions are attached.

CPA Australia's responses have been prepared in consultation with members through its Asia Pacific Financial Reporting Advisory Group (APFRAG) which is a Board Committee representing a regional perspective from South-East Asia and Oceania, and its Financial Reporting and Governance Centre of Excellence. Consultation also occurred with members who are in public practice, and/or are involved with small and medium-sized entities (SMEs). In addition, CPA Australia commissioned the Corporate Governance and Financial Reporting Centre, National University of Singapore to capture the views of a sample of members from these two categories across Australia, Hong Kong, Malaysia and Singapore. A total of 465 responses were received to a questionnaire survey with 92 responses from Australia, 126 responses from Hong Kong, 117 responses from Malaysia and 130 responses from Singapore. CPA Australia has evaluated the findings of the survey reported in the Consolidated Report through a 'public interest' lens to determine how those results should inform this submission and, where appropriate the findings in the Consolidated Report are presented in this submission. The Consolidated Report presents the main findings of this survey using responses on a collective basis and on an individual country basis is appended to the submission.

CPA Australia agrees with the conclusion of the International Accounting Standards Board (IASB) that there exists a sufficient reason for the IASB to develop and promulgate a standard that is relevant to the users of the general purpose financial reports of private sector profit-oriented entities that do not have public accountability. Eight-one per cent of respondents to the survey agree the [proposed] Standard is necessary and desirable.[1] However, CPA Australia does not support the IASB's stated motivation for the [proposed] Standard – being, comparability across borders. Instead it sees the [proposed] Standard as the IASB's response to ensure that the needs of private entity report users re relevance of the information provided in a financial report are met.

CPA Australia also support the use of the operational definition of SMEs – entities that that do not have public accountability and prepare general purpose financial reports for external users - to differentiate those private sector for-profit entity general- purpose- financial reporters that would be able to make use of the [proposed] Standard from those who would not. In the survey, 72% of respondents do not find the operational definition disagreeable (42% agree it is an effective operational definition that can be applied easily and 30% are neutral).[2] Some members have expressed concern that the term 'fiduciary capacity' requires further explanation to ensure that some entities do not mistakenly conclude that they are outside the scope of the [proposed] Standard. CPA Australia encourages the IASB to include a further explanation.

[1] Findings on an individual country basis - Australia 70%, Hong Kong 83%, Malaysia 80% and Singapore 87%.
[2] Percentage of respondents who do not disagree with the statement that the operational definition is effective and can be applied easily (and percentage in agreement) by country – Australia 71% (52%), Hong Kong 74% (41%), Malaysia 62% (40%) and Singapore 78% (41%).

CPA Australia does not consider the use of the expression 'SMEs' in the [proposed] Standard is consistent with the principle articulated in the operational definition. It considers a better approach is for the [proposed] Standard to use 'private entities' in place of SMEs. In the survey, 67% of respondents do not consider 'IFRS for SMEs' a suitable title for the new IFRS.[3] 'IFRS for Private Entities' gained the highest level of support – being 45%.[4]

CPA Australia agrees that information about liquidity and solvency are important guiding principles. It would also include going concern. In the survey, 86% of respondents affirmed that users of the general purpose financial statements of private entities are particularly interested in information about liquidity, solvency and the entity's going concern potential.[5] CPA Australia considers the IASB's focus on entities with about 50 employees to develop the [proposed] Standard may not always necessarily be consistent with the development of a [proposed] Standard that has as its focus these principles.

CPA Australia supports the publication of the [proposed] Standard as a separate volume rather than added sections to each IFRS. It is of the view that a private entity with a set of transactions and other events and conditions that align with those articulated in the [proposed] Standard should not be required to look beyond the [proposed] Standard. Therefore, CPA Australia strongly supports each section of the [proposed] Standard being self contained in that each contains a simplified recognition and measurement requirement or a single option extracted from IFRS. CPA Australia thinks of the [proposed] Standard as a gateway to IFRSs. Accordingly, it agrees the [proposed] Standard should permit the entity to look to IFRS when IFRSs provide an accounting policy option not in the [proposed] Standard. Further, it considers that for a transaction or other event or condition not addressed by the [proposed] Standard, the hierarchy articulated in section 10 should require the entity to look to the guidance and requirements in IFRS (including the Interpretations issued by the International Financial Reporting Interpretations Committee).

CPA Australia notes the inclusion in the [proposed] Standard of the expression 'undue cost and effort'. It considers that it would be helpful if the [proposed] Standard was to describe the connection of undue cost and effort to impracticable. For example, do they have the same meaning?

If you have any queries on our comments, please contact Dr Mark Shying, CPA Australia's Financial Reporting and Governance Senior Policy Adviser at mark.shying@cpaaustralia.com.au.

Yours sincerely

Geoff Rankin FCPA
Chief Executive Officer

cc: D Boymal
M Shying
D Pratt
Chan Lai Koon
A Danasamy
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[3] Findings on an individual country basis – Australia 67%, Hong Kong 63%, Malaysia 76% and Singapore 62%.
[4] 'IFRS for Private Entities' is the preferred title by individual country with the exception of Hong Kong which prefers 'IFRS for Unlisted Entities'.
[5] Findings on an individual country basis – Australia 87%, Hong Kong 82%, Malaysia 88% and Singapore 88%.

Question 1 - Stand-alone document

In deciding on the content of the proposed IFRS for SMEs, the IASB focused on the types of transactions and other events and conditions typically encountered by SMEs with about 50 employees. For such entities, the proposed IFRS is intended to be a stand-alone document, with minimal cross-references to full IFRSs.

With the objective of a stand-alone document in mind, are there additional transactions, other events or conditions that should be covered in the proposed standard to make it more self-contained? Conversely, is there guidance in the draft standard that should be removed because it is unlikely to be relevant to typical SMEs with about 50 employees?

CPA Australia considers that the [proposed] Standard should be a separate volume comprising all material (be that a simplification of the recognition and measurement requirements of IFRS or a single option selected from multiple options within IFRS) that an entity that does not have public accountability would be required to apply. Therefore, a private sector profit-oriented entity without public accountability that prepares general purpose financial reports should not be required to look back to IFRS – except when:

- the entity determines that the option in the [proposed] Standard is not to be adopted as its accounting policy; or
- a set of transactions and other events and conditions engaged in by the entity do not correspond with those articulated in the [proposed] Standard.

CPA Australia agrees that the material in the [proposed] Standard should represent a simplification from the full IFRS for reasons of cost-benefit. CPA Australia's approach would require the inclusion in the [proposed] Standard of all the topics covered in the IFRSs including those that are currently omitted from the [proposed] Standard – being hyperinflation, equity-settled share-based payment (see our comments to Question 2 below), determining fair value of agricultural assets, extractive activities and lessor finance leases.

CPA Australia supports the proposal to not require private entities to disclose information about earnings per share, interim and segment reporting, and hence the exclusion of those topics from the [proposed] Standard, for the reason that it does not think their application results in information that is useful for evaluating the performance and position of the private entity in terms of going concern, liquidity and solvency.

Question 2 - Recognition and measurement simplifications that the Board adopted

The draft IFRS for SMEs was developed by:

(a) **extracting the fundamental concepts from the IASB Framework and the principles and related mandatory guidance from full IFRSs (including Interpretations), and**

(b) **considering the modifications that are appropriate in the light of users' needs and cost-benefit considerations.**

Paragraphs BC70-BC93 of the Basis for Conclusions describe the simplifications of recognition and measurement principles contained in full IFRSs that have been made in the proposed IFRS for SMEs and explain the Board's reasoning.

Are there other recognition or measurement simplifications that the Board should consider? In responding, please indicate:

(a) the specific transactions, other events or conditions that create a specific recognition or measurement problem for SMEs under IFRSs;
(b) why it is a problem; and
(c) how that problem might be solved.

CPA Australia supports the IASB's approach to the development of the recognition and measurement simplifications in the [proposed] Standard for goodwill impairment, research and development costs, cost method for associates and joint ventures, employee benefit – defined benefit plans and the transition provisions. It does not support the IASB view that IFRS 2 *Share-based Payment* provides appropriate simplification for the measurement of equity-settled share-based payment transactions. Some members have observed that although most stand-alone private entities have share-based plans that are cash-settled plans, some do have equity-settled plans. Further, equity-settled plans are not uncommon when the private entity is a subsidiary of a foreign parent. Paragraph 25.4 requires IFRS 2 measurement and disclosures. For reasons of cost-benefit CPA Australia does not think this represents a simplification as the cost to perform a valuation is high. CPA Australia support the reduction in fair value for agriculture – however, it does not think that reduction goes far enough (see its response to Question 6). However, CPA Australia does not support the modifications that have been made to:

- financial instruments; and
- income tax.

Its reasons follow.

Financial instruments: The [proposed] Standard Section 11 provides an accounting policy choice. An entity shall choose to apply either the provisions of this section, or IAS 39 *Financial Instruments: Recognition and Measurement.* CPA Australia understands an entity choosing to apply IAS 39 is also required to apply IFRS 7 *Financial Instruments: Disclosure* and IAS 32 *Financial Instruments: Presentation.* It considers the consequence of choosing to apply IAS 39 is not justified for reasons of cost-benefit. For example, a private entity wanting to make use of the available-for-sale category as its accounting policy must adopt IAS 39 in accounting for all financial instruments and IFRS 7 and IAS 32 for disclosure and presentation. CPA Australia does not consider this outcome to be consistent with the IASB's decision that all options in IFRSs should be available in the [proposed] Standard.

CPA Australia sees the reality of IAS 39 as comprising "four different topic-based standards". Accordingly, it strongly suggests that a private entity have the option to make use of all the options within IAS 39 as they relate to a particular topic. For example, when categorising financial instruments, the [proposed] Standard would allow the private entity the accounting policy choice to elect to make use of all categories of financial instruments in IAS 39. However, that private entity would not be prevented from applying the derecognition, impairment and hedge accounting requirements articulated in Section 11 of the [proposed] Standard.

Should the IASB reject the CPA Australia proposal, it suggests the IASB expand the categories of financial instruments in the [proposed] Standard so that fair value is not given priority. Further, CPA Australia supports the expansion of the section on hedge accounting to better cater for some hedging arrangements common to private entities. Some members have identified cross-currency swaps and options as examples.

Income tax: The [proposed] Standard:

- makes use of the "temporary difference approach" of IAS 12 for recognition of deferred taxes; and
- explains temporary differences in terms of "timing differences".

CPA Australia does not believe that the [proposed] Standard represents a simplification of the principle in IAS 12. Instead, it finds the [proposed] Standard's description of the relationship between temporary and timing differences confusing. CPA Australia agrees that temporary differences are often timing differences – and this is a consequence of each being the result of looking at the same transaction in a different way (i.e., either the balance sheet approach to the tax effect method or the profit and loss approach) – however, it does not find that description particularly helpful.

Further, paragraph 28.9 of the [proposed] Standard states that some temporary differences are not timing differences. Such temporary differences can arise:

(a) When gains and losses are recognised outside accounting profit or loss in one period but are recognised in taxable profit in a different period. CPA Australia notes that in contrast, IAS 12.17 states that some temporary differences arise when income or expense is included in accounting profit in one period but is included in taxable profit in a different period. Such temporary differences are often described as timing differences. CPA Australia finds paragraph 28.9(a) confusing. CPA Australia reasons if gains and losses are recognised outside of accounting profit or loss in one period and in taxable profit in another period, it is either not a difference or if it is a difference, it is because the different period for tax is the current period and that is a timing difference.

(b) On the initial recognition of assets and liabilities, either in a business combination or outside a business combination.

(c) Because of changes in the tax basis of an asset or liability that do not affect taxable profit of the period. CPA Australia notes that IAS 12 does not use the term 'tax basis', but instead uses 'tax base'. Also, it understands the tax base of an asset is the amount that will be deductible for tax purposes against any taxable economic benefits that will flow to an entity when it recovers the carrying amount of the asset. Accordingly, any change in the tax base would result in a timing difference or a permanent difference. CPA Australia thinks it is odd that this example is used when it is not derived from IAS 12 as articulated in the Introduction paragraph IN2.

CPA Australia supports requiring private entities to use IAS 12 in place of the requirements of the [proposed] Standard. It suggests that examples of how IAS 12 applies to entities that are private entities would be a valuable addition to the [proposed] Standard.

CPA Australia also encourages the IASB to reconsider the inclusion in the proposed Standard of an additional option – the tax payable method. The benefits of the tax payable method are its simplicity and understandability to users as economic reality. Some members have expressed their concern that the tax payable method and is misleading when financial statement users refer only to reported profit after tax. CPA Australia encourages the IASB to again explore including this approach in the [proposed] Standard, particularly in the context of cost-benefit.

Question 3 - Recognition and measurement simplifications that the Board considered but did not adopt Paragraphs BC94-BC107 identify some recognition and measurement simplifications that the Board considered but decided not to adopt, for the reasons noted.

Should the Board reconsider any of those and, if so, why?

CPA Australia supports the IASB's decision that the [proposed] Standard require a cash flow statement. However, it does not support the decision that the [proposed] Standard contain both of the options in IFRS. CPA Australia considers a requirement in the [proposed] Standard to use the direct method is more aligned with meeting the needs of users – being information about going concern, liquidity and solvency. It acknowledges that a private entity not wising to use the direct method could select to go to IFRS to make use of the indirect method. See also its comments on income taxes (question 2 above) and agriculture (question 6 below).

Question 4 - Whether all accounting policy options in full IFRSs should be available to SMEs

The draft IFRS for SMEs proposes that accounting policy options available under full IFRSs should generally also be available to SMEs. As explained more fully in paragraphs BC108-BC115 of the Basis for Conclusions, the Board concluded that prohibiting SMEs from using an accounting policy option that is available to entities using full IFRSs could hinder comparability between SMEs and entities following full IFRSs. At the same time, the Board recognised that most SMEs are likely to prefer the simpler option in the proposed IFRS for SMEs. Therefore, the Board concluded that in six circumstances in which full IFRSs allow accounting policy options, the IFRS for SMEs should include only the simpler option, and the other (more complex) option(s) should be available to SMEs by cross-reference to the full IFRSs.

Do you agree with the Board's conclusions on which options are the most appropriate for SMEs? If not, which one(s) would you change, and why?

Should any of these options that would be available to SMEs by cross-reference to the full IFRSs be eliminated from the draft IFRS for SMEs and, if so, why?

CPA Australia supports the cross-reference back to all IFRS options where the entity determines that the approach required in the [proposed] Standard is not appropriate. It reasons that for the purpose of consolidation the group may want to revert back to all IFRS options in order to develop consistent accounting policies for recognition and measurement while at the same time making use of the simpler disclosure requirements in the [proposed] Standard.

CPA Australia acknowledges that comparability between entities may be reduced as a result of this approach. However, it is of the view that the approach to cross-referencing back will result in the provision of information that is more relevant. Note disclosure of accounting policies will enable the users to understand the approach used by each entity.

Question 5 - Borrowing costs

IAS 23 Borrowing Costs currently allows entities to choose either the expense model or the capitalisation model to account for all of their borrowing costs. In May 2006 the IASB published an Exposure Draft proposing to amend IAS 23 to prohibit the expense model and to require the capitalisation model. Section 24 Borrowing Costs of the draft IFRS for SMEs proposes to allow SMEs to choose either the expense model or the capitalisation model.

Do you agree or disagree with the proposal to allow SMEs to choose either the expense model or the capitalisation model for borrowing costs, and why?

CPA Australia considers it appropriate for the IASB to include the expense model in the [proposed] Standard as a simplification for reasons of cost-benefit.

Question 6 - Topics not addressed in the proposed IFRS for SMEs

Some topics addressed in full IFRSs are omitted from the draft IFRS for SMEs because the Board believes that typical SMEs are not likely to encounter such transactions or conditions. These are discussed in paragraphs BC57-BC65 of the Basis for Conclusions. By a cross-reference, the draft standard requires SMEs that have such transactions to follow the relevant full IFRS.

Should any additional topics be omitted from the IFRS for SMEs and replaced by a cross-reference? If so, which ones and why?

CPA Australia does not support the approach taken to agriculture for two reasons:

- It disagrees with the decision that the [proposed] Standard not enable the private entity to choose as its accounting policy either the fair value model or the cost model. Some members state that fair value is not the way in which they manage their private entity agricultural activity and that to require them to use fair value results in reporting that is not consistent with the objective of financial reporting; and

- Should the IASB confirm that the [proposed] Standard require the use of fair value, CPA Australia believe there is an inconsistency in the way that Section 35 operates. Section 35 would require a private entity engaged in agricultural activities to apply the fair value model in paragraphs 10-29 of IAS 41 *Agriculture* to account for those biological assets whose fair value is readily determinable without undue cost or effort, and to make all related disclosures required by IAS 41. IAS 41 does not allow the use of fair value to be rebutted after initial recognition. CPA Australia's reading of the [proposed] Standard and its interaction with IAS 41 is that the use of the 'undue cost and benefit' factor is limited to initial recognition. Thereafter, a private entity that was unable to rebut the use of fair value on initial recognition would be required to continue with fair value accounting with no subsequent recourse to undue cost and benefit.

Question 7 - General referral to full IFRSs

As noted in Question 1, the IFRS for SMEs is intended to be a stand-alone document for typical SMEs. It contains cross-references to particular full IFRSs in specific circumstances, including the accounting policy options referred to in Question 4 and the omitted topics referred to in Question 6. For other transactions, events or conditions not specifically addressed in the IFRS for SMEs, paragraphs 10.2-10.4 propose requirements for how the management of SMEs should decide on the appropriate accounting. Under those paragraphs, it is not mandatory for SMEs to look to full IFRSs for guidance.

Are the requirements in paragraphs 10.2-10.4, coupled with the explicit cross-references to particular IFRSs in specific circumstances, appropriate? Why or why not?

The [proposed] Standard paragraphs 10.2-10.4 do not obligate management to look to IFRSs for guidance when using its judgement in developing and applying an accounting policy when a transaction, other event or condition is not specifically addressed by the [proposed] Standard. CPA Australia does not support this proposition. It reasons that when the [proposed] Standard does not specifically address a transaction, other event or condition, but the IASB has specifically opined on the issue in IFRSs it is not intuitively logical why the private entity should not be obligated to consider the IFRSs. Some commentators suggest it is not appropriate to obligate management to look to IFRSs for guidance for the reason that in some jurisdictions the private entity and its auditors are not knowledgeable about IFRSs. CPA Australia does not support that thinking. The attributes that make the financial report useful to users are the same whether the report is prepared in accordance with the [proposed] Standard or IFRSs.

Further, paragraphs 10.2-10.4 are highly likely to cause a further unnecessary tension between the private entity and its auditor, when the auditor is aware that the accounting policy developed and applied by the private entity is different from that which would apply under IFRS as:

- an IFRS Standard specifically applies to the transaction, event or condition; or
- the application of paragraph 11 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* would result in a different outcome.

Accordingly, when the [proposed] Standard does not deal with a transaction, event or condition CPA Australia considers it would be most appropriate that the [proposed] Standard mandate that the private entity look to full IFRSs and the IFRIC Interpretations for guidance as was proposed by IASB staff in the initial pre-ballot draft prepared in early November 2006.

Question 8 - Adequacy of guidance

The draft IFRS for SMEs is accompanied by some implementation guidance, most notably a complete set of illustrative financial statements and a disclosure checklist. A sizeable amount of guidance that is in full IFRSs is not included. Accordingly, additional guidance especially tailored to the needs of SMEs applying the proposed IFRS may be required.

Are there specific areas for which SMEs are likely to need additional guidance? What are they, and why?

CPA Australia welcomes the added guidance. It considers this guidance would be improved by the inclusion of some examples of the application to private entities of the principle in IAS 12.

Question 9 - Adequacy of disclosures

Each section of the draft IFRS for SMEs includes disclosure requirements. Those requirements are summarised in the disclosure checklist that is part of the draft implementation guidance Illustrative Financial Statements and Disclosure Checklist. Are there disclosures that are not proposed that the Board should require for SMEs? If so, which ones and why? Conversely, do you believe that any of the proposed disclosures should not be required for SMEs? If so, which ones and why?

CPA Australia welcomes the reduction in disclosures from some 3000 to around 400. It considers further reductions can be made as a result of removing the requirement to disclose reconciliations. CPA Australia does not consider this disclosure relevant to the provisions of information about going concern, liquidity and solvency.

It suggests the following deletions from the [proposed] Standard – Section 35 Agriculture: paragraphs 35.1(b)(ii)-(iii) are unnecessary and should be removed.

Question 10 - Transition guidance

Section 38 Transition to the IFRS for SMEs provides transition guidance for SMEs that move (a) from national GAAP to the IFRS for SMEs and (b) from full IFRSs to the IFRS for SMEs.

Do you believe that the guidance is adequate? If not, how can it be improved?

CPA Australia notes the transition guidance does not seem to contemplate an entity that is transitioning to the [proposed] Standard a second time as a result of flip-flopping between IFRS for SMEs and IFRS (as the consequence of the public accountability construct). It strongly supports clarification.

Question 11 - Maintenance of the IFRS for SMEs

The Board expects to publish an omnibus exposure draft of proposed amendments to the IFRS for SMEs approximately every other year. In developing such exposure drafts, the Board expects to consider new and amended IFRSs that have been adopted in the previous two years as well as specific issues that have been brought to its attention regarding possible amendments to the IFRS for SMEs. On occasion, the Board may identify a matter for which amendment of the IFRS for SMEs may need to be considered earlier than in the normal two-year cycle.

Is this approach to maintaining the proposed IFRS for SMEs appropriate, or should it be modified? If so, how and why?

CPA Australia supports the proposal to update the physical volume of the [proposed] Standard via an omnibus standard every two years where necessary. However, it suggest for inclusion on the IASB website an up-to-date compiled version of the [proposed] Standard to reflect changes to IFRSs (where it is necessary that the [proposed] Standard reflect that change) and/or changes made by the IASB to the [proposed] Standard.

Other comments

Use of the expression "SME"

A. The need for [proposed] Standard

CPA Australia agrees there is a need for the [proposed] Standard. However, it is not convinced that need is a function of comparability required by:

- banks making use of financial statements to make lending decisions and in establishing terms and interest rates – our discussion with banks in both Australia and Asia indicate that banks are able to demand the information they want;
- credit rating agencies trying to develop ratings uniformly across borders – we have no awareness of these developments;
- across-border suppliers making use of financial statements to assess the prospects of a viable long-term business relationship – we understand that financial guarantees and letters of credit are commonly made use of in international trade;
- venture capitalists providing funding to SMEs across borders – we do not consider this demand to be great; and
- vendors evaluating finances of buyers in other countries – we do not consider this demand to be great.

CPA Australia suggests that comparability across borders should not be emphasised as the motivation for the [proposed] Standard. Instead it sees the [proposed] Standard as the IASB's response to ensure that the needs of private entity report users re relevance of the information provided in a financial report are met.

B. 'Undue cost and effort' compared with 'impracticable'

The Glossary to the [proposed] Standard does not define the expression 'undue cost and effort'. In contrast, the Glossary of Terms to IFRSs defines 'impracticable' as "applying a requirement is impracticable when the entity cannot apply it after making every reasonable effort to do so.". CPA Australia considers it would be helpful if the [proposed] Standard was to describe the connection of undue cost and effort to impracticable. For example, do they have the same meaning?

CPA Australia-Corporate Governance & Financial Reporting Centre

Survey on Accounting for Small & Medium Entities (SMEs)

CONSOLIDATED REPORT

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Executive Summary

A questionnaire survey was conducted among members of the CPA Australia in Australia, Hong Kong, Malaysia and Singapore from 18 June 2007 to 6 July 2007 (with the exception of Australia which was granted an additional week) to gather members' views on the project by the International Accounting Standards Board (IASB) to prescribe International Financial Reporting Standards for Small and Medium-sized Entities (SMEs). The IASB has released an Exposure Draft "IFRS for Small and Medium-sized Entities" (hereafter called the proposed *IFRS for SMEs*) for public comments as part of the due process.

A total of 465 responses were received with 92 responses from Australia, 126 responses from Hong Kong, 117 responses from Malaysia and 130 responses from Singapore. The respondents held primary positions from a wide range of responsibilities, with the greatest representation from the accounting professionals (75%). They also came from a wide spectrum of industries. The majority of the respondents belonged to organisations with less than US$3m in turnover or total gross assets. 58% of the respondents belonged to organisations with less than 50 full-time staff.

The major findings of the survey are summarised below.

1. Definition of a SME

42% of the respondents agreed with the definition of a SME –"*entities that do not have public accountability; and publish general purpose financial statements for external users*"– in the proposed *IFRS for SMEs* and 28% disagreed with it. 63% of the respondents believed that large unlisted companies that do not have public accountability should also be covered by the proposed *IFRS for SMEs*. If the proposed *IFRS for SMEs* were to apply to unlisted companies that do not have public accountability, 45% of these respondents opined that the proposed IFRS should be called '*IFRS for Private Entities*'.

Turnover, total gross assets and number of employees are all considered relevant quantitative measures in defining a SME. More than half of the respondents selected a threshold of US$5m in turnover or total gross assets as the quantitative measure for defining a SME. More than half of them also selected 'less than 50 full-time employees' as the appropriate manpower measure for a SME.

2. *Desirability of the IFRS for SMEs*

There is general agreement on the desirability of the proposed *IFRS for SMEs*. In fact, the majority of the respondents believe that the proposed IFRS for SMEs would:

- be necessary and desirable to provide a specific framework for financial reporting by SMEs (81%);
- better meet the needs of users of SMEs' financial statements (72%);
- reduce the financial reporting burden for SMEs that want to use global reporting standards (69%);
- reduce the audit burden of SMEs in general (59%); and
- reduce the financial reporting burden on all SMEs in general (58%).

58% of the 207 respondents who answered the open-ended question on whether the proposed *IFRS for SMEs* will save cost and time affirmed that it will result in cost and time savings in the preparation of financial statements for SMEs.

Respondents generally agreed that *IFRS for SMEs* should be variations of the *Full IFRS*. Most respondents expressed a need to have a choice between *IFRS for SMEs* and *Full IFRS* but believe that there should not be a combination of both. Respondents were concerned that the application of *IFRS for SMEs* may result in non-comparability between SMEs and between SMEs and non-SMEs. Finally, in the event where *IFRS for SMEs* is adopted, the majority of the respondents expressed the need for the *IFRS for SMEs* to be updated at least once in every two years or as and when there are changes in the *Full IFRS*.

Interestingly, only 43% of the respondents agree that the *IFRS for SMEs* should be a standalone accounting standard.

The respondents indicated that the probable users of financial statements of SMEs, in order of likelihood, are: banks that make loans to SMEs, shareholders or owners, and credit rating agencies. Hence the proposed *IFRS for SMEs* should produce financial statements which would meet the needs of these users.

3. *Content of IFRS for SMEs*

a. Simplified Accounting Treatments

The respondents disagreed that the cashflow statement is not required in the *IFRS for SMEs*. The majority are supportive of the simplification of accounting treatments for SMEs. The areas of simplification include:

- accounting for all employee benefit plans as contribution plans (67%);
- accounting for all long-term contracts using the completed contract method (51%); and
- require recognition of foreign exchange gains or losses and revaluation increases in profit and losses (50%).

Surprisingly, the respondents generally have little support for the following (agreement percentage in brackets):

- the use of mark-to-market for financial assets and liabilities (48%);
- accounting for all leases as operating leases (46%);
- not requiring the use of fair value for financial assets and liabilities after the initial recognition (44%);
- not requiring the recognition of share-based payments (43%);
- reduction in the recognition of provisions (40%);
- not requiring the recognition of deferred taxes (40%);
- not requiring consolidated financial statements (38%); and
- accounting for all agriculture using the cost model (38%).

Some areas that may require additional guidelines are:

- corporate governance;
- environmental and social responsibility issue;
- impairment, share-based payments, deferred tax, goodwill, leasing;
- fair value accounting; and
- valuation in general, including valuation of leases, financial assets and liabilities.

b. Content of Financial Statements of SMEs

The respondents agree that the financial statements of the SMEs should include those areas covered by the *Full IFRS* except for the following areas where the respondents are generally neutral (in order of decreasing usefulness):

- Specialised Industries – Construction Contracts;
- Discontinued Operations and Assets Held for Sale;
- Share-based Payment;
- Specialised Industries – Insurance Contracts;
- Specialised Industries – Extractive Industries;
- Earnings per Share;
- Specialised Industries – Agriculture;
- Financial Reporting in Hyperinflationary Economies;
- Segment Reporting; and
- Interim Financial Reporting.

Three additional areas were highlighted by the respondents as additional topics to be included in the *IFRS for SMEs*:

- environmental or social responsibility issues;
- loans to directors; and
- revenue recognition.

c. <u>Recognition and Measurement Methods</u>

The respondents generally believed that the *IFRS for SMEs* is relatively comprehensive in addressing both the recognition and measurement issues of SMEs. The respondents were generally supportive of all the simplified recognition and measurement methods in the proposed *IFRS for SMEs* although a majority of the respondents are slightly neutral to the following proposed methods:

- To invoke the "impracticality" exemption (impractical to restate the opening balance of the balance sheet) for first time adoption.
- To use the list of indicators approach to assess impairment of goodwill if impairment is the prescribed treatment for goodwill.
- To use the fair value through profit or loss model or the cost-depreciation-impairment model for biological assets or agricultural produce.
- To use the fair value of the rights and obligations under a finance lease to value the leased property.
- To recognise actuarial gains and losses in full for defined benefit plans in profit or loss when they occur.

- To use IFRS 2 Share-based Payment in accounting for all share-based payment transactions.

The most popular simplification for recognition and measurement methods suggested by the respondents is a return to the cost method.

d. Disclosure Principles

The respondents show strong support for the disclosure principles used by IASB in the proposed *IFRS for SMEs*. 86% of the respondents affirmed that 'users of financial statements of SMEs are particularly interested in information about liquidity, solvency and the firm's going concern potential'. Respondents suggested the following additional disclosures: the number of employees, turnover and total assets which qualifies one as a SME-reporting entity to adopt *IFRS for SMEs,* and information on the ownership and related party transactions.

4. Implementation of IFRS for SMEs

a. Authority for Defining a SME

The survey found that 52% of the respondents believed that the operational definition of a SME as provided in the *IFRS for SMEs* should be the authoritative definition of a SME. On the other hand, 32% of the respondents believed that the local national regulator is responsible for defining a SME.

b. Support for the proposed IFRS for SMEs

70% of the respondents indicated support for the promulgation of an *IFRS for SMEs*. Interestingly, 71% of the respondents indicated support for the proposed *IFRS for SMEs* by the IASB. The major reasons provided for the support of an *IFRS for SMEs* are:

- cost and benefits of compliance for SMEs;
- simplicity of the accounts of SMEs that requires a simple set of IFRS;
- useful for consistent reporting and comparison purposes; and
- reports that are more useful to users

With respect to the comprehensiveness of the proposed *IFRS for SMEs*, 37% of the respondents expressed an unqualified support for the proposed *IFRS for SMEs* while 45% said they are unable to express an opinion. Finally 70% of the respondents believed that SMEs should be given a choice to adopt either the *Full IFRS* or an *IFRS for SMEs*.

c. Transitional Arrangement and Updating of *IFRS for SMEs*

42% of the respondents believe that the transitional provisions in the proposed *IFRS for SMEs* are adequate but a relatively high 37% of the respondents do not think that the transition provisions are adequate. In addition, 33% of the respondent believed that the *IFRS for SMEs* should be updated annually while 19% of respondents expressed a desire that the *IFRS for SMEs* should be updated once every two years. Finally, 21% of the respondents believed that the *IFRS for SMEs* should be updated 'as and when' changes are needed or necessary.

Introduction

The International Accounting Standards Board (IASB) has embarked on a project to develop financial reporting standards for Small and Medium-Sized Entities (SMEs) in order to:

- provide high quality, understandable and enforceable accounting standards suitable for SMEs globally;
- reduce the financial reporting burden on SMEs that want to use global standards; and
- meet the needs of users of SME financial statements.

The objective is to develop an International Financial Reporting Standard (IFRS) tailored to meet the needs of external users of entities that (1) do not have public accountability and (2) publish general purpose financial statements for external users, i.e. SMEs. Examples of such external users include owners who are not involved in managing the business, existing and potential creditors (such as lenders and vendors), customers, and credit rating agencies. The IASB released its Exposure Draft, "IFRS for Small and Medium-sized Entities" (hereafter called the proposed *IFRS for SMEs*) on 26 February 2007 as part of the due process. Comments are to be sent to IASB by 1 October 2007.

The Corporate Governance and Financial Reporting Centre (CGFRC) in collaboration with CPA Australia designed a survey to seek members' views on the proposed *IFRS for SMEs*. This survey assesses the views of CPA Australia members on accounting issues facing SMEs. The survey covers their perceptions and attitudes towards key areas of accounting standards covered in the proposed *IFRS for SMEs* from IASB.

Members of CPA Australia in Australia, Hong Kong, Malaysia and Singapore were invited to participate in the survey. As CPA Australia members hold different positions, such as directors, CEOs, CFOs, senior executives, investors and practitioners, the survey will reflect the views of different stakeholders. The results of the survey can be used as a basis of a CPA Australia's submission to IASB or to inform any submission by each division in the respective country to its local standard-setting authorities.

The survey was led by A/P Mak Yuen Teen, Director of the CGFRC and A/P Ho Yew Kee, Vice Dean (Finance and Administration) of NUS Business School.

Survey Methodology

The survey was distributed through an email to the sample group inviting them to participate and providing a link to the web site hosting the survey. The sample was randomly selected from approximately 112,000 members of CPA Australia as at June 2007. The initial sample was approximately 10,000. The sample consisted of members with an email address who were in public practice or working in SMEs and were promoted to members at relevant SME events and relevant Board Committee Members.

The survey was opened on 18 June 2007 to 6 July 2007 (with the exception of Australia where a one-week extension was provided to compensate for the survey not initially being open to Australian respondents until 21 June 2007). A total of 465 responses were received, representing a response rate of approximately 4.9%. This is consistent with surveys of this nature. The number of respondents is sufficiently large (in total and by country), to provide very useful insights into this important issue. The responses from each country were:

Australia	92
Hong Kong	126
Malaysia	117
Singapore	130
Total	**465**

This report presents the main findings of this survey using responses on a collective basis and on an individual country basis.

1. *Profile of Respondents*

a. <u>Primary Position of the Respondents</u>

Figure 1: Primary Position of the Respondents

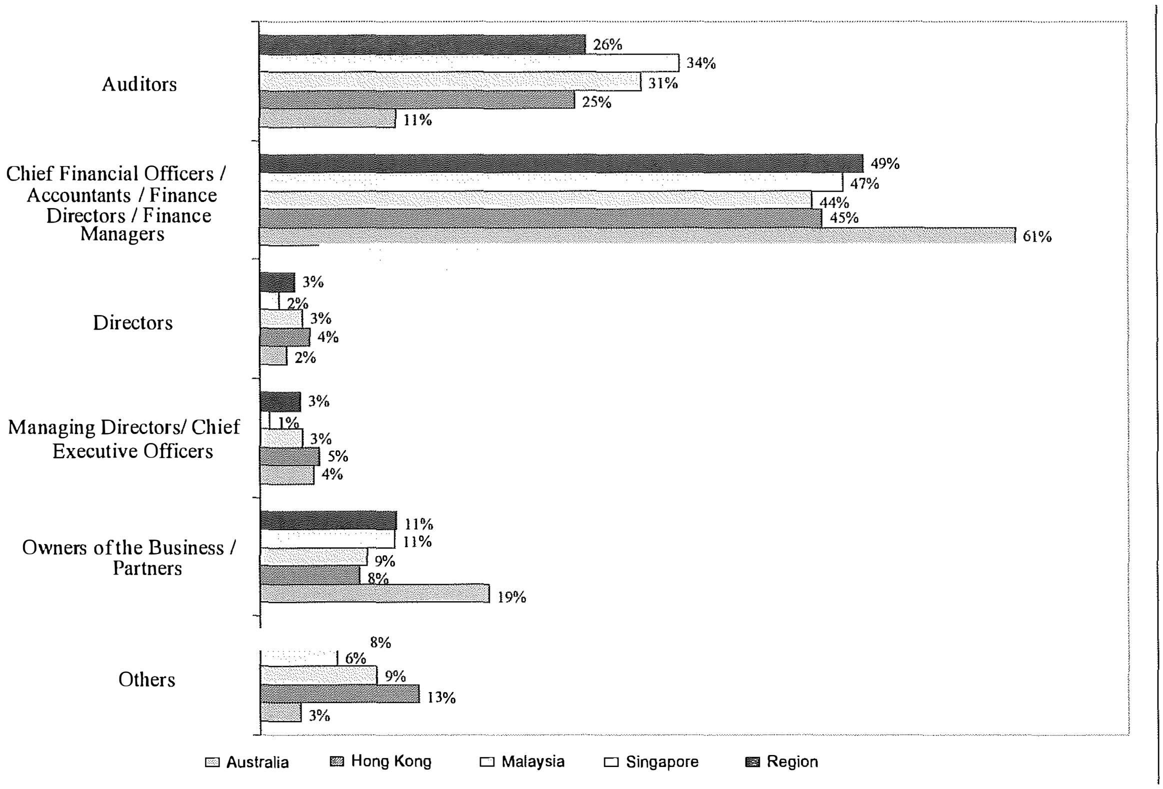


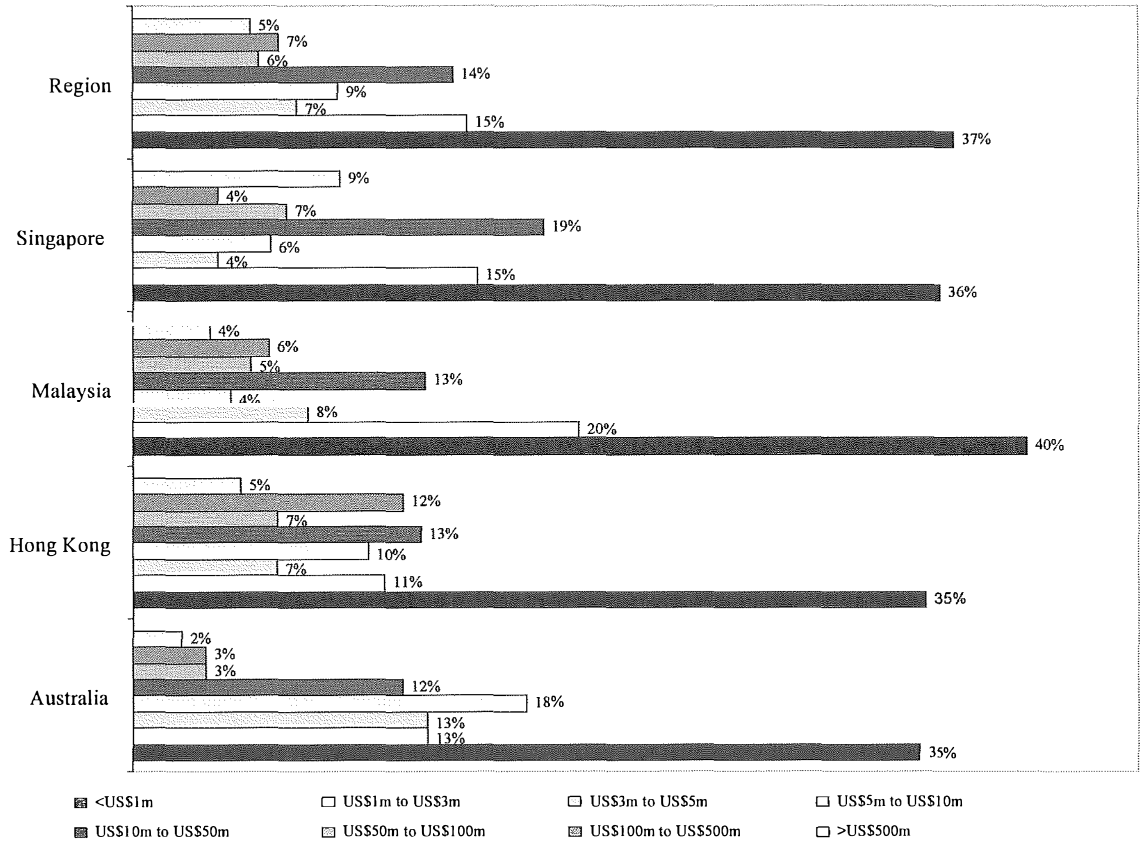
Figure 1 shows the position of the respondents. The largest group of respondents is from accounting-related jobs, namely, auditors and finance personnel. 11% of the total respondents are owners of business or partners while 3% of them are chief executive officers. There is a significant 8% in the 'Others' category, which includes: general managers, academics, IT and systems managers, among others.

b. Size of the Respondents' Organisations

Respondents were asked to indicate the size of their organisations in terms of turnover, total gross assets and total number of full-time permanent employees. For turnover and total gross assets, the options available for each country were customised based on the local currency equivalent of the US dollar amount using the following exchange rates:

- Australia: US$1 = A$1.2
- Hong Kong: US$1 = HK$7.8
- Malaysia: US$1 = RM$3.4
- Singapore: US$1 = S$1.5

Figure 2a : Size of the Respondents' Organisations (Turnover)



37% of the respondents belong to organisations which have less than US$1 million in turnover (see Figure 2a) and 49% belong to organisations which have less than US$1 million of total gross assets (see Figure 2b). In fact 61% of the respondents belong to organisations which have less than US$3m in total gross assets.

Approximately 41% of the respondents belong to organisations that have less than 20 employees, with 51% of the respondents from Australia belonging to this category (see Figure 2c). The majority of respondents (59%) belong to organisations with less than 50 employees.

Figure 2b: Size of the Respondents' Organisations (Total Gross Assets)

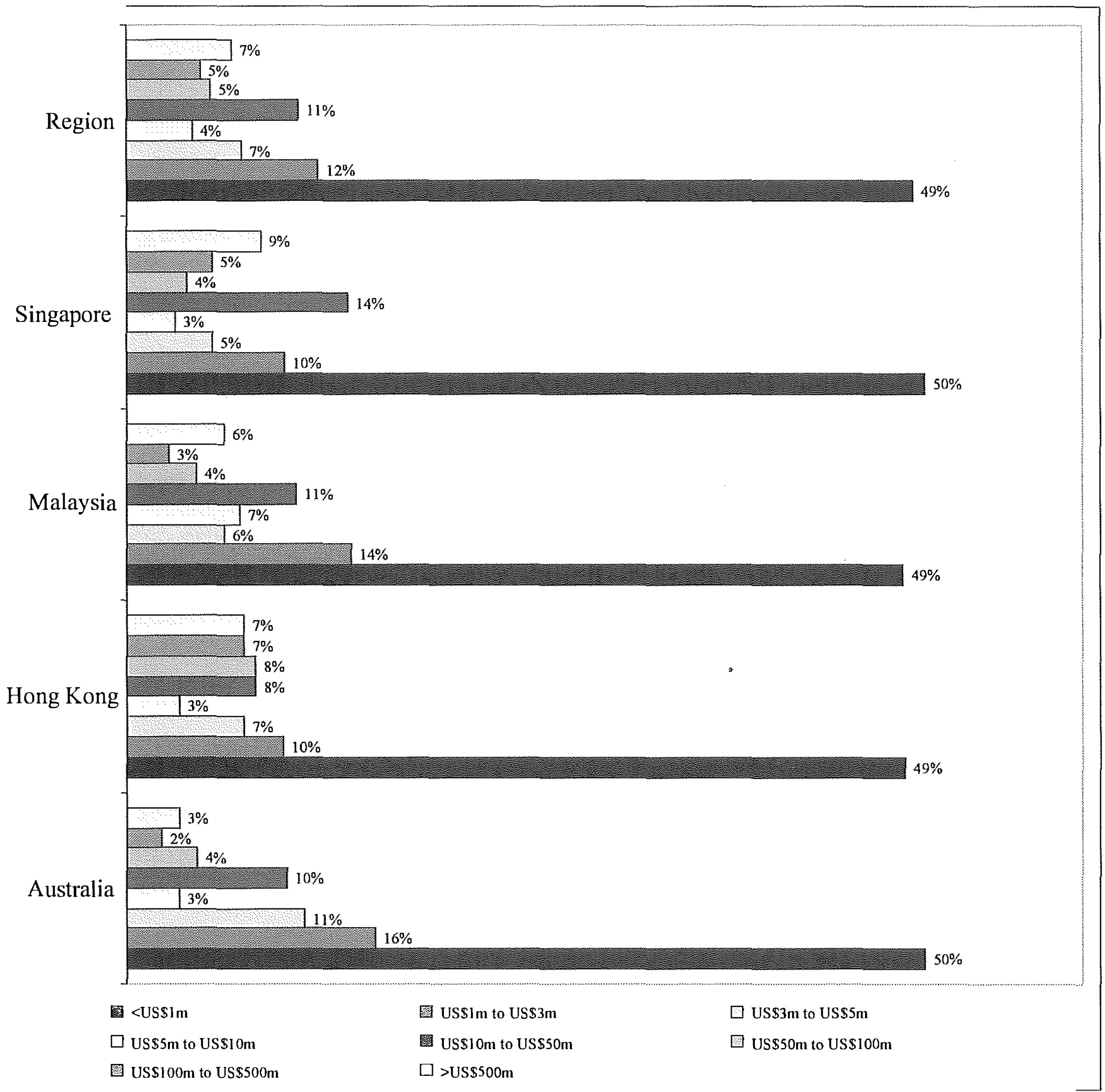
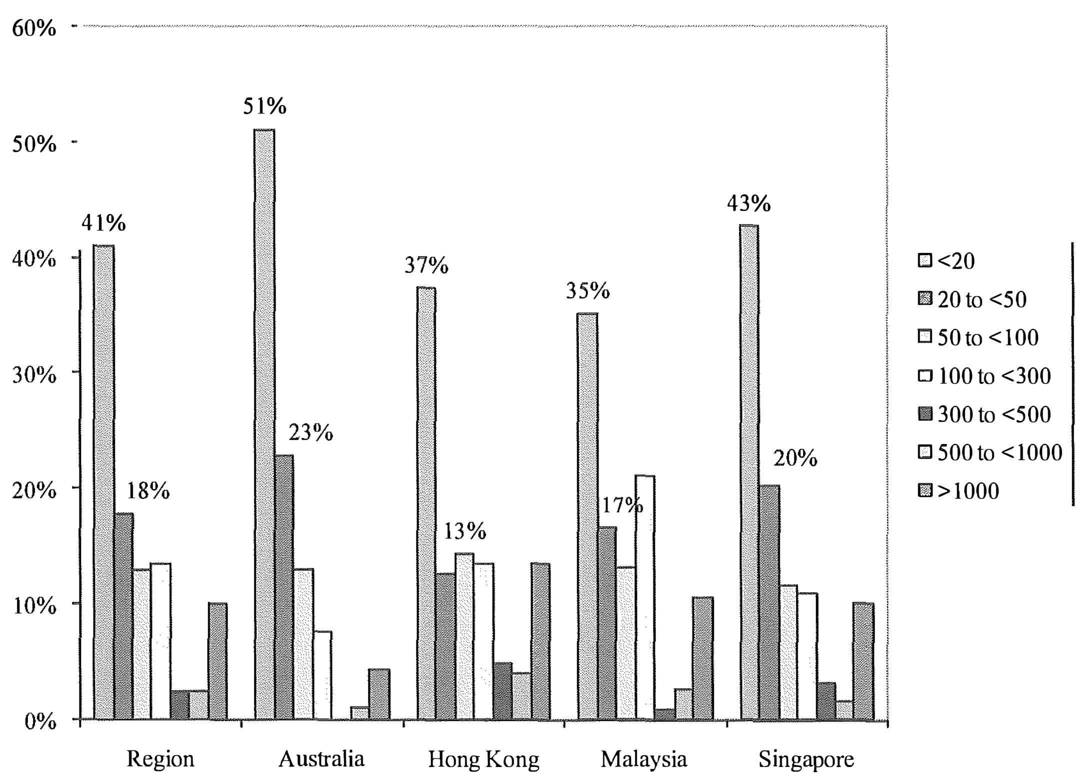


Figure 2c : Manpower Size of Respondents' Organisations

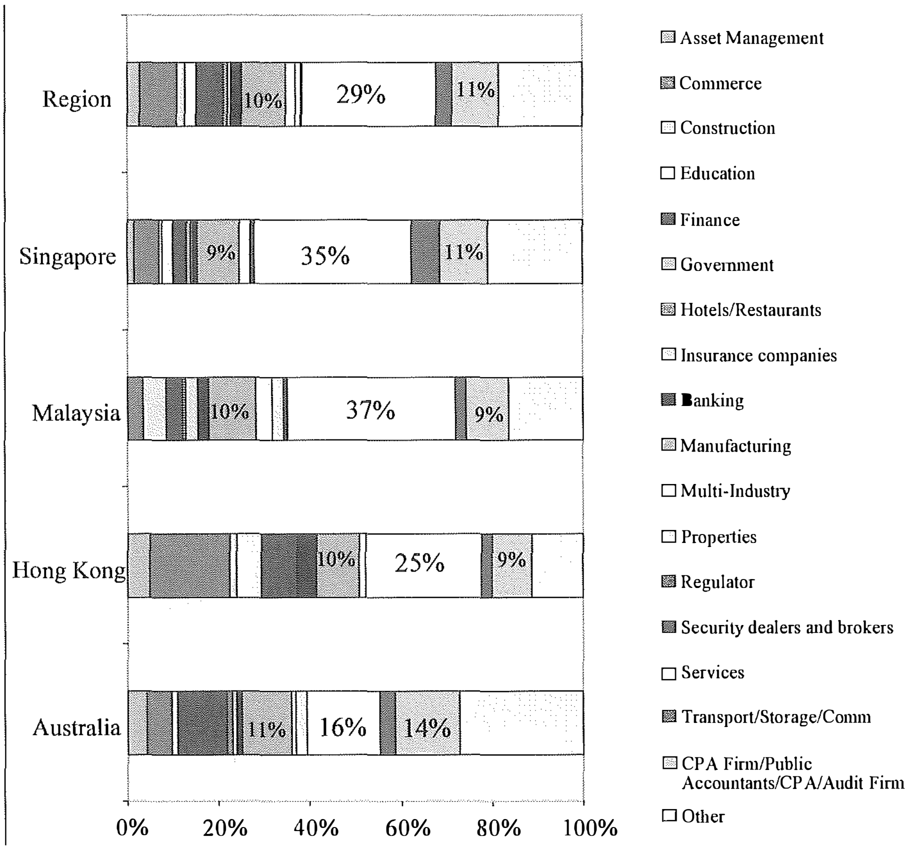


The above size profile of the respondents' organisations suggests that the respondents are significantly involved in the management and operations of SMEs.

c. Industry Represented

Figure 3 shows that a large number of the respondents belong to the 'Service' industry (29%) and this is followed by those from the 'Accounting' industry (11%) and 'Manufacturing' industry (10%). Generally the survey covers a wide spectrum of respondents from different industries.

Figure 3: Industries Represented by the Respondents



2. *Definition of SMEs*

The respondents were asked whether they see the IASB's description of SMEs, i.e. "*entities that do not have public accountability; and publish general purpose financial statements for external users*", as an effective operational definition which can be applied easily. 42% of the respondents agree with the description of a SME in the proposed *IFRS for SMEs* as an effective operational definition (see Figure 4) and 28% disagree with it.

Figure 4: Description of SME in Proposed IFRS

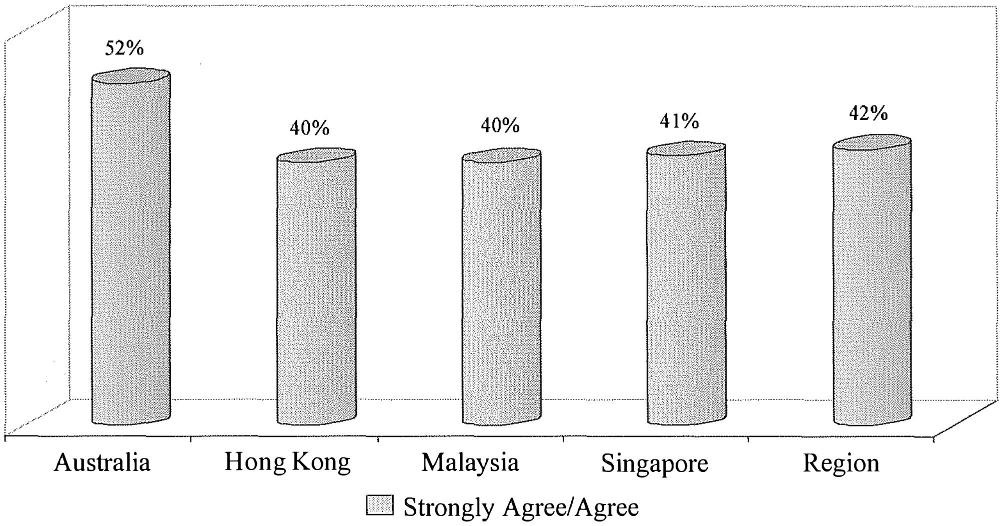
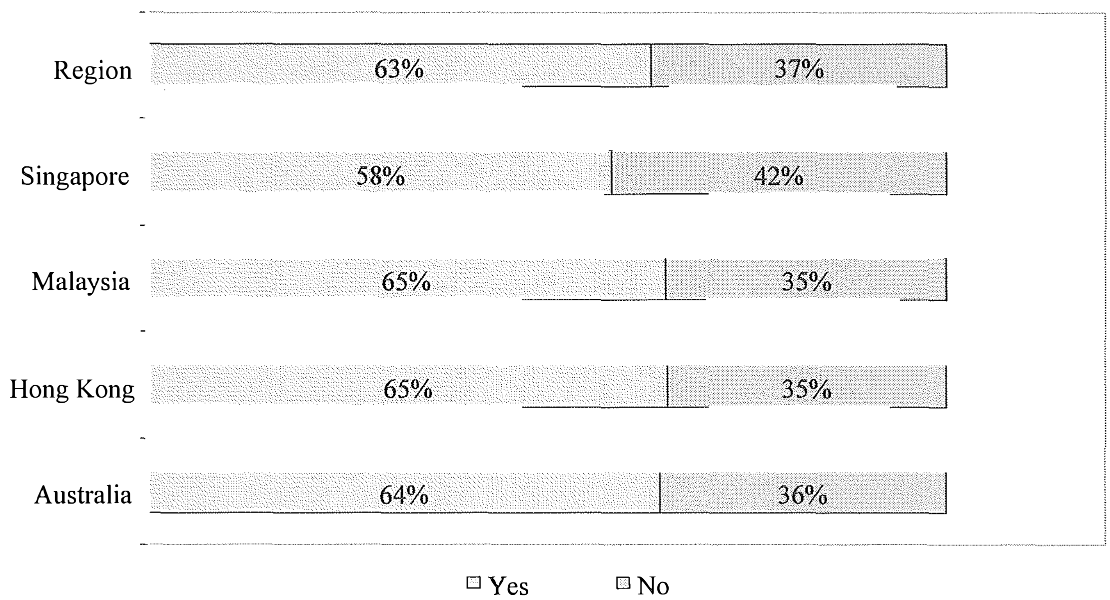


Figure 5 shows that 63% of the respondents think that the proposed *IFRS for SMEs* should be applicable to large unlisted companies that do not have public accountability.

Figure 5: Responses to the Applicability of IFRS for SMEs to Large Unlisted Companies



Given the majority view that *IFRS for SMEs* should be extended to include large unlisted companies that do not have public accountability, only 33% of the respondents think that *IFRS for SMEs* is a suitable title for the new IFRS (see Figure 6). For the rest, Figure 7 shows the choice of title for the new IFRS. It can be seen that 'IFRS for Private Entities' is preferred in general (45%), except by Hong Kong, which prefers 'IFRS for Unlisted Entities' (40%).

Figure 6: Suitability of title for the new IFRS

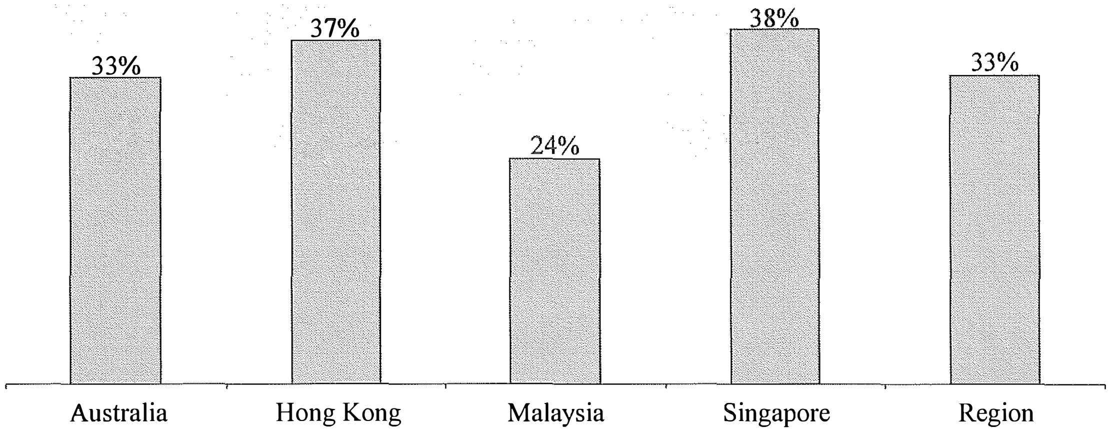
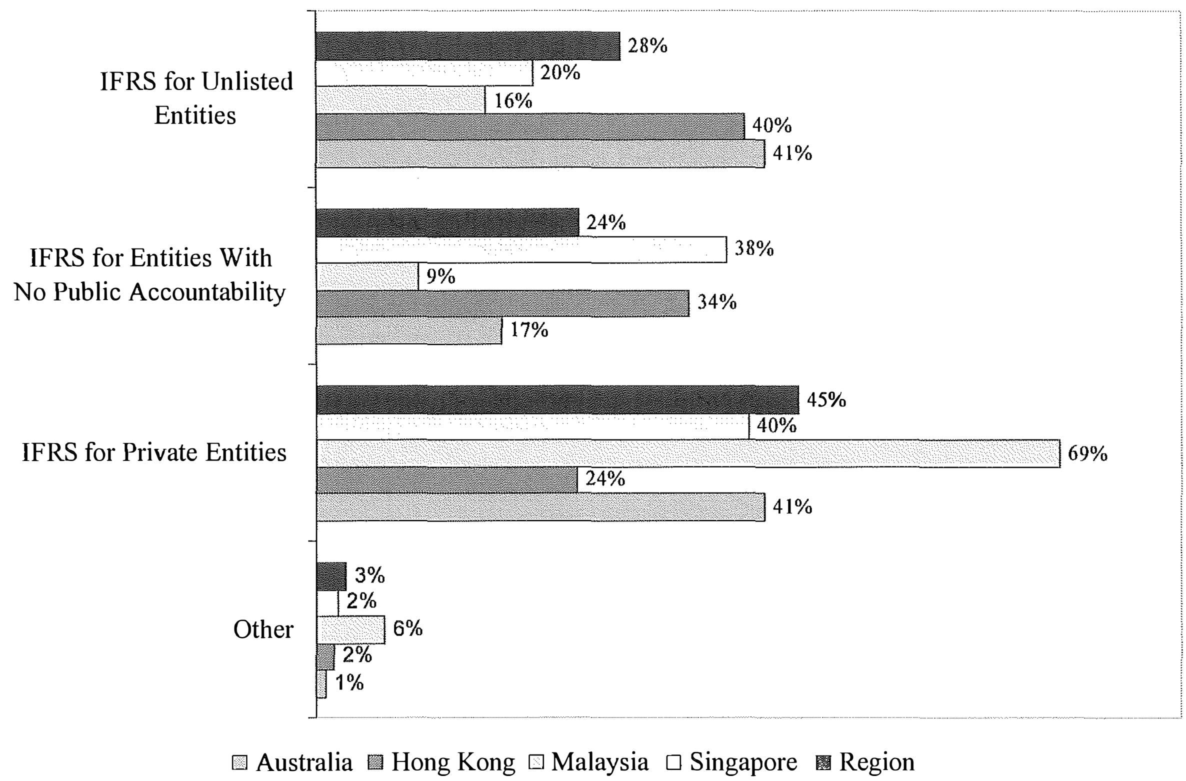
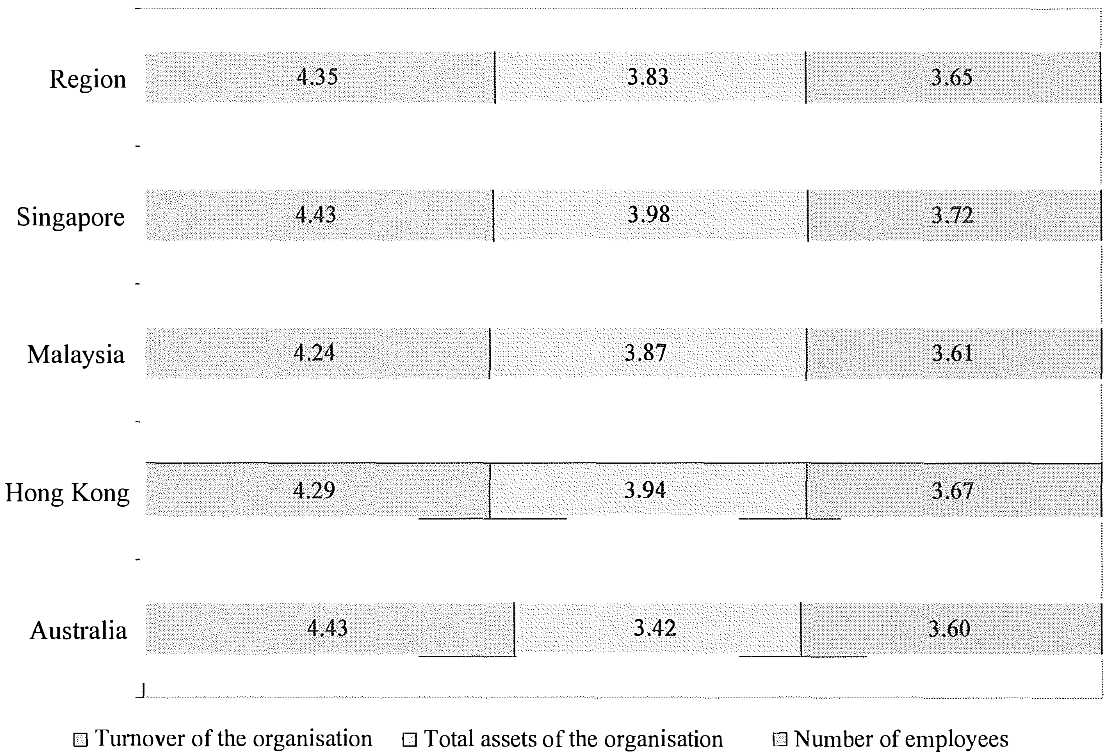


Figure 7: Suggested Titles for the New IFRS



The respondents were asked to rate the relevance of the three size measurements in defining a SME: turnover, total assets and number of employees, using a scale from 1 to 5 with '5' being the most relevant and '1' being the least relevant. Figure 8 provides the summary statistics of the respondents. All the size measurements obtained a summary statistic of more than 3.00. This suggests that these three size measurements are relevant in defining a SME. Comparatively, the turnover of the organisation is the most relevant of the three size measurements while the number of employees is the least relevant among the three measurements, except in the case of Australia, where the total assets of the organisation is considered to be the least relevant measurement.

Figure 8: Relevance of the Size Measurement for SMEs



The respondents were asked to select the most relevant quantitative measure in relation to the above size measurements (see Figures 9a-9c). For the turnover and total assets size measures, more than 50% of the respondents selected a quantitative measure of 'US$5 million and below' as an appropriate definition of a SME, except Singapore which had less than half the respondents agreeing to these measures. For the manpower measure, more than 50% of the respondents selected 'less than 50 full-time employees' as the appropriate quantitative measure.

Figure 9a: Turnover of the Organisation

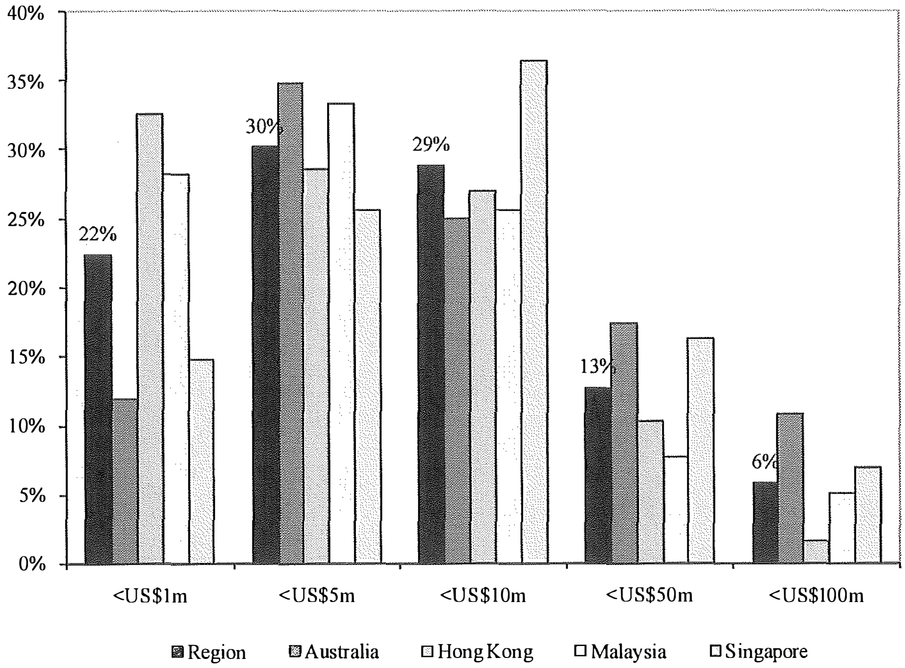


Figure 9b: Total assets of the Organisation

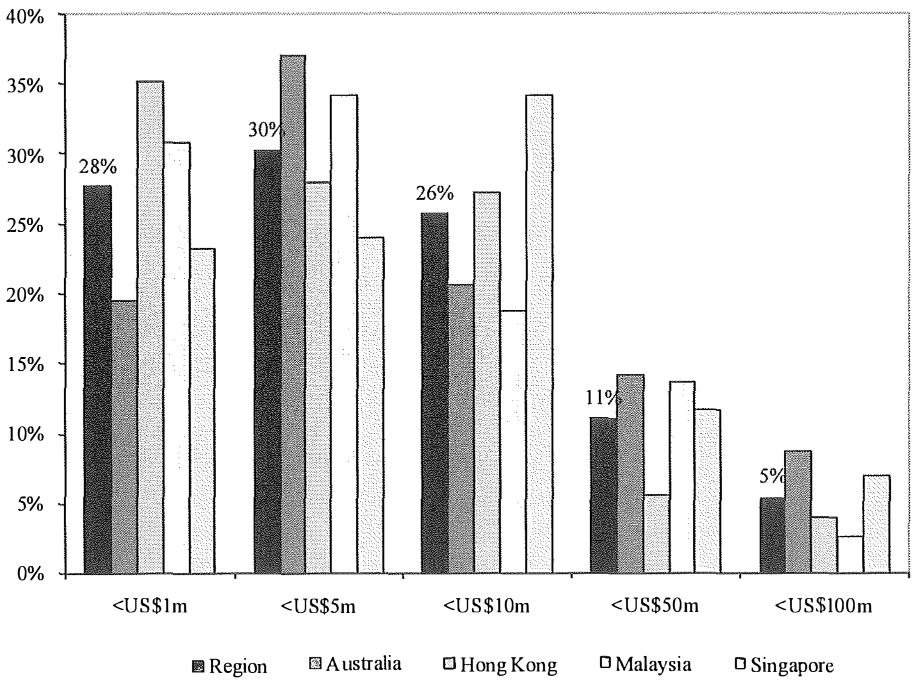
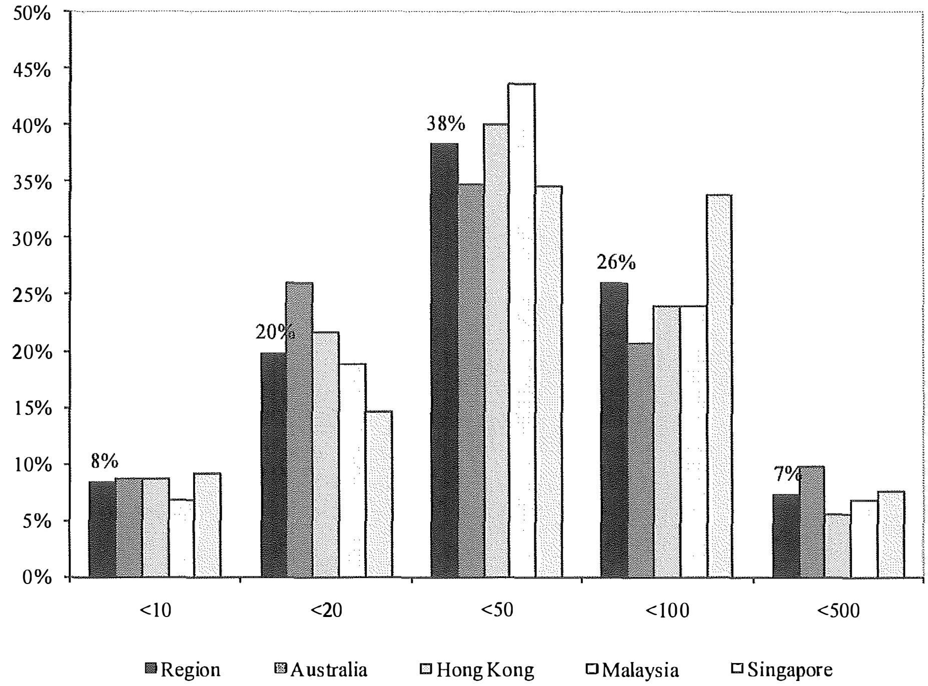


Figure 9c: Number of Full-time Permanent Employees



3. ***Desirability of IFRS for SMEs***

a. <u>Description about *IFRS for SMEs*</u>

Respondents were asked to provide their level of agreement with statements describing IFRS for SMEs. Table 1 reports the percentage of respondents in agreement.

Table 1: Description of IFRS for SMEs

	Australia	Hong Kong	Malaysia	Singapore	Region
1. *IFRS for SMEs* is necessary and desirable to provide a specific framework for financial reporting by SMEs.	70%	83%	80%	87%	81%
2. *IFRS for SMEs* will better meet the needs of users of SMEs' financial statements.	60%	75%	74%	75%	72%
3. *IFRS for SMEs* will reduce the financial reporting burden for SMEs that want to use global reporting standards.	57%	71%	67%	79%	69%
4. *IFRS for SMEs* will reduce the audit burden of SMEs in general.	42%	66%	58%	65%	59%
5. *IFRS for SMEs* will reduce the financial reporting burden on all SMEs in general.	34%	58%	65%	71%	58%
6. *IFRS for SMEs* should be in the form of clearly written variations found in the *Full IFRS.*	61%	72%	78%	75%	72%
7. SMEs should have the choice to apply the *IFRS for SMEs* **or** any applicable IFRS from the *Full IFRS* that they deem applicable and appropriate.	61%	68%	60%	69%	65%
8. SMEs should choose between *IFRS for SMEs* or *Full IFRS* and not a combination of both.	57%	67%	58%	70%	63%
9. If SMEs are able to choose between adoption of *Full IFRS* or *IFRS for SMEs*, there are potentials for non-comparability between SMEs.	59%	55%	71%	74%	65%
10. The application of IFRS for SMEs can result in non-comparability between SMEs and other non-SMEs which prepare their financial statements under the Full IFRS.	41%	52%	58%	58%	53%
11. IFRS for SMEs should be updated whenever there is an update in the Full IFRS or a new IFRS.	70%	79%	75%	82%	77%
12. IFRS for SMEs should be updated annually or on a two-year cycle.	39%	56%	48%	58%	51%
13. IFRS for SMEs should be standalone accounting standards.	36%	46%	37%	49%	43%

There is a generally a positive response to the *IFRS for SMEs*. 81% of the respondents agree that the *IFRS for SMEs* is necessary and desirable. 72% of the respondents agree that an *IFRS for SMEs* will better meet the needs of users of the financial statements of SMEs. The majority of respondents also feel that it will serve its function to reduce the financial reporting burden (69%) and audit burden (59%) for SMEs. It is interesting to note that only 42% of Australians feel the proposed *IFRS for SMEs* will reduce the audit burden and only a third believe it will reduce the financial reporting burden for SMEs.

There is support for *IFRS for SMEs* to be in the form of variations found in *Full IFRS* (72%).[1] Generally, 63% of the respondents agree that there should be a choice between *IFRS for SMEs* or the *Full IFRS* but not a combination of both.

Interestingly, respondents have also indicated that there are possible concerns of non-comparability in the application of the *IFRS for SMEs* between SMEs (65%) and between SMEs and non-SMEs which prepare statements under the *Full IFRS* (53%).

77% of the respondents agree that *IFRS for SMEs* should be updated as and when there are updates in the *Full IFRS* or at least the *IFRS for SMEs* should be updated annually if not on a two-year cycle basis (51%).

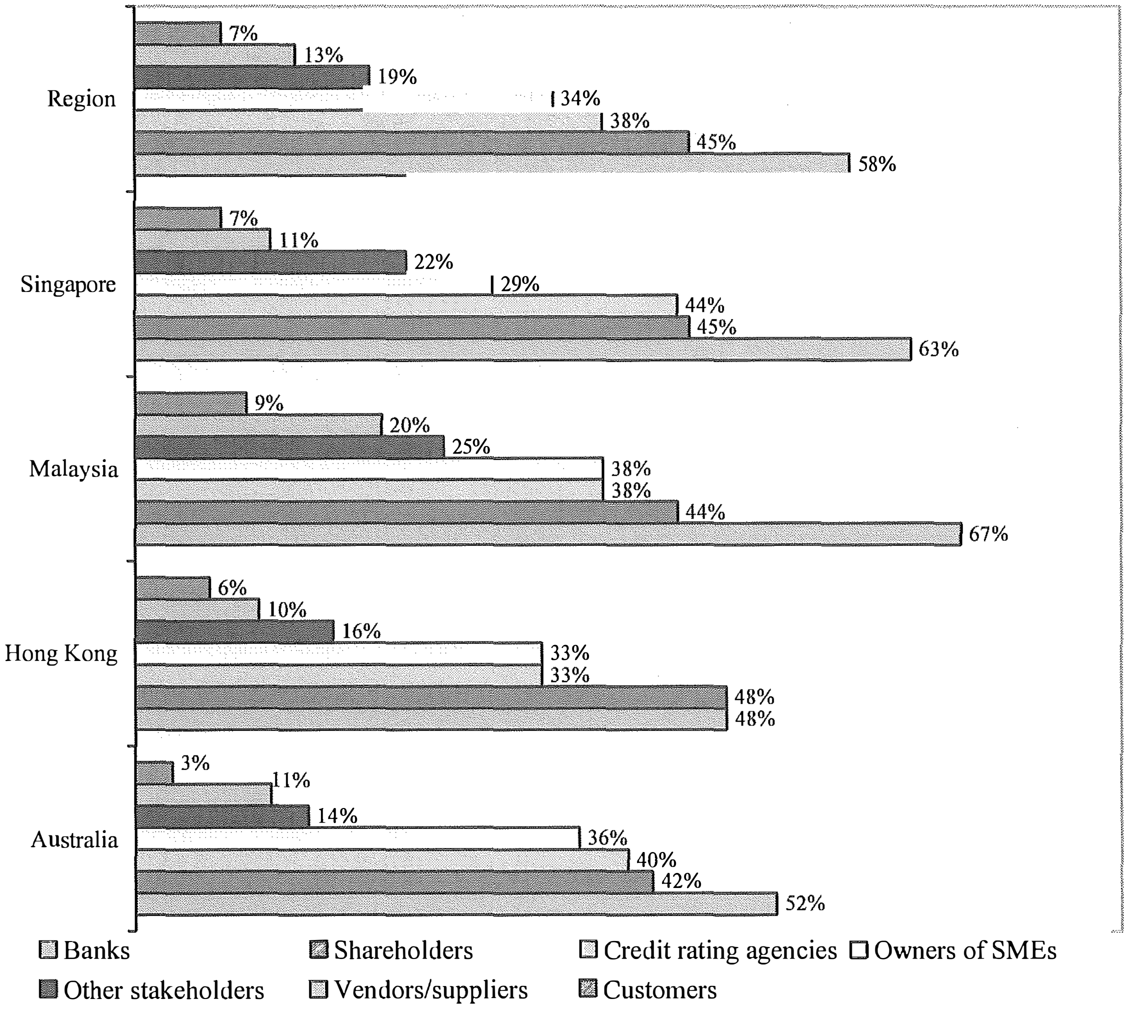
Finally, there is less than majority support for having the *IFRS for SMEs* as a standalone accounting standard.

b. Users of Financial Statements of SMEs

The respondents were asked to indicate the likelihood of the various users of general purpose financial statements for decision making with respect to SMEs. Figure 10 shows clearly that banks that make loans to SMEs will most likely be users of the financial statements of SMEs. This is followed by shareholders and credit rating agencies. Interestingly, the general opinion of the respondents is that customers are less likely to use the financial statements of SMEs. From a policy perspective, banks that make loans to SMEs, shareholders or owners and credit rating agencies are the most likely users of the financial statements of SMEs and hence, the proposed *IFRS for SMEs* should produce financial statements which would meet the needs of these users.

[1] *Full IFRS* is the current full set of IFRS released by IASB for reporting entities

Figure 10: Most Likely Users of Financial Statements of SMEs



4. *Content of IFRS for SMEs*

a. Simplification of Accounting Treatments for SMEs

Respondents were asked to indicate their level of agreement of the simplified accounting treatments in the proposed *IFRS for SMEs*. The respondents generally agree that cash flow statements should be published (see Table 2).

For simplification, the respondents generally only agree to require recognition of foreign exchange gains and losses and revaluation increases in profit and loss (67%); to account for all employee benefit plans as contribution plans (51%); and to account for all long-term contracts using the completed contract method (50%).

Surprisingly, the respondents generally have little support for the following (agreement percentage in brackets):

- the use of mark-to-market for financial assets and liabilities (48%);
- accounting for all leases as operating leases (46%);
- not requiring the use of fair value for financial assets and liabilities after the initial recognition (44%);
- not requiring the recognition of share-based payments (43%);
- reduction in the recognition of provisions (40%);
- not requiring the recognition of deferred taxes (40%);
- not requiring consolidated financial statements (38%); and
- accounting for all agriculture using the cost model (38%).

Table 2: Content of the IFRS of SMEs

For simplicity, *IFRS for SMEs* should:	Australia	Hong Kong	Malaysia	Singapore	Region
1. Require recognition of foreign exchange gains and losses and revaluation increases in profit and loss.	66%	65%	62%	75%	67%
2. Account for all employee benefit plans as contribution plans.	54%	50%	51%	48%	51%
3. Account for all long-term contracts using the completed contract method.	58%	49%	47%	47%	50%
4. Not require the use of mark-to-market for financial assets and liabilities in general.	33%	45%	55%	54%	48%
5. Account for all leases as operating leases.	53%	52%	41%	40%	46%
6. Not require the use of fair value for financial assets and liabilities after the initial recognition.	39%	41%	51%	43%	44%
7. Not require the recognition of share-based payments.	39%	43%	41%	48%	43%
8. Reduce the recognition of provisions.	33%	42%	49%	37%	40%
9. Not require the recognition of deferred taxes.	30%	46%	43%	38%	40%
10. Not require consolidated financial statements.	36%	43%	37%	36%	38%
11. Account for all agriculture using the cost model.	34%	40%	44%	32%	38%
12. Not require the publication of a cash flow statement.	39%	40%	26%	33%	34%

In the 'Open Forum' of the questionnaire, respondents were asked whether there are any specific areas for which the SMEs are likely to need additional guidance. The key areas highlighted by the respondents as requiring additional guidance are:

- corporate governance;
- environmental and social responsibility issue;
- accounting for impairment, share-based payments, deferred tax, goodwill, leasing;
- fair value accounting; and
- valuation in general, including valuation of leases, financial assets and liabilities.

b. Content of the Financial Statements

The respondents were given a set of the content from the financial statements of companies under the *Full IFRS*. The respondents were asked to indicate their level of agreement as to whether the *IFRS for SMEs* should include these contents in their financial statements.

Table 3: Content of the Financial Statements of SMEs

	Australia	Hong Kong	Malaysia	Singapore	Region
Balance Sheet	96%	95%	97%	98%	96%
Income Statement	97%	93%	96%	97%	95%
Revenue	92%	88%	92%	95%	92%
Property, Plant and Equipment	91%	87%	95%	92%	91%
Inventories	90%	81%	88%	88%	86%
Notes to the Financial Statements	79%	89%	87%	86%	86%
Equity	86%	73%	86%	86%	83%
Investment Property	80%	76%	83%	82%	80%
Income Taxes	77%	77%	84%	80%	80%
Borrowing Costs	77%	62%	89%	78%	76%
Statement of Changes in Equity	72%	66%	84%	78%	75%
Provisions and Contingencies	80%	65%	72%	83%	75%
Accounting Policies, Estimates and Errors	70%	69%	78%	78%	74%
Financial Assets and Financial Liabilities	75%	71%	73%	74%	73%
Statement of Income and Retained Earnings	76%	70%	72%	75%	73%
Leases	75%	69%	74%	75%	73%
Investments in Associates	72%	65%	72%	75%	71%
Events after the End of the Reporting Period	66%	65%	75%	75%	71%
Investments in Joint Ventures	71%	66%	74%	70%	70%
Related Party Disclosures	65%	67%	66%	79%	70%
Intangible Assets other than Goodwill	76%	68%	64%	68%	69%
Foreign Currency Translation	60%	61%	66%	72%	65%
First-time Adoption of *IFRS for SMEs*	59%	66%	69%	60%	64%
Cash Flow Statement	59%	52%	73%	70%	64%
Government Grants	70%	53%	68%	64%	63%

	Australia	Hong Kong	Malaysia	Singapore	Region
Business Combinations and Goodwill	60%	59%	55%	59%	58%
Employee Benefits	66%	52%	54%	51%	55%
Consolidated and Separate Financial Statements	50%	51%	57%	58%	54%
Impairment of Non-financial Assets	49%	52%	50%	55%	52%
Specialised Industries – Construction Contracts	41%	48%	58%	37%	46%
Discontinued Operations and Assets Held for Sale	40%	47%	50%	37%	44%
Share-based Payment	46%	44%	41%	44%	43%
Specialised Industries – Insurance Contracts	40%	48%	50%	33%	43%
Specialised Industries – Extractive Industries	36%	44%	49%	29%	39%
Earnings per Share	33%	43%	43%	35%	38%
Specialised Industries – Agriculture	36%	40%	50%	28%	38%
Financial Reporting in Hyperinflationary Economies	23%	31%	38%	25%	29%
Segment Reporting	34%	27%	32%	25%	29%
Interim Financial Reporting	25%	28%	26%	21%	25%

The general conclusion based on the percentages given in Table 3 is that most respondents agree that the financial statements of SMEs should include those areas covered by the *Full IFRS* except for the following areas in which the respondents are generally neutral. This can be a reflection of the fact that the respondents see the following areas as having little significance or application to SMEs. In order of decreasing usefulness, the areas are:

- Specialised Industries – Construction Contracts;
- Discontinued Operations and Assets Held for Sale;
- Share-based Payment;
- Specialised Industries – Insurance Contracts;
- Specialised Industries – Extractive Industries;
- Earnings per Share;
- Specialised Industries – Agriculture;
- Financial Reporting in Hyperinflationary Economies;
- Segment Reporting; and
- Interim Financial Reporting.

This finding suggests that SMEs may have difficulties complying with the more sophisticated and complex accounting standards where the costs do not justify the benefits.

The 'Open Forum' of the questionnaire asked whether there are any topics which the proposed *IFRS for SMEs* should include and the majority response is that the proposed standard is comprehensive. Some of the suggestions of additional topics to be included are:

- environmental or social responsibility issues;
- loans to directors; and
- revenue recognition.

c. Simplification of Recognition and Measurement Methods

The respondents were asked to indicate their level of agreement to the proposed simplification of the recognition and measurement methods proposed in the *IFRS for SMEs*. Table 4 contains the summary statistics on the level of agreement to statements describing the simplification of the recognition and measurement methods in the proposed *IFRS for SMEs*. The scale for responses is 1 for 'Strongly Agree', 3 for 'Neutral' and 5 for 'Strongly Disagree'.

Table 4: Simplification of the Recognition and Measurement Methods

		Mean	Median	Mode
1.	The choice of using the expense model or the capitalization model for borrowing costs.	2.35	2.00	2.00
2.	To use the cost-amortization method for goodwill.	2.36	2.00	2.00
3.	To use the expense or capitalization choice for accounting for Research and Development costs.	2.39	2.00	2.00
4.	To use the cost or fair value method for accounting for associates and joint ventures.	2.42	2.00	2.00
5.	To use the fair value measurement for financial instruments as the default measure.	2.52	2.00	2.00
6.	To invoke the "impracticality" exemption (impractical to restate the opening balance of the balance sheet) for first time adoption.	2.58	3.00	3.00
7.	To use the list of indicators approach to assess impairment of goodwill if impairment is the prescribed treatment for goodwill.	2.59	3.00	2.00
8.	To use the fair value through profit or loss model or the cost-depreciation-impairment model for biological assets or agricultural produce.	2.61	3.00	3.00
9.	To recognize actuarial gains and losses in full in profit or loss when they occur.	2.63	2.00	2.00
10.	To use the fair value of the rights and obligations under a finance lease to value the leased property.	2.65	3.00	2.00
11.	To recognize actuarial gains and losses in full for defined benefit plans in profit or loss when they occur.	2.69	3.00	2.00
12.	To use IFRS 2 Share-based Payment in accounting for all share-based payment transactions.	2.81	3.00	3.00

The respondents are generally supportive of all the simplified recognition and measurement methods in the *IFRS for SMEs* although a majority of the respondents (median score of 3) are slightly neutral to the following proposed methods:

- To invoke the "impracticality" exemption (impractical to restate the opening balance of the balance sheet) for first time adoption (Table 4, item 6).
- To use the list of indicators approach to assess impairment of goodwill if impairment is the prescribed treatment for goodwill (Table 4, item 7).
- To use the fair value through profit or loss model or the cost-depreciation-impairment model for biological assets or agricultural produce (Table 4, item 8).
- To use the fair value of the rights and obligations under a finance lease to value the leased property (Table 4, item 10).
- To recognize actuarial gains and losses in full for defined benefit plans in profit or loss when they occur (Table 4, item 11).
- To use IFRS 2 Share-based Payment in accounting for all share-based payment transactions (Table 4, item 12).

The use of IFRS 2 Share-based Payment in accounting for all share-based payment transactions received the least supportive agreement from the respondents.

Finally, an analysis of the 'Open Forum' of the questionnaire shows that most respondents believe that the *IFRS for SMEs* is relatively comprehensive in addressing both recognition and measurement issues of SMEs. The most popular simplification for recognition and measurement methods suggested by the respondents is to return to the cost method.

d. Disclosure Principles

The respondents were asked to indicate their level of agreement concerning the disclosure principles advocated by IASB to guide the disclosure requirements of SMEs.

Table 5: Disclosure Principles Advocated by IASB

	Australia	Hong Kong	Malaysia	Singapore	Region
1. Users of financial statements of SMEs are particularly interested in information about liquidity, solvency and the firm's going concern potential.	87%	82%	88%	88%	86%
2. Users of financial statements of SMEs are particularly interested in information about the short term cash flow and obligations, commitments or contingencies of the SME.	70%	63%	83%	78%	74%
3. The information disclosure requirements for SMEs are different from those entities which obtain investment from the public capital markets.	65%	63%	79%	65%	68%
4. Users of financial statements of SMEs require information on measurement of uncertainties faced by the SMEs.	47%	59%	65%	56%	57%
5. Users of financial statements of SMEs require information about the SME's accounting policy choices.	45%	55%	62%	59%	56%
6. Users of financial statements of SMEs prefer disaggregated amounts in order to better understand the financial statements.	51%	47%	53%	52%	51%

The respondents show strong support for the disclosure principles used by IASB in the disclosure requirements for SMEs. More than 50% of all respondents agree to the proposed disclosure principles advocated by IASB in the proposed *IFRS for SMEs*. 86% of the respondents affirmed that 'users of financial statements of SMEs are particularly interested in information about liquidity, solvency and the firm's going concern potential'.

In the 'Open Forum' of the questionnaire, respondents were asked whether there are any specific disclosures which the proposed *IFRS for SMEs* should include. The general responses are 'No' and for those who suggested additional disclosures, the following are some of the suggestions:

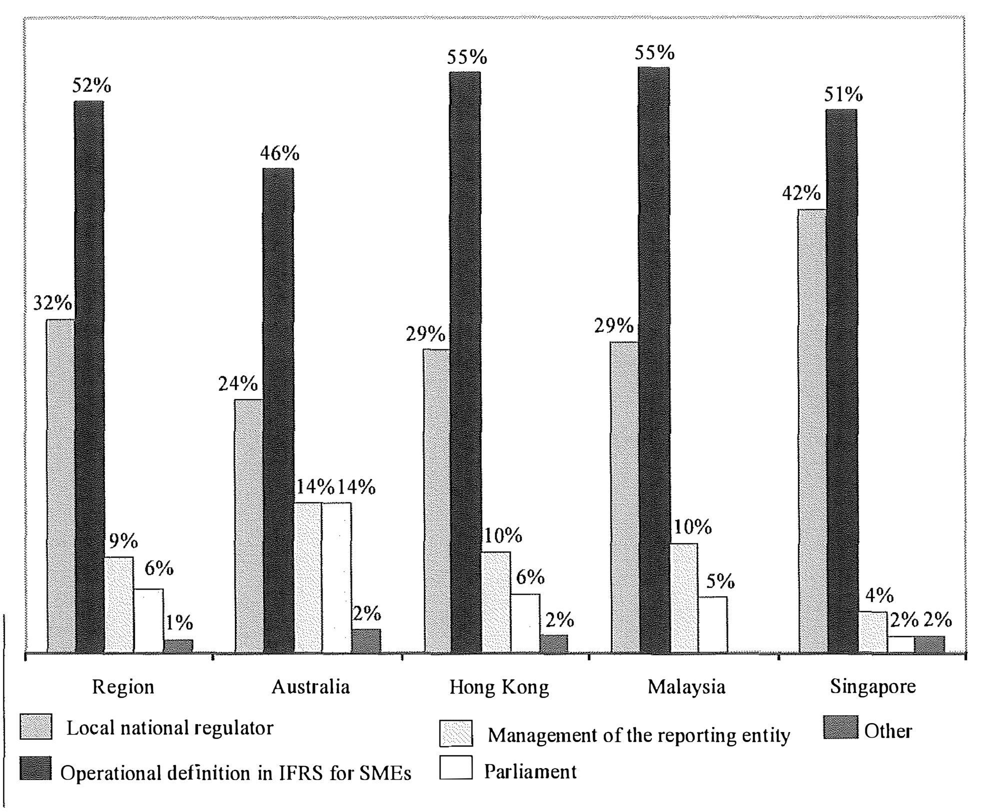
- the number of employees, turnovers and total assets which qualify the entity as a SME reporting entity to adopt *IFRS for SMEs*; and
- ownership and related party disclosure.

5. Implementation of IFRS for SMEs

a. Authority for Defining a SME

The respondents were asked to indicate which authority should be responsible for defining an entity as a SME. Figure 11 contains the distribution of the respondents on which authority should be responsible for defining a SME.

Figure 11: Authority for Defining a SME



A majority of respondents believe that the definition of a SME should ultimately be specified in the *IFRS for SMEs* (52%) while a third of the respondents (32%) believe it is the local national regulator's responsibility to define a SME.

b. Support for the Proposed *IFRs for SMEs*

The respondents were asked to indicate their support for the proposed *IFRS for SMEs*. Figures 12a-12d show the distribution of their responses.

Figure 12a: Would you support the promulgation of an *IFRS for SMEs*?

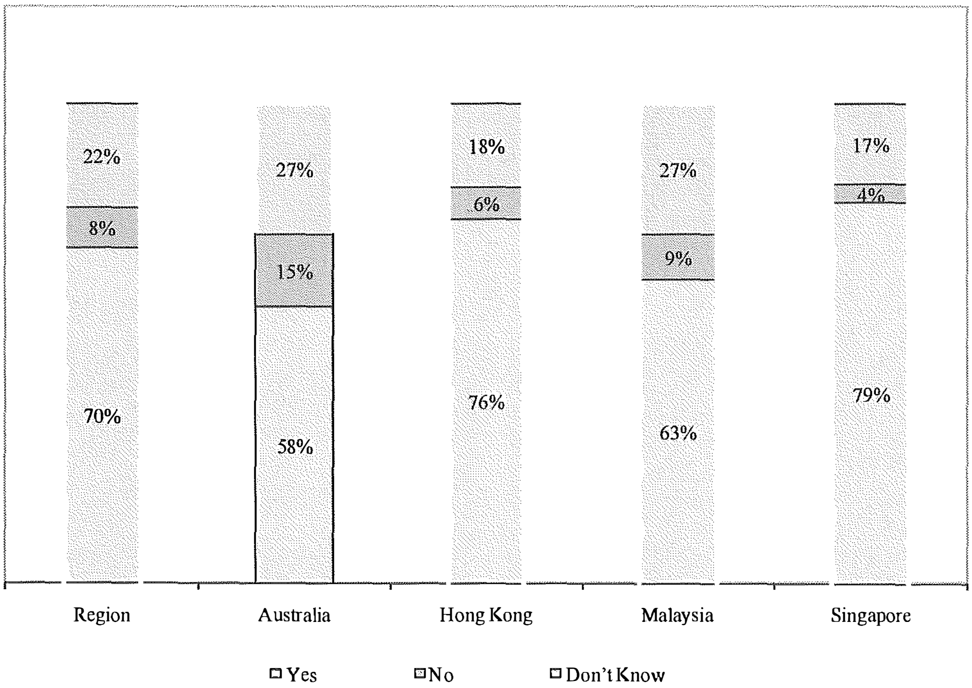


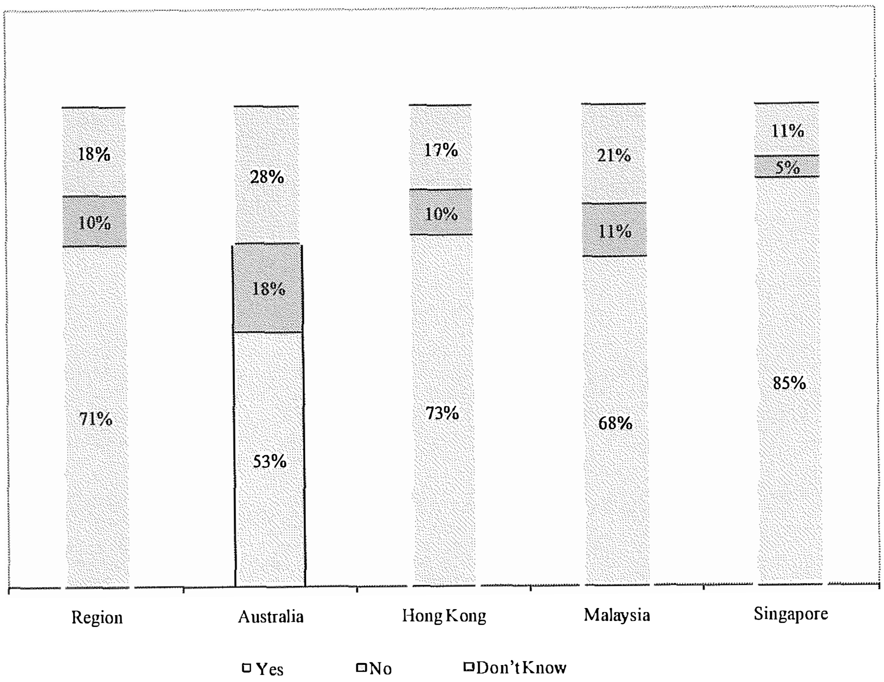
Figure 12a shows that 70% of the respondents will support the promulgation of an *IFRS for SMEs* while only 8% of the respondents will not support any proposed *IFRS for SMEs*. This is supported by the responses from the 'Open Forum' in the questionnaire. 167 respondents gave reasons on why they would support the promulgation of *IFRS for SMEs*. The four main qualitative responses in order of frequency were:

- cost and benefits of compliance for SMEs;
- simplicity of the accounts of SMEs that requires a simple set of IFRS;
- useful for consistent reporting and comparison purposes; and
- reports that are more useful to users.

On the other hand, there were 23 respondents who objected to the promulgation of *IFRS for SMEs*. Some of the reasons given were:

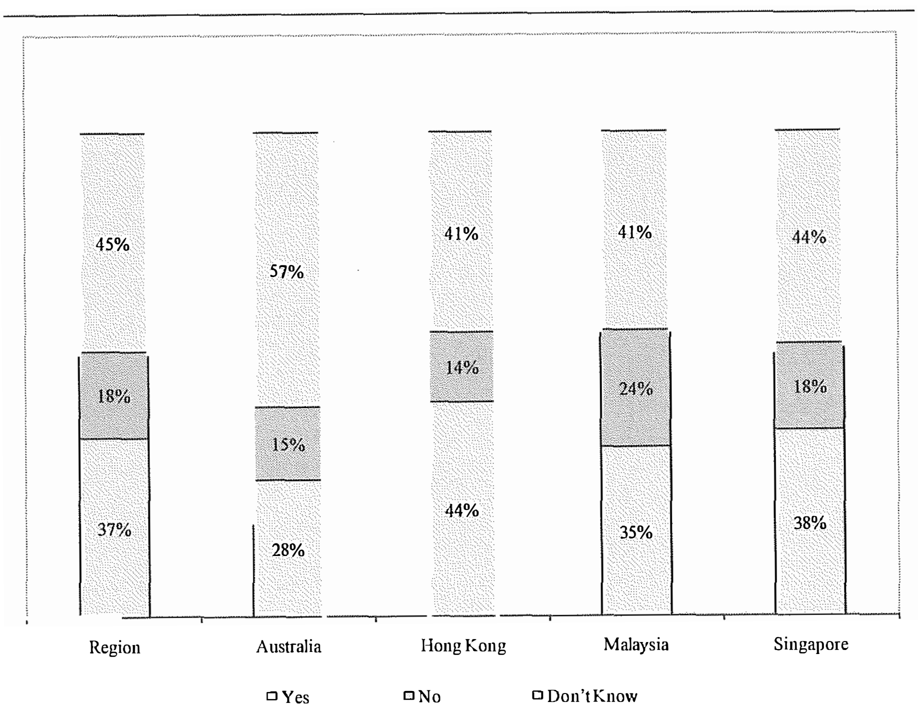
- it is too costly for SMEs to comply with the standard;
- it may create difficulties to align financial statements under *Full IFRS* and *IFRS for SMEs*; and
- that *Full IFRS* should be applicable to all reporting entities.

Figure 12b: Would you support the proposed *IFRS for SMEs*?



71% of the respondents will support the current *IFRS for SMEs* as released by the IASB (see Figure 12b). However, only 53% of the Australian respondents indicated they will support the proposed *IFRS for SMEs* while Singapore has the highest support rate of 85%. It is also notable that 28% of Australian respondents chose 'Don't know' for this question.

Figure 12c: Is the proposed *IFRS for SMEs* comprehensive enough?

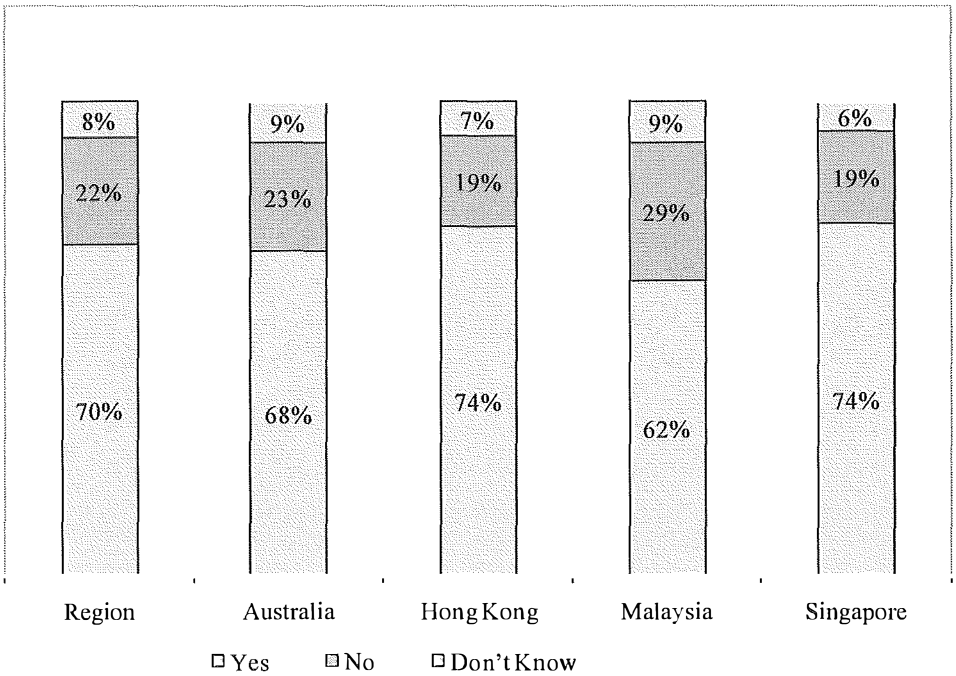


Interestingly, only 37% of the respondents expressed an unqualified support that the proposed *IFRS for SMEs* is comprehensive while 45% of the respondents said that they could not express an opinion as to whether the proposed *IFRS for SMEs* is comprehensive (see Figure 12c). Respondents from all four countries seem to express this view.

Finally, Figure 12d shows that a large number of respondents (70%) agree that SMEs should be given a choice between the *Full IFRS* and the proposed *IFRS for SMEs*.

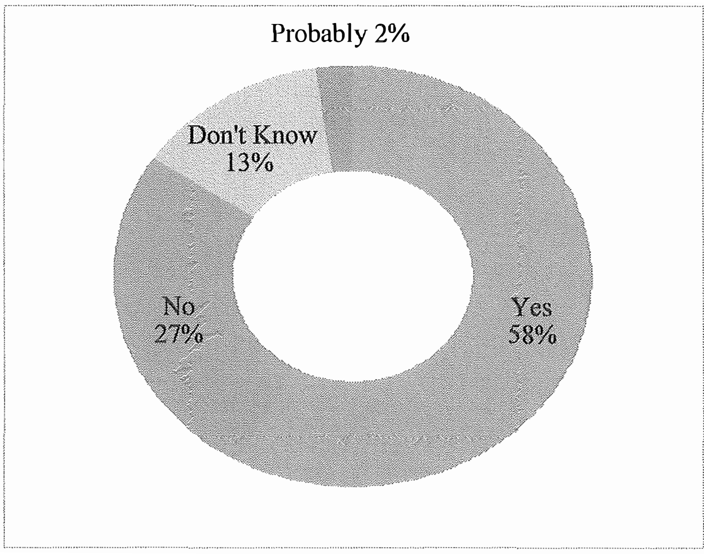
Therefore, the survey seems to suggest that the respondents are generally in favour of *IFRS for SMEs* and the proposed *IFRS for SMES* will be supported. Nonetheless, most of the respondents prefer to have a choice between the *Full IFRS* and the proposed *IFRS for SMEs*.

Figure 12d: Should SMEs be given an option to choose between *Full IFRS* or proposed *IFRS for SMEs*?



The respondents were asked whether the proposed *IFRS for SMEs* will save costs and time. In the 'Open Forum' of the survey, 207 respondents provided qualitative response to the question. Figure 13 shows the distribution of the qualitative comments into four major groups: Yes, No, Don't Know and Probably.

Figure 13: Distribution of the Responses to Time and Cost Savings

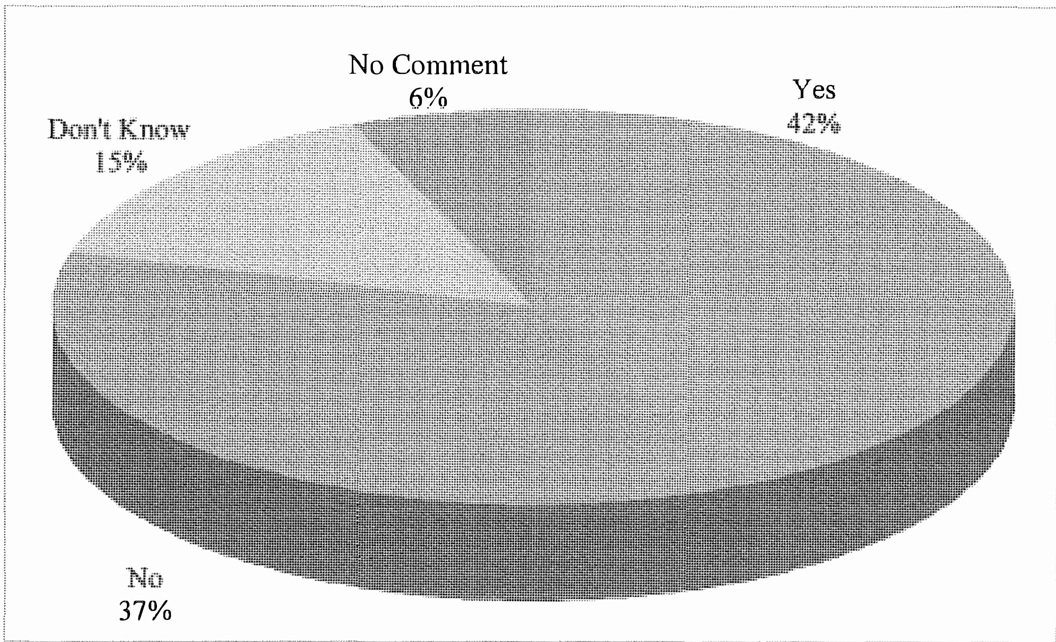


A majority of the respondents (58%) said that the application of *IFRS for SMEs* will result in cost and time saving. One respondent claimed that the saving can be as high as 70% while there were ten respondents who said that the savings will be about 50%.

c. Transitional Arrangement and Updating of the *IFRS for SMEs*

In the 'Open Forum' of the questionnaire, respondents were asked whether the guidance for transition was adequate and how often the *IFRS for SMEs* should be updated. Figure 14 shows the distribution of the responses to the adequacy of the transition provisions.

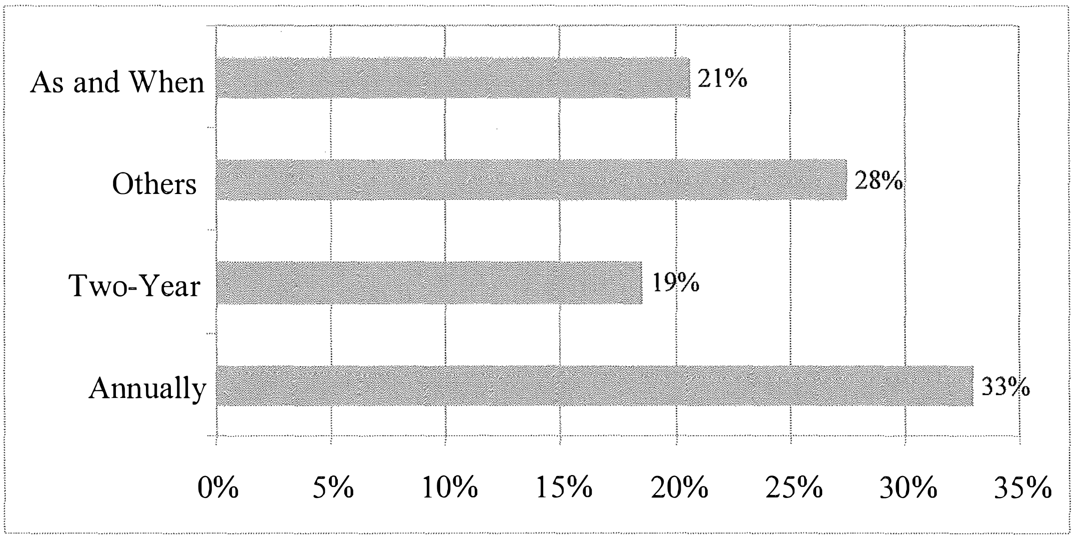
Figure 14: Adequacy of Transition provisions



A high percentage of the respondents (42%) believe that the transition provisions are adequate but an almost equally high proportion (37%) of the respondents do not think that the transition provisions are adequate.

Figure 15 provides a breakdown of the responses as to when the *IFRS for SMEs* should be updated.

Figure 15 : Frequency of Updates



One-third of the respondents favour an annual update of the *IFRs for SMEs* while 21% of the respondents prefer the standard to be updated as and when there is a need or a change in the *Full IFRS.* More than 50% of the respondents favour an update of no less than two years.

End

26 September 2007

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Dear David

Invitation to Comment ITC 12 *Request for Comment on a Proposed Revised Differential Reporting Regime for Australia and IASB Exposure Draft of a Proposed IFRS for Small and Medium-sized Entities*

Thank you for the opportunity to comment on the Invitation to Comment ITC 12 *Request for Comment on a Proposed Revised Differential Reporting Regime for Australia and IASB Exposure Draft of a Proposed IFRS for Small and Medium-sized Entities*. CPA Australia Ltd's comments have been prepared in consultation with members through its Financial Reporting and Governance and Public Sector Centres of Excellence.

Its response to the specific matters for comment on the proposal to revise the differential reporting regime for Australia is attached. Its response to the proposals of the International Accounting Standards Board's (IASB) Exposure Draft was copied separately to you.

CPA Australia does not support the Australian Accounting Standards Board's (AASB) proposed revision of the differential reporting regime, whereby the application of AASB Standards would no longer depend on whether entities are reporting entities. The fundamental tenet of the AASB's proposal is that in order for it to be consistent with the IASB's view of a general purpose financial report:

- all financial reports that are available on a public register should be regarded as general purpose financial reports. This would include those financial reports prepared and lodged with ASIC under the Corporations Act and financial reports prepared and lodged with the Registrar of Incorporated Associations as and when required by the Associations Incorporations (Vic) Act (and the like legislations of other states and territories); and
- all financial reports that are made available to the public at large, such as those tabled in a Parliament, also should be regarded as general purpose financial reports.

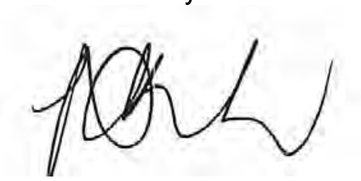
The initial view of the IASB was that general purpose financial statements include those that are a regulatory filing. This view was articulated in the Exposure Draft of Proposed Amendments to IAS 1 *Presentation of Financial Statements: A Revised Presentation*. CPA Australia's submission to the ED did not support the IASB's proposal on a number of grounds, including that it was not the role of the IASB to decide whether general purpose financial statements include a regulatory filing. The IASB decided to eliminate its earlier statement that general purpose financial statements include a regulatory filing from the finalised IAS 1 *Presentation of Financial Statements* issued in September 2007. The IASB's reasoning was "…the Board did not intend to extend the definition of general purpose financial statements…" (IAS 1 paragraph BC 13). With the elimination of the fundamental tenet on which the AASB proposal is founded, CPA Australia strongly suggests to the AASB it is no longer necessary for it to proceed with its proposed removal of the reporting entity concept. Put another way it is not necessary to extend the definition of general purpose financial reports to include a filing with ASIC or the Registrar of Incorporated Associations, or a tabling in a Parliament. Further, CPA Australia considers the proposal to require general purpose financial reporting by non-reporting entities would impose additional costs on those entities without corresponding benefits, given the absence of external users.

Accordingly, CPA Australia considers that the retention of the definition of reporting entity to differentiate reporting entities from those entities that are non reporting is not at odds with then applying the notion of public accountability to then determine whether the general purpose financial statements of the reporting entity are prepared using the full suite of accounting standards or the proposed IFRS for SME Standard.

Nevertheless, CPA Australia considers it is vital that the AASB undertake two of pieces of work that it regards as essential to the operation of differential reporting in Australia. First, it strongly encourages the AASB to make the reporting entity concept more robust in its application to situations which are not clearly reporting entity or non-reporting entity. There is anecdotal evidence to suggest that some entities have been designated non-reporting entities when they are in fact reporting entities (see, for example, Australia, Parliament 2001, The Parliamentary Joint Statutory Committee on Corporations and Securities: Report on Aspects of the Regulation of Proprietary Companies [G. Chapman, Chairman] Canberra). This is either the result of errors of judgement or deliberate misclassification. Second, CPA Australia strongly encourages the AASB to expand the definition of publicly accountable so that it can be applied to reporting entities of the not-for-profit private and public sectors. It expects the expanded definition to embrace attributes of national importance. In contrast, the AASB has relied on the use of quantitative thresholds. CPA Australia is of the view that the limitations of this approach are so paramount that it cannot be supported. The considerable difference in the economic size of the different public sector jurisdictions is one example of the significance of those limitations.

If you have any queries on our comments, please contact Dr Mark Shying, CPA Australia's Financial Reporting and Governance Senior Policy Adviser at mark.shying@cpaaustralia.com.au.

Yours sincerely



Geoff Rankin FCPA
Chief Executive Officer

cc: M Shying

Specific Matters for Comment

(a) do you agree with changing the application focus of Australian Accounting Standards from 'reporting entity' to 'general purpose financial reports'?

No, CPA Australia does not agree with changing the application focus of Australian Accounting Standards from 'reporting entity' to 'general purpose financial reports'.

Currently, the Australian Accounting Standards apply to (i) each entity that is required to prepare financial reports in accordance with Part 2M.3 of the Corporations Act and that is a reporting entity – by definition those financial reports are general purpose; (ii) general purpose financial reports of each other reporting entity and (iii) financial reports that are, or are held out to be, general purpose.[1] The AASB contrasts this approach with that of other standard setters, including the IASB, requiring their standards to be applied in general purpose financial reports (see ITC 12 paragraph BC6).

CPA Australia is of the view that in principle the Australian application paragraphs result in the same outcomes as would a focus on general purpose financial statements (and it notes that the focus of [iii] above is the general purpose financial report and not the reporting entity).

(b) if it is considered desirable to retain the reporting entity concept as the basis for differential reporting, what improvements could be made to remove related concerns (see paragraph BC6) and make it more effective?

CPA Australia supports the retention of the reporting entity concept with improvements to make it more effective. It acknowledges that there is some anecdotal evidence of instances of its failure in the proprietary limited company space when directors have misclassified entities either through error of judgement or deliberate misclassification. Some members of CPA Australia have noted the difficulty of applying the current definition in situations which are not clearly reporting entity or non-reporting. Other members have noted their experience of some directors having a propensity to identify an entity as non reporting, when the member was of the view that classification as a reporting entity was appropriate.

The presence of some anecdotal evidence that reporting entities have been classified as non-reporting entities suggests the need for a means to minimise such outcomes. Improvements to the reporting entity concept might include:

- a statement by the directors specifying their reasons for classifying the entity as a non-reporting entity; and/or
- requiring a 'non-reporting entity' statement by shareholders.

Anecdotal evidence obtained by CPA Australia indicates that when misclassification does occur, it occurs in the classification of proprietary companies. The improvements identified by CPA Australia are framed in this context. If the AASB was to conclude that the improvements to the reporting entity concept need to apply more broadly, the improvements suggested by CPA Australia would require some additional words – for example, a statement by members.

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[1] CPA Australia notes that the application of AASB 101, 107, 108, and 1048 is broader as subparagraph (a) excludes the words 'and that is a reporting entity'. The application paragraph of AASB 1031 results in the same outcome.

The AASB has proposed the use of quantitative measures to expand the definition of public accountability. Some commentators have said quantitative measures could be used to make the reporting entity concept more robust. CPA Australia cautions against sole reliance on quantitative measures (form) as it is likely they will become the basis on which reporting entity decisions will be made, rather than whether there are dependent users (substance). The requirements of the Directors' Report could be extended to require directors to specify their reasons for classifying the proprietary company a non-reporting entity.[2] Alternatively, as the number of shareholders in proprietary companies is likely to be small, it may be feasible to impose a requirement whereby all, or a super-majority of members (greater than 95%), is required to agree that the proprietary company is not a reporting entity. The statement by shareholders could then accompany the special purpose financial report.

(c) do you support the proposal to apply the IASB's definition of a publicly accountable entity to differentiate between for-profit entities that apply Australian equivalents to IFRSs and for-profit entities that apply an Australian equivalent to the IFRS for SMEs?

Yes, CPA Australia supports the use of the operational definition of SMEs – entities that do not have public accountability and prepare general purpose financial reports – to differentiate between for-profit reporting entities that apply Australian equivalents to IFRSs and for-profit reporting entities that apply an Australian equivalent to the IFRS for SMEs. Some members of CPA Australia have expressed concern that the term 'fiduciary capacity' requires further explanation to ensure that some reporting entities do not mistakenly conclude they are outside the scope of the IFRS for SME Standard. CPA Australia's submission to the IASB (and copied to the AASB) encouraged the IASB to include a further explanation.

(d) in respect of for-profit entities that do not satisfy the IASB's definition of a publicly accountable entity, but are viewed as being important from a public interest perspective because of their large size:

- **i. do you agree that such entities should in the public interest apply Australian equivalents to IFRSs and that it is appropriate to use size thresholds to identify these entities?**
- **ii. do you agree with the proposed size thresholds? If you do not agree, what do you consider to be the appropriate thresholds, and why?**

In principle, CPA Australia considers that any for-profit reporting entity without public accountability should be able to make use of the Australian equivalent to IFRS for SMEs. It is of the view that the purpose of the Australian equivalents to IFRSs is to facilitate reporting that maximises the informational efficiency of the capital market.

It is not apparent from ITC 12 why the AASB is of the view that requiring capital-market focused reporting would be consistent with the objective of enhanced accountability that it considers ought be required of a for-profit reporting entity without public accountability but with $500 million revenue and $250 million. The Basis for Conclusions should articulate this reasoning should the AASB proceed with its proposed thresholds.[3]

[2] CPA Australia notes the Explanatory Memorandum to the Corporations Legislation Amendment (Simpler Regulatory System) Bill 2007 Chapter 9 states that the potential users of the annual reports of large proprietary companies include trade creditors, employees, credit-rating agencies, journalists and the wider community. Further, the Explanatory Memorandum states "…requiring economically significant proprietary companies to report promotes greater confidence in the market place and facilitates the public listing of large proprietary companies to access alternative forms of capital. A size test provided a simple objective test which a company can apply to determine whether it is required to lodge an annual report.". Some commentators opine all large companies are reporting entities. Although intuitively appealing, members of CPA Australia have indicated there will be occasions when this is not so. A size test has its limitations. CPA Australia envisages there may be situations when a large proprietary company is not a reporting entity. The Directors' Report would articulate that reasoning.

[3] CPA Australia polled members through CPA Update where two questions were posed – (1) Should proprietary companies be held publicly accountable as posed by the AASB? and (2) When should a proprietary company be deemed important from a public interest perspective and apply the same standards as for entities with public accountability? Responses to question 1 were: 309 responses; 54% said yes, 33% said no, and 13% were undecided. Responses to question 2 were: 120 responses; 42.5% indicated that the AASB proposed size test threshold is appropriate, 30% supported smaller thresholds, and 27.5% advocated a non-financial threshold e.g., market share or market dominance.

(e) since the IASB's ED of A Proposed IFRS for SMEs has been developed with only for profit entities in mind, do you agree it is appropriate to adopt the forthcoming IASB's IFRS for SMEs (after inclusion of Aus paragraphs similar to those included in Australian equivalents to IFRSs) in a differential reporting regime in respect of not-for profit private sector entities and public sector entities?

CPA Australia considers it appropriate to adopt the forthcoming IASB's IFRS for SMEs in a differential reporting regime in respect of not-for profit private sector reporting entities and public sector reporting entities when they do not have public accountability. It supports the inclusion of Aus paragraphs in the Australian equivalent to IFRS for SMEs similar to those included in Australian equivalents to IFRSs when an Aus paragraph is necessary to enable the option adopted from the Australian equivalent to IFRS to apply to reporting entities that are not for profit. Further, it supports the inclusion of additional Aus paragraphs when they are necessary to enable the simplification of the recognition and measurement requirements of the Australian equivalent to IFRS to apply.

(f) in respect of not-for-profit private sector entities:

i. **is there a need for differential reporting in the not-for-profit private sector? If yes, do you agree with using size thresholds to distinguish between not-for-profit private sector entities that should apply Australian equivalents to IFRSs and those that should apply an Australian equivalent to the IFRS for SMEs (which would include Aus paragraphs similar to those included in Australian equivalent to IFRSs)?**

ii. **do you agree with the proposed size thresholds? If you do not agree, what do you consider to be the appropriate size thresholds and why?**

iii. **not-for-profit entities that meet the thresholds of \$25m revenue and \$12.5m assets would prepare their general purpose financial reports in accordance with the Australian equivalents to IFRSs. In contrast, non-publicly accountable for-profit entities would only be required to apply the Australian equivalents to IFRSs when they meet the thresholds of \$500m revenue and \$250m assets. The AASB has justified this difference based on the higher degree of public interest in the activities of not-for-profit entities. Do you agree?**

iv. **both private sector not-for-profit entities and public sector entities that meet the thresholds of \$25m revenue and \$12.5m assets would need to prepare their general purpose financial reports in accordance with the Australian equivalents to IFRSs. The AASB has justified the common size thresholds for both types of entities based on a view that there is an equivalent degree of public interest in the activities of these two types of entities. Do you agree?**

v. **do you think a third tier of simpler reporting requirements should be added to cater for smaller not-for-profit private sector entities that prepare general purpose financial reports? If so, what should those simpler reporting requirements be and how would the category of entities applying those requirements be identified? How would your answer to this question differ if the forthcoming IFRS for SMEs has fewer disclosures than the ED of A Proposed IFRS for SMEs?**

Yes, CPA Australia supports a differential reporting regime in the not-for-profit private sector. CPA Australia's submission to the Australian Treasury's Financial Reporting by Unlisted Public Companies Discussion Paper supports the introduction of a differential reporting regime based on size for companies limited by guarantee. However, it did not support the introduction of a regime based on size that would exempt a specified class of companies limited by guarantee from the lodgement of annual reports. CPA Australia's submission encouraged the Australian Government to work co-operatively with the governments of the states and territories to harmonise the financial reporting requirements of companies limited by guarantee and incorporated associations – to provide a consistent approach to the development of reporting frameworks for all corporate not-for-profit entities. Accordingly, its submission to Australian Treasury also has relevance to other not-for-profit private sector entities.

CPA Australia's submission to the Australian Treasury noted that any differential reporting regime must strike the appropriate balance between benefit and cost. It concluded that all companies limited by guarantee should report regardless of size because:

- financial reporting imposes a good corporate governance discipline;
- the exemption from tax enjoyed by many companies limited by guarantee should carry with it an obligation to report on the public record; and
- there is a strong public interest in knowing what companies limited by guarantee are doing.

Implicit in the CPA Australia submission to Australian Treasury is that all companies limited by guarantee exhibit characteristics consistent with being reporting entities.[4] CPA Australia encourages the AASB to undertake further research. It strongly suggested that the Australian Treasury support the inclusion of differential reporting thresholds regime in the Corporations Act for application to companies limited by guarantee, its purpose being to:

- articulate the appropriate accounting framework to be applied by different sized companies limited by guarantee; and
- articulate the level of assurance required to be expressed in the statement that accompanies the financial report.

CPA Australia considers revenue of $1 million an appropriate threshold whereby the reporting entity would report against a new simplified financial reporting framework. It encourages the AASB to explore the development of a modified cash basis of accounting framework supplemented with appropriate disclosures. For reporting entities without public accountability with revenue in excess of $1 million, CPA Australia considers the Australian equivalent to the IFRS for SMEs appropriate.

CPA Australia does not support the proposal that the Australian equivalents to IFRSs apply to a not-for private sector reporting entity without public accountability that meets the thresholds of $25 million revenue and $12.5 million assets. It strongly encourages the AASB to expand the definition of public accountability to that it can be applied to the reporting entities of this sector. It expects the expanded definition to embrace attributes relevant to the sector which are of national importance. Were the AASB to require the use of the Australian equivalents of IFRSs by a for-profit reporting entity without public accountability that meets the thresholds of $500 million revenue and $250 million assets, that requirement should also apply to reporting entities in the not-for profit private sector.

It is not apparent from ITC 12 why the AASB is of the view that requiring capital-market focused reporting would be consistent with the objective of enhanced accountability that it considers ought be required of a not-for-profit private sector reporting entity without public accountability but with $25 (or 500) million revenue and $12.5 (or 250) million. The Basis for Conclusions should articulate this reasoning should the AASB proceed with any proposed thresholds.

CPA Australia's submission to the Australian Treasury did not support the inclusion of other indicators (e.g., assets or number of employees) for the reason that there is less likely to be the same nexus between the indicators of revenues, assets and employees for companies limited by guarantee when compared with private companies (due to the difference in profit objectives each usually pursues).

[4] It has not concluded on the status of incorporated associations as reporting entities.

(g) in respect of public sector entities:

i. **is there a need for differential reporting in public sector? If yes, do you agree with differentiating based on size thresholds between public sector entities that should apply Australian equivalents to IFRSs and those that should apply an Australian equivalent to the IFRS for SMEs (which would include Aus paragraphs similar to those included in Australian equivalents to IFRSs)?**
ii. **do you agree with the proposed size thresholds? If you do not agree, what do you consider to be the appropriate thresholds and why?**
iii. **public sector entities that meet the thresholds of $25m revenue and $12.5m assets would prepare their general purpose financial reports in accordance with the Australian equivalents to IFRSs. In contrast, non-publicly accountable for-profit entities would only be required to apply the Australian equivalents to IFRSs when they meet the thresholds of $500m revenue and $250m assets. The AASB has justified this difference based on the higher degree of public interest in the activities of public sector entities. Do you agree?**
iv. **both public sector entities and not-for-profit private sector entities that meet the thresholds of $25m revenue and $12.5m assets would prepare their general purpose financial reports in accordance with the Australian equivalents to IFRSs. The AASB has justified the common size thresholds for both types of entities based on a view that there is an equivalent degree of public interest in the activities of these two types of entities. Do you agree?**
v. **do you think another tier of simpler reporting requirements should be established to cater for smaller public sector entities? If so, what should those simpler reporting requirements be and how would the category of entities applying those requirements be identified?**

In principle, CPA Australia supports the adoption of the Australian equivalent of IFRS for SMEs in a differential reporting regime in respect of public sector reporting entities without public accountability. It strongly encourages the AASB to expand the definition of public accountability so that it can be applied to the reporting entities of this sector. CPA Australia has opined that it is not necessary to extend the definition of a general purpose financial statement to include a parliamentary tabling. However, it does expect the expanded definition to embrace attributes of relevant national importance.

CPA Australia is of the view that the considerable differences in the economic size of the different public sector jurisdictions is a significant limitation to the use of quantitative thresholds as proposed by the AASB.

Some members of CPA Australia have indicated that the accounting policy directives issued by government are likely to prevent its adoption. CPA Australia suggests that the AASB undertake further discussions with governments regarding their appetite for allowing any reporting entities within their jurisdictions to use the IFRS for SMEs standard.

(h) do you think there are approaches, other than the proposed approach based on public interest and employing size thresholds, that would reasonably distinguish between entities that should apply the Australian equivalents to IFRSs and those that should apply an Australian equivalent to the IFRS for SMEs? If there are appropriate alternative approaches, please explain.

CPA Australia strongly encourages the AASB to expand the definition of publicly accountable so that it can be applied to reporting entities of the not-for-profit private and public sectors. It expects the expanded definition to embrace attributes of national importance. In contrast, the AASB has relied on the use of quantitative thresholds. CPA Australia is of the view that the limitations of this approach are so paramount that it cannot be supported. The considerable differences in the economic size of the different public sector jurisdictions is one example of the significance of those limitations.

(i) do you agree that, consistent with the IASB's view of a general purpose financial report, under a revised Australian differential reporting regime:

i. all financial reports that are available on a public register, such as those prepared and lodged with the ASIC under the Corporations Act, should be regarded as general purpose financial reports; and
ii. all financial reports that are made available to the public at large, such as those tabled in a Parliament, also should be regarded as general purpose financial reports? If you do not agree, explain why.

CPA Australia does not support the Australian Accounting Standards Board's (AASB) proposed revision of the differential reporting regime, whereby the application of AASB Standards would no longer depend on whether entities are reporting entities. The fundamental tenet of the AASB's proposal is that in order for it to be consistent with the IASB's view of a general purpose financial report:

- all financial reports that are available on a public register should be regarded as general purpose financial reports. This would include those financial reports prepared and lodged with ASIC under the Corporations Act and financial reports prepared and lodged with the Registrar of Incorporated Associations as and when required by the Associations Incorporations (Vic) Act (and the like legislations of other states and territories); and
- all financial reports that are made available to the public at large, such as those tabled in a Parliament, also should be regarded as general purpose financial reports.

The initial view of the IASB was that general purpose financial statements include those that are a regulatory filing. This view was articulated in the Exposure Draft of Proposed Amendments to IAS 1 *Presentation of Financial Statements: A Revised Presentation*. CPA Australia's submission to the ED did not support the IASB's proposal on a number of grounds, including that it was not the role of the IASB to decide whether general purpose financial statements include a regulatory filing. The IASB decided to eliminate its earlier statement that general purpose financial statements include a regulatory filing from the finalised IAS 1

Presentation of Financial Statements issued in September 2007. The IASB's reasoning was "…the Board did not intend to extend the definition of general purpose financial statements…" (IAS 1 paragraph BC 13). With the elimination of the fundamental tenet on which the AASB proposal is founded, CPA Australia strongly suggests to the AASB it is no longer necessary for it to proceed with its proposed removal of the reporting entity concept. Put another way it is not necessary to extend the definition of general purpose financial reports to include a filing with ASIC or the Registrar of Incorporated Associations, or a tabling in a Parliament. Further, CPA Australia considers the proposal to require general purpose financial reporting by non-reporting entities would impose additional costs on those entities without corresponding benefits, given the absence of external users.

(j) do you agree that, notwithstanding an entity having been exempted from filing a financial report with the ASIC, its financial report should be regarded as a general purpose financial report if it is required by the Corporations Act to be prepared in accordance with Australian Accounting Standards?

Some commentators opine all large companies are reporting entities. Although intuitively appealing, members of CPA Australia have indicated there will be occasions when this is not so – whether or not they are exempted from filing a financial report with ASIC. CPA Australia envisages there may be situations when a large proprietary company that has been exempted from filing is not a reporting entity. The Directors' Report would articulate that reasoning.

(k) the Corporations Act includes three size thresholds respectively for revenue, assets and the number of employees to distinguish between small and large proprietary companies. The AASB's proposed size thresholds only include the monetary thresholds of revenue and assets. Do you think that, except for the case of for-profit entities that are not publicly accountable but are important from a public interest perspective, a further size threshold for the number of employees would be appropriate under the proposed differential reporting for not-for-profit private sector entities and public sector entities?

CPA Australia's submission to the Australian Treasury did not support the inclusion of other indicators (e.g., assets or number of employees) for the reason that there is less likely to be the same nexus between the indicators of revenues, assets and employees for companies limited by guarantee when compared with private companies (due to the difference in profit objectives each usually pursues). It considers it highly likely that the same reasoning could be applied to public sector entities.

(l) considering the AASB's tentative decision to base the second tier of reporting requirements on the IASB's pending IFRS for SMEs, do you consider that the IASB's ED of A Proposed IFRS for SMEs is appropriate for Australian circumstances. If not, explain how it could be improved, or what other options are more appropriate and why?

Yes, CPA Australia considers the IASB's ED of A Proposed IFRS for SMEs is appropriate for application to reporting entities without public accountability – with Aus paragraphs included as necessary for application by reporting entities in the private and public not-for-profit sectors.

(m) do you think adaptations, or additional guidance, are needed (in addition to Aus paragraphs that would be included consistent with Australian equivalents to IFRSs) for not-for-profit private sector entities and public sector entities if the IASB's IFRS for SMEs were adopted in Australia?

None have been identified.

(n) do you think Australia and New Zealand should seek to achieve harmonisation in their reporting requirements regarding SMEs?

CPA Australia supports harmonisation of reporting requirements regarding SMEs that are reporting entities. This support is not limited to achieving harmonisation across the Tasman. It encourages the AASB to liaise with the Trans Tasman Accounting and Auditing Advisory Group on the best way forward.

(o) are there any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the preliminary views?

With the elimination of the fundamental tenet on which the AASB proposal is founded, CPA Australia strongly suggests that the AASB not proceed with its proposed revision of the differential reporting regime.

(p) do you think that the overall benefits that would arise from the proposals would exceed the overall costs? If you are an entity that prepares a general purpose financial report or would need to do so under the proposals, please advise us of any increased costs or any savings that would result from the proposals, and if possible, quantify them.

CPA Australia believes the proposal to remove the reporting entity concept will result in an increased cost to entities which will outweigh the benefits. It considers that allowing a reporting entity without public accountability to prepare its general purpose financial report using the IFRS for SMEs standard appropriate.

(q) would the preliminary views be in the best interests of the Australian economy?

CPA Australia does not consider the removal of the reporting entity concept to be in the best interests of the Australian economy.