

**Consiglio Nazionale Dottori Commercialisti
Consiglio Nazionale Ragionieri
Commissione per i Principi Contabili**

Rome, June 2005

Sir David Tweedie
Chairman
International Accounting Standards Board
30 Cannon Street, 1st floor
GB – LONDON EC4M 6XH

Email: commentletters@iasb.org.uk

Re: Response to IASB' s Questionnaire on Possibile Recognition and Measurement Modifications for Small and Medium-Sized Entities (SME)

Dear Sir,

The Italian accountancy profession represented by the Consiglio Nazionale dei Dottori Commercialisti and the Consiglio Nazionale dei Ragionieri (thereinafter “we”) is pleased to submit its response on IASB' s Questionnaire on Possibile Recognition and Measurement Modifications for Small and Medium-Sized Entities (SME)

We would be pleased to discuss any aspect of this letter with you.

Yours sincerely,

Antonio Tamborrino
Presidente del Consiglio Nazionale dei Dottori Commercialisti

William Santarelli
Presidente del Consiglio Nazionale dei Ragionieri

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Response to IASB' s Questionnaire on Possible Recognition and Measurement Modifications for Small and Medium-Sized Entities (SME)

It is necessary to point out that the definition of Small and Medium Entities (SME) contained in the Questionnaire is not sufficiently clear and that, as already written in our comments to Preliminary Views on accounting standards for SMEs; the notion of “public accountability” assumes a different significance according to the context and to the national jurisdictions in which the notion is inserted. We agree that the accounting standards for SMEs shall be referred to the entities that do not have “public accountability”, which represents a very broad and high level notion.

In addition we believe that only the national jurisdictions can provide an appropriate definition of public accountability in the respective countries. This is not responsibility of the standard setter to determine the criteria, but IASB should state very clearly in the framework the intended use of the IASB Standard for SMEs and the defined user's needs considered, when preparing the Standards.

Question 1:What are the areas for possible simplification of recognition and measurement principles for SMEs?

In general terms, we confirm that the suitability of IFRSs for SMEs depends in our opinion on users needs. This analysis is the first step of the project for accounting standards for SMEs. The users needs in the context of SMEs appear to require less sophisticated or less comprehensive requirements than users needs as reflected in the IFRSs designed for an investors' perspective.

Concerning the cost benefit analysis based on the users of SMEs financial statements, regarding the accounting of specific items, we suggest the following simplifications (with reference to the list provided in the Attachment A to the Questionnaire):

1) IAS 14 Segment Reporting

IAS 14 should be applied by enterprises whose equity or debt securities are publicly traded and by enterprises that are in the process of issuing equity or debt securities in public securities markets. If SMEs prepare voluntary the segment reporting, it should be required that the SMEs disclosure requirements should be limited to the primary reporting format.

2) Lease Accounting under IAS 17

Lease Accounting under IAS 17 is characterised by a complex process in relation to the disclosure and to the calculations; a SME should not satisfy the disclosure requirement of paragraph 47 of IAS 17 regarding:

- a reconciliation between the gross investment in the lease at the balance sheet date, and the present value of minimum lease payments receivable at the balance sheet date.
- unearned finance income;
- the unguaranteed residual values accruing to the benefit of the lessor.
- the accumulated allowance for uncollectible minimum lease payments receivables;
- contingent rents recognised as income in the period;
- a general description of the lessor's material leasing arrangements.

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- 3) IAS 19: Measurement of defined benefit pension or other post-employment benefit liabilities under IAS 19

We suggest a simplification for the accounting of defined benefit plans, as actuarial assumptions are necessary to determine the costs and the liabilities. One possible simplification should regard all the defined benefit plan according to the requirements of the other long term employee benefits.

- 4) IAS 27: Consolidation of subsidiaries

In accordance with the IAS 27 in the separate financial statements, the parent should account the investments in jointly controlled entities and associates for either

- (a) at cost, or
- (b) in accordance with IAS 39.

Considering the high complexity of IAS 39, we are of the opinion that SMEs should account these investments at the cost and, therefore, SMEs should be exempted by the preparation of the separate financial statement.

- 5) IAS 32 (ED7): Financial instruments: Disclosures and Presentation: it should simplify the disclosure for SMEs, considering this information as one privileged user: the present and potential investors.
- 6) IAS 34: Interim Financial Reporting: the Standard should require only the obligation of preparing the condensed financial statements and not the complete set of financial statements.
- 7) Impairment of the goodwill and of the other assets with indefinite useful life according to IAS 36. The calculation for the impairment and the allocation of the cost to cash generating units seem to be very complex if referred to SMEs,
- 8) Capitalisation of intangibles development costs incurred after commercial viability has been determined under IAS 38.
- 9) IAS 39: Trade date and fair value measurement: we assume that the financial instruments held by a large part of the SMEs are not publicly traded in public securities market; in this context it should be useful not to allow or limit the recognition of financial instruments at the trade date, limiting the accounting for at the settlement date. In addition these instruments are not part of active markets. It should be necessary to focus the attention on measurement of financial instrument according to alternative evaluation criteria.

In general terms, at the transition date to Accounting Standards for SMEs, we suggest some simplifications (exemptions) of the requirements of IFRS 1. The reconstruction of data is very difficult and, at the same time, more costly for SMEs, and it should improve the relation between costs to obtain necessary data and informative obtained benefits.

From your experience, please indicate which topics addressed in IFRSs might be omitted from SME standards because they are unlikely to occur in an SME context. If they occur, the standards would require the SME to determine its appropriate accounting policy by looking to the applicable IFRSs.

Concerning the cost benefit analysis based on the users of SME financial statement, regarding the accounting of specific items, we provide a brief list of the issues addressed in the IFRS, which

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might be omitted from SMEs standards because they are unlikely to occur in an SME context (with reference to the list provided in the Attachment B to the Questionnaire):

IFRS 2	SMEs generally do not enter into share-based payment transactions.
IFRS 3	Especially with reference to intangible assets
IFRS 4	Because companies that issue insurance contracts hold assets in a fiduciary capacity, they have public accountability. IASB standards for SMEs would not be intended for them. Therefore, an SMEs version of IFRS 4 is not needed.
IAS 11	Combining and Segmenting Construction Contracts
IAS 16	Revaluation model for property, plant, and equipment
IAS 17	Sale and leaseback transactions
IAS 19	Defined benefit employee benefit programmes
IAS 23	Capitalisation model for borrowing costs
IAS 26	Because retirement benefit plans hold assets in a fiduciary capacity, they have public accountability. IASB standards for SMEs would not be intended for them. Therefore, an SMEs version of IFRS 26 is not needed.
IAS 27	SMEs generally do not have many subsidiaries. The SME equivalent of IAS 27 should simply refer back to IAS 27.
IAS 29	Hyperinflation Economies
IAS 30	The entities to which IAS 30 applies are, by definition, entities with public accountability and, therefore, IFRSs apply to such entities.
IAS 32	Split accounting for compound financial instruments
IAS 36	Because SMEs generally do not enter into business combinations, the material on impairment of goodwill in IAS 36 could be omitted from the SME standard on impairment of assets.
IAS 38	Revaluation model for intangibles
IAS 39	Derecognition

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IAS 39	Hedge Accounting
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