



**EUROPEAN COMMISSION**

Internal Market and Services DG

FREE MOVEMENT OF CAPITAL, COMPANY LAW AND CORPORATE GOVERNANCE

**Financial reporting**

**DIRECTORATE GENERAL FOR INTERNAL MARKET AND SERVICES**

## **CONSULTATION ON THE INTERNATIONAL FINANCIAL REPORTING STANDARD FOR SMALL AND MEDIUM-SIZED ENTITIES**

**Please send this answer sheet only.**

**Consultation deadline:** 12 March 2010

**Preferred form of submission – email to:** [markt-review-consultation@ec.europa.eu](mailto:markt-review-consultation@ec.europa.eu)

**Postal address:**

European Commission  
DG Internal Market and Services  
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B-1049 Brussels  
Belgium.

**Submissions after the deadline will not be considered.**

Please provide the following details together with your response:

You are:

<b>Preparer:</b>	<input type="checkbox"/> small company	<input type="checkbox"/> Other (please specify)	Legal Form:
	<input type="checkbox"/> medium-sized company		<input type="checkbox"/> unlimited liability
	<input type="checkbox"/> large company		<input type="checkbox"/> limited liability
<b>User:</b>	<input type="checkbox"/> bank/credit provider	<input type="checkbox"/> analyst	<input type="checkbox"/> Other organisation of stakeholders
	<input type="checkbox"/> private person	<input type="checkbox"/> investor/investor organisation	
<b>Public authority:</b>	<input type="checkbox"/> audit/market regulator	<input type="checkbox"/> Government Ministry/Agency	<input checked="" type="checkbox"/> other (please specify)
<b>Accountants and Auditors:</b>	<input type="checkbox"/> accounting firm	<input type="checkbox"/> audit firm	<input type="checkbox"/> organisation of accountants and auditors
<b>Other:</b>	<input type="checkbox"/> (please specify)		

Name of your organisation / company: [OIC - Organismo Italiano di Contabilità](#)

Country where your organisation / company is located: [Italy](#)

Name and location of parent company: [N/A](#)

Contact details incl. e-mail address:

[Angelo Casò - Chairman; Massimo Tezzon - Secretary General.](#)

[E-mail: Presidenza@fondazioneOIC.it](mailto:Presidenza@fondazioneOIC.it)

Short description of the general activity of your organisation / company:

[OIC is the Italian National Accounting Standard Setter](#)

Do you trade cross-border?  Yes  No

Is your organisation registered in the Interest Representative Register?  Yes  No

If yes, please specify the address of your organisation and the Register ID number in the Interest Representative Register<sup>1</sup>:

Publication:

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<sup>1</sup> If your organisation is not registered, you have the opportunity to register here (<https://webgate.ec.europa.eu/transparency/regrin/welcome.do?locale=en#en>) before you submit your contribution. Responses from organisations not registered will be published separately from the registered organisations.

Do you object to publication of the personal data on the grounds that such publication would harm your legitimate interests?  I object

**Question 1:**

*Do you think the IFRS for SMEs is suitable for widespread use within Europe?*

YES  NO  Don't know

*Please comment, indicating whether there are any type(s) or size(s) of company that would benefit from adopting the Standard:*

In our view, IFRS for SMEs is a complete and robust set of standards on a stand-alone basis, which although simplified compared to full IFRSs, maintain their fundamental principles of accounting. We therefore believe that IFRS for SMEs is generally suitable for privately-owned companies. However, we also note that in a number of EU member states, including Italy, the attractiveness of IFRS for SMEs is still limited because in those jurisdictions taxation and capital maintenance are deeply linked to national GAAP accounts. For companies in those jurisdictions, using IFRS for SMEs would mean either the preparation of additional set of accounts, over and above the statutory accounts, or significant changes in the current legislation and/or present accounting practice, which will only be justified if doing so provides other compelling benefits, e.g. to attract international finance or international investors. Therefore, for the use of IFRS for SMEs to become really widespread in the EU, the European Commission, as well as individual EU member states must equally address barriers that stem from areas related to accounting, especially the linkage with tax determination, capital maintenance profit distribution.

In addition, the IASB's Standard does not take into consideration any "quantitative" boundaries in defining what an SME is. As a result the IASB's definition of SMEs includes enterprises of very different dimensions. Hence, the largest of them might be favourable to the use of the IFRS for SMEs. At the same time, however, the entities whose magnitude and extension of business makes them, in substance, almost comparable to a public company, will likely evaluate the limitations of the IFRS for SMEs and prefer to adopt their full version for the purpose of confronting within a larger, international environment.

As far as the smaller entities, the recurring and significant users of their financial information are their creditors — banks, money lenders and others — the Tax Authorities, the owners. In the IASB's Standard, instead, the financial information appears to be primarily and essentially useful for the present and potential investors. We do not believe such kind of stakeholders play a first class role for the smaller companies.

small<sup>2</sup>  medium<sup>3</sup>  large<sup>4</sup>

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<sup>2</sup> Generally companies with turnover less than €4.4 million, balance sheet total less than €8.8 million and 50 or fewer employees (see Fourth Company Law Directive)

<sup>3</sup> Generally companies with turnover less than €17.5 million, balance sheet total less than €35 million and 250 or fewer employees (see Fourth Company Law Directive)

<sup>4</sup> Generally companies with turnover greater than €17.5 million, balance sheet total greater than €35 million and more than 250 employees (see Fourth Company Law Directive)

*other criteria (please explain)* Companies operating with recurring/significant cross-border business interests might, in certain cases, find useful to be comparable with their competitors.

*Please comment:*

The OIC appreciates the effort made by the IASB, certainly undertaken under the pressure and the requests of several significant entities and organisations. Nevertheless, the significant issues arising from an eventual EU acceptance of the standard "as it is", in our opinion, should be very carefully considered, in order to evaluate the appropriateness to adopt the IASB's IFRS rather than — as the OIC would consider preferable — to continue in the process of betterment of the accounting Directives in the light of a desired ultimate convergence towards the International Accounting Standards.

***Question 2:***

*If you are a preparer of company accounts can you indicate any costs (both one-off and recurring) or benefits, and any other effects of adopting the IFRS for SMEs?*

*Please comment:*

NOT APPLICABLE TO OUR ORGANISATION.

*In particular, do you think increased international comparability of accounts prepared under the IFRS for SMEs will benefit your business?*

YES       NO       Don't know

*Please comment:*

***Question 3:***

*If you are a user of accounts (for example a bank) do you think the IFRS for SMEs will provide more useful information than national GAAP accounts?*

YES       NO       Don't know

*Please comment:*

Although the OIC does not qualify as a user, it would nevertheless like to pinpoint that the "usefulness" of financial information is depending upon the needs of the relevant users. The variety of the users in the case of SMEs as defined by the IASB Standard — see the comment to the previous question — is so large that a unique answer is not possible.

In the two extremes of such variability, when the most significant users are creditors, Tax Authorities and the company's owners, we should answer "NO". On the contrary if the company is operating — or will operate — in a wider international market, then we could answer "YES".

**Question 4:**

*Does increased international comparability of accounts prepared under the IFRS for SMEs benefit users?*

YES                       NO                       Don't know

*Please comment:*

See our comments to questions 1. and 3

**Question 5:**

*Do you think adoption of the IFRS for SMEs should be provided for within the EU accounting legal framework?*

YES                       NO                       Don't know

*Please comment:*

A question which first came to our attention appears to be a basic point: which major benefits are at the base of the idea of constructing a global standard for the financial statements of small and medium entities?

The goal of ensuring consistency and comparability of accounting practices across the world as an ultimate objective, without recourse to the "full" IFRS, is certainly not to be disregarded. However, profound differences do exist between countries due to their history, cultures, and practices.

The greater the accounting development/cultural gap between countries, the greater is the need for the less-developed ones to be assisted in moving towards better systems.

Another reason to search for consistency and comparability is the gap between regulations applied in the different jurisdictions, where the accounts of small and medium enterprises may vary from strictly regulated to a lesser or non regulation.

In both these cases, although for different reasons, the change to a unique and uniform standard might be welcomed and accepted as a low-cost solution to achieve the mentioned objectives.

We do not feel that this is applicable to countries where the accounting systems have a long history of enforcement, and the EU member States largely share such status.

**Question 6:**

*If yes, should such an option be limited to a Member State option (i.e. that each Member States would have a possibility but no obligation to accept IFRS for SME)?*

YES                       NO                       Don't know

*Please comment:*

An optional adoption of the standard, based on either uniform or discretionary criteria might be chosen. However, we would feel uncomfortable with such an approach: firstly, this would seriously weaken the comparability objective. Secondly, it would establish a sort of double ruling, so that within the same jurisdiction three sets of accounting principles would coexist: the “full” IFRS, the “simplified” IFRS for SMEs, and the domestic regulations. We believe that the impact of such an approach should be carefully considered because of the likely consequences in the businesses of the enterprises (borrowing funds, reporting taxable income, unequal dividend distribution, and other non insignificant possible effects) which will ultimately affect the overall economy.

***Question 7:***

*Do you have other views on the possible adoption of the IFRS for SMEs within the EU accounting framework?*

*Please comment:*

As commented in question 1, OIC would consider preferable for EU to continue in the process of betterment of the accounting Directives in the light of a desired ultimate convergence towards the International Accounting Standards.

The IASB’s standard – following the overall lines of the “full” IFRS – appears to be focused on the consolidated accounts, although it is intended to be applicable also to the separate accounts. However, the standards provided for the consolidation do not apply to the largest part of the SMEs, since they generally represent smaller organisations. Hence, certain provision of the standard are hardly reconciled to the companies' obligation to present their "unique" set of financial statements, generally required either by national laws or regulations.

The mandatory individual financial statements required by such norms are more strictly regulated than the consolidated ones, since the measurement of taxable income, capital/equity legal requirements, restrictions to distribution, guarantee to creditors etc., are generally regulated by law and based on individual accounts. Since these rules have different objectives than those of the IASB's Standard, reconciling the different needs would result in a cumbersome task.

We have experienced this problem, since Italy permitted the full IFRS to be adopted by almost all public companies for their separate accounts since 2005. The most significant problems and difficult issues arisen during these years derive, as a matter of fact, from the necessity to reconcile the company’s law provisions to those of the full IFRS. Such an issue, as far as the public companies, has been somehow managed, notwithstanding the implicit technical difficulties, mainly because of the larger organizational structure of such companies and the concomitant availability of knowledge, competence and skills: the OIC believes that in the case of SMEs all these are much harder to be found.

Finally, the convergence issue. This is certainly an appreciable goal. But obtaining it simply adopting the IASB Standard would cause a serious and sudden discontinuity with practices and rules consolidated since a long time.

***Question 8:***

*Is there a case for giving companies, at EU level, an option to adopt the IFRS for SMEs?*

YES

NO

Don't know

*If yes, for which categories:*

*small*

*medium*

*large*

*other criteria (please explain)*

*Please comment:*

See also our comments on questions 1, 6 and 7 as to the possibility of providing different adoption options.

***Question 9:***

*What should be done, in your view, where there is incompatibility between the Directives and the IFRS for SMEs?*

*Please comment:*

We noted several significant specific differences in the "rules" expressed by the Standard versus the provisions of the Directives presently in force. Again, our recommendation is that EU continues in its efforts to modernise and improve its accounting Directives, taking into consideration the need to converge in a reasonably appropriate period of time with the international standards

***Question 10:***

*In the light of the publication of the IFRS for SMEs, do you see a need for "rules-based" Accounting Directives in the future?*

*YES*

*NO*

*Don't know*

*If yes, for what type(s) or size(s) of company are detailed rules required?*

*small*

*medium*

*large*

*other criteria (please explain)*

*Other than the 5 items listed in paragraph 4.3 of the consultation document, what aspects of financial reporting should the revised Directives address, and to what level of detail?*

*Please comment:*

There are certainly unresolved issues caused by lack of regulations in the Directives. However, we do believe that the introduction of corrective requirements should be preceded by the preparation of a medium term comprehensive plan of modernisation. Absent the preliminary definition of the desired final objectives, the introduction of specific norms is likely not to solve the existing issues and might instead cause instability in the accounting practices.

*Other comments*

***Question 11:***

*Are there any elements of the IFRS for SMEs that should be incorporated within revised Directives?*

*Please comment:*

Although there are certain specific aspects which might be taken into consideration, the same comment made to the previous question 10 applies to this question. Introducing specific changes in the Directives, even if derived from the IFRS for SMEs, should be subsequent to the definition of an overall modernisation plan.

***Question 12:***

*Do you have any other observations or comments on the IFRS for SMEs or the project to overhaul the Accounting Directives?*

*Please comment:*

We would like to recall the EU attention to the process presently in force for the actual application of any International Accounting Standard, that is the issue of their interpretation.

This responsibility is currently given solely to the IFRIC, which performs it within the limits of its resources.

In the present situation, where the IAS/IFRS adopters are limited in number (the great players in the international market that — in addition — have their own availability of resources and skills) the IFRIC has been able to reasonably satisfy the demand of interpretations, even if with some exception. However, since the major source of issues would come in connection with the preparation of the individual/separate accounts and their possible conflict with local norms — as the experience proved — in a extremely larger scenario because of the number of SMEs, it is very likely to assume that the unsatisfied demand for interpretations will exponentially increase. Another issue is very likely to arise, when the IASB will eventually introduce amendments and/or changes to the standard for SMEs, for the purpose of maintaining as much as possible its consistency with the "full" standards. It should be noted that a number of significant changes have already been made — or are in process to be made — to the full standards: will these be the basis for the future changes to the SMEs standard? In addition to the application problems caused by these changes, it must be taken into due consideration the additional implementation costs that the companies will incur.

***Thank you for your contribution***