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Dear Paul

Questions and Answers about the IFRS for SMEs, section 1 – issues 2, 3 & 4

Introduction

ICAEW welcomes the opportunity to comment on the Questions and Answers about the IFRS for SMEs, section 1 – issues 2, 3 & 4 published by the SME Implementation Group in April 2011.

Who we are

ICAEW operates under a Royal Charter, working in the public interest. Its regulation of its members, in particular its responsibilities in respect of auditors, is overseen by the Financial Reporting Council. As a world leading professional accountancy body, we provide leadership and practical support to over 136,000 members in more than 160 countries, working with governments, regulators and industry in order to ensure the highest standards are maintained. We are a founding member of the Global Accounting Alliance, which has over 775,000 members worldwide.

Our members provide financial knowledge and guidance based on the highest technical and ethical standards. They are trained to challenge people and organisations to think and act differently, to provide clarity and rigour, and so help create and sustain prosperity. We ensure that these skills are constantly developed, recognised and valued.

Support for the IFRS for SMEs

We have always been supportive of the IFRS for SMEs and the concept behind its development ie, we recognise that there is a need in many jurisdictions for a simplified, self-contained standard designed to meet the needs and capabilities of small and medium-sized entities. To be of real benefit to both preparers and users we believe that such a standard shouldn't be too lengthy or complex. We believe that the IFRS for SMEs meets both these criteria and is, at 230 pages, of an appropriate length.

We do not support the development of too much supplementary guidance

We are, however, concerned that by supplementing the IFRS for SMEs with too much additional guidance the SMEIG risks undermining the successes that have been achieved to date. A self-contained standard is no longer self-contained if it is backed up by reams of training material and detailed Q&As. While we appreciate that this supplementary material neither forms part of the standard nor creates additional mandatory guidance, we nonetheless feel that many users will inevitably turn to it for help when applying principles-based judgement would be preferable.

The SMEIG's terms of reference state that 'the SMEIG is expected to focus on a limited number of pervasive issues and not to seek to create an extensive rule-oriented environment.' The level of detail being addressed in the Q&As released so far is indicative of exactly what the terms of reference seek to avoid - an extensive rule-oriented environment.

We also fear that the Q&As indicate a desire to address issues that also relate to full IFRS. This is not appropriate. As a matter of due process such issues should be dealt with by the IFRS Interpretations Committee. In effect, issues arising on the IFRS for SMEs requiring additional guidance should be as rare, if not rarer, than full Interpretations of IFRS and in most instances should be developed simply to form part of the cycle of revision and updating of the IFRS for SMEs rather than as separate, non-mandatory guidance material.

We suggest that the SMEIG develop criteria that can be used to determine whether requests for Q&A relate to matters that are truly pervasive ie, wide spread throughout the community of users of the IFRS for SMEs. If the questions tackled in this exposure draft can be shown to meet these criteria we would be happy to comment on the merit of the answers as drafted.

The status of the Q&A in other jurisdictions

We appreciate that the Q&As are intended to be non-mandatory guidance designed to help those who use the IFRS for SMEs to think about specific accounting questions. We are, however, unclear about what their status would be in jurisdictions where the IFRS for SMEs isn't adopted wholesale but is incorporated into local GAAP with or without amendment. In particular, where the IFRS for SMEs has been amended for use in a particular jurisdiction, as is likely to be the case in the UK, confusion may arise where a preparer or user looks to the Q&A for help without realising that there has been a subtle change to the IFRS for SMEs in his marketplace that makes the supplementary guidance irrelevant or invalid.

Concluding comments

In summary, we are not supportive of the development of detailed Q&As along the lines of those included in this exposure draft. In our view publishing volume after volume of Q&As will increase complexity rather than reduce it. We would therefore urge the SMEIG to reflect upon its terms of reference and reconsider both the volume and nature of the Q&As that it publishes in future.

Please do contact me should you wish to discuss any of the points raised in this response.

Yours sincerely

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