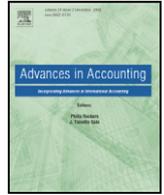




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How is the IFRS for SME accepted in the European context? An analysis of the homogeneity among European countries, users and preparers in the European commission questionnaire

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ABSTRACT

In this paper we analyze the answers to the “Questionnaire on the public consultation of the IFRS for SMEs”, promoted by the European Commission. Our aim is to evaluate the homogeneity among respondents, according to the different perspectives of analysis between both users, preparers and also in European Countries. Results show a substantial diversity among respondents. In particular, preparers demonstrate a strong opposition to the IFRS for SMEs, while users are more favorable. Concerning Country classification, German-speaking Countries and Latin Countries show much less appreciation for that standard with respect to Anglo–Nordic Countries. Relevant consequences for European public policy issues and for accounting studies on differential reporting arise from this result, concerning respectively the role of European accounting system and the acceptance of “user primacy” principle.

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1. Introduction

Financial reporting for small and medium companies is a relevant topic for accounting studies because there is a wide debate on the application in smaller contexts of framework and rules derived from the larger companies or the necessity to develop new rules specific to smaller-sized companies (the so-called “differential reporting”). The need of specific accounting standards for small and medium companies has been matched by the IASB with a new standard, the IFRS for SMEs issued in July 2009. While some countries (such as South Africa and Brazil) have already endorsed the IFRS for SMEs, the European Commission is currently examining this standard and a final official position by the EU about its endorsement is expected in 2011.

In this paper the IFRS for SME is analyzed from the perspective of both external users and preparers, based on the answers given by respondents to the official Questionnaire from the European Commission. We analyze the answers segmenting respondents based on their category (users/preparers) and on Country in order to understand if there is significant difference between users and preparers and the different European Countries.

From a theoretical perspective this paper will offer arguments for the differential reporting debate, relevant topic not only for the EU context but also worldwide, considering the needs emerging from both users and preparers. Many authors deem the direct analysis of those

needs as a relevant gap for accounting standard process (Di Pietra et al., 2008).

From a public policy point of view, this analysis will be useful to test the homogeneity of the approach among the different subjects involved in the EU accounting system. Our results will be particularly interesting for the current debate developed around the EU accounting legal framework and its future change due to the substantial modification of accounting European Directives. As far as we know, this paper is the first study on the results of the Questionnaire on the public consultation of the IFRS for SMEs, promoted by the European Commission.

Our results show that there is a strong difference between users and preparers and also between Countries as well, regarding the position toward the IFRS for the SMEs. This issue will represent a strong challenge for the European policy on accounting matters because it will force the European Regulator to choose a solution in conditions of substantial diversity of desired preferences among stakeholders. For accounting studies the result will be interesting in the light of the easy acceptance of the initial approach of users and where preparers demonstrate needs different from the users.

First of all, it is important to take into consideration that in the European Context two opposite forces exert their influence around the debate of differential reporting. From one side, even if the IFRS for SME is designed for a worldwide application (mainly for Countries where national accounting systems are lacking), in the EU context the publication of IFRS for SME arrives when the European Union has planned a strong reduction of administrative burden for companies (European Commission, 2005). As demonstrated in a large survey (Gallup, 2007) for the EU context, a large part of firms feel an excessive

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burden in applying the system of rules developed by the European Commission. In this way, the IFRS for SME could find a good acceptance because they resemble a simplification of the full IFRS.

On the other hand, the EU has for a longtime adopted some Directives to harmonize financial statements among the Member States. After the endorsement of full IFRS for publicly listed companies in 2002 and continuously updated Directives for national harmonized regulations, the adoption also of a third option, the IFRS for SME could generate excessive confusion at a macro-level of the whole accounting system for European companies.

Having taken into account the above two premises, the evaluation about the standard that emerged from the Questionnaire is not unidirectional, depending on the starting point of comparison. If the operators judge the IFRS for SMEs using the lens of the full IFRS, a strong simplification is acknowledged. For those operators who express their opinions considering the current EU accounting system based on the IV and the VII Directives, the evaluation is quite different: the IFRS for SME seems still too complex and for the majority, unnecessary.

2. Technical features of IFRS for SMEs and structure of the EU Questionnaire

In July 2009, the IASB published its IFRS for SME after a long consultation process that began in June 2004 with a Discussion Paper. This standard aims at giving an international complete set of accounting rules to companies that (a) do not have public accountability and (b) publish general-purpose financial statements for external users. The premise for this issue consists in the fact that the IFRS (here after “full” IFRS) are mainly addressed to satisfy the informative needs of sophisticated external users who operate in financial markets such as investors in equity and financial analysts. The full IFRS rules could be too complex for private companies characterized by a weaker financial information demand rising from external subjects.

The simplification adopted in the standard for SME if compared to full IFRS is several and very relevant at different levels.

First of all, some topics included in full IFRS are omitted, “because they are not relevant for typical SMEs”, such as segment reporting or interim reporting.

Secondly, various accounting options allowed by full IFRS are not in the IFRS for SMEs such as revaluation model (IAS 16, IAS 38) for property, plant and equipment, intangible assets, and the possibility to choose cost model for investment property if a fair value exists.

Apart from this, IASB intended to simplify some recognition and measurement topics. For example:

1. for goodwill and other intangibles with indefinite-life, the impairment process described in IAS 36 is not allowed, while a classic amortization is established (in a maximum of ten years if useful life cannot be estimated reliably);
2. borrowing costs must be recognized as expenses without increasing the cost of the linked asset (the opposite of the rule in the new IAS 23);
3. R&D costs must be recognized as expenses, differently from IAS 38 which allows the recognition of development costs as an asset under specified circumstances;
4. financial instruments are measured at amortized cost or at fair value through profit and loss instead of establishing the four different classes included in IAS 39;
5. the annual review of residual value, useful life and depreciation method of tangible and intangibles assets is not required;
6. there are many simplifications concerning the disclosure.

In general, the IASB decided to eliminate from the IFRS for SMEs any reference to the full IFRS in such a way to make the standard as a “stand-alone standard”. It is important to underline also the IASB’s commitment in avoiding for the IFRS for SMEs the frequent changes characterizing full IFRS and avoiding the use of IFRS for SMEs as anticipation of possible future changes in full IFRS.

The European Commission Questionnaire on the public consultation of the IFRS for SMEs took place between 17 November 2009 and 12 March 2010. The objective of this consultation was to gather the view of EU stakeholders of the IFRS for SMEs. It is made up of 12 Questions structured in three groups: (I) Initial reaction to the standard (from Q1 to Q4) with questions addressed to understand the overall position toward the new standard and the perceived benefits by users and preparers; (II) the possible use in Europe (from Q5 to Q9), with questions concerning the way through which EU should adopt the standard and the possibility to leave an option to the Member States; (III) the role and content of the Directives (from Q10 to Q12)¹, in order to ask for possibilities to include some elements of the standard in the revised Directives.¹

The responses are commented on by the EC in the “Summary Report of the Responses Received to the Commission’s Consultation on the International Financial Reporting Standard for Small and Medium-Sized Entities”, hereafter, simply referred to as the “Summary”, (European Commission, 2010). The Summary is mainly based on the distinction between Member States in order to understand where the majority of responses from each Country are oriented and between lobbyists and EU wide organizations, which is a classification not relevant for our purposes. The classification using the categories of respondents (preparers, users, accountants and auditors, and public authorities) is included only in the annexes, with a further detail by Country even though it is not commented in the Summary.

3. Research questions and literature review

We are interested to analyze in detail the responses to the Questionnaire trying to understand if the IFRS for SMEs is appreciated both by users and preparers.

The starting hypothesis is that both the aforementioned categories should express a positive evaluation of the standard. Users are, by definition, the primary interest group acknowledged by IASB in setting standards. In this way we can presume that the IFRS for SMEs, after a long due process, satisfy their needs. Preparers should appreciate this new issue because it is promoted as a strong simplification of full IAS with less administrative and compliance costs required by its adoption.

In order to achieve this, we exclude responses coming from different subjects (regulators, auditors), while the Summary doesn’t separate respondents on the basis of their role.

The second research question is to understand whether the Countries where the respondents operate influence the IFRS for SMEs evaluation. We analyze the answers grouping them by class of Country with a classification based on international accounting theory (Nobes, 1983). The evident disproportion of responses classified by Country (on a total of 15 Countries to which respondents belong), Germany alone is over 50% of the responses and from 10 States (there are only 3 or less responses), imposes to classify responses on a different basis than that one used by the Summary. The basic hypothesis is that a positive evaluation on the IFRS for SMEs will regard most of all the Anglo–Nordic respondents who are presumed favorable to the standard, due to their cultural tradition of great transparency in financial statements and of prevalence of substance over form. The remaining two classes, German-speaking and Latin respondents, are presumed to express a general negative view toward the IFRS for SMEs for the opposite reasons.

Two streams of literature are relevant for our research questions. The first stream is directly referred to the IFRS for SME and its envisagement of users and preparers. The second one concerns the current level of understanding on users’ information needs of SMEs’ financial statements and the use of this consciousness in the standard setting process.

Regarding the first one, there are still few studies concerning IFRS for SMEs, due to its very recent publication and the consequent lack of

¹ The Questionnaire can be downloaded at http://ec.europa.eu/internal_market/consultations/2009/ifrs_for_sme_en.htm.

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