



International Accounting Standards Board®

Press Release

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IASB ISSUES STAFF QUESTIONNAIRE ON RECOGNITION AND MEASUREMENT PRINCIPLES FOR SMALL ENTITIES

The International Accounting Standards Board (IASB) published today a staff questionnaire on possible modifications of the recognition and measurement principles in International Financial Reporting Standards (IFRSs) for use in IASB standards for small and medium-sized entities (SMEs). Although national laws, regulations, and practices define SMEs in different ways in individual jurisdictions, as used in the questionnaire SMEs are entities that (1) do not have public accountability and (2) publish general purpose financial statements for external users.

The IASB plans to hold public round-table meetings with preparers and users of the financial statements of SMEs to discuss possible recognition and measurement modifications. The questionnaire has been prepared by the staff of the IASB as a tool to identify issues that should be discussed at those round-table meetings. The Board will be addressing presentation and disclosure issues separately, though it acknowledges that recognition and measurement decisions may create presentation and disclosure issues. The round-table meetings are tentatively planned for September 2005. The dates will be announced on the IASB's website www.iasb.org.

The questionnaire includes two questions:

Question 1: What are the areas for possible simplification of recognition and measurement principles for SMEs? In responding, please indicate:

- **the specific accounting recognition or measurement problem for an SME under IFRSs;**
- **the specific transactions or events that create the recognition or measurement problem for an SME under IFRSs;**
- **why is it a problem; and**

- **how that problem might be solved.**

An attachment to the questionnaire includes a list of some broad areas of accounting recognition and measurement that some people say cause problems for SMEs.

Question 2: 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.

Responses to the questionnaire are requested by 31 May 2005. The questionnaire is available on the IASB's website www.iasb.org. Copies are being emailed to all who responded to the Board's June 2004 discussion paper on standards for small and medium-sized entities.

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NOTES TO EDITORS

What does the IASB mean by a publicly accountable entity?

An entity has public accountability if:

- it has filed, or it is in the process of filing, its financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market;
- it holds assets in a fiduciary capacity for a broad group of outsiders, such as a bank, insurance company, securities broker/dealer, pension fund, mutual fund or investment banking entity;
- it is a public utility or similar entity that provides an essential public service; or
- it is economically significant in its home country on the basis of criteria such as total assets, total income, number of employees, degree of market dominance, and nature and extent of external borrowings.

The Board believes that full IFRSs are appropriate for these entities.

What does the IASB mean by SME?

The IASB uses the term “small and medium-sized entities” to mean entities that (1) do not have public accountability and (2) publish general purpose financial statements for external users. This may be different from usage in some national laws or regulations, where the term SME is used to mean or to include very small companies without regard to whether they publish general purpose financial statements for external users. A small entity that produces financial statements only for the use of owner-managers, or for tax reporting or other non-securities regulatory filing purposes, is not an SME as that term is used in this questionnaire.

What are some examples of possible recognition and measurement simplifications for SMEs?

An attachment to the questionnaire contains the following list of broad areas of accounting recognition and measurement that some people say cause problems for SMEs. The list was compiled from recognition and measurement simplifications for small and medium-sized entities or non-publicly accountable entities that are currently found in various national accounting standards around the world. It is important to understand that the IASB has not yet decided that the topics listed below do, in fact, cause accounting recognition or measurement problems for SMEs.

- Measuring the cost of inventories under IAS 2.
- Use of the percentage of completion method for contracts under IAS 11 and for service revenue under IAS 18.
- Deferred income tax accounting under IAS 12.
- Lease accounting under IAS 17.
- Measurement of defined benefit pension or other post-employment benefit liabilities under IAS 19.
- Consolidation of subsidiaries under IAS 27.
- The equity method of accounting for investments in associates under IAS 28 and investments in joint ventures under IAS 31.
- Impairment approach to goodwill and intangibles for indefinite life assets under IAS 36.
- Impairment of property, plant, and equipment under IAS 36.
- Recognition and measurement of provisions and contingent liabilities under IAS 37.
- Capitalisation of intangibles development costs incurred after commercial viability has been determined under IAS 38.
- Use of the effective interest method under IAS 39.
- Fair value measurements under IAS 39.
- Accounting for foreign currency forward contracts under IAS 39.
- Derecognition and/or hedge accounting provisions of IAS 39.
- The fair value method of accounting for biological assets and agricultural produce at point of harvest under IAS 41.
- Measurement of share-based payments under IFRS 2.

About the IASB

The IASB, based in London, began operations in 2001. It is funded by contributions collected by its Trustees, the IASC Foundation, from the major accounting firms, private financial institutions and industrial companies throughout the world, central and development banks, and other international and professional organisations. The 14 IASB members (12 of whom are full-time) are drawn from nine countries and have a variety of professional backgrounds. The IASB is committed to developing, in the public interest, a single set of high quality, global accounting standards that require transparent and comparable information in general purpose financial statements. In pursuit of this objective, the IASB co-operates with national accounting standard-setters to achieve convergence in accounting standards around the world.

A Deloitte Touche Tohmatsu study indicates that 94 countries either require or permit the use of IFRSs for publicly traded companies beginning in 2005. Some other jurisdictions, including Australia, New Zealand, the Philippines and Singapore, base their national practices on international standards. In September 2002 the IASB and the US standard-setter, the Financial Accounting Standards Board, reached an agreement to work towards the convergence of existing US and international practices and the joint development of future standards. In October 2004, the IASB and the Accounting Standards Board of Japan agreed to initiate discussions about a joint project to minimise differences between IFRSs and Japanese accounting standards towards a final goal of convergence of their standards. In January 2005 the two boards announced their agreement to launch a joint project to reduce differences between IFRSs and Japanese accounting standards, and in March the boards met to decide on the initial programme of work for the project.