

Mr Hans Hoogervorst  
Chairman of the  
International Accounting Standards Board  
30 Cannon Street  
London EC4M 6XH  
United Kingdom

Weinheim, 28/11/12

Dear Mr Hoogervorst,

**IASB REQUEST FOR INFORMATION “COMPREHENSIVE REVIEW OF THE IFRS FOR SMES”**

We appreciate the opportunity to comment on the IASB’s Request for Information regarding the “Comprehensive Review of the IFRS for SMEs.

The Association for Participation in the Development of Accounting Regulations for Family-owned Entities (VMEBF) was founded in 2006 and consists of German companies with a strong family shareholder background. Beyond its members, the association represents a huge part of family-owned large and medium-sized entities in Germany, often legally organised in the form of partnerships. The objective of the VMEBF association is to make the role of German family businesses as stakeholders in the development of international accounting more visible and to act as a constructive partner for the standard setters and other accounting-related institutions like the International Auditing and Assurance Standards Board (IAASB). We work closely together with the German standard setter GASC and the German Institute of Chartered Auditors (IDW) as well as other political institutions.

Although the IFRS for SMEs is currently not used by SMEs in Germany, the voluntary application of full IFRS is widely spread among our member companies and some of our members are currently considering a voluntary first time application of full IFRS in their consolidated financial statements. Moreover, these companies often have subsidiaries in countries where the IFRS for SMEs is adopted on a national level. However, the unpredictable current developments and the huge number of unsettled questions on the conceptual level (cf. the leasing or the revenue recognition project, not to mention IFRS 9) have proven to be the major obstacle to the application of full IFRS throughout the last months. From our point of view, those developments should not be carried into the IFRS for SMEs. Feasible and cost-beneficial guidance on whatever accounting issue regardless of an entity’s legal form or indus-

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try is an inevitable requirement to further increase the application of the IFRS for SMEs worldwide.

Moreover, we would like to note that there are grave differences between what kinds of entities are in the general scope of the IFRS for SMEs. For that reason we believe that there should be size-dependent reliefs for some of the entities within the scope of and applying the IFRS for SMEs. National regulators or standard setters should be enabled to define standardized size categories, e.g. for small or medium sized entities in their jurisdictions, that could then lead to easements applying the SME standard. To ensure maximum comparability, we think that there should only be limited reliefs – if any – applying to recognition and measurement concepts. However, there should be wide-ranging reliefs with regard to notes disclosures.

Please refer to the appendix to this letter for our detailed answers to the questions asked in the request for information.

Should you have any further questions, please do not hesitate to contact us.

Kind regards,

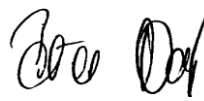
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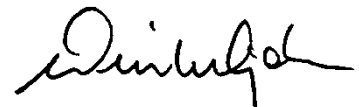
Frank Reuther



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**Appendix:**  
**VMEBF comments on the IASB's additional questions**

**Question S1:**

***Are the scope requirements of the IFRS for SMEs currently too restrictive for publicly traded entities?***

It is our understanding that it is the overall task of the IASB to develop International Financial Reporting Standards for a broad range of entities. Therefore, the IASB defines the kind of entities its standards – full IFRS as well as the IFRS for SMEs – are regularly developed for. In this context, the IFRS for SMEs is not developed to fit the needs of entities whose debt or equity instruments are traded in a public market. Such entities should be obliged to apply full IFRS. However, the decision of what kinds of entities have to apply full IFRS in their financial statements is not in the scope of the IASB. For example, in Europe national/supranational authorities and regulators determine the group of entities having to apply full IFRS in their consolidated financial statements.

It is also our understanding that the IASB has not been successful in establishing full IFRS as a general purpose set of standards for all kinds of entities irrespective of their capital maintenance or their legal form. IFRS for SMEs therefore constitute a means to overcome the deficiencies of full IFRS with regard to usability, complexity and – very often – applicability to allow entities without sufficient resources for full IFRS to apply some kind of “IFRS light”.

With this in mind, we consider the IFRS for SMEs to be developed to fit the needs of preparers and users of entities without public accountability. However, the IFRS for SMEs lacks the flexibility to be suitable for the wide range of entities this implies, from the small 10 mill. € business to the multi-billion family owned conglomerate. For that reason we believe that there should be size-dependent reliefs for some of the entities within the scope of and applying the IFRS for SMEs. National regulators or standard setters should be enabled to define standardized size categories, e.g. for small or medium sized entities in their jurisdictions, that could then lead to easements applying the SME standard. To ensure maximum comparability and harmonization, we think that there should only be limited reliefs – if any – applying to recognition and measurement concepts. However, there should be wide-ranging reliefs with regard to notes disclosures.

**Question S2:**

***Are the scope requirements of the IFRS for SMEs currently too restrictive for financial institutions and similar entities?***

As already pointed out in our answer to question S1, national/supranational authorities and regulators in Europe determine the group of entities having to apply full IFRS in their consolidated financial statements independent from an entity's legal form or industry.

Those are entities whose debt or equity instruments are traded in a public market. Therefore, financial institutions should have to apply full IFRS according to German/European law or capital market regulations, if they fall under the above-mentioned requirements. Other financial institutions may not be obliged to apply full IFRS for their consolidated financial statements but can do so on a voluntary basis. From our point of view, investors in or customers of such kinds of financial institutions having to apply full IFRS mandatorily have special information requirements that have to be satisfied. Therefore, they should be obliged to apply full IFRS without exception. Although we understand the intention of some constituents proclaiming the application of the IFRS for SMEs for some financial institutions such as micro banks, we believe that if a financial institution is obliged to apply full IFRS by national law it should not be enabled to apply the IFRS for SMEs instead. Again, this seems to be a question to be answered by each jurisdiction itself and not the IASB.

Additionally, we would like to note that the current definition of public accountability does not necessarily include lessors. However, from our understanding lessors should be included when talking about financial institutions and similar entities.

**Question S3:**

***Should the IFRS for SMEs be revised to clarify whether an NFP entity is eligible to use it?***

At the moment, we do not see any reason why not-for-profit entities should inherently be publicly accountable. This is also indicated by paragraph 57 in the Basis for Conclusions of the IFRS for SMEs, where it says: "Respondents noted that entities often hold assets in a fiduciary capacity for reasons incidental to their primary business (as, for example, may be the case for travel or real estate agents, schools, charitable organisations, co-operative enterprises and utility companies). The IFRS for SMEs clarifies that those circumstances do not result in an entity having public accountability." However, if a clarification within the IFRS for SMEs could be helpful it should be clarified that soliciting and accepting contributions does not automatically make a not-for-profit entity publicly accountable.

**Question S4:**

***Should the changes to the consolidation guidance in full IFRSs (IFRS 10) be considered, but modified as appropriate to reflect the needs of users of SME financial statements and cost-benefit considerations?***

First of all, we would like to state that changes to full IFRS should not be carried into the IFRS for SMEs automatically. If there are substantial changes to full IFRS on a conceptual basis, their adoption has to be decided upon during the next comprehensive review of the IFRS for SMEs. Generally the IASB should develop respective criteria regarding the process of changing the IFRS for SMEs in case of substantial changes to full IFRS.

Notwithstanding our concerns regarding the elaboration of the control principle in IFRS 10 (cf. our former comment letter on ED 10), we believe that implementing a profound and principles-based approach concerning consolidation matters regardless of an entity's legal form or industry is an inevitable requirement to further increase the acceptability of the IFRS for SMEs worldwide. Moreover, we think that in principle recognition and measurement concepts underlying full IFRS and the SME standard should be kept rather similar to ensure consistency and comparability. We would thus suggest considering the control principle as defined in IFRS 10 in the IFRS for SMEs. However, the guidance given in IFRS 10 and related standards such as IFRS 12 has to be modified to reflect the needs of preparers of financial statements in an SME environment. This is especially true for notes disclosures.

**Question S5:**

***How should the current option to use IAS 39 in the IFRS for SMEs be updated once IFRS 9 has become effective?***

Bearing our answer to question S4 in mind, we believe that the option should be retained. As there is a wide range of entities with different size or legal form within the scope of the IFRS for SMEs, it is likely that there are severe differences in the portfolios of those entities. For some of those entities the application of more specific regulations regarding the accounting treatment of financial instruments seems to be appropriate. Moreover, we would suggest updating the option once IFRS 9 has become effective in total. However, the guidance given in IFRS 9 has to be modified to reflect the needs of preparers of financial statements in an SME environment. For example, we believe that shares in a limited company should not be measured at fair value but on an amortised cost basis (reliability exemption). Finally, it should be clarified (e.g. in the basis for conclusions) that such a "fallback option" to full IFRS is only used in very rare circumstances.

**Question S6:**

***Should the fair value guidance in Section 11 be expanded to reflect the principles in IFRS 13, modified as appropriate to reflect the needs of users of SME financial statements and the specific circumstances of SMEs (for example, it would take into account their often more limited access to markets, valuation expertise, and other cost-benefit considerations)?***

Once again we would like to point out that in principle the differences between full IFRS and the IFRS for SMEs should be minimised with regard to recognition and measurement issues.

Yet, we have severe concerns suggesting the adoption of the principles of IFRS 13 in the IFRS for SMEs. Although we would agree with the adoption for comparability reasons, we strongly disagree with the application of the guidance especially as related to non-financial items. The exit price approach can only lead to decision-useful information for a limited number of transactions (cf. our comment letter on ED/2009/5). In this context, the IASB should have complemented its proposal by an entry price approach. We would propose the IASB to develop an appropriate fair value concept for SMEs and define the fair value notion in a more sophisticated way.

**Question S7:**

***Should the guidance be moved into a separate section? The benefit would be to make clear that the guidance is applicable to all references to fair value in the IFRS for SMEs, not just to financial instruments.***

As a consistent fair value measurement concept should apply to all kinds of assets, it should be moved into a separate section. However, such a concept should best reflect the information needs of users of financial statements. In our opinion, current IFRS 13 does not provide decision-useful information for many transactions, especially as related to non-financial items.

**Question S8:**

***Should the changes above to joint venture accounting in full IFRSs be reflected in the IFRS for SMEs, modified as appropriate to reflect the needs of users of SME financial statements and cost-benefit considerations?***

As already pointed out in our answer to question S4 in a similar way, we would suggest considering the changes to joint venture accounting in IFRS 11 in the IFRS for SMEs as well. However, the guidance given in IFRS 11 has to be modified to reflect the needs of preparers of financial statements in an SME environment. For example, the guidance on accounting for joint operations seems to be difficult and costly to apply in practice.

**Question S9:**

***Should an option to use the revaluation model for PPE be added to the IFRS for SMEs?***

As the revaluation model is not very common to be used in an SME environment, we would suggest no to add a corresponding option. Although we are aware of the diverse discussions regarding SMEs that are subsidiaries of entities preparing their consolidated financial statements according to full IFRS and (potentially) applying the revaluation model, we think that adding the above-mentioned option would not be appropriate for cost-benefit as well as for comparability reasons. This is also true for measuring intangible assets after recognition.

**Question S10:**

***Should the IFRS for SMEs be changed to require capitalisation of development costs meeting criteria for capitalisation (on the basis of the criteria in IAS 38)?***

We believe that the IFRS for SMEs should contain an option to capitalise development costs although we would favour the IFRS for SMEs containing only a minimum of accounting policy options. From our point of view, disadvantages are likely to arise to SMEs if they were not allowed to capitalise development costs whereas entities applying full IFRS are obliged to do so if the criteria as stated in IAS 38.57 are met. For example, we bear in mind start-up enterprises that might face excessive indebtedness if they are not allowed to capitalise development costs in an early stage of business. On the other hand, a mandatory capitalisation of development expense might be very costly and difficult to implement for many SMEs. We therefore would prefer an option regarding the capitalisation of development costs.

**Question S11:**

***Should paragraph 18.20 be modified to state: “If an entity is unable to make a reliable estimate of the useful life of an intangible asset, the life shall be presumed to be ten years unless a shorter period can be justified”?***

We believe that if an entity is not able to reliably estimate the useful life of goodwill or other intangible assets, it should have to apply the default useful life as defined in section 18 of the IFRS for SMEs. Therefore we do not agree with the proposal.

**Question S12:**

***Should Section 19 be amended to incorporate the changes to IFRS 3 (2008), modified as appropriate to reflect the needs of users of SME financial statements and cost-benefit considerations?***

In accordance with our answers to question S4, S5 and S8, we would suggest considering the changes to IFRS 3 (as were part of the revision of the standard in 2008) in the IFRS for SMEs. However, the guidance given in IFRS 3 has to be modified to

reflect the needs of preparers of financial statements in an SME environment. Such modifications should cover the exclusion of the full-goodwill method or measurement issues like contingent consideration.

**Question S13:**

***Should paragraph 22.7(a) be amended either to permit or require the presentation of the receivable as an asset?***

We do not see the necessity to change the current requirements. The IASB should continue to present the subscription receivable as an offset to equity.

**Question S14:**

***Should Section 25 of the IFRS for SMEs be changed so that SMEs are required to capitalise borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset, with all other borrowing costs recognised as an expense when incurred?***

In accordance to our answer to question 10, we believe that the IFRS for SMEs should contain an option to capitalise borrowing costs on qualifying assets. Again, disadvantages might arise to SMEs if they were not allowed to capitalise those borrowing costs whereas entities applying full IFRS are obliged to do so. On the other hand, a mandatory capitalisation of borrowing costs does not seem to be appropriate for cost-benefit reasons. We therefore prefer an option regarding the capitalisation of borrowing costs.

**Question S15:**

***Should the option to recognise actuarial gains and losses in profit or loss be removed from paragraph 28.24?***

We believe that the IFRS for SMEs should retain the option to recognise actuarial gains and losses in profit or loss for cost-benefit reasons.

**Question S16:**

***Should SMEs recognise deferred income taxes and, if so, how should they be recognised?***

From our point of view, deferred income taxes should not be recognised within the statement of financial position at all. Especially very small SMEs without considerable resources or know-how in their accounting departments would often have to hire consultants to provide suitable information on deferred taxes. However, it might be appropriate to require notes disclosures on specific issues regarding deferred taxes. Another possibility could be to make national regulators or standard setters define standardized size categories (cf. our answer to question S1), e.g. for small or medium sized entities in their jurisdictions, that could then lead to the recognition of deferred taxes (applying a simplified concept, e.g. a modified timing differences



method) for rather large entities or groups applying the SME standard. Notwithstanding the above, the IFRS for SMEs should not require deferred taxes on outside basis differences or disclosure of reconciliations.

**Question S17:**

***Should Section 29 be revised to conform it to IAS 12, modified as appropriate to reflect the needs of the users of SME financial statements?***

If the suggestions in our answer to question S16 should not be followed, we would prefer the conformation of section 29 of the IFRS for SMEs to IAS 12 for consistency reasons (cf. our comment letter on ED/2009/2).

**Question S18:**

***Should Section 29 be revised to incorporate a similar exemption from paragraph 29.20 for investment property at fair value?***

If the suggestions in our answers to questions S16 and S17 should not be followed, we would prefer the IASB not aligning the IFRS for SMEs with the amended full IFRS guidance. From our point of view, the current guidance as defined in section 29 would be better placed to facilitate a true and fair view.

**Question S19:**

***Are there any topics that are not specifically addressed in the IFRS for SMEs that you think should be covered (ie where the general guidance in paragraphs 10.4–10.6 is not sufficient)?***

No.

**Question S20:**

***Are there any additional issues that you would like to bring to the IASB's attention on specific requirements in the sections of the IFRS for SMEs?***

Although the IFRS for SMEs is currently not used by SMEs in Germany, the voluntary application of full IFRS is widely spread among our member companies and some of our members are currently considering a voluntary first time application of full IFRS in their consolidated financial statements. Moreover, these companies often have subsidiaries in countries where the IFRS for SMEs is adopted on a national level. However, the unpredictable current developments and the huge number of unsettled questions on the conceptual level (cf. the leasing or the revenue recognition project, not to mention IFRS 9) have proven to be the major obstacle to the application of full IFRS throughout the last months.

From our perspective, those developments should not be carried into the IFRS for SMEs. Profound and principles-based guidance on whatever accounting issue regardless of an entity's legal form or industry is an inevitable requirement to further increase the application of the IFRS for SMEs worldwide. We also consider the de-

velopment of rules that govern the relationship between full IFRS and IFRS for SMEs to be of vital importance to avoid a case-by-case decision on adjustments of IFRS for SMEs.

**Question G1:**

***How should the IASB deal with such minor improvements, where the IFRS for SMEs is based on old wording from full IFRSs?***

Such improvements should be incorporated in the regular exposure draft of changes to the IFRS for SMEs.

**Question G2:**

***Do you believe that the current, limited programme for developing Q&As should continue after this comprehensive review is completed?***

Yes, the current Q&A programme should be continued.

**Question G3:**

***Should the Q&As be incorporated into the IFRS for SMEs?***

No, the final Q&As should be retained as guidance separate from the IFRS for SMEs.

**Question G4:**

***Do you have any comments on the IFRS Foundation's IFRS for SMEs training material available on the link above?***

No comments.

**Question G5:**

***Are there any additional issues you would like to bring to the IASB's attention relating to the IFRS for SMEs?***

Please refer to our cover letter for some general remarks.

**Question G6:**

***1. What is your country/jurisdiction?***

Germany

***2. Is the IFRS for SMEs currently used in your country/jurisdiction?***

No, the IFRS for SMEs is not used by our SMEs.

**3. If the IFRS for SMEs is used in your country/jurisdiction, in your judgement what have been the principal benefits of the IFRS for SMEs? (Please give details of any benefits.)**

No comments.

**4. If the IFRS for SMEs is used in your country/jurisdiction, in your judgement what have been the principal practical problems in implementing the IFRS for SMEs? (Please give details of any problems.)**

No comments.