



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

Postal address:

European Commission
DG Internal Market and Services
Financial Reporting Unit-F3
SPA 2/JII - 01/112
B-1049 Brussels
Belgium.

Submissions after the deadline will not be considered.

Please provide the following details together with your response:

You are:

Preparer:	<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
User:	<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	
Public authority:	<input type="checkbox"/> audit/market regulator	<input type="checkbox"/> Government Ministry/Agency	<input type="checkbox"/> other (please specify)
Accountants and Auditors:	<input type="checkbox"/> accounting firm	<input type="checkbox"/> audit firm	<input type="checkbox"/> organisation of accountants and auditors
Other:	<input checked="" type="checkbox"/> (please specify)	Leading European Banking Association	

Name of your organisation / company:

European Savings Banks Group (ESBG)

Country where your organisation / company is located:

Belgium

Name and location of parent company: N/A

Contact details incl. e-mail address:

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

ESBG (European Savings Banks Group) is an international banking association that represents one of the largest European retail banking networks, with total assets of € 5,972 billion (1 January 2008). It represents the interests of its members (29 members in 26 countries) vis-à-vis the EU Institutions.

ESBG members are typically savings and retail banks or associations thereof. They are often organised in decentralized networks and offer their services throughout their region. ESBG member banks have reinvested responsibly in their region for many decades and are one distinct benchmark for corporate social responsibility activities throughout Europe and the world.

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 Register¹:

European Savings Banks Group: Register ID: ID 8765978796-80

Publication:

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:

small² medium³ large⁴

other criteria (please explain)

Please comment:

¹ 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.

² 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)

³ 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)

⁴ 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)

Overall, ESBG members do not have any strong preference regarding the accounting standards that their SME clients apply (i.e. local General Accepted Accounting Principles - GAAPs - or IFRS) as they are used to maintaining close relationships with their clients. ESBG members are by tradition the natural business partners of SMEs.

Thus ESBG's major interest is to ensure that SMEs benefit from the best possible accounting standards both in terms of simplicity and comprehensibility. To the best of our knowledge, SMEs have not expressed a strong appetite for new accounting rules. Most of them have not yet taken any steps to evaluate the costs or benefits of adopting IFRS for SMEs. Medium and large SMEs are used to work on a daily basis with their local GAAP while the smaller SMEs mainly use their financial reporting to check their own understanding of their business. Against this background, our main concern is that IFRS for SMEs might increase administrative burdens for SMEs without any specific benefit. We are also concerned that the provisions under the IFRS for SMEs might be too complicated.

However, it is possible that IFRS for SMEs could be advantageous to cross-border, non-publicly traded, large and medium-sized SMEs that face international competition. More precisely, comparison and benchmarking for these specific SMEs could be made easier with the IASB's new standard. We underline that these benefits will usually not apply to small companies that only rarely engage in economic activities outside of their home country.

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:

N/A

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:

N/A

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:

ESBG members are used to working with their national accounting rules and believe they are both transparent and reliable. Therefore, we believe that the adoption of the IFRS for SMEs would not provide more useful information for users of accounts.

During their lending decisions, our members are capable of processing and analysing annual financial statements irrespective of their accounting standard (either under international accounting standards or under national GAAPs). In order to assess the risk of their clients, banks use not only the information provided by financial statements but also add additional and more up-to-date information obtained from their close relationship with their clients. While financial statements are key, the final decision often takes into account a larger and more up-to-date perspective. Against this background we do not expect particular benefit for ESBG members resulting from the introduction of IFRS for SMEs in Europe.

Question 4:

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

YES

NO

Don't know

Please comment:

Users of SMEs financial reporting not only monitor the solvency of their clients but also benchmark their financial situation with that of their competitors. As already mentioned, it is possible that IFRS for SMEs could increase comparability for SMEs that operate internationally. However we doubt that international comparison is a key issue for most SMEs. In the large majority of cases national GAAPs are largely sufficient.

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:

IFRS for SMEs should be an option within the EU accounting legal framework. However, we stress that it would not be appropriate to make IFRS for SMEs mandatory in the EU. Indeed, if some SMEs might benefit from such a standard - especially those active in several countries - others might find it excessively burdensome and might prefer to continue applying their national standard. In addition, we advocate that the 4th and 7th Company Law Directives (the Accounting Directives) should prevail in any case over IFRS for SMEs in case of incompatibility between them.

Finally, ESBG believes that the interest of Member States should be taken into account. We will explain in the next question why we believe that each Member State should decide if they want to give their SMEs the option to use the IASB's new standard.

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:

We believe that the Member State option is the right solution for the application of the IFRS for SMEs in the EU.

Member States' national regulators will base their deliberations on their specific knowledge of company laws and economic situations. Member States are therefore in the best position to judge the category of companies eligible for IFRS for SMEs.

In addition, SMEs are generally under a legal obligation to report to their national tax authorities according to national accounting standards. Thus, most small companies already have in place information tools that would allow them to comply with publication requirements without many additional cost. Unless national tax authorities accept reporting according to IFRS for SMEs, an obligation to use tax reporting would lead to double reporting. This is especially true for countries that have close alignment between their tax reports and their accounting reports.

Question 7:

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

Please comment:

We consider that the Accounting Directives should prevail in any case over IFRS for SMEs so as not to disrupt the day to day work of SMEs, especially the smaller ones. We would like to avoid any increase of the accounting/administrative burden or any disruption in the day to day work of our core clients.

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:

In our view, the decision on whether the respective companies should be entitled to prepare their annual financial statement and/or consolidated accounts under the provisions of the IFRS for SMEs should be left to the discretion of EU Member States who ought to take due account of their national specific situations. It is of paramount importance that Member States have the possibility but not the obligation to apply IFRS for SMEs. For additional details please see question 11.

Question 9:

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

Please comment:

We are convinced that the accounting principles established under the EU accounting Directives have withstood the test of time. This leads us to state that the Accounting Directives should prevail in any case of incompatibility between the Directives and IFRS for SMEs. The framework for application of the IFRS for SMEs in Europe should be provided by the 4th and the 7th Company law Directive (cf. also our comments under question 5).

In cases of incompatibility between the IFRS for SMEs and existing EU Directives on accounting, conflicts should be resolved on a case-by-case basis. At this juncture, however, we hold the view that Member States need to be able to preserve the essence and core spirit of their accounting system even after an amendment of the EU Directives.

Any changes to EU Directives shall and must not incur immediate follow-up changes to national rules and regulations thus leading to a considerable bureaucratic burden for SMEs.

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:

The EU Directives should remain the framework for financial reporting within Europe. One of the goals of the review of the EU Directives is to update the content of the Directives and to achieve a streamlined version. We should avoid increasing the level of details of the Directives without any additional benefits. We believe that the best solution is to define the framework at the EU level while letting the detailed accounting provisions being defined at the level of Member States.

Other comments

N/A

Question 11:

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

Please comment:

We see no specific regulatory elements of the IFRS for SMEs that would require incorporation within the revised Accounting Directives.

It will be however important to incorporate a provision under which EU Member States will be able to either adopt IFRS for SMEs into national law on a generally binding basis (national opt-in approach) or to provide companies under their jurisdiction with the possibility but not the obligation to accept IFRS for SMEs (corporate opt-in approach). At the same time, it needs to be safeguarded that also continued use of the national accounting provisions will remain an option (cf. question 9).

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:

The focus amongst users of SMEs' financial statements is on the entity's ability to generate positive cash-flows in the normal course of business. ESBG is concerned that IFRS for SMEs might not focus enough on short term and treasury issues.

Thank you for your contribution