

6 September 2004

The Chairman  
International Accounting Standards Board  
30 Cannon Street  
LONDON EC4M 6XH  
UNITED KINGDOM

Dear Sir David,

**IASB DISCUSSION PAPER: PRELIMINARY VIEWS ON ACCOUNTING  
STANDARDS FOR SMALL AND MEDIUM-SIZED ENTITIES**

The Malaysian Accounting Standards Board (MASB) is pleased to provide its comments on Discussion Paper – Preliminary Views on Accounting Standards for Small and Medium-sized Entities, as set out in the accompanying pages.

We hope that you will find the comments useful in your deliberation of the above Discussion Paper.

We thank you for the opportunity to give our comments.

Yours sincerely,

Dato' Zainal Abidin Putih  
Chairman

**Question 1a:**

Do you agree that full IFRSs should be considered suitable for all entities? If not, why not?

**Full IFRSs is suitable for all entities as we believe that a set of accounting standards for use by all entities is consistent with the requirement of the concept of true and fair.**

However, the issue to consider is the extent of its applicability to all entities. For example, disclosure requirements for a publicly listed company may not be as applicable to a SME as they are for a publicly listed company because of different user needs. Users of financial statements of SMEs may have less interest in some information in general purpose financial statements of public listed companies or companies that have public accountability. They may have greater interest in short-term cash flows than information that is intended to assist them in making forecasts of an entity's long-term cash flows.

**Question 1b:**

Do you agree that the Board should develop a separate set of financial reporting standards for SMEs? If not, why not?

**We are divided on this issue.**

**Some who suggested for a separate set of financial reporting standards for SMEs argued that the separate set would satisfy the needs for information by users of financial statements of the SMEs. These users generally do not require as extensive an information as those disclosed in general purpose financial statements of publicly listed companies or companies that have public accountability.**

**Others who disagreed for a separate set of financial reporting standards for SMEs argued that the same accounting treatment should be applied to similar transactions irrespective of size of the entity. Moreover, a separate set of financial reporting standards is not necessary if modifications to the existing standards are merely the removal of the disclosure and presentation requirements.**

**Question 1c:**

Do you agree that IASB Standards for SMEs should not be used by publicly listed entities (or any other entities not specifically intended by the Board), even if national law or regulation were to permit this? Do you also agree that if the IASB

Standards are used by such entities, their financial statements cannot be described as being in compliance with IFRSs for SMEs? If not, why not?

**We believe that the IASB Standards for SMEs should be applied to SMEs and to no others.**

---

**Question 2:**

Are the objectives of IASB Standards for SMEs as set out in preliminary view 2 appropriate, and if not, how should they be modified?

**We have no objection to the objectives as set out in preliminary view 2 except that the objective should also state clearly the users' needs.**

---

**Question 3a:**

Do you agree that the Board should describe the characteristics of the entities for which it intends the standards but that those characteristics should not prescribe quantitative 'size tests'? If not, why not and how would an appropriate size test be developed?

**We agree that the characteristics of entities for which the standards should be applied to be clearly spelt out without prescribing the quantitative size test.**

**Question 3b:**

Do you agree that the Board should develop standards that would be suitable for all entities that do not have public accountability and should not focus only on some entities that do not have public accountability, such as only the relatively larger ones or only the relatively smaller ones? If not, why not?

**Yes, there should only be one class of standards for entities that do not have public accountability. There is no necessity to differentiate between the larger non-publicly accountable entities with the smaller non-publicly accountable entities.**

**In coming up with these standards, the IASB should clearly define the parameters for public accountability to ensure all jurisdictions have a common understanding on the meaning of public accountability.**

**Question 3c:**

Do the two principles in view 3.2 combined with the presumptive indicators of 'public accountability' in preliminary view 3.3, provide a workable definition and appropriate guidance for applying the concept of 'public accountability'? If not, how would you change them?

**The proposal is appropriate. However, it would be helpful if IASB clarifies the term "high degree" to ensure consistent application of the spirit of the provision.**

**Question 3d:**

Do you agree that an entity should be required to use full IFRSs if one or more of the owners of its shares object to the entity's preparing its financial statements on the basis of IASB Standards for SMEs. If not, why not?

**We believe that the decision to require or permit entities to use IASB "Standards for SMEs" is a matter for national jurisdiction to decide.**

**Question 3e:**

Do you agree that if a subsidiary, joint venture or associate of an entity with public accountability prepares financial information in accordance with full IFRSs to meet the requirements of its parent, venturer or investor, the entity should comply with full IFRSs, and not IASB Standards for SMEs, in its financial reporting? If not, why not?

**Yes, we agree.**

---

**Question 4:**

Do you agree that if Standards for SMEs do not address a particular accounting recognition or measurement issue, then entity should be required to look to the appropriate IFRS to resolve that particular issue? If not, why and what alternative would you propose?

**Yes, we agree.**

---

**Question 5a:**

Should an SME be permitted to revert to an IFRS if the treatment in the SME version of the IFRS differs from the treatment in the IFRSs, or should an SME be required to choose only either the complete set of IFRSs or the complete set of SME standards with no optional reversion to individual IFRSs? Why?

**An SME should be required to choose only either the complete set of IFRSs or the complete set of SME standards.**

**Once the particular set of standards is selected, the SME should apply that set consistently. However, in the event the SME believes that the treatment for a specific item in the IFRS provides a fairer presentation, the SME should be permitted to disclose in the notes to the financial statements the additional pro forma information with regard to the financial impact of adopting specific IFRS.**

**The flexibility for an entity to reverse to IFRS if the treatment in the “Standard for SME” differs from that in the IFRS could potentially lead to cherry-picking as well as distorting comparability of financial statements.**

**Question 5b:**

If an SME is permitted to revert to an IFRS, should it be:

- (a) required to revert to the IFRS in its entirety (a std-by-std approach)
- (b) permitted to revert to individual principles in the IFRS without restriction while continuing to follow the remainder of SME version of the IFRS (a principle-by-principle approach); or
- (c) permitted to revert to all of the principles in the IFRS that are related to the treatment in the SME version of that IFRS while continuing to follow the remainder of SME version of the IFRS (a middle ground between a std-by-std and principle-by-principle approach)?

Please explain your reasoning and, if your favour (c), what criteria do you propose for defining ‘related’ principles?

**If the SME is permitted to revert to an IFRS, it should be required to revert to the IFRS in its entirety (a standard-by-standard approach).**

---

**Question 6:**

Do you agree that the development of IASB Standards for SMEs should start by extracting the fundamental concepts from the Framework and the principles and related mandatory guidance from IFRSs (including Interpretations), and then making modifications deemed appropriate? If not, what approach should you follow?

**We agree that the development of IASB “Standards for SMEs” should start by extracting the fundamental concepts from the Framework and related IFRSs.**

**However, the “Standards for SMEs” should not be an abbreviation of the IFRSs, otherwise, it would defeat the objective of issuing a separate set of financial reporting standards for SMEs.**

---

**Question 7a:**

Do you agree that any modifications for SMEs to the concepts or principles in full IFRSs must be on the basis of the identified needs of users of SME financial statements or cost-benefit analyses? And if so, do you have suggestions about how the Board might analyse the costs and benefits of IFRSs in an SME context?

**Yes, the proposal is appropriate. However, we would like to suggest that the basis for modifications should be considered in the following hierarchy:**

- (i) identified needs of users of SME financial statements; and**
- (ii) cost-benefit analyses.**

**Question 7b:**

Do you agree that it is likely that disclosure and presentation modifications will be justified on the basis of user needs and cost-benefit analyses and that the disclosure modifications could increase or decrease the current level of disclosure for SME? If not, why not?

**Yes, we agree.**

**Question 7c:**

Do you agree that, in developing standards for SMEs, the Board should presume that no modification would be made to the recognition or measurement principles in IFRSs, though that presumption could be overcome on the basis of user needs and a cost-benefit analysis. If not, why not?

**Yes, the IASB should presume no modification to the recognition and measurement principles is required. Modification, if any, should be made only if there is absolute necessity and such modification could be justified.**

---

**Question 8a:**

Do you agree that IASB Standards for SMEs should be published in a separate printed volume? If you favour including them in separate sections of each IFRS (including Interpretations) or some other approach, please explain why?

**Yes, we agree that IASB “Standards for SMEs” should be published in a separate printed volume.**

**Question 8b:**

Do you agree that IASB Standards for SMEs should be organised by IAS/IFRS number rather than in topical sequence? If you favour topical sequence or some other approach, please explain why?

**We have no objection to have IASB “Standards for SMEs” organised by IAS /IFRS number.**

**Question 8c:**

Do you agree that each IASB Standards for SMEs should include a statement of its objective, a summary, and a glossary of key terms?

**We agree that each “Standards for SMEs” should include a statement of its objective and a summary. A glossary of key terms may be useful.**

---

**Question 9:**

Are there any other matters related to how the Board should approach its project to develop standards for SMEs that you would like to bring to the Board's attention?

**No.**