

September 28, 2007

Mr. Paul Pacter
Director of Standards for SMEs
International Accounting Standards Board
30 Cannon Street
London
EC4M 6XH
United Kingdom

By e-mail: commentletters@iasb.org

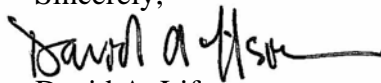
Re: Exposure Draft: International Financial Reporting Standard for Small and Medium-Sized Entities

Dear Mr. Pacter:

The New York State Society of Certified Public Accountants, representing 30,000 CPAs in public practice, industry, government and education, submits the following comments to you regarding the above captioned exposure draft. NYSSCPA thanks the IASB for the opportunity to comment.

The NYSSCPA's International Accounting and Auditing Committee deliberated the exposure draft and prepared the attached comments. If you would like additional discussion with us, please contact William M. Stocker III, Chair of the International Accounting and Auditing Committee, at (212) 503-8875, or Ernest J. Markezin, NYSSCPA staff, at (212) 719-8303.

Sincerely,



David A. Lifson
President

Attachment

**COMMENTS ON IASB INTERNATIONAL FINANCIAL REPORTING
STANDARD FOR SMALL AND MEDIUM-SIZED ENTITIES**

September 28, 2007

Principal Drafter

William M. Stocker III

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New York State Society of Certified Public Accountants

International Accounting and Auditing Committee

Comments on International Accounting Standards Board (IASB) Exposure Draft of a Proposed International Financial Reporting Standard (IFRS) for Small and Medium-Sized Entities (SMEs)

GENERAL COMMENTS

We understand the concerns expressed in the view that IFRS for SMEs would constitute a second separate set of accounting standards however, we believe that the IFRS for SMEs would not be a second set of standards, instead it would be a subset of IFRS. We accept that IFRS as it now exists, along with other major accounting frameworks, include many policy elections among acceptable alternatives. IFRS for SMEs would simply be a set of such elections.

Although we have concerns that a separate IFRS for SMEs could be detrimental to the financial reporting objective of comparability, we also believe that other essential objectives of financial reporting can be enhanced by the availability of alternatives, as important as comparability may be.

If a jurisdiction desired greater comparability at the expense of other objectives, it would be able to require full IFRS. If financial statement users penalize SMEs for their use of IFRS for SMEs (as opposed to full IFRS), then that would likely create appropriate market incentives for those SMEs to elect full IFRS.

Use of IFRS for SMEs should require clear disclosure to alert users to the potential lack of comparability.

We suggest for consideration, re-labeling (or at least re-conceptualizing) IFRS for SMEs as “basic” or “core” IFRS with full IFRS as “full,” “extended” or “expanded” IFRS. In this system, “extended” IFRS would be set-forth in the standards as required for the entities with public accountability rather than the phrasing being that entities without public accountability are permitted to use “core” IFRS.

This existence of “core” IFRS, because it is less extensive than complete IFRS, would enable the cost-effective training of more individuals who would be capable of providing high-quality compliance for small and medium-sized entities. Such individuals would be able to consult with accountants knowledgeable in expanded IFRS when reference was needed.

We recognize that a problem with the “core” IFRS concept would be with Section 10.3. This would require extreme care that everything in “extended” IFRS that really should apply to all entities, be incorporated in the “core” IFRS. Furthermore, the “core” versus “extended” concept would make reformatting “extended” IFRS useful, but not necessarily cost beneficial.

We also make a separate, alternative suggestion for consideration that should make some of the “cost-benefits” of IFRS for SMEs available to electing jurisdictions and entities while not creating a parallel set of accounting standards. We suggest compliance with IFRS to refer only to full IFRS, but set forth and label certain recognition and measurement and disclosure simplifications which would be referred to as “delimited” or “defined” departures from IFRS.

Individual jurisdictions could permit financial statement issuers to depart from IFRS in any or all of the “defined” manners while: 1) having departures from IFRS that would be understood across borders, and 2) maintaining the integrity of a single IFRS as departures would be clearly labeled as such. User entities, such as banks granting credit, could adopt policies allowing certain of the defined departures, in general or in defined circumstances.

This would provide flexible reporting as called for by a report of the American Institute of Certified Public Accountants, *Improving Business Reporting – A Customer Focus* (1998; commonly referred to as the “Jenkins Report”). The following is from Chapter 5:

“As a practical matter, reporting flexibility based on negotiation mostly would be applicable to private companies and the users of their business reporting. Private companies generally deal with a limited number of users. Further, private companies and users already negotiate over the content, frequency, time frame, timeliness, and extent and nature of auditor association of business reporting. The Committee believes the flexible reporting feature of the model is a logical extension of a process of negotiation that already works well in practice. It helps ensure that only information truly needed and that can be provided at acceptable cost is included in business reporting.”

. . .

“The model assists the parties to the negotiation process with a menu of mutually understood elements of information from which to choose in defining the features of business reporting that are best in the particular circumstances. It is likely that standardized subsets of the menu of elements would emerge as particularly useful for lenders to privately held companies. Those standardized subsets would reflect, among other things, the nature, duration, and risk of the lending.”

The defined departures would provide a menu for flexible reporting. An option would be to allow disclosure that the financial statements were “prepared in accordance

with IFRS except for the following policies chosen from the menu of defined departures.” Auditing standard setters could elect to have the auditor’s report treat reporting on IFRS with defined departures differently than other departures. For example, standards may permit the auditor to refrain from quantifying the effects of defined departures although quantification of the effects of departures from the framework would generally be required under the particular standards.

COMMENTS ON SPECIFIC QUESTIONS

Comments on Question 1 – Stand-Alone Document

The stand-alone document represents a very useful educational and practice aid. Even if it is decided that: 1) there will be no recognition and measurement simplifications, and 2) no reduction in disclosure requirements (*i.e.*, there will be no alternative to compliance with full IFRS), a stand-alone document should be issued. Such a document would, as the exposure draft states: 1) include only those transactions and events that are likely to be encountered by an SME with reference to full IFRS when other transactions arise, and 2) include only the simpler options (but with reference to full IFRS) in instances in which IFRS allows entities to choose among accounting policies.

Similar to the discussion above concerning the suggestion for a “core” IFRS, the advantages of such a document, regardless of whether recognition, measurement and disclosure simplifications are included, would be twofold. First, the stand-alone document would be easier to learn comprehensively than full IFRS. Ideally, financial statement preparers and auditors would be trained in full IFRS, but the ability to train personnel more efficiently with the capability to fulfill the financial reporting needs of most SMEs will ensure those needs are more readily met. Second, the stand-alone document would provide SMEs, particularly small entities, with an inexpensive, easy-to-use, IFRS reference source when they might otherwise do without such materials.

We realize that the key problem with the stand-alone document is the risk that a requirement of IFRS reporting is omitted from the SME document without a conscious, debated and exposed decision to do so. For this reason, the language of Section 10.3 creates the danger that unintended substantive changes in IFRS could be effected by the document. We understand that changing the language of Section 10.3 to require reference to full IFRS, in all cases, would defeat many of the benefits of having the stand-alone document. We recommend, however, that the document should require reference to full IFRS in the case of transactions, other events or conditions not specifically addressed in the document.

We have not identified any additional transactions, other events or conditions that should be covered in the proposed standard to make it more self-contained.

We suggest consideration be given to removing hedge accounting in its entirety from the stand-alone document (except, of course, for the option to adopt IAS 39 fully).

While it is our experience that many SMEs have transactions that are used for hedging purposes, it is often not problematic for them to forgo hedge accounting to reflect the results. Often, the entities will choose not to designate an item as a hedge to avoid the complications of hedge accounting. In keeping with the concept of only including the simpler options when IFRS provides choices among accounting policies, removing hedge accounting as described in Sections 11.29 through 11.39, would make the IFRS for SMEs easier to learn and apply. Further, such a change would not affect most SMEs. For those affected, an election could be made to use IAS 39.

Comments on Question 2 – Recognition and Measurement Simplifications that the Board Adopted.

Cost method for associates

Allowing the cost method for investments in associates is useful in many cases. We see two problems, however, with the proposal.

The first problem is the requirement, set forth in Section 13.7(c), to disclose summarized financial information. We understand why financial statements that include such disclosures are preferable to ones that do not. Smaller entities encounter frequent problems in applying the equity method in obtaining timely information about the assets, liabilities, revenues and profits of the associate. If the timely information is available, then the application of the equity method is not burdensome.

The second problem lies in those cases in which the investments in associates are very significant (not merely material) to the entity. An example is the extreme case in which the entity's only activity is holding a 49% equity interest in another business. The results of that 49% equity interest are critical to the understanding of the entity.

We suggest that the standard set forth a principle according to which the cost method could not be used to account for associates that represent a substantial portion of the investor's assets or for associates whose net profit or loss are significant compared to the investor's profit and loss (or long-term average profit or loss, if the current year, coincidentally, is close to the break-even point).

We also suggest that, for those associates accounted for under the cost method, the standard include relief from the disclosure requirements of Section 13.7(c) in cases in which the investor is unable to obtain the information from the associate's management on a timely basis. In addition, the standard should permit a greater lag in the timing of the information than is allowed for application of the equity method, for example allowing the information to be "as of," and "for the year ending," six months (or even a year) before the investor's balance sheet date. The standard should emphasize that using a date coincident to that of the investor is preferable.

Sections 13.3 and 14.8 require that one of the accounting models be applied to all of the entity's investments in associates and joint ventures, respectively. Sections 13.6

and 14.12 will prohibit the use of fair value through profit and loss for any investment for which fair value cannot be measured reliably. The interplay of the requirements of sections 13.3 and 14.8, implies that fair value through profit and loss cannot be used unless the fair values of all investments in either associates or joint ventures can be measured reliably. The document should clarify whether this is indeed the case. Alternatively, the document should clarify if it is meant that fair value through profit and loss can be used for those investments for which fair value can be measured reliably, and another method may be used for all those for which fair values are not obtainable.

Share-based payment

Allowing use of the intrinsic method for measuring share-based payment results in valuable compensation not being included as an expense, and provides no relief for SMEs for the real difficulty in applying either the fair value or the intrinsic value method.

The greatest difficulty and expense in performing a fair value computation is in reliably estimating the fair value of stock that is not listed and for which recent transactions have not occurred. Such a value is needed to apply the intrinsic value method as much as it is to apply an option-pricing formula. It is easier and less expensive to estimate volatility based on similar listed companies than it is to value the stock itself.

In some developing countries and in the case of micro entities, the appropriate volatility figures may be more difficult to estimate.

We reluctantly agree that the document should allow the intrinsic method for stock compensation because of the relative ease of application. The document should, however, emphasize that fair value is preferable. We do not believe that allowing the intrinsic method solves the principal difficulty faced by SMEs in accounting for stock compensation.

An alternative suggestion to overcome the real difficulty in SME's accounting for stock compensation (the valuation of the stock itself) is to allow an entity that issues stock for compensation purposes to disclose that fact prominently, without being required to recognize stock compensation expense. However, to minimize misunderstanding on the part of financial statement users, if an entity selects that alternative reporting approach, it would not be permitted to label the amounts reported in its financial statements as profit or loss (Section 5.3(f) notwithstanding); but rather, the reporting entity must label net income (or loss) as "profit, income or loss excluding stock compensation expense – stock compensation expense not determined."

Expensing of development costs

We support the document's permitting the expensing of development costs. This accounting should be permitted for larger entities as well. The capitalization and amortization of costs over the period of benefit is theoretically sounder, however the actual practice is inherently unreliable. The economic reality is that an asset of uncertain

value is being created during the development process, and the value of that intangible asset declines in some manner as the product or process gets closer to obsolescence. However, the particular historical amounts that are capitalized and amortized over some uncertain, though systematic basis are likely to bear only an accidental relationship to this economic reality. For this reason, the findings of the Board as discussed in paragraph BC81, with regard to the lack of significance to credit grantors, are valid.

Interim financial statements

In our experience, SMEs frequently issue interim financial statements to credit grantors and others. In that regard, it is useful to provide some guidance in the interim financial statements. For those entities using IFRS for SMEs in an interim financial statement rather than full IAS 34, the IAS 34 paragraph 16(b) requirement that the entity disclose “explanatory comments about the seasonality or cyclicity of interim operations” should be required.

Comments on Question 9 – Adequacy of Disclosures

Some recognition and measurement simplifications included in the document should be offset by a requirement for the financial statements to include some qualitative disclosures about the possible effects of adopting these policies. Having a standard disclosure set forth in the implementation guide for each simplification would facilitate the disclosure requirement for any SME to apply, and would serve as a protection for less knowledgeable users of the financial statements.

It would also be useful that, in cases in which there have been permitted recognition and measurement simplifications in the past that could have a bearing on the current period, information about the past period(s) would be disclosed to the extent that the information is readily available (*e.g.*, if it had been reported in previous IFRS compliant financial statements). Providing this past information would permit users to get a better sense of the possible effects of the accounting policy at little cost to the reporting entity.

An example of such disclosures is the situation related to the expensing of development costs that would be as follows (assuming that a requirement is added to disclose research and development costs for the previous five years if they had previously been disclosed):

The Entity expenses all research and development (“R&D”) costs. Entities reporting under IFRS that are not defined as an SME are required to capitalize development costs. R&D costs totaled CUxx,xxx in the year ended December 31, 20x6. For the years ended December 31, 20x5, 20x4, 20x3, and 20x2 R&D costs were CUxx,xxx, CUxx,xxx, CUxx,xxx, and CUxx,xxx, respectively. R&D costs for 20x1 had never been determined. When incurring R&D costs, particularly development costs, it is possible that the Entity is creating valuable

intangible assets that will benefit future periods. At the same time, there may have been intangible assets similarly created in previous periods that are becoming less valuable as they reach the end of the period in which there is a benefit. The financial statements neither reflect the creation of any such assets nor the decline in the usefulness or value of any such previously created assets.

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