

Hans Hoogervorst
Chairman
IASB
Cannon Street 30
London EC4M 6XH
United Kingdom

The IASB's Request for Information: Comprehensive Review of the IFRS for SMEs

Dear Mr Hoogervorst,



The European Securities and Markets Authority (ESMA) is an independent EU Authority that contributes to enhancing the protection of investors and promoting stable and well-functioning financial markets in the European Union (EU). ESMA achieves this aim by building a single rule book for EU financial markets and ensuring its consistent application across the EU. ESMA contributes to the regulation of financial services firms with a pan-European reach, either through direct supervision or through the active co-ordination of national supervisory activity.

ESMA has considered the IASB's request for information *Comprehensive Review of the IFRS for SMEs*. ESMA thanks you for this opportunity to contribute to the IASB's due process. ESMA is pleased to provide you with the following comments aimed at improving the decision-usefulness of financial statements and the transparency and enforceability of IFRSs.

ESMA's comments focus on the use of *IFRS for SMEs* by publicly traded entities and financial institutions.

It could be argued that owing to the financial crisis some SMEs have restricted access to (bank) finance and that more capital should be sought in the future through public equity and/or bond markets. Some believe that costs incurred to reporting IFRS financial statements are preventing SMEs to seek a listing.

We now understand that some interested parties argue that governments and regulatory authorities in each individual jurisdiction should be able to decide whether publicly traded entities should be eligible to use the *IFRS for SMEs*, a set of accounting standards developed for private companies whose equity and debt instruments are not traded in a public market.

ESMA agrees with the idea of widening the scope of *IFRS for SMEs* but would not support introducing a subset of listed companies on regulated markets applying less stringent accounting principles. In this context we would like to note that there is no trans-national common understanding of how to define a SME.

Indeed, we believe that there are significant drawbacks related to the introduction of a different set of accounting principles within in one regulated financial market, and that in particular it:

- Would result in a different level of investor protection whilst investors would be exposed to a similar or even a higher level of risk. This is especially the case for start-up companies.
- Suggests that the size of an entity might be a good proxy for investors' information needs. Experience has learned that this is not the case and that SMEs might enter into complex transactions like reversed business combinations, issuing complex financial instruments like convertible bonds with non-plain vanilla features.
- Will possibly result in a higher cost of capital for SMEs due to a lower level of transparency in financial reporting.
- Might create a decrease or a loss in market confidence and of trust in financial reporting. Financial market participants might become concerned about the fact that different requirements would apply for entities engaging in similar transactions and listed on the same market. In addition, comparability might decrease and clarity might be lost on which set of accounting principles apply to a specific company.

Consequently we do not think that a broadening of the scope of *IFRS for SMEs* should allow companies listed on regulated markets to apply less stringent accounting principles. We have strongly supported the IFRS Foundation and the IASB's objective to develop IFRS as a single set of global accounting standards. Opening the scope of the *IFRS for SMEs* to entities whose debt or equity instruments are traded on a regulated market might potentially jeopardize the objective of achieving a single set of accounting standards and harm the wider objective of achieving internationally regulated financial markets.

However, we do believe that the scope of *IFRS for SMEs* could be widened so that jurisdictions can decide whether issuers whose debt or equity instruments are traded in specific public markets should be permitted to use them but that jurisdictions should adopt full IFRS for their regulated markets. For example, in the EU we would support the use of IFRS for SMEs for issuers only trading on Multilateral Trading Facilities (MTFs) and believe that an issuer should be allowed to use the standard if it wishes to do so.

As expressed also in the letter of the Joint Committee of the three European Supervisory Authorities we strongly oppose to revise the scope of *IFRS for SMEs* to permit to include financial institutions and other entities that hold assets for a broad group of external investors.



As a last point, we believe that if the IFRS Foundation and the IASB were to continue with the suggestion to broaden the scope of *IFRS for SMEs*, it would need to reconsider its due process for IFRS for SMEs with more dedicated Board involvement and an enhanced consultation process.

We would be happy to discuss all or any of these issues further with you.

Yours sincerely,

A handwritten signature in blue ink, appearing to be 'SM', written over the printed name and title.

Steven Maijoor
Chair ESMA