

June 12, 2007

International Accounting Standards Board
30 Cannon Street
London, EC4M 6XH
United Kingdom

Re: Exposure Draft of IFRS for Small and Medium-sized Entities

Dear Sir/Madam:

The Financial Reporting Committee ("the Committee" or "the FRC") of the Institute of Management Accountants (IMA) appreciates the opportunity to provide its view on the Exposure Draft of a proposed IFRS for Small and Medium-sized Entities (SMEs). FRC is the financial reporting technical committee of the Institute of Management Accountants. The Committee is comprised of representatives from the largest accounting firms in the world, valuation experts, preparers of financial statements from some of the largest companies in the world, accounting consultants as well as academics. The Committee reviews and responds to research studies, statements, pronouncements, pending legislation, proposals and other documents issued by domestic and international agencies and organizations.

We agree with the IASB that the complexity of IFRS is a significant problem for SMEs, as it is for all enterprises that prepare financial statement in accordance with IFRS. However, we believe that the IASB has not diagnosed the problem of complexity adequately and that the Exposure Draft will exacerbate, rather than relieve, complexity.

We have the following comments:

1. We believe the genesis of this IASB project, at least in part, is the overall complexity of our present accounting standards. Rather than inventing a new set of "simpler" standards for SMEs only, the IASB (and FASB) needs to work toward a less complex principles-based system for all companies. Although some complexity in accounting arises from the complexity of the transactions being accounted for, we believe that in many cases the IASB could identify simpler accounting with little reduction in usefulness that should apply to all companies.

We believe it is a fallacy that large multinational companies can more readily deal with complexity. The largest multinationals are composed of hundreds, or even thousands, of entities and business units, some of which individually would be SMEs. Those individual units may be located in lesser developed countries or, even if located in developed countries, may have small accounting staffs. It is unrealistic, as well as inefficient, to expect the smaller units to rely on the headquarters accounting function of a large multinational to apply complex IFRS that the units are incapable of mastering.

2. We believe it is inappropriate as a short or long-term goal to have two different systems of generally accepted accounting principles (GAAP). We find it difficult to understand conceptually why transactions should be recognized and measured differently depending on the type and size of a company or whether it is private or public. We believe there is no conceptual basis for selecting which principles should apply to SMEs and which to other companies. We can accept some disclosure differences, but we do not favor any other type of difference.

If the management of an enterprise has sufficient understanding and expertise, for example, to expose the entity to the risks and benefits inherent in complex derivative instruments or securitizations, it also should have the ability to account for them and report that accounting to users of its financial statements whether the enterprise is publicly owned or privately held, big or small. If IAS 39 is too complicated, it is too complicated for everyone, not just SMEs.

There are also practical problems when a private company goes public or vice versa. For example, should previously issued financial statements be restated to produce comparable information useful to users? We worry, too, that over time an SME GAAP would be considered second class or that an SME GAAP would create demand for additional and special GAAP treatments.

3. We believe a separate GAAP for SMEs would add to complexity. There would need to be training (and testing) on the new GAAP, and accountants and auditors would need to learn both sets of GAAP and keep current on both. Plus, as noted above, we would need rules (and incremental training) when companies changed categories.

As an aside, we note that a separate GAAP for SMEs also adds complexity for standard setters because for each future pronouncement the standard setter would have to deliberate if the answer should be different for SMEs.

Complexity increases costs; and harmonization, for example, in international accounting, reduces complexity. In the case of a special set of GAAP for SMEs, we believe the costs exceed the benefits; it runs counter to an important current trend of harmonization and is inconsistent with a principles-based approach.

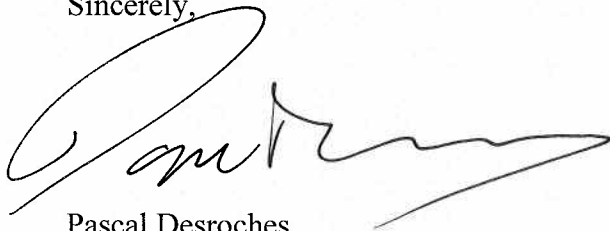
4. While we are not users and have not done a formal survey, our intuition is (and logic would say) that having two sets of standards would add confusion, burden, cost and complexity to their responsibilities. Consider an investor (user) who is considering alternative investments—one company is private while the other is public. Both companies are in the same industry. Which set of GAAP is the right GAAP? How does one compare their results without converting one GAAP to the other? Does the information exist to do it? How does one compare the companies with others in their industry?

We also note that, as we understand it, very large private companies could potentially follow IFRS for SMEs and, further, private companies could simply choose to follow full IFRS or IFRS for SMEs. This compounds the problem.

5. We understand that some assert that the Exposure Draft is not sufficient and there is a need for a third GAAP for "micro" companies. Once begun, there is no logical end.
6. In addition to simplifying IFRS for all companies, we believe the IASB should work with government authorities to address some of the practical problems in terms of SME filing requirements. Perhaps in some cases they could be eliminated or, in others, be simplified. The requirements to file statutory financial statements in accordance with IFRS seems to be part of the problem and why, at least in part, the IASB embarked on this project. If the owners or creditors of an SME believe full IFRS is not useful for them, they should have the ability to issue financial information that departs from IFRS, with disclosure in the financial statements of the nature of the departures and appropriate modification of the auditors' report, or financial information prepared on another basis. We believe an approach of providing greater flexibility in statutory filing requirements is more responsive to the underlying problem, and does not create the disadvantages enumerated in the preceding paragraphs of this letter.

Given our views above, we have not responded to the detailed questions in the Exposure Draft. We appreciate the opportunity to provide our views on the Exposure Draft and would be pleased to discuss any of these comments further. You may contact me at 212-484-6680.

Sincerely,



Pascal Desroches
Chair, Financial Reporting Committee