

4 April 2011

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

Dear Sir/Madam,

On behalf of EFRAG, I am writing to comment on the draft Q&A *Use of the IFRS for SMEs in parent's separate financial statements* ('the Q&A').

The Q&A considers the issue of whether a parent entity can publish its separate financial statements in accordance with the IFRS for SMEs, when the group is required to publish consolidated financial statements in accordance with full IFRSs.

The Q&A specifies that a parent entity assesses its eligibility to use the IFRS for SMEs on the basis of its own public accountability, without considering whether other group entities have, or the group as a whole has, public accountability.

EFRAG thinks it is important that the Q&As are easily understood by entities preparing financial statements in accordance with the IFRS for SMEs. For that reason, we think it is important to draft the Q&As as a direct response to the question raised.

EFRAG agrees with the conclusion of the Q&A to the extent drafted, but considers the Q&A to be incomplete.

EFRAG agrees that one of the issues to consider, when answering the question raised in the Q&A, is whether the parent entity is publicly accountable. EFRAG also supports the answer provided in the Q&A regarding public accountability. However, in order to answer the question included in the Q&A, we think the Q&A also needs to address whether an entity can choose only to prepare separate financial statements in accordance with the IFRS for SMEs and claim these to be in accordance with the IFRS for SMEs when the consolidated statements have not been prepared in accordance with the IFRS for SMEs – but in accordance with full IFRSs.

Our detailed comments on the Q&A are set out in Appendix 1.

If you would like to discuss our comments further, please do not hesitate to contact Rasmus Sommer or me.

Yours sincerely

Françoise Flores

EFRAG, Chairman

Appendix 1

View of EFRAG:

- In EFRAG's view, the answer to the question raised would depend on whether:
 - (a) the parent entity has public accountability; and
 - (b) an entity can choose only to prepare separate financial statements in accordance with the IFRS for SMEs and claim these to be in accordance with the standard.

The Q&A only deals with the first issue, and while we agree with the answer provided to this issue, we also think the Q&A needs to address the second issue.

In our view, an entity cannot choose only to prepare separate financial statements and claim these to be in accordance with the IFRS for SMEs when the standard requires consolidated statements to be prepared in accordance with the IFRS for SMEs.

- 2 Paragraph 9.26 of the IFRS for SMEs states that when a parent entity prepares separate financial statements and describes them as conforming to the IFRS for SMEs, those statements shall comply with all of the requirements of the IFRS for SMEs. One issue to consider is therefore whether the parent entity is publicly accountable.
- 3 In the view of EFRAG, if a parent entity publishes general purpose financial statements for external users and the entity is not itself publicly accountable, it meets the definition of a small and medium-sized entity included in paragraph 1.2 of the IFRS for SMEs.
- 4 It follows from paragraph 1.5 of the IFRS for SMEs that, if a publicly accountable entity uses the IFRS for SMEs, its financial statements should not be described as conforming to the IFRS for SMEs.
- 5 According to paragraph 1.3 of the IFRS for SMEs, an entity has public accountability if:
 - (a) its debt or equity instruments are traded in a public market or it is in the process of issuing such instruments for trading in a public market; or
 - (b) it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses.
- 6 Paragraph 1.3 only considers the entity itself. Public accountability of a parent entity does not therefore arise as a result of a subsidiary being publicly accountable.
- 7 As a result, EFRAG agrees with the conclusion of the Q&A to the extent drafted, but considers the Q&A to be incomplete. In addition to considering whether the parent entity has public accountability, EFRAG thinks it should also be considered whether an entity can choose only to prepare separate financial statements in

EFRAG's comment letter in response to the draft Q&A: Use of the IFRS for SMEs in parent's separate financial statements

accordance with the IFRS for SMEs and claim these to be in accordance with the standard.

- 8 According to paragraph 9.2 of the IFRS for SMEs a parent entity shall present consolidated financial statements in which it consolidates its investments in subsidiaries in accordance with the IFRS for SMEs. The only exceptions may be when:
- (a) both of the following conditions are met:
 - (i) the parent is itself a subsidiary; and
 - (ii) its ultimate parent (or any intermediate parent) produces consolidated general purpose financial statements that comply with full IFRSs or with this IFRS; or
 - (b) it has no subsidiaries other than one that was acquired with the intention of selling or disposing of within one year.
- 9 In cases where the exception does not apply – for example, when a parent entity is not a subsidiary – the question is therefore whether an entity can choose only to prepare separate financial statements in accordance with the IFRS for SMEs and claim these to be in accordance with the standard.
- 10 Where the exception does not apply, EFRAG does not think a parent entity could prepare separate financial statements in accordance with the IFRS for SMEs, if it only prepares consolidated financial statements in accordance with the full IFRSs and not also in accordance with the IFRS for SMEs. If an entity could choose only to prepare separate financial statements and claim these to be in accordance with the IFRS for SMEs, the requirement of paragraph 9.2 (repeated in paragraph 9.24) would not make sense.

Note

Within the EU, the IFRS for SMEs cannot be applied by entities as an alternative to national requirements. In addition, Member States cannot allow the use of the IFRS for SMEs when this will result in an outcome that is not in accordance with the European Accounting Directives.