

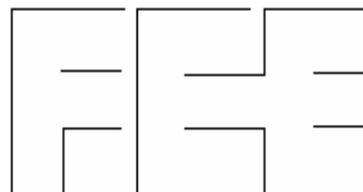
Date  
15 October 2007

Le Président

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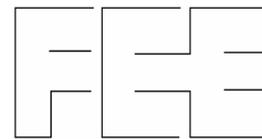


commentletter@efrag.org

Dear Mr. Enevoldsen,

Re: EFRAG Draft Comment Letter on the IASB ED IFRS for SMEs

1. FEE (Fédération des Experts Comptables Européens, European Federation of Accountants) is pleased to have the opportunity to share with EFRAG its views and comments on both the draft EFRAG comment letter and the IASB Exposure Draft ('ED') of the proposed IFRS for SMEs.
2. FEE welcomes the development by the IASB of a simplified set of international financial reporting standards for SMEs. Many SMEs operate across borders and have a need for comparability of their financial statements with counterparts and competitors. We agree that such a set of standards needs to be consistent with the conceptual basis of IFRSs. They ought to increase the understandability of financial reporting by companies without public accountability and should be developed on the basis of good understanding of users' needs. It also needs to be prepared on a reasonable basis meeting the cost-benefit balance.
3. We congratulate EFRAG in preparing such a detailed and comprehensive draft comment letter. We hope that the comment letter will stimulate all European organisations with an interest in financial reporting and in addition those with an interest in SMEs to express their views on the ED to EFRAG or directly to the IASB in a constructive manner with indication of what elements in the ED need to be changed. The alternative structure proposed by EFRAG, as well as the detailed illustrations of possible alternative content for non-financial assets, provides European stakeholders with an opportunity to indicate whether this revised approach may be a way forward.
4. We hope that Europe, through EFRAG, is able to present a united view on the ED and can help in creating an international standard that will be directly or indirectly taken up in Europe.
- 1- **The final standard should be a comprehensive stand-alone document**
5. We support EFRAG's call for a comprehensive stand-alone document that can be used without having to go back to the 'big book' of full IFRSs. We agree that all cross-references need to be replaced by descriptions. The disadvantage of having a longer standard will be strongly outweighed by having a more understandable and user-friendly document. The use of cross-references would make it more difficult to keep the standard up to date. For educational purposes – be it of preparers, users or the auditors – there are clear benefits of having a 'one stop shop' standard.



## **2- 'IFRS for SMEs' is not the most appropriate label**

6. We fully support EFRAG in its call for a different label than 'IFRS for SMEs'. While the IASB, in BC 54 of the ED state the term 'SME' is universally recognised, we do not believe there is a consistent common understanding of that term throughout the different national jurisdictions. Moreover the label 'SME' does not give a proper indication of the scope of the standard, even though it is for national jurisdictions to decide whether and how to apply the standard. However, we are also not convinced of the value in using the term NPAEs (non-publicly accountable entities) since it will, without doubt, create translation problems. We suggest drawing a distinction between 'public interest entities' and 'non-public interest entities', a distinction applied in European countries (as it is used in the Statutory Audit Directive), which we think could be utilised world wide without difficulty. In this context, note that while all the references in the present letter to SMEs have been kept, these should be read as meaning 'non-public interest entities'.
7. We agree with EFRAG that there should be no reference to size. In addition, we consider that a further clarification may be necessary to make it clear that the proposed standard aims to apply to both the individual accounts and to the consolidated accounts.
8. In certain countries in Europe where the eventual IFRS for SMEs may be directly used, a three level approach could be envisaged:
  - full IFRSs for listed and including public interest entities;
  - 'IFRS for SMEs' for the in between category;
  - a separate standard for the smaller companies and micro companies.

Very large companies not listed and not legally considered as being public interest entities, thus falling under the 'IFRS for SMEs' category, should be nevertheless stimulated to apply full IFRSs, since due to their size there is a public interest element. In this way a three level approach would be sufficient.

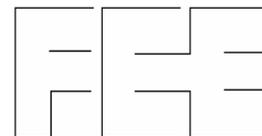
9. Within Europe, it is uncertain to what extent the future standard will be taken-up directly. However if not taken up directly, many national standard setters in Europe may wish to adapt the IFRS for SMEs and use it as a basis for a (simplified) national standard. The IFRS for SMEs can in this way be seen as a means of convergence without aiming for full harmonisation or comparability, at least not in the immediate future.

## **3- Users' needs ought to be analysed further and more changes to recognition and measurement principles may be needed**

10. We fully support EFRAG's request for a further analysis of the users' needs to be conducted. However, any such further examination should not delay the process of the development of a standard for non-public interest entities, but can be carried out in parallel. This section of the letter could also usefully refer to the outcome of practical field tests.

## **4- More simplifications in recognition and measurement should be considered**

11. We agree that references to the term 'fair value' should be eliminated from the draft standard, as proposed by EFRAG. In our 12 June 2007 response to the IASB Discussion Paper on Fair Value Measurements we indicated that fair value is a general term used for a variety of measurement bases much wider than market based transfer value and called for the use of a more specific label. The term 'fair value' also creates all kinds of problems in translation.



**5- Differences with full IFRS may be warranted when a need for improvement has been identified and is particularly relevant for SMEs (equity/liability split)**

12. In Section 5 the wording of the text should reflect the importance of the debt-equity classification issue; this should be raised in the covering letter. The reference to certain jurisdictions needs to be removed.

**6- The standard could benefit from being redrafted**

13. We welcome EFRAG's proposals for an alternative structure of the future IFRS for SMEs and are strongly of the opinion that the IASB could introduce this suggested structure regardless of the fact whether or not they will make substantial changes to the contents.

14. We support EFRAG's demonstration of how that part of the standard addressing non-financial assets could look, in redrafted form, as set out in Attachment 3. However we recognise the risk that a substantial redraft of the future IFRS for SMEs may cause re-exposure of the standard which would delay the process of coming to a final standard.

**7- Various**

*Structure of EFRAG Letter*

15. The EFRAG draft comment letter is very long. It would be helpful if the paragraphs in the letter were *continuously* numbered throughout documents and references were included to the paragraphs of the ED that are addressed.

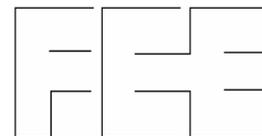
16. Paragraph 2 of the covering letter refers in the first sentence to the most recent sophisticated information technology. We are unsure what is meant and suggest EFRAG either drops this reference or elaborates the text (possible examples include advanced technical calculation models in share based payments, XBRL taxonomy, technical valuation models, etc.).

*Deferred Tax*

17. In W-Section 28 we support EFRAG to recognise deferred tax in the financial statements of SMEs. However, in our opinion this needs to be addressed earlier in the EFRAG letter to emphasise the importance of and support for the continued recognition of deferred tax, despite the simplification initiatives in the EU. We suggest that EFRAG includes this comment in the covering letter and that this is not included only - and at a later stage of the response - in the comments under W – Section 28.

*Options*

18. In our opinion the issue of options needs to be addressed in the covering letter. We support EFRAG's position that most options in full IFRSs should be available in the IFRS for SMEs. Removal of options could be left to national jurisdictions. The proposed standard on IFRS for SMEs should not remove options solely on the basis they may be (but have not yet been) removed from 'full IFRSs'. If needed such options, if not particularly appropriate for SMEs, could be eliminated with the next revision of the standard. IFRS for SMEs should in principle not be ahead of full IFRSs unless the accounting treatment in full IFRSs is not appropriate for SMEs. In general, future changes to IFRS should not be anticipated. See also our response to question 4.



## **Attachment 1: Responses to the invitation to comment**

### **Question 1 – Stand-alone document**

**With the objective of a stand alone document in mind, are there additional transactions, other events or conditions that should be covered in the proposed standard to make it more self-contained? Conversely, is there guidance in the draft standard that should be removed because it is unlikely to be relevant to typical SMEs with about 50 employees?**

19. FEE agrees with EFRAG that the objective of a stand-alone document is paramount and that reduction if not removal of the mandatory fallback and a separate maintenance procedure – frequency of change is essential in simplicity – are crucial elements. FEE is of the opinion that there should be no mandatory fallback to IFRS. We support EFRAG's recommendations for eliminating the mandatory fallbacks still included in the ED:
- removal of interim reporting, segment reporting and earnings per share;
  - inclusion in eventual standard for SMEs: hyperinflation needs; finance leases; biological assets; and share based payments.

### **Detailed comments on text of EFRAG's comments**

20. In the first sentence under '(a) Requirements which should be excluded from the IFRS for SMEs', the reference should be to mandatory 'fallback' rather than to mandatory 'requirement'.
21. We agree with EFRAG that no mandatory requirements should be included in segment reporting since these requirements are designed for listed companies. Companies can disclose segment information on a voluntary basis in the financial statements. We suggest in case the future standard continues to address segment reporting, adding an observation on Section 31.1 of the ED where it is stated 'If an entity discloses information about segments that does not comply with IFRS 8, it shall not describe the information as segment information'. We are of the opinion that 'segment information' is a well known financial reporting term and that the IASB cannot prohibit its use. Voluntary disclosures do not need to comply with IFRS 8 provided that their labelling is clear and unambiguous.

### **Question 2 – Recognition and measurement simplifications that the Board adopted**

**Are there other recognition and measurement simplifications that the Board should consider? In responding, please indicate:**

**(a) the specific transactions, other events or conditions that create a specific recognition or measurement problem for SMEs under IFRSs;**

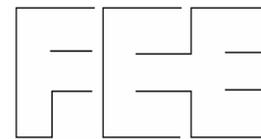
**(b) why it is a problem;**

**(c) how that problem might be solved.**

**1– Accounting for financial instruments remains too complex and the revised and the shortened drafting lacks clarity and understandability**

*(a) Brevity is not the most important factor in simplification*

22. The proposed standard Section 11 'Financial Assets and Liabilities' on financial instruments needs to be readable without a detailed knowledge of full IFRSs, notably of IAS 39. We agree with EFRAG that the implicit requirements included in the standards should be made explicit and explained in the standard or related implementation guidance. Explanation in the Basis for Conclusions is not helpful since it does not form part of the standard. We believe that making these requirements explicit is of particular importance given our overall support to achieve a comprehensive stand-alone document.



We suggest that some examples of the implicit requirements are spelled out in the EFRAG letter in order to demonstrate some cases to the IASB. One of the examples could be embedded derivatives.

23. Section 11 is developed from the assumption that the default measurement is 'fair value' which contributes to the complexity in the section. We are of the opinion that the section would be easier to read and apply if the 'default' measurement basis was 'cost'.
24. It would be helpful if Section 11 were to be split into two sections, the first section would deal with financial instruments that every (small) entity has (selected from paragraph 11.2). The second section would then deal with more sophisticated financial instruments that appear with SMEs but that are not common for every SME.

*(b) The scope out for insurance contracts is unclear*

25. We are of the opinion that insurance contracts should be scoped out from the IFRS for SMEs. In the context of Section 11, the term 'insurance contracts' is defined in the glossary but the definition is limited to the point of view of the issuer, so in view of the policy holder, the term 'insurance contracts' is not defined in the standard. We suggest that the glossary includes a definition of 'insurance contract' both from the issuer and policy holder's perspective presuming that the glossary will be part of the eventual standard.
26. Certain insurance contracts are savings products from the point of view of the policy holder. They need to be accounted for as financial instruments by the policy holder. EFRAG needs to reconsider if they are also meant to scope out all financial liabilities under insurance contracts thereby implicitly indicating that those need to be covered by full IFRSs. EFRAG needs to clarify in its letter which types of insurance contracts should be scoped out from the proposed standard.

*(c) The scope in for commodities is too complex for an SME*

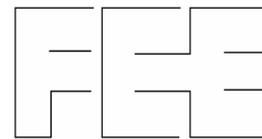
27. We support view 1 when SMEs would enter into the instruments for their own use. In all other cases, we agree with the accounting treatment as set out in view 2. When determining whether the instruments have been entered or not for the own use, SMEs should consider the expected purchase, sales or own use needs and should have sufficient documentation to support the decision.
28. Regarding the last paragraph under c) beginning with 'EFRAG believes that derivatives out to be defined...', it needs to be clarified whether this paragraph forms part of the comments of view 2. Assuming that this paragraph does not form part of view 2, we suggest that this is presented under a separate heading, for the avoidance of doubt.

*(d) Treatment of transaction costs*

29. Transaction costs at inception can be large. We agree with EFRAG that no mention of transaction costs at inception is made in the ED for financial instruments measured at cost which means that one has to refer back to IAS 39 since the proposed standard provides no definition of amortised cost. This does not fit with the desire to have a stand-alone document for SMEs. For financial instruments measured at fair value, transaction costs incurred at inception are addressed in paragraph 11.16: 'An entity shall not include transaction costs in the initial measurement of financial assets and liabilities measured at fair value through profit or loss'. We suggest that transaction costs at inception under the cost model are explicitly addressed in the proposed standard with the inclusion of a proper definition and accounting treatment.

*(e) Recognition*

30. The recognition principle as set out in Section 11 is directly taken from IAS 39. We agree that the wording is difficult to understand for SMEs. We suggest deleting the fourth and fifth sentences of the EFRAG response as being too harsh. The initial recognition of financial assets and liabilities is addressed in the ED IFRS for SMEs. We support EFRAG's suggestion for clarification in relation to



the recognition of financial assets and liabilities by reference to unconditional contractual rights and obligations. We doubt whether paragraph 11.6 is sufficiently clear, for example in relation to the date of recognition.

*(f) Two measurement categories are needed – but articulated in a different way from IASB's proposal*

31. We are of the opinion that the current heading of this section in the EFRAG letter 'Two measurement categories are needed – but articulated in a different way from the IASB's proposal' may give rise to confusion. We suggest simplifying this by replacing the current heading with 'Measurement categories'.
32. We support the objections of EFRAG to the wider fair value option to SMEs for various financial instruments. The IASB needs to explain why this is done, in particular since in practice the use of fair value by non-publicly accountable entities, especially SMEs, is far less than by listed companies. Furthermore the fair value option should not be crafted in such a way (as it now seems to be) that users of the IFRS for SMEs are able to revalue their own debt.

*(g) Consequently there is no need for any option for measurement*

33. It would be helpful if it could be clarified that the first indent on products with observable prices would also cover over the counter products.

*(h) Derecognition processs has been simplified but at the cost of not covering certain transactions*

34. Like EFRAG we welcome the simplification of the derecognition criteria for financial assets.
35. We suggest replacing the ending of the last sentence in the first paragraph, mainly '...are not uncommon for SMEs' with 'are used by SMEs'. This change would add a positive connotation to the opinion.

*(i) Hedge accounting becomes simpler but also more restrictive*

36. We welcome the simplified hedging approach in the ED. We support EFRAG's comments and agree that the 'shortcut' method should remain available for SMEs for use when appropriate to limit the cost and burden of testing for hedge effectiveness.
37. Paragraph 11.31 allows hedging for four specific risks. We are of the opinion that there can be additional combinations of these risks. We are of the opinion that the hedging instruments commonly used by SMEs may be more extensive than the hedging instruments allowed in paragraph 11.32. This is also evidenced by some of the field tests undertaken notably in Germany. We believe that this wider range of instruments should be available to SMEs. We believe that the following summary would offer a simplified picture of the various combinations of specific risks and hedging instruments that would occur in practice in the context of SMEs:

Hedging instrument Risk	Conditional (optional)	Unconditional
<b>Foreign exchange risk</b>	Foreign exchange options	Foreign currency forward contracts Foreign currency swaps Cash instruments
<b>Interest rate risk</b>	Interest rate caps Interest rate floors Interest rate collars Swaptions	Forward rate agreements Interest rate swaps
<b>Price risk in equity shares</b>	Options on equity shares	-
<b>Commodity price risk</b>	Options on commodities	Commodity forward contracts
<b>Combinations</b>	-	Interest rate/foreign currency swap

We suggest that paragraphs 11.31 and 11.32 are replaced with the above combination of risks and hedging instruments, with a split between conditional hedging instruments (i.e. optional) and unconditional (i.e. not optional). This would increase the understanding of when hedge accounting applies and would allow hedge accounting more relevant to SMEs for those hedging instruments commonly used by SMEs.

38. Other observations:

- it would be helpful for hedges to continue to be referred to as cash flow hedges and fair value hedges;
- there seems to be an inconsistency between paragraphs 11.7 (c) and 11.22 (b) on impairment: there is a need for a simplified way of calculating impairment.

**2- Assets and liabilities in a finance lease should be measured at an amount equal to the present value of the minimum lease payments and not at fair value**

39. We support EFRAG's recommendation that lessees measure assets and liabilities arising from finance leases 'at an amount equal to the present value of the minimum lease payments'.

**3- Changes made to impairment requirements lack relevance and remain burden-some for goodwill**

*(a) The elimination of value in use is not deemed relevant*

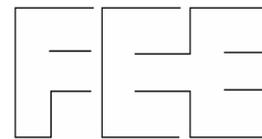
40. When doing impairment tests, we agree with EFRAG that value in use should be reinstated as a possible basis.

*(b) The impairment test should be performed on the basis of either value in use or fair value less costs to sell, whichever is consistent with the scenario relevant to the entity*

41. We support EFRAG's proposal to align to IAS 36 with the suggested simplification as well as to provide explanatory guidance.

*(c) The impairment approach proposed for goodwill is believed to be too costly and burdensome for entities applying IFRS for SMEs*

42. Regarding the requirement for impairment tests, we believe that reinstating amortisation and the treatment of intangible assets (including goodwill) as assets with finite life, needs to remain in combination with a simplified impairment test when there are clear triggers for impairment



(however due to the amortisation it may be assumed that such a situation would far less frequently occur). The combination with the impairment test remains implicit in the EFRAG letter and needs to be made explicit.

43. In addition, for the avoidance of doubt we suggest that EFRAG specifies that the comments of point 3 under Question 2 of Attachment 1 on page 8 relate both to tangible and intangible assets.

#### **4– All intangible assets (including goodwill) should be accounted for as assets with a finite life and be amortised**

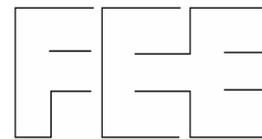
44. We disagree with EFRAG that all intangibles including goodwill should be amortised as the sole measurement basis. We are of the opinion that SMEs should be given the possibility to use the impairment only approach (IFRS 3/IAS 36). This option should be formulated as currently drafted in the proposed standard i.e. with an impairment test to be carried out when there are indications of impairment instead of on a yearly basis (companies that wish to carry out the impairment test on a yearly basis can do so, if they have to be in compliance with IFRS 3 but companies should not be required to carry out an annual test).
45. Amortisation of goodwill could therefore be the preferred option but should not be the required measurement basis for SMEs. Having only one measurement basis might be simple, but creates problems for subsidiaries, etc, in consolidation since the amortisation of goodwill is no longer allowed under full IFRSs.
46. We support EFRAG's suggestion to allow for the period of amortisation of intangible assets and goodwill to be a maximum of 20 years. The amortisation period should be based on the economic life of the individual assets with a maximum of 20 years (for simplification purposes this may include adopting a calculated average period taken into account all the applicable assets' useful lives or simply the maximum of 20 years). The amortisation period chosen should be documented.

#### **5– Restatement requirement for discontinued operations should be reduced**

47. We agree with EFRAG that the restatement requirement for discontinued operations should be reduced in the context of SMEs for simplification purposes and we support EFRAG's suggestion that this requirement should be limited to isolating the information in the year where the decision to sell or discontinue is made. We agree that providing restated information (of the comparative figures) should be encouraged - but not required - for SMEs.
48. Regarding the presentation and disclosures of discontinued operations in the context of SMEs, we believe that it is sufficient to disclose the effect on profit or loss, beginning from the point in time when the contract to sell is signed or the operations have actually been abandoned. We are of the opinion that there is no need for a separate section in the proposed standard to deal with discontinued operations and assets held for sale – see point 6 below. Any way the details included in the ED on the concept of 'assets held for sale' are not understandable without the background of IFRS 5. Larger companies should be encouraged to use IFRS 5, but this needs no explicit mention in the proposed standard for SMEs.

#### **6– A separate section to deal with non-current assets held for sale is not needed**

49. We agree with EFRAG that there is no need for a separate section in the proposed standard to deal with non-current assets held for sale.
50. However, we agree with EFRAG that still appropriate guidance is required on disclosure and measurement of non-current assets held for sale. Regarding the disclosure of the required information relating to non-current assets held for sale, we would appreciate clarification of where in the proposed standard does EFRAG propose for the disclosure guidance to be included. Regarding the proposal by EFRAG on the disclosures requirement, we believe that there is no significant



difference of whether the information is required to be presented on the face of the balance sheet or in the notes to the financial statements. .

### **7– Elimination of reference to fair value**

51. We consider that this issue should be given more attention in the covering letter. We support the contents of this section and the request not to refer any longer to fair value measurements but to use more specific labels. Terms used should be clarified and be used in a consistent way.

### **8– Generalise a cost or current value choice for all assets**

52. Our preference would be, in line with EFRAG, that those applying the IFRS for SMEs should have the choice to continue at cost or revalue and that proper guidance needs to be given. We also see merit in having only one revaluation model. It is to national jurisdictions to remove the revaluation option in order to enhance comparability since the use of revaluation differs widely between countries. However, should there be overall support for a single method of accounting and no choice to be given to SMEs, we believe that there could be a requirement to use market value for financial instruments where an active market exists and cost in all other cases. This would effectively result in two measurement bases but no optional choice between the two.

We are not convinced that a selection should be made on an asset-by-asset basis since this seems to make the valuation more complex and facilitates ‘cherry picking’ - using different measurements for similar assets to achieve more favourable results.

53. We suggest deleting the last paragraph referring to the cost model for agriculture.

## **Question 3 – Recognition and measurement simplifications that the Board considered but did not adopt**

### **Should the Board reconsider any of those and, if so, why?**

#### **1 – Equity-settled share-based payment transactions should trigger disclosure only**

54. We agree that SMEs and other users of the standard should be required to disclose information in the notes on share based payments since most of the users are less likely to be their shareholders. Since shared based payments do not influence future cash flows, we agree that disclosure only is an appropriate trade off between costs and benefits.

#### **2– Measurement of liabilities incurred in a cash-settled share-based payment transaction should be simplified**

55. We agree with EFRAG that measurement of liabilities incurred in a cash-settled share based payment transaction should be simplified and no reference to IFRS 2 is needed in ED 25.7.

#### **3- Other observations**

56. Deferred taxation is currently covered by the EC simplification process, the EC communication of July 2007 on simplification states the following regarding Accounting for deferred Taxes and this should be brought to the attention of the IASB:

*“Feedback from preparers confirms that accounting for deferred taxes (Article 43 paragraph 1, number 11, of the Fourth Directive) is very burdensome for companies in general. In addition it has been confirmed by preparers and users, e.g. credit institutions and rating agencies, that deferred tax information (whether recognised in the balance sheet or provided in the notes) often is not considered a relevant input for the decisions to be taken. If preparers and users agree on the irrelevance of this information, the Commission suggests decreasing the administrative burdens for SMEs significantly by abolishing this requirement”*

#### **Question 4 – Whether all accounting policy options in full IFRSs should be available to SMEs**

**Do you agree with the Board’s conclusions on which options are the most appropriate for SMEs? If not, which one(s) would you change, and why? Should any of these options that would be available to SMEs by cross-reference to the full IFRSs be eliminated from the draft IFRS for SMEs and, if so, why?**

##### *Options*

57. We agree with EFRAG that most options in full IFRSs should be available in the IFRS for SMEs.
58. We support EFRAG’s view that there should be no use of cross-references to other IFRSs for the options, and we suggest that summaries are included instead. The simpler option can be explained in detail and the more complex option in summarised form, if needed with further explanation in an appendix. However, we acknowledge that adding material in the form of additional guidance and examples will extend the volume of the standard. This structure would be consistent with our support for a comprehensive stand-alone document.
59. We agree with the treatments proposed on each of the other options, listed on page 13 of the EFRAG draft letter, with the exception of the SME model for government grants where the treatments of IAS 20 (in form of description) should be kept rather than introducing the SME (IAS 41) model (see our comments on Section 23). We agree with the following treatments:
- keeping the choice between the cost and revaluation model for non-financial assets;
  - deleting option to apply full IAS 39;
  - deleting of direct method for cash flow statements;
  - keeping measurement options for associates and joint ventures;
  - keeping capitalisation of borrowing costs and development of cost option.

#### **Question 5 – Borrowing costs**

**Do you agree or disagree with the proposal to allow SMEs to choose either the expense model or the capitalisation model for borrowing costs, and why?**

##### **1– Option between expense and capitalisation model is reasonable for SMEs**

60. We agree with EFRAG that the option to choose either the expense model or the capitalisation model should be kept. Even though expensing of borrowing costs is prohibited under revised IAS 23, we support EFRAG’s view to keeping the expense option in the context of the SMEs as it is the simpler option to use.

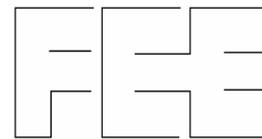
##### **2– Capitalisation of borrowing costs could be simplified**

61. We would appreciate clarification of EFRAG’s position. It is our understanding that for capitalisation of borrowing costs the same as logic of IAS 23 paragraphs 11 and 17 would be followed, and we are unable to see in what way the approach suggested by EFRAG constitutes a simplification.

#### **Question 6 – Topics not addressed in the proposed IFRS for SMEs**

**Should any additional topics be omitted from the IFRS for SMEs and replaced by a cross-reference? If so, which ones and why?**

62. We agree with EFRAG that there should not be any cross-reference to full IFRSs and refer to our earlier remarks and our response to Question 1.



### **Question 7 – General referral to full IFRSs**

**Are the requirements in paragraphs 10.2 – 10.4 coupled with the explicit cross-references to particular IFRSs in specific circumstances appropriate? Why or why not?**

63. We agree with the proposed hierarchy however, for the avoidance of doubt, the standard could be still more explicit by pointing out that there is no expectation that one has to look back to full IFRSs. For this reason, we suggest revising paragraph 10.4 by replacing the phrase 'may also consider...' with 'is not required to but may wish to consider...'. Furthermore, paragraph 10.4 addresses requirements and guidance management may consider when it makes its judgment on an accounting policy for a transaction not specifically addressed in the future standard (paragraph 10.2). In this context, the full IFRSs should be given priority explicitly in order to improve comparability of the financial statements. We also suggest the second sentence of paragraph 10.4 be revised to commence 'if further additional guidance...' to explicitly clarify that this is not meant to be a mandatory fallback. We believe this issue should be raised in the EFRAG letter.

### **Question 8 – Adequacy of guidance**

**Are there specific areas for which SMEs are likely to need additional guidance? What are they and why?**

64. We support the revised structure as suggested by EFRAG and welcome the alternative proposal for non-financial assets as set out in Appendix 2, attachment 3 to the EFRAG letter. We refer for detailed comments to our comments on attachment 3. We will be urging the IASB to seriously consider EFRAG's alternative proposals. We will stress that the revised structure (order of topics) would also be helpful if the IASB were not to undertake a more fundamental review of the ED.
65. The transition to IFRS for SMEs from the previous financial reporting framework is described in detail in Section 38. However, as we are of the opinion that a company moving to IFRS for SMEs from full IFRSs is not in the same situation as a company moving from another framework, we consider that the transition guidance in Section 38 may separately cover the transition of full IFRSs to IFRS for SMEs (what can be omitted in going from full IFRSs to IFRS for SMEs?). Companies moving from full IFRSs should perhaps not benefit from all transition exemptions. Any unintended use of the standard should be avoided in that companies are moving forward and backwards.
66. In addition, we are of the opinion that there is currently no sufficient guidance in the ED for any potential moves from IFRS for SMEs to full IFRSs. We would suggest that this area is also covered in the ED to ensure that there is adequate guidance on this specific issue. Therefore, it would be helpful for a complementary section on moving from IFRS for SMEs to full IFRSs.

### **Question 9 – Adequacy of disclosures**

**Are there disclosures that are not proposed that the Board should require for SMEs? If so, which ones and why? Conversely do you believe that any of the proposed disclosures should not be required for SMEs? If so, which ones and why?**

67. We agree with EFRAG that the IASB disclosure requirements as brought together in the disclosure checklist are too detailed. However, we are of the opinion that the EFRAG suggestions are too general and this may decrease the comparability between companies as a result of the potential interpretation differences that would be likely to arise in its application.

We suggest the following specific simplifications and elaborations to the IASB disclosure requirements:

## **Section 8: Notes to the Financial Statements**

We propose to add in Section 8 the requirements of paragraph 126 of IAS 1, which requires disclosure of general information published with the financial statements if not disclosed elsewhere. This information is illustrated as example provided in the implementation guidance of IFRS for SMEs 'Accounting policies and explanatory notes to the financial statements for the year ended 31 December 20X2'.

## **Section 13: Investments in Associates**

Based on cost-benefit deliberations, we suggest condensing the disclosures pursuant to paragraphs 13.7(c) and 13.8 to the following information: name and domicile, percentage of equity interest held, equity and profit or loss of the latest reporting period.

## **Section 27: Employee Benefits**

The disclosures required by paragraphs 27.37, 27.38(f) and 27.38(g) about the total cost of defined contribution and defined benefit plans, respectively, exceed the requirements of IAS 19 and, in our opinion, are not necessary. In addition, disclosure of the entity's accounting policy for recognising actuarial gains and losses is redundant, since no option has been allowed (paragraphs 27.38(b) and 27.39). The disclosures about other long-term benefits (paragraph 27.39) and termination benefits (paragraph 27.40) are more extensive than those pursuant to IAS 19.131 und IAS 19.142. In our opinion, it is not appropriate to up-grade the requirements in this regard for SMEs compared to those for entities applying full IFRSs.

## **Section 28: Income Taxes**

The disclosures pursuant to Section 28 have only been marginally reduced in comparison with IAS 12. Based on cost-benefit considerations and in order to further reduce complexity we believe that the disclosures pursuant to paragraph 28.29(e) and (f) can be removed for SMEs, on the basis that these types of temporary differences are not common for SMEs.

## **Section 37: Interim Financial Reporting**

We support EFRAG's recommendation for the removal of interim reporting in the context of SMEs (paragraph 19 of our letter).

However, should the standard for SMEs include the mandatory fallback on interim reporting, we believe that the preparation of this reporting should be facilitated by allowing SMEs to use their prior annual financial statements as their comparative prior period information when an entity does not routinely prepare interim financial statements but is required to do so on a one-time basis, i.e. this should be generally allowed and not only when it is impracticable to prepare the financial statements for the comparative prior interim period (paragraph 37.2).

## **Question 10 – Transition guidance**

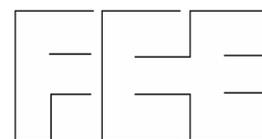
**Do you believe that the transition guidance is adequate? If not, how can it be improved?**

### **1– Keeping the four exceptions is reasonable**

68. We support EFRAG's position on the four exceptions from retrospective application and we agree that the accounting followed under the relevant previous GAAP shall not be changed.

### **2– The listed exemptions might be too restrictive**

69. We have some concerns about the observation that the listed exemptions might be too restrictive. Given paragraph 38.9, the inclusion of a reference to 'undue cost or effort' under paragraph 38.8 (f)



is, in our opinion, unnecessary. We believe that the term 'undue cost or effort' implies a much lower threshold than impracticability and therefore could be easily abused.

70. In addition to EFRAG's comments on the content of the glossary, we believe that there is also need for clarification of the term 'significant' in the ED. The glossary only defines the term 'material'. We would suggest that the meaning of 'significant' is defined in the ED and that the difference with the term 'material' is clarified or that alternatively one term is used throughout the proposed standard.
71. Also, in respect of the simplifications pursuant to paragraph 38.8 it remains ambiguous why certain exemptions provided by IFRS 1.13 – 25G are not incorporated in the ED. The requirements concerning cases where a subsidiary and its parent become first-time adopters at different points in time (cf. IFRS 1.13(f), IFRS 1.24-25) seem as relevant as the requirements adopted in paragraph 38.8(e) pertaining to share-based payment transactions.

### **Question 11 – Maintenance of the IFRS for SMEs**

**Is the approach to maintaining the IFRS for SMEs appropriate, or should it be modified? If so, how and why?**

72. We support EFRAG's position on the approach to maintaining the IFRS for SMEs. i.e. that the maintenance of IFRS for SMEs is to be disconnected from revisions of full IFRSs and that changes to full IFRSs may be reconsidered for IFRS for SMEs but not necessarily proposed or adopted.
73. Furthermore, we believe that in the event that there have been no significant changes since issuance of the most recent version, the IASB may wish to consider not issuing a revised standard every two years. We suggest that this comment is also raised in the EFRAG letter.

### **Supplementary comments**

#### **A – Users' needs**

##### **1 – The necessary analysis of users' need is missing**

74. We fully support EFRAG's view that a thorough analysis of users' needs would be required. However, we wish to reiterate that the development of the standard should not be delayed: the users' needs analysis should be carried out in parallel (see paragraph 10 of this letter).

##### **2 – Financial reporting requirements in excess of users' needs is contrary to the public interest**

75. We have no specific observations to make.

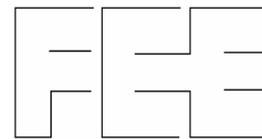
##### **3 – Our perception of how users' needs differ in the public – or private-equity worlds**

76. We agree in principle that different measurement principles can apply for SMEs than for public interest entities. However, the same recognition principles should apply regardless of the type of entity. We suggest no reference to recognition is made in the second paragraph, third line of the EFRAG letter be deleted.

#### **B – Criteria for simplification**

##### **1 – Easy to understand**

77. We support EFRAG's remarks on how the IFRS for SMEs can be easy to understand.



## **2 – Easy to implement**

78. Regarding paragraph 1 of EFRAG’s comments, we believe that the current wording would appear to be too absolute. We would suggest that a softer wording is considered such as the use of the term ‘in principle’.

## **3 – Conclusion and Consequences**

79. We would appreciate clarification of what is covered by the term ‘SMEs’ in the EFRAG letter. It is not clear whether by SMEs is meant small companies or non-publicly accountable entities (NPAEs), or only the ‘small’ category of NPAEs. This section should be reformulated in this context, as we are of the opinion that EFRAG’s view may be true for the lower end of NPAEs, but not for NPAEs in general. This equally applies to other parts of the EFRAG draft letter.

## **Attachment 2: Detailed comments on existing sections**

### **A – Comment on scope**

#### **1 – Clarification needed on changes in scope of the different sections in IFRS for SMEs compared to full IFRS**

80. We support EFRAG’s comments and request for explanation why the scope of the different sections in the ED is different from the scope in full IFRSs, from which the content of the SME sections has been extracted.

### **B – Section 1: Scope**

#### **1 – “IFRS for SMEs” is not the right label**

81. We support EFRAG’s comments and call for a different label than ‘IFRS for SMEs’. We refer to our comments in paragraphs 6 to 9 of this letter.

#### **2 - The notion of “fiduciary capacity” needs either to be explained or to be replaced**

82. We support EFRAG’s comments that the notion of ‘fiduciary capacity’ needs to be explained or removed. We have a preference for removing this condition since it is confusing and since it is not strictly needed for the distinction of non-publicly accountable entities or non public interest entities.

#### **3 - Leaving a lot of freedom to jurisdictions is likely to make the standard as useful as possible**

83. We support EFRAG’s comments that it is for jurisdictions to decide as to whether and how they want to use the standard.

#### **4 - No link ought to be established between the scope and the conformity with the “IFRS for SMEs”**

84. We agree with EFRAG that the condition set out in paragraph 1.3 of not allowing publicly accountable entities to use IFRS to SMEs should be removed. The decision as to what entities can use IFRS for SMEs is entirely at the discretion of each jurisdiction. The IASB can express its intentions but cannot forbid the use of IFRS for SMEs by publicly accountable entities. In a country with mainly small listed companies and without a fully developed capital market, the disclosure statement of compliance with IFRS for SMEs may well be beneficial.

**5 - Size is definitely not a relevant criterion in assessing the applicability of the IFRS for SMEs and every reference to size ought to be removed.**

85. We support EFRAG's comments. The IASB should not refer to any quantitative criteria, the reference to a size of "50" should also be removed from the Basis of Conclusions. If this reference is to be kept, for one reason or another the IASB should clarify that they had an entity in mind of minimum 50 employees when developing the proposed standard.

**6 - Is the supplementary criterion (publication of general purpose financial statements) useful?**

86. We support EFRAG's comments that whether or not an entity publishes general purpose financial statements should not be a decisive factor to determine whether the entity is an 'SME'.

**C – Section 2: Concepts and pervasive principles**

**1 – Objectives of financial statements of SMEs, qualitative characteristics, definitions of elements and recognition criteria**

87. We support EFRAG's overall views and we agree that neutrality should not have been eliminated as a qualitative characteristic. We also support EFRAG's comments on stewardship.

**2 – Measurement Pervasive Principles**

88. We support EFRAG's comments and welcome the introduction of measurement pervasive principles in the IFRS for SMEs.

**D – Section 3 to 8: Presentation of financial statements**

89. We support EFRAG's comments and express our general agreement with the presentation of financial statements and reiterate the comments on the SORIE. We would like to bring to EFRAG's attention that the term SORIE is not currently used as such in the ED.

90. Also, we are of the opinion that in the EFRAG draft letter under (c), the option should be given to present these 'some changes' in the SORIE OR as a separate category of equity. We believe that the option to have a SORIE should be kept as the SORIE is widely used in some countries also by smaller companies, while this may not be the case in other countries.

91. In addition, we believe that it would be useful to have an example of a SORIE in the illustrative examples of the ED.

**E – Section 9: Consolidated Financial Statements and separate financial statements**

**1 – Supportive of requirement to prepare consolidated financial statements**

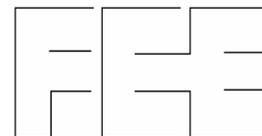
92. We agree with EFRAG that there should be consolidated financial statements for SMEs, since consolidation is already required under the Seventh Directive.

**2 – Supportive of one single accounting policy for all investments in subsidiaries, jointly controlled entities and associates in the separate financial statements**

93. As set out below, FEE would favour a hierarchy in measurement methods to be applied to individual investments. This would in most cases result in measurement of all investments in subsidiaries, jointly controlled entities and associates in accordance with the same method. However, we do not support imposing one single accounting policy for all investments in the separate financial statements.

### **3 – Proposal to limit the measurement principles to cost or fair value only for both jointly controlled entities and investments in associates in the consolidated financial statements (Section 13 and 14)**

94. We believe that there should be one single accounting policy per individual investment. We are of the opinion that requiring the measurement method applied to be the same for all investments in subsidiaries, jointly controlled entities and associates as supported by EFRAG and not only for each individual investment will give rise to difficulties in the application of this requirement and is too restrictive in practice. For instance, while one measurement method may be deemed to be the most appropriate for one investment, the same measurement method may not be appropriate for other investments since for example the information required is not available. We appreciate that it might be simpler for users to have only one measurement method, but on the other hand they may be deprived of relevant information.
95. We believe that individual investments should be valued separately following a hierarchy in measurement as set out in the paragraphs below. In general, we believe that a reduction in the number of options that are allowed for measurement of individual investments in associates and in joint ventures will result in a reduction of complexity, particularly in the context of SMEs. We are of the opinion that the fair value option should not be available to SMEs since the resulting information is not as relevant for the main users of financial statements in the context of SMEs, as these usually intend to hold their investments for the long-term when the necessary information is available.
96. We are of the opinion that the equity method results in information that is more relevant and therefore of higher information value. The equity method should be the preferred method. We suggest introducing a mandatory measurement hierarchy. However, entities that have no control but only significant influence are often unable to obtain the information necessary to apply the equity method. Consequently, in cases where it is not possible to obtain the information for equity accounting, we believe that the cost model is the most appropriate measurement method.
97. For measurement after initial recognition of investments in associates, the ED allows an accounting policy choice from three alternative methods (cost model, equity model and fair value through profit or loss model). In this context, the entity shall account for its investments in all associates using one single method (paragraphs 13.3 – 13.6). Instead of this accounting policy option, we suggest the following hierarchy of methods (applicable for each individual investment):
- a (material) investment should be accounted for by using the equity method. The detailed requirements necessary in this respect should be adopted from IAS 28 and integrated into the proposed standard;
  - in (exceptional cases) where it is not possible to apply the equity method, i.e. when the information required for this purpose is not available, the cost model may be applied for the measurement of investments in associates.
98. For measurement after initial recognition of investments in joint ventures, the ED provides an accounting policy choice from four alternative methods (cost model, equity model, proportionate consolidation and fair value through profit or loss model). In this context, the entity shall account for its interest in all jointly controlled entities using one single method (paragraphs 14.8 – 14.12). We are of the opinion that the proportionate consolidation method should remain available to SMEs, at least as long as it is not officially removed from full IFRSs, but even beyond since proportionate consolidation is frequently used in practice. Hence, SMEs should be allowed to decide whether to measure the respective interest in a jointly controlled entity using proportionate consolidation. For this, the detailed requirements necessary for the application of proportionate consolidation should be adopted from IAS 31 and integrated into the proposed standard. Should the SMEs decide not to use proportionate consolidation, we suggest the same hierarchy of methods in line with our proposal regarding investments in associates - Section 13 above):



- a (material) interest in a jointly controlled entity should be accounted for by using the equity method;
- in (exceptional cases) where it is not possible to apply the equity method, the cost model may be applied for the measurement of interests in jointly controlled entities.

99. SMEs should be encouraged to obtain the information available to apply the equity method in preference to the cost model. For this reason, should the cost method be applied, we suggest that additional disclosures are required to disclose the fact that the cost method has been adopted, as no information was readily available. This additional requirement would stimulate further the application of the equity method.

100. We believe that the implementation of the above mandatory hierarchy of methods would result in a simpler application of the various methods that are allowed for SMEs. In addition this application should increase the comparability as a result of the reduction of the choices allowed.

#### **4 – Elimination of cross-reference to IAS 28 Investments in Associates and IAS 31 Interests in Joint Ventures (Section 13 and 14)**

101. We agree with EFRAG that there should be elimination of any cross-references to full IFRSs. This is also consistent with our response to Question 4 (paragraph 58) and Question 6 in Attachment 1: Responses to the invitation to comment and our overall support for a comprehensive stand-alone document.

#### **5 – Comments on drafting**

102. We support EFRAG's comments on drafting.

#### **F – Section 10: Accounting Policies, Estimates and Errors**

##### **1 – Too burdensome to require SMEs to change its accounting policy in accordance with the transitional provisions of full IFRSs, if an amendment is made**

103. We agree with EFRAG's comments that application of paragraph 10.9.b means that any amendment to an IFRS in full IFRSs that is applied via a reference has to be applied by SMEs is extremely burdensome for SMEs since SMEs would need to be knowledgeable about all amendments to both full IFRSs and IFRS for SMEs. We underline EFRAG's call for a stand-alone document. It should be noted that the issue would no longer arise when cross-references to full IFRSs are eliminated.

104. In addition, the elimination of the requirement in paragraph 10.9 of the ED would be consistent with the approach to disconnecting the maintenance of the IFRS for SMEs from revisions of full IFRSs. Please refer to our response under Question 11 under Section Attachment 1: Responses to the invitation to comment.

#### **2 – Comments on drafting**

105. We support EFRAG's comments on drafting. However, we query whether such situations arise often in practice.

#### **G – Section 11: Financial assets and financial liabilities**

106. Please refer to Question 2 under Section Attachment 1: Responses to the invitation to comment.

#### **H – Section 12: Inventories**

107. We have no specific observations to make and agree with this section.

## **I – Section 13: Investment in associates and 14: Investment in Joint Ventures**

108. Please refer to Section 9: Consolidated Financial Statements and separate financial statements under E.

## **J – Section 15: Investment property**

### **1 – Guidance on accounting for lease transactions which is included in the scope of the section is not sufficient**

*(a) Property held by lessees that are accounted for as investment property – the financial statements of the lessee*

109. We are of the opinion that the option should be kept for a property interest that is held by a lessee under an operating lease in the IFRS for SMEs to be accounted for as investment property, as we believe that there may be certain cases where properties held by lessees in the market of SMEs fall under operating leases, in particular the lease of land where additional guidance is needed.

110. We agree that there is a need for further guidance to be provided in order to improve the understanding of the accounting of property held by lessees that are accounted for as investment property.

*(b) Investment property provided by lessors under operating leases – the financial statements of the lessor*

111. We support EFRAG's comments that other aspects of the accounting for operating leases in the financial statements of the lessors should be scoped out of Section 19 in relation to the measurement of investment property.

### **2 – Elimination of cross-reference to IAS 40 Investment Property**

112. We agree that the cross-reference should be eliminated. This is consistent with our responses to support the elimination of any cross-references to full IFRSs and our overall support for a comprehensive stand-alone document. Please refer to Question 4 (paragraph 58) and Question 6 under Section Attachment 1: Responses to the invitation to comment and paragraph 101.

## **K – Section 16: Property, Plant and Equipment**

### **1 – Both the cost model and revaluation model should be retained and subsequent measurement**

113. We agree with EFRAG that the ability to use both the cost model and revaluation model should be retained for SMEs for Property, Plant and Equipment.

114. However, we are of the opinion that the models should continue to be optional, consistently with the option available under IAS 16 for full IFRSs. We believe that consistency with full IFRSs should prevail whenever this is possible and the most appropriate.

### **2 – Comments on drafting**

115. We agree in principle with EFRAG but believe that there is no need to repeat the recognition criteria if these are in conformity with the general pervasive principles and in particular the recognition criteria in paragraph 2.24.

116. We suggest that only when recognition criteria other than the general criteria in paragraph 2.24 apply that this is specifically stated in the relevant section.

## **L – Section 17: Intangible Assets other than Goodwill**

### **1 – All intangible assets (including goodwill) should be accounted for as assets with a finite life and be amortised**

117. Please refer to Question 2 under Section Attachment 1: Responses to the invitation to comment.

### **2 – Supportive of the expense model**

118. We support EFRAG's comments and agree that the option to apply the expense model should be retained.

119. However, we suggest dropping the second sentence, as this is a matter that may give rise to debate. We believe that the argument to support the proposal can rely mainly on the fact that expensing is used in practice and regarded as the simpler option for SMEs.

120. We agree with the additional disclosure to be provided, as detailed in paragraph 34 of the ED.

### **3 – The revaluation model should not be retained for intangible assets**

121. We support EFRAG's comments and agree that the revaluation model for intangible assets should not be retained for SMEs.

### **4 – Emphasise that internally generated goodwill shall not be recognised**

122. We support EFRAG's comments that internally generated goodwill shall not be recognized as an asset.

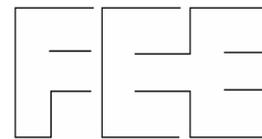
## **M – Section 18: Business Combination and goodwill**

### **1 – The requirement to allocate the cost of the business combination to contingent liabilities should be eliminated**

123. We agree that the elimination of this requirement would improve the simplification of the method for allocating the cost of a business combination.

124. However, we note that this elimination would give rise to difficulties when the relevant contingent liabilities are significant to the particular financial statements. Hence, we believe that EFRAG's comments should explicitly recognize this problem and provide an indication as to how the issue needs to be addressed.

125. Overall, we believe that SMEs would benefit if more detailed guidance on business combinations related transactions that are commonly specific to SMEs were provided in the proposed standard. For example, some of the simplifications provided to the entities using full IFRSs in IFRS 3.B16 concerning the allocation of the cost of a business combination to the identifiable assets, liabilities and contingent liabilities are necessary for SMEs, too (ED 18.13). Otherwise, they would be obliged to determine the actual fair value instead of being able to benefit from the simplifications provided by IFRS 3.B16. This would be unduly burdensome for SMEs, especially e.g. for defined benefit obligations or deferred taxes. Similar guidance should be included in the proposed SMEs standard.



## **N – Section 19: Leases**

### **1 – Assets and liabilities in a finance lease should be measured at an amount equal to the present value of the minimum lease payments and not fair value**

#### Detailed comment

126. We bring to EFRAG’s attention that the reference in the sentence under 1 should read ‘...(paragraph ‘2’)...’ instead of ‘...(paragraph ‘3’)...’ for this to be correct.

### **2 – Some change to the scope is needed**

127. We share EFRAG’s observations that Section 15 does not provide sufficient guidance on ‘property held by lessees that is accounted for as investment property’ and ‘investment property provided by lessors under operating leases’.

128. We have addressed our position regarding the comments of Section 15 under Section J - 1 (a), notably that we are of the opinion that the option should be kept to account for a property interest that is held by a lessee under an operating lease in the IFRS for SMEs and that there is a need for further guidance. Please refer to Section 15: Investment property under J.

### **3 – Our interpretation of paragraph 16 of section 19 – the financial statements of the lessors – operating lease**

129. We support EFRAG’s comments and agree with the suggestion to expanding the meaning of paragraph 16 in order to avoid misinterpretation.

### **4 – Elimination of cross-reference to IAS 17 Leases**

130. We agree that the cross-reference should be eliminated. This is consistent with our responses to support the elimination of any cross-references to full IFRSs and our overall support for a comprehensive stand-alone document. Please refer to Question 4 (paragraph 58) and Question 6 under Section Attachment 1: Responses to the invitation to comment and paragraphs 101 and 112.

131. We agree with EFRAG that the exact meaning of ‘fiduciary capacity’ cannot be fully understood. As noted in paragraph 82, we support EFRAG’s comments on the notion of ‘fiduciary capacity’ and that this needs either to be explained or replaced, or alternatively removed.

132. EFRAG may wish to consider asking for guidance for accounting by the lessor, since lessors, not in all cases, are publicly accountable entities. Without such guidance lessors would have to refer back to IAS 17.

### **5 – Comments on drafting**

133. We have no specific observations to make.

## **O – Section 20: Provision and Contingencies**

### **1 – No liability arising from executory contracts should be recognised**

134. We agree with a specific mention to exclude executory contracts from the scope.

### **2 – Other comments**

135. We have no specific observations to make.

## **P – Section 21: Equity**

### **1 – Missing or outsourced definitions make the section difficult to read**

136. We support EFRAG's comments, in that equity shares need to be defined.

### **2 – Definition of financial liabilities leads to doubtful or no distinction between equity and liability**

137. We support EFRAG's comments on the need to respect the different company law requirements in the different jurisdictions in relation to the distinction between equities and liabilities in order to properly reflect the economic situation of those companies. We suggest that the second sentence of the third paragraph commencing with 'EFRAG believes that the conceptual basis.' should be deleted, as otherwise there may be room for confusion on EFRAG's position, since regardless of the outcome on the equity/liability classification issue an appropriate definition for financial liability needs to be introduced for SMEs, also if it were not to be introduced in full IFRSs.

### **3 – Other comments**

138. We support EFRAG's comments but would like to bring to EFRAG's attention that referring to the letter dated 2005 may not be helpful for the understanding of the disagreement regarding accounting principles for minority interest transactions as set out in paragraph 21.11.

139. Consistently with our response on the proposed amendments to IAS 27, we disagree with the accounting treatment set out in paragraph 21.11. Although we agree that minority interest in the net assets of a subsidiary do not meet the definition of a liability we believe that this should still be separate from equity, as non-controlling interest may represent third party interest in certain subsidiaries.

140. We believe that the main objective of financial reporting is to prepare financial information for the shareholders of the parent entity. Consequently, changes in a parent's controlling interest in a subsidiary that do not result in a loss of control should be reflected in the financial statements and not merely treated as transactions with equity holders in their capacity as equity holders. Also, we believe that in order to report financial performance from the perspective of the controlling interest, any gain and loss on these changes should be recognized in the consolidated profit and loss.

## **Q – Section 22: Revenue**

### **1 – Comments on drafting**

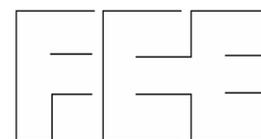
141. We have no specific observations to make.

### **2 – Guidance on the elements of contract revenue and contract cost are not included in the ED**

142. We share EFRAG's view that guidance on the elements of contract revenue and contract cost is needed. The illustrative examples in the section should include examples of both construction contracts and other revenue transactions covered by the section.

## **R – Section 23: Government Grants**

143. EFRAG supports the proposed SMEs model based on IAS 41. However, to date it is uncertain if this model will ultimately be adopted by the IASB in the revision of IAS 20. As indicated before, we are of the opinion that IFRS for SMEs should in principle not be ahead of full IFRSs and that future changes should not be anticipated. Although we agree that the IAS 41 model is simpler than the methods of IAS 20, we do not believe that the IAS 41 treatment is that much simpler that it merits a deviation from full IFRSs. Therefore we only support the (IAS 41) SME model if it were to be introduced in the revision of IAS 20 before the eventual IFRS for SMEs is issued. If the SME model is not introduced in full IFRSs we prefer to stick to the income approach and capital approach available under IAS 20 and



to introduce the SME (IAS 41) model during the maintenance and update of the IFRS for SMEs when it is also available under full IFRSs.

144. We support EFRAG's view that there should be no use of cross-references to other IFRSs for any options (if available), and we suggest that summaries are included instead. This structure is consistent with our support for a comprehensive stand-alone document.

### **S – Section 24: Borrowing Cost**

145. Please refer to Question 5 under Section Attachment 1: Responses to the invitation to comment.

### **T – Section 25: Share-based payments**

#### **1 – Equity settled share-based payment transactions should trigger disclosure only**

146. Please refer to Question 3 under Section Attachment 1: Responses to the invitation to comment.

#### **2 – Measurement of liabilities incurred in a cash-settled share-based payment transaction should be simplified**

147. Please refer to Question 3 under Section Attachment 1: Responses to the invitation to comment.

#### **3 – Transfer of equity instruments within the group**

148. We agree with EFRAG to underline that Section 25 also applies to transfers of equity instruments of the entity's parent or equity instruments of another entity in the same group as the entity, to parties that have supplied goods or services to the entity.

### **U – Section 26: Impairment of Non-financial Assets**

#### **1 – Changes made to impairment requirements lack relevance and remain burdensome for goodwill**

149. Please refer to point 3 in Question 2 under Section Attachment 1: Responses to the invitation to comment.

#### **2 – Comments on drafting**

150. We have no specific observations to make.

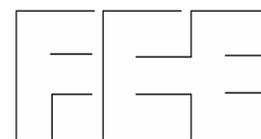
### **V – Section 27: Employee Benefits**

#### **1 – Presentation of actuarial gains and losses in the income statement**

151. We support EFRAG's comments on the removal of the 'corridor approach' that is available in full IFRSs. We believe that the 'corridor approach' is complex and agree with EFRAG that it should not be available for SMEs in order to make the accounting of SMEs simpler.

152. However, as we consider that removing the 'corridor approach' will increase the volatility of the resulting actuarial gains and losses, we agree with EFRAG that the presentation of the actuarial gains and losses should be made in a SORIE rather than in the income statement. (Please note further our comments on the term SORIE in Section D – Section 3 to 8: Presentation of financial statements).

153. Regarding the discounting method to measure the defined benefit obligation and in order to reduce volatility, we suggest that SMEs are given the option to determine the rate used as an average long-term rate if this is simpler than the proposed method of reference to market yields. In



addition, we suggest that such an average long-term rate is determined every three years instead of at each reporting date, if there have been no significant changes in the underlying data or there is no indication that a change in the rate used would be necessary. We believe that this will offer further simplification to SMEs.

## **2 – Treatment of unvested past service cost is not clear**

154. We support EFRAG's views and we agree with EFRAG that if the term 'defined benefit liability' (as detailed in Section 27) covers unvested as well as vested past service costs, the presented accounting treatment should only apply to vested past service costs. For unvested past service costs, we agree with EFRAG that any changes in a defined plan should be recognized as an expense on a straight-line basis over the average period until the benefits become vested in line with IAS 19, as opposed to reflecting any changes by increasing or decreasing the defined benefit liability.

## **W – Section 28: Income Taxes**

### **1 – Offsetting principles are missing for current taxes**

155. We support EFRAG's comments and agree that there should be more guidance on the principles regarding the presentation of current income taxes by integrating the offsetting principles in the standard. We suggest that this additional guidance is addressed in the general section only (Section 2: Concepts and Pervasive Principles) rather than in Section 28, as these principles also apply to other sections such as the presentation of financial instruments. Paragraph 2.45 needs to be expanded and actually cover the principle rather than including only a general prohibition, i.e. the entity should offset assets and liabilities if, and only if, it currently has a legally enforceable right to set off the amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously. This is consistent with full IFRSs.

### **2 – EFRAG supports temporary approach for deferred taxes**

156. We agree with EFRAG that SMEs should be required to use the temporary difference approach for deferred taxes. We believe that the temporary difference approach is simpler and easier to implement than the timing difference approach.

157. We agree that deferred taxes should be recognised on book value/tax differences that arise in a business combination or on initial recognition of an asset or liability. We also agree that unused tax losses to carry –forward, tax credits and deferred tax assets should be recognised in the same way to the accounting for deductible temporary differences.

158. We believe that for the purposes of the consolidated statements, the temporary concept should apply only to the temporary differences between the carrying amounts of the individual assets and liabilities in the consolidated financial statements and their tax basis in the tax jurisdiction of the individual group entity. This would result in the non-consideration of outside basis differences as defined in paragraph 28.11(b). We are of the opinion that it is burdensome for SMEs to determine outside basis differences. In order to reduce complexity and for cost-benefit reasons we therefore suggest to delete paragraph 28.11(b).

159. It would be helpful to clarify that paragraph 28.23 on the use of average rates applies to groups with subsidiaries in different countries.

**X – Section 29: Financial Reporting in Hyperinflationary Economies**

**1 – Accounting of hyperinflationary economies needs to be included in the standard and cross-reference to full IFRS should be deleted**

160. We have no further observations to make.

**Y – Section 30: Foreign Currency Translation**

**1 – Relevant requirements related to hyperinflationary currencies should be included in the standard and cross-reference to full IFRS should be deleted**

161. We have no further observations to make.

**Z – Section 31: Segment Reporting**

**1 – Delete section 31 from IFRS for SMEs**

162. Please refer to Question 1 under Section Attachment 1: Responses to the invitation to comment, where we agree with EFRAG that Section 31 should be deleted.

**AA – Section 32: Events after the end date of the Reporting Period**

**1 – Clarification of the requirement to update disclosure about conditions at the balance sheet date**

163. We agree with EFRAG that clarification is required to make it clearer that information received after the balance sheet date about conditions at the balance sheet date needs to be reflected even when not affecting the amounts recognised in the financial statements.

164. In addition, we suggest that additional guidance is provided in the standard to specifically address the accounting of events (after the end date of the reporting period) that would give rise to going concern issues based on IAS 10 paragraphs 14 to 16.

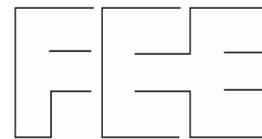
**BB – Section 33: Related Party Disclosure**

165. Regarding paragraph 5 in Section 33, we suggest to limit the term 'key management personnel' to the Board of Directors of the SME in order to offer clarity to SMEs. In the circumstance that the Board involves one or two members only, we suggest that an exemption applies for the required disclosure in paragraph 6 in Section 33, since in private companies the disclosures of remuneration is any how of lesser importance.

**CC – Section 34: Earnings per share**

**1 – Delete section 34 from IFRS for SMEs**

166. Please refer to Question 1 under Section Attachment 1: Responses to the invitation to comment, where we agree with EFRAG that Section 34 should be deleted.



## **DD – Section 35: Specialised Industries**

### **1 – Agriculture; Cross-reference to full IFRS should be deleted and the accounting for agriculture should be scoped in non-financial assets**

167. We agree that the cross-reference should be eliminated. This is consistent with our responses to support the elimination of any cross-references to full IFRSs and our overall support for a comprehensive stand-alone document.

### **2 – No need to explain that insurance is not in the scope of the IFRS for SMEs**

168. We agree with EFRAG that there is no need to include a paragraph to explain that insurance is not in the scope of the IFRS for SMEs. However, we would appreciate clarification in the eventual standard that the insurance industry is not covered by IFRS for SMEs but that insurance contracts such as guarantees are covered. The ED is unclear in this respect. For the scope out for insurance contracts please refer to our comments in point 1 of Question 2 under Section Attachment 1: Responses to the invitation to comment.

### **3 – Extractive Industries should be scoped in other sections**

169. We agree with EFRAG that there is no need to have a separate section on extractive industries.

## **EE – Section 36: Discontinued Operations and Assets held for sale**

Please refer to point 5 and point 6 of Question 2 under Section Attachment 1: Responses to the invitation to comment.

## **FF – Section 37: Interim Financial Reporting**

### **1 – Delete section 37 from IFRS for SMEs**

170. Please refer to Question 1 under Section Attachment 1: Responses to the invitation to comment, where we agree with EFRAG that Section 37 should be deleted.

## **GG – Section 38: Transition on the IFRS for SMEs**

171. Please refer to Question 10 under Section Attachment 1: Responses to the invitation to comment.

## **Attachment 3: An EFRAG Proposal/Illustration of an alternative IFRS for SMEs**

172. We welcome the revised structure for the proposed standard, proposed by EFRAG. Such a structure would make the standard more accessible and easier to apply when subjects are addressed in a more logical order. The revised structure would still be helpful even if the IASB would not envisage any further fundamental revision of the ED.

173. We also welcome the alternative proposal for a section on accounting principles for non-financial assets as set out in Appendix 2, attachment 3 of the draft EFRAG comment letter. However we are concerned if a complete revision of the project would lead to a substantial delay in issuing the proposed standard. If for timing reasons the IASB sees no possibility to move already at this stage to the alternative proposal, we suggest that such a project is embarked upon in parallel with the maintenance project of the SMEs standard. The timing argument needs to be weighed against having a simpler, easier, accessible and shorter standard. Substantial change – even only in layout and presentation of the standard may not be appreciated by companies that try to come to grips with the standard. For this reason we urge the IASB to consider the EFRAG proposals seriously.

174. The glossary of terms needs to be part of the standard.

Detailed comments

175. Impairment testing would only be needed if there were indicators triggering the event. There is no need for 'systematic' impairment testing. Regarding the wording of attachment 3, we suggest replacing paragraph 16 on page 7 '...shall determine...' with 'should determine whether there are indicators triggering the event...' as it is not clear that impairment would apply only then and not always at the end of each financial period independently of any triggering factors applying.

176. In addition, we suggest amending the last paragraph in B – 1 under the heading 'Impact on the depreciable amount and useful life of an asset' on page 18, to replace "..., the depreciation charge of the asset 'shall' be adjusted....." with "..., the depreciation charge of the asset 'should' be adjusted ...". This would explicitly clarify that this is meant to be mandatory under the circumstances described. In general we are of the opinion that the EFRAG proposal in attachment 3 could benefit from a careful review or the use of the words 'shall', 'should' and 'must'.

We would be pleased to discuss any aspect of this letter you may wish to raise with us.

Yours sincerely,



Jacques Potdevin  
President