

International Accounting Standards Committee
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Exposure Draft 10: Consolidated Financial Statements

The Swedish Enterprise Accounting Group (SEAG) is a forum for Chief Accountants from the largest Swedish listed companies outside the financial sector. SEAG is administered by the Confederation of Swedish Enterprise, to which most participating companies of SEAG are joined.

Representing preparers' point of view, SEAG welcomes the opportunity to comment on the abovementioned exposure draft.

In general, we get the impression that the Board has mainly focused on the current problems in the financial sector. Major parts of the text and the examples seem to be tailored for banks, investment funds etc. Although those industries have so far suffered most from the financial crisis, we believe that there are a lot of problems that will hit companies outside the financial sector, i.e. the industries where our members are active. We would therefore ask the Board to consider whether all suggested principles are appropriate for all. We see the proposal illustrated by special situations in the financial sector and are questioning the soundness of having all non-financial sector entities affected by accounting problems of the financial sector. We would in all cases welcome more analysis and more examples based on manufacturing, construction and service activities.

We have below answered the questions posed by the Board. In summary there are three main areas that we would like to bring to the Board's attention:

- We are basically positive to the control model chosen by the Board as a basis for one model to replace the current consolidation requirements of IAS 27 and SIC 12. We believe, however, that more guidance is needed to fully understand and apply the model. It would be helpful if a number of examples were added.

- We need more guidance to fully evaluate the effects of the suggested control model. We believe, in particular, that distinguishing structured entities, especially entities that do not qualify for consolidation, will be cumbersome.
- We believe that the disclosure requirements will be too extensive in many cases where the benefit for the users will not offset the costs of collecting and processing the information

The statements above are further explained below in our answers to the Board's questions

We are pleased to be at your service in case further clarification to our comments will be needed.

Yours sincerely,

CONFEDERATION OF SWEDISH ENTERPRISE

Carl-Gustaf Burén
Secretary of the Swedish Enterprise Accounting Group

Question 1

Do you think that the proposed control definition could be applied to all entities within the scope of IAS 27 as well as those within the scope of SIC-12? If not, what are the application difficulties?

We believe it would be an improvement to have one definition that governs consolidation. We welcome the "substance over form" approach taken by the Board. However, since more judgement will be needed in a number of areas, more guidance should be added to the final standard. The ED opens for so called "de facto" control. Options and convertible instruments is another area where the current standard gives explicit guidance but where more judgement will be needed when applying the proposed consolidation model. We believe that good examples could be very helpful in understanding the model.

Question 2

Is the control principle as articulated in the draft IFRS an appropriate basis for consolidation?

Yes, we believe that the suggested control principle could function well for distinguishing entities that should be consolidated if more guidance is added in the

final standard. We believe, however, that distinguishing structured entities, especially entities that do not qualify for consolidation, will be cumbersome.

Paragraph 15 states that control shall be assessed continuously. We fully understand that control as well as all other judgements must be continuously reassessed but find it important that entities should not go in and out of the consolidated accounts frequently. BC 67 states that the Board does not expect frequent changes. We suggest that some text in line with this is added to the standard or at least to Appendix B.

Question 3

Are the requirements and guidance regarding the assessment of control sufficient to enable the consistent application of the control definition? If not, why not? What additional guidance is needed or what guidance should be removed?

As stated above, we believe more guidance should be added in the final standard. Good illustrative examples will help in many cases. We have distinguished areas where we would welcome further guidance to fully understand the proposed model.

- “De facto” control. (It is a pity that the Board does not like the expression. Although perhaps not formally correct it is well-known). We understand and support the logic that a reporting entity can have the power to direct the activities of another entity, even if it holds less than half of the voting rights of that entity. However, we believe that it is important that this is not stretched to far. There are good examples in Sweden where a certain owner has traditionally been viewed as controlling a company but where a number of minority shareholders have joined forces in important matters gathering voting powers exceeding the traditional owner.
- Options and convertible instruments. See question 4 below.
- Reputational risk is not a basis for consolidation according to ED 10 (which we agree to under question 11). However, according to BC 36 we get the impression that it can be an indicator of unconsolidated structured entities. As stated in our answer to question 6 considerably more guidance is needed regarding structured entities, both consolidated and unconsolidated.

Question 4

Do you agree with the Board’s proposals regarding options and convertible instruments when assessing control of an entity? If not, please describe in what situations, if any, you think that options or convertible instruments would give the option holder the power to direct the activities of an entity.

Once again we welcome the ”substance over form” approach but welcome more guidance in the final standard.

Question 5

Do you agree with the Board’s proposals for situations in which a party holds voting rights both directly and on behalf of other parties as an agent? If not, please

describe the circumstances in which the proposals would lead to an inappropriate consolidation outcome.

We do not foresee specific problems in this area.

Question 6

Do you agree with the definition of a structured entity in paragraph 30 of the draft IFRS? If not, how would you describe or define such an entity?

Since paragraph 30 defines what a structured entity is not, we find the definition difficult to apply. We believe that paragraphs 31-38 will help distinguishing structured entities that shall be consolidated. It is more difficult to understand what entities should be distinguished as structured but not consolidated.

We would welcome definitions of both consolidated and unconsolidated structured entities but urge the Board to at least add considerably more guidance and examples. It is essential that such guidance and examples also are based on businesses outside of the financial sector.

Question 7

Are the requirements and guidance regarding the assessment of control of a structured entity in paragraphs 30–38 of the draft IFRS sufficient to enable consistent application of the control definition? If not, why not? What additional guidance is needed?

As stated in our answer to question 6 we believe that the paragraphs give a good basis for understanding what entities to consolidate. Once again, good examples would be helpful.

Question 8

Should the IFRS on consolidated financial statements include a risks and rewards 'fall back' test? If so, what level of variability of returns should be the basis for the test and why? Please state how you would calculate the variability of returns and why you believe it is appropriate to have an exception to the principle that consolidation is on the basis of control.

No, we do not see that this would be helpful. Having two models in parallel should be avoided.

Question 9

Do the proposed disclosure requirements described in paragraph 23 provide decision-useful information? Please identify any disclosure requirements that you think should be removed from, or added to, the draft IFRS.

We fully understand and support improved disclosures in this area. However, we believe that some of the suggested disclosures are too extensive and where the benefit for the users will not offset the costs of collecting and processing the information.

We have distinguished the following examples where we believe that the disclosure requirements should be reconsidered.

- Paragraph B 33 and B 34, regarding entities defined in paragraph B32 a and b. If the company has explained their rationale, in accordance with paragraph B 32, for consolidating or not consolidating these entities, there is no need to separately present figures for them. Furthermore as the paragraphs are written the disclosure requirements seem to be mandatory from the transaction date until the entity is deconsolidated.
- Paragraph B41 requires disclosures for the two preceding reporting periods or longer if necessary. We do not understand how this requirement interacts with the overall requirement in IAS 1 regarding a minimum requirement for comparatives of one year. Why should these disclosures have more prominence than others?
- We do not support the requirements in B44 to separate assets originated by the reporting entity and those originated by others. If the structured entity would be consolidated the reporting entity would record all assets irrespective of the involvement of other parties. Consequently we believe disclosure of total assets is sufficient.

In general we foresee problems with retrieving information from unconsolidated structured entities.

Question 10

Do you think that reporting entities will, or should, have available the information to meet the disclosure requirements? Please identify those requirements with which you believe it will be difficult for reporting entities to comply, or that are likely to impose significant costs on reporting entities.

We believe that there will always be a practical problem with regard to availability of information concerning entities that the reporting entity does not control. However if the risk exposure is material, there have to be processes in place or have to be put in place, to cope with the requirements.

Question 11

(a) Do you think that reputational risk is an appropriate basis for consolidation? If so, please describe how it meets the definition of control and how such a basis of consolidation might work in practice.

(b) Do you think that the proposed disclosures in paragraph B47 are sufficient? If not, how should they be enhanced?

(a) No. We believe that support to an entity for reputational reasons does not fulfil the consolidation model. Normally no control is exercised and returns are only on the negative side, i.e. contributions.

(b) Could be a reasonable way for users to be informed about obligations without actually consolidating the entity

Question 12

Do you think that the Board should consider the definition of significant influence and the use of the equity method with a view to developing proposals as part of a separate project that might address concerns raised relating to IAS 28?

We do not regard the accounting for associated companies as an area that should be of high priority for the Board.

Instead we ask the Board to reconsider the statement that control cannot be shared. We are strongly in favour of keeping proportionate consolidation as one alternative for joint ventures as stated in our comment letter regarding ED 9 dated January 9, 2008. We firmly believe that joint ventures in many cases are good examples of control that actually is shared.