

Sir David Tweedie
Chairman
International Accounting Standards Board
30 Cannon Street
London, EC4M 6XH
United Kingdom

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Dear Sir David

IFRS for Private Entities

EFRAG has been closely monitoring IASB deliberations leading to the finalisation of the IFRS for Private Entities (formerly IFRS for SMEs), assisted by the Joint EFRAG – FEE IFRS for SMEs Group. EFRAG would like to re-affirm its interest in the development of an international standard designed specifically to the needs of private entities. In our view, IASB's tentative decisions to make the standard a truly stand-alone document and the clarification of the scope through the change of label are to be commended. In addition, its efforts to simplify the form of the standard and increase its understandability, notably in the drafting of the requirements for financial instruments, and to reduce disclosures are much appreciated and represent an important step in the right direction. However EFRAG would like to encourage the IASB to re-consider some of its tentative decisions in order to achieve some further, much-needed significant simplifications in the recognition and measurement requirements.

One of EFRAG's main comments was to call for an analysis of users' needs to be carried out prior to finalising decisions. EFRAG's perceptions of users' needs were described in EFRAG's comment letter and some conclusions derived there from. ASCG, the German Standard Setter, among other surveys and initiatives, has led a survey of banks as users of private entity financial statements. This survey is all the more relevant as banks are acknowledged as one of the main users—perhaps the main user—of general purpose financial statements issued by private entities. This survey confirms, in many aspects, EFRAG's previous perceptions. As a result we would like to reiterate the following recommendations in order to support efforts towards substantive and useful recognition and measurement simplifications.

- 1- *Users of private entity financial statements are interested in market based valuations provided a market price is observable*

As a result, the choice between either the cost model or the revaluation model for all non-current assets does not provide an appropriate response for users. In its comment letter and other input, EFRAG had promoted the development of pervasive measurement principles that would apply throughout the standard as consistently as possible. EFRAG wishes to re-iterate this need to promote pervasive measurement principles. Based on the results of the survey, an alternative basic description of possible measurement pervasive principles would be “to revalue assets on the basis of a market price consistent with the use of the asset in the entity if available, and if not to re-measure assets using the cost model, including impairment”. Referring to

those measurement pervasive principles would also have the advantage of providing a sound basis for financial assets, being neither fair value or cost by default.

- 2- *Users of private entity financial statements are asking for as current a valuation as possible for assets which can play the role of natural pledges for liabilities on an individual basis*

As a result the IASB should seek refinement in the valuation of those assets that are recoverable on an individual basis. In the view of users, goodwill and other intangible assets are not such assets and do not play any role in the credit risk assessments banks carry out. Therefore EFRAG wishes to re-iterate its previous recommendation to reinstate for private entities the amortisation of goodwill and intangible assets with indefinite life, as well as simplifications in the recognition of intangibles in business combinations. We note that this recommendation has been shared with a vast majority of commentators and supported unanimously by the IASB Advisory Group on the IFRS for PEs.

- 3- *Users of private entity financial statements need to rely on financial reporting that is as standardised as possible, with as much information that is readily understandable presented in the primary financial statements*

The result of the survey calls for eliminating as many options as possible. As EFRAG has pointed out previously, the desire for all options to remain available in the IFRS for private entities was aimed at lessening the burden of subsidiaries of listed groups in the preparation of their individual statements. We would therefore urge the IASB to reconsider its position on options in order to best fulfil the needs of private entities' users of financial statements. As explained in EFRAG's comment letter, the definition of overarching measurement principles (see paragraph 1 above) provides the basis for the elimination of most options and more relevant financial reporting. The survey further shows that equity accounting is assessed as the most useful valuation basis for investments in subsidiaries, joint ventures and associates, an area where accounting policy options are available.

In addition, users would find a more standardised presentation of primary financial statements useful. Examples of additional presentation requirements that the survey suggests would be useful include showing assets and liabilities belonging to discontinued operations separately and emphasising the need to isolate, within operating income, non-recurring items.

We hope that this survey and analysis of users' needs will be useful to the IASB in the finalisation of the IFRS for Private Entities.

Should you need any supplementary information, please do not hesitate to contact Françoise Flores or myself.

Yours sincerely

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