



Institut der Bedrijfsrevisoren
Institut des Reviseurs d'Entreprises
Koninklijk Instituut - Institut royal

Mr. Stig ENEVOLDSEN
Chairman
Technical Expert Group
EFRAG
Avenue des Arts 13-14
B-1000 BRUXELLES

The President

Correspondent
+32/2/509.00.01
Dries SCHOCKAERT
d.schockaert@ibr-ire.be

Our reference
DSch/edw/23.07.07

Your reference

Date
25 July 2007

Dear Mr. ENEVOLDSEN,

Subject: ED IFRS for SMEs

IRE wishes to express its general support for the EFRAG comment letter. Our comments are limited to some questions raised within the EFRAG comment letter.

In general, IRE is of the opinion that in the debate on the SME accounting standards, a distinction should be made between the content of IASB's exposure draft "IFRS for ISMs" and the decisions taken by competent authorities regarding the application of this standard. In Europe, it is uncertain to what extent this future standard will be applied. However 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. In this way, the IFRS for SMEs standard can be seen as a means of convergence without aiming at the full harmonisation or comparability. In Belgium in particular, a possible application of this standard could only be considered after a fundamental change of the local fiscal legislation, which is not considered a priority at the current time.

In the context of this standard, IRE stresses the fact that, regarding the use of SME financial statements, the regular banking institution of an SME could be considered as being a primary user of these financial statements.

1 – The final standard should be a comprehensive stand alone document

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 IFRS. 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. It appears thus that a certain “trade-off” will need to be considered between the volume of the document on the one hand and the fact that a stand alone document for SME accounting is necessary on the other hand.

2 – “IFRS for SMEs” is not the most appropriate label

We fully support EFRAG in its call for a different label than “IFRS for SMEs”. We did not find the argument set out in BC 54 of the ED, that the term “SME” is universally recognised, convincing since the meaning of this term varies between jurisdictions. We are however also not convinced about using the term NPAEs (non publicly accountable entities) since this term will, without doubt, create translation problems. We suggest drawing a distinction between ‘public interest entities’ and ‘non-public interest entities’, a distinction already applied in European countries (as it is used in the Statutory Audit Directive of 17 May 2006).

The international standard should not aim to cover all non-public interest entities, and should make clear that the smaller and micro companies are not intended to be in the scope. We agree that, other than this clarification, there should be no reference to size.

3 – Users’ needs ought to be analysed further and more changes to recognition and measurement principles may be needed

We fully support EFRAG’s request for a further analysis of the user’s needs to be conducted. However it is important that such a further examination will not delay the process of the development of a standard for non-public interest entities but is carried out in parallel. This section could also usefully refer to the outcome of practical field tests.

4 – More simplifications in recognition and measurement should be considered

According to IRE, simplification should in essence be limited to disclosures, not be applied to measurement and recognition. If an SME engages in a complex transaction (e.g. exotic derivative financial instrument, business combination structured in a complex way for tax optimization), it should accept the accounting consequences of this. The risk exposures created by this kind of transaction is identical for an SME as for a listed company. The financial statements of both entities should therefore reflect this in a similar way.

Therefore, IRE prefers not to have too much differences in recognition and measurement between IFRS and IFRS for SME, in order not to put an SME in a disadvantageous position if applying IFRS for SME (e.g. accounting treatment of Research and Development).

6 – The standard could benefit from being redrafted

IRE welcomes EFRAG's proposals for an alternative structure and EFRAG's demonstration of how part of the standard on non-financial assets could look, in redrafted form, as set out in attachment 3.

If the exposure draft were to be substantially redrafted, for example following the suggestions for the structure and contents as provided by EFRAG, we strongly feel the need to call for re-exposure of the proposed standard even if this would mean some delay in the total process of coming to a final standard. This call for re-exposure needs to be included in the EFRAG cover letter.

Attachment 1: Answers 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?

We refer to our main comments section.

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 shortened drafting lacks clarity and understandability

(b) Scope out for insurance contracts is unclear

IRE is of the opinion for insurance contracts to be scoped out of the IFRS for SMEs.

(c) Scope in for commodities is too complex for an SME

IRE supports View 1, stating that EFRAG disagrees with that requirement and would rather support that the IFRS for SMEs does not ask for a separation from the host contract of these instruments (ie no *embedded* derivatives), and suggesting that IASB should omit the above-mentioned paragraphs in Sec. 11 as it too complex for an SME to identify this kind of instruments and to determine their fair value.

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

IRE doesn’t fully agree with this proposal, see our answer to question 4.

(h) Derecognition scheme has been shortened at the cost of covering certain transactions

We agree with EFRAG that factoring transaction are common for SME, therefore rules on factoring transactions are needed. According to IRE, the simplification made by IASB is not appropriate for factoring transactions. Therefore, IRE requests EFRAG to request IASB to create a more operational definition. IRE proposes not to deal with securitization transactions in the context of IFRS for SMEs.

(i) Hedge accounting became simpler but also more restrictive

IRE proposes that the IASB doesn’t include the sections 11.31 and 11.32 within the standard.

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

(c) The impairment approach proposed for goodwill has been deemed too costly and bur-densome for entities applying IFRS

IRE disagree with EFRAG, see our comments to question 4.

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

IRE disagrees with EFRAG and proposes to keep a separate section, as this is very frequently dealt with in an SME context.

7 – Elimination of reference to fair value

IRE proposed EFRAG to request a harmonization of the term ‘fair value’ in the context of IAS/IFRS and this standard in particular.

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

IRE disagrees with the asset by asset selection basis as proposed by EFRAG, since this would allow cherry picking. Therefore a category by category approach is considered much more appropriate.

Question 5 – Borrowing costs

Do you agree or disagree with the proposal to allow SMEs to choose rather the ex-pense model or the capitalisation model for borrowing costs, and why?

IRE agrees with this proposal. The capitalisation model for borrowing costs will enable SMEs to have a similar accounting treatment than is already the case in the context of full IFRS.

2 – Capitalisation of borrowing costs could be simplified

IRE disagree with EFRAG, see our comments to question 4.

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

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

IRE proposes to have no cross-references at all.

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?

IRE refers to its general comments section.

Question 8 – Adequacy of guidance

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

IRE also requests EFRAG to provide for some guidance regarding e.g. the case of a spin-off that prepares its financial statements in accordance with this standard, that will apply for a listing. When this entity will have become listed, it should therefore apply IFRS 1.

If you have any further questions about or views on these matters, do not hesitate to contact us.

Yours sincerely,



Pierre P. BERGER

