



*European Federation of Accountants and Auditors for SMEs*

European Financial Reporting Advisory Group (EFRAG)  
35 Square de Meeûs  
B-1000 BRUSSELS  
Brussels, 8 November 2011

Dear Sir

### **EFAA response to the EFRAG Comment letter on the IASB Agenda Consultation 2011**

The European Federation of Accountants and Auditors for SMEs (“EFAA”) represents accountants and auditors providing professional services primarily to small and medium-sized entities (“SMEs”) both within the European Union and Europe as a whole. Constituents are mainly small practitioners (“SMPs”), including a significant number of sole practitioners. EFAA’s members, therefore, are SMEs themselves, and provide a range of professional services (e.g. audit, accounting, bookkeeping, and tax and business advice) to SMEs.

EFAA appreciates the opportunity to comment on EFRAG’s response to the IASB Agenda Consultation.

#### General comments

EFAA agrees with EFRAG’s overview that a ‘period of calm’ is required. We agree that this would enable a stable platform to be developed before substantial projects are undertaken and may also mitigate the risk that IFRS is not implemented in a consistent manner.

#### The overall strategic direction and balance of the agenda

We agree with EFRAG that the distinction between standard development and standard maintenance is an artificial one. We support EFRAG’s contention that the purpose of the IASB is to develop high quality standards that serve the public interest. We also believe that it is important that post implementation reviews are performed to ensure that the standards are globally accepted and consistently applied.

#### Strategic priorities

##### Focus on conceptual framework

We believe that a revision of the conceptual framework should be the priority for the standard setting process and we would suggest that the use of the conceptual framework be reconsidered.

The conceptual framework is no more than a preamble having influence in instances where there is no subject matter specific standard available but our belief is that all standards and interpretations should be tested for compliance with the conceptual framework.

The application of both the conceptual framework itself and the subject matter specific standards should lead to a faithful presentation of an entity’s financial position and performance, as the



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IASB paper states. We are concerned that in certain instances a faithful presentation would not result because of the substance over form debate which leads to inconsistencies on implementation. It may be that the use of the conceptual framework to test for compliance would eliminate many inconsistencies, for example, in the area of accounting for obligations.

We therefore agree with the views of EFRAG that projects should be firstly scheduled only when a need to improve the financial reporting has been demonstrated and secondly that the conceptual framework and standards should not be finalised until any conflict between the two has been resolved.

#### Use of national standard-setters

The Agenda Consultation indicates that the IASB may avail itself of opportunities to collaborate with national standard-setters and that this may then help to alleviate its resource constraints. Whilst we agree with this approach we make two observations.

Firstly, consideration by the IASB of using the resources of the standard-setters appears to be limited to research projects. We do not understand why this would be limited to such bodies when, for instance, Universities and other higher and further education establishments or “think tanks” would be able to perform such research equally as well. For instance, providing a grant for a dissertation research project could be a cost-effective method of collating information and data if such research could satisfy the IASB’s needs.

Secondly, we suggest that the extent of the work that the national standard-setters are able to perform should not be limited to research alone and that further consultation should be undertaken to determine the benefits of national standard-setters performing work and outreach projects either on behalf of or with the IASB.

#### Availability of standards, interpretations and case-law

We note that the IASB currently provides only standards and official interpretations so although a period of calm may be warranted this may not be the outcome as there is always work being produced on interpretations by other parties, for instance by CESR/EECS (now ESMA/EECS).

We are led to believe that a significant amount of requests for IFRS interpretations made to the IASB are denied. However, we believe there is merit in the IASB considering the provision of staff papers, for instance in the area of the work currently performed by the SME Implementation Group. Whilst accepting the concept of principle based standard setting it is arguable that some staff positions could be helpful and thus these staff positions, whilst neither an official standard nor an official interpretation, have the ability to assist users with their understanding. Such papers may lead to an increase in consistency of application of IFRS. If a staff position then creates significant debate this could lead the IASB to the view that there is merit, strength of argument and stakeholder demand for the subject to be added to the agenda or for an interpretation or an amended standard to be discussed.



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### Prioritising existing and potential new projects

We agree with EFRAG's view that the number of projects should be limited to ensure a "period of calm" and to allow for proper understanding and consistent application by users and preparers across jurisdictions.

As we have already mentioned above we believe that the project on the conceptual framework is a priority and as such should be continued. We also believe that the post-implementation reviews provide an opportunity to see and assess the implementation issues arising.

We note that a three-yearly review of IFRS for SMEs was suggested from the start of the project. We support this but would also caution against reviewing more frequently than this to enable implementation and practises to develop before changes are made.

### Specific projects

Our comments in relation to specific projects are made below.

#### *Business combinations*

We believe that this standard should be updated to properly consider the differences in practice across jurisdictions and that any future revision should be tested against the revised conceptual framework for compliance. It is our contention that there are many forms that an acquisition may take and that this standard should be revised to properly reflect this situation. There are many jurisdictions where prescribing acquisition accounting does not reflect the economic reality as the underlying assumptions are not met.

#### *Discount rate*

We agree that consistent guidance on how to determine discount rates is necessary and that this should be based on strong evidence and research. In the meantime additional sensitivity data could be disclosed, especially for long-term discounting.

#### *Income taxes*

IAS 12 is a difficult standard to apply as evidenced by the numerous questions received by the IASB. Whilst we appreciate that the project started as a convergence project we would invite the board to put convergence to one side and to revise the standard in full in the near future.



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### *Liabilities*

The objectives of this paper are stated as being the alignment of the requirements for recording costs incurred in restructuring activities under IFRS with those incurred under U.S. GAAP and the alignment of the criteria for recording liabilities with the criteria in other IFRSs.

We believe that the first alignment should be with the conceptual framework; that is to determine economic reality whether there is an obligation and not only whether there is a legal or constructive obligation.

The recognition of an obligation should be determined by economic reality. In the case of restructuring activities this may mean not that a restructuring plan has been communicated before the financial year-end but whether restructuring is itself necessary for the company, i.e. when restructuring is a precondition to survival. That in itself would have little to do with whether the plan had been communicated prior to the year end.

On another note, we would like to draw attention to adoption and implementation issues that have possibly arisen as a result of accounting and auditing practices being allowed to develop in a manner not intended under strict interpretation of IFRS. We feel that it is important that IFRS is not changed to accommodate these issues. If interpretation appears to not be in line with the standard as drafted then the IASB should not withdraw from its principles based foundations but should instead seek to discuss with IFAC, for instance, how the interpretation could be improved.

### *Presentation and disclosure*

Disclosure requirements are too voluminous and as a result it is often the case that more important disclosure of critical accounting estimates and judgements are lost amongst other disclosures.

We believe that a materiality principle for disclosures should be established (excepting those instances when disclosure is necessary in all circumstances as required by law, for instance).

I trust that the above is comprehensive but should you have any questions on our comments, please do not hesitate to contact me.

Yours faithfully,

Federico Diomeda  
*Chief Executive Officer*