



# Foreningen af Statsautoriserede Revisorer

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Dear Ms. Flores,

## Comments on EFRAG draft advice – IFRS for SMEs and the Accounting Directives

The Danish Accounting Standards Committee set up by FSR has discussed the EFRAG draft advice on compatibility of the IFRS for SMEs and the EU Accounting Directives. Our comments to the questions raised in the EFRAG draft advice are as follows:

***Q1: Do you think that some of the paragraphs of the IFRS for SMEs, EFRAG has identified as being incompatible with the EU Accounting Directives, are compatible with the EU Accounting Directives? (If so, why?)***

We agree that the paragraphs identified in the IFRS for SMEs *might* be in conflict with the EU Accounting Directives from an accounting technical perspective. However, as we see it, some of the differences identified would also appear to exist if one was comparing full IFRS to the EU Accounting Directives. In allowing full IFRS for use in Europe would seem to suggest that EU has judged these differences not material enough to conclude that full IFRS is not in all material respect compatible with the EU Accounting Directives. This at least is how we understand the message conveyed in the preamble of Directive 2003/51/EC.

We would therefore expect that the differences identified can be solved rather easily as it would be difficult to explain stakeholders how they can be a significant problem now (IFRS for SMEs) when they were not considered as such in the past (full IFRS). The differences we have in mind under this caption are:

- Extraordinary items
- Immediate recognition of negative goodwill in the income statement
- Reversal of goodwill impairment losses

The other differences identified would however need to be solved before the IFRS for SMEs can be said not to be in conflict with EU Accounting Directives. These are:

- Measurement of investments in associates and joint ventures at fair value in consolidated financial statements
- Amortisation of goodwill over ten years when a reliable estimate of useful life is unavailable
- Financial instruments at fair value (their might be some financial liabilities which will not be measured at fair value according to the directives).

Realising that removal of these inconsistencies may require some effort, we would not expect them to postpone significantly the endorsement of IFRS for SMEs in Europe.

We understand that many stakeholders have an interest in making the standard an option in Europe sooner rather later. Therefore, we encourage all parties to make a joint effort in resolving areas of inconsistencies with the EU Accounting Directives as quickly as possible. Some of the above mentioned differences would seem to be of a specialized nature and are probably not common transactions for the majority of SMEs.

**Q2: Do you think that paragraphs 9.6, 19.14, 21.4 and/or 29.24 are incompatible with the EU Accounting Directives? (If so, which and why?)**

Paragraph 9.6 of the IFRS for SMEs concerns control and potential voting rights. Understanding that this is not an issue under full IFRS we would expect the same conclusion in relation to IFRS for SMEs. We therefore support the conclusion by the majority of EFRAG members that since the EU Accounting Directives are silent on potential voting rights the Directives are not incompatible with IFRS for SMEs in this regard.

Paragraph 19.14 concerns allocation of cost in a business combination and the recognition at fair value of contingent liabilities that satisfy the recognition criteria. Paragraph 21.4 regards the recognition criteria for provisions and the use of “more likely than not” as the recognition criteria for provisions. As the recognition criteria follow the criteria in either IFRS 3 or IAS 37 we don’t see that the situation should be any different for IFRS for SMEs compared to full IFRS. Therefore, if it is believed that this poses an issue with the Accounting Directives, the interpretation of “likely” and the recognition of contingent liabilities in a purchase price allocation might warrant further investigation. But the conclusion, we believe, should be the same as under full IFRS, where no differences in relation to the recognition criteria in the Directives have been identified.

**Q3: Do you think there are other paragraphs of the IFRS for SMEs that are incompatible with the Council Directives? (If so, why?)**

We have not investigated the IFRS for SMEs further than EFRAGs investigation.

**Q4: Are you aware of situations where the conclusions reached by EFRAG would have been different had another language version than the English version been applied in the analysis? (If so, what conclusion would be different and why?)**

No

**Q5: Do you have other comments in relation to EFRAG’s conclusions and their bases (including conclusions stated in EFRAG’s working paper)?**

No

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If you need a clarification or further comment, please do not hesitate to contact us.

Yours sincerely,

Eskild Nørregaard Jakobsen  
Chairman of the Danish

Ole Steen Jørgensen  
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