

*Technical Expert Group
European Financial Reporting Advisory Group
Square de Meeus 35
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Belgium*

19 April 2009

Dear Expert Group

Compatibility of the IFRS for SMEs and the EU Accounting Directives

ACCA is grateful for the opportunity to input to EFRAG's deliberations. The questions asked have been considered by ACCA's Financial Reporting Committee and I am writing to give you their views.

General comments

EFRAG has done an excellent and thorough job in preparing this advice and the supporting reports. It seems quite possible that this work will be an important source of reference not simply for the Commission in its revision of the Directives, but also for a number of interested parties including preparer companies and national standard setters.

In this regard we have a number of general comments which we hope will be helpful in addition to answering the specific questions that EFRAG has raised for comment.

It would be helpful to have in the covering letter an explanation of what issues it does not cover or of assumptions on which it has been prepared, for example

- issues on which the Directives appear to be silent*
- any disclosure requirement differences between the two documents*
- any issues where IFRS for SMEs might be said in spirit to be in conflict with the general principles in the Directives*
- the extent to which any significant matters have been disregarded on the grounds that they existed in IAS as at 1 May 2002*

There are two issues which will be highly significant for users other than the Commission which would surely be very helpful if they were explored by EFRAG at some point

- *The extent to which certain options in IFRS for SMEs would not be allowed under the Directives*
- *The extent to which options in the Directives not exercised by member states could affect the incompatibilities*

In the covering letter point 2 of the identified differences explains that the effect of the IAS39 option in Section 11 of the IFRS for SMEs has been disregarded. We agree with this given that this option is clearly rather unusual (the only reversion to full IFRS) and not expected to be much used. The grounds for EFRAG so doing however look rather unconvincing – the current mandatorily applicable IAS39 could have been used.

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 reviewed the various incompatibilities identified and have the following comments:

- 1. Extraordinary items – we agree with EFRAG’s conclusion*
- 2. Financial instruments at fair value – we agree that for the instance cited there might be an incompatibility. It seems too broad brush and potentially misleading to say that the requirements of 12.7 and 12.8 are incompatible as that might imply that any fair value under these paragraphs would be incompatible. That is very far from the case as most of those fair values will be compatible. Indeed we have our doubts that such a case (a financial liability including a leverage feature that does not significantly modify the cash flows that otherwise would be required by the contract) is a realistic enough basis for including this as an incompatibility.*
- 3. Investments in associates at fair value – we disagree with EFRAG’s conclusion. 14.7 refers only to where the cost method has been used and it would not apply where the equity method in 14.8 has been used. We would also note that paragraph 17 is more confusing than enlightening. It should perhaps be made clear that paragraphs 18,19 and 20 refer to consolidated accounts.*

4. *Investments in jointly controlled entities – we disagree with EFRAG’s conclusion for the same reasons as in 3 above.*
5. *Goodwill amortisation over 10 years – we are not sure that there is an incompatibility here. In the example quoted the useful life is uncertain and therefore it would not be possible to say that its useful life might not exceed 10 years. Paragraph 34(b) should say “..require 5 years to be used as the maximum useful life”.*
6. *Immediate recognition of negative goodwill – we are not sure that there is an incompatibility here. The comparison given does not explore the importance of the qualification in Article 31(a) of the 7th Directive “in so far as such an expectation materializes” or of 31(b) on realized gains. It may be that as with point 2 above an incompatibility might be in very restricted circumstances if any.*
7. *Reversal of goodwill impairment – we agree with EFRAG’s conclusion, though we have much sympathy with the observations in paragraph 42.*

Though we may not be so definite as EFRAG that all of these are realistic incompatibilities, for the purposes of amending the Directives it seems worth removing any arguable instances and so we would only exclude 3 and 4 above from the list to be considered by the Commission. For other users of this document the very restricted circumstances of incompatibilities might be of more significance.

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

We do not think these are incompatible.

In terms of the provisions that are less likely than not, our reading of Article 20.1 is that it is not addressing probabilities at all. It is merely confirming that uncertain (whether in respect of incurrence, amount or timing) liabilities can be included in the accounts as provisions.

Q3. Do you think there are other paragraphs of the IFRS for SMEs that are incompatible with the directives? If so why?

We have no reason to think so.

Q4. Effect of different language versions of the EU Accounting Directives

No comment.

Q5. Other comments

See our general remarks above.

If there are any matters arising from the above please be in touch with me.

Yours sincerely



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Head of financial reporting