EFRAG
European Financial Reporting Advisory Group

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DRAFT COMMENT LETTER

Comments should be sent to Commentletter@efrag.org by 31 August 2007

Dear Paul

Re: ED IFRS for SMEs

On behalf of the European Financial Reporting Advisory Group (EFRAG), I am writing to comment on the Exposure Draft *IFRS for Small and Medium-sized Entities* (ED). This letter is submitted in EFRAG's capacity as a contributor to the IASB's due process. In the attachments to this letter, we provide detailed comments and proposals in response to the invitation for comments. Our comments and proposals are derived from our key observations, as described below.

Full IFRS continue to be developed with the objective of serving primarily the needs of capital markets and benefit from the most recent sophisticated information technology. Such objectives have resulted in IFRS that are more complex and sophisticated. There exists a widely held view that full IFRS is too complex to serve the needs of users of financial statements within the context of entities without public accountability.

For this reason, EFRAG is supportive of the development of a simplified set of international financial reporting standards with requirements that are consistent with the conceptual basis of IFRS. Such a set of standards ought to increase the understandability of financial reporting by companies without public accountability and should be developed on the basis of a good understanding of users' needs. It also needs to be prepared on a reasonable basis having considered the balance between costs and benefits.

EFRAG believes that the IASB has made good progress with the ED, by setting the objective of a stand-alone document, accepting recognition and measurement simplifications, and separating the ongoing maintenance of the future standard from the revision process for full IFRS.

However EFRAG believes that the proposed standard can be further improved, in the following suggested ways:

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

EFRAG believes that the objective of a self-contained, comprehensive set of standards can be achieved. The IASB has already taken key steps towards achieving that goal, i.e. they have included some measurement-pervasive principles in the standard and have also eliminated the general fallback to full IFRS from the requirement hierarchy. To fulfil the objective entirely, all remaining cross-references, both optional and mandatory, should be eliminated. EFRAG provides in its more detailed comments recommendations on how to eliminate those cross-references. This, in EFRAG's view, can be accomplished while making the standard even more concise than is currently reflected in the ED. EFRAG has also provided re-drafting and restructuring guidelines that can eliminate the need for cross references.

2 – "IFRS for SMEs" is not the most appropriate label

EFRAG has observed that the present label "IFRS for SMEs" quite often creates misunderstandings. The label "SME" is widely used internationally to refer to the size of entities in general. The scope of the ED, which excludes all entities which meet the proposed definition for public accountability, does not refer to size criterion of any kind, and EFRAG believes, rightfully so. Therefore EFRAG recommends that a different label be selected when naming the final standard. EFRAG recommends that the IASB revert to one of its earlier tentative decisions and re-label this set of standards as "IFRS for NPAE's" (non publicly accountable entities), unless it is able to identify a better label.

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

In its basis for conclusions, the IASB acknowledges that users' needs of NPAEs are different from those of users of financial statements of publicly accountable entities. The IASB also clearly indicates that these differences need to be reflected in different recognition and measurement principles. EFRAG agrees with those conclusions. However EFRAG believes that these conclusions have not been fully taken into account in the decisions made by the IASB. Therefore EFRAG recommends that a further analysis be conducted and more changes to the existing measurement requirements may be necessary in order to better serve the needs of users'. For example, EFRAG believes that market prices should be used for the revaluation of assets and liabilities only when an active market exists and a disposal or transfer is a possible scenario for the entity.

4 – More simplifications in recognition and measurement should be considered

The IASB has put forward in its ED some simplifications in the recognition and measurement requirements in general, which denotes a valuable and vital step forward in this project. However EFRAG believes that further simplifications can be made, while remaining consistent with the IFRS conceptual framework. These simplifications include, inter alia, reinstating the amortisation of goodwill and other intangible assets, promulgating only one cost model and one revaluation model for non-financial assets, eliminating the reference to the name "fair value", and eliminating the recognition of equity-settled share-based payments. Also, simplifications already made by the IASB need to be improved. For example, fair value as the default measurement attribute for financial assets and liabilities is inappropriate, in EFRAG's view, and results in requirements which are still quite difficult to understand and to implement.

5 – Differences with full IFRS may be warranted when a need for improvement has been identified and is particularly relevant for SMEs (equity/liability split)

EFRAG is aware that in some jurisdictions partnerships, cooperatives or other forms of corporation have puttable equity instruments. Often these entities are not publicly accountable and are therefore within the scope of this standard. EFRAG believes that some changes are warranted with respect to the debt/equity classification (such as but not limited to what the IASB is considering for full IFRS) in order to address the anomalous outcome of an entity having negative or no equity at all although it is still very much a going concern.

6 – The standard could benefit from being redrafted

Although the IASB has made the right decision in terms of organising the standard by topic, we believe that the final IFRS for SMEs ought to be more user-friendly than is currently the case. EFRAG believes that the standard can benefit from restructuring and re-drafting in the following ways:

- The standard could be re-organised in sections and subsections, so that for example, all requirements for non-financial assets or group accounting would be grouped together;

- Principles and application guidance could be separated from each other, so that principles could be emphasised and better understood, while more guidance would be provided;

- Where principles and guidance are the same, no repetition from section to section is needed; this approach could aid understandability and conciseness.

Our detailed comments and proposals on how to achieve the above objectives are provided in the various attachments to this letter:

- Attachment 1 answers the questions set out in the invitation to comment;

- Attachment 2 includes detailed comments provided on each section of the proposed standard (some of them by cross-reference to the other attachments), in addition to the comments to the specific questions;

- Attachment 3 presents and illustrates EFRAG's proposals for restructuring and redrafting the standard to achieve the desired level of simplification and understandability referred to above. It also includes EFRAG's basis for conclusions on measurement.

If you would like further clarification of the points raised in this letter, either Sven Morich or I would be happy to discuss these further with you.

Yours sincerely

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EFRAG, Chairman