EFRAG

European Financial Reporting Advisory Group

Paul Pacter
Director of Standards for SMEs
International Accounting Standards Board
30 Cannon Street, London EC4M 6XH
United Kingdom

Bruxelles, 6 July 2005

Dear Paul,

Re: IASB Questionnaire on Possible Recognition and Measurement Modifications for Small and Medium-sized Entities (SMEs)

On behalf of the European Financial Reporting Advisory Group (EFRAG) I enclose our response to the IASB questionnaire "Possible Recognition and Measurement Modifications for Small and Medium-sized Entities". This letter is submitted in EFRAG's capacity of contributing to IASB's due process.

We welcome the Board's decision to develop a separate set of financial reporting standards for SMEs as we see this as an opportunity to further harmonise accounting standards in Europe and globally.

Before responding to the questionnaire, we would like to make the following general remarks:

- To date the IASB's focus has been primarily on listed entities. As it turns its attention to other types of entities, it is important that it tries to ensure that the standards it develops for those entities 'fit' them well. The wider the range of entities the SME standards seek to address, the more difficult this will be, at least in theory. The IASB has tentatively decided that its SME standards should apply to all entities that are not publicly accountable entities (ie to all NPAES), other than very small entities. Thus, the SME standards will need to 'fit' a diverse range of entities, from very large entities that look very much like multinational listed groups, through to small, simple types of entity. It will be possible for the SME standards to 'fit' all these entities only if, despite appearances, their financial reporting 'needs' are very similar.
- We are not convinced that the financial reporting 'needs' of all NPAES *are* similar. Based on the discussions we have had, it would appear that the information needs of users differ as do the accounting resources and expertise

available to the reporting entities involved. Together this affects how and where the balance is struck between costs and benefits: simplifications and approximations that are necessary for certain types of NPAE seem less necessary for others. For that reason, we think the IASB needs to focus on a narrower range of entity than at present. (Of course, it would be preferable if the final simplification process of recognition and measurement is based on thorough research of the specific needs of the users of SME financial statements and of the other relevant factors. It is important to make sure that the result of such research supports the simplifications made).

- We believe that the IASB should be focusing its SMEs standards on what it considers to be a typical medium-sized entity. All the decisions it makes about the transactions to be addressed and the simplifications to be made should be based on that type of entity. We would though recommend that the IASB should include all other NPAES within the scope of its SME standards and should leave each jurisdiction to decide exactly where to draw the line between entities that should follow the listed entity standards and entities that are permitted to apply SME standards.
- The typical medium-sized SME—and indeed the vast majority of SMEs—will never move to full IFRS. For that reason, we do not believe the IASB should take into account the ease of transition from SME standards to full IFRSs in setting IFRS for SMEs. Having easy transition to full IFRS as an objective would in our opinion involve unnecessary supplementary constraints and could result in a set of standards that might not be a good 'fit' for the typical medium-sized SME.

Our proposal for simplification on recognition and measurement is based on these basic assumptions.

If you would like further clarification of the points raised in this letter Paul Ebling or myself would be happy to discuss the letter with you further.

Yours sincerely,

Stig Enevoldsen
Chairman, EFRAG

EFRAG response to IASB Questionnaire on Possible Recognition and Measurement Modifications for Small and Medium-sized Entities (SMEs)

Basic approach

EFRAG believes there is an extremely wide range of SMEs. At one extreme, an SME can be almost identical in every way to an entity that has public accountability (henceforth 'listed entities' for simplicity); and at the other extreme there might be almost no interest (outside of the entity's management) in a particular SME's financial statements. This creates difficulties for the IASB in developing its standards for SMEs.

EFRAG is concerned that it also makes it more likely that the IASB will conclude that its SME standards should contain few if any differences on recognition and measurement from existing IFRSs, because differences will generally not be appropriate for entities that are almost identical to listed entities. This would be a great shame, because we believe that the users in a SME environment generally require less complex and less sophisticated financial reporting than users of listed entity financial statements since they are less capital market oriented.

Focusing the SME standards on all types and sizes of SME also means that they will need to address some complex transactions that the 'average SMEs' do not undertake. This is likely to add to the standards' complexity and make them more difficult for SMEs to use.

In view of this we think the IASB should base it decisions on the transactions to address in detail and the simplifications to be made on what it considers to be a typical medium-sized entity.

- Transactions that are, as a result, not dealt with in detail in the SME standards should be dealt with by cross reference to the full IFRS.

- The SME standards should still formally apply to all non-listed entities regardless of size. However, it should be left to each jurisdiction to decide exactly where to draw the line (a) between entities that should follow the listed entity standards and entities that are permitted to apply SME standards, and also (b) between entities that are permitted to apply SME standards and entities that are so small that some other financial reporting regime might be appropriate

This approach ought to ensure that the SME standards are neither oversimplified (because they focus on very small entities) nor too complex (because they address the largest SMEs).

Although we think the main users of such an entity's financial statements will be broadly the same as for listed entities—i.e. lenders, suppliers, customers, employees and shareholders other than owner-managers—we believe that:

- the typical medium-sized entity has relatively few non-manager shareholders compared to listed entities, and those shareholders' investments tend to be for a far longer term. This difference has, we believe, implications for the way the shareholders use the financial statements. In particular, they use them primarily to assess the quality of management (effectiveness of strategies, performance etc.) rather than to reach decisions about whether to buy, hold or sell the shares.

- there is a greater focus amongst users of SME financial statements on the entity's ability to generate positive cash-flows in the normal course of business in the short- and medium-term to meet liabilities as they fall due. This underlines the importance of ensuring that all liabilities are recognised in the financial statements. It also underlines the importance of using measurement bases that enable users to assess the level of cash inflows in the short- to medium-term.

- users of SME financial statements generally need to reconcile the figures with the entity's strategy, decisions, and events, in order as explained above:

    - to assess the quality of management and decide whether to support or reject proposals put forward by management to shareholders (users are shareholders).

    - to assess whether the entity will be able to meet its liabilities as they fall due (users are lenders and other creditors)

  Measurement bases which are primarily based on market values may therefore have less relevance to users of SME financial statements because of the specific characteristics of SMEs when applied to assets which the entity does not have the ability to, realise or settle. Therefore we believe that the use of fair values should be permitted only under certain conditions.

- standards for SMEs should have the objective of helping SME financial reporting to improve as good external financial reporting is extremely valuable to SMEs in order to identify new contributors to the entity (whatever the form of economic contribution) and reduce the cost of financing. It is often suggested that financial statements are not meant to serve lenders' needs because lenders have the ability to impose reporting requirements as a condition for applying for a loan. There is however significant benefit for a SME in providing financial reporting that is in a form and content suitable for lenders' needs.

        - Sound financial reporting used by an entity on a regular basis reflects robust management and therefore tends to decrease the risk premium.

        - When financial reporting as needed or required by lenders is readily available, the entity is in the position of having lenders compete with each other to provide it with the financing it needs.

    - Information needed by lenders is likely to have relevance for the other main users such as suppliers, customers, employees, shareholders and for management themselves,

    - There is no additional cost or burden associated with external financing (the same financial information is far less costly if prepared on an ongoing basis than prepared on an ad hoc basis).

- For cost/benefit purposes as well as relevance and reliability, it is extremely important that external reporting be sourced from information used for internal reporting.

- Users of SME financial statements might be less sophisticated than users of the listed entity financial statements, because the users tend generally not to include capital market analysts, the credit-rating agencies, or employee representative groups (such as Unions). As a result, SME financial statements need to be easily understandable and complex accounting treatments need to be avoided wherever possible although the resulting financial information must still meet users' needs.

Therefore in our view the main justification for a simplification for a SME will be either because user's needs are different or on cost benefit grounds.

There is, in our view, another factor that needs to be taken into account in developing standards for SMEs: generally speaking, SMEs do not have the in-house resources that listed entities have to implement complex accounting standards without external assistance. Similarly, they are generally less able to exercise accounting choice and judgement. Adequate guidance should therefore be given in order to help management to determine the situations in which the different authorised accounting treatments apply. We believe that SME managements can use their judgement to assess in substance the situations that the entity faces; because of limited internal resources, they are however less likely to appropriately assess the comparative relevance of accounting treatments

EFRAG response to question 1: What are the areas for possible simplification of recognition and measurement principles for SMEs?

We have organised the simplifications we are suggesting into the following themes:

1. The relevance characteristic and fair value

2. Simplifications based on cost-benefit arguments

3. Simplifications because transactions are unlikely to occur in an SME context or the complexity of the transactions require application of the full IFRS standard.

1. The relevance characteristic and fair value

Existing standards require some assets and liabilities to be measured at fair value, permit some other assets and liabilities to be measured at fair value, and require some disclosures about fair value. In EFRAG's view, one implication of the differences between the way users of SME financial statements use those statements and the way users of listed entity financial statements use those statements is that fair value because of the specific characteristics of SMEs and their users - is not always a relevant measurement basis for certain types of asset or liability under certain conditions.

As already explained, it is important that the measurement bases used in SME financial statements are relevant to users' assessments of the level of cash inflows in the short- to medium-term. Fair value measures can be very relevant in this context, though only if the assets involved are easily disposable without disrupting the entity's activities. EFRAG believes that, in cases where an asset is not easily disposable or cannot be disposed of without disrupting the business, fair valuing that asset in the balance sheet is not helpful in an SME context because it gives users the impression that the entity has ready access to that fair value to settle existing liabilities when in fact it does not.

Of course, in circumstances in which a fair value measurement basis is not relevant, the use of fair value measures should not be permitted and a cost-based measure should be applied instead.

For the above reasons, we believe that fair value measures should be permitted or required only if both the following criteria are met:

1- Observable market prices are available

2- Either the asset can be sold on the market at any time without causing any disruption or major change in the entity's operations or the management is committed to a plan to sell the asset and an active programme to locate a buyer and complete the plan have been initiated.

In other words, the use of fair value measures should be prohibited if the asset is not easily disposable. For easily disposable assets, whether the use of fair value should be optional or required will depend on the characteristic of the asset. We refer to our suggestions to simplifications standard by standard.

For simplicity the remainder of this note refers to assets that meet both these criteria as 'easily disposable assets'. (The first criterion is less restrictive than the definition of an active market in IAS 38 because homogeneous market and observable prices available to public are not required. The second criterion is partly based on material from IFRS 5.)

Fair value adjustments should be recognised in profit or loss.

In our view the above principle can be incorporated explicitly in one standard covering all non-financial assets and another covering financial assets. This is to avoid repeating recognition and measurement principles in the different standards.

We believe that two exceptions need to be made from the above principles. The exceptions are as follows:

- Fair values can still be used when accounting for defined benefits plans under IAS 19 even if the above criteria are not met. We believe that plan assets can be divided into easily disposable and not easily disposable assets. However we believe that even if not easily disposable plan assets should be measured at fair value.

- The present definition of an active market in IAS 38 should be retained for intangible assets. (In other words for intangible assets, fair values can be used only if, in addition to the above criteria, the intangible are also traded in an market of homogeneous items and prices are available to public).

IAS 39 Financial instruments

Hedging instruments and hedged items are discussed below (under the heading 'Simplifications because transactions are unlikely to occur in an SME context or the complexity of the transactions require application of the full IFRS standard). For other financial assets, EFRAG believes that, instead of classifying financial assets into four categories as required under IAS 39, SMEs should use only two categories:

(a) easily disposable financial assets (as defined above). Such assets should be required to be measured at fair value. In order to simplify the financial statements, EFRAG also believes that for such assets all gains and losses should be required to be recognised immediately in profit or loss; and

(b) financial assets that are not easily disposable. Such assets should be required to be measured at amortised cost.

IAS 16 Property, plant and equipment

We believe that measuring property, plant and equipment at fair value when the assets are not easily disposable (as defined above) provides users of SME financial statements with information that is not relevant to their needs. Therefore we suggest restricting the revaluation option so that it is available only if the property, plant and equipment is easily disposable.

IAS 38 Intangible assets

As already explained, we believe that measuring intangible assets that are not easily disposable (as defined above) at fair value provides users of SME financial statements with information that is not relevant to their needs. Therefore we suggest restricting the revaluation option so that it is available only if the intangible assets are easily disposable and there is an active market.

IAS 40 Investment property

As already explained, we believe that measuring investment property that are not easily disposable (as defined above) at fair value provides users of SME financial statements with information that is not relevant to their needs. Therefore we suggest restricting the fair value option so that it is available only if the investment property is easily disposable.

IAS 41 Agriculture

Under IAS 41 biological assets shall at initial recognition and at each balance sheet date be measured at fair value less estimated point of sale costs unless fair value cannot be measured reliably. We believe that biological assets most of the time (observable prices are available) will meet the definition of easily disposable assets and therefore fair value should be applied. However if not meeting the criteria for applying fair value cost should apply.

IAS 27 Consolidated and separate financial statements IAS 28 Investments in Associates

Under IAS 27 investments in subsidiaries shall be measured in the separate financial statements at either cost or fair value in accordance with IAS 39, even if those investments are not easily disposable. IAS 28 contains similar provisions for investments in associates. However, in our view fair value will not be relevant unless the investment is easily disposable. Therefore we suggest restricting the use of fair value so that it is available as an option only if the investments are easily disposable (as defined above).

IFRS 5 Non-current Assets Held for sale and discontinued operations

If the general principle about easily disposable assets outlined above is incorporated into the SME standards, there would be no need to include the measurement provisions of IFRS 5 in the SME standards.

However two IFRS 5 provisions need to be retained and can be incorporated in other standards:

- the definition and related requirements of a “group” of assets held for disposal (and associated liabilities): to be included within the standard on non-current assets

- the definition and presentation of discontinued operations could be included within the standard on the presentation of financial statements.

2. Simplifications based on cost-benefit arguments

IAS 38 Intangible assets

EFRAG suggests that SME standards should *permit* SMEs to expense internally-generated intangible assets immediately in profit or loss; existing standards require capitalisation if certain criteria is fulfilled.

We suggest this simplification because we believe users do not need internally-generated intangible assets to be capitalised in order to assess the entity's ability to pay its liabilities in the short- and medium-term. Furthermore, it eases the burden for preparers who would no longer have to demonstrate that the relevant recognition criteria have been met.

If an immediate write-off option is included, we think it should be supported by a requirement to disclose the amounts expensed so that the users can consider this when assessing the profitability of the entity.

IFRS 3 Business combinations

1 The complexity of the impairment test of goodwill is very burdensome for the SMEs and we believe that a systematic annual impairment test of goodwill is not necessary for SMEs. Because the present value of the entity is less important than cash flow we believe that for SMEs amortisation of goodwill should be reintroduced and an impairment test should be required only if there is indication of impairment as prescribed in IAS 36. We suggest that the SME standards should also stipulate a maximum amortisation period and at the maximum of 20 years.

2 Under IFRS 3 all business combinations involve an acquirer and that acquirer shall at the acquisition date allocate the cost of the business combination to the assets and liabilities acquired by recognising those identifiable assets, liabilities and contingent liabilities that satisfy the recognition criteria at their fair value. This can be an onerous exercise for an SME. The specific problems for SMEs relate to the identification of assets and liabilities and the determination of fair values. We suggest that these requirements be simplified as follows:

   a. Acquirers should not be required to recognise intangible assets not previously recognised by the acquiree. However the option to recognise them when satisfying the present criteria in IFRS 3 should remain.

   b. Acquirers should be permitted to use the acquiree's carrying values for the assets acquired except that, if it is clear that an asset has a fair value that is materially different from the carrying value the fair value should be used. However the acquirer should still be required to account for the assets in accordance with its accounting policy.

IFRS 5 Non-current Assets Held for sale and discontinued operations

As has already been explained, we believe there is no need to include the measurement provisions of IFRS 5 in the SME standards.

IAS 38 Intangible assets

We believe that a distinction between intangible assets with an indefinite life and those with a definite life should not be made in the SME standards. This means that all intangible assets including goodwill should be treated as assets with a finite life and amortised. Under IAS 38 amortisation for assets with an indefinite life is replaced with an annually impairment test. As mentioned we believe that an annual impairment test will add unnecessary complexity and burden to the SMEs. As neither the impairment test nor the amortisation affect the future cash, we suggest including the less burdensome approach to the SME standards. Also the suggestion made in relation to intangible assets acquired and internally generated intangible assets being expensed is likely to significantly reduce the circumstances in which intangible assets with infinite life would be recognised.

IAS 36 Impairment of assets

As mentioned in our comments on IAS 38 we suggest that no distinction between finite or indefinite life should be required. All intangible assets should be determined as assets with finite life and be amortised.

As mentioned in our comments on IFRS 3 and IAS 38 we suggest reintroducing amortisation of goodwill for SMEs and that impairment test should be required only if there is indication of impairment as prescribed in IAS 38.

The way of identifying whether an asset may be impaired under IAS 36 should be retained for SMEs. If the recoverable value of the assets in a SME financial statement is in reality lower than the carrying amount this should be reflected as an impairment loss. However a simplified and more straightforward test should be introduced for SMEs.

IAS 39 Financial Instruments

We believe it will ease the burden for SMEs if, in measuring financial assets and liabilities at amortised cost, they are permitted to apply either the effective interest method or the straight line method, because then they can apply the model which complies with their present accounting. We believe that by using a straight line method relevant and reliable information will still be provided the users.

IAS 17 Leasing

The classification of leases under IAS 17 should be unchanged because it is of high importance for the users that all liabilities are reflected in the balance sheet to reflect the expected out flow of cash. However we believe that a simplification could be made to the recognition criteria for financial leasing, whereby the liability should always be measured at an amount equal to the present value of the minimum lease payments. We believe this value is sufficient to fairly represent the value of the assets and the future liability. On the asset side the requirement to apply an impairment test (if there is an indication of impairment) should eliminate the risk of overstatement of the assets.

IAS 40 Investment property

We suggest that investment property held under a lease should always be measured at an amount equal to the present value of the minimum payments. We believe this value is sufficient to fairly represent the value of the assets and the future liability. On the asset side the requirement to apply an impairment test (if there is an indication of impairment) should eliminate the risk of overstatement of the assets.

3. Simplifications because transactions are unlikely to occur in an SME context or the complexity of the transactions require application of the full IFRS standard

IAS 39 Financial instruments

Since we believe that it is most common for a SME to enter into hedges of foreign currency risks the SMEs standards covering hedge accounting should only cover such situations. In case a SME enters into more complex hedging transactions the entity should apply the principles under IAS 39.

Therefore the SME standard regarding derivatives and hedge accounting should be simplified and only include the following requirements:

- All derivatives shall be measured at fair value with gain and losses recognised in profit or loss, except that the gains and losses should be recognised in equity in the hedge accounting circumstances described below.

- Hedge accounting rules for SMEs should only include hedges of foreign currency and for those hedges the principles in IAS 39 for cash flow hedges should be applied.

- At the inception the hedged item should be documented by reference to management information used to determine the transactions to be hedged such as sales budget, future cash flow etc.

- Basis adjustments should also be included.

Effectiveness should be tested regularly, and at least annually. Hedging positions should be assessed against currency future transactions and any ineffectiveness should be reported in P/L.

IFRS 2 Share-based payment

We believe that SMEs make share-based payments. However the fair value of the equity instruments granted can in many cases not be estimated reliably. IFRS 2 already addresses this in context of equity-settled transactions (in paragraph 24) by permitting the entity to instead measure the equity instruments at their intrinsic value. We believe that same requirements shall apply for SMEs. However the same option for measurement of the liability incurred in cash-settled share-based payments transactions does not exist under IFRS 2. We therefore suggest that it should be allowed for SMEs to apply intrinsic value if the fair value of the liability cannot be estimated reliably when accounting for cash-settled share-based payment transactions.

4. No simplification on recognition and measurement identified

IAS 2 *Inventories*

IAS 8 *Accounting policies, changes in accounting estimates and Errors*

IAS 10 *Event after the balance sheet date*

IAS 11 *Construction contracts*

IAS 12 *Income Taxes*

IAS 18 *Revenue*

IAS 19 *Employee benefits*

IAS 20 *Government Grants and disclosures*

IAS 21 *The effect of changes in foreign exchange rates*

IAS 23 *Borrowing costs*

IAS 29 *Financial reporting in hyperinflationary economies*

IAS 31 *Interests in Joint ventures*

IAS 32 *Financial instruments: Disclosure and presentation*

IAS 37 *Provision, contingent liabilities and contingent assets*

IFRS 6 *Exploration and evaluation of mineral resources*

IASB asks the respondents to indicate if the respondent believes that there is no specific accounting recognition or measurement problem for SMEs in relation to the areas for possible simplification listed in attachment A. Below you find our arguments for why we believe that these principles should not be simplified for SMEs.

Measuring the cost of inventories under IAS 2

Recognition and measurement principles in IAS 2 should be retained for SMEs because we believe that this is the way most management will manage their business to reflect the activities in the particular year. Therefore we believe that e.g. cost of conversion should be allocated as part of the cost of the inventory.

Use of the percentage of completion method for contracts under IAS 11 and for service revenue under IAS 18

Recognition and measurement principles in IAS 11 and 18 should be retained for SMEs because we believe that this is the way most management will manage their business to reflect the activities in the particular year.

Deferred income tax accounting under IAS 12

Recognition and measurement principles in IAS 12 should be retained for SMEs because there is a need for reconciliation of differences between the accounting base and the tax base and all liabilities should be recognised.

Measurement of defined benefit pension or other post-employment benefit liabilities under IAS 19

Recognition and measurement principles in IAS 19 should be retained for SMEs to reflect the future obligation related to such defined benefit plans etc.

Consolidation of subsidiaries under IAS 27

Application of IAS 27 should be retained for SMEs. Consolidated financial statements are needed to reflect the overall economic situation of the group. The consolidated cash flow is particularly important.

The equity method of accounting for investments in associates under IAS 28 and investments in joint ventures under IAS 31

We believe that the equity value is the best available for investments in associates under IAS 28 and therefore should be retained for SMEs.

Very detailed information is needed for the consolidation purposes of joint ventures. This is why the option for applying the less burdensome equity method should be retained for SMEs as well as the option for consolidation.

Recognition and measurement of provisions and contingent liabilities under IAS 37

Recognition and measurement principles in IAS 37 should be retained for SMEs to reflect all liabilities.

Derecognition principles under IAS 39

We believe that the derecognition principles should be retained for SMEs as SMEs should not be allowed to recognise assets/liabilities that would not be recognised in a public listed entity.

EFRAG response to question 2: From your experience, please indicate which topics addressed in IFRSs might be omitted from SME standards because they are unlikely to occur in an SME context. If they occur, the standards would require the SME to determine its appropriate accounting policy by looking to the applicable IFRSs.

Please understand that omitting a topic from the SME standard does not change the accounting requirements applicable to an SME or reduce the accounting policy choices available to an SME. It would simply reduce the size of the volume of SME standards by including only topics that are generally relevant to SMEs.

IFRS 2	SMEs generally do not enter into share-based payment transactions. The SME equivalent of IFRS 2 should simply re fer back to IFRS 2. **EFRAG response:** We disagree. We refer to paragraph 3 in our response to question 1.
IFRS 3	SMEs seldom enter into business combinations. The SME equivalent of IFRS 3 should simply refer back to IFRS 3. **EFRAG response:** The present definition of SMEs covers a wide range of entities and we believe that there is no reason to assume that SMEs seldom will enter into business combinations.
IFRS 4	Because companies that issue insurance contracts hold assets in a fiduciary capacity, they have public accountability. IASB standards for SMEs would not be intended for them. Therefore, an SME version of IFRS 4 is not needed. **EFRAG response:** We disagree, because as mentioned in our response to the IASB Discussion paper that only listed companies should be formally excluded from the scope of the SME standards.

IAS 11	Combining and Segmenting Construction Contracts **EFRAG response:** We believe that the accounting principles for Combining and Segmenting Construction Contracts should be retained for SMEs.
IAS 12	Temporary differences arising from investments in subsidiaries, branches, associates, and interests in joint ventures **EFRAG response:** We believe that the accounting principles for Temporary differences arising from investments in subsidiaries, branches, associates, and interests in joint ventures should be retained for SMEs as all liabilities should be reflected.
IAS 16	Revaluation model for property, plant, and equipment **EFRAG response:** We refer to paragraph 1 in our response to question 1.
IAS 17	Sale and leaseback transactions **EFRAG response:** We believe that the accounting principles for sales and leaseback should be retained for SMEs.
IAS 19	Defined benefit employee benefit programmes **EFRAG response:** We believe that the recognition and measurement principles in IAS 19 should be retained for SMEs to reflect the future obligation related to such defined benefit plans etc.
IAS 23	Capitalisation model for borrowing costs **EFRAG response:** We disagree. We believe the existing recognition principles in IAS 23 shall remain.

IAS 26	Because retirement benefit plans hold assets in a fiduciary capacity, they have public accountability. IASB standards for SMEs would not be intended for them. Therefore, an SME version of IAS 26 is not needed. **EFRAG response:** We agree.
IAS 27	SMEs generally do not have subsidiaries. The SME equivalent of IAS 27 should simply refer back to IAS 27. **EFRAG response:** We disagree on this and believe that principles in IAS 27 should be part of the SME standards.
IAS 30	The entities to which IAS 30 applies are, by definition, entities with public accountability and, therefore, IFRSs apply to such entities. **EFRAG response:** IAS 30 is to be replaced by IFRS 7 and covers disclosure only so it is not relevant to this questionnaire.
IAS 32	Split accounting for compound financial instruments **EFRAG response:** We believe that split accounting for compound financial instruments should remain for SME.
IAS 36	Because SMEs generally do not enter into business combinations, the material on impairment of goodwill in IAS 36 could be omitted from the SME standard on impairment of assets. **EFRAG response:** As mentioned above we believe that SMEs do enter into business combinations quite often.
IAS 38	Revaluation model for intangibles **EFRAG response:** We refer to paragraph 1 in our response to question 1.

IAS 39	Derecognition **EFRAG response:** We believe that derecognition criteria under IAS 39 should remain for SMEs. We refer to paragraph 4 in our response to question 1.
IAS 39	Hedge Accounting **EFRAG response:** We believe that hedge accounting for SMEs should be much more simplified compared to the present requirements under IAS 39. We refer to paragraph 3 in our response to question 1.