

DRAFT COMMENT LETTER
Comments should be submitted by 14 March 2011 to
Commentletter@efrag.org

24 February 2011

International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Dear Sir/Madam,

On behalf of EFRAG, I am writing to comment on the draft Q&A *Use of IFRS for SMEs in parent's separate financial statements* ('the Q&A').

The Q&A considers the issue of whether a parent entity can publish its separate financial statements in accordance with the IFRS for SMEs, when the group is required to publish consolidated financial statements in accordance with full IFRSs.

The Q&A specifies that a parent entity assesses its eligibility to use the IFRS for SMEs on the basis of its own public accountability, without considering whether other group entities have, or the group as a whole has, public accountability.

EFRAG thinks it is important that the Q&As are easily understood by entities preparing financial statements in accordance with the IFRS for SMEs. For that reason, we think it is important to draft the Q&As as a direct response to the question raised.

EFRAG supports the answer provided in the Q&A regarding public accountability. However, in order to answer the question included in the Q&A, we think the Q&A also needs to address whether an entity can choose only to prepare separate financial statements in accordance with the IFRS for SMEs and claim these to be in accordance with the IFRS for SMEs when the consolidated statements have not been prepared in accordance with the IFRS for SMEs – but in accordance with full IFRSs.

Our detailed comments on the Q&A are set out in Appendix 1.

If you would like to discuss our comments further, please do not hesitate to contact Rasmus Sommer or me.

Yours sincerely

Françoise Flores

EFRAG, Chairman

Appendix 1

Notes to EFRAG's constituents

- 1 *The question addressed in the Q&A is whether a parent entity of a group can publish its separate financial statements in accordance with the IFRS for SMEs, if the group publishes consolidated financial statements in accordance with full IFRSs.*
- 2 *The answer is that an entity is eligible to use the IFRS for SMEs if it does not have public accountability. A parent entity assesses its eligibility to use the IFRS for SMEs on the basis of its own public accountability, without considering whether other group entities have, or the group as a whole has, public accountability.*

View of EFRAG:

- EFRAG is not convinced that the Q&A fully and clearly answers the question raised in the Q&A. EFRAG notes that the IFRS for SMEs requires consolidated financial statements to be prepared in accordance with the standard. EFRAG therefore thinks the Q&A also needs to address whether an entity can choose only to prepare separate financial statements in accordance with the IFRS for SMEs and claim these to be in accordance with the standard.

- 3 Within the EU, parent entities are required to prepare both financial statements for the separate entity and consolidated financial statements.
- 4 In the view of EFRAG, if these parent entities publish general purpose financial statements for external users and are not themselves publicly accountable, they meet the definition of small and medium-sized entities included in paragraph 1.2 of the IFRS for SMEs.
- 5 It follows from paragraph 1.5 of the IFRS for SMEs that, if a publicly accountable entity uses the IFRS for SMEs, its financial statements should not be described as conforming to the IFRS for SMEs.
- 6 According to paragraph 1.3 of the IFRS for SMEs, an entity has public accountability if:
 - (a) its debt or equity instruments are traded in a public market or it is in the process of issuing such instruments for trading in a public market; or
 - (b) it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses.
- 7 Paragraph 1.3 only considers the entity itself. Public accountability of a parent entity does not therefore arise as a result of a subsidiary being publicly accountable.
- 8 As a result, EFRAG agrees with the conclusion of the Q&A that a parent entity assesses its public accountability without considering whether other group entities have, or the group as a whole has, public accountability.
- 9 This being said, EFRAG does not think the Q&A clearly answers the question raised and thinks there are more issues to consider before the question can be answered.

EFRAG's draft comment letter in response to the draft Q&A: Use of the IFRS for SMEs in parent's separate financial statements

- 10 In EFRAG's view, the answer to the question raised would depend on whether:
- (a) the parent entity has public accountability (which is discussed in the Q&A); and
 - (b) consolidated statements are also prepared in accordance with the IFRS for SMEs (which is not discussed in the Q&A).
- 11 According to paragraph 9.2 of the IFRS for SMEs a parent entity shall present consolidated financial statements in which it consolidates its investments in subsidiaries in accordance with the IFRS for SMEs. The only exceptions may be when:
- (a) both of the following conditions are met:
 - (i) the parent is itself a subsidiary; and
 - (ii) its ultimate parent (or any intermediate parent) produces consolidated general purpose financial statements that comply with full IFRSs or with this IFRS; or
 - (b) it has no subsidiaries other than one that was acquired with the intention of selling or disposing of within one year.
- 12 In cases where the exception does not apply – for example, when a parent entity is not a subsidiary – EFRAG thinks the IFRS for SMEs requires entities to prepare consolidated financial statements in accordance with the IFRS for SMEs. Accordingly, EFRAG does not think a parent entity could prepare separate financial statements in accordance with the IFRS for SMEs if it only prepares consolidated financial statements in accordance with the full IFRSs and not also in accordance with the IFRS for SMEs.