European Federation of Accountants and Auditors for SMEs

European Financial Reporting Advisory Group
attn. Michelle Crisp
35 Square de Meeûs
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Belgium
commentletter@efrag.org

Brussels, 20 March 2009

Dear Mrs Crisp,

Re: draft comment to ED 10 Consolidated financial statements

The European Federation of Accountants and Auditors for SMEs (EFAA) represents accountants and auditors providing professional services primarily to small and medium-sized entities both within the European Union and Europe as a whole. Constituents are mainly small practitioners (SMPs), including a significant number of sole practitioners. EFAA's members, therefore, are SMEs themselves, and provide a range of professional services (e.g. audit, accounting, book-keeping, tax and business advice) to SMEs.

EFAA appreciates the opportunity to comment on the draft comment of EFRAG to the exposure draft 10 Consolidated financial statements.

EFAA generally supports EFRAG draft comments. However SMEs are only relatively affected by consolidated financial statements that are in a majority of EU Member States required only for large companies.

We will therefore concentrate on one specific topic: the equity method dealt with in EFRAG answer to question 12.

EFRAG says in its draft comment that any real practical problem with the definition of significant influence should be first assessed.
We would like to say a bit more about equity accounting.

If an entity (holding) has control or significant influence over another entity (subsidiary or associate), the performance of the latter whose beneficiary is the holding, is also a measure of the performance of the holding. Cost accounting does not reflect such performance and therefore has lower value than equity accounting. The stewardship function is also of lower value. As far as subsidiaries are concerned, cost accounting makes their performance completely arbitrary as the holding keeps the control whether or not the subsidiary distributes profits.
In IAS 27, equity accounting was forbidden with the so-called improvement project of 2005. The present exposure draft continues this policy and its low information value.
Moreover, in the IFRS for SMEs (for NPAEs as it is now called), IASB sticks to the cost method.

We would therefore like EFRAG to advocate in its comment letter for making equity accounting possible again.

In its answer to question 12, EFRAG is right in saying that there is no problem, at least in the EU/EER. The 20% threshold (rebuttable presumption that there is a significant influence from 20% share, rebuttable presumption that there is no significant influence with a smaller interest) works quite well in practice.

However, the IASB cannot use such a threshold in a principle-based standard. We therefore suggest commenting that there is an interest magnitude where significant influence can be presumed and a lower magnitude where significant influence cannot be presumed, both rebuttable for specific associates.

Please do not hesitate to contact us if you require any further information or clarification on EFAA's comments.

Yours sincerely,

Federico Diomeda
President