Date
17 August 2005

Le Président

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Mr. Paul Pacter
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Email: commentletters@iasb.org.uk

Dear Mr. Pacter,

Re: IASB Questionnaire on Possible Recognition and Measurement Modifications for SMEs

1. FEE (Fédération des Experts Comptables Européens, European Federation of Accountants) is pleased to submit its views on the IASB questionnaire "Possible Recognition and Measurement Modifications for Small and Medium-sized Entities. We apologise for the late submission of this letter.

2. FEE as a founding organisation of EFRAG has also contributed to the EFRAG commenting process by submitting our views on their preliminary comments. This response should be read in conjunction with the response submitted by EFRAG. Where we are in agreement with the EFRAG comments we refer to their comments. Where we are in disagreement, our own views are put forward.

3. Like EFRAG, we welcome the Board's decision to develop a separate set of financial reporting standards for SMEs. We support EFRAG's general comments in their letter to IASB of 6 July 2005 regarding the scope and the focus of the SME standards on typical medium-sized entity, and the dissimilar needs of SME financial reporting users.

4. We share EFRAG's concerns that IASB might arrive at only few differences on recognition and measurement for SME standards from existing IFRS. We believe there should be as many differences as are necessary to meet the needs of users of SME financial statements and to provide sufficient simplification compared to "full IFRS".

5. We recall that the IASB may set standards for SMEs, but that it is for national jurisdictions, or regional regulators such as the EC, to decide if and which entities are required or allowed to apply such international standards. Nevertheless, it is important that the IASB develops the standards for the SMEs with certain entity characteristics in mind. The crucial issue is that international standards for SMEs should be sufficiently simplified.

6. In principle, standards for SMEs should be without options for recognition and measurement, with exemptions for those options that could benefit for SMEs. In that case the option should be briefly described in the standard, but the SME would have to refer to the full IFRS text if it wants to apply the option.

7. The IASB questionnaire does not address IFRIC Interpretations. We are of the opinion that IASB should also address Interpretations as part of its simplification project.

8. As part of the comments received by IASB on its 2004 discussion paper, the European Accounting Association's Financial Reporting Standards Committee has submitted a review of research by European academics relevant to the IASB project on SMEs, notably on user needs. IASB may find it useful to refer to this document in addressing recognition and measurement issues.

Question 1 – What are the areas for possible simplification of recognition and measurement principles for SMEs?

1. Relevance of fair value concept

1. We consider that the overall principle for SMEs is historical cost. The use in certain circumstances of fair value should be an exception to this overall principle. Where this exception is applied in form of granting an option to SMEs it should only be summarised in the standards for SMEs. SMEs that wish to apply the option will need to refer to the full text of the IFRS concerned.

2. We accept EFRAG's criteria in selecting which fair value measurement options need to be retained in the standards for SMEs of:
   - Observable market data is available.
   - 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.

   However, these criteria should not be used in the standards themselves to restrict the definition or the application of fair value, nor should a new definition of fair value be (implicitly) introduced.

3. IAS 39: We support the EFRAG proposal to use only two categories of financial assets, and to recognise the gain/loss immediately in the profit and loss account. However, with this proposal, one should make sure that held to maturity assets would not be recognised differently in an SME than in a listed entity.

4. IAS 16 / IAS 38: We support the EFRAG proposal to restrict the revaluation option so that it is available only if the property, plant and equipment is easily disposable.

5. IAS 40: We disagree with EFRAG's suggestion to restrict the revaluation option for SME standards. The principle for measurement of investment property should be historical cost. If SMEs wish to revalue investment property they need to apply "full IAS 40".

6. IAS 27/IAS 28/IAS 31:The overall principle is historical cost for SMEs. If SMEs want to apply the option to revalue at fair value, they need to refer back to the full standard.

7. IFRS 5: We agree with EFRAG to omit the measurement provisions in this standard for SMEs, for practical reasons, and to incorporate the relevant principles in other standards. This standard in itself is too complex to apply.

2. Simplifications based on cost-benefit arguments

8. IAS 38: We agree with EFRAG's suggestion to permit expensing developments costs in all circumstances, even where the criteria for capitalisation are met. We suggest to limit the option to development costs. If the standard for SMEs still includes the option to expense other intangible assets, examples need to be given of such intangible assets. Introducing an option to expense all development costs is a valid proposal as in some cases it is difficult and burdensome for SME to justify the capitalisation of development costs. However, we do not support EFRAG's proposal to disclose the amounts expensed because it adds an extra burden for preparers if the amount is to be separately disclosed.

9. IFRS 3: We agree with EFRAG to reintroduce amortisation with an impairment test when indication of impairment arises. Although it does not produce more relevant information than the “impairment test only model”, the compliance costs are reduced. We propose that the 20 years amortization period proposed should instead be a rebuttable presumption of a 20 years maximum period.

10. IFRS 5: We agree with EFRAG that the measurement provisions of IFRS 5 are superfluous for SME standards.

11. IAS 36: We agree with EFRAG response and proposal to reduce the burden of calculating impairment for SMEs. The current impairment test under IAS 36 is very complex to apply. IAS 36 requirements could be a basic guideline for a simplified and more straightforward test. However, we think that the general principle of impairment is an important one. If the recoverable amount of an asset is lower than its carrying amount, this should be reflected as an impairment loss.

12. IAS 38: We agree with EFRAG’s proposal to eliminate the distinction between intangible assets with indefinite life and with definite life and we also suggest amortisation of intangible assets, including a rebuttable presumption of the 20 year maximum period.

13. IAS 39: We agree with EFRAG that SME could be permitted to apply either effective interest method or straight line method in measuring financial assets and liabilities at amortised cost..

14. IAS 17: Unlike EFRAG we wish to allow SMEs to expense all leases, with disclosures of leases commitments, for simplification on cost-benefit ground.

15. IAS 40: We feel the suggestion of EFRAG to always measure investment property at present value of the minimum payments is unfounded because the principle of lower of cost and fair value should still be applied. The impairment will reduce any overstatement. We disagree with EFRAG and we prefer to keep the investment property at the lower of fair value and present value of the minimum lease payments.

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

16. IAS 39: We do not agree with EFRAG’s simplification of hedge accounting rules limited to foreign currency risks because it is now common for an SME to enter into hedge of interest rate risks, specially within the Euro zone. We believe that when SMEs enter into the complex issue of financial instruments they have to apply the full IAS 39 standard. However, if hedge accounting for SMEs is simplified, it should be in the context of the administrative burden related to the documentation and the effectiveness testing.

17. IFRS 2: We agree with EFRAG that a simplified standard on share-based payments is needed since SMEs have share-based payments and the current IFRS 2 is focused on listed entities.

<u>4. No simplification on recognition and measurement identified:</u>

We agree with EFRAG that no simplification is required for:

IAS 2 Inventory,
IAS 8 Accounting Policies, changes in accounting estimates and errors,
IAS 10 Events after the balance sheet date,
IAS 11 Construction contracts,
IAS 18 Revenue,
IAS 19 Employee benefits
IAS 20 Government Grants,
IAS 21 Effects of changes in foreign exchange rates,

IAS 27 Consolidated and separated financial statements,
Equity method under IAS 28 and IAS 31,
IAS 29 Financial reporting in hyperinflationary economies,
IAS 31 Interest in Joint Ventures
IAS 32 Financial instruments: disclosure and presentation,
IAS 37 Provisions, Contingent Liabilities and contingent assets,
IFRS 6 Exploration and Evaluation of Mineral Resources.

Deferred income tax accounting under IAS 12: We do not agree with EFRAG to retain the deferred taxes accounting principles for SME because of its complexity. We would favour a simplified tax accounting method (cash flow through method).

Derecognition principles under IAS 39: We agree with EFRAG that the basic principles on derecognition should be retained, except for the fair value measurement of the guarantee given in case of continuing involvement.

Fair value accounting under IAS 41: We believe no simplification on recognition and measurement is required for biological assets and agricultural production under IAS 41.

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 IFRS.

IFRS 2: We agree with EFRAG and disagree with IASB assumption. A simplified method for accounting for share-based payments is needed for SMEs

IFRS 3: We agree with EFRAG and disagree with IASB assumption. There is no reason to assume that SME will seldom enter into business combinations. Therefore an appropriate SME standard on business combinations is necessary.

IFRS 4: We disagree with EFRAG because we agree that companies that issue insurance contracts have public accountability and should follow full IFRS.

IAS 11 Combining and Segmenting Construction Contracts: We agree with EFRAG. IAS 11 accounting principles should be retained for SMEs.

IAS 12 Temporary differences: We agree with EFRAG to retain these principles.

IAS 16 Revaluation model for property, plant and equipment: We refer to response to Question 1 of this letter.

IAS 17 Sale and leaseback transactions: We agree with EFRAG to retain the principles for SMEs.

IAS 19 Defined benefit employee programmes: We agree with EFRAG but prefer that for other long-term plans, the requirements are simplified.

IAS 23 Capitalisation model for borrowing costs: We agree with IASB to omit the topic for SMEs.

IAS 26: We agree with EFRAG and IASB.

IAS 27: We agree with EFRAG that the principles in IAS 27 should be part of the SME standards and disagree with IASB assumption.

IAS 30: We agree with IASB that financial institutions have public accountability.

IAS 32 Split accounting for compound financial instruments: We agree with EFRAG and agree to maintain the topic.

IAS 36 Impairment of goodwill: We agree with EFRAG and disagree with IASB assumption to omit this topic for SMEs.

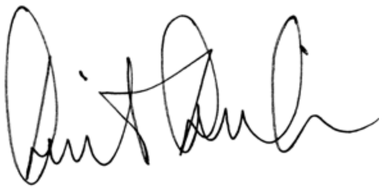
IAS 38 Revaluation model for intangibles: We refer to response to Question 1 of this letter.

IAS 39 Derecognition: We agree with EFRAG to retain derecognition criteria under IAS 39 for SMEs.

IAS 39 Hedge accounting: We disagree with EFRAG and prefer a full fallback to IAS 39.

We would be pleased to discuss with you any aspects of this letter which you may wish to raise with us.

Yours sincerely,



David Devlin
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