

BELGIAN ACCOUNTING STANDARDS BOARD



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Our reference
C-045

Your reference

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Dear Sir,

Invitation to comment - Compatibility Analysis IFRS for SMEs and the Council Directives

The Belgian Accounting Standards Board (BASB) is pleased to respond to the Working Paper on the Compatibility Analysis IFRS for SMEs and Fourth and Seventh Council Directives.

Our answers to the specific questions raised in the Working Paper are included in the attached appendix to this letter. Should you wish to discuss the content of this letter with us, please contact Jan Verhoeve at cnc.cbn@cnc-cbn.be.

Yours faithfully,

A handwritten signature in black ink, appearing to be 'Jan Verhoeve', written over a horizontal line.

Jan Verhoeve
Chairman BASB

Q1 Do you think that some of the paragraphs of the IFRS for SMEs, EFRAG has identified as being incompatible with the EU Accounting Directives, are compatible with the EU Accounting Directives? (If so, why?)

Based on our review, we agree with the analysis.

Q2 Do you think that paragraphs 9.6, 19.14, 21.4 and/or 29.24 are incompatible with the EU Accounting Directives? (If so, which and why?)

Paragraph 9.6 – Currently exercisable options or Convertible instruments

It is clear under IFRS for SMEs that currently exercisable options or convertible instruments must be assessed in determining whether or not a parent has obtained control or not. EFRAG concluded that the Council Directives did not mention anything with respect to the treatment of potential voting rights and hence no incompatibility exists between both frameworks.

We would conclude that, in assessing whether or not control exists, entities are more or less aligned with the persuasive principles of the current IAS 27 *Consolidated and Separate Financial statements* that states that *management intent* should also be considered in determining whether or not the currently exercisable options or convertible instruments would effectively lead to control; as the Directives do not include any guidance whether or not *management intent* should be considered, we are not able to conclude on any (in)compatibility.

Paragraph 19.14 – Purchase Price Allocation

We conclude that there is no inconsistency between the Council Directives and IFRS for SMEs. Again, from a local GAAP perspective an incompatibility might arise.

Paragraph 21.4 and 29.24 – Definition of *probable* – Recognition of provisions

Under IFRS for SMEs, a provision can only be recognized if it results from a past event, which can be either legal or constructive, whereas under the Council Directives provisions are recognized for liabilities that are likely to be incurred or certain to be incurred. We believe that this is a conceptual incompatibility with respect to the recognition of provisions.

IFRS for SMEs states that provisions should be recognized when there is a probable outflow. The Fourth Directive defines that a provision should be recognized when the incurrence of a liability is likely. IFRS for SMEs' definition of probable is defined as *more likely than not*, whereas we are not able to find a similar definition for likely within the Fourth Directive and thus we believe that we are not able to conclude on any (in)compatibility.

Q3 Do you think there are other paragraphs of the IFRS for SMEs that are incompatible with the Council Directives? (If so, why?)

As the IFRS for SMEs are one set of integrated financial reporting standards based upon a separate accounting framework with limited application options and the Council Directives are more aiming towards principles of a reporting / accounting framework, we believe that the identified (in)compatibilities are often too general and compatibility seems to arise, from a theoretical point-of-view whereas in practice, i.e. at the Member State Level, a different conclusion might be reached.

IFRS for SMEs allows entities to apply the recognition and measurement concepts of IAS 39 *Financial Instruments: Recognition and Measurement* for (non-) vanilla financial instruments. The *fair value* measurement concepts of IAS 39 *Financial Instruments: Recognition and Measurement* seem to our understanding not compatible with the measurement requirements of the Council Directives.

We also refer to our answer on question 5.

Q4 Are you aware of situations where the conclusions reached by EFRAG would have been different had another language version than the English version been applied in the analysis? (If so, what conclusion would be different and why?)

We are of the opinion that a different language version would *in substance* not lead to a different conclusion.

Q5 Do you have other comments in relation to EFRAG's conclusions and their bases (including conclusions stated in EFRAG's working paper)?

We have thoroughly reviewed the EFRAG Working Paper and concluded that more incompatibilities might arise for each of the respective EU Member States if the review would be executed at the level of each Member State. Indeed, from a Belgian perspective, we would identify more incompatibilities, mainly due to the options granted in the Council Directives (e.g. paragraph 9.6 of the Working Paper), but also due to the various interpretations issued by the local Standard Setter. We believe that it is of utmost importance to include the view of the local Standard Setters during the deliberations process of the potential changes of the Directives in order to avoid any conceptual incompatibilities between the current accounting practice, the Directives and IFRS for SMEs.