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19th April 2010

Re: ***EFRAG draft advice on compatibility of the IFRS for SMEs and the EU Accounting Directives***

Dear Sir/Madam

We are pleased to provide EFRAG with our comments in order to contribute to the finalization of the EFRAG advice on compatibility of the IFRS for SMEs and the EU Accounting Directives.

Our replies to EFRAG's questions are as follows.

Question 1

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?)

We agree with the analysis performed by EFRAG.

Question 2
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?)

Potential voting right (par. 9.6 of IFRS for SMEs):

As mentioned in your draft letter, the EU Accounting Directives do not specifically address this issue. On one hand, we think that entities cannot take into account options and convertible instruments when determining whether or not to include an entity in the consolidation in the absence of a specific provision. On the other hand, we understand that this may not qualify as an incompatibility as defined in your draft letter (*incompatibility has been defined to mean that an accounting treatment required by the IFRS for SMEs is not permitted under the EU Accounting Directives*). Nevertheless, we believe that this issue should be reported to the European Commission.

"Less likely than not" liabilities (par. 19.14, 21.4 and/or 29.24)

We believe that the word "likely" in article 20.1 of the Fourth EU Accounting Directive should be interpreted as "probable" in paragraph 21.4 of the IFRS for SMEs, and consequently, that the Accounting Directives do not allow the recognition of contingent liabilities acquired in a business combination and the recognition of current and deferred tax using probability-weighted average amount when it is not probable that these liabilities will arise.

Regarding the compatibility of paragraph 19.14 we bring to your attention that article 31.1a of the Fourth EU Accounting Directive, as amended in 2003, allows the recognition of potential losses, by stating that: "*In addition to those amounts recorded pursuant to paragraph (1)(c)(bb), Member States may permit or require account to be taken of all foreseeable liabilities and potential losses arising in the course of the financial year concerned or of a previous one, even if such liabilities or losses become apparent only between the date of the balance sheet and the date on which it is drawn up*."
We have the following doubt: are "*potential losses*" more probable than contingent liabilities? Paragraph 19.14 of IFRS for SMEs could be compatible with EU Accounting Directives if *potential losses* were considered as probable as *contingent liabilities.*

The recognition criterion for deferred tax assets established by Paragraph 29.24 (i.e. probability-weighted average amount of all the possible outcomes) of the IFRS for SME seems to be incompatible with article 31.1 (aa) "*only profits made at the balance sheet date may be included*". Since EU Accounting Directives do not include any explicit recognition criterion for deferred tax assets we think that article 31.1 (aa) should be considered.

Question 3

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

We have some doubts regarding the compatibility of the following paragraph of the IFRS for SMEs.

<u>Unpaid capital</u>

Paragraph 22.7 of IFRS for SMEs states that:
"*An entity shall recognise the issue of shares or other equity instruments as equity when it issues those instruments and another party is obliged to provide cash or other resources to the entity in exchange for the instruments.*
(a) If the equity instruments are issued before the entity receives the cash or other resources, the entity shall present the amount receivable as an offset to equity in its statement of financial position, not as an asset…"
Article 9 of the Forth EU Accounting Directive states also that:

"*Subscribed capital unpaid*
of which there has been called
(unless national law provides that called-up capital be shown under 'Liabilities'. In that case, the part of the capital called but not yet paid must appear as an asset either under A or under D (II) (5))."

Paragraph 22.7 of IFRS for SMEs seems incompatible with the EU Accounting Directives because, according to IFRS for SMEs, the unpaid capital cannot be recognized as an asset.

Question 4

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?)

No we aren't.

Question 5

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

No we haven't.

If you have any queries concerning our comments, please do not hesitate to contact us.

Yours faithfully,
Angelo Casò
(Chairman)