



Accounting Standards Board

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3 September 2009

Dear Jeroen

European Commission Update on the Review of the 4th and 7th Company Law Directives (the Accounting Directives)

I am writing with the comments of the UK Accounting Standards Board (ASB) in response to the update announcement posted on the Commission's website on 28 July and the request for comments on the International Financial Reporting Standards for Small and Medium-sized Entities (IFRS for SMEs) or any other aspect of review of the Accounting Directives.

The ASB welcomes the announcement that the Commission has decided to take more time over its review of the Directives and to consult with stakeholders on the accounting framework for SMEs and the IFRS for SMEs. The ASB believes that the announcement reinforces the comments the Board made in its response (dated 3 April) to the February 2009 consultation paper on the review of the Accounting Directives. In our view, the fact that the Commission has decided to take more time over its review of the Accounting Directives provides the opportunity to undertake a more comprehensive examination of the legislation, rather than continuing to make piecemeal changes.

As you will be aware, the ASB's view is that the Directives should provide a high-level legal framework and principles within which Member States can determine their own accounting requirements, in conformity with the principle of subsidiarity. This would allow those Member States that so wished to use the IFRS for SMEs as the basis for their national accounting requirements without a concern that they will possibly be breaching the requirements of the Directives. Similar points were made

by a number of other participants that attended the Commission's stakeholders meeting on the review of the Accounting Directives that was held on 12 June.

In the Board's letter of 3 April, I noted that the ASB was at that time developing a proposal for the future reporting requirements for UK and Irish entities. The ASB issued a consultation paper on 11 August and I attach a copy for your information. As you will see from the consultation paper, the Board believes that the IFRS for SMEs can play a significant role in a three-tier approach to developing UK GAAP converged with IFRS as follows:

- Tier 1 – publicly accountable entities would apply IFRS as adopted by the EU ('EU-adopted' IFRS).
- Tier 2 – all other UK entities other than those who can apply the Financial Reporting Standard for Smaller Entities (FRSSE) could apply the IFRS for SMEs.
- Tier 3 – small entities could choose to continue to apply the FRSSE.

Entities within Tier 2 and Tier 3 would have the option of using EU-adopted IFRS if they wished, and those in Tier 3 would have the option of using the IFRS for SMEs.

Our ability to use the IFRS for SMEs in the approach outlined above is, of course, dependent on confirmation that it is compatible with the requirements of the Accounting Directives. As you are aware, the staff of the ASB has undertaken some preliminary work on this issue, which we have shared with your colleagues in the Financial Reporting Unit. We are keen to continue working with you in developing this work, with a view to ensuring that there are no legal conflicts that would present an insuperable barrier to using the IFRS for SMEs as outlined above, as well as sharing views more generally on the EU accounting framework.

I would welcome the opportunity to meet to discuss these issues further with you.

Should you have any queries regarding our response please contact me, David Loweth (Technical Director, telephone +44 20 7492 2420 or email d.loweth@frc-asb.org.uk), or Peter Godsall (Project Director, telephone +44 20 7492 2426 or e-mail p.godsall@frc-asb.org.uk).

Yours sincerely



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