



*European Federation of Accountants and Auditors for SMEs*

International Accounting Standards Board (IASB)  
30 Cannon Street  
LONDON  
EC4M 6XH  
Brussels, 28 April 2011

Dear Sir

### **Reaction to the IASB's Exposure Draft (ED/2011/1) Offsetting Financial Assets and Financial Liabilities**

The European Federation of Accountants and Auditors for SMEs ("EFAA") represents accountants and auditors providing professional services primarily to small and medium-sized entities ("SMEs") 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, bookkeeping, and tax and business advice) to SMEs.

EFAA appreciates the opportunity to comment on the Exposure Draft - Offsetting Financial Assets and Financial Liabilities. Our comments are made in relation to the areas outlined below.

#### General comments

The ED's emphasis is to increase convergence of IFRS and US GAAP. We accept this premise and have no further comments on this ED as it is presented.

We recognise that the ED is targeted mainly to financial institutions and whilst acknowledge this focus we would suggest that consideration is given to instances where the effects of this standard are felt in the SME and SMP sector. Some examples of this are given below.

#### 1. Preferential shares

Preferential shares are an important instrument often used in succession planning for SMEs and family owned businesses, where the original owner is often able to retain an interest in the entity by means of preferential equity. The use of this structure can in some circumstances enable the original member to retain an element of control whilst also enabling an exit against face value at an agreed time. However, we are aware of differences in accounting treatment in Europe where in some instances preferential shares are not treated as a liability under IAS 32, Financial Instruments Presentation and consistent and harmonised accounting treatment between entities is thus not achieved.

#### 2. Pension liabilities

In some European countries future salary increases for future pension liabilities, wholly within the discretion of the entity are considered a liability (although they do not meet the criteria of a liability; not legal, not constructive, not economic) whilst in others they are not. In addition future pension increases are dependant on the future income of the plan assets, insofar as that income exceeds certain



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thresholds (the so-called conditional indexation). Some would argue that for these elements the issue is one of recognition and classification, not of offsetting, however we believe that there is also an element of offsetting as IAS 32 would allow a liability to be offset to the extent that the liability can only arise from a future asset, not from a present asset.

### 3. Insured liabilities

Liabilities arising from actions where the entity is liable but the insurance company has full coverage are often offset. In practice, we do not see a gross liability and a gross asset (receivable from the insurer for the same amount) and thus we must be experiencing implicit offsetting.

### Conclusion

In our view none of the aforementioned issues are dealt with in the ED but as the above examples show, offsetting is a normal practice under certain situations. However, it is not performed on a consistent basis and as such transparency and comparability of financial statements is not maximised in these instances.

I trust that the above is comprehensive but should you have any questions on our comments, please do not hesitate to contact me.

Yours sincerely,

Federico Diomeda  
Chief Executive Office

*This paper has been prepared by the EFAA Accounting Expert Group, chaired by Mr. Jan Achten.*