



12 November 2012

Our ref: ICAEW Rep 169/12

Mme Françoise Flores  
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By email: [commentletter@efrag.org](mailto:commentletter@efrag.org)

Dear Mme Flores

**IASB Request for Information: *Comprehensive Review of the IFRS for SMEs***

ICAEW is pleased to respond to your request for comments on EFRAG's draft comment letter to the IASB on their Request for Information: *Comprehensive Review of the IFRS for SMEs*.

Please contact me should you wish to discuss any of the points raised in the attached response.

Yours sincerely

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## ICAEW REPRESENTATION

### IASB REQUEST FOR INFORMATION: COMPREHENSIVE REVIEW OF THE IFRS FOR SMES

Memorandum of comment submitted in November 2012 by ICAEW, in response to EFRAG's draft comment letter on the IASB's Request for Information: *Comprehensive Review of the IFRS for SMEs* published in June 2012.

<b>Contents</b>	<b>Paragraph</b>
Introduction	1
Who we are	2
Major points	5
Responses to specific questions	9

## INTRODUCTION

1. ICAEW welcomes the opportunity to comment on EFRAG's draft comment letter on the Request for Information: *Comprehensive Review of the IFRS for SMEs* published by the IASB on 26 June 2012.

## WHO WE ARE

2. ICAEW is a world-leading professional accountancy body. We operate under a Royal Charter, working in the public interest. ICAEW's regulation of its members, in particular its responsibilities in respect of auditors, is overseen by the UK Financial Reporting Council. We provide leadership and practical support to over 138,000 member chartered accountants in more than 160 countries, working with governments, regulators and industry in order to ensure that the highest standards are maintained.
3. ICAEW members operate across a wide range of areas in business, practice and the public sector. They provide financial expertise and guidance based on the highest professional, technical and ethical standards. They are trained to provide clarity and apply rigour, and so help create long-term sustainable economic value.
4. The Financial Reporting Faculty is recognised internationally as a leading authority on financial reporting. The Faculty's Financial Reporting Committee is responsible for formulating ICAEW policy on financial reporting issues, and makes submissions to standard setters and other external bodies. The faculty also provides an extensive range of services to its members, providing practical assistance in dealing with common financial reporting problems.

## MAJOR POINTS

### Support for EFRAG's 'two-step approach'

5. We agree with EFRAG's headline message that the review of the IFRS for SMEs would best be tackled through a two-step process. By answering fundamental questions about the direction of the standard and its objectives many of the detailed questions posed by the paper can more easily be addressed. In paragraphs 24 to 27 of our draft response we explore this theme in more detail. We note that this principle may also assist with EFRAG's own draft response and may help provide an answer in areas where the Group is currently undecided (ie, S4, S6, S8, S12, S16, S18); namely that once the Board has established objectives for the standard these questions can then be evaluated against those.

### We support view 2 – full IFRS changes should be considered when amending the IFRS for SMEs but not automatically incorporated

6. It appears from EFRAG's draft response that some members would favour a presumption that the IFRS for SMEs would be changed as little as possible. We have some sympathy with this view. Certainly changes to full IFRS should not be automatically replicated in the IFRS for SMEs, and as we explore further below – changes should only be made to the strict three year timetable. However, with these two qualifications in place we see no reason why the IFRS for SMEs should be allowed to unnecessarily diverge from full IFRS. In our opinion it is inefficient to have two distinct sets of accounting principles operating within a single economy. It complicates the training of accountants and the systems of businesses that do, or might have to, operate both systems. We believe that the Board should establish a clear purpose and objectives for the IFRS for SMEs, but in deciding upon these it would appear sensible to minimise differences in principle with full IFRS.

### Think small first

7. In making suggestions about the future of the standard it is important to remember that SMEs comprise a large part of its constituency. These entities value high quality reporting to ensure

continued access to funding. Consistency with full IFRS also has its benefits – having two distinct sets of principles operating within an economy complicates accounting practice. Yet it is important to remember that these entities also need a standard proportionate to their needs. In the UK our consultation has shown that an amended version of the IFRS for SMEs is likely to prove popular with SMEs due to its successful blend of internationally comparable principles and simple articulation. This should not be compromised through unnecessary complication.

### **Maintain a stable platform**

8. We are concerned that some of the potential answers to questions posed by the Board suggest changes being considered to a more frequent timetable than the established three year review period. Any move away from the stable platform promise that backs the standard would be most undesirable. Change can be costly for SMEs and is much more efficiently implemented in three yearly blocks. We therefore urge EFRAG to join us in highlighting this over-arching concern in the cover letter to their response.

## **RESPONSES TO SPECIFIC QUESTIONS**

**Cover letter: What factors do you think should be considered when reviewing the IFRS for SMEs, what should be the weight of each of these factors, and to what extent should amendments to full IFRS be considered when reviewing the IFRS for SMEs?**

9. We support view 2. However, as we have suggested in paragraph 5 above, this question cannot be fully addressed without establishing the objectives of the standard. It is desirable to maintain consistency with full IFRS as far as is practicable – differences complicate systems and training. Yet in a standard targeted at SMEs simplicity is also highly important. In our opinion each change to full IFRS should be assessed against a set of objectives established for the standard so that decisions about whether a particular change is incorporated, and the extent to which it is simplified, can be made on a consistent basis.

**S1: Do you support one of the views expressed by EFRAG TEG members in relation to the use by publicly traded entities of the IFRS for SMEs? If so, which view do you support? If not, what is your answer to Question S1 of the Request for Information?**

10. We strongly support alternative b. The standard was not designed to meet the needs of users of publicly accountable entity accounts and is clearly deficient to do so. If it was to be adapted with these users in mind it would be significantly complicated. In the UK we have made some changes to the standard so that certain publicly accountable entities can use it. The scope of the new UK national accounting standards have been drawn very carefully, taking into account local circumstances, yet even so these amendments to the standard have added a layer of complexity. We do not believe such an approach is desirable in the international standard.
11. However, the Board needs to be mindful that it is local regulatory authorities that have jurisdiction over the shape of their accounting regime. Although they may not be able to state compliance with the IFRS for SMEs if they modify the international standard, they could opt to shape a national GAAP in substantially similar form. Therefore we feel that the current scope restriction is something of a blunt instrument. Although we favour its retention, we feel it would be more effective if it could be accompanied by an explanation of why the standard is unsuitable for publicly accountable entities, with an indication of what the deficiencies might be. Then any jurisdictions contemplating amendments in a similar fashion to those made in the UK will be able to design these in a transparent and consistent manner. This topic is explored in more detail in paragraphs 33 to 35 of our draft response attached.

**S2: Do you support one of the views expressed by EFRAG TEG members in relation to the use by financial institutions of the IFRS for SMEs? If so, which view do you support? If not, what is your answer to Question S2 of the Request for Information?**

12. Please refer to our answer in paragraphs 10 & 11 above.

**S6: Are you aware of any problems resulting from the guidance on fair value measurement currently included in the IFRS for SMEs that could be solved by expanding the guidance to reflect the principles in IFRS 13, modified as appropriate to reflect the needs of users of SME financial statements and the specific circumstances of SMEs?**

**13.** We agree with EFRAG's headline message as outlined in paragraph 5 above, but we are not convinced that the proposed answer to S6 is consistent with that position. To our mind the fundamental issue here is that the objectives of the standard need to be clearly established. Once that is done this question may fall away. We agree with EFRAG that SMEs should not have to spend resources implementing changes that result in few or no benefits. But it cannot be desirable to perpetuate a definitional difference between the two platforms if such a change was unlikely to involve much in the way of transitional cost.

**S9: Do you support one of the views expressed by EFRAG TEG members in relation to revaluation of PPE? If so, which view do you support? If not, what is your answer to Question S9 of the Request for Information?**

**14.** We favour option (b), although we do have some sympathy with (a). Ultimately the answer here will depend upon the purpose that is established for the standard. But overall it is likely to be useful to many territories for this option to be made available. To avoid unduly complicating the standard for those entities or jurisdictions wishing to limit optionality, the options could simply be included as boxed sections that could be ignored by those wishing to use the simplest form of the standard.

**S10: Do you support one of the views expressed by EFRAG TEG members in relation to capitalisation of development costs? If so, which view do you support? If not, what are your answers to Question S10 in the Request for Information?**

**15.** See our answer in paragraph 14 above. We note that capitalisation of qualifying development costs is required under IFRS, not an option, but we do feel that adding an option to the IFRS for SMEs in a boxed section could help provide better information to users.

**S14: Do you support one of the views expressed by EFRAG TEG members in relation to capitalisation of borrowing costs on qualifying assets? If so, which view do you support? If not, what are your answers to Question S14 in the Request for Information?**

**16.** See our answers in paragraphs 14 & 15 above.

**S16: Do you support one of the views expressed by EFRAG TEG members in relation to deferred income taxes? If so, which view do you support? If not, what are your answers to Question S16 in the Request for Information?**

**17.** We support alternative E. The current income taxes section is based upon abortive proposals for full IFRS. It is out of date and needs to be replaced. How the Board sets about doing so will depend upon the objectives it has set for the standard. IAS 12 *Income Taxes* has been subject to much criticism and in our view the Board should consider re-opening the standard when it next consults on its three yearly agenda priorities. We note that EFRAG has been performing some valuable pro-active work in this area and we encourage the continuation of these efforts. Until the standard can be revisited we suggest that a simplified version of IAS 12 might be the best solution for the IFRS for SMEs.

**S18: Do you support one of the views expressed by EFRAG TEG members in relation to incorporating the exemption for investment property at fair value of IAS 12 in the IFRS for SMEs? If so, which view do you support? If not, what is your answer to Question S18 in the Request for Information?**

**18.** Again, once a set of objectives are established for the standard then it will be more straightforward to address questions of this type. However, given that the amendment to IAS 12 simplifies the treatment for affected entities it would appear sensible to incorporate this change into the IFRS for SMEs.

**G1: Do you support one of the views expressed by EFRAG TEG members in relation to incorporating the minor improvement to full IFRS in the IFRS for SMEs? If so, which view do you support? If not, what is your answer to Question G1 in the Request for Information?**

**19.** We support alternative (d). It is important that the IFRS for SMEs is only amended in line with the agreed three year cycle. One of the main attractions of the standard is the stable platform it offers. It would be most undesirable if amendments were made any more frequently – no matter how trivial they may be. However, at the three year review stage all minor amendments should be considered for inclusion. In our opinion the Board should consider each amendment on a case-by-case basis, evaluating against the objectives it has established for the standard.

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**ICAEW DRAFT RESPONSE TO THE IASB – CURRENT AT 12 NOVEMBER 2012****INTRODUCTION**

20. ICAEW welcomes the opportunity to comment on the request for information *Comprehensive Review of the IFRS for SMEs* published by the IASB on 26 June 2012.

**WHO WE ARE**

21. ICAEW is a world-leading professional accountancy body. We operate under a Royal Charter, working in the public interest. ICAEW's regulation of its members, in particular its responsibilities in respect of auditors, is overseen by the UK Financial Reporting Council. We provide leadership and practical support to over 138,000 member chartered accountants in more than 160 countries, working with governments, regulators and industry in order to ensure that the highest standards are maintained.
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**MAJOR POINTS****It is essential to first establish the purpose of the standard**

24. The request for information poses a number of questions regarding the future direction of the IFRS for SMEs. In our opinion, to answer these questions effectively it is first essential to clearly establish the purpose of the standard. It has proved very successful since its launch in 2009, but this success has illustrated that in practice the IFRS for SMEs might require a level of versatility not necessarily envisaged when it was first drafted.
25. Certainly in many territories, the standard has functioned effectively as a complete stand-alone GAAP. There is clearly demand for a comprehensive, yet simple body of accounting literature for adoption in jurisdictions without a well-established accounting regime. Yet the potential scope of the standard is wider than this, and in cases where local circumstances demand a more hybrid approach, it is not immediately apparent how this can be accommodated within the current document. In paragraph 14 below we explore how this might be addressed.
26. In Europe, established national GAAPs are already in place and, where an appetite for adoption exists at all, it may prove necessary to modify the standard for local needs. The UK and Ireland have been the first EU member states to take this approach, and we have found that a number of changes to the standard have been necessary, as explained in paragraph 13 below. Other territories outside the EU have taken a similar approach (for example Hong Kong and Singapore).
27. So we believe that it is essential, before concluding on the detailed questions in this review, that the Board should clearly establish the main purpose of the standard. If it is to remain only as a complete stand-alone GAAP, then few changes may be necessary to the existing model. If however, it were to be viewed as a framework on which national standard setters could base their own IFRS-based GAAP, then we would suggest that different considerations would come into play, although this does not mean that the two approaches are mutually exclusive. The

standard could be designed to accommodate both, as we explain below. To accompany this statement of purpose, we feel it would also be useful to set out the objectives of the standard. Once established, these can then help in addressing some of the issues we turn to below.

## Think small first

**28.** Despite its title, ‘the IFRS for SMEs’, the scope of the standard is not limited to SMEs. It can also successfully be applied by large entities as long as they do not have public accountability. We support this approach. In our opinion, public accountability is a much more appropriate threshold than arbitrary size limits. Nevertheless, it should be noted that many entities applying the standard are SMEs, and that hitherto it has proved well suited to their needs. Indeed in the UK, although originally the standard setters had intended to retain the current stand-alone standard for small entities, there has been discussion about extending the UK’s ‘standard’ version of the IFRS for SMEs (with some simplifications) to these small entities too. Therefore it is essential that in modifying the standard, the needs of these entities are kept in mind. The simple approach so successfully established in the first edition of the standard should not be unnecessarily complicated through subsequent amendment. We accept that in some jurisdictions there may be a call for greater optionality, and in some cases demand to extend the standard to encompass certain entities with public accountability. In paragraph 14 below, we explore how this might be accommodated. But as an overarching point, we feel it is important that, in any changes contemplated to the standard, its objectives are adhered to.

## Do not break the three year review cycle

**29.** One of the most welcome elements of the standard is the stable platform it offers through the adoption of a strict three year timetable for changes. We think that it is essential that this restriction is maintained. Some of the options in the answer sheet imply a more ad-hoc update basis, for example, to maintain consistency with full IFRS. This would not be welcome, regardless of the perceived urgency of the update. SMEs need a stable platform and therefore the standard should be amended only to its established timetable.

## Maintaining consistency with full IFRS recognition and measurement principles

**30.** There is the potential, implicit in the request for information, for the IFRS for SMEs to diverge from full IFRS over time. We would not support such a development. Although it is important to keep the IFRS for SMEs as simple as possible for SME users, avoidable divergence in recognition and measurement principles is undesirable. As part of our work to assess the likely effect of the new UK GAAP, based on the IFRS for SMEs, we talked to a number of representatives of smaller entities. They stressed the inconvenience and risk involved where different sets of accounting principles are operated. This complicates training and systems and increases the risk of error. One of the main attractions for the UK of a new national GAAP based on the IFRS for SMEs was the ability to eliminate differences between national GAAP and the EU-adopted IFRS that is mandatory for listed groups. Were further recognition and measurement differences to open up between the two, that advantage could be lost.

**31.** Nevertheless, this does not mean that every principal change to full IFRS should be slavishly copied into the IFRS for SMEs. That could over-complicate the standard. Rather, we suggest that a set of objectives be established to define what the IFRS for SMEs is setting out to achieve, possibly with a hierarchy between them in case of conflict. These might include for example; simplicity, understandability, and comparability with full IFRS. Then significant changes to full IFRS could be assessed against this list, with a rebuttable presumption that amendments would not be made to the IFRS for SMEs if they conflicted with these principles. We suggest that there should also be an overriding principle that any amendment proposed should be appropriately simplified before being considered for inclusion.

### Changes to full IFRS should not be anticipated

**32.** With change restricted to three yearly intervals, there could be an attraction to attempting to anticipate forthcoming changes to IFRS so that the IFRS for SMEs remains as up-to-date as possible. This temptation should be resisted. Past attempts to second-guess the direction of full IFRS have resulted in the ossification of an approach in the IFRS for SMEs that never made it into full IFRS – a prime example being section 29, Income Tax. It is not desirable for smaller entities to be the first to field-test a full IFRS change. In principle, larger entities should be the first to apply the new treatment so that their experience can inform the roll-out to smaller entities. Therefore, changes should be made only for items that are already effective in the full standards.

### Introduction of options

**33.** There are a number of areas where the IFRS for SMEs has achieved simplification by either specifying a more straight-forward recognition or measurement technique than full IFRS or by eliminating full-IFRS options. For some of these items, the Request for Information asks whether the IFRS for SMEs approach should be modified to offer greater consistency with full IFRS. We believe that the answer here very much depends on how the purpose and objectives of the standard are defined, as mentioned above. For some purposes, there is merit in keeping the standard as simple as possible by restricting options. For other purposes, it may well be preferable that options are restored.

**34.** In the UK, consultation with constituents revealed that certain pragmatic amendments were desirable to maintain the quality of information provided to users. Options to revalue property, plant or equipment and to capitalise borrowing and development costs were inserted because a significant number of UK companies were already using these treatments and were concerned that they would be adversely affected by having their right to do so removed. In the latter two cases, the more complex treatment has been introduced as an option, even where full IFRS requires its use. This approach was taken because, for simple companies, the accounting necessitated by these approaches could be complex and may not offer sufficient informational benefits to offset the costs of compliance. In these cases, if it so wished, a business could simply ignore the option and adopt the original, straightforward IFRS for SMEs approach.

**35.** While these changes were necessary for the UK, they will not be deemed desirable in all jurisdictions. There is certainly merit therefore in retaining a simple, core version of the standard that excludes all of these options – for jurisdictions that have no wish to use them they represent unnecessary complication. However, if the standard is also to be consciously developed into a more versatile framework as a basis for national GAAPs, there may be merit in publishing the options as an additional, bolt-on platform, say by way of boxed-sections within the main text. This new approach has the benefit that, if these options do prove popular, jurisdictions can introduce them on a consistent basis, rather than each having to write their own amendments. The Board could survey users to see whether there was demand for publication of a core IFRS for SMEs document without the boxed sections. In any case, some thought needs to be given to the hierarchy of these options such that the default treatment is likely to be that most suitable in a simple environment.

### The standard has not been designed for publicly accountable entities

**36.** Some commentators have criticised the scope restriction in the standard that prohibits adoption by publicly accountable entities. It should be noted that the restriction has little practical effect as jurisdictions can design their own regimes, drawing on as little or as much of the IFRS for SMEs as they see fit, without being subject to any external scope restrictions. The Board needs to be mindful of this, but this does not necessarily justify calls for the scope restriction to be simply removed. The fact remains that the standard was not designed with the needs of the users of publicly accountable entity accounts in mind, and in our opinion it is

deficient for this purpose. Any attempts to remedy these deficiencies would lead inevitably to more complexity – a most undesirable outcome.

- 37.** We therefore feel it is important that the issue of scope is still addressed within the standard. Although a formal scope section seems a little counter-intuitive when adopting nations have the power to set their own standards as they see fit, this section could be refocused by explaining that financial statements should not be described as complying with the IFRS for SMEs if the standard has not been adopted in full. And to make it more effective, rather than simply stating the restriction, the standard could do more to explain why it is restricted and where it is deficient for these entities. Jurisdictions designing regimes for publicly accountable entities would have clear parameters for the issues to be addressed.
- 38.** In extending the standard to cover some entities with public accountability, the UK has added a number of additional requirements, which have made it rather more complex. These include, for financial institutions, a set of incremental financial instrument disclosures, and for listed entities, a requirement to apply IAS 33 *Earnings per Share*, IAS 34 *Interim Financial Reporting*, and IFRS 8 *Operating Segments*. While this is an acceptable solution for UK GAAP, in particular for the many small financial institutions for which EU-adopted IFRS may have been excessive, we would not suggest that the Board should replicate this approach in the international standard itself. However, a consideration of these adjustments might be a good starting point for any statement setting out the deficiencies of the standard for publicly accountable entities.

#### Not for profit entities may wish to use the IFRS for SMEs

- 39.** In territories that adopt the IFRS for SMEs for commercial entities, there may well be calls to extend the standard to cover not-for-profit bodies. It would be useful for the IASB to acknowledge both the desirability of this approach in establishing a consistent framework for all entities and the challenges that need to be addressed in doing so. We do not believe that any impediments should be created that prevent adoption by these entities. Indeed, as question 3 suggests, it would be useful to clarify that the public accountability scope exclusion is not intended to specifically exclude entities that accept donations from the public. However, it should be noted that in many territories, and the UK is one example, the core standard is likely to be inadequate for the needs of these entities without modification. In the UK, we have addressed this by adding additional sections to the standard to address such specific issues as non-exchange transactions and public benefit entity combinations. Yet even so, it is not envisaged that the standard will operate without supplementary guidance (in the UK called 'SORPs' - statement of recommended practice) for entities in the charity, social housing and education sectors. Certain key terms within the IFRS for SMEs – such as 'performance obligation' – have proven problematic in a not-for-profit context. Consequently, we do not believe that the IFRS for SMEs should be adapted for the potentially complex needs of these entities. Rather we feel that the Board should give some thought to developing, or encouraging the development of, an 'international SORP' which could supplement the IFRS for SMEs for these entities. We note that, due to varying legal and regulatory frameworks between different groups of entities and different geographical jurisdictions, some local adaptation is likely to continue to be necessary.

#### Fall-back for financial instruments

- 40.** A key area where IFRS is currently in flux is in the treatment of financial instruments. If at all possible, it would be useful to defer finalisation of the IFRS for SMEs revisions until the complete IFRS 9 is published. But whether or not this can be accomplished, it is important that the fall-back option from the IFRS for SMEs to the appropriate full standard can be maintained until constituents are fully familiar with the new requirements. The measurement rules for financial instruments are rather complex, and for practitioners experienced in IAS39/IFRS 9, it may be easier to apply the full standard model they are familiar with than the slightly different IFRS for SMEs model. Once the new regime has had time to bed down adequately, and

people have become familiar with the requirements in the IFRS for SMEs, the Board should aim to withdraw the fall-back.

## Field testing

41. The UK is shortly due to replace current national GAAP with a new framework based upon the IFRS for SMEs. A number of the answers suggested in this letter draw on our involvement in the development of a standard for this purpose, and we hope provide useful examples for the Board, although it should be noted that in a number of areas we suggest that the UK solution may not be the most appropriate approach for the international standard. Nevertheless, the UK has not yet had any experience of actually using the new standard. Over the next few years, after practical field testing, a clearer view of the benefits, drawbacks and potential areas for improvement is likely to emerge. Although this experience is unlikely to come in time for the current review exercise, we urge the Board to monitor UK adoption so that this can inform and help improve future editions of the standard. We would be most willing to help in this exercise.

## RESPONSES TO SPECIFIC QUESTIONS

42. Responses to the specific questions posed by the Implementation Group are set out in the appendix to this response.

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Part A: Specific questions on Sections 1-35 of the *IFRS for SMEs*

**Name of Submitter:** John Boulton

**Organisation:** ICAEW

**Country / jurisdiction:** UK

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Ref	Question	Reasoning
S1	<p><b>Use by publicly traded entities (Section 1)</b></p> <p>The <i>IFRS for SMEs</i> currently prohibits an entity whose debt or equity instruments are traded in a public market from using the <i>IFRS for SMEs</i> (paragraph 1.3(a)). The IASB concluded that all entities that choose to enter a public securities market become publicly accountable and, therefore, should use full IFRSs.</p> <p>Some interested parties believe that governments and regulatory authorities in each individual jurisdiction should decide whether some publicly traded entities should be eligible to use the <i>IFRS for SMEs</i> on the basis of their assessment of the public interest, the needs of investors in their jurisdiction and the capabilities of those publicly traded companies to implement full IFRSs.</p> <p><b>Are the scope requirements of the <i>IFRS for SMEs</i> currently too restrictive for publicly traded entities?</b></p> <p>(a) No—do not change the current requirements. Continue to prohibit an entity whose debt or equity instruments trade in a public market from using the <i>IFRS for SMEs</i>.</p> <p>(b) Yes—revise the scope of the <i>IFRS for SMEs</i> to permit each jurisdiction to decide whether entities whose debt or equity instruments are traded in a public market should be permitted or required to use the <i>IFRS for SMEs</i>.</p> <p>(c) Other—please explain.</p> <p>Please provide reasoning to support your choice (a), (b) or (c).</p>	<p><b>C</b></p> <p>The scope requirements rightly restrict use by publicly traded entities as these entities clearly have a high level of public accountability. The <i>IFRS for SMEs</i> has not been designed for use by entities with public accountability and is unlikely to meet the needs of the users of these accounts. Too many disclosures have been omitted when compared with full IFRS for it to be considered a viable alternative to those standards. We therefore support the continued inclusion of a scope limitation, pointing out that the standard should not be applied by entities with public accountability.</p> <p>However, it should be noted that it is for local regulatory authorities to decide upon the accounting standards that should be applied in their jurisdiction. Although companies cannot claim <i>IFRS for SMEs</i> compliance unless the standard has been applied unmodified, it would always be possible for regulators to adopt a local regime that was largely identical to the international standard. Consequently the scope exclusion may have limited practical effect.</p> <p>We therefore suggest that it may be more effective to add some text to the standard explaining the reasons why the standard is unsuitable for publicly accountable entities and highlighting where it is deficient. This would make it clear to jurisdictions designing a GAAP based around the <i>IFRS for SMEs</i> what factors they should bear in mind when deciding upon the regime they should put in place for entities with public accountability. As these factors may differ for different categories of publicly accountable entity; eg</p>

Part A: Specific questions on Sections 1-35 of the *IFRS for SMEs*

Ref	Question	Reasoning
		<p>publicly traded and financial institutions, the explanation may need to address these categories separately.</p> <p>In the UK, the standard has been adapted for use by some publicly accountable entities by inserting a number of additional disclosure requirements. We would not support such an approach in the international standard. Including these additional provisions would unnecessarily complicate the standard. They should be regarded as jurisdiction-specific.</p>
S2	<p><b>Use by financial institutions (Section 1)</b></p> <p>The <i>IFRS for SMEs</i> currently prohibits financial institutions and other entities that hold assets for a broad group of outsiders as one of their primary businesses from using the <i>IFRS for SMEs</i> (paragraph 1.3(b)). The IASB concluded that standing ready to take and hold funds from a broad group of outsiders makes those entities publicly accountable and, therefore, they should use full IFRSs. In every jurisdiction financial institutions are subject to regulation.</p> <p>In some jurisdictions, financial institutions such as credit unions and micro banks are very small. Some believe that governments and regulatory authorities in each individual jurisdiction should decide whether some financial institutions should be eligible to use the <i>IFRS for SMEs</i> on the basis of their assessment of the public interest, the needs of investors in their jurisdiction and the capabilities of those financial institutions to implement full IFRSs.</p> <p><b>Are the scope requirements of the <i>IFRS for SMEs</i> currently too restrictive for financial institutions and similar entities?</b></p> <p>(a) No—do not change the current requirements. Continue to prohibit all financial institutions and other entities that hold assets for a broad group of outsiders as one of their primary businesses from using the <i>IFRS for SMEs</i>.</p> <p>(b) Yes—revise the scope of the <i>IFRS for SMEs</i> to permit each jurisdiction to decide whether any financial institutions and other</p>	<p><b>C</b></p> <p>Before addressing this question, we feel it would be useful to look more widely at the relationship between public accountability and financial institutions. The scope restriction does not explicitly exclude ‘financial institutions’, rather it refers to an entity that ‘holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses’ and then gives examples of the forms these entities might take.</p> <p>We concur that stewardship over funds gathered from a broad group of outsiders does imply a higher level of accountability and agree that entities of this type are more likely to undertake the complex transactions that necessitate the use of full IFRS, notably in the case of financial instruments. However, in attempting to apply this definition in the UK we encountered a number of problems. It was not clear exactly how ‘broad’, ‘outsiders’ and ‘primary business’ would be applied in practice. This was a particular issue at the smaller end of the scale where there was some subjectivity as to whether entities such as insurance brokers would be caught by the definition and where the costs of full IFRS compliance would have been onerous to entities such as credit unions, which tend to operate on a small, local basis. In our view, the definition could benefit from further attention. In addition, as suggested in our answer to S1, it would be useful to explain why these entities have</p>

# APPENDIX

## Part A: Specific questions on Sections 1-35 of the *IFRS for SMEs*

Ref	Question	Reasoning
	<p>entities that hold assets for a broad group of outsiders as one of their primary businesses should be permitted or required to use the <i>IFRS for SMEs</i>.</p> <p>(c) Other—please explain.</p> <p>Please provide reasoning to support your choice of (a), (b) or (c).</p>	<p>been excluded and to highlight where the standard is deficient for their needs.</p> <p>Ultimately the choice of local accounting regime is a decision for local regulators. Conceivably there might be a situation where a regulator, while applying full IFRS to most financial institutions, wished to allow a sub-set to follow a regime equivalent to the IFRS for SMEs. To assist regulators in these decisions, we believe that the scope restriction should explain clearly why the standard as published is unsuitable for financial institutions.</p> <p>This was certainly an issue in the UK, where we have extended the standard such that it can be applied by some financial institutions. To do so we have had to add in a significant number of additional requirements for these entities. Although it would be useful for the standard to be explicit about the areas in which it would need to be updated before it could be applied by financial institutions, it is important that the core standard remains as straight-forward as possible. Therefore we would not support any adaption of the international standard to attempt to cater for the needs of entities it was never designed to accommodate.</p>

Part A: Specific questions on Sections 1-35 of the *IFRS for SMEs*

Ref	Question	Reasoning
S3	<p><b>Clarification of use by not-for-profit entities (Section 1)</b></p> <p>The <i>IFRS for SMEs</i> is silent on whether not-for-profit (NFP) entities (eg charities) are eligible to use the <i>IFRS for SMEs</i>. Some interested parties have asked whether soliciting and accepting contributions would automatically make an NFP entity publicly accountable. The <i>IFRS for SMEs</i> specifically identifies only two types of entities that have public accountability and, therefore, are not eligible to use the <i>IFRS for SMEs</i>:</p> <ul style="list-style-type: none"> <li>• those that have issued debt or equity securities in public capital markets; and</li> <li>• those that hold assets for a broad group of outsiders as one of their primary businesses.</li> </ul> <p><b>Should the <i>IFRS for SMEs</i> be revised to clarify whether an NFP entity is eligible to use it?</b></p> <p>(a) Yes—clarify that soliciting and accepting contributions does not automatically make an NFP entity publicly accountable. An NFP entity can use the <i>IFRS for SMEs</i> if it otherwise qualifies under Section 1.</p> <p>(b) Yes—clarify that soliciting and accepting contributions will automatically make an NFP entity publicly accountable. As a consequence, an NFP entity cannot use the <i>IFRS for SMEs</i>.</p> <p>(c) No—do not revise the <i>IFRS for SMEs</i> for this issue.</p> <p>(d) Other—please explain.</p> <p>Please provide reasoning to support your choice of (a), (b), (c) or (d).</p>	<p><b>A</b></p> <p>Yes; it would be useful to clarify the definition of public accountability. It does not appear to us that the intention was to catch entities that solicited donations from the public and therefore it would be better if this could be made clear.</p> <p>Indeed it is likely that in many cases where the standard is adopted for commercial entities there will be a demand for a similar regime for not-for-profit entities too.</p> <p>At present there is no scope restriction preventing their use of the standard, and we believe this flexibility should be maintained.</p> <p>However, without modification, it may be that the standard does not fully meet their needs. We do not believe the simplicity of the standard should be compromised in an attempt to address this. Rather, we feel that it would be useful for the Board to develop an international not-for-profit ‘statement of recommended practice’ that could be used to supplement the <i>IFRS for SMEs</i>. Although we do note that due to varying legal and regulatory frameworks between different groups of entities and different geographical jurisdictions, some local adaptation is likely to continue to be necessary. For this reason we feel that a guidance document is preferable to a standard.</p>
S4	<p><b>Consideration of recent changes to the consolidation guidance in full IFRSs (Section 9)</b></p> <p>The <i>IFRS for SMEs</i> establishes control as the basis for determining which entities are consolidated in the consolidated financial statements. This is consistent with the current approach in full IFRSs.</p> <p>Recently, full IFRSs on this topic have been updated by IFRS 10</p>	<p><b>C</b></p> <p>We believe that for this and similar decisions regarding the extent to which full IFRS changes should be carried through to the <i>IFRS for SMEs</i>, it would be useful for the Board to establish a set of principles setting out what the standard is attempting to achieve. There is clearly a benefit from keeping the <i>IFRS for SMEs</i> consistent with full IFRS, but in some cases this might conflict with</p>

Part A: Specific questions on Sections 1-35 of the *IFRS for SMEs*

Ref	Question	Reasoning
	<p><i>Consolidated Financial Statements</i>, which replaced IAS 27 <i>Consolidated and Separate Financial Statements</i> (2008). IFRS 10 includes additional guidance on applying the control principle in a number of situations, with the intention of avoiding divergence in practice. The guidance will generally affect borderline cases where it is difficult to establish if an entity has control (ie, most straightforward parent-subsidiary relationships will not be affected). Additional guidance is provided in IFRS 10 for:</p> <ul style="list-style-type: none"> <li>• agency relationships, where one entity legally appoints another to act on its behalf. This guidance is particularly relevant to investment managers that make decisions on behalf of investors. Fund managers and entities that hold assets for a broad group of outsiders as a primary business are generally outside the scope of the <i>IFRS for SMEs</i>.</li> <li>• control with less than a majority of the voting rights, sometimes called 'de facto control' (this principle is already addressed in paragraph 9.5 of the <i>IFRS for SMEs</i> but in less detail than in IFRS 10).</li> <li>• assessing control where potential voting rights exist, such as options, rights or conversion features that, if exercised, give the holder additional voting rights (this principle is already addressed in paragraph 9.6 of the <i>IFRS for SMEs</i> but in less detail than in IFRS 10).</li> </ul> <p>The changes above will generally mean that more judgement needs to be applied in borderline cases and where more complex relationships exist.</p> <p><b>Should the changes outlined above be considered, but modified as appropriate to reflect the needs of users of SME financial statements and cost-benefit considerations?</b></p> <p>(a) No—do not change the current requirements. Continue to use the current definition of control and the guidance on its application in Section 9. They are appropriate for SMEs, and SMEs have been able to implement the definition and guidance without problems.</p> <p>(b) Yes—revise the <i>IFRS for SMEs</i> to reflect the main changes from IFRS 10 outlined above (modified as appropriate for SMEs).</p> <p>(c) Other—please explain.</p>	<p>the need to keep the standard as simple as possible. In considering such decisions, it would be useful if the purpose and objectives of the standard were to be clearly defined, such that these issues can be dealt with efficiently and consistently. Assuming that the model established in IFRS 10 is unlikely to change over the medium term, it is useful for the IFRS for SMEs to be as consistent as is practicable with the principles of full IFRS. In a jurisdiction such as the UK, South Africa or Hong Kong, which will have both full (or EU-adopted) IFRS and an IFRS for SMEs based national GAAP running, it would be unhelpful to have two slightly different concepts of 'control' operating. This would cause complications in training and for an entity moving from one GAAP to the other.</p> <p>However, this needs to be balanced with the need for simplicity. Ease of application will be a significant concern for many SMEs and it is essential that any changes to the standard that are considered are drafted with their needs in mind. The existing model appears to work well for SMEs and the Board should avoid over-complication. The control definition is a central element of financial reporting and it would be helpful to use consistent terminology, merely changing the wording may not increase complexity. However, when it comes to evaluating the additional guidance material in IFRS 10, the consideration becomes more difficult. It would be helpful to have a set of principles to guide the Board's decision.</p>

Part A: Specific questions on Sections 1-35 of the *IFRS for SMEs*

Ref	Question	Reasoning
S5	<p><b>Use of recognition and measurement provisions in full IFRSs for financial instruments (Section 11)</b></p> <p>The <i>IFRS for SMEs</i> currently permits entities to choose to apply either (paragraph 11.2):</p> <ul style="list-style-type: none"> <li>• the provisions of both Sections 11 and 12 in full; or</li> <li>• the recognition and measurement provisions of IAS 39 <i>Financial Instruments: Recognition and Measurement</i> and the disclosure requirements of Sections 11 and 12.</li> </ul> <p>In paragraph BC106 of the Basis for Conclusions issued with the <i>IFRS for SMEs</i>, the IASB lists its reasons for providing SMEs with the option to use IAS 39. This is the only time that the <i>IFRS for SMEs</i> specifically permits the use of full IFRSs. One of the main reasons for this option is that the IASB concluded that SMEs should be permitted to have the same accounting policy options as in IAS 39, pending completion of its comprehensive financial instruments project to replace IAS 39. That decision is explained in more detail in paragraph BC106.</p> <p>IAS 39 will be replaced by IFRS 9 <i>Financial Instruments</i>. Any amendments to the <i>IFRS for SMEs</i> from this comprehensive review would most probably be effective at a similar time to the effective date of IFRS 9. The <i>IFRS for SMEs</i> refers specifically to IAS 39. SMEs are not permitted to apply IFRS 9.</p> <p><b>How should the current option to use IAS 39 in the <i>IFRS for SMEs</i> be updated once IFRS 9 has become effective?</b></p> <p>(a) There should be no option to use the recognition and measurement provisions in either IAS 39 or IFRS 9. All SMEs must follow the financial instrument requirements in Sections 11 and 12 in full.</p> <p>(b) Allow entities the option of following the recognition and measurement provisions of IFRS 9 (with the disclosure requirements of Sections 11 and 12).</p> <p>(c) Other—please explain.</p>	<p><b>C</b></p> <p>In our opinion, fall back is a temporary solution until the new regime becomes effective and constituents are familiar with it. Once IAS 39 has been fully superseded by IFRS 9 and that standard is effective, it would seem rather odd for the <i>IFRS for SMEs</i> to retain a reference to a withdrawn standard that has quite different recognition and measurement principles to current IFRS. However, work on IFRS 9 still has some way to go and it is by no means certain at present when the standard will be completed. For now, and as a temporary solution, it would be better to simply update the current reference to IAS 39 to also allow reference to the new sections of IFRS 9.</p> <p>The existence of a fall back option could complicate matters, but on a pragmatic and temporary basis, there are clear advantages to maintaining this option. If an entity has complex financial instruments it may well be useful to resort to the greater versatility of the full standard to ensure that they are appropriately accounted for. Indeed, for people used to applying the full standard, it could well be easier to continue to use that standard for now rather than switching to the different recognition and measurement principles in the <i>IFRS for SMEs</i>.</p>

Part A: Specific questions on Sections 1-35 of the *IFRS for SMEs*

Ref	Question	Reasoning
S6	<p><b>Guidance on fair value measurement for financial and non-financial items (Section 11 and other sections)</b></p> <p>Paragraphs 11.27–11.32 of the <i>IFRS for SMEs</i> contain guidance on fair value measurement. Those paragraphs are written within the context of financial instruments. However, several other sections of the <i>IFRS for SMEs</i> make reference to them, for example, fair value model for associates and jointly controlled entities (Sections 14 and 15), investment property (Section 16) and fair value of pension plan assets (Section 28). In addition, several other sections refer to fair value although they do not specifically refer to the guidance in Section 11. There is some other guidance about fair value elsewhere in the <i>IFRS for SMEs</i>, for example, guidance on fair value less costs to sell in paragraph 27.14.</p> <p>Recently the guidance on fair value in full IFRSs has been consolidated and comprehensively updated by IFRS 13 <i>Fair Value Measurement</i>. Some of the main changes are:</p> <ul style="list-style-type: none"> <li>• an emphasis that fair value is a market-based measurement (not an entity-specific measurement);</li> <li>• an amendment to the definition of fair value to focus on an exit price (fair value is defined in IFRS 13 as “the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date”); and</li> <li>• more specific guidance on determining fair value, including assessing the highest and best use of non-financial assets and identifying the principal market.</li> </ul> <p>The guidance on fair value in Section 11 is based on the guidance on fair value in IAS 39. The IAS 39 guidance on fair value has been replaced by IFRS 13.</p> <p>In straightforward cases, applying the IFRS 13 guidance on fair value would have no impact on the way fair value measurements are made under the <i>IFRS for SMEs</i>. However, if the new guidance was to be incorporated into the <i>IFRS for SMEs</i>, SMEs would need to re-evaluate their methods for</p>	<p><b>C</b></p> <p>As we have suggested in S4 above, it would be helpful for the Board to establish objectives for the standard such that these assessments can be made more easily.</p> <p>It would seem sensible for the principles underpinning fair value measurement in the IFRS for SMEs to be consistent with current IFRS as far as practicable. Therefore to the extent they are out of line with the latest measurement position in IFRS 13, they should be updated. Some of the clarifications in the new standard, eg about measuring exit value, may well be useful to IFRS for SMEs preparers. The definition of ‘fair value’ should also be consistent with IFRS 13.</p> <p>However, care should be taken to ensure that additional complexity is not introduced. Any guidance included should be kept as simple as possible to facilitate easy adoption by SME users. It may not be appropriate to introduce the additional disclosures of IFRS 13 as suggested by answer (b).</p>

Part A: Specific questions on Sections 1-35 of the *IFRS for SMEs*

Ref	Question	Reasoning
	<p>determining fair value amounts to confirm that this is the case (particularly for non-financial assets) and use greater judgement in assessing what data market participants would use when pricing an asset or liability.</p> <p><b>Should the fair value guidance in Section 11 be expanded to reflect the principles in IFRS 13, modified as appropriate to reflect the needs of users of SME financial statements and the specific circumstances of SMEs (for example, it would take into account their often more limited access to markets, valuation expertise, and other cost-benefit considerations)?</b></p> <p>(a) No—do not change the current requirements. The guidance for fair value measurement in paragraphs 11.27–11.32 is sufficient for financial and non-financial items.</p> <p>(b) Yes—the guidance for fair value measurement in Section 11 is not sufficient. Revise the <i>IFRS for SMEs</i> to incorporate those aspects of the fair value guidance in IFRS 13 that are important for SMEs, modified as appropriate for SMEs (including the appropriate disclosures).</p> <p>(c) Other—please explain.</p> <p>Please provide reasoning to support your choice of (a), (b) or (c).</p> <p><b>Note:</b> an alternative is to create a separate section in the <i>IFRS for SMEs</i> to deal with guidance on fair value that would be applicable to the entire <i>IFRS for SMEs</i>, rather than leaving such guidance in Section 11. This is covered in the following question (question S7).</p>	

Part A: Specific questions on Sections 1-35 of the *IFRS for SMEs*

Ref	Question	Reasoning
S7	<p><b>Positioning of fair value guidance in the Standard (Section 11)</b></p> <p>As noted in question S6, several sections of the <i>IFRS for SMEs</i> (covering both financial and non-financial items) make reference to the fair value guidance in Section 11.</p> <p><b>Should the guidance be moved into a separate section? The benefit would be to make clear that the guidance is applicable to all references to fair value in the <i>IFRS for SMEs</i>, not just to financial instruments.</b></p> <p>(a) No—do not move the guidance. It is sufficient to have the fair value measurement guidance in Section 11.</p> <p>(b) Yes—move the guidance from Section 11 into a separate section on fair value measurement.</p> <p>(c) Other—please explain.</p> <p>Please provide reasoning to support your choice of (a), (b) or (c).</p> <p><b>Note:</b> please answer this question regardless of your answer to question S6.</p>	<p><b>C</b></p> <p>As we have noted above, it is essential that guidance is straightforward and easy to apply by the SME users of the standard. If this principle is followed, the amount of guidance provided is likely to be relatively brief. However, as the guidance will apply to both financial and non-financial items, thought should be given to placing it in the most effective location. That is likely to be in a separate section, indeed the cross-reference in paragraph 11.27 to other sections suggests that this guidance does not sit comfortably within section 11, where it is currently located. At the least, if it is to remain within section 11 then some thought could be given to whether the cross-reference might be removed.</p>
S8	<p><b>Consideration of recent changes to accounting for joint ventures in full IFRSs (Section 15)</b></p> <p>Recently, the requirements for joint ventures in full IFRSs have been updated by the issue of IFRS 11 <i>Joint Arrangements</i>, which replaced IAS 31 <i>Interests in Joint Ventures</i>. A key change resulting from IFRS 11 is to classify and account for a joint arrangement on the basis of the parties' rights and obligations under the arrangement. Previously under IAS 31, the structure of the arrangement was the main determinant of the accounting (ie establishment of a corporation, partnership or other entity was required to account for the arrangement as a jointly-controlled entity). In line with this, IFRS 11 changes the definitions and terminology and classifies arrangements as either joint operations or joint ventures.</p> <p>Section 15 is based on IAS 31 except that Section 15 (like IFRS 11) does not permit proportionate consolidation for joint ventures, which had been permitted by IAS 31. Like IAS 31, Section 15 classifies arrangements as</p>	<p><b>B</b></p> <p>Following on from our answer above, we would suggest that once a set of objectives for the standard is established, it will be easier to determine how the standard should be revised to take account of changes to full IFRS.</p> <p>In this case, it is likely that revision in line with IFRS 11 is preferable. Users are unlikely to welcome having to learn two different versions (and terminologies) of 'joint venture'. Changes to this terminology would not immediately seem to compromise the simplicity of the standard, particularly if, as the Board notes, they are unlikely to require a change in practice.</p>

Part A: Specific questions on Sections 1-35 of the *IFRS for SMEs*

Ref	Question	Reasoning
	<p>jointly controlled operations, jointly controlled assets or jointly controlled entities. If the changes under IFRS 11 described above were adopted in Section 15, in most cases, jointly controlled assets and jointly controlled operations would become joint operations, and jointly controlled entities would become joint ventures. Consequently, there would be no change to the way they are accounted for under Section 15.</p> <p>However, it is possible that, as a result of the changes, an investment that previously met the definition of a jointly controlled entity would become a joint operation. This is because the existence of a separate legal vehicle is no longer the main factor in classification.</p> <p><b>Should the changes above to joint venture accounting in full IFRSs be reflected in the <i>IFRS for SMEs</i>, modified as appropriate to reflect the needs of users of SME financial statements and cost-benefit considerations?</b></p> <p>(a) No—do not change the current requirements. Continue to classify arrangements as jointly controlled assets, jointly controlled operations and jointly controlled entities (this terminology and classification is based on IAS 31 <i>Interests in Joint Ventures</i>). The existing Section 15 is appropriate for SMEs, and SMEs have been able to implement it without problems.</p> <p>(b) Yes—revise the <i>IFRS for SMEs</i> so that arrangements are classified as joint ventures or joint operations on the basis of the parties' rights and obligations under the arrangement (terminology and classification based on IFRS 11 <i>Joint Arrangements</i>, modified as appropriate for SMEs).</p> <p>(c) Other—please explain.</p> <p>Please provide reasoning to support your choice of (a), (b) or (c).</p> <p><b>Note:</b> this would not change the accounting options available for jointly-controlled entities meeting the criteria to be joint ventures (ie cost model, equity method and fair value model).</p>	

Part A: Specific questions on Sections 1-35 of the *IFRS for SMEs*

Ref	Question	Reasoning
S9	<p><b>Revaluation of property, plant and equipment (Section 17)</b></p> <p>The <i>IFRS for SMEs</i> currently prohibits the revaluation of property, plant and equipment (PPE). Instead, all items of PPE must be measured at cost less any accumulated depreciation and any accumulated impairment losses (cost-depreciation-impairment model—paragraph 17.15). Revaluation of PPE was one of the complex accounting policy options in full IFRSs that the IASB eliminated in the interest of comparability and simplification of the <i>IFRS for SMEs</i>.</p> <p>In full IFRSs, IAS 16 <i>Property, Plant and Equipment</i> allows entities to choose a revaluation model, rather than the cost-depreciation-impairment model, for entire classes of PPE. In accordance with the revaluation model in IAS 16, after recognition as an asset, an item of PPE whose fair value can be measured reliably is carried at a revalued amount—its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluation increases are recognised in other comprehensive income and are accumulated in equity under the heading of ‘revaluation surplus’ (unless an increase reverses a previous revaluation decrease recognised in profit or loss for the same asset). Revaluation decreases that are in excess of prior increases are recognised in profit or loss. Revaluations must be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.</p> <p><b>Should an option to use the revaluation model for PPE be added to the <i>IFRS for SMEs</i>?</b></p> <p>(a) No—do not change the current requirements. Continue to require the cost-depreciation-impairment model with no option to revalue items of PPE.</p> <p>(b) Yes—revise the <i>IFRS for SMEs</i> to permit an entity to choose, for each major class of PPE, whether to apply the cost-depreciation-impairment model or the revaluation model (the approach in IAS 16).</p> <p>(c) Other—please explain.</p>	<p><b>C</b></p> <p>We appreciate that the revaluation option in full IFRS was not replicated in the IFRS for SMEs in the interests of simplicity. It does seem that retaining a core version of the standard, without options, will be better meet the needs of some constituents.</p> <p>However, in practice no entities are compelled to take this option and reference to the additional provisions is necessary only if the option is applied. We therefore believe that the costs of making the option available are unlikely to outweigh the significant informational benefits to be gained from its inclusion. For those businesses that own properties, it is most useful to be able to reflect an up to date valuation of their asset base. This enhances the information value of their accounts for users. In our opinion, boxed sections should be included in the standard containing relevant options. In implementing the standard, jurisdictions can then choose whether to allow the application of these additional boxed sections. If a jurisdiction does allow all of the options an individual company could still choose to follow only the core text, effectively just ignoring anything in a boxed section. The advantage to this is that each jurisdiction would not need to reinvent the drafting for its own GAAP.</p>

Part A: Specific questions on Sections 1-35 of the *IFRS for SMEs*

Ref	Question	Reasoning
S10	<p><b>Capitalisation of development costs (Section 18)</b></p> <p>The <i>IFRS for SMEs</i> currently requires that all research and development costs be charged to expense when incurred unless they form part of the cost of another asset that meets the recognition criteria in the <i>IFRS for SMEs</i> (paragraph 18.14). The IASB reached that decision because many preparers and auditors of SME financial statements said that SMEs do not have the resources to assess whether a project is commercially viable on an ongoing basis. Bank lending officers told the IASB that information about capitalised development costs is of little benefit to them, and that they disregard those costs in making lending decisions.</p> <p>In full IFRSs, IAS 38 <i>Intangible Assets</i> requires that all research and some development costs must be charged to expense, but development costs incurred after the entity is able to demonstrate that the development has produced an asset with future economic benefits should be capitalised. IAS 38.57 lists certain criteria that must be met for this to be the case.</p> <p>IAS 38.57 states “An intangible asset arising from development (or from the development phase of an internal project) shall be recognised if, and only if, an entity can demonstrate all of the following:</p> <ul style="list-style-type: none"> <li>• the technical feasibility of completing the intangible asset so that it will be available for use or sale.</li> <li>• its intention to complete the intangible asset and use or sell it.</li> <li>• its ability to use or sell the intangible asset.</li> <li>• how the intangible asset will generate probable future economic benefits. Among other things, the entity can demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset.</li> <li>• the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset.</li> <li>• its ability to measure reliably the expenditure attributable to the intangible asset during its development.”</li> </ul>	<p><b>C</b> We do not support mandating capitalisation as this could significantly complicate the standard. However, there are some entities, eg, technology start-ups, for which capitalisation can increase the information value of the accounts for users and where this benefit outweighs the costs of compliance. Indeed, for some businesses, the accounts might be seen as failing appropriately to represent the story of the business if all of these costs are immediately charged to profit or loss. Therefore we feel that this could be made available as an option. This would maintain the simplicity of the existing model for those not wishing to investigate the option, while facilitating the production of information that is useful for users of development business accounts. As we note above, the most efficient way of achieving this would be to publish the relevant options as boxed sections which jurisdictions could choose to adopt if appropriate for their local circumstances.</p> <p><b>Example of a boxed section:</b></p> <p>18:14 An entity may opt to apply either paragraph 18:14A or 18:14B below.</p> <div style="border: 1px solid black; padding: 5px; margin-top: 10px;"> <p>18:14B To assess whether an internally generated intangible asset meets the criteria for recognition, an entity classifies the generation of the asset into:</p> <ul style="list-style-type: none"> <li>a) a research phase; and</li> <li>b) a development phase.</li> </ul> <p>...</p> </div>

Part A: Specific questions on Sections 1-35 of the *IFRS for SMEs*

Ref	Question	Reasoning
	<p><b>Should the <i>IFRS for SMEs</i> be changed to require capitalisation of development costs meeting criteria for capitalisation (on the basis of on the criteria in IAS 38)?</b></p> <p>(a) No—do not change the current requirements. Continue to charge all development costs to expense.</p> <p>(b) Yes—revise the <i>IFRS for SMEs</i> to require capitalisation of development costs meeting the criteria for capitalisation (the approach in IAS 38).</p> <p>(c) Other—please explain.</p> <p>Please provide reasoning to support your choice of (a), (b) or (c).</p>	
S11	<p><b>Amortisation period for goodwill and other intangible assets (Section 18)</b></p> <p>Paragraph 18.21 requires an entity to amortise an intangible asset on a systematic basis over its useful life. This requirement applies to goodwill as well as to other intangible assets (see paragraph 19.23(a)). Paragraph 18.20 states “If an entity is unable to make a reliable estimate of the useful life of an intangible asset, the life shall be presumed to be ten years.” Some interested parties have said that, in some cases, although the management of the entity is unable to estimate the useful life reliably, management’s judgement is that the useful life is considerably shorter than ten years.</p> <p><b>Should paragraph 18.20 be modified to state: “If an entity is unable to make a reliable estimate of the useful life of an intangible asset, the life shall be presumed to be ten years unless a shorter period can be justified”?</b></p> <p>(a) No—do not change the current requirements. Retain the presumption of ten years if an entity is unable to make a reliable estimate of the useful life of an intangible asset (including goodwill).</p> <p>(b) Yes—modify paragraph 18.20 to establish a presumption of ten years that can be overridden if a shorter period can be justified.</p> <p>(c) Other—please explain.</p>	<p><b>C</b> We do not believe that extending paragraph 18.20 will assist with application of the standard. Indeed it may complicate matters. As currently phrased, we believe it is clear to most readers that a shorter period should be used where appropriate.</p> <p>In reality, any time period is likely to be rather arbitrary. The key thing is for there to be sufficient flexibility to accommodate different circumstances. To better achieve this, we suggest that the reference to ten years is simply deleted so that constituents can use their own judgement to make an independent assessment based on their own circumstances.</p>

Part A: Specific questions on Sections 1-35 of the *IFRS for SMEs*

Ref	Question	Reasoning
S12	<p><b>Consideration of changes to accounting for business combinations in full IFRSs (Section 19)</b></p> <p>The <i>IFRS for SMEs</i> accounts for all business combinations by applying the purchase method. This is similar to the ‘acquisition method’ approach currently applied in full IFRSs. Section 19 of the <i>IFRS for SMEs</i> is generally based on the 2004 version of IFRS 3 <i>Business Combinations</i>. IFRS 3 was revised in 2008, which was near the time of the release of the <i>IFRS for SMEs</i>. IFRS 3 (2008) addressed deficiencies in the previous version of IFRS 3 without changing the basic accounting; it also promoted international convergence of accounting standards.</p> <p>The main changes introduced by IFRS 3 (2008) that could be considered for incorporation in the <i>IFRS for SMEs</i> are:</p> <ul style="list-style-type: none"> <li>• A focus on what is given as consideration to the seller, rather than what is spent in order to acquire the entity. As a consequence, acquisition-related costs are recognised as an expense rather than treated as part of the business combination (for example, advisory, valuation and other professional and administrative fees).</li> <li>• Contingent consideration is recognised at fair value (without regard to probability) and then subsequently accounted for as a financial instrument instead of as an adjustment to the cost of the business combination.</li> <li>• Determining goodwill requires remeasurement to fair value of any existing interest in the acquired company and measurement of any non-controlling interest in the acquired company.</li> </ul> <p><b>Should Section 19 be amended to incorporate the above changes, modified as appropriate to reflect the needs of users of SME financial statements and cost-benefit considerations?</b></p> <p>(a) No—do not change the current requirements. The current approach in Section 19 (based on IFRS 3 (2004)) is suitable for SMEs, and SMEs have been able to implement it without problems.</p> <p>(b) Yes—revise the <i>IFRS for SMEs</i> to incorporate the main changes introduced by IFRS 3 (2008), as outlined above and modified for SMEs.</p> <p>(c) Other—please explain.</p>	<p><b>B</b></p> <p>Again, a clear set of objectives for the standard would make it easier for the Board to address this question.</p> <p>There is clearly an advantage for the IFRS for SMEs to be kept in line with the current principles of full IFRS as far as is practicable. However, we note that the revised IFRS 3 contains a number of complexities around the measurement of fair value, both for contingent consideration and for piecemeal acquisition. Therefore careful consideration needs to be given as to whether and how these elements are incorporated within the IFRS for SMEs, and alternative approaches ought to be considered.</p> <p>It may be useful to permit fair value measurement, but to set out a simplified basis for its calculation – for example a management estimate of fair value based upon readily available external information could be used, although thought should be given to the auditability of such a measure. It should be noted that fair value is incorporated elsewhere in the IFRS for SMEs and therefore the level of simplification applied here should be consistent with those other sections.</p>

Part A: Specific questions on Sections 1-35 of the *IFRS for SMEs*

Ref	Question	Reasoning
S13	<p><b>Presentation of share subscriptions receivable (Section 22)</b></p> <p>Paragraph 22.7(a) requires that subscriptions receivable, and similar receivables that arise when equity instruments are issued before the entity receives the cash for those instruments, must be offset against equity in the statement of financial position, not presented as an asset.</p> <p>Some interested parties have told the IASB that their national laws regard the equity as having been issued and require the presentation of the related receivable as an asset.</p> <p><b>Should paragraph 22.7(a) be amended either to permit or require the presentation of the receivable as an asset?</b></p> <p>(a) No—do not change the current requirements. Continue to present the subscription receivable as an offset to equity.</p> <p>(b) Yes—change paragraph 22.7(a) to require that the subscription receivable is presented as an asset.</p> <p>(c) Yes—add an additional option to paragraph 22.7(a) to permit the subscription receivable to be presented as an asset, ie the entity would have a choice whether to present it as an asset or as an offset to equity.</p> <p>(d) Other—please explain.</p> <p>Please provide reasoning to support your choice of (a), (b), (c) or (d).</p>	<p><b>B</b> Amounts receivable for share subscriptions should be considered as an asset. If these amounts are overdue, it is clearly appropriate to consider recoverability from the shareholder. This risk is more clearly communicated if the amount is shown as a debtor. The question notes that presentation as an asset is also necessary to comply with some countries' company law requirements – the UK being one example. But we do not believe the Board's decision need be influenced by the benefits of legal compliance. In our opinion, it is clearly better accounting practice to show these amounts as an asset. Nevertheless, some thought should be given to discounting – if the amounts are not receivable for a number of years, the present value of the debtor might be negligible, in which case it would better reflect the economic reality (and simplify the accounts) to simply discount it down to zero.</p>

Part A: Specific questions on Sections 1-35 of the *IFRS for SMEs*

Ref	Question	Reasoning
S14	<p><b>Capitalisation of borrowing costs on qualifying assets (Section 25)</b></p> <p>The <i>IFRS for SMEs</i> currently requires all borrowing costs to be recognised as an expense when incurred (paragraph 25.2). The IASB decided not to require capitalisation of any borrowing costs for cost-benefit reasons, particularly because of the complexity of identifying qualifying assets and calculating the amount of borrowing costs eligible for capitalisation.</p> <p>IAS 23 <i>Borrowing Costs</i> requires that borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset (ie an asset that necessarily takes a substantial period of time to get ready for use or sale) must be capitalised as part of the cost of that asset, and all other borrowing costs must be recognised as an expense when incurred.</p> <p><b>Should Section 25 of the <i>IFRS for SMEs</i> be changed so that SMEs are required to capitalise borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset, with all other borrowing costs recognised as an expense when incurred?</b></p> <p>(a) No—do not change the current requirements. Continue to require all borrowing costs to be recognised as an expense when incurred.</p> <p>(b) Yes—revise the <i>IFRS for SMEs</i> to require capitalisation of borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset (IAS 23 approach).</p> <p>(c) Other—please explain.</p> <p>Please provide reasoning to support your choice of (a), (b) or (c).</p>	<p><b>C</b></p> <p>As with the revaluation of PPE and the capitalisation of development costs, capitalising borrowing costs can show useful information to users. It would therefore certainly be helpful to relax the current prohibition on capitalisation. However, it should be noted that the current treatment has been chosen with good reason – it is significantly simpler than the approach in the full standard. Some constituents will undoubtedly wish to retain the current straightforward treatment. Therefore, as above, we feel that the best way forward would be to publish an option to use this treatment in a ‘separate boxed section within the standard.</p>

Part A: Specific questions on Sections 1-35 of the *IFRS for SMEs*

Ref	Question	Reasoning
S15	<p><b>Presentation of actuarial gains or losses (Section 28)</b></p> <p>In accordance with the <i>IFRS for SMEs</i>, an entity is required to recognise all actuarial gains and losses in the period in which they occur, either in profit or loss or in other comprehensive income as an accounting policy election (paragraph 28.24).</p> <p>Recently, the requirements in full IFRSs have been updated by the issue of IAS 19 <i>Employee Benefits</i> (revised 2011). A key change as a result of the 2011 revisions to IAS 19 is that all actuarial gains and losses must be recognised in other comprehensive income in the period in which they arise. Previously, under full IFRSs, actuarial gains and losses could be recognised either in other comprehensive income or in profit or loss as an accounting policy election (and under the latter option there were a number of permitted methods for the timing of the recognition in profit or loss).</p> <p>Section 28 is based on IAS 19 before the 2011 revisions, modified as appropriate to reflect the needs of users of SME financial statements and cost-benefit considerations. Removing the option for SMEs to recognise actuarial gains and losses in profit or loss would improve comparability between SMEs without adding any complexity.</p> <p><b>Should the option to recognise actuarial gains and losses in profit or loss be removed from paragraph 28.24?</b></p> <p>(a) No—do not change the current requirements. Continue to allow an entity to recognise actuarial gains and losses either in profit or loss or in other comprehensive income as an accounting policy election.</p> <p>(b) Yes—revise the <i>IFRS for SMEs</i> so that an entity is required to recognise all actuarial gains and losses in other comprehensive income (ie removal of profit or loss option in paragraph 28.24).</p> <p>(c) Other—please explain.</p> <p><b>Note:</b> IAS 19 (revised 2011) made a number of other changes to full IFRSs. However, because Section 28 was simplified from the previous version of IAS 19 to reflect the needs of users of SME financial statements and cost-benefit considerations, the changes made to full IFRSs do not directly relate to the requirements in Section 28.</p>	<p><b>B</b> We believe that the option should be removed as per answer B. This would simplify the requirement and improve comparability.</p>

Part A: Specific questions on Sections 1-35 of the *IFRS for SMEs*

Ref	Question	Reasoning
S16	<p><b>Approach for accounting for deferred income taxes (Section 29)</b></p> <p>Section 29 of the <i>IFRS for SMEs</i> currently requires that deferred income taxes must be recognised using the temporary difference method. This is also the fundamental approach required by full IFRSs (IAS 12 <i>Income Taxes</i>).</p> <p>Some hold the view that SMEs should recognise deferred income taxes and that the temporary difference method is appropriate. Others hold the view that while SMEs should recognise deferred income taxes, the temporary difference method (which bases deferred taxes on differences between the tax basis of an asset or liability and its carrying amount) is too complex for SMEs. They propose replacing the temporary difference method with the timing difference method (which bases deferred taxes on differences between when an item of income or expense is recognised for tax purposes and when it is recognised in profit or loss). Others hold the view that SMEs should recognise deferred taxes only for timing differences that are expected to reverse in the near future (sometimes called the ‘liability method’). And still others hold the view that SMEs should not recognise any deferred taxes at all (sometimes called the ‘taxes payable method’).</p> <p><b>Should SMEs recognise deferred income taxes and, if so, how should they be recognised?</b></p> <p>(a) Yes—SMEs should recognise deferred income taxes using the temporary difference method (the approach currently used in both the <i>IFRS for SMEs</i> and full IFRSs).</p> <p>(b) Yes—SMEs should recognise deferred income taxes using the timing difference method.</p> <p>(c) Yes—SMEs should recognise deferred income taxes using the liability method.</p> <p>(d) No—SMEs should not recognise deferred income taxes at all (ie they should use the taxes payable method), although some related disclosures should be required.</p> <p>(e) Other—please explain.</p> <p>Please provide reasoning to support your choice of (a), (b), (c), (d) or (e).</p>	<p style="text-align: center;"><b>E</b></p> <p>In paragraph [xx] above we suggest that the Board should establish a set of criteria to assist in assessing how full IFRS should be adapted for inclusion in the IFRS for SMEs. In general it is best to ensure that consistent principles operate across both platforms. However, simplicity is also key.</p> <p>We note that IAS 12 <i>Income Taxes</i> is not popular in practice and that there have recently been calls for its replacement. The full temporary difference approach for deferred tax that the standard requires is likely to prove too complex for the needs of IFRS for SMEs users, although it should be noted that SMEs will only need to make this calculation if they have a material deferred tax balance. And the temporary difference approach has the advantage that entities moving up to full IFRS, or accountants trained in full IFRS, will not need to learn a completely new approach under the IFRS for SMEs. On balance therefore, we feel that a simplified IAS 12 approach may be the best way forward for now. The current section in the IFRS for SMEs is based upon abortive proposals and therefore does need to be replaced.</p> <p>Views do vary however on the best way forward. Indeed a minority of our committee members favour flow-through as a pragmatic and simple solution for SMEs. There is also support for the liability method, which has the advantage of being more straightforward than the temporary or timing difference approaches.</p>

Part A: Specific questions on Sections 1-35 of the *IFRS for SMEs*

Ref	Question	Reasoning
S17	<p><b>Consideration of IAS 12 exemptions from recognising deferred taxes and other differences under IAS 12 (Section 29)</b></p> <p>In answering this question, please assume that SMEs will continue to recognise deferred income taxes using the temporary difference method (see discussion in question S16).</p> <p>Section 29 is based on the IASB’s March 2009 exposure draft <i>Income Tax</i>. At the time the <i>IFRS for SMEs</i> was issued, that exposure draft was expected to amend IAS 12 <i>Income Taxes</i> by eliminating some exemptions from recognising deferred taxes and simplifying the accounting in other areas. The IASB eliminated the exemptions when developing Section 29 and made the other changes in the interest of simplifying the <i>IFRS for SMEs</i>.</p> <p>Some interested parties who are familiar with IAS 12 say that Section 29 does not noticeably simplify IAS 12 and that the removal of the IAS 12 exemptions results in more deferred tax calculations being required. Because the March 2009 exposure draft was not finalised, some question whether the differences between Section 29 and IAS 12 are now justified.</p> <p><b>Should Section 29 be revised to conform it to IAS 12, modified as appropriate to reflect the needs of the users of SME financial statements?</b></p> <p>(a) No—do not change the overall approach in Section 29.            (b) Yes—revise Section 29 to conform it to the current IAS 12 (modified as appropriate for SMEs).            (c) Other—please explain.</p> <p>Please provide reasoning to support your choice of (a), (b) or (c).</p>	<p><b>C</b></p> <p>The current section 29 is not consistent with IAS 12 and therefore revision is necessary. Our preferred approach would be for the standard to contain a simplified version of IAS 12, similar to the approach adopted in UK GAAP in dealing with this section.</p>

Part A: Specific questions on Sections 1-35 of the *IFRS for SMEs*

Ref	Question	Reasoning
S18	<p><b>Rebuttable presumption that investment property at fair value is recovered through sale (Section 29)</b></p> <p>In answering this question, please also assume that SMEs will continue to recognise deferred income taxes using the temporary difference method (see discussion in question S16).</p> <p>In December 2010, the IASB amended IAS 12 to introduce a rebuttable presumption that the carrying amount of investment property measured at fair value will be recovered entirely through sale.</p> <p>The amendment to IAS 12 was issued because, without specific plans for the disposal of the investment property, it can be difficult and subjective to estimate how much of the carrying amount of the investment property will be recovered through cash flows from rental income and how much of it will be recovered through cash flows from selling the asset.</p> <p>Paragraph 29.20 currently states:</p> <p>“The measurement of deferred tax liabilities and deferred tax assets shall reflect the tax consequences that would follow from the manner in which the entity expects, at the reporting date, to recover or settle the carrying amount of the related assets and liabilities.”</p> <p><b>Should Section 29 be revised to incorporate a similar exemption from paragraph 29.20 for investment property at fair value?</b></p> <p>(a) No—do not change the current requirements. Do not add an exemption in paragraph 29.20 for investment property measured at fair value.</p> <p>(b) Yes—revise Section 29 to incorporate the exemption for investment property at fair value (the approach in IAS 12).</p> <p>(c) Other—please explain.</p> <p>Please provide reasoning to support your choice of (a), (b) or (c).</p> <p><b>Note:</b> please answer this question regardless of your answer to questions S16 and S17 above.</p>	<p><b>B</b> We support adding the exemption. If a simplification has been put into IFRS, it should be made available in the IFRS for SMEs.</p>

Part A: Specific questions on Sections 1-35 of the *IFRS for SMEs*

Ref	Question	Reasoning
S19	<p><b>Inclusion of additional topics in the <i>IFRS for SMEs</i></b></p> <p>The IASB intended that the 35 sections in the <i>IFRS for SMEs</i> would cover the kinds of transactions, events and conditions that are typically encountered by most SMEs. The IASB also provided guidance on how an entity's management should exercise judgement in developing an accounting policy in cases where the <i>IFRS for SMEs</i> does not specifically address a topic (see paragraphs 10.4–10.6).</p> <p><b>Are there any topics that are not specifically addressed in the <i>IFRS for SMEs</i> that you think should be covered (ie where the general guidance in paragraphs 10.4–10.6 is not sufficient)?</b></p> <p>(a) No. (b) Yes (please state the topic and reasoning for your response).</p> <p><b>Note:</b> this question is asking about topics that are not currently addressed by the <i>IFRS for SMEs</i>. It is not asking which areas of the <i>IFRS for SMEs</i> require additional guidance. If you think more guidance should be added for a topic already covered by the <i>IFRS for SMEs</i>, please provide your comments in response to question S20.</p>	<p><b>A</b> We are not aware of additional topics. The standard should be kept as simple and principles-based as possible. Sections should only be added where there is an overwhelming case for inclusion. The standard should avoid dealing with rare circumstances, immaterial transactions or industry-specific issues. This will allow the <i>IFRS for SMEs</i> to remain largely principles-based and focussed on high-level requirements.</p>
S20	<p><b>Opportunity to add your own specific issues</b></p> <p>Are there any additional issues that you would like to bring to the IASB's attention on specific requirements in the sections of the <i>IFRS for SMEs</i>?</p> <p>(a) No. (b) Yes (please state your issues, identify the section(s) to which they relate, provide references to paragraphs in the <i>IFRS for SMEs</i> where applicable and provide separate reasoning for each issue).</p>	<p><b>A</b> Paragraph 34.11 dealing with the extractive industries simply makes a cross-reference to sections 17 and 18. There is no specific dispensation permitting the capitalisation of development costs, which could prove problematic. Thought could be given to incorporating this provision so that practice in this area could remain consistent with that commonly applied under full IFRS.</p> <p>In the UK, the fair value requirement for biological assets was deemed unduly onerous for smaller farmers. Fair value has therefore been made optional. The Board may wish to consider the most appropriate treatment in this section.</p>

Part A: Specific questions on Sections 1-35 of the *IFRS for SMEs*

Ref	General Questions	Response	Reasoning
G1	<p><b>Consideration of minor improvements to full IFRSs</b></p> <p>The <i>IFRS for SMEs</i> was developed from full IFRSs but tailored for SMEs. As a result, the <i>IFRS for SMEs</i> uses identical wording to full IFRSs in many places.</p> <p>The IASB makes ongoing changes to full IFRSs as part of its Annual Improvements project as well as during other projects. Such amendments may clarify guidance and wording, modify definitions or make other relatively minor amendments to full IFRSs to address unintended consequences, conflicts or oversights. For more information, the IASB web pages on its Annual Improvements project can be accessed on the following link: <a href="http://go.ifrs.org/AI">http://go.ifrs.org/AI</a></p> <p>Some believe that because those changes are intended to improve requirements, they should naturally be incorporated in the <i>IFRS for SMEs</i> where they are relevant.</p> <p>Others note that each small change to the <i>IFRS for SMEs</i> would unnecessarily increase the reporting burden for SMEs because SMEs would have to assess whether each individual change will affect its current accounting policies. Those who hold that view concluded that, although the <i>IFRS for SMEs</i> was based on full IFRSs, it is now a separate Standard and does not need to reflect relatively minor changes in full IFRSs.</p> <p><b>How should the IASB deal with such minor improvements, where the <i>IFRS for SMEs</i> is based on old wording from full IFRSs?</b></p> <p>(a) Where changes are intended to improve requirements in full IFRSs and there are similar wordings and requirements in the <i>IFRS for SMEs</i>, they should be incorporated in the (three-yearly) omnibus exposure draft of changes to the <i>IFRS for SMEs</i>.</p> <p>(b) Changes should only be made where there is a known problem for SMEs, ie there should be a rebuttable presumption that changes should not be incorporated in the <i>IFRS for SMEs</i>.</p> <p>(c) The IASB should develop criteria for assessing how any such improvements should be incorporated (please give your suggestions for the criteria to be used).</p> <p>(d) Other—please explain.</p>	<b>D</b>	<p>The IFRS for SMEs should only be updated once every three years as planned, this is one of its great attractions. The incorporation of more frequent adjustments is likely to be frustrating to constituents who may have to update their own literature, training material, etc. The costs of making these changes are likely to be disproportionately large in the case of SMEs.</p> <p>It may be desirable to make changes to the IFRS for SMEs at each three yearly review date to reflect amendments made to full IFRS since the last review. This is likely to be the case where there is a significant discrepancy between the IFRS for SMEs text and that in the full standard – particularly on a point of principle. However, it should not be assumed that every minor amendment should lead to a change in the IFRS for SMEs, and care should be taken that any amendments that are made do not complicate the standard.</p>
G2	<b>Further need for Q&amp;As</b>	<b>B</b>	There is a risk that Q&As crystallise rules that over time make the IFRS for SMEs more prescriptive. We

## Part A: Specific questions on Sections 1-35 of the *IFRS for SMEs*

Ref	General Questions	Response	Reasoning
	<p>One of the key responsibilities of the SMEIG has been to consider implementation questions raised by users of the <i>IFRS for SMEs</i> and to develop proposed non-mandatory guidance in the form of questions and answers (Q&amp;As). These Q&amp;As are intended to help those who use the <i>IFRS for SMEs</i> to think about specific accounting questions.</p> <p>The SMEIG Q&amp;A programme has been limited. Only seven final Q&amp;A have been published. Three of those seven deal with eligibility to use the <i>IFRS for SMEs</i>. No additional Q&amp;As are currently under development by the SMEIG.</p> <p>Some people are of the view that, while the Q&amp;A programme was useful when the <i>IFRS for SMEs</i> was first issued so that implementation questions arising in the early years of application around the world could be dealt with, it is no longer needed. Any new issues that arise in the future can be addressed in other ways, for example through education material or by future three-yearly updates to the <i>IFRS for SMEs</i>. Many who hold this view think that an ongoing programme of issuing Q&amp;As is inconsistent with the principle-based approach in the <i>IFRS for SMEs</i>, is burdensome because Q&amp;As are perceived to add another set of rules on top of the <i>IFRS for SMEs</i>, and has the potential to create unnecessary conflict with full IFRSs if issues overlap with issues in full IFRSs.</p> <p>Others, however, believe that the volume of Q&amp;As issued so far is not excessive and that the non-mandatory guidance is helpful, and not a burden, especially to smaller organisations and in smaller jurisdictions that have limited resources to assist their constituents in implementing the <i>IFRS for SMEs</i>. Furthermore, in general, the Q&amp;As released so far provide guidance on considerations when applying judgement, rather than creating rules.</p> <p><b>Do you believe that the current, limited programme for developing Q&amp;As should continue after this comprehensive review is completed?</b></p> <p>(a) Yes—the current Q&amp;A programme should be continued.            (b) No—the current Q&amp;A programme has served its purpose and should not be continued.            (c) Other—please explain.</p>		<p>are strongly supportive of the standard’s straight-forward principles-based approach. It would be a matter of regret if this were compromised. If requirements in the standard need to be clarified, it would be better for this to be addressed at the next three year review point rather than through a Q&amp;A. Therefore we believe that the Q&amp;A programme should be suspended.</p>
G3	<p><b>Treatment of existing Q&amp;As</b></p> <p>As noted in question G2, there are seven final Q&amp;As for the <i>IFRS for SMEs</i>. This comprehensive review provides an opportunity for the guidance in those Q&amp;As</p>	A	<p>Where necessary the existing Q&amp;As should be incorporated into the standard. They should all then be deleted for the reasons set out in our answer to G2</p>

Part A: Specific questions on Sections 1-35 of the *IFRS for SMEs*

Ref	General Questions	Response	Reasoning
	<p>to be incorporated into the <i>IFRS for SMEs</i> and for the Q&amp;As to be deleted.</p> <p>Non-mandatory guidance from the Q&amp;As will become mandatory if it is included as requirements in the <i>IFRS for SMEs</i>. In addition, any guidance may need to be incorporated in the <i>IFRS for SMEs</i> in a reduced format or may even be omitted altogether (if the IASB deems that the guidance is no longer applicable after the Standard is updated or that the guidance is better suited for inclusion in training material). The IASB would also have to decide whether any parts of the guidance that are not incorporated into the <i>IFRS for SMEs</i> should be retained in some fashion, for example, as an addition to the Basis for Conclusions accompanying the <i>IFRS for SMEs</i> or as part of the training material on the <i>IFRS for SMEs</i>.</p> <p>An alternative approach would be to continue to retain the Q&amp;As separately where they remain relevant to the updated <i>IFRS for SMEs</i>. Under this approach there would be no need to reduce the guidance in the Q&amp;As, but the guidance may need to be updated because of changes to the <i>IFRS for SMEs</i> resulting from the comprehensive review.</p> <p><b>Should the Q&amp;As be incorporated into the <i>IFRS for SMEs</i>?</b></p> <p>(a) Yes—the seven final Q&amp;As should be incorporated as explained above, and deleted.</p> <p>(b) No—the seven final Q&amp;As should be retained as guidance separate from the <i>IFRS for SMEs</i>.</p> <p>(c) Other—please explain.</p> <p>Please provide reasoning to support your choice of (a), (b) or (c).</p>		<p>above.</p>

Part A: Specific questions on Sections 1-35 of the *IFRS for SMEs*

Ref	General Questions	Response	Reasoning
G4	<p><b>Training material</b></p> <p>The IFRS Foundation has developed comprehensive free-to-download self-study training material to support the implementation of the <i>IFRS for SMEs</i>. These are available on our website: <a href="http://go.ifrs.org/smetraining">http://go.ifrs.org/smetraining</a>. In addition to your views on the questions we have raised about the <i>IFRS for SMEs</i>, we welcome any comments you may have about the training material, including any suggestions you may have on how we can improve it.</p> <p><b>Do you have any comments on the IFRS Foundation's <i>IFRS for SMEs</i> training material available on the link above?</b></p> <p>(a) No. (b) Yes (please provide your comments).</p>	<b>B</b>	<p>The training material published is generally helpful and in our view the initiative should be continued. There are a number of complex areas that may benefit from the development of training material.</p>
G5	<p><b>Opportunity to add any further general issues</b></p> <p>Are there any additional issues you would like to bring to the IASB's attention relating to the <i>IFRS for SMEs</i>?</p> <p>(a) No. (b) Yes (please state your issues and provide separate reasoning for each).</p>	<b>A</b>	

Part A: Specific questions on Sections 1-35 of the *IFRS for SMEs*

Ref	General Questions	Response	Reasoning
G6	<p><b>Use of <i>IFRS for SMEs</i> in your jurisdiction</b></p> <p>This question contains four sub-questions. The purpose of the questions is to give us some information about the use of the <i>IFRS for SMEs</i> in the jurisdictions of those responding to this Request for Information.</p> <p><b>1 What is your country/jurisdiction?</b></p> <p><b>2 Is the <i>IFRS for SMEs</i> currently used in your country/jurisdiction?</b></p> <p>(a) Yes, widely used by a majority of our SMEs.  (b) Yes, used by some but not a majority of our SMEs.  (c) No, not widely used by our SMEs.  (d) Other (please explain).</p> <p><b>3 If the <i>IFRS for SMEs</i> is used in your country/jurisdiction, in your judgement what have been the principal benefits of the <i>IFRS for SMEs</i>?</b>  (Please give details of any benefits.)</p> <p><b>4 If the <i>IFRS for SMEs</i> is used in your country/jurisdiction, in your judgement what have been the principal practical problems in implementing the <i>IFRS for SMEs</i>?</b></p>		<p>1) UK</p> <p>2) Other – a new UK GAAP based around the IFRS for SMEs is due to be issued early in 2013, effective from 2015 but available for early adoption.</p> <p>3) The major benefits are expected to be:</p> <ul style="list-style-type: none"> <li>• Single platform for all accounting standards, making initial training and CPD easier.</li> <li>• Wider access to capital due to greater understanding in a wider geographical area of IFRS based accounts</li> <li>• More efficient standards-development, as done once, globally.</li> </ul> <p>4) Practical problems include:</p> <ul style="list-style-type: none"> <li>• Areas that are inconsistent with EU law</li> <li>• IFRS for SMEs forcing a move away from full IFRS in some areas, which seems a backward step.</li> <li>• Having to combine the standard with Companies Act requirements for disclosure and presentation rather than just using IFRS for SMEs for all such elements.</li> <li>• Adapting it as necessary to reflect the pre-existence of a more sophisticated existing framework for financial reporting</li> </ul>