

4 March 2014

International Accounting Standards Board  
30 Cannon Street  
London EC4M 6XH  
United Kingdom

Dear Sir/Madam,

**Re: Proposed amendments to the International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs).**

On behalf of the European Financial Reporting Advisory Group (EFRAG), I am writing to comment on the proposed amendments to the International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs), issued by the IASB on 3 October 2013 (the 'ED').

EFRAG welcomes the proposed amendments to the IFRS for SMEs and appreciates the IASB's efforts to consider the issues identified during the Request for Information (RfI) process.

EFRAG's starting point when answering the specific questions included in the Exposure Draft was that IFRS for SMEs should only be changed when the suggested change addresses an identified problem for SMEs and the change is likely to solve that problem and thus result in improved financial reporting for its intended users.

As indicated earlier in the EFRAG's response to the IASB's Request for Information (RfI) dated 20 December 2012, EFRAG considers the IASB should explain why IFRS for SMEs is not suitable for publicly accountable entities and that EFRAG could see some merits in allowing entities for which the standard is not intended to claim compliance with the requirements of the IFRS for SMEs, if all the requirements of the standard are met.

With regard to the framework developed by the IASB on how to deal with new and revised IFRS during future reviews of the IFRS for SMEs, EFRAG thinks the IFRS for SMEs should not be changed based on changes in full IFRS that have not yet been implemented. We consider that post-implementation reviews of new and revised IFRS represent the best opportunity to assess the suitability of the changes for SMEs and users of their financial statements. Also, we do not support this suitability to be assessed at the same time as the changes to full IFRS are open for consultation, because it would de facto call for too heavy a consultation burden on those who have an interest in the IFRS for SMEs.

EFRAG supports the IASB's proposal to align the main principles of Section 29 *Income Tax* with IAS 12 *Income Taxes* for the recognition and measurement of deferred tax. In our view, extensive experience already exists in relation to calculating deferred tax in accordance with IAS 12 *Income Taxes* and it will, therefore, be easier to transfer this knowledge to SMEs when both requirements are aligned.

EFRAG is generally against allowing accounting policy options in the IFRS for SMEs as the induced lack of comparability amongst entities using IFRS for SMEs is contrary to

the need of users to have financial reporting as standardised as possible. It also increases the complexity of the standard and increases the costs related to the application of the standard for both preparers and users. It is on this basis that we recommend to eliminate the option of how to recognise all actuarial gains and losses and mandate that they are recognised in other comprehensive income and hence align the IFRS for SMEs on full IFRS.

We also acknowledge the fact that the IASB discussed the use of options and concluded that there were no convincing arguments in favour of introducing further accounting policy options in IFRS for SMEs. However, we consider important that the IFRS for SMEs is developed as a global standard that can be applied by many entities. Therefore, its applicability to entities operating in diverse economic environments should also be factored in when considering whether certain options should be allowed. We also believe that there are situations where an option to apply a sophisticated requirement (e.g. revaluation model) could result in more relevant and more reliable information for users of SMEs. Furthermore, we believe that the negative effects of adding specific accounting policy options can be outweighed by the increase of the number of SMEs adopting IFRS for SMEs, which would enhance the overall comparability of financial statements of SMEs, and increased usefulness of the information provided to users. We note that the IASB has already considered similar arguments when discussing the fallback option to use IAS 39 *Financial Instruments: Recognition and Measurement* instead of Section 11 and Section 12.

On this basis, EFRAG believes that, as indicated earlier in the EFRAG's response to the IASB's Request for Information (RfI) dated 20 December 2012, it would be beneficial to:

- permit the revaluation model for Property, Plant and Equipment to be used on a similar basis to IAS 16 *Property, Plant and Equipment*;
- permit an option for the borrowing costs directly attributable to the acquisition, construction or production of a 'qualifying asset' to be capitalised on a similar basis to IAS 23 *Borrowing Costs*; and
- permit an option for development costs to be capitalised on a similar basis to IAS 38 *Intangible Assets*.

Our detailed comments and responses to the questions in the ED are set out in the Appendix.

If you would like to discuss our comments further, please do not hesitate to contact Filipe Camilo Alves or me.

Yours faithfully,



Françoise Flores  
**EFRAG Chairman**

## APPENDIX

### Question 1 – Definition of ‘fiduciary capacity’

The IASB has received feedback that the meaning of ‘fiduciary capacity’ in the definition of ‘public accountability’ (see paragraph 1.3(b) of the IFRS for SMEs) is unclear as it is a term with different implications across jurisdictions. However, respondents generally did not suggest alternative ways of describing public accountability or indicate what guidance would help to clarify the meaning of ‘fiduciary capacity’. Based on the outreach activities to date, the IASB has determined that the use of this term does not appear to create significant uncertainty or diversity in practice.

- (a) Are you aware of circumstances where the use of the term ‘fiduciary capacity’ has created uncertainty or diversity in practice? If so, please provide details.
- (b) Does the term ‘fiduciary capacity’ need to be clarified or replaced? Why or why not? If you think it needs to be clarified or replaced, what changes do you propose and why?

### EFRAG’s response

**EFRAG welcomes the proposed amendments to paragraph 1.3(b) and the IASB’s efforts to clarify the term ‘fiduciary capacity’ in the standard to help local authorities/ standard setters and entities to apply the current definition of public accountability.**

- 1 EFRAG welcomes the proposed changes to paragraph 1.3 (b) of the IFRS for SMEs which, in our view, clarify the scope of application of the term ‘fiduciary capacity.’
- 2 Although we acknowledge that the training material on IFRS for SMEs is prepared by IFRS Foundation education staff and is not approved by the IASB, we suggest the IASB to include a reference (e.g. in its preface) that the accompanying training material for each section is available to demonstrate how IFRS for SMEs is intended to be implemented in practice. We consider that the proposed amendments together with training material, which should be reviewed and revised at the same time the IFRS for SMEs is reviewed, should solve the issues identified in practice.

### Question 2 - Accounting for income tax

The proposal to align the main principles of Section 29 *Income Tax* with IAS 12 *Income Taxes* for the recognition and measurement of deferred tax (see amendment number 44 in the list of proposed amendments at the beginning of this Exposure Draft) is the most significant change being proposed to the IFRS for SMEs.

When the IFRS for SMEs was issued in 2009, Section 29 was based on the IASB’s Exposure Draft *Income Tax* (the ‘2009 ED’), which was issued in March 2009. However, the 2009 ED was never finalised by the IASB. Consequently, the IASB has concluded that it is better to base Section 29 on IAS 12. The IASB proposes to align the recognition and measurement principles in Section 29 with IAS 12 (see paragraphs BC55–BC60) whilst retaining some of the presentation and disclosure simplifications from the original version of Section 29.

The IASB continues to support its reasoning for not permitting the 'taxes payable' approach as set out in paragraph BC145 of the IFRS for SMEs that was issued in 2009. However, while the IASB believes that the principle of recognising deferred tax assets and liabilities is appropriate for SMEs, it would like feedback on whether Section 29 (revised) can currently be applied (operationalised) by SMEs, or whether further simplifications or guidance should be considered.

A 'clean' version of Section 29 (revised) with the proposed changes to Section 29 already incorporated is set out in the appendix at the end of this Exposure Draft.

Are the proposed changes to Section 29 appropriate for SMEs and users of their financial statements? If not, what modifications, for example further simplifications or additional guidance, do you propose and why?

### EFRAG's response

**EFRAG supports the IASB's proposal to align the main principles of Section 29 *Income Tax* with IAS 12 *Income Taxes* for the recognition and measurement of deferred tax, and to add a rebuttable presumption that the carrying amount of investment property measured at fair value will be recovered through sale.**

**However, EFRAG believes that the wording of the proposed amendments could be improved and that some specific guidance from IAS 12 should be reflected in Section 29. Furthermore, EFRAG would encourage the IASB to consider undertaking an outreach to understand whether SMEs would find it useful to have an 'undue cost or effort exemption' for some specific requirements, in addition to the exception already suggested and commented on below, or for all the requirements in Section 29.**

#### *Approach for accounting for income taxes*

- 3 EFRAG supports the alignment of the main principles of Section 29 *Income Tax* with IAS 12 *Income Taxes* for the recognition and measurement of deferred tax with appropriate simplifications to accommodate SMEs needs.
- 4 EFRAG acknowledges the concerns of those who consider that the accounting for income taxes according to the main principles of IAS 12 can be complex and difficult to apply in practice. However, we note that the IFRS for SMEs is used by a wide range of entities and jurisdictions that have already experience with applying the temporary difference approach and consider that such approach provides useful and relevant information to users. We also note that when responding to the IASB, the majority of constituents expressed the view that Section 29 should be aligned with IAS 12 and that the temporary difference approach should continue to be used for the calculation of deferred tax assets and deferred tax liabilities. Finally, as already highlighted in our comment letter in response to IASB's RfI, the EFRAG/FRC discussion paper *Improving the Financial Reporting of Income Tax* demonstrated that developing a different accounting model for income tax is not straightforward.
- 5 Most significantly, EFRAG thinks that having Section 29 based on the IASB's March 2009 Exposure Draft *Income Tax*, rather than the existing IAS 12, leads to more complexity in the area of deferred tax in IFRS for SMEs (as currently included in the Section 29) than the existing requirements in IAS 12. For example,

Section 29 does not include some of the exemptions from recognising deferred taxes, thus eventually resulting in more deferred tax calculations being required. Therefore, alignment is expected to also reduce complexity in practice.

- 6 EFRAG also considers that the extensive experience that already exists in relation to determining deferred tax in accordance with IAS 12 *Income Taxes* makes it easier to transfer this knowledge to SMEs and users of SMEs financial statements when their requirements are aligned. This would contribute to the alleviation of potential diversity in practice.
- 7 Finally, EFRAG would encourage the IASB to consider undertaking some outreach with preparers and users of SME's financial statements to understand whether SMEs would find it useful to have an 'undue cost or effort exemption' for some specific requirements, in addition to the exception already suggested and commented below, or for all the requirements in Section 29. If this would be the case, the IASB should work together with SMEs to determine a practical fallback solution for SMEs when the exemption would apply.

*Undue cost or effort exemption to offset income tax assets and liabilities*

- 8 EFRAG supports the proposed amendment to add an undue cost or effort exemption so that offsetting income tax assets and liabilities is not required if significant, detailed scheduling is required.
- 9 The aim of the proposed amendment is to provide a similar relief to IAS 12 without including the more complex wording used in IAS 12. EFRAG believes that the specific amendment purports further simplification and is expected to reduce the costs for preparers.
- 10 However, EFRAG thinks that paragraph 74(b)(i) of IAS 12 should be incorporated in paragraph 29 of Section 29 to state that an entity shall offset deferred tax assets and deferred tax liabilities, if they are related to income taxes levied by the same taxation authority on the same taxable entity (as suggested in paragraph 17 below).

*Clarifying guidance and wording*

- 11 As a general comment, EFRAG notes that the education guidance and training material of Section 29 provide the necessary examples included in IAS 12, which help clarify the requirements of the standard, enhance understandability and apply the requirements as intended. These should be simultaneously revised and published when the revised IFRS for SMEs is finalised.
- 12 EFRAG recommends the following changes to clarify the guidance and wording of Section 29 *Income Tax*:

Paragraph 29.8A of the ED

- 13 We believe that paragraph 29.8A of the ED could be improved to appropriately define the concept of temporary differences. This could be done by incorporating some of the existing wording in paragraphs 16 and 25 of IAS 12, which provides guidance on taxable temporary differences deductible temporary differences, as follows:

*It is inherent in the recognition of an asset or a liability that the reporting entity expects to recover or settle the carrying amount of that asset or liability. ~~If it is probable that recovery or settlement of that carrying amount~~*

~~will make future tax payments larger (smaller) than they would be if such recovery or settlement were to have no tax consequences, this section requires an entity to recognise a deferred tax liability (deferred tax asset) with certain limited exceptions.~~

When the carrying amount of the asset exceeds its tax base, the amount of taxable economic benefits will exceed the amount that will be allowed as a deduction for tax purposes. This difference is a taxable temporary difference and the obligation to pay the resulting income taxes in the future periods is a deferred tax liability. As the entity recovers the carrying amount of the asset, the taxable temporary difference will reverse and the entity will have taxable profit. An entity is required to recognise a deferred tax liability with certain limited exceptions.

Accordingly, a deferred tax asset arises in respect of the income taxes that will be recoverable in the future periods when that part of the liability is allowed as a deduction in determining taxable profit. Similarly, if the carrying amount of an asset is less than its tax base, the difference gives rise to a deferred tax asset in respect of the income taxes that will be recoverable in future periods. If the entity expects to recover the carrying amount of an asset or settle the carrying amount of a liability without affecting taxable profit, no deferred tax arises in respect of the asset or liability.

Paragraph 29.17D of the ED

- 14 EFRAG believes that the guidance in paragraph 30 of IAS 12 on “tax planning opportunities” would be also useful for SMEs. Therefore, we suggest the following addition to paragraph 29.17D (suggested text underlined):

29.17D *When there are insufficient taxable temporary differences relating to the same taxation authority and the same taxable entity, the deferred tax asset is recognised to the extent that:*

- (a) *it is probable that the entity will have sufficient taxable profit relating to the same taxation authority and the same taxable entity in the same period as the reversal of the deductible temporary difference (or in the periods into which a tax loss arising from the deferred tax asset can be carried back or forward). When evaluating whether it will have sufficient taxable profit in future periods, an entity ignores taxable amounts arising from deductible temporary differences that are expected to originate in future periods, because the deferred tax asset arising from those deductible temporary differences will itself require future taxable profit in order to be utilised; or*
- (b) *tax planning opportunities are available to the entity that will create taxable profit in appropriate periods.*

*Tax planning opportunities are actions that the entity would take in order to create or increase taxable income in a particular period before the expiry of a tax loss or tax credit carryforward. Where tax planning opportunities advance taxable profit from a later period to an earlier period, the utilisation of a tax loss or a tax credit carryforward still depends on the existence of future taxable profit from sources other than future originating temporary differences.*

Paragraph 29.21 of the ED

- 15 EFRAG believes that paragraph 29.21 of the ED should be expanded to reflect the guidance in paragraph 51C of IAS 12 which clarifies that the presumption is rebutted in certain circumstances. We suggest the following wording (underlined):

29.21 *If a deferred tax liability or asset arises from investment property that is measured at fair value, there is a rebuttable presumption that the carrying amount of the investment property will be recovered through sale. Accordingly, unless that presumption is rebutted, the measurement of the deferred tax liability or the deferred tax asset shall reflect the tax consequences of recovering the carrying amount of the investment property entirely through sale. This presumption is rebutted if the investment property is depreciable and is held within a business model whose objective is to consume substantially all the economic benefits embodied in the investment property over time, rather than through sale. If the presumption is rebutted, the requirements of paragraph 29.20 shall be followed.*

Paragraph 29.27 of the IFRS for SMEs

- 16 EFRAG believes that paragraph 29.27 of the IFRS for SMEs could be improved to better reflect one of the main requirements in IAS 12, that is, an entity shall account for tax consequences of transactions and other events in the same way that it accounts for transaction and other events themselves. Thus, for transactions and other events recognised in profit and loss, any related tax effects are also recognised in profit or loss. For transactions and other events recognised outside of profit or loss any related tax effects are also recognised outside of profit or loss.

Paragraph 29.29 of the ED

- 17 We believe that paragraph 29.29 of the ED could be improved by stating that an entity shall offset deferred tax assets and liabilities if the income taxes were charged by the same taxation authority on the same taxable entity, as required in paragraph 12.74(b)(i) of IAS 12 (suggested text is underline below):

29.29 *An entity shall offset current tax assets and current tax liabilities, or offset deferred tax assets and deferred tax liabilities, only when it has a legally enforceable right to set off the amounts and it is **clear without undue cost or effort** that such assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity, or different taxable entities that it intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.*

*Additional guidance*

- 18 EFRAG believes that the following guidance in IAS 12, **appropriately modified and simplified**, should be incorporated in Section 29:
- (a) paragraphs 66 to 68 of IAS 12 to provide guidance on deferred tax arising from a business combination, and
  - (b) paragraphs 68A to 68C of IAS 12 to provide guidance on current and deferred tax arising from share-based payment transactions.

**Question 3 - Other proposed amendments to the IFRS for SMEs**

The IASB proposes to make a number of other amendments to the IFRS for SMEs. The proposed amendments are listed and numbered 1–43 and 45–57 in the list of proposed

amendments. Most of those amendments are minor and/or clarify existing requirements.

- (a) Are there any amendments that you do not agree with or have comments on?
- (b) Do any of the amendments require additional guidance or disclosure requirements to be added to the IFRS for SMEs? If so, which ones and what are your suggestions?

If you disagree with an amendment please state any alternatives you propose and give your reasoning.

### EFRAG's response

**EFRAG welcomes most of the proposed amendments as we believe that they will clarify existing guidance, remove unintended consequences and address some of the concerns raised by respondents to the RfI. However, as further explained below, EFRAG thinks that:**

- **entities applying the 'undue cost or effort' exemptions in the standard should be required to disclose when an undue cost and effort exemption has been used and their reasons for doing so (subject to materiality);**
- **paragraph 9.16 of the ED should be aligned with paragraph B93 of IFRS 10 to state that when preparing consolidated financial statements and applying the impracticable criteria, the difference between the date of the subsidiary's financial statements and that of the consolidated financial statements shall not be more than three months before or after the date of the consolidated financial statements;**
- **the wording in paragraph 12.3 (f), excluding leases from the scope of Section 12, could be simplified.; and**
- **the measurement exemption in paragraph 22.8 for equity instruments issued as part of a business combination should be made optional, not mandatory.**

19 EFRAG generally agrees with most of the proposed amendments, but we think that some of the proposed amendments should be expanded to address the concerns referred below.

#### *Undue cost or effort exemption*

20 EFRAG welcomes the specific guidance in paragraphs 2.14A – 2.14C on how to interpret and apply the 'undue cost and effort' exemption that is used in several sections of the IFRS for SMEs.

21 However, we believe that the use of such exception should trigger an SME to disclose when it has made use of an *undue cost and effort* exemption (subject to materiality). In our view, if an entity is not applying a certain requirement of the standard on the basis of 'undue cost or effort', it should clearly state that the 'undue cost and effort' exemption has been used and explain why applying a requirement would result in excessive cost, time and effort.

22 The use of the exemption might not be clear to the user of the financial statements, thus impairing comparability with other entities; disclosures would provide better information for users at comparatively little cost to SMEs.

- 23 Q&A 2012/01 provided guidance on how to interpret 'undue cost or effort', namely when used in conjunction with the term 'impracticable', and how it differs from the defined term 'impracticable'. We note that paragraphs BC1 and BC2 of the Q&A 2012/01 noted that enquiries to the IASB concerning the difference between 'impracticable' and 'undue cost or effort' suggested that IFRS for SMEs was not clear as to whether cost alone could render a requirement impracticable. In our view, the added guidance in paragraphs 2.14A – 2.14C and the Basis for Conclusions of the ED do not clearly address this concern.
- 24 Therefore, EFRAG suggests that the IASB better explain, either in the standard or in the Basis for Conclusions, the difference between 'undue cost or effort' and the 'impracticable;' and how the terms interact with each other.

*Different reporting dates*

- 25 EFRAG thinks that the proposed amendment to paragraph 9.16 of the IFRS for SMEs is an improvement compared with the current requirements as it requires a parent that applies the impracticable criteria to consolidate the financial information of the subsidiary to use the most recent financial statements of the subsidiary and provides guidance on necessary adjustments if uniform reporting dates do not exist.
- 26 Although EFRAG agrees with the proposed amendment, EFRAG is concerned about the considerable flexibility of the standard when it comes to the difference between the date of the subsidiary's financial statements and that of the consolidated financial statements. EFRAG notes in this respect the 'most recent financial statements' could be from a previous year.
- 27 Consequently, EFRAG recommends aligning paragraph 9.16 of the ED with paragraph B93 of IFRS 10 to state that when preparing consolidated financial statements and applying the impracticable criteria, the difference between the date of the subsidiary's financial statements and that of the consolidated financial statements shall not be more than three months before or after the date of the consolidated financial statements.

*Leases with an interest rate variation clause linked to market interest rates*

- 28 EFRAG welcomes the proposed amendments in paragraphs 20.1(e) and 12.3(f)(iii) to include leases with an interest rate variation clause linked to market interest rates (e.g. linked to changes in LIBOR) within the scope of Section 20 *Leases*, rather than Section 12 *Other Financial Instruments Issues*.
- 29 However, EFRAG believes that the wording in paragraph 12.3(f) of the ED could be simplified as suggested below (suggested text is shown by underline and strikethrough):

12.3 Section 12 applies to all financial instruments except the following:

- (f) leases (see Section 20 *Leases*). However, Section 12 applies to ~~unless the leases that~~ could result in a loss to the lessor or the lessee as a result of contractual terms that are unrelated to:
- (i) changes in the price of the leased asset;
  - (ii) changes in foreign exchange rates;
  - (iii) changes in lease payments based on variable market interest rates; or

(iv) a default by one of the counterparties.

Any of the losses referred to above are covered by Section 20 Leases.

*Original issue of shares or other equity instruments*

- 30 EFRAG agrees with the IASB's proposal to include an exemption from the initial measurement requirements in paragraph 22.8 of IFRS for SMEs for equity instruments issued as part of a business combination, including business combinations under common control.
- 31 Nonetheless, EFRAG thinks that the IASB should make clear that the exemption does not prohibit entities from measuring equity instruments issued as part of a business combination at fair value. That is, it should be stated that an entity is permitted to use the exemption in paragraph 22.8 but it is not required to.
- 32 Our conclusion is based on the reasoning that we do not think that it will be clear for SMEs that such equity instruments may be measured, if considered more appropriate, at fair value after considering paragraphs 10.4-10.5<sup>1</sup> of the IFRS for SMEs (i.e. it will not be clear for SMEs that paragraph 22.8 could be applied by analogy).

**Question 4 - Additional issues**

In June 2012 the IASB issued a Request for Information (Rfi) seeking public comment on whether there is a need to make any amendments to the IFRS for SMEs (see paragraphs BC2–BC15). The Rfi noted a number of specific issues that had been previously identified and asked respondents whether the issues warranted changes to the IFRS for SMEs. Additionally, the Rfi asked respondents to identify any additional issues that needed to be addressed during the review process. Any issues so identified were discussed by the IASB during its deliberations.

Do respondents have any further issues that are not addressed by the 57 amendments in the list of proposed amendments that they think the IASB should consider during this comprehensive review of the IFRS for SMEs? Please state these issues, if any, and give your reasoning.

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<sup>1</sup> The IFRS for SMEs states that in the absence of a requirement in the standard that applies specifically to a transaction or other event or condition, paragraph 10.4 provides guidance for making a judgement and paragraph 10.5 establishes a hierarchy for an entity to follow in deciding on the appropriate accounting policy in the circumstances.

## EFRAG's response

EFRAG agrees with the IASB that the main changes from IFRS 3 *Business Combinations* (2008), IFRS 10 *Consolidated Financial Statements* (and other related standards such as IAS 27 *Separate Financial Statements*), IFRS 11 *Joint Arrangements* and IFRS 13 *Fair Value Measurement* should not be incorporated in the IFRS for SMEs until there is practical experience with their use.

However, EFRAG thinks that the IASB should explain why IFRS for SMEs is not suitable for publicly accountable entities. EFRAG also believes that, as already suggested in EFRAG's response to the RfI, it could be beneficial for SMEs if the following changes were made to IFRS for SMEs:

- use of revaluation model for property, plant and equipment on a similar basis to IAS 16 *Property, Plant and Equipment* was permitted;
- an option was introduced for those borrowing costs that are directly attributable to the acquisition, construction or production of a 'qualifying asset' to be capitalised on a similar basis to IAS 23 *Borrowing Costs*;
- paragraph 22.7(a) was modified or deleted as it does not permit share subscription receivables to be presented as an asset;
- an option for development costs to be capitalised on similar basis to IAS 38 *Intangible Assets* was introduced; and
- all actuarial gains and losses were recognised in other comprehensive income (i.e. removal of profit or loss option in paragraph 28.24 to reflect a key change from a revision to IAS 19 *Employee Benefits* in 2011).

33 In its comment letter in response to the Request for Information, issued on 20 December 2012, EFRAG considered that that the main changes from IFRS 3 *Business Combinations* (2008), IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements* and IFRS 13 *Fair Value Measurement* should not be incorporated in the IFRS for SMEs until there is practical experience with their use. Therefore, EFRAG welcomes the IASB's decision to not amend the IFRS for SMEs during this initial review to incorporate any of the new principles or changes made to the standards referred to above.

34 However, we also expressed the view in our December comment letter that:

- (a) the IASB should explain why IFRS for SMEs is not suitable for publicly accountable entities and that EFRAG could see some merits in allowing entities for which the standard is not intended to claim compliance with the requirements of the IFRS for SMEs, if all the requirements of the standard are met (*reply to Question S1 in Appendix 1 of the letter*);
- (b) an option to revalue property, plant and equipment should be included (*reply to Question S9 in Appendix 1 of the letter*);
- (c) an option to allow an entity to either capitalise or expense borrowing costs on qualifying assets should be included (*reply to Question S14 in Appendix 1 of the letter*);
- (d) share subscription receivables should be presented as an asset when certain criteria are met (*reply to question S13 in Appendix 1 of the letter*).

- (e) an option to allow an entity to either capitalise or expense development costs should be included (*reply to Question S10 in Appendix 1 of the letter*);
- (f) IFRS for SMEs should be revised so that an entity is required to recognise all actuarial gains and losses in other comprehensive income (*reply to question S15 in Appendix 1 of the letter*). EFRAG also suggests the IASB to include in the IFRS for SMEs the simplified net interest approach introduced in IAS 19 (2011) so that SMEs can benefit from the relief it brings.
- (g) the cases for which hedge accounting is applicable are overly limited (*reply to Question S20 in Appendix 1 of the letter*). EFRAG notes that UK FRC, that recently published one of its standards based on IFRS for SMEs, is currently consulting its constituents on the hedge accounting requirements. EFRAG recommends the IASB consider the results of this consultation and assess what restrictions to lift.
- (h) entities should be given the option of following the recognition and measurement provisions of IFRS 9 when this standard is completed. However, post-implementation reviews should consider whether the option could be removed (*reply to Question S5 in Appendix 1 of the letter*). EFRAG also recommends the IASB to consider whether there are situations where the current requirements in section 11 and 12 of IFRS for SMEs are more burdensome than the requirements in full IFRS (e.g. debt instruments with interest rate caps or floors or with stepped interest rates which may fail to qualify as basic financial instruments and, therefore, have to be accounted for at fair value under *IFRS for SMEs*).

35 EFRAG considers that the above concerns have not been solved in the ED in the way we had wished they would and we refer for further details to our letter of 20 December 2012.

#### **Question 5 - Transition provisions**

The IASB does not expect retrospective application of any of the proposed amendments to be significantly burdensome for SMEs and has therefore proposed that the amendments to the IFRS for SMEs in Sections 2–34 are applied retrospectively.

Do you agree with the proposed transition provisions for the amendments to the IFRS for SMEs? Why or why not? If not, what alternative do you propose?

#### **EFRAG's response**

**In general, EFRAG considers that full retrospective application is likely to provide the most useful information to users, as it facilitates the year-to-year comparison.**

**However, EFRAG thinks that the IASB should consider ways of providing relief from full retrospective application of section 29 *Income Tax*.**

36 In general, EFRAG considers that full retrospective application is likely to provide the most useful information to users as it facilitates the year-to-year comparison. However, EFRAG is aware that such application may be costly and in some cases impracticable.

37 The IASB proposes to align the main principles of Section 29 *Income Tax* with IAS 12 *Income Taxes* for the recognition and measurement of deferred tax. To align

the main principles the IASB has proposed a number of amendments that affect both the structure and the wording of several paragraphs.

- 38 EFRAG believes that the requirement to apply section 29 retrospectively can be costly and burdensome for some SMEs as SMEs will need to assess whether each individual change to the requirements for recognising, measuring and disclosing deferred tax will have an impact when applied retrospectively. For example, the information required to apply section 29 retrospectively might not be available or available only with undue cost or effort - it could be challenging for an entity as it may have to track the tax bases of many assets for which the entity has discontinued tracking in accordance with IFRS for SMEs (2009).
- 39 In light of these concerns, EFRAG thinks that the IASB should consider ways of providing relief from full retrospective application of section 29 *Income Tax* (and not only when it is impracticable). EFRAG notes that, according to paragraph 35.10 of the IFRS for SMEs, a first-time adopter is not required to recognise deferred tax assets or deferred tax liabilities, at the date of transition if recognition would involve undue cost or effort.
- 40 EFRAG would suggest that if an SME cannot apply the proposed amendments to the requirements in Section 29 *Income Tax* retrospectively without undue cost or effort, the IFRS for SMEs should permit an entity to evoke an “undue cost or effort exemption” and apply it to the annual period immediately preceding the effective date. EFRAG believes that this could preserve trend information which is critical for users’ analysis.

#### **Question 6 - Effective date**

The IASB does not think that any of the proposed amendments to the IFRS for SMEs will result in significant changes in practice for SMEs or have a significant impact on their financial statements. It has therefore proposed that the effective date of the amendments to the IFRS for SMEs should be one year after the final amendments are issued. The IASB also proposes that early adoption of the amendments should be permitted.

Do you agree with the proposed effective date and the proposal to permit early adoption? Why or why not? If not, what alternative do you propose?

#### **EFRAG’s response**

##### **EFRAG agrees with the IASB’s proposals on effective date and early application.**

- 41 EFRAG considers that most of the proposals clarify requirements, remove unintended consequences of existing wording or align requirements with some full IFRS which have been applied by entities, including SMEs, in many jurisdictions for years.
- 42 Therefore, EFRAG agrees with the IASB’s proposal that the effective date of the amendments to the IFRS for SMEs should be the first suitable date one year from the date that the amendments are issued.

- 43 EFRAG also agrees with the IASB's proposal that earlier application should be permitted and that if an entity applies the amendments for an earlier period it shall disclose that fact.

#### **Question 7 - Future reviews of the IFRS for SMEs**

When the IFRS for SMEs was issued in 2009 the IASB stated that after the initial comprehensive review, the IASB expects to propose amendments to the IFRS for SMEs by publishing an omnibus Exposure Draft approximately once every three years. The IASB further stated that it intended this three-year cycle to be a tentative plan, not a firm commitment. It also noted that, on occasion, it may identify a matter for which an amendment to the IFRS for SMEs may need to be considered earlier than in the normal three-year cycle; for example to address an urgent issue.

During the comprehensive review, the IASB has received feedback that amendments to the IFRS for SMEs once every three years (three-year cycle) may be too frequent and that a five-year cycle, with the ability for an urgent issue to be addressed earlier, may be more appropriate.

Do you agree with the current tentative three-year cycle for maintaining the IFRS for SMEs, with the possibility for urgent issues to be addressed more frequently? Why or why not? If not, how should this process be modified?

#### **EFRAG's response**

**EFRAG does not support the framework for revision proposed by the IASB. EFRAG believes that the IFRS for SMEs should not be changed based on changes in full IFRS that have not yet been implemented. We consider that post-implementation reviews of new and revised IFRS represent the best opportunity to assess the suitability of the changes for SMEs and users of their financial statements. Nor does EFRAG support this suitability to be assessed at the same time as the changes to full IFRS are open to consultation, because it would de facto call for too heavy a consultation burden on those who have an interest in the IFRS for SMEs.**

**EFRAG has identified that SMEs have a strong demand for stability and therefore limiting the frequency of changes to the standard is critical. At the current stage of practical experience with the implementation of IFRS for SMEs, many issues have been raised, and more can be expected to be raised in the future. Based on the responses received by EFRAG, any next proposed revision should consider remedying the difficulties identified in practice from, at least, the publication of two annual reports prepared in accordance with the (revised) IFRS for SMEs. EFRAG also recommends that the IASB should reassess the appropriateness of this three-year cycle once the revised standard has been well implemented and there is extensive experience.**

**EFRAG suggests having something similar to the IFRS Interpretations Committee for the IFRS for SMEs and would not favour the continuation of the Q&A process.**

- 44 EFRAG continues to believe that it is imperative that the IFRS for SMEs remains stable. Therefore, in EFRAG's view, the standard should be changed only when the suggested change addresses an identified problem for SMEs and the change is likely to solve that problem, and thus result in improved financial reporting. Unless a change is considered particularly urgent, the change should only be incorporated into the IFRS for SMEs as part of the multi-annual review.

- 45 EFRAG agrees with the IASB, as stated in paragraphs BC29 and BC30 of the ED, that the stability of the standard should be maintained and that principles should be followed by the IASB when considering new and revised IFRS. EFRAG also agrees with the intention of the IASB (as stated in the developed principles for comprehensive reviews (BC29)), to consider how changes affect SME users (and SMEs) and a possible revision of the IFRS for SMEs at the same time that full IFRS are changed.
- 46 We acknowledge that the IASB's due process to publish a revised standard may well take one year. Therefore, a three-year cycle will mean, in practice, a revised standard published once every four or five years. EFRAG believes that a three-year cycle would provide the necessary stability for SMEs but would also allow for adaptation of the standard, where needed, on a regular basis. EFRAG notes that IFRS for SMEs is still being implemented in or currently being used by an increasing number of different jurisdictions. Therefore, a number of improvements may be identified during this process. A three-year cycle would allow the IASB to consider such improvements in a timely manner. We also consider that the IASB should reconsider the three-year cycle once the standard has been well implemented and there is extensive implementation experience.
- 47 However, we think that any future proposed changes to the IFRS for SMEs to be included in an exposure draft should consider the difficulties identified in practice from, at least, the publication of two annual reports prepared in accordance with the (revised) IFRS for SMEs.
- 48 We also believe this should be accompanied with some flexibility in the due process so that urgent issues can be considered earlier if they respond to an urgent need to remove an impediment to the usefulness of financial information or solve a significant divergence or unforeseen circumstances in practice. Such urgent changes may result, for example, from specific requests from constituents in relation to changes from full IFRS or unforeseen circumstances and implications of the existing IFRS for SMEs.
- 49 In addition, EFRAG would suggest having something similar to the IFRS Interpretations Committee for the IFRS for SMEs. However, EFRAG would not favour the continuation of the Q&A process given the earlier experience with the large number of Q&As issued without clear criteria.

**Question 8 - Any other comments**

Do you have any other comments on the proposals?

**EFRAG's response**

**EFRAG thinks that the guidance on fair value measurement in section 11 should be moved into a separate section and that some definitions in *IFRS for SMEs* should be aligned with full IFRS.**

*Fair value guidance in section 11*

- 50 Several sections of the IFRS for SMEs (covering both financial and non-financial items) make reference to the fair value guidance in Section 11. EFRAG notes that fair value guidance may also be relevant in other cases than for financial instruments. This is, for example, the case when accounting for investments in

subsidiaries, associates, jointly controlled entities, business combinations, leases, share-based payment, investment properties, biological assets, and when performing an impairment test.

- 51 As referred in our comment letter in response to the Request for Information (*reply to Question S6 in Appendix 1 of the letter*) EFRAG thinks the standard could be more user-friendly if the guidance on fair value measurement was placed in a separate section. Such an amendment would have the benefit of making clear that the guidance was applicable to all references to fair value in the IFRS for SMEs, and not just to financial instruments.

*Definitions*

- 52 The IASB has proposed to align some of the definitions included in the IFRS for SMEs with full IFRS. For example, as referred to in paragraph BC76 of the ED, the IASB proposes to align the definition of related party with IAS 24 (2009).
- 53 However, EFRAG is concerned that different definitions currently exist in the IFRS for SMEs and full IFRS. For example, the definitions of 'goodwill' and 'fair value' in the IFRS for SMEs are not completely aligned with full IFRS.
- 54 To avoid any discussion about the meaning of the same concepts, EFRAG thinks that the IASB should make efforts to align, as far as possible, the definitions and concepts between the IFRS for SMEs and full IFRS. When such alignment is not possible, the glossary should refer to the standing differences between IFRS and IFRS for SMEs.