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Our ref: ICAEW Rep 22/14

Mme Françoise Flores
Chair
European Financial Reporting Advisory Group
13-14 Avenue des Arts
B-1210 Brussels

Chère Mme Flores

ED/2013/9 Proposed amendments to the IFRS for SMEs

ICAEW welcomes the opportunity to comment on EFRAG's draft comment letter on the International Accounting Standards Board Exposure Draft ED/2013/9 *Proposed amendments to the IFRS for SMEs*. Our responses to the main issues highlighted by EFRAG are set out below. A copy our response to the IASB is attached to this letter. Please refer to this response for our detailed views on the IASB's proposals.

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

EFRAG'S DRAFT COMMENT LETTER ON ED/2013/9 PROPOSED AMENDMENTS TO THE IFRS FOR SMES

Memorandum of comment submitted in February 2014 by ICAEW, in response to EFRAG's draft comment letter on the IASB's exposure draft ED/2013/9 *Proposed amendments to the IFRS for SMEs* published in October 2013.

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INTRODUCTION

1. ICAEW welcomes the opportunity to comment on EFRAG's draft comment letter on the IASB's ED/2013/9 *Proposed amendments to the IFRS for SMEs*.

WHO WE ARE

2. ICAEW is a world-leading professional accountancy body. We operate under a Royal Charter which obliges us to work 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 140,000 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

We generally welcome the proposed changes

5. Like EFRAG, we agree with the majority of the proposed changes.
6. Our response to the IASB does, however, highlight a number of concerns – some of which have also been raised by EFRAG – and we encourage you to review the attached letter and consider the points we have raised. There are, however, two matters that we specifically wanted to draw your attention to. These are set out below.

We believe the IASB should resist any temptation to include additional options

7. We do not agree with EFRAG's suggestion that the board introduces additional options in the IFRS for SMEs such as revaluing property, plant and equipment and capitalising development and/or borrowing costs. While we appreciate the arguments in favour of introducing such options – and indeed in the past we have to some extent championed their inclusion – we now feel that, on balance, it is best to keep the standard as simple as possible as if individual jurisdictions wish to introduce additional options, they are free to do so (although entities applying that standard could not then, of course, claim compliance with the IFRS for SMEs).
8. Indeed, the UK has recently adopted this approach when developing a new version of its domestic GAAP that is based upon – but not fully aligned with – the IFRS for SMEs. While we supported these amendments as being appropriate in a UK context, we realise that they would not be desirable for all jurisdictions, many of which would have no interest in using them and would regard them as unnecessary complications. A simple, core standard that individual jurisdictions can adopt wholesale or build upon as desired is, we believe, the ideal outcome.

We have concerns about the classification of financial instruments

9. As the UK prepares to adopt FRS 102 *The Financial Reporting Standard Applicable in the UK and Republic of Ireland* – a new standard that is largely based upon the IFRS for SMEs – it has become apparent that strict application of the requirements of section 11 of the IFRS for SMEs will often result in debt instruments that many would consider to be 'basic' being classified as 'other'. For example, it appears that debt instruments with interest rate caps or

floors or with stepped interest rates or prepayment provisions would in many cases fail to qualify as basic. Consequently many relatively straightforward instruments will need to be measured at fair value under the IFRS for SMEs, even though in many instances the same instruments would be measured at amortised cost under full IFRS. This outcome places a disproportionate cost burden on SMEs, which we believe is a wholly unsatisfactory outcome.

- 10.** This issue stems from the requirements of paragraph 11.9 of the IFRS for SMEs which are very restrictive, meaning that the line between basic and other instruments seems to have been drawn in an inappropriate place. The UK's Financial Reporting Council is currently undertaking a project to redraw that line in what it sees as a more appropriate place ie, in a way that ensures that commonly-occurring, simple financial instruments are measured at amortised cost whenever they are treated that way under full IFRS. It will shortly issue an exposure draft on the subject. Our response to the IASB urges the board to follow this consultation closely and to consider making similar changes to the IFRS for SMEs.

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