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"Request for Information - Comprehensive Review of the IFRS for SMEs"

Name of Submitter:	**Dr. Norbert Breker, Uwe Fieseler**
Organisation:	**Institut der Wirtschaftsprüfer in Deutschland e.V. (IDW),** **Institute of Public Auditors in Germany, Incorporated Association**
Country / jurisdiction:	**Germany**
Correspondence address and/or email:	**Tersteegenstraße 14** **D-40474 Düsseldorf** **Germany** **fieseler@idw.de**

General Remarks:

Despite the fact that the *IFRS for SMEs* is not currently used in Germany, we would like to contribute to the *Comprehensive Review of the IFRS for SMEs* by commenting on possible amendments to the standard. In our view, the IASB should avoid

- increasing the complexity of the *IFRS for SMEs*, and
- changing the requirements of the standard too frequently.

In this context, we are pleased that the IASB does not intend that all changes to the full IFRSs issued since the *IFRS for SMEs* was published will automatically be 'pushed down' to the *IFRS for SMEs*. Small and medium-sized entities need a stand-alone and stable standard.

Nevertheless, the IDW still believes that there is a need for further simplification and improvement in some areas.

Ref	Question	Response (Please indicate your response a, b, c, etc)	Reasoning (Please give clear reasoning to support your response)
S1	**Use by publicly traded entities (Section 1)** The *IFRS for SMEs* currently prohibits an entity whose debt or equity instruments are traded in a public market from using the *IFRS for SMEs* (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.	**(a)**	The *IFRS for SMEs* should not be used by entities whose debt or equity instruments are traded in a public market. Entering a public capital market makes entities publicly accountable. Such entities should use full IFRS. If publicly accountable entities use this IFRS, the

	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 *IFRS for SMEs* 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. **Are the scope requirements of the *IFRS for SMEs* currently too restrictive for publicly traded entities?** (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 *IFRS for SMEs*. (b) Yes—revise the scope of the *IFRS for SMEs* 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 *IFRS for SMEs*. (c) Other—please explain. Please provide reasoning to support your choice (a), (b) or (c).		financial statements should not be described as conforming to the *IFRS for SMEs*, even if law or regulation in the respective jurisdiction permits or requires this IFRS to be used by publicly accountable entities.
S2	**Use by financial institutions (Section 1)** The *IFRS for SMEs* currently prohibits financial institutions and	**(a)**	The reasoning is similar to our answer to question S1.

	other entities that hold assets for a broad group of outsiders as one of their primary businesses from using the *IFRS for SMEs* (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. 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 *IFRS for SMEs* 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. **Are the scope requirements of the *IFRS for SMEs* currently too restrictive for financial institutions and similar entities?** (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 *IFRS for SMEs*. (b) Yes—revise the scope of the *IFRS for SMEs* to permit each jurisdiction to decide whether any financial institutions and other entities that hold assets for a broad group of outsiders as one of their primary businesses should be permitted or required to use the *IFRS for SMEs*. (c) Other—please explain. Please provide reasoning to support your choice of (a), (b) or (c).		
S3	**Clarification of use by not-for-profit entities (Section 1)** The *IFRS for SMEs* is silent on whether not-for-profit (NFP) entities (eg charities) are eligible to use the *IFRS for SMEs*. Some interested parties have asked whether soliciting and accepting contributions would automatically make an NFP entity publicly accountable. The *IFRS for SMEs* specifically identifies only two types of entities that have public accountability and, therefore, are not eligible to use the *IFRS for SMEs*: • those that have issued debt or equity securities in public capital markets; and • those that hold assets for a broad group of outsiders as one	**(c)**	Neither full IFRSs nor the *IFRS for SMEs* contain a definition of not-for-profit entities or criteria for determining such entities. In Germany, the term “not-for-profit” is driven primarily by tax law. Without a proper definition of not-for-profit entities, it would be premature to decide whether a subset of such entities should be eligible to use the *IFRS for SMEs.* The *IFRS for SMEs* was developed from full IFRSs that are designed to apply to the financial reporting of profit-oriented entities (preface to IFRSs, paragraph 9). Not-for-profit entities (however defined) may find certain requirements of full IFRSs and/or the *IFRS for*

	of their primary businesses. **Should the *IFRS for SMEs* be revised to clarify whether an NFP entity is eligible to use it?** (a) Yes—clarify that soliciting and accepting contributions does not automatically make an NFP entity publicly accountable. An NFP entity can use the *IFRS for SMEs* if it otherwise qualifies under Section 1. (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 *IFRS for SMEs*. (c) No—do not revise the *IFRS for SMEs* for this issue. (d) Other—please explain. Please provide reasoning to support your choice of (a), (b), (c) or (d).		*SMEs* useful. Nevertheless, whether full IFRSs and/or the *IFRS for SMEs* are generally appropriate for not-for-profit entities requires in-depth analysis and should not be part of this review. Consequently, the *IFRS for SMEs* should remain silent on this issue.
S4	**Consideration of recent changes to the consolidation guidance in full IFRSs (Section 9)** The *IFRS for SMEs* establishes control as the basis for determining which entities are consolidated in the consolidated	**(a)**	At present, the IASB should not change the current requirements. Before deciding whether the *IFRS for SMEs* should be revised, the post-implementation review of IFRS 10

	financial statements. This is consistent with the current approach in full IFRSs. Recently, full IFRSs on this topic have been updated by IFRS 10 *Consolidated Financial Statements*, which replaced IAS 27 *Consolidated and Separate Financial Statements* (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: • 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 *IFRS for SMEs*. • control with less than a majority of the voting rights, sometimes called 'de facto control' (this principle is		must be concluded. Only after the IASB has assessed • the effect of the new requirements in full IFRSs on investors, preparers and auditors, and • unexpected costs or implementation problems, will the IASB be in a position to decide on possible amendments to the *IFRS for SMEs*. The IASB should resist the temptation to automatically 'push down' all changes in full IFRSs to the *IFRS for SMEs*. Moreover, the additional guidance provided in IFRS 10 on borderline cases is, in many instances, not relevant to SMEs (e.g. agency relationships).

	already addressed in paragraph 9.5 of the *IFRS for SMEs* but in less detail than in IFRS 10). • 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 *IFRS for SMEs* but in less detail than in IFRS 10). The changes above will generally mean that more judgement needs to be applied in borderline cases and where more complex relationships exist. **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?** (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. (b) Yes—revise the *IFRS for SMEs* to reflect the main changes from IFRS 10 outlined above (modified as		

	appropriate for SMEs). (c) Other—please explain. Please provide reasoning to support your choice of (a), (b) or (c).		
S5	**Use of recognition and measurement provisions in full IFRSs for financial instruments (Section 11)** The *IFRS for SMEs* currently permits entities to choose to apply either (paragraph 11.2): • the provisions of both Sections 11 and 12 in full; or • the recognition and measurement provisions of IAS 39 *Financial Instruments: Recognition and Measurement* and the disclosure requirements of Sections 11 and 12. In paragraph BC106 of the Basis for Conclusions issued with the *IFRS for SMEs*, the IASB lists its reasons for providing SMEs with the option to use IAS 39. This is the only time that the *IFRS for SMEs* 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	**(a)**	We do not support the option to use the recognition and measurement provisions in either IAS 39 or IFRS 9. All SMEs should be required to follow the financial instrument guidance in Sections 11 and 12 of the *IFRS for SMEs* in full. Options generally impair comparability and enhance the complexity of the standard.

	explained in more detail in paragraph BC106. IAS 39 will be replaced by IFRS 9 *Financial Instruments*. Any amendments to the *IFRS for SMEs* from this comprehensive review would most probably be effective at a similar time to the effective date of IFRS 9. The *IFRS for SMEs* refers specifically to IAS 39. SMEs are not permitted to apply IFRS 9. **How should the current option to use IAS 39 in the *IFRS for SMEs* be updated once IFRS 9 has become effective?** (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. (b) Allow entities the option of following the recognition and measurement provisions of IFRS 9 (with the disclosure requirements of Sections 11 and 12). (c) Other—please explain. Please provide reasoning to support your choice of (a), (b) or (c). **Note:** the purpose of this question is to assess your overall view on whether the fallback to full IFRSs in Sections 11 and 12 should be removed completely, should continue to refer to an		

	IFRS that has been superseded, or should be updated to refer to a current IFRS. It does not ask respondents to consider whether any of the recognition and measurement principles of IFRS 9 should result in amendments of the *IFRS for SMEs* at this stage, because the IASB has several current agenda projects that are expected to result in changes to IFRS 9 (see paragraph 13 of the Introduction to this Request for Information).		
S6	**Guidance on fair value measurement for financial and non-financial items (Section 11 and other sections)** Paragraphs 11.27–11.32 of the *IFRS for SMEs* contain guidance on fair value measurement. Those paragraphs are written within the context of financial instruments. However, several other sections of the *IFRS for SMEs* 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 *IFRS for SMEs*, for example, guidance on fair value less costs to sell in	**(a)**	At present, the IASB should not change the current requirements. Before deciding whether the *IFRS for SMEs* should be revised, the post-implementation review of IFRS 13 must be concluded. Only after the IASB has assessed • the effect of the new requirements in full IFRSs on investors, preparers and auditors, and • unexpected costs or implementation problems, will the IASB be in a position to decide on possible amendments to the *IFRS for SMEs*. The IASB should resist the temptation to automatically ‘push down’ all changes in full IFRSs to the *IFRS for*

	paragraph 27.14. Recently the guidance on fair value in full IFRSs has been consolidated and comprehensively updated by IFRS 13 *Fair Value Measurement*. Some of the main changes are: • an emphasis that fair value is a market-based measurement (not an entity-specific measurement); • 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 • more specific guidance on determining fair value, including assessing the highest and best use of non-financial assets and identifying the principal market. 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. 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 *IFRS for SMEs*. However, if the new		*SMEs*. Moreover, many requirements of IFRS 13 are too complex for SMEs (e.g. fair value measurement of derivatives considering the credit risk of the counterparties; the *highest and best use* assumption for non-financial assets). Finally, fair value is not the common measurement basis for SMEs.

	guidance was to be incorporated into the *IFRS for SMEs*, SMEs would need to re-evaluate their methods for 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. **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)?** (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. (b) Yes—the guidance for fair value measurement in Section 11 is not sufficient. Revise the *IFRS for SMEs* 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). (c) Other—please explain. Please provide reasoning to support your choice of (a), (b) or (c). **Note:** an alternative is to create a separate section in the *IFRS for SMEs* to deal with guidance on fair value that would be applicable to the entire *IFRS for SMEs*, rather than leaving such guidance in Section 11. This is covered in the following question (question S7).		
S7	**Positioning of fair value guidance in the Standard (Section 11)** As noted in question S6, several sections of the *IFRS for SMEs* (covering both financial and non-financial items) make reference to the fair value guidance in Section 11. **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 *IFRS for SMEs*, not just to financial instruments.** (a) No—do not move the guidance. It is sufficient to have the fair value measurement guidance in Section 11.	**(a)**	The IASB should not move the guidance into a separate section at this time. This could be done at a later stage, together with any amendments to the *IFRS for SMEs* resulting from the post-implementation review of IFRS 13.

	(b) Yes—move the guidance from Section 11 into a separate section on fair value measurement. (c) Other—please explain. Please provide reasoning to support your choice of (a), (b) or (c). **Note:** please answer this question regardless of your answer to question S6.		
S8	**Consideration of recent changes to accounting for joint ventures in full IFRSs (Section 15)** Recently, the requirements for joint ventures in full IFRSs have been updated by the issue of IFRS 11 *Joint Arrangements*, which replaced IAS 31 *Interests in Joint Ventures*. 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.	**(a)**	At present, the IASB should not change the current requirements. Before deciding whether the *IFRS for SMEs* should be revised, the post-implementation review of IFRS 11 must be concluded. Only after the IASB has assessed • the effect of the new requirements in full IFRSs on investors, preparers and auditors, and • unexpected costs or implementation problems, will the IASB be in a position to decide on possible amendments to the *IFRS for SMEs*. The IASB should resist the temptation to automatically 'push down' all changes in full IFRSs to the *IFRS for SMEs*.

	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 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. 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. **Should the changes above to joint venture accounting in full IFRSs be reflected in the *IFRS for SMEs*, modified as appropriate to reflect the needs of users of SME financial statements and cost-benefit considerations?**		

	(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 *Interests in Joint Ventures*). The existing Section 15 is appropriate for SMEs, and SMEs have been able to implement it without problems. (b) Yes—revise the *IFRS for SMEs* 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 *Joint Arrangements*, modified as appropriate for SMEs). (c) Other—please explain. Please provide reasoning to support your choice of (a), (b) or (c). **Note:** 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).		
S9	**Revaluation of property, plant and equipment (Section 17)** The *IFRS for SMEs* currently prohibits the revaluation of property, plant and equipment (PPE). Instead, all items of PPE	**(a)**	An option to revalue items of property, plant and equipment should not be introduced for the following reasons:

	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 *IFRS for SMEs*. In full IFRSs, IAS 16 *Property, Plant and Equipment* 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		• The requirement to apply the cost-depreciation-impairment model to all items of property, plant and equipment reduces the complexity of the *IFRS for SMEs* and increases comparability. • Reliable fair values are rarely available for items of property, plant and equipment. • Measurement of a non-financial asset at fair value is of practical relevance only when the entity either intends to sell that asset in the near future, or could be forced to sell the asset. • Except for investment property, we cannot envisage a business model whose objective is to achieve capital appreciation in the context of property, plant and equipment. • The revaluation model results in losing information on the age structure of property, plant and equipment as well as on the reinvestment needs.

	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. **Should an option to use the revaluation model for PPE be added to the *IFRS for SMEs*?** (a) No—do not change the current requirements. Continue to require the cost-depreciation-impairment model with no option to revalue items of PPE. (b) Yes—revise the *IFRS for SMEs* 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). (c) Other—please explain. Please provide reasoning to support your choice of (a), (b) or (c).		
S10	**Capitalisation of development costs (Section 18)** The *IFRS for SMEs* 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 *IFRS for SMEs* (paragraph 18.14). The	**(a)**	For practicability reasons, it can be justified that all development costs should be charged to expense when incurred. In applying IAS 38, problems often arise in distinguishing the research phase from 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. In full IFRSs, IAS 38 *Intangible Assets* 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. 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: • the technical feasibility of completing the intangible asset so that it will be available for use or sale. • its intention to complete the intangible asset and use or sell		development phase, i.e. in identifying when to start capitalising development costs. Furthermore, the relevance of capitalised development costs is limited, because the costs are only recognised starting from the point in time at which the development phase begins, i.e. when all the prerequisites for recognition are fulfilled, instead of recognising all costs incurred from the very beginning.

	it. • its ability to use or sell the intangible asset. • 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. • the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset. • its ability to measure reliably the expenditure attributable to the intangible asset during its development." **Should the *IFRS for SMEs* be changed to require capitalisation of development costs meeting criteria for capitalisation (on the basis of on the criteria in IAS 38)?** (a) No—do not change the current requirements. Continue to charge all development costs to expense. (b) Yes—revise the *IFRS for SMEs* to require capitalisation of development costs meeting the criteria for capitalisation		

	(the approach in IAS 38). (c) Other—please explain. Please provide reasoning to support your choice of (a), (b) or (c).		
S11	**Amortisation period for goodwill and other intangible assets (Section 18)** 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. **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"?** (a) No—do not change the current requirements. Retain the	**(a)**	In our view, either the management of an entity is able to estimate the useful life of an intangible asset reliably or, where not, the useful life ought to be presumed to be ten years. If the management of the entity is unable to estimate the useful life reliably, management's judgement is not sufficiently accurate and should be ignored.

	presumption of ten years if an entity is unable to make a reliable estimate of the useful life of an intangible asset (including goodwill). (b) Yes—modify paragraph 18.20 to establish a presumption of ten years that can be overridden if a shorter period can be justified. (c) Other—please explain. Please provide reasoning to support your choice of (a), (b) or (c).		
S12	**Consideration of changes to accounting for business combinations in full IFRSs (Section 19)** The *IFRS for SMEs* 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 *IFRS for SMEs* is generally based on the 2004 version of IFRS 3 *Business Combinations*. IFRS 3 was revised in 2008, which was near the time of the release of the *IFRS for SMEs*. 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.	**(a)**	At present, the IASB should not change the current requirements. Before deciding whether the IFRS for SMEs should be revised, the post-implementation review of IFRS 3 (2008) must be concluded. Only after the IASB has assessed • the effect of the new requirements in full IFRSs on investors, preparers and auditors, and • unexpected costs or implementation problems, will the IASB be in a position to decide on possible amendments to the IFRS for SMEs.

	The main changes introduced by IFRS 3 (2008) that could be considered for incorporation in the *IFRS for SMEs* are: • 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). • 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. • 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. **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?** (a) No—do not change the current requirements. The current		The IASB should resist the temptation to automatically 'push down' all changes in full IFRSs to the *IFRS for SMEs.* Moreover, many changes introduced by IFRS 3 (2008) are not appropriate for SMEs, mainly because they increase the use of fair value as a measurement basis (e.g. remeasurement of existing interests in the acquired entity).

	approach in Section 19 (based on IFRS 3 (2004)) is suitable for SMEs, and SMEs have been able to implement it without problems. (b) Yes—revise the *IFRS for SMEs* to incorporate the main changes introduced by IFRS 3 (2008), as outlined above and modified as appropriate for SMEs. (c) Other—please explain. Please provide reasoning to support your choice of (a), (b) or (c).		
S13	**Presentation of share subscriptions receivable (Section 22)** 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. 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. **Should paragraph 22.7(a) be amended either to permit or require the presentation of the receivable as an asset?**	**(a)**	From a conceptual point of view, a receivable should be recognised and presented as an asset if, and only if, it meets the definition of a financial asset. This requires that the reporting entity has a contractual right to receive the amount at the reporting date. However, for practicability reasons, it is preferable that the *IFRS for SMEs* require the presentation of the receivable as an offset to equity, thereby sparing the entity from having to examine whether the receivable meets the definition of a financial asset.

	(a) No—do not change the current requirements. Continue to present the subscription receivable as an offset to equity. (b) Yes—change paragraph 22.7(a) to require that the subscription receivable is presented as an asset. (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. (d) Other—please explain. Please provide reasoning to support your choice of (a), (b), (c) or (d).		
S14	**Capitalisation of borrowing costs on qualifying assets (Section 25)** The *IFRS for SMEs* 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.	**(a)**	The IASB should continue to require all borrowing costs to be recognised as an expense when incurred. The former cost-benefit considerations are still valid. Furthermore, in full IFRSs the mandatory capitalisation model was introduced for the sake of convergence between IFRS and US GAAP, without a thorough technical analysis of the strengths and weaknesses of the two approaches.

	IAS 23 *Borrowing Costs* 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. **Should Section 25 of the *IFRS for SMEs* 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?** (a) No—do not change the current requirements. Continue to require all borrowing costs to be recognised as an expense when incurred. (b) Yes—revise the *IFRS for SMEs* to require capitalisation of borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset (the approach in IAS 23). (c) Other—please explain.		

	Please provide reasoning to support your choice of (a), (b) or (c).		
S15	**Presentation of actuarial gains or losses (Section 28)** In accordance with the *IFRS for SMEs*, 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). Recently, the requirements in full IFRSs have been updated by the issue of IAS 19 *Employee Benefits* (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). 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	**(b)**	SMEs should be required to recognise all actuarial gains and losses in other comprehensive income, given the fact that, as far as our experience goes, entities generally do not voluntarily recognise all actuarial gains and losses in profit or loss in the period in which they occur. The immediate recognition in profit or loss causes undue volatility in earnings. The removal of the profit or loss option would therefore reduce the complexity of the *IFRS for SMEs* without being burdensome for SMEs.

	profit or loss would improve comparability between SMEs without adding any complexity. **Should the option to recognise actuarial gains and losses in profit or loss be removed from paragraph 28.24?** (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. (b) Yes—revise the *IFRS for SMEs* 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). (c) Other—please explain. Please provide reasoning to support your choice of (a), (b) or (c). **Note:** 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.		

S16	**Approach for accounting for deferred income taxes (Section 29)** Section 29 of the *IFRS for SMEs* 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 *Income Taxes*). 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	**(a)**	SMEs should recognise deferred income taxes using the temporary difference method rather than the timing concept. From a German point of view, the temporary difference method is not too burdensome, as tax balance sheets are available in most cases.

	should not recognise any deferred taxes at all (sometimes called the 'taxes payable method'). **Should SMEs recognise deferred income taxes and, if so, how should they be recognised?** (a) Yes—SMEs should recognise deferred income taxes using the temporary difference method (the approach currently used in both the *IFRS for SMEs* and full IFRSs). (b) Yes—SMEs should recognise deferred income taxes using the timing difference method. (c) Yes—SMEs should recognise deferred income taxes using the liability method. (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. (e) Other—please explain. Please provide reasoning to support your choice of (a), (b), (c), (d) or (e).		
S17	**Consideration of IAS 12 exemptions from recognising deferred taxes and other differences under IAS 12**	**(b)**	The IASB's March 2009 exposure draft *Income Tax* was not finalised due to valid concerns. In our view, it

	(Section 29) 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). Section 29 is based on the IASB's March 2009 exposure draft *Income Tax*. At the time the *IFRS for SMEs* was issued, that exposure draft was expected to amend IAS 12 *Income Taxes* 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 *IFRS for SMEs*. 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. **Should Section 29 be revised to conform it to IAS 12, modified as appropriate to reflect the needs of the users of**		was premature of the IASB to integrate the proposals of the exposure draft into the *IFRS for SMEs*. Section 29 of the *IFRS for SMEs* does not simplify IAS 12. Hence, the following differences between Section 29 and IAS 12 should be eliminated by amending the *IFRS for SMEs*: • The <u>initial recognition exemption</u> should be provided to SMEs too, in order to avoid tightening the requirements for SMEs compared with full IFRSs. • Paragraph 29.16(a) of the *IFRS for SMEs* restricts the exemptions provided in full IFRSs pertaining to investments in subsidiaries, branches and associates and interests in joint ventures: The exemption for SMEs is limited to <u>foreign</u> subsidiaries, branches and associates and interests in joint ventures for convergence reasons. We could not identify any conceptual justification for this. • Paragraph 29.16(a) does not apply to all outside

	SME financial statements? (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. Please provide reasoning to support your choice of (a), (b) or (c).		basis differences, but only to temporary differences associated with <u>unremitted earnings</u>. Temporary differences caused, for example, by different currencies are not exempted. This deviation from the full IFRSs does not even appear to have been justified with convergence. • The *IFRS for SMEs* is inconsistent because the <u>tax basis</u> is determined by reference to the effect of the **sale** of the asset (paragraphs 29.3(c)(i), 29.12(a)) while the <u>tax rate</u> allows the use of either the **sale or usage** tax rate (paragraph 29.20). In our view, the measurement of deferred tax liabilities and deferred tax assets should reflect the tax consequences (in respect of both, tax basis and tax rate) that the entity expects, taking into account tax planning opportunities.
S18	**Rebuttable presumption that investment property at fair value is recovered through sale (Section 29)** In answering this question, please also assume that SMEs will continue to recognise deferred income taxes using the temporary	**(a)**	The *IFRS for SMEs* should be principle-based and avoid providing exemptions in respect of very specific issues. Hence, the IASB should not add an exemption in paragraph 29.20 for investment property measured

	difference method (see discussion in question S16). 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. 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. Paragraph 29.20 currently states: "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." **Should Section 29 be revised to incorporate a similar exemption from paragraph 29.20 for investment property at fair value?**		at fair value.

	(a) No—do not change the current requirements. Do not add an exemption in paragraph 29.20 for investment property measured at fair value. (b) Yes—revise Section 29 to incorporate the exemption for investment property at fair value (the approach in IAS 12). (c) Other—please explain. Please provide reasoning to support your choice of (a), (b) or (c). **Note:** please answer this question regardless of your answer to questions S16 and S17 above.		
S19	**Inclusion of additional topics in the *IFRS for SMEs*** The IASB intended that the 35 sections in the *IFRS for SMEs* 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 *IFRS for SMEs* does not specifically address a topic (see paragraphs 10.4–10.6). **Are there any topics that are not specifically addressed in the *IFRS for SMEs* that you think should be covered (ie where**	**(a)**	

	the general guidance in paragraphs 10.4–10.6 is not sufficient)? (a) No. (b) Yes (please state the topic and reasoning for your response). **Note:** this question is asking about topics that are not currently addressed by the *IFRS for SMEs*. It is not asking which areas of the *IFRS for SMEs* require additional guidance. If you think more guidance should be added for a topic already covered by the *IFRS for SMEs*, please provide your comments in response to question S20.		
S20	**Opportunity to add your own specific issues** Are there any additional issues that you would like to bring to the IASB's attention on specific requirements in the sections of the *IFRS for SMEs*? (a) No. (b) Yes (please state your issues, identify the section(s) to which they relate, provide references to paragraphs in the *IFRS for SMEs* where applicable and provide separate	**(b)**	**Section 7: Statement of Cash Flows** The **direct method** for reporting cash flows from operating activities is superior from a theoretical point of view (paragraphs 7.7(b), 7.9). However, it is not common in practice. The removal of this option would therefore reduce the complexity of the *IFRS for SMEs* without being burdensome for SMEs.

	reasoning for each issue given).		**Section 12: Other Financial Instruments Issues** The cases for which **hedge accounting** is applicable seem to be overly limited. We suggest options and cash instruments be allowed as hedging instruments (paragraph 12.18): • Options (e.g. caps, floors, foreign currency options) are used for risk management and hedging purposes quite frequently in practice, even by SMEs. The same is true for interest rate/foreign currency swaps, i.e. a combination of an interest rate swap and a foreign currency swap. • Non-derivative financial assets/liabilities (‘cash instruments’) should be allowed as hedging instruments for foreign exchange risk. **Section 19: Business Combinations and Goodwill** Some of the simplifications in IFRS 3 concerning the **allocation of the cost of a business combination** to

			the identifiable assets and liabilities, especially defined benefit obligations and deferred taxes, are equally necessary for SMEs (paragraph 19.14). Without this, SMEs are obliged to determine 'pure' fair value instead of being able to benefit from the simplifications which allow certain measures to be treated as fair values. In many cases, recognising all intangible assets of the acquiree in a business combination (according to paragraph 18.8) is unduly complex. At least, insignificant intangible assets should be allowed to be included in goodwill. **Section 32: Events after the End of the Reporting Period** The *IFRS for SMEs* should state explicitly that an entity shall not prepare its financial statements on a **going concern** basis if the going concern assumption is no longer appropriate because of events that occurred after the balance sheet date (IAS 10.14 - 16).

Part B: General questions

Ref	General Questions	Response (Please indicate your response a, b, c, etc)	Reasoning (Please give clear reasoning to support your response)
G1	**Consideration of minor improvements to full IFRSs** The *IFRS for SMEs* was developed from full IFRSs but tailored for SMEs. As a result, the *IFRS for SMEs* uses identical wording to full IFRSs in many places. 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: http://go.ifrs.org/AI Some believe that because those changes are intended to improve requirements, they should naturally be incorporated in the *IFRS for SMEs* where they are relevant. Others note that each small change to the *IFRS for SMEs* 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,	**(b)**	The *IFRS for SMEs* is a stand-alone document and should only reflect minor changes in full IFRSs if there is (also) an obvious problem for SMEs.

	although the *IFRS for SMEs* was based on full IFRSs, it is now a separate Standard and does not need to reflect relatively minor changes in full IFRSs. **How should the IASB deal with such minor improvements, where the *IFRS for SMEs* is based on old wording from full IFRSs?** (a) Where changes are intended to improve requirements in full IFRSs and there are similar wordings and requirements in the *IFRS for SMEs*, they should be incorporated in the (three-yearly) omnibus exposure draft of changes to the *IFRS for SMEs*. (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 *IFRS for SMEs*. (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). (d) Other—please explain. Please provide reasoning to support your choice of (a), (b), (c) or (d).		
G2	**Further need for Q&As** One of the key responsibilities of the SMEIG has been to consider	**(b)**	The Q&A programme should not be continued because the *IFRS for SMEs* should be the only source of (principle-based) guidance for SMEs. Another set

	implementation questions raised by users of the *IFRS for SMEs* and to develop proposed non-mandatory guidance in the form of questions and answers (Q&As). These Q&As are intended to help those who use the *IFRS for SMEs* to think about specific accounting questions. The SMEIG Q&A programme has been limited. Only seven final Q&A have been published. Three of those seven deal with eligibility to use the *IFRS for SMEs*. No additional Q&As are currently under development by the SMEIG. Some people are of the view that, while the Q&A programme was useful when the *IFRS for SMEs* 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 *IFRS for SMEs*. Many who hold this view think that an ongoing programme of issuing Q&As is inconsistent with the principle-based approach in the *IFRS for SMEs*, is burdensome because Q&As are perceived to add another set of rules on top of the *IFRS for SMEs*, and has the potential to create unnecessary conflict with full IFRSs if issues overlap with issues in full IFRSs. Others, however, believe that the volume of Q&As issued so far is not		of rules or non-mandatory guidance puts this into question. New issues can be addressed by future updates to the *IFRS for SMEs.*

	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 *IFRS for SMEs*. Furthermore, in general, the Q&As released so far provide guidance on considerations when applying judgement, rather than creating rules. **Do you believe that the current, limited programme for developing Q&As should continue after this comprehensive review is completed?** (a) Yes—the current Q&A programme should be continued. (b) No—the current Q&A programme has served its purpose and should not be continued. (c) Other—please explain. Please provide reasoning to support your choice of (a), (b) or (c).		
G3	**Treatment of existing Q&As** As noted in question G2, there are seven final Q&As for the *IFRS for SMEs*. This comprehensive review provides an opportunity for the guidance in those Q&As to be incorporated into the *IFRS for SMEs* and for the Q&As to be deleted. Non-mandatory guidance from the Q&As will become mandatory if it is	**(a)**	The current Q&As should be incorporated into the *IFRS for SMEs* as requirements/clarifications or added to the Basis for Conclusions, as appropriate. At any rate, they should be deleted as a separate source of guidance for SMEs.

	included as requirements in the *IFRS for SMEs*. In addition, any guidance may need to be incorporated in the *IFRS for SMEs* 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 *IFRS for SMEs* should be retained in some fashion, for example, as an addition to the Basis for Conclusions accompanying the *IFRS for SMEs* or as part of the training material on the *IFRS for SMEs*. An alternative approach would be to continue to retain the Q&As separately where they remain relevant to the updated *IFRS for SMEs*. Under this approach there would be no need to reduce the guidance in the Q&As, but the guidance may need to be updated because of changes to the *IFRS for SMEs* resulting from the comprehensive review. **Should the Q&As be incorporated into the *IFRS for SMEs*?** (a) Yes—the seven final Q&As should be incorporated as explained above, and deleted. (b) No—the seven final Q&As should be retained as guidance separate from the *IFRS for SMEs*. (c) Other—please explain.		

	Please provide reasoning to support your choice of (a), (b) or (c).		
G4	**Training material** The IFRS Foundation has developed comprehensive free-to-download self-study training material to support the implementation of the *IFRS for SMEs*. These are available on our website: http://go.ifrs.org/smetraining. In addition to your views on the questions we have raised about the *IFRS for SMEs*, we welcome any comments you may have about the training material, including any suggestions you may have on how we can improve it. **Do you have any comments on the IFRS Foundation's *IFRS for SMEs* training material available on the link above?** (a) No. (b) Yes (please provide your comments).	**(a)**	
G5	**Opportunity to add any further general issues** Are there any additional issues you would like to bring to the IASB's attention relating to the *IFRS for SMEs*? (a) No. (b) Yes (please state your issues and provide separate reasoning for each issue given).	**(a)**	

Part B: General questions

<table>
<tr><th>Ref</th><th>General Questions</th><th>Response</th></tr>
<tr><td>G6</td><td>Use of IFRS for SMEs in your jurisdiction
This question contains four sub-questions. The purpose of the questions is to give us some information about the use of the IFRS for SMEs in the jurisdictions of those responding to this Request for Information.
1 What is your country/jurisdiction?
2 Is the IFRS for SMEs currently used in your country/jurisdiction?
(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).
3 If the IFRS for SMEs is used in your country/jurisdiction, in your judgement what have been the principal benefits of the IFRS for SMEs?
(Please give details of any benefits.)
4 If the IFRS for SMEs is used in your country/jurisdiction, in your judgement what have been the principal practical problems in implementing the IFRS for SMEs?
(Please give details of any problems.)</td><td>1 Germany
2 (c)
3 n/a
4 n/a</td></tr>
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