Response document for respondents

Instructions for completion

The IASB has published this separate Microsoft Word® document for respondents to use for submitting their comments if they wish to do so. This document presents all of the questions in Parts A and B of the Invitation to Comment in a table with boxes for respondents to fill in with their chosen response from the options provided by the questions, and their reasoning. Respondents are encouraged to complete this document electronically, rather than manually, so the rows in the table can expand to accommodate detailed reasoning.

Many respondents will find this the easiest way to submit their comments and submissions, and submitting comments in this form will also help IASB staff to analyse them. However, respondents are not required to use this document and responses will be accepted in all formats. For example, respondents may prefer to address selected issues in their own format.

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

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Ref	Question	Response (Please indicate your response a, b, c, etc)	Reasoning and comments (Please give clear reasoning to support your response) And
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. 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	**A – no change**	**We support the current scope as providing a clear distinction in principle for the use of the IFRS for SMEs and full IFRS.** **The IFRS for SMEs is not designed to address the needs of investors in companies who have publicly traded debt or shares.**

	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).		
S2	**Use by financial institutions (Section 1)** The *IFRS for SMEs* currently prohibits financial institutions and other entities that hold assets for a broad group of outsiders as one of their primary businesses from using the *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	**A – no change**	**Deposit taking or insurance are activities that involve a wide group of stakeholders and so like publicly-traded companies in S1 above full IFRS is in principle the right answer. Also on a more practical level the disclosures and accounting treatments that are specific to such activities are reflected in full IFRS but could be omitted from IFRS for SMEs and thereby assist in the reduction of complexity in the standard.** **On the other hand there are also some financial entities that**

	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.		**fall within the exclusion but which are nevertheless very small and for whom full IFRS may be a burdensome requirement.** **On balance we would support that the IFRS for SMEs retains the existing scope restrictions.**

	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 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	**C – no change**	**We suggest that no change in this regard is made and that the application of IFRS or IFRS for SMEs should be left to national jurisdictions to determine for the present.** **This is a complex area – for example not all NFPs solicit funds from a wide group of people.** **Also neither IFRS nor IFRS for SMEs are entirely suitable for NFPs as there are issues specific to them which would need some explanatory guidance or amendments to the standards, and so it does not seem right to set out eligibility guidance one way or another. We have suggested to IASB that the application of the standards (both full IFRS and IFRS for SMEs) to NFPs should be a project that they should take up.**

	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).		
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 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	**B – reflect the new requirements as appropriate**	**The IFRS for SMEs is based to a large extent on the principles and the wording of full IFRS, subject to the need to modify these where the needs of the users and the cost/benefit position justifies differences. IFRS10 has changed some aspects of the definition of control and provided some other changes which could be of significance for SMEs.** **We recognise that IFRS10 is only just beginning to be applied extensively and that no post implementation review has yet been carried. Ideally changes to full IFRS would only be implemented in IFRS for SMEs after some experience in the application of new treatments and the extent of the guidance needed.** **However leaving differences in definitions for example may not be helpful as that creates more difficulties in interpretation, especially in areas such as this where the**

	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 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		**accounting treatment is so sensitive to the exact terminology used. Having differences of this nature between the two systems also creates significant issues of understandability when it comes to users who might be looking at a variety of accounts, both IFRS and those based on IFRS for SMEs. There are also difficulties in terms of the training and education of accountants having to use both. To wait for the outcomes of the Post Implementation Review of IFRS10 for example might involve a very significant delay before IFRS for SMEs would be updated, depending on how the triennial revision of IFRS for SMEs fell. We very much support the intention to update IFRS for SMEs on a three-yearly cycle.** **On balance we are of the view that appropriate changes to IFRS for SMEs should therefore be considered as a result of IFRS10.**

	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	**B – give an option to use IFRS9**	**We support the option to use the full IFRS in respect of financial instruments because of the range of entities which might apply IFRS for SMEs, including for example commodity trading companies, subsidiaries of listed financial institutions or those involved with treasury management.** **The cross reference to full IFRS needs therefore to be updated as IFRS9 replaces IAS39.**

	that the IASB concluded that SMEs should be permitted to have the same accounting policy options as in IAS 39, pending completion of its comprehensive financial instruments project to replace IAS 39. That decision is explained in more detail in paragraph BC106. 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 paragraph 27.14.	**B – reflect changes from IFRS13**	**As noted in S4 above differences in definitions between IFRS and IFRS for SMEs are generally to be avoided. Fair value in principle is meant to be the same between IFRS and IFRS for SMEs and so the definitions should be aligned. The content of paragraphs 11.27 to 32 should be reviewed to reflect any other changes of principle in IFRS13 which should be appropriate for SMEs. However it is not clear to us that extensive changes are needed for the principle of fair value to be aligned between IFRS and IFRS for SMEs and only significant relevant changes should be made.**

	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 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. (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	**B – establish a separate section**	**The positioning of the fair value measurement guidance does not seem a very significant issue, however we think it will be better that there should be a new section on fair value given that it will apply to more than financial instruments.**

	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. 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	**B – make relevant changes**	**For the reasons given in our answers to S4 and S6 above alignments of terminology and classifications from IFRS11 should be made where these are appropriate for inclusion in IFRS for SMEs.**

	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 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	**B – add an option**	**The option to revalue property plant and equipment was deleted from the IFRS for SMEs on grounds of complexity and comparability.** **An option to revalue we do not believe adds significant complexity to the individual entity applying the standard because they can opt to use the simpler treatment.** **Comparability should not be overemphasised in developing the IFRS for SMEs. Comparisons of SMEs across the globe are much less likely and significant than those of listed companies. The standard is likely to be taken up and amended by different jurisdictions to suit their circumstances.** **Revaluation for these long life assets has been a reasonably common practice among unlisted companies in many countries particularly those where there has been a history of inflation. Equally there are countries where the adherence to a historical cost basis for these assets has been the long-**

	and subsequent accumulated impairment losses. Revaluation increases are recognised in other comprehensive income and are accumulated in equity under the heading of 'revaluation surplus' (unless an increase reverses a previous revaluation decrease recognised in profit or loss for the same asset). Revaluation decreases that are in excess of prior increases are recognised in profit or loss. Revaluations must be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. **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).		**accepted treatment.** **Unless there are compelling reasons for difference in the principles of the accounting treatment, there should remain general comparability between IFRS and the IFRS for SMEs and reinstating this option would help with that.** **We support the inclusion of an option to revalue PPE, however in recognition of the many countries and companies where revaluation has not been used, the optional paragraphs needed should be clearly separated from the historical cost section so that it might easily be detached or ignored.**

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 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.	**C – create an option to capitalise these costs**	**Development costs can be a significant item for many SMEs and can have a major impact on the financial statements especially for start-ups where the true position of the company could be seriously mis- stated by the current expense-as-incurred model.** **On the other hand we recognise the greater complexity of accounting for development costs that capitalisation may give rise to.** **In line with our answer to S9 we think that a "detachable" capitalisation option should be included in the IFRS for SMEs.**

	• its intention to complete the intangible asset and use or sell 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 presumption of ten years if an entity is unable to make a reliable	**B**	**The proposed wording seems reasonable. If entities are sure that 10 years is too long, then we think in many cases that they should be able to come up with a reasonable estimated useful life and so need not use the default life. However we would not want to see goodwill balances significantly overstated and so 10 years may not always be suitable. Most amortisation periods are estimates requiring judgement and so adequate disclosure is vital of the period used and the degree and impact of judgement if significant**

	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. The main changes introduced by IFRS 3 (2008) that could be considered for incorporation in the *IFRS for SMEs* are:	**B – consider revisions from full IFRS**	**As with questions S4, S6 and S8 above, amendments to IFRS for SMEs should also be considered when there have been significant changes to the principles of accounting in full IFRS. This is the case with IFRS3. However in considering the changes included in IFRS3, IASB should be mindful that the extensions of fair values involved in the amendments may not be very practical for SMEs in all cases and so may not be appropriate for the IFRS for SMEs.**

	• 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 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) 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	**D - other**	**We see no reason for the IFRS for SMEs to depart from the principle of accounting for share subscriptions in full IFRS, and so we consider there should be alignment of the principles.**

	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. 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**	**C – provide an option to capitalise**	**As with S9 and S10 we consider there should be a "detachable" option to capitalise.**

	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	**B – revise the IFRS for SMEs**	**While the option to recognise in profit for the year may be a simpler answer, we doubt that has been widely used. Deleting the option which would align IFRS for SMEs with full IFRS makes sense.**

	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 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	**D – change to the taxes payable method with disclosures.**	**We note that EFRAG and the UK standard setter have gone some way to consider these issues in the context of full IFRS, including an accruals approach which seems not to be included here. While that study was inconclusive as to the way forward, from it we noted the apparent lack of interest by users in any deferred tax. That is in our view even more the case with SMEs where there will be less emphasis by users on the prediction of future cash flows. Furthermore IFRS for SMEs should place more emphasis on the reduction in complexity. Both of these factors would point towards the taxes payable or 'flow through' method with some disclosures of expected effective tax rates.** **On the other hand the move away from accruals accounting and from the principles of full IFRS would be disadvantages that the use of this method would entail.**

	differences that are expected to reverse in the near future (sometimes called the 'liability method'). And still others hold the view that SMEs should not recognise any deferred taxes at all (sometimes called the 'taxes payable method'). **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).		**While we are supportive of the taxes payable method for IFRS for SMEs, this issue will need more consultation at greater length than it has been given in this paper. The different options for accounting for taxation need more explanation of their impacts and their consistency with the conceptual framework than is done here.**
S17	**Consideration of IAS 12 exemptions from recognising deferred taxes**	**B – conform with IAS12**	**Please bear in mind our response to S16 and that the issue**

	and other differences under IAS 12 (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 SME financial statements?** (a) No—do not change the overall approach in Section 29.	**as appropriate**	**requires more consultation.** **However it is clear to us, and from the way that the standard has been modified for adoption in UK and Hong Kong for example, that the present text in IFRS for SMEs is unsatisfactory because of an unnecessary departure from the principles of full IFRS.**

	(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).		
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 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	**B – amend to conform with IAS12**	**For the reasons given in S17 above.**

	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?** (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	**A – no change in the short term**	**While we do not think other topics and sections should be added in this revision, we have noted under S3 above that the accounting by NFPs is inadequately covered by both full IFRS and IFRS for SMEs and that IASB needs to commence research to address the guidance or adaptations that need to be made to existing standards to accommodate the specific**

	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 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.		**issues that arise for NFPs. The experience of national jurisdictions using IFRS for SMEs for NFPs is likely to be helpful in such a research project.**
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 reasoning for each issue given).	**B**	**This revision to IFRS for SMEs should take into consideration the progress of the project to amend IAS41 for bearer biological assets. There is the potential for significant improvement and simplification if bearer assets were able to be accounted for as if they were PPE.**

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	**A**	**For the reasons given above in response to S4, changes in the wording of relevant parts of full IFRS should be changed in IFRS for SMEs, subject to the normal criteria for there being differences such as complexity and relevance to users of the financial statements. Any improvements for minor wording changes in IFRS for SMEs should wait for the normal triennial process of revising IFRS for SMEs.**

	have to assess whether each individual change will affect its current accounting policies. Those who hold that view concluded that, 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**	**A – limited programme**	**There should be strict criteria for issuing a Q&A as some issued so far, appear to amount to a restatement of the**

	One of the key responsibilities of the SMEIG has been to consider 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.	**of Q&A should continue**	**standard that would be reached by any reasonable reading.**

	Others, however, believe that the volume of Q&As issued so far is not excessive and that the non-mandatory guidance is helpful, and not a burden, especially to smaller organisations and in smaller jurisdictions that have limited resources to assist their constituents in implementing the *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.	**C – selectively incorporate**	**All the existing Q&As might be considered by IASB for incorporation into the IFRS for SME. However in our view some should be incorporated, some deleted and some might be retained as guidance of with their existing status as they deal with rather detailed issues.**

	Non-mandatory guidance from the Q&As will become mandatory if it is 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*.		**Of the existing Q&As** • ***2011/1 Separate financial statements of a parent company*** **This seems to restate the standard's requirements on any reasonable reading. It should not be incorporated, but might be left as an educational Q&A or deleted.** • ***2011/2 Meaning of public accountability*** **This concerns some detailed considerations for example in relation to captive insurance companies. It should not be incorporated, but should be left as an educational Q&A.** • ***2011/3 Meaning of traded in a public market*** **As with 2011/2 above it concerns some detailed considerations of over-the-counter and other sorts of trading. It should not be incorporated, but should be left as an educational Q&A.** • ***2012/1 Undue cost or effort*** **As with 2011/1, should not be incorporated, but could be deleted or retained as a Q&A** • ***2012/2 Fall back to full IFRS*** **As with 2011/1 and 2012/1.** • ***2012/3 Fall back to IFRS9*** **This should be incorporated as put forward under S5**

	(c) Other—please explain. Please provide reasoning to support your choice of (a), (b) or (c).		• ***2012/4 Cumulative translation differences*** **This seems to restate the standard's requirements on any reasonable reading, but wording of IFRS for SMEs could be amended to make matters crystal clear.**
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).		**Retaining and developing the training material should continue (for example updating it for any existing matters not sufficiently covered and for any changes arising from this revision). The level of adoption around the world and the number of entities using the standard is small compared to the potential number that might. It is for these entities that the training material is important.**
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).		

Ref	General Questions	Response
G6	**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*?**	**N/A**

Part B: General questions

	(Please give details of any problems.)	