EFRAG

European Financial Reporting Advisory Group

Comprehensive review of the IFRS for SMEs

Feedback to constituents – EFRAG Technical Expert Group Final Comment Letter

December 2012

Summary of contents

Introduction

Objective of this feedback statement

EFRAG published its final comment letter on IASB's the Request for Information: Comprehensive Review of the IFRS for SMEs ('RFI') on 20 December 2012. This feedback statement summarises the main comments received by EFRAG on its Draft Comment Letter and explains how those comments were considered by the EFRAG Technical Experts Group (EFRAG TEG) during its technical discussions.

Background to the Comprehensive Review

In 2009 the IASB issued the IFRS for SMEs. At that time, the IASB expected to undertake a thorough review of SMEs' experience in applying the IFRS for SMEs when two years of financial statements using the IFRS for SMEs had been published by a broad range of entities.

In June 2012, the IASB published the Request for Information related to the comprehensive review of the IFRS for SMEs.

On 24 August 2012, EFRAG issued its draft comment letter in response to this Request for Information. Comments were invited by 12 November 2012.

Comments received from constituents

Fourteen comment letters were received from constituents, and are available on the EFRAG website.

The comment letters received came from national standard setters, associations and professional organisations.

Detailed analysis of issues, comments received and changes made to EFRAG final comment letter

EFRAG's tentative views expressed in the draft comment letter	Comments received and EFRAG's response
General Comments and Cover Letter	
General remarks on the IFRS for SMEs and the RFI	
In its draft comment letter EFRAG identified that a two-step approach could have been useful in addressing the questions of the RFI. EFRAG suggested that the first step should have been for the IASB to conduct a high-level review covering the objectives of the IFRS for SMEs, the types of entities one should have in mind when considering the requirements of the standard, and the degree of linkage to full IFRSs. The second step would involve answering the specific questions included in the RFI based on the objectives and directions identified in the first step.	None of the comments received disagreed with the two-step approach suggested in EFRAG's draft comment letter. It appeared from the comment letters received that many respondents were unsure about the purpose of the IFRS for SMEs and the objective of the RFI. EFRAG thought after consideration of advice received from its SME experts in its SME Accounting Working Group that it could be considered too late to suggest a two-step approach. It therefore decided instead to reflect in its cover letter that the purpose of the IFRS for SMEs and the objective of the RFI had made it difficult to answer to the questions included in the RFI.
When considering the specific questions included in the RFI, EFRAG TEG members were split in their views. It was assessed that some of the split views arose as a result of EFRAG TEG members' different views on: (a) The need for stability in the standard for SMEs, (b) The need to reflect changes in user's needs, (c) The need to align the IFRS for SMEs with full IFRS, and (d) Whether the IFRS for SMEs should include options.	

EFRAG's tentative views expressed in the draft comment letter

Alignment with full IFRS and the need for stability

There was general disagreement on the weight attached to the first three factors when answering questions S4, S6, S8, S12, S18 and G1 of the RFI in relation to updating IFRS for SMEs for recent changes in full IFRS. EFRAG therefore presented different views. In the cover letter these views were presented as:

(a) View 1: The IFRS for SMEs should only be amended when a problem had been identified through a post-implementation review, or through other evidence proving that the standard does not work appropriately. Only then, changes to full IFRS might be considered. EFRAG TEG members holding this view thought that the IFRS for SMEs should be a complete stand-alone document. These EFRAG TEG members were afraid that considering changes to full IFRS would result in too many amendments to the IFRS for SMEs.

(b) View 2: All relevant information should be considered when amending the IFRS for SMEs, including identified problems to the full IFRS. However, changes to full IFRS should not automatically be reflected in the IFRS for SMEs. The changes, including the costs and benefits related to these, should be assessed from the perspective of SMEs and the users of financial statements of SMEs. EFRAG TEG members holding this view thought that considering a broad range of information will potentially enable the IASB to identify and resolve an issue in the IFRS for SMEs before such issue will result in a problem for those applying the standard.

(c) View 3: Most changes to full IFRS regarding measurement and recognition should be reflected in the IFRS for SMEs. A strong alignment between the IFRS for SMEs and the full IFRS would improve comparability between listed and

Comments received and EFRAG's response

Respondents were split on the issues of aligning the IFRS for SMEs with full IFRS and stability. Some thought that the 'the principles of accounting for an item and terminology should be the same between full IFRS and the IFRS for SMEs, except where there would be good reasons such as reducing complexity or different user needs for them to be different. Some respondents also noted that alignment would make the IFRS for SMEs more attractive for application by subsidiaries of listed companies for statutory reporting purposes and contribute to the reduction of costs for these companies.

During EFRAG's due process, discussions held and comments received were consistent with the input received at the time the IFRS for SMEs was initially developed. Many constituents advocated that introducing or retaining options in the standard was necessary in maintaining within the IFRS for SMEs full consistency of the recognition and measurement requirements with full IFRS, while limiting the burden for subsidiaries of listed groups. These commentators recommended the systematic alignment of the requirements to the requirements under full IFRS and hence the introduction of more options to allow recognition and measurement treatments that would result in a closer alignment. This indicated to EFRAG that there is a need for the IASB to consider this specific issue.

EFRAG believes that the purpose of the IFRS for SMEs should not be to provide a regime for non-publicly accountable subsidiaries of listed parent companies with fewer disclosure requirements. EFRAG acknowledges, however, that the IASB should consider developing such a regime outside the IFRS for SMEs, as it would respond to a well identified need. As input for these considerations, the IASB could consult the work performed by the Financial Reporting Council of the United Kingdom on this issue.

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unlisted entities. EFRAG TEG members holding this view thought that a standard named 'IFRS for SMEs' would have to be close to full IFRS regarding recognition and measurement requirements.

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The UK FRC dealt with the same issue by considering it separately and establishing separate guidance (FRS101: Reduced disclosure framework, Disclosure exemptions from EU-adopted IFRS for qualifying entities). The FRC set out guidance for a reduced disclosure framework which addressed the financial reporting requirements and disclosure exemptions for the individual financial statements of subsidiaries and ultimate parents that otherwise applied the recognition, measurement and disclosure requirements of EU-adopted IFRS. It was envisaged that the provision of these disclosure exemptions could result in cost savings in the preparation of financial statements of subsidiaries and ultimate parents, without reducing the quality of financial reporting.

Many respondents thought that stability was a very important quality of SME accounting requirements, that the IFRS for SMEs should only be amended when a need had been demonstrated, and that the costs and benefits of a change in full IFRS should be carefully considered before being reflected in the IFRS for SMEs. Furthermore, amendments should only be introduced on a triennial basis and only after the changes had been tested in practice on entities applying full IFRS in the form of a post-implementation review.

Based on the comments received, EFRAG assessed that changes to full IFRS should be considered when amending the IFRS for SMEs on a triennial basis. However, the changes, including the costs and benefits related to these, should be assessed from the perspective of SMEs and the users of financial statements of SMEs. This means that a change made to full IFRS should only be reflected in the IFRS for SMEs when it:

- represents a solution to an identified and documented problem for SMEs and hence improve financial reporting, and/ or
- has proven to be useful for entities applying full IFRS before being

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In relation to options, EFRAG TEG members had the following different views:

(a) View A: Some EFRAG TEG members were generally against including options in the IFRS for SMEs. They thought that options increase the costs of the preparers and make the financial statements less comparable. Therefore the less complex accounting treatment included in the IFRS for SMEs should continue to be the requirement, despite the fact that this could result in differences with full IFRS. However, EFRAG TEG members holding this view thought that if it was considered cost-benefit efficient for some entities with certain special characteristics or under certain circumstances to apply a given requirement (capitalising development costs or borrowing costs or revalue PPE), this accounting treatment should be required (and not be optional) under the specific circumstances. The IFRS for SMEs should then be amended to include different requirements for those entities only.

(b) View B: Other EFRAG TEG members thought that non-publicly accountable entities should have the same options as publicly accountable entities. Otherwise, it could be more onerous for non-publicly accountable entities to prepare financial statements. EFRAG TEG members holding this view also noted that the IFRS for SMEs was suitable for subsidiaries of listed companies applying full IFRS. It should therefore be possible to apply the same recognition and measurement requirements under the IFRS for SMEs as were required under full IFRS. These members also noted that although options could reduce comparability, many European jurisdictions that have included options in their

Comments received and EFRAG's response

considered for the IFRS for SMEs.

The comments received in relation to the questions S9, S10 and S14 were generally split for the reasons mentioned in EFRAG's draft comment letter. In relation to the questions S10 and S14, EFRAG noted that a few respondents thought that a requirement to capitalise development costs and borrowing costs should be introduced. EFRAG, however, thought that a general requirement to capitalise development costs and borrowing costs would not be cost-benefit efficient for SMEs. EFRAG also noted that some respondents' thought that revaluation of PPE and capitalisation of borrowing costs would in most cases not result in better financial information and that the revaluation of PPE would be unreliable. EFRAG agreed that for performance reporting, revaluation of PPE may in many cases not result in better financial information. However, from the perspective of the balance sheet, some users may find it more valuable to have an entity's PPE value at an amount that would better reflect the current value of the assets if this amount would be reliable. Moreover, it is understood that not being able to revalue may in some jurisdictions be a reason for not using IFRS for SMEs. EFRAG acknowledged that in relation to borrowing costs, capitalisation could result in differences between entities financed by equity and by debt. However, EFRAG also thought that in some cases where borrowing costs were included in the price of the good, the entity would transfer to the customer, and if these costs were significant, it could result in better financial information to capitalise these borrowing costs.

Some respondents noted that capitalisation of development costs could increase the information value of users, especially for technology start-ups and other entities investing in research and development. EFRAG acknowledged that in the first years of an entity research and development costs could be essential, but that users might expect such costs to be high and distinguishing between

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national accounting regulation, and this has not been considered a problem.

Moreover they noted that not being allowed to use a specific option was an impediment for SMEs in certain jurisdictions to apply IFRS for SMEs.

These different views formed the basis for EFRAG's answers to the questions S9 (revaluation of PPE), S10 (capitalisation of development costs) and S14 (capitalisation of borrowing costs on qualifying assets).

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research and development costs could be complicated for SMEs.

EFRAG also noted that respondents in favour of including options thought that it could be marked which option would generally be the less costly. By doing that, entities would not have to spend resources on finding the less costly alternative. EFRAG sympathises with this suggestion.

Based on the discussions held, and the comments received, EFRAG acknowledges that there are good arguments both in favour and against introducing options in relation to the issues in question. On balance, although EFRAG is generally against the options, as this would reduce comparability amongst entities using the IFRS for SMEs, increases complexity and is costly, it acknowledges that allowing some specific options, like to revalue property, plant and equipment, to capitalise development costs and to capitalise borrowing costs on qualifying assets, would be beneficial to the adoption of the IFRS for SMEs in certain jurisdictions.

EFRAG considers the applicability of the IFRS for SMEs by many entities, potentially operating in diverse economic environments, as an important issue. EFRAG acknowledges that although options affect comparability negatively, on some issues an option to apply more sophisticated requirements to better represent the economic reality, might be necessary for the adoption of the IFRS for SMEs by some jurisdictions and entities. Therefore, in such cases the negative effects could be outweighed by the increased adoption of the standard by diverse entities in different jurisdictions, which would enhance the overall comparability of financial statements of SMEs.

In cases, where options are introduced, the IASB should, however, mark the option that would generally be less costly as the default accounting treatment in order to ensure that entities would not have to spend resources in finding the less costly alternative.

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Specific comments

Scope of the IFRS for SMEs

The questions S1 and S2 of the RFI ask whether the scope requirements of the IFRS for SMEs are currently too restrictive for publicly traded entities and financial institutions.

EFRAG's draft comment letter reflected split views on this issue. Some EFRAG TEG members thought that the scope of the IFRS for SMEs should not be extended to include publicly traded entities and financial institutions. These EFRAG TEG members believed that the standard was initially developed for entities that did not have public accountability. Accordingly, the accounting requirements had been based on this and should also be so in the future. If the scope of the IFRS for SMEs would be extended, it would likely be necessary to introduce significant amendments to the standard, which could affect the relationship between cost and benefits of the requirements for the non-publicly accountable entities and the users of financial statements of these entities. The IASB has a responsibility to safeguard the high quality of financial information resulting from the application of its standards. Accordingly if a jurisdiction would allow or require use of the standard also for publicly accountable entities, these entities could not claim their financial statements to be prepared in accordance with the IFRS for SMEs.

Other EFRAG TEG members thought that the scope of the standard should be extended to permit each jurisdiction to decide whether publicly accountable entities should be allowed to prepare financial statements in accordance with the IFRS for SMEs. Although jurisdictions should be allowed to choose what entities they think the standards are suitable for, based on the particular circumstances in that jurisdiction, it should be clear from the standard what types of entities the requirements were

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Most respondents thought that the scope should not be extended as the requirements of the IFRS for SMEs were not designed to address the needs of users of financial statements of public traded entities and financial institutions. The standard was, therefore, deficient for this purpose.

Some standard setters, however, noted that jurisdictions should decide what entities could apply the IFRS for SMEs, including publicly accountable entities.

It was also noted that it was not clear why the IASB did not find the IFRS for SMEs appropriate for publicly accountable entities.

EFRAG noted that the IASB could not decide what entities should apply a particular standard in a particular jurisdiction. This was the jurisdiction's decision. EFRAG thought that the IASB should better explain why it thought the IFRS for SMEs was not appropriate for publicly accountable entities.

EFRAG also thought that if an entity would comply with the requirements of the IFRS for SMEs, the resulting financial statements could be claimed to be prepared in accordance with the standard. However, it was necessary that users of financial statements in the notes of the financial statements were made aware of cases where the IFRS for SMEs was applied by entities for which the standard was not intended.

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intended for.	
Not-for profit entities	
Question S3 of the RFI asks whether the IFRS for SMEs should be revised to clarify whether a not-for-profit entity is eligible to use it. In its draft comment letter, EFRAG did not see a need to revise the IFRS for SMEs for this issue.	Most respondents thought, similar to the view expressed in EFRAG's draft comment letter, that the IFRS for SMEs should not be revised on this issue. Some respondents, however, thought that it should be clarified what not-for-profit entities are and the IFRS for SMEs should include guidance for these entities. EFRAG noted that it did not consider itself competent in relation to accounting for not-for-profit entities and that the question of developing financial reporting standards for not-for-profit entities was addressed, but not accommodated in the IFRS Constitution review of 2008. EFRAG therefore decided provide a similar response to that of its draft comment letter.
Use of recognition and measurement provisions in full IFRSs for financial instruments: IAS 39 or IFRS 9 (S5)	
Question S5 of the RFI asks whether the current option to use IAS 39 in the IFRS for SMEs should be updated once IFRS 9 has become effective. EFRAG's draft comment letter reflected that the entities should be given the option of following the recognition and measurement provisions of IFRS 9 (with the disclosure requirements of Sections 11 and 12). EFRAG thought that keeping a reference to IAS 39, as the standard is replaced by IFRS 9 did not make much sense. However, post-implementation reviews of the IFRS for SMEs should consider whether the option to depart from the recognition and measurement requirements of Sections 11 and 12 could be removed.	Only one respondent thought that the option to use IAS 39 (or IFRS 9) should be removed. Most respondents were in favour of the option as a range of entities, for example, commodity trading companies, subsidiaries of listed financial institutions, and entities involved with treasury management might want to use the IFRS for SMEs. Some respondents, however, noted that it was too early to replace the reference to IAS 39 by a reference to IFRS 9. EFRAG agreed with this comment, and added to its response that the reference should be updated when the IFRS 9 had been finalised.

EFRAG's tentative views expressed in the draft comment letter	**Comments received and EFRAG's response**
Positioning fair value guidance (S7)	
Question S7 of the RFI asks whether the fair value guidance included in the IFRS for SMEs should be moved to a separate section. EFRAG's draft comment letter reflected the view that the guidance should be moved from Section 11 into a separate section on fair value measurement. EFRAG thought that fair value guidance might also be relevant in other cases than for financial instruments, e.g. accounting for investments in subsidiaries, associates, jointly controlled entities, business combinations, leases, share-based payment, investment properties and biological assets and when performing an impairment test. The standard could therefore appear more user-friendly, if the guidance on fair value measurement is placed in a separate section.	Most respondents supported moving the fair value guidance from Section 11 into a separate section on fair value measurement. However, some of the constituents did not consider this issue particularly important. EFRAG decided to provide a response similar to that of its draft comment letter.
Amortisation period for goodwill and other intangible assets (S11)	
Question S11 of the RFI asks whether the IFRS for SMEs should be amended to allow an entity to amortise intangibles over a shorter life than ten years if a shorter period can be justified and the entity is able to make a reliable estimate of the useful life. EFRAG's draft comment letter supported a modification of the IFRS for SMEs to establish that the presumption of ten years should be overridden if a shorter period could be justified. EFRAG TEG members supported the more flexible approach to determine the useful life of intangible assets (and particularly goodwill), as they did not consider the presumption that the useful life of an intangible asset is ten years or less to result in the most useful information.	Most respondents were not in favour of the presumption currently included in the IFRS for SMEs. A few respondents, however, found it to be counterintuitive that an entity would be capable to be in a position to justify shorter or longer periods than 10 years if the entity was unable to make a reliable estimate of the useful life. Another respondent suggested the wording to be simplified. Based on the comments, EFRAG decided to add that instead of the suggested wording, the standard should specify that if the entity is unable to make a reliable estimate of the useful life of an intangible asset, the life shall be presumed to be not more than ten years.
Presentation of share subscriptions receivable (S13)	
Question S13 of the RFI asks whether the IFRS for SMEs should either permit or require share subscriptions receivables to be presented as an	Some respondents agreed with EFRAG's suggestion and some consider that the subscription receivable should be presented as an

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asset.

In its draft comment letter, EFRAG thought that subscriptions receivable and similar receivables arising when equity instruments are issued before the entity receives the cash for those instruments should be presented as receivables (no offsetting), when:

(a) the equity instruments provide the holder with the same rights as fully paid equity instruments, and

(b) the entity has an enforceable right to the consideration to be received in exchange for the equity instruments.

In other situations, the equity instruments should not be presented (gross).

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asset, if it meets the definition of an asset. Only one respondent thought that for cost reasons (not conceptual reasons) the subscription receivable should be presented as an asset. Based on the comments received, EFRAG decided to provide an answer to Question S13, similar to the answer it had provided in its draft comment letter.

Presentation of actuarial gains and losses (S15)

Question S15 asks whether the option to recognise actuarial gains and losses in profit or loss should be removed.

In its draft comment letter, EFRAG thought that the profit or loss option should be removed. EFRAG thought that options make the standard more costly for both preparers and users.

Some commentators thought that the profit or loss option should be kept. These respondents noted that the profit or loss option would be the less costly alternative for preparers. EFRAG agreed with this reasoning, but thought that the option would not be used by many entities as it could result in high volatility in earnings. EFRAG also thought that the outcome of the option would not be useful for users, as it would result in less comparable financial statements. EFRAG therefore decided to answer Question S15 similarly to its draft comment letter.

Approach for accounting for deferred income taxes (S16)

Question S16 of the RFI asks whether SMEs should recognise deferred income taxes and if so, how they should be recognised.

EFRAG's draft comment letter reflected split views. For different reasons some EFRAG TEG members did not think that an amendment was needed therefore they held the view that the SMEs should recognise

Most respondents thought that SMEs should recognise deferred income taxes using the temporary difference method. However, some respondents also considered the method to be too costly for SMEs.

Based on the comments received, EFRAG thought that it should be investigated how costly it is for SMEs to account for deferred tax as

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deferred income taxes using the temporary difference method (the approach currently used in both the IFRS for SMEs and full IFRSs).

Other EFRAG TEG members thought that simplification of the standard is important. These members considered that the implementation of deferred taxes is more costly than beneficial for the SMEs therefore they supported that the SMEs should not recognise deferred taxes at all. Instead, the standard should require the taxes payable method.

Consideration of IAS 12 exemptions from recognising deferred taxes and other differences under IAS 12 (S17)

Question S17 of the RFI asks whether the IFRS for SMEs should be revised to conform it to IAS 12.

EFRAG's draft comment letter reflected the position that the IFRS for SMEs should be modified in order to conform to the current IAS 12 (modified as appropriate for SMEs). EFRAG thought that the current differences with IAS 12 introduced some complexity. Removing the differences would be helpful for both users and preparers.

Q&As

The questions G2 and G3 of the RFI asks whether the current, limited programme for developing Q&As should continue after the comprehensive review is completed and whether the Q&As should be incorporated into the IFRS for SMEs.

In its draft comment letter, EFRAG acknowledged that between reviews of the IFRS for SMEs, issues could arise that would benefit from further guidance. EFRAG would therefore be in favour of having something similar to the IFRS Interpretation Committee for the IFRS for SMEs.

EFRAG was, however, not in favour of the procedure applied for the Q&As that had been issued. EFRAG thought that the criteria set for the development of Q&As in the SMEIG's terms of reference were often not

Comments received and EFRAG's response

there seems to be divergent views on this. However, until the results of such a study are ready, and a more appropriate treatment of income taxes has been found (EFRAG's proactive work (Improving the Financial Reporting of Income Tax) in relation to this issue indicates that this could be difficult), SMEs should recognise deferred income taxes using the temporary difference method.

Only one respondent did not think the approach should be changed. Most respondents agreed with EFRAG to conform the IFRS for SMEs to the current IAS 12. Based on the comments received EFRAG decided to provide an answer to Question S17 similar to the answer provided in its draft comment letter.

Most respondents did not think the current Q&A programme should be continued. These respondents expressed similar concerns as EFRAG did in its comment letters in response to the Q&As. The concern was that the number of Q&As would not be limited and that the Q&As will be considered mandatory guidance and will result in the IFRS for SMEs becoming less simple.

EFRAG, however, thought that if the IASB would adhere to the policies stated for Q&As, Q&As could still be issued with strict adherence to the criteria set.

Most respondents thought that the existing Q&As should be incorporated in either the standard or the training material. One

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respected when issuing these Q&As.

EFRAG thought that the seven final Q&As that have been issued should be incorporated into the IFRS for SMEs or the training material depending on the detail and relevance of the guidance.

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respondent, however, feared that if non-mandatory Q&A guidance will be incorporated into the IFRS for SMEs, as application guidance, new publications of Q&As might be considered by constituents as de-facto authoritative literature. EFRAG shared this thought. However, it noted that before Q&As are incorporated into the standard, a due process should take place. In addition, EFRAG thought it would not be user friendly to leave Q&As unincorporated.

EFRAG therefore decided to answer the questions G2 and G3 similarly to its draft comment letter.

Training material (G4)

Question G4 of the RFI asks for any comments regarding the training material developed by the IFRS foundation.

In its draft comment letter, EFRAG noted that it had been informed that the training material is of high quality.

Most respondents think the training material is helpful. One respondent, however, points out that in some areas the training material effectively requires knowledge of the requirements of full IFRS in order to successfully apply the IFRS for SMEs. The respondent did not think that the IFRS for SMEs would be a standalone document if it could not be applied without reference to full IFRS.

EFRAG decided to provide an answer to Question G4 similar to the answer it provided in its draft comment letter. EFRAG thought that it should not be necessary to study the training material in order to be able to apply the IFRS for SMEs. It did therefore not want to include the comment that the training material had to be improved in certain areas in order to make the IFRS for SMEs a standalone document.

Additional issues

Some of the questions included in the RFI (S19, S20, and G5), ask the respondents whether additional topics, specific issues or any further general issues should be included in the IFRS for SMEs.

In its draft comment letter, EFRAG did not present any additional issues

Respondents had several issues and topics to bring to the IASB's attention. EFRAG chose to reflect and support many of these in its final comment letter. However, the following comments were, for example, not reflected:

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or topics. However, it wanted to emphasise the importance of post-implementation reviews. These reviews could identify additional topics that should be addressed.

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- A standard setter thought that the section on application of accounting policies in the IFRS for SMEs should be amended. If an issue is not covered by the IFRS for SMEs, the standard setter thought that an entity should first consider the requirements and guidance in full IFRS. EFRAG disagreed. It thought that the IFRS for SMEs should be considered a stand-alone document and reference to full IFRS should therefore not be required.
- A standard setter provided information about how the IFRS for SMEs had been adapted in its jurisdiction. Although EFRAG considered this information useful for the IASB, it thought that the standard setter's experience was best explained by the standard setter directly to the IASB.
- Some comments related to how to account for employee benefits. One respondent thought that the IFRS for SMEs was too complex on this issue. Another did not think that the method applied for pension accounting would always result in relevant information and suggested IAS 37 approach. EFRAG noted that employee benefits could be material for SMEs. In accordance with the principles it had developed for changing the IFRS for SMEs, EFRAG also thought that experience with other methods of accounting for employee benefits was necessary before it could recommend any changes for SMEs on this issue.
- A respondent suggested that the option to apply the direct method for presenting cash flows from operating activities should be removed in order to make the standard less complex. EFRAG was uncertain about the complexity related to having an option to use the direct method. EFRAG noted that the method was about presentation and not recognition and measurement. EFRAG therefore decided not to include the comment.
- A respondent thought that non-derivative financial

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	assets/liabilities ('cash instruments') should be allowed as hedging instruments for foreign exchange risk. EFRAG noted that in the Basis for Conclusions accompanying the IFRS for SMEs, the IASB assessed that it would not have a significant effect on the financial statements to allow cash instruments to be used as hedging instruments. Without evidence that this assessment is wrong, EFRAG did not want to include comments about the issue. • A respondent noted that the IFRS for SMEs incorporates the conclusion of IFRIC 17, but not the scope. Distributions of a non-cash asset that is ultimately controlled by the same party or parties before and after the distributions are excluded from IFRIC 17. The respondent proposed to modify the scope so that the scope excludes distribution of a non-cash asset that is ultimately controlled by the same party or parties before and after the distribution. EFRAG noted that the scope exemption in IFRIC 17 was introduced as the IFRS Interpretation Committee thought it would require additional considerations to agree on an interpretation for distribution of an asset that is ultimately controlled by the same party. EFRAG acknowledged that including the distributions in question in the scope could result in more costly accounting, compared with a situation where the distributes were not included in the scope. However, the IFRS for SMEs would contrary to full IFRS include guidance on the issue, which was also considered helpful. EFRAG therefore decided not to include the issue in its comment letter. • A respondent thought that the IASB should consider the progress of the project to amend IAS 41 for bearer biological assets. There would be potential for significant improvement and simplification if the bearer assets were able to be accounted for as if they were Property, Plant and Equipment. EFRAG decided not to include this comment, as it thought changes to full IFRS

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	should first be applied by entities under full IFRS before being considered for SMEs. If changes are made to IAS 41, and post-implementation reviews indicate that the change was successful, the change could then be considered for introduction to IFRS for SMEs.