Proposed amendments to the International Financial Reporting Standard for Small and Medium-sized Entities

Exposure Draft ED/2013/9, issued by the International Accounting Standards Board (IASB)

Comments from ACCA
28 February 2014

ACCA (the Association of Chartered Certified Accountants) is the global body for professional accountants. We aim to offer business-relevant, first-choice qualifications to people of application, ability and ambition around the world who seek a rewarding career in accountancy, finance and management.

We support our 162,000 members and 428,000 students in 173 countries, helping them to develop successful careers in accounting and business, with the skills needed by employers. We work through a network of 89 offices and centres and more than 8,500 Approved Employers worldwide, who provide high standards of employee learning and development. Through our public interest remit, we promote appropriate regulation of accounting, and conduct relevant research to ensure that accountancy continues to grow in reputation and influence.

www.accaglobal.com

Further information about ACCA's comments on the matters discussed here may be obtained from the following:

Paul Cooper
Corporate Reporting Manager, ACCA
Email: paul.cooper@accaglobal.com

29 LINCOLN'S INN FIELDS
LONDON WC2A 3EE
UNITED KINGDOM

T +44 (0)20 7059 5000
F +44 (0)20 7059 5050

www.accaglobal.com

ACCA welcomes the opportunity to comment on the above Exposure Draft (ED). Our Global Forum for Corporate Reporting has considered the proposals, and its views are reflected in the following general and specific comments.

GENERAL COMMENTS

ACCA acknowledges that the proposed changes are in accordance with the intentions of this current revision project. The IASB is aiming to improve understanding, and avoid undue cost or effort. It is also taking into account the short period of time for which the IFRS for SMEs has been implemented in practice.

We also support the three year period between revision projects, in the interests of stability, but whilst also ensuring that the IFRS for SMEs can be kept up-to-date. We make the comment below that the provisions for transition, and the effective date of the changes, can be set to reflect the number and complexity of the changes proposed.

ACCA welcomes the IASB's policy, as reflected in the proposed changes to the section on Income Tax, of amending the IFRS for SMEs to reflect only IFRS which have been published. The IASB could adopt the further criteria that, prior to incorporation in the IFRS for SMEs, the published IFRS are found to be working in practice, and that the changes proposed are generally agreed to be suitable for the entities within the scope of the IFRS for SMEs.

We do also believe that the IASB could have gone further in making changes, even at this early stage in the adoption of the IFRS for SMEs. Principally, options which have received support are not being included on the grounds of complexity, and in one case, the absence of a similar option in IFRS. ACCA's view is most preparers would want the options concerned, that it is appropriate to provide at least a few additional options for companies which are not publicly-accountable, and that if a preparer does find an option too complex, it can simply choose not to take it up.

29 LINCOLN'S INN FIELDS
LONDON WC2A 3EE
UNITED KINGDOM
T +44 (0)20 7059 5000
F +44 (0)20 7059 5050
www.accaglobal.com

Finally, in our response to Question 8, we have raised questions about how to make the IFRS for SMEs more accessible for smaller entities, and also more readily adaptable for jurisdictions in which legal requirements preclude full adoption.

SPECIFIC COMMENTS

We now comment on the specific questions raised in the ED, as follows:

Question 1 - Definition of 'fiduciary capacity'
The IASB has received feedback that the meaning of 'fiduciary capacity' in the definition of 'public accountability' (see paragraph 1.3(b) of the *IFRS for SMEs*) is unclear as it is a term with different implications across jurisdictions. However, respondents generally did not suggest alternative ways of describing public accountability or indicate what guidance would help to clarify the meaning of 'fiduciary capacity'. Based on the outreach activities to date, the IASB has determined that the use of this term does not appear to create significant uncertainty or diversity in practice.
(a) Are you aware of circumstances where the use of the term 'fiduciary capacity' has created uncertainty or diversity in practice? If so, please provide details.
(b) Does the term 'fiduciary capacity' need to be clarified or replaced? Why or why not? If you think it needs to be clarified or replaced, what changes do you propose and why?

<u>ACCA response</u>

(a) ACCA is not aware of circumstances where the use of this term has created difficulties in practice.

(b) Consequently, we do not see a need to replace the term. We also view the explanation in para. 1.4 of the IFRS for SMEs as having sufficient clarity and guidance. There would be great practical difficulties in expanding the paragraph to cover numerous jurisdictions, and a consequent danger of presenting a great deal more detail at the expense of the current clarity.

29 LINCOLN'S INN FIELDS
LONDON WC2A 3EE
UNITED KINGDOM
T +44 (0)20 7059 5000
F +44 (0)20 7059 5050
www.accaglobal.com

Question 2 - Accounting for income tax

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

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

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

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

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

ACCA response

Overall, we welcome the change in the basis of section 29 on income tax to IAS 12, from a now-superseded Exposure Draft. As a result, this section of the IFRS for SMEs should be more readily understandable to users and preparers of the financial statements.

29 LINCOLN'S INN FIELDS
LONDON WC2A 3EE
UNITED KINGDOM
T +44 (0)20 7059 5000
F +44 (0)20 7059 5050
www.accaglobal.com

ACCA also notes, however, that there will not be a further separate consultation on the income tax section of the Standard. Whilst we support the simplifications from IAS 12 in the IFRS for SMEs, we believe that further work could result in a more appropriate income tax framework for SMEs. An example of this further work is a debate on whether simplified disclosure, rather than the recognition of deferred tax, meets the needs of preparers and users of SME financial statements.

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

The IASB proposes to make a number of other amendments to the *IFRS for SMEs*. The proposed amendments are listed and numbered 1–43 and 45–57 in the list of proposed amendments. Most of those amendments are minor and/or clarify existing requirements.

(a) Are there any amendments that you do not agree with or have comments on?

(b) Do any of the amendments require additional guidance or disclosure requirements to be added to the *IFRS for SMEs*? If so, which ones and what are your suggestions?

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

<u>ACCA response</u>

We believe that in the main, the other (i.e., excluding taxation, as above) proposed changes accord with the IASB's aims in revising the IFRS for SMEs. ACCA supports the incorporation in the revised Standard of developments in full IFRS, insofar as they are relevant to SMEs.

ACCA also understands the IASB's perceived need for stability in approaching this first review of the IFRS for SMEs (para BC33). Our response to Question 8 below raises matters which could also be dealt with by the IASB without, in our view, making its reviews of the Standard too wide-ranging going forward.

We also support the additional exemptions for 'undue cost and effort' in the revisions, and the increased scope, based on management's best estimate, for the write-off of goodwill (and other intangibles) over a period of less than ten

29 LINCOLN'S INN FIELDS
LONDON WC2A 3EE
UNITED KINGDOM
T +44 (0)20 7059 5000
F +44 (0)20 7059 5050
www.accaglobal.com

years. In our view, these simplifications reflect the actual circumstances of many SMEs, and will help to reduce potential burdens on them.

ACCA's response to Question 4 below mentions changes which are not proposed in the ED, but which we believe should be included in the interests of SMEs.

As the individual changes proposed are generally straightforward, we do not see a need for separate guidance to be issued on them. In its responses to the previous Request for Information (RFI) issued in June 2012, ACCA supported a review of the supporting Questions and Answers, with the aim of certain topics being incorporated within the IFRS for SMEs, and others being removed where they duplicate the content of the Standard. We are pleased to note the proposal that the Q&A will either be incorporated into the body of the IFRS for SMEs where appropriate, or else have been included in the IFRS Foundation's educational material, thereby rendering a separate set of Q&A unnecessary in the future.

Question 4 - Additional issues

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

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

ACCA response

ACCA still believes that the IFRS for SMEs should include an option to carry non-investment property, plant and equipment at revalued amounts, and we

29 LINCOLN'S INN FIELDS
LONDON WC2A 3EE
UNITED KINGDOM
T +44 (0)20 7059 5000
F +44 (0)20 7059 5050
www.accaglobal.com

note that this view received majority support amongst respondents to the RFI. We view the usefulness of this option for SMEs as outweighing the potential for resultant complexity (para BC 42). In fact, if such complexity is likely to cause difficulties for a SME, it could simply choose not to take up the option.

Furthermore, we do not believe that additional disclosure will be an effective substitute for actual recognition amongst preparers who wish to adopt the revaluation model (para BC 43).

Secondly, we still support an option for SMEs to capitalise development and borrowing costs which would require capitalisation under IAS 38 and IAS 23. Preparers who do not agree with capitalisation, and those who would find it complex (as mentioned in para BC 47), would again be free to choose not to take up the option.

We acknowledge that this latter option would diverge from the requirements of full IFRS, but it is not a major divergence, and nor would it be the only one included within the Standard on the grounds of usefulness to SMEs.

Question 5 - Transition provisions

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

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

ACCA response

We agree that the changes should be applied retrospectively, and that entities should not find this burdensome, in view of the nature and extent of the proposed changes.

29 LINCOLN'S INN FIELDS
LONDON WC2A 3EE
UNITED KINGDOM
T +44 (0)20 7059 5000
F +44 (0)20 7059 5050
www.accaglobal.com

If in future, more complex amendments need to be proposed, the IASB may well need to consider whether to allow prospective application for at least some of these.

Question 6 - Effective date
The IASB does not think that any of the proposed amendments to the *IFRS for SMEs* will result in significant changes in practice for SMEs or have a significant impact on their financial statements. It has therefore proposed that the effective date of the amendments to the *IFRS for SMEs* should be one year after the final amendments are issued. The IASB also proposes that early adoption of the amendments should be permitted. Do you agree with the proposed effective date and the proposal to permit early adoption? Why or why not? If not, what alternative do you propose?

<u>ACCA response</u>

ACCA also regards the effective date as practical and achievable in view of the changes proposed, and agrees that early adoption should be permitted.

Notwithstanding that the effective date has been set in accordance with the practice set out in the preface to the existing IFRS for SMEs, it is conceivable that the IASB might need to consider additional implementation time in the future, should a larger number of more complex changes be proposed during subsequent revisions.

Question 7 - Future reviews of the *IFRS for SMEs*
When the *IFRS for SMEs* was issued in 2009 the IASB stated that after the initial comprehensive review, the IASB expects to propose amendments to the *IFRS for SMEs* by publishing an omnibus Exposure Draft approximately once every three years. The IASB further stated that it intended this three-year cycle to be a tentative plan, not a firm commitment. It also noted that, on occasion, it may identify a matter for which an amendment to the *IFRS for SMEs* may need to be considered earlier than in the normal three-year cycle; for example to address an urgent issue.

29 LINCOLN'S INN FIELDS
LONDON WC2A 3EE
UNITED KINGDOM
T +44 (0)20 7059 5000
F +44 (0)20 7059 5050
www.accaglobal.com

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

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

ACCA response

ACCA agrees with the proposed three-year cycle for revision of the IFRS for SMEs, with the ability to make amendments sooner by exception, such as to address an urgent issue. We believe that a three-year cycle is manageable for SMEs, whilst meeting the objectives of keeping the Standard up-to-date.

Question 8 - Any other comments

Do you have any other comments on the proposals?

ACCA response

Following our responses to the RFI issued in June 2012, ACCA would like to reiterate the following views, notwithstanding that they concern matters which are not specifically the subject of consultation in the current ED:

(a) ACCA has a concern that whilst the IFRS for SMEs is comprehensive, it does present complexity for smaller entities. The IASB has produced guidance for small entities, but as the IFRS for SMEs covers some potentially very large companies, we believe that it would be helpful for the IASB to consider how, maybe within the body of the Standard, it can further assist the smallest preparers.

(b) It would not be feasible for the IASB to make the IFRS for SMEs readily-adoptable under the laws of all jurisdictions. Consequently, individual jurisdictions will themselves determine, at least to some degree, the extent of their application of the Standard. In our view, the IASB could order the Standard to assist the adaption process by individual jurisdictions. For example, treatments whose legality is the most certain to vary between

29 LINCOLN'S INN FIELDS
LONDON WC2A 3EE
UNITED KINGDOM
T +44 (0)20 7059 5000
F +44 (0)20 7059 5050
www.accaglobal.com

jurisdictions could be set out in a readily 'detachable' section of the IFRS for SMEs.

29 LINCOLN'S INN FIELDS
LONDON WC2A 3EE
UNITED KINGDOM

T +44 (0)20 7059 5000
F +44 (0)20 7059 5050

www.accaglobal.com