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

Feedback to constituents – EFRAG Final Comment Letter

April 2014

Summary of contents

Introduction

Objective of this feedback statement

EFRAG published its final comment letter on the Exposure Draft *Proposed amendments to IFRS for SMEs* (‘the ED’) on 4 March 2014. 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 Expert Group (EFRAG TEG) during its discussions leading to the publication of EFRAG’s final comment letter.

Background to the Exposure Draft

When the IASB issued the IFRS for SMEs in July 2009, it stated that it planned to undertake a comprehensive review of SMEs' experience in applying the standard when two years of financial statements using the IFRS for SMEs had been published. In June 2012 the IASB issued a Request for Information (RfI) as the first step in that comprehensive review and on December 2012 EFRAG issued its final comment letter in response to the IASB's RfI. In the first half of 2013 the IASB discussed the issues identified during the RfI process and on 3 October 2013 the IASB published an Exposure Draft with the proposed amendments for IFRS for SMEs.

EFRAG’s draft comment letter

EFRAG published a draft comment letter on the proposals on 31 October 2013. In its letter, EFRAG welcomed the proposed amendments to the IFRS for SMEs and appreciated the IASB’s efforts to consider the issues identified during the Request for Information (RfI) process. In regard to the IASB’s developed framework for how to deal with new and revised IFRS in future reviews of the IFRS for SMEs, EFRAG emphasised that the IFRS for SMEs should not be changed based on changes in full IFRS that have not yet been implemented and that post-implementation reviews of new and revised IFRS represented the best opportunity to assess the suitability of the changes for SMEs.

EFRAG supported the IASB’s proposal to align the main principles of Section 29 *Income Tax* with IAS 12 *Income Taxes* and reiterated its recommendations specified in EFRAG’s response to the IASB’s Request for Information that it would be beneficial to SMEs if the IFRS for SMEs permitted the use of the revaluation model for Property, Plant and Equipment and included an option for the borrowing costs and development costs to be capitalised.

EFRAG also recommended the elimination of the option to recognise all actuarial gains and losses in profit or loss and hence align the IFRS for SMES with full IFRS.

Comments received from constituents

Nine comment letters were received from constituents and considered by EFRAG TEG in its discussions. These comment letters are available on the EFRAG website.

The comment letters received came from National Standard Setters and professional organisations. The majority of the respondents stated that in general they agreed with the proposed amendments; however, several of these respondents believed that IFRS for SMEs could be further improved. A summary of the comments received can be found below.

EFRAG's final comment letter

On 4 March 2014, EFRAG published its final comment letter on the IASB's Proposed Amendments to the IFRS for SMEs. This letter confirmed the main comments raised by EFRAG in its draft comment letter as set out above.

In particular, EFRAG still supported the IASB's proposal to align the main principles of Section 29 *Income Tax* with IAS 12 *Income Taxes* for the recognition and measurement of deferred tax. However, EFRAG encouraged the IASB to undertake an outreach with users and preparers to consider practical solutions for SMEs that cannot apply the requirements in section 29 without an undue cost or effort.

List of respondents

National Standard Setters

Accounting Standards Committee of Germany (ASCG)

Dutch Accounting Standards Board (DASB)

Instituto de Contabilidad y Auditoría de Cuentas (ICAC)

Financial Reporting Council (FRC);

Professional organisations

Institute of Chartered Accountants in England and Wales (ICAEW)

European Federation of Accountants and Auditors for SMEs (EFAA)

Association of Chartered Certified Accountants (ACCA)

Federation of European Accountants (FEE)

Institut de Wirtscharftsprufer in Deutschland (IDW);

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

Accounting for Income Tax (Q2)

EFRAG's tentative views and constituents' comments

EFRAG's tentative position

EFRAG supported the IASB's proposal to align the main principles of Section 29 *Income Tax* with IAS 12 *Income Taxes*. Still, EFRAG believed that the wording of the proposed amendments could be improved and that some guidance from IAS 12 should be reflected in Section 29. EFRAG also encouraged the IASB to undertake an outreach to understand whether SMEs would find it useful to have an 'undue cost or effort exemption' for some or all the requirements in Section 29. EFRAG added that if an SME could not apply the requirements in Section 29 without undue cost or effort, IFRS for SMEs should permit the taxes payable method with additional disclosures.

Constituents' comments

Almost all the respondents shared EFRAG's view and supported the alignment between section 29 and IAS 12. Whilst most respondents agreed with the recommendation that the IASB should undertake an outreach with preparers and users to understand whether SMEs would find it useful to have an undue cost or effort exemption for some of the requirements in section 29, views were mixed as to what the fallback accounting requirement should be, would the exemption apply. Only one respondent agreed with EFRAG's tentative recommendation to fall back to the tax payable approach with additional disclosures.

In contrast, two respondents thought that the IASB should not permit other methods such as taxes payable approach, deferred taxes using the timing difference or liability method in section 29 as this would reduce comparability.

Views were also mixed regarding the level of guidance that was required in section 29 of the IFRS for SMEs, ranging from more guidance than tentatively recommended by EFRAG to an isolated view that no guidance being necessary.

Summary of how EFRAG considered constituents' comments

During its meeting EFRAG discussed the comments received on the IASB's proposed amendments to Section 29 *Income Tax* and concluded that there was support for EFRAG to encourage the IASB to undertake an outreach with preparers and users of SME's financial statements, with the objective of understanding whether SMEs would find useful to have an 'undue cost or effort exemption for some or all the requirements in Section 29.

EFRAG considered the position of those who did not support requiring the recognition of deferred income taxes or allowing anything different from the temporary difference method in section 29 of the IFRS for SMEs. EFRAG understood these concerns and decided to change its comment letter: instead of giving emphasis to a particular alternative approach (i.e. tax payable approach with additional disclosures), EFRAG recommended that the IASB should work together with SMEs to determine a practical fallback solution for SMEs when an SME could only apply the requirements in Section 29 with undue cost or effort.

Finally, EFRAG considered the request for the revised section 29 not to be enriched with too much additional guidance from IAS 12. EFRAG noted that if the IFRS for SMEs intended to be a standalone standard for SMEs, then the standard should include the necessary guidance for it to be as self-contained as possible, with as few back references, either directly or indirectly, to IFRS.

Additional Issues: Scope (Q4)

EFRAG's tentative views and constituents' comments

EFRAG's tentative position

EFRAG decided to reiterate the recommendations specified in its letter to the IASB's Request for Information (RfI), namely that the IASB should explain why IFRS for SMEs is not suitable for publicly accountable entities and that EFRAG could see some merits in allowing entities for which the standard is not intended to claim compliance with the requirements of the IFRS for SMEs, if all the requirements of the standard are met.

Constituents' comments

EFRAG's respondents that referred to the scope provided different views. One respondent thought that setting which entities had to prepare financial reports in accordance with a specific set of standards was a sovereign task of national authorities. One other respondent noted that there was a discrepancy between the stated scope of the IFRS for SMEs and the IASB's interpretation of that scope as described in the Basis for Conclusions. This respondent thought that the IASB focused only on the smallest SMEs, leaving a significant gap in the standard setting framework. This situation limited the ability of jurisdictions to adopt the IFRS for SMEs, forcing them to either maintain a set of local GAAP not based on IFRS or to adapt the IFRS for SMEs to suit their needs; neither of which met the IASB's principle objective "to develop a single set of high quality, understandable, enforceable and globally accepted IFRS". Finally, one respondent was of the view that the nature of publicly accountable entities required by itself the compliance with full IFRS. The remaining respondents did not specifically comment on the scope issue.

Summary of how EFRAG considered constituents' comments

EFRAG discussed the different views provided by the respondents about the scope of IFRS for SMEs and concluded that, in general, the different concerns raised by respondents had already been carefully considered by EFRAG when developing its draft comment letter. Therefore, EFRAG decided to maintain its initial response.

Additional Issues: Additional Accounting policies (Q4)

EFRAG's tentative views and constituents' comments	Summary of how EFRAG considered constituents' comments
EFRAG's tentative position EFRAG highlighted that although it was generally against allowing accounting policy options in the IFRS for SMEs, EFRAG considered that on balance it would beneficial to SMEs if the IFRS for SMEs permitted the use of the revaluation model for Property, Plant and Equipment and included an option for the borrowing costs and development costs to be capitalised. *Constituents' comments* As regards the accounting policy options, respondents have provided mixed views. Views ranged from fully supporting EFRAG's tentative view to others concluding that, either the options should not be granted at all or be considered at a later stage, or that the more sophisticated accounting should be mandatory. The diversity of views reflected different relative weight given by respondents to either the relevance of the IFRS for SMEs to a greater number of jurisdictions or comparability/ standardisation of the resulting financial reporting.	EFRAG generally agrees with those who oppose accounting policy options as they affect comparability negatively and are an impediment to the standardisation approach that many users of SMEs' financial statements favour. EFRAG therefore concurred with the arguments provided by respondents disagreeing with its tentative view. Nevertheless, EFRAG noted the support for its tentative views provided by other respondents and maintained its recommendation that an option to apply more sophisticated requirements, that are considered to better represent the economic reality, might be necessary for the adoption or application of the IFRS for SMEs by some jurisdictions and entities, and should be supported to enhance the relevance of the standard.

Additional Issues: New and revised standards and other issues not mentioned in our previous comment letter (Q4)

EFRAG's tentative views and constituents' comments

EFRAG's tentative position on the new and revised standards

EFRAG highlighted that it was generally against allowing accounting policy options in the IFRS for SMEs. Given that it would reduce the complexity and the costs, EFRAG recommended the IASB should eliminate the option to recognise all actuarial gains and losses in profit or loss.

Constituents' comments on new and revised standards

Respondents generally agreed with the IASB's decision not to amend the IFRS for SMEs to incorporate the content of several new and revised standards. However, two respondents thought that the IASB should amend the IFRS for SMEs to incorporate some of the key recent changes to IAS 19, namely to incorporate the recent amendments to the recognition requirements of actuarial gains and losses and to the basis of the calculation of net interest in IAS 19.

In addition, many respondents thought that the IASB should develop clearer principles for dealing with new and revised IFRS. For example, two respondents thought that the board needed to explicitly set out a criterion against which their assessment would be made. One respondent suggested a number of principles within which the IASB could decide if amendments should be made for new and revised IFRS.

Constituents' comments on the fall back to IFRS 9

Two respondents thought that IFRS for SMEs should refer to the latest standard on financial instruments (i.e. IFRS 9). However, one respondent believed that IFRS for SMEs should be a self-contained document and a linkage to the full IFRS for recognition, measurement and presentation was undesirable.

Summary of how EFRAG considered constituents' comments

New and revised standards

When considering the comment letters received, EFRAG noted that respondents agreed that clearer principles were needed for dealing with new and revised IFRS and noted that both its draft comment letter and its comment letter issued on 20 December 2012 referred to a number of principles that should be met for the IASB to make changes to the IFRS for SMEs. Therefore, EFRAG maintained its initial response.

Nonetheless, after considering the comments received on the incorporation of the recent amendments to the basis of the calculation of the net interest in IAS 19, EFRAG decided to change its comment letter as such change would constitute a simplification to users of IFRS for SMEs.

Fall back to IFRS 9

EFRAG discussed the different views provided by the respondents on IFRS 9 and decided to change its letter to refer to EFRAG's position on IFRS 9 as stated in its comment letter published in December 2012. More specifically, entities should be given the option of following the recognition and measurement provisions of IFRS 9 when this standard is completed.

Additional Issues: New and revised standards and other issues not mentioned in our previous comment letter (Q4)

EFRAG's tentative views and constituents' comments

Other issues not mentioned in our previous comment letter

A number of respondents raised issues which had not been raised in EFRAG's draft comment letter. Namely that, the strict application of paragraph 11.9 of IFRS for SMEs would result in debt instruments being measured at fair value under IFRS for SMEs, even though the same instruments could be measured at amortised cost under full IFRS; and IFRS for SMEs was currently more restrictive than full IFRS on Hedge Accounting. These respondents also raised a number of very specific issues. For example, one respondent referred to the fair value hierarchy contained in paragraph 11.27 of the standard and stated that the IASB should provide some indication of how recently the binding sale agreement had been agreed.

Summary of how EFRAG considered constituents' comments

Other issues not mentioned in our previous comment letter

In its discussion of the comment letters received, EFRAG agreed with the respondents that the cases for which hedge accounting was applicable were overly limited and that the results of the UK FRC consultation could help the IASB deciding what, if any, restrictions should be lifted. In addition, EFRAG also agreed with respondents that the current requirements in sections 11 and 12 of IFRS for SMEs could, in certain circumstances, be more burdensome than the requirements in full IFRS. Therefore, EFRAG decided to change its letter to recommend the IASB to consider the results of the UK FRC's consultation on the subject. Furthermore EFRAG called on the IASB to reconsider the guidance in section 11 and 12 as, in certain circumstances, it could be more burdensome than the requirements in full IFRS.

EFRAG noted that the remaining comments which were very specific and in some cases country related had already been communicated to the IASB. Therefore, EFRAG decided not to address them.

Transition provisions (Q5)

EFRAG's tentative views and constituents' comments

EFRAG's tentative position

In its draft comment letter EFRAG noted that, in general, it considers that full retrospective application is likely to provide the most useful information to users, as it facilitates the year-to-year comparison. However, EFRAG stated that it thought that the IASB should consider ways of providing relief from full retrospective application of section 29 *Income Tax*.

Constituents' comments

The majority of the respondents agreed with the proposed transition provisions. One respondent argued that full retrospective application was likely to provide the most consistent and comparable information to users. Still, this respondent acknowledged that SMEs would need to assess whether each individual change to the requirements in section 29 for recognising, measuring and disclosing deferred tax would have an impact when applied retrospectively.

In contrast, one respondent agreed with EFRAG's response. This respondent suggested that the undue cost or effort exemption should also comprehend other proposed amendments (not only for section 29). One other respondent asked for a relief from full retrospective application of any change in the amortisation period of goodwill due to the proposed amendment to paragraph 19.23 of IFRS for SMEs.

Summary of how EFRAG considered constituents' comments

EFRAG considered the reasoning provided by those who agreed with the IASB's transition provision proposal; however, EFRAG still considered that retrospective application could be costly and burdensome in certain circumstances, particularly for small entities. Therefore, EFRAG decided to maintain its initial response.

Future Reviews of IFRS for SMEs (Q7)

EFRAG's tentative views and constituents' comments

EFRAG's tentative position

EFRAG thought that a five-year cycle policy should be introduced since SMEs had a strong demand for stability. EFRAG also stated that this should be accompanied with some flexibility in the due process so that specific issues could be considered earlier if they responded to an urgent need or solve significant divergence or unforeseen circumstances in practice and removed an impediment to improved faithful information.

EFRAG suggested having something similar to the IFRS Interpretations Committee for the IFRS for SMEs and did not favour the continuation of the Q&A process given the earlier experience.

Constituents' comments

The majority of the respondents agreed with a three year review cycle. One respondent thought that the three year review cycle would provide the necessary stability and noted that the reviewing process took time, so the three years could easily become four or even five years. This respondent believed that a longer review cycle would increase the risk of unwarranted inconsistencies between full IFRS and IFRS for SMEs and recommended that a three year review cycle would mean an updated standard being effective three years after the previous iteration (which had not been the case of the first review). Similarly, one other respondent thought that in practice a three year cycle would lead to amendments once every five years which was long enough to ensure stability. One respondent thought that more experience in applying the standard was required before moving into a longer review cycle.

In contrast, one respondent agreed with EFRAG's response.

Summary of how EFRAG considered constituents' comments

During its discussions, EFRAG supported the view of the majority that the three year review cycle would provide the necessary stability for SMEs and would also allow the adaption of the standard, where needed, on a regular basis. EFRAG also acknowledged that IFRS for SMEs was still being implemented in or currently being used by an increasing number of different jurisdictions and that a number of improvements may be identified during this process.

EFRAG decided to stress the importance that any future proposed changes to the IFRS for SMEs should consider the difficulties identified in practice from, at least, the publication of two annual reports prepared in accordance with the (revised) IFRS for SMEs, Furthermore, the IASB should reconsider the three-year cycle once the standard had been well implemented and there was extensive implementation experience

Remaining issues (Q1, Q3, Q6 and Q8)

EFRAG's tentative views and constituents' comments

Definition of fiduciary capacity

The majority of the respondents either was not aware of difficulties or agreed with EFRAG's response to question 1. Nevertheless, two respondents highlighted that the definition of fiduciary capacity had generated some debate in UK and that this debate had contributed to the UK FRC's decision to not use the term "public accountability" in determining the scope of FRS 102, a standard based on IFRS for SMEs.

Undue costs or effort exemption

In general, respondents did not disagree with EFRAG's response. However, two respondents thought that the IASB should explain better the concept of undue cost or effort and how it interacted with the term "impracticable.

Effective date

The majority of the respondents agreed with the proposed effective date and allowing early adoption of the amendments.

Definitions

EFRAG received only two comments on this issue. One respondent did not see the need to align the definitions between full IFRS and IFRS for SMEs. Still, this respondent thought that the glossary should refer to any standing differences between IFRS and IFRS for SMEs. In contrast, one respondent thought that the new definitions and classifications introduced by IFRS 10 to 13 (e.g. fair value and control) should have been reflected in the IFRS for SMEs.

Summary of how EFRAG considered constituents' comments

Definition of fiduciary capacity

EFRAG considered the views of those who thought that the definition of fiduciary capacity was not consistently understood, but it did not favour including a request for additional guidance or examples, as this had the potential effect of inflating the IFRS for SMEs. In addition, EFRAG considered that both the proposed amendments and the training material would solve the issues identified in practice. Therefore, EFRAG decided to maintain its initial response.

Undue costs or effort exemption

EFRAG reassessed the IASB's proposed guidance on "undue cost or effort" exemption and concluded that it was clear and understandable. In addition, EFRAG noted that in its draft comment letter EFRAG had already requested the IASB to clarify how the term "undue cost" differed from "impracticable".

Effective date

EFRAG supported the view of the majority of the respondents that one year was sufficient for entities to implement the proposed amendments. Therefore, EFRAG decided to reflect this position in its comment letter to the IASB.

Definitions

EFRAG decided to maintain its position that the IASB should align, as far as possible, the definition and concepts between the IFRS for SMEs and full IFRS. However, after considering the concerns raised by the respondents, EFRAG decided to change its letter to state that the glossary should refer to the standing differences between IFRS and IFRS for SMEs