



Exposure Draft ED/2013/9

IFRS for SMEs

Comment Letters

European Financial Reporting Advisory Group

35 Square de Meeûs

Brussels B-1000

Belgium

Dear Madam/Sir,

In the present letter ICAC gives its view on some specific issues of EFRAG's Draft Comment Letter on the IASB's Exposures Draft ED/2013/9 IFRS for SMEs.

In general terms we agree with EFRAG's comments. Nevertheless, there are a number of concerns we would like to highlight.

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?



ICAC welcomes the IASB effort in clarifying the scope of the application of the term “fiduciary capacity”. We find reasonable EFRAG’s proposal to make reference to the training material in order to make it easier to implement.

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?



ICAC supports 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.

EFRAG has a number of comments on its Draft Letter (DCL):

1. Undue cost or effort exemption: we support EFRAG's proposal in paragraph 14 that if an SME cannot apply the requirements in Section 29 without undue cost or effort it should be permitted to apply a taxes payable approach with additional disclosures.
2. Undue cost or effort exemption to offset income tax assets and liabilities: ICAC supports EFRAG's proposal in paragraph 17 to incorporate paragraph 74(b)(i) of IAS 12 in paragraph 29 of Section 29 to state that an entity shall offset deferred tax assets and deferred tax liabilities, if they are related to income taxes levied by the same taxation authority on the same taxable entity (as suggested in paragraph 24 below).
3. Clarifying guidance and wording: In general terms, we agree with EFRAG's proposals.

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.

ICAC welcomes the specific guidance in paragraphs 2.14A – 2.14C on how to interpret and apply the ‘undue cost and effort’ exemption that is used in several sections of the IFRS for SMEs.

ICAC agrees with EFRAG’s proposal to require disclosing when an undue cost and effort exemption has been used and their reasons for doing so. Also we are of the view that paragraph 9.16 of the ED should be aligned with paragraph B93 of IFRS 10; when preparing consolidated financial statements and applying the impracticable criteria, the difference between dates shall not be more than three months before or after the date of the consolidated financial statements.

We also welcome the IASB proposed amendments in paragraphs 20.1(e) and 12.3(f)(iii) to include leases with an interest rate variation clause linked to market interest rates (e.g. linked to changes in LIBOR) within the scope of Section 20 Leases, rather than Section 12 Other Financial Instruments Issues. ICAC supports EFRAG’s simplification of the wording in paragraph 12.3(f) of the ED as suggested in paragraph 12.3.

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.

1. New individual and revised IFRS: ICAC is of the view that stability in the standards is a very important element for any user of financial statements, no matter whether it is an SME or not-SME. Stability has virtues like juridical security, comparability throughout time, easier learning of the standard, wider acceptance, and therefore more normalization/harmonization through jurisdictions. Therefore we think that any proposed changes in the standards should be deeply analysed from a cost-benefit perspective taking into account the “stability” objective. In particular, in relation to the IFRS for SMEs, new and revised IFRS should not be incorporated in the IFRS for SMEs until there is practical experience with their use, and the change is proven to be useful and practicable by SMEs.
2. In relation to EFRAGs comments in paragraph 58:
 - a) In relation to the scope of the Standard, and EFRAG’s proposal to study its suitability for some public accountable entities, we are of the view that the nature of publicly accountable entities requires by itself the compliance with full IFRS.
 - b) Neither we share EFRAG’s proposals to include an option to revalue property, plant and equipment; an option to allow an entity to either capitalise or expense borrowing costs on qualifying assets, and an option to allow an entity to either capitalise or expense development costs.

We are of the view that adding a revaluation model for PPE would add complexity for SME,s and that permitting accounting policy



options to capitalise development and borrowing costs would result in more accounting policy options than full IFRS because full IFRS do not permit an expense-only option.

Nevertheless, we believe that capitalization of development and borrowing costs, as it is currently in IAS 38 and 23, is not a complex requirement for SMEs, so therefore we suggest that similar treatment to full IFRS on this respect should be required by IFRS for SMEs.

In addition, we are not in favor of introducing accounting policy options as we think that it reduces comparability and introduces a complexity factor to the standard.

- c) Finally, we do not support EFRAG's comment that share subscription receivables should be presented as an asset when certain criteria are met. We don't see the disadvantages of current treatment.

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?

ICAC shares EFRAG's comments.

Additionally we suggest that the "undue cost or effort exemption" clause could be allowed also for the other proposed amendments, not only for Section 29 Income Tax.

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?

ICAC agrees with EFRAG.

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.

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?

We broadly agree with EFRAG. We think that a five-year cycle policy should be introduced since SMEs have a strong demand for stability, accompanied with some flexibility so that specific issues can be considered earlier if they respond to an



urgent need. In addition we support suggestion to have something similar to the IFRS Interpretations Committee for the IFRS for SMEs.

Finally, we would like to highlight the fact that IFRS for SMEs is intended to be a simplification of full IFRS; so therefore, if a requirement of full IFRS is not complex for an SME, it should be maintained in IFRS for SMEs. We believe that alignment between Standards is an advantage.

Please don't hesitate to contact us if there is anything else you need to clarify.

Ana Martínez-Pina

Chairman of the ICAC

Madrid, 11th. February 2014