European Federation of Accountants and Auditors for SMEs

International Accounting Standards Board ("IASB")
30 Cannon Street London
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Brussels, 3 March 2014

Dear Sirs

Comment on IASB's Exposure Draft IFRS for SMEs - Proposed amendments to the International Financial Reporting Standard for Small and Medium-sized Entities

We have set out some general comments on the Exposure Draft ("ED") IFRS for SMEs – Proposed amendments to the International Financial Reporting Standard for Small and Medium-sized Entities below. Our comments are made from the perspective of small and medium-sized entities ("SMEs") and small and medium-sized practitioners ("SMPs") but it is clear that these may also be valid from the perspective of other stakeholders.

This letter will outline our observations and concerns and the context to these comments.

About EFAA

The European Federation of Accountants and Auditors for SMEs ("EFAA") is an umbrella organisation for national accountants and auditors' organisations whose individual members provide professional services to SMEs within the European Union and Europe as a whole. It was founded in 1994 and has 14 member bodies throughout Europe representing over 250,000 practitioners.

EFAA represents accountants ("preparers") and auditors providing professional services primarily to SMEs. Constituents are mainly SMPs, including a significant number of sole practitioners. EFAA's members are therefore SMEs themselves.

SMPs are European SMEs' most important business advisors. They help entrepreneurs gain access to finance, and they provide valued business advice allowing them to grow their businesses in a sustainable manner. An important characteristic of SMEs is that most of their business relations are based on very close personalised cooperation and mutual trust. Hence, their accountants and auditors need to provide targeted services to accommodate the individual needs of SMEs and of the users of their financial statements.

Why is EFAA responding to this matter?

SME accounting in Europe is not only framed under the requirements of the European Accounting Directive ("Directive") but is influenced and driven by the requirements of National Standard Setters. The Directive is a high-level framework for accounting which sets out certain principles but is silent on how to account for many matters. In those cases, National GAAP is usually followed and their requirements in turn often follow IFRS pronouncements.

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General remarks

EFAA generally supports the changes proposed in this exposure draft. However we believe that there are more changes that should have been implemented in this revision of the IFRS for SMEs.

We accept that there has probably not been sufficient practical application of the standard to justify major revisions as yet. Equally the major changes to full IFRS that have been implemented since 2009 have not yet had sufficient time to be bedded into practice to justify full reflection in IFRS for SMEs. Whilst we are of the view that any changes to the standard have to be justified by the needs of the users of SME financial statements and by the cost/benefit position we are also concerned that there will be more differences between IFRS and IFRS for SMEs than are desirable or necessary as a result. IFRS10 to 13, for example, changed a number of definitions of key terms such as ‘control’ and ‘fair value’. EFAA believes that at least these definitions could and should have been aligned in IFRS for SMEs without requiring other extensive changes. The lack of alignment between IFRS and IFRS for SMEs creates difficulties of interpretation and seemingly implies more differences between the two sets of standards than is actually the case.

We also feel that it is important to note that while the UK and Ireland have finalised an adapted version of IFRS for SMEs, this has not yet been widely applied in practice although is expected to be in full use from 2015. Adoption in the rest of the countries which EFAA represents may be seen as having been very limited but it is important to note that IFRS and IFRS for SMEs have been influential in the development of SME accounting in Europe regardless of the fact that they have not been adopted in full and our comments have to be seen in that context.

We believe that it is significant that the Directive agreed by the European Union (“EU”) in 2013 has made changes that will facilitate the adoption of IFRS for SMEs by EU member states if they choose to do so. One of the last remaining accounting differences between IFRS for SMEs and the accounting directive concerns the recognition of subscribed share capital not yet paid. This is a subject on which full IFRS is silent and given that, we see no reason why IFRS for SMEs should incorporate this matter. In this respect we would prefer that IFRS for SMEs similarly remained silent on the subject. Removal of this would also remove the only remaining obstacle in accounting treatment to the adoption of IFRS for SMEs in Europe.

Lastly, we should point out that EFAA very much supports the continued development of IFRS for SMEs as we believe there is a case for it in some circumstances in Europe.

Our answers to the specific questions raised for comment are as follows:

Q1 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?

We are not aware that this term has given rise to practical implementation issues but perhaps the IASB should reconsider the use of this term. We are certain, however, that in our opinion, the examples are more helpful than the principle.

Q2. 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?

We support the changes proposed to align IFRS for SMEs more with IAS12.

Q3. 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.

We support these changes but do note that it would be more helpful if the amendments could be identified as ones of substance and "others".

Q4. 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.

In response to the 2012 request for information on changes to IFRS for SMEs we made a number of suggestions for other amendments which appear to have been not taken up by IASB in this ED. As noted in our general comments above we recognise that there has been insufficient practical application of IFRS for SMEs to justify many changes and there has been insufficient practical application of many of the new IFRS to justify their more complete reflection in IFRS for SMEs. We would nevertheless note some additional changes which would be helpful to make.

The recognition of subscribed share capital not yet paid is a subject on which full IFRS is silent. Given that we see no reason why IFRS for SMEs make mention of this and we would prefer that it similarly remained silent on the subject. This would also remove the only remaining obstacle in accounting treatment to the adoption of IFRS for SMEs in Europe.

The new definitions and classifications introduced by IFRS10 to 13 should have been reflected in this revision of IFRS for SMEs. Continuing to use the previous definitions of joint venture, jointly controlled entities, fair value and control for example will tend to be unhelpful and raise more issues than probably are justified by any substantive difference between IFRS and IFRS for SMEs in these cases. These may be issues of interpretation, more difficulties with the use of paragraph 10.4 (when selecting and applying accounting policies on which the IFRs for SMEs is silent) and complexity. The greater complexity will present itself for example in users' understanding of financial statements and in the teaching and training accountants. IFRS9 is in a different category as the wide spread take up of this standard will be delayed significantly.

We also believe that there are a number of cases where IFRS for SMEs should offer as an option the accounting treatment allowed or required by full IFRS – notably the revaluation of property, plant and equipment, and the capitalisation of development and borrowing costs as assets. Allowing these options would assist in the take-up of IFRS for SMEs. We consider that even if these issues are not addressed in this revision they will need to be returned to perhaps when there has been greater practical application of the standard.

Q5. 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?

For the changes proposed by the ED we are content that the transitional provisions are appropriate.

Q6. 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?

We are content with the proposals in this regard.

Q7. 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?

As explained in our answer to Q4 above we believe that a number of issues should have been addressed in this revision.

We would certainly support no more than the 3 year timescale currently envisaged and we do note that the IASB is always able to consider the possibility of addressing urgent issues in the meantime.

Q8. Any other comments?

Do you have any other comments on the proposals?

No.

I trust that the above is comprehensive but should you have any questions on our comments, please do not hesitate to contact me.

Yours faithfully,

Federico Diomeda
Chief Executive Officer