

**Developing STAREP (and possibly
REPARIS) countries' response/s to the
IASB's IFRS for SMEs
2020 Request for Information (Rfi)**

STAREP (and REPARIS) Video Conference

7 May 2020

Technical session for STAREP (and REPARIS) standard-setters

Objectives of this session

- » Provide information to frame a discussion about co-ordinating STAREP (and possibly REPARIS) countries' response/s to the International Accounting Standards Board (IASB) 2020 International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs) Request for Information (Rfi).
- » Provide a forum for discussing whether to provide a consolidated regional response to the IASB's Rfi (and if so) how to co-ordinate that collective response.
- » Discuss preliminary views, if any, on:
 - » **Part A** the framework the IASB developed for approaching the Rfi;
 - » **Part B** (as an example issue) whether financial instruments accounting in the IFRS for SMEs should be aligned with full IFRS; and
 - » **Part C** the prevalence of cryptocurrency holdings in STAREP (and REPARIS) countries.

**Introduction to the IASB's 2020
IFRS for SMEs
Request for Information (Rfi)**

IFRS for SMEs: timeline

- » 2009 IASB issued IFRS for SMEs
- » 2015 IASB issued limited scope improvements to the IFRS for SMEs
 - » Some requirements of full IFRS issued before 2009 were not considered in developing the *IFRS for SMEs (2009)* because they were issued while it was being developed. Because of the limited scope when developing the *IFRS for SMEs (2015)* the implications of such requirements were not considered in that review.
- » 28/01/2020 IASB release for public comment a Request for Information (Rfi) to inform its second Comprehensive Review of the IFRS for SMEs
- » **27/10/2020** comment letter deadline: in response to Covid 19 IASB extends the deadline for submitting comment letters (feedback to the IASB) on the Rfi from 27/07/2020 to 27/10/2020.

Purpose of IASB's (2020) IFRS for SMEs Request for Information (Rfi)

- » Help the IASB's SME Implementation Group (SMEIG) develop its recommendations to the IASB about possible amendments to the IFRS for SMEs (2015).
- » Assist the IASB in developing possible amendments to the IFRS for SMEs (2015).
- » However, the IASB is explicitly not seeking views on the scope of the IFRS for SMEs (p16)

IASB's IFRS for SMEs (2020) Request for Information (Rfi)

- » Seeks responses to questions about how, if at all, to align the IFRS for SMEs with amendments to full IFRS that were not incorporated in developing the IFRS for SMEs (2015).
 - » Because amendments to full IFRS were made while developing the IFRS for SMEs (2009), some amendments issued before 2009 were not considered in developing the IFRS for SMEs (2009).
 - » Moreover, because of the limited scope in developing the IFRS for SMEs (2015) the implications of such amendments to full IFRS were not considered when developing the IFRS for SMEs (2015).
- » Consequently, responses to the Rfi will help the IASB formulate its preliminary views about which requirements in the IFRS for SMEs should be updated to align with full IFRS.
- » Nevertheless, respondents need not comment on all of the questions in the Rfi and are encouraged to comment on any additional issues they see fit (p23)

Structure of the IASB's IFRS for SMEs (2020) RfI

- » **Part A** sets out the framework the IASB developed for approaching the RfI;
- » **Part B** considers which sections of the IFRS for SMEs could be aligned with full IFRS
- » **Part C** considers topics that are not currently addressed in the IFRS for SMEs

The IASB's intentions...

- » The IASB does not intend that all changes to full IFRS since the version on which it based the IFRS for SMEs (2009) should give rise to amendments to the IFRS for SMEs
- » It intends that any amendments to the IFRS for SMEs (2015) will be consistent with the approach to simplifications and disclosure reductions adopted when the IFRS for SMEs Standard was originally issued.

**Comment letter co-ordination
mechanisms:
getting your voice heard**

Why jurisdictions co-ordinate their responses to the IASB

- » Without diminishing the rights of others to develop their own comment letters to the IASB, to ensure that the STAREP (and possibly REPARIS) countries' view is heard by the IASB when amending the IFRS for SMEs, that view should be captured and submitted in a co-ordinated way that has the maximum possible authority.

How jurisdictions co-ordinate their responses to the IASB

- » IASB encourage National Standard Setters (NSS) to respond to due process documents by providing comment letters, and to undertake outreach to better understand the effects of proposed new Standards in their jurisdictions (see <https://www.ifrs.org/national-standard-setters/>)
- » Nevertheless, to enhance the impact of their responses, there is a wide range of regional comment letter co-ordination mechanisms. For example:
 - » Collections of the regional standard-setters (for example, GLENIF/GLASS in Latin America, see http://www.cpc.org.br/Seminario/includes/download/10/09_Glenif_Glass.pdf)
 - » Regional IFRS endorsement advice bodies (for example, EFRAG in the EU, see <http://www.efrag.org>)
 - » Regional IFAC member bodies (for example, PAFA in Africa, see <https://pafa.org.za>)

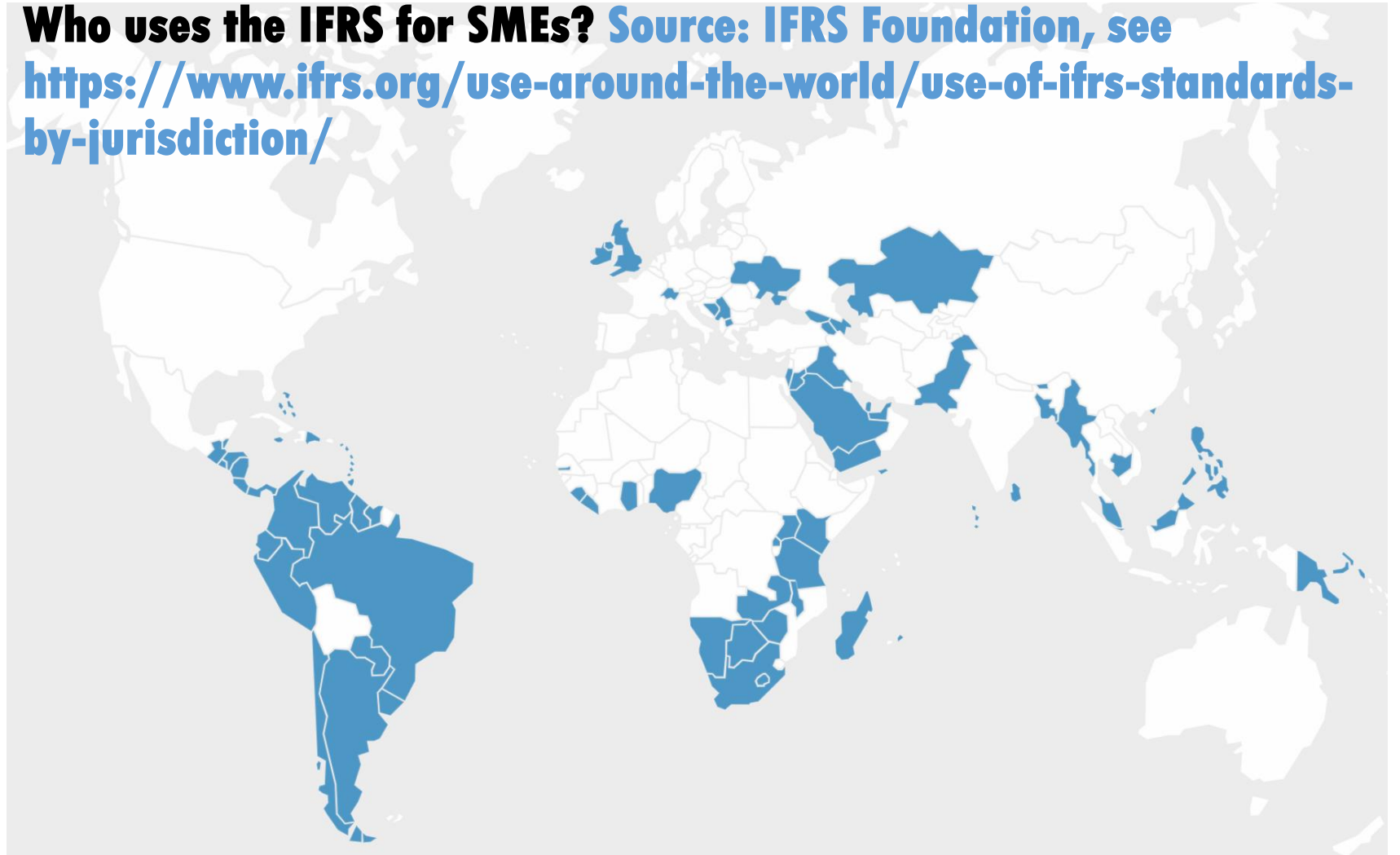
The IFRS for SMEs: for whom and used by whom?

Who is IFRS for SMEs for?

The IFRS for SMEs is intended for use by SMEs (paragraph 1.1 of the IFRS for SMEs) and it is designed to reflect the needs of users of SMEs' financial statements and cost-benefit considerations.

(paragraph P9 of the Preface to the IFRS for SMEs)

Who uses the IFRS for SMEs? Source: IFRS Foundation, see <https://www.ifrs.org/use-around-the-world/use-of-ifrs-standards-by-jurisdiction/>



Potentially conflicting incentives in specifying the IFRS for SMEs

- » It is evident from the previous slide that the IFRS for SMEs is not used in many of the world's biggest economies that arguably have the 'loudest voices' in the process of setting IFRS.
 - » These jurisdictions might have incentives to steer the IFRS for SMEs more closely to full IFRS because:
 - » their SMEs do not carry the cost of such complexity; and
 - » their listed companies would benefit from their qualifying subsidiaries using an SME Standard that is essentially a reduced disclosure framework (ie IFRS for SMEs disclosures and full IFRS recognition and measurement).

Note: in separate research the IASB is assessing whether it is feasible to develop a separate Standard, that would permit subsidiaries that are eligible to apply the *IFRS for SMEs* Standard to use the recognition and measurement requirements of IFRS and the disclosure requirements of the IFRS for SMEs.

STAREP (and REPARIS) countries using the IFRS for SMEs

- » Because many SMEs in STAREP (and REPARIS) countries prepare financial statements in accordance with the IFRS for SMEs, it is particularly important that these countries' voices are heard in the process of amending the IFRS for SMEs. In particular:
 - » STAREP: Armenia, Azerbaijan, Georgia and Ukraine
 - » REPARIS: Kosovo, North Macedonia, Serbia (and Albania under consideration)

**Developing and submitting response/s to
the IASB's IFRS for SMEs RfI (2020)**

Format of comments provided in response to the RfI

Comments should:

- (a) address the questions as stated;
- (b) indicate the specific paragraph or paragraphs to which they relate;
- (c) contain a clear rationale;
- (d) identify any wording in the proposals that is difficult to translate;
- (e) include any alternative the Board should consider, if applicable.

All comments are on the public record and posted on the IASB's website etc

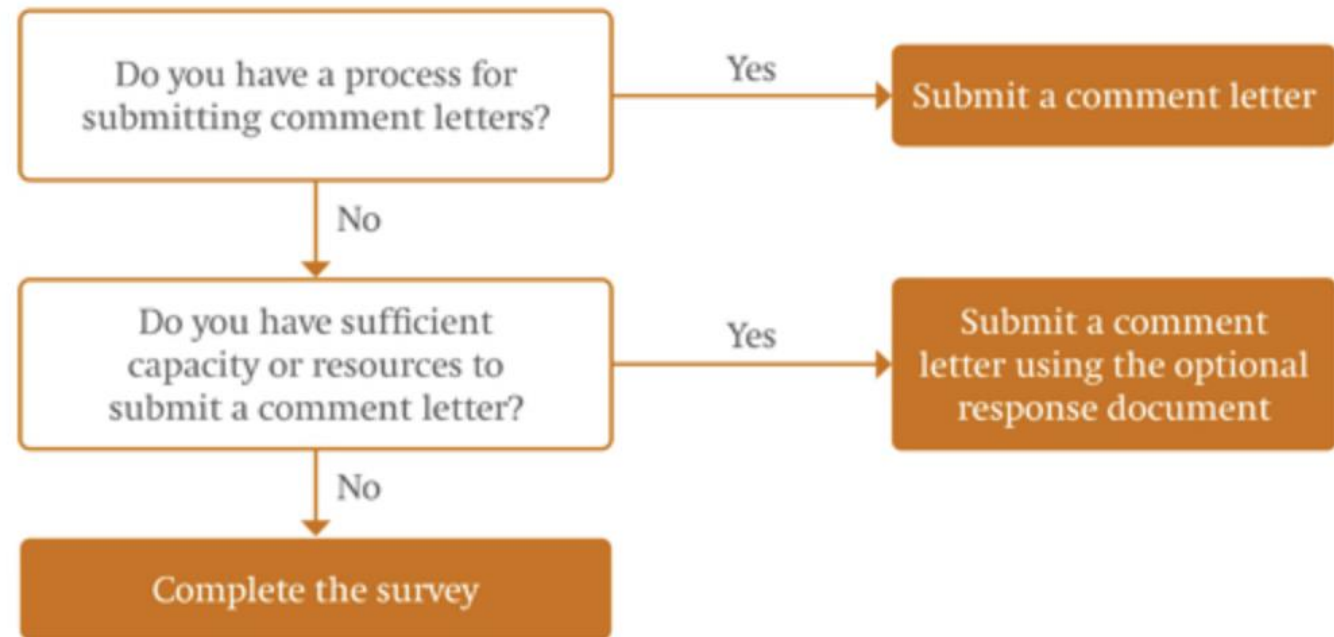
Which mechanism to submit response?

Source: <https://www.ifrs.org/news-and-events/2020/04/three-ways-to-submit-your-comments-on-the-review-of-the-ifrs-for-smes-standard/>

- » If stakeholders have an existing process in place for submitting comment letters, they should use the Board's usual [comment letter process](#).
- » If stakeholders do not have a comment letter process in place, but have the time and resources available to provide a comment letter, they can use the Board's [optional response document](#).
- » If a stakeholder has limited time and resources available, they can complete the [Board's online survey](#).
- » However, respondents are not required to use this document and

However, responses will be accepted in all formats (p.24).

How to respond to the Comprehensive Review of the IFRS for SMEs Standard?



**Part A of IASB's IFRS for SMEs Rfl (2020):
the IASB's approach**

Approach in the IASB's IFRS for SMEs (2020) Rfi

- » To date the IASB has based judgements on whether and how to align the IFRS for SMEs with full IFRS by considering: (p32)
- (a) relevance to SMEs (ie could reasonably be expected to affect users decisions made on the basis of the information);
 - (b) simplicity (see next slide); and
 - (c) faithful representation (ie reflect the substance of economic phenomena in words and numbers (p36)).

Approach in the IASB's IFRS for SMEs (2009 and 2015)

Simplifications from full IFRS in the IFRS for SMEs are in respect of (paragraph BC16 of the Basis for Conclusions on the IFRS for SMEs):

- (a) omitting some topics;
- (b) when an IFRS Standard permits options, permitting only the simplest option;
- (c) simplifying recognition and measurement requirements;
- (d) reducing disclosures; and
- (e) simplifying language.

Suggestions for possible other relevant considerations in developing your jurisdiction's response to the RfI

In your jurisdiction's context, consider the consequences of changing (or not changing) the requirements of the *IFRS for SMEs (2015)* using the following questions:

1. Relevance (does the preliminarily proposed amendment better reflect the economics of the phenomenon)?
2. What are the benefits, if any, of the preliminarily proposed amendment?
3. What are the costs of implementing the preliminarily proposed amendment? (On the basis of experience one could assume IASB will minimise costs by allowing prospective application)
4. What are the incremental costs, if any, of applying the preliminarily proposed amendment on an ongoing basis?
5. Do the benefits of the preliminarily proposed amendment (2 above) outweigh the costs of the preliminarily proposed amendment (3 and 4 above)?

Approach in the IASB's IFRS for SMEs (2020) RfI

- » **View 1:** The IASB treats alignment with full IFRS as the **starting point** for the RfI.
 - » Judgement is then applied in determining whether and how that alignment should take place. (p30)
- » **View 2:** The IASB believes that those who do not support the alignment approach believe the IFRS for SMEs Standard should be developed and amended considering only the explicit and specific requirements of SMEs, and should not be guided by developments in full IFRS Standards. (p31)
 - » **A thought:** should initial development (ie 2009 version) be considered separately from subsequent amendments (like the RfI 2020)?

Part A Question G1A

- » **In your view, should the IFRS for SMEs Standard be aligned with full IFRS Standards (ie View 1 or View 2 on the preceding slide)?**
- » Please explain why you are suggesting the IFRS for SMEs Standard should or should not be aligned with full IFRS Standards.

Part A Question G1B

- » **What extent of alignment of the IFRS for SMEs Standard with full IFRS Standards do you consider most useful, and why?**
 - (a) alignment of principles;
 - (b) alignment of both principles and important definitions; or
 - (c) alignment of principles, important definitions and the precise wording of requirements?
- » Please explain the reasoning that supports your choice of (a), (b) or (c).

Part A Question G2

- » **In your view, do the IASB's criteria (ie relevance, simplicity and faithful representation) provide a framework to assist in determining whether and how the IFRS for SMEs Standard should be aligned with full IFRS Standards?**
- » Please explain the reasoning that supports your response.

Part A Question G3

If the alignment with full IFRS approach is maintained, which (if any), of these possible dates do you prefer when considering alignment? (see next slide for effects in the context of 2020 Rfl.)

- a) p39(a) issued up to the publication date of the Request for Information;**
- b) p39(b) effective before the publication date of the Request for Information;**
- c) p39(c) effective and on which the post-implementation review was completed before the publication date of the Request for Information; or**
- d) p39(d) issued or effective on some other date (please specify).**

Please explain the reasoning that supports your views, for example, the benefits of the date selected.

Part A Question G3 (p40)

Table 1 How the options described in paragraphs 39(a), 39(b) and 39(c) could affect the scope of this comprehensive review

	Section 2 (2018 <i>Conceptual Framework</i>)	Section 9 (IFRS 10)	Sections 11 and 12 (IFRS 7 and IFRS 9)	Section 15 (IFRS 11)	Section 19 (IFRS 3)	Section 20 (IFRS 16)	Section 23 (IFRS 15)	Section 28 (IAS 19)	Fair value (IFRS 13)
39(a)	√	√	√	√	√	√	√	√	√
39(b)	√	√	√	√	√	√	√	√	√
39(c)	Not subject to PIR	PIR currently in progress	PIR not yet due	PIR currently in progress	√	PIR not yet due	PIR not yet due	Not subject to PIR	√

**Part B of IASB's IFRS for SMEs Rfl (2020):
aligning specific Sections**

Part B: should these topics in the IFRS for SMEs be aligned with full IFRS?

The bigger alignment questions:

- (a) the *Conceptual Framework for Financial Reporting* (issued in 2018);
- (b) IFRS 3 *Business Combinations* (issued in 2008);
- (c) IFRS 9 *Financial Instruments*;
- (d) IFRS 10 *Consolidated Financial Statements*;
- (e) IFRS 11 *Joint Arrangements*;
- (f) IFRS 13 *Fair Value Measurement*;
- (g) IFRS 14 *Regulatory Deferral Accounts*;
- (h) IFRS 15 *Revenue from Contracts with Customers*;
- (i) IFRS 16 *Leases*; and
- (j) IAS 19 *Employee Benefits* (revised in 2011).

For more detailed information see the tables in paragraph 5 of the RfI which summarises in tables the amendments to full IFRS that the IASB is seeking views on:

- » **Table A1** alignment in the IFRS for SMEs;
- » **Table A2** non-alignment in the IFRS for SMEs (ie leaving the IFRS for SMEs unchanged);
- » **Table A3** whether to align the IFRS for SMEs;
- » **Table A4** considering along with the full IFRS Standards they amend; and
- » **Table A5** considers the IFRS for SMEs is already aligned with full IFRS.

Part B (sample issue) Question S3A

Section 11 *Basic Financial Instruments* and Section 12 *Other Financial Instrument Issues with IFRS 9 Financial Instruments*

- » What are your views on supplementing the list of examples in Section 11 with a 'principle' for classifying financial assets based on their contractual cash flow characteristics (ie an SPPI test)?
 - » See paragraphs B27–B34 of Appendix B

Part B (sample issue) Question S3B

Section 11 *Basic Financial Instruments* and Section 12 *Other Financial Instrument Issues* with IFRS 9 *Financial Instruments*

What are your views on aligning the IFRS for SMEs Standard with the **simplified approach** to the impairment of financial assets in IFRS 9?

» see paragraphs B35–B37 of Appendix B.

Part B (sample issue) Question S3C

Section 12 *Other Financial Instrument Issues*: hedge accounting

What are your views on:

- (a) Should Section 12 include requirements on hedge accounting?
- (b) If your answer is yes, what are your views on retaining the current requirements to address the needs of entities applying the Standard, rather than aligning Section 12 with IFRS 9?
- (c) If your answer is no, please explain the reasons for your answer.

Part B (sample issue) Question S3D

Section 11 *Basic Financial Instruments* and Section 12 *Other Financial Instrument Issues*: IAS 39 alternative

- (a) Are you aware of entities in STAREP (and REPARIS) countries that opt to apply the recognition and measurement requirements of IAS 39 with the disclosure requirements of Sections 11 and 12?
- (b) What are your views on changing the reference to IAS 39 to permit an entity to apply the recognition and measurement requirements of IFRS 9 and the disclosure requirements of Sections 11 and 12?

Part B (sample issue) Question S3E

Section 12 *Other Financial Instrument Issues*: financial guarantee

What are your views on:

- (a) adding the definition of a financial guarantee contract from IFRS 9 to the IFRS for SMEs Standard; and
- (b) aligning the requirements in the IFRS for SMEs Standard for issued financial guarantee contracts with IFRS 9?

(see paragraphs B38–B45 of Appendix B)

Note: SMEIG (Q&A 2017/12.1) Accounting for financial guarantee contracts in individual or separate financial statements of the issuer deals with this issue (accounting = fair value).

**Part C of IASB's IFRS for SMEs RfI (2020):
new topics and other matters**

Part C: topics that are not addressed in the IFRS for SMEs

Cryptocurrency:

- 1. Prevalence of holdings in STAREP (and REPARIS) countries?**
2. Should this topic be included in the IFRS for SMEs?
3. If so, should the requirements be aligned with full IFRS?

**THANK YOU for actively participating
in the session!**
