

Developing STAREP countries' consolidated response to the IASB's IFRS for SMEs 2020 Request for Information

(Rfi)

STAREP Video Conference

8 September 2020

Technical session for STAREP standard-setters

Objective of this session

» to discuss the preliminary feedback and responses provided by Armenia, Georgia and Ukraine with a view to developing a three-country consensus view on the IASB's IFRS for SMEs Request for Information (Rfi) to submit to the IASB.

Introduction

Purpose of IASB's IFRS for SMEs (2020) 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)

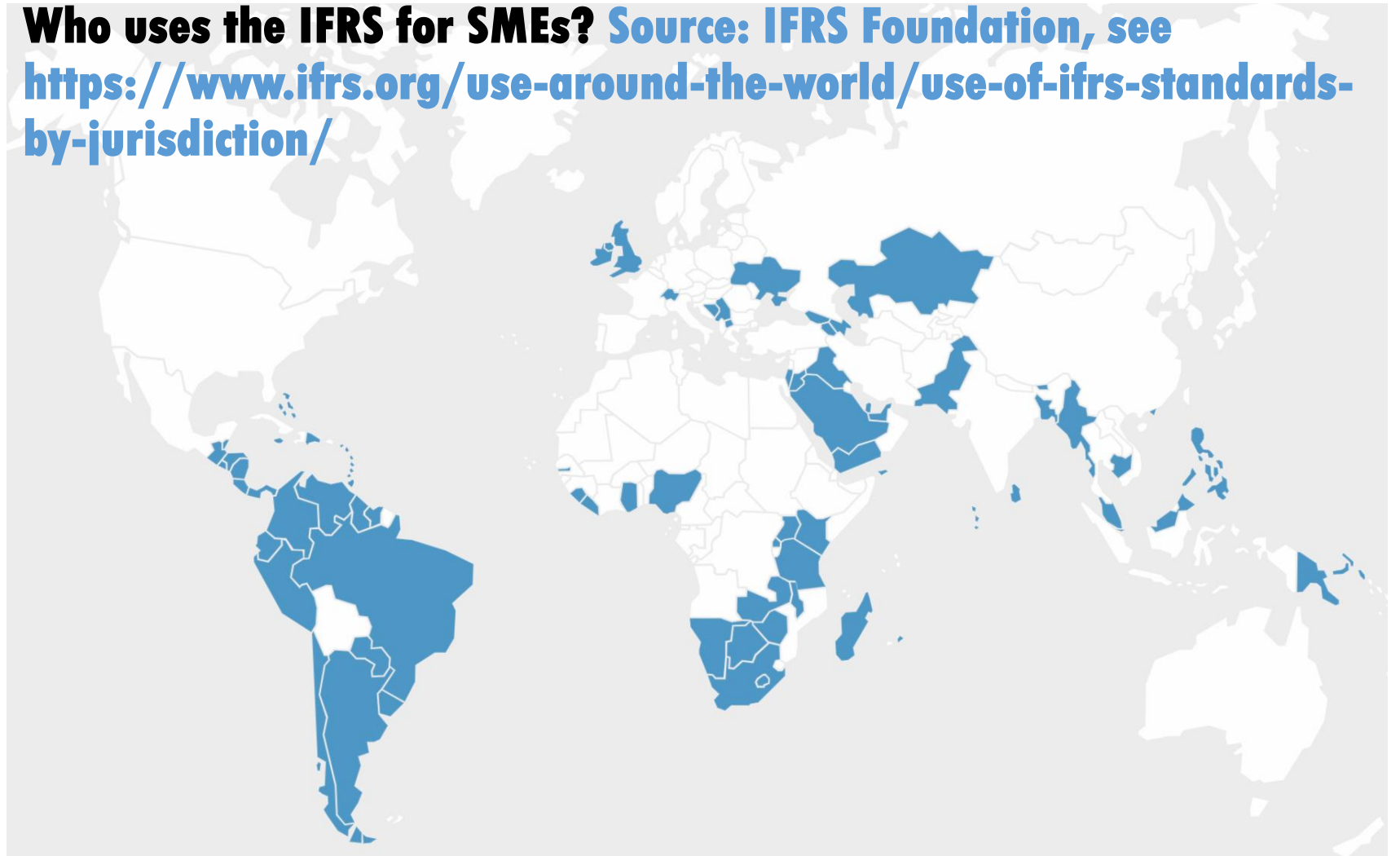
The IFRS for SMEs: for whom and used by whom?

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.

Why co-ordinate your responses to the IASB

- » IASB encourage National Standard Setters to respond to due process documents by providing comment letters, and to undertake in their jurisdictions (see <https://www.ifrs.org/national-standard-setters/>)
- » Because many SMEs in Armenia, Azerbaijan, Georgia and Ukraine 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.
- » To ensure that the STAREP 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.

IFRS for SMEs RfI STAREP response development: timeline

- » **28/01/2020:** IASB release for public comment a Request for Information (RfI) to inform its second Comprehensive Review of the IFRS for SMEs
- » **07/05/2020:** STAREP virtual seminar to better understand the objective and the structure of the RfI
- » Armenia, Georgia and Ukraine consult with constituents to collect their views on the RfI
- » **08/09/2020:** STAREP virtual seminar to aiming to develop a coherent consensus view on the RfI
- » **27/10/2020:** comment letter submission deadline

**Establishing coherency principles:
basis for developing a STAREP consensus
response to the IASB's IFRS for SMEs RfI (2020)**

Proposed coherency principles

1. IFRS for SMEs is a **stand-alone Standard** (P17 of the Preface to the IFRS for SMEs)
 - a) Convergence with full IFRS is not on its own appropriate justification for proposing changes to the IFRS for SMEs
2. Amendments to the IFRS for SMEs should be proposed on the basis of (paragraph P9 of the Preface to the IFRS for SMEs):
 - a) **Relevance** to SME financial information users' needs; and
 - b) The **cost constraint** applied in the context of those jurisdictions that require use of the IFRS for SMEs.

IFRS/IFRS for SMEs requirement types

- 1. Principle:** a broadly stated requirement designed to faithfully reflect **current** economics.
 - » Applying a principle requires a critical thinking mindset to reflect faithfully the clearly specified economic phenomenon.
- 2. Notion:** a broadly stated requirements other than a principles
 - » applying a notion requires application guidance designed to narrow diversity in practice in the accounting for the otherwise vague broadly stated requirement.
- 3. Rule:** an explicit requirement typically creating an exception from a principle or a notion.
 - » Applying a rule requires blind rigidity (rather than critical thinking) and little, if any, application guidance to give effect to its consistent application in practice.

Likely cohesions outcomes of applying the proposed coherency principles to types of requirements

1. **Major new IFRS** that were not considered when specifying the IFRS for SMEs (2009/2015) evaluate relevance and cost constraint on a case by case basis.
 - i. **New principles:** are likely to be both relevant to users and cost-beneficial.
 - ii. **New notions** are unlikely to be both relevant to users and cost-beneficial.
 - iii. Note: major new IFRS is unlikely to take the form of a rule.

Likely cohesions outcomes of applying the proposed coherency principles to types of requirements

2. Refinements to IFRS that was the basis for the IFRS for SMEs (2009/2015):

- i. **Principles:** alignment of only the principle and necessary definitions is likely to be both relevant to users and cost-beneficial. (However, to maintain the conciseness of the IFRS for SMEs detailed application guidance should be excluded from it.
- ii. **Notions and rules:** only if significant diversity in the application of the IFRS for SMEs has been identified, evaluate on a case by case basis the relevance to users and the cost constraint.
 - » Unlike a principle, it is difficult to see how a notion or rule can be applied consistently without also replicating the precise detailed wording of the requirements in full IFRS. However, care should be exercised to keep the IFRS for SMEs concise.

**Developing a coherent consensus response to
Part A of IASB's IFRS for SMEs RfI (2020):
approach**

Part A Question G1A: In your view, should the IFRS for SMEs Standard be aligned with full IFRS Standards? Explain...

Proposed response applying coherency principles

- » In our view convergence with full IFRS is not on its own appropriate justification for changing the IFRS for SMEs.
- » First, some observations:
 - » Unlike when first setting the IFRS for SMEs, use of the Standard is now mandatory in many jurisdictions. We suggest that this is particularly relevant when applying the cost constraint.
 - » Most rich developed nations that require use of full IFRS by domestic exchange listed entities do not require their SMEs to use the IFRS for SMEs. We suggest that this is particularly relevant when assessing relevance (ie whose eyes to look through) and when applying the cost constraint.
 - » Many recent new IFRSs (for example, IFRS 9 *Financial Instruments* and IFRS 15 *Revenue From Contracts with Customers*) are convoluted with the main broadly states requirements taking the form of notions that require vast application guidance to support their application. We worry that, unlike more principle-based IFRSs (for example, IFRS 3 *Business Combinations* and IFRS 13 *Fair Value Measurement*), new convoluted IFRSs (like IFRS 9 and IFRS 15) cannot be expressed succinctly in manner that enables their consistent application by those applying the IFRS for SMEs. Furthermore in our jurisdictions SMEs lack the capacity to apply these requirements. Consequently we suggest that in the context of the IFRS for SMEs such requirements clearly fail to clear the cost constraint.

Part A Question G1A: In your view, should the IFRS for SMEs Standard be aligned with full IFRS Standards? Explain...

Proposed response applying coherency principles

- » The IFRS for SMEs is a stand-alone financial reporting framework (paragraph P17 of the Preface to the IFRS for SMEs). Consequently, we believe that proposed amendments to the IFRS for SMEs should be triggered only on the basis of SME financial information users' needs, with the cost constraint applied in the context of those jurisdictions that require use of the IFRS for SME. In particular:
 - » The IASB recognises that user needs of IFRS for SME financial information needs differ from user needs of full IFRS financial information (paragraphs P3(c) and 9 of the Preface to the IFRS for SMEs).
 - » Therefore, we believe that changes to the IFRS for SMEs should be proposed only when the benefits to users of IFRS for SMEs financial information of any proposed change significantly exceeds the cumulative costs imposed of making that change and of applying the new requirement on an ongoing basis.
 - » Consequently, only in those instances when improvement to the requirements of the IFRS for SMEs as a stand-alone financial reporting framework is needed, the IASB would (amongst other alternatives) consider the extent to which the extant requirements of full IFRS could be adapted for inclusion in the IFRS for SMEs.

Part A Question G1A: In your view, should the IFRS for SMEs Standard be aligned with full IFRS Standards? Explain...

Proposed response applying coherency principles

- » Lastly, the analysis of cost and benefits (paragraph 2.13 and 2.14 of the IFRS for SMEs) is now different from when setting the first version (2009) of the IFRS for SMEs because when first setting the IFRS for SMEs the Standard was not being applied by any entity.
- » In particular, when proposing substantive amendments to the IFRS for SMEs, the IASB must now also consider the costs such changes impose on those that currently prepare (auditing, regulate and use) financial statements in accordance with the IFRS for SMEs.
- » Cognisant of likely different incentives between jurisdictions that require use of the IFRS for SMEs and those that do not, we emphasise our belief that the cost constraint must be applied in the context of those jurisdictions that require use of the IFRS for SMEs.

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?

Proposed response applying coherency principles

First, an analysis of types of changes to full IFRS since first setting the IFRS for SMEs because we suggest using different approaches for each category of amendments to full IFRS:

- 1. Major new IFRS** or amendment (ie those that under the IASB due process are subject to post-implementation review) that were not considered when specifying the IFRS for SMEs (2009/2015)
- 2. Other amendments** to, and IFRIC Interpretations of, full IFRS requirements that are the basis of an extant requirement in the IFRS for SMEs and that were not considered when specifying the IFRS for SMEs (2009/2015)
- 3. Amendments** to and IFRIC Interpretations of full IFRS requirements that was rejected as the basis of an extant requirement in the IFRS for SMEs

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?

Proposed response applying coherency principles

Second, an analysis of types of IFRS requirements because we suggest using a different approach for each type of IFRS requirement:

- 1. Principle:** a broadly stated requirement designed to faithfully reflect **current** economics.
 - » Applying a principle requires a critical thinking mindset to reflect faithfully the clearly specified economic phenomenon.
- 2. Notion:** a broadly stated requirements other than a principles
 - » applying a notion requires application guidance designed to narrow diversity in practice in the accounting for the otherwise vague broadly stated requirement.
- 3. Rule:** an explicit requirement typically creating an exception from a principle or a notion.
 - » Applying a rule requires blind rigidity (rather than critical thinking) and little, if any, application guidance to give effect to its consistent application in practice.

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?

Proposed response applying coherency principles

In our view convergence with full IFRS is not on its own appropriate justification for changing the IFRS for SMEs (see our response to Question G1A above). Subject to any proposed change being justified on the basis of its relevance to users of IFRS for SMEs financial information and cost-benefit considerations (see response to Question G1A above and G2 below) we suggest alignment as follows:

- 1. Major new IFRS** that were not considered when specifying the IFRS for SMEs (2009/2015) evaluate relevance and cost constraint on a case by case basis. We suggest that:
 - i. New principles:** are likely to be both relevant to users and cost-beneficial.
 - ii. New notions** are unlikely to be both relevant to users and cost-beneficial.
 - iii.** Note: major new IFRS is unlikely to take the form of a rule.
- 2.** (see next slide)

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?

Proposed response applying coherency principles

2. **Other amendments** to full IFRS that was the basis for the IFRS for SMEs (2009/2015), we suggest that:
 - i. **Principles:** alignment of only the principle and necessary definitions is likely to be both relevant to users and cost-beneficial. (However, to maintain the conciseness of the IFRS for SMEs detailed application guidance should be excluded from it.)
 - ii. **Notions and rules:** only if significant diversity in the application of the IFRS for SMEs has been identified, evaluate on a case by case basis the relevance to users and the cost constraint.
 - » Unlike a principle, it is difficult to see how a notion or rule can be applied consistently without also replicating the precise detailed wording of the requirements in full IFRS. However, care should be exercised to keep the IFRS for SMEs concise.
3. **Amendments to the parts of full IFRS that do not form the basis of an extant requirement in the IFRS for SMEs**, we suggest are unlikely to be both relevant to users and cost-beneficial, irrespective of the requirement type.

Part A Question G2: 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?

Proposed response applying coherency principles

[In our view convergence with full IFRS is not on its own appropriate justification for proposing change to the IFRS for SMEs (see our response to Question G1A above).]

- » Subject to any proposed change being justified (see response to Question G1A above) we suggest that the alignment criteria proposed in Question G2 be extended to explicitly include a cost-benefit considerations.
 - » Otherwise the cost constraint appears to have been downgraded from when setting earlier versions of the IFRS for SMEs (see, for example the explicit reference to cost-benefit considerations in paragraph P9 of the Preface to the IFRS for SMEs) when its relevance is now greater because entities using the IFRS for SMEs will carry the bulk of the costs of changes made to the Standard.

Part A Question G2: 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?

Proposed response applying coherency principles

We suggest that an evaluation on the basis of the answers to the following questions might provide a more appropriate basis for proposing changes to the IFRS for SMEs:

1. Relevance (ie does the preliminarily proposed amendment more faithfully reflect the current economics of the phenomenon thus providing information that has greater potential as an input to inform economic decisions made on the basis of that information)?
2. What are the benefits of the preliminarily proposed amendment?
3. What are the costs of implementing the preliminarily proposed amendment? (On the basis of experience we assume the IASB will seek to minimise such costs by allowing prospective application of amendment requirements.)
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)?

Part A Question G3

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

- 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) When should new IFRS requirements be considered for inclusion in the IFRS for SMEs?

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 A Question G3 when should new IFRS requirements be considered for inclusion in the IFRS for SMEs?

Proposed response applying coherency principles

[In our view convergence with full IFRS is not on its own appropriate justification for proposing change to the IFRS for SMEs (see our response to Question G1A above).]

- » Subject to any proposed change being justified on the basis of its relevance to SMEs and cost-benefit considerations (see response to Questions G1A and G2 above) **we support alternative '(c)** effective and on which the post-implementation review was completed before the publication date of the Request for Information' because this timing allows:
 - » benefitting from the experience of the requirements being applied under full IFRS to enable a more informed consideration of the relevance to SMEs and cost-benefit considerations
 - » time for the eradication of implementation issues, if any; and
 - » time for capacity to build in the application of the requirements (before potentially requiring SMEs to apply the new requirements).

**Developing a coherent consensus response to
Part B of IASB's IFRS for SMEs RfI (2020):
aligning specific Sections**

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

- (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).

Part B Question Section 1

Underlying concepts

What are your views on:

- (a) aligning Section 2 with the 2018 Conceptual Framework?
- (b) making appropriate amendments to other sections of the IFRS for SMEs Standard?
- (c) retaining the concept of 'undue cost or effort'?

Part B Question Section 1 Underlying concepts

Proposed response applying coherency principles

[In our view convergence with full IFRS is not on its own appropriate justification for proposing change to the IFRS for SMEs (see our response to Question G1A above).]

- » Consistently with our answer to Question G3 above:
 - » we believe that it is premature to consider whether the IFRS for SMEs should be updated to reflect the **2018** Conceptual Framework because it became effective only in 2020).
 - » we support, subject to any proposed change being justified on the basis of relevance and cost-benefit considerations (see response to Questions G1A and G2 above), considering whether the IFRS for SMEs should be updated to reflect the concepts specified in the **2010** Conceptual Framework.
- » In our view, the concept of ‘undue cost or effort’ should be retained in the IFRS for SMEs.

Part B Question S2A

Aligning Section 9 *Consolidated and Separate Financial Statements* with IFRS 10 *Consolidated Financial Statements*

What are your views on:

- (a) aligning the definition of control in Section 9 with IFRS 10?
- (b) retaining and updating paragraph 9.5 of the IFRS for SMEs Standard which states that control is presumed to exist when the parent entity owns, directly or indirectly through subsidiaries, more than half the voting power of the entity?

Part B Question S2A Aligning Section 9 Consolidated and Separate Financial Statements with IFRS 10 Consolidated Financial Statements

Proposed response applying coherency principles

[In our view convergence with full IFRS is not on its own appropriate justification for proposing change to the IFRS for SMEs (see our response to Question G1A above).]

- » Consistently with our answer to Question G3 above we believe that it is premature to consider whether the IFRS for SMEs should be updated to align the **definition of control** in Section 9 with IFRS 10.
- » After clearing the full IFRS post-implementation review, subject to any proposed change being justified on the basis of relevance and cost-benefit considerations (see response to Questions G1A, G1B and G2 above), we believe that it will be appropriate to consider whether the IFRS for SMEs should be updated to, align the definition of control in Section 9 with IFRS 10.
- » We support retaining the **rebuttable** presumption specified in paragraph 9.5 of the IFRS for SMEs.

Part B Question S2B

Aligning Section 9 *Consolidated and Separate Financial Statements* with IFRS 10 *Consolidated Financial Statements*

What are your views on not introducing the requirement that **investment entities** measure investments in subsidiaries at fair value through profit and loss?

Part B Question S2B Aligning Section 9 *Consolidated and Separate Financial Statements* with IFRS 10 *Consolidated Financial Statements*

Proposed response applying coherency principles

- » [In our view convergence with full IFRS is not on its own appropriate justification for proposing change to the IFRS for SMEs (see our response to Question G1A above).]
- » Consistently with our answer to Question G3 above we believe that it is premature to consider whether the IFRS for SMEs should be updated to, consistently with IFRS 10, include the **investment entity exception** from consolidation (rule) in Section 9 because the full IFRS requirement is currently the subject of a full IFRS post-implementation review.
- » After clearing the full IFRS post-implementation review, subject to any proposed change being justified on the basis of its relevance to SMEs and cost-benefit considerations (see response to Questions G1A and G2 above), we believe that it will be appropriate to consider whether the IFRS for SMEs should be updated to, consistently with IFRS 10, include the investment entity exception from consolidation (rule) in Section 9.

Part B Question S3A Section 11 *Basic Financial Instruments* and Section 12 *Other Financial Instrument Issues with IFRS 9 Financial Instruments*

Proposed response applying coherency principles

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)?

[In our view convergence with full IFRS is not on its own appropriate justification for proposing change to the IFRS for SMEs (see our response to Question G1A above).]

- » Consistently with our answer to Question G3 above we believe that it is premature to consider whether the IFRS for SMEs should be updated to aligned with IFRS 9 because the full IFRS requirement is currently the subject of a full IFRS post-implementation review.
- » Moreover, after clearing the full IFRS post-implementation review, consistently with our answer to Question G1B above, we would not support changing the IFRS for SMEs to align with the vague notions and associated convoluted application guidance currently specified in IFRS 9 because we believe it is unlikely to be both relevant to users and cost-beneficial.

Part B Question S3B: Section 11 *Basic Financial Instruments* and Section 12 *Other Financial Instrument Issues* with IFRS 9 *Financial Instruments*

Proposed response applying coherency principles

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

[In our view convergence with full IFRS is not on its own appropriate justification for proposing change to the IFRS for SMEs (see our response to Question G1A above).]

- » Consistently with our answer to Question G3 above we believe that it is premature to consider whether the IFRS for SMEs should be updated to aligned with IFRS 9 because the full IFRS requirement is currently the subject of a full IFRS post-implementation review.
- » Moreover, after clearing the full IFRS post-implementation review, consistently with our answer to Question G1B above, we would not support changing the IFRS for SMEs to align with the vague notions and associated convoluted application guidance currently specified in IFRS 9 because we believe it is unlikely to be both relevant to users and cost-beneficial.

Part B Question S3C

Section 12 *Other Financial Instrument Issues*: hedge accounting

Proposed response applying coherency principles

What are your views on: (a) Does Section 12 needs to 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.

We support deleting from the IFRS for SMEs all hedge accounting requirements because they add significant complexity to the IFRS for SMEs and in our jurisdictions few, if any, using the IFRS for SMEs elect to use hedge accounting.

Part B Question S3D Section 11 *Basic Financial Instruments* and Section 12 *Other Financial Instrument Issues*: IAS 39 alternative Proposed response applying coherency principles

(a) Are you aware of entities 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?

- » We are not aware of any entities in our jurisdictions that use the IAS 39 recognition and measurement alternative.
- » However, we are not opposed to including in the IFRS for SMEs a possibly more relevant IFRS 9 recognition and measurement alternative provided that this alternative is ergonomically specified because it might be useful to some SMEs, for example, as a 'stepping stone' for SMEs building their capacity to transition to full IFRS.

Part B Question S3E

Section 12 *Other Financial Instrument Issues*: financial guarantee

Proposed response applying coherency principles

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?

Consistently with our answers to Questions G1B, G2 and G3 above, we do not support (a) and (b) above. In other words, we support retaining Q&A 2017/12.1 in its current form because we believe that the accounting specified in Section 12 provides relevant information that faithfully reflects economics and is significantly less complicated than the accounting specified for financial guarantee contracts in full IFRS.

Part B Question S4

Section 15 *Investments in Joint Ventures*

Proposed response applying coherency principles

What are your views on: (a) aligning the definition of joint control in Section 15 with IFRS 11? (b) retaining the categories of joint arrangements: jointly controlled operations, jointly controlled assets and jointly controlled entities? (c) retaining the accounting requirements of Section 15, including the accounting policy election for jointly controlled entities in Section 15?

[In our view convergence with full IFRS is not on its own appropriate justification for proposing change to the IFRS for SMEs (see our response to Question G1A above).]

- » Consistently with our answer to Question G3 above we believe that it is premature to consider whether the IFRS for SMEs should be updated to aligned with IFRS 11 because the full IFRS requirement is currently the subject of a full IFRS post-implementation review.
- » Moreover, after clearing the full IFRS post-implementation review, subject to any proposed change being justified on the basis of its relevance to SMEs and cost-benefit considerations (see response to Questions G1A, G1B and G2 above), consistently with our answer to Question G3 above we believe that it would then be appropriate to consider whether the IFRS for SMEs should be updated to align Section 15 with IFRS 11. However, on the basis of feedback from our constituents, we believe that proposing such alignment with the full IFRS would fail the cost constraint.

Part B Question S5A

Section 19 *Business Combinations and Goodwill*

Proposed response applying coherency principles

(a) Do you consider Section 19 needs to include requirements for the accounting for step acquisitions? (b) If your answer is yes, should the requirements be aligned with IFRS 3 (2008).

[In our view convergence with full IFRS is not on its own appropriate justification for proposing change to the IFRS for SMEs (see our response to Question G1A above).]

- » Consistently with our answer to Question G3 above we believe that it is now appropriate to consider whether the IFRS for SMEs should be updated to aligned with IFRS 3 because the post-implementation review is completed.
- » However, on the basis of feedback from our constituents, we find little, if any, support for specifying requirements for the accounting for step acquisitions in the IFRS for SMEs because they believe that the IFRS for SMEs must remain concise and the gap in application guidance can appropriately be filled by applying the SME hierarchy (ie paragraphs 10.4–10.6) including, but not requiring, seeking such detailed application guidance from full IFRS if an SME feels that they need it.

Part B Question S5B

Section 19 *Business Combinations and Goodwill*

Proposed response applying coherency principles

What are your views on aligning Section 19 with IFRS 3 (2008) for acquisition costs and contingent consideration, including permitting an entity to use the undue cost or effort exemption and provide the related disclosures if measuring contingent consideration at fair value would involve undue cost or effort?

[In our view convergence with full IFRS is not on its own appropriate justification for proposing change to the IFRS for SMEs (see our response to Question G1A above).]

- » Consistently with our answer to Question G3 above we believe that it is now appropriate to consider whether the IFRS for SMEs should be updated to aligned with IFRS 3 because the post-implementation review is completed.
- » Consistently with our answer to Questions G1B and G2 above, we strongly support changing the IFRS for SMEs to align with the principles specified in IFRS 3 for accounting for:
 - » acquisition-related costs as an expense at the time of the acquisition because this proposed change is consistent with economics and consequently provides more relevant information. This change also potentially reduces costs because including acquisition-related costs in goodwill can contrary to the economics result in goodwill that would otherwise not need to be tested for impairment.
 - » contingent consideration (ie recognised and measured at fair value on initial recognition) because this proposed change provides more relevant information (ie consistent with the economics). However, we note that about half of those we consulted with expressed concerns about the additional costs and complexity such accounting might bring to SMEs. Consequently, there is consensus that such concerns would be appropriately addressed by adding the proposed undue cost or effort exemption.

Part B Question S5C

Section 19 *Business Combinations and Goodwill*

Proposed response applying coherency principles

What are your views on aligning the *IFRS for SMEs* Standard with the amended definition of a business issued in October 2018?

[In our view convergence with full IFRS is not on its own appropriate justification for proposing change to the IFRS for SMEs (see our response to Question G1A above).]

» Consistently with our response to Questions G1B and G2 above, we believe that it will be appropriate to consider whether the IFRS for SMEs should be updated to, consistently with IFRS 3 aligning the IFRS for SMEs definition of a business with the October 2018 amendment to IFRS 3.

Part B Question S6: Aligning Section 20 with IFRS 16 *Leases* and proposed simplifications

Proposed response applying coherency principles

What are your views on aligning Section 20 with IFRS 16 and simplifying the requirements for SMEs to:

- a) simplifying recognition and measurement requirements in respect of matters such as variable lease payments, determining the discount rate and the term of the lease;
- b) retaining the disclosure requirements of Section 20; and
- c) simplifying the language in the Standard.

[In our view convergence with full IFRS is not on its own appropriate justification for proposing change to the IFRS for SMEs (see our response to Question G1A above).]

- » Consistently with our answer to Question G3 above we believe that it is premature to consider whether Section 20 of the IFRS for SMEs should be updated to reflect IFRS 16 because IFRS 16 is yet to be subject to post-implementation review.
- » After clearing the full IFRS post-implementation review, subject to any proposed change being justified on the basis of its relevance to SMEs and cost-benefit considerations (see response to Questions G1A, G1B and G2 above), we believe that it will be appropriate to consider whether the IFRS for SMEs should be updated consistently with IFRS 16 and consider possible appropriate possible simplifications. However:
 - » we oppose simplifying the language in the IFRS for SMEs because this potentially carries unintended consequences; and
 - » we worry that the arbitrary exceptions (rules) on the basis of those specified in IFRS 16 would derogate from the meaningful application of the materiality principle by SMEs thus detracting significantly from the relevance of the resulting information.

Part B Question S7A: Aligning Section 23 *Revenue* with IFRS 15 *Revenue from Contracts with Customers*

Proposed response applying coherency principles

The IASB is seeking views on the merits of three possible approaches to aligning Section 23 with IFRS 15:

- » Alternative 1—modifying Section 23 to remove the clear differences in outcome from applying Section 23 or IFRS 15, without wholly reworking Section 23;
- » Alternative 2—fully rewriting Section 23 to reflect the principles and language used in IFRS 15; and
- » Alternative 3—deciding not to make amendments to Section 23 as part of this comprehensive review.

[In our view convergence with full IFRS is not on its own appropriate justification for proposing change to the IFRS for SMEs (see our response to Question G1A above).]

- » Consistently with our answer to Question G3 above we believe that it is premature to consider whether Section 23 of the IFRS for SMEs should be updated to reflect IFRS 15 because IFRS 15 is yet to be subject to post-implementation review (ie **Alternative 3**).
- » Moreover, after clearing the full IFRS post-implementation review, consistently with our answer to Question G1B above, we would not support changing the IFRS for SMEs to align with the vague notions and associated convoluted application guidance currently specified in IFRS 15 because we believe it is unlikely to be both relevant to users and cost-beneficial.

Part B Question S7B: Aligning Section 23 *Revenue* with IFRS 15 *Revenue from Contracts with Customers*

Proposed response applying coherency principles

- If Alternative 1 or Alternative 2 is the basis for an Exposure Draft, should transitional relief be provided:
- » by permitting an entity to continue its current revenue recognition policy for any contracts already in progress at the transition date or scheduled to be completed within a set time after the transition date?
 - » by some other method?
 - » not at all?

[In our view convergence with full IFRS is not on its own appropriate justification for proposing change to the IFRS for SMEs (see our response to Question G1A above).]

- » Consistently with our answer to Question G3 above we believe that it is premature to consider whether Section 23 of the IFRS for SMEs should be updated to reflect IFRS 15 because IFRS 15 is yet to be subject to post-implementation review (ie **Alternative 3**).
- » Moreover, after clearing the full IFRS post-implementation review, consistently with our answer to Question G1B above, we would not support changing the IFRS for SMEs to align with the vague notions and associated convoluted application guidance currently specified in IFRS 15 because we believe it is unlikely to be both relevant to users and cost-beneficial.

Part B Question S8: Aligning Section 28 *Employee Benefits* with IAS 19 (2011) *Employee Benefits*

Proposed response applying coherency principles

What are your views on aligning Section 28 with the 2011 amendments to IAS 19 only in respect of the recognition requirements for termination benefits?

[In our view convergence with full IFRS is not on its own appropriate justification for proposing change to the IFRS for SMEs (see our response to Question G1A above).]

» Consistently with our response to Questions G1B, G2 and G3 above, we believe that it is now appropriate to consider whether the IFRS for SMEs should be updated consistently with 2011 amendments to IAS 19 regarding termination benefits. However, on the basis of feedback from our constituents, we believe that proposing such alignment with the full IFRS would fail the cost constraint.

Part B Question S9: Aligning the *IFRS for SMEs* with IFRS 13 *Fair Value Measurement*

Proposed response applying coherency principles

What are your views on:

- » aligning the definition of fair value in the *IFRS for SMEs* Standard with IFRS 13?
- » aligning the guidance on fair value measurement in the *IFRS for SMEs* Standard with IFRS 13 so the fair value hierarchy incorporates the principles of the fair value hierarchy set out in IFRS 13?
- » including examples that illustrate how to apply the hierarchy?
- » moving the guidance and related disclosure requirements to Section 2?

[In our view convergence with full IFRS is not on its own appropriate justification for proposing change to the IFRS for SMEs (see our response to Question G1A above).]

- » Consistently with our answer to Question G3 above we believe that it is now appropriate to consider whether the IFRS for SMEs should be updated to aligned with IFRS 13 because the post-implementation review is completed.

Part B Question S9: Aligning the *IFRS for SMEs* with IFRS 13 *Fair Value Measurement*

Proposed response applying coherency principles

- » Consistently with our answer to Questions G1B and G2, we strongly support changing the IFRS for SMEs to align with the principles specified in IFRS 13 for:
 - » aligning the definition of fair value;
 - » incorporating the principles of the fair value hierarchy; and
 - » including minimal guidance on how to measure fair value in Section 2. [Similarly we suggest that guidance for other pervasive measurements could also be included in Section 2, for example, historical cost, amortised cost etc]
- » However, on the basis of feedback from our constituents:
 - » We do not support including fair value measurement disclosures in Section 2 (perhaps such disclosure requirements could more appropriately be included in Section 8 *Notes to the Financial Statements*).
 - » We worry that in making changes to align with IFRS 13, the IASB might be tempted to add too much guidance which is unnecessary to specify the application of such a clear principle (and, in any event, if an SME wants to look to IFRS 13 it can but is not required to do so).
 - » We do not support adding the IFRS 13 fair value hierarchy disclosures to the IFRS for SMEs because we believe that the extant disclosures about key measurement assumptions provide the relevant information in appropriate circumstances.

Part B Question S10(a): Aligning the *IFRS for SMEs* with the amendments to full IFRS outlined in Table A1 of Appendix A? Proposed response applying coherency principles

What are your views on aligning the *IFRS for SMEs* Standard with the amendments to IFRS Standards outlined in Table A1 of Appendix A?

[In our view convergence with full IFRS is not on its own appropriate justification for proposing change to the IFRS for SMEs (see our response to Question G1A above).]

- » Consistently with our answer to Question G1B above, we support amending the IFRS for SMEs to:
 - » align the definition of materiality in the IFRS for SMEs with the clarified definition of materiality in the *Definition of Material Amendments to IAS 1 and IAS 8* because it more clearly defines the materiality concept (which informs the materiality principles).
 - » include the disclosures about changes in liabilities specified in the *Disclosure Initiative (Amendments to IAS 7)* because of their relevance to users.

Part B Question S10(a): Aligning the *IFRS for SMEs* with the amendments to full IFRS outlined in Table A1 of Appendix A? **Proposed response applying coherency principles**

- » Consistently with our answer to Question G1B above, we do not support changing the IFRS for SMEs for:
 - » the *Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38)* because we believe that the extant depreciation/amortization principle is clear without making such amendment.
 - » the *Transfers of Investment Property (Amendments to IAS 40)* because we believe that the accounting is clear without making such amendment.
 - » the *Agriculture: Bearer Plants (Amendments to IAS 16 and IAS 41)* because we believe that extant IFRS for SMEs has a more appropriate way of determining which measurement model an SME applies to its biological assets in agricultural activity.
 - » The *Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2)* and *Annual Improvements to IFRSs 2010–2012 Cycle (IFRS 2)* because we believe that extant IFRS for SMEs has adequate application guidance for share-based payment.

Part B Question S10(b): Not aligning the *IFRS for SMEs* with the amendments to full IFRS outlined in Table A2 of Appendix A? Proposed response applying coherency principles

What are your views on aligning the *IFRS for SMEs* Standard with the amendments to IFRS Standards outlined in Table A2 of Appendix A?

[In our view convergence with full IFRS is not on its own appropriate justification for proposing change to the IFRS for SMEs (see our response to Question G1A above).]

» Consistently with our answer to Question G1A and G1B above, we support not aligning the *IFRS for SMEs* with the amendments to full IFRS outlined in Table A2 of Appendix A.

Part B Question S10(c): Whether to align the *IFRS for SMEs* with the amendments to full IFRS outlined in Table A3 of Appendix A? Proposed response applying coherency principles

What are your views on whether to align the *IFRS for SMEs* Standard with the amendments to IFRS Standards outlined in Table A3 of Appendix A?

[In our view convergence with full IFRS is not on its own appropriate justification for proposing change to the IFRS for SMEs (see our response to Question G1A above).]

- » Consistently with our answer to Question G1B above, we support aligning:
 - » Section 30 *Foreign Currency Translation* with IFRIC 22 *Foreign Currency Transactions and Advance Consideration* because doing so will reduce help eliminate a common inconsistency from the application of the IFRS for SMEs.
 - » Section 29 *Income Tax* with IFRIC 23 *Uncertainty over Income Tax Treatments* (that specifies accounting for uncertain tax positions) because doing so will reduce help eliminate a common inconsistency from the application of the IFRS for SMEs.

Part B Question S10(c): Whether to align the *IFRS for SMEs* with the amendments to full IFRS outlined in Table A3 of Appendix A? Proposed response applying coherency principles

- » Consistently with our answer to Questions G1A and G1B above, we do not support changing:
 - » Section 21 *Provisions and Contingencies* to align with IFRIC 21 *Levies* because we believe that applying extant Section 21 would result in the accounting specified in IFRIC 21.
 - » the IFRS for SMEs for full IFRS *Annual Improvements to IFRS Standards 2011–2013 Cycle (IAS 40)* that clarifies that determining whether a specific transaction satisfies the definition of both a business combination as defined in IFRS 3 *Business Combinations* and investment property as defined in IAS 40 *Investment Property* requires the separate application of both Standards independently of each other (because we believe the extant guidance is adequate for SMEs).
 - » Section 29 *Income Tax* to align with *Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12)* because we believe the extant guidance is adequate for SMEs.

**Developing a coherent consensus response to
Part C of IASB's IFRS for SMEs RfI (2020):
new topics and other matters**

Part C Question N1: Aligning the *IFRS for SMEs* with IFRS 14 *Regulatory Deferral Accounts*

Proposed response applying coherency principles

What are your views on not aligning the *IFRS for SMEs* Standard with IFRS 14, that is, not including requirements for regulatory deferral account balances within the *IFRS for SMEs* Standard?

[In our view convergence with full IFRS is not on its own appropriate justification for proposing change to the IFRS for SMEs (see our response to Question G1A above).]

» We support the IASB's preliminary view not to align the IFRS for SMEs with IFRS 14.

Part C Question N2: Cryptocurrencies

Proposed response applying coherency principles

Are holdings of cryptocurrency and issues of cryptoassets prevalent (that is, are there material holdings among entities eligible to apply the *IFRS for SMEs Standard*) in your jurisdiction?

- » We are not aware of significant holdings of cryptocurrency assets in our jurisdictions among entities eligible to apply the IFRS for SMEs.
- » However, on the basis of consultation with our constituents we support specifying accounting for cryptocurrencies in the IFRS for SMEs because the holding of such assets could reasonably be foreseen as becoming more prevalent in the foreseeable future.

Part C Question N3: Defined benefit plans—simplifications allowed in measuring the defined benefit obligation

Proposed response applying coherency principles

Are you aware of entities applying the simplifications allowed by paragraph 28.19 of the *IFRS for SMEs* Standard? If so, are you aware of difficulties arising in applying the simplifications? Please include a brief description of the difficulty encountered in applying the simplification?

» We are not aware of any qualifying entity in our jurisdictions applying this simplification.

Part C Question N4: Gaps in the extant IFRS for SMEs that need addressing?

Proposed response applying coherency principles

Are there any topics the *IFRS for SMEs* Standard does not address that you think should be the subject of specific requirements (for example, topics not addressed by the Standard for which the general guidance in paragraphs 10.4–10.6 of the *IFRS for SMEs* Standard is insufficient)?

Cryptocurrency assets: consistently with our answers to Question G1B and G2 above, we believe that the IASB should propose that the IFRS for SMEs be amended to succinctly specify accounting for cryptocurrency assets, as follows:

- » **Recognition criterion:** asset existence
- » **Measurement** (at initial recognition and subsequently): fair value

Such accounting should provide a faithful depiction of cryptocurrency asset economics and likely involves no significant cost to the preparer.

Part C Question N5: Gaps in the extant IFRS for SMEs that need addressing?

Proposed response applying coherency principles

Please describe any additional issues you would like to bring to the Board's attention relating to the *IFRS for SMEs* Standard.

?

Next steps

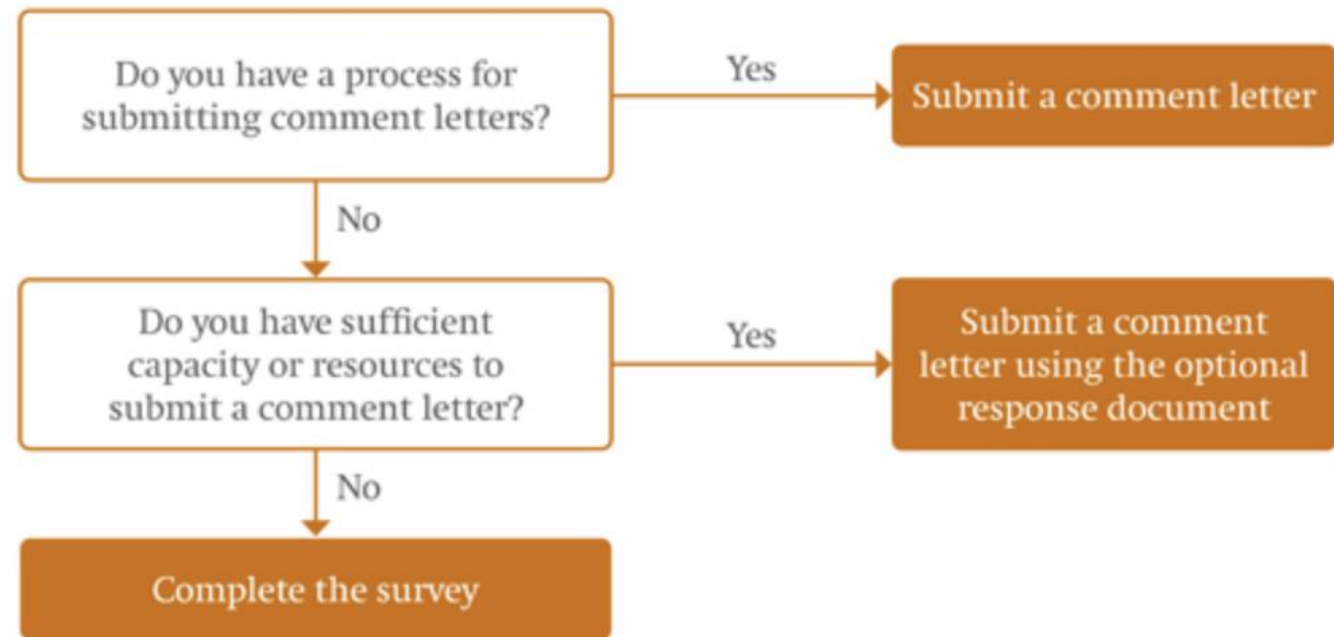
Which mechanism to submit response?

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?



Which response/s to submit?

- » Regional response?
- » Individual country responses?
- » Both Regional response and Individual country responses?

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