mazars

Mr Andreas Barckow

IASB Chair

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La Défense, 7 March 2023

RE: Comments on ED/2022/9 IFRS for SMEs Proposed Amendments to the International Financial Reporting Standard for Small and Medium-sized Entities

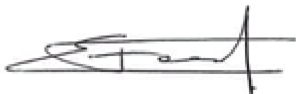
Dear Andreas,

Mazars welcomes the opportunity to comment on the Exposure Draft on the proposed amendments to the International Financial Reporting Standard for Small and Medium-sized Entities.

We agree with the majority of the Board's proposals. We nevertheless have concerns with the proposed amendments relating to fair-value measurement and associated disclosures, and the introduction of an expected loss model for impairing some financial assets. Our detailed answers are provided in the attached appendix.

We would be pleased to discuss our comments with you and are at your disposal should you require clarification or additional information.

Yours sincerely,



Edouard Fossat
Financial Reporting Technical Support

Appendix – Answers to the specific questions raised by the Exposure Draft

Question 1—Definition of public accountability

Respondents to the Exposure Draft Subsidiaries without Public Accountability: Disclosures, published in July 2021, expressed some concerns about applying the definition of public accountability. The description of 'public accountability' in the Exposure Draft Subsidiaries without Public Accountability: Disclosures comprises the definition and supporting guidance in paragraphs 1.3–1.4 of the IFRS for SMEs Accounting Standard (Standard).

In response to this feedback, the IASB is proposing to amend paragraph 1.3(b) to list banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks as examples of entities that often meet the second criterion of public accountability in paragraph 1.3(b). To assist an understanding of the basis for the definition of public accountability, the IASB is also proposing to clarify that an entity with these characteristics would usually have public accountability:

(a) there is both a high degree of outside interest in the entity and a broad group of users of the entity's financial statements (existing and potential investors, lenders and other creditors) who have a direct financial interest in or substantial claim against the entity.

(b) the users in (a) depend primarily on external financial reporting as their means of obtaining financial information about the entity. These users need financial information about the entity but lack the power to demand the information for themselves.

Paragraphs BC11–BC19 of the Basis for Conclusions on this Exposure Draft explain the IASB's rationale for clarifying the definition of public accountability in Section 1. The IASB expects that the amendments to paragraphs 1.3 and 1.3A of Section 1 will add clarity, without changing the intended scope of the Standard.

1(i) Do you agree that the amendments will add clarity without changing the intended scope of the Standard? If you do not agree, which types of entities do you believe would be newly scoped in or scoped out?

We believe that the amendments in paragraph 1.3A are vague and might result in a high degree of subjectivity or assumption. This may cause incorrect scoping of entities to/from applying full IFRS when not necessary. The proposed amendments may in turn broaden the scope if taken literally.

- High degree of outside interest: outside interest is very broad as may include creditors or banks which had not been scoped in previously.
- Potential investor: this is very subjective and could create a broad spectrum of who would be considered, and judgement involved into who may be considered a potential investor.

We are not convinced that examples would clarify these concerns.

We believe that the proposed amendments should not be implemented as these are too vague and will result in much subjectivity. Our view is that the current version of the definition of public accountability is sufficient to scope entities appropriately.

1(ii)	*Do you agree with the proposal to clarify the definition of public accountability? If you do not agree with the proposal, please explain what you suggest instead and why.*

Refer above to comments over 1(i) for overall response to proposed amendments to the definition of public accountability.

Question 2—Revised Section 2 Concepts and Pervasive Principles

The IASB in its Request for Information asked for views on aligning Section 2 Concepts and Pervasive Principles with the Conceptual Framework for Financial Reporting, issued in 2018. In the Request for Information, the IASB noted that the 1989 Framework for the Preparation and Presentation of Financial Statements (1989 Framework) had provided the foundations of the Standard.

Based on feedback on the Request for Information, the IASB is proposing to revise Section 2 to align it with the 2018 Conceptual Framework for Financial Reporting.

The IASB is proposing that Section 18 Intangible Assets other than Goodwill and Section 21 Provisions and Contingencies continue to use the definitions of an asset and of a liability from the previous version of Section 2, which was based on the 1989 Framework, to avoid unintended consequences arising from revising the definitions of an asset and of a liability.

Paragraphs BC38–BC51 of the Basis for Conclusions on this Exposure Draft explain the IASB's rationale for the revisions proposed for Section 2.

2(i) Do you have comments or suggestions on the revised Section 2? Please explain the reasons for your suggestions.

We agree with the proposal to align Section 2 of the IFRS for SMEs with the 2018 Conceptual Framework.

2(ii)	*Do you agree that Section 18 and Section 21 should continue to use the definition of an asset and of a liability from the previous version of Section 2 (based on the 1989 Framework)?*

We believe that the proposal for Section 18 and Section 21 of the IFRS for SMEs to use the definition of an asset and liability as currently stated should continue.

Question 3—Proposed amendments to the definition of control in Section 9 Consolidated and Separate Financial Statements

The IASB in its Request for Information asked for views on aligning the definition of control in Section 9 Consolidated and Separate Financial Statements with the definition in IFRS 10 Consolidated Financial Statements and using that definition as the single basis for consolidation (control model) to facilitate greater consistency between financial statements prepared applying the Standard.

Respondents to the Request for Information were in favour of the alignment, and the IASB is proposing amendments to align Section 9 with IFRS 10, introducing control as the single basis for consolidation that applies to all entities.

The IASB is proposing to retain the rebuttable presumption that control exists when an investor owns more than a majority of the voting rights of an investee. The rebuttable presumption is a simplification of the control model.

Paragraphs BC52–BC62 of the Basis for Conclusions on this Exposure Draft explain the IASB's rationale for aligning the definition of 'control' in Section 9 with IFRS 10 and introducing a control model as the single basis for consolidation.

Do you agree with the IASB's proposal to retain the rebuttable presumption as a simplification of the definition of control? If not, please explain why you do not agree with this simplification.

We agree with the proposal to align the control definition to IFRS 10. The updated definitions will provide further clarity, while the rebuttable presumption being altered to indicate 'majority' voting rights will facilitate a more appropriate control assessment.

Question 4—Proposed amendments to impairment of financial assets in Section 11 Basic Financial Instruments (renamed Financial Instruments)

The IASB in its Request for Information asked for views on replacing the incurred loss model for the impairment of financial assets in Section 11 Basic Financial Instruments with an expected credit loss model aligned with the simplified approach in IFRS 9 Financial Instruments. Feedback suggested that the simplified approach in IFRS 9 would be complex for SMEs to apply and would not result in substantial changes in the amount of impairment for the types of financial assets held by typical SMEs, namely short-term trade receivables.

The IASB anticipates that an expected credit loss model would provide relevant information for users of financial statements when SMEs hold longer-term financial assets. Consequently, the IASB is proposing to:

(a) retain the incurred loss model for trade receivables and contract assets in the scope of the revised Section 23 Revenue from Contracts with Customers;

(b) require an expected credit loss model for all other financial assets measured at amortised cost, aligned with the simplified approach in IFRS 9; and

(c) retain the requirements in Section 11 for impairment of equity instruments measured at cost.

Paragraphs BC72–BC80 of the Basis for Conclusions on this Exposure Draft explain the IASB's rationale for introducing an expected credit loss model for only some financial assets.

4(i) Do you agree with the proposal to introduce an expected credit loss model for only some financial assets? Why or why not? If you disagree with the proposal, please explain what you suggest instead and why.

We do not agree with the proposal to introduce an expected credit loss model for some financial assets. Applying a mixed model approach for amortised cost financial assets would be very complicated and confuse both the management of entities applying IFRS for SMEs and the understandability of financial statements for users.

The IFRS 9 ECL simplified approach applied to financial assets other than trade receivables requires significant amount of data for a relevant modelling, strong internal control and governance processes, backtesting and regular update, triggering a level of operational complexity that, for SMEs, present a negative balance between costs and benefit.

We therefore believe that the incurred loss model should be retained as the single impairment approach all amortised costs financial assets.

We acknowledge that the ECL simplified approach comes with two main benefits compared to IAS 39 incurred loss model as it allows i) earlier recognition of credit losses and ii) to better take into account forward looking information. We nevertheless recommend retaining the current well known and understood IAS 39 incurred loss model.

Should the Board consider amending the incurred loss model in order to better catch up with the abovementioned two benefits of the IFRS 9 ECL Simplified Model, we would suggest to consider

incorporating additional indicators of objective evidence of impairment within the incurred loss model in order to allow entities to reflect earlier a credit deterioration that could lead to a default. Such additional indicators could include:

- Loss of earnings;
- Decline in demand for products;
- Changes in technology; and
- Budgets and forecasts etc.

4(ii) Do you agree that the proposal strikes the right balance in deciding which financial assets should be in the scope of the expected credit loss model, considering the costs for SMEs and benefits for users of SMEs' financial statements?

We do not believe that the proposed amendments strike an appropriate balance in deciding which financial assets should be scoped in for an expected credit loss assessment.

While we believe that most of the focus surrounding financial assets for IFRS for SMEs companies may revolve around trade and other receivables and contract assets, scoping all remaining financial assets into the expected credit loss model appears too broad. The nature of such assets in relation to the operations, size and complexity of the company may render the expected credit loss assessment costly (i.e. cost/benefit analysis), time consuming and may not provide significant additional information relevant to the users of the financial statements.

In looking to all remaining assets, if we assess intercompany or group loans as an example, the expected credit loss model would usually not apply for market-related information and further render forward looking information null and void. This is due to these types of loans not being at market value, often payable on demand and with no fixed payment terms. These loans are often closely monitored within a group. Adding expected credit loss consideration requirements to it would not add value to the group and users of the financial statements.

We believe that the most appropriate approach would be to have one impairment consideration section over all financial assets taking into account the current incurred loss model and, if the Board looks for an earlier recognition of impairment, proposal to include additional objective evidence of impairment indicators (see our answer to question 4(i)).

Question 5—Proposal for a new Section 12 Fair Value Measurement

The IASB in its Request for Information asked for views on aligning the Standard with IFRS 13 Fair Value Measurement and introducing illustrative examples into the Standard. This alignment would not amend the requirements for when to use fair value measurement.

Respondents to the Request for Information favoured aligning the Standard with the definition of fair value in IFRS 13 to provide clarity and enhance comparability between financial statements prepared applying the Standard. The IASB is proposing that the requirements on measuring fair value and related disclosure requirements be consolidated in a new Section 12 Fair Value Measurement.

Paragraphs BC108–BC118 of the Basis for Conclusions on this Exposure Draft explain the IASB's rationale for this proposal.

Do you have comments or suggestions on the new Section 12? Please explain the reasons for your suggestions.

While we believe that most companies that may apply IFRS for SMEs would tend to shy away from using the fair value method in general, we do believe that majority of the companies using this accounting model would not consider all the proposed fair value disclosures as necessary, beneficial and relevant.

The alignment to IFRS 13 Fair Value would provide more detail and information on how to determine fair value. However, the disclosure requirements appear too similar to that of full IFRS which may raise concerns:

- The cost of the significant additional disclosure would not equate a similar benefit to users of the annual financial statements.
- The concept of the various levels of fair value (level 1, level 2 and level 3) may result in significant additional disclosures being required which are not useful to the users.
  - We do believe that the valuation technique and significant inputs are important to disclose and useful to the readers of the financial statements in understanding how the fair value was determined.
  - The proposed amendments exclude the requirement to disclose significant unobservable inputs [IFRS 13.91(b)] whereas the proposed Section 12 only indicates that inputs require disclosure for level 2 and level 3 fair value hierarchy [Section 12.28(c)]. In terms of providing appropriate annual financial statement disclosures, significant unobservable inputs may still need to be required to determine how the asset has been measured.
- One major concern that may apply is if fair value is being aligned and compared, this may trigger industry concerns raised through regulatory reviews in various countries at a local level. These reviews identify industry errors which affects certain disclosure noted within listed companies. Any deficiency noted is usually expected to filter down to IFRS for SMEs entities as well if the disclosure requirements are closely aligned with that proposed for Section 12. Our concern is that the companies applying IFRS for SMEs are not exposed to such industry changes and the level of detail required in such disclosure is usually not relevant to the company and users of the financial statements.

The alignment to IFRS 13 may create significant cost vs benefit considerations when considering the users of the financial statements. We do believe that the proposal enhances the Standard for measuring fair value. We do however have concerns regarding the disclosure requirement being too comprehensive.

Question 6—Proposed amendments to Section 15 Investments in Joint Ventures (renamed Joint Arrangements)

The IASB in its Request for Information asked for views on aligning the definition of joint control with IFRS 11 Joint Arrangements, while retaining the three classifications of joint arrangements in Section 15 Investments in Joint Ventures (jointly controlled operations, jointly controlled assets and jointly controlled entities).

Respondents to the Request for Information favoured aligning the definition of joint control. However, respondents expressed mixed views on whether to align the classification and measurement requirements with IFRS 11 or to retain the Section 15 classification and measurement requirements.

The IASB is proposing to align the definition of joint control and retain the Section 15 classification and measurement requirements as set out in the Request for Information.

Paragraphs BC119–BC127 of the Basis for Conclusions on this Exposure Draft explain the IASB's rationale for these proposals.

6(i) Do you agree with the IASB's proposal to align the definition of joint control and retain the classification of a joint arrangement as jointly controlled assets, a jointly controlled operation, or a jointly controlled entity, and the measurement requirements for these classifications? Why or why not? If you disagree with the proposal, please explain what you suggest instead and why.

We agree with the proposed amendments as it would provide further clarity and guidance. We have no further comments on this question.

The IASB is also proposing amendments to align Section 15 with the requirements of paragraph 23 of IFRS 11, so that a party to a jointly controlled operation or a jointly controlled asset that does not have joint control of those arrangements would account for its interest according to the classification of that jointly controlled operation or the jointly controlled asset.

Paragraphs BC128–BC129 of the Basis for Conclusions on this Exposure Draft explain the IASB's rationale for this proposal.

6(ii) Do you agree with this proposal? Why or why not? If you disagree with the proposal, please explain what you suggest instead and why.

We agree with the proposed amendments as it would provide further clarity and guidance. We have no further comments on this question.

Question 7—Proposed amendments to Section 19 Business Combinations and Goodwill

Based on the feedback to the Request for Information, the IASB is proposing to align Section 19 Business Combinations and Goodwill with the acquisition method of accounting in IFRS 3 Business Combinations by:*

(a) adding requirements and guidance for a new entity formed in a business combination;

(b) updating the references when recognising the identifiable assets acquired and liabilities assumed in a business combination to refer to the definitions of an asset and a liability in the revised Section 2 Concepts and Pervasive Principles;

(c) clarifying that an acquirer cannot recognise a contingency that is not a liability;

(d) requiring recognition of acquisition-related costs as an expense;

(e) requiring measurement of contingent consideration at fair value if the fair value can be measured reliably without undue cost or effort; and

(f) adding requirements for an acquisition achieved in stages (step acquisitions).

For other aspects of the acquisition method of accounting, the IASB is proposing to retain the requirements in Section 19. The IASB is of the view that:

(a) the guidance in IFRS 3 on reacquired rights is unlikely to be relevant to entities applying the Standard;

(b) restricting the measurement of non-controlling interest in the acquiree to the non-controlling interest's proportionate share of the recognised amounts of the acquiree's identifiable net assets (and not introducing the fair value option) is an appropriate simplification; and

(c) retaining recognition criteria for intangible assets acquired in a business combination balances the costs and benefits of separate recognition of these items because goodwill recognised in a business combination is amortised.

Paragraphs BC130–BC183 of the Basis for Conclusions on this Exposure Draft further explain the IASB's rationale for these proposals.

Paragraph BC177 of the Basis for Conclusions on this Exposure Draft explains that there were mixed views on whether step acquisitions are relevant to SMEs. The IASB is asking for views on adding requirements for step acquisitions and on the proposed requirements themselves. Asking for views on whether to add requirements allows stakeholders to evaluate the proposals when responding to this Invitation to Comment.

7(i) Do you agree with the proposal to introduce requirements for the accounting for step acquisitions? If your answer is yes, do you agree with the proposed requirements in the Exposure Draft? If you disagree with the proposal, please explain why and give your alternative suggestion.

We agree with the proposed amendments to include the accounting for step acquisitions. We believe that it is appropriate that the accounting treatment surrounding business is aligned with IFRS to eliminate any inconsistencies in the treatment in group consolidations.

7(ii)	*Do you agree that the IASB's proposals appropriately simplify the measurement of non-controlling interests by excluding the option to measure them at fair value? If your answer is no, please explain your reasons.*

We agree with the simplification to exclude fair value when measuring non-controlling interest.

7(iii)	*Do you have any further comments or suggestions on the proposed amendments to Section 19? Please explain the reasons for your suggestions.*

We do not have any further comments at this stage.

Question 8—Revised Section 23 Revenue (renamed Revenue from Contracts with Customers)

The IASB in its Request for Information asked for views on possible approaches to aligning Section 23 Revenue with IFRS 15 Revenue from Contracts with Customers.

Respondents favoured this alignment without identifying a preferred approach.

Consequently, the IASB is proposing to revise Section 23 to align it with the principles and language used in IFRS 15. The revised requirements are based on the five-step model in IFRS 15, with simplifications that retain the basic principles in IFRS 15 for recognising revenue.

Paragraphs BC184–BC193 of the Basis for Conclusions on this Exposure Draft further explain the IASB's rationale for this proposal and the proposed simplifications of the IFRS 15 requirements.

8(i) Do you agree that the revised Section 23 would be appropriate for SMEs and users of their financial statements? If not, what modifications—for example, further simplifications or additional guidance—do you suggest and why?

We believe that additional guidance over disclosure for revenue would better reflect how the company is doing in terms of the various revenue streams.

We believe that the alignment to IFRS 15 would be beneficial in terms of revenue disclosure, especially surrounding the accounting policy amendments by moving away from any basic/broad/non-specific accounting policies. The additional revenue disclosure would be beneficial to users of these financial statements. We further acknowledge that the reliance of SME company annual financial statements is often limited to entities such as banks, the local tax regulator and/or creditors, however additional disclosure will provide improved insight for these users.

We do believe, however, that the companies utilizing the IFRS for SMEs model may not consider the change appropriate. We believe that these companies would have such revenue disclosure information on hand or it would be easily accessible to management. Consideration could be made with regards to some disclosures of the cost vs benefit principle.

We believe that guidance should be issued to illustrate examples of how to implement the amended revenue principles so that the IFRS for SMEs can stand alone and will not need to be utilised with reference to IFRS 15.

In summary, we believe that the amendments to align to IFRS 15 would provide more guidance to companies to provide more appropriate and relevant revenue disclosure. The outcome to the current revenue accounting treatment is not expected to differ significantly.

Determining whether a good or service promised to a customer is distinct can involve judgement. To assist entities in making this assessment, the IASB is proposing to simplify the requirements in paragraphs 27–29 of IFRS 15 by:

(a) specifying that a good or service that an SME regularly sells separately is capable of being distinct (see paragraph 23.21 of the Exposure Draft);

(b) expressing the criterion in paragraph 27(b) of IFRS 15 in simpler language and reflecting the objective of the criterion by focusing on whether a good or service is an input used to produce a combined item or items transferred to the customer (see paragraphs 23.20(b) and 23.23 of the Exposure Draft); and

(c) including examples that illustrate the factors supporting that criterion (see paragraph 23.23(a)–(c) of the Exposure Draft).

8(ii) Do you believe the guidance is appropriate and adequate for entities to make the assessment of whether a good or service is distinct? If not, is there any guidance that could be removed or additional guidance that is needed?

We agree with the amendments to points (a) and (b) above. This will provide further clarity and simplify the Standard.

Regarding point (c) above, we believe that the examples provided (paragraph 23.23(a)-(c)) do provide further clarity surrounding whether a contract has distinct goods or not. We believe that the examples may need to be enhanced further to allow the users of the Standard to understand and consequently may become a key guidance in determining distinct goods and services.

Question 9—Proposed amendments to Section 28 *Employee Benefits*

The IASB in its Request for Information asked for views on applying paragraph 28.19 of the Standard, that is the measurement simplifications for defined benefit obligations.

The feedback identified challenges when applying paragraph 28.19, resulting in diversity of application. However, the feedback also provided evidence that only a few entities apply paragraph 28.19. Therefore, the IASB is proposing to delete paragraph 28.19. Paragraphs BC197–BC203 of the Basis for Conclusions on this Exposure Draft explain the IASB's rationale for this proposal.

9(i) Do you agree that only a few entities apply the measurement simplifications for defined benefits? Therefore, do you agree with the IASB's proposal to delete paragraph 28.19?

We agree with the proposal and have no further comments on this question.

Alternatively, if you do not agree with deleting paragraph 28.19, should the IASB clarify the paragraph by:

(a) stating that an entity may apply any, or all, of the simplifications permitted by paragraph 28.19 when measuring a defined benefit obligation; and

(b) explaining that when an entity applies paragraph 28.19(b), examples of future service of current employees (assumes closure of the plan for existing and any new employees) that can be ignored include:

(i) the probability of employees' not meeting the vesting conditions when the vesting conditions relate to future service (future turnover rate); and

(ii) the effects of a benefit formula that gives employees greater benefits for later years of service.

9(ii) If you disagree with the proposal in 9(i), do you agree that this alternative approach clarifies paragraph 28.19?

We agree with the proposal and have no further comments on this question.

Question 10—Transition

The IASB, in paragraphs A2–A39 of this Exposure Draft, sets out limited relief from retrospective application for those proposed amendments for which the IASB thought the costs of retrospective application would exceed the benefits.

Do you agree with the proposed transition requirements for the amendments to the IFRS for SMEs Accounting Standard? Why or why not? If not, please explain what you suggest instead and why.

We agree with the proposed transition requirements and have no further comments on this question.

Question 11—Other proposed amendments

Table A1, included in the Introduction, summarises the proposals for amending sections of the Standard not included in questions 2–10. *Do you have any comments on these other proposed amendments in the Exposure Draft?*

We do not have any comments regarding the proposed amendments in Table A1.

Question 12—Section 20 Leases and IFRS 16 Leases

The IASB in its Request for Information asked for views on aligning Section 20 Leases with IFRS 16 Leases by simplifying some of the recognition and measurement requirements, the disclosure requirements and the language of IFRS 16.

Feedback on the Request for Information was mixed. Stakeholders suggested the IASB assess the costs and benefits of aligning the Standard with IFRS 16, even with the simplifications, and obtain more information about the experience of entities that apply IFRS 16.

The IASB decided not to propose amendments to Section 20 at this time and to consider amending the Standard to align it with IFRS 16 during a future review of the Standard. Therefore, the Exposure Draft does not propose amendments to Section 20. In making this decision the IASB placed greater emphasis on cost–benefit considerations and prioritised timing—that is, to obtain more information on entities' experience of applying IFRS 16.

The IASB is asking for further information on cost–benefit considerations, particularly on whether:

(a) aligning Section 20 with IFRS 16 at this time imposes a workload on SMEs disproportionate to the benefit to users of their financial statements— specifically, considering:

(i) the implementation costs that preparers of financial statements could incur;
(ii) the costs that users of financial statements could incur when information is unavailable; and
(iii) the improvement to financial reporting that would be realised from recognising the lessee's right to use an underlying asset (and the lessee's obligation to make lease payments) in the statement of financial position.

(b) introducing possible simplifications—for example, for determining the discount rate and the subsequent measurement of the lease liability (reassessment)— could help to simplify the requirements and reduce the cost of implementing an amended Section 20 (aligned with IFRS 16) without reducing the usefulness of the reported information.

Paragraphs BC230–BC246 of the Basis for Conclusions on this Exposure Draft further

explain the IASB's rationale for not proposing amendments to Section 20 at this time and instead for considering amending the Standard to align it with IFRS 16 during a future review of the Standard.

Do you agree with the IASB's decision to consider amending the Standard to align it with IFRS 16 in a future review of the Standard? In responding to this question, please comment on the cost–benefit considerations in paragraphs (a) and (b).

There is a lot of push back from preparers and auditors of SME companies on the concept of aligning Section 20 with IFRS 16. This is mainly due to the current complexities experienced with IFRS 16 being implemented by companies across various industries. The technical abilities of accounting staff at smaller entities are limited and many, particularly owner-managed businesses, do not see the value of including a right-of-use asset and large lease liability on their statement of financial position. This is

particularly notable when their focus is financing and managing their business instead of managing additional assets and liabilities, the leases are an ends to a means and not central to their business.

Comments have been made that consideration could be made to recognize the right-of-use asset and lease liability applying the simplification of expensing or straight-lining the rental expense over the contract term is sufficient for these types of companies.

We believe that the consideration of any form of alignment to IFRS 16 should be a long-term approach. This topic should be reconsidered at the point where the issues surrounding IFRS 16 have been bedded down. If bigger companies with more technical staff are struggling with IFRS 16, we would expect majority of the companies applying the IFRS for SMEs model to struggle to an even larger degree.

Question 13—Recognition and measurement requirements for development costs

The Standard requires all development costs to be recognised as expenses, whereas IAS 38 Intangible Assets requires the recognition of intangible assets arising from development costs that meet specified criteria. This simplification in the Standard was made for cost–benefit reasons. However, feedback on this comprehensive review questioned this cost–benefit decision. Therefore, the IASB is seeking views on whether it should amend the Standard to align it with IAS 38, including views on the costs and benefits of doing so.

Paragraphs BC253–BC257 of the Basis for Conclusions on this Exposure Draft further explain the IASB's rationale.

What are your views on the costs and benefits, and the effects on users, of introducing an accounting policy option that permits an SME to recognise intangible assets arising from development costs that meet the criteria in paragraphs 57(a)–(f) of IAS 38? The entity would be required to demonstrate all of these criteria:

(a) the technical feasibility of completing the intangible asset so that it will be ready for use or sale;

(b) its intention to complete the intangible asset and use or sell it;

(c) its ability to use or sell the intangible asset;

(d) how the intangible asset will generate probable future economic benefits;

(e) the availability of adequate technical, financial and other financial resources to complete the development and to use or sell the intangible asset; and

(f) its ability to measure reliably the expenditure attributable to the intangible asset during its development.

We are of the view that the proposed changes to incorporate an accounting policy choice which will allow many companies to show a more realistic view of the balance sheet. The accounting policy choice should be seen as a "one-size-fits-all" approach and an entity cannot apply a capitalisation approach to certain projects over others. The accounting policy choice should apply across a category or class of assets and not on an asset-by-asset basis.

In the event that an entity applies a policy choice to capitalize such development costs, these entities are supposed to then have the relevant information in order to meet the requirements of paragraph 57(a)-(f) of IAS 38. If not, entities would be encouraged to meet these requirements as the expected impact on the statement of financial position would provide a better reflection of the research and asset base.

We have noted that in certain industries (such as medical and information technology fields) some companies have applied full IFRS in order to apply this capitalization approach over development costs incurred. This is mainly due to the significant amount of money that would shift to the statement of financial position instead of being recognized as an expense.

We believe that this amendment will allow companies to appropriately capitalize development costs as an accounting policy option. The full criteria of paragraph 57(a)-(f) of IAS 38 should remain with no summarized version to prevent misinterpretations and ensure adequate information is gathered to support the accounting treatment. The cost of this exercise should be determined by management as to whether it can be appropriately applied. The amendment should ensure that these considerations are expected to be included in the accounting policy when making the choice.

We believe that allowing an accounting policy choice may create further considerations regarding impairment of assets. However, we could not identify any specific impact of this relevant to the Standard and proposed question.

Question 14—Requirement to offset equity instruments

Paragraph 22.7(a) of the Standard states that if equity instruments are issued before an entity receives cash or other resources, the amount receivable is presented as an offset to equity in the statement of financial position, instead of being presented as an asset. Feedback from the first comprehensive review suggested that this requirement may conflict with local legislation. Stakeholders provided similar feedback during this second comprehensive review, suggesting that the IASB remove the requirement in paragraph 22.7(a) because it diverges from full IFRS Accounting Standards, which include no similar requirement for equity instruments.

What are your views on removing paragraph 22.7(a)?

We believe that paragraph 22.7(a) should remain in the IFRS for SMEs. While we believe that this is a divergence from IFRS, the inclusion of this paragraph creates a simplification regarding the treatment of equity instruments issued prior to the cash or other resources being received. We note that the application and amendments of IFRS principles are not bound to legislative requirements, however the inclusion of 22.7(a) allows for the simplified accounting treatment to serve companies that fall within the IFRS for SME accounting model. There may be instances where the right to receive/recoup the cash or other resources are significantly delayed from such equity transactions. This may result in an overstatement of assets and equity which may not fairly represent the true nature of the transaction as a whole. While we believe that the issue of equity instruments for cash or other resources may present a legal obligation, this may not appropriately reflect the correct accounting treatment.

Question 15—Updating the paragraph numbers of the IFRS for SMEs Accounting Standard

The proposed amendments to the requirements in the IFRS for SMEs Accounting Standard include the addition of new paragraphs and the deletion of existing paragraphs. A new paragraph is numbered in continuation from a previous paragraph. A deleted paragraph retains the paragraph number.

Sometimes, the addition or deletion of paragraphs within a section may complicate the readability of the Standard (for example, Section 19 Business Combinations and Goodwill). As an alternative, a section may be revised, with paragraphs renumbered to show only requirements that would still be applicable, without a placeholder for deleted paragraphs (for example, Section 2 Concepts and Pervasive Principles).

What are your views on the approach taken to retain or amend paragraph numbers in each section of this Exposure Draft?

Having read through the amendments in this Exposure Draft, we are satisfied that the amendments to the paragraphs allow for easier readability.