[Note: This letter supersedes the version dated 25 March 2014 for an amendment in paragraph 23]

9 April 2014

Mr Hans Hoogervorst
Chairman
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
UNITED KINGDOM

Dear Hans,

AOSSG comments on IASB Exposure Draft ED/2013/9
IFRS for SMEs: Proposed amendments to the International Financial Reporting Standard for Small and Medium-sized Entities

The Asian-Oceanian Standard-Setters Group (AOSSG) is pleased to provide comments on the IASB ED/2013/9 *IFRS for SMEs – Proposed amendments to the International Financial Reporting Standard for Small and Medium-sized Entities* (ED). In formulating its views, the AOSSG sought the views of its constituents within each jurisdiction.

The AOSSG currently has 26 member standard-setters from the Asian-Oceania region: Australia, Brunei, Cambodia, China, Dubai, Hong Kong, India, Indonesia, Iraq, Japan, Kazakhstan, Korea, Macao, Malaysia, Mongolia, Nepal, New Zealand, Pakistan, Philippines, Saudi Arabia, Singapore, Sri Lanka, Syria, Thailand, Uzbekistan, and Vietnam.

To the extent feasible, this submission to the IASB reflects in broad terms the collective views of AOSSG members. Each member standard-setter may also choose to make a separate submission that is consistent or otherwise with aspects of this submission. The intention of the AOSSG is to enhance the input to the IASB from the Asian-Oceania region and not to prevent the IASB from receiving the variety of views that individual member standard-setters may hold. This submission has been circulated to all AOSSG members for their feedback after having initially been developed through the AOSSG IFRS for SMEs Working Group.

It is the AOSSG's understanding that the *IFRS for SMEs* is designed for use by small and medium-sized entities (SMEs), which generally have fewer available resources for financial reporting compared with listed entities. We consider the accounting requirements should be considered from the perspective of the SMEs' costs and benefits.

The views of the AOSSG in relation to the specific questions in the ED are explained in more detail in the Appendix.

If you have any questions regarding any matters in this submission, please contact me.

Yours sincerely,

Clement Chan
AOSSG Chair and IFRS for SMEs Working Group Leader

APPENDIX – Detailed comments on ED/2013/9

Question 1 - Definition of 'fiduciary capacity'

The IASB has received feedback that the meaning of 'fiduciary capacity' in the definition of 'public accountability' (see paragraph 1.3(b) of the *IFRS for SMEs*) is unclear as it is a term with different implications across jurisdictions. However, respondents generally did not suggest alternative ways of describing public accountability or indicate what guidance would help to clarify the meaning of 'fiduciary capacity'. Based on the outreach activities to date, the IASB has determined that the use of this term does not appear to create significant uncertainty or diversity in practice.

(a) Are you aware of circumstances where the use of the term 'fiduciary capacity' has created uncertainty or diversity in practice? If so, please provide details.

(b) Does the term 'fiduciary capacity' need to be clarified or replaced? Why or why not? If you think it needs to be clarified or replaced, what changes do you propose and why?

Comments on Question 1

1. In general AOSSG members are not aware of circumstances where the use of the term 'fiduciary capacity' has created significant uncertainty or diversity in practice.

2. One AOSSG member considers that the meaning of 'fiduciary capacity' is a legal concept and therefore the term should be left to each jurisdiction for application.

3. One AOSSG member considers the meaning of 'fiduciary' in the context of 'public accountability' has different meanings across jurisdictions, which has led to different application when determining entities that have public accountability from those that do not. Therefore, this member recommends the IASB to provide clarification to the term 'fiduciary'. Alternatively, the IASB could provide additional guidance regarding entities that are publicly accountable.

Question 2 – Accounting for income tax

The proposal to align the main principles of Section 29 *Income Tax* with IAS 12 *Income Taxes* for the recognition and measurement of deferred tax (see amendment number 44 in the list of proposed amendments at the beginning of this Exposure Draft) is the most significant change being proposed to the *IFRS for SMEs*.

When the *IFRS for SMEs* was issued in 2009, Section 29 was based on the IASB's Exposure Draft Income Tax (the '2009 ED'), which was issued in March 2009. However, the 2009 ED was never finalised by the IASB. Consequently, the IASB has concluded that it is better to base Section 29 on IAS 12. The IASB proposes to align the recognition and measurement principles in Section 29 with IAS 12 (see paragraphs BC55–BC60) whilst retaining some of the presentation and disclosure simplifications from the original version of Section 29.

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The IASB continues to support its reasoning for not permitting the 'taxes payable' approach as set out in paragraph BC145 of the *IFRS for SMEs* that was issued in 2009. However, while the IASB believes that the principle of recognising deferred tax assets and liabilities is appropriate for SMEs, it would like feedback on whether Section 29 (revised) can currently be applied (operationalised) by SMEs, or whether further simplifications or guidance should be considered.

A 'clean' version of Section 29 (revised) with the proposed changes to Section 29 already incorporated is set out in the appendix at the end of this Exposure Draft.

Are the proposed changes to Section 29 appropriate for SMEs and users of their financial statements? If not, what modifications, for example further simplifications or additional guidance, do you propose and why?

Comments on Question 2

4. A majority of AOSSG members agree with the proposal to align the main principles of Section 29 *Income Tax* with IAS 12 *Income Taxes* for the recognition and measurement of deferred tax. These members generally consider that the different requirements between Section 29 and IAS 12 create comparability issues and do not provide any benefit to SMEs.

5. On the other hand, some AOSSG members consider the current requirements in Section 29 should be retained as these requirements have been applied by SMEs without significant concerns and the proposed change may increase the cost of preparation of financial statements.

6. Some AOSSG members consider that, in the context of SMEs, the costs of recognising deferred tax may outweigh the benefits in financial reporting. These members believe that tax payable method may better suit the circumstances of SMEs.

7. One AOSSG member notes that the proposed undue cost or effort exemption with respect to offsetting of income tax assets and liabilities, which would require an entity to demonstrate its intention for net or simultaneous settlement, is more stringent than the relief in IAS 12, which requires offsetting of deferred tax assets and liabilities of the same taxable entity so long as they relate to income taxes levied by the same taxation authority (subject to legally enforceable right of offset). This member believes that similar relief in IAS 12 should be incorporated into the *IFRS for SMEs*. Besides, this member disagrees with paragraph BC58 of the Basis for Conclusions on the ED which stipulates that offsetting would not be required if significant, detailed scheduling is needed to demonstrate an entity's intention for net or simultaneous settlement. This essentially *allows non-offsetting* without any burden of proof, which is at odds with the principles of IAS 12, which *require offsetting* once the prescribed conditions are met. This member believes that offsetting should be required once an entity can demonstrate its intention for net or simultaneous settlement without undue cost or effort (subject to the legally enforceable right to offset criterion) as the resulting presentation would provide more relevant information and recommends that the IASB should refine the proposed amendment and the Basis for Conclusions accordingly.

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Question 3 - Other proposed amendments to the IFRS for SMEs

The IASB proposes to make a number of other amendments to the *IFRS for SMEs*. The proposed amendments are listed and numbered 1–43 and 45–57 in the list of proposed amendments. Most of those amendments are minor and/or clarify existing requirements.

(a) Are there any amendments that you do not agree with or have comments on?

(b) Do any of the amendments require additional guidance or disclosure requirements to be added to the *IFRS for SMEs*? If so, which ones and what are your suggestions?

Comments on Question 3

Guidance on 'undue cost or effort'

8. AOSSG members welcome the proposed new paragraphs (2.14A-2.14C) that would clarify the term 'undue cost or effort'. Some AOSSG members believe that additional guidance should be included. One of these members believes that the IASB should incorporate the following additional guidance found in the current SMEIG Q&A 2012/01 paragraph 2 as such guidance provides clarity on the application of the undue cost or effort concept:

    Applying a requirement would result in 'undue cost or effort' because of either excessive cost (eg if valuers' fees are excessive) or excessive endeavours by employees in comparison to the benefits that the users of the SME's financial statements would receive from having the information.

9. Some AOSSG members recommend the IASB to consider incorporating a requirement for entities to disclose when it is not applying a requirement of the standard on the basis of 'undue cost or effort'. These members consider such disclosure would enhance the comparability and understandability of financial statements. One of these members further proposes to require disclosure on how management reaches the conclusion when the 'undue cost or effort' exemption is invoked.

10. One AOSSG member recommends the IASB to consider including a detailed illustration on the application of 'undue cost or effort' in relevant context, for example, in paragraphs 11.27, 12.8(b) and 18.8.

Incorporation of SMEIG Q&A into IFRS for SMEs

11. AOSSG members generally welcome the incorporation of the three items of guidance as mentioned in BC69, which were previously issued as non-mandatory Q&A, into the *IFRS for SMEs*.

12. One AOSSG member urges the IASB to continue to limit the issuance of Q&A to those that are genuinely causing difficulty in practice and to incorporate the responses into any future review of the standard itself. It is noted from paragraph BC67 that one of the key

responsibilities of the SMEIG is to consider implementation questions raised by users of the *IFRS for SMEs* and to develop non-mandatory guidance in the form of Q&A. This member considers the IFRS Interpretations Committee should also be involved in the development of guidance.

Clarification on the use of the IFRS for SMEs in the parent's consolidated financial statements

13. One AOSSG member considers the proposed paragraph 1.7 in the ED would clarify that a parent entity should assess its eligibility to use the *IFRS for SMEs* in its own right when preparing its separate financial statements. This member however considers it is unclear whether a parent entity that does not have public accountability has the option to use *IFRS for SMEs* in its consolidated financial statements when a subsidiary in the group has public accountability as described in paragraph 1.3.

14. This member recommends that the IASB clarifies the basis for when a parent entity should prepare consolidated financial statements. That is, should the parent entity consider public accountability from the perspective of the group as a whole, or the parent entity in its own right.

Requirement to present consolidated financial statements

15. One AOSSG member considers the application of the proposed timeframe in paragraph 9.3A is unclear and recommends that the IASB clarifies whether the one-year timeframe commences from the acquisition date or from the reporting date.

16. That member also recommends the IASB to consider:

    (a) whether guidance is necessary in the event the disposal does not materialise after one year, i.e. whether the parent would be required to consolidate the previously unconsolidated subsidiary and if so, from which date; and

    (b) whether it is necessary to require disclosures of unconsolidated subsidiaries.

17. One AOSSG member considers that subsidiaries acquired for sale or disposal within one year should be included in the consolidated financial statements. This member considers that, in line with paragraph 38 of IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, subsidiaries held for sale or disposal within one year should be presented as a separate line item in consolidated financial statements. This member is concerned that any divergence from the full IFRS principles has the potential to create difficulties for IFRS-compliant parent entities consolidating non-IFRS compliant subsidiaries.

Recognition of intangible assets in a business combination

18. One AOSSG member has a concern with the proposed amendment that would exempt entities from recognising intangible assets in a business combination if the fair value cannot be reliably measured without undue cost or effort. This member considers that it is unlikely

that a business combination will take place in circumstances where the fair value cannot be reliably measured.

19. This member considers the rationale behind IFRS 3 *Business Combinations* is not a function of the size of the entity but rather the nature of the transactions involved, and thus, it would be inappropriate to ignore material elements in the financial statements. Therefore, this member recommends the IASB to withdraw the proposed amendment.

Employee benefits

20. The proposed amendment in paragraph 28.43 in the ED would remove the requirement to disclose the accounting policy for termination benefits as Section 28 *Employee Benefits* does not provide a choice of accounting treatment for termination benefits. One AOSSG member considers the proposal would raise questions as to whether the IASB intends to do away with the disclosure of accounting policies (in other areas) when a choice of accounting treatment is not available.

21. While this member supports the proposed amendment in paragraph 28.43 as it provides relief to entities, this member recommends the IASB to consider whether the deletion is consistent with the requirement of paragraph 3.17(e), which requires an entity to disclose accounting policies that are significant to the entity.

22. On the other hand, one AOSSG member does not support the proposed amendment to remove the requirement to disclose the accounting policy for termination benefits. This member considers that, consistent with paragraph 119 of IAS 1 *Presentation of Financial Statements*, the decision regarding whether to disclose an accounting policy should be contingent upon whether that information would assist users of general purpose financial statements. While SMEs do not have a choice regarding accounting policies for termination benefits, knowledge of the accounting policy might still be relevant for some users. Therefore, this member considers the IASB should withdraw the proposed amendment based on the general principles in paragraphs 117-121 of IAS 1.

Useful life of intangible assets/goodwill

23. One AOSSG member does not support the proposed amendments to require the useful life of an intangible asset/goodwill to be determined based on management’s best estimate (which shall not exceed 10 years) if a reliable estimate of the useful life cannot be made. This member questions the conceptual basis for the proposals, which appear to suggest that management’s best estimate need not necessarily be a reliable estimate and could therefore result in a measure that is neither reliable, nor relevant, nor comparable. This member also has concerns with the potential application challenges, such as determining what constitutes management’s best estimate, how management’s best estimate can be demonstrated and the implications associated with the subjectivity and auditability of such estimates. This member believes that the existing requirements should be retained. However, if the IASB considers that a presumption of 10 years under the existing requirements is too long, the IASB could revise the existing requirements to specify a shorter presumed useful life.

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Question 4 – Additional issues

In June 2012 the IASB issued a Request for Information (RFI) seeking public comment on whether there is a need to make any amendments to the *IFRS for SMEs* (see paragraphs BC2–BC15). The RFI noted a number of specific issues that had been previously identified and asked respondents whether the issues warranted changes to the *IFRS for SMEs*. Additionally, the RFI asked respondents to identify any additional issues that needed to be addressed during the review process. Any issues so identified were discussed by the IASB during its deliberations.

Do respondents have any further issues that are not addressed by the 57 amendments in the list of proposed amendments that they think the IASB should consider during this comprehensive review of the *IFRS for SMEs*? Please state these issues, if any, and give your reasoning.

<u>Comments on Question 4</u>

Revaluation basis as an option to accounting for property, plant and equipment

24. Some AOSSG members recommend the IASB to consider permitting a revaluation model for the accounting of property, plant and equipment (PPE) as the lack of such an option continues to be a significant barrier for jurisdictions where SMEs commonly revalue their PPE to adopt the *IFRS for SMEs*.

25. Despite the fact that SMEs are not prohibited from providing additional narrative disclosure (including fair value of PPE) in their financial statements, these members still consider that fair value measurement in PPE would enhance the usefulness of their financial statements and facilitate their loan financing, especially in many cases where the carrying value of PPE can be a significant portion of an entity's assets.

26. These members noted that providing a revaluation option would add complexity in other areas of the *IFRS for SMEs*, such as with impairment and deferred tax. However, these members consider that SMEs should still be provided the option.

Borrowing cost capitalisation as an accounting option

27. Some AOSSG members consider that the IASB should also consider permitting the capitalisation of borrowing cost as an option in the standard based on the same rationale as expressed in paragraph 24 above. These members consider that such proposal will further facilitate SMEs in sourcing loan finance.

Amendments to full IFRSs

28. One member considers the proposed amendments to the *IFRS for SMEs* should incorporate, subject to principles underlying the Standard, all changes to recognition and measurement criteria in full IFRSs. In circumstances where updating the *IFRS for SMEs* creates

difficulties for SMEs, longer lead times or enhanced transitional requirements then those in full IFRSs could be provided. This member has a concern with the comparability and transition issues between the *IFRS for SMEs* and full IFRSs should the requirements differ further. This member considers SMEs should be able to avail themselves of all improvements to IFRSs.

29. This member considers there are certain complex transactions that could take place in the SME environment regardless of whether those SMEs have public accountability. Accordingly, this member considers that the *IFRS for SMEs*. should incorporate the following standards :

    (a) IFRS 3 *Business Combinations*;

    (b) IFRS 10 *Consolidated Financial Statements*;

    (c) IFRS 11 *Joint Arrangements*;

    (d) IFRS 12 *Disclosure of Interests in Other Entities*;

    (e) IFRS 13 *Fair Value Measurement*; and

    (f) IAS 19 *Employee Benefits*.

Question 5 – Transitional provisions

The IASB does not expect retrospective application of any of the proposed amendments to be significantly burdensome for SMEs and has therefore proposed that the amendments to the *IFRS for SMEs* in Sections 2–34 are applied retrospectively.

Do you agree with the proposed transition provisions for the amendments to the *IFRS for SMEs*? Why or why not? If not, what alternative do you propose?

<u>Comments on Question 5</u>

30. A majority of AOSSG members consider that the proposed amendments are not significant and are mainly clarifications to existing requirements or relief from existing requirements. These members therefore support the proposed retrospective application of such amendments as they are not expected to cause a significant burden to preparers.

31. Some AOSSG members consider that retrospective application of Section 29 *Income Tax* may be cumbersome where the related benefit may be limited in the context of SMEs. These members recommend the 'undue cost or effort' exemption to be extended to the retrospective application of Section 29, or that the amendments be applied prospectively.

32. One AOSSG member considers the prospective application of the proposed amendments more appropriate for SMEs from a cost perspective.

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Question 6 – Effective date

The IASB does not think that any of the proposed amendments to the *IFRS for SMEs* will result in significant changes in practice for SMEs or have a significant impact on their financial statements. It has therefore proposed that the effective date of the amendments to the *IFRS for SMEs* should be one year after the final amendments are issued. The IASB also proposes that early adoption of the amendments should be permitted.

Do you agree with the proposed effective date and the proposal to permit early adoption? Why or why not? If not, what alternative do you propose?

<u>Comments on Question 6</u>

33. Some AOSSG members agree with the proposed effective date (i.e. one year after the final amendments are issued) and the proposal to permit early adoption of the amendments.

34. Some AOSSG members disagree with the proposed effective date. In particular, one member considers that SMEs may require additional time to understand and implement the amendments, while another member considers that more time is required to allow time for jurisdictional endorsement processes. These members therefore suggest that the proposed amendments are effective two years after they are issued.

35. One AOSSG member considers that early adoption of the amendments may lead to comparability issues and therefore recommends prohibiting early adoption.

Question 7 – Future reviews of the IFRS for SMEs

When the *IFRS for SMEs* was issued in 2009 the IASB stated that after the initial comprehensive review, the IASB expects to propose amendments to the *IFRS for SMEs* by publishing an omnibus Exposure Draft approximately once every three years. The IASB further stated that it intended this three-year cycle to be a tentative plan, not a firm commitment. It also noted that, on occasion, it may identify a matter for which an amendment to the *IFRS for SMEs* may need to be considered earlier than in the normal three-year cycle; for example to address an urgent issue.

During the comprehensive review, the IASB has received feedback that amendments to the *IFRS for SMEs* once every three years (three-year cycle) may be too frequent and that a five-year cycle, with the ability for an urgent issue to be addressed earlier, may be more appropriate.

Do you agree with the current tentative three-year cycle for maintaining the *IFRS for SMEs*, with the possibility for urgent issues to be addressed more frequently? Why or why not? If not, how should this process be modified?

<u>Comments on Question 7</u>

36. A majority of AOSSG members consider that the current tentative three-year cycle for maintaining the *IFRS for SMEs* should be extended, given it is important to provide SMEs

with a stable financial reporting platform. A longer cycle would provide sufficient time to leverage on the implementation experience of full IFRS before considering incorporating any new requirements into the *IFRS for SMEs*. Flexibility to address significant urgent issues should be allowed to ensure the standards continue to be relevant for decision making. There is no consensus on the timeframe of the review cycle but some members recommend a review period ranging between five and eight years.

37. A minority of AOSSG members consider the three year cycle for maintaining the *IFRS for SMEs* to be appropriate. One of these members is of the view that all changes to full IFRSs since the previous amendments should be incorporated as part of the review of the *IFRS for SMEs* as this would reduce the gap in reporting between entities reporting under full IFRSs and those reporting under *IFRS for SMEs*.

38. One AOSSG member supports a review cycle that commences two years after the effective date of amendments to the *IFRS for SMEs* from the previous review, with the possibility for urgent issues to be addressed more frequently. This would allow the IASB to consider not only the new and revised IFRSs that were issued and specific issues that were identified subsequent to the previous review, but also any application issues or unintended consequences that result from amendments from that review. This member believes that such an approach, which essentially results in a review cycle of approximately five years (i.e. three years of lead time and two years application period), has the potential of achieving a balance between the need to provide a stable reporting platform for SMEs and the need to keep the *IFRS for SMEs* relevant to the information needs of users of SME financial statements.

Question 8 – Any other comments

Do you have any other comments on the proposals?

<u>Comments on Question 8</u>

Related party disclosures

39. One AOSSG member recommends the IASB to consider reducing the required related party disclosures. Despite the standard being designed to meet the needs of users that are not in a position to demand reports tailored to their particular information needs, SMEs are generally involved in less capital market transactions and the main financial statement users (for example, tax authority and lenders) typically have the power to demand specific information in addition to financial statements. This member accordingly recommends the IASB to consider reducing the required related party disclosures.

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Renaming of standard

40. One AOSSG member recommends the IASB to consider renaming the standard to, for example, Simplified IFRS For Eligible Entities, given there is currently no size criteria in place for application of standard and large non-public entities might not prefer to be categorised as 'SMEs'.

Removal of guidance on combined financial statements

41. One AOSSG member recommends the IASB to consider removing the guidance under paragraphs 9.28-9.30 as combined financial statements are used by a limited number of entities.

Interpretation of 'transaction price' for initial measurement of financial asset or financial liability

42. One AOSSG member recommends the IASB to consider providing additional guidance on what constitutes the transaction price for initial measurement of a financial asset or a financial liability under paragraph 11.13. This member notes that many SMEs have either no-interest and/or off-market interest based arrangements with related parties and simple staff loans at less than market rates. From the perspective of simplification, it is believed that 'transaction price' should not mean 'fair value' so that there is no burden on SMEs to fair value all non-interest and/or off-market interest based arrangements with related parties including staff loans at less than market rates.

Defining terms in the IFRS for SMEs that are not defined in full IFRSs

43. One AOSSG member has a concern with the IASB's continuing practice of defining terms in the *IFRS for SMEs* that are not defined in full IFRSs. For example, the ED proposes to amend the previously defined term 'substantively enacted'. This member considers that defining terms in the *IFRS for SMEs* that are not defined in full IFRSs creates a risk that entities will apply those definitions inappropriately in IFRSs. This member therefore recommends that the terms be defined, where necessary, in the glossary of terms in full IFRSs, which could be subsequently incorporated into the *IFRS for SMEs*.