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International Accounting Standards Board
IFRS Foundation
Columbus Building
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7 March 2023

Dear Board Members,

Invitation to comment – IFRS Standards Exposure Draft IASB/ED/2022/1 *Third edition of the IFRS for SMEs Accounting Standard* (the ED)

Ernst & Young Global Limited, the central coordinating entity of the global EY organisation, welcomes the opportunity to offer its views on the International Accounting Standards Board's (IASB or the Board) Exposure Draft IASB/ED/2022/1 *Third edition of the IFRS for SMEs Accounting Standard* (the ED).

We support the Board in its approach to the alignment of the IFRS for SMEs standard ("the Standard") with full IFRS, with the understanding that the Board applies the three principles of relevance to SMEs, simplicity, and faithful representation (IFRS for SMEs, IASB/ED2022/1 BC29).

In paragraph BC27 of the ED, the IASB notes that the Standard was developed from full IFRS and simplified for SMEs based on the users' needs and cost benefit considerations. We agree that these are important guiding principles, considering the limited resources and capability available to SMEs and the resulting Standard needs to demonstrate adherence to these principles.

We would like to highlight the following general observations for the Board to consider with regard to the alignment of the Standard with full IFRS:

- In paragraph BC31 of the ED, the Board explains that one of the ways in which the simplicity principle can be applied is by permitting only the simplest option if an IFRS accounting standard permits options. We have observed that, in practice, options bring flexibility, we, therefore, propose that where options are allowed in full IFRS, they should be allowed in the Standard as well. Moreover, in developing the Standard, we believe that the Board should consider whether further options should be made available to SMEs, which are not available in full IFRS, that still align with the three principles mentioned above. For example, we welcome the retention of the option allowed by the Standard to amortise goodwill which is not available in full IFRS.

- We have noted inconsistency in how the Board has dealt with the alignment of certain sections of the Standard to full IFRS. For example, Section 23 of the Standard has been amended by incorporating all the principles of IFRS 15 *Revenue from Contracts with Customers*, compared to the approach taken in aligning the Section 11 of the Standard with IFRS 9 *Financial Instruments*, where only selected principles have been included (i.e., only certain measurement principles for some financial assets have been aligned, and not the classification principles).

- We believe that care should be taken to retain useful guidance currently available in full IFRS that would assist preparers in applying the principles of the Standard. Since the Standard is an independent "stand-alone" standard, we expect that, generally, a preparer should be able to apply the Standard on its own, without having to refer to full IFRS for guidance to implement its requirements. We have observed that, in practice, where there is limited guidance within the Standard, preparers look at guidance within full IFRS, and we expect that this will be the case more frequently as the Standard is aligned with the principles of full IFRS but without incorporating the guidance that the full IFRS standards include. An example of this is the exclusion of a large portion of the application guidance in Appendix B to IFRS 10 *Consolidated Financial Statements*, as well as the exclusion of the guidance in Appendices B and C of IFRS 15 *Revenue from Contracts with Customers*. It is not clear which criteria the Board has applied in determining whether guidance should be included or excluded from the Standard.

In addition, we would like to understand how the Board envisages the proposed *IFRS for SMEs* standard will co-exist with the proposed standard "Subsidiaries without Public Accountability: Disclosures". Our view expressed in the comments on the Exposure Draft ED/2021/7 *Subsidiaries without Public Accountability: Disclosures* is that the introduction and maintenance of a third framework will be a strain on the resources of the IASB and could be onerous. The Exposure Draft ED/2021/7 proposes to allow eligible entities to elect to apply reduced disclosure requirements while still applying the recognition, measurement and presentation requirements of full IFRS. This is similar to direction that the Standard is moving in. If the scope of the ED/2021/7 were to be extended to include any entity without public accountability, then the Standard may become less relevant to maintain.

Our detailed responses to the questions are set out in the Appendix to this letter.

Should you wish to discuss the contents of this letter with us, please contact Michiel van Der Lof at the above address or on +31 88 407 1030.

Yours faithfully

Ernst & Young Global Limited

Appendix - Responses to specific questions

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? 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.

1(i) We are not in agreement that the proposed amendments will add clarity without changing the intended scope of the Standard. The reasons detailed below:

- There appears to be a misalignment between what has been drafted and the Board's intention noted in paragraph B16 to clarify why the entities quoted in paragraph 1.3(b) have public accountability. As it is currently written, paragraph 1.3A appears to introduce additional characteristics which entities must consider in assessing the scope of application of the Standard, rather than clarifying why entities which 'hold assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses' would have public accountability. In our view the additional characteristics set out in paragraph 1.3A may cause complexity in determining whether an entity has public accountability and may potentially lead to an increase in the number of entities that are considered to have public accountability. This may, in turn, reduce the number of entities that are able to apply the Standard.

- Applying paragraph 1.3A(a) in conjunction with the current principals set out in paragraph 1.3(a), entities that do not have debt or equity instruments traded in a public market, but do have a high degree of outside interest in the entity and a broad group of users of the entity's financial statements would now appear to be scoped out of the Standard as a result of meeting the characteristics set out in paragraph 1.3A. The application of paragraph 1.3A would result in significant judgement that would need to be applied by users in assessing whether an entity has public accountability as the requirements are subjective and may lack objective sources of information that can be used to measure "the degree of outside interest". We also note that guidance would need to be provided in respect of the parameters of assessing a high degree of outside interest.

- We question whether users' (noted in paragraph 1.3 A(a)) lack of power to demand information is a strong differentiator as an example of the public accountability test. We note that, in practice, many lenders can request financial information directly from SMEs in order to facilitate lending as well as to track whether covenants are being met. We are, therefore, of the view that the notion in paragraph 1.3 A(a) that users lacking the power to demand information should not be used as a characteristic of public accountability.

1(ii) We do not agree with the proposals set out in paragraph 1.3A. Instead, we recommend retaining the current criteria in paragraph 1.3 unchanged as it is an objective test with fewer areas of judgement compared to the new requirements.

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.

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)?

2(i) We agree that Section 2 should be aligned with the 2018 *Conceptual Framework for Financial Reporting*. This will assist in achieving the alignment of principles with full IFRS.

In practice, since full IFRS contain detailed reporting requirements and application guidance, the need for preparers to refer to the conceptual framework when developing accounting policies (applying the IAS 8.10 hierarchy) is likely be infrequent. However, a preparer applying the Standard may need to refer to Section 2 more frequently in developing its accounting policies (as referred to in the hierarchy included in Section 10 of the Standard) as there is less application guidance in the Standard (please refer to our observation on the inclusion of relevant application guidance in the Standard in the general comments). It is thus important that Section 2 incorporates a robust framework which is aligned to the Conceptual Framework.

Paragraph 2.2 notes, 'In some circumstances there may be inconsistencies between the concepts and principles in this section and the requirements in another section of the Standard. In these circumstances, the requirements in the other section take precedence over this section.' We are concerned that preparers would experience complexity when applying different definitions for different sections of the Standard. We propose that the Board reconsiders the inclusion of Section 2 as part of the Standard. In the spirit of alignment with full IFRS, we believe that it would be more appropriate for Section 2 to carry the same status as the Conceptual Framework within full IFRS, and not be incorporated into the Standard. Instead, it could be presented as a separate document setting out the fundamental concepts for financial reporting that guide the Board in developing the Standard and preparers in developing accounting policies.

(ii) We do believe 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 because that aligns with how the new Conceptual Framework has been incorporated in full IFRS, which also scopes out equivalent standards IAS 37 and IAS 38 from the new definitions of asset and the liability.

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 retain the rebuttable presumption as a simplification of the definition of control. Overall, we agree with the alignment of the definition of control. We believe that it is appropriate that the reporting entity in the context of a group be the same, regardless of whether the entity is applying full IFRS or the Standard.

The Board has observed that the extent of the judgement required in determining whether an SME has control over an entity depends on the complexity of the transaction and can sometimes be significant. We note that some of application guidance in IFRS 10 on determining control has been incorporated into the Standard, for example, the guidance IFRS 10.B11 on the determination of 'relevant activities' has been included. We would recommend that the Board considers incorporating further guidance from Appendix B of IFRS 10 to assist preparers in assessing control, for example:

- IFRS 10 B12's examples of decisions about relevant activities; and
- IFRS 10 B15's examples of rights that give an investor power over an investee.

We propose that the application examples in IFRS 10 be considered for simplification where relevant and included in educational material for SME preparers.

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.
>
> 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?

4(i) We do not agree with the proposal to introduce an expected credit loss (ECL) model into the Standard for certain financial assets, as set out in paragraph 11.26A. In our view, the mandating of the ECL model (albeit the simplified model) for some financial assets imposes a workload on SMEs disproportionate to the benefit to users of their financial statements, especially as there are inherent complexities in the simplified approach of the ECL model. Many SMEs have long-term financial assets such as inter-company loans; a mandated forward-looking ECL model for such instruments may be complex and costly to apply, without commensurate benefit. The application of the ECL model contained in IFRS 9 is commonly an area of challenge for those entities that prepare separate financial statements under full IFRS. The two most common difficulties faced by SMEs are the paucity of data to calculate the ECLs and the possibility that intercompany loans are either undocumented, or not documented in accordance with the substance of the arrangement. It is possible that a group entity is financed entirely by debt rather than partly through equity, so that the substance of the loan (at least in part) may be closer to an equity investment in that entity.

We concur with the Board's observation that the ECL model in IFRS 9 is widely regarded as an improvement on the 'incurred loss' approach in IAS 39, and that some entities may benefit from applying a forward-looking model. Therefore, we recommend that the Board introduces a policy choice, allowing either the existing incurred loss model in Section 11 or a forward-looking IFRS 9 ECL model by incorporating this in Section 11. As noted in our general comments, we believe that the application of the Standard should make reporting more flexible for preparers, and the inclusion of this option supports flexibility without introducing undue costs. To achieve consistency for all financial assets at amortised cost, we recommend that the Board makes the impairment model an irrevocable policy choice.

4(ii) See our comment in 4(i) above, we do not agree that there should be use of both the incurred loss and ECL models as this would cause unnecessary complexity in the determination of impairment of financial assets. We believe that a policy choice should be made available, which, once chosen, should be applied to all financial assets measured at amortised cost.

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.

Overall, we agree with the alignment of the Standard with IFRS 13 *Fair Value Measurement*. We note that certain guidance included in IFRS 13 has been omitted from Section 12 of the standard, specifically the guidance applying to liabilities and own equity instruments. Without guidance, it may be less obvious to a preparer of financial statements that there would be a difference between a transfer or settlement notion, and that the preparer would have to include the effects of non-performance risk in measuring a liability's fair value.

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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.

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.

6(i) We agree with the proposal to align the definition of joint control with the definition included within IFRS 11 *Joint Arrangements*. We believe that it may be beneficial to incorporate the principles set out in IFRS 11.7-13 into the Standard as this gives context and guidance in determining joint control.

We note that in describing joint control, Section 15 does not cross-refer to the definition of control in Section 9 Consolidated and Separate Financial Statements. We believe that joint control needs to be considered in the context of the definition of control. Appendix A of IFRS 11 includes defined terms which are integral to IFRS 11, with a note that states that certain terms defined elsewhere in the standards (i.e., in IAS 27, IAS 28 and IFRS 10) are used in IFRS 11 with the same meaning specified in those IFRSs. We would recommend that a similar link be made between Section 15 and Section 9.

While we understand the Board's rationale in retaining the three classifications of a joint arrangement, since the proposed retained classifications do not affect the measurement principles, we believe that IFRS 11's classification of joint arrangements would not be costly or difficult to implement for the preparers of financial statements of the Standard.

6(ii) We agree that Section 15 should be aligned with the requirements of paragraph 23 of IFRS 11, so that a party to a jointly controlled operation or a jointly controlled assets, 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.

We note that the word 'venturer' (previously defined in the 2015 Standard as 'A party to a joint venture that has joint control over that joint venture') has been replaced with the word 'party' throughout the ED. Paragraph 15.1 states 'References to 'party' in this section are to an entity that participates in a joint arrangement'. We believe that it is not always appropriate to use the term 'party' in place of the previously used term 'venturer', since the reference is wider in scope.

As an example of the use of the term 'party' versus 'venturer', Paragraph 15.9 sets out the three options available for measurement of a jointly controlled entity. In this paragraph, 'venturer' has been replaced with 'party'. The section refers to 'A party' accounting for its interest in a jointly controlled entity, which when read together with Paragraph 15.1, implies any party that participates in a jointly controlled entity has the three measurement options available to them. However, this is contrary to the principles outlined for the party without joint control as explained in Paragraph 15.18.

Appendix A to IFRS 11 defines a 'party to a joint arrangement' and 'joint venturer', as follows:

- *Party to a joint arrangement* is defined as 'An entity that participates in a joint arrangement, regardless of whether the entity has joint control of the arrangement';
- *Joint venturer* is defined as 'A party to a joint venture that has joint control of that joint venture'.

We consider these definitions to provide more clarity on which party the Standard is referring to when providing accounting requirements. We would recommend that Section 15 should be fully aligned with IFRS 11 in defining a party to an arrangement and joint venturer, and the term 'joint venturer' should be used in place of the previously used 'venturer'. This would make it clear that the term 'party to an arrangement' applies to entities that participate in joint arrangements regardless of whether they have joint control.

We thus recommend that, in the case of paragraph 15.9 (and any other paragraph specifically meaning to refer to an entity with joint control), there should be a reference to 'joint venturer', aligned with IFRS 11's definition.

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

Overall, we agree with the proposal to align the definitions and principles with those in IFRS 3 *Business Combinations*. We acknowledge that the post-implementation review has been completed and would further support this matter.

7(i) We agree with the proposal to introduce requirements for the accounting for step acquisitions. This aids the Standard's alignment with IFRS 10. We believe that a simplification should be allowed for SMEs by removing the requirement to measure fair value of the previous holdings when a step acquisition is performed, as the costs to determine such a fair value may not be commensurate with the benefit users would gain from such a measurement. Previously under full IFRS (prior to the issue of the revised IFRS 3), the fair value of previous holdings was not required, and this could be a simplification specific to SMEs.

7(ii) We disagree that removal of the option to measure the non-controlling interest (NCI) at fair value helps to simplify the measurement of NCI. As noted in our general comment, we believe that where there are options allowed in full IFRS, these options should be allowed in the Standard as well. The application of the Standard should make reporting less onerous and more flexible for preparers.

7(iii) No further comments on this section.

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?

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?

8(i) We do not agree that the revised Section 23 would be appropriate for SMEs and users of their financial statements. We are concerned about the complexity and the costs of aligning the revenue recognition principles to IFRS 15. Our experience from IFRS 15 implementation projects is that the required contract-by-contract analysis and the analysis of related business operational information (which is not readily available in accounting departments), results in significant cost and effort.

Our preferred view is to retain the current requirements and agree with the Board's observation in paragraph BC186 of the ED that the alignment to IFRS 15 would result in limited changes in the amount and timing of revenue recognised. Our view is that the principle of 'undue cost and effort' should be adequately considered, given the complexities surrounding the application of IFRS 15 and the Board's conclusion that the adoption of IFRS 15 generally would not result in material changes to the timing and measurement of revenue recognised by these entities, given the non-complex nature of contracts normally entered into by SMEs.

Should the Board proceed with the alignment of the Standard to the principles of IFRS 15, we set out the specific points below for the Board's consideration:

- We do not believe that simplification of certain terms creates benefit for users or preparers. Certain terminology which is well understood by preparers and users of full IFRS financial statements has been amended in the ED, for example, instead of referring to a 'performance obligation', the Exposure Draft refers to a 'promise'. We question the rationale behind such a change, and how this would be useful to preparers and users.
- We note that the application guidance in Appendix B to IFRS 15 has not been brought into Section 23. We believe that preparers of the Standard will need to refer to this guidance when applying the Standard. We consider guidance on repurchase agreements, bill-and-hold arrangements, transfer of control and customer acceptance to be relevant to preparers.
- We note that there is a significant amount of additional disclosure proposed compared to the current 2015 Standard, which we believe increases complexity for preparers and does not necessarily add value for users. For example, the reconciliations and disclosures required by paragraph 23.123 for contract balances, disclosures required by paragraph 23.126 for unsatisfied promises, and the disclosures required by paragraph 23.127 for costs incurred in obtaining or fulfilling a contract seem excessive for an SME.
- The Board has attempted to simplify the proposed revenue section by limiting the requirements to instances where the issue is 'significant to the contract'. For example, to limit the situations in which an SME is required to assess whether a warranty in a contract (that the customer does not have the option to purchase separately) provides a service in addition to the assurance that the product complies with agreed-upon specifications, the IASB proposes that the assessment is only required if the warranty is significant to the contract (paragraphs 23.25 –23.28). Also, the IASB is proposing that SMEs separately account for material rights arising from a contract only when the effects of doing so are 'significant to the accounting for the individual contract' (paragraph 23.35). Determining whether something is 'significant to the contract' may introduce complexity for preparers and inconsistency in application. Should this principle be retained, we recommend that the Board includes guidance on how the concept of significance to a contract should be applied.
- Principal versus agent - IFRS 15 includes a principle that an entity applies to determine whether it is acting as a principal or agent, which is supported by three indicators. The IASB is proposing to reframe the principle with one indicator as a circumstance that would result in an entity acting as a principal. While the intention is to simplify the standard, it may have the unintended consequence that entities would not conclude on principal versus agent consistently between IFRS 15 and the Standard. We thus believe that the principle and three indicators included within the application guidance of IFRS 15 should be included in Section 23.

8(ii) As noted above, we do not agree with the alignment of this section with the principles in IFRS 15. However, should the Board decide to proceed with the alignment, we believe that the examples of promised goods or services noted in IFRS 15.26 should be incorporated into the Standard, as these may be useful to preparers.

In addition, we also note that two illustrative examples in IFRS 15 IE 44 - Example 10 and Example 11, illustrating the principles of determining performance obligations, are not incorporated in the proposed Section 23. We believe similar simplified examples may be useful to SME preparers. Similar to the current Standard (2015), which includes an appendix containing examples of revenue recognition under the principles of Section 23, we recommend that the amended Section 23 also includes examples of revenue recognition as an appendix to this section.

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?
> 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?

9 (i) We do not agree with the IASB's proposal to delete paragraph 28.19. We believe that this is useful for SMEs and recommend that this simplification be retained.

We have determined that application of these rules is specific to certain jurisdictions, and we have noted that some entities have applied this paragraph. Under full IFRS, preparers commonly make use of the 'Projected Unit Credit method' which would involve actuaries to value defined benefits. Should the simplification be removed, preparers would need to engage with actuaries and these services would be costly for SMEs with limited resources and would not necessarily provide benefit to users.

9 (ii) We agree with the proposed clarifications to paragraph 28.19 as an alternative to the removal of the measurement simplifications. The clarifications allow flexibility to preparers in applying any or all of the simplifications, and the examples of future service of current employees that can be ignored may be helpful for preparers but will not change existing practice.

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 do not agree with the proposed transition requirements. The Standard is viewed as an individual standard that incorporates multiple sections, accordingly, we believe that there should not be different transition approaches for different sections within the standard.

Our view is that the transition requirements are unnecessarily complicated by requiring both prospective and retrospective application for different sections of the Standard. We would prefer the prospective approach to be applied for all sections of the Standard to maintain simplicity.

If the Board goes ahead anyway, then where the retrospective approach to transition is considered necessary by the Board, we do not agree that a full retrospective approach is justified. We propose that a 'modified retrospective approach' similar to that which was allowed for preparers under full IFRS in transitioning to IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers*, be made available as an option to preparers of the Standard.

We agree with the option to apply Section 23 *Revenue* prospectively to contracts that begin after the date of initial application and not change the accounting for any contracts in progress. However, that would mean that for businesses with long-term contracts, there would be a need for dual accounting policies.

We also agree with the requirements to provide split disclosure for the contracts using the revised Section 23 which is aligned to IFRS 15 and those that apply the current requirements where the prospective approach has been applied.

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 note that paragraph 1.3A refers to 'users' as being existing and potential investors, lenders and other creditors, while paragraph 1.2 refers to examples of users including owners who are not involved in managing the business, existing and potential creditors, and credit rating agencies.

The inclusion of 'investors' as users in paragraph 1.3A aligns with full IFRS, which we believe may have unintended consequences in applying the principle of 'relevance' when determining whether and how the Standard should be aligned with full IFRS. If the users of financial statements under full IFRS and the Standard are the same, it would be difficult to conclude that what is relevant for users under full IFRS is not also relevant for users under the Standard.

In respect of Section 7, we are not convinced that the addition of a requirement to disclose a reconciliation of changes in liabilities arising from financing activities provides material information to users and it should be omitted.

In the case of Section 26, we question the need to update this section on the basis that it is not material for users of the Standard.

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).

We agree that the IASB should consider alignment of the Standard with IFRS 16 *Leases* once the post implementation review has been completed. We agree that the post implementation review might help inform possible areas of simplification.

We also agree that the costs and efforts for SMEs to apply an aligned Section 20 (at this stage of IFRS 16's life cycle) are not justified by the benefits to users. The current disclosure requirements of Section 20 are sufficiently detailed and transparent for a user to understand the nature of the entity's lease arrangements and the rights and obligations arising from these arrangements.

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 support the inclusion of a policy option that permits the recognition of intangible assets arising from development costs that meet the above criteria. As noted in our general comments, we believe that the application of the Standard should make reporting more flexible for preparers, and the inclusion of this option supports flexibility.

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 agree with the removal of this paragraph as it diverges from full IFRS, and we noted that certain jurisdictions do not allow for the issue of equity instruments until they are fully paid. We recommend that consideration be given to the principles in IAS 32 *Financial Instruments: Presentation* which can provide useful guidance. If equity instruments (for example, shares) are legally issued, and if the substance of the contractual arrangement indicates classification as an equity instrument and the definition of a financial asset in IAS 32 is met, any shareholders' equity still to be contributed is classified as equity, and an asset is recognised at the fair value at initial measurement of the funds to be received.

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?

We have no preference in respect of either of the approaches that could be applied. Whichever approach is followed, should be applied consistently.