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Ref.: ACC/AKI/HBL/PGI/SRO

Dear Ms. Flores,

Re: FEE comments on the proposed amendments to the International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs)

FEE (the Federation of European Accountants, www.fee.be) is pleased to provide you below with its comments in relation to the Exposure Draft ED/2013/9 IFRS for SMEs ("ED"), issued by the IASB on 3 October 2013.

FEE welcomes the proposed amendments to the IFRS for SMEs (the "Standard"). We note that in some circumstances the IFRS for SMEs deliberately diverges from full IFRSs, or provides additional guidance. We believe that the IASB should continually monitor whether such divergence and additional guidance continues to be appropriate given that accounting practices evolve over time in response to external factors and practical experience.

In common with EFRAG, we agree with the IASB's proposed amendments to Section 29 Income Tax and its alignment with IAS 12 Income Taxes for the recognition and measurement of deferred tax. As further explained in response to Question 2, we question the appropriateness of certain simplification measures introduced in Section 29 as compared to IAS 12.

FEE believes that the going concern basis is a fundamental accounting principle. Consequently, we believe that the IFRS for SMEs should always require disclosure as to whether management consider the going concern basis is appropriate for the preparations of the financial statements, rather than the current requirement to disclose only when the basis is not considered appropriate. This would both improve clarity for the users of the financial statements and also focus the attention of management on assessing risks to their business that may arise in the foreseeable future.

FEE has always supported the concept of the Standard as a stable platform as small and medium-sized entities do not necessarily have the resources to deal with constant revisions to accounting standards. Consequently, FEE agrees with EFRAG's position on setting a framework formalising a procedure for future reviews of the IFRS for SMEs, in particular whether changes made to the full IFRSs should be introduced into the IFRS for SMEs.

In common with EFRAG, we believe that consultations on amending the IFRS for SMEs should take place not earlier than the post-implementation review of new IFRS or major amendments to an existing IFRS.

On the question of changing the current tentative three-year review cycle, contrary to the position taken by EFRAG, we believe that there has been insufficient experience in applying the Standard in practice to establish whether a longer cyclical review period is appropriate. This decision should be deferred until the Standard has had more practical application. On the other hand, we do agree with EFRAG that a provision for reviewing urgent issues should be introduced, especially for amendments that could result in eliminating complexity or reducing the cost and effort for SMEs.

FEE believes that there the experience of applying the IFRS for SMEs is not yet sufficient to determine whether certain options that were purposely left out of the Standard should be introduced. Options such as the revaluation of property, plant and equipment, or the capitalisation of development costs or borrowing costs can be considered when the Standard has been in application for a longer time. The appropriateness of introducing options would also need to be evaluated by reference to the underlying purpose of the Standard; something that we believe has yet to be adequately determined.

Indeed, as indicated in our response to the 2012 Request for information: Comprehensive Review of the IFRS for SMEs ("the RfI"), we believe that it would be important to clearly establish the purpose of the IFRS for SMEs. As full IFRS continues to evolve, it will become more and more important to have clear principles upon which to rely to determine whether (and if so, when) similar changes should be incorporated in the IFRS for SMEs. It is therefore important to clearly establish a hierarchy of the criteria used to determine how the IFRS for SMEs should evolve. Once this is established, the necessary changes to the IFRS for SMEs can be more clearly evaluated.

FEE's views on the specific questions on which the IASB would particularly value comments are set out in the Appendix.

For further information on this letter, please contact Paul Gisby, Project Manager, at the FEE Team on +32 2 285 40 70 or via e-mail at paul.gisby@fee.be.

Yours sincerely,

André Kilesse
President

Olivier Boutellis-Taft
Chief Executive

Encl.

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?

The IFRS for SMEs has not yet been widely adopted within Europe. Where it has been adopted it is mostly used as a basis for developing national GAAP rather than as a stand-alone standard. Consequently, we have limited experience of the use of the term in the context of the IFRS for SMEs. However, the term "fiduciary capacity" is used in other contexts in Europe and, in our opinion, within the context of the custody of assets, the term is sufficiently well understood that its use is appropriate in the IFRS for SMEs.

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.

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?

We agree with the general principle of aligning the IFRS for SMEs with full IFRSs and then providing simplifications appropriate for the financial reporting of SMEs. Consequently, we welcome this amendment to align Section 29 with IAS 12 Income Taxes rather than keeping it based on a proposed standard that was never enacted.

We support the IASB's proposal to include an undue cost or effort exemption with respect to offsetting of deferred taxes and liabilities. However, we believe that application of the offsetting requirements could be further simplified by requiring offsetting of deferred tax assets and liabilities levied by the same taxation authority on the same taxable entity.

Paragraph 29.21 establishes a rebuttable presumption that investment properties measured at fair value will be recovered through sale. However, unlike full IFRS, it does not establish an automatic rebuttal of this presumption if the property is depreciable and held within a business model whose objective is to consume substantially all of the economic benefits of the investment over time, rather than through sale. We believe that it would be useful to include this automatic rebuttal in paragraph 29.21.

We disagree with paragraph 29.23 which proposes that an entity shall not discount current or deferred tax assets and liabilities. We do not agree this prohibition should apply to current tax assets and liabilities. These amounts share the characteristics of financial assets and liabilities. Accordingly, where current taxation assets and liabilities are material and include a financing transaction (as described in paragraph 11.13) we believe that they should be recognised on a discounted basis. This would be especially important in jurisdictions experiencing a high interest rate environment.

Further, we note that the requirements of IAS 12.82 to disclose the amount of deferred tax asset, and the nature of the evidence supporting its recognition, have not been included in Chapter 29. We believe that this information would be readily available to preparers and would be useful to users. Hence we suggest that it be included in the IFRS for SMEs.

Finally, in common with EFRAG, we encourage the IASB to consult preparers and users of the IFRS for SMEs to assess whether smaller entities applying the Standard would be better served, and the users of their financial statements not significantly affected, by having an "undue cost or effort" exemption in Section 29 or, alternatively, an option to use the tax payable basis as an alternative to accounting for deferred taxation.

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?

If you disagree with an amendment please state any alternatives you propose and give your reasoning.

We agree in general with most of the proposed amendments and we believe that they improve the clarity of the Sections of the IFRS for SMEs to which they relate. However we have the following comments with respect to certain of the amendments.

Undue cost or efforts

We are in broad agreement with EFRAG regarding their draft comments on the Exposure Draft relating to the use of the exemption on the grounds of "undue cost and effort". In particular we agree with their opinion that where an SME makes use of this exemption in a set of financial statements it should be required to state that fact, detail the accounting requirement affected and explain the reasons why meeting that requirement would result in undue cost and effort.

Statement of comprehensive income

We do not support the requirement proposed in paragraph 5.5(g) to group items of other comprehensive income based on whether or not they will be reclassified subsequently to profit or loss. The IFRS for SMEs include only one item of comprehensive income for which recycling is required, that is changes in fair value of hedging instruments designated in a cash flow hedge relationship. Hence, we do not believe that the distinction proposed is useful to users of financial statements of an SME.

Consolidated and Separate Financial Statements

Unlike EFRAG, we do not believe that paragraph 9.16 should be fully aligned with paragraph B93 of IFRS 10 to limit the difference between the date of the subsidiary's financial statements being used in the consolidation to not more than three months before or after the date of the consolidated financial statements. We believe that the requirement to adjust the most recent financial statements of the subsidiary for the effects of significant transactions or events would be sufficient in the context of those entities using the IFRS for SMEs.

Liabilities and Equity

We support the exemption introduced in paragraph 22.8 with respect of measurement at fair value of equity instruments issued as part of a business combination. However, like EFRAG, we believe that the Board should clarify that an entity would be permitted to measure such instruments at fair value if it wishes to do so, as indicated in BC79.

We agree with the undue cost or effort exemption proposed in paragraph 22.15A with respect to the measurement of the equity instruments issued as part of a debt for equity swap. However, we believe that determining the fair value of the debt extinguished in such exchange transactions will often be similarly difficult. Hence, we would support extending the exemption to the valuation of the debt. If both the equity issued and the debt extinguished cannot be measured at fair value without undue cost or effort, the entity should be allowed to measure the equity issued at the carrying amount of the debt extinguished.

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.

Share Subscriptions receivable

In our response to the RfI on 14 December 2012 we indicated that we do not believe that it is necessary for the IFRS for SMEs to stipulate the treatment of share subscriptions receivable and similar receivables upon which the full IFRS is silent. The presentation of such an item as an asset should be based on whether it meets the definition of an asset and satisfies the recognition criteria. Therefore, we believe that paragraph 22.7 should be deleted and that the IFRS for SMEs should remain silent on this issue.

Disclosure of the going concern basis

FEE regards the going concern basis as one of the fundamental accounting principles and a crucial consideration for an entity's management in the preparation of its financial statements. Paragraph 3.8 of the IFRS for SMEs requires the management of an entity to make an assessment of the entity's ability to continue as a going concern. However, Paragraph 3.9 only requires disclosure of the going concern basis when management have decided that the basis is not appropriate for the presentation of the financial statements.

We believe that the IFRS for SMEs should require that management make a positive statement that, in their opinion, the going concern basis is appropriate for the preparation of the financial statements and also to disclose any specific factors considered in reaching that opinion. This would, we believe, ensure that management conduct a comprehensive review of potential risks that the entity faces in the near future.

Additionally, we believe that it would be a problem if an auditor had to deliver an opinion on the going concern of an entity when management does not provide an explicit statement on the issue in the financial statements.

Option to use the revaluation model for PPE

The IFRS for SMEs is still a relatively new standard with limited experience of issues arising from its practical application. For this reason, contrary to the position taken by EFRAG, we believe that there is no urgent need to consider adding options to the Standard, including the option to revalue property, plant and equipment. This matter should be addressed by the IASB when there is more practical experience of problems arising from the omission of accounting options from the Standard.

Option to capitalise development costs and borrowing costs

As discussed earlier, we believe that adding options to the Standard should only be considered after there is more practical experience in its application. Consequently, contrary to EFRAG, we do not believe that this current review cycle is the appropriate time to consider adding options relating to capitalising development or borrowing costs.

Actuarial gains and losses

Contrary to EFRAG, FEE does not support removing the current option in the IFRS for SMEs to permit actuarial gains and losses to be recognised either through profit or loss or in OCI. Due to the limited practical application of this Standard, we believe that this matter should be addressed by the IASB when there is more evidence that problems are arising in practice due to the existence of this option in the Standard.

Question 5 - Transition 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?

We do not believe that the proposed amendments to the IFRS for SMEs will place a significant burden on the preparers of financial statements for entities that have adopted, or are in the process of adopting, the IFRS for SMEs. Therefore, we agree with the proposed transition provisions.

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?

We are also of the opinion that the proposed amendments to the IFRS for SMEs will not result in significant changes in practice for SMEs or have a significant impact on their financial statements. Consequently, we agree both with the proposed effective date for the IFRS for SMEs and the proposal to permit 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?

One of the most welcome aspects of the IFRS for SMEs is the stable platform resulting from the fact that changes are limited to a three-year timetable. We believe that it is important to retain this multi-annual review cycle to ease the adoption and the application of the Standard.

In order to provide a stable platform, we consider that the IFRS for SMEs should not be amended to reflect complex and significant changes in full IFRSs before those changes are effective. Rather, the suitability of a significant new standard should be assessed for incorporation into the IFRS for SMEs once a track record of its application under full IFRSs has been established. The post-implementation review of the new standard may provide an opportunity to make this assessment.

Furthermore, in assessing the suitability of a full IFRS standard for incorporation into the IFRS for SMEs, the Board should take into account the costs and the capabilities of SMEs to prepare financial information before moving to any more complex model. More importantly, care should always be taken to ensure that additional complexity is not introduced unless it is justified by a thorough analysis of cost-benefit considerations on a case-by-case basis.

For the time being, we believe that the current three-year review cycle is adequate and that more experience in applying the Standard is required before moving to a longer review cycle, such as the five-year review cycle proposed by EFRAG. Nevertheless, we support an ongoing monitoring of the Standard between review cycles to deal with urgent issues identified from the practical application of the Standard and of full IFRSs. However, interim amendments to the Standard should only be made after due consideration of the costs and benefits arising from, and of the ability of SMEs to deal with, such changes.

Question 8 - Any other comments

Do you have any other comments on the proposals?

We have no other comments on the proposals.