



RESPONSE TO THE IASB REQUEST FOR INFORMATION

COMPREHENSIVE REVIEW OF THE IFRS FOR SMEs

30 November 2012

Introduction

ICAS welcomes the opportunity to comment on the IASB's Request for Information in relation to its "Comprehensive Review of the IFRS for SMEs". The ICAS Accounting Standards Committee has considered the Request for Information and I am pleased to forward its comments.

The ICAS Charter requires its committees to act primarily in the public interest, and our responses to consultations are therefore intended to place the public interest first. Our Charter also requires us to represent our members' views and to protect their interests, but in the rare cases where these are at odds with the public interest, it is the public interest which must be paramount.

Any enquiries should be addressed to Ann Buttery, Assistant Director, Technical Policy and Secretary to the Accounting Standards Committee.

Key Comments

Our key comments are as follows:

- We support the alignment of the measurement and recognition requirements of the *IFRS for SMEs* with full IFRS, subject to specific SME modifications, therefore it would be helpful if the *IFRS for SMEs* is updated as soon as possible for any new IFRS issued.
- We would support an option to follow full IFRS, to assist companies which are likely to transition to full IFRS in the near future. Furthermore, subsidiaries should be permitted to align their accounting policies with those of the parent.
- We support *IFRS for SMEs* providing an option for entities to use the revaluation model for property, plant and equipment.

Response to Request for Information

We respond below to the specific questions posed in the Request for Information. Where a specific question is not answered, we have no comment to make with respect to that particular area.

Question S1

Are the scope requirements of the IFRS for SMEs currently too restrictive for publicly traded entities?

- (a) *No—do not change the current requirements. Continue to prohibit an entity whose debt or equity instruments trade in a public market from using the IFRS for SMEs.*
- (b) *Yes—revise the scope of the IFRS for SMEs to permit each jurisdiction to decide whether entities whose debt or equity instruments are traded in a public market should be permitted or required to use the IFRS for SMEs.*
- (c) *Other—please explain.*

Response S1

- (a) We do not believe that the current requirements should be changed.

Question S2

Are the scope requirements of the IFRS for SMEs currently too restrictive for financial institutions and similar entities?

- (a) *No—do not change the current requirements. Continue to prohibit all financial institutions and other entities that hold assets for a broad group of outsiders as one of their primary businesses from using the IFRS for SMEs.*
- (b) *Yes—revise the scope of the IFRS for SMEs to permit each jurisdiction to decide whether any financial institutions and other entities that hold assets for a broad group of outsiders as one of their primary businesses should be permitted or required to use the IFRS for SMEs.*
- (c) *Other—please explain.*

Please provide reasoning to support your choice of (a), (b) or (c).

Response S2

- (b) We believe that the scope of the *IFRS for SMEs* should be revised to permit jurisdictions to determine which entities (other than those addressed in S1 above) are required or permitted to use the *IFRS for SMEs*. For example, in the UK, credit unions would be excluded because they are financial institutions: however, many small credit unions are little more than private clubs and the *IFRS for SMEs* would be highly appropriate for their financial reporting purposes.

Question S3

Should the IFRS for SMEs be revised to clarify whether an NFP entity is eligible to use it?

- (a) Yes—clarify that soliciting and accepting contributions does not automatically make an NFP entity publicly accountable. An NFP entity can use the *IFRS for SMEs* if it otherwise qualifies under Section 1.
- (b) Yes—clarify that soliciting and accepting contributions will automatically make an NFP entity publicly accountable. As a consequence, an NFP entity cannot use the *IFRS for SMEs*.
- (c) No—do not revise the *IFRS for SMEs* for this issue.
- (d) Other—please explain.

Please provide reasoning to support your choice of (a), (b), (c) or (d).

Response S3

- (a) The preferred approach is to use the foundation in S 3(a), so that financial institutions and NFPs are not automatically publicly accountable and prevented from using the *IFRS for SMEs*. Jurisdictions should determine which entities can use the *IFRS for SMEs* based on the regulatory requirements in that country. Please also see the response to question S2 above.

Question S4

Should the changes outlined above be considered, but modified as appropriate to reflect the needs of users of SME financial statements and cost-benefit considerations?

- (a) No—do not change the current requirements. Continue to use the current definition of control and the guidance on its application in Section 9. They are appropriate for SMEs, and SMEs have been able to implement the definition and guidance without problems.
- (b) Yes—revise the *IFRS for SMEs* to reflect the main changes from *IFRS 10* outlined above (modified as appropriate for SMEs).
- (c) Other—please explain.

Please provide reasoning to support your choice of (a), (b) or (c).

Response S4

- (b) In general, as an overall observation, we agree that it is advisable that the *IFRS for SMEs* is aligned to full IFRS as far as possible, while still maintaining the SME modifications.

Question S5

How should the current option to use IAS 39 in the IFRS for SMEs be updated once IFRS 9 has become effective?

- (a) There should be no option to use the recognition and measurement provisions in either IAS 39 or IFRS 9. All SMEs must follow the financial instrument requirements in Sections 11 and 12 in full.
- (b) Allow entities the option of following the recognition and measurement provisions of IFRS 9 (with the disclosure requirements of Sections 11 and 12).
- (c) Other—please explain.

Please provide reasoning to support your choice of (a), (b) or (c).

Response S5

- (b) As previously stated, we believe that it is advisable for the *IFRS for SMEs* to be aligned to full IFRS as far as possible, and the *IFRS for SMEs* could be updated through the annual improvement programme once IFRS 9 has been issued.

Question S9

Should an option to use the revaluation model for PPE be added to the IFRS for SMEs?

- (a) No—do not change the current requirements. Continue to require the cost-depreciation-impairment model with no option to revalue items of PPE.
- (b) Yes—revise the *IFRS for SMEs* to permit an entity to choose, for each major class of PPE, whether to apply the cost-depreciation-impairment model or the revaluation model (the approach in IAS 16).
- (c) Other—please explain.

Please provide reasoning to support your choice of (a), (b) or (c).

Response S9

- (b) Yes, revise the *IFRS for SMEs* to permit an entity the option. This is a common issue for SMEs and users' expectations, but is not a complex one. For many SMEs, measuring PPE at fair value is fundamental to stakeholders' understanding of the financial position of the entity.

The UK and Republic of Ireland has permitted revaluation of fixed assets, specifically freehold land and buildings, since the Companies Act of 1948. In 2010, as part of the Financial Reporting Council's project to update UK and Republic of Ireland accounting standards, it was proposed that the revaluation option be removed from accounting standards to mirror the IFRS for SMEs. The Financial Reporting Council received strong, negative feedback to this proposal. The main concern raised was that financing arrangements are often linked to amounts reported in the financial statements and removal of the revaluation option could result in breaches of existing arrangements and a reduction in the ability of entities to raise finance in the future. During times of economic constraints, it is particularly important that businesses are able to use the value accumulated in fixed assets (and other non-financial assets such as investment properties) to secure access to financing.

Question S10

Should the IFRS for SMEs be changed to require capitalisation of development costs meeting criteria for capitalisation (on the basis of on the criteria in IAS 38)?

- (a) No—do not change the current requirements. Continue to charge all development costs to expense.
- (b) Yes—revise the *IFRS for SMEs* to require capitalisation of development costs meeting the criteria for capitalisation (the approach in IAS 38).
- (c) Other—please explain.

Please provide reasoning to support your choice of (a), (b) or (c).

Response S10

- (b) Yes, revise the *IFRS for SMEs* as above on the basis that we believe that the *IFRS for SMEs* should be as close as possible to full IFRS.