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Berlin, 14 December 2007

Sir David Tweedie
Chairman
International Accounting Standards Board

30 Cannon Street
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Dear David,

**Exposure Draft of an International Financial Reporting Standard for Small and Medium-Sized Entities (ED-IFRS for SMEs)**

On behalf of the German Accounting Standards Board (GASB) I am writing to comment on the Exposure Draft of an IFRS for SMEs. We appreciate the opportunity to comment on this ED. We believe a future IFRS for SMEs to be of great importance worldwide. And as laid out in our earlier comment letters we fully support this project and we welcome this first ED of an IFRS for SMEs as a basis for discussion on this issue in the future.

We understand the difficulties of developing an appropriate IFRS for SMEs and we acknowledge this ED as an important step in the right direction. Nevertheless, there are several crucial issues in the ED-IFRS for SMEs as it stands that will hinder its acceptance in Germany.

The general impression is that the ED-IFRS for SMEs is still too complex and not yet sufficiently adjusted to the needs of SMEs and the users of their financial statements. The SME standard is hard to read and to comprehend if read outside the context of full IFRSs. In our view there is still a potential to simplify the structure and wording of the IFRS for SMEs, certain measurement and disclosure requirements.

The GASB explicitly supports the IASB's approach to develop a stand-alone document. However, to our understanding this includes removing all references to full IFRSs and also the general elimination of options. With reference to the applicability of an IFRS for SMEs it seems crucial for us to assure that companies need to apply one set of rules only. In addition to explicit references to a specific IFRS or options within IFRS, there are generally still many resemblances to full IFRSs. Given the basic approach of including full IFRSs' black-letter-paragraphs in the ED-IFRS for SMEs there was only little room for adjusting and aligning the wording throughout the standard. Where adjustments were made in the ED-IFRS for SMEs these could have been explained in more detail in the Basis for Conclusion (e.g. with regard to changes to the impairment test). Overall, from our point of view a consistent disconnection between full IFRSs and the IFRS for SMEs is necessary. More details with regard to these aspects are laid out in Part I (general remarks) of our comment letter.

As pointed out in previous correspondence and conversations, a main issue for German companies within the possible scope of the ED-IFRS for SMEs is the current classification of equity and liabilities. According to compulsory company law, the statutory capital of some legal forms such as commercial partnerships, limited liability partnerships or cooperatives, is puttable. Similar legal requirements may exist in other countries. The IASB itself stated that application of the liability definition (which is identical for IFRS and IFRS for SMEs on this issue) lacks relevance and understandability if applied by companies in those legal forms. Presentation of 'no equity' – or even negative equity – would undoubtedly disturb investor confidence. The GASB acknowledges that changes are momentarily under discussion in order to address this anomalous accounting.

Whilst we support the IASB's longer-term project to look at a general principle that distinguishes equity from liabilities from a conceptual point of view, we nevertheless urge you to approach this issue shortly as well. We acknowledge that the IASB already works intensively on a short term fix of IAS 32, and we hope that a revised standard will be published in early 2008. However, the IASB's Exposure Draft on IAS 32 "puttable instruments" evidences how difficult it is to address this issue more broadly. We note that, as part of the current re-deliberations of this Exposure Draft, the new approach seeks to incorporate an exemption for puttable instruments, provided certain conditions are met. These conditions focus on the most subordinated class of instruments and the residual nature of those instruments' claims, both to ongoing profits and upon liquidation. The equity/liability project under the 'Pro-active Accounting Activities in Europe' of the European national standard setters and the European Financial Reporting Advisory Group currently discusses a very similar approach. This approach is based on the loss-absorbing capabilities of capital and thus, similarly concerned with the residual nature of equity. We believe that distinguishing equity from liabilities based on the residual nature of the claims attached to equity instruments or equity interests is a promising route to pursue.

If IAS 32 is revised along the lines of the new approach mentioned above, this would allow the anomalous accounting to be fixed for some legal forms currently affected. However, the short-term fix is an exemption limited to IAS 32 and does not address the distinction between equity and liabilities on a conceptual (i.e. Framework) level. Since a significant percentage of the companies within the possible scope of the IFRS for SMEs are established in the affected legal forms mentioned above, and since the IFRS for SMEs is intended to be a stand-alone standard, the IFRS for SMEs would require a similar exemption in order to assure that it will be acceptable for these entities as well.

In case the IASB does not further pursue the short-term project to amend IAS 32, GASB strongly suggests – as a minimal solution – that the IASB considers at least adapting the SME standard accordingly. Whilst a solution for the SME standard in line with full IFRSs is conceptually more convincing we have strong evidence that the SME standard will not be acceptable in Germany if the issue of equity/liabilities classification is not satisfactorily resolved.

During the comment period (February-October 2007) GASB has conducted field studies. Firstly, GASB conducted a survey amongst 4.000 German SMEs (non-listed companies with a minimum annual turnover of 8 m €) asking them to evaluate the accounting provisions put forward by the IASB in the ED-IFRS for SMEs; 10% of those (410 SMEs) answered the questionnaire. Secondly, as part of the IASB field tests the GASB has organised for 16 SMEs to prepare in cooperation with Small and Medium-sized Practices (SMPs) trial-financial statements in accordance with the ED-IFRS for SMEs. The results are incorporated into this comment letter, but will also be presented to you separately. Since the IASB's approach was to evaluate costs for the preparers on the one side and benefits for the users of SME financial statements on the other side, the GASB decided to conduct another study to evaluate the user benefits of financial statements prepared in accordance with the ED-IFRS for SMEs. As stated in ED-IFRS for SMEs.BC55 and as supported by our previous study, banks represent a major group of users of SME financial statements. The GASB therefore will ask banks about the importance of financial accounting in general and particularly which information is relevant and beneficial for their loan decisions. The results of this survey are, however, only expected to be completed in the Q2 of 2008.

Attached to this accompanying letter, you will find

→ Part I: General Remarks

→ Part II: Detailed Comments to the IASB Questions and to each Section of the ED-IFRS for SMEs

Appendix 1: Disclosure Simplifications

→ Part III: Results of the survey amongst German SMEs (separate file)

(The Report on the Field Test in Germany will be send to you separately, together with the trial financial statements prepared in accordance with the ED-IFRS for SMEs.)

Please do not hesitate to contact me if you wish to discuss any aspect of our comment letter in more detail.

Kind regards,

*Liesel Knorr*

**PART I: GENERAL REMARKS**

Before addressing specific questions of the ED we would like to discuss in more detail several aspects, which we believe are essential to enhance the quality of the stand-alone IFRS for SMEs and the acceptance of this standard in Europe and Germany respectively. However, we do not base our comments solely on a European or German perspective, but have global implications of the IFRS for SMEs in mind, too. To explain the basis for our comments, we would like to outline our general approach to evaluating the ED as well as some general comments on the aim and structure of the SME-standard prior to answering your specific questions.

*Understanding of an SME*

The evaluation of the proposed accounting standard for SMEs heavily depends on the understanding of an SME. Applying the scope as defined in ED1.1 to the German environment, the scope comprises a large variety of entities, which are required to prepare and publish general purpose financial statements, i.e. from small companies up to large entities of certain legal forms (e.g. commercial partnerships) with less than 5.000 employees, less than 65 m € balance sheet total, and 130 m € annual turnover, respectively. This is a very heterogeneous group of companies. Small companies tend to not even have in-house staff to prepare the annual accounts, let alone staff to deal with an international SME standard. At the same time, larger SMEs are likely to have more complex transactions and the corresponding resources to concentrate on accounting issues or an SME standard, respectively. Therefore, there might be instances where an unambiguous answer regarding the appropriate accounting cannot be given. The evaluation strongly depends on the scope as to be defined by the national legislator. Taking into account the wide range of SMEs possibly included in the scope of the standard, but without having had a discussion about this with the legislator in Germany, large SMEs are more likely to be within a potential scope to apply the SME standard than smaller entities.

General purpose financial statements are defined as “intended to meet the needs of users who are not in a position to demand reports tailored to meet their particular information needs” (P8). It may be argued that the specific user groups of SME financial statements, such as banks or non-managing owners, are in a position to request at least certain information. Accordingly, in line with Framework.6 “directed towards the common information needs of a wide range of users” the definition should be phrased as follows: “intended to meet the general financial information needs of a wide range of users who are not in a position to demand reports tailored to meet their particular information needs”.

*Legal Environment for SMEs in Germany*

In addition to the understanding of an SME, an assessment of the IASB’s proposals will also depend on the respective legal environment. Therefore, the GASB would like to shortly lay out the legal environment in Germany:

- to date SMEs are free to prepare their consolidated financial statements according to full IFRSs (listed companies must apply full IFRSs);

- separate financial statements in Germany are multiple purpose financial statements, which do not only serve information purposes but also as the basis for determining distributable profits and taxable income; SMEs are therefore required to prepare those in accordance with national GAAP. However, the GASB refrains from emphasising this aspect as it acknowledges that the IASB cannot be asked to take into account, for example, numerous tax systems or corporate laws in the IFRS for SMEs
- all SMEs, organised as a limited liability company, with (approximately) more than 8 m € annual turnover, 4 m € total assets or 50 employees are subject to audit requirements;
- application of full IFRSs or the IFRS for SMEs respectively, for non-listed entities has been discussed in Germany for some time. Overall, in comparison to the total number of non-listed entities only a few larger ones adopted IFRSs for their group accounts and it seems that the vast majority of non-listed companies has so far been very reluctant to apply IFRSs. Based on the ED-IFRS for SMEs the same seems to be true with regard to the acceptance of a future IFRS for SME unless there are additional significant simplifications.

*Different User Needs for SMEs*

Whilst we agree that the needs of users of financial statements are "paramount" (BC23), we do not share the view taken by the IASB that users of SME financial statements may have greater interest in short-term information than long-term information (BC24), at least from a German perspective. From the German experience for various reasons shareholders of SMEs tend to be long-term oriented (e.g. because of close links between shareholders and management, fewer shareholders, rather illiquid markets of SME equity instruments). To a certain extent the same applies to banks, which regularly provide long-term (investment) financing (relatively less common for large/capital market oriented companies). However, banks in addition are interested in the solvability of companies and therefore in the short-term liquidity and development of an entity. Nevertheless, overall a sustainable development in the long-term is the main concern of investors in SMEs. We believe this focus to be essential for the understanding of user needs and resulting accounting requirements.

However, user needs are only one aspect of the cost-benefit considerations required. The IASB concludes in BC25 that the costs of applying IFRS (and IFRS for SMEs) may not differ significantly across entities and that, therefore, user needs are the decisive factor for developing an IFRS for SMEs, We believe, however, that the relative costs to prepare financial statements are higher, the smaller an entity is. Accordingly, cost-benefit considerations and avoidance of excessive reporting requirements are even more important for SMEs.

Furthermore, banks as the main user of SME-financial statements in Germany have stated that the information provided needs to be a "solid basis" for further analysis. This does not imply a general rejection of fair values. On the contrary, depending on how fair values are determined, bank analysts find them very useful to the extent that use of market values is made. However, if prices from active markets are not available, valuation techniques applied are considered to leave the determination of fair values to some degree to management's discretion (i.e. assumptions underlying the valuation of fair values). In principle the GASB shares this view. We therefore support a general approach to limit the application of fair values to those balance sheet items that the entity intends to dispose of and for which observable market prices exist. One exception from this concept is the accounting for derivatives for which the use of valuation techniques seems to be unavoidable.

Finally, with regard to the users of financial statements of SMEs, we want to point out that our survey supported the IASB's assumption that not all shareholders are at the same time managers of the company (owner manager). In only 35% of the companies with 8-32 m € annual turnover all owners are at the same time managers of the company.

*Different requirements for SMEs*

The IASB should also consider and elaborate on any differences with regard to "fair presentation" for financial statements of SMEs. When taking into account the characteristics of SMEs and the user needs it seems appropriate, in our view, to look at 'relevance' and 'reliability' – the two main aspects to fair presentation – from a distinctive perspective compared to publicly listed companies. 'Fair presentation' for SMEs should reflect recognition and measurement concepts as well as disclosure requirements which support the needs of users of SME financial statements and their use of the information but which also take into account cost/benefit considerations.

For example, for financial instruments this should result in limiting the use of fair values to active markets (except for derivatives) whereas in all other situations historical costs should be applied. As outlined under the preceding section 'Different User Needs for SMEs' such a measurement concept meets the users' needs and therefore represents relevant financial information. It is more reliable compared to the use of valuation techniques but less costly and easier to apply and thus in accordance with what we understand as fair presentation for SMEs. Accordingly, section 2 *Concepts and Pervasive Principles* should address the above matter and outline why a different "fair presentation" perspective should be taken for SME financial statements compared to those of publicly accountable entities, or otherwise, why not.

'Relevance' and 'reliability' also depend on the perspective of users of SME financial statements. A crucial factor for the benefit of users of SME financial statements is comparability of the financial statements, which is why the elimination of options as suggested by the GASB would lead to more relevant information for users. Moreover, in the light of the relatively limited accounting resources of SMEs limited accounting options could also be beneficial from their point of view. Straight forward requirements as to the applicable accounting method make comparison and knowledge of different accounting methods superfluous.

*Stand-alone Character and Structure of an IFRS for SMEs*

We fully agree with the IASB's view on the importance of a stand-alone, self-sufficient document for SMEs. Furthermore we support the approach chosen by the IASB to only address financial reporting issues common in SMEs. Topics such as segment reporting or earnings per share do not have to be illustrated in the IFRS for SMEs. However, we suggest a more consequent approach. We believe it is crucial to delete any reference to full IFRSs in order to underpin that the IFRS for SME should be a completely stand-alone and self-sufficient document.

We are not convinced whether the IASB achieved this objective. In this respect one major concern the GASB wants to raise is that there should be no cross-references to full IFRSs within the IFRS for SMEs. Therefore, the IFRS for SMEs should neither refer to certain optional accounting measures explained within full IFRSs nor to specific topics that are omitted from the IFRS for SMEs. All matters to be dealt with should be incorporated into the IFRS for SME to achieve the objective of a completely stand-alone standard which is of highest priority. Otherwise, there is a major risk that full IFRSs will develop to represent a kind of 'second' standard, in particular in respect of the options available but also in other situations linked with an inherent uncertainty whether full IFRS apply or not. Accordingly, SMEs would be forced to read both volumes of standards or at least major parts of full IFRS. The GASB believes that this would be an undesirable situation and would seriously damage the acceptance of the IFRS for SMEs.

From discussions and experience (field tests) here in Germany we can say that SMEs find it very burdensome to actually have to handle two books instead of one comprehensive set of rules. Furthermore, we believe that the IFRS for SMEs and full IFRSs are following a different approach. While the latter focuses on the needs of capital market participants, the IFRS for SMEs is directed at serving the needs of non-listed companies and users of their financial statements. This is one reason why SMEs should not be asked to look to full IFRSs in case the IFRS for SMEs does not specifically address a transaction (see 10.2 et seq.), but may find appropriate accounting policies within the IFRS for SMEs. Consequently, over the years full IFRSs and IFRS for SMEs can grow apart. References to full IFRSs hinder this development taking place. Moreover, SMEs will have to follow discussions and decisions with regard to full IFRSs just like amendments to the IFRS for SMEs. Overall, references to full IFRSs increase the complexity and worsen the applicability of the IFRS for SMEs. However, if the Board does not agree, at least all cross references should be listed together in one section only.

Given the stand-alone concept a profound understanding of the overall intention of the accounting requirements and the underlying accounting principles is essential to derive solutions for accounting issues not explicitly addressed within the standard. The IASB reflected this prerequisite in section 2 (concepts and pervasive principles). We believe such a section to be fundamental for the IFRS for SMEs. Nevertheless, we believe that section 2 should still refer to more general aspects of recognition and measurement. Many general recognition and measurement concepts are explained upfront in other sections, but should be part of section 2.

In this context we see further potential to evidence the proposed stand-alone nature of the IFRS for SMEs as well as to improve the understandability and readability by means of a different structure. Despite the general topical approach, the SME standard includes various separate sections mirroring almost every IFRS. We believe the accounting requirements should still be further summarised and generalised for related areas and topics respectively. Especially the IASB should reconsider:

– designing one section on assets, including recognition and measurement criteria (instead of section 11 financial assets, 12 inventories, 15 investment properties, 16 property, plant and equipment, 17 intangible assets other than goodwill, 24 borrowing costs, 26 impairment of non-financial assets);

– designing one section on liabilities, including recognition and measurement criteria (instead of section 11 financial liabilities, 20 provisions and contingencies, 27 employee benefits);

– exclude the appendices for section 11 financial instruments and section 22 revenue, instead include these in a general implementation guidance, which should also provide examples on other sections; and

– Section 36 (discontinued operations and assets held for sale) contains general principles for measurement as well as presentation and disclosure. It should therefore be addressed earlier on in the standard. It could be possible to include these principles in between section 2 (recognition and measurement principles) and section 3 (financial statement presentation).

The structure will be referred to again in our detailed comments on the individual sections (part II of the comment letter). Overall, the GASB would suggest the structure of the IFRS for SMEs being still more topical oriented and not so much following the topics as structured in the full IFRSs. A structure similar to EFRAG's proposal ((draft) comment letter of 17 July 2007) mirrors this general idea (even though the GASB believes this particular suggestion could benefit from a stronger emphasis on recognition and measurement of assets and liabilities). An important feature of a restructured SME standard would be the aggregation of all recognition and measurement principles in section 2. This structure – as suggested also by EFRAG – could result in further shortening the IFRS for SMEs by increasing the comprehensibility and, thus, the clarity and understandability at the same time.

As laid out in detail in our report on the German field tests (part III of this comment letter), many SMEs may face difficulties applying certain requirements of the IFRS for SMEs. The GASB believes it would generally be helpful for SMEs to have examples to refer to. However, the current approach – to have examples only within some sections – is not convincing. We therefore suggest developing a separate appendix in which examples for all sections are collected. A separate set of examples or separate implementation guidance is also advantageous with regard to necessary extensions or adoptions of the SME standard; while amendments to a principle-based IFRS for SMEs may not be necessary in all cases where questions arise, clarifying additions and amendments to the implementation guidance might be easier and faster to achieve.

There should be a general decision as to whether appendices are integral parts of the standard (for example Appendix B to Section 11) or only accompanying the standard (for example Appendix A to Section 11).

*Accounting Options*

Contrary to the decision of the IASB to include almost all options available in full IFRSs in the IFRS for SMEs, the GASB is of the opinion that in principle all options should be deleted, as this will simplify the application of the IFRS for SMEs for the SMEs, allow a stand-alone document and be beneficial for the users of SME financial statements, as the comparability of the financial statements will increase. For a more detailed discussion we refer to our comments to question 4.

## PART II: DETAILED COMMENTS TO THE IASB QUESTIONS AND TO EACH SECTION OF THE ED-IFRS FOR SMES

***Question 1 – Stand-alone document***

*In deciding on the content of the proposed IFRS for SMEs, the IASB focused on the types of transactions and other events and conditions typically encountered by an SME with about 50 employees. For such an entity, the proposed IFRS is intended to be a stand-alone document, with minimal cross-references to full IFRSs.*

*With the objective of a stand-alone document in mind, are there additional transactions, other events or conditions that should be covered in the proposed IFRS to make it more self-contained? Conversely, is there guidance in the proposed IFRS that should be removed because it is unlikely to be relevant to a typical SME with about 50 employees?*

The IASB's goal was to make the ED-IFRS for SMEs a stand-alone document for typical SMEs (50 employees, BC45, 56-57). The GASB supports the IASB's decision to design a stand-alone document, which we believe to be essential for the success of the IFRS for SMEs. However, the omission of a mandatory fallback can only be a first step. We believe that all references to IFRSs should be deleted, as the SME standard cannot be fully self-contained otherwise. Consequently, topics that are uncommon for most SMEs should not be addressed at all. In addition the GASB suggests deleting options and references to those optional accounting treatments.

Also, if the IASB was of the opinion that options should be available for SMEs, these should be included in the standard itself (for particular examples see later). Furthermore, we believe that section 2 (concepts and pervasive principles) is crucial to ensure that the SME standard is self sufficient. Section 2 however, needs to be expanded for recognition and measurement principles which currently are addressed in separate sections rather than in a general section on these issues (see specific remarks to section 2). To our understanding improving the structure of the IFRS for SMEs will also help to make it a self-sufficient document.

***Question 2 – Recognition and measurement simplifications that the Board adopted***

*Paragraphs BC70-BC94 of the Basis for Conclusions describe the simplifications of recognition and measurement principles contained in full IFRSs that have been made in the proposed IFRS for SMEs and explains the Board's reasoning.*

*Are there <u>other recognition or measurement simplifications</u> that the Board should consider? In responding, please indicate:*

*(a) the specific transactions, other events or conditions that create a specific recognition or measurement problem for an SME under IFRSs;*

*(b) why it is a problem; and*

*(c) how that problem might be solved.*

For specific comments please see our remarks on the individual sections (starting on page 15).

***Question 3 – Recognition and measurement simplifications that the Board considered but did not adopt***

*Paragraphs BC94-BC107 identify some recognition and measurement simplifications that the Board considered but decided not to adopt, for the reasons noted.*

*Should the Board reconsider any of those and, if so, why?*

For specific comments please see our remarks to the separate sections. Regarding the list of identified but rejected possible simplifications (BC94-107) the GASB generally agrees with the IASB's conclusions. However, another proposal that the Board did not agree with (as laid out in BC80), but in our view should reconsider is the amortisation of goodwill (not listed in BC94-107). Under cost-benefit-considerations the impairment approach suggested for goodwill does not seem appropriate. Please, see our detailed comments to section 18 on page 26.

Moreover, it would be helpful for the understanding of the IASB's decisions as well as for the future application of the IFRS for SMEs to have more information on the intention of the IASB. For example section 26 describes the impairment approach and refers to "component of the entity". However, there is no explanation whether this is meant to be the same as a cash-generating unit or, if not, what the differences would be. Other examples are the conceptual differences in accounting for financial instruments (section 11), which are only partly explained, i.e. the 'full fair value option' or better 'amortised cost option' that practically comes into place in section 11. According to 11.7 the only instruments that have to be measured at cost are equity instruments that are not publicly traded and whose fair value cannot otherwise be measured reliably; other instruments (11.7 (a) and (b)) need to be designated at initial recognition to be measured at cost. Another example for a lack of explanations is the approach to accounting for embedded derivatives. These should be clarified within the standard and explained within the BC.

***Question 4 – Whether all accounting policy options in full IFRSs should be available to SMEs***

*Do you agree with the Board's conclusions on which options are the most appropriate for SMEs? If not, which one(s) would you change, and why?*

*Should any of these options that would be available to SMEs by cross-reference to the full IFRSs be eliminated from the proposed IFRS for SMEs and, if so, why?*

With one exception, as noted at the end of our comment to this question, the IASB decided to include in the ED-IFRS for SMEs all options available in the IFRSs, even though the elimination of options would lead to a more simplified IFRS for SMEs and greater comparability of the resulting financial instruments (BC108). Furthermore, the IASB decided to include in the ED-IFRS for SMEs only the simpler option while cross-referencing to full IFRSs for the more complex option.

The GASB is of the opinion that, in principle, all options should be deleted. Our decision is based on several reasons:

- Firstly, the IFRS for SMEs can be significantly simplified since SMEs will not have to consider several options.
- Secondly, the elimination of all options currently available by cross-references to full IFRSs will support the intended nature of a stand-alone document and will make the requirements easier to understand as well as to apply: since the more complex option is usually laid out within full IFRSs there is an inevitable reference

to full IFRSs which is contradicting the goal of a stand-alone standard. Therefore the applicability of the IFRS for SMEs is greatly affected. Companies will necessarily have to consult full IFRSs in order to evaluate the different accounting options available.

- Thirdly, comparability of financial statements of SMEs would be clearly increased if options were eliminated. In BC16 the IASB mentions comparability across countries as the main advantage of global financial reporting standards for SMEs. We agree with this view. However, given the number of options currently provided in the ED, financial statements prepared by SMEs will not be comparable across countries with all the disadvantages mentioned above. Furthermore, a limited comparability of financial statement information results in higher costs for users who are required to evaluate the different approaches taken by SMEs (review and assess the additional disclosures to arrive at comparable analysis). Since preparers also need to evaluate different alternatives, they also face higher costs.

To leave it up to the individual jurisdiction to delete options will not be helpful when striving for international comparability of financial statements.

In our survey amongst German SMEs the companies were asked to assess the option to revalue property, plant and equipment and intangible assets as well as the option to capitalise development costs. The results show that SMEs were mostly indifferent with regard to revaluation options as well as the option to capitalise development costs. Benefits and costs were weighed and analyses were based on additional factors such as the availability of market prices. Having consulted both preparers and users of financial statements of SMEs the practicability of the standard could be increased by deleting the accounting options. This would also allow a reduction of note disclosures necessary to explain the accounting method chosen as well as any other information required for the respective accounting option.

Finally, we note that the IASB – contrary to the decision to include all options and to the decision to use existing full IFRSs as a starting point (BC69) – did not include all options. For actuarial gains and losses (section 27 employee benefits) the IASB argues that the specific method required (immediate recognition of profit or loss) is the simplest method (BC89). We find this approach unconvincing, because it is inconsistent with the rest of the document. Furthermore, SMEs are likely to have to get an expert's opinion on the valuation of their plan asset, which makes it unlikely that one option is 'simpler' than the others. Despite our view that options should generally be deleted, if the final IFRS for SMEs is to contain all options, it should also include the other options provided for the treatment of actuarial gains and losses in IAS 19.

***Question 5 – Borrowing costs***

*Do you agree or disagree with the proposal to allow SMEs to choose either the expense model or the capitalisation model for borrowing costs, and why?*

In section 24.2 the IASB provides the option for SMEs to account for all of its borrowing costs using either (a) the expense model or (b) the capitalisation model. For the latter 24.4 refers back to IAS 23.

The GASB generally agrees with the suggested proposal which allows SMEs to expense their borrowing costs. Consistent with our general remarks on options we believe the option to capitalise borrowing costs should be deleted in order to simplify the IFRS for SMEs. We agree with the assumption of the IASB that the capitalisation model is the more difficult, relatively more costly alternative.

Furthermore we suggest including these provisions in a general section on assets in section 2. To our understanding there is no need for a specific section with regard to borrowing costs.

***Question 6 – Topics not addressed in the proposed IFRS for SMEs***

*Should any additional topics be omitted from the IFRS for SMEs and replaced by a cross-reference? If so, which ones and why?*

As laid out in BC57-BC65 the IASB has tried to identify topics that are covered in IFRSs but are omitted from the ED-IFRS for SMEs as SMEs do not typically encounter these transactions and circumstances. The topics omitted are: hyperinflation, equity-settled share-based payment, agriculture, interim financial reporting, lessor accounting for finance leases, earnings per share, segment reporting and insurance.

We agree with the IASB's evaluations with regard to the topics excluded from the standards as they are either irrelevant to most SMEs, are directed at capital market-oriented companies or are part of specialised industries, which are explicitly not within the intended scope of the ED-IFRS for SMEs. However, we believe that there is no need for any cross-references to full IFRSs. In addition, as mentioned before, cross-references would undermine the overall concept to develop a stand-alone standard for SMEs.

***Question 7 – General referral to full IFRSs***

*Are the requirements in Paragraphs 10.2–10.4, coupled with the explicit cross-references to particular IFRSs in specific circumstances, appropriate? Why or why not?*

By detaching the ED-IFRS for SMEs from full IFRSs in cases when the ED does not specifically address a transaction, event or condition the IASB has made an important step towards a stand-alone document. In the Alternative View one Board member states that non-comparability will result from 10.3 because the ED-IFRS for SMEs would allow SMEs to ignore the requirements of other IFRSs even when the specific accounting issue is addressed in those IFRSs (AV4). Since there is no requirement to look to full IFRSs (if the entity is satisfied with 10.3 (a) and (b)) identical transactions can be accounted for differently by different SMEs and differently from publicly accountable entities. If one followed the Alternative View, full IFRSs would, in fact, become the source of accounting guidance every time that an issue is not specifically addressed in the IFRS for SMEs.

We do not share these concerns and therefore support the approach taken by the IASB but support a more consequent and consistent approach. As outlined in Part I we do believe that the accounting objectives of the SME Standard should follow the Framework but we do not believe that the accounting requirements need to be necessarily the same. If the latter had been the intention, the development of separate IFRS for SMEs would not have been necessary.

We believe a stand-alone document to be essential for the acceptance of the ED-IFRS for SMEs. SMEs cannot be asked to know "two books". For this reason we support the view that it is not mandatory for entities to look at full IFRSs if additional guidance is needed for developing and applying an accounting policy (10.2. and 10.4).

10.4, however, seems to introduce a kind of hierarchy incorporating a de facto fallback by proposing that a SME may look first at full IFRSs and only in the case that additional guidance is needed, i.e. in a second step, may also look at other GAAP with a similar framework. This hierarchy may distract the entity from properly applying 10.2 and 10.3 and cause the risk that, in practice, full IFRSs will be considered more often than originally intended. As a result comparability of financial statements of SMEs applying the concepts and principles addressed in IFRS for SMEs (section 2) and other SMEs referring back to full IFRSs will hardly be possible. Therefore, as an important step to achieve a fully stand-alone standard the current hierarchy in 10.4 should be eliminated and full IFRSs just be mentioned as one source of appropriate guidance like the other GAAP using a similar conceptual framework, other accounting literature and accepted industry practices.

To support the above, the GASB believes that preparers as well as auditors will need to develop accounting solutions based on the stand-alone IFRS for SMEs using their appropriate judgement as intended by 10.2 onwards.

***Question 8 – Adequacy of guidance***

*Are there specific areas for which SMEs are likely to need additional guidance? What are they, and why?*

As described in BC66-BC69 the starting point for the development of the ED-IFRS for SMEs were existing full IFRSs. The general approach was to extract the fundamental concepts from the Framework and the principles and related mandatory guidance from IFRS (incl. Interpretations) and considering appropriate modifications.

In the light of developing a principle-based standard for SMEs this approach is generally favourable. However, the black letter paragraphs do not always provide sufficient guidance. It is only for a few sections (financial instruments, provisions and contingencies and revenue) that the IASB is providing additional guidance. As mentioned in our comments on the structure of the ED-IFRS for SMEs, the GASB believes that there should be a separate implementation guidance addressing more, especially common, issues. The examples and guidance should address various typical issues arising in SMEs. A possible issue could be the categorisation of leases, for which the ED-IFRS for SMEs does not provide additional guidance. This could also include adding some more "grey letter paragraphs" to enhance the understanding of the black letter-paragraphs extracted from full IFRSs.

***Question 9 – Adequacy of disclosures***

*Are there disclosures that are not proposed that the Board should require for SMEs? If so, which ones and why? Conversely, do you believe that any of the proposed disclosures should not be required for SMEs? If so, which ones and why?*

The GASB acknowledges the IASB's intention to reduce disclosure requirements. In BC119 et seq. the IASB lays out the approach to disclosure simplifications. The

GASB supports the general approach of reducing disclosure requirements, especially having the last principle in mind. To our understanding the focus of users is not necessarily on short-term developments and shareholders and banks are equally interested in long-term assessments. Furthermore, because of the specific characteristics of SMEs as described below the disaggregation of information seems to be more critical for SMEs than for listed companies.

From the beginning of the discussions about the development of IFRS for SMEs there has always been much support for a reduction of disclosure requirements. Nevertheless, we are not aware of any extensive discussion of these requirements (e.g. neither referred to in the questionnaire nor discussed at working group meetings). In our view, the simplifications with regard to disclosure requirements in the ED-IFRS for SMEs are still too limited.

Depending on the structure of the SME (e.g. size, complexity of transactions) a crucial issue is the total number and level of detail of disclosure requirements, which will be burdensome, time- and cost-intensive to fulfil for many SMEs. Another issue is that disclosures required in full IFRSs can have a different impact on SMEs as outlined below, and some might even result in competitive disadvantages for SMEs. The cost/benefit consideration will be different for SMEs compared to companies using the capital market to fulfil its financing needs. As SMEs are often engaged in niche products and/or single product businesses, disaggregated information can result in a relatively more explicit and the competitiveness harming description of the business when compared to large, multiple product companies. In addition, the private sphere of owner-managers and the sphere of the company are much closer linked. Therefore some disclosures (especially related party disclosures) should be carefully reassessed considering issues of privacy protection (for private investors).

In light of the importance of the extent of disclosures on business and financial aspects GASB suggests a careful evaluation of each disclosure requirement. Due to the number of these requirements they were not part of our survey. Nevertheless we did consult several SMEs, Small and Medium-sized Practitioners (SMPs), analysts and academics; examples of the results of these discussions are provided in Appendix 1 Disclosure Simplifications of our comment letter.

***Question 10 – Transition guidance***

*Do you believe that the guidance is adequate? If not, how can it be improved?*

In BC93 the IASB explains that the ED-IFRS for SMEs proposes an ‘impracticability’ exemption with respect to comparative information (for one year). It also provides an impracticability exemption with respect to some requirements for restating the opening balance sheet.

In general, the GASB supports transition guidance to ease the transition to the IFRS for SMEs. However, we believe these provisions need to be clarified. This concerns the question of the impracticability criterion and under which circumstances this impracticability exemption can be applied. We believe the exemption should only be applied for the first financial statements in total, but the ED-IFRS for SMEs can also be read as if separate line items could be excluded from the transition to IFRS for SMEs. Furthermore the ED-IFRS for SMEs should explicitly state for which periods the impracticability clause is acceptable and when the adjustments need to be made.

***Question 11 – Maintenance of the IFRS for SMEs***

*Is this approach to maintaining the proposed IFRS for SMEs appropriate, or should it be modified? If so, how and why?*

In P16 the IASB proposes to publish an omnibus exposure draft to amend the IFRS for SMEs approximately every other year. On occasion, the IASB might identify a matter for which amendment of the IFRS for SMEs may need to be considered earlier. Until the amendment of the IFRS for SMEs, any changes with respect to full IFRSs do not apply to the IFRS for SMEs.

The GASB generally supports this proposal put forward by the IASB. However, a common argument against IFRSs heard from SMEs and SMPs in Germany is the assumed frequency of changes, which SMEs could not cope with. Therefore, it is an important feature of the IFRS for SMEs to not amend this standard as frequently as full IFRS. This will enhance the acceptability of this standard. As the IASB points out there might be matters for which amendment of the IFRS for SMEs may need to be considered earlier than in the intended two-year cycle. We support a pragmatic approach based on the importance of the amendment. However, generally speaking even the two-year cycle could be too burdensome for SMEs. Even though the standard might be amended less often in practice, there is the potential risk of more frequent changes which would impose undue burden on SMEs. Given the possibility to adapt the IFRS for SMEs in important and urgent matters GASB suggests amending the IFRS for SMEs only every four to five years. Therewith the frequency of changes is reduced and it can be ensured that not every amendment to full IFRSs necessarily results in a change of the IFRS for SMEs. Furthermore, amendments should not be effective before 12 months after finalisation to enable SMEs to adjust to the changes.

The question of maintenance leads to another argument in favour of a strictly stand-alone IFRS for SMEs and against any cross-reference to full IFRS: SMEs using parts of full IFRSs would have to be kept updated on any amendment to full IFRSs in order to evaluate whether these are relevant to their accounting.

***Comments on individual sections (in numerical order)***

## *Section 1 Scope*

In 1.1 the IASB defines that SMEs are entities that (a) do not have public accountability; and (b) publish general purpose financial statements for external users. If publicly accountable entities (as defined in 1.2) use the IFRS for SMEs their financial statements shall not be described as conforming to the IFRS for SMEs (1.3)

We agree with the general notion (in BC33) that national jurisdictions should define the scope of the IFRS for SMEs. We fully support the approach to focus on qualitative characteristics, as globally accepted quantified size criteria are not achievable.

As laid out before, the GASB believes it to be necessary to have a clear picture of the SME the standard is to be applied by. However, these are jurisdiction-specific. Therefore, the definition given by IASB serves the purpose of this standard.

Nevertheless, contrary to the IASB's opinion GASB does neither believe full IFRSs to be suitable for all entities nor the IFRS for SMEs to be suitable for all non-publicly accountable entities, including very small SMEs with 1, 2 or 3 employees (BC46). We believe that in their totality the proposed requirements would not be justifiable for those so-called micros.

***Section 2 Concepts and Pervasive Principles***

The IASB's proposals contained in this section are intended to establish the IFRS for SMEs as a stand-alone document. As part of this concept (described in BC56) the IASB provides a hierarchy to deal with transactions or other events or conditions that are not addressed in the IFRS for SMEs. Following this hierarchy, SMEs should first look at the requirements and guidance in the proposed IFRS for SMEs dealing with similar and related issues. Second, the SMEs should consider the definitions, recognition criteria and measurement concepts for assets, liabilities, income and expense and the pervasive principles in section 2. If that does not provide guidance, the IASB implemented a general referral back to full IFRSs or, in a second step, pronouncements of other standard-setting bodies that use a similar conceptual framework, which the GASB commented on under question 7.

As mentioned before, the GASB considers this section to be essential for the whole standard being a stand-alone document and crucial for applying the IFRS for SMEs. However, in our view neither section 2 nor the accompanying Basis for Conclusion are sufficiently developed. The IASB does not explain why and how certain principles are taken from the IASB Framework. There are no explanations for a different order of qualitative characteristics compared to the IASB Framework. Even though the IASB`s intent is to have both sets of standards based on the same framework, users of these standards might interpret these characteristics differently due to parts left out or arranged differently. If there is an intended difference in the qualitative characteristics, the IASB should more clearly address these differences.

In fact, the GASB thinks that – without deviating from the general concepts and principles of the Framework – there are convincing arguments to take a different perspective for the IFRS for SMEs when compared to full IFRSs and adapt, where appropriate, different recognition and measurement concepts designed to accommodate the user needs of financial statements for SMEs (see our comments in Appendix A, sections "Different User Needs for SMEs" and "Different requirements for SMEs").

The IASB should lay out SME specifics and explain how the framework principles were to be seen in the light of those specifics. Especially, the IFRS for SMEs should include (e.g. following 2.1 objectives) some explanations on users and their information needs (corresponding to Framework.9).

Compared to the Framework, the ED-IFRS for SMEs does not include reference to:

- *faithful representation*, FW 33-34;
- *neutrality*, FW 36; or
- *balance between qualitative characteristics*, FW 45.

The Basis for Conclusions does not explain the background of these differences or which impact was intended by the IASB.

Furthermore, the various headings of that section reduce the clarity of the structure and structure and understandability of section 2 could be improved by elaborating on the pervasive principles. They represent the most important part of section 2 as they are a decisive feature to ensure that the IFRS for SMEs can be applied in a self-sufficient manner. We suggest that for example:

– all general recognition requirements are placed together (now: 2.24 et seq. but also 2.34 et seq.),

– subsequent sections would only refer to recognition and/or measurement requirements if there are specific requirements, which are different from those included in section 2, e.g. like section 16; on the contrary section 17 intangible assets repeats the same recognition requirements as laid out in 2.2; but explicit recognition requirements should be limited to specific aspects of intangible assets (e.g. acquisition as part of a business combination), another example would be specific requirements for financial instruments (hedge accounting).

Due to the approach taken by the IASB in developing this ED-IFRS for SMEs (extracting black letter paragraphs), some relevant aspects are not explained in the ED-IFRS for SMEs. This includes “control of an asset” – section 2.16 briefly touches on this concept but does not elaborate on how to interpret it (described in IAS 38.13 et seq.). Furthermore, several concepts described throughout the IFRS for SMEs should be part of section 2 (this includes the underlying assumption “going concern”, now 3.7, or the general principles to develop an accounting policy when the IFRS for SMEs does not provide specific answers, now 10.3-10.4).

With regard to the measurement principles we would also like to point out that, contrary to the IASB’s decision to eliminate the measurement attribute “value in use” and just to retain “fair value less cost to sell” for impairment purposes, there are still some references to the value in use concept within the IFRS for SMEs (for example, in 2.42, but also in 26.6 (c)) which is not consistent and could lead to misunderstandings. With regard to the fundamental IASB decision to eliminate the “value in use”, please refer to our comments on section 26 where we outline why we disagree with the Board’s decision to eliminate the concept of recoverable amount.

### *Section 3 Financial Statement Presentation*

This section should focus on formal issues of presentation only. Therefore the fundamental concepts of the IFRS for SMEs, namely fair presentation (3.1), compliance with the IFRS for SMEs (3.2 – 3.6) and going concern (3.7) should not be placed in this section, but as part of section 2.

### *Section 4 Balance Sheet*

The GASB generally supports a definition of minimum information to be presented on the face of the balance sheet (4.2). With the illustrative financial statements SMEs should have sufficient guidance on which information is to be presented on the balance sheet.

The disclosure requirements regarding entities with share capital in this section illustrate the orientation on different company law systems and capital market requirements. When taking into account different company laws, a less detailed requirement seems advisable as it would be difficult to consider all such laws. There are, for example, no such classes of share capital for e.g. limited liability companies.

Overall, information about classes of share capital seems relevant in the context of capital markets, where investors rely on the information to evaluate the structure of (mainly) anonymous investors. It seems questionable how the information required under (v) could be of benefit to external users of the financial statement of SMEs. It can be assumed that other investors will have their means to obtain this information. It should be clarified whether this type of information is relevant to banks, lenders or other external users.

***Section 5 Income Statement***

In accordance with our assessment of section 4 the GASB believes that the minimum information to be presented on the face of the income statement (5.3) together with the illustrative financial statements provide sufficient guidance for SMEs.

***Section 6 Statement of Changes in Equity and Statement of Income and Retained Earnings***

The ED-IFRS for SMEs (6.4) permits an entity to present a statement of income and retained earnings in place of the income statement and statement of changes in equity if the only changes to its equity during the period arise from profit or loss, payment of dividends, corrections of prior period errors, and changes in accounting policy. The GASB supports this proposal.

***Section 7 Cash Flow Statement***

Section 7.7 provides the option for SMEs to report cash flows from operating activities using either: (a) the direct method; or (b) the indirect method. If an entity wanted to apply the direct method, it would have to apply par. 18-20 of IAS 7.

Based on our conceptual position to eliminate options wherever possible, we propose deleting the option to use the direct method (and the corresponding reference to full IFRSs). We refrain from going into a detailed discussion whether the direct method would meet any cost/benefit analysis but according to our understanding only very few listed companies use the direct method due to the additional cost burden. We cannot see any reason why cost-sensitive SMEs would do differently.

In Germany, entities find requirements regarding the indirect method sufficient and in our discussion with bank representatives they agreed that the indirect method is the preferred method used by virtually all companies, i.e. in fact they were unable to name any company using the direct method. Therefore, analysis tools of these

German banks are exclusively directed to the indirect method. We do not have any indications from other sources that the above would not appropriately represent the overall situation for German SMEs.

### *Section 8 Notes to the Financial Statements*

To the advantage of the user of the IFRS for SMEs this section provides a general structure for the notes. Nevertheless, as mentioned before, the note requirements should be revised in order to reduce the overall number of disclosures. For examples of specific suggestions see Appendix 1 (Disclosure Simplifications) to this comment letter.

### *Section 9 Consolidated and Separate Financial Statements*

Regarding section 9 (*Consolidated Financial Statements*) the GASB generally supports the IASB's approach in making these requirements easy to understand and comprehensible. In particular, we support the proposal to include guidance on special purpose entities.

However, the GASB suggests clarification within the ED-IFRS for SMEs as to what the underlying concept of combined financial statements is (i.e. where the IASB sees the relevance of combined financial statements and in which situations these proposed requirements would be appropriate) and what the substantial technical differences between consolidated and combined financial statements represent (as combined financial statements also require some consolidation procedures, see 9.22). Another important question is that the IASB should clarify the wording of who the preparer of the combined financial statement would be. There are different references within section 9: on the one hand the term "controlled by a single investor" (par. 9.21) and on the other hand "entity" (par. 9.22) is used. It is our understanding that these two references imply that the "single investor" can be either an individual (person) or another legal entity. If that was the underlying concept, the question evolves whether a legal entity controlling two or more entities would not rather be required to prepare consolidated financial statements instead of combined financial statements. If this is the right understanding, 9.22 should refer to an "investor" (instead of "entity") and in addition explain who the possible "investors" are (namely private investors).

Furthermore, the explanations on disposal of subsidiaries should be expanded as they are currently difficult to understand and to apply by SMEs.

### *Section 10 Accounting Policies, Estimates and Errors*

We appreciate the hierarchy set out in paragraphs 10.2 and 10.3 and refer to our general remarks to 10.4 (reference to full IFRSs) under question 7. However, we believe that such kind of fundamental and important principle should be part of the section 2 (*Concepts and Pervasive Principles*) as well as paragraphs 10.1-2 and 10.5.

Furthermore, we find it necessary to point out that the application of the IFRS for SMEs including the pervasive principles could result in accounting treatments different to full IFRSs. This is validated by the only optional consideration of full

IFRSs and Interpretations or other GAAP based on a similar framework (10.4). However, as indicated under question 7, it will be necessary to align the level of reference to full IFRSs and other GAAP, as 10.4 currently implies consideration of full IFRSs before looking at other GAAP.

***Section 11 Financial Assets and Financial Liabilities***

The GASB is generally in favour of developing a simplified concept for SMEs adjusted to specific accounting transactions that SMEs engage in. However, the GASB is of the opinion that section 11 is not yet adequately written for SMEs.

**Option:** In line with our general position that the IFRS for SMEs should be a fully stand-alone document focussing on typical SME transactions, the GASB suggest deleting the option to apply IAS 39 (11.1 (b)).

**Scope:** As part of the concept, the IASB chose a different approach (compared to IAS 39) to define the scope of this section. As a result, 11.3 lays out that interests in subsidiaries, associates and joint ventures are to be accounted for following sections 9, 13 and 14. Section 13.3 and 14.8 allow SMEs to account for interests in associates and joint ventures using the cost model, the equity method, proportionate consolidation (for joint ventures) or the fair value through profit or loss model. All other interests are to be accounted for following section 11. It seems questionable whether it is appropriate that interests where the SME has a significant influence (associates, joint ventures) can be accounted for using the cost model, while interests where the SME does not have significant influence must be accounted for using the fair value through profit or loss model. For simplification reasons those interests should be accounted for using the cost model as well.

**Embedded Derivatives:** Section 11 scopes in embedded derivatives by means of 11.3 (c) and (e) and 11.4. There is no requirement to separate the host contract from the embedded derivative. According to 11.8 the whole contract (host contract and embedded derivative) is to be accounted for at fair value if the contract could result in a loss to the buyer or seller as a result of contractual terms that are unrelated to changes in price of the non-financial item, changes in foreign exchange rates, or a default by one of the counterparties. To our understanding the intention is that as long as the loss results from the “normal course of business”, the contract is not within the scope of section 11. Considering that the separation of embedded derivatives is burdensome the GASB agrees that embedded derivatives should not be bifurcated and accounted for separately if the contract with the embedded derivative is commonly used in the usual operating business and embedding the derivative is economically sensible. Thus, in essence the requirement to separate embedded derivatives would be restricted to those which are of a speculative nature. We acknowledge that ED-IFRS for SMEs 11.4 already covers many of those commonly used derivatives by referring to contracts where potential losses are related to changes in the price of the non-financial item, changes in foreign exchange rates, or a default by one of the counterparties. We wondered, however, if this list is necessarily all-inclusive. We understand that mere changes in the price of raw products that are to be born by buyers do not constitute embedded derivatives. That is, if contracts to deliver a non-financial item include a condition under which the price of the non-financial item to be delivered could be adjusted for significant changes in the price of a substantial component of the non-financial item, there is no separation needed. However, we are not convinced that it is entirely clear that the embedded derivatives, for instance in the following examples, which refer to price adjustments should not be accounted for separately:

- a contract to deliver a piece of machinery for which the price can be adjusted subject to changes in the price of steel;
- a long term contract to deliver power cable where the price can be adjusted as a consequence of subsequent changes in the price of copper.

If our understanding is in line with the IASB's intent we would suggest a clarification. Otherwise, the examples mentioned above might not meet the conditions of ED-IFRS for SMEs in 11.4 since the non-financial item specified in the contract (machinery, power cable) is different from the underlying of the embedded derivate (steel, copper). Thus, losses resulting from the contract are unrelated to changes in the price of the non-financial item.

It seems questionable to require non-financial instruments to be accounted for at fair value just because of such embedded derivatives that are commonly used in the usual operating business and where embedding the derivative is economically sensible. For transparency reasons, however, the GASB proposes the separation of the embedded derivative from the host contract if embedded derivatives are clearly not related to the usual business operations, i.e. they are uncommon to such types of business contracts and solely speculative. Accordingly, we recommend broadening the specification for scoping-in such contracts along the lines we set out before. If embedded derivatives can result in a loss to either counterparty related to risks common to the SME's operational business, a respective note disclosure of such a risk in the notes would be sufficient.

**Categories:** As for the categories of financial instruments, the GASB generally agrees with simplifying the recognition and measurement for SMEs by reducing the number of categories defined. From our point of view most financial instruments that SMEs will have are described in 11.7 and are therefore subject to measurement at (amortised) cost. The ED-IFRS for SMEs (11.7) requires or allows cost accounting for the usual SME specific financial instruments (such as receivables, payables or loans). Consequently (amortised) cost is the primary measurement basis. As such it seems inadequate to call fair value the "default category". Rather, we suggest defining (amortised) cost less impairment the default category. To make this category the default category seems to best mirror the usual SME business with instruments to be measured at fair value being the exception. This could add significantly to the understandability and acceptance of the ED-IFRS for SMEs without changing the substance of the current requirements. Moreover, with the exception of derivatives, fair value should only be applied when active markets exist. Other financial instruments, where this condition does not apply, would be measured at cost which would underpin our proposal to more appropriately set "cost" as the default category.

The GASB would, however, suggest a change with regard to measurement of liabilities: under the current concept all financial assets and financial liabilities (with the exception of equity instruments that are not publicly traded and whose fair values cannot otherwise be measured reliably) can at least optionally be measured at fair value. The GASB disagrees with the possibility to measure liabilities at fair value through profit or loss. According to this measurement concept a declining credit worthiness of the company will lead to a decrease of the fair value of the entity's liabilities. This decrease of the fair value will be reported as a profit, which is counterintuitive and misleading. Respectively an increasing credit worthiness of the company will lead to an increase of the fair value of the entity's liabilities and a reported loss, which again is counterintuitive. Moreover, the GASB believes the fair value of a liability to be relevant to users only if the entity actually intends to discharge itself of the liability.

**Derecognition:** The GASB supports the IASB's suggestions on how to reduce complexity with regard to derecognition (11.24 et seq.). We acknowledge that derecognition might occur less often or later compared to IAS 39. However, the analysis SMEs will have to apply in order to decide whether a financial asset or financial liability should be derecognised is less complex. The criteria defined by the IASB are sufficient.

**Hedge accounting, effectiveness test:** The IASB defines specific hedging instruments and specific risks that hedge accounting is permitted for. Thereby, hedge accounting possibilities are restricted compared to IAS 39. The GASB believes the suggested hedge accounting requirements to be generally sufficient for SMEs. Nevertheless, the GASB believes additional explanations are necessary with regard to the effectiveness test. The existing guidance in 11.30 (d) merely says that "the entity expects the hedging instrument to be highly effective in offsetting the designated hedged risk. The effectiveness of a hedge is the degree to which changes in the fair value or cash flows of the hedged item that are attributable to a hedged risk are offset by changes in the fair value or cash flows of the hedging instrument." Additional guidance as to how and when to measure effectiveness is not part of section 11.

**Hedge accounting, "critical terms match" for foreign exchange risks:** Moreover, the survey, to which 410 German companies contributed, showed that hedging foreign exchange risks is most common amongst SMEs. Therefore, the GASB suggests a further simplification: SMEs should be allowed to assume full effectiveness if the critical terms of both the hedging instrument and the hedged item match, i.e. a "critical terms match" similar to the "shortcut method" that SFAS 133 par. 68 defines for interest rate swaps (e.g. matching expiration date, matching notional amount, matching currencies) for foreign exchange currency exposures. In the Basis for Conclusions (BC75) the IASB argues that the shortcut method would be inconsistent with the principle in IAS 39 to recognise all hedge ineffectiveness.

Overall, from a cost-benefit point of view and under simplification considerations the shortcut method could be allowed for these risks.

**Trade Date vs. Settlement Date:** According to 11.6, financial assets and financial liabilities are to be recognised on the trade date. To reflect different legal requirements we suggest that SMEs consistently recognise financial instruments either on the trade date or the settlement date. The exception would be derivatives, which would always have to be recognised on the trade date.

**Additional remarks:** The following questions arose during our deliberations of the Exposure Draft:

– 11.7 b) We would think that “a commitment to receive a loan” is rather untypical for an SME. In addition, we do not understand how a commitment to receive a loan would have to be measured at amortised cost *less impairment,* taking into account that, once settled the financial liability would be measured at amortised cost. As the SME is the debtor in such a constellation we do not understand how the SME should ever recognise an impairment on its own financial liabilities.

– 11.31 refers only to foreign exchange or interest rate risk in a firm commitment or a highly probable forecast transaction. We understand that the term “firm commitment” refers to any contractual agreement, thereby including unrecognised firm commitments and any recognised financial instrument. If this is the intended meaning, we suggest clarifying and/or defining the term “firm commitment” to make this meaning clear. The glossary does not provide further insight.

***Section 12 Inventories***

12.16 and 12.17 set out requirements with regard to cost formulas. According to the ED-IFRS for SME the last-in-first-out method is not permitted as a cost formula. It could be helpful for SMEs to include the clarification that the determination of cost based on the actual pattern of consumption does not represent a cost formula but economic reality and is therefore appropriate. This is particularly important as the wording of 12.17 implies that it requires the application of such cost formula unless 12.16 applies.

***Section 13 Investments in Associates/Section 14 Investments in Joint Ventures***

Our general comments with regard to options apply to the proposed accounting for associates and joint ventures in particular because three options are entertained. We promote reducing the options in order to simply the application of the SME standard and to enhance the comparability of the information which is to the benefit of the users. Therefore, the GASB suggests reducing the accounting options to a mandatory application of the cost model.

***Section 15 Investment Property***

In line with its position to eliminate options the GASB proposes to delete the fair value option. While the GASB acknowledges that there might be a few SMEs for which the fair value accounting of investment properties may more appropriately present their business model, this is clearly not typical for SMEs, at least not in Germany – as evidenced by our survey. In the case of investment properties we believe that the cost model is the simpler and, therefore, more adequate accounting.

In addition, it could be useful to incorporate the few requirements of section 15 into section 16 (*Property, Plan and Equipment*) in order to make the SME standard more comprehensible. If this separate section was to be kept, the definition of investment property in section 15 (*Investment Property*) should be widened by a reference to section 19 (*Leases*).

### *Section 16 Property, Plant and Equipment*

In 16.1 et seq. the IASB defines property, plant and equipment. Following those descriptions major spare parts and stand-by equipment can be property, plant and equipment. An entity shall allocate the amount initially recognised to the "significant" parts and depreciate separately such parts if their useful lives differ. The GASB supports this approach as it provides a principle that allows providing meaningful information about the entity's property, plant and equipment.

Furthermore, the IASB provides the option to account for all items in the same class of property, plant and equipment after initial recognition using either (a) the cost model or (b) the revaluation model (16.11). In line with our general position on eliminating options, the GASB suggests deleting the revaluation option. In our view the benefit of the consideration of fair values is questionable if there is no intention to sell the respective PPE, because fair value would only represent the proceeds obtainable through a hypothetical sale. In addition, the cost model represents the simpler accounting method.

The findings of our survey show that companies are mainly indifferent with regard to the different options. They do see a benefit in applying the revaluation model for external users and users within the entity. However, the cost/benefit analysis of this accounting method strongly depends on the availability of market prices. If market prices are not available, respondents more often see higher costs than benefits in using the revaluation model compared with the cost model.

### *Section 17 Intangible Assets other than Goodwill*

In 17.14 the IASB suggests an accounting option with regard to internally generated intangible assets other than goodwill: development costs may be recognised as an expense when incurred or capitalised if specified criteria are met. Entities are referred back to IAS 38 if they want to apply the capitalisation model.

The GASB believes the capitalisation model to be the adequate accounting method for development costs that meet the specific criteria defined in IAS 38.51 et seq. Therefore, and in line with the general position to delete accounting options, the GASB proposes deleting the option to expense development costs when incurred. There should be no reference to IAS 38. Instead, the capitalisation model (including the criteria) should be explained within the IFRS for SMEs itself.

As mentioned before, our survey amongst German SMEs suggests that most of these entities (42%) are indifferent towards the option. However, when asked to compare the capitalisation model with the cost model, the entities usually believe that the benefit for external users (as well as for internal information and management purposes) is higher under the capitalisation model (41% and 36% of the entities). At the same time its costs are considered relatively higher (say 58% of the entities). These evaluations differ slightly across different sizes of companies. Generally speaking: compared across the company sizes, larger entities see higher benefits and at the same time higher costs than smaller entities.

***Section 18 Business Combinations and Goodwill***

With regard to Business Combinations and Goodwill the IASB proposes a concept similar to IFRS 3. The GASB believes this is generally appropriate.

One major difficulty in business combinations is the purchase price allocation, in particular for intangibles. To reduce the complexity the GASB suggests applying the concept of observable market prices for intangibles acquired in a business combination. Accordingly, intangible assets previously not accounted for by the acquiree would be separated from goodwill only when observable market prices exist. Considering the specific structures of SMEs, reliability seems relatively more important than relevance when it comes to applying valuation techniques. The costs for complex valuation techniques would outweigh the benefit of this information. Users of financial statements of SMEs have said that they would be more interested in reliable information than in debatable results derived from valuation techniques.

Furthermore, 18.13 provides guidance on how to allocate the cost of a business combination to the assets acquired and liabilities and contingent liabilities assumed. The additional guidance and exceptions provided in IFRS 3.BC16 are not included in the ED-IFRS for SMEs. The GASB suggests including that guidance in the SME standard as we believe this will be useful for SMEs.

The IASB also proposes not to amortise goodwill after initial recognition (18.21). Instead the specific principles for impairment of goodwill in section 26 should be applied. The IASB has rejected the goodwill amortisation approach, which was favoured by many constituents (answering the questionnaire previously submitted). The IASB argues that this approach would still require assessment of impairment (BC80 a)) and would not faithfully represent economic reality. The GASB agrees to this argumentation insofar as the impairment assessment will still be required under the amortisation approach. However, the need for impairment (step 2 of the impairment test) will arise less often with goodwill being amortised. In addition, while the company needs to check for triggering events, it will be less likely that such events have an impact (and hence make impairment testing necessary) in the course of the years of amortisation.

Under cost-benefit-considerations the impairment approach suggested for goodwill does not seem appropriate for SMEs. For SMEs this will not strike a balance between an acceptable level of reliability and what is practicable for SMEs. We therefore strongly suggest that the Board reconsiders the amortisation method for application by SMEs. Entities would still have to assess whether there are indicators for any potential impairment of goodwill. However, the likelihood for an impairment-testing is reduced by the annual amortisation and this proves true the shorter the expected useful life of the goodwill is. Without going into a detailed conceptual discussion about the ‘Impairment Only’ approach reflected in IFRS 3 for listed companies we believe that for practicability reasons an accounting convention should be used for SMEs by introducing a rebuttable assumption. This kind of approach has been used for many years according to the IAS preceding IFRS 3. We would suggest a useful life of goodwill not exceeding 10 years.

Moreover, IFRS 3.62(a) requires completing the initial accounting (adjustments to provisional values) within twelve months of the acquisition date. A respective previous requirement allowed those adjustments to be made until the end of the following financial year. In order to give adequate relief to SMEs we suggest prolonging the term for SMEs according to that former provision.

In addition we believe that guidance on the issue of "Business combination achieved in stages" should be included within the IFRS for SMEs.

### *Section 19 Leases*

The IASB's proposal contains the general lease accounting requirements known from full IFRSs. Simplifications are proposed for lessee accounting in finance leases. Instead of measuring both the fair value of the leased property and the present value of the minimum lease payments and using the lower of the two, section 19 provides that only the fair value to be determined at the inception of the lease (BC92). The IASB further proposes not to include lessor accounting for finance leases as many lessors in a finance lease are likely to be financial institutions and, thus, are not eligible to apply the ED-IFRS for SMEs (BC62).

The GASB was actually wondering whether the first provision noted above truly helps to achieve a simplified lease accounting. While we acknowledge that the determination of the discount rate (interest rate implicit in the lease, or – if impracticable – the incremental borrowing rate) might sometimes be problematic, we believe that in most cases the present value of the minimum lease payment is still easier to determine than the fair value of leased property (see 19.8 initial recognition of finance lease).

Furthermore, we would like to point out that the proposed disclosure requirement is misleading. We suspect that the IASB intended to require disclosures about the future minimum lease payments at each reporting period. However, as it stands now this disclosure is required "for each future year". To our understanding, this requirement exceeds the current requirement in IAS 17 and should, therefore, be corrected.

In accordance with our general position to delete provisions not commonly needed by SMEs we suggest deleting 19.15 representing a cross-reference to full IFRSs in regard to lessor accounting for finance leases.

### *Section 20 Provisions and Contingencies*

The ED-IFRS for SMEs generally contains the same accounting principles for provisions and contingencies as currently contained in full IFRSs. The GASB agrees with this proposal. However, the GASB suggests including provisions on contingent assets and contingent liabilities in the general concepts in section 2, as those are of general importance for financial statements. Also, so far, section 20 does not refer to executory non-financial contracts. We believe section 20 should contain guidance on executory non-financial contracts, stating the general principle that those contracts should not be recognised in the balance sheet. Like the principles for provisions on contingent assets and contingent liabilities this guidance could be part of section 2.

Quite importantly, it should also be clarified in 20.8 that a provision shall be measured “at the best estimate **at the reporting date** of the amount required to settle the obligation” in order to emphasise that the current economic conditions at the reporting date, and not a settlement scenario, are relevant.

Furthermore, in accordance with our general proposal, the appendix to section 20 should be part of an overall application guidance offering examples and guidelines on all aspects of the IFRS for SMEs.

***Section 21 Equity***

In our accompanying letter we have pointed out that this is one of the most important problems for SMEs in Germany. For more detailed information on this particular issue please refer to our comments contained in the accompanying letter.

***Section 22 Revenue***

This section generally takes up the principles of full IFRSs. The GASB supports this approach. Nevertheless, we suggest incorporating provisions about the accounting treatment for multiple element arrangements. The revenue recognition for these transactions is generally difficult to derive from current IFRS provisions. We believe it would be easier for SMEs if provisions on the alternative methods (relative fair value method and residual value method) were incorporated directly within the standard.

Again, the appendix should be part of a more general volume of examples and guidelines.

***Section 23 Government Grants***

The GASB acknowledges the need for an adjusted accounting model. However, we are not convinced by the proposal to apply the IFRS for SME-model for all government grants. In line with our general position on options we would, therefore, suggest deleting option 23.3 (a) and retain only the accounting model described in 23.3 (b). Accordingly, the IFRS for SME-model will be applied for those government grants related to assets measured at fair value through profit or loss and IAS 20 will be applicable for all other grants. There should not, however, be a reference to IAS 20. Instead, the relevant principles of IAS 20 should be included in the IFRS for SMEs.

***Section 24 Borrowing Costs***

The IASB proposes an accounting policy selection for the recognition of borrowing costs. They can be accounted for using either (a) the expense model or (b) the capitalisation model. For the latter the IFRS for SMEs refers to IAS 23.

For our evaluation of this option see the general comments to question 5, i.e. suggestion to delete the capitalisation model. A positive side-effect would be that the whole section could be eliminated.

***Section 25 Share-based Payments***

The findings of the survey amongst German SMEs suggest that all of those transactions are of minor relevance for German SMEs. For about 90% of the entities equity-settled share-based payment transactions are of no or only minor significance. 77% of the entities say that cash settled share-based payment transactions are of no or minor relevance to them.

On the basis of the minor relevance of this section for SMEs the GASB suggests deleting this section in total. Guidance on the accounting treatment for cash settled share-based payments, which show a relatively higher significance for SMEs, should be incorporated under section 27 Employee Benefits. Another reason for deleting the guidance for equity-settled share-based payments is that in all related situations, if any, there would be serious problems to determine the fair values of the equity instruments taking into account that these are not obtainable from an observable market.

***Section 26 Impairment of Non-financial Assets***

The IASB proposes a different approach with regard to the determination of any impairment necessary. Whereas under full IFRSs the concept of “recoverable amount” is used being the higher of the “value in use and the fair value less cost to sell”, under IFRS for SMEs (26.5) only “fair value less cost to sell” is applied.

At first glance, removing the reference to the “value in use” may allow for a simplification for SMEs. However, the GASB strongly proposes to retain the concept of “recoverable amount” as the “value in use” represents an appropriate measurement attribute, in particular for assets used in an entity’s operating process and where no sale is intended. In addition it can sometimes be impossible for SMEs to determine an external value.

The IASB provides additional requirements for impairment of goodwill. Even though the GASB suggests reinstating the amortisation of goodwill, it will still have to be tested for impairment on an indicator basis. The IASB provides a two-step process (26.22) to determine whether to recognise an impairment loss.

In describing this process it is referred to the “component(s) of the entity”. Components of the entity are defined as “operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity”. The GASB believes the proposal could have been explained in more detail whether this represents a concept intended to be a simplification to IAS 36 (concept of “cash generating units”) or whether only a clarification is intended. Are there any differences between the concepts, e.g. inclusion of liabilities under “component of the entity”-concept? The GASB suggests clarification of this matter, and the IASB’s reasoning should be included in the basis for conclusion.

Furthermore, par. 26.22 step 2 (b) implies the allocation of any loss exceeding the carrying amount of the component’s goodwill to the identifiable non-cash assets and liabilities, i.e. their carrying amounts are decreased. However, in cases where these assets are accounted for under the revaluation method any depreciation of those assets, due to the allocation of any loss exceeding the carrying amount of goodwill, would result in a subsequently necessary revaluation, up to the higher carrying amount originally presented. IAS 36.105 determines that “an entity shall not reduce the carrying amount of an asset below the highest of (a) its fair value less costs to sell (if determinable); its value in use (if determinable); and (c) zero. The amount of the impairment loss that would otherwise have been allocated to the asset shall be allocated pro rata to the other assets of the unit (group of units).” The SME standard could contain a similar paragraph to limit the allocation of any loss exceeding the carrying amount of goodwill to the fair value less costs to sell.

Related to this issue the GASB believes that it is problematic to allocate the amount of loss exceeding the carrying amount of the component’s goodwill on “the basis of their relative fair values” (see 26.22 step 2) since not all assets and liabilities are measured at fair value. If this provision remains unchanged SMEs would be required to determine fair values for all non-cash assets and liabilities currently not fair valued, solely for the purpose of this special impairment procedure regarding goodwill. Therefore, allocation according to step 2 (b) should be “on the basis of their carrying amounts”. As addressed above the concept of a component of the entity is unclear. An impairment loss is determined on the basis of the component of the entity (possibly not including liabilities); however, the “exceeding loss” is allocated to assets and liabilities, which would result in a mismatch. Again, this points out the need to clarify the concept “component of the entity”.

### *Section 27 Employee Benefits*

The IASB has implemented a major, important project on accounting for employee benefits. An essential part of this project will be, after extensive consultations and discussions with constituents, deciding about accounting for actuarial gains and losses for which IAS 19 currently provides various options. The outcome of this project is likely to result in significant changes for the accounting and presentation of post-employment benefits. For SMEs the IASB argues that the reduction of accounting options for actuarial gains or losses to only one allowed treatment, i.e. all gains and losses through profit or loss, simplifies the IFRS for SMEs. However, independent of the option chosen, SMEs are very likely to outsource the valuation of there employee benefits, which makes cost/benefit arguments irrelevant as the costs for external appraisals arise independent of the accounting option. Therefore, this does not necessarily result in the proposed accounting treatment.

The GASB believes that in the light of the expected upcoming discussions within the IAS 19 project this decision should be postponed until the IASB has reached a conclusion within that project.

### *Section 28 Income Taxes*

The IASB proposes the so-called ‘timing differences plus’ approach (BC84 et seq.), in which the principles of IAS 12 have mainly been followed. The simplifications in the ED primarily result from an improved structure and clearer presentation of the requirements, but not from simplified recognition and measurement criteria. Most differences between IAS 12 and ED-IFRS for SMEs seem to result from discussions of the overall IAS 12 convergence project and would in our view need further discussion before being implemented within ED-IFRS for SMEs.

The GASB agrees that accounting for deferred taxes is necessary from a conceptual point of view in order to provide a fair presentation of the financial position of the entity. Deferred taxes satisfy the recognition criteria for assets or liabilities and should therefore be recognised. Also, when looking at the overall accounting concept which includes, for example, the percentage of completion method or revaluation of assets beyond initial cost, it does not seem appropriate to eliminate deferred tax accounting. Furthermore, the findings of our survey amongst German SMEs indicate that SMEs also see the benefits in this information for external and internal users. However, the also see the costs of determining deferred taxes.

In our view, the IASB suggests some requirements – differing from IAS 12 – that seem overly restrictive or burdensome for SMEs. 28.18 provides exception to the general principle for recognition of deferred taxes. 28.18 (b) states that "an entity shall not recognise deferred tax expense (income) or a related deferred tax liability (asset) for temporary differences associated with unremitted earnings from foreign subsidiaries, branches and associates and joint ventures, unless it is probable that the temporary difference will reverse in the foreseeable future." One the one hand, this exception is less restrictive than IAS 12.39, because it does not require the parent, investor or venturer to be able to "control the timing of the reversal of the temporary difference" (IAS 12.39 (a)). However, on the other hand, it is more restrictive than IAS 12, since the exception applies to *foreign* subsidiaries, branches and associates and joint ventures only. In addition, compared to IAS 12.39 the exception is limited to unremitted earnings, while exchange rate effects or differing impairments on those interests are not included. Since problems regarding the determination of the relevant tax effects are inherent to many of such investments, the GASB suggests widening the exception to all subsidiaries, branches and associates and joint ventures – just as provided for in IAS 12.

### *Section 29 Hyperinflation*

The ED-IFRS for SMEs only provides a definition of hyperinflation, the reference to IAS 29 and a brief summary of IAS 29. The GASB believes that those requirements are not necessary for the vast majority of SMEs worldwide. Therefore, this section should be deleted from the IFRS for SMEs.

### *Section 30 Foreign Currency Translation*

In line with full IFRSs the IASB proposes the functional currency concept for SMEs. Even though the concept is quite complex we support its incorporation into the IFRS for SMEs as it is conceptionally convincing.

### *Section 31 Segment Reporting*

This section contains only one paragraph stating that an SME that chooses to disclose segment information in financial statements described as conforming to the

IFRS for SMEs shall comply fully with the requirements in IFRS 8, otherwise it shall not describe the information as segment information.

The GASB believes that this section should be deleted completely as IFRS 8 applies to listed companies only (see our earlier remarks on cross-references).

Furthermore, SMEs should be allowed to provide segment information in a form potentially different from IFRS 8. Without section 31, SMEs would be given the possibility to develop more appropriate and less costly segment information according to the hierarchy in 10.2-10.4 including the consideration of similar pronouncements of other standard-setting bodies.

### *Section 32 Events after the end of the reporting period*

No remarks beyond an editorial remark (see p. 33).

### *Section 33 Related Party Disclosure*

In section 33 the ED-IFRS for SMEs requires SMEs to disclose in its financial statements information about the existence of related parties and transactions and outstanding balances with such parties. In general, related party disclosures can be critical for SMEs, since owner-managers are closely linked to the entity. However, the private sphere of owners needs to be protected to a certain level, which is what should be kept in mind when reviewing these disclosure requirements. In general the GASB favours a concept less burdensome for SMEs.

To simplify disclosure requirements the GASB suggests deleting 33.8, first sentence, which requires general disclosure about the nature of the related party relationship and the transaction etc. We believe the minimum disclosures as defined in 33.8 (after the first sentence) to be sufficient in evaluating the potential effect of that relationship on the financial statements.

The GASB further suggests clarifying the structure of the definition a) to c) of related party in the following order as this seems to include all cases addressed in a) to c), nevertheless easier to comprehend:

(a) party has control over the reporting entity

(b) party has joint control over the reporting entity

(c) party has significant influence over the reporting entity

(d) party is an entity that is controlled by reporting entity

(e) party is an entity that is jointly controlled by the reporting entity

(f) party is an entity that is significantly influenced by the reporting entity.

To enhance the understandability of section 33, the GASB also suggests including the definition of related parties in the section itself (so far only provided in the glossary) as par. 33.3 merely describes what are “not necessarily related parties”.

Furthermore, the glossary should not refer to IAS 28 or IAS 31, but the respective sections within the ED-IFRS for SMEs instead. Also, the examples in par. 10 should be amended by dividend payments and share purchases.

***Section 34 Earnings per Share***

Section 34 contains only one paragraph referring to IAS 33. This section should completely be deleted as the full IFRS addresses listed companies only (see our earlier remarks on cross-references).

***Section 35 Specialised Industries***

The IASB proposes simplifications for SMEs in allowing SMEs to measure biological assets at cost if the fair value is not readily determinable without undue cost or effort. The GASB supports this proposal. It underlines the concept we feel is appropriate for SMEs: measurement at fair values should be limited to cases where market values are readily available. However, a specification of "readily determinable without undue cost or effort" would be needed.

Furthermore, the GASB is of the opinion that insurances (35.5) do not have to be addressed herein. Insurances are not within the scope of the ED-IFRS for SMEs, which is also the only message given in 35.5.

***Section 36 Discontinued Operations and Assets Held for Sale***

As mentioned in our general remarks we believe these requirements should be part of the overall principles in section 2.

***Section 37 Interim Financial Reporting***

This section should completely be deleted (see our accompanying letter and comments to question 7 on cross-references).

Despite this general comment we would like to point out, that IAS 34 itself contains references to other standards within full IFRSs which need to be considered when cross-referencing from IFRS for SMEs to full IFRS. IAS 34 refers to other IFRS itself (IAS 1 and IFRS 3), which can be problematic in that the question might arise which accounting provisions to apply. The GASB suggests including a paragraph stating that entities ought to apply the same recognition and measurement principles used in their annual financial statements if the IASB decides to retain this section.

***Section 38 Transition to IFRS for SMEs***

Clarifications of the underlying concepts of this section are needed. This applies, for example, to the "impracticability criterion". 38.9 states that the entity shall apply 38.5 – 38.8 for the earliest periods for which it is practicable to do so if it is impracticable for an entity to restate the opening balance sheet at the date of transition in accordance with this draft. Does that imply that a transition in accordance to section 38 is not required? This could result in (some or all) items of the balance sheet to only gradually transfer to IFRS for SMEs. Not only would that limit the comparability across SMEs but also comparability of financial statements of one entity over time.

| Editorial Remarks | | |
|---|---|---|
| **Par. in ED-IFRS for SMEs** | **Issue** | **Proposal** |
| **general structure** | scope paragraphs | consistency: include a paragraph on scope at the beginning of each section explaining which transactions will be addressed in that section |
| **2.32** | reference to 2.43 (instead of 2.44) | last sentence should refer to 2.33 - 2.44 |
| **2** | going concern premise | include "going concern" in section 2 and delete in 3.7. |
| **section 5 / section 7** | information about discontinued operations needed in section 5, but not section 7 | align requirements |
| **7.18** | imprecise requirement: "An entity shall disclose such transactions elsewhere in the financial statements […]. " | include more specific requirement (not only "elsewhere") |
| **11** | appendix A = not integral part of standard; appendix B = integral part of the standard | align status of appendices |
| **11** | phrase "amortised cost less impairment" implies deducting impairment twice | align with IAS 39 (which can be applied optional) = amortised cost include impairment by definition |
| **20.2 (a)** | reference to onerous operating leases is missing | include remark in accordance with IAS 37.5 ( c), that section applies to operating leases that have become onerous |
| **22** | more information on "gross amount due from/to customer" needed | include a definition within section 22 and in the glossary |
| **23.4** | government grant model for SMEs does not include that receivable should be accounted for (in case the grant's criteria are fulfilled but not yet paid out) | include provision |
| **24.2 (b)** | refers to 24.4, which in return only cross-references to IAS 23 | refer directly to IAS 23 |
| **26.5** | refers to a principle ("group of assets") that should be included in section 2 | include this general principle in section 2 |
| **26.6 (c )** | refers to value in use - a concept not used in IFRS for SMEs | align with general concept |
| **27.2 and Glossary** | different terms used (share based payments versus share based payment transactions) | align terms |
| **27.13 b), 27.21, 27.38g)** | no reference to intangible assets | include reference to intangible assets |
| **27** | current liability; plan assets not in glossary (and not defined) | expand glossary by these terms |
| **27.38 (b)** | ED-IFRS for SMEs does not allow entities to choose from different accounting policies for recognising actuarial gains and losses; therefore no need for such a disclosure | delete disclosure requirement |
| **32.1** | "authorised for issue" can be unclear in some jurisdictions | include additional information such as a summary of IAS 10.4-6 to explain "authorised for issue". |
| **38.8b)** | headline = Fair value or revaluation as deemed cost; following paragraph does not include "fair value" as an option for property, plant and equipment | adjust text in paragraph by including reference to fair value |