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Berlin, 26 November 2012

Dear Hans

IASB Request for Information RFI/2012/06 *Comprehensive Review of the IFRS for SMEs*

On behalf of the Accounting Standards Committee of Germany (ASCG), I am writing to comment on the Request for Information RFI/2012/06 *Comprehensive Review of the IFRS for SMEs* (herein referred to as 'RFI'). Our comments on the RFI are limited to the facts that - unlike the full IFRSs as adopted by the European Union (EU) - there is no statutory regulation or incorporation of the *IFRS for SMEs* in the German Commercial Code, and consequently there is no experience of German SMEs in applying the standard. Nevertheless, we believe the *IFRS for SMEs* will have increasing influence on the future development of financial reporting standards for SMEs at a global level, including jurisdictions not currently using the *IFRS for SMEs*. In this context we appreciate the opportunity to contribute our view on the questions raised in the RFI.

We would like to specifically address the following issues:

The IASB's assumptions about users and preparers of SME financial statements

- We encourage the IASB as a standard setter to more clearly depict the underlying assumption for developing and maintaining the SME standard in the context of the users and of the preparers of SME financial statements, but not restricting the application of the

IFRS for SMEs to specific entities. Setting the scope of entities having to prepare and to publish financial reports in accordance with a specific set of standards is a sovereign task of national authorities and regulators with the sovereign right to endorse and to enforce those standards.

- In our view the departures from full IFRS recognition and measurement concepts in the *IFRS for SMEs* are justified by the IASB on the basis of cost-benefit constraints and the corresponding complexity concerns for SMEs. The scope criterion of non-public accountability as currently defined in the *IFRS for SMEs* does not appropriately reflect this thinking in developing requirements in the *IFRS for SMEs*. If the IASB continues to define a scope criterion for entities, the criterion should be portrayed in the underlying assumption and justification of developing the SME standard and any guidance.

Review process and criteria to justify changes in the *IFRS for SMEs*

- We also think there are clarification needs on the timing of the review and the due process activities for the *IFRS for SMEs*. Many questions are currently arising in context of the comprehensive review process and the structure for future omnibus reviews. Therefore we recommend developing review criteria and a more formal structure for review activities.
- The review criteria should reflect the assumption that the *IFRS for SMEs* is considered to be a self-contained document and any changes in full IFRSs do not automatically trigger consequential changes in the SME standard. Changes in the *IFRS for SMEs* are not justified if the impact of those changes would be limited compared to existing requirements and guidance. Furthermore, the criteria need to highlight and to emphasize the high need of a stable platform and the inability of most SMEs to implement frequent changes in requirements.
- In the context of any final decision in changing the full IFRSs we recommend that the IASB start a timely discussion and conclude tentative views if and to what extent those changes in the full IFRSs should also be reflected in the *IFRS for SMEs*. The tentative views should be collected and bundled over a period of three years and published together as an omnibus exposure draft. This accumulation process would be similar to the current process of annual improvements, except for replacing the annual cycle with a three year cycle.

Please find our detailed recommendations and comments on the questions raised in the RFI in the appendix to this letter.

If you would like to discuss our comments and recommendations further, please do not hesitate to contact me.

Yours sincerely

Liesel Knorr
President

Appendix – Answers to the questions of the RFI

S1: Are the scope requirements of the *IFRS for SMEs* currently too restrictive for publicly traded entities? (a) No—do not change the current requirements. Continue to prohibit an entity whose debt or equity instruments trade in a public market from using the *IFRS for SMEs*. (b) Yes—revise the scope of the *IFRS for SMEs* to permit each jurisdiction to decide whether entities whose debt or equity instruments are traded in a public market should be permitted or required to use the *IFRS for SMEs*. (c) Other—please explain. Please provide reasoning to support your choice (a), (b) or (c).

ASCG response: Alternative (c)

In our view a similar question was part of a very detailed debate on the scope and the title of the standard before the IASB finalised the *IFRS for SMEs* in 2009. The IASB should provide more information on whether those requests from interested parties for extending the scope of the *IFRS for SMEs* are different to those in previous debates.

In the past the IFRS Foundation along with the IASB as technical body emphasized its own role of being a private standard setter and not being a regulator or enforcer of such standards. This included the position of the IASB not to define or to limit the scope of the entities, the countries, or jurisdictions eligible to use IFRSs. It seems that the IASB considered departing from the sole role of developing financial reporting standards if it limits the compliance statement for standards to specific entities. Setting the scope of entities that have to prepare and to publish financial reports in accordance with a specific set of standards is a sovereign task of national authorities and regulators with the sovereign right to endorse and to enforce those standards and its national GAAP.

We encourage the IASB, as a standard setter, to clearly depict the underlying assumption for developing the SME standard in the context of the users and preparers of SME financial statements but not limiting or restricting the application of the standard to specific entities. This should also include emphasising any differences in those assumptions compared to full IFRSs, especially on the differences of the user's needs and how the IASB justifies the departure of recognition, measurement and presentation requirements in the *IFRS for SMEs* from those in the full IFRSs. We think national authorities and regulators are in a better position to determine the scope of entities as reflected in the national framework for capital markets and the description of user needs and cost-benefit constraints in the *IFRS for SMEs*.

According to the *IFRS for SMEs* (section 2.2), the objective of financial statements of a small or medium-sized entity is to provide information about the financial position, performance and cash flows of the entity that is useful for economic decision-making by a broad range of **users who are <u>not</u> in a position to demand reports tailored** [emphasis added] to meet their particular information needs. In our view this description of users and the corresponding needs for information in the *IFRS for SMEs* is very similar to those user needs described in the full IFRSs. It is not obvious why capital providers who have no access to tailored information of the SME would have different needs than those of users acting as capital providers in public markets. Hence, the major difference between the *IFRS for SMEs* and the full IFRSs seems to be cost-benefit constraints, especially the limited resources of the SMEs to prepare financial statements. In our view the IASB had already focused on the cost-benefit and complexity issue while developing the *IFRS for SMEs* and any justification from departing from recognition and measurement concepts developed in the full IFRSs. If these cost-benefit constraints remain the major driver of any difference between the full IFRSs and the *IFRS for SMEs*, we doubt whether public accountability as currently defined in the *IFRS for SMEs* is an appropriate criterion for reflecting this difference.

S2: Are the scope requirements of the IFRS for SMEs currently too restrictive for financial institutions and similar entities?

(a) No—do not change the current requirements. Continue to prohibit all financial institutions and other entities that hold assets for a broad group of outsiders as one of their primary businesses from using the *IFRS for SMEs*.

(b) Yes—revise the scope of the *IFRS for SMEs* to permit each jurisdiction to decide whether any financial institutions and other entities that hold assets for a broad group of outsiders as one of their primary businesses should be permitted or required to use the *IFRS for SMEs*.

(c) Other—please explain.

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

ASCG response: Alternative (c)

We think this question is similar to question S1, and refer to our response above.

S3: Should the IFRS for SMEs be revised to clarify whether an NFP entity is eligible to use it?

(a) Yes—clarify that soliciting and accepting contributions does not automatically make an NFP entity publicly accountable. An NFP entity can use the *IFRS for SMEs* if it otherwise qualifies under Section 1.

(b) Yes—clarify that soliciting and accepting contributions will automatically make an NFP entity publicly accountable. As a consequence, an NFP entity cannot use the *IFRS for SMEs*.

(c) No—do not revise the *IFRS for SMEs* for this issue.

(d) Other—please explain.

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

ASCG response: Alternative (a)

Generally we do not think there is a need for clarification on whether not-for-profit entities are eligible to use the *IFRS for SMEs*. Furthermore, the Basis for Conclusions in paragraph BC57 (b) has already indicated that soliciting and accepting contributions does not automatically make an NFP entity publicly accountable. However, if the IASB receives clarification requests on this issue on a frequent basis, we recommend changing the *IFRS for SMEs* only for clarification purposes. The IASB should consider whether clarification in the Basis for Conclusions would be sufficient in order to limit the number of changes to the *IFRS for SMEs* overall. Furthermore, we refer to our response to question S1.

IFRS for SMEs BC57 (b) states: "*The exposure draft had proposed that any entity that holds assets in a fiduciary capacity for a broad group of outsiders should not be eligible to use the IFRS for SMEs. Respondents noted that entities often hold assets in a fiduciary capacity for reasons incidental to their primary business (as, for example, may be the case for travel or real estate agents, schools, charitable organisations, co-operative enterprises and utility companies). The IFRS for SMEs clarifies that those circumstances do not result in an entity having public accountability*."

S4:Should the changes outlined above be considered, but modified as appropriate to reflect the needs of users of SME financial statements and cost-benefit considerations?

(a) No—do not change the current requirements. Continue to use the current definition of control and the guidance on its application in Section 9. They are appropriate for SMEs, and SMEs have been able to implement the definition and guidance without problems.

(b) Yes—revise the *IFRS for SMEs* to reflect the main changes from IFRS 10 outlined above (modified as appropriate for SMEs).

(c) Other—please explain.

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

ASCG response: Alternative (a)

The *IFRS for SMEs* should be a self-contained document, and high priority should be dedicated to the stable platform notion. Frequent changes in the SME standard would be burdensome for preparers as well as users. For preparers costs not only occur from potential modifications to the information system needed for compiling information, costs for preparers also arise from education efforts in connection with communicating such changes (and the impact) to users of SME financial statements.

There should be no automatic amendment process for the *IFRS for SMEs* arising from changes in the recognition, measurement and presentation requirements in the full IFRSs. Nevertheless, the conceptual spread between the full IFRSs and the *IFRS for SMEs* should be limited and only extend to a level that can be justified with regard to differences in user needs and in cost-benefit constraints between both sets of standards. In this context, we recommend developing review criteria for a better understanding when changes in the full IFRSs should also be considered in the *IFRS for SMEs*. These criteria should reflect the assumption that changes in the *IFRS for SMEs* are only necessary if a demonstrated need for improving the SME financial statements exists. The review criteria would also enhance transparency of the review process (see further comments and suggestions for the timing and the structure for the review process in our response to question G5).

S5: How should the current option to use IAS 39 in the *IFRS for SMEs* be updated once IFRS 9 has become effective?

(a) There should be no option to use the recognition and measurement provisions in either IAS 39 or IFRS 9. All SMEs must follow the financial instrument requirements in Sections 11 and 12 in full.

(b) Allow entities the option of following the recognition and measurement provisions of IFRS 9 (with the disclosure requirements of Sections 11 and 12).

(c) Other—please explain.

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

ASCG response: Alternative (c)

Similar to our response to question S4, we think the *IFRS for SMEs* should be a self-contained document, and a linkage to the full IFRSs for recognition, measurement and presentation is undesirable. If there is a clear need for improving Sections 11 and 12, that is or will be addressed in related projects in IFRS 9 and IAS 39. The IASB should incorporate such improvements into the *IFRS for SMEs* as appropriate in order to reflect the needs of users of SME financial statements and cost-benefit constraints.

S6: Should the fair value guidance in Section 11 be expanded to reflect the principles in IFRS 13, modified as appropriate to reflect the needs of users of SME financial statements and the specific circumstances of SMEs (for example, it would take into account their often more limited access to markets, valuation expertise, and other cost-benefit considerations)?

(a) No—do not change the current requirements. The guidance for fair value measurement in paragraphs 11.27–11.32 is sufficient for financial and non-financial items.

(b) Yes—the guidance for fair value measurement in Section 11 is not sufficient. Revise the *IFRS for SMEs* to incorporate those aspects of the fair value guidance in IFRS 13 that are important for SMEs, modified as appropriate for SMEs (including the appropriate disclosures).

(c) Other—please explain.

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

ASCG response: Alternative (c)

We think the terminology of the *IFRS for SMEs* and the full IFRSs should be aligned. Differences in the definition of and the understanding of fundamental concepts and terms increase complexity. Furthermore, the differences are not helpful if the standard does not specifically address a transaction, an event or a condition, and the entity's management is to use its judgement in developing and applying an accounting policy.

The IASB should evaluate the effect of incorporating the fair value definition and the guidance to IFRS 13 (including disclosures) in the *IFRS for SMEs* and provide relief as appropriate to reflect the needs of users of SME financial statements and cost-benefit constraints.

S7: Should the guidance be moved into a separate section? The benefit would be to make clear that the guidance is applicable to all references to fair value in the IFRS for SMEs, not just to financial instruments.

(a) No—do not move the guidance. It is sufficient to have the fair value measurement guidance in Section 11.

(b) Yes—move the guidance from Section 11 into a separate section on fair value measurement.

(c) Other—please explain.

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

ASCG response: Alternative (c)

We have no strong view on whether measurement guidance should be moved into a separate section. Any clarification explaining that guidance applicable to all references to fair value in the *IFRS for SMEs* could also be incorporated in Section 11. Nevertheless, the *IFRS for SMEs* has already dedicated a separate section of guidance for recognising and measuring the impairment of assets. Hence, a separate fair value section would be reasonable. We recommend that the IASB choose a method to structure the requirements and the guidance consistently throughout all of the sections and to minimise the amount of subsequent amendments.

S8: Should the changes above to joint venture accounting in full IFRSs be reflected in the *IFRS for SMEs*, modified as appropriate to reflect the needs of users of SME financial statements and cost-benefit considerations?

(a) No—do not change the current requirements. Continue to classify arrangements as jointly controlled assets, jointly controlled operations and jointly controlled entities (this terminology and classification is based on IAS 31 *Interests in Joint Ventures*). The existing Section 15 is appropriate for SMEs, and SMEs have been able to implement it without problems.

(b) Yes—revise the *IFRS for SMEs* so that arrangements are classified as joint ventures or joint operations on the basis of the parties' rights and obligations under the arrangement (terminology and classification based on IFRS 11 *Joint Arrangements*, modified as appropriate for SMEs).

(c) Other—please explain.

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

ASCG response: Alternative (a)

We address in our response to question 4 the need to develop review criteria for the *IFRS for SMEs.* These criteria should reflect the assumption that changes in the *IFRS for SMEs* are only necessary if a demonstrated need for improving the SME financial statements exists. In light of the stable platform concerns the IASB should only change the classification of arrangements in the context of joint venture accounting in Section 15 if there is evidence that the changes in the classification will improve the SME financial statements and will result in less implementation problems. The terminology should be aligned as much as possible between the full IFRSs and the *IFRS for SMEs* (as described in our response to question S6).

S9: Should an option to use the revaluation model for PPE be added to the *IFRS for SMEs*?

(a) No—do not change the current requirements. Continue to require the cost-depreciation-impairment model with no option to revalue items of PPE.

(b) Yes—revise the *IFRS for SMEs* to permit an entity to choose, for each major class of PPE, whether to apply the cost-depreciation-impairment model or the revaluation model (the approach in IAS 16).

(c) Other—please explain.

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

ASCG response: Alternative (a)

We noticed the lengthy debate of the IASB on the issue of whether all accounting policy options in the full IFRSs should be allowed in the *IFRS for SMEs*. The outcome of this debate and the decision are also addressed in the Basis for Conclusions on the *IFRS for SMEs* in paragraphs BC84-BC94, including the revaluation option for PPE.

From the RFI document and the description of question S9, it is unclear whether the IASB has gained new insights on this issue in order to justify raising this separate question again or whether the answers should provide a reconfirmation of the decision to exclude the revaluation option. We noticed that some jurisdictions had been arguing in favour of the revaluation method. In addition, it is often argued that excluding options from the *IFRS for SMEs* found in the full IFRSs may be costly for some SMEs if the entity has to prepare a second set of financial statements as a subsidiary for consolidation purposes by using those options given in the full IFRSs. However, the Basis for Conclusions on the *IFRS for SMEs* indicates that the IASB had already been aware of these arguments in the redeliberation of the Exposure Draft and in finalising the SME standard in 2009.

We think accounting options are generally undesirable and weaken comparability of financial statements. We would not be in favour of (re)introducing the option of allowing the revaluation of PPE in the *IFRS for SMEs.* Furthermore, the revaluation method is also an option for the subsequent measurement of intangible assets[1] in the full IFRSs and it is not clear to us why the RFI only focuses on the revaluation of PPE in IAS 16.

S10: Should the *IFRS for SMEs* be changed to require capitalisation of development costs meeting criteria for capitalisation (on the basis of on the criteria in IAS 38)?

(a) No—do not change the current requirements. Continue to charge all development costs to expense.

(b) Yes—revise the *IFRS for SMEs* to require capitalisation of development costs meeting the criteria for capitalisation (the approach in IAS 38).

[1] Unless there is no active market for such intangible assets.

(c) Other—please explain.

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

ASCG response: Alternative (c)

Similar to question S9, it is unclear why this issue was identified for a separate question in the RFI. There should be more explanation given on whether the IASB had gained new insights to form the basis for redeliberating on the current requirements and previous decisions.

S11: Should paragraph 18.20 be modified to state: "If an entity is unable to make a reliable estimate of the useful life of an intangible asset, the life shall be presumed to be ten years unless a shorter period can be justified"?

(a) No—do not change the current requirements. Retain the presumption of ten years if an entity is unable to make a reliable estimate of the useful life of an intangible asset (including goodwill).

(b) Yes—modify paragraph 18.20 to establish a presumption of ten years that can be overridden if a shorter period can be justified.

(c) Other—please explain.

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

ASCG response: Alternative (c)

The IASB should provide more explanations and examples of the cases and scenarios referred to by those interested parties. Generally, it seems to be counterintuitive that the entity would be capable of being in a position to justify shorter or longer periods than 10 years if the entity is unable to make a reliable estimate of a useful life.

Furthermore in this context we highlight that for the *IFRS for SMEs* we would not support introducing an impairment-only approach if an entity is unable to make a reliable estimate of the useful life of an intangible asset (including goodwill).

S12: Should Section 19 be amended to incorporate the above changes, modified as appropriate to reflect the needs of users of SME financial statements and cost-benefit considerations?

(a) No—do not change the current requirements. The current approach in Section 19 (based on IFRS 3 (2004)) is suitable for SMEs, and SMEs have been able to implement it without problems.

(b) Yes—revise the *IFRS for SMEs* to incorporate the main changes introduced by IFRS 3 (2008), as outlined above and modified as appropriate for SMEs.

(c) Other—please explain.

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

ASCG response: Alternative (a)

We refer to our response to question S4.

S13: Should paragraph 22.7(a) be amended either to permit or require the presentation of the receivable as an asset?

(a) No—do not change the current requirements. Continue to present the subscription receivable as an offset to equity.

(b) Yes—change paragraph 22.7(a) to require that the subscription receivable is presented as an asset.

(c) Yes—add an additional option to paragraph 22.7(a) to permit the subscription receivable to be presented as an asset, ie the entity would have a choice whether to present it as an asset or as an offset to equity.

(d) Other—please explain.

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

ASCG response: Alternative (d)

We think a change in the presentation would not be costly for SMEs. In the absence of a linked presentation concept for the statement of financial position in the *IFRS for SMEs*, we think the IASB should consistently apply the concepts in Section 2 *Concepts and Pervasive Principles* relating to the definition and recognition of assets in the statement of financial position.

S14: Should Section 25 of the IFRS for SMEs be changed so that SMEs are required to capitalise borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset, with all other borrowing costs recognised as an expense when incurred?

(a) No—do not change the current requirements. Continue to require all borrowing costs to be recognised as an expense when incurred.

(b) Yes—revise the *IFRS for SMEs* to require capitalisation of borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset (the approach in IAS 23).

(c) Other—please explain.

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

ASCG response: Alternative (a)

We refer to our response to questions S9 and S10.

S15: **Should the option to recognise actuarial gains and losses in profit or loss be removed from paragraph 28.24?**

(a) No—do not change the current requirements. Continue to allow an entity to recognise actuarial gains and losses either in profit or loss or in other comprehensive income as an accounting policy election.

(b) Yes—revise the *IFRS for SMEs* so that an entity is required to recognise all actuarial gains and losses in other comprehensive income (ie removal of profit or loss option in paragraph 28.24).

(c) Other—please explain.

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

ASCG response: Alternative (b)

We think the removal of the accounting policy option will improve comparability across financial statements.

S16: Should SMEs recognise deferred income taxes and, if so, how should they be recognised?

(a) Yes—SMEs should recognise deferred income taxes using the temporary difference method (the approach currently used in both the *IFRS for SMEs* and full IFRSs).

(b) Yes—SMEs should recognise deferred income taxes using the timing difference method.

(c) Yes—SMEs should recognise deferred income taxes using the liability method.

(d) No—SMEs should not recognise deferred income taxes at all (ie they should use the taxes payable method), although some related disclosures should be required.

(e) Other—please explain.

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

ASCG response: Alternative (a)

We refer to our response to questions S9 and S10.

S17: Should Section 29 be revised to conform it to IAS 12, modified as appropriate to reflect the needs of the users of SME financial statements?

(a) No—do not change the overall approach in Section 29.

(b) Yes—revise Section 29 to conform it to the current IAS 12 (modified as appropriate for SMEs).

(c) Other—please explain.

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

ASCG response: Alternative (c)

Based on the fact that the *IFRS for SMEs* is currently not being used in Germany, we have no empirical evidence on whether or not the current requirements in the *IFRS for SMEs* would result in more deferred tax calculation. The IASB should revise Section 29 if there is strong evidence for potential cost-benefit improvements.

S18: Should Section 29 be revised to incorporate a similar exemption from paragraph 29.20 for investment property at fair value?

(a) No—do not change the current requirements. Do not add an exemption in paragraph 29.20 for investment property measured at fair value.

(b) Yes—revise Section 29 to incorporate the exemption for investment property at fair value (the approach in IAS 12).

(c) Other—please explain.

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

ASCG response: Alternative (a)

We refer to our response to question S4.

S19: Are there any topics that are not specifically addressed in the IFRS for SMEs that you think should be covered (ie where the general guidance in paragraphs 10.4–10.6 is not sufficient)?

(a) No.

(b) Yes (please state the topic and reasoning for your response).

ASCG response: Alternative (a)

S20: Opportunity to add your own specific issues

Are there any additional issues that you would like to bring to the IASB's attention on specific requirements in the sections of the *IFRS for SMEs*?

(a) No.

(b) Yes (please state your issues, identify the section(s) to which they relate, provide references to paragraphs in the *IFRS for SMEs* where applicable and provide separate reasoning for each issue given).

ASCG response: Alternative (b)

In our response to the specific questions above, we highlight the necessity of developing review criteria and guidance when changes in the *IFRS for SMEs* should be considered by the IASB in order to improve the SME standard (see also our response to question G5). Currently it is not understandable on what basis the specific questions were justified and added as individual issues to the RFI while other issues reflecting the work of the IASB since 2009 were omitted from specific questions, for example:

- The IASB modified the qualitative characteristic in the conceptual framework. Should these changes be reflected in Section 2 *Concepts and Pervasive Principles* of the *IFRS for SMEs*? Or is there the intention to have different qualitative characteristics in the *IFRS for SMEs* and the full IFRSs?
- The IASB amended the presentation requirements in IAS 1 and introduced new terminology. Is this considered to be a minor change in the full IFRSs and therefore not subject to the specific questions in the RFI? Is the focus of the RFI only on potential changes in recognition and measurement requirements (excluding presentation and disclosures)?

The IASB and SMEIG need to improve the review process and the corresponding documentation, especially for any considerations in changing the full IFRSs. It may be necessary to review all changes in the full IFRSs with a corresponding documentation of review considerations for the *IFRS for SMEs*. Otherwise there would be too much room for undesirable speculation of constituents on why only some issues were addressed in the review activities of the IASB.

RFI – General questions

G1: How should the IASB deal with such minor improvements, where the *IFRS for SMEs* is based on old wording from full IFRSs?

(a) Where changes are intended to improve requirements in full IFRSs and there are similar wordings and requirements in the *IFRS for SMEs*, they should be incorporated in the (three-yearly) omnibus exposure draft of changes to the *IFRS for SMEs*.

(b) Changes should only be made where there is a known problem for SMEs, ie there should be a rebuttable presumption that changes should not be incorporated in the *IFRS for SMEs*.

(c) The IASB should develop criteria for assessing how any such improvements should be incorporated (please give your suggestions for the criteria to be used).

(d) Other—please explain.

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

ASCG response: Alternative (d)

From the description of question G1, it is not entirely clear to us whether minor improvements include only the changes arising from the annual improvement process or also comprise changes from other projects on the full IFRSs. Generally, we refer to our response to question G5. Any change in the full IFRS should not automatically trigger consequential changes for the *IFRS for SMEs*.

G2: Do you believe that the current, limited programme for developing Q&As should continue after this comprehensive review is completed?

(a) Yes—the current Q&A programme should be continued.

(b) No—the current Q&A programme has served its purpose and should not be continued.

(c) Other—please explain.

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

ASCG response: Alternative (c)

We refer to our response to G3.

G3: Should the Q&As be incorporated into the IFRS for SMEs?

(a) Yes—the seven final Q&As should be incorporated as explained above, and deleted.

(b) No—the seven final Q&As should be retained as guidance separate from the *IFRS for SMEs*.

(c) Other—please explain.

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

ASCG response: Alternative (c)

The IASB should be the only source for any authoritative guidance. If the non-mandatory Q&A guidance were to be incorporated into the *IFRS for SMEs* as application guidance, new publications of Q&As might be considered by constituents as being de-facto authoritative literature (at least until the next IASB review project of the *IFRS for SMEs*). Therefore we encourage the IASB to rethink the institutional process for constituents making a clarification request, especially in the case of urgency or a certain level of importance.

G4: Do you have any comments on the IFRS Foundation's *IFRS for SMEs* training material available on the link above?

(a) No.

(b) Yes (please provide your comments).

ASCG response: n/a

G5: Opportunity to add any further general issues

Are there any additional issues you would like to bring to the IASB's attention relating to the *IFRS for SMEs*?

(a) No.

(b) Yes (please state your issues and provide separate reasoning for each issue given).

ASCG response: Alternative (b)

We think it is necessary for the IASB:

- To develop review criteria as a basis and guide for any decisions on whether changes in the full IFRSs arising from new or amended IFRSs (including those changes from annual improvements) should result in amendments to the *IFRS for SMEs*;
- To develop and describe the timing of the review and the corresponding due process, including considerations on effective date and early application; and
- To develop a formal process for constituents making clarification requests for the *IFRS for SMEs.*

The review criteria should reflect the assumption that the *IFRS for SMEs* is considered as being a self-contained document and any changes in the full IFRSs do not automatically trigger consequential changes in the SME standard. Changes would not justified in the *IFRS for SMEs* if the impact of those changes were to be very limited compared to existing requirements and guidance in the *IFRS for SMEs*. Furthermore, the criteria need to highlight and to emphasize a high need for a stable platform and the inability of most SMEs to implement frequent changes in the requirements.

We also think there are clarification needs on the timing of the review and due process activities for the *IFRS for SMEs*. Many questions are currently arisingin the context of the comprehensive review process and the structure for future omnibus reviews. The IASB should take into consideration:

- that the implementation and transition period in the *IFRS for SMEs* should be at least the same as for the full IFRSs. Usually SMEs require a longer period to implement changes compared to entities applying the full IFRSs,
- that SMEs usually do not have the capacity for writing comment letters on a frequent basis and for following the standard setting process closely, and
- that decisions by the IASB to change the full IFRSs should trigger timely discussions whether or not those changes would also result in any changes in the *IFRS for SMEs*.

In light of these considerations, we recommend that the IASB implement a review and due process similar to the timing and decision structure for the annual improvement process for full IFRSs, except for replacing the annual cycle of this process with a three year cycle. Cconsequentlyany decision to change the full IFRSs (including annual improvements) should trigger timely discussions and tentative views by the IASB on whether such changes would also result in amending the SME standard. The IASB should collect and accumulate such tentative views and publish a comprehensive omnibus exposure draft every three years. Furthermore, the IASB may only include issues for potential changes in the omnibus exposure draft that have already been discussed by the IASB twelve months prior to publication of the omnibus exposure draft or limit the number of issues. Such an accumulation process may delay the effective dates and early application for IFRS for SMEs compared to full IFRSs. However, we think this process would be consistent with the need for having a stable platform and addressing the cost-benefit constraints for preparers. The accumulation process provides sufficient time for constituents to prepare feedback on a comprehensive package of proposals. We would not encourage the IASB to establish a review process that only starts discussing changes in the *IFRS for SMEs* every three years.

G6: Use of *IFRS for SMEs* in your jurisdiction

This question contains four sub-questions. The purpose of the questions is to give us some information about the use of the *IFRS for SMEs* in the jurisdictions of those responding to this Request for Information.

1 What is your country/jurisdiction?

2 Is the *IFRS for SMEs* currently used in your country/jurisdiction?

(a) Yes, widely used by a majority of our SMEs.

(b) Yes, used by some but not a majority of our SMEs.

(c) No, not widely used by our SMEs.

(d) Other (please explain).

3 If the *IFRS for SMEs* is used in your country/jurisdiction, in your judgement what have been the principal benefits of the *IFRS for SMEs*?

(Please give details of any benefits.)

4 If the *IFRS for SMEs* is used in your country/jurisdiction, in your judgement what have been the principal practical problems in implementing the *IFRS for SMEs*?

(Please give details of any problems.)

ASCG response: **1 Germany**
2 Alternative (d)
3 n/a
4 n/a

Different from the full IFRSs adopted by the European Union (EU), there is no statutory regulation or incorporation of the *IFRS for SMEs* in the German Commercial Code or other national regulation in Germany. Any interim or annual report prepared and published in accordance with the *IFRS for SMEs* does not exempt an SME from the duty of preparing and publishing statutory reports in accordance with the German Commercial Code and other national regulations.