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Accounting Standards Committee of Germany
® IFRS-Fachausschuss

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EFRAG
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Berlin, 14 February 2014

Dear Françoise,

IASB Exposure Draft ED/2013/9 *IFRS for SMEs – Proposed amendments to the International Financial Reporting Standard for Small and Medium-sized Entities*

On behalf of the Accounting Standards Committee of Germany (ASCG), I am writing to comment on EFRAG's Draft Comment Letter on the IASB Exposure Draft ED/2013/9 IFRS for SMEs – Proposed amendments to the International Financial Reporting Standard for Small and Medium-sized Entities (hereafter referred to as 'the ED'). We appreciate the opportunity to respond to EFRAG's Draft Comment Letter and attach to this letter our comments and arguments on the ED that we submitted to the IASB.

We noticed that the *IFRS for SMEs* is broadly silent on particular information needs for external users of SME financial statements compared to those of full IFRSs financials while focusing on cost-benefit constraints and the corresponding complexity concerns for SMEs.

In our view, this preparer-focused approach does not provide a sufficient framework for SME accounting standards. For this reason the *IFRS for SMEs* would benefit from amendments to its preface giving it the necessary own conceptual basis for the definition of SMEs as well as for the pervasive principles in Chapters 1 and 2 respectively. Within this context we doubt whether 'public accountability' as currently defined in the *IFRS for SMEs* is the appropriate criterion for deriving an (compared to full IFRSs different and unique) approach for the development of accounting principles for SMEs.

Furthermore, we strongly believe that the *IFRS for SMEs* should be a self-contained document, and high priority should be dedicated to the stable platform notion, i.e. changes in full IFRSs will not necessarily lead to change requests in the *IFRS for SMEs*. Frequent changes in the SME standard would be burdensome for preparers as well as users.

Having in mind these general remarks and our call for further development regarding the scope and objective of the *IFRS for SMEs,* we highlight our views and alternative proposals that differ from EFRAG's tentative views on the following issues addressed in EFRAG's Draft Comment Letter:

- <u>Question 2:</u> We welcome the revised wording of Section 29. We favour a compact structure that is not enriched with too much additional guidance from IAS 12 *Incomes Taxes*. Although the *IFRS for SMEs* should be a comprehensive document we see no need to duplicate too much guidance from full IFRSs. Furthermore, we do not support a option to apply a taxes payable approach (with or without additional disclosures).
- <u>Question 3:</u> We do not agree with the proposed amendments in paragraph 20 of Section 18 and paragraph 23 of Section 19 that for intangibles where the entity is unable to make a reliable estimate of the useful life, the life shall be based on management judgement.
- <u>Question 4:</u> We agree with IASB's view not to change the current requirements and to continue to require the cost-depreciation-impairment model with no option to revalue items of property, plant, and equipment (PPE). We also agree with IASB's view not changing the current requirements and to continue to charge all development costs to expense and to require all borrowing costs to be recognised as an expense when incurred. We support the basis for conclusion not permitting these accounting policy options for cost-benefit reason and think accounting options are generally undesirable and weaken comparability of financial statements.

- <u>Question 8:</u> We do not necessarily see the need to align the definitions of the *IFRS for SMEs* with those in full IFRSs. In our view such a alignment of terminology does not work in all cases; particularly if the usage of a defined term is based on different underlying concepts. Therefore we support the Glossary in the *IFRS for SMEs* with independent definitions.

For our detailed comments on the questions raised in the ED, please refer to the comment letter we submitted to the IASB. If you would like to discuss our comments and alternative proposals further, please do not hesitate to contact me.

Yours sincerely,

Liesel Knorr
President

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Mr Hans Hoogervorst
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Berlin, 14 February 2014

Dear Hans,

IASB Exposure Draft ED/2013/9 *IFRS for SMEs – Proposed amendments to the International Financial Reporting Standard for Small and Medium-sized Entities*

On behalf of the Accounting Standards Committee of Germany (ASCG) I am writing to comment on the IASB Exposure Draft ED/2013/9 *IFRS for SMEs – Proposed amendments to the International Financial Reporting Standard for Small and Medium-sized Entities* (herein referred to as 'ED'). We appreciate the opportunity to comment on the ED.

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.

Consequently there is very limited 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 ED.

Remarks to the standard development process

1. Scope

Before commenting on the individual technical proposals in the ED, we would like to share some more general concerns regarding the development process of the *IFRS for SMEs* and where the standard might benefit from improvements of its scoping.

We acknowledge that the scope and purpose of the *IFRS for SMEs* is actually defined as to provide general purpose financial statements of non-publicly accountable entities. However the standard is broadly silent on particular information needs for external users of these SME financial statements compared to those of full IFRSs financials.

Therefore it is difficult to see the conceptual basis for any key differences in the approach compared to full IFRSs and to identify the main trigger for the development of this separate *IFRS for SMEs*. For this reasons the standard might benefit from amendments to its preface giving it the necessary own conceptual basis for the definition of SMEs as well as for the pervasive principles in Chapters 1and 2 respectively.

We doubt whether ‘public accountability’ as currently defined in the *IFRS for SMEs* is the appropriate criterion for deriving an (compared to full IFRSs different and unique) approach for the development of accounting principles. In our view the departures from full IFRSs 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 and are therefore very focused on the preparer side. We encourage the IASB to clearly depict the underlying assumption for developing the SME standard in the context of the preparers <u>and</u> users of SME financial statements. We currently see two ways to move forward:

a) Develop an SME user profile and derive accounting principles: Emphasize 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; or

b) continue the efforts to develop easy to apply/understand accounting principles regardless of a specific user profile: If the cost-benefit constraints remain the major driver of any difference between the full IFRSs and the *IFRS for SMEs*, again, public accountability as currently defined in the *IFRS for SMEs* is not an appropriate criterion for reflecting this difference.

Considering that the *IFRS for SMEs* and the ED as currently drafted follow the approach ad b) we would still not recommend limiting or restricting the application of the standard to specific entities. 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 without defining a specific set of users as a conceptual basis. 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.

2. Review process

We have the view that the IASB needs to improve the review process and the corresponding documentation to limit the room for undesirable speculation of constituents on why only some issues were addressed in the review activities of the IASB. Therefore, we think it is necessary for the IASB:

a) 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 should result in amendments to the *IFRS for SMEs*;

b) to develop and describe the timing of the review and the corresponding due process, including considerations on effective date and early application; and

c) to develop a formal process for constituents making clarification requests for the *IFRS for SMEs*.

For more details on our remarks to the standard development process we particularly refer to our responses to Questions 1 and 7 in the Appendix of this letter.

Technical analysis

1. Proposed amendments

Having in mind our general remarks and above call for further development on the scope of the *IFRS for SMEs* we lack the conceptual basis to judge whether the amendments proposed in the ED are beneficial for users of SME’s financials and we cannot finally conclude on that. Nonetheless, under the assumption that the actual scope of SME’s financial statement remains as currently drafted in the standard we would like to provide the following comments.

The ASCG generally agrees with most of the proposed amendments. We particularly support the IASB proposal to align the main principles of Section 29 *Income Tax* with IAS 12 *Income Taxes* for the recognition and measurement of deferred tax if there is strong evidence for potential cost-benefit improvements. However, we think that some of the proposed amendments (like the 'undue cost or effort' exemption or the proposed changes to the amortisation of goodwill and intangible assets) should be expanded to address the concerns referred to in our responses in the Appendix of this letter.

2. General treatment of new individual or revised IFRS

As already expressed in our response to the Request for Information (RfI) we have the view that 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.

Therefore, we welcome the IASB's decision not to incorporate the content of several new IFRSs in the *IFRS for SMEs* like IFRSs 10 to 13 and IFRS 9. However, with regard to IAS 19 *Employee Benefits* (2011) we disagree to keep the option in paragraph 24 of Section 28 to recognise actuarial gains and losses in profit or loss.

3. Accounting policy options

We noticed that some jurisdictions had been arguing in favour of various accounting policy choices (like capitalisation of development or borrowing costs or the revaluation model for certain tangible or even intangible assets) in the *IFRS for SMEs*. However, we support the IASB's conclusion for not permitting these accounting policy options and think accounting options are generally undesirable and weaken comparability of financial statements.

4. Transition and effective date

We agree that the amendments to the *IFRS for SMEs* should be applied retrospectively, in particular as full retrospective application is likely to provide the most consistent and comparable information to users. The ASCG also supports the IASB's proposal that the effective date of the amendments to the *IFRS for SMEs* should be one year after the final amendments are issued and agrees that early adoption of the amendments should be permitted.

5. Interaction with full IFRS

In 2010 the IASB started to introduce a revised Conceptual Framework and is currently reviewing the remaining Framework (1989) on the basis of its Discussion Paper DP/2013/*1 Review of the Conceptual Framework*. We think that the IASB should evaluate potential interdependencies of these activities with the pervasive principles of the *IFRS for SMEs* in due course.

Furthermore we support the Glossary in the *IFRS for SMEs* with independent definitions and propose to explicitly mark the defined terms in that Glossary where the definitions are different from those in full IFRS. This would avoid misinterpretations by preparers and users of SME's financial statements by looking as a (misleading) fallback in full IFRS's guidance in cases where a different concept is used.

For more details on the technical analysis we refer to our responses to Questions 2 to 6 and 8 in the Appendix of this letter.

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

Yours sincerely,

Liesel Knorr

President

Appendix – Answers to the questions of the exposure draft

Question 1 – Definition of 'fiduciary capacity'

The IASB has received feedback that the meaning of 'fiduciary capacity' in the definition of 'public accountability' (see paragraph 1.3(b) of the *IFRS for SMEs*) is unclear as it is a term with different implications across jurisdictions. However, respondents generally did not suggest alternative ways of describing public accountability or indicate what guidance would help to clarify the meaning of 'fiduciary capacity'. Based on the outreach activities to date, the IASB has determined that the use of this term does not appear to create significant uncertainty or diversity in practice.

a) Are you aware of circumstances where the use of the term 'fiduciary capacity' has created uncertainty or diversity in practice? If so, please provide details.

b) Does the term 'fiduciary capacity' need to be clarified or replaced? Why or why not? If you think it needs to be clarified or replaced, what changes do you propose and why?

The ASCG understands the proposed amendments to paragraph 3(b) of Section 1 as efforts to clarify the term 'fiduciary capacity' in the standard to help local authorities/standard-setters and entities to apply the current definition of public accountability. With regard to a more general comment on the (too narrow) scope of the *IFRS for SMEs* by using the criteria of 'public accountability', we would like to refer to our cover letter and our answer to Question 4.

Nevertheless, if the scope of *IFRS for SMEs* remains unchanged, in our view there is no need to clarify or replace the term 'fiduciary capacity'. The *IFRS for SMEs* already highlights that circumstances where entities 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) do not result in an entity having public accountability

In particular, we do not think that there is a need for further clarification on whether not-for-profit (NFP) entities are eligible to use the *IFRS for SMEs*. The Basis for Conclusions in paragraph BC57(b) already indicate 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.

Question 2 – Accounting for income tax

The proposal to align the main principles of Section 29 *Income Tax* with IAS 12 *Income Taxes* for the recognition and measurement of deferred tax (see amendment number 44 in the list of proposed amendments at the beginning of this Exposure Draft) is the most significant change being proposed to the *IFRS for SMEs*.

When the *IFRS for SMEs* was issued in 2009, Section 29 was based on the IASB's Exposure Draft *Income Tax* (the '2009 ED'), which was issued in March 2009. However, the 2009 ED was never finalised by the IASB. Consequently, the IASB has concluded that it is better to base Section 29 on IAS 12. The IASB proposes to align the recognition and measurement principles in Section 29 with IAS 12 (see paragraphs BC55–BC60) whilst retaining some of the presentation and disclosure simplifications from the original version of Section 29.

The IASB continues to support its reasoning for not permitting the 'taxes payable' approach as set out in paragraph BC145 of the *IFRS for SMEs* that was issued in 2009. However, while the IASB believes that the principle of recognising deferred tax assets and liabilities is appropriate for SMEs, it would like feedback on whether Section 29 (revised) can currently be applied (operationalised) by SMEs, or whether further simplifications or guidance should be considered.

A 'clean' version of Section 29 (revised) with the proposed changes to Section 29 already incorporated is set out in the appendix at the end of this Exposure Draft.

Are the proposed changes to Section 29 appropriate for SMEs and users of their financial statements? If not, what modifications, for example further simplifications or additional guidance, do you propose and why?

In any case SMEs should recognise deferred income taxes using the temporary difference method (the approach currently used in both the *IFRS for SMEs* and full IFRSs). We do not support an approach for deferred taxes using the timing difference method or liability method.

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* result in more complex deferred tax accounting compared to IAS 12.

We support the IASB's proposal to align the main principles of Section 29 *Income Tax* with IAS 12 *Income Taxes* for the recognition and measurement of deferred tax (and to add a rebuttable presumption that the carrying amount of investment property measured at fair value will be recovered through sale) if there is strong evidence for potential cost-benefit improvements. Within this context it might help to consider undertaking some outreach with preparers and users of SME's financial statements to understand whether SMEs would find it useful to have an 'undue cost or effort exemption' for some specific requirements, in addition to the exception already suggested and commented below.

Furthermore, we welcome that the wording of the redrafted Section 29 is not enriched with too much additional guidance from IAS 12 as we favor a compact structure. As long as the accounting principles are similar to full IFRS, there is no need to copy guidance into the *IFRS for SMEs*.

This approach will also support our view, that a high priority should be dedicated to the stable platform notion, i.e. minor changes in a full IFRS will not lead to changes in the *IFRS for SMEs* if the standard does not include this level of detail.

Question 3 – Other proposed amendments to the *IFRS for SMEs*

The IASB proposes to make a number of other amendments to the *IFRS for SMEs*. The proposed amendments are listed and numbered 1–43 and 45–57 in the list of proposed amendments. Most of those amendments are minor and/or clarify existing requirements.

a) Are there any amendments that you do not agree with or have comments on?

b) Do any of the amendments require additional guidance or disclosure requirements to be added to the *IFRS for SMEs*? If so, which ones and what are your suggestions?

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

The ASCG agrees with most of the proposed amendments, but we think that some of the proposed amendments should be expanded to address the concerns referred below.

Undue cost or effort

We welcome the proposed addition of paragraphs 14A–14C of Section 2 of the ED with the objective of providing guidance regarding the 'undue cost or effort' exemption that is used in several sections of the *IFRS for SMEs* and making that guidance mandatory.

We note that this guidance is based on the Q&A 2012/01 *Application of 'undue cost or effort'*, published by the IASB in April 2012, which explained how 'undue cost or effort' and 'impracticable' should be understood. We think that this guidance was helpful and we acknowledge that the use of a cost/effort exemption depends on the SME's specific circumstances and on management's judgement. However we believe that the current addition does not fully explain the meaning of 'undue cost or effort' and how it differs from the defined term 'impracticable'. We therefore propose to add a definition of 'undue cost or effort' to the Glossary with further explanation about the difference between the two terms.

Amortisation of goodwill and intangible assets

We do not agree with the proposed amendments to paragraph 20 of Section 18 and paragraph 23 of Section 19 proposing that for intangibles where the entity is unable to make a reliable estimate of the useful life, the period of amortisation shall be based on management judgement (and shall not exceed ten years). 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 management 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.

However, within 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). Therefore, we would welcome to retain a (non-rebuttable) presumption that the useful life shall be presumed to be ten years if the entity is unable to make a reliable estimate of the useful life of an intangible.

Even though the *IFRS for SMEs* is not applicable under the German accounting legislation, we would like to draw your attention to the fact that goodwill amortisation is a common area with specific requirements in local GAAPs given by local jurisdictions which might be contradicted by the ED’s proposal.

Question 4 – Additional issues

In June 2012 the IASB issued a Request for Information (RfI) seeking public comment on whether there is a need to make any amendments to the *IFRS for SMEs* (see paragraphs BC2–BC15). The RfI noted a number of specific issues that had been previously identified and asked respondents whether the issues warranted changes to the *IFRS for SMEs*. Additionally, the RfI asked respondents to identify any additional issues that needed to be addressed during the review process. Any issues so identified were discussed by the IASB during its deliberations.

Do respondents have any further issues that are not addressed by the 57 amendments in the list of proposed amendments that they think the IASB should consider during this comprehensive review of the *IFRS for SMEs*? Please state these issues, if any, and give your reasoning.

Technical issues addressed in the RfI

Regarding the individual issues addressed in the RfI we would like to add the following comments:

1. No introduction of IFRS 10 (RfI S4)

We agree not to change the current requirements and 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.

2. No introduction of IFRS 9 (RfI S5)

We agree that IFRS 9 was not considered in this comprehensive review because it has not yet been completed. We believe 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.

3. Potential introduction of IFRS 13 and measurement guidance (RfI S6+S7)

We think that the IASB should not necessarily evaluate the effect of incorporating the fair value definition and the guidance of IFRS 13 (including disclosures) in the *IFRS for SMEs*. We have already expressed the view that the *IFRS for SMEs* should be a comprehensive document. However, we clearly favor a compact structure without too many additional guidance.

This approach will also support our view, that a high priority should be dedicated to the stable platform notion, i.e. changes in a full IFRS will not lead to change requests in the *IFRS for SMEs* if the standard does not include this level of detailed guidance.

Nevertheless, the *IFRS for SMEs* has already dedicated a separate guidance for recognising and measuring the impairment of assets. Hence, a separate fair value guidance might be reasonable. We recommend that the IASB chooses a method to structure the requirements and the guidance consistently throughout all sections and to minimise the amount of subsequent amendments.

On the other hand, for the avoidance of doubt, we propose to explicitly link the usage of IFRS 13 to the accounting policy choice in paragraph 2 of Section 11 when using IAS 39 instead of the recognition and measurement provisions of Section 11 and 12 of the *IFRS for SMEs*.

For a more general comment on the linkage of definitions between the IFRS for SMEs and full IFRSs we refer to our answer to Question 8.

4. No introduction of IFRS 11 (RfI S8)

We agree not to change the current requirements and to 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.

We have the view 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 changes in the classification will improve the SME financial statements and will result in less implementation problems.

5. No introduction of IFRS 3 (2008) (RfI S12)

We agree not to 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.

6. No option to use the revaluation model for PPE be added (RfI S9)

We agree not to change the current requirements and to continue to require the cost-depreciation-impairment model with no option to revalue items of PPE.

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 current ED and its Basis for Conclusions in paragraphs BC40-BC44 we understand that the IASB reconfirms its 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 of the ED again indicates that the IASB had already been aware of these arguments in the redeliberation. We would therefore 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 in the full IFRSs and it is not clear to us why the redeliberation focuses on the revaluation of PPE in IAS 16 *Property, Plant and Equipment*.

7. No capitalisation of development or borrowing costs meeting criteria for capitalisation (RfI S10+S14)

We agree not to change the current requirements and to continue to charge all development costs to expense and to require all borrowing costs to be recognised as an expense when incurred.

From the ED's Basis for Conclusions in paragraphs BC45-BC48 we understand and share the IASB's view that there is no convincing argument to reconsider the current approach for accounting for cost of development and borrowing costs in the *IFRS for SMEs*.

Therefore, we support the basis for conclusion for not permitting these accounting policy options for cost-benefit reason and think options are generally undesirable and weaken comparability of financial statements.

8. No amendment either to permit or require the presentation of share subscription receivables as an asset (RfI S13)

We think a change in the presentation with regard to the paragraph 7(a) of Section 22 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.

However, we have no strong view whether to change the current requirements and to present the subscription receivable as an asset or to continue to present it as an offset to equity. Therefore, we agree with the conclusion as drafted in BC66 of the ED to keep the *IFRS for SMEs* unchanged in this respect, because it would not be appropriate to remove the principle and remain silent without a strong argument for a different approach.

9. Remove option to recognise actuarial gains and losses in profit or loss (RfI S15)

We disagree to keep the option in paragraph 24 of Section 28 to recognise actuarial gains and losses in profit or loss. We would instead recommend to 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). We think the removal of the accounting policy option would improve comparability across financial statements and would incorporate one of the main changes from IAS 19 *Employee Benefits* (2011*).*

We disagree with the arguments in paragraph BC 34(b) of the ED's Basis for Conclusions to wait with these amendments with reference to the ongoing Conceptual Framework project.

Scope of the IFRS for SMEs

According to the *IFRS for SMEs* (paragraph 2 of Section 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 not 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.

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.

In the past the IFRS Foundation along with the IASB as the technical body emphasised 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 entities, 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 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*.

General treatment of new individual or revised IFRS

As already expressed in our response to the RfI we have the view that 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 extended 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 5).

Question 5 – Transition provisions

The IASB does not expect retrospective application of any of the proposed amendments to be significantly burdensome for SMEs and has therefore proposed that the amendments to the *IFRS for SMEs* in Sections 2–34 are applied retrospectively.

Do you agree with the proposed transition provisions for the amendments to the *IFRS for SMEs*? Why or why not? If not, what alternative do you propose?

In general the ASCG does not expect retrospective application of any of the proposed amendments to be significantly burdensome for SMEs. We would therefore propose that the amendments to the *IFRS for SMEs* are applied retrospectively, a full retrospective application is likely to provide the most consistent and comparable information to users.

However, we cannot finally judge whether the alignment of the principles of Section 29 *Income Tax* with IAS 12 for the recognition and measurement of deferred tax can be costly and burdensome for some SMEs. As mentioned above this is because the *IFRS for SMEs* is currently not being used in Germany, so we have no empirical evidence on whether or not the proposed amendments in the ED could result in more complex deferred tax accounting compared to the current principles of the *IFRS for SMEs* (2009).

We note that the IASB assumes that fewer deferred tax calculation would be required under the proposal (paragraph BC94 of the ED's Basis for Conclusions). Anyhow an SME will need to initially assess whether each individual change to the requirements for recognising, measuring and disclosing deferred tax will have an impact when applied retrospectively.

Question 6 – Effective date

The IASB does not think that any of the proposed amendments to the *IFRS for SMEs* will result in significant changes in practice for SMEs or have a significant impact on their financial statements. It has therefore proposed that the effective date of the amendments to the *IFRS for SMEs* should be one year after the final amendments are-issued. The IASB also proposes that early adoption of the amendments should be permitted.

Do you agree with the proposed effective date and the proposal to permit early adoption? Why or why not? If not, what alternative do you propose?

The ASCG agree with the IASB proposal that the effective date of the amendments to the *IFRS for SMEs* should be one year after the final amendments are issued. We also think that most of the proposed amendments to the *IFRS for SMEs* will not result in significant changes in practice for SMEs or have a significant impact on their financial statements. We also agree that early adoption of the amendments should be permitted.

Question 7 – Future reviews of the *IFRS for SMEs*

When the *IFRS for SMEs* was issued in 2009 the IASB stated that after the initial comprehensive review, the IASB expects to propose amendments to the *IFRS for SMEs* by publishing an omnibus Exposure Draft approximately once every three years. The IASB further stated that it intended this three-year cycle to be a tentative plan, not a firm commitment. It also noted that, on occasion, it may identify a matter for which an amendment to the *IFRS for SMEs* may need to be considered earlier than in the normal three-year cycle; for example to address an urgent issue.

During the comprehensive review, the IASB has received feedback that amendments to the *IFRS for SMEs* once every three years (three-year cycle) may be too frequent and that a five-year cycle, with the ability for an urgent issue to be addressed earlier, may be more appropriate.

Do you agree with the current tentative three-year cycle for maintaining the *IFRS for SMEs*, with the possibility for urgent issues to be addressed more frequently? Why or why not? If not, how should this process be modified?

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 why only some issues were addressed in the review activities of the IASB. Therefore, we think it is necessary for the IASB:

1) 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*;

2) to develop and describe the timing of the review and the corresponding due process, including considerations on effective date and early application; and

3) to develop a formal process for constituents making clarification requests for the *IFRS for SMEs*.

1. Review criteria as a basis and guide

In our response to the RfI we highlighted 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 Q5 above). Currently it is not entirely clear on what basis the specific questions in the RfI were justified and added as individual issues while other issues reflecting the work of the IASB since 2009 were omitted from specific questions. (We refer to the examples we raised in our response to Question S20 of the RfI regarding any modified qualitative characteristic in the Conceptual Framework and the amended presentation requirements in IAS 1 with introduced new terminology.)

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.

2. Timing of the review and the corresponding due process

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 arising in the context of the comprehensive review process and the structure for future omnibus reviews. The IASB should take into consideration:

a) 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;

b) 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

c) 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 implements 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.

Consequently any 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 the *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.

The IASB should consider embedding a Post-implementation Review (PiR) for the *IFRS for SMEs* or how a PiR for a revised full IFRS should interact with the comprehensive review process for the *IFRS for SMEs*. It might be necessary to look at the impact of a revised/amended IFRS in the SME environment if these amendments were (retrospectively) or will be (prospectively) introduced in the *IFRS for SMEs*. This might happen independently from or even accompanying the PiR.

3. Formal process for constituents making clarification requests

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. In this context the IASB also has to decide whether minor amendments only include changes arising from the annual improvement process or also comprise changes from other projects on the full IFRSs.

Question 8 – Any other comments

Do you have any other comments on the proposals?

1. Conceptual framework and pervasive principles

In 2010 the IASB started to introduce a new Conceptual Framework by introducing its Chapter 1 *The objective of general purpose financial reporting* and Chapter 3 *Qualitative characteristics of useful financial information* (Chapter 2 dealing with the reporting entity not finalised). Furthermore the IASB is currently reviewing the remaining Framework (1989) on the basis of its Discussion Paper *DP/2013/1Review of the Conceptual Framework*.

We think that the IASB should evaluate potential interdependencies of these activities with the pervasive principles of the *IFRS for SMEs* in due course.

2. Glossary and definitions

Furthermore, the IASB should carefully consider if it is reasonable to align the definitions of the *IFRS for SMEs* with those in full IFRSs. We have the view that such a linkage or alignment might not work in all cases; in particular if the usage of a defined term is based on different underlying concepts (e.g. “control” under IFRS 10 and “joint venture” under IFRS 11 is different from the *IFRS for SMEs*’ concept).

Therefore we support the Glossary in the *IFRS for SMEs* with independent definitions. However, we propose to explicitly mark the defined terms in that Glossary where the definitions are different from those in full IFRS. This would avoid misinterpretations by preparers and users of SMEs’ financial statements by looking like a (misleading) fallback in full IFRS’s guidance in cases where a different accounting concept but same terminology is used.