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Berlin, 23 February 2023

Dear Andreas,

ED/2022/1 – Third edition of the *IFRS for SMEs* Accounting Standard

On behalf of the Accounting Standards Committee of Germany, I am writing to comment on the Exposure Draft ED/2022/1 *Third edition of the* IFRS for SMEs *Accounting Standard*, issued by the IASB on 8 September 2022 (herein referred to as 'ED'). We appreciate the opportunity to comment on the proposals.

As the underlying IFRS for SMEs Accounting Standard is not endorsed in the EU, it is only of limited relevance for German companies. It is only applied by foreign subsidiaries of domestic groups in jurisdictions that have adopted the IFRS for SMEs Accounting Standard for separate or sub-consolidated statutory reporting. Consequently, ED/2022/1 also has limited relevance for application for German stakeholders. Against this background, we refrain from comprehensively commenting on the ED. Instead, the focus of our analysis and comments will be on issues that are linked to other standard-setting activities, in particular with regard to ED/2021/7 *Subsidiaries without Public Accountability: Disclosures*.

Consequently, and with regard to the consultation questions contained in ED/2022/1, please read our following comments in the context of *Question 1 - Definition of public accountability*.

Overall, we support the IASB's proposed clarifications to the definition of public accountability as scope of the IFRS for SMEs Accounting Standard. However, we consider the scope interaction of the IFRS for SMEs Accounting Standard with the standard arising from ED/2021/7 *Subsidiaries without Public Accountability: Disclosures* as not compulsory. The proposed changes to the scope of the IFRS for SMEs Accounting Standard should not set a precedent for the scope of the standard coming up from ED/2021/7 but should rather be defined independently.

When defining this scope, we think that the criterion of 'fiduciary capacity' should be softened or, if possible, completely eliminated. On the basis of the clarification to the term 'fiduciary capacity' proposed in ED/2022/1, we do not consider this criterion to be conceptually sufficient. To our understanding, the background of this clarification is that during the consultation on ED/2021/7, insurance companies argued that collecting premiums in exchange for a contractual promise to indemnify the customer for a possible future event should not be understood as acting in a fiduciary capacity. However, feedback from the insurance industry in particular indicates that the scope is still considered too broad and that the revised wording proposed in ED/2022/1 would be unlikely to trigger reliefs for insurance companies if applied by analogy in a new standard on Subsidiaries without Public Accountability.

Furthermore, when defining the scope of a standard with disclosure reliefs, we suggest developing further simplification criteria by combining the criterion of public accountability with size-related thresholds. We think that applying the full set of disclosure requirements under IFRS is very challenging even for certain listed companies, especially small groups. The suitability of full disclosures from a cost/benefit perspective is, therefore, questionable for these companies, which also often do not participate in the standard-setting process. We think that further size-related simplifications could possibly enable small listed companies, especially in developing countries, to benefit from a nuanced treatment. In turn, this may possibly also foster the broader use of IFRS by such companies worldwide.

Lastly, we would like to address the interaction on the content level between the IFRS for SMEs Accounting Standard and ED/2021/7. We suggest that the IASB clarifies, whether amendments of the potential standard on Subsidiaries without Public Accountability would create a precedent for subsequent changes to the disclosures in the IFRS for SMEs Accounting Standard or whether those two standards would continue with different requirements.

If you would like to discuss our comments further, please do not hesitate to contact Peter Zimniok (zimniok@drsc.de) or me.

Yours sincerely,

Sven Morich

Vice President