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Mr Hans Hoogervorst
Chairman
International Accounting Standards Board
30 Cannon Street
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Dear Hans

AASB comments on IASB Exposure Draft ED/2013/9
Proposed amendments to the International Financial Reporting Standard for Small and Medium-sized Entities

The Australian Accounting Standards Board (AASB) welcomes the opportunity to provide comments on ED/2013/9 *Proposed amendments to the International Financial Reporting Standard for Small and Medium-sized Entities*. Although Australia does not directly adopt the *IFRS for SMEs*, the disclosure requirements in the *IFRS for SMEs* are used in the development of Tier 2 disclosure requirements (known as Reduced Disclosure Requirements [RDR]) under the differential reporting framework.¹ Australia maintains the same recognition and measurement criteria for all reporting entities in all sectors and it updates its Tier 2 disclosure requirements, using the *IFRS for SMEs* principles, each time a new standard is released.

Overall, the AASB is disappointed that the ‘initial comprehensive review’ of the *IFRS for SMEs* has not addressed many of the key amendments to IFRSs over the past three years. The AASB continues to support an approach that would see the *IFRS for SMEs* updated to reflect changes to existing and new standards in full IFRSs. The AASB does not support having differential recognition and measurement requirements in the *IFRS for SMEs*. The AASB is concerned with the increasing gap in recognition and measurement requirements between the *IFRS for SMEs* and full IFRSs. As a result, the comparability, and ease of transition, between non-publicly and publicly accountable entities is being compromised.

The AASB also continues to have concerns about the discrepancies in the availability of recognition and measurement accounting policy options between the *IFRS for SMEs* and full IFRSs. The AASB is concerned by the limited number of accounting policy options available to SMEs and the implications this might have on the comparability, and transition, between the *IFRS for SMEs* and full IFRSs.

¹ A detailed discussion of the reasons why Australia adopted RDR in place of the *IFRS for SMEs* can be found in the comment letter submitted to the IASB in response to the 2012 Request for Information (RfI). In addition, the guidance for determining disclosure requirements of Tier 2 entities, Tier 2 Disclosure Principles, can be found in Appendix 3 of the comment letter to the IASB on the RfI. http://eifrs.ifrs.org/eifrs/comment_letters/8/8_435_KevinStevensonAASB_0_AASB_Letter_IASB_Review_for_SMEs_1112.pdf (accessed 20 February 2014)

Consistent with our general comments above, we also have a number concerns on specific aspects of the proposals, as summarised below and expanded on in the Appendix to this letter.

'Fiduciary' in the definition of 'public accountability'

The AASB does not agree with the IASB's proposal not to provide clarification to the term 'fiduciary' in the definition of 'public accountability' and recommends that the IASB consider clarifying the definition. The term has a common legal meaning, in at least some jurisdictions (for example, common law countries), which seems not to be consistent with the way in which the term is used by the IASB.

Section 29 Income Tax

The AASB agrees with the proposal to base Section 29 on IAS 12. By aligning the recognition and measurement principles of deferred tax in Section 29 with that of IAS 12, the IASB is reducing the reporting gap between non-publicly accountable and publicly accountable entities.

Other proposed amendments to the IFRS for SMEs

The AASB agrees with the majority of the proposed amendments to the *IFRS for SMEs*. This is largely due to the fact the proposals are minimal in nature and provide clarification to existing sections. However, the AASB has particular concerns regarding three proposed amendments to the *IFRS for SMEs* relating to:

- the clarification that all subsidiaries acquired with the intention of sale or disposal within one year should be excluded from consolidation;
- the exemption for recognising an intangible asset in a business combination if the fair value cannot be reliably measured without undue cost or effort; and
- the removal of the requirement to disclose the accounting policy for termination benefits.

Additional issues

While the AASB acknowledges the IASB created the *IFRS for SMEs* with the vision of a standalone Standard, the AASB considers that SMEs should be able to avail themselves of all improvements to full IFRSs, particularly in regards to recognition and measurement requirements. Some of those requirements have been revised specifically in IFRSs to make them easier to apply.

The AASB is concerned with the IASB providing definitions in the *IFRS for SMEs* that are otherwise not defined in full IFRSs. The AASB considers that defining terms in the *IFRS for SMEs* that are not defined in full IFRSs creates a risk that entities might use those definitions in IFRSs. The AASB recommends that the terms be defined, where necessary, in the glossary of terms in full IFRSs, which could be subsequently incorporated into the *IFRS for SMEs*.

If you require any further information regarding any matters in this letter and the attached appendix, please contact me or Nikole Gyles (ngyles@asb.gov.au).

Yours sincerely,

A handwritten signature in black ink that reads "K.M. Stevenson". The signature is written in a cursive style with a large, sweeping flourish at the end.

Kevin M. Stevenson
Chairman and CEO

Appendix 1: Specific Comments on IASB ED/2013/9 Proposed amendments to the International Financial Reporting Standard for Small and Medium-sized Entities

ED/2013/9 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 AASB agrees that the term ‘fiduciary’ in the definition of ‘public accountability’ appears to have meanings in different jurisdictions that differ from what the IASB seems to contemplate. The AASB thinks that the differing interpretations have potentially led to ambiguities in determining entities that maintain this particular characteristic and, therefore, clarification is needed. The term “fiduciary” has a meaning under common law that is basis for a particular legal responsibility (for example, a trustee in relation to a trust). It does not extend to general responsibilities, for example, of directors to the users of financial reports, which arise in other ways.

The AASB notes that while concerns regarding the use of the term ‘fiduciary’ were also evident from various other constituents (for example as outlined in BC22 of the ED), no clarification has been provided in the ED on the use of the term in the definition of ‘public accountability’. The AASB considers, similar to the views expressed in our response to the RfI, that the different meanings evident in various jurisdictions indicates the IASB needs to clarify the term ‘fiduciary’ in the definition of ‘public accountability’. Consequently, the AASB does not agree with the IASB’s proposal not to provide clarification to the term ‘fiduciary’ in the definition of ‘public accountability’.

Additional guidance in Australia regarding entities that are publicly accountable is currently provided in Appendix B of AASB 1053 *Application of Tiers of Australian Accounting Standards*. The AASB decided, as outlined in BC26 of AASB 1053,² in response to the need for clarification to certain terms in the *IFRS for SMEs* from Australian constituents,

² BC26 The Board acknowledged constituents’ comments about some aspects of the definition of public accountability that the application of the definition in some cases may involve interpretation or judgement. Some respondents to ED 192 noted it would be helpful for the Board to clarify certain terms used in the definition. These include the term ‘public market’ referred to in the first leg of the definition and the terms ‘fiduciary’, ‘broad’, ‘outsiders’ and ‘primary business’ referred to in the second leg of the definition. However, the Board noted it is not a policy of the Board to further interpret the IASB’s terms and definitions. Accordingly, the Board decided that, instead of interpreting the terms in the definition, AASB 1053 should identify entities that the Board deems to be publicly accountable in the Australian context, to supplement the IASB’s definition of public accountability (see Appendix B of AASB 1053).

that the guidance would be used to supplement the IASB's definition of public accountability. The guidance in Appendix B of AASB 1053 is provided below:

- B1 Public accountability is defined in Appendix A. The notion of public accountability is consistent with the notion adopted by the IASB in its *International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs)*. It is different from the notion of public accountability in the general sense of the term that is often employed in relation to not-for-profit, including public sector, entities.
- B2 The following for-profit entities are deemed to have public accountability:
- (a) disclosing entities, even if their debt or equity instruments are not traded in a public market or are not in the process of being issued for trading in a public market;
 - (b) co-operatives that issue debentures;
 - (c) registered managed investment schemes;
 - (d) superannuation plans regulated by the Australian Prudential Regulation Authority (APRA) other than Small APRA Funds as defined by APRA Superannuation Circular No. III.E.1 *Regulation of Small APRA Funds*, December 2000; and
 - (e) authorised deposit-taking institutions.

This guidance could be used as a basis for providing additional guidance on the term 'public accountability' in the *IFRS for SMEs*.

ED/2013/9 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?

The AASB is of the view that the *IFRS for SMEs* should be updated to be consistent with the latest recognition, measurement and presentation requirements of relevant full IFRS, not 'peeking ahead' to proposals contained in Exposure Drafts. Experience (not limited to IAS 12 *Income Taxes*) has demonstrated that ED proposals are often subject to significant change.

Accordingly, the AASB agrees with the proposal to base Section 29 on IAS 12. By aligning the recognition and measurement principles of deferred tax in Section 29 with that of IAS 12, the IASB is reducing the reporting gap between non-publicly accountable and publicly accountable entities.

The AASB agrees with the IASB's reasoning's provided in BC56-BC57 of the ED to retain the temporary difference method in the *IFRS for SMEs*. This approach is in line with the recognition and measurement criteria for entities applying full IFRSs. The AASB considers that deferred taxes are relevant to all entities applying IFRSs and satisfy the recognition criteria of assets and liabilities. Furthermore, the AASB agrees with the proposal to continue to disallow the 'taxes payable' approach in accounting for income taxes. However, the logic behind aligning the *IFRS for SMEs* and IFRSs should not be limited to accounting for tax.

ED/2013/9 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 AASB agrees with the majority of the proposed amendments to the *IFRS for SMEs*. This is largely due to the fact the proposals are minimal in nature and provide clarification to existing sections. However, the AASB has particular concerns regarding three proposed amendments to the *IFRS for SMEs*. The relevant proposals and concerns are illustrated in the table below.

Proposed amendment	AASB comments
<p data-bbox="236 338 735 405"><u>Section 9 Consolidation and Separate Financial Statements</u></p> <p data-bbox="236 443 791 584"><i>Paragraphs 9 – 9.3A clarification that all subsidiaries acquired with the intention of sale or disposal within one year should be excluded from consolidation.</i></p>	<p data-bbox="807 338 1410 555">The AASB does not agree that subsidiaries acquired for sale or disposal within one year should be excluded from consolidation. The AASB thinks the accounting should be consistent with recognition and measurement requirements of full IFRSs.</p> <p data-bbox="807 573 1385 790">The AASB thinks that, in line with paragraph 38 of IFRS 5 <i>Non-current Assets Held for Sale and Discontinued Operations</i>, disposal groups held for sale should be presented in a separate line in the consolidated financial statements.</p> <p data-bbox="807 808 1406 987">It should be noted that divergence from IFRS principles has the potential to create difficulties for IFRS compliant parent entities consolidating non-IFRS compliant subsidiaries.</p>
<p data-bbox="236 994 751 1061"><u>Section 18 Intangible Assets other than Goodwill</u></p> <p data-bbox="236 1099 727 1279"><i>Paragraph 18.8 Exemption for recognising an intangible asset in a business combination if the fair value cannot be reliably measured without undue cost or effort.</i></p>	<p data-bbox="807 994 1394 1211">The AASB does not agree with the addition to the first line of paragraph 18.8, which exempts entities from recognising intangible assets in the event the fair value cannot be reliably measured without undue cost or effort.</p> <p data-bbox="807 1229 1410 1630">The AASB considers that in many circumstances, a business combination would not take place unless the value of the intangible assets were known and, therefore, an entity would require a reliable fair value of an intangible asset prior to combination. The logic behind IFRS 3 is not a function of the size of an entity but rather of the nature of the transactions involved. We see no reason for ignoring material elements in consolidated financial statements.</p> <p data-bbox="807 1648 1378 1794">Accordingly, the AASB considers the <i>IFRS for SMEs</i> should require recognition of intangible assets on the same basis as is required by IAS 38 <i>Intangible Assets</i>.</p> <p data-bbox="807 1834 1410 2047">It may be of interest to know that specific accounting for intangibles in some jurisdictions is well regarded by small entities as tax treatments of impairment of those assets is more favourable (i.e. they are deductible) than for goodwill (not</p>

Proposed amendment	AASB comments
	deductible). We are not suggesting this be a basis for the accounting.
<p data-bbox="236 416 628 450"><u>Section 28 Employee Benefits</u></p> <p data-bbox="236 483 746 589"><i>Removal of the requirement to disclose the accounting policy for termination benefits.</i></p>	<p data-bbox="810 416 1407 887">The AASB does not agree with the IASB’s proposed amendment to remove the requirement to disclose the accounting policy for termination benefits. The AASB considers that, in line with paragraph 119 of IAS 1 <i>Presentation of Financial Statements</i>, that when deciding whether or not to disclose an accounting policy management should consider whether the disclosure would assist users in “understanding how transactions, other events and conditions are reflected in reported financial performance and financial position.”</p> <p data-bbox="810 909 1391 1373">The AASB disagrees with the reasoning provided in BC91(r) that the disclosure be removed due to the fact that entities do not have a choice of accounting treatment from termination benefits in Section 28 <i>Employee Benefits</i>. This is not the principle in IFRSs. Rather, the AASB considers that an entity should assess whether or not to disclose an accounting policy based on the general principles in paragraphs 117-121 of IAS 1; that is, whether or not the disclosure of an accounting policy is relevant to gaining an understanding of the financial statements.</p>

ED/2013/9 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.

As indicated previously, the AASB thinks the *IFRS for SMEs* should be updated to reflect the recognition and measurement criteria in full IFRSs. As such, any changes to existing and new standards in full IFRSs since the creation of the *IFRS for SMEs* should be

incorporated in the amendments to the *IFRS for SMEs*, subject to the principles underlying the Standard. Similarly, this should be the case in any omnibus Standard issued in regards to the *IFRS for SMEs* subsequent to the initial comprehensive review. If the updating causes SMEs more difficulties than provided for in the transitional requirements for publicly accountable entities, longer lead times or enhanced transitional requirements should be provided. The AASB is of the view that the two sets of standards should not be allowed to drift further apart, creating the preconditions for major convergence problems in the future and hurdles for entities moving into public accountability.

In particular, the AASB considers that the following new or revised IFRSs should be incorporated in the proposed amendments to the *IFRS for SMEs*:

- (a) IFRS 3 *Business Combinations*;
- (b) IFRS 10 *Consolidated Financial Statements*;
- (c) IFRS 11 *Joint Arrangements*;
- (d) IFRS 12 *Disclosure of Interests in Other Entities*;
- (e) IFRS 13 *Fair Value Measurement*; and
- (f) IAS 19 *Employee Benefits*.

The AASB does not agree with the reasons provided in BC34 of the ED in regards to not incorporating changes to IFRS 3, IFRS 10, IFRS 11, IFRS 13 and IAS 19. Furthermore, the new standard, IFRS 12, was not considered in the review of the *IFRS for SMEs*.

The AASB thinks SMEs should be able to avail themselves of any improvements in recognition, measurement and presentation requirements of full IFRSs. Any amendments to full IFRSs, particularly in regards to recognition and measurement criteria, that are not incorporated in the *IFRS for SMEs* would potentially reduce comparability between reporting entities. It is difficult to argue that material assets and liabilities can exist in publicly accountable entities but not in SMEs simply because of public accountability. This is not representational faithfulness. Accordingly, the AASB considers that the amendments to the IFRSs mentioned above should be incorporated in the amendments to the *IFRS for SMEs*.

ED/2013/9 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?

As Australia does not adopt the *IFRS for SMEs*, the AASB does not think it would be appropriate to provide feedback in regards as to whether retrospective application of the proposed amendments would be burdensome on preparers. However, we note that we have maintained Tier 2 requirements in Australia as IFRSs have evolved and not encountered

major issues with the transitional requirements of full IFRSs when they have been applied to Tier 2 reporting entities.

ED/2013/9 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?

Similar to the response in Question 5 above, due to the fact Australia does not adopt the *IFRS for SMEs*, it would not be appropriate for the AASB to provide feedback as to whether the proposed amendments would significantly impact financial statements.

ED/2013/9 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 AASB considers that the current three-year cycle for maintaining the *IFRS for SMEs* should not be relaxed, though we would much prefer a dynamic maintenance of it. As mentioned in the response to Question 4 above, the AASB considers that all new and revised IFRSs should be incorporated in any reviews of the *IFRS for SMEs*. By doing so, SMEs will be able to avail themselves of any improvements in full IFRSs. Furthermore, the ease of transition between, and comparability of, the *IFRS for SMEs* and full IFRSs will be maximised.

ED/2013/9 Question 8: Any other comments

Do you have any other comments on the proposals?

Recognition and Measurement differences between the IFRS for SMEs and full IFRSs

A major impediment to adopting the *IFRS for SMEs* in Australia is the absence of the revaluation measurement option. Adopting the *IFRS for SMEs* would see many entities in Australia, particularly in the public sector, forgo material asset valuations. Notwithstanding the absence of the revaluation measurement option, the AASB is concerned with the direction of the *IFRS for SMEs* in regards to recognition and measurement requirements more generally. While the AASB acknowledges the IASB created the *IFRS for SMEs* with the vision of a standalone Standard, the AASB considers that SMEs should be able to avail themselves of all improvements to full IFRSs, particularly in regards to recognition and measurement requirements (for example, in relation to financial instruments).

Defining terms in the IFRS for SMEs that are not defined in full IFRSs

The AASB is concerned with the IASB's practice of defining terms in the *IFRS for SMEs* that are not defined in full IFRSs. For example, the ED proposes to amend the previously defined term 'substantively enacted'. The AASB is concerned with the IASB providing definitions in the *IFRS for SMEs* that are otherwise not defined in full IFRSs. The AASB considers that defining terms in the *IFRS for SMEs* that are used but not defined in full IFRSs creates a risk that entities will apply those definitions inappropriately in IFRSs. The AASB recommends that the terms be defined, where necessary, in the glossary of terms in full IFRSs, which could be subsequently incorporated into the *IFRS for SMEs*.