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28 February 2023

Andreas Barckow
Chair
International Accounting Standards Board
Columbus Building
7 Westferry Circus
Canary Wharf
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Dear Dr Barckow

Exposure Draft - *Third edition of the IFRS for SMEs Accounting Standard*

Deloitte Touche Tohmatsu Limited is pleased to respond to the International Accounting Standards Board's ("the IASB") Exposure Draft *Third edition of the IFRS for SMEs Accounting Standard* ("the ED").

As we noted in our response to the Request for Information *Comprehensive Review of the IFRS for SMEs Accounting Standard ("the RFI")*, we support the proposed alignment of the *IFRS for SMEs Accounting Standard* with full IFRS Accounting Standards as we believe that the credibility of all Standards developed by the IASB is enhanced if they are based on the same underlying framework and follow the same underlying principles. However, we believe that ideally this alignment should only happen once a new IFRS Accounting Standard has been subjected to a post-implementation review ("PIR") and any changes arising from that review are implemented.

Accordingly, we disagree with the proposed amendments to Section 11 *Basic Financial Instruments* and Section 23 *Revenue* at this stage. We have provided further comments on the amendments proposed to these sections should the IASB decide to go ahead with their alignment of IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers*, respectively.

We support the IASB's decision to not align Section 20 *Leases* with IFRS 16 *Leases* in this comprehensive review.

As noted in our response to the IASB's exposure draft *Subsidiaries without Public Accountability: Disclosures*, we believe that the definition of public accountability used in the *IFRS for SMEs Accounting Standard* appears well understood. Nevertheless, if the IASB has identified specific aspects of the definition that may benefit from clarification, we would not object to such clarifications. However, we are concerned that the current proposal will not achieve such an objective.

Finally, we are of the view that entities applying the *IFRS for SMEs Accounting Standard* should continue to recognise development costs as expenses as the outcome from this approach achieves the IASB's principle of simplification in a greater manner than if an accounting policy choice were to be introduced.

Our detailed responses to the ED questions are included in the Appendix to this letter.

If you have any questions concerning our comments, please contact Veronica Poole in London at +44 (0) 20 7007 0884.

Yours sincerely

Veronica Poole
Global IFRS and Corporate Reporting Leader

Deloitte.

Appendix

Part 1: Scope of the Standard

Question 1—Definition of public accountability
The IASB is proposing to amend paragraph 1.3(b) to list banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks as examples of entities that often meet the second criterion of public accountability in paragraph 1.3(b). To assist an understanding of the basis for the definition of public accountability, the IASB is also proposing to clarify that an entity with these characteristics would usually have public accountability:
(a) there is both a high degree of outside interest in the entity and a broad group of users of the entity's financial statements (existing and potential investors, lenders and other creditors) who have a direct financial interest in or substantial claim against the entity.
(b) the users in (a) depend primarily on external financial reporting as their means of obtaining financial information about the entity. These users need financial information about the entity but lack the power to demand the information for themselves.
Paragraphs BC11–BC19 of the Basis for Conclusions on this Exposure Draft explain the IASB's rationale for clarifying the definition of public accountability in Section 1. The IASB expects that the amendments to paragraphs 1.3 and 1.3A of Section 1 will add clarity, without changing the intended scope of the Standard.
1(i) Do you agree that the amendments will add clarity without changing the intended scope of the Standard? If you do not agree, which types of entities do you believe would be newly scoped in or scoped out?
1(ii) Do you agree with the proposal to clarify the definition of public accountability? If you do not agree with the proposal, please explain what you suggest instead and why.

As noted in our response to the IASB's exposure draft *Subsidiaries without Public Accountability: Disclosures*, we believe that the definition of public accountability used in the *IFRS for SMEs Accounting Standard* appears well understood. We also noted that a similar definition is used in certain jurisdictions (e.g. Australia and Canada) to identify entities entitled to apply a local GAAP instead of IFRS Accounting Standards. It appears that in these jurisdictions, a consistent understanding of the term has been reached. Accordingly, we do not believe that further clarification is required.

Nevertheless, if the IASB has identified specific aspects of the definition that may benefit from clarification, we would not object to such clarifications. However, we are concerned that the current proposal will not achieve such an objective. In particular, in reference to paragraph 1:3A, we note that:

- Instead of providing additional guidance for entities to consider when applying the definition of public accountability, paragraph 1:3A appears to introduce a third requirement to the definition;
- This "third requirement" appears to change substantially the nature of what it means to have public accountability. Further, we do not believe that the level of interest that a broad group of users have in the entity is not necessarily relevant in assessing whether an entity has public accountability;

- The terms "high degree" and "substantial" used in that paragraph are not defined in the *IFRS for SMEs Accounting Standard* and it is unclear whether these rely on a quantitative and/or qualitative assessment;
- The nature of "substantial claim" a user may have against the entity (e.g., financial, environmental, societal and/or governmental claims) is not explained; and
- Paragraph 1.3A(b) appears to reflect the characteristic of the users rather than of the reporting entity.

We are also concerned with the inclusion of "securities brokers/dealers" in the proposed amendment to 1.3(b) and question whether these entities will always have public accountability. In practice, the business model of securities brokers/dealers varies, and we do not believe that all of them would necessarily meet the definition of having public accountability. We propose that securities brokers/dealers are not included in the proposed amendment to 1.3(b) and that such reporting entities should determine whether they would meet the definition and characteristics of having public accountability based on their own facts and circumstances.

From an editorial perspective, we propose that the full stop at the end of the sentence in 1.3A(a) be replaced with a semi-colon.

Part 2: Proposals to amend the Standard

Question 2—Revised Section 2 *Concepts and Pervasive Principles*

The IASB is proposing to revise Section 2 to align it with the 2018 Conceptual Framework for Financial Reporting.

The IASB is proposing that Section 18 *Intangible Assets other than Goodwill* and Section 21 *Provisions and Contingencies* continue to use the definitions of an asset and of a liability from the previous version of Section 2, which was based on the 1989 Framework, to avoid unintended consequences arising from revising the definitions of an asset and of a liability. Paragraphs BC38–BC51 of the Basis for Conclusions on this Exposure Draft explain the IASB's rationale for the revisions proposed for Section 2.

2(i) Do you have comments or suggestions on the revised Section 2? Please explain the reasons for your suggestions.

2(ii) Do you agree that Section 18 and Section 21 should continue to use the definition of an asset and of a liability from the previous version of Section 2 (based on the 1989 Framework)?

We support the proposal to align Section 2 with the *Conceptual Framework for Financial Reporting* issued in 2018 and have no further comments or suggestions on this.

Consistent with the principle that the *IFRS for SMEs Accounting Standard* should be aligned as much as possible with the full IFRS Accounting Standards, we believe that that the definitions of an asset and a liability in Section 18 *Intangible Assets other than Goodwill* and Section 21 *Provisions and Contingencies* should not be amended until the corresponding definitions in IAS 38 *Intangible Assets* and IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* are amended.

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Question 3—Proposed amendments to the definition of control in Section 9 *Consolidated and Separate Financial Statements*

The IASB is proposing amendments to align Section 9 with IFRS 10 *Consolidated Financial Statements*, introducing control as the single basis for consolidation that applies to all entities. The IASB is proposing to retain the rebuttable presumption that control exists when an investor owns more than a majority of the voting rights of an investee. The rebuttable presumption is a simplification of the control model. Paragraphs BC52–BC62 of the Basis for Conclusions on this Exposure Draft explain the IASB's rationale for aligning the definition of 'control' in Section 9 with IFRS 10 and introducing a control model as the single basis for consolidation.

Do you agree with the IASB's proposal to retain the rebuttable presumption as a simplification of the definition of control? If not, please explain why you do not agree with this simplification.

We support the proposal to retain the rebuttable presumption that an investor controls an entity when it owns the majority of the voting rights in that entity as a useful simplification of the definition of control. However, we believe that the rebuttable presumption provides relevant information only if power over the entity is obtained through voting rights. Accordingly, we propose that the IASB amend paragraph 9:5 to specify that the rebuttable presumption is only applicable when voting rights are the predominant factor of determining control for the entity.

We support the addition of paragraph 9:5A as it establishes a clear requirement for investors who hold less than a majority of the voting rights to assess whether they have obtained power over an entity through other means.

As noted in our response to the RFI, we believe that the reasons that led to the requirement in IFRS 10 for entities to assess whether they meet the definition of an investment entity are equally valid in the SME environment. We believe that the measurement of all investments at fair value through profit or loss (including subsidiaries) results in relevant information when an entity meets the definition of an investment entity. We acknowledge that some may believe that the requirement to determine the fair value of subsidiaries may be burdensome and onerous. Accordingly, we propose that the Board allows an investment entity applying the *IFRS for SMEs Accounting Standard* an accounting policy choice to either consolidate investments in subsidiaries or measure these investments at fair value through profit and loss.

Question 4—Proposed amendments to impairment of financial assets in Section 11 *Basic Financial Instruments* (renamed *Financial Instruments*)

The IASB is proposing to:

(a) retain the incurred loss model for trade receivables and contract assets in the scope of the revised Section 23 *Revenue from Contracts with Customers*;

(b) require an expected credit loss model for all other financial assets measured at amortised cost, aligned with the simplified approach in IFRS 9; and

(c) retain the requirements in Section 11 for impairment of equity instruments measured at cost.

Paragraphs BC72–BC80 of the Basis for Conclusions on this Exposure Draft explain the IASB's rationale for introducing an expected credit loss model for only some financial assets.

4(i) Do you agree with the proposal to introduce an expected credit loss model for only some financial assets? Why or why not? If you disagree with the proposal, please explain what you suggest instead and why.

4(ii) Do you agree that the proposal strikes the right balance in deciding which financial assets should be in the scope of the expected credit loss model, considering the costs for SMEs and benefits for users of SMEs' financial statements?

As we noted in our response to the RFI, we believe that ideally the alignment of the *IFRS for SMEs Accounting Standard* with full IFRS Accounting Standards should only happen once a new IFRS Accounting Standard has been subjected to a PIR and any changes arising from that review are implemented. Therefore, we disagree with the proposed amendments to Section 11 at this stage and suggest that the incurred loss model continues to be applied by SMEs until the PIR of IFRS 9 has been completed.

Furthermore, we disagree with the proposal of a mixed model requiring the application of the incurred loss model to some financial assets and a simplified expected credit loss model to others. We propose that the IASB should conduct outreach activities to assess whether the simplified expected credit loss model would be practicable and result in faithful presentation.

If the IASB determines that the expected credit loss model should be introduced in the *IFRS for SMEs Accounting Standard*, we suggest:

- Introducing the rebuttable presumptions from IFRS 9 that (i) the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due and (ii) a default does not occur later than when a financial asset is 90 days past due; and
- Allowing SMEs to measure expected credit losses using a single loss scenario rather than a fully probability weighted method.

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Question 5—Proposal for a new Section 12 *Fair Value Measurement*

The IASB is proposing that the requirements on measuring fair value and related disclosure requirements be consolidated in a new Section 12 *Fair Value Measurement*.

Paragraphs BC108–BC118 of the Basis for Conclusions on this Exposure Draft explain the IASB's rationale for this proposal.

Do you have comments or suggestions on the new Section 12? Please explain the reasons for your suggestions.

We agree with the proposed addition of Section 12. We recommend that the IASB introduces a further simplification to the requirements from IFRS 13 *Fair Value Measurement* by replacing the three-level fair value hierarchy with a two-level fair value hierarchy, being "quoted prices inputs" and "unquoted prices inputs".

Question 6—Proposed amendments to Section 15 *Investments in Joint Ventures* (renamed *Joint Arrangements*)

The IASB is proposing to align the definition of joint control and retain the Section 15 classification and measurement requirements as set out in the Request for Information.

Paragraphs BC119–BC127 of the Basis for Conclusions on this Exposure Draft explain the IASB's rationale for these proposals.

6(i) Do you agree with the IASB's proposal to align the definition of joint control and retain the classification of a joint arrangement as jointly controlled assets, a jointly controlled operation, or a jointly controlled entity, and the measurement requirements for these classifications? Why or why not? If you disagree with the proposal, please explain what you suggest instead and why. The IASB is also proposing amendments to align Section 15 with the requirements of paragraph 23 of IFRS 11, so that a party to a jointly controlled operation or a jointly controlled asset that does not have joint control of those arrangements would account for its interest according to the classification of that jointly controlled operation or the jointly controlled asset. Paragraphs BC128–BC129 of the Basis for Conclusions on this Exposure Draft explain the IASB's rationale for this proposal.

6(ii) Do you agree with this proposal? Why or why not? If you disagree with the proposal, please explain what you suggest instead and why.

We support the proposals to align the definition of joint control with IFRS 11 *Joint Arrangements*, whilst retaining the existing classification and measurement requirements in Section 15. We believe this simplifies the requirements of IFRS 11 *Joint Arrangements* without resulting in material differences between Section 15 and IFRS 11.

We support the alignment of Section 15 with the requirements of IFRS 11:23, consistent with the alignment principle.

Question 7—Proposed amendments to Section 19 *Business Combinations and Goodwill*

The IASB is proposing to align Section 19 *Business Combinations and Goodwill* with the acquisition method of accounting in IFRS 3 *Business Combinations* by:

(a) adding requirements and guidance for a new entity formed in a business combination;

(b) updating the references when recognising the identifiable assets acquired and liabilities assumed in a business combination to refer to the definitions of an asset and a liability in the revised Section 2 *Concepts and Pervasive Principles*;

(c) clarifying that an acquirer cannot recognise a contingency that is not a liability;

(d) requiring recognition of acquisition-related costs as an expense;

(e) requiring measurement of contingent consideration at fair value if the fair value can be measured reliably without undue cost or effort; and

(f) adding requirements for an acquisition achieved in stages (step acquisitions). For other aspects of the acquisition method of accounting, the IASB is proposing to retain the requirements in Section 19.

The IASB is of the view that:

(a) the guidance in IFRS 3 on reacquired rights is unlikely to be relevant to entities applying the Standard

(b) restricting the measurement of non-controlling interest in the acquiree to the non-controlling interest's proportionate share of the recognised amounts of the acquiree's identifiable net assets (and not introducing the fair value option) is an appropriate simplification; and

(c) retaining recognition criteria for intangible assets acquired in a business combination balances the costs and benefits of separate recognition of these items because goodwill recognised in a business combination is amortised.

Paragraphs BC130–BC183 of the Basis for Conclusions on this Exposure Draft further explain the IASB's rationale for these proposals. Paragraph BC177 of the Basis for Conclusions on this Exposure Draft explains that there were mixed views on whether step acquisitions are relevant to SMEs.

7(i) Do you agree with the proposal to introduce requirements for the accounting for step acquisitions? If your answer is yes, do you agree with the proposed requirements in the Exposure Draft? If you disagree with the proposal, please explain why and give your alternative suggestion.

7(ii) Do you agree that the IASB's proposals appropriately simplify the measurement of non-controlling interests by excluding the option to measure them at fair value? If your answer is no, please explain your reasons.

7(iii) Do you have any further comments or suggestions on the proposed amendments to Section 19? Please explain the reasons for your suggestions.

We support the proposals.

We believe that the additions of requirements addressing step acquisitions will be useful as SMEs do enter in such transactions. However, we propose that the IASB simplifies the accounting for step acquisitions by requiring that the acquirer to remeasure its previously held equity interest in the acquiree at its acquisition-date carrying amount instead of fair value.

Question 8—Revised Section 23 *Revenue* (renamed *Revenue from Contracts with Customers*)

The IASB is proposing to revise Section 23 to align it with the principles and language used in IFRS 15. The revised requirements are based on the five-step model in IFRS 15, with simplifications that retain the basic principles in IFRS 15 for recognising revenue.

Paragraphs BC184–BC193 of the Basis for Conclusions on this Exposure Draft further explain the IASB's rationale for this proposal and the proposed simplifications of the IFRS 15 requirements.

8(i) Do you agree that the revised Section 23 would be appropriate for SMEs and users of their financial statements? If not, what modifications—for example, further simplifications or additional guidance—do you suggest and why?

Determining whether a good or service promised to a customer is distinct can involve judgement. To assist entities in making this assessment, the IASB is proposing to simplify the requirements in paragraphs 27–29 of IFRS 15 by:

(a) specifying that a good or service that an SME regularly sells separately is capable of being distinct (see paragraph 23.21 of the Exposure Draft);

(b) expressing the criterion in paragraph 27(b) of IFRS 15 in simpler language and reflecting the objective of the criterion by focusing on whether a good or service is an input used to produce a combined item or items transferred to the customer (see paragraphs 23.20(b) and 23.23 of the Exposure Draft); and

(c) including examples that illustrate the factors supporting that criterion (see paragraph 23.23(a)–(c) of the Exposure Draft).

8(ii) Do you believe the guidance is appropriate and adequate for entities to make the assessment of whether a good or service is distinct? If not, is there any guidance that could be removed or additional guidance that is needed.

Consistent with the view expressed earlier in this letter in relation to the amendments proposed to Section 11 and in our response to the RFI, we do not believe that the IASB should align the *IFRS for SMEs Accounting Standard* with IFRS 15 *Revenue from Contracts with Customers* at this time. Instead, the IASB should consider this alignment once the PIR of IFRS 15 has been completed.

However, should the IASB revise Section 23 prior to the completion of the PIR of IFRS 15, we believe that the following issues should be considered.

Principal versus agent considerations

In our experience, entities find the IFRS 15 guidance on this topic confusing and therefore we support the IASB's attempt to clarify these requirements.

However, we believe that it would be important to introduce the requirements in paragraph 23:38 with an explanation that assessing whether the entity is a principal or an agent focuses on an assessment of who transfers control of the item to the customer. This seems important because whilst paragraph 23:38(b) and (c) clearly refer to control, paragraph 23:38(a) does not.

Further, we believe it would be helpful to explain that, when a customer is seeking to purchase goods or services, a principal may be promising to transfer either (1) the goods or services themselves (including situations in which the principal has the right to require a third party to supply those goods or services on its behalf) or (2) a third party's promise to provide such goods or services (e.g. a mobile phone top up card).

We note that this is one of the areas that continue to cause confusion in practice. In the former scenario, the entity's promise is satisfied when the actual goods or services are transferred to the customer, and in the latter case, the entity's promise is satisfied when it transfers control to the customer of the third-party promise. An explanation of the importance of identifying which party has primary responsibility to the customer for the underlying goods or services would likely help understanding whether the entity is the principal or an agent and identifying the nature of what the entity transfers to the customer:

- If the entity itself has primary responsibility for the underlying goods or services, it will be in the first scenario (acting as principal and satisfying its promise by transferring control of the underlying goods or services);
- If a third party has primary responsibility for the underlying goods or services, the entity will either be in the second scenario if it controls the third party promise to deliver the underlying goods or services (acting as principal and satisfying its promise by transferring control to the customer of the third-party promise) or will be an agent (if it does not control the third party promise to deliver the underlying goods or services).

Areas where we believe IFRS 15 wording should not be amended

Although we support most of the simplifications that the IASB has proposed, we believe certain key aspects of IFRS 15 should be reproduced verbatim, in order to ensure consistency of application. In particular, we believe

- The wording from IFRS 15:35 (criteria for recognising revenue over time) and IFRS 15:56 (variable consideration constraint) should not be amended in the IFRS for SMEs.
- The term "performance obligations" in IFRS 15 should not be changed to "promises" in Section 23. Whilst we understand this has been done to reduce the amount of technical language, the term "promises" is already a defined term in IFRS 15 and therefore this may give rise to misinterpretations.
- The proposed simplification of the assessment of whether a good or service is distinct is not beneficial as the simplification does not appear to improve the understandability as to how to apply the proposed assessment.

Areas where we would support further simplifications

On the other hand, we believe that the further simplification could be made to the following requirements without compromising the relevance of the information produced by applying Section 23. In particular,

- Costs of obtaining a contract: we believe that an entity should be allowed an accounting policy choice to either recognise these costs an asset or as an expense as incurred. Indeed, we do not believe that recognition of these costs as an expense should not be limited to the "undue cost or effort" criteria in paragraph 23:103.
- Series: Instead of requiring a series of distinct goods or services that meets the requirements in paragraph 23:17 to be recognised as a single performance obligation, we believe that an entity should be permitted to regard such a series as being made up of distinct time units (e.g. months, quarters, years), so as to better align with how multi-period contracts are priced. Although this is already possible where variable consideration is present, we do not believe it is currently possible where consideration is entirely fixed.

Further key principles from IFRS 15 that we think should be reflected

Although we agree that much of the detailed guidance from IFRS 15 can be omitted, we believe it would be helpful for the *IFRS for SMEs Accounting Standard* to include the following points:

- Timing of a contract modification: To support the requirements proposed in paragraph 23:13, we believe that it would be important to include the explanation provided in IFRS 15:19 that a contract modification may have occurred before the associated pricing has been finalised – this is a key point in some industries, such as construction;
- Repurchase agreements: Whilst we agree that it is not necessary to reproduce all of the requirements from IFRS 15 related to repurchase agreements, we believe that it would be useful to explain that when the effect of a repurchase agreement is that control of a good has not been transferred to the customer, the transaction is either a lease or a financing arrangement rather than a sale. This could be added as part of the scope section; and
- Discount rate: To support the requirements proposed in paragraph 23:58 on deferred payment terms, we believe that it would be useful to include the explanation provided in IFRS 15:64 that "[t]he entity should use the discount rate that would be reflected in a separate financing transaction between the entity and its customer at contract inception."

Question 9—Proposed amendments to Section 28 *Employee Benefits*

The IASB is proposing to delete paragraph 28.19. Paragraphs BC197–BC203 of the Basis for Conclusions on this Exposure Draft explain the IASB's rationale for this proposal.

9(i) Do you agree that only a few entities apply the measurement simplifications for defined benefits? Therefore, do you agree with the IASB's proposal to delete paragraph 28.19?

Alternatively, if you do not agree with deleting paragraph 28.19, should the IASB clarify the paragraph by:

(a) stating that an entity may apply any, or all, of the simplifications permitted by paragraph 28.19 when measuring a defined benefit obligation; and

(b) explaining that when an entity applies paragraph 28.19(b), examples of future service of current employees (assumes closure of the plan for existing and any new employees) that can be ignored include:

(i) the probability of employees' not meeting the vesting conditions when the vesting conditions relate to future service (future turnover rate); and

(ii) the effects of a benefit formula that gives employees greater benefits for later years of service.

9(ii) If you disagree with the proposal in 9(i), do you agree that this alternative approach clarifies paragraph 28.19?

We believe that, regardless of the number of entities that apply the measurement simplifications for defined benefits, the simplification provided by paragraph 28:19 is beneficial to SMEs and, therefore, we disagree with the proposal to delete this paragraph. Instead, as proposed above, we believe that further clarification should be provided on how to apply the requirements of this paragraph.

Question 10—Transition The IASB, in paragraphs A2–A39 of this Exposure Draft, sets out limited relief from retrospective application for those proposed amendments for which the IASB thought the costs of retrospective application would exceed the benefits. Do you agree with the proposed transition requirements for the amendments to the *IFRS for SMEs Accounting Standard*? Why or why not? If not, please explain what you suggest instead and why.

We support the proposed transition requirements and believe that the costs incurred by SMEs under the proposed transition requirements would not exceed the benefits.

Question 11—Other proposed amendments Table A1, included in the Introduction, summarises the proposals for amending sections of the Standard not included in questions 2–10. Do you have any comments on these other proposed amendments in the Exposure Draft?

We propose that the IASB extends the use of the definition of an asset and of a liability from the previous version of Section 2, which was based on the 1989 Framework, to Section 20 *Leases (*as is done in Section 18 *Intangible Assets other than Goodwill* and Section 21 *Provisions and Contingencies).* Whilst IFRS 16 *Leases* references the definition of an asset and a liability as per the *Conceptual Framework for Financial Reporting* issued in 2018, Section 20 has not yet been aligned to the principles of IFRS 16. We are concerned that referring to the new definition of asset and liability in applying Section 20 before its alignment with IFRS 16 may have unintended consequences.

Part 3: Whether further action is required

Question 12—Section 20 *Leases* and IFRS 16 *Leases*

The Exposure Draft does not propose amendments to Section 20. In making this decision the IASB placed greater emphasis on cost–benefit considerations and prioritised timing—that is, to obtain more information on entities' experience of applying IFRS 16.

The IASB is asking for further information on cost–benefit considerations, particularly on whether:

(a) aligning Section 20 with IFRS 16 at this time imposes a workload on SMEs disproportionate to the benefit to users of their financial statements— specifically, considering:

  (i) the implementation costs that preparers of financial statements could incur;

  (ii) the costs that users of financial statements could incur when information is unavailable; and

  (iii) the improvement to financial reporting that would be realised from recognising the lessee's right to use an underlying asset (and the lessee's obligation to make lease payments) in the statement of financial position.

(b) introducing possible simplifications—for example, for determining the discount rate and the subsequent measurement of the lease liability (reassessment)— could help to simplify the requirements and reduce the cost of implementing an amended Section 20 (aligned with IFRS 16) without reducing the usefulness of the reported information.

Paragraphs BC230–BC246 of the Basis for Conclusions on this Exposure Draft further explain the IASB's rationale for not proposing amendments to Section 20 at this time and instead for considering amending the Standard to align it with IFRS 16 during a future review of the Standard.

Do you agree with the IASB's decision to consider amending the Standard to align it with IFRS 16 in a future review of the Standard? In responding to this question, please comment on the cost–benefit considerations in paragraphs (a) and (b).

Consistent with the view expressed earlier in this letter in relation to the amendments proposed to Sections 11 and 23 and in our response to the RFI, we agree that the IASB should not align the *IFRS for SMEs Accounting Standard* with IFRS 16 *Leases* at this time. Instead, the IASB should consider this alignment once the PIR of IFRS 16 has been completed.

Question 13—Recognition and measurement requirements for development costs

The IASB is seeking views on whether it should amend the Standard to align it with IAS 38, including views on the costs and benefits of doing so.

Paragraphs BC253–BC257 of the Basis for Conclusions on this Exposure Draft further explain the IASB's rationale.

What are your views on the costs and benefits, and the effects on users, of introducing an accounting policy option that permits an SME to recognise intangible assets arising from development costs that meet the criteria in paragraphs 57(a)–(f) of IAS 38?

We agree with the feedback received by the IASB, as outlined in BC253, around the challenges that SMEs would face in applying the criteria to capitalise development costs in IAS 38 *Intangible Assets.* Furthermore, we support the rationale in BC257 for restricting accounting policy options in the *IFRS for SMEs Accounting Standard*.

We are of the view that entities applying the *IFRS for SMEs Accounting Standard* should continue to recognise development costs as an expense as incurred as the outcome from this approach achieves the IASB's principle of simplification in a greater manner than if an accounting policy choice were to be introduced. We expect that the cost of SMEs having to apply the criteria in IAS 38:57(a)–(f) to assess whether a project has reached the development stage would outweigh the benefits to be obtained as SMEs may not have the required resources to effectively assess whether the criteria for recognising an intangible asset have been met.

Question for respondents—Full IFRS Accounting Standards in the scope of this review for which the IASB is not proposing to align the Standard

> **Question 14—Requirement to offset equity instruments**
>
> Paragraph 22.7(a) of the Standard states that if equity instruments are issued before an entity receives cash or other resources, the amount receivable is presented as an offset to equity in the statement of financial position, instead of being presented as an asset.
>
> Feedback from the first comprehensive review suggested that this requirement may conflict with local legislation. Stakeholders provided similar feedback during this second comprehensive review, suggesting that the IASB remove the requirement in paragraph 22.7(a) because it diverges from full IFRS Accounting Standards, which include no similar requirement for equity instruments.
>
> What are your views on removing paragraph 22.7(a)?

In our experience it is not common for entities that apply the *IFRS for SMEs Accounting Standard* to apply Section 22:7(a). Therefore, whilst the paragraph results in a divergence from full IFRS Accounting Standards, the impact is not significant and the paragraph can be retained if useful, even if only to a small number of entities.

Question for respondents—Updating the paragraph numbers of the *IFRS for SMEs Accounting Standard*

> **Question 15—Updating the paragraph numbers of the *IFRS for SMEs Accounting Standard***
>
> The proposed amendments to the requirements in the *IFRS for SMEs Accounting Standard* include the addition of new paragraphs and the deletion of existing paragraphs. A new paragraph is numbered in continuation from a previous paragraph. A deleted paragraph retains the paragraph number.
>
> Sometimes, the addition or deletion of paragraphs within a section may complicate the readability of the Standard (for example, Section 19 *Business Combinations and Goodwill*). As an alternative, a section may be revised, with paragraphs renumbered to show only requirements that would still be applicable, without a placeholder for deleted paragraphs (for example, Section 2 *Concepts and Pervasive Principles*).
>
> What are your views on the approach taken to retain or amend paragraph numbers in each section of this Exposure Draft.

We support the approach proposed by the IASB in this ED on how to amend the paragraph numbers of the *IFRS for SMEs Accounting Standard*.