

Mr. Hans Hoogervorst
Chairman
International Accounting Standards Board
30 Cannon Street
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Email: commentletters@ifrs.org

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Dear Mr. Hoogervorst,

Request for Information *Comprehensive Review of the IFRS for SMEs*

Deloitte Touche Tohmatsu Limited is pleased to respond to the International Accounting Standards Board's (the IASB's) Request for Information *Comprehensive Review of the IFRS for SMEs* ('the RFI') as the first step in the IASB's initial comprehensive review of the *IFRS for SMEs* (International Financial Reporting Standard for Small and Medium-sized Entities).

We agree that the triennial review of the *IFRS for SMEs* should be comprehensive in its scope, but believe that some underlying principles for making changes to the Standard would be beneficial in ensuring that a consistent approach is followed and that the *IFRS for SMEs* remains coherent in its approach and its relationship to full IFRSs. As noted in our responses to the detailed questions in the RFI, we believe that the following principles should be followed.

- The *IFRS for SMEs* should not be amended to reflect changes in full IFRSs as complex and significant as the revised requirements on consolidation, accounting for joint arrangements and measurement of fair value included in IFRS 10, IFRS 11 and IFRS 13 respectively before those changes are effective. Rather, the suitability of a significant new standard should be assessed for its suitability for incorporation into the *IFRS for SMEs* once a track record of its application under full IFRSs emerges. The post-implementation review of the new standard may provide an opportunity to make this assessment.
- Any incorporation of a full IFRS standard into the *IFRS for SMEs* should retain the integrity of the conceptual model applied in that standard.
- In assessing the suitability of a full IFRS standard for incorporation into the *IFRS for SMEs*, the Board should (as noted in the October 2010 *Guide to the IFRS for SMEs*) take into account the costs to, and the capabilities of SMEs to prepare financial information before moving to any more complex model.

- Reversal of the IASB's decisions to include simpler requirements in the *IFRS for SMEs* than are included in full IFRSs should only be considered where there is clear evidence that this is necessary.

In respect of the scope of the IFRS for SMEs, we agree with the statement in paragraph P13 of the Standard that "decisions on which entities are required or permitted to use the IASB's standards rest with legislative and regulatory authorities and standard-setters in individual jurisdictions. This is true for full IFRSs and for the *IFRS for SMEs*." On this basis, we believe that local public authorities, such as legislators and regulators, are best placed to judge how the financial reporting framework for entities using the *IFRS for SMEs* is applied in their jurisdictions and to decide to permit entities other than those entities without public accountability to use the *IFRS for SMEs*.

We believe that it would be more useful to articulate clearly the type of entity for which the *IFRS for SMEs* is designed as distinct from those within its scope per Section 1. This could then provide a clearer frame of reference for decisions on whether amendments to the *IFRS for SMEs* are necessary for such entities than the scope of the *IFRS for SMEs*, which encompasses a wide variety of entities (for example, both small owner managed businesses and large subsidiaries of listed groups).

Finally, we note that the timetable for review included in the RFI makes no reference to the drafting of any amendments to the *IFRS for SMEs*. We believe that this exercise should be performed by the IASB staff, with the SME Implementation Group (SMEIG) acting solely to consider and make recommendations on the need to amend the Standard as laid out in the Group's terms of reference.

Our detailed responses to the request for information 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) 207 007 0884.

Yours sincerely,



Veronica Poole
Global IFRS Leader – Technical

Appendix: Request for Information

Part A – Specific questions on Sections 1-35 of the IFRS for SMEs

Question S1 – Use by publicly traded entities (Section 1)

Are the scope requirements of the IFRS for SMEs currently too restrictive for publicly traded entities?

Question S2 – Use by financial institutions (Section 1)

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

(c) Other—please explain

As noted in paragraph P13 of the *IFRS for SMEs*, “decisions on which entities are required or permitted to use the IASB’s standards rest with legislative and regulatory authorities and standard-setters in individual jurisdictions. This is true for full IFRSs and for the *IFRS for SMEs*.”

We agree with this statement and believe that local public authorities, such as legislators and regulators, are best placed to judge how the financial reporting framework for entities using the *IFRS for SMEs* is applied in their jurisdictions and to decide to permit entities other than those entities without public accountability to use the *IFRS for SMEs*.

We believe that it would be more useful to articulate clearly the type of entity for which the *IFRS for SMEs* is designed as distinct from those within its scope per Section 1. This could then provide a clearer frame of reference for decisions on whether amendments to the *IFRS for SMEs* are necessary for such entities than the scope of the *IFRS for SMEs*, which encompasses a wide variety of entities (for example, both small owner managed businesses and large subsidiaries of listed groups).

Question S3 – Clarification of use by not-for-profit entities (Section 1)

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

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

While we acknowledge that the *IFRS for SMEs* may provide a financial reporting framework suitable for the general purpose financial reporting requirement of some not-for-profit entities, the *IFRS for SMEs* should not be revised at this time.

The question of whether IFRSs should apply to private-sector not-for-profit entities was addressed in the recent Strategy Review undertaken by the IFRS Foundation Trustees in 2010-12. In our response of 22 July 2011 to the Trustees’ Public Consultation ‘Status of Trustees’ Strategy Review’, we stated that:

We agree that the primary focus of the IFRS Foundation and the IASB should remain on setting financial reporting standards for private sector entities, for the time being.

...

We encourage the IFRS Foundation and the IASB to consider, within the next five years, and express a view on the extent to which IFRSs should be applied to private-sector not for profit organisations. This part of the private sector is significant in all jurisdictions that have incorporated, are in transition to or are

considering incorporating IFRSs into their financial reporting framework. As such, they are within the IASB's 'private sector' scope, and should be addressed in the organisation's second decade.

In their Report *IFRSs as the Global Standards: Setting a Strategy for the Foundation's Second Decade*, issued in February 2012, the IFRS Foundation Trustees concluded that "In the short term, the primary focus of the IFRS Foundation and the IASB should remain on developing standards for for-profit corporate entities (i.e., publicly traded entities, other public interest entities, SMEs)" (Principle A4, page 12). The Trustees did observe that:

The Trustees will actively consider other areas related to financial reporting (eg not-for-profit, public sector, sustainability and others) as the system stabilises and as resources permit. The Trustees believe that the next Constitution Review commencing in less than three years' time will provide a timely opportunity to consider any expansion of scope (page 13).

Until such time as the IFRS Foundation Trustees determine, in accordance with the IFRS Foundation's due process requirements, to extend the scope of the IASB's competence and responsibilities to financial reporting by private sector not-for-profit entities, the *IFRS for SMEs* should not make any comment about the application of the *IFRS for SMEs* to private-sector not-for-profit entities.

Question S4 – Consideration of recent changes to the consolidated guidance in full IFRSs (Section 9)

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

Question S6 – Guidance on fair value measurement for financial and non-financial items (Section 11 and other sections)

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

Question S8 – Consideration of recent changes to accounting for joint ventures in full IFRSs (Section 15)

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

(a) No—do not change the current requirements

As noted in our cover letter, we do not believe that the *IFRS for SMEs* should be amended to reflect changes in full IFRSs as complex and significant as the revised requirements on consolidation, accounting for joint arrangements and measurement of fair value included in IFRS 10, IFRS 11 and IFRS 13 respectively before those changes are effective. Rather, we believe that the suitability of a significant new standard should be assessed for its suitability for incorporation into the *IFRS for SMEs* only once a track record of its application under full IFRSs emerges. The post-implementation review of the new standard may provide an opportunity to make this assessment.

Secondly, we believe that any incorporation of a full IFRS standard into the *IFRS for SMEs* should retain the integrity of the conceptual model applied in that standard. By mixing the model from a previous full IFRS standard with guidance from its replacement, amendments such as those proposed for Sections 9 and 15 of the *IFRS for SMEs* risk resulting in an incoherent model (for example, requiring the application of guidance designed for the single control model of IFRS 10 to the split model of IAS 27 and SIC-12).

In assessing the suitability of a full IFRS standard for incorporation into the *IFRS for SMEs*, we recommend that the Board take into account (as noted in the October 2010 *Guide to the IFRS for SMEs*) the costs to, and the capabilities of SMEs to prepare financial information before moving to any more complex model (for example, the requirements of IFRS 11 on Joint Arrangements).

Question S5 - Use of recognition and measurement provisions in full IFRSs for financial instruments (Section 11)

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

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

We believe that entities should have the option of following the recognition and measurement provisions of IFRS 9 as the reasons for including an option to use full IFRSs for financial instruments laid out in paragraph BC106 of basis of conclusions to the *IFRS for SMEs* remain valid.

Question S7 – Positioning of fair value guidance in the Standard (Section 11)

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

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

We do not believe that it is necessary to move this guidance into a separate section given that Section 11 already makes clear that the guidance applies to other sections covering financial and non-financial items.

Question S9 – Revaluation of property, plant and equipment (Section 17)

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

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

We do not believe that the decision to simplify the accounting for property, plant and equipment and reduce diversity in practice by excluding the option of revaluation from the *IFRS for SMEs* should be reversed without clear evidence that this is necessary.

Question S10 – Capitalisation of development costs (Section 18)

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

Question S14 – Capitalisation of borrowing costs on qualifying assets (Section 25)

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

(a) No— do not change the current requirements

We disagree with the proposal to require SMEs to capitalise development or borrowing costs.

As stated in paragraphs BC113 and BC120 of the basis of conclusion to the *IFRS for SMEs*, the IASB introduced this simplification of the requirements of full IFRSs as a result of concerns over the cost-benefit implications of requiring capitalisation of these items. The RFI does not provide any evidence or rationale suggesting that these concerns are no longer valid.

We believe that reversal of the IASB's decisions to include simpler requirements in the *IFRS for SMEs* than are included in full IFRSs should only be considered where there is clear evidence that this is necessary.

Question S11 – Amortisation period for goodwill and other intangible assets (Section 18)

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

(c) Other—please explain.

We do not support the proposed amendment to paragraph 18.30 because it is not clear what the proposed requirement would entail. Having identified that the intangible asset has a useful life of less than ten years, is an entity then required to estimate that life (even if they cannot do so reliably), or does the entity then have a free choice to amortise the intangible over any period from one to nine years?

In applying *IFRS for SMEs*, entities are required to make reliable, reasonable or best estimates in a variety of other areas with no 'default' value included in the Standard and we believe that the useful life of intangible assets should be treated in the same way.

We therefore suggest that paragraph 18.20 is removed from the *IFRS for SMEs*.

Question S12 – Consideration of changes to accounting for business combinations in full IFRSs (Section 19)

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

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

We do not support the proposed to Section 19 of the *IFRS for SMEs* as they, like the proposed amendments to Sections 9 and 15, would result in a mixture of 'old and new' IFRS standards.

The amendments suggested are some, but not all, of the differences between IFRS 3(2004) and IFRS 3(2008). For example, other important changes introduced by IFRS 3(2008) include specific guidance on when the acquirer has a pre-existing equity interest in the entity acquired, or on whether replacement share-based payment awards are part of the consideration transferred and on the measurement of reacquired rights. We therefore question the statement that "IFRS 3(2008) addressed deficiencies in the previous version of IFRS 3 without changing the basic accounting." IFRS 3(2008) made significant changes to business combination accounting and its model should be incorporated in full or not at all.

The current *IFRS for SMEs* approach in Section 19 is simpler than IFRS 3(2008) and we do not believe that a more complex model should be imposed without a thorough consideration of the cost-benefit implications of such a change.

Question S13 – Presentation of share subscriptions receivable (Section 22)

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

(d) Other—please explain.

Consistent with our response to the exposure draft preceding the *IFRS for SMEs*, we believe that paragraph 22.7 should be deleted. We do not believe it is appropriate or necessary for the *IFRS for SMEs* to stipulate the treatment of transactions upon which full IFRSs (in this case, IAS 32) are silent and which are subject to legal requirements in a number of jurisdictions.

Question S15 – Presentation of actuarial gains or losses (Section 28)

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

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

Section 28 of the *IFRS for SMEs* is currently simpler than full IFRSs in that it does not require any disaggregation of the net change in a defined benefit liability into its component parts in the statement of comprehensive income. We do not believe that an amendment to IAS 19 is sufficient reason to dilute that simplicity, particularly if the

presentation of actuarial gains and losses under full IFRSs is likely to be revisited in the short to medium term as part of the IASB's project on a Presentation Framework.

Question S16 – Approach for accounting for deferred income taxes (Section 29)
Should SMEs recognise deferred income taxes and, if so, how should they be recognised?

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

We believe SMEs should not recognise deferred income taxes at all.

There has been an on-going debate in respect of the complex area of accounting for income taxes under IFRSs and the recent European Financial Reporting Advisory Group's Discussion Paper *Improving the Financial Reporting of Income Tax* highlighted some of the important conceptual issues arising from, in particular, accounting for deferred tax balances.

The principal advantage of the taxes payable method is its simplicity, both for preparers and users of financial statements. The IASB could offer SMEs a genuine simplification in this area, allowing users of SME financial statements to see easily the cash tax payable by the SME and creating real cost and time benefits for SMEs. To that end, we believe that requiring disclosures related to the change in effective tax rate year over year would provide more useful information for SME financial statement users to understand why tax rate is fluctuating.

Furthermore, we are not convinced that a shortened version of IAS 12 would be operational as it is difficult to see how the complex requirements of that Standard could be significantly condensed whilst remaining understandable without reference back to IAS 12 itself.

Question S17 – Consideration of IAS 12 exemptions from recognising deferred taxes and other differences under IAS 12 (Section 29)

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

[Note— Questions S17 and S18 are asked under the assumption that a temporary difference approach to deferred tax will be applied]

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

We believe Section 29 should be revised to conform to the current IAS 12 because the reasons that the March 2009 income taxes exposure draft upon which Section 29 is based was not finalised in full IFRSs apply equally to the *IFRS for SMEs*.

Question S18 – Rebuttable presumption that investment property at fair value is recovered through sale (Section 29)

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

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

We do not believe adding an exemption in paragraph 29.20 is necessary as the requirements of the *IFRS for SMEs* should preclude the use of such a presumption as an accounting policy choice without explicitly adding it to the Standard.

If so narrow and detailed an amendment were to require incorporation into the *IFRS for SMEs*, this would suggest that (as noted in our response to Question S16) significant shortening of IAS 12 is not a practical option.

Question S19 – Inclusion of additional topics in the IFRS for SMEs

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

(a)—No

Question S20 – Opportunity to add your own specific issues

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

(a)—No

Part B – General questions

Question G1 – Consideration of minor improvements to full IFRSs

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

(c) The IASB should develop criteria for assessing how any such improvements should be incorporated.

As part of a three-yearly review, Annual Improvements changes should be assessed for relevance to the *IFRS for SMEs* and to the types of entity for which the Standard was designed, whether the change would make the *IFRS for SMEs* more understandable and whether any standardisation of accounting where there was previously diversity in practice is necessary in the context of the *IFRS for SMEs*. As with more significant changes to full IFRSs, we do not believe that there should be a presumption that Annual Improvements will be incorporated into the *IFRS for SMEs* but neither do we believe that (as suggested in option (b)) that there should be a rebuttable presumption that they will not.

Question G2 – Further need for Q&As

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

(c) Other—please explain.

We do not believe that due process for Q&As is adequate or that publication of a high volume of draft Q&As is in keeping with the Board's plan for periodic updating of the *IFRS for SMEs*.

In light of the cost-benefit considerations noted in paragraph BC163 of the *IFRS for SMEs*, we believe that unless issues are clearly urgent, widespread and likely to result in significant divergence in practice they should be addressed through the next omnibus exposure draft of the *IFRS for SMEs* rather than via a Q&A.

Question G3 – Treatment of existing Q&As

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

(c) Other—please explain.

We do not believe that any Q&As should survive a comprehensive review of the *IFRS for SMEs* as they should be assessed as to whether they provide valuable guidance on an issue upon which the *IFRS for SMEs* is unclear. Q&As that meet this criterion should be incorporated into the *IFRS for SMEs*, Q&As that do not should be withdrawn.

As noted in our comment letters on the Q&As in draft form, we believe that only Q&A 2012/04 *Recycling of cumulative exchange differences on disposal of a subsidiary* provides valuable guidance as it addresses a flaw in the drafting of the *IFRS for SMEs*.

Therefore, we believe that this Q&A should be incorporated by means of an amendment to paragraph 9.18 of the *IFRS for SMEs* and that the remaining six Q&As should be withdrawn.

Question G4 – Training material

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

(a) – No

Question G5 – Opportunity to add any further general issues

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

(a) – No

Question G6 – Use of IFRS for SMEs in your jurisdiction

This response is submitted on behalf of member firms of the Deloitte Touche Tohmatsu network. This network includes member firms operating in jurisdictions that currently use the IFRS for SMEs (for example, South Africa) and jurisdictions that plan to implement a framework based on the IFRS for SMEs in the near future (for example, the United Kingdom).