

Hans Hoogervorst  
Chairman  
International Accounting Standards Board  
30 Cannon Street  
London  
United Kingdom  
EC4M 6XH

28 February 2014

Dear Mr Hoogervorst

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

Deloitte Touche Tohmatsu Limited is pleased to respond to the International Accounting Standards Board's (the IASB's) Exposure Draft *Proposed amendments to International Financial Reporting Standard for Small and Medium-sized Entities* ('the exposure draft' or the 'ED').

We agree that the triennial review of the IFRS for SMEs is too frequent and that a five-year cycle would provide IFRS for SMEs preparers with the ability to adopt amended or new sections and evaluate their impact before considering whether further amendments are required to the IFRS for SMEs. One of the advantages of the IFRS for SMEs is the stable platform it offers entities in the preparation of financial statements. This benefit may be eroded should the IFRS for SMEs be amended for ad-hoc "urgent" issues. In order to balance the objectives above, we would suggest defined criteria are introduced to identify when an issue is regarded as urgent. For example, one such criterion could be that the financial statements would fail to meet the objective of financial statements per Section 2 of the IFRS for SMEs before an urgent amendment to the IFRS for SMEs is contemplated. We anticipate that these criteria would be satisfied infrequently.

In respect of the scope of the IFRS for SMEs, we believe that local authorities are best placed to determine which entities should be permitted to apply the Standard in their jurisdictions. As a more general point, we believe that the IASB should more clearly articulate the type of entity for which the IFRS for SMEs is primarily designed (as distinct from those which are, per Section 1, permitted to use the standard). This could then provide a clearer frame of reference for decisions on whether a simplification to IFRS requirements based on what 'SMEs' are likely to do is appropriate. The standard is currently inconsistent in this respect as, for example, it does not address many hedging transactions on the basis that they are unlikely to be used by SMEs, but makes no such assumption on the range of employee benefit or share-based payment transactions that might be undertaken.

On the issue of deferred tax recognition and measurement, whilst we agree that the IAS 12 approach proposed in the exposure draft is preferable to the model currently included in the IFRS for SMEs, we continue to support the removal of all requirements for IFRS for SMEs preparers to recognise deferred tax.

Our detailed responses to the questions in the invitation to comment 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

A handwritten signature in black ink, appearing to read 'V. Poole', is positioned above the printed name.

Veronica Poole  
Global IFRS Leader

## Appendix

### 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?*

We are not aware of circumstances in which the term 'fiduciary capacity' has been misunderstood. However, we believe that paragraph P13 of the IFRS for SMEs provides an appropriate mechanism for determining the population of IFRS for SMEs preparers in a particular market.

Local public 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 which entities should be permitted to use the IFRS for SMEs. We believe that in making that assessment, local public authorities may consider the fiduciary capacity of a particular type of entity in a certain jurisdiction, with the IASB's intent of developing the IFRS for SMEs in mind. Therefore we would support the replacement of paragraph 1.3(b) in favour of a regional or jurisdictional endorsement approach adapted from P13.

As a more general point, we believe that the IASB should more clearly articulate the type of entity for which the IFRS for SMEs is primarily designed (as distinct from those which are, per Section 1, permitted to use the standard). This could then provide a clearer frame of reference for decisions on whether a simplification to IFRS requirements based on what 'SMEs' are likely to do is appropriate. The standard is currently inconsistent in this respect as, for example, it does not address many hedging transactions on the basis that they are unlikely to be used by SMEs, but makes no such assumption on the range of employee benefit or share-based payment transactions that might be undertaken.

Similarly, we do not support the statement in paragraph 1.5 of the IFRS for SMEs and the BC21 of the ED that prohibits reference to the IFRS for SMEs by publicly accountable entities, even when such entities fully comply with the IFRS for SMEs as this could suggest that two entities applying the IFRS for SMEs are, in fact, applying two different frameworks. Instead, the IASB may wish to consider requiring disclosure when the IFRS for SMEs is used by publicly accountable (according to the definition in the IFRS for SMEs) entities that are permitted to use the IFRS for SMEs by a local public authority.

## 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?*

We continue to believe that IFRS for SMEs preparers should not be required to 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 IFRS for SMEs preparers a genuine simplification in this area, allowing users of IFRS for SMEs financial statements to see easily the cash tax payable by the entity and creating real cost and time benefits for IFRS for SMEs preparers. To that end, we would support two alternatives to the approach outlined in the ED:

1. Requiring disclosures for the change in effective tax rate year on year would provide more useful information for users of IFRS for SMEs financial statement to understand why the effective tax rate is fluctuating and the future tax implications of fluctuations in the effective tax rate; or
2. Where the effective tax rate differs significantly from the statutory tax rate, the entity should evaluate whether the difference indicates that there is a future cash flow implication arising from the difference and disclose the cash flow implications identified. Under this approach, the IFRS for SMEs could identify a quantitative marker for the assessment of the significance of the differential between the effective tax rate and the statutory tax rate, for example 20%.

If the IASB proceeds with the adoption the full IFRS model for recognition and measurement of deferred taxes, we suggest:

- the step approach guidance in the existing paragraph 29.3 should be retained, revised as appropriate for the IAS12 approach, as it provides useful implementation guidance for preparers who do not have an IFRS background supporting the recognition and measurement of deferred taxes; and
- the disclosures required by paragraph 82 of IAS 12 should be introduced to the IFRS for SMEs.

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.

We have provided comment below on the amendments to which we have specific comment.

Amendment number	Proposed amendment	Deloitte comment
3	Guidance on the ‘undue cost or effort’ exemption that is used in several sections of the <i>IFRS for SMEs</i> —based on Q&A 2012/01 <i>Application of ‘undue cost or effort’</i> (see paragraphs 2.14A–2.14C).	<p>We believe the guidance should be simplified as indicated below. Proposed revised text is underlined and proposed deletions are struck through.</p> <p>2.14B Undue cost or effort depends on the entity’s specific circumstances and on management’s judgement when assessing the costs and benefits. Whether the cost or effort is excessive (undue) requires a <u>qualitative assessment</u> <del>consideration</del> of how the economic decisions of the expected users of the financial statements could be <u>materially</u> affected by the availability of the information.</p> <p>2.14C Assessing whether a requirement will result in undue cost or effort at the date of the transaction or event should be based on information about the costs and benefits of the requirement that is available at the time of the transaction or event. If the undue cost or effort exemption also applies to subsequent measurement of an item, for example, on the following reporting date, a <u>revised</u> <del>new</del> assessment of undue cost or effort should <u>only</u> be made at that <u>subsequent</u> date, <u>if there is an indication that the previous undue cost or effort assessment is no longer appropriate.</u> <del>based on information available at that subsequent measurement date.</del></p>
9	Additional guidance on the preparation of consolidated financial statements if group entities have different reporting dates (see paragraph 9.16).	<p>9.16: The proposed approach has been difficult to implement for IFRS preparers. When it is impracticable to prepare financial statements using uniform reporting dates, we would support the use of the most recent financial statements with disclosure of significant events since those financial statements were prepared.</p>
6	Incorporation of the main change under IAS 1 (2011 amendment) <i>Presentation of Items of Other Comprehensive Income</i> , which requires entities to group items presented in other comprehensive income (OCI) on the basis of whether they are potentially reclassifiable to profit or loss (see paragraph 5.5(g)).	<p>5.5(g): We do not support the additional disclosure requirement because:</p> <ul style="list-style-type: none"> <li>• under the IFRS for SMEs, the only item presented in OCI that is potentially reclassifiable to profit or loss is a change to the fair value of a hedging instrument in a designated cash flow hedge relationship;</li> <li>• we do not believe the disclosure provides incrementally beneficial information to the users of IFRS for SMEs financial statements; and</li> <li>• IFRS for SMEs preparers do not present</li> </ul>

		earnings per share metrics which would be impacted by reclassifications. Therefore, the benefit of the disclosure is limited.
20	Incorporation of Classification of servicing equipment (IAS 16) from <i>Annual Improvements 2009–2011 Cycle</i> , issued in May 2012, which clarifies the classification of spare parts, stand-by equipment and servicing equipment as property, plant and equipment or inventory (see paragraph 17.5).	<p>17.5: The existing paragraph provides IFRS for SMEs preparers with a default to inventory classification with a supplementary assessment of whether the item should be classified as property, plant and equipment. This approach is supported by IFRS for SMEs preparers. We would suggest the following amendment as an alternative to the amendment proposed in the ED:</p> <p><i>17.5 Spare parts and servicing equipment are usually carried as inventory and recognised in profit or loss as consumed. However, major spare parts and stand-by equipment <del>should be classified as</del> <del>are</del> property, plant and equipment when <u>they meet the definition of property, plant and equipment</u>. <del>an entity expects to use them during more than one period.</del> Similarly, if the spare parts and servicing equipment can be used only in connection with an item of property, plant and equipment, they are considered <del>property, plant and equipment.</del></i></p>
29	Additional guidance on classifying financial instruments as equity or liability (see paragraph 22.3A)	<p>22.3A: Whilst we agree that additional guidance on this matter would be beneficial, we recommend that the proposed wording of paragraph 22.3A be replaced by the existing wording of paragraph 15 of IAS 32 because:</p> <ul style="list-style-type: none"> <li>• divergence from those words could be misconstrued as a divergence in the distinction between equity and financial liabilities in the IFRS for SMEs as compared to IAS 32 when it appears this is not the intention of the Board; and</li> <li>• without reference to the 'fixed for fixed' criterion included in part (b) of the definition of a financial liability, the proposed wording could be misleading as it states that all obligations to deliver cash or another financial asset to settle a contractual obligation result in the instrument meeting the definition of a financial liability.</li> </ul> <p>In addition, we believe that the consideration of contingent settlement provisions in paragraph 25 of IAS 32 is an important part of the distinction between equity and financial liabilities and should be included in the IFRS for SMEs.</p>
31	Incorporation of the conclusions of IFRIC 19 <i>Extinguishing Financial Liabilities with Equity Instruments</i> to provide guidance on debt for equity swaps when the financial liability is renegotiated and the debtor extinguishes the liability by issuing equity instruments (see paragraphs 22.8 and 22.15A–22.15C).	<p>22.15A: The paragraph provides an undue cost or effort exemption for the measurement of the equity instruments issued as part of the debt for equity swap. If the exception is adopted, the entity would fair value the liability extinguished to determine the amount to be recognised in profit or loss on extinguishment. We believe that the fair valuation of the debt extinguished may be complex and costly for an IFRS for SMEs preparers to determine, particularly if the market pricing of credit and/or the entity's credit risk has changed since inception of the loan. Therefore, we would support the undue cost or</p>



		effort exemption to the whole of paragraph 22.15A (i.e. the measurement of both the equity instrument issued and the debt extinguished).
49	Clarification of the accounting requirements for extractive activities (see paragraphs 34.11–34.11A).	34.11: The paragraph has been amended to clarify the approach required by the IFRS for SMEs. The approach outlined in full IFRS requires the entity to develop an accounting policy but specifically excludes reference to the development of the policy based on the Conceptual Framework. The drafting of the paragraph 34.11 references to Section 10: <i>Accounting Policies, Estimates and Errors</i> which would require the entity to consider Section 2: <i>Concepts and Pervasive Principles</i> , the Conceptual Framework equivalent for the IFRS for SMEs. We suggest an exemption for IFRS for SMEs preparers from the assessment of Section 2, similar to that permitted in full IFRS.

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.*

The ED (amendment 25) has proposed an undue cost or effort exemption for the recognition of intangible assets under a business combination. We agree with this proposal however we would encourage the IASB to consider the extension of the undue cost or effort exemption to the whole of paragraph 19.15.

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?*

Although we support the retrospective application approach from a technical perspective, we do not believe the amendments should be applied retrospectively because:

- the comparability of historical information is not considered to be as important as is called for in a full IFRS environment; and
- the amendments are limited and are not expected to have a significant impact on most IFRS for SMEs preparers. Therefore the benefit of restating comparative information does not exceed the cost burden associated with restatement.

We would suggest the amendments be applied prospectively from the beginning of the reporting period when the revised IFRS for SMEs is applied. The cumulative adjustment to transactions and balances under the requirements of the revised IFRS for SMEs would be recognised immediately in retained earnings.

## 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?*

We agree with the proposed effective date in the ED.

## 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?*

We agree that the three-year cycle is too frequent and that a five-year cycle provides IFRS for SMEs preparers with the ability to adopt standards and evaluate their impact before considering whether amendments are required to the IFRS for SMEs.

We have concerns on the ramifications of permitting urgent issues to be addressed on an ad-hoc basis. One of the advantages of IFRS for SMEs is the stable platform it offers entities in the preparation of financial statements. This benefit may be eroded by ad-hoc amendments to IFRS for SMEs. However, we can see scenarios where the IFRS for SMEs should be amended before the cycle concludes (for example deferred tax under the current approach).

In order to balance the objectives above, we would suggest defined criteria are introduced to identify when an issue is regarded as urgent. For example, one such criterion could be that the financial statements would fail to meet the objective of financial statements for SMEs per Section 2 of the IFRS for SMEs before an urgent amendment to the IFRS for SMEs is contemplated. We anticipate that these criteria would be satisfied infrequently.

## Question 8: Any other comments?

*Do you have any other comments on the proposals?*

We have the following additional comments:

- Paragraph BC30(b) indicates that in assessing suitability of new and revised IFRS standards, it will “*generally not be necessary to wait until the PIR have been completed*”. We would propose that amendments made to the IFRS for SMEs before the completion of a PIR should only be considered if the financial statements would fail to meet the objective of financial statements per Section 2 of the IFRS for SMEs. We anticipate that these criteria would be satisfied infrequently.
- Following publication of the SME Implementation Group’s updated Terms of Reference and Operating Procedures, we re-iterate the concern expressed in our previous comment letters on Draft Q&As over whether the level of due process applied to Q&As is appropriate and consistent with other similar activities at the IFRS Foundation and IASB. As the Q&As are considered IFRS related documents and are associated with the IASB, we believe that the due process steps followed in the development of an IFRIC Interpretation, which include discussion and voting in a



public meeting, public consultation on agenda items and formal approval of an Interpretation by the IASB should be followed for these and any future proposed Q&As.

- Paragraph 11.2 of the IFRS for SMEs permits the entity to apply the recognition and measurement requirements of full IFRS instead of the requirements of IFRS for SMEs. Paragraph BC54 of the Basis for Conclusions on the exposure draft acknowledges the complexities of this approach as full IFRS transitions onto IFRS 9. The Board should consider including this clarification within the body of the IFRS for SMEs as follows. New text is underlined:

11.2 An entity shall choose to apply either:

(a) the provisions of both Section 11 and Section 12 in full, or

(b) the recognition and measurement provisions of IAS 39 *Financial Instruments: Recognition and Measurement* (the version of IAS 39 that is in effect at the entity's reporting date (without early adoption of IFRS9)) and the disclosure requirements of Sections 11 and 12.