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STAFF PAPER

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SME Implementation Group meeting

Project	**Second Comprehensive Review of the *IFRS for SMEs*® Standard**
Paper topic	Comment letter summary

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Purpose of the paper

1. This paper summarises the feedback from comment letters on the topics in the Request for Information *Comprehensive review of the* IFRS for SMEs *Standard*, which was published by the International Accounting Standards Board (Board) in January 2020. In this paper, the term SMEs refers to small and medium-sized entities that are eligible to apply the *IFRS for SMEs* Standard.

Structure of the paper

2. This paper provides:

   (a) an overview of comment letters;

   (b) an introduction to the comment letter summary;

   (c) an overall feedback; and

   (d) feedback on the specific questions in the Request for Information, discussing for each topic in the Request for Information:

      (i) the question in the Request for Information;

      (ii) the feedback; and

(iii) staff preliminary thoughts.

3. The appendix to this paper provides an overview of the comment letters by type of respondent and geographical region.

Overview of comment letters

4. The 270-day comment period for the Request for Information ended on 27 October 2020. The Board has received 66 comment letters. Appendix A to this paper provides an overview of the comment letters by type of respondent and geographical region.

5. The majority of respondents are accountancy bodies (39%) and standard-setting bodies (21%). The remainder of respondents are individuals (12%), auditors and accounting firms (11%), preparers (9%) and consultants (8%).

6. Comment letters were received from all regions, 37 jurisdictions were represented. Almost one third of respondents are from Americas (31%), mainly Latin American and the Caribbean. Other respondents are from Asia-Oceania (21%), Europe (21%) and Africa (15%). Global organisations represent 12% of respondents.

Introduction to the comment letter summary

7. The Board developed questions for each part of the Request for Information:

   (a) Part A set out the framework the Board developed for approaching the review and asked for comments on the Board’s approach (Questions G1–G3);

   (b) Part B contained questions on sections of the *IFRS for SMEs* Standard that could be aligned with IFRS Standards, amendments to IFRS Standards and IFRIC Interpretations in the scope of the review (Questions S1–S10); and

   (c) Part C sought views on topics that are not addressed in the *IFRS for SMEs* Standard and on whether, in relation to these topics, the Standard could be aligned with full IFRS Standards. It also asked about topics on which the Board has received feedback (Questions N1–N5).

8. Respondents mainly provided feedback by answering the questions in the Request for Information.

9. This paper describes the proportion of respondents sharing feedback using these terms:

Term	Extent of response among respondents
Most	A large majority
Many	A majority
Some	A minority
A small number	A small minority

10. In determining which term to use for a question, the staff considered not just the number of responses to questions, but also subjective factors, such as whether a response reports the views of a single individual or the views of a broader group.

11. Respondents did not always comment on questions in the Request for Information. This paper indicates when only a small number of respondents commented on an aspect of the Request for Information.

12. The staff have considered whether feedback differs by type of respondent or by geographical region. This paper indicates when there is a notable pattern.

13. The staff have also considered the nature of the comments and whether they are qualitatively significant regardless of the number of respondents that expressed that view.

Overall feedback

14. Overall, respondents expressed support for the *IFRS for SMEs* Standard continuing to be based on full IFRS Standards (aligned with full IFRS Standards). Many stakeholders recommended the Board consider:

    (a) including 'cost and benefits' in the alignment principles in deciding whether and how to align the *IFRS for SMEs* Standard with new IFRS Standards, amendments to IFRS Standards and IFRIC Interpretations; and

    (b) simplifications to the requirements of full IFRS Standards, including a reduction in the number of disclosures and simplified language, without affecting the faithful representation of information in financial statements prepared applying the *IFRS for SMEs* Standard.

Feedback on the specific questions in the Request for Information

15. The following table lists the topics covered by the Request for Information and provides references to the paragraphs in this paper that summarise the feedback on those topics.

Question	Topic	Paragraphs of this paper
G1A	Alignment with full IFRS Standards	16–20
G1B	Extent of the alignment with full IFRS Standards	21–24
G2	Alignment principles	25–27
G3	Date for alignment	28–36
S1	Aligning Section 2 *Concepts and Pervasive Principles* of the *IFRS for SMEs* Standard with the 2018 *Conceptual Framework*	37–42
S2	Aligning Section 9 *Consolidated and Separate Financial Statements* of the *IFRS for SMEs* Standard with IFRS 10 *Consolidated Financial Statements*	43–48

Question	Topic	Paragraphs of this paper
S3	Aligning Section *11 Basic Financial Instruments* and Section 12 *Other Financial Instrument Issues* of the *IFRS for SMEs* Standard with IFRS 9 *Financial Instruments*	49–70
S4	Aligning Section 15 *Investments in Joint Ventures* of the *IFRS for SMEs* Standard with IFRS 11 *Joint Arrangements*	71–75
S5	Aligning Section 19 *Business Combinations and Goodwill* of the *IFRS for SMEs* Standard with IFRS 3 (2008) *Business Combinations*	76–78
S6	Aligning Section 20 *Leases* of the *IFRS for SMEs* Standard with IFRS 16 *Leases*	79–84
S7	Aligning Section 23 *Revenue* of the *IFRS for SMEs Standard* with IFRS 15 *Revenue from Contracts with Customers*	85–94
S8	Aligning Section 28 *Employee Benefits* of the *IFRS for SMEs Standard* with IAS 19 (2011) *Employee Benefits*	95–98
S9	Aligning the *IFRS for SMEs* Standard with IFRS 13 *Fair Value Measurement*	99–105
S10	Aligning multiple sections of the *IFRS for SMEs* Standard for amendments to IFRS Standards and IFRIC Interpretations	106–112
N1	Aligning the *IFRS for SMEs* Standard with IFRS 14 *Regulatory Deferral Accounts*	113–116
N2	Cryptocurrency	117–121
N3	Defined benefit plans—simplifications allowed in measuring the defined benefit obligation	122–124
N4	Other topics not addressed by the *IFRS for SMEs* Standard	125–128
N5	Any additional issues relating to the *IFRS for SMEs* Standard	129–131

Question G1A—Alignment with full IFRS Standards

Question in the Request for Information

16. The Request for Information asked whether the *IFRS for SMEs* Standard should be aligned with full IFRS Standards.

Feedback

17. Many respondents who commented on the alignment approach expressed support for aligning the *IFRS for SMEs* Standard with full IFRS Standards. Consistent with the views expressed in paragraph 30 of the Request for Information, those respondents said that alignment would:

    (a) make it easier for an entity applying the *IFRS for SMEs* Standard to migrate to full IFRS Standards; and

    (b) result in financial statements prepared applying the *IFRS for SMEs* Standard that are comparable to those prepared applying full IFRS Standards.

18. Some respondents expressed support for alignment to the extent that the benefits of a change outweigh its costs. These respondents suggested costs could be reduced by simplifying the requirements compared to full IFRS Standards.

19. A small number of respondents do not support aligning the *IFRS for SMEs* Standard with full IFRS Standards because they were concerned that alignment with some major new Standards, such as IFRS 9 *Financial Instruments* and IFRS 16 *Leases*, would add costs and complexity to the *IFRS for SMEs* Standard.

Staff preliminary thoughts

20. The staff think that:

    (a) the feedback from comment letters provides support for the SMEIG to recommend that the Board continue to base the *IFRS for SMEs* Standard on full IFRS Standards (align with full IFRS Standards); and

(b) the SMEIG should recommend that the Board consider costs and benefits of aligning the *IFRS for SMEs* Standard with a new requirement, *separately* for each new IFRS Standard, amendment to an IFRS Standard and IFRIC Interpretation.

Question G1B—Extent of the alignment with full IFRS Standards

Question in the Request for Information

21. The Request for Information asked what extent of the alignment of the *IFRS for SMEs* Standard with full IFRS Standards is considered most useful (for example, alignment of principles, alignment of both principles and important definitions or alignment of principles, important definitions and precise wording of requirements).

Feedback

22. Most respondents who commented on the extent of the alignment expressed the view that:

    (a) the alignment of both principles and important definitions is considered the most useful; and

    (b) the alignment of precise wording of requirements is not an essential parameter for the Board to consider and might be inconsistent with the objective of simplifying the requirements in the *IFRS for SMEs* Standard.

23. However, a small number of respondents urged the Board to use the same words as used in full IFRS Standards if the Board intends the requirement to be interpreted in the same way as the requirements of full IFRS Standards. These respondents were concerned that using different words to convey the same principle might introduce additional complexity and uncertainty about the intended meaning.

Staff preliminary thoughts

24. The staff think that the feedback from comment letters provides support for the SMEIG to recommend that the Board develop any proposed amendments to the *IFRS for SMEs* Standard to reflect principles and important definitions in a new IFRS Standard, amendment to an IFRS Standard and IFRIC Interpretation.

Question G2—Alignment principles

Question in the Request for Information

25. The Request for Information asked whether the principles of relevance to SMEs, simplicity and faithful representation provide a framework to assist in determining whether and how the *IFRS for SMEs* Standard should be aligned with full IFRS Standards.

Feedback

26. Most respondents who commented on the alignment principles support the use of the principles of relevance to SMEs, simplicity and faithful representation to determine whether and how the *IFRS for SMEs* Standard should be aligned with full IFRS Standards. However:

    (a) some of these respondents expressed the view that a fourth principle should be added (for example, a cost-benefit principle);

    (b) a small number of these respondents asked to clarify the definition of the three principles (simplicity, in particular); and

    (c) a small number of these respondents questioned the order of application of the three principles or expressed mixed views on the order to follow.

    "We believe that there should be a hierarchy for applying these principles, and the principle of faithful representation should take precedence" (CL 13, CL 48)

> "In case of conflicts or inconsistency between the principles […] IASB shall prioritize simplicity, unless it is clearly in conflict with faithful representation" (CL 55)
>
> "We believe that the faithful representation test should be a final (catch all) test that is applied after the principles of relevance and simplicity have been met, to determine whether to align or not. If this is what is intended in the Request for Information, then this needs to be clearer." (CL 64)

Staff preliminary thoughts

27. The staff think that, to determine whether and how the *IFRS for SMEs* Standard should be aligned with full IFRS Standards, the SMEIG should recommend that the Board:

(a) confirm the use of the principles of relevance to SMEs, simplicity and faithful representation;

(b) consider cost-benefit balance as part of those principles; and

(c) specify how the principles are met for proposing an amendment to the *IFRS for SMEs* Standard.

Question G3—Date for alignment

Question in the Request for Information

28. The Request for Information asked on how soon after an IFRS Standard, an amendment to an IFRS Standard or an IFRIC Interpretation is issued the Board should consider any change for incorporation in the *IFRS for SMEs* Standard.

Feedback

29. Respondents who commented on when to consider alignment expressed mixed views.

30. Some respondents said the Board should allow implementation experience relating to a new requirement to develop sufficiently to assess whether the new requirement is

working as intended and to identify unexpected implementation costs or issues. Those respondents were of the view that IFRS Standards, amendments to IFRS Standards or IFRIC Interpretations should be considered for incorporation into the *IFRS for SMEs* Standard if they are:

(a) effective and the Post-implementation Review is complete before the publication date of the Request for Information;

(b) effective before the publication date of the Request for Information; or

(c) effective on some other date (for example, effective for at least one or two years at the publication date of the Request for Information—ie effective in 2019 or 2018—to avoid undue delay in reflecting improvements in the light of the time needed to complete a Post-implementation Review).

31. Some respondents acknowledged that a policy determining when to consider a new requirement for alignment would provide certainty and stability. However, they suggested the Board has some flexibility.

> "Care should be taken to avoid taking an overly rigid approach that prevents developments in full IFRS Standards being considered for earlier alignment when doing so would better support the overall objective of the standard. For example, the nature of an amendment may make it particularly time sensitive and justify it being incorporated into the *IFRS for SMEs* Standard before it is effective." (CL 11)

> "New IFRS Standards and IFRIC Interpretations should be considered for alignment if effective before publication date of Request for Information […] minor clarifications, for example the definition of a business, should be considered for alignment if issued up to the publication date of the Request for Information." (CL 59)

32. A small number of respondents were in support of only incorporating IFRS Standards, amendments to IFRS Standards and IFRIC Interpretations that had been issued up to the publication date of the Request for Information. Some of these respondents do not support waiting completion of the Post-implementation Review, due to the time-lag between the issue of an IFRS Standard and the completion of a Post-implementation Review.

Staff preliminary thoughts

33. The staff think that the feedback from comment letters provides support for the SMEIG to recommend that the Board consider alignment only of requirements that are effective at the publication date of the Request for Information (ie effective on or before 1 January 2020). This would exclude, for example, amendments resulting from the Interest Rate Benchmark (IBOR) Reform—Phase 2 (effective in 2021) and the *Annual Improvements to IFRS Standards 2018–2020* (effective in 2022), as well as IFRS 17 *Insurance Contracts* (effective in 2023).

34. The second comprehensive review of the *IFRS for SMEs* Standard includes many IFRS Standards in its scope, in part, because it re-examines some IFRS Standards in the scope of the first comprehensive review. As discussed in paragraph 17 of the Request for Information, when the Board performed its first comprehensive review of the *IFRS for SMEs* Standard, it considered some IFRS Standards and amendments to IFRS Standards but decided not to amend the *IFRS for SMEs* Standard because:

    (a) the Board wanted to minimise changes to what was then a newly issued Standard; and

    (b) many entities that had adopted the *IFRS for SMEs* Standard had done so very recently.

35. The staff think a deferral to the next comprehensive review of the decision about the alignment of any IFRS Standards and amendments to IFRS Standards that are effective since 1 January 2020 would risk resulting in too many new requirements in the scope of the third comprehensive review.

36. The staff think the SMEIG should recommend that the Board specify it does not intend to reconsider an IFRS Standard, amendment to an IFRS Standard or IFRIC Interpretation that it has considered as part the second comprehensive review and reached a decision on alignment, unless a specific matter is brought to the Board's attention.

***Question S1—Aligning Section 2* Concepts and Pervasive Principles *of the IFRS for SMEs Standard with the 2018* Conceptual Framework**

Question in the Request for Information

37. The Request for Information asked respondents views on aligning Section 2 *Concepts and Pervasive Principles* with the 2018 *Conceptual Framework*, making appropriate amendments to other Sections of the *IFRS for SMEs* Standard and retaining the undue cost or effort concept.

Feedback

38. Many respondents who commented on the alignment of Section 2 with the 2018 *Conceptual Framework* agreed that Section 2 should be aligned with the *Conceptual Framework*. The reason provided in support of the alignment is that the *IFRS for SMEs* Standard should use the same framework as that of full IFRS Standards.

39. Most respondents agreed that if Section 2 is aligned with the 2018 *Conceptual Framework*, appropriate amendments to other Sections of the Standard should be made as this will ensure that definitions in Section 2 correspond with those of other Sections.

40. With regards to retaining the concept of 'undue cost or effort', many respondents were in agreement that the concept should be retained. Reasons provided included:

    (a) the concept provides additional relief for SMEs;

    (b) the concept facilitates the application of the principle of simplicity; and

    (c) the concept provides a useful mechanism to balance the costs and benefits for SMEs.

41. A small number of respondents who disagreed with alignment of Section 2 with the 2018 *Conceptual Framework* expressed the view that:

    (a) the role and authority of Section 2 differ from those of the 2018 *Conceptual Framework*; and

(b) the 2018 *Conceptual Framework* is newly issued and should not yet be considered for alignment.

Staff preliminary thoughts

42. The staff think that:

(a) the feedback from comment letters provides support for the SMEIG to recommend that the Board propose aligning Section 2 with the 2018 *Conceptual Framework.* As part of the next stage the staff will identify if any appropriate amendments are needed to other sections of the Standard.

(b) the SMEIG should recommend that the Board retain the undue cost or effort concept as many respondents were in favour of the concept being retained due to the additional relief that it provides to users of the Standard.

Question S2—Aligning Section 9 **Consolidated and Separate Financial Statements** ***of the*** **IFRS for SMEs** ***Standard with IFRS 10*** **Consolidated Financial Statements**

Question in the Request for Information

43. The Request for information asked for views on:

(a) aligning the definition of control in Section 9 *Consolidated and Separate Financial Statements* with IFRS 10 *Consolidated Financial Statements*;

(b) retaining and updating paragraph 9.5 of the *IFRS for SMEs* Standard; and

(c) not introducing the requirement that investment entities measure investments in subsidiaries at fair value through profit or loss.

Feedback

44. Many respondents agreed with aligning the definition of control in Section 9 with IFRS 10 and retaining and updating paragraph 9.5 of the *IFRS for SMEs* Standard as they were of the view that alignment would:

(a) provide greater consistency and clarity among SMEs; and

(b) the definition of control is a fundamental concept and will improve the quality of information provided to users.

45. Many respondents agreed with the Board's position to retain and update paragraph 9.5 of the *IFRS for SMEs* Standard as the rebuttable presumption simplifies the requirements in paragraph 9.5 of the *IFRS for SMEs* Standard and retaining the requirements would not contradict the IFRS 10 definition.

46. Some respondents agreed with the Board's view not to introduce the requirement that investment entities measure investment in subsidiaries at fair value through profit or loss. These respondents said:

(a) few SMEs are likely to qualify as investment entities; and

(b) the requirements to determine fair value may be too complex for SMEs.

47. In contrast, a small number of respondents were of the view that the requirement should be introduced into the *IFRS for SMEs* Standard as it adds to faithful representation and will be relevant to some entities applying the *IFRS for SMEs* Standard.

Staff preliminary thoughts

48. The staff think the SMEIG:

(a) should recommend that the Board consider aligning the definition of control in Section 9 with that of IFRS 10 and retaining and updating paragraph 9.5 of the *IFRS for SMEs* Standard as many respondents are in support of this approach; and

(b) has sufficient evidence from the comment letters to recommend that the Board does not introduce the requirement regarding investment entities in the *IFRS for SMEs* Standard as respondents agreed that only a few entities that apply the Standard would be investment entities and therefore the Standard should not be made complex to meet the needs of only a small number of entities.

Question S3—Aligning Section 11 **Basic Financial Instruments** ***and Section 12*** **Other Financial Instrument Issues** ***of the*** **IFRS for SMEs** ***Standard with IFRS 9*** **Financial Instruments**

Question in the Request for Information

49. The Request for Information asked for views on:

(a) supplementing the list of examples in Section 11 *Basic Financial Instruments* with a principle for classifying financial assets based on their contractual cash flow characteristics;

(b) aligning Section 11 with the simplified expected credit loss approach to the impairment of financial assets in IFRS 9 *Financial Instruments*;

(c) the following options about hedge accounting for SMEs:

(i) removing the requirements on hedge accounting in Section 12 *Other Financial Instrument Issues*;

(ii) retaining the requirements on hedge accounting in Section 12; and

(iii) aligning the requirements on hedge accounting in Section 12 with IFRS 9.

(d) updating to IFRS 9 the 'fallback' to IAS 39 in Section 11 for the recognition and measurement of financial instruments; and

(e) adding the definition of a financial guarantee contract from IFRS 9 to the *IFRS for SMEs* Standard and aligning the requirements in the *IFRS for SMEs* Standard for issued financial guarantee contracts with IFRS 9.

Feedback—principle for classifying financial assets

50. Many respondents who commented on supplementing the list of examples in Section 11 with a principle for classifying financial assets based on their contractual cash flow characteristics agreed that such a principle would be helpful for entities to classify a financial asset in the circumstances in which the asset does not match the characteristics described in existing examples.

51. Some respondents, who generally agreed that such a principle would be beneficial, suggested the Board consider additional amendments to Section 11. For example:

> "Section 11 should also incorporate a simplified business model test, such that where assets that meet the definition of basic in Section 11 are held for the purpose of trading or selling in the ordinary course of business, they should be carried at fair value" (CL 18)
>
> "We believe that there should be an option to use FVTPL for basic financial instruments subject to some simplified business model test—ie to permit (but not require) use of FVTPL in cases in which it is more representative of the entity's business model." (CL 13, CL 48)
>
> "We suggest that the Board also should not remove the option to present in other comprehensive income subsequent changes in the fair value of an investment in an equity instrument (because it is just an option, so the entity must consider which alternative is more practicable, relevant, and appropriated)." (CL 6)

52. One respondent said it is premature to consider whether the *IFRS for SMEs* Standard should be updated to align with IFRS 9 given that IFRS 9 is subject of a Post-implementation Review.

Staff preliminary thoughts—principle for classifying financial assets

53. The staff think that the feedback from comment letters provides support for the SMEIG to recommend that the Board develop any proposed amendments to supplement the list of examples in Section 11 with a principle for classifying financial assets based on their contractual cash flow characteristics.

Feedback—impairment of financial assets

54. Respondents who commented on aligning the *IFRS for SMEs* Standard with the simplified expected credit loss approach to the impairment of financial assets in IFRS 9 expressed mixed views.

55. Some respondents who support the alignment said that the simplified approach in IFRS 9 specifically addresses impairment of financial assets held by entities with less complex structures and reduces costs by removing the need to track for changes in credit risk.

56. Some respondents expressed concerns about the complexity of the simplified expected credit loss model in IFRS 9. Some of these respondents suggested the Board consider further simplification to the simplified approach.

57. Other respondents said the Board should wait until the completion of the Post-implementation Review of IFRS 9 before considering on whether to align the *IFRS for SMEs* Standard with the simplified expected credit loss approach.

Staff preliminary thoughts—impairment of financial assets

58. The staff think the SMEIG should recommend that the Board carry out additional work to understand the practical challenges entities faced or are facing in implementing or applying the simplified expected credit loss approach to decide on whether to propose aligning the *IFRS for SMEs* Standard with the simplified approach. In particular, the staff think that input could be obtained from the Global Preparers Forum, which consists of representatives of corporates with considerable practical experience of applying IFRS 9.

Feedback—hedge accounting

59. Many respondents who commented on hedge accounting for SMEs said Section 12 should include hedge accounting requirements because some SMEs use derivative financial instruments such as currency forwards to hedge currency risk in forecast

sales or purchases in foreign currencies or interest rate swaps to manage interest rate risk from borrowings. Of those respondents:

(a) many respondents support retaining the requirements on hedge accounting in Section 12 because they consider those requirements are well understood and adequate for hedging strategies typically adopted by SMEs;

(b) some respondents would prefer Section 12 is aligned with IFRS 9, with or without with simplifications, noting, for example, that the requirements of IFRS 9 permit the use of hedging accounting in additional circumstances; and

(c) a small number of respondents suggested allowing an SME to choose to apply either Section 12 or the hedge accounting requirements in IFRS 9, without applying IFRS 9 in full.

60. In contrast, some respondents said Section 12 should not include hedge accounting requirements because:

(a) hedging transactions are not common among SMEs; or

(b) hedge accounting requirements are perceived as too complex.

Staff preliminary thoughts—hedge accounting

61. The staff think that:

(a) the feedback from comment letters provides support for the SMEIG to recommend that the Board retain the hedge accounting requirements in Section 12; and

(b) should the SMEIG recommend that the Board propose to update to IFRS 9 the ‘fallback’ to IAS 39 in Section 11, an SME could choose to apply either Sections 11 and 12 or the hedge accounting requirements in IFRS 9, applying paragraph 11.2 of the *IFRS for SMEs* Standard.

Feedback—'fallback' to IAS 39

62. Only some respondents who responded on the question regarding the recognition and measurement requirements for financial instruments are aware of SMEs that opt to apply the recognition and measurement requirements of IAS 39 with the disclosure requirements of Sections 11 and 12 (referred to as 'fallback to IAS 39'). These respondents noted that typically such SMEs are subsidiaries of entities applying full IFRS Standards.

63. Regardless of their awareness of SMEs applying the fallback to IAS 39:

(a) many respondents agreed on updating to IFRS 9 the fallback to IAS 39 in Section 11 because:

(i) IFRS 9 has introduced improvements to IAS 39; and

(ii) the Board will not maintain IAS 39 once IFRS 17 is effective.

A small number of those respondents suggested the Board review the disclosures in Sections 11 and 12 to consider whether they are adequate for entities that choose to apply IFRS 9 or whether they need to be supplemented slightly.

(b) a small number of respondents expressed the view that the option to apply the recognition and measurement requirements for financial instruments in IAS 39 should be removed from the *IFRS for SMEs* Standard because, for example:

(i) the option is rarely used by SMEs;

(ii) the option affects comparability between entities; and

(iii) the *IFRS for SMEs* Standard should be maintained as a simplified standalone Standard and, therefore, it should not have any reference to any specific IFRS Standard.

Staff preliminary thoughts—'fallback' to IAS 39

64. The staff think that:

(a) the feedback from comment letters provides support for the SMEIG to recommend that the Board propose to update to IFRS 9 the 'fallback' to IAS 39 in Section 11 of the *IFRS for SMEs* Standard for the recognition and measurement of financial instruments; and

(b) the SMEIG should recommend that the Board review the disclosures in Sections 11 and 12 to consider whether they are adequate for entities that choose to apply IFRS 9.

Feedback—financial guarantee contracts

65. Most respondents who commented on the requirements for issued financial guarantee contracts agreed that introducing the definition of a financial guarantee contract from IFRS 9 to the *IFRS for SMEs* Standard would be helpful because they:

(a) support aligning important definitions with full IFRS Standards in general;

(b) note that issued financial guarantee contracts are common for SMEs, particularly as intra-group transactions; and

(c) believe such a definition would provide clarity about the accounting for financial guarantee contracts compared to other credit derivatives.

66. A small number of respondents said that introducing the definition of a financial guarantee contract from IFRS 9 to the *IFRS for SMEs* Standard is not necessary mainly because they do not believe the issue is pervasive—ie it does not meet the relevance principle.

67. Respondents expressed mixed views about aligning the requirements in the *IFRS for SMEs* Standard for issued financial guarantee contracts with IFRS 9.

68. Some respondents support aligning the requirements in the *IFRS for SMEs* Standard for issued financial guarantee contracts with IFRS 9 mainly because they believe the requirements in IFRS 9 are less complex (ie simplier) than the *IFRS for SMEs*

Standard. A small number of respondents said the requirements should be aligned with IFRS 9, but with some simplifications or permitting the use of the undue cost or effort exemption.

69. In contrast, some respondents do not support aligning the requirements in the *IFRS for SMEs* Standard for issued financial guarantee contracts with IFRS 9. Most of these respondents expressed the view that an entity can apply the requirements of Section 21 *Provisions and Contingencies* to its financial guarantee contracts, which they believe are simpler than the requirements for issued financial guarantee contracts in IFRS 9.

Staff preliminary thoughts—financial guarantee contracts

70. The staff think that the feedback from comment letters:

    (a) provides support for the SMEIG to recommend that the Board propose introducing the definition of a financial guarantee contract from IFRS 9 to the *IFRS for SMEs* Standard; and

    (b) indicates the SMEIG should recommend that the Board:

        (i) research the problems that SMEs encounter when accounting for issued financial guarantee contracts; and

        (ii) explore accounting for issued financial guarantee contracts applying Section 21 of the *IFRS for SMEs* Standard as an alternative to aligning the requirements in the *IFRS for SMEs* Standard for issued financial guarantee contracts with IFRS 9.

***Question S4—Aligning Section 15* Investments in Joint Ventures *of the* IFRS for SMEs *Standard with IFRS 11* Joint Arrangements**

Question in the Request for Information

71. The Request for Information asked views on aligning the definition of joint control in Section 15 *Investments in Joint Ventures* with IFRS 11 *Joint Arrangements*, retaining the categories of joint arrangements (jointly controlled operations, jointly controlled

assets and jointly controlled entities) and retaining the accounting requirements of Section 15, including the accounting policy election for jointly controlled entities in Section 15.[1]

Feedback

72. Most respondents agreed with the Board that Section 15 should be aligned with the IFRS 11 definition of joint control because it may:

    (a) result in consistency between the definition of control and joint control

    (b) further contribute to the achieving the principle of faithful representation.

73. Many respondents were in support of retaining the categories and accounting requirements of joint arrangements in Section 15. These respondents were of the view that retaining the categories should reduce the difficulty and significant judgements involved in applying the classification requirements in IFRS 11.

Staff preliminary thoughts

74. The staff think that the feedback from the comment letters provides strong support for the SMEIG to recommend that the Board align the definition of joint control and maintain the categories and accounting requirements of joint arrangements.

75. Strong support exists for retaining the accounting requirements of joint arrangements as this supports entities in addressing the needs of different users.

Question S5—Aligning Section 19 **Business Combinations and Goodwill** *of the* **IFRS for SMEs** *Standard with IFRS 3 (2008)* **Business Combinations**

Question in the Request for Information

76. The Request for Information asked:

    (a) whether respondents consider:

[1] Paragraph 9.26 of the *IFRS for SMEs* Standard.

(i) Section 19 *Business Combinations and Goodwill* needs to include requirements for the accounting for step acquisitions; and

(ii) the requirements should be aligned with IFRS 3 (2008) *Business Combinations*.

(b) for views on aligning Section 19 with IFRS 3 (2008) for acquisition costs and contingent consideration, including permitting an entity to use the undue cost or effort exemption and provide the related disclosures if measuring contingent consideration at fair value would involve undue cost or effort.

(c) for views on aligning the *IFRS for SMEs* Standard with the amended definition of a business issued in 2018.

Feedback

77. Respondents who commented on aligning Section 19 with IFRS 3 (2008) overall supported:

(a) including requirements for the accounting for step acquisitions in Section 19;

(b) aligning the cost of the acquisition and contingent consideration with IFRS 3 (2008); and

(c) aligning the definition of a business with the definition issued in 2018.

Staff preliminary thoughts

78. The staff think the feedback from comment letters provides support for the SMEIG to recommend that the Board develop proposed amendments to the Standard to align Section 19 with IFRS 3 (2008).

Question S6—Aligning Section 20 **Leases** *of the* **IFRS for SMEs** *Standard with IFRS 16* **Leases**

Question in the Request for Information

79. The Request for Information asked for views on aligning Section 20 *Leases* with IFRS 16 *Leases* making the following simplifications:

    (a) simplifying the recognition and measurement requirements in respect of matters such as variable lease payments, determining the discount rate and the term of the lease;

    (b) retaining the disclosure requirements of Section 20; and

    (c) simplifying the language.

Feedback

80. Respondents who commented on aligning Section 20 with IFRS 16 expressed mixed views.

81. Many respondents support aligning Section 20 with IFRS 16 with simplifications mainly because:

    (a) leases are an important source of finance for SMEs (ie the topic is relevant);

    (b) IFRS 16 introduces improvements in the accounting for operating leases and results in greater transparency about leases (ie it improves faithful representation); and

    (c) an entity is financially assessed by using the same financial indicators, regardless of the size and complexity of the entity and, therefore, the principles in IFRS 16 should also apply to SMEs.

82. A small number of these respondents said that care should be taken regarding simplifying IFRS 16 requirements. Requirements for SMEs should remain consistent with the accounting model in IFRS 16 and achieve faithful representation for SMEs.

83. Some respondents do not support aligning Section 20 with IFRS 16 as part of the second comprehensive review of the *IFRS for SMEs* Standard. Most of these

respondents said the Board should gain a better understanding of IFRS 16 implementation issues and costs, including via the Post-implementation Review of IFRS 16, before deciding on whether to propose aligning the *IFRS for SMEs* Standard with IFRS 16, even with simplifications.

Staff preliminary thoughts

84. The staff think the SMEIG should recommend that the Board carry out additional work to understand the practical challenges entities faced or are facing in implementing or applying IFRS 16 to decide on whether to propose aligning the *IFRS for SMEs* Standard with IFRS 16. For example, input could be obtained from the Global Preparers Forum, which consists of preparers with considerable practical experience of applying IFRS 16, and from lessor representative bodies.

Question S7—Aligning Section 23 **Revenue** ***of the*** **IFRS for SMEs** ***Standard with IFRS 15*** **Revenue from Contracts with Customers**

Question in the Request for Information

85. The Request for Information asked which of the three proposed alternatives is preferred for amending Section 23 *Revenue* to align with IFRS 15 *Revenue from Contracts with Customers* and why that alternative is preferred.[2] It also asked whether the Board should provide transitional relief if Alternative 1 or Alternative 2 is the basis of the Exposure Draft.

Feedback

86. There was no clear alternative that was preferred by respondents, albeit Alternative 3 was the least preferred. A small number of respondents suggested alternative proposals for the Board to consider.

[2] Alternative 1—modifying Section 23 only to remove the clear differences in outcome from applying Section 23 or IFRS 15, without wholly reworking Section 23. Alternative 2—fully rewriting Section 23 to reflect the principles and language used in IFRS 15. Alternative 3—deciding not to make amendments to Section 23 as part of this comprehensive review.

87. Respondents who were in support of Alternative 1 provided the following reasons for their views:

    (a) Alternative 1 allows for better comparability between SMEs financial statements; and

    (b) the change will be simpler and will minimise the amount of work to be done by SMEs.

88. Respondents who were in support of Alternative 2 provided the following reasons for their views:

    (a) the five-step process in IFRS 15 is important; and

    (b) alignment will result in Section 23 being more aligned with IFRS 15.

89. The small number of respondents who were in favour of Alternative 3 provided the following reasons for their views:

    (a) there is little implementation experience as the Post-implementation Review of IFRS 15 has not yet been completed; and

    (b) IFRS 15 is a complex Standard for SMEs to apply.

90. Many respondents were in support of providing transitional reliefs if Alternative 1 or Alternative 2 is proposed permitting an entity to continue its current revenue recognition policy for any contracts already in progress at the transition date or scheduled to be completed within a set time after the transition date.

91. Some respondents were of the view that transitional reliefs should be provided through the use of some other methods, while a small number were in support of no transitional reliefs being provided at all.

Staff preliminary thoughts

92. Respondents expressed mixed views with regards to which alternative could be followed in aligning Section 23 with IFRS 15, with the most support being for Alternative 2 (full rewriting).

93. The staff think the SMEIG should recommend that the Board investigate further the implications of fully rewriting Section 23 with the SMEIG and which of the

alternatives (Alternative 1 or Alternative 2) would be better suited for aligning the Standard while considering the cost-benefit implications that alignment may bring.

94. The staff do not think the SMEIG should recommend that Board consider not aligning (Alternative 3) or any alternative proposals put forward by respondents as only a small number of respondents were in favour of these approaches. Alternative 3 would significantly delay introducing the benefits of IFRS 15 to the *IFRS for SMEs* Standard.

Question S8—Aligning Section 28 Employee Benefits *of the* IFRS for SMEs *Standard with IAS 19 (2011)* Employee Benefits

Question in the Request for Information

95. The Request for Information asked for views on aligning Section 28 *Employee Benefits* with the 2011 amendments to IAS 19 *Employee Benefits* only in respect of the recognition requirements for termination benefits.

Feedback

96. Most respondents agreed that Section 28 should be aligned with the 2011 amendments to IAS 19 only in respect of the recognition requirements for termination benefits. The reasons provided in support of the view include:

(a) alignment will contribute to comparability of financial statements among SMEs; and

(b) alignment will improve faithful representation.

97. A small number of respondents do not support alignment of Section 28 with the 2011 amendments of IAS 19 because they said that the 2011 amendments of IAS 19 are not relevant to SMEs given that most SMEs only have simple employee benefits.

Staff preliminary thoughts

98. The staff plan to seek the recommendations of the SMEIG on whether the Board should propose aligning Section 28 with the 2011 amendments to IAS 19 at a future SMEIG meeting.

Question S9—Aligning the **IFRS for SMEs** ***Standard with IFRS 13*** **Fair Value Measurement**

Question in the Request for Information

99. The Request for Information asked whether:

(a) the *IFRS for SMEs* Standard should be aligned with the definition of fair value in IFRS 13;

(b) the guidance on fair value measurement in the *IFRS for SMEs* Standard should be aligned with IFRS 13 so the fair value hierarchy incorporates the principles of the fair value hierarchy set out in IFRS 13;

(c) the *IFRS for SMEs* Standard should include examples that illustrate how to apply the hierarchy; and

(d) the guidance and related disclosure requirements should be moved to Section 2 of the *IFRS for SMEs* Standard.

Feedback

100. Most respondents were in support of aligning the *IFRS for SMEs* Standard with the definition of fair value. Reasons provided supporting alignment of the definition include:

(a) the definition of fair value is an important definition; and

(b) alignment will provide clarity and understandability for users of the *IFRS for SMEs* Standard and comparability of financial statements among SMEs.

101. Most respondents were in support of aligning the *IFRS for SMEs* Standard with the guidance on fair value in IFRS 13 and including examples on how to apply the fair value hierarchy. Respondents in support of the alignment said that inclusion of examples will be useful for entities applying the *IFRS for SMEs* Standard as it should facilitate better understanding and application of the Standard.

102. Respondents who were against the inclusion of examples in the *IFRS for SMEs* Standard stated that the inclusion would result in an increase in the length of the *IFRS for SMEs* Standard.

103. In supporting the position on moving the guidance and related disclosure requirements to Section 2, many respondents were of the view that moving the requirements would:

(a) emphasise the relevance of fair value across the *IFRS for SMEs* Standard; and

(b) Section 2 is the most logical location for the guidance and disclosure requirements to be placed.

104. Respondents who were against moving the guidance and related disclosure to Section 2 said that the requirements and guidance should be moved to a separate Section within the *IFRS for SMEs* Standard.

Staff preliminary thoughts

105. The staff think that:

(a) the feedback from the comment letters provides support for the SMEIG to recommend that the Board align the *IFRS for SMEs* Standard with the IFRS 13 definition of fair value and including the guidance on fair value from IFRS 13, including examples on how to apply the fair value hierarchy.

(b) there is no need to consider the concerns from respondents in paragraph 102 of this paper as these were considered in developing the Request for Information through the principle of simplification and there is no new information to consider.

(c) the feedback from the comment letters provides support for the SMEIG to recommend that the Board propose to move the guidance and related disclosure requirements to Section 2 of the *IFRS for SMEs* Standard. Although some respondents suggested that the requirements and guidance should be moved to a separate Section, the staff do not think the Board should consider this as Section 2 contains all the concepts and pervasive principles applicable in the Standard.

Question S10—Aligning multiple sections of the IFRS for SMEs *Standard for amendments to IFRS Standards and IFRIC Interpretations*

Question in the Request for Information

106. The Request for Information asked for views on:

(a) aligning the *IFRS for SMEs* Standard with the amendments to IFRS Standards outlined in Table A1 of Appendix A to the Request for Information;

(b) leaving the *IFRS for SMEs* Standard unchanged for the amendments to IFRS Standards listed in Table A2 of Appendix A to the Request for Information; and

(c) whether to align the *IFRS for SMEs* Standard with the following amendments to IFRS Standards and IFRIC interpretations listed in Table A3 of Appendix A to the Request for Information:

(i) the amendments to IAS 40 *Investment Property* from the *Annual Improvements to IFRSs 2011–2013 Cycle;*

(ii) the amendments to IAS 12 *Income Taxes* for the recognition of deferred tax assets for unrealised losses;

(iii) IFRIC 21 *Levies*;

(iv) IFRIC 22 *Foreign Currency Transactions and Advance Consideration*; and

(v) IFRIC 23 *Uncertainty over Income Tax Treatments*.

Feedback—amendments to IFRS Standards outlined in Table A1

107. Many respondents who commented on this section of the Request for Information support aligning the *IFRS for SMEs* Standard with the amendments to IFRS Standards outlined in Table A1 of Appendix A to the Request for Information.

108. A small number of respondents expressed concerns about the costs of applying the disclosure requirement introduced by the Amendments to IAS 7 *Statement of Cash Flows,* which is based on an objective that entities must determine how to fulfil. One respondent said this requirement could be simplified in the *IFRS for SMEs* Standard by prescribing the disclosures that would meet this objective.

> "A common way to fulfil this requirement is to provide a reconciliation between the opening and closing balances of liabilities arising from financing activities. This reconciliation could be expanded to include cash balances in addition to the borrowings of an entity arising from financing activities. Doing so would mean that the disclosure would provide details of the cash movements associated with these activities. We consider that this approach would provide more relevant information to users of SMEs financial statements, who are particularly interested in information about an entity's short-term cash flows and liquidity." (CL 11)

Feedback—amendments to IFRS Standards listed in Table A2

109. Most respondents who commented on this section of the Request for Information support leaving the *IFRS for SMEs* Standard unchanged for the amendments to IFRS Standards listed in Table A2 of Appendix A to the Request for Information.

Feedback—amendments to IFRS Standards and IFRIC Interpretations listed in Table A3

110. Many respondents who commented on this section of the Request for Information said the *IFRS for SMEs* Standard should be aligned to:

(a) the amendments to IAS 40 from the *Annual Improvements to IFRSs 2011–2013 Cycle*;

(b) the amendments to IAS 12 for the recognition of deferred tax assets for unrealised losses;

(c) IFRIC 22; and

(d) IFRIC 23.

111. Some respondents said the *IFRS for SMEs* Standard should be aligned to IFRIC 21. However, other respondents expressed concerns about aligning the *IFRS for SMEs* Standard to IFRIC 21. For example:

> "We do not consider that including guidance on this topic as part of the *IFRS for SMEs* Standard is necessary. We consider material government levies are generally relevant to entities that operate in the financial services sector. These entities would not typically be within the scope of the *IFRS for SMEs* Standard. Although government levies are payable by entities operating in other sectors, they are less commonly encountered by SMEs." (CL 11)

> "IFRIC 21 should not be included in the *IFRS for SMEs* Standard. The guidance is very controversial and since SMEs rarely prepare interim financial statements it is unlikely to be very relevant for SMEs." (CL 18)

> "It has been acknowledged that the 2018 *Conceptual Framework* is inconsistent with IAS 37 as interpreted by IFRIC 21. As the *IFRS for SMEs* Standard is currently aligned with IAS 37, the alignment of IFRIC 21 would introduce similar inconsistency within the *IFRS for SMEs* Standard and cause confusion in its application." (CL 32)

Staff preliminary thoughts

112. The staff plan to seek the recommendations of the SMEIG regarding the amendments to IFRS Standards and IFRIC Interpretations listed in Table A1, Table A2 and Table A3 of the Appendix A to the Request for Information at a future SMEIG meeting.

Question N1—Aligning the *IFRS for SMEs* Standard with IFRS 14 *Regulatory Deferral Accounts*

Question in the Request for Information

113. The Request for Information asked for views on not aligning the *IFRS for SMEs* Standard with IFRS 14 *Regulatory Deferral Accounts*, that is, not including requirements for regulatory deferral account balances in the *IFRS for SMEs* Standard.

Feedback

114. Many respondents expressed the view that the IFRS 14 requirements should not be introduced into the *IFRS for SMEs* Standard. Reasons provided by respondents include:

   (a) the Board has an ongoing project on rate-regulated activities; and

   (b) the topic is not relevant to SMEs as rate-regulated entities generally do not meet the requirements of being an SME.

115. A small number of respondents expressed the view that the *IFRS for SMEs* Standard should be aligned with the requirements of IFRS 14 because the topic may be relevant to some entities and it should be included where other respondents have indicated that it is relevant.

Staff preliminary thoughts

116. The staff plan to seek the recommendations of the SMEIG on the alignment of the *IFRS for SMEs* Standard with IFRS 14 at a future SMEIG meeting.

Question N2—Cryptocurrency

Question in the Request for Information

117. The Request for Information asked whether respondents are aware of any holdings of cryptocurrency and issues of cryptoassets prevalent in their jurisdictions.

Feedback

118. Some respondents stated that the holding of cryptocurrency and issues of cryptoassets are not prevalent in their jurisdictions. The reasons provided include:

(a) the holding of cryptoassets is not relevant to SMEs;

(b) the cryptoassets held by SMEs in their jurisdictions are not material; and

(c) the holding of cryptoassets is prohibited by the Central Bank.

119. A small number of respondents stated that the holding of cryptocurrency and issues of cryptoassets were prevalent in their jurisdictions albeit in at relatively low levels at this stage.

120. A small number of respondents also stated that they do not know about the prevalence of the holding of cryptocurrencies or issuing of cryptoassets.

Staff preliminary thoughts

121. The staff think that the Board should not consider introducing requirements for cryptocurrency given that feedback from comment letters has indicated that the holding of cryptocurrency fails the principle of relevance.

Question N3—Defined benefit plans—simplifications allowed in measuring the defined benefit obligation

Question in the Request for Information

122. The Request for Information asked whether respondents are aware of:

(a) entities applying the simplifications allowed by paragraph 28.19 of the *IFRS for SMEs* Standard; and

(b) difficulties arising in applying the simplifications.

Feedback

123. Only some respondents said they are aware of entities applying the simplifications allowed by paragraph 28.19 of the *IFRS for SMEs* Standard. About half of those respondents are aware of difficulties arising in applying the simplifications.

> "While 28.19 is explicit about what can be ignored, it is not explicit as to whether cash flows have still to be projected and discounted, and we understand that there are differences in application. In our jurisdiction the most common method of estimating the liability is to calculate the amount that would have been payable had the employee retired at the reporting date (but including unvested amounts), which seems to us the simplest approach. Clarification that this approach is acceptable would be appreciated. In our view, it would be illogical to have to discount projected future cash flows whilst ignoring future salary increases." (CL 1, CL 60)

> "We have received numerous inquiries about the meaning of these simplifications, particularly simplification 28.19(b) when the defined benefit plan is in the form of a lump sum amount at the date of retirement (eg final salary multiplied by the number of years of service, which is the mode of end of service in our jurisdiction and many others). Most entities interpret paragraph 28.19(b) by measuring their defined benefit obligation at the gross amount due to all of its employees assuming that all of them will retire at the reporting date. However, such interpretation will render paragraph 28.19(a) and (c) meaningless. Moreover, such amount will not be discounted even there is high probability that employees will continue to render their services for many more years. In a related matter, allowing the simplification in paragraph 28.19(a) while requiring discounting will result in underestimating the obligation at the reporting date as the factor that will increase the liability (growth rate) is ignored, whereas the factor that will reduce the liability (discount rate) is still applicable." (CL 23)

Staff preliminary thoughts

124. The staff think the responses confirm that there is a problem with how to apply the simplifications. The staff therefore plan analyse and assess the effect of the

simplifications for SMEs with the objective of seeking the recommendations of the SMEIG on how the Board can clarify the simplifications.

Question N4—Other topics not addressed by the **IFRS for SMEs** *Standard*

Question in the Request for Information

125. The Request for Information asked whether there are any topics the *IFRS for SMEs* Standard does not address that respondents think should be the subject of specific requirements (for example, topics not addressed by the Standard for which the general guidance in paragraphs 10.4–10.6 of the *IFRS for SMEs* Standard is insufficient).

Feedback

126. Respondents mentioned different topics. The importance of the topics varies by respondent and by jurisdiction. Examples of topics mentioned include:

(a) assets held for sale and discontinued operations;

> "The *IFRS for SMEs* Standard does not provide guidance on accounting for assets held for sale and discontinued operations. Therefore, in accordance with paragraphs 10.4 to 10.6 of the *IFRS for SMEs* Standard, entities that have assets held for sale or discontinued operations are required to use the principles of IFRS 5 to develop their accounting policy on how to recognise, measure and disclose such transactions. The principles of recognition, measurement and disclosure in IFRS 5 are complex for SMEs and therefore we believe that the Board should consider extending the scope of the Standard to address these topics." (CL 20)

(b) primary financial statements;

> "In our view, the IASB proposals and direction of recently issued ED/2019/7 *General Presentation and Disclosures* would also be relevant to *IFRS for SMEs* Standard. Therefore, the outcome of this ED in context of full IFRS Standards should be considered while finalizing the revision of *IFRS for SMEs* Standard." (CL 38)

(c) business combinations under common control;

“Guidance on business combinations under common control (BCUCC) and group restructurings should also be considered for inclusion in the *IFRS for SMEs* Standard, subject to the IASB finalised approach under IFRS Standards.” (CL 8)

(d) non-government grants.

“The *IFRS for SMEs* Standard is applied widely by not-for-profit organisations funded by grants and donations. Government grants are rare. There has been no Basis for Conclusions to explain why IAS 20 and Section 24 exclude non-government grants. In our view, Section 24 should be revised to include non-government grants in its scope.” (CL 60)

Staff preliminary thoughts

127. The staff note that the Board has active projects on primary financial statements and business combinations under comment control. Consistent with the staff preliminary thoughts discussed in paragraphs 33–36 of this paper, the staff think that new requirements arising from the completion of any projects in the Board’s current work plan should be included in the scope of a comprehensive review of the *IFRS for SMEs* Standard only when those new requirements are effective.

128. Regarding other topics mentioned by respondents, the staff plan to seek the recommendations of the SMEIG at a future SMEIG meeting.

Question N5—any additional issues relating to the IFRS for SMEs *Standard*

Question in the Request for Information

129. The Request for Information asked to describe any additional issues that respondents would like to bring to the Board’s attention relating to the *IFRS for SMEs* Standard.

Feedback

130. Respondents mentioned different issues. The importance of the issues varies by respondent and by jurisdiction. Recurrent issues mentioned by respondents include:

(a) the accounting for borrowing costs—applying the *IFRS for SMEs* Standard borrowing costs are recognised as an expense as incurred. Some respondents suggested Board consider whether to align the requirements in the *IFRS for SMEs* Standard to IAS 23 *Borrowing Costs* to introduce an option to capitalise the borrowing costs (as part of the cost of the asset) that are directly attributable to the acquisition or construction of a qualifying asset.

(b) the title of the *IFRS for SMEs* Standard—the Standard is intended for the use of entities which do not have public accountability (ie non-public interest entities). Some respondents expressed the view that the reference to *IFRS for SMEs* in the title of the Standard may cause confusion for large companies which are not publicly accountable and are eligible to apply the *IFRS for SMEs* Standard.

(c) the accounting for research and development costs—applying the *IFRS for SMEs* Standard research and development costs are recognised as an expense as incurred. A small number of respondents suggested Board consider whether to align the requirements in the *IFRS for SMEs* Standard to IAS 38 *Intangible Assets* to require an entity to capitalise development costs it incurred after a project has been deemed commercially viable.

(d) the scope of the *IFRS for SMEs* Standard—a small number of respondents suggested the Board expand the scope of the Standard.

(e) transition requirements—a small number of respondents suggested the Board develop requirements on the approach to transition for amendments to the *IFRS for SMEs* Standard (for example, an option to apply a modified retrospective approach similar to that in IFRS 16).

(f) consolidated financial statements—applying paragraph 9.3(b) of the Standard a parent that is itself a subsidiary need not present consolidated financial statements if its ultimate parent (or any intermediate parent) produces consolidated general purpose financial statements that comply with full IFRS Standards or with the *IFRS for SMEs* Standard. A small number of respondents suggested the Board reconsider this requirement, for example by:

(i) permitting a free choice of whether to prepare consolidated financial statements; or

(ii) expanding the exemption in paragraph 9.3(b) of the Standard to allow other recognised GAAPs in addition to full IFRS Standards and the *IFRS for SMEs* Standard.

(g) not-for-profit entities—the *IFRS for SMEs* Standard is designed to be applied by for-profit entities. A small number of respondents suggested the Board consider including in the Standard some guidance for not-for-profit entities.

Staff preliminary thoughts

131. The staff plan to seek the recommendations of the SMEIG regarding the additional issues mentioned by respondents at a future SMEIG meeting.

Appendix A—Overview of the comment letters by type of respondent and geographical region

A1. Overview of the comment letters by type of respondent

Respondent type	Respondents Number	Respondents Percentage
Accountancy body	26	39%
Standard-setting body	14	21%
Individual	8	12%
Auditor / accounting firm	7	11%
Preparer / preparer representative body	6	9%
Consulting	5	8%
Total	**66**	**100%**

A2. Overview of the comment letters by geographical region

Geographical region	Respondents Number	Respondents Percentage
Americas	20	31%
Asia-Oceania	14	21%
Europe	14	21%
Africa	10	15%
Global	8	12%
Total	**66**	**100%**