Think Ahead ACCA

ED/2022/1 Third edition of the *IFRS for SMEs* Accounting Standard

Exposure draft issued by the IASB in September 2022

Comments from ACCA
6 March 2023

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GENERAL COMMENTS

ACCA welcomes the opportunity to provide views in response to the IASB's exposure draft (ED) for the third edition of the *IFRS for SMEs* Accounting Standard (hereinafter referred to as the 'Standard'). This was done with the assistance of ACCA's Global Forum for Corporate Reporting. It has also been informed by global member interviews, outreach events and roundtables held in the African and the ASEAN region, in India and an open forum between November 2022 and January 2023.

The comprehensive review of the Standard undertaken by the IASB is timely given the major changes introduced in the full IFRS Accounting Standards, in turn resulting in risks of unintended and potentially unnecessary divergence of reporting between the two systems of accounting and reporting. ACCA believes that the Standard should mainly be the result of simplifications to accounting treatments and reductions in disclosure requirements that reflect the different cost/benefit effects for SMEs and the needs of the users of their financial statements.

Both the full IFRS Accounting Standards and the Standard should be the benchmark for national accounting requirements. Keeping alignment between them at the level of definition, main recognition and measurement requirements for different accounting items is important to:

- Maintain the quality of accounting;
- Provide comparability between companies within a country and internationally;
- Improve the understanding of users of financial statements; and
- Reduce the complexity for preparers and auditors, especially in education and training.

The Standard plays a significant role in bringing greater transparency, clarity and accountability for businesses everywhere.

Standalone Standard for SMEs

We recognise and support the IASB's intention for the Standard to be a self-contained, standalone set of accounting principles for SMEs. We support the method of incorporating appropriate options or requirements from the full IFRS into the Standard instead of cross referencing to the full IFRS Accounting Standards.

While the experience of larger listed companies in applying new requirements may be useful in informing the IASB about their effectiveness, such as through post implementation reviews, we believe there is scope for the IASB to conduct more field testing with SMEs, their auditors and users of their financial statements to identify implementation challenges and for continual improvement to future Standard developments. Implementation challenges include those related to the five-step revenue model, expected credit loss model, determining if an acquiree is a business, step acquisition model, the new fair value measurement requirements, and bifurcating the accounting for bearer plants and agricultural produce.

Proportionate costs and benefits to SMEs

We commend the IASB for considering the cost/benefit effects of each new or amended requirement in this ED from the perspective of SMEs and users of their financial statements.

On this note, we support retaining the concept of ‘undue cost or effort’. Providing this relief to SMEs in specified circumstances is an important means of ensuring that the cost of applying requirements in the Standard does not outweigh the benefits of providing relevant information to users of their financial statements.

We believe the financial reporting requirements for SMEs need to be pragmatic. We have made several comments relating to measurement and disclosures that reflect this principle in our responses to the specific questions.

Major changes require application guidance to aid in implementation

The third edition of the Standard will introduce requirements, concepts and models that are entirely new to SMEs. Further, applying these concepts, requirements and models may require a shift in mindset for many SMEs. Therefore, field testing should also be used to support the development of application guidance.

Keep the Standard concise

The alignment with full IFRS Accounting Standards will inevitably introduce new concepts and some complexity to the Standard. Preparers, auditors and regulators will need explanation, application guidance and illustrative examples to help them understand the requirements and ensure consistent application of the Standard. However, these materials will add volume to the Standard and risk deviating from the alignment principle of simplicity. We recommend instead that the Standard is kept as concise as possible by moving the non-mandatory guidance and illustrative examples to separate accompanying education materials with clear cross referencing to and from the Standard. For the avoidance of doubt, application guidance that forms an integral part of a section, such as Appendix A to Section 19, should remain in the Standard.

Time to fundamentally rethink intangibles?

Businesses in the modern economy are increasingly investing in intangibles such as brand names, know-how, software, processes and skills. These intangibles may be generated internally. However, the manner in which these intangibles are generated may not fit within the current definition of research and development in the Standard. ACCA’s ongoing research on reporting of research and development (R&D) by companies around the world will shed further light on this matter. We plan to publish this report in May 2023.

Retaining the current definition of intangible assets and allowing an accounting policy option to capitalise development costs based on the capitalisation criteria in IAS 38 may provide a quick fix to recognising development costs as an intangible asset. However, for continued relevance and to ensure that the Standard remains fit for purpose, we urge the IASB to review the definitions of intangibles, research and development and the principles for accounting for intangibles in both Section 18 and in IAS 38 so that intangible resources will be faithfully represented in the financial statements. If an SME does not identify an activity as research or development, it will not classify the associated expenditure as research or development costs.

All requirements and definitions should be given equal prominence

The use of footnotes may be useful in explaining a term or a phrase, and additionally we suggest placing important definitions, like liability, in the body of the Standard, particularly if the definition is different from that used in Section 2 and in other sections. A footnote may be missed, leading to inconsistent application of the requirement.

Connectivity in corporate reporting

With the increasing demand for sustainability reporting, SMEs will likely have to report non-financial information either by being part of the value chain of another entity, or through voluntary or mandatory reporting requirements. When it happens, SMEs will need to ensure that the information provided by different parts of the business is reliable and consistent. This also means that information that is reported outside of the financial statements must be consistent and connected with information in the financial statements.

While this is not within the scope of this comprehensive review, we suggest the IASB consider connectivity in corporate reporting for SMEs in the next comprehensive review of the Standard. The reporting requirements should be proportionate for SMEs and focus on information that improve business management[1]. The issue of connectivity among interconnected topics should be addressed by both the IASB and the ISSB, with simplifications for SMEs.

Our detailed responses to the specific questions asked are set out below.

[1] ACCA (2021), *ACCA Principles for Connected Corporate Reporting*

RESPONSES TO SPECIFIC QUESTIONS RAISED

SCOPE OF THE STANDARD
Question 1—Definition of public accountability

Respondents to the Exposure Draft *Subsidiaries without Public Accountability: Disclosures*, published in July 2021, expressed some concerns about applying the definition of public accountability. The description of 'public accountability' in the Exposure Draft *Subsidiaries without Public Accountability: Disclosures* comprises the definition and supporting guidance in paragraphs 1.3–1.4 of the *IFRS for SMEs* Accounting Standard (Standard).

In response to this feedback, the IASB is proposing to amend paragraph 1.3(b) to list banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks as examples of entities that often meet the second criterion of public accountability in paragraph 1.3(b). To assist an understanding of the basis for the definition of public accountability, the IASB is also proposing to clarify that an entity with these characteristics would usually have public accountability:

a) there is both a high degree of outside interest in the entity and a broad group of users of the entity's financial statements (existing and potential investors, lenders and other creditors) who have a direct financial interest in or substantial claim against the entity.
b) the users in (a) depend primarily on external financial reporting as their means of obtaining financial information about the entity. These users need financial information about the entity but lack the power to demand the information for themselves.

Paragraphs BC11–BC19 of the Basis for Conclusions on this Exposure Draft explain the IASB's rationale for clarifying the definition of public accountability in Section 1. The IASB expects that the amendments to paragraphs 1.3 and 1.3A of Section 1 will add clarity, without changing the intended scope of the Standard.

i) Do you agree that the amendments will add clarity without changing the intended scope of the Standard? If you do not agree, which types of entities do you believe would be newly scoped in or scoped out?

ii) Do you agree with the proposal to clarify the definition of public accountability? If you do not agree with the proposal, please explain what you suggest instead and why.

ACCA response – Question 1

i) We agree.

ii) We agree and the IASB could be more explicit that both sets of characteristics in paragraphs 1.3A(a) and 1.3A(b) are required for 'public accountability'. Therefore, we propose the inclusion of 'and' between 13A(a) and 13A(b).

PROPOSALS TO AMEND THE STANDARD

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

The IASB in its Request for Information asked for views on aligning Section 2 *Concepts and Pervasive Principles* with the *Conceptual Framework for Financial Reporting*, issued in 2018. In the Request for Information, the IASB noted that the 1989 *Framework for the Preparation and Presentation of Financial Statements* (1989 *Framework*) had provided the foundations of the Standard.

Based on feedback on the Request for Information, the IASB is proposing to revise Section 2 to align it with the 2018 *Conceptual Framework for Financial Reporting*.

The IASB is proposing that Section 18 *Intangible Assets other than Goodwill* and Section 21 *Provisions and Contingencies* continue to use the definitions of an asset and of a liability from the previous version of Section 2, which was based on the 1989 *Framework*, to avoid unintended consequences arising from revising the definitions of an asset and of a liability.

Paragraphs BC38–BC51 of the Basis for Conclusions on this Exposure Draft explain the IASB's rationale for the revisions proposed for Section 2.

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

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

ACCA response – Question 2

i) We agree with the proposals in Section 2. Retaining the concept of 'undue cost or effort' is particularly important for providing relief to SMEs in specified circumstances. This would ensure the cost of applying requirements in the Standard does not outweigh the benefits to users of their financial statements.

Further, we welcome the addition of paragraph 2.2 clarifying that the requirements in other sections of the Standard take precedence over Section 2. This overriding principle removes any doubt and would help with consistent application of the Standard.

ii) We support retaining the old definition of asset in Section 18 and liability in Section 21 as the corresponding definitions in IAS 38 and IAS 37 remain unchanged. The definitions should be given prominence in both sections, ie, by including the old definition of liability in the body of Section 21 instead of as a footnote, which could be easily overlooked. This is less of a problem in Section 18.

Nonetheless, we suggest the IASB reviews the definition of intangible asset and the accounting principle in Section 18 in any future comprehensive review of the Standard following the completion of IASB's intangibles research project or once IAS 38 has been amended.

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

The IASB in its Request for Information asked for views on aligning the definition of control in Section 9 *Consolidated and Separate Financial Statements* with the definition in IFRS 10 *Consolidated Financial Statements* and using that definition as the single basis for consolidation (control model) to facilitate greater consistency between financial statements prepared applying the Standard.

Respondents to the Request for Information were in favour of the alignment, and the IASB is proposing amendments to align Section 9 with IFRS 10, introducing control as the single basis for consolidation that applies to all entities.

The IASB is proposing to retain the rebuttable presumption that control exists when an investor owns more than a majority of the voting rights of an investee. The rebuttable presumption is a simplification of the control model.

Paragraphs BC52–BC62 of the Basis for Conclusions on this Exposure Draft explain the IASB's rationale for aligning the definition of 'control' in Section 9 with IFRS 10 and introducing a control model as the single basis for consolidation.

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

ACCA response – Question 3

Yes, we agree with retaining the rebuttable presumption in paragraph 9.5. However, paragraph 9.5 as currently drafted may be interpreted as requiring an entity with a majority of the voting rights of an entity to assess whether it does not have one or more of the elements of control listed in paragraph 9.4B. This interpretation would render the rebuttable presumption to be of less value to SMEs.

We suggest clarifying if an entity that holds a majority of the voting rights in an investee is still required to consider the three criteria in paragraph 9.4B. Alternatively, we suggest explaining the circumstances that will require an entity to reassess if it has control. This explanation would also be helpful for applying the requirements in paragraph 9.4C.

We have other comments about the revised Section 9 as follows:

a) We observed that 'former subsidiary' is used throughout paragraph 9.18A, except in paragraph 9.18A(c). We note also that this wording follows that of IFRS 10. However, for simplicity and to ease SMEs' understanding, we

suggest that paragraph 9.18A(c) be reworded as 'recognises the gain or loss associated with the loss of control of the former subsidiary.'

b) While we agree with disclosing the gain or loss when a parent loses control of its subsidiary (ie, paragraph 9.23B), we suggest reconsidering the relevance of paragraph 9.23B(a) to users of SME financial statements. Paragraph 9.23B(a) requires an entity to disclose the portion of gain or loss attributable to the retained interest in a former subsidiary at the date when control is lost. Users may benefit from knowing the entire gain or loss when a parent loses control of a subsidiary, which is a non-recurring event, and the amount is not readily identifiable. However, the incremental benefit from further analysing this gain or loss amount into the portion for retained interest may be disproportionate with the effort required.

c) We support the proposal to align the definition for 'subsidiary' in Appendix B to this Standard with IFRS 10. We suggest doing the same for the definition of 'parent', ie, aligning the definition with IFRS 10 so a parent is 'an entity that *controls* one or more entities'. We also suggest doing a thorough review of other definitions in Appendix B, particularly where the definition of a related terminology will be changed as part of this comprehensive review.

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

The IASB in its Request for Information asked for views on replacing the incurred loss model for the impairment of financial assets in Section 11 *Basic Financial Instruments* with an expected credit loss model aligned with the simplified approach in IFRS 9 *Financial Instruments*. Feedback suggested that the simplified approach in IFRS 9 would be complex for SMEs to apply and would not result in substantial changes in the amount of impairment for the types of financial assets held by typical SMEs, namely short-term trade receivables. The IASB anticipates that an expected credit loss model would provide relevant information for users of financial statements when SMEs hold longer-term financial assets.

Consequently, the IASB is proposing to:

a) retain the incurred loss model for trade receivables and contract assets in the scope of the revised Section 23 *Revenue from Contracts with Customers*;
b) require an expected credit loss model for all other financial assets measured at amortised cost, aligned with the simplified approach in IFRS 9; and
c) retain the requirements in Section 11 for impairment of equity instruments measured at cost.

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

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

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

ACCA response – Question 4

i) We support the IASB's proposal to introduce an expected credit loss model for only certain financial assets. The majority of financial assets in SMEs are likely to be related to its principal activities, such as trade receivables and contract assets. These assets are likely to be short-term and thus using the incurred loss model for these financial assets should provide relevant information to users while not putting unnecessary burden on SMEs.

We suggest the IASB consider setting principles for financial assets to be assessed using the incurred loss model based on the nature and exposure to credit risk (such as period to maturity) rather than type of financial asset. In addition, we suggest allowing the incurred loss model for financial assets measured at cost in accordance with paragraphs 11.14(b) and 11.14(c)(ii). This represents a reasonable simplification for SMEs.

Financial assets that are held for the long term would be exposed to more uncertainties. Thus, using the expected credit loss model on these financial assets would provide relevant information to users. The expected credit loss model is nevertheless complex and requires information SMEs might not have been routinely gathering. Therefore, we support the undue cost or effort relief provided in paragraph 11.26B(c). With this relief, SMEs should be able to base their assumptions on information that is immediately available and accessible to them.

The examples of data sources that would provide reasonable and supportable information as mentioned in paragraphs 11.26K and 11.26L may assist SMEs in applying the expected credit loss model.

We observed that the IASB has excluded the requirement to assess if the credit risk of a financial asset has increased significantly since initial recognition and excluded the requirement to measure a 12-month expected credit losses. We support allowing these simplifications for SMEs.

ii) Overall, we believe the proposal strikes the right balance in considering the costs for SMEs in providing information about the recoverability of financial assets and benefits for users of SMEs' financial statements.

Additional comments relating to Section 11 comprise:

a) Concerns relating to the use of 'collateralised mortgage obligations' as an example for financial instruments that do not normally satisfy the conditions in paragraph 11.8 and are therefore within the scope of Part II of Section 11. Many SMEs rely on collateralised borrowings, therefore may account based on the example instead of assessing the financial instrument against paragraph 11.8, 11.9 and 11.9ZA. We suggest removing this example from paragraph 11.6 and including examples in education materials illustrating the type of collateralised mortgage obligations that would not satisfy the conditions in paragraph 11.8, and are therefore within the scope of Part II of Section 11.

b) We suggest the IASB be specific in paragraph 11.8(b) when requiring SMEs to assess if a debt instrument is a basic financial instrument by assessing it against paragraph 11.9 AND paragraph 11.9ZA. Using 'and/or' is not helpful and gives the impression there is an option when that is not the case.

c) Our outreach found that SMEs commonly apply Section 11 and Section 12 for the recognition and measurement of financial instruments instead of the option to apply IAS 39. Few SMEs appear to have used IAS 39 to account for embedded derivatives, where the derivative component is measured at fair value with the host at amortised cost as compared to measuring the entire contract at fair value through profit or loss. While the option to use IAS 39 is helpful for subsidiaries in preparing their individual financial statements when the consolidated financial statements of the parent comply with full IFRS, we support removal of this option. Further, we appreciate the IASB's intention to align Section 11 with the recognition and measurement requirements in IFRS 9 and for the Standard to be a self-contained, standalone set of accounting principles (as explained in paragraphs BC94 (a) – (c)).

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

The IASB in its Request for Information asked for views on aligning the Standard with IFRS 13 *Fair Value Measurement* and introducing illustrative examples into the Standard. This alignment would not amend the requirements for when to use fair value measurement.

Respondents to the Request for Information favoured aligning the Standard with the definition of fair value in IFRS 13 to provide clarity and enhance comparability between financial statements prepared applying the Standard. The IASB is proposing that the requirements on measuring fair value and related disclosure requirements be consolidated in a new Section 12 *Fair Value Measurement*.

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

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

ACCA response – Question 5 We support the proposal to put all requirements relating to fair value measurement within one section and generally support all the proposed requirements in the new Section 12 for fair value measurements. Implementing valuation techniques to measure fair value could be costly and is not expected to change frequently among SMEs. For that reason, if there has been a change in valuation technique (eg changing from a market approach to an income approach or the use of an additional valuation technique) for recurring and non-recurring fair value measurements categorised within Level 2 and Level 3, we suggest requiring SMEs to disclose the change and the reasons for making it. Such information would help users understand why the entity has had to change the valuation technique. The requirements for fair value measurement in Section 12 will be new to many SMEs and the proposed illustrative examples will be helpful to SMEs in applying the measurement requirements. Therefore, we support proposals to designate Appendix to Section 12 as accompanying non-mandatory illustrative guidance which does not form an integral part of Section 12. We suggest adding an illustrative example on measuring the fair value of a decommissioning liability assumed in a business combination, similar to example 11 in IFRS 13 but adjusted for SMEs. In the interest of keeping the Standard concise, we suggest moving such non-mandatory illustrative examples to separate accompanying education materials with clear cross referencing to and from the Standard.

Question 6—Proposed amendments to Section 15 *Joint Arrangements*

The IASB in its Request for Information asked for views on aligning the definition of joint control with IFRS 11 *Joint Arrangements*, while retaining the three classifications of joint arrangements in Section 15 *Investments in Joint Ventures* (jointly controlled operations, jointly controlled assets and jointly controlled entities).

Respondents to the Request for Information favoured aligning the definition of joint control. However, respondents expressed mixed views on whether to align the classification and measurement requirements with IFRS 11 or to retain the Section 15 classification and measurement requirements.

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

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

i) Do you agree with the IASB's proposal to align the definition of joint control and retain the classification of a joint arrangement as jointly controlled assets, a

jointly controlled operation, or a jointly controlled entity, and the measurement requirements for these classifications? Why or why not? If you disagree with the proposal, please explain what you suggest instead and why.

The IASB is also proposing amendments to align Section 15 with the requirements of paragraph 23 of IFRS 11, so that a party to a jointly controlled operation or a jointly controlled asset that does not have joint control of those arrangements would account for its interest according to the classification of that jointly controlled operation or the jointly controlled asset.

Paragraphs BC128–BC129 of the Basis for Conclusions on this Exposure Draft explain the IASB's rationale for this proposal.

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

ACCA response – Question 6

i) We support aligning the definition of joint control with IFRS 11 to achieve alignment on key definitions. However, we do not support retaining the classification of joint arrangements from the existing Section 15. Retaining the classification could confuse users of SMEs' financial statements, especially those familiar with full IFRS Accounting Standards. To this end, jointly controlled entity in Section 15 should be replaced with joint venture as the definition for the former does not exist in IFRS 11.

   We echo the view in paragraph BC126 which explains the accounting outcome for jointly controlled assets and jointly controlled operations reached by applying Section 15 would be similar to the accounting outcome for joint operations reached by applying IFRS 11. The existing paragraphs 15.4 and 15.6 may be retained in explaining joint operations while the classification and definition are aligned with IFRS 11.

   We support retaining the accounting policy options for measurements in Section 15 for what we would consider to be joint ventures (ie, paragraph 15.9). This would be an appropriate application of the simplicity principle and cost-benefit considerations as noted in BC127.

ii) We support aligning with the requirements of paragraph 23 of IFRS 11 so that a party participating in a joint operation but does not have joint control of the arrangement should account for its interest as if it has rights to the assets and obligations for the liabilities of that joint operation. If the IASB retains the existing classification, we support the proposal requiring the party to account for its interest according to the classification of that jointly controlled operation or the jointly controlled asset. We believe the accounting outcome would faithfully represent the party's rights and obligations arising from the arrangement.

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

Based on the feedback to the Request for Information, the IASB is proposing to align Section 19 *Business Combinations and Goodwill* with the acquisition method of accounting in IFRS 3 *Business Combinations*[*] by:

a) adding requirements and guidance for a new entity formed in a business combination;
b) updating the references when recognising the identifiable assets acquired and liabilities assumed in a business combination to refer to the definitions of an asset and a liability in the revised Section 2 *Concepts and Pervasive Principles*;
c) clarifying that an acquirer cannot recognise a contingency that is not a liability;
d) requiring recognition of acquisition-related costs as an expense;
e) requiring measurement of contingent consideration at fair value if the fair value can be measured reliably without undue cost or effort; and
f) adding requirements for an acquisition achieved in stages (step acquisitions).

For other aspects of the acquisition method of accounting, the IASB is proposing to retain the requirements in Section 19. The IASB is of the view that:

a) the guidance in IFRS 3 on reacquired rights is unlikely to be relevant to entities applying the Standard;
b) restricting the measurement of non-controlling interest in the acquiree to the non-controlling interest's proportionate share of the recognised amounts of the acquiree's identifiable net assets (and not introducing the fair value option) is an appropriate simplification; and
c) retaining recognition criteria for intangible assets acquired in a business combination balances the costs and benefits of separate recognition of these items because goodwill recognised in a business combination is amortised.

Paragraphs BC130–BC183 of the Basis for Conclusions on this Exposure Draft further explain the IASB's rationale for these proposals.

Paragraph BC177 of the Basis for Conclusions on this Exposure Draft explains that there were mixed views on whether step acquisitions are relevant to SMEs. The IASB is asking for views on adding requirements for step acquisitions and on the proposed requirements themselves. Asking for views on whether to add requirements allows stakeholders to evaluate the proposals when responding to this Invitation to Comment.

i) Do you agree with the proposal to introduce requirements for the accounting for step acquisitions? If your answer is yes, do you agree with the proposed requirements in the Exposure Draft? If you disagree with the proposal, please explain why and give your alternative suggestion.
ii) Do you agree that the IASB's proposals appropriately simplify the measurement of non-controlling interests by excluding the option to measure them at fair value? If your answer is no, please explain your reasons.

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

ACCA response – Question 7

i) The proposed requirements in paragraphs 19.13B and 19.13C are consistent with the requirement in paragraph 19.11 which require consideration transferred in a business combination to be measured at fair value. While we support this principle, SMEs typically acquire another unlisted SME. Measuring the previously held interest at fair value on acquisition date may require incremental cost for the acquirer. We suggest providing an undue cost or effort relief so that if a SME cannot measure the fair value without undue cost or effort, it can alternatively measure the previously held interest at its carrying amount. We note a similar relief will be allowed for contingent consideration which is another element that requires estimation. This relief would allow the Standard to be scalable and proportionate especially for smaller SMEs.

ii) The IASB should retain the simplification in requiring acquirers to measure non-controlling interest (NCI) at its proportionate share of the acquiree's identifiable net assets value at the acquisition date. Even if fair value of NCI at the acquisition date can be measured reliably, it would be more costly than measuring NCI at its proportionate share. Besides adding complexity, it's unclear if the incremental benefits to users of SME financial statements would outweigh the incremental costs for measuring NCI at fair value on acquisition date. We therefore echo the IASB's view in paragraph BC163(b) of this ED.

iii) Additional comments relating to the proposed amendments to Section 19 comprise:

a) Paragraph 19.13 allows a relief to measure contingent consideration in a business combination at an estimate of the 'most likely amount' when its fair value at acquisition date cannot be measured reliably *without undue cost or effort*. However, it is unclear how an entity will estimate the 'most likely amount' of contingent consideration. We note that 'most likely amount' is also used in Section 23, ie, in paragraph 23.44(b). Therefore, we suggest clarifying what is meant by 'most likely amount' and how to estimate this amount as more explanation would support application by SMEs.

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

The IASB in its Request for Information asked for views on possible approaches to aligning Section 23 *Revenue* with IFRS 15 *Revenue from Contracts with Customers*. Respondents favoured this alignment without identifying a preferred approach. Consequently, the IASB is proposing to revise Section 23 to align it with the principles and language used in IFRS 15. The revised requirements are based on the five-step model in IFRS 15, with simplifications that retain the basic principles in IFRS 15 for recognising revenue.

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

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

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

a) specifying that a good or service that an SME regularly sells separately is capable of being distinct (see paragraph 23.21 of the Exposure Draft);
b) expressing the criterion in paragraph 27(b) of IFRS 15 in simpler language and reflecting the objective of the criterion by focusing on whether a good or service is an input used to produce a combined item or items transferred to the customer (see paragraphs 23.20(b) and 23.23 of the Exposure Draft); and
c) including examples that illustrate the factors supporting that criterion (see paragraph 23.23(a)–(c) of the Exposure Draft).

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

ACCA response – Question 8

i) We agree the revised Section 23 along with simplifications in the section will be appropriate for SMEs. We welcome these proposed simplifications, among others, which should occur more commonly among SMEs:

- simplification in paragraph 23.27(a) and (b) to limit the requirement for an SME to assess whether a warranty provides a service in addition to the assurance that the product complies with agreed-upon specifications, only when the warranty is significant to the contract.

- simplification in paragraph 23.35 to limit the requirement for an SME to separately account for an option that provides a material right to a customer as a separate promise only when the effect of doing so is significant to the accounting for the individual contract.

We agree with reframing the language used in paragraph 23.46 by focusing on consideration that will become due – making it easier for SMEs to understand the constraining estimates of variable consideration.

For ease of reading, we suggest relocating paragraph 23.118 that requires "an entity shall present contract assets and receivables separately" to the disclosures segment so that all presentation and disclosure requirements are placed together.

The requirements to account for ’material right in contract’ in the revised Section 23 are new to SMEs. We believe illustrative examples would help SMEs with consistent application. Such examples should include scenarios when an entity concludes there is a material right, and when there is no material right, for arrangements that are commonly used by SMEs, such as discounts for future purchases, customer loyalty programmes, non-refundable upfront fees, and options to renew a contract on similar terms, ie, illustrating the application of paragraphs 23.32 - 23.36. In keeping the Standard concise, we further suggest placing these illustrative examples in separate accompanying education materials with clear cross referencing to and from the Standard.

We agree with the proposal to allow SMEs the option to apply the revised Section 23 prospectively (paragraphs A22 – A29). We suggest clarifying in the Standard so that regardless of which option is selected, it is applied consistently to all revenue from contracts with customers, except for those contracts where specific exemptions are granted. This will remove any doubt about whether the option can be applied on a contract-by-contract basis, or to all contracts.

ii) We believe the guidance is appropriate and adequately explains the requirements. We agree with the use of simpler language in paragraphs 23.20 – 23.23. Examples given in paragraphs 23.23(a) – (c) also help in applying the requirements.

However, we have concern that paragraph 23.21 may give the impression that goods or services need to be sold by the entity only in order to satisfy the criterion in paragraph 23.20(a). We believe this unintended misinterpretation can be avoided by saying “A good or service that an entity *(or another entity)* regularly sells separately is capable of being distinct” – similar to what’s being done in paragraph 23.22(a) to explain readily available resources.

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

The IASB in its Request for Information asked for views on applying paragraph 28.19 of the Standard, that is the measurement simplifications for defined benefit obligations.

The feedback identified challenges when applying paragraph 28.19, resulting in diversity of application. However, the feedback also provided evidence that only a few entities apply paragraph 28.19. Therefore, the IASB is proposing to delete paragraph 28.19. Paragraphs BC197–BC203 of the Basis for Conclusions on this Exposure Draft explain the IASB’s rationale for this proposal.

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

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

a) stating that an entity may apply any, or all, of the simplifications permitted by paragraph 28.19 when measuring a defined benefit obligation; and
b) explaining that when an entity applies paragraph 28.19(b), examples of future service of current employees (assumes closure of the plan for existing and any new employees) that can be ignored include:
    i) the probability of employees' not meeting the vesting conditions when the vesting conditions relate to future service (future turnover rate); and
    ii) the effects of a benefit formula that gives employees greater benefits for later years of service.

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

ACCA response – Question 9

We are not aware of the extent of the use of this simplification in paragraph 28.19, but it permits an entity to make simplifications in measuring its defined benefit obligation with respect to current employees. This seems likely to be a significant help to those SMEs, for example those without ready access to actuarial support.

Clarifying that an entity may apply any, or all, of the simplifications permitted by paragraph 28.19 will remove ambiguity around whether the simplifications apply on all-or-nothing basis. We support this proposal.

The two examples of future service of current employees that can be ignored seems practical (as above in (b)(i)) and these should be clearly marked as 'examples' to prevent unintended complexity. However, a simpler sentence may be used such as 'assuming all current employees will remain in service until retirement'.

Question 10—Transition

The IASB, in paragraphs A2–A39 of this Exposure Draft, sets out limited relief from retrospective application for those proposed amendments for which the IASB thought the costs of retrospective application would exceed the benefits.

Do you agree with the proposed transition requirements for the amendments to the *IFRS for SMEs* Accounting Standard? Why or why not? If not, please explain what you suggest instead and why.

ACCA response – Question 10

Our comments for specific paragraphs are as follows:

a) We support allowing earlier application of the third edition of the IFRS for SMEs Accounting Standard before its effective date (ie, paragraph A1). We suggest clarifying doing so would require applying the third edition in its

entirety, and thus removing any doubt if an entity can pick and choose specific amendment to early adopt.

b) We are not convinced about the usefulness of disclosing the quantitative impact for each financial statement line item affected (due to a change in control of subsidiaries) for the annual period immediately preceding the date of initial application, as required by paragraph A7. The date of initial application may be earlier than the beginning of the comparative period. Requiring SMEs to make this quantitative disclosure while leaving the explanation of its context to their discretion may result in information that appears disconnected and confusing to users. We have a similar comment for disclosure required by paragraph A12 for joint arrangements. We suggest that the IASB to reassess if these disclosures are necessary for SMEs.

c) As mentioned in our response to Question 8, we agree with the proposal in paragraph A22 to allow SMEs the option to apply the revised Section 23 prospectively. We suggest clarifying that regardless of which option in paragraph A22 is selected, it should be applied consistently to all revenue from contracts with customers, except for those contracts where specific exemptions are granted. In doing this, doubt is removed relating to whether the option can be applied on a contract-by-contract basis, or to all contracts. The option selected should be disclosed.

Question 11—Other proposed amendments

Table A1, included in the Introduction, summarises the proposals for amending sections of the Standard not included in questions 2–10.

Do you have any comments on these other proposed amendments in the Exposure Draft?

ACCA response – Question 11

Our comments for specific proposals are set out below:

Section 7 Statement of Cash Flows

We have reservations about the proposed disclosure in paragraph 7.19A which require a reconciliation for liabilities arising from financing activities. Information about gross amounts of cash paid or received for financing activities, and interest expenses are already required to be disclosed (paragraphs 7.6 and 7.10). Paragraph 11.42 in Section 11 also requires an entity to disclose information that would enable users to evaluate the significance of financial instruments for its financial position and performance, for example repayment schedule disclosure.

The proposed reconciliation in paragraph 7.19A does not provide additional information about an entity's cash flows from financing activities and its liquidity. While this reconciliation is required in IAS 7, we do not support adding this disclosure

requirement in this Standard for SMEs as the benefit to users of SME's financial statements is not clear and it appears to contradict simplicity in the Standard.

Section 14 Investments in Associates

There seems to be an error in the drafting of paragraph 14.8(i)(iii). An entity should account for the retained investment using Section 11, instead of Section 12 as currently drafted.

Section 21 Provisions and Contingencies

We support presenting the old paragraph 21A.3 as paragraph 21.6A within the revised Section 21. This clarifies the requirements for recognising a provision for a restructuring in an entity. We also support renaming the Appendix to Section 21 as 'Illustrative examples' and clarifying that the appendix illustrates application of requirements in Section 21. In keeping the Standard concise, we suggest moving non-mandatory illustrative examples to separate accompanying education materials with clear cross referencing to and from the Standard.

Section 26 Share-based Payment

We support the addition of paragraphs 26.1D and 26.1E which clarify the definition of 'fair value' used in this section and specify that an entity shall apply the definition of fair value in paragraph 26.1E and measure fair value in accordance with Section 26 instead of the revised Section 12, thereby removing any doubt.

We support the addition of paragraph 26.14A which clarifies the accounting for vesting conditions in a cash-settled share-based payment transactions. Using similar language as the requirements for equity-settled share-based payment transactions aids the understandability of paragraph 26.14A.

We also support the addition of paragraphs 26.15A – 26.15C which clarify the accounting for share-based payment transactions with a net settlement feature when an entity has withholding tax obligations due to tax laws or regulations.

Section 29 Income Tax

We support the addition of paragraphs 29.34A to 29.34D to clarify the accounting for uncertain income tax treatments. We note these paragraphs are adapted from IFRIC 23 and have been written using simpler language.

We would suggest further clarifying the requirements when an uncertain tax treatment affects both current tax and deferred tax, such as when an entity is faced with an uncertain tax treatment that affects both its taxable profit used to determine current tax and tax base used to determine deferred tax. Adding requirements in paragraph 12 from IFRIC 23 into this Section may remove doubt for entities faced with this situation.

Section 30 Foreign Currency Translation

The proposed paragraph 30.8A is applicable when an entity pays or receives consideration in advance in a foreign currency and the consideration is determined to be a non-monetary asset or non-monetary liability. 'Monetary items' is an important terminology in applying Section 30. While the terminology is defined, providing application guidance on the definition of monetary items, such as paragraph 16 in IAS 21, will be helpful in determining whether an item is monetary or non-monetary.

Section 33 Related Party Disclosures

We suggest cross referencing paragraph 33.11 to paragraph 33.15, so that entities applying the exemption in paragraph 33.11 would be alerted of the disclosure requirements in the latter paragraph.

Section 34 Specialised Activities

We are not convinced about the benefit bifurcating the accounting for bearer plants from its produce in the financial statements of SMEs. Although an entity would not be required to separate bearer plants from the produce if, at initial recognition, such separation would involve undue cost or effort, application of this requirement may not be straightforward in practice. For example, it may not involve undue cost or effort to measure a bearer plant separately from its produce if there is no produce growing on the bearer plant at initial recognition. Application of the requirements becomes difficult subsequently in measuring the agricultural produce at fair value less costs to sell separately from the bearer plant.

Paragraph BC222 recognises that it is not clear whether the support for aligning Section 34 with amendments to IAS 16 and IAS 41 that gave rise to this bifurcation was based on specific agreement or a lack of a detailed objection.

Moreover, paragraphs BC220 and BC222 also note that SMEs might find separately determining the fair value of bearer plants and the produce growing on bearer plants costly and complex. As such, separately measuring the bearer plant from the produce might provide little benefit to users of SMEs' financial statements, particularly if the SME uses the undue cost or effort exemption from fair value measurement for the growing produce.

We suggest conducting further study into the practicability and costs for measuring bearer plants separately from the agricultural produce before amending the existing requirements to ensure the benefits for users are proportionate with the costs for SMEs.

WHETHER FURTHER ACTION IS REQUIRED

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

The IASB in its Request for Information asked for views on aligning Section 20 *Leases* with IFRS 16 *Leases* by simplifying some of the recognition and measurement requirements, the disclosure requirements and the language of IFRS 16.

Feedback on the Request for Information was mixed. Stakeholders suggested the IASB assess the costs and benefits of aligning the Standard with IFRS 16, even with the simplifications, and obtain more information about the experience of entities that apply IFRS 16.

The IASB decided not to propose amendments to Section 20 at this time and to consider amending the Standard to align it with IFRS 16 during a future review of the Standard. Therefore, the Exposure Draft does not propose amendments to Section 20. In making this decision the IASB placed greater emphasis on cost–benefit considerations and prioritised timing—that is, to obtain more information on entities' experience of applying IFRS 16.

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

a) aligning Section 20 with IFRS 16 at this time imposes a workload on SMEs disproportionate to the benefit to users of their financial statements— specifically, considering:
   i) the implementation costs that preparers of financial statements could incur;
   ii) the costs that users of financial statements could incur when information is unavailable; and
   iii) the improvement to financial reporting that would be realised from recognising the lessee's right to use an underlying asset (and the lessee's obligation to make lease payments) in the statement of financial position.

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

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

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

ACCA response – Question 12

Lease accounting has a very widespread impact and the approach of IFRS 16 is radically different from the existing Section 20. Retaining the existing treatment in Section 20 would allow a major divergence on a significant matter affecting most SMEs. On the other hand, the approach in IFRS 16 can involve significant effort to apply.

We prefer the approach outlined in the request for information for alignment, ie:

a) simplifying recognition and measurement requirements in IFRS 16 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 of the Standard.

We would consider possible simplification to the subsequent measurement of lease liability (reassessment) to be helpful for SMEs.

Nevertheless, our outreach indicated that SMEs would have to potentially deal with at least five major changes at the same time when the third edition of this Standard is effective, ie, revenue recognition, impairment of financial assets, business combination and goodwill, consolidation of financial statements and fair value measurement. Importantly, we did not hear strong demands to use the approach in IFRS 16 for lease accounting by SMEs. Introducing the approach in IFRS 16 now would require significant effort that would impose disproportionate workload on SMEs, preparers and auditors of their financial statements.

We therefore acknowledge and support the IASB's rationale for deferring the amendments to Section 20 *Leases,* that would align the accounting treatment for leases with requirements in IFRS 16, to a future comprehensive review of the Standard.

Question 13—Recognition and measurement requirements for development costs

The Standard requires all development costs to be recognised as expenses, whereas IAS 38 *Intangible Assets* requires the recognition of intangible assets arising from development costs that meet specified criteria. This simplification in the Standard was made for cost–benefit reasons. However, feedback on this comprehensive review questioned this cost–benefit decision. Therefore, the IASB is seeking views on whether it should amend the Standard to align it with IAS 38, including views on the costs and benefits of doing so.

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

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

a) the technical feasibility of completing the intangible asset so that it will be ready for use or sale;
b) its intention to complete the intangible asset and use or sell it;
c) its ability to use or sell the intangible asset;
d) how the intangible asset will generate probable future economic benefits;
e) the availability of adequate technical, financial and other financial resources to complete the development and to use or sell the intangible asset; and
f) its ability to measure reliably the expenditure attributable to the intangible asset during its development.

ACCA response – Question 13

Our comments are based on the premise of introducing an accounting policy option rather than a requirement, like in IAS 38, to capitalise development cost if all the criteria for capitalisation are met.

This accounting policy option would permit some SMEs and start-ups to demonstrate the value in their development activities. Meanwhile, SMEs that prefer to expense all their R&D costs on simplicity or cost-benefit reasons can continue to do so.

Research by ACCA on companies preparing IFRS financial statements in 2019 found that 62.2% of observations in our sample fully expense research and development (R&D) costs. The remainder are those that partially capitalise (27.5%) and those that fully capitalise (10.3%)[2]. This finding suggests that in conforming to the requirements and conditions set out in IAS 38, the majority of companies either fully or partly expense development costs. The same research found that expensing R&D costs is more readily justified, among stakeholders, than capitalising them. This is driven by three main factors:

- difficulty in meeting the six criteria for capitalising development costs outlined in IAS 38,
- concerns over future impairments of development costs capitalised, and
- constraints in the assurance of any capitalised costs.

We also note the definitions for 'research' and 'development' are based on definitions in IAS 38. These definitions will need to be reviewed in light of current business environment and the digital economy. If an entity does not identify its activity as research, it would not classify the associated expenditure as such and it would not reach the stage of being capitalised as development cost.

Having said that, we do not anticipate widespread capitalisation of development costs among SMEs if the definitions remain the same and the conditions for capitalisation are based on paragraphs 57(a)–(f) of IAS 38.

We support introducing an accounting policy option for SMEs that permit capitalising development costs and we suggest field testing the criteria for capitalisation. Please refer to our comments in Question 2(ii) for conducting a fundamental review of the definition and accounting principle for intangible assets.

[2] ACCA, Deloitte (2019), *The capitalisation debate: R&D expenditure, disclosure content and quantity, and stakeholder views*

FULL IFRS ACCOUNTING STANDARDS IN THE SCOPE OF THIS REVIEW FOR WHICH THE IASB IS NOT PROPOSING TO ALIGN THE STANDARD

Question 14—Requirement to offset equity instruments

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

What are your views on removing paragraph 22.7(a)?

ACCA response – Question 14

We agree with removing paragraph 22.7(a) because presenting the amount receivable (a financial asset) within equity does not contribute to faithful representation and possibly contradicts paragraph 2.122. Besides, paragraph 4.12(a)(ii) already requires an entity to disclose the number of shares issued but not fully paid. It may be enhanced to require disclosure of associated amounts receivable in the notes.

UPDATING THE PARAGRAPH NUMBERS OF THE *IFRS FOR SMES* ACCOUNTING STANDARD

Question 15—Updating the paragraph numbers of the *IFRS for SMEs* Accounting Standard

The proposed amendments to the requirements in the *IFRS for SMEs* Accounting Standard include the addition of new paragraphs and the deletion of existing paragraphs. A new paragraph is numbered in continuation from a previous paragraph. A deleted paragraph retains the paragraph number.

Sometimes, the addition or deletion of paragraphs within a section may complicate the readability of the Standard (for example, Section 19 *Business Combinations and Goodwill*). As an alternative, a section may be revised, with paragraphs renumbered to show only requirements that would still be applicable, without a placeholder for deleted paragraphs (for example, Section 2 *Concepts and Pervasive Principles*).

What are your views on the approach taken to retain or amend paragraph numbers in each section of this Exposure Draft?

ACCA response – Question 15

We have no objection to retaining the paragraph number of deleted paragraphs so long as the numbering is not confusing. This has been done in the full IFRS Accounting Standards.