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Mr Andreas Barckow
Chairman
International Accounting Standards Board
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By e-mail only - commentletters@ifrs.org

6 March 2023

Re: Exposure Draft ED/2022/1 – *Third edition of the* IFRS for SMEs *Accounting Standard*

Dear Mr Barckow,

On behalf of RSM International Limited, a worldwide network of independent audit, tax and consulting firms, we are pleased to comment on the IASB's Exposure Draft ED/2022/1 – *Third edition of the* IFRS for SMEs *Accounting Standard* ('the ED').

We welcome the IASB's Exposure Draft ED/2022/1 – *Third edition of the IFRS for SMEs Accounting Standard.* Our comments and detailed responses to the questions outlined in the Invitation to Comment section of the ED are attached in the appendix to this letter, however, we would like to highlight the following main points from our responses:

1) Section 15 Joint Arrangements

Whilst we agree with the IASB's proposal to align the definition of joint control with IFRS 11 *Joint Arrangements*, we do not agree with retaining the classification and measurement requirements of a joint arrangement as jointly controlled assets, a jointly controlled operation or a jointly controlled entity.

We believe that it would be beneficial to both preparers and users of SME financial statements to fully align Section 15 with the classification and measurement requirements of IFRS 11 *Joint Ventures*. The current measurement basis for jointly controlled entities provides entities with a choice of 3 measurement basis, resulting in a lack of comparability and consistency in SME financial statements.

2) Section 23 Revenue from contracts with customers

We welcome the IASB's decision to align Section 23 with the principals of IFRS 15 *Revenue from Contracts with Customers*. We believe that this provides a more suitable model for revenue recognition for SMEs than the existing revenue model in the Standard.

We welcome the simplification for an SME to determine whether it is acting as principal or agent for each promise in a contract. However, we believe that the ED should include circumstances relating to the establishment of the setting of the transaction price for the specified good or service as this is an important factor in determining whether an entity is acting as principal or agent.

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In terms of recognition of revenue, we believe that paragraph 23.78(d) should be fully aligned to IFRS 15.35(c) to ensure correct and consistent application of this criteria to determine if a promise is satisfied over time. Furthermore, we believe that the ED should include guidance for users to determine which method should be applied in the estimation of variable consideration.

3) Section 20 Leases

At the current time, we agree with the IASB's decision to defer alignment of the Standard with IFRS 16. We believe that the costs would currently outweigh the benefits of alignment for certain jurisdictions.

We would be pleased to respond to any questions the Board or its staff may have about any of our response. If you have any questions or comments, please do not hesitate to contact Gary Stevenson (+852 2583 1220) or me (+44 (0)207 601 1842).

Yours faithfully,

Marion Hannon
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APPENDIX

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.

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

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

We do not agree that the proposed amendments add clarity to the definition of public accountability. The proposed amendments would require the application of judgement to enable an entity to determine whether it is in scope of the IFRS for SME's.

We would recommend that the Board considers providing a comprehensive definition of public accountability in paragraph 1.3(b), rather than providing examples of entities which would normally meet the criteria in paragraph 1.3(b).

Furthermore, we suggest that paragraph 1.3(b) should also include insurance underwriters in the examples of entities that hold assets in a fiduciary capacity.

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*

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***Contingencies* continue to use the definitions of an asset and of a liability from the previous version of Section 2, which was based on the 1989 *Framework*, to avoid unintended consequences arising from revising the definitions of an asset and of a liability.**

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

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

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

We agree with the alignment of Section 2 to the 2018 *Conceptual Framework for Financial Reporting*.

We agree that the definition of an asset in Section 18 should continue to use the definition of an asset from the previous version of Section 2 (based on the 1989 *Framework)*, rather than the new definition in Section 2. We believe that this will ensure that intangible assets are only recognised by SMEs where economic benefits are expected to flow to the entity, rather than an intangible asset being recognised when it has the potential to produce economic benefits.

Furthermore, we agree that the definition of a liability in Section 21 should continue to use the definition of a liability from the previous version of Section 2 (based on the 1989 *Framework)*, rather than the new definition of a liability in Section 2. We believe that this will ensure that liabilities will continue to be recognised by SMEs where there is expected settlement which is expected to result in an outflow from the entity of resources embodying economic benefits.

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.

We agree with the proposal to align the definition of control in Section 9 *Consolidated and Separate Financial Statements* in the ED with the definition in IFRS 10 *Consolidated Financial Statements*. We believe that this will provide a consistent framework for the basis of consolidation applying to all entities.

Furthermore, we agree with the retention of the rebuttable presumption as a simplification of the definition of control for SMEs.

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Question 4 - Proposed amendments to impairment of financial assets in Section 11 Basic Financial Instruments (renamed 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.

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

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

We agree with the proposal to introduce an expected credit loss model for other financial assets.

We believe that the incurred loss model should be retained for trade receivables and contract assets in the scope of revised Section 23.

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.

We agree with the proposal for a new Section 12 Fair Value Measurement, aligned with IFRS 13 *Fair Value Measurement.* We have no further comments on Section 12.

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Question 6 – Proposed amendments to Section 15 Investments in Joint Ventures (renamed 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.

We agree with the IASB proposal to align the definition of joint control with IFRS 11 *Joint Arrangements*.

We do not agree with retaining the classification and measurement requirements of a joint arrangement as jointly controlled assets, a jointly controlled operation or a jointly controlled entity.

The retention of the existing classification and measurement requirements is inconsistent with full IFRS and is based on the legal form of the arrangement, rather than the rights and obligations arising from the arrangement. The post-implementation review of IFRS 11 *Joint Arrangements* completed in June 2020 did not identify any significant issues with the standard, with the evidence demonstrating that the requirements of the standard enable entity's to faithfully represent their interests in joint arrangements by reflecting their rights and obligations arising from the arrangement. Furthermore, we believe that this divergence from IFRS 11 *Joint Arrangements* will confuse both preparers and users of SME financial statements.

We believe that it would be beneficial to both preparers and users of SME financial statements to fully align Section 15 with the classification and measurement requirements of IFRS 11 *Joint Ventures*. The current measurement basis for jointly controlled entities provides entities with a choice of 3 measurement basis, resulting in a lack of comparability and consistency in SME financial statements. Given that the post-implementation review of IFRS 11 did not identify any deficiencies in the classification and measurement basis for joint arrangements, we strongly believe that Section 15 should remove the accounting policy choice for the measurement of jointly controlled entities and instead require all entities to account for jointly controlled entities using the equity method. Furthermore, the amendments to paragraph 15.8 and the addition of paragraphs 15.18A and B, results in accounting

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which will reflect the rights and obligations of the entity within such an arrangement. Therefore, we believe that there is a misalignment within Section 15 with conflicting guidance on accounting based on legal form and the rights and obligations of the arrangement.

We agree with the proposal 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. This alignment will ensure that the accounting by SMEs for such an arrangement reflects the 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.

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

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

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

* IFRS 3 refers to the IFRS 3 (2008) version, including subsequent amendments to IFRS 3.

We agree with the proposals to include requirements for the accounting of step acquisitions which will eliminate diversity in accounting policies for such transactions. We agree with the proposed requirements in the Exposure Draft which align to the requirements of IFRS 3 *Business Combinations*.

We agree with the proposal to simplify the measurement of non-controlling interests by excluding the option to measure them at fair value.

We have no further comments or suggestions on the proposed amendments to Section 19.

Question 8 – Revised Section 23 Revenue (renamed 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.

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

Determining whether a good or service promised to a customer is distinct can involve judgement.

To assist entities in making this assessment, the IASB is proposing to simplify the requirements in paragraphs 27–29 of IFRS 15 by:

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

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

We welcome the IASB's decision to align Section 23 with the principals of IFRS 15 *Revenue from Contracts with Customers*. We believe that this provides a more suitable model for revenue recognition for SMEs than the existing revenue model in the Standard.

We agree with the proposed simplification for the inclusion of variable consideration within the transaction price. We believe that this provides greater clarity to preparers of SME financial statements on when to include variable consideration in the transaction price and this clarification would be beneficial to include in IFRS 15 *Revenue from Contracts with Customers*.

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We welcome the simplification for an SME to determine whether it is acting as principal or agent for each promise in a contract. However, paragraph 23.38 does not include guidance on which entity has discretion in establishing the price for the specified good or service which is included in IFRS 15 B37(c). We believe that the ED should include circumstances relating to the establishment of the transaction price for the specified good or service which is an important factor in determining whether an entity is principal or agent.

In terms of variable consideration and the methods to estimate this in paragraph 23.44, we believe that the ED should include guidance for users to determine which method should be applied, as per IFRS 15.53 or a requirement to disclose the reasons for the estimation method chosen.

We agree with the simplification in paragraphs 23.58 and 23.59 in respect of a financing transaction. However, we believe that it would be beneficial for the Exposure Draft to include guidance on determining the discount rate to be applied to a financing transaction.

In terms of recognition of revenue, we believe that paragraph 23.78(c) should explicitly state the paragraph 23.77 should be applied to determine whether the customer has control of the asset as it is created or enhanced. This inclusion will ensure that preparers are consistently applying the requirements of paragraph 23.78(c). Furthermore, we believe that paragraph 23.78(d) should be fully aligned to IFRS 15.35(c) to ensure correct and consistent application of this criteria to determine if a promise is satisfied over time. In addition, we believe it would be beneficial to include the location of the asset within the example, as included in IFRS 15 B7, to assist preparers in the application of this criteria.

There are several paragraphs in Section 19 which use the term 'significant' including paragraph 23.35 on material rights and paragraph 23.27 on warranties. We believe that these paragraphs should be clarified to remove the judgement in determining whether a material right or a warranty is 'significant' to the contract. This will ensure consistent application of these requirements by entities.

We agree with the inclusion of paragraph 23.21 providing additional clarification on determining whether a promise is distinct to enable entities to make the assessment of whether a good or service is distinct.

We agree with the inclusion of examples to support the determination of whether an entity's obligation to transfer a good or services is separate from other obligations in the contract. However, we believe that further guidance and an example should be provided for the application of 23.23(c) to determine whether goods or services are highly interdependent or highly related. The application of the requirements of IFRS 15.29(c) is highly judgemental and we believe that an example of the application of this principal would be beneficial to preparers and users of SME financial statements. This would also help to limit diversity in the application of 23.23(c).

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.

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

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

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

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

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

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

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

We agree with the deletion of paragraph 28.19. We believe that SMEs with a defined benefit pension scheme should use the projected unit credit method to determine their defined benefit obligation and related expense.

Question 10 – Transition
The IASB, in paragraphs A2–A39 of this Exposure Draft, sets out limited relief from retrospective application for those proposed amendments for which the IASB thought the costs of retrospective application would exceed the benefits.

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

We agree with the proposed transition requirements in Appendix A of the Exposure Draft. We believe that these strike the right balance in terms of providing useful information for users and the costs associated with retrospective application.

We note that A32, refers to applying paragraph 26.14B only to modifications which occur on or after the date of initial application. The Exposure Draft does not include paragraph 26.14B and we have assumed this is a typographical error.

Question 11 – Other proposed amendments

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

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

We have the following comments on amendments to other sections of the Standard:

Section 7 Cash flow statements

We welcome the inclusion of paragraph 7.19A, requiring a reconciliation for liabilities arising from financing activities which will provide relevant and useful information for users of SME financial statements.

Section 11

We agree with the removal of the option to apply the recognition and measurement requirements of IAS 39 *Financial Instruments: Recognition and Measurement* which is no longer applicable in full IFRS. However, we do not agree with the decision to exclude an option for entities to apply the requirements of IFRS 9 *Financial instruments*.

We believe that entities which previously applied the recognition and measurement requirements of IAS 39, rather than the full requirements of Sections 11 and 12 would benefit from the provision of a similar option in the updated Standard.

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We welcome the inclusion of paragraph 11.9ZA providing an overarching principal for the classification of a debt instrument based on its contractual cashflow. Furthermore, we welcome the addition of paragraph 11.26G on financial guarantee contracts.

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).

In certain jurisdictions, the adoption of an IFRS 16 model for lease accounting in the IFRS for SMEs Standard would be appropriate, with the benefits of such a model outweighing the associated costs of implementation and on-going accounting.

However, in other jurisdictions, the adoption of an IFRS 16 model for lease accounting would not benefit users of financial statements prepared under the Standard and the cost of implementation would currently be disproportionate.

At the current time, we agree with the IASB's decision to defer alignment of the Standard with IFRS 16.

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In jurisdictions where the adoption of an IFRS 16 accounting model would be appropriate, with the benefits outweighing the costs, local standard setting bodies have already introduced or are proposing the introduction of a simplified IFRS 16 accounting model for leases.

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.

We believe that an accounting policy choice should be introduced to allow SMEs to continue to expense development costs or to capitalise these costs if they meet the criteria set out in paragraphs 57(a) to (f) of IAS 38 *Intangible Assets.*

Whilst the IASB aims to restrict accounting policy options in the Standard, our view is that it would be beneficial to introduce an accounting policy choice in respect of the accounting for development costs. This would enable entities which have significant development costs which meet the criteria in IAS 38.57 to capitalise these and amortise over the useful economic life of the intangible asset, rather than recognising the cost immediately when the benefits of the development costs are realised over a longer period.

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)?

We agree with the removal of paragraph 22.7(a).

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Question 15 - Updating the paragraph numbers in 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?

With the exception of Section 2 and Section 23 which have been significantly revised, we believe that a new paragraph in the Standard should be numbered in continuation from a previous paragraph and a deleted paragraph retains the paragraph number. This approach follows the method used in full IFRS when there are additions or deletions to individual standards.

We have no other comments on the ED.

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