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Ms Linda Mezon-Hutter
Acting Chair
International Accounting Standards Board
Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD

By e-mail only - commentletters@ifrs.org

Re: Exposure Draft *Consolidation Exception* – Proposed amendments to the *IFRS for SMEs* Accounting Standard

Dear Ms Mezon-Hutter,

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 *Consolidation Exception* – Proposed amendments to the *IFRS for SMEs* Accounting Standard ("ED").

Our comments and detailed responses to the two questions in the Invitation to Comment section of the ED are set out in the appendix to this letter.

We welcome and support the proposed amendments to paragraph 9.3 of the *IFRS for SMEs* Accounting Standard ("Standard"), which remove an outcome whereby the Standard could be more onerous than full IFRS Accounting Standards. We also support addressing the matter urgently so that the amendments can be applied at the same time as the third edition of the Standard.

Notwithstanding our support, in the appendix we suggest a number of targeted improvements: disclosure of where the parent's financial statements can be obtained, drafting clarifications to proposed paragraph 9.3(b)(ii), and flexibility to apply the amendments early without adopting the third edition of the Standard in full.

We would be pleased to respond to any questions the Board or its staff may have about our response. If you have any questions or comments, please do not hesitate to contact Monique Cole (+1 6172411461; monique.cole@rsmus.com) or Claire Blanton (+44 (0) 207 601 1842; Claire.Blanton@rsm.global).

Yours faithfully,

RSM International

Appendix

Question 1 – Proposed amendments to paragraph 9.3 of the *IFRS for SMEs* Accounting Standard

Paragraph 9.3 of the *IFRS for SMEs* Accounting Standard (Standard) permits a parent not to present consolidated financial statements if its ultimate parent (or any intermediate parent) produces consolidated general purpose financial statements that comply with full IFRS Accounting Standards or the Standard.

The IASB is proposing to extend the exception from presenting consolidated financial statements. Under the proposed extension, a parent need not present consolidated financial statements if its ultimate parent (or any intermediate parent) produces financial statements that comply with full IFRS Accounting Standards, in which investments in subsidiaries are measured at fair value through profit or loss in accordance with IFRS 10 *Consolidated Financial Statements*.

Paragraphs BC6–BC16 explain the IASB's rationale for this proposal.

Do you agree with this proposal? Why or why not? If you disagree, please state whether you suggest the IASB consider this amendment in the next periodic review of the Standard, or not at all.

We agree with the proposal to extend the exception in paragraph 9.3 of the Standard so that a parent need not present consolidated financial statements if its ultimate parent (or any intermediate parent) produces general purpose financial statements that comply with full IFRS Accounting Standards, in which investments in subsidiaries are measured at fair value through profit or loss in accordance with IFRS 10.

In our view, the requirements of the Standard should not be more onerous than the equivalent requirements of full IFRS Accounting Standards. The proposed extension aligns the exception in paragraph 9.3 of the Standard with the exception in paragraph 4(a) of IFRS 10 and would allow eligible SMEs to benefit from the same cost savings available to comparable entities applying full IFRS Accounting Standards. We also note that the exception would be optional, so an SME that considers that consolidated financial statements provide more useful information to the users of its financial statements may continue to present them.

We support the IASB's decision to address this matter urgently, outside the periodic review process. Member firms of our network operate in many emerging and developing economies where private equity and venture capital investment activity is growing and where the circumstances in which SMEs prepare consolidated financial statements are generally specified by accounting standards rather than by local laws or regulations. In our view, the issue is therefore likely to be, or to become, pervasive, and is acute for the SMEs affected. Addressing the matter now allows the amendments to be applied at the same time as the third edition of the Standard, minimising disruption and easing implementation.

Notwithstanding our support, we encourage the IASB to consider the interaction of the proposed exception with the information needs of the users of an SME's financial statements. Unlike paragraph 4(a)(iv) of IFRS 10, the proposed paragraph 9.3(b)(ii) would not require the financial statements of the ultimate parent (or any intermediate parent) to be available for public use. Nor would the Standard include a condition equivalent to paragraph 4(a)(i) of IFRS 10, under which the exception is available only if the parent's other owners have been informed about, and do not object to, the parent not presenting consolidated financial statements. We acknowledge that the existing exception in paragraph 9.3 of the Standard contains no equivalent condition and that this reflects a deliberate simplification of the Standard. However, when the exception is applied in the circumstances contemplated by the proposals, users would no longer have consolidated financial information about the SME and its subsidiaries and would instead need to rely on the parent's financial statements. We therefore suggest that the IASB consider requiring an SME that applies the exception to disclose that fact, the name of the parent whose financial statements are relied upon, and where those financial statements can be obtained, if available. In our view, a disclosure-based approach would protect users of SMEs' financial statements without introducing conditions that could make the exception more complex to apply.

We also note that the Standard does not include a definition of an 'investment entity' or related requirements, which the IASB deliberately omitted from the third edition of the Standard. To avoid interpretative dependence on requirements of full IFRS Accounting Standards that are not included in the Standard, we suggest that the IASB clarify, in the Standard or in accompanying guidance, that the condition in proposed paragraph 9.3(b)(ii) is assessed by reference to the general purpose financial statements produced by the ultimate parent (or any intermediate parent) – that is, whether those financial statements comply with full IFRS Accounting Standards and measure investments in subsidiaries at fair value through profit or loss in accordance with IFRS 10 – and that an SME is not itself required to assess whether its parent meets the definition of an investment entity in IFRS 10.

Finally, we encourage the IASB to ensure that the drafting of proposed paragraph 9.3(b)(ii) makes clear that it captures only financial statements in which investments in subsidiaries are measured at fair value through profit or loss in accordance with IFRS 10, and not, for example, separate financial statements in which investments in subsidiaries are measured at fair value in accordance with paragraph 10(b) of IAS 27 *Separate Financial Statements*. This could be achieved by presenting the circumstances in proposed paragraph 9.3(b)(ii) in separate subparagraphs, aligning the drafting more closely with paragraph 4(a)(iv) of IFRS 10.

Question 2 – Effective date and transition

The IASB is proposing that an entity apply the amendments to paragraph 9.3 of the Standard at the same time and on the same basis as it applies the third edition of the Standard.

Paragraph BC17 explains the IASB's rationale for this proposal.

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

We agree with the proposal that an entity apply the amendments to paragraph 9.3 of the Standard at the same time and on the same basis as it applies the third edition of the Standard.

Aligning the effective date of the amendments with that of the third edition of the Standard (annual reporting periods beginning on or after 1 January 2027) would avoid eligible SMEs presenting consolidated financial statements on first applying the third edition, only to cease presenting them shortly afterwards. A single effective date and a single set of transition requirements would minimise disruption, ease implementation and simplify communication with the users of SMEs' financial statements. We also agree that earlier application should be permitted. In addition, we encourage the IASB to consider permitting entities to apply the amendments early without adopting the third edition of the Standard in full. The amendments address an issue that also arises under the second edition of the Standard and do not depend on other changes introduced by the third edition; making the exception available from the date of issue of the amendments would allow eligible SMEs to benefit as soon as possible from the same cost savings available to comparable entities applying full IFRS Accounting Standards.

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