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Mr. Hans Hoogervorst
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Our ref RD/288

22 October 2020

Dear Mr. Hoogervorst

Comment letter on *Request for Information*: *Second Comprehensive Review of the IFRS for SMEs Standard*

We appreciate the opportunity to comment on the International Accounting Standards Board's ('the Board's') *Request for Information ('RFI'): Second Comprehensive Review of the IFRS for SMEs Standard* ('the SMEs Standard'). We have consulted within the KPMG network and this letter represents the views of the KPMG network.

We support the Board's initiative to undertake a second comprehensive review of the SMEs Standard and to seek views on whether and to what extent the SMEs Standard should be aligned with the full IFRS Standards.

Overall, we believe that the Board should continue to align the SMEs Standard with the full IFRS Standards – including subsequent amendments and interpretations – for principals and important definitions.

In terms of the 'precise wording', we would urge the Board to use the same words as used in the full IFRS Standards if the Board intends the requirement to be interpreted in the same way as the requirements of the full IFRS Standards because using different words to convey the same principle introduces additional complexity and uncertainty about the intended meaning.

We acknowledge that while alignment is important, accounting for more complex issues should be simplified to the extent necessary to ensure that the SMEs Standard meets its objective of providing a simple set of accounting principles that are appropriate for the circumstances of SMEs. However, we believe that simplification should not automatically exclude options; alternative treatments should sometimes be permitted if they are relevant for SMEs. Moreover, we support the three principles underlying the alignment process – i.e. relevance, simplicity and faithful representation. However, we believe that there should be a hierarchy for applying these principles and the principle of faithful representation should take precedence.

Consistent with our views above on alignment, we generally support alignment with IFRS 9, IFRS 15 and IFRS 16. However, we have some additional recommendations which are included in our detailed responses to the respective questions.

Similarly, for alignment with IFRS 11 we recommend replacing the outdated categories of jointly controlled assets, jointly controlled operations and jointly controlled entities in Section 15 of the SMEs Standard with the IFRS 11 categories – i.e. joint ventures and joint operations. However, because the current distinction between joint ventures and joint operations in IFRS 11 could be complex to apply for SMEs, we suggest that the Board consider simplifying it using one of the following two approaches:

— *rebuttable distinction based primarily on legal form:* Joint venture if a separate legal entity, unless substantially all of the output is taken by the investors (Test 1) or all of the liabilities are essentially satisfied by cash flows received from the investors (Test 2). Conclusion based on Test 1 and Test 2 could be rebutted if other facts clearly indicated a joint venture; or

— *distinction based purely on legal form:* Joint venture if a separate legal entity.

We have made five suggestions regarding additional guidance for the Board to consider as part of the SMEs Standard; please see our responses to Questions N4–N5 (Part C of the RFI).

We have set out our detailed responses to the specific questions in the RFI in the appendix to this letter.

Please contact Reinhard Dotzlaw at reinhard.dotzlaw@kpmgifrg.com or Úna Curtis at una.curtis@kpmg.ie if you wish to discuss any of the issues raised in this letter.

Yours sincerely

KPMG IFRG Limited

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Appendix: Detailed responses to specific questions posed by the Board

Part A – Strategic and general questions

G1. Alignment approach

G1A. In your view, should the IFRS for SMEs Standard be aligned with full IFRS Standards?

Please explain why you are suggesting the IFRS for SMEs Standard should or should not be aligned with full IFRS Standards.

Response: ***Yes***

We believe that the Board should continue to align the SMEs Standard with the full IFRS Standards.

The key reason for holding this view is the importance of having a common financial reporting language for the benefit of users and ensuring similar principles are applied in the treatment of transactions in the financial reports of SMEs as in those of large entities that have public accountability. We also support the alignment approach for the other reasons set out in paragraph 30 of the RFI.

However, we acknowledge that while alignment is important, accounting for more complex issues should be simplified to the extent necessary to ensure that the SMEs Standard meets its objective of providing a simple set of accounting principles that are appropriate for the circumstances of SMEs.

G1B. What extent of alignment of the *IFRS for SMEs* Standard with full IFRS Standards do you consider most useful, and why?

(a) alignment of principles;

(b) alignment of both principles and important definitions; or

(c) align of principles, important definitions and the precise wording of requirements?

Please explain the reasoning that supports your choice of (a), (b) or (c).

Response: ***b***

We support a full alignment of principles and important definitions. We believe that a consistent set of principles and important definitions will:

— improve the understandability of financial statements to users by reducing the potential for confusion;

— simplify the process of collecting and aggregating data for preparers; and

— simplify training of professionals in many jurisdictions.

In terms of the 'precise wording', we would urge the Board to use the same words as used in the full IFRS Standards if the Board intends the requirement to be interpreted in the same way as the requirements of the full IFRS Standards because using different words to convey the same principle introduces additional complexity and uncertainty about the intended meaning.

G2. Alignment principles

The Board would apply three principles:

(a) relevance to SMEs;

(b) simplicity; and

(c) faithful representation.

In your view, do these principles provide a framework to assist in determining whether and how the *IFRS for SMEs* Standard should be aligned with full IFRS Standards?

Please explain the reasoning that supports your response.

Response: ***Yes***

We support the three principles underlying the alignment process – i.e. relevance, simplicity and faithful representation. However, we believe that there should be a hierarchy for applying these principles, and the principle of faithful representation should take precedence. Financial statements would fail their purpose if they do not faithfully represent the entity's activities.

We generally support the reasons set out in paragraphs 33–35 of the RFI except that, in relation to paragraph 34(b), we believe that simplification should not automatically exclude options; alternative treatments should sometimes be permitted if they are relevant for SMEs.

G3. When to consider alignment

Three possible dates for when to consider alignment are discussed in paragraphs 38–40 of part A of the Request for Information. Which, if any, of these possible dates do you prefer?

Those IFRS Standards, amendments to IFRS Standards or IFRIC interpretations:

(a) Issued up to the publication date of the Request for Information;

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

(c) Effective and on which the post-implementation review was completed before the publication date of the Request for Information; or

(d) Issued or effective on some other date (please specify).

Please explain the reasoning that supports your views, for example, the benefits of the date selected.

Response: ***b (with additional proposals)***

We support considering alignment with those IFRS Standards, amendments to IFRS Standards and IFRIC Interpretations that became effective up to the date of publication of the RFI. However, we also believe that consideration should be given to amendments and interpretations issued but not yet effective at that date if these provide clarifications or explanations intended to make the application of the full IFRS Standards easier or more consistent.

We consider that approach (b) is appropriate because considering the expected timeframe between publication of the RFI and the effective date of any amendments to the SMEs Standard, there will have been at least three and probably four years of application of the full IFRS Standard and that will have given sufficient time for any new concepts to have been fully understood and tested in practice. Any clarifications issued in relation to these IFRS Standards, amendments to IFRS Standards or IFRIC Interpretations will most likely have arisen from diversity in practice, and therefore it seems reasonable to also consider these clarifications in the RFI.

We believe that approach (a) would give insufficient time for concepts to be properly understood and potential problems to be dealt with, and approach (c) would mean the SMEs Standard would lag too far behind the full IFRS Standards.

Part B – Questions on aligning specific sections of the Standard

S1. Aligning Section 2 *Concepts and Pervasive Principles* of the *IFRS for SMEs* Standard with the 2018 *Conceptual Framework for Financial Reporting*

What are your views on:

(a) aligning Section 2 with the 2018 Conceptual Framework?

(b) making appropriate amendments to other sections of the IFRS for SMEs Standard?

(c) retaining the concept of 'undue cost or effort'?

Alignment with 2018 Conceptual Framework (Questions S1(a) and S1(b))

Response: ***Agree***

We support aligning Section 2 of the SMEs Standard with 2018 Conceptual Framework for Financial Reporting. This is consistent with our view outlined in response to Question G1 above – i.e. alignment with the full IFRS Standards for principles and important definitions. We therefore support making the appropriate amendments to other sections of the SMEs Standard that use definitions from Section 2, unless this introduces inconsistencies with currently effective IFRS Standards.

Retaining the concept of 'undue cost or effort' (Question S1(c))

Response: ***Agree (with additional proposals)***

We support retaining the concept of 'undue cost or effort' in the SMEs Standard. However, we believe that it is necessary to ensure that it is only used when specifically allowed by a section of the SMEs Standard. The concept should not be the basis for avoiding a particular accounting treatment for a material item. We also consider that the acceptable alternative accounting treatment should be specified in the individual sections of the SMEs Standard. However, circumstances may change over time and we recommend that the Board keep the use of 'undue cost or effort' under review in future revisions of the SMEs Standard. For example, it may be appropriate to include an 'undue cost or effort' exception when dealing with a relatively new and complex issue in the current version of the SMEs Standard but as practice develops and the concept becomes more accepted, it may no longer be appropriate to have the exception in a later iteration of the Standard.

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

S2A. What are your views on:

(a) aligning the definition of control in Section 9 with IFRS 10; and

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

Definition of control (Question S2A(a))

Response: ***Agree***

We support aligning the definition of control in Section 9 of the SMEs Standard with IFRS 10. Many groups may have some entities applying the full IFRS Standards and other entities in the group applying the SMEs Standard, and accordingly we believe that it is important that the definition of control is consistent.

Retaining and updating paragraph 9.5 of the SMEs Standard (Question S2A(b))

Response: ***Agree (with additional proposals)***

We support retaining and updating paragraph 9.5 of the SMEs Standard that provides guidance as to when control exists. However, we believe that paragraph 9.5 should apply only to entities for which power is determined through voting rights. Conversely, if power is determined other than through voting rights, then the full definition and detailed assessment should be applied.

S2B. Investment entities

What are your views on not introducing the requirement that investment entities measure investments in subsidiaries at fair value through profit and loss?

Response: ***Agree (with additional proposals)***

We support not incorporating the requirement for investment entities to measure subsidiaries at fair value through profit or loss (FVTPL). However, we suggest permitting (but not requiring) the investment entities' exemption. Consequently, SMEs qualifying as investment entities would have an option either to consolidate subsidiaries or carry them at FVTPL. The accounting policy would be applied consistently to all subsidiaries.

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

S3A. What are your views on supplementing the list of examples in Section 11 with a principle for classifying financial assets based on their contractual cash flow characteristics?

Response: ***Agree (with additional proposals)***

We support supplementing the list of examples in Section 11 with a principle for classifying financial assets based on their contractual cash flow characteristics. However, we believe that there should be an option to use FVTPL for basic financial instruments subject to some simplified business model test – i.e. to permit (but not require) use of FVTPL in cases in which it is more representative of the entity's business model. For example, if an entity holds debt instruments for the purposes of trading, then it should be permitted to hold them at FVTPL.

S3B. Impairment of financial assets

What is your view on aligning the *IFRS for SMEs* Standard with the simplified approach to the impairment of financial assets in IFRS 9?

Response: ***Agree (with additional proposals)***

We support aligning the SMEs Standard with the simplified approach to the impairment of financial assets in IFRS 9. However, we suggest considering additional simplifications – e.g. using a best estimate approach to estimate lifetime expected losses rather than a weighted probability of a range of possible outcomes approach.

S3C. Hedge accounting

(a) Do you consider Section 12 needs to include requirements on hedge accounting?

(b) If your answer is yes, what are your views on leaving the current requirements to address the needs of entities applying the Standard, rather than aligning Section 12 with IFRS 9?

(c) If your answer is no, please explain the reasons for your answer.

Response: ***Agree (with additional proposals)***

We believe that Section 12 should include hedge accounting requirements. We also support retaining the current Section 12 requirements for hedge accounting without any alignment with IFRS 9. However, we suggest giving SMEs an option to apply the full IFRS 9 hedge accounting rules, without having to adopt IFRS 9 in full.

We also recommend revisiting this matter again in the next comprehensive review of the SMEs Standard.

S3D. Using recognition and measurement requirements in IFRS Standards for financial instruments

(a) Are you aware of entities that opt to apply the recognition and measurement requirements of IAS 39 with the disclosure requirements of Sections 11 and 12?

(b) What are your views on changing the reference to IAS 39 to permit an entity to opt to apply the recognition and measurement requirements of IFRS 9 and the disclosure requirements of Sections 11 and 12?

Response: ***Agree***

We believe that only a small number of entities opted to apply the recognition and measurement requirements of IAS 39. We support changing the reference from IAS 39 to IFRS 9.

S3E. Treatment of Q&As (Q&A 2017/12.1) on the *IFRS for SMEs* Standard

What are your views on:

(a) adding the definition of a financial guarantee contract from IFRS 9 to the IFRS for SMEs Standard; and

(b) aligning the requirements in the IFRS for SMEs Standard for issued financial guarantee contracts with IFRS 9?

Response: ***Agree (a and b) (with additional proposals)***

We support adding the definition of a financial guarantee contract from IFRS 9. We also support fully aligning the requirements in the SMEs Standard for issued financial guarantee contracts with IFRS 9.

However, given the prevalence of intra-group guarantees over borrowings of subsidiaries and the difficulty of accessing fair value information for intra-group guarantees, we suggest that intra-group guarantees should be treated differently and should instead be accounted for in accordance with Section 21.

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

What are your views on:

(a) aligning the definition of joint control in Section 15 with IFRS 11?

(b) retaining the categories of joint arrangements: jointly controlled operations, jointly controlled assets and jointly controlled entities?

(c) retaining the accounting requirements of Section 15, including the accounting policy election for jointly controlled entities in Section 15?

Definition of joint control (Question S4(a))

Response: ***Agree***

We support aligning the definition of joint control in Section 15 of the SMEs Standard with IFRS 11. We believe that the definition of control in Section 9 and joint control in Section 15 should be consistent.

Retaining the categories of joint arrangements (Question S4(b))

Response: ***Disagree (with alternative proposals)***

We do not agree with the Board's proposals to retain the categories of joint arrangements in Section 15 because retaining these outdated categories, which are similar to IFRS 11's categories and yet in some ways different from IFRS 11, leads to potential confusion amongst users of financial statements. We recommend instead replacing the categories of jointly controlled assets, jointly controlled operations and jointly controlled entities in Section 15 of the SMEs Standard with the IFRS 11 categories – i.e. joint ventures and joint operations.

We acknowledge that there are complexities in applying the guidance in IFRS 11 on distinguishing a joint venture from a joint operation. We therefore believe that the Board should consider simplifying the distinction between joint ventures and joint operations to make it easier for SMEs to apply it in practice. We suggest using one of the following two approaches.

— *Rebuttable distinction based primarily on legal form.* An entity would be classified as a joint venture if it were a separate legal entity, unless:

  – substantially all of the output is taken by the investors (Test 1); or

  – all of the liabilities are essentially satisfied by cash flows received from the investors (Test 2).

  A conclusion based on Test 1 or Test 2 that a separate legal entity was a joint operation could be rebutted if other facts clearly indicated a joint venture.

— *Distinction based purely on legal form.* If the entity is a separate vehicle, then it would be classified as a joint venture.

Retaining the accounting requirements of Section 15 (Question S4(c))

Response: ***Agree***

We support retaining the accounting requirements of Section 15, including the accounting policy elections for 'jointly controlled entities' in Section 15.

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

S5A.

(a) Do you consider Section 19 needs to include requirements for the accounting for step acquisitions?

(b) If your answer is yes, should the requirements be aligned with IFRS 3 (2008).

Response: ***Yes (a and b)***

We support including requirements for accounting for step acquisitions and aligning these requirements with IFRS 3.

We also believe that requirements for disposals of interests in subsidiaries as a result of which control is lost/retained (i.e. step-disposals) should be included as set out in our response to N4.

S5B. What are your views on aligning Section 19 with IFRS 3 (2008) for acquisition costs and contingent consideration, including permitting an entity to use the undue cost or effort exemption and provide the related disclosures if measuring contingent consideration at fair value would involve undue cost or effort?

Response: ***Agree (with additional proposals)***

We support aligning Section 19 of the SMEs Standard with IFRS 3 (2008) for acquisition costs and contingent consideration.

We support permitting an entity to use the undue cost or effort exemption and provide the related disclosures if measuring contingent consideration at fair value would involve undue cost or effort. Contingent consideration would, in that case, be measured in accordance with IAS 37.

S5C. Definition of a business

What are your views on aligning the *IFRS for SMEs* Standard with the amended definition of a business issued in October 2018?

Response: ***Agree***

We support aligning the SMEs Standard with the amended definition of a business issued in October 2018 because the amendment clarifies the definition.

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

The requirements in IFRS 16 can be simplified so they are easier and less costly for SMEs to apply including by:

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

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

(c) simplifying the language in the Standard.

What are your views on aligning Section 20 with IFRS 16, making the simplifications listed in paragraphs (a)–(c)?

Aligning with IFRS 16, making simplifications (Question S6(a))

Response: ***Agree (with some concerns)***

We support aligning Section 20 with IFRS 16. We also support simplifying the recognition and measurement requirements in respect of the discount rate. However, we believe that care should be taken regarding other simplifications to ensure they remain consistent with IFRS 16 principles and achieve faithful representation for SMEs.

Retaining the disclosure requirements (Question S6(b))

Response: ***Agree (with additional proposals)***

We support retaining the disclosure requirements of Section 20. However, we believe that the Board should also consider enhancing such disclosures to include:

— disclosures regarding variable lease payments that are not part of the lease liability (expense and a brief narrative explanation); and

— disclosure of expenses relating to short-term leases and leases of low-value assets.

Simplifying the language (Question S6(c))

Response: ***Agree (with additional proposals)***

We support simplifying the language where appropriate. However, we believe that this should be considered in the context of our response as set out in G1B. Where the words in the full IFRS Standards are simple enough they should continue to be used. Care needs to be taken to ensure that changes in the words used don't result in increased complexity or uncertainty in the interpretation of the core principles of IFRS 16.

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

The Board is seeking views on the merits of three possible approaches to aligning Section 23 with IFRS 15:

(a) Alternative 1—modifying Section 23 to remove the clear differences in outcome from applying Section 23 or IFRS 15, without wholly reworking Section 23;

(b) Alternative 2—fully rewriting Section 23 to reflect the principles and language used in IFRS 15; and

(c) Alternative 3—deciding not to make amendments to Section 23 as part of this comprehensive review.

S7A. Which of the three alternatives do you prefer for amending Section 23 to align with IFRS 15? Why have you chosen this alternative?

Response: ***b (with additional proposals)***

We support redrafting Section 23 to align it with the principles and definitions used in IFRS 15 – i.e. we support moving to the transfer of control model rather than retaining the existing risks and rewards model. However, the rewriting of the Section should be careful not to introduce undue complexity into a section that in many respects already gives the same result as IFRS 15.

The key reason for supporting alignment with the control model in the full IFRS Standards is that applying the underlying framework to types of revenue streams not specifically discussed in Section 23 would result in an outcome similar to that under the full IFRS Standards.

S7B. If Alternative 1 or Alternative 2 is the basis for an Exposure Draft, should transitional relief be provided:

(a) by permitting an entity to continue its current revenue recognition policy for any contracts already in progress at the transition date or scheduled to be completed within a set time after the transition date?

(b) by some other method?

(c) not at all?

Please explain why you have chosen (a), (b) or (c) above.

Response: ***a (with additional proposals)***

We support providing transition relief similar to IFRS 15 when issued, by permitting an entity to continue its current recognition policy for any contracts already in progress at the date of transition (DOT) that are scheduled to be completed within a set time after the DOT. In relation to disclosures, we suggest that it may be appropriate to provide additional disclosures regarding amounts presented under the previous accounting policy and major differences.

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

What are your views on aligning Section 28 with the 2011 amendments to IAS 19 only in respect of the recognition requirements for termination benefits?

Response: ***Agree***

We support aligning Section 28 with the 2011 amendments to IAS 19 only for the recognition requirements for termination benefits.

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

What are your views on:

(a) aligning the definition of fair value in the IFRS for SMEs Standard with IFRS 13?

(b) aligning the guidance on fair value measurement in the IFRS for SMEs Standard with IFRS 13 so the fair value hierarchy incorporates the principles of the fair value hierarchy set out in IFRS 13?

(c) including examples that illustrate how to apply the hierarchy?

(d) moving the guidance and related disclosure requirements to Section 2?

Definition of fair value – IFRS 13 (Question S9(a))

Response: ***Agree***

Fair value hierarchy including examples how to apply (Questions S9(b) and S9(c))

Response: ***Agree (with additional proposals)***

We support aligning the guidance on fair value measurement such that the fair value hierarchy would be consistent with the principles of the fair value hierarchy set out in IFRS 13. We support including examples that illustrate how to apply the hierarchy. We recommend that such examples should focus on items that commonly occur in SMEs, highlighting the key areas of judgement.

We suggest that the Board consider simplifying the disclosure requirements of IFRS 13 for the SMEs Standard.

Moving the guidance and related disclosure requirements to Section 2 (Question S9(d))

Response: ***Disagree (with alternative proposals)***

We support having the guidance and related disclosure requirements in one place. However, fair value measurement is not a 'pervasive principle', and therefore we do not believe that the guidance fits well in Section 2.

We suggest that the Board consider including the fair value guidance in a separate Section, e.g. Section 2A, consistent with the full IFRS Standards where IFRS 13 is a separate standard.

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

What are your views on:

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

(b) leaving the IFRS for SMEs Standard unchanged by the amendments to IFRS Standards listed in Table A2 of Appendix A?

(c) whether to align the IFRS for SMEs Standard with the amendments to IFRS Standards and IFRIC Interpretations listed in Table A3 of Appendix A?

Please explain your views and provide any relevant information in support of your views.

Table A1 of Appendix A

Response: ***Agree***

We support aligning the SMEs Standard with the amendments to IFRS Standards outlined in Table A1 for the reasons provided by the Board under 'Board's rationale' in Appendix A to the RFI.

Table A2 of Appendix A

Response: ***Agree***

We support leaving the SMEs Standard unchanged by the amendments to IFRS Standards listed in Table A2 for the reasons provided by the Board under 'Boards' rationale' in Appendix A to the RFI.

Table A3 of Appendix A

Response ***Agree (with additional proposals)***

We support aligning the SMEs Standard with the amendments to IFRS Standards and IFRIC Interpretations listed in Table A3. We believe that all these amendments and clarifications are relevant to SMEs.

However, for Section 29 and IFRIC 23 alignment, we believe that the Board should consider an undue cost or effort relief for measuring an uncertain tax position – e.g. to allow using a 'best estimate' approach rather than require applying an 'expected value' approach for scenarios with multiple outcomes.

Part C – Questions on new topics and other matters related to the Standard

N1. Aligning the IFRS for SMEs Standard with IFRS 14 Regulatory Deferral Accounts

What are your views on not aligning the IFRS for SMEs Standard with IFRS 14, that is, not including requirements for regulatory deferral account balances within the IFRS for SMEs Standard?

Response: ***Agree***

We support not aligning the SMEs Standard with IFRS 14. We believe that the SMEs Standard does not need to address regulatory deferral account balances because this is not an issue commonly encountered by SMEs.

N2. Cryptocurrency / Cryptoassets

Are holdings of cryptocurrency and issues of cryptoassets prevalent (that is, are there material holdings among entities eligible to apply the *IFRS for SMEs* Standard) in your jurisdiction?

Response: ***No***

We are not aware of prevalent holdings of cryptocurrency and issues of cryptoassets among SMEs. However, we suggest that the Board keep this area under review for SMEs.

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

Are you aware of entities applying the simplifications allowed by paragraph 28.19 of the *IFRS for SMEs* Standard? If so, are you aware of difficulties arising in applying the simplifications? Please include a brief description of the difficulty encountered in applying the simplification.

Response: ***Yes***

We are aware of difficulties arising in applying the simplifications in paragraph 28.19. In particular, the simplification in 28.19(b). We believe that it is unclear how the simplification should be applied – e.g. ignoring future service means only valuing a benefit by reference to service that an employee has accrued, which may lead to excluding most of the actuarial assumptions partially or entirely.

Accordingly, we believe that attempting to simplify aspects of the actuarial calculation, in isolation, can produce inconsistent results.

Also, we believe that anomalies can arise from ignoring future salary increases, in paragraph 28.19(a), yet discounting for time to future payment. We therefore recommend revisiting this matter in this second comprehensive review of the Standard.

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

Are there any topics the *IFRS for SMEs* Standard does not address that you think should be the subject of specific requirements (for example, topics not addressed by the Standard for which the general guidance in paragraphs 10.4–10.6 of the *IFRS for SMEs* Standard is insufficient)?

N5. Please describe any additional issues you would like to bring to the Board's attention relating to the *IFRS for SMEs* Standard.

Response: ***Yes***

We believe that there are five topics that should be the subject to specific requirements, as follows.

Expand the current consolidation exemption

We believe that the Board should extend the current consolidation exemption in paragraph 9.3(b) – under which a parent is not required to present consolidated financial statements if its ultimate parent or any intermediate parent produces consolidated general purpose financial statements that comply with the full IFRS Standards or with this Standard – to allow reliance to be placed on consolidated financial statements of a higher parent prepared under other recognised GAAPs.

Incorporate Newco guidance

We believe that the Board should expand Section 19 of the SMEs Standard to incorporate the Newco guidance in IFRS 3.B18 that states that a Newco will not normally be the acquirer in a share for share transaction. These transactions are common in private entities in many jurisdictions.

Disposals of interests in subsidiaries in which control is lost/retained (i.e. step-disposals)

We support including requirements on accounting for step-acquisitions as set out in our response to S5A; however, step-disposals were not addressed. We believe that the Board should expand Section 19 of the SMEs Standard to address the treatment of disposals (including partial disposals) of interests in subsidiaries as a result of which control is lost/retained.

Capitalisation of borrowing costs

We believe that the Board should consider allowing an option in Section 25 to capitalise borrowing costs that are directly attributable to the acquisition, construction or production of a 'qualifying asset'. We believe that this option can be very relevant for SMEs in certain sectors.

How to account for VAT and business taxes

We believe that the Board should expand the SMEs Standard to provide clarity on when VAT and business taxes should be included in revenue or the cost of an item, when the amounts should be included in the tax expense line, or when the amounts should simply be carried in the statement of financial position as payables or receivables, because such taxes are commonly encountered by SMEs and there may be diversity in practice.