

Request for Information

Comprehensive Review of the *IFRS for SMEs* Standard

January 2020

Optional Response Document

Instructions for completion

The International Accounting Standards Board (Board) has published this separate Microsoft Word[®] document for respondents to use for submitting their comments, if they wish.

This document presents all of the questions in Parts A, B and C of the Request for Information in a table with spaces for responses.

Respondents are encouraged to complete this document electronically. Many respondents will find this the easiest way to submit their comments and making submissions in this form will also help ease the analysis of the answers. However, respondents are not required to use this document and responses will be accepted in all formats.

Comments to be received by **27 October 2020**

Comment deadline changed from 27 July 2020 because of the covid-19 pandemic

Part A—Strategic and general questions

Name of Respondent: **The South African Institute of Chartered Accountants’ (SAICA) Accounting Practices Committee**

Organisation: **SAICA**

Jurisdiction: **South Africa**

Correspondence and/or email address: **Prof Ahmed Haji – Chairman of the Accounting Practices Committee
Bongeka Nodada – Project Director: Financial Reporting**

Ref	Question	Response <i>(Please give clear reasoning to support your response.)</i>
<p><i>Part A of the Request for Information sets out the framework the Board developed for approaching the second comprehensive review and asks for comments on the Board’s approach.</i></p>		
G1	<p>Alignment approach</p> <p>The <i>IFRS for SMEs</i> Standard was originally developed using an alignment approach. That is, the Standard was based on the 1989 <i>Framework for the Preparation and Presentation of Financial Statements</i> and the principles and related requirements of full IFRS Standards, with modifications that were appropriate in the light of users’ needs and cost-benefit considerations.</p> <p>In considering how to approach this comprehensive review of the <i>IFRS for SMEs</i> Standard, the Board considered whether it should continue to follow the alignment approach or if the Board should only consider issues raised by stakeholders regarding the <i>IFRS for SMEs</i> Standard. The second approach would see the <i>IFRS for SMEs</i> Standard diverge from full IFRS Standards over time and become an independent Standard.</p>	

Part A—Strategic and general questions

Ref	Question	Response <i>(Please give clear reasoning to support your response.)</i>
	<p>The Board’s approach at the first stage of the review is to continue to align the principles in the <i>IFRS for SMEs</i> Standard with those in full IFRS Standards and to seek views on this approach.</p> <p><i>This approach is discussed in paragraph 30 of part A of the Request for Information.</i></p>	
G1A	<p>In your view, should the <i>IFRS for SMEs</i> Standard be aligned with full IFRS Standards?</p> <p>Please explain why you are suggesting the <i>IFRS for SMEs</i> Standard should or should not be aligned with full IFRS Standards.</p>	<p>Our members have mixed views on this matter. In principle, we support the Board’s approach of maintaining some alignment with the <i>IFRS for SMEs</i> Standard and full IFRS Standards, and believe that the alignment exercise should be tracked on a case by case basis taking into consideration the alignment principles.</p> <p>In obtaining feedback from our members, the distinction between the two viewpoints (alignment vs non-alignment) is polarised between two distinct categories of entities who apply the <i>IFRS for SMEs</i> Standard.</p> <p>On the one end of the spectrum are the entities who currently do not have public accountability, but which may one day grow to the point where transition to IFRS becomes necessary.</p> <p>Respondents who supported the alignment approach noted the following continued benefits from maintaining the current alignment with full IFRS Standards: alignment makes the migration from the <i>IFRS for SMEs</i> Standard to full IFRS Standards easier, hence the view that alignment between the two frameworks should continue. Our</p>

Part A—Strategic and general questions

Ref	Question	Response <i>(Please give clear reasoning to support your response.)</i>
		<p>support for alignment is therefore expressed on the basis that the entities to which the framework is aimed are those SMEs that require general purpose financial statements and whose intention is to grow in the future and high likely to migrate to full IFRS. Alignment with IFRS Standards is logical in this context because the transition becomes seamless as the need arises for a SME to move to IFRS.</p> <p>The opposing viewpoint generally came from those entities who have no expectation of ever transitioning to full IFRS Standards in future, and who only prepare general purpose financial statements for regulatory and compliance purposes. These entities are not supportive of the alignment approach as they are not of the view that this is likely to achieve massive simplifications for SMEs, and may in fact result in the <i>IFRS for SMEs</i> Standard becoming more complex and costly to apply than it already is. Whilst these respondents acknowledge that this would over time result in divergence from full IFRS Standards and the <i>IFRS for SMEs</i> Standard becoming a complete stand-alone framework, they are of the view that this approach could result in a much simpler framework than what we currently have in place.</p> <p>Although the Request for Information has not explicitly asked for input in this regard, we believe that it may be necessary for the Board to</p>

Part A—Strategic and general questions

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		carefully reconsider and/or reaffirm the scope of the <i>IFRS for SMEs</i> Standard in order to decide on the appropriate way forward with regard to aligning or not aligning the <i>IFRS for SMEs</i> Standard with full IFRS Standards. Our responses to the questions that follow are based on the assumption that the Board will pursue an alignment approach.
G1B	<p>What extent of alignment of the <i>IFRS for SMEs</i> Standard with full IFRS Standards do you consider most useful, and why?</p> <p>(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?</p> <p>Please explain the reasoning that supports your choice of (a), (b) or (c).</p>	It would be useful to have a universal glossary of terms applicable to both the <i>IFRS for SMEs</i> Standard and full IFRS Standards to ensure that there is consistent understanding of the definitions under both Frameworks, particularly where defined terms are used in both frameworks. However, when considering the user information needs and relevance from an SME perspective, we are of the view that the differentiation and simplifications should be made to the recognition, measurement and disclosure requirements within the <i>IFRS for SMEs</i> Standard. Thus, we support option (b) in this regard aligning of both the principles and important definitions.
G2	<p>Alignment principles</p> <p>The Board decided that in assessing whether and how to consult on aligning the <i>IFRS for SMEs</i> Standard with full IFRS Standards not currently included in the <i>IFRS for SMEs</i> Standard, the Board would apply three principles:</p>	

Part A—Strategic and general questions

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	<p>(a) relevance to SMEs; (b) simplicity; and (c) faithful representation.</p> <p><i>These principles are discussed in paragraphs 32–37 of part A of the Request for Information.</i></p>	
	<p>In your view, do these principles provide a framework to assist in determining whether and how the <i>IFRS for SMEs</i> Standard should be aligned with full IFRS Standards?</p> <p>Please explain the reasoning that supports your response.</p>	<p>We agree that the principles provide a framework that will assist in assessing whether and how to align the <i>IFRS for SMEs</i> Standard and full IFRS Standards. In our view, the consideration for alignment should be tested against all three principles. In addition, these are likely to contribute meaningfully in achieving an appropriate balance between providing useful information to users of financial statements and preparing that information at a reasonable cost.</p>
G3	<p>When to consider alignment</p> <p>If the alignment approach is maintained there needs to be an agreed approach as to how soon after an IFRS Standard, an amendment to an IFRS Standard, or an IFRIC Interpretations is issued the Board should consider that change for incorporation into the <i>IFRS for SMEs</i> Standard.</p>	

Ref	Question	Response <i>(Please give clear reasoning to support your response.)</i>
	<p>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?</p> <p>Those IFRS Standards, amendments to IFRS Standards or IFRIC Interpretations:</p> <ul style="list-style-type: none"> (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). <p>Please explain the reasoning that supports your views, for example, the benefits of the date selected.</p>	<p>Based on our experience of applying the recent IFRS Standards namely IFRS 9 – <i>Financial Instruments</i>, IFRS 15 – <i>Revenue from Contracts with Customers</i>, and IFRS 16 – <i>Leases</i>, which have proven to be challenging to apply even for larger companies with a bigger pool of resources at their disposal, it would be useful for these complexities to have fully unravelled in the IFRS environment, and for sufficient implementation guidance to have been developed, before considering incorporating these into the <i>IFRS for SMEs</i> Standard. Moreover, it appears that the level of activity on these projects pre- and post-implementation of these IFRS Standards (based on the submissions to the IFRS Interpretations Committee), could in our view serve as an indicator of the intricacies involved in implementing the new requirements by IFRS preparers. Consequently, our preference is that major changes to IFRSs, including new IFRS Standards be introduced in the <i>IFRS for SMEs</i> Standard once the principles are clearly understood and embedded within the full IFRS Standards. Our view is that the inclusion of new IFRS into the <i>IFRS for SMEs</i> Standard should be considered once the application at an IFRS level has reached maturity. In addition, given that the <i>IFRS for SMEs</i> Standard offers a much more stable reporting platform, our preferred option is (c) effective and on which the post-implementation review was completed before the publication date of the Request for Information.</p>

Part A—Strategic and general questions

Ref	Question	Response <i>(Please give clear reasoning to support your response.)</i>
		<p>Our responses to the questions on specific alignment that follow should be read in the context of our response to this question regarding the timing of alignment, as many of the specific items discussed in the Request for Information would not qualify for consideration during this Comprehensive Review of the <i>IFRS for SMEs</i> Standard based on our preferred option (c).</p>

Part B—Questions on aligning specific sections of the *IFRS for SMEs* Standard

Ref	Question	Response <i>(Please give clear reasoning to support your response.)</i>
<p><i>Part B of the Request for Information contains questions on sections of the IFRS for SMEs Standard that are being considered for alignment with IFRS Standards, amendments to IFRS Standards or IFRIC Interpretations in the scope of the comprehensive review. Part B summarises each of the issues under review. More detailed explanations of the Board’s reasoning are set out in Appendix B of the Request for Information.</i></p>		
S1	<p>Aligning Section 2 Concepts and Pervasive Principles of the IFRS for SMEs Standard with the 2018 Conceptual Framework for Financial Reporting</p> <p>In developing the <i>IFRS for SMEs</i> Standard, the Board stated that the 1989 <i>Framework for the Preparation and Presentation of Financial Statements (1989 Framework)</i> provides the foundation for the <i>IFRS for SMEs</i> Standard as well as for full IFRS Standards. Section 2 is currently aligned with the 1989 <i>Framework</i>.</p> <p>The Board is seeking views on aligning Section 2 with the <i>Conceptual Framework for Financial Reporting</i> issued in 2018 (<i>2018 Conceptual Framework</i>). This alignment would require amendments to other sections of the <i>IFRS for SMEs</i> Standard. For example, Section 17 <i>Property, Plant and Equipment</i> paragraph 17.4 uses the definition of ‘asset’ from Section 2.</p> <p>Section 2 also includes the concept of ‘undue cost or effort’, a concept that is made available to an entity applying the <i>IFRS for SMEs</i> Standard in specified circumstances. The <i>2018 Conceptual Framework</i> has no direct equivalent concept; however, the Board is seeking views on retaining the concept of ‘undue cost or effort’ in Section 2 because it provides a mechanism the Board can use to balance the costs and benefits of the requirements of the <i>IFRS for SMEs</i> Standard.</p>	
	<p>What are your views on:</p> <p>(a) aligning Section 2 with the 2018 Conceptual Framework?</p> <p>(b) making appropriate amendments to other sections of the IFRS for SMEs Standard?</p> <p>(c) retaining the concept of ‘undue cost or effort’?</p>	<p>(a) Consistent with our responses to the G section above on aligning the important definitions in both the <i>IFRS for SMEs</i> Standard and full IFRS Standards, and in light of the fact that the <i>Conceptual Framework</i> forms the basis for developing accounting policies it is therefore logical that Section 2 should</p>

Part B—Questions on aligning specific sections of the *IFRS for SMEs* Standard

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		<p>be aligned with the 2018 <i>Conceptual Framework</i>. We note that this alignment should be performed in line with the three alignment principles outlined in the Request for Information. Furthermore, we would like to emphasise that the Board should aim to achieve the same degree of simplification as is currently found within the extant Section 2.</p> <p>(b) In the event that changes are made to Section 2 and there is a consequential effect on other sections of the <i>IFRS for SMEs</i> Standard, we support making consequential changes to the relevant sections of the <i>IFRS for SMEs</i> Standard.</p> <p>(c) Whilst we support the retention of the concept of ‘undue cost or effort’, we recommend that this concept be incorporated as an overarching principle within the <i>IFRS for SMEs</i> Standard.</p>
S2	<p>Aligning Section 9 Consolidated and Separate Financial Statements of the <i>IFRS for SMEs</i> Standard with IFRS 10 Consolidated Financial Statements</p> <p>Section 9 of the <i>IFRS for SMEs</i> Standard establishes control as the basis for determining which entities are included in the consolidated financial statements. The definition of control in Section 9 is aligned with the definition of control from the superseded version of IAS 27 <i>Consolidated and Separate Financial Statements</i> and includes some of the guidance from the superseded SIC-12 <i>Consolidation—Special Purpose Entities</i>.</p> <p>The Board is seeking views on aligning the definition of control in Section 9 with the definition in IFRS 10 <i>Consolidated Financial Statements</i> to provide a clearer principle and facilitate greater consistency among the financial statements of entities applying the <i>IFRS for SMEs</i> Standard. IFRS 10 sets out a single principle of control that applies to all</p>	

Part B—Questions on aligning specific sections of the *IFRS for SMEs* Standard

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	<p>investees.</p> <p>The Board is also seeking views on retaining and updating the simplification in paragraph 9.5 of the <i>IFRS for SMEs</i> Standard, which states that control is presumed to exist when the parent entity owns, directly or indirectly through subsidiaries, more than half the voting power of the entity.</p>	
S2A	<p>What are your views on:</p> <p>(a) aligning the definition of control in Section 9 with IFRS 10; and (b) retaining and updating paragraph 9.5 of the <i>IFRS for SMEs</i> Standard?</p> <p><i>Further information on this question is provided in paragraphs B15–B24 of Appendix B of the Request for Information.</i></p>	<p>(a) Consistent with our responses to the G section above, we support the alignment of the definition of control in the <i>IFRS for SMEs</i> Standard and full IFRS Standards. This would allow a universal understanding of the same terms under both Frameworks. We would expect that a fundamental concept such as control of an entity should have a similar outcome regardless of which reporting framework is in use.</p> <p>(b) We agree with retaining and updating paragraph 9.5 of the <i>IFRS for SMEs</i> Standard given that a majority of the control relationships in the SME environment are simple. However, we note that there may be a small percentage of control transactions entered into by SMEs that may be complex and would therefore require additional guidance similar to that found within IFRS 10.</p>
	Investment entities	

Part B—Questions on aligning specific sections of the *IFRS for SMEs* Standard

Ref	Question	Response <i>(Please give clear reasoning to support your response.)</i>
S2B	<p>IFRS 10 requires an investment entity to measure an investment in a subsidiary at fair value through profit or loss and not consolidate such entity. The <i>IFRS for SMEs</i> Standard has no equivalent requirement.</p> <p>Based on the definition of investment entity in IFRS 10 the Board considered that few entities eligible to apply the <i>IFRS for SMEs</i> Standard will also be investment entities. Consequently, the Board is seeking views on not introducing the requirement that an investment entity measure an investment in a subsidiary at fair value through profit or loss rather than consolidate such entities.</p> <p>What are your views on not introducing the requirement that investment entities measure investments in subsidiaries at fair value through profit and loss?</p> <p><i>Further information on this question is provided in paragraphs B25–B26 of Appendix B of the Request for Information.</i></p>	
S3	<p>Aligning Section 11 <i>Basic Financial Instruments</i> and Section 12 <i>Other Financial Instrument Issues</i> of the <i>IFRS for SMEs</i> Standard with IFRS 9 <i>Financial Instruments</i></p> <p>In July 2014 the Board issued IFRS 9 <i>Financial Instruments</i>, completing its project to replace IAS 39 <i>Financial Instruments: Recognition and Measurement</i> with a principle-based Standard.</p> <p>Classification and measurement of financial assets</p>	<p>While we agree that there are likely to be few investment entities within the SME sector, to the extent that such entities do exist, these entities could benefit from applying the exception to consolidation We therefore suggest that an exemption be introduced as an accounting policy election in the <i>IFRS for SMEs</i> Standard.</p>

Part B—Questions on aligning specific sections of the *IFRS for SMEs* Standard

Ref	Question	Response <i>(Please give clear reasoning to support your response.)</i>
	<p>IFRS 9 applies a principle-based approach to the classification of financial assets. Applying IFRS 9, when an entity initially recognises a financial asset, its classification is based on:</p> <ul style="list-style-type: none"> (a) the contractual cash flow characteristics of the financial asset; and (b) the business model for managing the financial asset. <p>Section 11 of the <i>IFRS for SMEs</i> Standard provides a list of examples of basic financial instruments as well as the conditions a debt instrument must satisfy to qualify (that is to be classified) as a basic financial instrument and therefore be measured at amortised cost.</p> <p>The Board’s discussions on aligning the classification of financial assets included considering whether supplementing the list of examples in Section 11 with a principle based on their contractual cash flow characteristics would be helpful to entities in the circumstance in which a financial asset does not match the characteristics described in any of the examples.</p>	
S3A	<p>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?</p> <p><i>Further information on this question is provided in paragraphs B27–B34 of Appendix B of the Request for Information.</i></p>	<p>We agree and support supplementing the list of examples in Section 11 with a principle for classifying financial assets based on their contractual cash flow characteristics as this would be useful.</p>
S3B	<p>Impairment of financial assets</p> <p>The current requirements for recognising and measuring impairment of financial assets measured at cost or amortised cost in the <i>IFRS for SMEs</i> Standard are based on IAS 39. The impairment model in IAS 39 (an incurred loss model) may delay an entity’s recognition of credit losses because an impairment test is not required until there is objective evidence of impairment.</p>	

Part B—Questions on aligning specific sections of the *IFRS for SMEs* Standard

Ref	Question	Response <i>(Please give clear reasoning to support your response.)</i>
	<p>The impairment requirements in IFRS 9 addressed the problem of delayed recognition by requiring an entity to recognise expected credit losses. IFRS 9 includes a simplified approach to provide for lifetime expected credit losses for trade receivables, contract assets and lease receivables. The Board is seeking views on introducing the simplified approach into the <i>IFRS for SMEs</i> Standard.</p>	
	<p>What is your view on aligning the <i>IFRS for SMEs</i> Standard with the simplified approach to the impairment of financial assets in IFRS 9?</p> <p><i>Further information on this question is provided in paragraphs B35–B37 of Appendix B of the Request for Information.</i></p>	<p>A majority of the participants agree with the alignment of the <i>IFRS for SMEs</i> Standard with the simplified approach to the impairment of financial assets in IFRS 9. They believe the concept of expected credit loss provides users of IFRS financial statements with useful information and users of SME financial statements could experience similar benefit if this concept is incorporated in the <i>IFRS for SMEs</i> Standard. Moreover, the expected credit loss model more faithfully represents what an entity is expected to recover. To assist SMEs in the application of the expected credit loss, simplifications of the requirements accompanied by educational material, for example, would, in our view, go a long way to supporting SMEs in implementing the requirements.</p> <p>Others were not supportive of introducing the simplified approach in the <i>IFRS for SMEs</i> Standard citing entities’ capacity to perform expected credit losses as a major concern. They acknowledge, however, that this approach provides information that is useful to the users of financial statements.</p>

Part B—Questions on aligning specific sections of the *IFRS for SMEs* Standard

Ref	Question	Response <i>(Please give clear reasoning to support your response.)</i>
S3C	<p>Hedge accounting</p> <p>IFRS 9 includes new hedge accounting requirements that represent a major overhaul of hedge accounting and introduce significant improvements.</p> <p>Section 12 sets out requirements for the types of hedging activities an entity applying the <i>IFRS for SMEs</i> Standard is likely to use to manage risks.</p> <p>The Board decided to seek views on the need for Section 12 to provide hedge accounting requirements and to seek views on retaining the current requirements rather than aligning with IFRS 9.</p>	
	<p>(a) Do you consider Section 12 needs to include requirements on hedge accounting?</p> <p>(b) If your answer is yes, what are your views on retaining the current requirements to address the needs of entities applying the Standard, rather than aligning Section 12 with IFRS 9?</p> <p>(c) If your answer is no, please explain the reasons for your answer.</p>	<p>(a) Hedge accounting requirements in the <i>IFRS for SMEs</i> Standard are useful for those SMEs that enter into hedging relationships and we suggest retaining hedge accounting guidance in Section 12.</p> <p>(b) The current requirements are simple and currently understood by SMEs. Therefore, we support retaining the current hedge accounting requirements in Section 12.</p>

Part B—Questions on aligning specific sections of the *IFRS for SMEs* Standard

Ref	Question	Response <i>(Please give clear reasoning to support your response.)</i>
S3D	<p>Using recognition and measurement requirements in IFRS Standards for financial instruments</p> <p>The <i>IFRS for SMEs</i> Standard currently permits entities to opt to apply either:</p> <p>(a) the requirements of both Sections 11 and 12 of the <i>IFRS for SMEs</i> Standard in full; or</p> <p>(b) the recognition and measurement requirements of IAS 39 and the disclosure requirements of Sections 11 and 12.</p> <p>In order to decide whether to amend the <i>IFRS for SMEs</i> Standard and permit an entity to opt to apply the recognition and measurement requirements of IFRS 9 and the disclosure requirements of Sections 11 and 12, the Board would like to obtain evidence on how frequently the option to apply IAS 39 is used.</p> <p>(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?</p> <p>(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?</p>	<p>(a) We are not aware of entities that opt to apply the recognition and measurement requirements of IAS 39 with the disclosure requirements of Sections 11 and 12.</p> <p>(b) Due to the lack of take up in our jurisdiction, we do not believe that the fall back to either IAS 39 or IFRS 9 is still relevant. We would recommend removing the 'fall back' option from the <i>IFRS for SMEs</i> Standard.</p>
S3E	<p>Treatment of Q&As on the <i>IFRS for SMEs</i> Standard</p> <p>Since the 2015 <i>Amendments to the IFRS for SMEs Standard</i> were issued by the Board, the SMEIG has published one Q&A on <i>Accounting for financial guarantee contracts in</i></p>	

Part B—Questions on aligning specific sections of the *IFRS for SMEs* Standard

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	<p><i>individual or separate financial statements of the issuer</i> (Q&A 2017/12.1).</p> <p>This comprehensive review provides an opportunity for the Q&A 2017/12.1 to be incorporated into the <i>IFRS for SMEs</i> Standard and for the Q&A to be withdrawn. The Board noted the SMEIG’s recommendation that the Board revisit the accounting treatment for issued financial guarantee contracts during the second comprehensive review with a view to providing measurement relief. The SMEIG made this recommendation based on feedback that measuring issued financial guarantee contracts at fair value at each reporting date is more complex than the accounting requirements in IFRS 9. The Board is seeking views on aligning the accounting requirements in Section 12 for issued financial guarantee contracts with IFRS 9.</p>	
	<p>What are your views on:</p> <p>(a) adding the definition of a financial guarantee contract from IFRS 9 to the <i>IFRS for SMEs</i> Standard; and</p> <p>(b) aligning the requirements in the <i>IFRS for SMEs</i> Standard for issued financial guarantee contracts with IFRS 9?</p> <p><i>Further information on this question is provided in paragraphs B38–B45 of Appendix B of the Request for Information.</i></p>	<p>(a) We agree with adding the definition of financial guarantee contracts in IFRS 9 to the <i>IFRS for SMEs</i> Standard.</p> <p>(b) We do not agree with aligning the requirements in the <i>IFRS for SMEs</i> Standard for issued financial guarantee contracts with IFRS 9. To achieve further simplifications for SMEs, we suggest that the financial guarantee contracts accounting in the <i>IFRS for SMEs</i> Standard should rather be aligned with Section 21 – <i>Provisions and Contingencies</i>.</p>
S4	<p>Aligning Section 15 <i>Investments in Joint Ventures</i> of the <i>IFRS for SMEs</i> Standard with IFRS 11 <i>Joint Arrangements</i></p> <p>Section 15 of the <i>IFRS for SMEs</i> Standard is based on IAS 31 <i>Interests in Joint Ventures</i>, requiring entities that are jointly controlled to be classified as either jointly controlled operations, jointly controlled assets or jointly controlled entities. A significant difference between Section 15 and IAS 31 is that Section 15 does not permit proportionate consolidation for jointly controlled entities.</p> <p>In May 2011 the Board issued IFRS 11 <i>Joint Arrangements</i>, which replaced IAS 31.</p>	

Part B—Questions on aligning specific sections of the *IFRS for SMEs* Standard

Ref	Question	Response <i>(Please give clear reasoning to support your response.)</i>
	<p>Applying IFRS 11, an entity classifies joint arrangements on the basis of the parties' rights and obligations under the arrangement. IFRS 11 changed the definitions and requirements of IAS 31 and classifies arrangements as either joint operations or joint ventures.</p> <p>The Board is seeking views on aligning the definition of joint control in Section 15 with the definition in IFRS 11 but retaining the three categories of joint arrangements—jointly controlled operations, jointly controlled assets and jointly controlled entities—in Section 15. Consequently, the accounting requirements of Section 15 would be retained.</p> <p>Retaining these accounting requirements would include retaining the accounting policy election in Section 15 such that a venturer can choose to apply the cost model, the equity method or the fair value model to account for jointly controlled entities.</p>	
	<p>What are your views on:</p> <p>(a) aligning the definition of joint control in Section 15 with IFRS 11?</p> <p>(b) retaining the categories of joint arrangements: jointly controlled operations, jointly controlled assets and jointly controlled entities?</p> <p>(c) retaining the accounting requirements of Section 15, including the accounting policy election for jointly controlled entities in Section 15?</p> <p><i>Further information on this question is provided in paragraphs B50–B54 of Appendix B of the Request for Information.</i></p>	<p>(a) We agree with the alignment of the definition of joint control in Section 15 with IFRS 11. We do not foresee the alignment of the definitions having an impact on SMEs.</p> <p>(b) We support retaining the categories of joint arrangements, joint controlled operations, jointly controlled assets and jointly controlled entities.</p> <p>(c) We support retaining the accounting requirements of Section 15, including the accounting policy election for jointly controlled entities in Section 15.</p>
S5	<p>Aligning Section 19 <i>Business Combinations and Goodwill</i> of the <i>IFRS for SMEs</i> Standard with IFRS 3 (2008) <i>Business Combinations</i></p> <p>Section 19 of the <i>IFRS for SMEs</i> Standard is based on IFRS 3 (2004) <i>Business</i></p>	

Part B—Questions on aligning specific sections of the *IFRS for SMEs* Standard

Ref	Question	Response <i>(Please give clear reasoning to support your response.)</i>
	<p><i>Combinations</i>, which applies the purchase method of accounting for business combinations.</p> <p>The Board is seeking views on aligning Section 19 with parts of IFRS 3 (2008) to:</p> <ul style="list-style-type: none"> (a) introduce requirements for step acquisitions. (b) recognise acquisition-related costs as an expense at the time of the acquisition. (c) require contingent consideration to be recognised at fair value and subsequently accounted for as a financial instrument with changes in fair value recognised in profit or loss. The Board is also seeking views on permitting an entity to use the undue cost or effort exemption in paragraph 2.14A of the <i>IFRS for SMEs</i> and provide the related disclosures if measuring contingent consideration at fair value would involve undue cost or effort. 	
S5A	<ul style="list-style-type: none"> (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). <p><i>Further information on this question is provided in paragraphs B55–B66 of Appendix B of the Request for Information.</i></p>	<ul style="list-style-type: none"> (a) Yes, Section 19 needs to include requirements for the accounting for step acquisitions because this will provide relevant guidance, clarity and also ensure that there is consistency in how these transactions are accounted for. (b) We would support aligning these requirements with IFRS 3 (2008).
S5B	<p>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</p>	<p>We support the alignment of 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 providing the</p>

Part B—Questions on aligning specific sections of the *IFRS for SMEs* Standard

Ref	Question	Response <i>(Please give clear reasoning to support your response.)</i>
	<p>effort exemption and provide the related disclosures if measuring contingent consideration at fair value would involve undue cost or effort?</p> <p><i>Further information on this question is provided in paragraphs B55–B66 of Appendix B of the Request for Information.</i></p>	<p>related disclosures if measuring contingent consideration at fair value would involve undue cost or effort.</p>
S5C	<p>Definition of a business</p> <p>In October 2018 the Board issued an amendment to IFRS 3, effective for acquisitions on or after 1 January 2020, to improve consistency of application by clarifying the definition of a business. The amended definition emphasises that the output of a business is the goods and services it provides to customers; the previous definition defined outputs as having the ability to provide returns in the form of dividends, lower costs and other economic benefits to investors and others.</p>	
	<p>What are your views on aligning the <i>IFRS for SMEs</i> Standard with the amended definition of a business issued in October 2018?</p>	<p>We support aligning the <i>IFRS for SMEs</i> Standard with the amended definition of a business issued in October 2018 as this will also assist in clarifying the application of the definition under the <i>IFRS for SMEs</i> Standard.</p>
S6	<p>Aligning Section 20 <i>Leases</i> of the <i>IFRS for SMEs</i> Standard with IFRS 16 <i>Leases</i></p> <p>In January 2016 the Board issued IFRS 16 <i>Leases</i>. IFRS 16 replaced IAS 17 <i>Leases</i> and became effective on 1 January 2019.</p> <p>Section 20 of the <i>IFRS for SMEs</i> is based largely on IAS 17.</p> <p>The Board noted that leases provide an important source of funding to SMEs and therefore decided to seek views on aligning Section 20 with IFRS 16, with simplifications. The requirements in IFRS 16 can be simplified so they are easier and less costly for SMEs to apply including by:</p>	

Part B—Questions on aligning specific sections of the *IFRS for SMEs* Standard

Ref	Question	Response <i>(Please give clear reasoning to support your response.)</i>
	<p>(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;</p> <p>(b) retaining the disclosure requirements of Section 20; and</p> <p>(c) simplifying the language in the Standard.</p> <p>What are your views on aligning Section 20 with IFRS 16, making the simplifications listed in paragraphs (a)–(c)?</p> <p><i>Further information on this question is provided in paragraphs B67–B72 of Appendix B of the Request for Information.</i></p>	<p>In principle, we agree with the alignment of Section 20 with IFRS 16 as the change would also improve the financial reporting of leases under the <i>IFRS for SMEs</i> Standard. However, IFRS 16 has only recently become effective and our preference is to await the application of this standard to reach maturity before the IFRS 16 simplified requirements are introduced within the <i>IFRS for SMEs</i> standard. Many participants noted the need to better understand the extent and nature of the proposed simplifications before opining on their support for alignment with IFRS 16.</p>
S7	<p>Aligning Section 23 Revenue of the <i>IFRS for SMEs</i> Standard with IFRS 15 Revenue from Contracts with Customers</p> <p>Section 23 of the <i>IFRS for SMEs</i> Standard is based on IAS 18 <i>Revenue</i>. IAS 18 provided relatively limited principles for the recognition of revenue from the supply of goods or services.</p> <p>IFRS 15, effective from 1 January 2018, replaced IAS 18 and set out a more structured framework based on performance obligations and the timing of their satisfaction. The main</p>	

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Ref	Question	Response <i>(Please give clear reasoning to support your response.)</i>
	<p>distinction it makes is between performance over time and performance at a point in time, rather than between goods and services.</p> <p>The Board considered that although there are substantive conceptual differences between IAS 18 and IFRS 15, the effect in practice for most entities in the scope of the <i>IFRS for SMEs</i> Standard would be minimal in terms of the timing and measurement of revenue. However, some feedback indicates that aligning principles and language would be helpful for preparers who seek consistency with IFRS Standards.</p> <p>The Board is seeking views on the merits of three possible approaches to aligning Section 23 with IFRS 15:</p> <p>(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;</p> <p>(b) Alternative 2—fully rewriting Section 23 to reflect the principles and language used in IFRS 15; and</p> <p>(c) Alternative 3—deciding not to make amendments to Section 23 as part of this comprehensive review.</p>	
S7A	<p>Which of the three alternatives do you prefer for amending Section 23 to align with IFRS 15? Why have you chosen this alternative?</p> <p><i>Further information on this question is provided in paragraphs B73–B74 of Appendix B of the Request for Information.</i></p>	<p>We support the alignment of Section 23 with IFRS 15 – <i>Revenue from Contracts with Customers</i>. Our preferred alternative is Alternative 2, to fully rewrite Section 23 to reflect the principles and language used in IFRS 15 as this, in our view, would be most effective approach in aligning the revenue principles under both frameworks. What is key to this alignment process is ensuring that Section 23 remains relevant, simple and a user-friendly standard to apply for SMEs,</p>

Part B—Questions on aligning specific sections of the *IFRS for SMEs* Standard

Ref	Question	Response <i>(Please give clear reasoning to support your response.)</i>
		Some participants are opposed to making any amendments to Section 23 with IFRS 15, citing complexities around the application of IFRS 15 within full IFRS Standards.
S7B	<p>The Board also discussed whether to provide transition relief, if Alternative 1 or Alternative 2 is chosen, 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.</p> <p>If Alternative 1 or Alternative 2 is the basis for an Exposure Draft, should transitional relief be provided:</p> <p>(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?</p> <p>(b) by some other method?</p> <p>(c) not at all?</p> <p>Please explain why you have chosen (a), (b) or (c) above.</p>	<p>To provide SMEs transition relief, we prefer option (a) 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. Our preference is for this transitional relief be applicable to contracts in progress and scheduled to be completed within one year after transition date.</p>
S8	<p>Aligning Section 28 <i>Employee Benefits</i> of the <i>IFRS for SMEs</i> Standard with IAS 19 (2011) <i>Employee Benefits</i></p> <p>In 2011 the Board issued amendments to IAS 19 <i>Employee Benefits</i> that changed the requirements for presenting actuarial gains and losses relating to defined benefit plans.</p> <p>Paragraph 28.24 of the <i>IFRS for SMEs</i> Standard permits an entity to select a policy for the presentation of actuarial gains and losses. The Board’s view is this simplification is appropriate for entities applying the <i>IFRS for SMEs</i> Standard.</p>	

Part B—Questions on aligning specific sections of the *IFRS for SMEs* Standard

Ref	Question	Response <i>(Please give clear reasoning to support your response.)</i>
	<p>The 2011 amendments to IAS 19 also clarified that termination benefits should be recognised at the earlier of:</p> <ul style="list-style-type: none"> (a) when the entity can no longer withdraw those benefits; and (b) when any related restructuring costs are recognised. <p>The Board is seeking views on aligning the recognition requirements for termination benefits in Section 28 with those in IAS 19.</p>	
	<p>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?</p> <p><i>Further information on this question is provided in paragraphs B75–B78 of Appendix B of the Request for Information.</i></p>	<p>We agree with the alignment of Section 28 with the 2011 amendments to IAS 19 only in respect of the recognition requirements for termination benefits.</p>
S9	<p>Aligning the <i>IFRS for SMEs</i> Standard with IFRS 13 <i>Fair Value Measurement</i></p> <p>The <i>IFRS for SMEs</i> Standard requires the use of fair value and thereby includes a definition of fair value. Paragraphs 11.27–11.32 of the <i>IFRS for SMEs</i> Standard set out requirements for estimating fair value and are also referred to in other sections of the <i>IFRS for SMEs</i> Standard, for example, Sections 14 and 15 (regarding the fair value model for associates and jointly controlled entities), Section 16 (regarding investment property) and Section 28 (regarding the fair value of pension plan assets). The definition of fair value and the requirements to estimate fair value are not aligned with IFRS 13.</p> <p>In the first comprehensive review of the <i>IFRS for SMEs</i> Standard, the Board consulted on aligning the definition of fair value, but decided to wait, because IFRS 13 had only recently become effective.</p> <p>The Board completed its post-implementation review of IFRS 13 in December 2018 and concluded that the Standard is working as intended.</p>	

Part B—Questions on aligning specific sections of the *IFRS for SMEs* Standard

Ref	Question	Response <i>(Please give clear reasoning to support your response.)</i>
	The Board is seeking views on aligning the <i>IFRS for SMEs</i> Standard with IFRS 13 and including the illustrative examples in the Standard. This change would not add new requirements for the use of fair value measurement.	
	<p>What are your views on:</p> <p>(a) aligning the definition of fair value in the <i>IFRS for SMEs</i> Standard with IFRS 13?</p> <p>(b) aligning the guidance on fair value measurement in the <i>IFRS for SMEs</i> Standard with IFRS 13 so the fair value hierarchy incorporates the principles of the fair value hierarchy set out in IFRS 13?</p> <p>(c) including examples that illustrate how to apply the hierarchy?</p> <p>(d) moving the guidance and related disclosure requirements to Section 2?</p> <p><i>Further information on this question is provided in paragraphs B79–B83 of Appendix B of the Request for Information.</i></p>	<p>(a) In line with our response to section G above, we support the alignment of the definition of fair value in the <i>IFRS for SMEs</i> Standard with IFRS 13 to ensure a common and consistent understanding of the term under the <i>IFRS for SMEs</i> Standard and full IFRS Standards.</p> <p>(b) We agree with aligning the guidance on fair value measurement in the <i>IFRS for SMEs</i> Standard with IFRS 13 so the fair value hierarchy incorporates the principles of the fair value hierarchy set out in IFRS 13. Our recommendation is that this be executed without necessarily requiring IFRS 13 disclosures.</p> <p>(c) We believe that examples would be useful to illustrate the application of the hierarchy and therefore we support their inclusion in the <i>IFRS for SMEs</i> Standard.</p> <p>(d) We agree with the proposal to move the fair value guidance and related disclosure requirements to Section 2.</p>
S10	<p>Aligning multiple sections of the <i>IFRS for SMEs</i> Standard for amendments to IFRS Standards and IFRIC Interpretations</p> <p>The Board is seeking views on whether and how to align the <i>IFRS for SMEs</i> Standard</p>	

Part B—Questions on aligning specific sections of the *IFRS for SMEs* Standard

Ref	Question	Response <i>(Please give clear reasoning to support your response.)</i>
	<p>with the amendments to IFRS Standards and IFRIC Interpretations set out in Appendix A of the Request for Information.</p> <p>In aligning the <i>IFRS for SMEs</i> Standard with amendments to IFRS Standards and IFRIC Interpretations the Board would introduce simplifications and language appropriate to the <i>IFRS for SMEs</i> Standard.</p> <p>Appendix A groups the amendments to IFRS Standards and IFRIC Interpretations using the following tables:</p> <p>Table A1—Amendments to IFRS Standards—Board is seeking views on aligning the <i>IFRS for SMEs</i> Standard;</p> <p>Table A2—Amendments to IFRS Standards—Board is seeking views on leaving the <i>IFRS for SMEs</i> Standard unchanged;</p> <p>Table A3—Amendments to IFRS Standards and IFRIC Interpretations and—Board is requesting further information on whether to align the <i>IFRS for SMEs</i> Standard;</p> <p>Table A4—Amendments to IFRS Standards—Board will consider along with the full IFRS Standards they amend; and</p> <p>Table A5—Amendments to IFRS Standards with which the <i>IFRS for SMEs</i> Standard is already aligned.</p>	
	<p>What are your views on:</p> <p>(a) aligning the <i>IFRS for SMEs</i> Standard with the amendments to IFRS Standards outlined in Table A1 of Appendix A?</p>	<p>(a) We agree with aligning all the amendments to IFRS Standards outlined in Table A1 of Appendix A with the exception of the</p>

Part B—Questions on aligning specific sections of the *IFRS for SMEs* Standard

Ref	Question	Response <i>(Please give clear reasoning to support your response.)</i>
	<p>(b) leaving the <i>IFRS for SMEs</i> Standard unchanged by the amendments to IFRS Standards listed in Table A2 of Appendix A?</p> <p>(c) whether to align the <i>IFRS for SMEs</i> Standard with the amendments to IFRS Standards and IFRIC Interpretations listed in Table A3 of Appendix A?</p> <p>Please explain your views and provide any relevant information in support of your views.</p>	<p><i>Disclosure Initiative</i> - Amendments to IAS 7 as we question the relevance of these disclosure requirements for SMEs.</p> <p>(b) We support the view of not aligning the amendments listed in Table A2 of Appendix A with the <i>IFRS for SMEs</i> Standard.</p> <p>(c) We agree with the view of aligning the amendments to IFRS Standards and IFRIC Interpretations listed in Table A3 of Appendix A to the extent that these are relevant for SMEs.</p>

Part C—Questions on new topics and other matters related to the *IFRS for SMEs* Standard

Ref	Question	Response <i>(Please give clear reasoning to support your response)</i>
<p><i>Part C of the Request for Information seeks views on topics that are not addressed in the IFRS for SMEs Standard and on whether, in relation to these topics, the Standard should be aligned with full IFRS Standards. It also asks about specific topics on which the Board has received feedback.</i></p>		
N1	<p>Aligning the <i>IFRS for SMEs</i> Standard with IFRS 14 <i>Regulatory Deferral Accounts</i></p> <p>The Board issued IFRS 14 <i>Regulatory Deferral Accounts</i> in January 2014. IFRS 14 addresses regulatory deferral account balances that arise when an entity provides goods or services to customers at a price or rate that is subject to rate regulation. The <i>IFRS for SMEs</i> Standard has no section that corresponds to IFRS 14. Entities applying the <i>IFRS for SMEs</i> Standard cannot recognise regulatory deferral account balances if these balances would not be permitted or required to be recognised by other sections of the <i>IFRS for SMEs</i> Standard.</p> <p>Entities subject to rate regulation may be in the scope of the <i>IFRS for SMEs</i> Standard and hence the topic may be relevant. The Board, however, has an active project on Rate-regulated Activities which could lead to the replacement of IFRS 14. Consequently, the Board’s view is it should not, as part of this comprehensive review, amend the <i>IFRS for SMEs</i> Standard to align with IFRS 14.</p>	
	<p>What are your views on not aligning the <i>IFRS for SMEs</i> Standard with IFRS 14, that is, not including requirements for regulatory deferral account balances within the <i>IFRS for SMEs</i> Standard?</p>	<p>We agree with the view that the <i>IFRS for SMEs</i> Standard should not be aligned with IFRS 14 given that this IFRS may be replaced in the foreseeable future. It is therefore still premature to include the requirements in the <i>IFRS for SMEs</i> Standard.</p>
N2	<p>Cryptocurrency</p> <p>The Board would like to gather information about the prevalence of holdings of cryptocurrency and issues of cryptoassets among entities eligible to apply the <i>IFRS for SMEs</i> Standard. Obtaining this information will help the Board decide whether the <i>IFRS</i></p>	

Part C—Questions on new topics and other matters related to the *IFRS for SMEs* Standard

Ref	Question	Response <i>(Please give clear reasoning to support your response)</i>
	<p><i>for SMEs</i> Standard should address the accounting for holdings of cryptocurrency and issues of cryptoassets.</p> <p>Are holdings of cryptocurrency and issues of cryptoassets prevalent (that is, are there material holdings among entities eligible to apply the <i>IFRS for SMEs</i> Standard) in your jurisdiction?</p> <p><i>Further information on this question is provided in paragraphs B85–B86 of Appendix B of the Request for Information.</i></p>	<p>Holdings of cryptocurrency and issues of cryptoassets are not prevalent in our jurisdiction. Some businesses have a relatively small investment in cryptocurrencies, but do not hold material holdings in cryptocurrencies.</p>
N3	<p>Defined benefit plans—simplifications allowed in measuring the defined benefit obligation</p> <p>Section 28 <i>Employee Benefits</i> of the <i>IFRS for SMEs</i> Standard allows an entity to apply simplifications in measuring a defined benefit obligation if the entity is unable, without undue cost or effort, to use the projected unit credit method. Paragraph 28.19 of the <i>IFRS for SMEs</i> Standard allows an entity to ignore estimated future salary progression, the effect of future service and death in service.</p> <p>The Board has received feedback that some preparers are uncertain about how to apply the simplifications.</p> <p>To decide whether to clarify how to apply the simplifications in paragraph 28.19, the Board would like to know how frequently the simplifications are applied and whether constituents experience difficulties in applying them.</p>	<p>Few, if any, defined benefit plans exist in our country and therefore these requirements do not impact SMEs in our jurisdiction.</p>
	<p>Are you aware of entities applying the simplifications allowed by paragraph 28.19 of the <i>IFRS for SMEs</i> 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.</p>	<p>Few, if any, defined benefit plans exist in our country and therefore these requirements do not impact SMEs in our jurisdiction.</p>

Part C—Questions on new topics and other matters related to the *IFRS for SMEs* Standard

Ref	Question	Response <i>(Please give clear reasoning to support your response)</i>
N4	<p>Other topics not addressed by the <i>IFRS for SMEs</i> Standard</p> <p>The Board intended that the 35 sections in the <i>IFRS for SMEs</i> Standard would cover the kinds of transactions, events and conditions typically encountered by most SMEs. The Board also provided guidance on how an entity’s management should exercise judgement in developing an accounting policy in a case in which the <i>IFRS for SMEs</i> Standard does not specifically address a topic (see paragraphs 10.4–10.6 of the <i>IFRS for SMEs</i> Standard).</p> <p><i>Note: this question is asking about topics that the IFRS for SMEs Standard does not address. It is not asking for areas of the IFRS for SMEs Standard for which additional guidance is required. If you think more guidance should be added for a topic already covered by the IFRS for SMEs Standard, please provide your comments in response to question N5.</i></p>	
	<p>Are there any topics the <i>IFRS for SMEs</i> 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 <i>IFRS for SMEs</i> Standard is insufficient)?</p>	<p>Non-current Assets Held for Sale and Discontinued Operations</p> <p>Questions on assets held for sale and discontinued operations which are dealt with under IFRS 5 – <i>Non-current Assets Held for Sale and Discontinued Operations</i> are quite common in our jurisdiction and therefore it would be useful to include similar guidance in the <i>IFRS for SMEs</i> Standard. This guidance would assist in ensuring consistent accounting treatment. This guidance, whilst aligned with IFRS 5, should be developed consistent with the alignment principles.</p>

Ref	Question	Response <i>(Please give clear reasoning to support your response)</i>
N5	Please describe any additional issues you would like to bring to the Board’s attention relating to the <i>IFRS for SMEs</i> Standard.	<p>Internally generated intangible assets</p> <p>In the context of the 4th Industrial revolution, a number of small technology emerging companies applying the <i>IFRS for SMEs</i> Standard invest significant amounts of capital into research projects which are currently not being capitalised under the <i>IFRS for SMEs</i> Standard as they do not meet the capitalisation criteria. This could, often have an impact on the financial results being reported. We suggest incorporating the capitalisation criteria to permit entities to capitalise development costs that meet the criteria similar to IAS 38 – <i>Intangible Assets</i>. This can be incorporated in Section 18 – <i>Intangible Assets</i> of the <i>IFRS for SMEs</i> Standard as an accounting policy choice.</p> <p>Borrowing costs</p> <p>Borrowing costs could be a significant expense for a SME and if accounted for under the current <i>IFRS for SMEs</i> Standard which requires all borrowing costs to be expensed, could have an adverse effect on the financial performance of an entity. We also acknowledge the current simplification of expensing all borrowing costs in Section 25 – <i>Borrowing Costs</i>. We recommend that Section 25 be amended to allow, by way of accounting policy choice, the capitalisation of borrowings, subject to the capitalisation principles similar to those of IAS 23 – <i>Borrowing Costs</i>.</p>

Ref	Question	Response <i>(Please give clear reasoning to support your response)</i>
		<p>Agriculture</p> <p>Section 34 – <i>Specialised Activities</i> of the <i>IFRS for SMEs</i> Standard does not specify the accounting for subsequent expenditure on biological assets measured at fair value less costs to sell. IAS 41 – Agriculture also does not prescribe the accounting and this was confirmed in the IFRS Interpretations Committee (IFRIC) agenda decision published during September 2019. In this agenda decision, the IFRIC concluded that an entity can either capitalise or expense subsequent expenditure on biological assets. Similarly, given the lack of guidance in the <i>IFRS for SMEs</i> Standard in this regard, entities make an accounting policy choice which then results in diversity in practice. Whilst we note that the different accounting treatments have no effect on the fair value measurement of biological assets, nor do they have any effect on profit or loss, we note that the different treatments do impact the presentation and the disclosures which causes confusion amongst some preparers and users of financial statements in the South African environment. These preparers are unclear as to whether the diversity in practice is justified and wonder whether the IASB would consider providing clear guidance in the <i>IFRS for SMEs</i> Standard that would simplify and ensure consistent application of the requirements relating to subsequent expenditure on biological assets.</p>

Ref	Question	Response <i>(Please give clear reasoning to support your response)</i>
		<p>This could include, for each of the two options allowed:</p> <ul style="list-style-type: none"> a) Clarity on the correct income statement line on which the fair value adjustment should be disclosed. b) Clarity on the components of cost of sales and other expenses c) Clarity on the basis of calculation of the items included in the reconciliation of the biological assets as required by paragraph 34.7. <p>In light of the assumption expressed in BC87 that biological assets are “not expected to be relevant for the majority of SMEs”, we note that a large portion of South African agricultural businesses make use of <i>IFRS for SMEs</i> Standard in terms of the requirements of the South African Companies Act, hence the need for clearer guidance in this area.</p>