28 February 2014

International Accounting Standards Board
30 Cannon Street
London
EC4M 6XH
United Kingdom
Email: CommentLetters@ifrs.org

Dear Sir/Madam

SAICA SUBMISSION ON ED/2013/9 – *PROPOSED AMENDMENTS TO THE INTERNATIONAL FINANCIAL REPORTING STANDARD FOR SMALL AND MEDIUM-SIZED ENTITIES*

In response to your request for comments on ED/2013/9 – *Proposed Amendments to the International Financial Reporting Standard for Small And Medium-sized Entities*, attached is the comment letter prepared by Accounting Practices Committee (APC) of The South African Institute of Chartered Accountants (SAICA). This comment letter results from deliberations of the APC, which comprises members from reporting organisations, regulators, auditors, IFRS specialists, academics and members of our small practitioners committee who consult and advise to SMEs.

We thank you for the opportunity to provide comments on this document.

Please do not hesitate to contact us should you wish to discuss any of our comments.

Yours faithfully,

Sue Ludolph
Project Director – Financial Reporting

cc: Prof Danie Coetsee (Chairman of the Accounting Practices Committee)

SAICA SUBMISSION ON ED/2013/9 – *PROPOSED AMENDMENTS TO THE INTERNATIONAL FINANCIAL REPORTING STANDARD FOR SMALL AND MEDIUM-SIZED ENTITIES*

GENERAL COMMENTS

We are supportive of the proposed amendments to the *International Financial Reporting Standard for Small and Medium-sized Entities* (IFRS for SMEs) and also thank the IASB for taking our comments into account on the Request for Information issued in the previous year.

In our response to the IASB's Request for Information – *Comprehensive Review of the IFRS for SMEs* issued in June 2012, a suggestion was made that Other Comprehensive Income (OCI) be removed from the IFRS for SMEs standard. Given that the instances where items presented in OCI are limited in the IFRS for SMEs, we do not see the relevance and need for OCI in a SME environment, particularly in providing decision-useful information to the users of financial statements. In light of this we still recommend that the use of OCI in the IFRS for SMEs be reconsidered.

SPECIFIC COMMENTS

Question 1 — Definition of 'fiduciary capacity'

The IASB has received feedback that the meaning of 'fiduciary capacity' in the definition of 'public accountability' (see paragraph 1.3(b) of the IFRS for SMEs) is unclear as it is a term with different implications across jurisdictions. However, respondents generally did not suggest alternative ways of describing public accountability or indicate what guidance would help to clarify the meaning of 'fiduciary capacity'. Based on the outreach activities to date, the IASB has determined that the use of this term does not appear to create significant uncertainty or diversity in practice.

(a) Are you aware of circumstances where the use of the term 'fiduciary capacity' has created uncertainty or diversity in practice? If so, please provide details.

No, we are not aware of circumstances where the use of the term 'fiduciary capacity' has created uncertainty or diversity in practice in our jurisdiction.

(b) Does the term 'fiduciary capacity' need to be clarified or replaced? Why or why not? If you think it needs to be clarified or replaced, what changes do you propose and why?

In line with our response to (a) above, we are of view that there is no necessity to clarify or replace the term 'fiduciary capacity'.

Question 2 — Accounting for income tax

The proposal to align the main principles of Section 29 Income Tax with IAS 12 Income Taxes for the recognition and measurement of deferred tax (see amendment number 44 in the list of proposed amendments at the beginning of this Exposure Draft) is the most significant change being proposed to the IFRS for SMEs.

When the IFRS for SMEs was issued in 2009, Section 29 was based on the IASB's Exposure Draft Income Tax (the '2009 ED'), which was issued in March 2009. However, the 2009 ED was never finalised by the IASB. Consequently, the IASB has concluded that it is better to base Section 29 on IAS 12. The IASB proposes to align the recognition and measurement

principles in Section 29 with IAS 12 (see paragraphs BC55–BC60) whilst retaining some of the presentation and disclosure simplifications from the original version of Section 29.
The IASB continues to support its reasoning for not permitting the 'taxes payable' approach as set out in paragraph BC145 of the IFRS for SMEs that was issued in 2009. However, while the IASB believes that the principle of recognising deferred tax assets and liabilities is appropriate for SMEs, it would like feedback on whether Section 29 (revised) can currently be applied (operationalised) by SMEs, or whether further simplifications or guidance should be considered.
A 'clean' version of Section 29 (revised) with the proposed changes to Section 29 already incorporated is set out in the appendix at the end of this Exposure Draft.
Are the proposed changes to Section 29 appropriate for SMEs and users of their financial statements? If not, what modifications, for example further simplifications or additional guidance, do you propose and why?

We are supportive of the proposal to align Section 29 of the IFRS for SMEs with IAS 12 – *Income Taxes,* as the current income tax requirements in Section 29 have generally been perceived to be difficult to understand and apply by users and preparers of SME financial statements. In addition, because our background in South Africa is predominantly IFRS, most entities have in effect, continued with an approach that is in line with IAS 12.

Question 3 — Other proposed amendments to the *IFRS for SMEs*
The IASB proposes to make a number of other amendments to the IFRS for SMEs. The proposed amendments are listed and numbered 1–43 and 45–57 in the list of proposed amendments. Most of those amendments are minor and/or clarify existing requirements.
(a) Are there any amendments that you do not agree with or have comments on?
(b) Do any of the amendments require additional guidance or disclosure requirements to be added to the IFRS for SMEs? If so, which ones and what are your suggestions?
If you disagree with an amendment please state any alternatives you propose and give your reasoning.

Having read the proposed amendments listed and numbered 1-43 and 45-57 we have comments on the following proposals:

Section 6 – Statement of Comprehensive Income and Income Statement

Item 6 of the proposed list of amendments suggest that entities should group items presented in OCI on the basis of whether they are potentially reclassifiable to profit or loss. We do not support the proposed amendment in that we do not see the relevance of this amendment given that there are limited circumstances where this requirement would be applicable in the IFRS for SMEs. Should the IASB determine that there is a need for this requirement, we recommend that the changes should be placed on hold until the project on the *Conceptual Framework for Financial Reporting* which would address the issue around OCI, has been finalised.

Section 9 – Consolidated and Separate Financial Statements

In line with the additional exemption for the preparation of consolidated financial statements, introduced by the Q&A 2011/01 – *Use of the IFRS for SMEs in a parent's separate financial statements*, we believe that the second concept contained in paragraph 1.7 should be moved to paragraph 9.3(b). The first sentence in paragraph 1.7 deals with the concept of public accountability and should remain as it is in paragraph 1.7, however, the second sentence onwards deals with an exemption from preparing consolidated financial statements as the primary financial statements of the reporting entity. For this reason we believe that the second concept in paragraph 1.7 should be moved to Section 9, specifically to paragraph 9.3(b).

We suggest that paragraph 9.3 should be reworded as follows (words underlined below have been added):

9.3 A parent need not present consolidated financial statements if~~: (a)~~ one ~~both~~ of the following conditions are met:

(~~i~~a) the parent is itself a subsidiary, and ~~(iib)~~ its ultimate parent (or any intermediate parent) produces consolidated ***general purpose financial statements*** *that comply with* ***full IFRSs*** *or with this IFRS~~.~~; or*

(b) If a parent presents its consolidated financial statements in accordance with full IFRSs or another set of generally accepted accounting principles (GAAP), such as its national accounting standards, but prepares separate financial statements in accordance with this IFRS which are clearly distinguished from financial statements prepared in accordance with other requirements.

Section 11 – Basic Financial Instruments and Section 12 – Other Financial Instruments Issues

Item 12 and 17 on the proposed list of amendments suggest the addition of the 'undue cost or effort' exemption from the measurement of investments in equity instruments at fair value. We are broadly supportive of this proposed amendment as it will bring about much needed relief for SMEs. From our discussions it was unclear how an entity should account for the fair value adjustment from the date that it can reliably determine the fair value of the investments in equity instruments. Is an entity required to account for the adjustment prospectively from that date or retrospectively? We recommend that the IASB provide guidance on this matter before the revised standard is issued.

Section 17 – Property, Plant and Equipment

In item 20 of the list of the proposed amendments, the IASB proposes to incorporate the classification of servicing equipment i.e. an amendment made to IAS 16 – *Property, Plant and Equipment,* from the Annual Improvements 2009 – 2011 Cycle, issued in May 2012, which clarified items such as spare parts, stand-by equipment and servicing equipment are recognised in accordance with section 17 when they meet the definition of property, plant and equipment. Otherwise such items are classified as inventory.

In BC29 of the exposure draft, it is noted that the IASB observed that the primary aim when developing the IFRS for SMEs was to provide a standalone, simplified set of accounting principles for entities that do not have public accountability and that typically have less complex transactions and limited resources to apply full IFRSs. Whilst we acknowledge that the incorporation of the proposed amendment is conceptually sound, we feel that it will bring about some practical challenges for SMEs on the classification of servicing equipment and it seems to contradict the above-mentioned objective, in that:

- the effort that would be required from an SME to monitor and track the individual spare parts, stand-by equipment and servicing equipment as either property, plant and equipment or inventory in order to comply with the requirement may be cumbersome and costly. In addition, with their limited resources, financial reporting systems used by SMEs may not have the capability to perform this tracking.
- we do not envisage this requirement to be applicable to the majority of the SMEs and we are therefore doubtful about the usefulness and benefit of this proposed amendment.
- the practical application of the amendment is currently under debate as it is not clear what would happen to individual insignificant, yet collectively material spare parts. There is also still a debate as to when such spare parts should start to be depreciated.

In view of the above concerns, we do not think that introducing this change in the IFRS for SMEs standard will provide added benefits for the users of financial statements.

Section 19 – Business Combinations and Goodwill

In item 25 of the proposed list of amendments, it is recommended that the 'undue cost or effort' exemption requirement be added in relation to the requirement to recognise intangible assets separately in a business combination. In our experience, the identification of contingent liabilities by the acquirer at the acquisition date is also a challenging requirement to comply with in practice and hence our recommendation is that the IASB also extend the 'undue cost or effort' exemption to contingent liabilities. In addition, with the current requirements in IFRS for SMEs for entities to recognise contingent liabilities provided that they can be measured reliably, we have noted that the IFRS for SMEs standard does not seem to envisage situations where the recognition of contingent liabilities could give rise to negative goodwill and how entities should deal with this scenario.

Section 20 – Leases

Item 28 of the proposed list of amendments clarifies that not all outsourcing arrangements, telecommunication contracts that provide rights to capacity and take-or-pay contracts are, in substance, leases. This clarification has been provided in paragraph 20.3. Guidance to assist in determining which outsourcing arrangements would qualify as leases and which would not has not been provided and we believe this would be helpful. Without the guidance, it is unlikely that the amendment will serve to improve the understanding and application of the requirement itself.

Section 22 – Liabilities and Equity

Item 34 proposes additional guidance on accounting for the distribution of non-cash assets as dividends. We question the rationale for adding this guidance in the IFRS for SMEs as it does not seem to complement the motivation provided in BC36 for selecting the new and revised IFRSs specified in paragraph BC35. We also do not understand the relevance of the proposed amendment to an SME as these transactions are not common for SMEs. We propose that the 'undue cost or effort' exemption be introduced for the requirement to measure the liability for the dividend payable at fair value on the basis that most assets likely to be distributed under such circumstances are investment properties, owner occupied properties, or financial assets which may be measured at cost under the existing requirements of the standard or alternatively may be measured at cost on the basis of 'undue cost or effort' under the existing and proposed amendments.

Section 26 – Share-based Payment

Item 40 of the list of proposed amendments clarifies that the simplification for group plans is for the measurement of the share-based payment expense only and does not provide relief from its recognition

Based on the wording of this proposed amendment, the guidance on how to determine the classification of share-based payment transactions between cash-settled and equity-settled within a group plan does not seem to be clear and we recommend that the IASB provide clear guidance in the final changes to the standard.

Section 29 – Income Tax

Item 45 of the list of proposed amendments introduces the "undue cost or effort" exemption to the requirement to offset income tax assets and liabilities. We are supportive of this proposed amendment, however, the wording in paragraph 29.29 implies that an entity is only permitted to offset the amounts if it is evident without undue cost or effort that it intends either to settle on a net basis. We recommend that the wording in paragraph 29.29 is amended to allow the entity to offset even if the intention of offset is not evident without undue cost or effort.

Section 34 – Specialised Activities

Item 49 of the list of proposed amendments indicates that clarification of the accounting requirements for extractive activities would be provided. Whilst we welcome the proposed change, we feel that it would be more onerous than the IFRS requirements in that the proposed amendment to paragraph 34.11 requires that entity to determine an accounting policy in accordance with Section 10 – *Accounting Policies, Estimates and Errors.* Paragraph 10.5(b) requires an entity to also consider the applicability of Section 2 –*Concepts and Pervasive Principles.* The equivalent standard, IFRS 4 – *Exploration for and Evaluation of Mineral Resources,* in IFRS exempts an entity from applying a similar requirement (paragraph 11(b) of IAS 8 – *Accounting Policies, Estimates and Errors).* We propose that the IASB simplifies the proposed guidance provided by permitting a similar exemption in the IFRS for SMEs as that provided in paragraph 7 of IFRS 4 which exempts an entity from applying paragraphs 11 and 12 of IAS 8 (similar requirements to paragraph 10.5 of the IFRS for SMEs).

Glossary (new definitions)

Item 57 of the proposed list of amendments outlines the proposed new definitions that would be added to the Glossary of Terms. In addition to the new definitions proposed, we would suggest that the IASB consider adding the following definitions to the Glossary of Terms as these terms are currently not defined in the IFRS for SMEs and including these would be helpful:

- common control; and
- date of acquisition.

Question 4 — Additional issues

In June 2012 the IASB issued a Request for Information (RfI) seeking public comment on whether there is a need to make any amendments to the IFRS for SMEs (see paragraphs BC2–BC15). The RfI noted a number of specific issues that had been previously identified and asked respondents whether the issues warranted changes to the IFRS for SMEs. Additionally, the RfI asked respondents to identify any additional issues that needed to be addressed during the review process. Any issues so identified were discussed by the IASB during its deliberations.

Do respondents have any further issues that are not addressed by the 57 amendments in the list of proposed amendments that they think the IASB should consider during this comprehensive review of the IFRS for SMEs? Please state these issues, if any, and give your reasoning.

Investment Property

Paragraph 16.7 of the IFRS for SMEs requires entities to account for all investment properties measured at cost-depreciation-impairment model as property, plant and equipment. In our view, presentation of investment properties or property, plant and equipment should be determined by nature of the asset and not by the measurement basis applied. We recommend that investment properties carried at cost and fair value respectively be presented as two separate line items on the statement of financial position to allow entities that have measured their investment properties based on the cost model to still present such properties as investment properties rather than including these in the same line item as property, plant and equipment.

Components of assets

Paragraph 17.16 of the IFRS for SMEs requires an entity to allocate the initial cost of the asset to its major components and depreciate each component separately over its useful life. Accounting for components is often difficult to apply in practice for SMEs, and we therefore suggest that the IASB develop education material on identifying the major components.

Question 5 — Transition provisions

The IASB does not expect retrospective application of any of the proposed amendments to be significantly burdensome for SMEs and has therefore proposed that the amendments to the IFRS for SMEs in Sections 2–34 are applied retrospectively.

Do you agree with the proposed transition provisions for the amendments to the IFRS for SMEs? Why or why not? If not, what alternative do you propose?

We do not agree with the transition provisions which would require an entity to retrospectively apply the proposed amendments as the transition may be cumbersome for SMEs and it is unclear what benefit the restated historical information will be in the context of SMEs. We therefore propose that the amendments be applied prospectively or that alternatively an 'undue cost or effort' be provided.

Question 6 — Effective date

The IASB does not think that any of the proposed amendments to the IFRS for SMEs will result in significant changes in practice for SMEs or have a significant impact on their financial statements. It has therefore proposed that the effective date of the amendments to the IFRS for SMEs should be one year after the final amendments are issued. The IASB also proposes that early adoption of the amendments should be permitted.

Do you agree with the proposed effective date and the proposal to permit early adoption? Why or why not? If not, what alternative do you propose?

We agree with the proposal that the effective date of the proposed amendments be one year after the final amendments are issued. Furthermore we propose that a specific date be attached to the effective date.

Question 7 — Future reviews of the *IFRS for SMEs*

When the IFRS for SMEs was issued in 2009 the IASB stated that after the initial comprehensive review, the IASB expects to propose amendments to the IFRS for SMEs by publishing an omnibus Exposure Draft approximately once every three years. The IASB further stated that it intended this three-year cycle to be a tentative plan, not a firm commitment. It also noted that, on occasion, it may identify a matter for which an amendment to the IFRS for SMEs may need to be considered earlier than in the normal three-year cycle; for example to address an urgent issue.

During the comprehensive review, the IASB has received feedback that amendments to the IFRS for SMEs once every three years (three-year cycle) may be too frequent and that a five-year cycle, with the ability for an urgent issue to be addressed earlier, may be more appropriate.

Do you agree with the current tentative three-year cycle for maintaining the IFRS for SMEs, with the possibility for urgent issues to be addressed more frequently? Why or why not? If not, how should this process be modified?

To ensure that the IFRS for SMEs remains a stable framework we support the three-year cycle maintenance period.

When the IASB issued the standard in July 2009, it was indicated that it would assess the first two years' experience entities have had in implementing it. The IASB also said that, after the initial review, it expected to consider amendments to the IFRS for SMEs approximately once every three years. Having announced the timing of these plans, we have observed that the IASB commenced its first review of the standard in June 2012 (three years after publication of the standard). Thus it is not clear what is meant by the three-year cycle. Does it imply that the first review (in the form of request for information) will be conducted after three years of the publication of the final amendments to the IFRS for SMEs or is the IASB expected to have issued another set of amendments (final) within the three year of publication of these amendments? We would support the process followed to date with a Request for Information after three years, followed by an exposure draft before the final revisions are issued, hence the cycle commences after three years.

We also agree that there should be some flexibility for the IASB to address urgent issues more frequently. As the IFRS for SMEs should remain a stable framework, some criteria should be established to determine as to what should be categorised as an urgent issue. We propose the following set of criteria:

- An issue is considered pervasive in that it cuts across many jurisdictions.
- The amendment will provide some application relief to SMEs.
- The amendment should assist in eliminating diversity in practice which has a significant impact on SMEs.
- The amendment deals with an issue that cannot be dealt with by the SME Implementation Group.

Question 8 — Any other comments
Do you have any other comments on the proposals?

Amendments to IFRSs

We suggest that the Basis for Conclusions of the IFRS for SMEs should also include motivations for the amendments to IFRSs issued since the publication of the IFRS for SMEs in 2009 that have not been taken into account in the amendments to the IFRS for SMEs. We also recommend that guidelines be developed on the process that the IASB will adopt to decide on whether or not changes made to IFRSs should also be made to IFRS for SMEs. One of the guiding principles should be that a change to IFRSs should only be made to IFRS for SMEs after the post-implementation project on an IFRS has been finalised.

Section 35 – Transition to the IFRS for SMEs

Some of our constituents propose that Section 35 – *Transition to the IFRS for SMEs,* be reconsidered in its entirety in order to reflect a stance towards a prospective application of IFRS for SMEs even on first time adoption of the standard. In terms of their proposal, an entity electing to adopt IFRS for SMEs would only prepare an opening statement of financial position as at the beginning of the financial period for which the standard is adopted and not as at the beginning of the comparative period. They cited that in their experience historical comparisons of financial information over multiple periods in the context of general purpose financial statements (which generally are prepared only as a requirement under statute) are of little value. Notwithstanding the flexibility with regards to impracticability provided in Section 35, their view is that the premise of the section, largely based on IFRS 1 – *First-time Adoption of International Financial Reporting Standards*, would not pass the test set by the IASB in terms of determining the elements of ‘full IFRS’ that should be replicated in part or in full under IFRS for SMEs.

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