Australian Government
Australian Accounting Standards Board

Level 7, 600 Bourke Street
MELBOURNE VIC 3000
Postal Address
PO Box 204
Collins Street West VIC 8007
Telephone: (03) 9617 7600
Facsimile: (03) 9617 7608

30 November 2012

Mr Hans Hoogervorst
Chairman
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
UNITED KINGDOM

Dear Hans

Request for Information: *Comprehensive Review of IFRS for SMEs*

The Australian Accounting Standards Board (AASB) is pleased to provide comments on the IASB's Request for Information: *Comprehensive Review of IFRS for SMEs*. Although the *IFRS for SMEs* is not directly adopted in Australia, its underlying user need and cost-benefit principles are applied in determining disclosure requirements under the Australian second tier of financial reporting requirements (known as Reduced Disclosure Requirements [RDR]) for preparing general purpose financial statements.

The RDR prescribes all recognition, measurement and presentation requirements of full IFRSs but with substantially reduced disclosures. The RDR versions of full IFRSs are issued in Australia contemporaneously with full IFRSs. It is available to for-profit private sector entities that do not have public accountability as defined in the *IFRS for SME*. Not-for-profit private sector entities and many public sector entities can also avail themselves of the RDR.

Our comments are provided in two parts. Part 1 (see Appendix 1) includes our views on Australia-specific issues relating to the comprehensive review of the *IFRS for SMEs*. Part 2 (see Appendix 2) contains answers to specific and general questions set out in the Request for Information.

Appendix 3 contains an explanation of how the user need and cost-benefit principles are applied to full IFRS disclosure requirements in determining disclosure requirements under the RDR.

If you require further information regarding any matters in this letter, please contact me or Ahmad Hamidi (ahamidi@aasb.gov.au).

Yours sincerely

K.M. Stevenson

Kevin M. Stevenson
Chairman and CEO

cc Mr Ian Mackintosh
Vice-Chairman, IASB

Appendix 1: Australia-specific issues relevant to comprehensive review of the *IFRS for SMEs*

Background

The Australian Accounting Standards Board (AASB) had been monitoring the development of the *IFRS for SMEs* and in May 2007 published an Invitation to Comment incorporating the IASB's *Exposure Draft of A Proposed IFRS for Small and Medium-sized Entities*. The AASB subsequently provided the IASB with its own comments after considering comments received from its Australian constituents.

In its submission on the IASB ED, the AASB noted that the extent to which the AASB might use an *IFRS for SMEs* in its differential reporting framework would depend on a number of domestic factors and the extent to which the final *IFRS for SMEs* meets the needs of Australian constituents. In this respect the AASB had concerns about the unavailability of some full IFRS recognition and measurement accounting policy options under the proposed *IFRS for SMEs*, noting that the stand-alone nature of the document could be improved by including more of the appropriate treatment options in full IFRSs. It also noted that subsidiaries should be able to apply full IFRS recognition and measurement requirements (to be consistent with their parent, where appropriate) without having to comply with all of the disclosure requirements of full IFRSs.

Reasons for adoption of RDR in place of IFRS for SMEs

In June 2010, the AASB decided to introduce the RDR instead of adopting the *IFRS for SMEs*. The adoption of RDR was preceded by a Consultation Paper and an Exposure Draft soliciting the views of Australian constituents on the proposed reduced disclosure requirements regime. In publishing its proposals for an RDR[1], the AASB noted that there were concerns about adopting the *IFRS for SMEs* in Australia. Some of the reasons for adoption of the RDR instead of the *IFRS for SMEs* are similar to those cited under the section "3. The need for an RDR 'option' in *IFRS for SMEs*" below.

Australia-specific issues relevant to the comprehensive review of the IFRS for SMEs

The following sets out some significant Australia-specific issues relevant to the comprehensive review of the *IFRS for SMEs*.

1. Area of most concern

The area of most concern in relation to the *IFRS for SMEs* is the differences between its recognition and measurement requirements and those of full IFRSs. These differences include:

(a) SMEs are limited to particular accounting policy options — either one option in full IFRSs is mandated or a 'new' accounting policy is required; and

(b) recognition and measurement differences.

---

[1] AASB Consultation Paper *Differential Financial Reporting – Reducing Disclosure Requirements: A Proposed Reduced Disclosure Regime for Non-publicly Accountable For-profit Private Sector Entities and Certain Entities in the Not-for-profit Private Sector and Public Sector*, February 2010.

The difference in the accounting policy hierarchies between the *IFRS for SMEs* and full IFRSs might also result in identical transactions being accounted for differently by different entities, including differently from publicly accountable entities.

In addition, the *IFRS for SMEs* does not address the following topics that are pertinent to non-publicly accountable entities:

(a) interim financial reporting; and
(b) special accounting for assets held for sale.

A frequently stated accounting policy option difference between the *IFRS for SMEs* and full IFRSs is the absence of the revaluation measurement option from the former. While this might be consistent with US GAAP, it has caused difficulties for jurisdictions that have traditionally applied the revaluation option in both the private and public sectors. The revaluation option is indispensable in relation to public sector financial reporting in Australia. Other countries such as the United Kingdom and New Zealand also have a tradition of adopting the revaluation option. Accounting policy differences between the *IFRS for SMEs* and full IFRSs such as the revaluation option have become an impediment to adopting the *IFRS for SMEs* in some jurisdictions, including Australia.

2. Adoption of RDR by other jurisdictions

The idea of an *IFRS for SMEs* with all of the recognition and measurement accounting policy options of full IFRSs included appears to also have support in other jurisdictions. New Zealand has adopted a reduced disclosure version of NZ IFRS for its Tier 2 for-profit entities, which will align the disclosure concessions for these entities with the RDR for equivalent Australian entities.

The adoption of RDR by New Zealand indicates that this jurisdiction has identified the RDR option as a better alternative to the *IFRS for SMEs* when revisiting its own differential reporting framework, which was operational for many years.

3. The need for an RDR 'option' in *IFRS for SMEs*

One way to deal with the issue of recognition and measurement differences between the *IFRS for SMEs* and full IFRSs would be the inclusion of an option in the *IFRS for SMEs* allowing entities to adopt the recognition and measurement accounting policies require by full IFRSs. This provision would then make adoption of the RDR in Australia and New Zealand consistent with adoption of the *IFRS for SMEs* and entities would be able to state compliance with that standard, if they wish. The following would shed light on some of the reasons why in some jurisdictions there is a preference for the RDR option:

(a) The RDR does not need special training in jurisdictions that have already adopted full IFRSs. The *IFRS for SMEs*, on the other hand, requires training and considerable effort has been made to provide training material and courses after its publication. Renewed training efforts and further changes in training material may be needed each time the standard undergoes periodic review and update.

(b) As the RDR is updated at the same time as full IFRSs, non-publicly accountable entities can avail themselves of any improvements in financial reporting requirements for publicly accountable entities in a timely way.

(c) The RDR does not restrict entities in choosing full IFRS accounting policies while the *IFRS for SMEs* limits entities to particular accounting policy options in some cases such that either an accounting policy option in full IFRSs is mandated or a 'new' accounting policy is required. There are other recognition and measurement differences between the RDR and the *IFRS for SMEs* that disadvantage entities applying the *IFRS for SMEs*.

(d) There are no significant costs involved in moving between the RDR and full IFRSs since there are no differences in recognition and measurement requirements under the two sets of standards. However, there are additional costs involved in moving between *IFRS for SMEs* and full IFRSs due to the existence of such differences.

(e) The financial statements prepared under the RDR are comparable to financial statements prepared under full IFRSs since the RDR uses the same recognition and measurement principles as full IFRSs. The reduction of disclosures would not affect comparability since only disclosures that are less relevant to RDR entities have been omitted. However, the financial statements prepared under the *IFRS for SMEs* are not comparable to financial statements prepared under full IFRSs to the extent that there are differences in recognition and measurement requirements of the two sets of standards. Differences in recognition and measurement requirements would also translate into differences in disclosures.

(f) Where a group is involved, and the parent applies full IFRSs, no additional work is needed to adjust accounting policies on consolidation in the case of a subsidiary applying the RDR while additional work would be needed to adjust accounting policies if the subsidiary applies the *IFRS for SMEs*.

(g) The RDR does not involve any particular interpretation problems while the *IFRS for SMEs* may do.

4. Using RDR in the *IFRs for SMEs* review

A point of strength of the RDR is that it is updated for new or revised full IFRS requirements contemporaneously. On the other hand, the *IFRS for SMEs* only undergoes periodic reviews; the first review after two years of adoption and subsequent reviews every three years. The 'Tier 2 Disclosure Principles' (see Appendix 3 to this letter) used in determining disclosures under Australian Tier 2 (RDR) are consistent with the user need and cost benefit principles applied by the IASB in determining disclosure requirements under the *IFRS for SMEs*. This provides a solid ground for using Australian RDR disclosure requirements in periodic updating of the *IFRS for SMEs* disclosure requirements. The AASB can provide access to the latest RDR versions of IFRSs (June 2012 compilation) to help facilitate this. This issue has been raised in a separate letter that provides more details to the IASB.

5. The need to clarify and expand on the term 'public accountability'

Due to ambiguities in the application of the public accountability criterion in the Australian context, the AASB decided to deem certain entities as being publicly accountable. The AASB is of the view that further guidance would be needed in relation to different terms used in the definition of public accountability. In particular, the use of term 'fiduciary', which is a term with different implications across jurisdictions, should be revisited by the IASB.

6. IASB involvement in determining SMEs accounting

The AASB is of the view that greater involvement by the IASB in the process of determining requirements under the *IFRS for SMEs* is desirable.

7. Addressing disclosure at a principle level

The AASB emphasises the importance of addressing disclosure requirements at a principle level, rather than just at an individual standard level. This would help to further reduce certain types of disclosures for SMEs, such as various reconciliations required by a number of full IFRSs.

Appendix 2: Answers to the Specific and General Questions set out in the Request for Information

Part A: Specific questions (S1-S20)

Ref	Question	Response	Reasoning
S1	**Use by publicly traded entities (Section 1)** The *IFRS for SMEs* currently prohibits an entity whose debt or equity instruments are traded in a public market from using the *IFRS for SMEs* (paragraph 1.3(a)). The IASB concluded that all entities that choose to enter a public securities market become publicly accountable and, therefore, should use full IFRSs. Some interested parties believe that governments and regulatory authorities in each individual jurisdiction should decide whether some publicly traded entities should be eligible to use the *IFRS for SMEs* on the basis of their assessment of the public interest, the needs of investors in their jurisdiction and the capabilities of those publicly traded companies to implement full IFRSs. **Are the scope requirements of the *IFRS for SMEs* currently too restrictive for publicly traded entities?** (a) No—do not change the current requirements. Continue to prohibit an entity whose debt or equity instruments trade in a public	**(a)**	• It would be detrimental to the whole purpose of differentiating between entities that must apply full IFRSs and those that may apply the *IFRS*

Ref	Question	Response	Reasoning
	market from using the *IFRS for SMEs*. (b) Yes—revise the scope of the *IFRS for SMEs* to permit each jurisdiction to decide whether entities whose debt or equity instruments are traded in a public market should be permitted or required to use the *IFRS for SMEs*. (c) Other—please explain. Please provide reasoning to support your choice (a), (b) or (c).		*for SMEs* to give discretion to regulators to decide whether some publicly traded entities should be eligible to use the *IFRS for SME*. This would lead to different practices across jurisdictions and would reduce the intra-jurisdictional comparability of both full IFRS and SMEs financial statements. • Allowing publicly accountable entities to apply the *IFRS for SMEs* would be inconsistent with the IASB's objective of developing a single set of high quality financial reporting standards. It would have an adverse effect on the 'IFRS brand'. • At the jurisdiction level, it would also reduce comparability between publicly traded entities, making it difficult for prospective investors and their representatives including analysts to make resource allocation decisions. • The *IFRS for SMEs* would become the 'lowest common denominator' for global standards

Ref	Question	Response	Reasoning
			because competing entities that apply full IFRSs would be at a disadvantage in terms of information available to their competitors. • However, regulators should be able to exercise a power to require some entities that do not fall within the definition of publicly accountable entities to apply full IFRSs if they regard the financial statements prepared by these entities under the *IFRS for SMEs* insufficient in satisfying user needs and that benefits of full IFRS application to users would exceed the costs incurred by these entities.
S2	**Use by financial institutions (Section 1)** The *IFRS for SMEs* currently prohibits financial institutions and other entities that hold assets for a broad group of outsiders as one of their primary businesses from using the *IFRS for SMEs* (paragraph 1.3(b)). The IASB concluded that standing ready to take and hold funds from a broad group of outsiders makes those entities publicly accountable and, therefore, they should use full IFRSs. In every jurisdiction financial institutions are subject to regulation.		

Ref	Question	Response	Reasoning
	In some jurisdictions, financial institutions such as credit unions and micro banks are very small. Some believe that governments and regulatory authorities in each individual jurisdiction should decide whether some financial institutions should be eligible to use the *IFRS for SMEs* on the basis of their assessment of the public interest, the needs of investors in their jurisdiction and the capabilities of those financial institutions to implement full IFRSs. **Are the scope requirements of the *IFRS for SMEs* currently too restrictive for financial institutions and similar entities?** (a) No—do not change the current requirements. Continue to prohibit all financial institutions and other entities that hold assets for a broad group of outsiders as one of their primary businesses from using the *IFRS for SMEs*. (b) Yes—revise the scope of the *IFRS for SMEs* to permit each jurisdiction to decide whether any financial institutions and other entities that hold assets for a broad group of outsiders as one of their primary businesses should be permitted or required to use the *IFRS for SMEs*. (c) Other—please explain.	**(a)**	• The AASB believes the case of small banks and credit unions is no different from the case of small publicly traded entities discussed in relation to question S1 above. Accordingly, any change in current requirements in relation to such entities would be detrimental to the whole objective of satisfying user needs using high quality standards when a broad group of outsiders are involved. • The term 'fiduciary' in the definition of public accountability does appear to have a different

Ref	Question	Response	Reasoning
	Please provide reasoning to support your choice of (a), (b) or (c)		meaning across different jurisdictions. This has led to ambiguities in determining entities that have this characteristic and therefore warrants clarification. • The other term requiring clarification is the 'broad group of outsiders' which has been the subject of a 'Q&A' by the SME Implementation Group. • We agree that entities such as investment banks, insurance companies and mutual funds are publicly accountable. But ambiguities in the definition have led the AASB to deem certain entities as having public accountability in the Australian context. Examples of entities that are deemed as publicly accountable include: disclosing entities even if their debt or equity instruments are not traded in a public market or are not in the process of being issued for trading in a public market, registered managed investment schemes and certain

Ref	Question	Response	Reasoning
			regulated superannuation plans.
S3	**Clarification of use by not-for-profit entities (Section 1)** The *IFRS for SMEs* is silent on whether not-for-profit (NFP) entities (eg charities) are eligible to use the *IFRS for SMEs*. Some interested parties have asked whether soliciting and accepting contributions would automatically make an NFP entity publicly accountable. The *IFRS for SMEs* specifically identifies only two types of entities that have public accountability and, therefore, are not eligible to use the *IFRS for SMEs*: • those that have issued debt or equity securities in public capital markets; and • those that hold assets for a broad group of outsiders as one of their primary businesses. **Should the *IFRS for SMEs* be revised to clarify whether an NFP entity is eligible to use it?** (a) Yes—clarify that soliciting and accepting contributions does not automatically make an NFP entity publicly accountable. An NFP entity can use the *IFRS for SMEs* if it otherwise qualifies under Section 1. (b) Yes—clarify that soliciting and accepting contributions will	**(a)**	• In a broad sense, AASB favours a transaction – neutral/sector-neutral approach to the development of standards. However, given the *IFRS for SMEs* was developed only having regard to for-profit issues, we do not think it

Ref	Question	Response	Reasoning
	automatically make an NFP entity publicly accountable. As a consequence, an NFP entity cannot use the *IFRS for SMEs*. (c) No—do not revise the *IFRS for SMEs* for this issue. (d) Other—please explain. Please provide reasoning to support your choice of (a), (b), (c) or (d).		would be practical /feasible to give due regard to NFP issues as part of the current review of the *IFRS for SMEs.* • Since donors are acting of their own free will and are not seeking a financial return, there is no public accountability as defined by the IASB. However, there may be a public interest perspective for arguing that such entities are effectively being subsidised by public funds when there is a loss of tax revenues due to donors claiming tax deductions. Therefore those entities may be publicly accountable in the general sense of that term rather than under the IASB's specific definition. • Making the *IFRS for SMEs* available for NFP entities might enhance financial reporting of small and medium size charities but would dilute the quality of the financial statements of large NFP entities that are currently applying full IFRSs.

Ref	Question	Response	Reasoning
			• Application of the *IFRS for SMEs* to NFP entities would only be appropriate if the needs of users of financial statements of such entities are taken into account. If the *IFRS for SMEs* were to apply to NFP entities, additional requirements including disclosure requirements would be needed in relation to NFPs. Identifying the user needs would constitute a separate project for the IASB, which may not be able to be done in a timely way as part of the current review exercise.
S4	**Consideration of recent changes to the consolidation guidance in full IFRSs (Section 9)** The *IFRS for SMEs* establishes control as the basis for determining which entities are consolidated in the consolidated financial statements. This is consistent with the current approach in full IFRSs. Recently, full IFRSs on this topic have been updated by IFRS 10 *Consolidated Financial Statements*, which replaced IAS 27 *Consolidated and Separate Financial Statements* (2008). IFRS 10 includes additional		

Ref	Question	Response	Reasoning
	guidance on applying the control principle in a number of situations, with the intention of avoiding divergence in practice. The guidance will generally affect borderline cases where it is difficult to establish if an entity has control (ie, most straightforward parent-subsidiary relationships will not be affected). Additional guidance is provided in IFRS 10 for: • agency relationships, where one entity legally appoints another to act on its behalf. This guidance is particularly relevant to investment managers that make decisions on behalf of investors. Fund managers and entities that hold assets for a broad group of outsiders as a primary business are generally outside the scope of the *IFRS for SMEs*. • control with less than a majority of the voting rights, sometimes called 'de facto control' (this principle is already addressed in paragraph 9.5 of the *IFRS for SMEs* but in less detail than in IFRS 10). • assessing control where potential voting rights exist, such as options, rights or conversion features that, if exercised, give the holder additional voting rights (this principle is already addressed in paragraph 9.6 of the *IFRS for SMEs* but in less detail than in IFRS 10).		

Ref	Question	Response	Reasoning
	The changes above will generally mean that more judgement needs to be applied in borderline cases and where more complex relationships exist. **Should the changes outlined above be considered, but modified as appropriate to reflect the needs of users of SME financial statements and cost-benefit considerations?** (a) No—do not change the current requirements. Continue to use the current definition of control and the guidance on its application in Section 9. They are appropriate for SMEs, and SMEs have been able to implement the definition and guidance without problems. (b) Yes—revise the *IFRS for SMEs* to reflect the main changes from IFRS 10 outlined above (modified as appropriate for SMEs). (c) Other—please explain. Please provide reasoning to support your choice of (a), (b) or (c).	**(b)**	• The AASB believes that any full IFRS issued would need to be considered under the *IFRS for SMEs* principles of user need and cost benefit considerations in relation to disclosures. Generally, we think SMEs should be able to avail themselves of any improvements in recognition, measurement and presentation requirements of full IFRSs. Accordingly, the *IFRS for SMEs* should be revised to reflect the changes from IFRS 10, subject to the principles underlying the *IFRS for SMEs*.

Ref	Question	Response	Reasoning
			• Any divergence from IFRS principles has potential to exacerbate the difficulties in IFRS compliant parent entities undertaking consolidations.
S5	**Use of recognition and measurement provisions in full IFRSs for financial instruments (Section 11)** The *IFRS for SMEs* currently permits entities to choose to apply either (paragraph 11.2): • the provisions of both Sections 11 and 12 in full; or • the recognition and measurement provisions of IAS 39 *Financial Instruments: Recognition and Measurement* and the disclosure requirements of Sections 11 and 12. In paragraph BC106 of the Basis for Conclusions issued with the *IFRS for SMEs*, the IASB lists its reasons for providing SMEs with the option to use IAS 39. This is the only time that the *IFRS for SMEs* specifically permits the use of full IFRSs. One of the main reasons for this option is that the IASB concluded that SMEs should be permitted to have the same accounting policy options as in IAS 39, pending completion of its comprehensive financial instruments project to replace IAS 39. That		

Ref	Question	Response	Reasoning
	decision is explained in more detail in paragraph BC106. IAS 39 will be replaced by IFRS 9 *Financial Instruments*. Any amendments to the *IFRS for SMEs* from this comprehensive review would most probably be effective at a similar time to the effective date of IFRS 9. The *IFRS for SMEs* refers specifically to IAS 39. SMEs are not permitted to apply IFRS 9. **How should the current option to use IAS 39 in the *IFRS for SMEs* be updated once IFRS 9 has become effective?** (a) There should be no option to use the recognition and measurement provisions in either IAS 39 or IFRS 9. All SMEs must follow the financial instrument requirements in Sections 11 and 12 in full. (b) Allow entities the option of following the recognition and measurement provisions of IFRS 9 (with the disclosure requirements of Sections 11 and 12). (c) Other—please explain. Please provide reasoning to support your choice of (a), (b) or (c). **Note:** the purpose of this question is to assess your overall view on whether the fallback to full IFRSs in Sections 11 and 12 should be removed completely, should continue to refer to an IFRS that has been	**(b)**	• The AASB believes this option should be given. It provides a more up to date treatment allowing SMEs to avail themselves of improved financial instruments standards. IFRS 9 is more consistent with sections 11 and 12 in terms of categories of financial instruments and its adoption would be expected to lead to greater comparability between

Ref	Question	Response	Reasoning
	superseded, or should be updated to refer to a current IFRS. It does not ask respondents to consider whether any of the recognition and measurement principles of IFRS 9 should result in amendments of the *IFRS for SMEs* at this stage, because the IASB has several current agenda projects that are expected to result in changes to IFRS 9 (see paragraph 13 of the Introduction to this Request for Information).		financial statements of SMEs applying sections 11 and 12 or IFRS 9.
S6	**Guidance on fair value measurement for financial and non-financial items (Section 11 and other sections)** Paragraphs 11.27–11.32 of the *IFRS for SMEs* contain guidance on fair value measurement. Those paragraphs are written within the context of financial instruments. However, several other sections of the *IFRS for SMEs* make reference to them, for example, fair value model for associates and jointly controlled entities (Sections 14 and 15), investment property (Section 16) and fair value of pension plan assets (Section 28). In addition, several other sections refer to fair value although they do not specifically refer to the guidance in Section 11. There is some other guidance about fair value elsewhere in the *IFRS for SMEs*, for example, guidance on fair value less costs to sell in paragraph 27.14. Recently the guidance on fair value in full IFRSs has been consolidated and comprehensively updated by IFRS 13 *Fair Value Measurement*. Some		

Ref	Question	Response	Reasoning
	of the main changes are: • an emphasis that fair value is a market-based measurement (not an entity-specific measurement); • an amendment to the definition of fair value to focus on an exit price (fair value is defined in IFRS 13 as "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date"); and • more specific guidance on determining fair value, including assessing the highest and best use of non-financial assets and identifying the principal market. The guidance on fair value in Section 11 is based on the guidance on fair value in IAS 39. The IAS 39 guidance on fair value has been replaced by IFRS 13. In straightforward cases, applying the IFRS 13 guidance on fair value would have no impact on the way fair value measurements are made under the *IFRS for SMEs*. However, if the new guidance was to be incorporated into the *IFRS for SMEs*, SMEs would need to re-evaluate their methods for determining fair value amounts to confirm that this is		

Ref	Question	Response	Reasoning
	the case (particularly for non-financial assets) and use greater judgement in assessing what data market participants would use when pricing an asset or liability. **Should the fair value guidance in Section 11 be expanded to reflect the principles in IFRS 13, modified as appropriate to reflect the needs of users of SME financial statements and the specific circumstances of SMEs (for example, it would take into account their often more limited access to markets, valuation expertise, and other cost-benefit considerations)?** (a) No—do not change the current requirements. The guidance for fair value measurement in paragraphs 11.27–11.32 is sufficient for financial and non-financial items. (b) Yes—the guidance for fair value measurement in Section 11 is not sufficient. Revise the *IFRS for SMEs* to incorporate those aspects of the fair value guidance in IFRS 13 that are important for SMEs, modified as appropriate for SMEs (including the appropriate disclosures). (c) Other—please explain. Please provide reasoning to support your choice of (a), (b) or (c).	**(b)**	There should not be different fair value guidance in relation to IASB Standards. We believe the fair value guidance in the *IFRS for SMEs* should be updated and consolidated in a manner similar to full IFRSs. The hierarchy of fair value measurement would take care of cases where SMEs have problems using market measures. The updated guidance should be based on

Ref	Question	Response	Reasoning
	Note: an alternative is to create a separate section in the *IFRS for SMEs* to deal with guidance on fair value that would be applicable to the entire *IFRS for SMEs*, rather than leaving such guidance in Section 11. This is covered in the following question (question S7).		IFRS 13 with SMEs in mind. There should not be different fair value hierarchies under full IFRS and the *IFRS for SMEs*
S7	**Positioning of fair value guidance in the Standard (Section 11)** As noted in question S6, several sections of the *IFRS for SMEs* (covering both financial and non-financial items) make reference to the fair value guidance in Section 11. **Should the guidance be moved into a separate section? The benefit would be to make clear that the guidance is applicable to all references to fair value in the *IFRS for SMEs*, not just to financial instruments.** (a) No—do not move the guidance. It is sufficient to have the fair value measurement guidance in Section 11. (b) Yes—move the guidance from Section 11 into a separate section on fair value measurement. (c) Other—please explain. Please provide reasoning to support your choice of (a), (b) or (c). **Note:** please answer this question regardless of your answer to question	**(b)**	• The guidance should be provided in a separate section. It is easier to use, consistent with the approach now taken in full IFRSs and better facilitates consistency in fair value measurement across different elements of

Ref	Question	Response	Reasoning
	S6.		financial statements.
S8	**Consideration of recent changes to accounting for joint ventures in full IFRSs (Section 15)** Recently, the requirements for joint ventures in full IFRSs have been updated by the issue of IFRS 11 *Joint Arrangements*, which replaced IAS 31 *Interests in Joint Ventures*. A key change resulting from IFRS 11 is to classify and account for a joint arrangement on the basis of the parties' rights and obligations under the arrangement. Previously under IAS 31, the structure of the arrangement was the main determinant of the accounting (ie establishment of a corporation, partnership or other entity was required to account for the arrangement as a jointly-controlled entity). In line with this, IFRS 11 changes the definitions and terminology and classifies arrangements as either joint operations or joint ventures. Section 15 is based on IAS 31 except that Section 15 (like IFRS 11) does not permit proportionate consolidation for joint ventures, which had been permitted by IAS 31. Like IAS 31, Section 15 classifies arrangements as jointly controlled operations, jointly controlled assets or jointly controlled entities. If the changes under IFRS 11 described above were adopted in Section 15, in most cases, jointly controlled assets and jointly controlled operations would become joint operations, and jointly controlled entities		

Ref	Question	Response	Reasoning
	would become joint ventures. Consequently, there would be no change to the way they are accounted for under Section 15. However, it is possible that, as a result of the changes, an investment that previously met the definition of a jointly controlled entity would become a joint operation. This is because the existence of a separate legal vehicle is no longer the main factor in classification. **Should the changes above to joint venture accounting in full IFRSs be reflected in the *IFRS for SMEs*, modified as appropriate to reflect the needs of users of SME financial statements and cost-benefit considerations?** (a) No—do not change the current requirements. Continue to classify arrangements as jointly controlled assets, jointly controlled operations and jointly controlled entities (this terminology and classification is based on IAS 31 *Interests in Joint Ventures*). The existing Section 15 is appropriate for SMEs, and SMEs have been able to implement it without problems. (b) Yes—revise the *IFRS for SMEs* so that arrangements are classified as joint ventures or joint operations on the basis of the parties' rights and obligations under the arrangement (terminology and classification based on IFRS 11 *Joint Arrangements*, modified	**(b)**	• Consistent with the AASB's position that SMEs should be able to benefit from improvements in full IFRSs, the *IFRS for SMEs* should be revised to reflect changes from

Ref	Question	Response	Reasoning
	as appropriate for SMEs). (c) Other—please explain. Please provide reasoning to support your choice of (a), (b) or (c). **Note:** this would not change the accounting options available for jointly-controlled entities meeting the criteria to be joint ventures (ie cost model, equity method and fair value model).		IFRS 11 based on principles underlying the *IFRS for SMEs*.
S9	**Revaluation of property, plant and equipment (Section 17)** The *IFRS for SMEs* currently prohibits the revaluation of property, plant and equipment (PPE). Instead, all items of PPE must be measured at cost less any accumulated depreciation and any accumulated impairment losses (cost-depreciation-impairment model—paragraph 17.15). Revaluation of PPE was one of the complex accounting policy options in full IFRSs that the IASB eliminated in the interest of comparability and simplification of the *IFRS for SMEs*. In full IFRSs, IAS 16 *Property, Plant and Equipment* allows entities to choose a revaluation model, rather than the cost-depreciation-impairment model, for entire classes of PPE. In accordance with the revaluation model in IAS 16, after recognition as an asset, an item of PPE whose fair value can be measured reliably is carried at a revalued amount—its fair value at		

Ref	Question	Response	Reasoning
	the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluation increases are recognised in other comprehensive income and are accumulated in equity under the heading of ‘revaluation surplus’ (unless an increase reverses a previous revaluation decrease recognised in profit or loss for the same asset). Revaluation decreases that are in excess of prior increases are recognised in profit or loss. Revaluations must be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. **Should an option to use the revaluation model for PPE be added to the *IFRS for SMEs*?** (a) No—do not change the current requirements. Continue to require the cost-depreciation-impairment model with no option to revalue items of PPE.		
	(b) Yes—revise the *IFRS for SMEs* to permit an entity to choose, for each major class of PPE, whether to apply the cost-depreciation-impairment model or the revaluation model (the approach in IAS 16).	**(b)**	• The AASB believes that SMEs should be able to avail themselves of all recognition and measurement accounting policy options available under full IFRSs. A frequently stated accounting policy option difference between

Ref	Question	Response	Reasoning
	(c) Other—please explain. Please provide reasoning to support your choice of (a), (b) or (c).		the *IFRS for SMEs* and full IFRSs is the absence of the revaluation measurement option from the *IFRS for SMEs*. While its absence might be consistent with US GAAP, it has caused difficulties for jurisdictions like Australia that have traditionally applied the revaluation option in both the private and public sectors. It is one of the major barriers for Australia being able to adopt the *IFRS for SMEs*
S10	**Capitalisation of development costs (Section 18)** The *IFRS for SMEs* currently requires that all research and development costs be charged to expense when incurred unless they form part of the cost of another asset that meets the recognition criteria in the *IFRS for SMEs* (paragraph 18.14). The IASB reached that decision because many preparers and auditors of SME financial statements said that SMEs do not have the resources to assess whether a project is commercially viable on an ongoing basis. Bank lending officers told the IASB that information about capitalised development costs is of little benefit to them, and that they disregard those costs in making lending decisions.		

Ref	Question	Response	Reasoning
	In full IFRSs, IAS 38 *Intangible Assets* requires that all research and some development costs must be charged to expense, but development costs incurred after the entity is able to demonstrate that the development has produced an asset with future economic benefits should be capitalised. IAS 38.57 lists certain criteria that must be met for this to be the case. IAS 38.57 states "An intangible asset arising from development (or from the development phase of an internal project) shall be recognised if, and only if, an entity can demonstrate all of the following: • the technical feasibility of completing the intangible asset so that it will be available for use or sale. • its intention to complete the intangible asset and use or sell it. • its ability to use or sell the intangible asset. • how the intangible asset will generate probable future economic benefits. Among other things, the entity can demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset. • the availability of adequate technical, financial and other resources to complete the development and to use or sell the		

Ref	Question	Response	Reasoning
	intangible asset. • its ability to measure reliably the expenditure attributable to the intangible asset during its development." **Should the *IFRS for SMEs* be changed to require capitalisation of development costs meeting criteria for capitalisation (on the basis of on the criteria in IAS 38)?** (a) No—do not change the current requirements. Continue to charge all development costs to expense. (b) Yes—revise the *IFRS for SMEs* to require capitalisation of development costs meeting the criteria for capitalisation (the approach in IAS 38). (c) Other—please explain. Please provide reasoning to support your choice of (a), (b) or (c).	**(b)**	• In many jurisdictions non-publicly accountable entities may have the resources to assess whether a project is commercially viable on an ongoing basis and therefore have no difficulty in capitalising development costs. Accordingly, we believe the *IFRS for SMEs* should be revised to require capitalisation of development cost.

Ref	Question	Response	Reasoning
S11	**Amortisation period for goodwill and other intangible assets (Section 18)** Paragraph 18.21 requires an entity to amortise an intangible asset on a systematic basis over its useful life. This requirement applies to goodwill as well as to other intangible assets (see paragraph 19.23(a)). Paragraph 18.20 states “If an entity is unable to make a reliable estimate of the useful life of an intangible asset, the life shall be presumed to be ten years.” Some interested parties have said that, in some cases, although the management of the entity is unable to estimate the useful life reliably, management’s judgement is that the useful life is considerably shorter than ten years. **Should paragraph 18.20 be modified to state: “If an entity is unable to make a reliable estimate of the useful life of an intangible asset, the life shall be presumed to be ten years unless a shorter period can be justified”?** (a) No—do not change the current requirements. Retain the presumption of ten years if an entity is unable to make a reliable estimate of the useful life of an intangible asset (including goodwill).	**(a)**	Although our preference is full IFRS recognition and measurement requirements be applied to SMEs, we can accept the basis that the 10-year period was presumed because some entities were unable to make a reliable estimate of the useful life of an intangible

Ref	Question	Response	Reasoning
	(b) Yes—modify paragraph 18.20 to establish a presumption of ten years that can be overridden if a shorter period can be justified. (c) Other—please explain. Please provide reasoning to support your choice of (a), (b) or (c).		asset. If the entity can determine the useful life at a figure less than 10 years, then it should not follow the 10-year presumption. Therefore, no modification is necessary
S12	**Consideration of changes to accounting for business combinations in full IFRSs (Section 19)** The *IFRS for SMEs* accounts for all business combinations by applying the purchase method. This is similar to the 'acquisition method' approach currently applied in full IFRSs. Section 19 of the *IFRS for SMEs* is generally based on the 2004 version of IFRS 3 *Business Combinations*. IFRS 3 was revised in 2008, which was near the time of the release of the *IFRS for SMEs*. IFRS 3 (2008) addressed deficiencies in the previous version of IFRS 3 without changing the basic accounting; it also promoted international convergence of accounting standards. The main changes introduced by IFRS 3 (2008) that could be considered for incorporation in the *IFRS for SMEs* are: • A focus on what is given as consideration to the seller, rather than what is spent in order to acquire the entity. As a consequence,		

Ref	Question	Response	Reasoning
	acquisition-related costs are recognised as an expense rather than treated as part of the business combination (for example, advisory, valuation and other professional and administrative fees). • Contingent consideration is recognised at fair value (without regard to probability) and then subsequently accounted for as a financial instrument instead of as an adjustment to the cost of the business combination. • Determining goodwill requires remeasurement to fair value of any existing interest in the acquired company and measurement of any non-controlling interest in the acquired company. **Should Section 19 be amended to incorporate the above changes, modified as appropriate to reflect the needs of users of SME financial statements and cost-benefit considerations?** (a) No—do not change the current requirements. The current approach in Section 19 (based on IFRS 3 (2004)) is suitable for SMEs, and SMEs have been able to implement it without problems.		

Ref	Question	Response	Reasoning
	(b) Yes—revise the *IFRS for SMEs* to incorporate the main changes introduced by IFRS 3 (2008), as outlined above and modified as appropriate for SMEs. (c) Other—please explain. Please provide reasoning to support your choice of (a), (b) or (c).	**(b)**	• As SMEs should not be denied the benefit of ongoing improvements in IFRSs, IFRS 3 (2008) should be considered in the light of principles underlying the *IFRS for SMEs* with a view to updating the *IFRS for SMEs*.
S13	**Presentation of share subscriptions receivable (Section 22)** Paragraph 22.7(a) requires that subscriptions receivable, and similar receivables that arise when equity instruments are issued before the entity receives the cash for those instruments, must be offset against equity in the statement of financial position, not presented as an asset. Some interested parties have told the IASB that their national laws regard the equity as having been issued and require the presentation of the related receivable as an asset. **Should paragraph 22.7(a) be amended either to permit or require the presentation of the receivable as an asset?** (a) No—do not change the current requirements. Continue to present the subscription receivable as an offset to equity. (b) Yes—change paragraph 22.7(a) to require that the subscription receivable is presented as an asset.		

Ref	Question	Response	Reasoning
	(c) Yes—add an additional option to paragraph 22.7(a) to permit the subscription receivable to be presented as an asset, ie the entity would have a choice whether to present it as an asset or as an offset to equity. (d) Other—please explain. Please provide reasoning to support your choice of (a), (b), (c) or (d).	**(d)**	• The AASB questions the requirement to offset under paragraph 22.7(a) since there should be a legal right to do so and we are not sure a standard should have a universal requirement to that effect. Further, the AASB believes if a requirement is not included in full IFRSs, the *IFRS for SMEs* should not be the standard to first introduce it. Accordingly, the AASB's view is that paragraph 27.7(a) should be deleted from the *IFRS for SMEs*.
S14	**Capitalisation of borrowing costs on qualifying assets (Section 25)** The *IFRS for SMEs* currently requires all borrowing costs to be recognised as an expense when incurred (paragraph 25.2). The IASB decided not to require capitalisation of any borrowing costs for cost-benefit reasons,.		

Ref	Question	Response	Reasoning
	particularly because of the complexity of identifying qualifying assets and calculating the amount of borrowing costs eligible for capitalisation. IAS 23 *Borrowing Costs* requires that borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset (ie an asset that necessarily takes a substantial period of time to get ready for use or sale) must be capitalised as part of the cost of that asset, and all other borrowing costs must be recognised as an expense when incurred. **Should Section 25 of the *IFRS for SMEs* be changed so that SMEs are required to capitalise borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset, with all other borrowing costs recognised as an expense when incurred?** (a) No—do not change the current requirements. Continue to require all borrowing costs to be recognised as an expense when incurred (b) Yes—revise the *IFRS for SMEs* to require capitalisation of borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset (the approach in IAS 23). (c) Other—please explain.	**(b)**	• The AASB believes that capitalisation should be required as the core principle since there are non-publicly accountable entities that can deal with the complexity of identifying qualifying assets and calculating the amount of borrowing

Ref	Question	Response	Reasoning
	Please provide reasoning to support your choice of (a), (b) or (c).		costs eligible for capitalisation.
S15	**Presentation of actuarial gains or losses (Section 28)** In accordance with the *IFRS for SMEs*, an entity is required to recognise all actuarial gains and losses in the period in which they occur, either in profit or loss or in other comprehensive income as an accounting policy election (paragraph 28.24). Recently, the requirements in full IFRSs have been updated by the issue of IAS 19 *Employee Benefits* (revised 2011). A key change as a result of the 2011 revisions to IAS 19 is that all actuarial gains and losses must be recognised in other comprehensive income in the period in which they arise. Previously, under full IFRSs, actuarial gains and losses could be recognised either in other comprehensive income or in profit or loss as an accounting policy election (and under the latter option there were a number of permitted methods for the timing of the recognition in profit or loss). Section 28 is based on IAS 19 before the 2011 revisions, modified as appropriate to reflect the needs of users of SME financial statements and cost-benefit considerations. Removing the option for SMEs to recognise actuarial gains and losses in profit or loss would improve comparability		

Ref	Question	Response	Reasoning
	between SMEs without adding any complexity. **Should the option to recognise actuarial gains and losses in profit or loss be removed from paragraph 28.24?** (a) No—do not change the current requirements. Continue to allow an entity to recognise actuarial gains and losses either in profit or loss or in other comprehensive income as an accounting policy election. (b) Yes—revise the *IFRS for SMEs* so that an entity is required to recognise all actuarial gains and losses in other comprehensive income (ie removal of profit or loss option in paragraph 28.24). (c) Other—please explain. Please provide reasoning to support your choice of (a), (b) or (c). **Note:** IAS 19 (revised 2011) made a number of other changes to full IFRSs. However, because Section 28 was simplified from the previous version of IAS 19 to reflect the needs of users of SME financial statements and cost-benefit considerations, the changes made to full IFRSs do not directly relate to the requirements in Section 28.	**(b)**	• Generally the AASB is of the view that SMEs should be able to avail themselves of improvements in full IFRSs and that the *IFRS for SMEs* should be updated to be consistent with the latest recognition, measurement and presentation requirements of relevant IFRS. This among other things increases comparability of financial statements of SMEs and publicly accountable entities and facilitates consolidation. Accordingly, in relation to recognition of actuarial gains and losses, we believe the *IFRS for SMEs* should be revised to be consistent with the latest version of IAS 19.

Ref	Question	Response	Reasoning
S16	**Approach for accounting for deferred income taxes (Section 29)** Section 29 of the *IFRS for SMEs* currently requires that deferred income taxes must be recognised using the temporary difference method. This is also the fundamental approach required by full IFRSs (IAS 12 *Income Taxes*). Some hold the view that SMEs should recognise deferred income taxes and that the temporary difference method is appropriate. Others hold the view that while SMEs should recognise deferred income taxes, the temporary difference method (which bases deferred taxes on differences between the tax basis of an asset or liability and its carrying amount) is too complex for SMEs. They propose replacing the temporary difference method with the timing difference method (which bases deferred taxes on differences between when an item of income or expense is recognised for tax purposes and when it is recognised in profit or loss). Others hold the view that SMEs should recognise deferred taxes only for timing differences that are expected to reverse in the near future (sometimes called the 'liability method'). And still others hold the view that SMEs should not recognise any deferred taxes at all (sometimes called the 'taxes payable method'). **Should SMEs recognise deferred income taxes and, if so, how should**		

Ref	Question	Response	Reasoning
	they be recognised? (a) Yes—SMEs should recognise deferred income taxes using the temporary difference method (the approach currently used in both the *IFRS for SMEs* and full IFRSs). (b) Yes—SMEs should recognise deferred income taxes using the timing difference method. (c) Yes—SMEs should recognise deferred income taxes using the liability method. (d) No—SMEs should not recognise deferred income taxes at all (ie they should use the taxes payable method), although some related disclosures should be required. (e) Other—please explain. Please provide reasoning to support your choice of (a), (b), (c), (d) or (e).	**(a)**	• The AASB believes the temporary difference method should be retained in the *IFRS for SMEs*. The *IFRS for SMEs* should not be the place to accommodate people's concerns about conceptual merits of IAS 12. • Generally the AASB is of the view that the *IFRS for SMEs* should be updated to be consistent with the latest recognition, measurement and presentation requirements of relevant IFRS. This, among other things, increases comparability of financial statements of SMEs and publicly accountable entities and facilitates consolidation.
S17	**Consideration of IAS 12 exemptions from recognising deferred taxes and other differences under IAS 12 (Section 29)** In answering this question, please assume that SMEs will continue to recognise deferred income taxes using the temporary difference method (see discussion in question S16).		

Ref	Question	Response	Reasoning
	Section 29 is based on the IASB's March 2009 exposure draft *Income Tax*. At the time the *IFRS for SMEs* was issued, that exposure draft was expected to amend IAS 12 *Income Taxes* by eliminating some exemptions from recognising deferred taxes and simplifying the accounting in other areas. The IASB eliminated the exemptions when developing Section 29 and made the other changes in the interest of simplifying the *IFRS for SMEs*. Some interested parties who are familiar with IAS 12 say that Section 29 does not noticeably simplify IAS 12 and that the removal of the IAS 12 exemptions results in more deferred tax calculations being required. Because the March 2009 exposure draft was not finalised, some question whether the differences between Section 29 and IAS 12 are now justified. **Should Section 29 be revised to conform it to IAS 12, modified as appropriate to reflect the needs of the users of SME financial statements?** (a) No—do not change the overall approach in Section 29. (b) Yes—revise Section 29 to conform it to the current IAS 12 (modified as appropriate for SMEs). (c) Other—please explain.	**(b)**	• The AASB believes that the section on income taxes, which is based on an IASB ED that was not progressed to a Standard, should be revised

Ref	Question	Response	Reasoning
	Please provide reasoning to support your choice of (a), (b) or (c).		to be harmonised with IAS 12. The current approach in the *IFRS for SMEs* creates incomparability and does not provide any economy to SMEs.
S18	**Rebuttable presumption that investment property at fair value is recovered through sale (Section 29)** In answering this question, please also assume that SMEs will continue to recognise deferred income taxes using the temporary difference method (see discussion in question S16). In December 2010, the IASB amended IAS 12 to introduce a rebuttable presumption that the carrying amount of investment property measured at fair value will be recovered entirely through sale. The amendment to IAS 12 was issued because, without specific plans for the disposal of the investment property, it can be difficult and subjective to estimate how much of the carrying amount of the investment property will be recovered through cash flows from rental income and how much of it will be recovered through cash flows from selling the asset.		

Ref	Question	Response	Reasoning
	Paragraph 29.20 currently states: "The measurement of deferred tax liabilities and deferred tax assets shall reflect the tax consequences that would follow from the manner in which the entity expects, at the reporting date, to recover or settle the carrying amount of the related assets and liabilities." **Should Section 29 be revised to incorporate a similar exemption from paragraph 29.20 for investment property at fair value?** (a) No—do not change the current requirements. Do not add an exemption in paragraph 29.20 for investment property measured at fair value. (b) Yes—revise Section 29 to incorporate the exemption for investment property at fair value (the approach in IAS 12). (c) Other—please explain. Please provide reasoning to support your choice of (a), (b) or (c). **Note:** please answer this question regardless of your answer to questions S16 and S17 above.	**(b)**	• Consistent with the AASB's position that SMEs should be able to avail themselves of all recognition, measurement and presentation accounting policies of full IFRSs (and also be able to benefit from improvements in full IFRSs in a timely way), the *IFRS for SMEs* should be revised in this regard. The reasons behind the introduction of the exemption are equally true for SMEs.

Ref	Question	Response	Reasoning
S19	**Inclusion of additional topics in the *IFRS for SMEs*** The IASB intended that the 35 sections in the *IFRS for SMEs* would cover the kinds of transactions, events and conditions that are typically encountered by most SMEs. The IASB also provided guidance on how an entity's management should exercise judgement in developing an accounting policy in cases where the *IFRS for SMEs* does not specifically address a topic (see paragraphs 10.4–10.6). **Are there any topics that are not specifically addressed in the *IFRS for SMEs* that you think should be covered (ie where the general guidance in paragraphs 10.4–10.6 is not sufficient)?** (a) No. (b) Yes (please state the topic and reasoning for your response). **Note:** this question is asking about topics that are not currently addressed by the *IFRS for SMEs*. It is not asking which areas of the *IFRS for SMEs* require additional guidance. If you think more guidance should be added for a topic already covered by the *IFRS for SMEs*, please provide your comments in response to question S20.	**(b)**	• To make the *IFRS for SMEs* more consistent with recognition and measurement requirements of full IFRSs in relation to topics that equally apply to publicly accountable entities and non-publicly accountable entities, we believe sections based on IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* and IAS 34 *Interim Financial*

Ref	Question	Response	Reasoning
			Reporting should be introduced into the *IFRS for SMEs*.
S20	**Opportunity to add your own specific issues** Are there any additional issues that you would like to bring to the IASB's attention on specific requirements in the sections of the *IFRS for SMEs*? (a) No. (b) Yes (please state your issues, identify the section(s) to which they relate, provide references to paragraphs in the *IFRS for SMEs* where applicable and provide separate reasoning for each issue given).	**(a)**	• We believe the addition of specific issues outside those dealt with by full IFRSs would create more problems for users and preparers of financial statements.

Ref	General Questions	Response	Reasoning
G1	**Consideration of minor improvements to full IFRSs** The *IFRS for SMEs* was developed from full IFRSs but tailored for SMEs. As a result, the *IFRS for SMEs* uses identical wording to full IFRSs in many places. The IASB makes ongoing changes to full IFRSs as part of its Annual Improvements project as well as during other projects. Such amendments may clarify guidance and wording, modify definitions or make other relatively minor amendments to full IFRSs to address unintended consequences, conflicts or oversights. For more information, the IASB web pages on its Annual Improvements project can be accessed on the following link: http://go.ifrs.org/AI Some believe that because those changes are intended to improve requirements, they should naturally be incorporated in the *IFRS for SMEs* where they are relevant. Others note that each small change to the *IFRS for SMEs* would unnecessarily increase the reporting burden for SMEs because SMEs would have to assess whether each individual change will affect its current accounting policies. Those who hold that view concluded that,		

Ref	General Questions	Response	Reasoning
	although the *IFRS for SMEs* was based on full IFRSs, it is now a separate Standard and does not need to reflect relatively minor changes in full IFRSs. **How should the IASB deal with such minor improvements, where the *IFRS for SMEs* is based on old wording from full IFRSs?** (a) Where changes are intended to improve requirements in full IFRSs and there are similar wordings and requirements in the *IFRS for SMEs*, they should be incorporated in the (three-yearly) omnibus exposure draft of changes to the *IFRS for SMEs*. (b) Changes should only be made where there is a known problem for SMEs, ie there should be a rebuttable presumption that changes should not be incorporated in the *IFRS for SMEs*. (c) The IASB should develop criteria for assessing how any such improvements should be incorporated (please give your suggestions for the criteria to be used). (d) Other—please explain. Please provide reasoning to support your choice of (a), (b), (c) or (d).	**(c)**	• The criteria should be user need and cost benefit considerations consistent with principles underlying the *IFRS for SMEs*. Any other criteria would cause full IFRSs and the *IFRS for SMEs* to diverge further apart.

Ref	General Questions	Response	Reasoning
G2	**Further need for Q&As** One of the key responsibilities of the SMEIG has been to consider implementation questions raised by users of the *IFRS for SMEs* and to develop proposed non-mandatory guidance in the form of questions and answers (Q&As). These Q&As are intended to help those who use the *IFRS for SMEs* to think about specific accounting questions. The SMEIG Q&A programme has been limited. Only seven final Q&A have been published. Three of those seven deal with eligibility to use the *IFRS for SMEs*. No additional Q&As are currently under development by the SMEIG. Some people are of the view that, while the Q&A programme was useful when the *IFRS for SMEs* was first issued so that implementation questions arising in the early years of application around the world could be dealt with, it is no longer needed. Any new issues that arise in the future can be addressed in other ways, for example through education material or by future three-yearly updates to the *IFRS for SMEs*. Many who hold this view think that an ongoing programme of issuing Q&As is inconsistent with the principle-based approach in the *IFRS for SMEs*, is burdensome because Q&As are perceived to add another set of rules on top of the		

Ref	General Questions	Response	Reasoning
	IFRS for SMEs, and has the potential to create unnecessary conflict with full IFRSs if issues overlap with issues in full IFRSs. Others, however, believe that the volume of Q&As issued so far is not excessive and that the non-mandatory guidance is helpful, and not a burden, especially to smaller organisations and in smaller jurisdictions that have limited resources to assist their constituents in implementing the *IFRS for SMEs*. Furthermore, in general, the Q&As released so far provide guidance on considerations when applying judgement, rather than creating rules. **Do you believe that the current, limited programme for developing Q&As should continue after this comprehensive review is completed?** (a) Yes—the current Q&A programme should be continued. (b) No—the current Q&A programme has served its purpose and should not be continued. (c) Other—please explain. Please provide reasoning to support your choice of (a), (b) or (c).	**(c)**	• The AASB conditionally supports the idea behind issuing Q&As as it thinks such guidance could benefit preparers, auditors and others with an interest in financial statements prepared under the *IFRS for SMEs*. Although

Ref	General Questions	Response	Reasoning
			approved Q&As would be intended to have the status of informal guidance and not mandatory standards, there is risk that a full IFRS adopter might rely on them in preparing financial statements. Accordingly, Q&As must not affect full IFRS application, otherwise they must be the subject of full due process and issued by IFRIC. The AASB is not opposed to the Q&As continuing to exist for matters confined to the *IFRS for SMEs.*
G3	**Treatment of existing Q&As** As noted in question G2, there are seven final Q&As for the *IFRS for SMEs*. This comprehensive review provides an opportunity for the guidance in those Q&As to be incorporated into the *IFRS for SMEs* and for the Q&As to be deleted. Non-mandatory guidance from the Q&As will become mandatory if it is included as requirements in the *IFRS for SMEs*. In addition, any guidance may need to be incorporated in the *IFRS for SMEs* in a reduced format or may even be omitted altogether (if the IASB deems that the guidance is		

Ref	General Questions	Response	Reasoning
	no longer applicable after the Standard is updated or that the guidance is better suited for inclusion in training material). The IASB would also have to decide whether any parts of the guidance that are not incorporated into the *IFRS for SMEs* should be retained in some fashion, for example, as an addition to the Basis for Conclusions accompanying the *IFRS for SMEs* or as part of the training material on the *IFRS for SMEs*. An alternative approach would be to continue to retain the Q&As separately where they remain relevant to the updated *IFRS for SMEs*. Under this approach there would be no need to reduce the guidance in the Q&As, but the guidance may need to be updated because of changes to the *IFRS for SMEs* resulting from the comprehensive review. **Should the Q&As be incorporated into the *IFRS for SMEs*?** (a) Yes—the seven final Q&As should be incorporated as explained above, and deleted. (b) No—the seven final Q&As should be retained as guidance separate from the *IFRS for SMEs*. (c) Other—please explain. Please provide reasoning to support your choice of (a), (b) or (c).	**(c)**	• Any treatment of Q&As should have due regard to the fact they may affect full IFRS preparers and should be developed in a

Ref	General Questions	Response	Reasoning
			manner that is consistent with the requirements of the IASB's due process in preparing Standards and Interpretations.
G4	**Training material** The IFRS Foundation has developed comprehensive free-to-download self-study training material to support the implementation of the *IFRS for SMEs*. These are available on our website: http://go.ifrs.org/smetraining. In addition to your views on the questions we have raised about the *IFRS for SMEs*, we welcome any comments you may have about the training material, including any suggestions you may have on how we can improve it. **Do you have any comments on the IFRS Foundation's *IFRS for SMEs* training material available on the link above?** (a) No. (b) Yes (please provide your comments).	**(a)**	Because *IFRS for SMEs* is not adopted in Australia.
G5	**Opportunity to add any further general issues** Are there any additional issues you would like to bring to the IASB's attention relating to the *IFRS for SMEs*?		

Ref	General Questions	Response	Reasoning
	(a) No. (b) Yes (please state your issues and provide separate reasoning for each issue given).	**(a)**	Except the comments made in the covering letter, Appendix 1.

Ref	General Questions	Response
G6	**Use of *IFRS for SMEs* in your jurisdiction** This question contains four sub-questions. The purpose of the questions is to give us some information about the use of the *IFRS for SMEs* in the jurisdictions of those responding to this Request for Information. **1 What is your country/jurisdiction?** **2 Is the *IFRS for SMEs* currently used in your country/jurisdiction?** (a) Yes, widely used by a majority of our SMEs. (b) Yes, used by some but not a majority of our SMEs. (c) No, not widely used by our SMEs. (d) Other (please explain). **3 If the *IFRS for SMEs* is used in your country/jurisdiction, in your judgement what have been the principal benefits of the *IFRS for SMEs*?** (Please give details of any benefits.) **4 If the *IFRS for SMEs* is used in your country/jurisdiction, in your judgement what have been the principal practical**	1. Australia 2 (d).Not directly but its principles are used in developing Reduced Disclosure Requirements (RDR) regime in Australia. The RDR can be applied by non-publicly accountable entities preparing general purpose financial statements. 3.N/A 4. N/A

Ref	General Questions	Response
	problems in implementing the *IFRS for SMEs*? (Please give details of any problems.)	

Appendix 3: Tier 2 Disclosure Principles

(Applied to full IFRS disclosure requirements to determine the disclosure requirements under the RDR)

The 'user need' and 'cost-benefit' principles that underlie the determination of disclosure requirements in the IASB's *IFRS for SMEs* are applied in determining disclosures under the Australian Tier 2 (Reduced Disclosure Requirements). The following operational guidance is intended to facilitate the application of those principles:

General guidance

1 The disclosures proposed under Tier 2 are determined by:

(a) benchmarking to the *IFRS for SMEs* disclosures when Tier 2 recognition and measurement accounting policies are the same (or substantively the same) as those under the *IFRS for SMEs* unless the relevant full IFRS disclosure is a new or revised disclosure that did not exist when the *IFRS for SMEs* was published or last updated. In such cases the 'user need' and 'cost-benefit' principles (used by the IASB in developing its *IFRS for SMEs)* are applied to new or revised disclosures; and

(b) applying the 'user need' and 'cost-benefit' principles when Tier 2 recognition and measurement requirements are not the same as those available under the *IFRS for SMEs*.

IFRS for SMEs excludes some full IFRS disclosures; that is when they are only pertinent to the information needs of users of financial statements of publicly accountable entities. Instead it focuses on information that is of particular interest to users of financial statements of non-publicly accountable private sector entities. Consistent with this approach, paragraph 6 below provides guidance on the specific information needs of these users. Moreover, as Tier 2 Disclosure Principles are also applied in determining the disclosure requirements of not-for-profit and public sector entities, paragraph 10 clarifies the information needs of users of the financial statements of such entities.

Specific guidance

Approach when Recognition and Measurement Requirements are the Same or Substantively the Same

Identical or similar disclosures

2 Where the disclosure requirements under a full IFRS as adopted in Australia and the *IFRS for SMEs* are the same or similar (that is, result in the same disclosures), those disclosure requirements are retained as part of Tier 2 requirements, using the wording of the relevant full IFRS as adopted in Australia.

Dissimilar disclosures

3 Where the disclosure requirements under a full IFRS and the *IFRS for SMEs* are dissimilar, the following procedure is followed:

(a) Where the *IFRS for SMEs* does not require a disclosure that is required in the relevant full IFRS, Tier 2 does not retain that disclosure unless the relevant full

IFRS disclosure requirement is a new or revised disclosure requirement and the application of user need and cost-benefit principles warrants otherwise.

(b) Where the *IFRS for SMEs* disclosure requirement is less onerous than the relevant full IFRS disclosure requirement, the less onerous disclosure requirement is adopted unless the relevant full IFRS disclosure requirement is a new or revised disclosure requirement and the application of user need and cost benefit principles warrants otherwise.

Benchmarking to the *IFRS for SMEs* in cases where a new or revised disclosure requirement is not involved is on the basis that, in developing the *IFRS for SMEs*, the IASB has already applied the user needs and cost benefit principles and concluded that an exemption or reduced disclosure is appropriate.

In most cases, the structure of the words in the relevant full IFRS enables the use of shading to show that a relevant disclosure requirement is excluded or reduced so as to match the *IFRS for SMEs* disclosure outcome. In the few cases where this is not feasible, the wording in the *IFRS for SMEs* is used as the basis for an RDR paragraph as a substitute for the relevant full IFRS wording.

4 In the few cases where the *IFRS for SMEs* has an additional disclosure requirement that is not included in the full IFRS, that disclosure requirement is not included in Tier 2 requirements.

Approach when Recognition and Measurement Requirements are not the Same or Substantively the Same

5 The disclosure requirements under Tier 2 are determined by drawing on the 'user need' and 'cost-benefit' principles applied by the IASB in developing its *IFRS for SMEs* when Tier 2 recognition and measurement accounting policies are not the same (or substantively the same) as those under the *IFRS for SMEs*.

6 The principles applied by the IASB in developing its *IFRS for SMEs* are grounded in the view that users of financial information of non-publicly accountable for-profit private sector entities are particularly interested in information about:

(a) short-term cash flows and about obligations, commitments or contingencies, whether or not recognised as liabilities;

(b) liquidity and solvency;

(c) measurement uncertainties;

(d) the entity's accounting policy choices;

(e) disaggregations of amounts presented in the financial statements; and

(f) transactions and other events and conditions encountered by such entities.

Guidance relating to disclosure

7 Guidance relating to a disclosure that is retained in Tier 2 requirements is also retained in Tier 2 requirements on the grounds that it assists entities in making that disclosure and would not add to the disclosure burden. Guidance that relates to a disclosure that is not retained in Tier 2 requirements is also not retained in Tier 2 requirements. Text in

the nature of contextual material is not treated as guidance. Such text is retained in Tier 2 on the basis that its retention does not add to the disclosure burden.

Disclosure Encouraged

8 Where a disclosure is encouraged, whether under the full IFRSs as adopted in Australia or the *IFRS for SMEs,* it is not included.

Presentation versus Disclosure

9 Tier 2 does not involve amending the presentation (sometimes used interchangeably with classification) requirements of Tier 1 and is concerned only with reducing the disclosure burden. Sometimes judgement is required as to whether a particular requirement relates to presentation or disclosure. The following guidance is used to distinguish between presentation and disclosure:

Presentation requirements are limited to requirements that specify the broad structure of financial statements including the basis of classification of items. Specifications relating to sub-classifications or line items to be shown on the face of financial statements, or in the notes, are treated as matters of disclosure.

Clarification in relation to Not-For-Profit and Public Sector Entities

10 Although the *IFRS for SMEs* has been developed to apply to for-profit private sector entities, broadly it is considered reasonable to rely on the judgements made in developing the *IFRS for SMEs* in respect of both for-profit and not-for-profit (including public sector) entities in Australia given that IFRSs are generally applied to all types of Australian entities. Accordingly, paragraphs 3 and 6 are relevant to all types of entities. The AASB uses its *Process for Modifying IFRSs for PBE/NFP* in assessing the need for specific requirements relating to not-for-profit entities.

For the limited number of disclosure requirements in full IFRSs as adopted in Australia that are specific to the circumstances of not-for-profit and public sector entities the Tier 2 disclosures are determined by applying the user need and cost-benefit principles in the context of the specific needs of users of not-for-profit and public sector entity financial statements.

Consistency of application

11 Tier 2 Disclosure Principles and related operational guidance are applied consistently so that disclosures relating to similar or analogous circumstances are not significantly different. 'Analogising', with a view to achieving consistency of application, is not a substitute for making independent decisions in the circumstances of each case, rather it provides corroborative evidence based on similar previous decisions.

'Analogising' also encompasses reliance on the IASB decisions in relation to similar disclosures under the *IFRS for SMEs,* albeit those disclosures are included in a section of the *IFRS for SMEs* that does not correspond to the topic covered by the full IFRS.