Australian Government
Australian Accounting
Standards Board

Postal Address
PO Box 204
Collins Street West VIC 8007
Telephone: (03) 9617 7600

Dr Andreas Barckow
Chairman
International Accounting Standards Board
Columbus Building
7 Westferry Circus
Canary Wharf, London E14 4HD
UNITED KINGDOM

27 February 2023

Dear Andreas,

IASB Exposure Draft ED/2022/1 *Third edition of the IFRS for SMEs Accounting Standard – IFRS for SMEs Accounting Standard*

The Australian Accounting Standards Board (AASB) is pleased to have the opportunity to provide comments on the International Accounting Standards Board (IASB) ED/2022/1 *IFRS for SMEs Accounting Standard – Third edition of the IFRS for SMEs Accounting Standard* issued in September 2022.

In formulating these comments, the views of Australian stakeholders were sought and considered. This included targeted consultation with AASB stakeholders, including professional bodies and regulators.

The IFRS for *SMEs* Accounting Standard is not part of the Australian financial reporting framework. Australia's financial reporting framework consists of two tiers of reporting requirements for preparing general purpose financial statements (GPFS). The IASB's definition of public accountability establishes with which tier of reporting an entity must comply.

Tier 1 incorporates the full IFRS Accounting Standards and includes additional Australian-specific disclosure requirements. Tier 2 comprises the recognition and measurement requirements of Tier 1 with substantially reduced disclosures. Tier 2 disclosure requirements are set out in a stand-alone disclosure standard AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities*. Entities that have public accountability are required to prepare Tier 1 GPFS. Entities that do not have public accountability can prepare Tier 2 GPFS unless they elect or are required to apply Tier 1 reporting requirements.

The AASB acknowledges the IASB's effort to clarify the application of the definition of public accountability. However, as outlined in our response to Question 1, the AASB suggests some further clarifications would be helpful in response to application challenges experienced in Australia.

The AASB encourages the IASB to consider aligning the *IFRS for SMEs* Accounting Standard requirements relating to the classification of liabilities as current or non-current with the revised IAS 1 *Presentation of Financial Statements* requirements.

The AASB also encourages the IASB to consider the application of the definition of intangible assets by entities without public accountability as part of the forthcoming comprehensive review of IAS 38 *Intangible Assets*.

The AASB has responded only to those questions in the Exposure Draft on matters that are particularly relevant to Australian stakeholders. The detailed recommendations and responses are provided in the Appendix to this letter. If you have any questions regarding this letter, don't hesitate to contact me or Nikole Gyles, Technical Director (ngyles@aasb.gov.au).

Yours sincerely,

Dr Keith Kendall

Chair – AASB

Appendix

Question 1—Definition of public accountability
Respondents to the Exposure Draft *Subsidiaries without Public Accountability: Disclosures* published in July 2021, expressed some concerns about applying the definition of public accountability. The description of 'public accountability in the Exposure Draft *Subsidiaries without Public Accountability: Disclosures* comprises the definition and supporting guidance in paragraphs 1.3–1.4 of the *IFRS for SMEs* Accounting Standard (Standard). In response to this feedback, the IASB is proposing to amend paragraph 1.3(b) to list banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks as examples of entities that often meet the second criterion of public accountability in paragraph 1.3(b). To assist an understanding of the basis for the definition of public accountability, the IASB is also proposing to clarify that an entity with these characteristics would usually have public accountability: (a) there is both a high degree of outside interest in the entity and a broad group of users of the entity's financial statements (existing and potential investors, lenders and other creditors) who have a direct financial interest in or substantial claim against the entity. (b) the users in (a) depend primarily on external financial reporting as their means of obtaining financial information about the entity. These users need financial information about the entity but lack the power to demand the information for themselves. Paragraphs BC11–BC19 of the Basis for Conclusions on this Exposure Draft explain the IASB's rationale for clarifying the definition of public accountability in Section 1. The IASB expects that the amendments to paragraphs 1.3 and 1.3A of Section 1 will add clarity, without changing the intended scope of the Standard. 1(i) Do you agree that the amendments will add clarity without changing the intended scope of the Standard? If you do not agree, which types of entities do you believe would be newly scoped in or scoped out? 1(ii) Do you agree with the proposal to clarify the definition of public accountability? If you do not agree with the proposal, please explain what you suggest instead and why.

The AASB acknowledges the IASB's effort to add clarity to the definition of public accountability without changing the intended scope of the Standard. However, the AASB is concerned that the proposed amendments to the definition may not effectively achieve their intention.

We are concerned that replacing 'most' in paragraph 1.3(b) with 'often' could be as challenging for entities applying the public accountability definition in practice. We consider that both terms require interpretation and the exercise of judgement. Whilst 'often' could be considered a less specific term than 'most', we are concerned that often may be misinterpreted as implying that these entities usually meet part (b) of the definition. We recommend the IASB consider alternative drafting.

We understand that the proposed paragraph 1.3A was intended to clarify why the entities listed in paragraph 1.3(b) often have public accountability. However, we are concerned that it is not clear that proposed paragraph 1.3A is application guidance, and entities could interpret it as an additional set of criteria to be considered when determining whether an entity has public accountability. This could be viewed as widening the scope of the definition.

In addition to the proposed amendments outlined in ED/2022/1, we suggest additional areas of the public accountability definition give rise to interpretation and application issues, such as the phrase “trading in a public market”.

In Australia, there have been some differences in application regarding whether certain securitisation vehicles have public accountability. These securitisation vehicles undertake over-the-counter (i.e. unquoted) transactions. Initial settlement payments, subsequent disbursements on notes and any buying/selling of notes are cleared through a licensed Clearing and Settlement facility. A third party is responsible for maintaining the register of investors, though investment is often made via custodian entities, making the ultimate holder of notes difficult to identify.

One of the key aspects of the definition of public accountability when determining whether the securitisation vehicles are publicly accountable is whether the debt instruments are a) traded and, b) if traded, whether they are traded in a public market.

The AASB notes the SME Implementation Group (SMEIG) issued guidance in December 2011 on “how broadly should ‘traded in a public market’” be interpreted, which included application guidance for the term “public market” and the concept of availability of a published price. We consider that this guidance would assist securitisation vehicles in applying the public accountability definition and may also be helpful for other entities and jurisdictions.

We acknowledge that all Q&As issued by the SMEIG before the issue of the 2015 amendments to the *IFRS for SMEs* Accounting Standard were either incorporated in the *IFRS for SMEs* Accounting Standard as a result of those amendments or included in IFRS for SMEs education materials. However, we note that the guidance in the Q&A regarding traded in a public market has not been carried forward. We acknowledge that Q&As issued before 2015 may not be fully consistent with the new requirements because they were based on the 2009 version of the *IFRS for SMEs* Accounting Standard. However, we suggest the IASB incorporate the Q&A guidance published by the SMEIG (or other similar guidance[1]) concerning “trading in a public market” into the *IFRS for SMEs* Accounting Standard. We also suggest the IASB undertake a holistic review of the application of the public accountability definition in practice across all jurisdictions to identify if there are any common challenges in applying the definition. For example, if multiple jurisdictions have identified common types of entities deemed to have public accountability, those common types of entities could potentially be included in the IASB definition as additional examples of entities that often have public accountability.

The AASB also suggest that the IASB consider the interaction between the definition of public accountability and the definition of public interest entities and consider opportunities for collaboration with IESBA where appropriate.

---

1 For example, the International Ethics Standards Board for Accountants (IESBA) guidance on what qualifies as “public traded”, including the types of trading mechanisms and volume of trade required. See *Basis for Conclusions: Revisions to the Definitions of Listed Entity and Public Interest Entity in the Code* (April 2022).

Question 2—Revised Section 2 *Concepts and Pervasive Principles*
The IASB in its Request for Information asked for views on aligning Section 2 *Concepts and Pervasive Principles* with the *Conceptual Framework for Financial Reporting*, issued in 2018. In the Request for Information, the IASB noted that the 1989 *Framework for the Preparation and Presentation of Financial Statements* (1989 *Framework*) had provided the foundations of the Standard. Based on feedback on the Request for Information, the IASB is proposing to revise Section 2 to align it with the 2018 *Conceptual Framework for Financial Reporting*. The IASB is proposing that Section 18 *Intangible Assets other than Goodwill* and Section 21 *Provisions and Contingencies* continue to use the definitions of an asset and of a liability from the previous version of Section 2, which was based on the 1989 *Framework*, to avoid unintended consequences arising from revising the definitions of an asset and of a liability. Paragraphs BC38–BC51 of the Basis for Conclusions on this Exposure Draft explain the IASB's rationale for the revisions proposed for Section 2. 2(i) Do you have comments or suggestions on the revised Section 2? Please explain the reasons for your suggestions. 2(ii) Do you agree that Section 18 and Section 21 should continue to use the definition of an asset and of a liability from the previous version of Section 2 (based on the 1989 Framework)?

The AASB supports aligning Section 2 with the *Conceptual Framework for Financial Reporting* issued in 2018.

The AASB agrees that Section 18 and Section 21 should continue to use the definition of an asset and a liability from the previous version of Section 2 (based on the 1989 Framework) to avoid unintended consequences. We note that IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and IAS 38 *Intangible Assets* continue to use the definition of an asset and liability from the 1989 framework. Therefore, continuing to use the definitions based on the 1989 Framework for Sections 18 and 21 of the *IFRS for* SMEs Accounting Standard is consistent with the approach adopted in the full IFRS Accounting Standards.

The AASB further recommends that when the IASB undertakes its comprehensive review of IAS 38, including a review of the definition of intangible assets, the IASB considers the application of the definition by entities without public accountability.

Question 11—Other proposed amendments
Table A1, included in the Introduction, summarises the proposals for amending sections of the Standard not included in questions 2–10. Do you have any comments on these other proposed amendments in the Exposure Draft?

The AASB notes that ED/2022/1 does not consider or incorporate the recent amendments made to IAS 1 *Presentation of Financial Statements* by amending Standards *Classification of Liabilities as Current or Non-Current* (January 2020) and *Non-current Liabilities with Covenants* (October 2022).

We consider the clarifications regarding the classification of liabilities to be equally relevant to entities without public accountability (e.g. entities that apply the *IFRS for SMEs* Accounting Standard) and are concerned that entities applying the *IFRS for SMEs* Accounting Standard may have to classify liabilities with covenants as current, whilst entities applying full IFRS Accounting Standards could classify the same liabilities as non-current. We also consider that small and medium-sized entities could be disadvantaged if the amendments to IAS 1 are not reflected in the *IFRS for SMEs* Accounting Standard.

We note that Australian stakeholders, including those representing the interests of entities without public accountability, support the amendments to IAS 1 and have expressed an intention to adopt the amendments early. For this reason, there is a current project on the AASB's work program to consider amendments to AASB 1060 to reflect the recent amendment to AASB 101 *Presentation of Financial Statements* to ensure that Tier 2 entities are not disadvantaged.[2]

2 Refer to AASB March 2023 Agenda paper 4.1 (M194) for detailed discussion.