27 October 2020

Hans Hoogervorst
Chair
IFRS Foundation
Columbus Building, 7 Westferry Circus
Canary Wharf, London E14 4HD
United Kingdom

Via website: www.ifrs.org

Dear Hans

Request for Information – Comprehensive Review of the IFRS for SMEs Standard

As the representatives of over 200,000 professional accountants in Australia, CPA Australia and Chartered Accountants Australia and New Zealand (CA ANZ) thank you for the opportunity to comment on the above Request for Information (RFI).

We continue to support the availability of an International Financial Reporting Standard for Small and Medium-Sized Entities (IFRS for SMEs), that simplifies the principles and requirements in full IFRS for the global Small and Medium-Sized Enterprises (SME) market, as an essential part of the effective global harmonisation of financial reporting. Therefore, we welcome the IASB's current project to review IFRS for SMEs and better align it with the current suite of full IFRS.

Australia does not adopt IFRS for SMEs for its SME market. Instead, following recent changes to its framework, the financial statements of for-profit entities without public accountability must adopt the recognition and measurement requirements in Australian Accounting Standards (which are harmonised with full IFRS) with simplified disclosures that are based on IFRS for SMEs (referred to as a Tier 2 Reduced Disclosure Regime). In addition, the Australian Accounting Standards Board (AASB) is monitoring the IASB's 'Subsidiaries that are SMEs' project as a future direction for the AASB's Tier 2 reporting regime.

Similarly, New Zealand uses the principle of "public accountability" to identify its Tier 2 entities but requires them to adopt full IFRS recognition and measurement and a reduced disclosure regime developed using the underlying principles in IFRS for SMEs.

While the limited implementation of IFRS for SMEs in Australia and New Zealand restricts the comments we can provide regarding implementation detail, we have nevertheless taken this opportunity to provide our views on broader policy issues being raised in the RFI, given their impact on the Australian and New Zealand use of the Standard.

Globally, 86 countries have adopted IFRS for SMEs to date. However, this number is significantly below the 144 that have adopted full IFRS, with Australia and New Zealand being two examples of IFRS adopters that have not adopted IFRS for SMEs.

CHARTERED ACCOUNTANTS™
AUSTRALIA • NEW ZEALAND

Chartered Accountants
Australia and New Zealand
33 Erskine Street, Sydney, NSW 2000
P: +61 2 9290 1344
W: charteredaccountantsanz.com
ABN 50 084 642 571

CPA AUSTRALIA

CPA Australia
Level 20, 28 Freshwater Place,
Southbank Victoria 3006
P: 1300 73 73 73
W: cpaaustralia.com.au
ABN 64 008 392 452

In Australia and New Zealand, the decision not to adopt IFRS for SMEs reflects, for the most part, challenges associated with the recognition and measurement differences between full IFRS and IFRS for SMEs in these markets (see paragraphs BC67 to BC75 in the Basis for Conclusions to Australia's AASB 1053 *Application of Tiers of Australian Accounting Standards* and paragraphs 5.7-5.12 of the New Zealand Accounting Standards Board's *Targeted Review of the New Zealand Accounting Standards Framework*).

Therefore, we recommend that the IASB undertake a study to better understand why the countries that adopt full IFRS have not also adopted IFRS for SMEs. This will assist in a clearer identification of the global role of IFRS for SMEs that will better guide its future development. We offer further comments on this issue in our response under section G1 in the **Attachment** to this letter.

To assist, we take this opportunity to refer you to a research study supported by CPA Australia and undertaken by the Swinburne University of Technology. Part of this research included a study of user reactions to extracts from two sets of fictitious financial statements, one based on IFRS for SMEs and another based on Australian Accounting Standards: Reduced Disclosure Regime (available for Tier 2 entities that include Australian SMEs).The findings suggest that, despite the differences in recognition and measurement requirements, users did not have an overwhelming preference for the relevance and representational faithfulness of the information arising from one set of financial statements over the other. A report highlighting the study's findings is available on the CPA Australia website. We hope results of this research will inform the IFRS for SMEs project and other relevant projects being undertaken by the IASB.

If you have any questions about our submission, please contact either Ram Subramanian (CPA Australia) at ram.subramanian@cpaaustralia.com.au or Amir Ghandar (CA ANZ) amir.ghandar@charteredaccountantsanz.com. Questions regarding the CPA Australia research report should be directed to the former.

Yours sincerely

Gary Pflugrath CPA
Executive General Manager, Policy and Advocacy
CPA Australia

Simon Grant FCA
Group Executive – Advocacy, Professional Standing and International Development
Chartered Accountants Australia and New Zealand

Attachment

Part A of the Request for Information sets out the framework the Board developed for approaching the second comprehensive review and asks for comments on the Board's approach.

G1	**Alignment approach** The *IFRS for SMEs* Standard was originally developed using an alignment approach. That is, the Standard was based on the 1989 *Framework for the Preparation and Presentation of Financial Statements* and the principles and related requirements of full IFRS Standards, with modifications that were appropriate in the light of users' needs and cost-benefit considerations. In considering how to approach this comprehensive review of the *IFRS for SMEs* Standard, the Board considered whether it should continue to follow the alignment approach or if the Board should only consider issues raised by stakeholders regarding the *IFRS for SMEs* Standard. The second approach would see the *IFRS for SMEs* Standard diverge from full IFRS Standards over time and become an independent Standard. The Board's approach at the first stage of the review is to continue to align the principles in the *IFRS for SMEs* Standard with those in full IFRS Standards and to seek views on this approach. *This approach is discussed in paragraph 30 of part A of the Request for Information.*
G1A	**In your view, should the *IFRS for SMEs* Standard be aligned with full IFRS Standards?** **Please explain why you are suggesting the *IFRS for SMEs* Standard should or should not be aligned with full IFRS Standards.**
G1B	**What extent of alignment of the IFRS for SMEs Standard with full IFRS Standards do you consider most useful, and why?** **(a) alignment of principles;** **(b) alignment of both principles and important definitions; or** **(c) align of principles, important definitions and the precise wording of requirements?** **Please explain the reasoning that supports your choice of (a), (b) or (c).**

G1A - We believe that a simplified version of full IFRS is an essential tool for the effective global harmonisation of financial reporting. To achieve this objective, it is essential that IFRS for SMEs should be based on the same principles as the full IFRS. For those jurisdictions that currently adopt both full IFRS and IFRS for SMEs, ensuring both frameworks are based on the same accounting principles is beneficial for the following reasons:

- Development of complimentary accounting skills based on one set of principles will allow for more ready transfer of professionals between the two frameworks
- No significant changes would be needed to accounting systems as entities grow and migrate from IFRS for SMEs to full IFRS
- Better understanding of financial reports by users

However, as noted in our cover letter, the fact that only 86 jurisdictions adopt IFRS for SMEs, while 144 jurisdictions adopt full IFRS, suggests that, in a substantial number of jurisdictions, implementation of IFRS for SMEs in its current form is challenging. This is evidenced by the Australian and New Zealand decisions not to adopt IFRS for SMEs (see paragraphs BC67 to BC75 in the Basis for Conclusions to Australia's AASB 1053 *Application of Tiers of Australian Accounting Standards* and paragraphs 5.7-5.12 of the NZASB's *Targeted Review of the New Zealand Accounting Standards Framework*).

Therefore, we recommend that, in developing its IFRS for SMEs revision proposals further, the IASB should obtain clearer answers to the following questions:

- What is a SME in the global context? Is this restricted to for-profit entities or could it also encompass not-for-profits?
- What are the information needs of users of the financial statements of SMEs?
- Are there other objectives for financial reporting by SMEs such as compliance with local corporate or taxation law, accountability etc. that should also be taken into account along with the information needs of users?

Undertaking a deeper study of these issues should provide a better understanding of the reporting needs of that segment which may assist in deciding whether to;

- retrofit full IFRS to meet SME needs, or
- take a more holistic, bottom-up approach in developing a reporting framework for SMEs that is more aligned with their reporting needs, whilst retaining the same accounting principles as full IFRS, or
- identify other steps that may be appropriate to promote the global uptake of IFRS for SMEs.

We hope that the CPA Australia/Swinburne University of Technology research report referred to in our cover letter can provide insights in respect of these matters.

G1B (a) and (b) - As stated in our response to G1A above, we support the alignment of principles between IFRS for SMEs and full IFRS. We also support alignment of important definitions as we see no reason to expect that important definitions such as "asset" or "liability" would differ between the two frameworks.

G1B (c) - However, we do not support alignment of the precise wording of requirements between the two frameworks. If IFRS for SMEs is expected to provide a simplified reporting solution to SME preparers, simplification of the requirements and the language used in them must be explored.

G2	**Alignment principles** The Board decided that in assessing whether and how to consult on aligning the *IFRS for SMEs* Standard with full IFRS Standards not currently included in the *IFRS for SMEs* Standard, the Board would apply three principles: (a) relevance to SMEs; (b) simplicity; and (c) faithful representation. *These principles are discussed in paragraphs 32– 37 of part A of the Request for Information.*
	In your view, do these principles provide a framework to assist in determining whether and how the *IFRS for SMEs* Standard should be aligned with full IFRS Standards? **Please explain the reasoning that supports your response.**

G2 - We agree that these principles are relevant but see our response to G1A and G1B above for our concerns regarding their ability to be applied in the global context.

G3	**When to consider alignment** If the alignment approach is maintained there needs to be an agreed approach as to how soon after an IFRS Standard, an amendment to an IFRS Standard, or an IFRIC Interpretations is issued the Board should consider that change for incorporation into the *IFRS for SMEs* Standard.
	Three possible dates for when to consider alignment are discussed in paragraphs 38–40 of part A of the Request for Information. Which, if any, of these possible dates do you prefer? **Those IFRS Standards, amendments to IFRS Standards or IFRIC Interpretations:** **(a) issued up to the publication date of the Request for Information;** **(b) effective before the publication date of the Request for Information;** **(c) effective and on which the post-implementation review was completed before the publication date of the Request for Information; or** **(d) issued or effective on some other date (please specify).** **Please explain the reasoning that supports your views, for example, the benefits of the date selected.**

G3 - We presume that this question refers both to the alignment of currently issued/effective IFRS (Part B of this RFI) and also ongoing alignment of future IFRS and RFIs and we have developed our response accordingly.

We believe the IASB should establish a parallel process that considers the impacts of major changes to full IFRS on the requirements contained in IFRS for SMEs during the full IFRS change process. It is essential that users of IFRS for SMEs are clearly and promptly informed of the need for, and likely direction of, change in order to mitigate against the delays that are necessary to IFRS for SMEs from a practical development perspective.

This practical development perspective means that we only support formal alignment for IFRS that are effective as at the date of the RFI. This is because it is important to obtain implementation experience from new IFRS before these are applied to the SME market. The operation of the IASB's Transition Resource Groups has, in recent years, obtained valuable information on the implementation of newly issued IFRS, allowing essential amendments to be implemented before their effective date. Failing to utilise this implementation experience is unlikely to prove cost effective for those entities implementing IFRS for SMEs.

Part B of the Request for Information contains questions on sections of the IFRS for SMEs *Standard that are being considered for alignment with IFRS Standards, amendments to IFRS Standards or IFRIC Interpretations in the scope of the comprehensive review. Part B summarises each of the issues under review. More detailed explanations of the Board's reasoning are set out in Appendix B of the Request for Information.*	
S1	**Aligning Section 2 *Concepts and Pervasive Principles* of the *IFRS for SMEs* Standard with the 2018 *Conceptual Framework for Financial Reporting*** In developing the *IFRS for SMEs* Standard, the Board stated that the 1989 *Framework for the Preparation and Presentation of Financial Statements (1989 Framework)* provides the foundation for the *IFRS for SMEs* Standard as well as for full IFRS Standards. Section 2 is currently aligned with the *1989 Framework*. The Board is seeking views on aligning Section 2 with the *Conceptual Framework for Financial Reporting* issued in 2018 *(2018 Conceptual Framework)*. This alignment would require amendments to other sections of the *IFRS for SMEs* Standard. For example, Section 17 *Property, Plant and Equipment* paragraph 17.4 uses the definition of 'asset' from Section 2. Section 2 also includes the concept of 'undue cost or effort', a concept that is made available to an entity applying the *IFRS for SMEs* Standard in specified circumstances. The 2018 *Conceptual Framework* has no direct equivalent concept; however, the Board is seeking views on retaining the concept of 'undue cost or effort' in Section 2 because it provides a mechanism the Board can use to balance the costs and benefits of the requirements of the *IFRS for SMEs* Standard.
	What are your views on: **(a) aligning Section 2 with the *2018 Conceptual Framework*?** **(b) making appropriate amendments to other sections of the *IFRS for SMEs* Standard?** **(c) retaining the concept of 'undue cost or effort'?**

S1(a) and (b) - There are some aspects of the IASB *Conceptual Framework for Financial Reporting* (IFRS CF) that form the basis of full IFRS which are relevant to the SME segment (e.g. elements of financial statements, qualitative characteristics), but there are other aspects that require further consideration (e.g. objective of general purpose financial reporting) as referred to in our comments in G1A/G1B above. Subject to these observations we agree that Section 2 of IFRS for SMEs and its other sections should be aligned with the *2018 Conceptual Framework.*

S1(c) - We also agree with retention of the concept of *'undue cost or effort'* in determining alignment of the concepts that underpin IFRS for SMEs and the IASB CF.

S2	**Aligning Section 9 *Consolidated and Separate Financial Statements* of the *IFRS for SMEs Standard* with IFRS 10 *Consolidated Financial Statements*** Section 9 of the *IFRS for SMEs* Standard establishes control as the basis for determining which entities are included in the consolidated financial statements. The definition of control in Section 9 is aligned with the definition of control from the superseded version of IAS 27 *Consolidated and Separate Financial Statements* and includes some of the guidance from the superseded SIC-12 *Consolidation—Special Purpose Entities.* The Board is seeking views on aligning the definition of control in Section 9 with the definition in IFRS 10 *Consolidated Financial Statements* to provide a clearer principle and facilitate greater consistency among the financial statements of entities applying the *IFRS for SMEs* Standard. IFRS 10 sets out a single principle of control that applies to all investees. The Board is also seeking views on retaining and updating the simplification in paragraph 9.5 of the *IFRS for SMEs* Standard, which states that control is presumed to exist when the parent entity owns, directly or indirectly through subsidiaries, more than half the voting power of the entity.
S2A	**What are your views on:** **(a) aligning the definition of control in Section 9 with IFRS 10; and** **(b) retaining and updating paragraph 9.5 of the *IFRS for SMEs* Standard?** *Further information on this question is provided in paragraphs B15–B24 of Appendix B of the Request for Information.*

S2A (a) - We believe the definition of 'control' for the purpose of consolidated financial statements should be aligned between full IFRS and IFRS for SMEs.

S2A (b) - Subject to our comments in G1A/G1B around developing a principle for when IFRS for SMEs should diverge from full IFRS, we also support retaining and updating the simplification of the application of the concept of control in paragraph 9.5 of IFRS for SMEs.

S2B	**Investment entities** IFRS 10 requires an investment entity to measure an investment in a subsidiary at fair value through profit or loss and not consolidate such entity. The *IFRS for SMEs* Standard has no equivalent requirement. Based on the definition of investment entity in IFRS 10 the Board considered that few entities eligible to apply the *IFRS for SMEs* Standard will also be investment entities. Consequently, the Board is seeking views on not introducing the requirement that an investment entity measure an investment in a subsidiary at fair value through profit or loss rather than consolidate such entities.
	What are your views on not introducing the requirement that investment entities measure investments in subsidiaries at fair value through profit and loss? *Further information on this question is provided in paragraphs B25–B26 of Appendix B of the Request for Information.*

S2B - We agree with the IASB's views that there is no need for this amendment.

S3	**Aligning Section 11 *Basic Financial Instruments* and Section 12 *Other Financial Instrument Issues* of the *IFRS for SMEs* Standard with IFRS 9 *Financial Instruments*** In July 2014 the Board issued IFRS 9 *Financial Instruments*, completing its project to replace IAS 39 *Financial Instruments: Recognition and Measurement* with a principle-based Standard. **Classification and measurement of financial assets** IFRS 9 applies a principle-based approach to the classification of financial assets. Applying IFRS 9, when an entity initially recognises a financial asset, its classification is based on: (a) the contractual cash flow characteristics of the financial asset; and (b) the business model for managing the financial asset. Section 11 of the *IFRS for SMEs* Standard provides a list of examples of basic financial instruments as well as the conditions a debt instrument must satisfy to qualify (that is to be classified) as a basic financial instrument and therefore be measured at amortised cost. The Board's discussions on aligning the classification of financial assets included considering whether supplementing the list of examples in Section 11 with a principle based on their contractual cash flow characteristics would be helpful to entities in the circumstance in which a financial asset does not match the characteristics described in any of the examples.

S3A	**What are your views on supplementing the list of examples in Section 11 with a principle for classifying financial assets based on their contractual cash flow characteristics?** *Further information on this question is provided in paragraphs B27–B34 of Appendix B of the Request for Information.*

S3A -We agree with the IASB's proposals on this issue.

S3B	**Impairment of financial assets** The current requirements for recognising and measuring impairment of financial assets measured at cost or amortised cost in the *IFRS for SMEs* Standard are based on IAS 39. The impairment model in IAS 39 (an incurred loss model) may delay an entity's recognition of credit losses because an impairment test is not required until there is objective evidence of impairment. The impairment requirements in IFRS 9 addressed the problem of delayed recognition by requiring an entity to recognise expected credit losses. IFRS 9 includes a simplified approach to provide for lifetime expected credit losses for trade receivables, contract assets and lease receivables. The Board is seeking views on introducing the simplified approach into the *IFRS for SMEs* Standard.
	What is your view on aligning the *IFRS for SMEs* Standard with the simplified approach to the impairment of financial assets in IFRS 9? *Further information on this question is provided in paragraphs B35–B37 of Appendix B of the Request for Information.*

S3B - We support the IASB's proposal to introduce the simplified approach to the impairment of financial assets under IFRS for SMEs. We also support the adoption of the provision matrix approach under the simplified method for trade receivables and other similar financial assets.

S3C	**Hedge accounting** IFRS 9 includes new hedge accounting requirements that represent a major overhaul of hedge accounting and introduce significant improvements. Section 12 sets out requirements for the types of hedging activities an entity applying the IFRS for SMEs Standard is likely to use to manage risks. The Board decided to seek views on the need for Section 12 to provide hedge accounting requirements and to seek views on retaining the current requirements rather than aligning with IFRS 9.
	(a) Do you consider Section 12 needs to include requirements on hedge accounting? **(b) If your answer is yes, what are your views on leaving the current requirements**

	to address the needs of entities applying the Standard, rather than aligning Section 12 with IFRS 9? **(c) If your answer is no, please explain the reasons for your answer.**

S3C (a) and (b) - We agree that hedge accounting is a relevant topic for SMEs but do not believe IFRS for SMEs should be updated for the hedge accounting requirements in IFRS 9 at this time.

S3C (c) - Whilst the IASB is undertaking its 'dynamic risk management' project, entities that adopt full IFRS are able to continue to adopt the hedge accounting requirements in IAS 39 *Financial Instruments* (IAS 39). Since the hedge accounting requirements in IFRS 9 could potentially be updated once the dynamic risk management project is completed, we recommend that no changes be made to hedge accounting requirements in IFRS for SMEs until that occurs.

S3D	**Using recognition and measurement requirements in IFRS Standards for financial instruments** The *IFRS for SMEs* Standard currently permits entities to opt to apply either: (a) the requirements of both Sections 11 and 12 of the *IFRS for SMEs* Standard in full; or (b) the recognition and measurement requirements of IAS 39 and the disclosure requirements of Sections 11 and 12. In order to decide whether to amend the *IFRS for SMEs* Standard and permit an entity to opt to apply the recognition and measurement requirements of IFRS 9 and the disclosure requirements of Sections 11 and 12, the Board would like to obtain evidence on how frequently the option to apply IAS 39 is used.
	(a) Are you aware of entities that opt to apply the recognition and measurement requirements of IAS 39 with the disclosure requirements of Sections 11 and 12? **(b) What are your views on changing the reference to IAS 39 to permit an entity to opt to apply the recognition and measurement requirements of IFRS 9 and the disclosure requirements of Sections 11 and 12?**

S3D (a) - We offer no comments on this matter as Australia and New Zealand do not implement IFRS for SMEs.

S3D (b) - We support the proposal to replace the reference to IAS 39 with a reference to IFRS 9.

S3E	**Treatment of Q&As on the *IFRS for SMEs* Standard** Since the 2015 *Amendments to the* IFRS for SMEs *Standard* were issued by the Board, the SMEIG has published one Q&A on *Accounting for financial guarantee contracts in*

	individual or separate financial statements of the issuer (Q&A 2017/12.1). This comprehensive review provides an opportunity for the Q&A 2017/12.1 to be incorporated into the *IFRS for SMEs* Standard and for the Q&A to be withdrawn. The Board noted the SMEIG's recommendation that the Board revisit the accounting treatment for issued financial guarantee contracts during the second comprehensive review with a view to providing measurement relief. The SMEIG made this recommendation based on feedback that measuring issued financial guarantee contracts at fair value each reporting date is more complex than the accounting requirements in IFRS 9. The Board is seeking views on aligning the accounting requirements in Section 12 for issued financial guarantee contracts with IFRS 9.
	What are your views on: **(a) adding the definition of a financial guarantee contract from IFRS 9 to the *IFRS for SMEs* Standard; and** **(b) aligning the requirements in the *IFRS for SMEs* Standard for issued financial guarantee contracts with IFRS 9?** *Further information on this question is provided in paragraphs B38–B45 of Appendix B of the Request for Information.*

S3E - We offer no comment as Australia and New Zealand do not implement IFRS for SMEs.

S4	**Aligning Section 15 *Investments in Joint Ventures* of the *IFRS for SMEs* Standard with IFRS 11 *Joint Arrangements*** Section 15 of the *IFRS for SMEs* Standard is based on IAS 31 *Interests in Joint Ventures*, requiring entities that are jointly controlled to be classified as either jointly controlled operations, jointly controlled assets or jointly controlled entities. A significant difference between Section 15 and IAS 31 is that Section 15 does not permit proportionate consolidation for jointly controlled entities. In May 2011 the Board issued IFRS 11 *Joint Arrangements*, which replaced IAS 31. Applying IFRS 11, an entity classifies joint arrangements on the basis of the parties' rights and obligations under the arrangement. IFRS 11 changed the definitions and requirements of IAS 31 and classifies arrangements as either joint operations or joint ventures. The Board is seeking views on aligning the definition of joint control in Section 15 with the definition in IFRS 11 but retaining the three categories of joint arrangements—jointly controlled operations, jointly controlled assets and jointly controlled entities—in Section 15. Consequently, the accounting requirements of Section 15 would be retained. Retaining these accounting requirements would include retaining the accounting policy election in Section 15 such that a venturer can choose to apply the cost model, the equity method or the fair value model to account for jointly controlled entities.

	What are your views on: **(a) aligning the definition of joint control in Section 15 with IFRS 11?** **(b) retaining the categories of joint arrangements: jointly controlled operations, jointly controlled assets and jointly controlled entities?** **(c) retaining the accounting requirements of Section 15, including the accounting policy election for jointly controlled entities in Section 15?** *Further information on this question is provided in paragraphs B50–B54 of Appendix B of the Request for Information.*

S4 (a), (b) and (c) - We support the IASB's proposals to align the definition of joint control with IFRS 11 and to retain the categories and accounting requirements that are currently included in IFRS for SMEs.

S5	**Aligning Section 19 *Business Combinations and Goodwill* of the *IFRS for SMEs* Standard with IFRS 3 (2008) *Business Combinations*** Section 19 of the *IFRS for SMEs* Standard is based on IFRS 3 (2004) *Business Combinations*, which applies the purchase method of accounting for business combinations. The Board is seeking views on aligning Section 19 with parts of IFRS 3 (2008) to: (a) introduce requirements for step acquisitions. (b) recognise acquisition-related costs as an expense at the time of the acquisition. (c) require contingent consideration to be recognised at fair value and subsequently accounted for as a financial instrument with changes in fair value recognised in profit or loss. The Board is also seeking views on permitting an entity to use the undue cost or effort exemption in paragraph 2.14A of the *IFRS for SMEs* and provide the related disclosures if measuring contingent consideration at fair value would involve undue cost or effort.
S5A	**(a) Do you consider Section 19 needs to include requirements for the accounting for step acquisitions?** **(b) If your answer is yes, should the requirements be aligned with IFRS 3 (2008).** *Further information on this question is provided in paragraphs B55–B66 of Appendix B of the Request for Information.*
S5B	**What are your views on aligning Section 19 with IFRS 3 (2008) for acquisition costs and contingent consideration, including permitting an entity to use the undue cost or**

	effort exemption and provide the related disclosures if measuring contingent consideration at fair value would involve undue cost or effort? *Further information on this question is provided in paragraphs B55–B66 of Appendix B of the Request for Information.*

S5A and S5B - We support the IASB's proposals to align section 19 with IFRS 3 (2008) on this matter.

S5C	**Definition of a business** In October 2018 the Board issued an amendment to IFRS 3, effective for acquisitions on or after 1 January 2020, to improve consistency of application by clarifying the definition of a business. The amended definition emphasises that the output of a business is the goods and services it provides to customers; the previous definition defined outputs as having the ability to provide returns in the form of dividends, lower costs and other economic benefits to investors and others.
	What are your views on aligning the *IFRS for SMEs* Standard with the amended definition of a business issued in October 2018?

We support the IASB's proposals to align section 19 with IFRS 3 (2008) on this matter, subject to our responses in G1A/G1B above.

S6	**Aligning Section 20 *Leases* of the *IFRS for SMEs* Standard with IFRS 16 *Leases*** In January 2016 the Board issued IFRS 16 *Leases.* IFRS 16 replaced IAS 17 *Leases* and became effective on 1 January 2019. Section 20 of the *IFRS for SMEs* is based largely on IAS 17. The Board noted that leases provide an important source of funding to SMEs and therefore decided to seek views on aligning Section 20 with IFRS 16, with simplifications. The requirements in IFRS 16 can be simplified so they are easier and less costly for SMEs to apply including by: (a) simplifying recognition and measurement requirements in respect of matters such as variable lease payments, determining the discount rate and the term of the lease; (b) retaining the disclosure requirements of Section 20; and (c) simplifying the language in the Standard.
	What are your views on aligning Section 20 with IFRS 16, making the simplifications listed in paragraphs (a)–(c)? *Further information on this question is provided in paragraphs B67–B72 of Appendix B of the Request for Information.*

S6 - While we support the changes to lease accounting made by IFRS 16, as the IASB will be aware, substantial costs associated with obtaining the necessary information required to comply with the standard are being incurred by those entities currently implementing IFRS 16. It is therefore unclear whether the benefits offered from a transition to IFRS 16 by SMEs will exceed the associated costs. Therefore, we recommend that the IASB establish whether SME investors need this new information and how this cost benefit challenge might be resolved in developing appropriate new requirements.

S7	**Aligning Section 23 *Revenue* of the *IFRS for SMEs* Standard with IFRS 15 *Revenue from Contracts with Customers*** Section 23 of the *IFRS for SMEs* Standard is based on IAS 18 *Revenue*. IAS 18 provided relatively limited principles for the recognition of revenue from the supply of goods or services. IFRS 15, effective from 1 January 2018, replaced IAS 18 and set out a more structured framework based on performance obligations and the timing of their satisfaction. The main distinction it makes is between performance over time and performance at a point in time, rather than between goods and services. The Board considered that although there are substantive conceptual differences between IAS 18 and IFRS 15, the effect in practice for most entities in the scope of the *IFRS for SMEs* Standard would be minimal in terms of the timing and measurement of revenue. However, some feedback indicates that aligning principles and language would be helpful for preparers who seek consistency with IFRS Standards. The Board is seeking views on the merits of three possible approaches to aligning Section 23 with IFRS 15: (a) Alternative 1—modifying Section 23 to remove the clear differences in outcome from applying Section 23 or IFRS 15, without wholly reworking Section 23; (b) Alternative 2—fully rewriting Section 23 to reflect the principles and language used in IFRS 15; and (c) Alternative 3—deciding not to make amendments to Section 23 as part of this comprehensive review.
S7A	**Which of the three alternatives do you prefer for amending Section 23 to align with IFRS 15? Why have you chosen this alternative?** *Further information on this question is provided in paragraphs B73–B74 of Appendix B of the Request for Information.*

S7A - We support Alternative 2 described above. IFRS 15 has introduced a fundamentally different approach to revenue recognition compared to its predecessors. We consider that Alternative 2 is the best way forward, ensuring that these new and fundamentally different principles for revenue recognition are reflected in IFRS for SMEs while clearly demonstrating the underlying alignment principles with IFRS 15. However, in completing this rewrite, we would expect that a number of simplifications will be needed to the IFRS 15 requirements (e.g. variable consideration, contract modifications, contract costs, unbundling) to ensure suitability for the SME market.

S7B	The Board also discussed whether to provide transition relief, if Alternative 1 or Alternative 2 is chosen, by permitting an entity to continue its current revenue recognition policy for any contracts already in progress at the transition date or scheduled to be completed within a set time after the transition date.
	If Alternative 1 or Alternative 2 is the basis for an Exposure Draft, should transitional relief be provided: **(a) by permitting an entity to continue its current revenue recognition policy for any contracts already in progress at the transition date or scheduled to be completed within a set time after the transition date?** **(b) by some other method?** **(c) not at all?** **Please explain why you have chosen (a), (b) or (c) above.**

S7B - We support option (a) as it appears to allow for simplified transition, reducing the retrospective adjustments being required on transition. However, we suggest additional disclosures be required to ensure readers are aware of the accounting policy being adopted.

S8	**Aligning Section 28 *Employee Benefits* of the *IFRS for SMEs* Standard with IAS 19 (2011) *Employee Benefits*** In 2011 the Board issued amendments to IAS 19 *Employee Benefits* that changed the requirements for presenting actuarial gains and losses relating to defined benefit plans. Paragraph 28.24 of the *IFRS for SMEs* Standard permits an entity to select a policy for the presentation of actuarial gains and losses. The Board's view is this simplification is appropriate for entities applying the *IFRS for SMEs* Standard. The 2011 amendments to IAS 19 also clarified that termination benefits should be recognised at the earlier of: (a) when the entity can no longer withdraw those benefits; and (b) when any related restructuring costs are recognised. The Board is seeking views on aligning the recognition requirements for termination benefits in Section 28 with those in IAS 19.

	What are your views on aligning Section 28 with the 2011 amendments to IAS 19 only in respect of the recognition requirements for termination benefits? *Further information on this question is provided in paragraphs B75–B78 of Appendix B of the Request for Information.*

S8 - We agree with the IASB's proposals to align section 28 with the 2011 amendments to IAS 19.

S9	**Aligning the *IFRS for SMEs* Standard with IFRS 13 *Fair Value Measurement*** The *IFRS for SMEs* Standard requires the use of fair value and thereby includes a definition of fair value. Paragraphs 11.27–11.32 of the *IFRS for SMEs* Standard set out requirements for estimating fair value and are also referred to in other sections of the *IFRS for SMEs* Standard, for example, Sections 14 and 15 (regarding the fair value model for associates and jointly controlled entities), Section 16 (regarding investment property) and Section 28 (regarding the fair value of pension plan assets). The definition of fair value and the requirements to estimate fair value are not aligned with IFRS 13. In the first comprehensive review of the *IFRS for SMEs* Standard, the Board consulted on aligning the definition of fair value, but decided to wait, because IFRS 13 had only recently become effective. The Board completed its post-implementation review of IFRS 13 in December 2018 and concluded that the Standard is working as intended. The Board is seeking views on aligning the *IFRS for SMEs* Standard with IFRS 13 and including the illustrative examples in the Standard. This change would not add new requirements for the use of fair value measurement.
	What are your views on: **(a) aligning the definition of fair value in the *IFRS for SMEs* Standard with IFRS 13?** **(b) aligning the guidance on fair value measurement in the *IFRS for SMEs* Standard with IFRS 13 so the fair value hierarchy incorporates the principles of the fair value hierarchy set out in IFRS 13?** **(c) including examples that illustrate how to apply the hierarchy?** **(d) moving the guidance and related disclosure requirements to Section 2?** *Further information on this question is provided in paragraphs B79–B83 of Appendix B of the Request for Information.*

S9 (a), (b, (c)and (d)- We agree with the IASB's proposals to align IFRS for SMEs with IFRS 13 as set out in this section.

S10	**Aligning multiple sections of the *IFRS for SMEs* Standard for amendments to IFRS Standards and IFRIC Interpretations** The Board is seeking views on whether and how to align the *IFRS for SMEs* Standard with the amendments to IFRS Standards and IFRIC Interpretations set out in Appendix A of the Request for Information. In aligning the *IFRS for SMEs* Standard with amendments to IFRS Standards and IFRIC Interpretations the Board would introduce simplifications and language appropriate to the *IFRS for SMEs* Standard. Appendix A groups the amendments to IFRS Standards and IFRIC Interpretations using the following tables: Table A1–Amendments to IFRS Standards—Board is seeking views on aligning the *IFRS for SMEs* Standard; Table A2–Amendments to IFRS Standards—Board is seeking views on leaving the *IFRS for SMEs* Standard unchanged; Table A3–Amendments to IFRS Standards and IFRIC Interpretations and—Board is requesting further information on whether to align the *IFRS for SMEs* Standard; Table A4–Amendments to IFRS Standards—Board will consider along with the full IFRS Standards they amend; and Table A5–Amendments to IFRS Standards with which the *IFRS for SMEs* Standard is already aligned.
	What are your views on: **(a) aligning the *IFRS for SMEs* Standard with the amendments to IFRS Standards outlined in Table A1 of Appendix A?** **(b) leaving the *IFRS for SMEs* Standard unchanged by the amendments to IFRS Standards listed in Table A2 of Appendix A?** **(c) whether to align the *IFRS for SMEs* Standard with the amendments to IFRS Standards and IFRIC Interpretations listed in Table A3 of Appendix A?** **Please explain your views and provide any relevant information in support of your views.**

S10 (a) and (b) - We agree with the IASB's proposals in respect of Table A1 and Table A2.

S 10 (c) - We do not believe IFRS for SMEs should be updated for the IFRIC Interpretations and amendments to IFRS set out in Table A3. These issues are specific, narrow in scope and directly relate to requirements in full IFRS. Their inclusion would detract from the objective of simplicity required from IFRS for SMEs.

Part C of the Request for Information seeks views on topics that are not addressed in the IFRS for SMEs Standard and on whether, in relation to these topics, the Standard should be aligned with full IFRS Standards. It also asks about specific topics on which the Board has received feedback.	
N1	**Aligning the *IFRS for SMEs* Standard with IFRS 14 *Regulatory Deferral Accounts*** The Board issued IFRS 14 *Regulatory Deferral Accounts* in January 2014. IFRS 14 addresses regulatory deferral account balances that arise when an entity provides goods or services to customers at a price or rate that is subject to rate regulation. The *IFRS for SMEs* Standard has no section that corresponds to IFRS 14. Entities applying the *IFRS for SMEs* Standard cannot recognise regulatory deferral account balances if these balances would not be permitted or required to be recognised by other sections of the *IFRS for SMEs* Standard. Entities subject to rate regulation may be in the scope of the *IFRS for SMEs* Standard and hence the topic may be relevant. The Board, however, has an active project on Rate-regulated Activities which could lead to the replacement of IFRS 14. Consequently, the Board's view is it should not, as part of this comprehensive review, amend the *IFRS for SMEs* Standard to align with IFRS 14.
	What are your views on not aligning the *IFRS for SMEs* Standard with IFRS 14, that is, not including requirements for regulatory deferral account balances within the *IFRS for SMEs* Standard?

N1 - We agree that IFRS for SMEs does not need alignment with IFRS 14.

N2	**Cryptocurrency** The Board would like to gather information about the prevalence of holdings of cryptocurrency and issues of cryptoassets among entities eligible to apply the *IFRS for SMEs* Standard. Obtaining this information will help the Board decide whether the *IFRS for SMEs* Standard should address the accounting for holdings of cryptocurrency and issues of cryptoassets.
	Are holdings of cryptocurrency and issues of cryptoassets prevalent (that is, are there material holdings among entities eligible to apply the *IFRS for SMEs* Standard) in your jurisdiction? *Further information on this question is provided in paragraphs B85–B86 of Appendix B of the Request for Information.*

N2 - We do not have access to this information as Australia and New Zealand do not implement IFRS for SMEs. However, we recognise that there is a need for standard setting in relation to crypto currencies and that if and when this occurs, it is likely to be relevant to the SME market. Nevertheless, IFRS for SMEs should not address this topic unless it has also been addressed in full IFRS.

N3	**Defined benefit plans—simplifications allowed in measuring the defined benefit obligation** Section 28 *Employee Benefits* of the *IFRS for SMEs* Standard allows an entity to apply simplifications in measuring a defined benefit obligation if the entity is unable, without undue cost or effort, to use the projected unit credit method. Paragraph 28.19 of the *IFRS for SMEs* Standard allows an entity to ignore estimated future salary progression, the effect of future service and death in service. The Board has received feedback that some preparers are uncertain about how to apply the simplifications. To decide whether to clarify how to apply the simplifications in paragraph 28.19, the Board would like to know how frequently the simplifications are applied and whether constituents experience difficulties in applying them.
	Are you aware of entities applying the simplifications allowed by paragraph 28.19 of the *IFRS for SMEs* Standard? If so, are you aware of difficulties arising in applying the simplifications? Please include a brief description of the difficulty encountered in applying the simplification.

N3 - We offer no comment as Australia and New Zealand do not implement IFRS for SMEs

N4	**Other topics not addressed by the *IFRS for SMEs* Standard** The Board intended that the 35 sections in the *IFRS for SMEs* Standard would cover the kinds of transactions, events and conditions typically encountered by most SMEs. The Board also provided guidance on how an entity's management should exercise judgement in developing an accounting policy in a case in which the *IFRS for SMEs* Standard does not specifically address a topic (see paragraphs 10.4–10.6 of the *IFRS for SMEs* Standard). ***Note:*** *this question is asking about topics that the* IFRS for SMEs *Standard does not address. It is not asking for areas of the* IFRS for SMEs *Standard for which additional guidance is required. If you think more guidance should be added for a topic already covered by the* IFRS for SMEs *Standard, please provide your comments in response to question N5.*

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

N4 - We would encourage the IASB to consider the inclusion of a simplified version of IFRS 5 *Non-Current Assets held for sale and Discontinued Operations* as the requirements of this Standard provide useful information to investors deciding to advance funds to an entity.

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

N5 - We have no further matters to raise.

CHARTERED ACCOUNTANTS™
AUSTRALIA + NEW ZEALAND

Chartered Accountants
Australia and New Zealand
33 Erskine Street, Sydney, NSW 2000
P: +61 2 9290 1344
W: charteredaccountantsanz.com
ABN 50 084 642 571

CPA AUSTRALIA

CPA Australia
Level 20, 28 Freshwater Place,
Southbank Victoria 3006
P: 1300 73 73 73
W: cpaaustralia.com.au
ABN 64 008 392 452