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Stellungnahme zum Exposure Draft ED/2013/9 – IFRS for SMEs: Proposed Amendments to the International Financial Reporting Standard for Small and Medium-sized Entities

Die Wirtschaftsprüferkammer hat mit Schreiben vom **3. März 2014** gegenüber dem International Accounting Standards Board (IASB) zum Exposure Draft ED/2013/9 – IFRS for SMEs: Proposed Amendments to the International Financial Reporting Standard for Small and Medium-sized Entities wie nachfolgend wiedergegeben Stellung genommen.

We are pleased to take this opportunity to comment on the Exposure Draft: Proposed Amendments to the International Financial Reporting Standard for Small and Medium-sized Entities. Even though the IFRS for SMEs is currently not applied in Germany, we would like to submit some thoughts of WPK on this IASB project.

Questions and Answers

1. Definition of ‘fiduciary capacity’

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

- (a) Are you aware of circumstances where the use of the term ‘fiduciary capacity’ has created uncertainty or diversity in practice? If so, please provide details.*
- (b) Does the term ‘fiduciary capacity’ need to be clarified or replaced? Why or why not? If you think it needs to be clarified or replaced, what changes do you propose and why?*

Generally, we welcome the proposed amendments to paragraph 1.3(b) and the IASB's intention to clarify the term 'fiduciary capacity'.

But we are still not convinced that the meaning of this term has been made clear enough to avoid misunderstandings. Especially from the perspective of non-native English speakers the translation leads to further complexity.

2. *Accounting for income tax*

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

When the IFRS for SMEs was issued in 2009, Section 29 was based on the IASB's Exposure Draft Income Tax (the '2009 ED'), which was issued in March 2009. However, the 2009 ED was never finalised by the IASB. Consequently, the IASB has concluded that it is better to base Section 29 on IAS 12. The IASB proposes to align the recognition and measurement principles in Section 29 with IAS 12 (see paragraphs BC55–BC60) whilst retaining some of the presentation and disclosure simplifications from the original version of Section 29. The IASB continues to support its reasoning for not permitting the 'taxes payable' approach as set out in paragraph BC145 of the IFRS for SMEs that was issued in 2009.

However, while the IASB believes that the principle of recognising deferred tax assets and liabilities is appropriate for SMEs, it would like feedback on whether Section 29 (revised) can currently be applied (operationalised) by SMEs, or whether further simplifications or guidance should be considered.

A 'clean' version of Section 29 (revised) with the proposed changes to Section 29 already incorporated is set out in the appendix at the end of this Exposure Draft.

Are the proposed changes to Section 29 appropriate for SMEs and users of their financial statements? If not, what modifications, for example further simplifications or additional guidance, do you propose and why?

The IFRS for SMEs is designed as a simplified set of accounting principles for small and medium sized entities based on full IFRS. In this context we welcome the IASB proposal to align the main principles of Section 29 Income Tax with IAS 12 Income Tax from a conceptual perspective.

Basically, the IFRS for SMEs is also considered to be a standalone standard. Therefore situations may exist where conceptual differences between full IFRS and IFRS for SMEs are justified. In these situations the sole fact of 'conceptual differences' between full FRS and IFRS for SMEs as reason to amend the IFRS for SMEs does not seem convincing enough to change the latter. Rather substantive SME requirements

should be considered as well, when amending the IFRS for SMEs due to ‘conceptual differences’.

The deferred tax accounting in accordance with IAS 12 is rather difficult and complex. Basically deferred taxes should be recognised by SMEs if they are material, unless – from our perspective – cost-benefit considerations show that the costs associated with generation the required input outweigh the informational value of the accounting output. Therefore we ask the IASB to consider the implementation of an ‘undue cost or effort exemption’ for the Section 29 as a whole.

3. *Other proposed amendments to the IFRS for SMEs*

The IASB proposes to make a number of other amendments to the IFRS for SMEs. The proposed amendments are listed and numbered 1–43 and 45–57 in the list of proposed amendments. Most of those amendments are minor and/or clarify existing requirements.

(a) Are there any amendments that you do not agree with or have comments on?

(b) Do any of the amendments require additional guidance or disclosure requirements to be added to the IFRS for SMEs? If so, which ones and what are your suggestions?

If you disagree with an amendment please state any alternatives you propose and give your reasoning.

We do not have any comments with regard to the other amendments to the IFRS for SMEs.

4. *Additional issues*

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

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

We do not have any issues in this regard. But we support IASB’s decision to not incorporate the amendments of IFRS 3, IFRS 10, IFRS 11 and IFRS 13 into the IFRS for SMEs presently.

5. *Transition provisions*

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

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

We question if the costs associated with the retrospective application of the proposed amendments justify the benefits in the sense of providing comparable information for prior periods. Especially when taking into account the assumed limited number of stakeholders to SME financial statements. Furthermore a retrospective application of section 29 Income Tax seems too burdensome for SMEs.

Therefore we would prefer a prospective application of the amendments.

6. *Effective date*

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

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

We do agree with the proposed effective date and the permit of early adoption.

7. *Future reviews of the IFRS for SMEs*

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

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

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

Being designed as a simplified set of accounting principles for small and medium sized entities on a standalone basis, changes to the full IFRS should not be transferred ‘automatically’ to the IFRS for SMEs. Rather amendments to the IFRS for SMEs should be based on a comprehensive post-implementation review of new and revised full IFRS, taking into account the needs and features of SMEs, especially the strong demand for stability.

Furthermore, since SMEs are oftentimes confronted with limited resources and little knowledge in the financial reporting ‘department’, we consider it too challenging for SMEs to adapt to changes in the IFRS for SMEs on a three-year basis.

In this context we prefer a tentative five-year cycle for maintaining the IFRS for SMEs with the possibility for urgent issues to be addressed more frequently.

8. *Any other comments*

Do you have any other comments on the proposals?

We do not have further comments on the proposal.

We would like to thank you for the opportunity to comment on the Exposure Draft: Proposed Amendments to the International Financial Reporting Standard for Small and Medium-sized Entities and hope that you will find our comments useful. We would be delighted to answer any further questions that you may have.
