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.

Comments:

(i) We disagree that the amendments will add clarity without changing the intended scope of the Standard'. Banks, Credit unions, Insurance companies, Securities brokers/dealers, Mutual funds, and investment banks hold assets in a fiduciary capacity for a broad group of outsiders as a primary business, and hence may not have public accountability. The ED may not be suitable for more complex financial institutions. Specifying how often the entities in the Standard hold assets in a fiduciary capacity is unhelpful within the definition of public accountability and it would be better to clarify why those entities often have public accountability. Objective and concepts of financial reporting appear tilts towards large entities with public accountability. However, for SME reporting, objectives, strategies, and accountability relationships differ. Thus, the objectives and concepts underlying IFRSs may not be fully suitable for SMEs.

1(ii) We agree that the proposed amendments will add clarity, without changing the intended scope of the IFRS for SMEs Standard. Further, the clarification will help jurisdictions better understand the basis for the definition of 'public accountability' and apply that definition consistently.

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)?

Comments:

2(i) No significant difference. This section describes the objective of financial statements of SMEs and the qualities that make the information in the financial statements of SMEs useful. It also sets out the concepts and basic principles underlying the financial statements of SMEs. This is like the principles and concepts in the Conceptual Framework for Financial Reporting.

2(ii) We 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.

Question 3

Proposed amendments to the definition of control in Section 9 Consolidated and Separate Financial Statements

The IASB in its Request for Information asked for views on aligning the definition of control in Section 9 Consolidated and Separate Financial Statements with the definition in IFRS 10 Consolidated Financial Statements and using that definition as the single basis for consolidation (control model) to facilitate greater consistency between financial statements prepared applying the Standard.

Respondents to the Request for Information were in favor of the alignment, and the IASB is proposing amendments to align Section 9 with IFRS 10, introducing control as the single basis for consolidation that applies to all entities.

The IASB is proposing to retain the rebuttable presumption that control exists when an investor owns more than most of the voting rights of an investee. The rebuttable presumption is a simplification of the control model. Paragraphs

BC52–BC62 of the Basis for Conclusions on this Exposure Draft explain the IASB's rationale for aligning the definition of 'control' in Section 9 with IFRS 10 and introducing a control model as the single basis for consolidation.

Do you agree with the IASB's proposal to retain the rebuttable presumption as a simplification of the definition of control? If not, please explain why you do not agree with this simplification.

Comments:

We are of the view that 'rebuttable presumption' is just a simplification of the definition of 'control'. A rule prescribing a rebuttable presumption is a rule of evidence. Legal presumptions of the rebuttable kind are definitions of the quantity of evidence or the state of facts sufficient to make out a prima facie case; in other words, of the circumstances under which the burden of proof lies on the opposite party. Thus, the rule of rebuttable presumption adds statutory force to the natural and inherent probative value of fact A in relation to the proof of the existence of fact B and in adding this statutory value to the probative force of fact A, the rule, it is conceded, makes a provision within the scope and function of the law of evidence. If that is so how does it make a difference in principle if the rule adds conclusive strength to the probative value of the said fact A in relation to the proof of the existence of fact B? Regarding the category of facts in respect of which an ir-rebuttable presumption is prescribed by a rule of evidence, the position is that the inherent probative value of fact A in that behalf is very great, and it is very likely that when it is proved in a judicial proceeding, the judicial mind would normally attach great importance to it in relation to the proof of fact B. The rule steps in about such facts and provides that the judicial mind should attach to the said fact conclusiveness in the matter of its probative value. It would be noticed that as in the case of a rebuttable presumption, so in the case of an irrebuttable presumption, the rule purports to assist the judicial mind in appreciating the existence of facts. In one case the probative value is statutorily

strengthened but yet left open to rebuttal. Therefore, it is not simplification of the definition of ‘control’ as envisaged the ED. It appears that the ED opts to bring legal terms in the place of general terms to have more force, but it actually dilutes the scope of the ‘terms.

Question 4

Proposed amendments to impairment of financial assets in Section 11

Basic Financial Instruments (renamed Financial Instruments) The IASB in its Request for Information asked for views on replacing the incurred loss model for the impairment of financial assets in Section 11 Basic Financial Instruments with an expected credit loss model aligned with the simplified approach in IFRS 9 Financial Instruments.

Feedback suggested that the simplified approach in IFRS 9 would be complex for SMEs to apply and would not result in substantial changes in the amount of impairment for the types of financial assets held by typical SMEs, namely short-term trade receivables. The IASB anticipates that an expected credit loss model would provide relevant information for users of financial statements when SMEs hold longer-term financial assets. Consequently, the IASB is proposing to:

(a) retain the incurred loss model for trade receivables and contract assets in the scope of the revised Section 23 Revenue from Contracts with Customers.

(b) require an expected credit loss model for all other financial assets measured at amortized cost, aligned with the simplified approach in IFRS 9; and

(c) retain the requirements in Section 11 for impairment of equity instruments measured at cost. Paragraphs BC72–BC80 of the Basis for Conclusions on this

Exposure Draft explain the IASB's rationale for introducing an expected credit loss model for only some financial assets.

4(i) Do you agree with the proposal to introduce an expected credit loss model for only some financial assets? Why or why not? If you disagree with the proposal, please explain what you suggest instead and why.

4(ii) Do you agree that the proposal strikes the right balance in deciding which financial assets should be in the scope of the expected credit loss model, considering the costs for SMEs and benefits for users of SMEs' financial statements?

Comments:

4(i) We agree with the proposal to introduce an expected credit loss model for only some financial assets. However, we suggest considering additional simplifications using a best estimate approach to estimate lifetime expected losses rather than a weighted probability of a range of possible outcomes approach. We highlight the importance of having detailed information about impairments and reversal of impairments, even when using a reduced disclosure IFRS Standard. It is important to provide information at segment level when IFRS 8 is applied, the events and circumstances that led to the recognition or reversal of the impairment loss, etc. This is because, Section 27 Impairment of Assets requires limited disclosures on impairments.
4(ii) We agree that that the proposal strikes the right balance in deciding which financial assets should be in the scope of the expected credit loss model, considering the costs for SMEs and benefits for users of SMEs' financial statements.

Question 5

Proposal for a new Section 12 Fair Value Measurement

The IASB in its Request for Information asked for views on aligning the Standard with IFRS 13 Fair Value Measurement and introducing illustrative examples into the Standard. This alignment would not amend the requirements for when to use fair value measurement.

Respondents to the Request for Information favored aligning the Standard with the definition of fair value in IFRS 13 to provide clarity and enhance comparability between financial statements prepared applying the Standard. The IASB is proposing that the requirements on measuring fair value and related disclosure requirements be consolidated in a new Section 12 Fair Value Measurement.

Paragraphs BC108–BC118 of the Basis for Conclusions on this Exposure Draft explain the IASB's rationale for this proposal.
Do you have comments or suggestions on the new Section 12? Please explain the reasons for your suggestions.

Comments:

We support aligning the guidance on fair value measurement such that the fair value hierarchy would be consistent with the principles of the fair value hierarchy set out in IFRS 13. We support including examples that illustrate how to apply the hierarchy. We recommend that such examples should focus on items that commonly occur in SMEs, highlighting the key areas of judgment. We suggest that the ED consider simplifying the disclosure requirements of IFRS 13 for the SMEs Standard. We support having the guidance and related disclosure requirements in one place. However, fair value

measurement is not a ‘pervasive principle’, and therefore we do not believe that the guidance fits well in Section 2 and the proposal is right to have a new section: 12.

Question 6

Proposed amendments to Section 15 Investments in Joint Ventures (renamed Joint Arrangements)

The IASB in its Request for Information asked for views on aligning the definition of joint control with IFRS 11 Joint Arrangements, while retaining the three classifications of joint arrangements in Section 15 Investments in Joint Ventures (jointly controlled operations, jointly controlled assets, and jointly controlled entities).

Respondents to the Request for Information favored aligning the definition of joint control. However, respondents expressed mixed views on whether to align the classification and measurement requirements with IFRS 11 or to retain the Section 15 classification and measurement requirements.

The IASB is proposing to align the definition of joint control and retain the Section 15 classification and measurement requirements as set out in the Request for Information.

Paragraphs BC119–BC127 of the Basis for Conclusions on this Exposure Draft explain the IASB’s rationale for these proposals.

6(i) Do you agree with the IASB’s proposal to align the definition of joint control and retain the classification of a joint arrangement as jointly controlled assets, a jointly controlled operation, or a jointly controlled entity, and the

measurement requirements for these classifications? Why or why not? If you disagree with the proposal, please explain what you suggest instead and why.
The IASB is also proposing amendments to align Section 15 with the requirements of paragraph 23 of IFRS 11, so that a party to a jointly controlled operation or a jointly controlled asset that does not have joint control of those arrangements would account for its interest according to the classification of that jointly controlled operation or the jointly controlled asset. Paragraphs BC128–BC129 of the Basis for Conclusions on this Exposure Draft explain the IASB's rationale for this proposal.

6(ii) Do you agree with this proposal? Why or why not? If you disagree with the proposal, please explain what you suggest instead and why?

Comments:

6(i) The Board's proposals to retain the categories of joint arrangements in Section 15 may not be right approach because retaining these outdated categories, which are like IFRS 11's categories and yet in some ways different from IFRS 11, leads to potential confusion amongst users of financial statements. We recommend instead replacing the categories of jointly controlled assets, jointly controlled operations, and jointly controlled entities in Section 15 of the SMEs Standard with the IFRS 11 categories – i.e., joint ventures and joint operations. We acknowledge that there are complexities in applying the guidance in IFRS 11 on distinguishing a joint venture from a joint operation. We therefore believe that the Board should consider simplifying the distinction between joint ventures and joint operations to make it easier for SMEs to apply it in practice. We suggest using one of the following two approaches.

6(ii) Rebuttable distinctions based primarily on legal form. An entity would be classified as a joint venture if it were a separate legal entity, unless: –

substantially all of the output is taken by the investors or all of the liabilities are essentially satisfied by cash flows received from the investors. A conclusion based on the above that a separate legal entity was a joint operation could be rebutted if other facts clearly indicated a joint venture. Distinction based purely on legal form. If the entity is a separate vehicle, then it would be classified as a joint venture.

Question 7

Proposed amendments to Section 19 Business Combinations and Goodwill

Based on the feedback to the Request for Information, the IASB is proposing to align Section 19 Business Combinations and Goodwill with the acquisition method of accounting in IFRS 3 Business Combinations* by:

(a) adding requirements and guidance for a new entity formed in a business combination.

(b) updating the references when recognizing the identifiable assets acquired and liabilities assumed in a business combination to refer to the definitions of an asset and a liability in the revised Section 2 Concepts and Pervasive Principles.

(c) clarifying that an acquirer cannot recognize a contingency that is not a liability.

(d) requiring recognition of acquisition-related costs as an expense.

(e) requiring measurement of contingent consideration at fair value if the fair value can be measured reliably without undue cost or effort; and

(f) adding requirements for an acquisition achieved in stages (step acquisitions). For other aspects of the acquisition method of accounting, the IASB is proposing to retain the requirements in Section 19.

The IASB is of the view that:

(a) the guidance in IFRS 3 on reacquired rights is unlikely to be relevant to entities applying the Standard.

(b) restricting the measurement of non-controlling interest in the acquiree to the non-controlling interest's proportionate share of the recognized amounts of the acquiree's identifiable net assets (and not introducing the fair value option) is an appropriate simplification; and

(c) retaining recognition criteria for intangible assets acquired in a business combination balances the costs and benefits of separate recognition of these items because goodwill recognized in a business combination is amortized.

Paragraphs BC130–BC183 of the Basis for Conclusions on this Exposure Draft further explain the IASB's rationale for these proposals.

Paragraph BC177 of the Basis for Conclusions on this Exposure Draft explains that there were mixed views on whether step acquisitions are relevant to SMEs. The IASB is asking for views on adding requirements for step acquisitions and on the proposed requirements themselves. Asking for views on whether to add requirements allows stakeholders to evaluate the proposals when responding to this Invitation to Comment.

7(i) Do you agree with the proposal to introduce requirements for the accounting for step acquisitions? If your answer is yes, do you agree with the

proposed requirements in the Exposure Draft? If you disagree with the proposal, please explain why and give your alternative suggestion.

7(ii) Do you agree that the IASB's proposals appropriately simplify the measurement of non-controlling interests by excluding the option to measure them at fair value? If your answer is no, please explain your reasons.

7(iii) Do you have any further comments or suggestions on the proposed amendments to Section 19? Please explain the reasons for your suggestions.

Comments:

7(i) We support including requirements for accounting for step acquisitions and aligning these requirements with IFRS 3. We agree with the proposed requirements in the Exposure Draft. We also believe that requirements for disposals of interests in subsidiaries as a result of which control is lost/retained should be included in ED.

7(ii) Minority interest arising on consolidation is measured at proportionate share in the book values of the net assets of the subsidiary. Minority interest needs to be measured on the acquisition date at either their fair value or based on the proportionate share of the fair value of the acquired entity's identifiable net assets. Losses relating to subsidiaries to be attributed to minority interest, even if it results in a negative balance. Therefore, in such a case, minority interest could be a debit balance. The Minority interest in the Balance sheet is classified as 'equity' but are presented separately from the parent shareholders' equity. Profit or loss and Other Comprehensive Income for the period are allocated between 'Minority interest' and the shareholders of the parent. An entity may write a put option in favor of 'Minority interest' holders in an existing subsidiary which is exercisable only on the occurrence of uncertain future events that are outside the control of both parties to the contract. In this

case, the entity should account for the put option only if the terms affecting the exercisability of the option are genuine. Therefore, the ED's proposals may not simplify the measurement of non-controlling interests by excluding the option to measure them at fair value.

7(iii) The IFRS for SMEs, unlike IFRS 3, does not describe the treatment of reverse acquisitions. This lack of guidance may force SMEs to refer to IFRS 3, or to some other set of accounting standards, in order to determine the accounting treatment for the transactions they enter into. As these transactions are frequent for SMEs, the IFRS for SMEs should include, without reference to IFRS 3, full stand-alone guidance for individual and consolidated financial statements the treatment prescribed by IFRS 3 is inapplicable, when the capital increase cannot be recognised by the target entity in its annual accounts but only by the absorbing entity or the apparent beneficiary, due to the legal environment in certain jurisdictions.

Question 8

Revised Section 23 Revenue (renamed Revenue from Contracts with Customers)

The IASB in its Request for Information asked for views on possible approaches to aligning Section 23 Revenue with IFRS 15 Revenue from Contracts with Customers. Respondents favored this alignment without identifying a preferred approach.

Consequently, the IASB is proposing to revise Section 23 to align it with the principles and language used in IFRS 15. The revised requirements are based on the five-step model in IFRS 15, with simplifications that retain the basic principles in IFRS 15 for recognizing revenue.

Paragraphs BC184–BC193 of the Basis for Conclusions on this Exposure Draft further explain the IASB's rationale for this proposal and the proposed simplifications of the IFRS 15 requirements.

8(i) Do you agree that the revised Section 23 would be appropriate for SMEs and users of their financial statements? If not, what modifications—for example, further simplifications or additional guidance—do you suggest and why? Determining whether a good or service promised to a customer is distinct can involve judgment.

To assist entities in making this assessment, the IASB is proposing to simplify the requirements in paragraphs 27–29 of IFRS 15 by:

(a) specifying that a good or service that an SME regularly sells separately is capable of being distinct (see paragraph 23.21 of the Exposure Draft);

(b) expressing the criterion in paragraph 27(b) of IFRS 15 in simpler language and reflecting the objective of the criterion by focusing on whether a good or service is an input used to produce a combined item or items transferred to the customer (see paragraphs 23.20(b) and 23.23 of the Exposure Draft); and

(c) including examples that illustrate the factors supporting that criterion (see paragraph 23.23(a)–(c) of the Exposure Draft).

8(ii) Do you believe the guidance is appropriate and adequate for entities to make the assessment of whether a good or service is distinct? If not, is there any guidance that could be removed or additional guidance that is needed?

Comments:

8(i) We agree that the revised Section 23 would be appropriate for SMEs and users of their financial statements. An entity determines whether an exchange transaction has commercial substance by considering the extent to which its future cash flows are expected to change because of the transaction. An exchange transaction has commercial substance if:

a) the configuration (i.e., risk, timing, and amount) of the cash flows of the asset received differs from the configuration of the cash flows of the asset transferred; or
b) the entity-specific value of the portion of the entity's operations affected by the transaction changes because of the exchange; and
c) the difference in (a) or (b) is significant relative to the fair value of the assets exchanged.

For determining whether an exchange transaction has commercial substance, the entity-specific value of the portion of the entity's operations affected by the transaction shall reflect post-tax cash flows. The result of these analyses may be clear without an entity having to perform detailed calculations.

Therefore, we suggest a more detailed development of the part relating to construction contracts. Further, the ED may make it clear whether the fair value of the consideration received, or receivable is measured gross, or net of discounts and rebates allowed by the entity.

8(ii) We believe that additional guidance is needed on this. Where a supply is combination of 'goods' & 'Service', the more appropriate test would be 'predominance test'. The Predominance Test works best when compactness sits in its own tier in the criteria hierarchy. The Predominance Test can still work if there are other binary criteria at the same tier. Further, the ED may provide examples of tangible and intangible goods.

Question 9

Proposed amendments to Section 28 Employee Benefits

The IASB in its Request for Information asked for views on applying paragraph 28.19 of the Standard, that is the measurement simplifications for defined benefit obligations.

The feedback identified challenges when applying paragraph 28.19, resulting in diversity of application. However, the feedback also provided evidence that only a few entities apply paragraph 28.19. Therefore, the IASB is proposing to delete paragraph 28.19. Paragraphs BC197–BC203 of the Basis for Conclusions on this Exposure Draft explain the IASB's rationale for this proposal.

9(i) Do you agree that only a few entities apply the measurement simplifications for defined benefits? Therefore, do you agree with the IASB's proposal to delete paragraph 28.19?

Alternatively, if you do not agree with deleting paragraph 28.19, should the IASB clarify the paragraph by:

(a) stating that an entity may apply any, or all, of the simplifications permitted by paragraph 28.19 when measuring a defined benefit obligation; and

(b) explaining that when an entity applies paragraph 28.19(b), examples of future service of current employees (assumes closure of the plan for existing and any new employees) that can be ignored include:

(i) the probability of employees' not meeting the vesting conditions when the vesting conditions relate to future service (future turnover rate); and

(ii) the effects of a benefit formula that gives employees greater benefits for later years of service.

9(ii) If you disagree with the proposal in 9(i), do you agree that this alternative approach clarifies paragraph 28.19?

Comments:

9(i) We agree that only a few entities apply the measurement simplifications for defined benefits and apply Para:28.19. This is because the deleted paras deal with a situation of uncertainty like, Future Salary, Future service & Service mortality. They are not only contingent, and the probability is very low and hence it is right on deleting this para.

9(ii) Since we have agreed with Q.9(i) this question is not answerable.

Question 10

Transition

The IASB, in paragraphs A2–A39 of this Exposure Draft, sets out limited relief from retrospective application for those proposed amendments for which the IASB thought the costs of retrospective application would exceed the benefits. Do you agree with the proposed transition requirements for the amendments to the IFRS for SMEs Accounting Standard? Why or why not? If not, please explain what you suggest instead and why.

Comments:

We fully agree with the proposal. Any retrospective application not only adds to the cost and has no benefit to the stakeholders. Such elaborate changes in a

standard must give adequate time to the stakeholders for preparedness. Hence it is suggested that instead of limited relief from retrospective application the ED must be made applicable only from a future date.

Question 11

Other proposed amendments

Table A1, included in the Introduction, summarizes 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?

Comments:

We recommend that the Board reviews the appropriateness of the title of the IFRS for SMEs Standard. The definition of small and medium-sized entities in the Standard relies on the definition of 'public accountability', rather than prescribing quantitative size criteria. We agree with this principles-based approach, however, SMEs continue to be defined differently in different jurisdictions. Therefore, an entity's size is not a determining factor in whether it is publicly accountable and eligible to apply the Standard; indeed, very large entities can be eligible to apply the standard. Therefore, the appropriate title would be '**IFRS for entities not governed by General IFRS'**

Section 27 Impairment of Assets

It has removed the requirement to disclose impairment losses recognized or reversed for inventories, as the requirement also appears in paragraph 13.22(d) (see paragraph 27.33(a)).

The above proposal cannot solve the issues on account of the following reasons:

i) It is not clear whether the Board intends the scope of the simplified approach to be extended and applied to all financial assets on alignment. Despite this, we support aligning the IFRS for SMEs Standard with the simplified approach to the impairment of assets, including extending the scope of this approach to apply to all financial assets. The expected credit loss model represents an improvement to financial reporting. The model reflects current thinking about how entities should recognize impairment losses in a way that best reflects the economic link between the pricing and credit quality of financial assets. By retaining requirements based on an incurred loss model, the IFRS for SMEs Standard will not reflect a model of accounting that is widely regarded as better aligned with the objective of financial reporting. The general approach for impairment adopting Paragraphs 13.22(d) and 27.33(a) does not appear to be appropriate based on the scope of entities eligible to apply the IFRS for SMEs Standard.

It is not clear whether the Section intends the scope of the simplified approach in IFRS 9 to be extended and applied to all financial assets on alignment. Despite this, we support aligning the IFRS for SMEs Standard with the simplified approach to the impairment of financial assets in IFRS 9, including extending the scope of this approach to apply to all financial assets. B29 The expected credit loss model represents an improvement to financial reporting. The model reflects current thinking about how entities should recognise impairment losses in a way that best reflects the economic link between the pricing and credit quality of financial assets. By retaining requirements based on an incurred loss model, the IFRS for SMEs Standard will not reflect a model of accounting that is widely regarded as better aligned with the objective of financial reporting. B30 The general approach for impairment in IFRS 9 does

not appear to be appropriate based on the scope of entities eligible to apply the IFRS for SMEs Standard. We agree that the simplified approach offers a more appropriate basis for alignment with IFRS 9.

Question 12

Section 20 Leases and IFRS 16 Leases

The IASB in its Request for Information asked for views on aligning Section 20 Leases with IFRS 16 Leases by simplifying some of the recognition and measurement requirements, the disclosure requirements, and the language of IFRS 16.

Feedback on the Request for Information was mixed. Stakeholders suggested the IASB assess the costs and benefits of aligning the Standard with IFRS 16, even with the simplifications, and obtain more information about the experience of entities that apply IFRS 16.

The IASB decided not to propose amendments to Section 20 at this time and to consider amending the Standard to align it with IFRS 16 during a future review of the Standard.

Therefore, the Exposure Draft does not propose amendments to Section 20. In making this decision the IASB placed greater emphasis on cost–benefit considerations and prioritized timing—that is, to obtain more information on entities' experience of applying IFRS 16.

The IASB is asking for further information on cost–benefit considerations, particularly on whether:

(a) aligning Section 20 with IFRS 16 currently imposes a workload on SMEs disproportionate to the benefit to users of their financial statements—specifically, considering:

(i) the implementation costs that preparers of financial statements could incur.

(ii) the costs that users of financial statements could incur when information is unavailable; and

(iii) the improvement to financial reporting that would be realized from recognizing the lessee's right to use an underlying asset (and the lessee's obligation to make lease payments) in the statement of financial position.

(b) introducing possible simplifications—for example, for determining the discount rate and the subsequent measurement of the lease liability (reassessment)—

could help to simplify the requirements and reduce the cost of implementing an amended Section 20 (aligned with IFRS 16) without reducing the usefulness of the reported information.

Paragraphs BC230–BC246 of the Basis for Conclusions on this Exposure Draft further explain the IASB's rationale for not proposing amendments to Section 20 at this time and instead for considering amending the Standard to align it with IFRS 16 during a future review of the Standard.

Do you agree with the IASB's decision to consider amending the Standard to align it with IFRS 16 in a future review of the Standard? In responding to this

question, please comment on the cost–benefit considerations in paragraphs (a) and (b).

Comments:

We support aligning Section 20 Leases of the IFRS for SMEs Standard with IFRS 16 Leases. The requirements of IFRS 16 make the obligations associated with an entity's lease arrangements more visible. Leases are an important source of finance for SMEs. It is therefore appropriate that lease obligations are visible to the users of financial statements prepared under the IFRS for SMEs Standard.

Simplifying recognition and measurement requirements in respect of matters such as variable lease payments, determining the discount rate and the term of the lease. This is because companies with same transactions and balances would have similar outcomes in financial statements regardless of financial reporting framework applied.
However, we are of the view that preparers consider costs and benefits of IFRS for SMEs separately, not concurrently, and evaluate them in relative terms. Taken together, a voluntary adoption decision depends on the preparers' context for the cost–benefit analysis, which appears to be a nonlinear process.

Financial reporting of SMEs faces undue burdens and disproportionate reporting costs. Due to these difficulties, differential reporting for SMEs emerged, based on the idea that different types of entities are subject to different financial reporting requirements, designed to achieve economic and social importance, meet users" needs and achieve more benefits than costs.

It is highlighted that the decision to voluntarily adopt IFRS for SMEs is a non-linear process since the preparers' perceptions show a stronger association with the cost than the benefits of its adoption. The potential nonlinearity of a

preparer's cost-benefit analysis may imply significant complexity for standard setters in disseminating accounting and financial reporting standards.

It is also true while costs of adopting IFRS are clearly visible and immediate, the benefits may come in a staggered manner over a long period of time. Cost perception is associated with firm size and hence private firm managers' perception of potential benefits to be derived from the 'IFRS for SMEs may not be relevant to smaller firms.

Question 13

Recognition and measurement requirements for development costs

The Standard requires all development costs to be recognized as expenses, whereas IAS 38 Intangible Assets requires the recognition of intangible assets arising from development costs that meet specified criteria. This simplification in the Standard was made for cost–benefit reasons. However, feedback on this comprehensive review questioned this cost–benefit decision. Therefore, the IASB is seeking views on whether it should amend the Standard to align it with IAS 38, including views on the costs and benefits of doing so.

Paragraphs BC253–BC257 of the Basis for Conclusions on this Exposure Draft further explain the IASB's rationale.

What are your views on the costs and benefits, and the effects on users, of introducing an accounting policy option that permits an SME to recognize intangible assets arising from development costs that meet the criteria in paragraphs 57(a)–(f) of IAS 38?

The entity would be required to demonstrate all of these criteria:

(a) the technical feasibility of completing the intangible asset so that it will be ready for use or sale;

(b) its intention to complete the intangible asset and use or sell it;

(c) its ability to use or sell the intangible asset;

(d) how the intangible asset will generate probable future economic benefits;

(e) the availability of adequate technical, financial, and other financial resources to complete the development and to use or sell the intangible asset; and

(f) its ability to measure reliably the expenditure attributable to the intangible asset during its development.

Comments:

THE Exposure Draft suggests that the simplifications adopted may not be significant enough to provide sufficient relief for SMEs, in particular smaller ones. Further, they may not sufficiently consider the type of activities of SMEs and governance and business structures. The suitability of the Framework as the basis for IFRSs for SMEs is again could be questioned. Most importantly, it is felt that the IASB must progress with this project by obtaining sufficient research evidence on SME user needs.

Intangible assets are to be classified as permanent and temporary. A permanent sale is supply of goods and temporary sale is supply of service.

Valuations of intangible assets have no standard valuation procedures.

Probable future financial or economic benefits are too hypothetical.

The costs involved are high and the waiting period to generate revenue is large. However, the benefits are also large.

Investment in intangible assets by SMEs and waiting for a longer period to see the economic benefit may discourage such investments. Further SMEs have to look for investment in development of intangible where certainty is more. SMEs need a larger vision about the probable return investment in intangibles. SMES need to spend on professional charges to get inputs on worthy intangibles.

Problems are associated with high compliance costs, lack of technical expertise, irrelevance of standards, and competitive disadvantages). Among the costs are also the stigma attached to a qualified audit opinion because of non-compliance and the opportunity cost of. The main disadvantages that SMEs see in switching towards IFRS are the complexity of the standards, the costs for switching to IFRS, follow-up costs and negative impact on taxation, Education of employees is regarded as one of the major problems when switching to IFRS and therefore as one of the major costs' factors. Most SMEs therefore demands for IFRSs for SMEs less complex accounting rules, reduced disclosure and simplified recognition and measurement rules. However, assuming the Exposure Draft would satisfy these demands, not all the above problems would be eliminated or greatly reduced by the implementation of an IFRS for SMEs. For example, there is concern that the implementation of IFRSs for SMEs will still entail major work for which much planning is needed and that IFRSs for SMEs could or should have been simplified more. While accounting options such as those available in the ED may in principle provide opportunities for cost savings, they may harm the comparability of financial reporting information and can therefore reduce benefits for users. In order to be able to

judge whether a specific option is economically advantageous to an entity it has to evaluate both alternatives. This results in additional costs. A further implication affects accounting practitioners: 'practitioners with even one medium sized or large client will now need to keep up with two sets of standards, not one'.

Question 14

Requirement to offset equity instruments

Paragraph 22.7(a) of the Standard states that if equity instruments are issued before an entity receives cash or other resources, the amount receivable is presented as an offset to equity in the statement of financial position, instead of being presented as an asset.

Feedback from the first comprehensive review suggested that this requirement may conflict with local legislation. Stakeholders provided similar feedback during this second comprehensive review, suggesting that the IASB remove the requirement in paragraph 22.7(a) because it diverges from full IFRS Accounting Standards, which include no similar requirement for equity instruments.
What are your views on removing paragraph 22.7(a)?

Comments:

We agree for removal since many countries do not recognize where payment is made by another party, though the shares or other equity instruments as equity are issued to a party. The law goes by in whose title instrument is issued

and not who made the payment. The party who made the payment must explain the source of income for tax purposes.

Question 15

Updating the paragraph numbers of the IFRS for SMEs Accounting Standard

The proposed amendments to the requirements in the IFRS for SMEs Accounting Standard include the addition of new paragraphs and the deletion of existing paragraphs. A new paragraph is numbered in continuation from a previous paragraph. A deleted paragraph retains the paragraph number.
Sometimes, the addition or deletion of paragraphs within a section may complicate the readability of the Standard (for example, Section 19 Business Combinations and Goodwill).

As an alternative, a section may be revised, with paragraphs renumbered to show only requirements that would still be applicable, without a placeholder for deleted paragraphs (for example, Section 2 Concepts and Pervasive Principles).

What are your views on the approach taken to retain or amend paragraph numbers in each section of this Exposure Draft?

Comments:

A deleted paragraph not to be part of the framework. The paragraph number alone; to be retained with numeral in small font and the numeral ha to be continuous for each amendment.

Either at the end of the page or end of the IFRS for SMEs the deleted paragraph to be exhibited with the date of omission.

Where new paragraph is inserted, it is to be suffixed with, A, B etc., so that it is an indication it is later insertion. The new insertions to carry a numeral and at the end of the page the numeral to indicate effective date of the insertion.