

30 November 2012

International Accounting Standards Board
1st Floor 30 Cannon Street
London EC4M 6XH
United Kingdom

(By online submission)

Dear Sirs

RESPONSE TO REQUEST FOR INFORMATION: COMPREHENSIVE REVIEW OF THE IFRS FOR SMEs

The Singapore Accounting Standards Council appreciates the opportunity to comment on the Request for Information on *Comprehensive Review of the IFRS for SMEs* (the RFI) issued by the IASB in June 2012.

We strongly support the conduct of an initial comprehensive review of the *IFRS for SMEs* by the IASB and consider that the primary focus of the review should be to gather evidence on whether: (i) the *IFRS for SMEs* meets the information needs of users of SME financial statements; and (ii) any unexpected costs or challenges were encountered in implementing the *IFRS for SMEs* (i.e. similar to a post-implementation review of an IFRS). We believe that such a focus would shed light on deficiencies, if any, in the *IFRS for SMEs* that require fixing. In this regard, we subscribe to the principle that amendments to the *IFRS for SMEs* should be made only when problems have been identified.

However, we note that the RFI appears to focus on soliciting views from interested parties on whether specific sections of the *IFRS for SMEs* should be amended, rather than the aforesaid focus. We recommend that the IASB consider adapting the focus of the review so as to ensure that amendments made to the *IFRS for SMEs* arising from the review achieve the twin goals of meeting user needs while balancing costs and benefits from a preparer perspective.

Subject to our comment above, our views on the questions in the RFI are set out in Appendix A.

We hope that our comments will contribute to the IASB's deliberation on the RFI. Should you require any further clarification, please contact either Chia Chia CHIONH at chionh_chia_chia@asc.gov.sg or Ee Wen KUAH at kuah_ee_wen@asc.gov.sg.

Yours faithfully

Suat Cheng GOH
Technical Director
Singapore Accounting Standards Council

Question in RFI	Our Views
<u>PART A: SPECIFIC QUESTIONS</u>	
<p>S1. Use by publicly traded entities</p> <p>S2. Use by financial institutions</p> <p>Are the scope requirements of the <i>IFRS for SMEs</i> currently too restrictive for publicly traded entities, and financial institutions and similar entities?</p>	<p><i>(a) No - do not change the current requirements.</i></p> <p>We consider that the current scope requirements are appropriate as the <i>IFRS for SMEs</i> was written by the IASB specifically for non-publicly accountable entities. To change the underlying premise upon which the <i>IFRS for SMEs</i> was written would necessitate a fundamental review of the <i>IFRS for SMEs</i> to determine if it meets the information needs of users of the financial statements of those publicly accountable entities that would be permitted to apply the <i>IFRS for SMEs</i>. This could result in the introduction of significant changes to the current <i>IFRS for SMEs</i> (and/or would influence future amendments to the <i>IFRS for SMEs</i>), which runs counter to the IASB’s rationale for writing the <i>IFRS for SMEs</i>.</p> <p>Furthermore, extending the <i>IFRS for SMEs</i> to some publicly accountable entities would require the IASB to define the type of publicly accountable entities that are eligible to apply the <i>IFRS for SMEs</i>. We believe this would be very challenging as it is unclear what criteria could be used to properly define such publicly accountable entities given the different (and often changing) economic environment in which these entities operate around the world.</p> <p>Accordingly, we believe the current scope requirements should not be expanded to include certain publicly accountable entities. Jurisdictions that wish to make the <i>IFRS for SMEs</i> available to entities other than those for which the <i>IFRS for SMEs</i> is intended have the option of adopting a local GAAP version of the <i>IFRS for SMEs</i>.</p>
<p>S3. Clarification of use by not-for-profit entities</p> <p>Should the <i>IFRS for SMEs</i> be revised to clarify whether a not-for-profit (NFP) entity is eligible to use it?</p>	<p><i>(c) No - do not revise the IFRS for SMEs for this issue.</i></p> <p>The <i>IFRS for SMEs</i> was developed based on full IFRSs, which are designed for for-profit entities. As such, we are of the view that the IASB should not make any form of clarification in the <i>IFRS for SMEs</i> (beyond stating that the <i>IFRS for SMEs</i> was designed primarily for for-profit entities) before first assessing if the <i>IFRS for SMEs</i> is suitable for NFP entities.</p>
<p>S4. Consideration of recent changes to the consolidation guidance in full IFRSs</p> <p>Should the changes be considered, but modified as</p>	<p><i>(a) No - do not change the current requirements.</i></p> <p>Generally, we are of the view that changes should be made to the <i>IFRS for SMEs</i> only when there is a known problem, weighing the benefits brought about by the changes</p>

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<p>appropriate to reflect the needs of users of SME financial statements and cost-benefit considerations?</p> <p>S6. Guidance on fair value measurement for financial and non-financial items</p> <p>Should the fair value guidance in Section 11 be expanded to reflect the principles in IFRS 13, modified as appropriate to reflect the needs of users of SME financial statements and the specific circumstances of SMEs?</p> <p>S8. Consideration of recent changes to accounting for joint ventures in full IFRSs</p> <p>Should the changes be reflected in the <i>IFRS for SMEs</i>, modified as appropriate to reflect the needs of users of SME financial statements and cost-benefit considerations?</p> <p>S12. Consideration of changes to accounting for business combinations in full IFRSs</p> <p>Should Section 19 be amended to incorporate the changes, modified as appropriate to reflect the needs of users of SME financial statements and cost-benefit considerations?</p>	<p>against the burden imposed on preparers.</p> <p>Furthermore, we believe the IASB should not incorporate the new or amended IFRSs into the <i>IFRS for SMEs</i> ahead of the post-implementation reviews (PIRs) of these IFRSs as the PIRs would shed light on whether these IFRSs result in improved financial reporting overall.</p>
<p>S5. Use of recognition and measurement provisions in full IFRSs for financial instruments</p> <p>How should the current option to use IAS 39 in the <i>IFRS for SMEs</i> be updated once IFRS 9 has become effective?</p>	<p><i>(c) Others.</i></p> <p>We think that it would not be appropriate for the <i>IFRS for SMEs</i> to continue to refer to a superseded standard, i.e. IAS 39, when IFRS 9 becomes operative. However, before deciding on how this current IAS 39 option should be updated, we believe the IASB should first assess whether Sections 11 and 12 or IFRS 9 would produce information that is more relevant and useful to users of SME financial statements, taking into account the burden on preparers.</p>
<p>S7. Positioning of fair value guidance in the Standard</p> <p>Should the guidance be moved into a separate section?</p>	<p><i>(b) Yes – move the guidance from Section 11 into a separate section on fair value measurement.</i></p> <p>We believe this would facilitate ease of reference by preparers.</p>

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<p>S9. Revaluation of property, plant and equipment</p> <p>Should an option to use the revaluation model for property, plant and equipment be added to the <i>IFRS for SMEs</i>?</p> <p>S10. Capitalisation of development costs</p> <p>Should the <i>IFRS for SMEs</i> be changed to require capitalisation of development costs meeting criteria for capitalisation (on the basis of the criteria in IAS 38)?</p> <p>S14. Capitalisation of borrowing costs on qualifying assets</p> <p>Should the <i>IFRS for SMEs</i> be changed so that SMEs are required to capitalise borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset, with all other borrowing costs recognised as an expense when incurred?</p>	<p><i>(a) No - do not change the current requirements.</i></p> <p>We think that the <i>IFRS for SMEs</i> should not be revised to permit the more complex accounting policy option or to align with the more complex requirements in full IFRSs. Specifically, we consider that:</p> <ul style="list-style-type: none"> • Removing or minimising accounting policy options would be beneficial to both SMEs and users of SME financial statements as this would (i) simplify financial reporting for SMEs by reducing the level of knowledge required by SMEs; and (ii) enhance comparability and reduce the cost of analysing SME financial statements. • The capitalisation model for development/borrowing costs in full IFRSs is too complex and burdensome for SMEs, and provides information that is generally less useful to users of SME financial statements. <p>Aligning the requirements in the <i>IFRS for SMEs</i> to those in full IFRSs begs the question of what is the rationale for having two different sets of financial reporting standards.</p>
<p>S11. Amortisation period for goodwill and other intangible assets</p> <p>Should paragraph 18.20 be modified to state: “If an entity is unable to make a reliable estimate of the useful life of an intangible asset, the life shall be presumed to be ten years unless a shorter period can be justified”?</p>	<p><i>(a) No - do not change the current requirements.</i></p> <p>We are not supportive of changing the current requirements as we question the reliability and verifiability of management’s judgement of a shorter useful life when it is unable to make a reliable estimate of the useful life of the intangible asset in the first place.</p>
<p>S13. Presentation of share subscriptions receivable</p> <p>Should paragraph 22.7(a) be amended either to permit or require the presentation of the receivable as an asset?</p>	<p><i>(d) Others.</i></p> <p>We take the view that share subscriptions receivable should be presented as an asset when: (i) the holder of the equity instruments has the same rights as the holders of equity instruments that have been fully paid; and (ii) the entity has an enforceable right to the outstanding consideration. As such, we suggest that the <i>IFRS for SMEs</i> be revised accordingly.</p>
<p>S15. Presentation of actuarial gains or losses</p>	<p><i>(b) Yes - revise the IFRS for SMEs.</i></p>

Question in RFI	Our Views
Should the option to recognise actuarial gains and losses in profit or loss be removed?	We support the removal of the profit or loss option as we believe it would further simplify the <i>IFRS for SMEs</i> and enhance comparability among SMEs using the <i>IFRS for SMEs</i> .
<p>S16. Approach for accounting for deferred income taxes</p> <p>Should SMEs recognise deferred income taxes and, if so, how should they be recognised?</p>	<p><i>(a) Yes, SMEs should recognise deferred income taxes using the temporary difference method (the approach currently used in both the IFRS for SMEs and full IFRSs).</i></p> <p>We support recognition of deferred income taxes by SMEs as deferred income tax liabilities/assets could result in large cash outflows/inflows in the near future and accordingly, represent an important and relevant piece of information for users of SME financial statements. Whilst we appreciate that the temporary difference method may be complex for some SMEs, we believe it should be retained until the IASB revisits IAS 12.</p>
<p>S17. Consideration of IAS 12 exemptions from recognising deferred taxes and other differences under IAS 12</p> <p>Should Section 29 be revised to conform it to IAS 12, modified as appropriate to reflect the needs of the users of SME financial statements?</p>	<p><i>(b) Yes - revise Section 29 to conform it to the current IAS 12 (modified as appropriate for SMEs).</i></p> <p>We do not support the notion of incorporating ED proposals into the <i>IFRS for SMEs</i> as the proposals are subject to changes based on feedback from constituents and further deliberations by the IASB. We consider that only finalised requirements in full IFRSs that have been issued pursuant to the IASB due process should be considered for inclusion into the <i>IFRS for SMEs</i>.</p> <p>As such, we think that the <i>IFRS for SMEs</i> should be revised to conform to IAS 12, with modifications for SMEs as appropriate, unless the IASB is able to demonstrate that the 2009 ED has indeed simplified IAS 12 and results in more relevant and useful information for users of SME financial statements.</p>
<p>S18. Rebuttable presumption that investment property at fair value is recovered through sale</p> <p>Should Section 29 be revised to incorporate a similar exemption for investment property at fair value?</p>	<p><i>(b) Yes - revise Section 29 to incorporate the exemption for investment property (IP) at fair value (the approach in IAS 12).</i></p> <p>We support the incorporation of the rebuttable presumption for IP into the <i>IFRS for SMEs</i> as we understand SMEs face the same difficulties as users of full IFRSs in determining the manner of recovery of their IP measured at fair value, which prompted the IASB to introduce the amendment to IAS 12.</p>
<p>S19. Inclusion of additional topics in the IFRS for SMEs</p> <p>Are there any topics that are not specifically addressed in</p>	<p><i>(a) No.</i></p>

Question in RFI	Our Views
<p>the <i>IFRS for SMEs</i> that you think should be covered?</p> <p>S20. Opportunity to add your own specific issues</p> <p>Are there any additional issues that you would like to bring to the IASB's attention on specific requirements in the sections of the <i>IFRS for SMEs</i>?</p>	
<u>PART B: GENERAL QUESTIONS</u>	
<p>G1. Consideration of minor improvements to full IFRSs</p> <p>How should the IASB deal with such minor improvements, where the <i>IFRS for SMEs</i> is based on the old wording from full IFRSs?</p>	<p><i>(b) Changes should only be made where there is a known problem for SMEs, i.e. there should be a rebuttable presumption that changes should not be incorporated in the IFRS for SMEs.</i></p>
<p>G2. Further need for Q&As</p> <p>Do you believe that the current, limited programme for developing Q&As should continue after this comprehensive review is completed?</p>	<p><i>(a) Yes – the current Q&A programme should be continued.</i></p> <p>We support the continuation of the Q&A programme in view that the <i>IFRS for SMEs</i> is still a fairly new standard and implementation issues could arise in between the IASB's review of the <i>IFRS for SMEs</i> that require guidance. However, we think that the current process for determining whether a Q&A is needed should be refined as we have previously fed back to the IASB that it was not necessary to publish most of the Q&As proposed by the SMEIG primarily because the <i>IFRS for SMEs</i> does not appear to lack clarity on the issues considered in the Q&As or the issues considered in the Q&As do not appear pervasive.</p>
<p>G3. Treatment of existing Q&As</p> <p>Should the Q&As be incorporated into the <i>IFRS for SMEs</i>?</p>	<p><i>(c) Others.</i></p> <p>The Q&As should be incorporated into the <i>IFRS for SMEs</i> only insofar as they do not undermine the principle-based nature of the standard. Otherwise, they are best suited in the training material or the Basis for Conclusions. Furthermore, we think that jurisdiction specific Q&As (e.g. Q&A 2012/02: Jurisdiction requires fallback to full IFRSs) are best suited in the training material.</p>
<p>G4. Training material</p> <p>Do you have any comments on the IFRS Foundation's <i>IFRS for SMEs</i> training material?</p>	<p><i>(a) No.</i></p>

Question in RFI	Our Views
<p>G5. Opportunity to add any further general issues</p> <p>Are there any additional issues you would like to bring to the IASB's attention relating to <i>IFRS for SMEs</i>?</p>	<p>(a) <i>No.</i></p>
<p>G6. Use of IFRS for SMEs in your jurisdiction</p> <ol style="list-style-type: none"> 1. What is your country/ jurisdiction? 2. Is the <i>IFRS for SMEs</i> currently used in your country/jurisdiction? 3. If the <i>IFRS for SMEs</i> is used in your country/jurisdiction, in your judgement what have been the principal benefits of the <i>IFRS for SMEs</i>? 4. If the <i>IFRS for SMEs</i> is used in your country/jurisdiction, in your judgement what have been the principal practical problems in implementing the <i>IFRS for SMEs</i>? 	<p>Singapore adopted the <i>IFRS for SMEs</i> as Singapore Financial Reporting Standard for Small Entities (<i>SFRS for SEs</i>) with minimal modifications in November 2010 effective for financial periods beginning on or after 1 January 2011. Currently, the <i>SFRS for SEs</i> is not widely used by eligible entities.</p>