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United Kingdom

Comments on the Request for Information, *Comprehensive Review of the IFRS for SMEs Standard*

Dear Colleagues,

The Saudi Organization for Certified Public Accountants (SOCPA) appreciates the continued efforts of the International Accounting Standards Board and welcomes the opportunity to comment on the Request for Information, *Comprehensive Review of the IFRS for SMEs Standard*.

Attached are our comments on the questions regarding the RFI.

Please feel free to contact Dr. Abdulrahman Alrazeen (razeena@socpa.org.sa) for any clarification or further information.

Sincerely,

Dr. Ahmad Almeghames

Secretary General

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Ref	Question	Response (*Please give clear reasoning to support your response.*)
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.**	The best way to construct the IFRS for SMEs is to develop it from within the full IFRS using the process of elimination for the sake of simplification (very close to the Australian method related to "*Australian reduced disclosure requirements*". **The process of development includes the following steps:** *First*: considering the Full IFRS (no change in requirements, neither recognition, measurement nor disclosure, and no change in language) effective immediately before updating the IFRS for SMEs. *Second*: Searching for those areas (primarily whole subjects) that are expected to require undue costs and efforts if implemented by an SME and decide on whether elimination of such would reduce the cost and effort of preparation (and auditing) without substantial effect on the faithful representation of the financial statements for their intend use; *Third*: Consider the purposes of financial statements of an SME a. Almost all SMEs prepare general purpose financial statements equally to satisfy: i. statutory requirements, ii. tax purposes, iii. financing. b. The above purposes require financial statements to be: i. prepared according to authoritative standards, so they can be comparable, ii. reliable (usually audited). c. Although measurement of income is important, the precise measurement, however, is not of concern to an SME or users of its financial statements as long as the

		statements are prepared according to the Standards. *Fourth*: Repeating the above steps every five to seven years to reconsider new IFRSs, IFRICs or amendments (the default is that any change in full IFRSs is considered eliminated until IASB decides on when it exercises step three. **Benefits of the suggested approach:** 1. Reducing the cost on IASB in developing the standard by using exactly the same text and format of full IFRSs a. language of full IFRSs has never been reported as barrier of applying these standards by SMEs). b. There will be no longer two financial reporting frameworks; rather, there will be full IFRSs and reduced requirements (not only disclosures) of full IFRSs; 2. Reducing the cost of learning (academic study, professional training, books and manuals); 3. Reducing the cost of implementation (IT systems) on both preparers and auditors by offering the same basis for preparation and auditing of financial statements. That is because there is no different requirements; rather, there are only very specific reduced requirements on SMEs.
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).**	We suggest that alignment should include principles, important definitions and the precise wording of requirements, taking into consideration our suggested approach of alignment stated above.
	Alignment principles	

G2	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.**	Our view: Principles (a) and (c) are out of question and are intuitively applied without the need to state them as principles for alignment. Principle (b) is the reason why we need the IFRS for SMEs in the first place. The dilemma, however, is about striking balance between simplicity and faithful representation as the latter is not determined as black and white. It is rather judgmental. Therefore, the mission of the Board is to prescribe those requirements that are simplified without compromising the level of faithful representation that is sufficient to fulfill the objective of financial reporting. Unfortunately, the simplicity in the current version of the Standard (2015) is sometimes in form of deleting texts of the standard without considering the effect on the preparers ability to follow the requirements without referring to the full IFRSs (i.e., the master reference of the Standard). In our opinion, simplicity can be effected by removing specific requirements without affecting the coherence of the simplified topic. Following are just few examples from the current version where the simplicity was in form of deleting texts without due consideration to the effect on preparers to understand the requirements without the need to refer to full IFRSs: - Section 16: definition of investment property and transfer from and to the investment property. It was an imprecise concise of the requirements of full IFRSs; - Section 17: the application of revaluation model. It was an imprecise concise of the requirements of full IFRSs; - Section 28: applying the projected credit unit without definition or description of the method, and the simplification is offered without considering how such simplification can be applied; - Section 35: some of the exemptions offered were copied from full IFRSs without due consideration of the requirements in the SMEs Standard, e.g. the exemption related to deemed cost of investment property.

G3		
	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.**	The answer is (d), effective at least one year before the publication date of the Request for Information. This will give the Board the minimum comfort about the applicability of the requirement since most inquiries and discussions of new requirements happen near the end of the first year of application of a new requirement.

S1		
	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'?**	(a) aligning Section 2 with the *2018 Conceptual Framework*? Yes. No matter what framework for financial reporting is in use (i.e., full IFRSs or the SMEs version), the conceptual foundation should be the same. (b) making appropriate amendments to other sections of the *IFRS for SMEs* Standard? Yes. It is a consequential result of aligning Section 2.

		(c) retaining the concept of 'undue cost or effort'? No. This concept is the centre of all flaws in the application of the IFRS for SMEs and it causes lots of tension between entities, auditors and local standards setters. The judgement required to consider how the economic decisions of those who are expected to use the financial statements could be affected by not having a piece of information is expected to be beyond the normal ability of the preparers of financial statements especially in the case of an SME. The IASB should assess the cost and benefit of a requirement and decide whether to retain such a requirement, remove it or make it an option. It might be relevant to bring to the Board's attention that the Board has decided to carry out such an assessment in various standards. Here are few examples: 1. In its basis for conclusions for IFRS 1 (BC42): "… the Board concluded that balancing costs and benefits was a task for the Board when it sets accounting requirements rather than for entities when they apply those requirements." 2. In its basis for conclusion for IAS 1 (BC36) and for IAS 8 (BC 24): "… the Board decided that an exemption based on management's assessment of undue cost or effort was too subjective to be applied consistently by different entities. Moreover, balancing costs and benefits was a task for the Board when it sets accounting requirements rather than for entities when they apply them. Therefore, the Board retained the 'impracticability' criterion for exemption. … Impracticability is the only basis on which IFRSs allow specific exemptions from applying particular requirements when the effect of applying them is material." 3. The Board itself acknowledges the difficulty of such assessment: IFRS 9 (BCE.3): "The evaluation of costs and benefits are necessarily qualitative, instead of quantitative. This is because quantifying

		costs and, particularly, benefits, is inherently difficult…"
S2		
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.*	(a) aligning the definition of control in Section 9 with IFRS 10 Agree. As we stated before, the concept should be same whether you apply the full version or SMEs version. This is very important as many SMEs, which are parents, are subsidiaries of a parent that may apply full IFRSs. (b) retaining and updating paragraph 9.5 of the *IFRS for SMEs* Standard? Agree. The update should be in line with the same principle stated in IFRS 10. However, some rule-based requirements may be prescribed to ease the application of the core concept.
S2B		
	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.*	We notice that such entities are either listed or under the regulation of capital market authority and, therefore, apply full IFRS. However, offering the same treatment of investment entities in IFRS 10 to the SMEs will ease the preparation of financial statements of such entities if they are allowed in their jurisdictions to apply IFRS for SMEs.
S3		
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.*	Agree. SMEs may enter into various investments, either equity type or debt type. Acknowledging that many SMEs are subsidiaries of listed companies, the alignment of the classification will reduce the consolidation efforts.

S3B		
	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.*	Agree. It is not expected that an SMEs would have material amount of investment in debt instruments, taking into consideration that most jurisdictions would not allow financial institutions to apply IFRS for SMEs. Besides, the main users of SMEs' financial statements are the creditors, who are interested in the solvency of the entity. The simplified approach will not materially affect the faithful representation of the information presented about financial assets. To simplify the approach and make it practical, we suggest introduction of some rules to the approach such as period of past due.
S3C		
	(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.**	(a) Yes, but with alignment with IFRS 9 (b) Hedge accounting is a complicated area and it is expected that not many SMEs will need such accounting. Entities that will practice hedge accounting are expected to have the accounting expertise or afford to have such.
S3D		
	(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?**	(a) No (b) IFRS for SMEs should be maintained as a simplified standalone standard. Therefore, it should not have any reference to any specific IFRS.
S3E		

	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.*	Agree to both points. Financial guarantee is common transaction especially between affiliates and entities under common control.
S4		
	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.*	We support aligning the definition of joint control in Section 15 with IFRS 11, the categories of joint arrangement and the accounting requirements in general. As we stated before, we encourage to have both Full IFRS and IFRS for SMEs on the same concepts. The only difference is that IFRS for SMEs will have less requirements.
S5		
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.*	Yes. Such requirements should be aligned with IFRS 3.
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**	Entities that are involved in business combinations are expected to have the expertise or afford to have such expertise. Therefore, all the requirements of IFRS 3 should be applied in updating Section 19 of IFRS for SMEs. However, the Board my consider introducing some rules in

	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.*	applying the requirements. As we stated before, using the undue cost and effort exemption should be eliminated. Instead, the Board needs to prescribe the best treatment suitable to SMEs without putting the burden of assessing costs and efforts on SMEs, for example, using best estimate.
S5C		
	What are your views on aligning the *IFRS for SMEs* Standard with the amended definition of a business issued in October 2018?	<u>Agree. This is a concept, which should be applied equally in both reporting frameworks.</u>
S6		
	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.*	Agree. Language has never been an issue.
S7		
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.*	Both Alternatives 1 and 2 are acceptable although alternative 2 is more preferable approach. We are of the view that the accounting principles should be the same whether in the full IFRSs or IFRS for SMEs. Simplification can be made by introducing some rules in applying the principles.
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**	The mode of transition relief in (a) is the preferable one. This will be cost effective. Simplification is an objective for IFRS for SME. As a general approach, the Board should allow SMEs to apply any new requirement prospectively on transactions initiated after the

	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.**	first application of the revised standard with few exceptions, such as lease.
S8		
	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.*	Agree. We, however, believe that IAS 19 is one of the most complicated area of accounting. Therefore, simplifying whole of the standard is a must for SMEs, and such simplification will not have a material effect on the faithful representation of their financial statements. We suggest to include separate guidance for benefit in form of a lump sum payment immediately after leaving service, which is the mode of benefits in many jurisdictions. Such benefit may be measured by ignoring salary increases, future service and discounting. Ignoring both salary increases and discounting will result in an amount that faithfully represent the obligation at the end of the reporting period.
S9		
	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.*	Agree to all of the points

S10	**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.**	We are of the view that IFRS for SMEs should not have any differences from the full IFRSs on the level of concepts and principles. Therefore, any requirement related to recognition and measurement should be in line with full IFRSs unless, in the view of the Board, it will require undue cost and effort. In such situation, the Board may introduce some rules to apply the principles.
N1		
	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?	The existence of a project on rate regulated activities is not sufficient cause for not allowing SMEs to use the guidance available in IFRS 14. IASB projects usually take very long time to mature.
N2		
	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.*	No, it is not so prevalent.
N3		
	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.	Yes. We have received numerous inquiries about the meaning of these simplifications, particularly simplification 28.19(b) when the defined benefit plan is in the form of a lump sum amount at the date of retirement (e.g., final salary multiplied by the number of years of service, which is the mode of end of service in our jurisdiction and many others). Most entities interpret paragraph 28.19(b) by measuring their defined benefit obligation at the gross amount due to all of its employees

		assuming that all of them will retire at the reporting date. However, such interpretation will render paragraph 28.19(a) and (c) meaningless. Moreover, such amount will not be discounted even there is high probability that employees will continue to render their services for many more years. In a related matter, allowing the simplification in paragraph 28.19(a) while requiring discounting will result in underestimating the obligation at the reporting date as the factor that will increase the liability (growth rate) is ignored, whereas the factor that will reduce the liability (discount rate) is still applicable.
N4		
	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)?	We are of the view that all topics addressed by the full IFRSs should also be addressed by the IFRS for SMEs, including for example, reporting segments and earning per share. The major difference between the two frameworks should be limited to the details of the requirements and some simplifications and the level of disclosure.
N5	**Please describe any additional issues you would like to bring to the Board's attention relating to the *IFRS for SMEs* Standard.**	Although financial statements prepared according to the IFRS for SMEs is called 'general purpose financial statements', the Board should acknowledge that almost all SMEs prepare general purpose financial statements equally to satisfy: i. statutory requirements, ii. tax purposes, iii. financing. The above purposes require financial statements to be: i. prepared according to authoritative standards, so they can be comparable, ii. reliable (usually audited). Although measurement of income is important, the precise measurement, however, is not of concern to an SME or users of its financial statements as long as the statements are prepared according to the Standards. Therefore, we expect the Board to simply the topics addressed by the

		IFRS for SMEs by introducing more rules to minimize judgements in preparing financial statements.