asian-oceanian standard-setters group

7 March 2023

Dr. Andreas Barckow
Chairman
International Accounting Standards Board
7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

Dear Dr. Barckow,

AOSSG Comments on IASB® Exposure Draft ED/2022/1 *Third edition of the* IFRS for SMEs® *Accounting Standard*

The Asian-Oceanian Standard-Setters Group (AOSSG) is pleased to provide comments on the IASB Exposure Draft ED/2022/1 *Third edition of the* IFRS for SMEs *Accounting Standard*. In formulating its views, the AOSSG sought the views of its constituents within each jurisdiction.

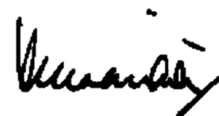
It is the AOSSG's understanding that the *IFRS for SMEs* Accounting Standard is designed for use by small and medium-sized entities (SMEs), which generally have fewer available resources for financial reporting compared with listed entities. We are of the view that the accounting requirements should be considered from the perspective of the SMEs' costs and benefits.

The views of the AOSSG *member jurisdictions* ("AOSSG members") in relation to the specific questions in the Exposure Draft are provided in the **Appendix**. The AOSSG currently has 28 members, i.e., jurisdictional standard-setters from the Asian-Oceanian region: Australia, Bangladesh, Brunei, Cambodia, China, Dubai, Hong Kong, India, Indonesia, Iraq, Japan, Kazakhstan, Korea, Macao, Malaysia, Maldives, Mongolia, Nepal, New Zealand, Pakistan, Philippines, Saudi Arabia, Singapore, Sri Lanka, Syria, Thailand, Uzbekistan and Vietnam.

To the extent feasible, this submission to the IASB reflects in broad terms the collective views of AOSSG members. Each member standard-setter may also choose to make a separate submission that is consistent or otherwise with aspects of this submission. The intention of the AOSSG is to enhance the input to the IASB from the Asian-Oceanian region and not to prevent the IASB from receiving the variety of views that individual member standard-setters may hold. This submission has been circulated to all AOSSG members for their feedback after having initially been developed through the AOSSG IFRS for SMEs Working Group.

The AOSSG hopes that our comments will be helpful for the IASB's future deliberations. If you have any questions, please feel free to contact us.

Yours sincerely,



Mr. Nishan Fernando
Chair of the AOSSG

Datuk Mohd Nasir Ahmad
Leader of the AOSSG IFRS for SMEs Working Group

Exposure Draft

Third edition of the IFRS for SMEs *Accounting Standard*

September 2022

Optional Response Document

Invitation to comment

The International Accounting Standards Board (IASB) invites comments on Exposure Draft *Third edition of the* IFRS for SMEs *Accounting Standard,* particularly on questions 1–15 in the Invitation to Comment on the Exposure Draft. Comments are most helpful if they:

(a) respond to the questions as stated;

(b) specify the paragraph(s) to which they relate;

(c) contain a clear rationale;

(d) identify any wording in the proposals that is difficult to translate; and

(e) include any alternative approach the IASB should consider, if applicable.

Instructions for completion

The IASB has published this separate Microsoft Word® document for respondents to use for submitting their comments, if they wish.

This document presents all of the questions in the Invitation to Comment on the Exposure Draft in a table with spaces for responses.

Respondents are encouraged to complete this document electronically. Many respondents will find this the easiest way to submit their comments and making submissions in this form will also help ease the analysis of the answers. However, respondents are not required to use this document and responses will be accepted in all formats.

Respondents need not comment on all questions in the Invitation to Comment.

Comments to be received by 7 March 2023

Appendix

Name of Respondent:	**Mr. Nishan Fernando, Chair of the AOSSG** **Datuk Mohd Nasir Ahmad, Leader, AOSSG IFRS for SMEs Working Group**
Organisation:	**Asian-Oceanian Standard-Setters Group (AOSSG)**
Jurisdiction:	**Asian-Oceanian region**
Correspondence and/or email address:	**AOSSG Secretariat [ameena.anver@casrilanka.org]** **AOSSG IFRS for SMEs Working Group Leader [beeleng@masb.org.my]**

Ref	Question	Response (*Please give clear reasoning to support your response*)
Questions for respondents—Scope of the Standard		
1	**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:	

<table>
<tr><th>Ref</th><th>Question</th><th>Response
(Please give clear reasoning to support your response)</th></tr>
<tr><td></td><td colspan="2">(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 the 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.</td></tr>
<tr><td>1(i)</td><td>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?</td><td>Although AOSSG members generally agree that the amendments will add clarity without changing the intended scope of the Standard, nonetheless, a few AOSSG members find the proposed paragraph 1.3(b) will opens up to different interpretations and thus not achieving its intended objective.

In addition, the following observations on paragraph 1.3(b) have been raised:

(i) one AOSSG member recommends the IASB to consider alternative drafting because replacing 'most' with 'often' could be as challenging for entities applying the public definition in practice; and both terms require interpretation and the exercise of judgement.

(ii) one AOSSG member observes that based on the current wording in paragraph 1.3(b), it clarifies entities known as 'brokers' that do not hold clients' funds would not necessarily</td></tr>
</table>

Ref	Question	Response (*Please give clear reasoning to support your response*)
		meet the 'fiduciary capacity' criterion of the 'public accountability' definition. To further emphasise that brokers and dealers would sometimes do not have public accountability, this member recommends adding a new paragraph below paragraph 1.4 which would read as follows: *Some entities do not hold assets in a fiduciary capacity for a broad group of outsiders despite being one of the types of entities listed as examples in paragraph 1.3(b). For example, a securities broker or dealer that only provides investment portfolio advice and/or transactional services to its clients, and does not hold funds on behalf of the clients, would typically not meet the criterion in paragraph 1.3(b).* Another AOSSG member believes that a definition of 'fiduciary capacity' should be included as this will bring clarity, particularly in the modern-day where transactions and entities are being structured in various ways. This member • *disagrees* with the IASB's rationale as stated in paragraph BC19 of the Exposure Draft and believes it is important to have a concrete definition that is valid across all jurisdictions even if it means there would be changes to the current thinking. • further stresses the importance of ensuring that the term 'fiduciary capacity' is not misinterpreted in the future.

Ref	Question	Response (*Please give clear reasoning to support your response*)
		• recommends adding *government-managed pension funds* to the list of examples stated in paragraph 1.3(b).
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.	Although AOSSG members generally do not disagree with the proposal to clarify the definition of public accountability, nonetheless, a few AOSSG members have expressed some concerns, details as follow: (i) paragraph 1.3A could potentially introduce another layer of judgement in its application. To address this, one AOSSG member recommends that the IASB may wish to consider moving paragraph 1.3A to the educational modules. Additionally, this would enhance the readability of *IFRS for SMEs* Accounting Standard ('the Standard') by keeping it concise and at the same time improve the visibility of the education modules. Also, unlike IFRS Accounting Standards ('full IFRS'), there is an education module for each section of the Standard, and therefore it would be useful to determine whether guidance is best placed in the Standard or education modules. (ii) paragraph 1.3A could be interpreted as an additional set of criteria to be considered when determining whether an entity has public accountability and thus widening the scope of the definition of public accountability.

Ref	Question	Response (*Please give clear reasoning to support your response*)
		In this regard, the 'status' of paragraph 1.3A needs to be enhanced. To achieve this, the IASB may consider adding this sentence at the end of paragraph 1.3(b), *"Paragraph 1.3A provides further guidance on applying this criterion"*. In addition, the following suggestions have been made: (iii) To enhance the usefulness of paragraph 1.3A, the IASB to consider the followings: • adding 'and' between (a) and (b) if both must exist. • adding illustrations to highlight common situations whereby an SME would borrow from a broad range of lenders such as family members, friends, etc. who would be relying on financial statements for financial information about SMEs. (iv) the phrase 'trading in a public market' has given rise to interpretation and application issues surrounding the definition of public accountability. In this member's jurisdiction, there have been some differences in the application regarding whether certain securitisation vehicles have public accountability. These securitisation vehicles undertake over-the-counter (i.e., unquoted) transactions. Initial settlement payments, subsequent

Ref	Question	Response (*Please give clear reasoning to support your response*)
		disbursements on notes and any buying/selling of notes are cleared through a licensed Clearing and Settlement facility. A third party is responsible for maintaining the register of investors, though investment is often made via custodian entities, making the ultimate holder of notes difficult to identify. One of the key aspects of the definition of public accountability when determining whether securitisation vehicles are publicly accountable is whether the debt instruments are a) traded and, b) if traded, whether they are traded in a public market. This member notes the SME Implementation Group (SMEIG) issued guidance in December 2011 on "how broadly should 'traded in a public market'" be interpreted, which included application guidance for the term public market and the availability of published price; and it considers that this guidance would assist securitisation vehicles in applying the public accountability definition and may also be helpful for other entities and jurisdictions. This member acknowledges that all Q&As issued by the SMEIG before the issue of the 2015 amendments to the Standard were either incorporated in the Standard as a result of those amendments or included in IFRS for SMEs education materials. However, it is noted that the guidance in the Q&A regarding trading in a public market has not been carried forward.

Ref	Question	Response (*Please give clear reasoning to support your response*)
		This member also acknowledges that Q&As issued before 2015 may not be fully consistent with the new requirements because they were based on the 2009 version of the Standard. However, this member suggests the IASB incorporate the Q&A guidance published by the SMEIG (or other similar guidance [1]) concerning 'trading in a public market' into the Standard. In addition to incorporating the 'trading in a public market' guidance in the Standard, this member also suggests the IASB undertake a holistic review of the application of the public accountability definition in practice, across all jurisdictions to identify if there are any common challenges in applying the definition. For example, if multiple jurisdictions have identified common types of entities deemed to have public accountability, those common types of entities could potentially be included in the IASB definition as additional examples of entities that often have public accountability. In finalising the definition of public accountability, the IASB may consider the interaction between the definition of public accountability and the definition of public interest entities and consider opportunities for collaboration with IESBA (see footnote 1) where appropriate. (v) The definition of public accountability should be more precise by considering the economic significance, for

[1] For example, the International Ethics Standards Board for Accountants (IESBA) guidance on what qualifies as "public traded", including the types of trading mechanisms and volume of trade required. See Basis for Conclusions: Revisions to the Definitions of Listed Entity and Public Interest Entity in the Code (April 2022).

Ref	Question	Response (*Please give clear reasoning to support your response*)
		example having turnover, debts, equity, total assets or employee count exceeding certain threshold number.
Questions for respondents—Proposal to amend the Standard		
2	**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 the 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.	AOSSG members generally agree (or do not disagree) with the revised Section 2 considering that the IASB has proposed actions to address potential inconsistencies arising and added an overriding principle that the requirements in other sections take precedence over Section 2. However, one AOSSG member recommends that the IASB should identify the specific instances in which other Sections take precedence over Section 2, instead of making an 'open-ended statement'. Since the Sections are issued concurrently and all

Ref	Question	Response (*Please give clear reasoning to support your response*)
		inconsistencies between other Sections and Section 2 would already be known, these differences should be stated. This AOSSG member is concerned that users of the Standard such as preparers might not have the full background on the inconsistencies and hence making such an open-ended statement could result in users of the Standard questioning the validity of concepts and principle In addition, one AOSSG member has expressed concerns on the concept of undue cost or effort as the root cause of all flaws in the application of the Standard and it causes lots of tension between entities, auditors and local standards setters. (i) judgement in determining undue cost or effort is burdensome to the SMEs e.g., to determine the effect on how the economic decisions of those that are expected to use the financial statements could be affected by not having that information. In this regard, 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. Below are the examples indicating that the IASB has decided to carry out such an assessment in various IFRS Accounting Standards [*emphasis added*]: In the Basis for Conclusions (BC) 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."

Ref	Question	Response (*Please give clear reasoning to support your response*)
		In the BC for IAS 1 (BC36) and 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." The IASB itself acknowledges the difficulty of such assessment as stated in the BC for 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…*" This AOSSG member also noted that the concept of "undue cost or effort" has been removed from the FRS 102 (UK GAAP) due to the inconsistency in the application of the concept by preparers.
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)?	AOSSG members generally agree that Section 18 and Section 21 should continue using the definition of an asset and of a liability from the previous version of Section 2 for the reason as explained in paragraph BC47. Also, it would not be advisable for the *IFRS for SMEs* Accounting Standard to move ahead of the IFRS Accounting

Ref	Question	Response (*Please give clear reasoning to support your response*)
		Standards. That said, there are also suggestions that these Sections have to be regularly evaluated once there are amendments in these IFRS Accounting Standards and when the IASB undertakes its comprehensive review of IAS 38, including the review of the definition of intangible assets, it should consider the application of the definition by entities without public accountability. The one AOSSG member who disagrees, commented that as the whole Standard is under revision, Section 2 *Concepts and Pervasive Principles* should be pervasive and reflected consistently in all Sections of the Standard. This AOSSG member further believes that the IASB has the duty to make sure that no unintended consequences should arise from such a revision.
3	**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 favour 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 a majority 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 the 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.	

Ref	Question	Response (*Please give clear reasoning to support your response*)
	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.	AOSSG members generally agree (or do not disagree) with the proposal to retain the rebuttable presumption as a simplification of the definition of control. In addition, one AOSSG member suggested that the IASB to consider adding the word 'current' in paragraph 9.4B(c) to read: *the <u>current</u> ability to use its power over the investee to affect the amount of the investor's returns.* This addition would make the explanation of 'control' in the Standard consistent with that of in IFRS 10. Also, paragraphs 9.4D, 9.4E and 9.4F all refer to 'current' ability but Section 9 does not provide any clarification on what is meant by 'current ability' and hence this would need to be addressed. Unlike IFRS 10, the proposed Section 9 does not include the concept of 'substantive right' in determining if an investor controls an investee and there is no apparent reason for not including this principle in the Standard. For a right to be substantive as per IFRS 10, it must give the holder the current ability to direct the relevant activities when decisions about those activities need to be made, and the holder must have the practical ability to exercise the right. This AOSSG member believes, whether applying full IFRS Accounting Standard or this Standard, an investor's voting rights are sufficient to give it power over the investee regardless of whether it has exercised its voting power, unless those rights are not

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		substantive or there are separate arrangements providing another entity with power over the investee. Therefore, it would be important for Section 9 to be aligned with IFRS 10 and to state that rights have to be substantive when determining if an investor controls an investee.
4	**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 amortised 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 the Exposure Draft explain the IASB's rationale for introducing an expected credit loss model for only some financial assets.	

Ref	Question	Response (*Please give clear reasoning to support your response*)
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.	Majority of AOSSG members generally disagree with the proposal and urge the IASB to consider the merit of retaining only the incurred loss model for all financial assets as the benefit of introducing expected credit losses (ECL) model – albeit with simplification – might not outweigh the costs to SMEs. The one AOSSG member who agrees with the proposal is on the basis that ECL model is a "better option" than the simplified version in IFRS 9. In addition, one AOSSG member who disagrees suggested that if the IASB were to introduce forward-looking impairment approach, it should introduce one approach for all financial assets, as opposed to a hybrid model in the Exposure Draft because the current proposal doesn't achieve the simplification objective. The reasons provided for those AOSSG members who disagree with the proposal include: (i) the hybrid model (the mix of incurred loss and ECL models) does not align with the overarching principle of not imposing undue cost or effort on the SMEs and also would result in inconsistent timing of credit losses recognition which could be confusing and misleading to users. (ii) feedback from preparers and users of SMEs' financial statements indicates that the current incurred loss model meets the needs of users without imposing undue cost or effort on the SMEs.

Ref	Question	Response (*Please give clear reasoning to support your response*)
		The ECL model was introduced primarily to address the concern of too little too late provisions by the financial institutions which are not within the scope of IFRS for SMEs. Whilst the ECL model enhances timeliness in credit losses recognition, it remains uncertain if it would lead to more useful information for SMEs • SMEs, generally, are unlikely to be involved in complicated financial instruments; • users of financial statements (including lenders) indicated that generally, they rely on debtors ageing analysis in making their assessment rather than sophisticated information provided by the ECL model. Following this, these users prefer that the SMEs keep to only one model i.e., the incurred loss model instead of the ECL model. Additionally, users of financial statements generally do not consider that the ECL information would provide relevant information, capable of making a difference in their decisions. (iii) the ECL model even with the simplified approach would certainly increase cost of compliance with no significant benefit to users. Capability and resource constraint of SMEs could increase risk of reliability of information.

Ref	Question	Response (*Please give clear reasoning to support your response*)
		(iv) inherently, there are practical difficulties of the use of the ECL model, in particular on non-trade related receivables from related parties or business partners which are common among the SMEs such as ascertaining the historical credit loss rates on these receivables which are often one-off in nature; and identifying as well as obtaining relevant forward-looking information that is reasonable and supportable and formulating multiple forward-looking scenarios. (v) the types of financial assets measured at amortised cost of SMEs are largely straightforward (such as intercompany loans, employee loans receivables and other miscellaneous receivables) such that prescribing ECL for these financial assets might not be beneficial for the users of the financial statements. If the IASB were to go ahead with its proposals, the IASB is recommended to consider: a. providing guidance or examples on the practical expedients that SMEs can apply in measuring ECL (paragraph 11.26E of the Exposure Draft); and b. providing guidance to clarify the considerations for SMEs in assessing the 'undue cost or effort' in obtaining reasonable and supportable information for measuring ECL, given the model would be more costly for SMEs (as compared to listed entities or corporates) to apply.

Ref	Question	Response (*Please give clear reasoning to support your response*)
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?	Please refer to the comments in 4(i) for AOSSG members who disagree with the proposals in which they have also highlighted that the proposal is costly to apply, and its benefit might not outweigh any costs for the SMEs.
5	**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 favoured 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 the 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.	AOSSG members generally agree (or do not disagree) with the proposed new Section 12. One AOSSG member believes that it would be helpful to provide further guidance in the educational modules particularly for SMEs on areas that could potentially create implementation issues: • Fair value is the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date – guidance in identifying transactions that are not orderly particularly in emerging economies.

Ref	Question	Response (*Please give clear reasoning to support your response*)
		• Fair value measurement of biological assets Another AOSSG member recommends the IASB to consider adding a disclosure requirement under Section 12 for when an entity applies the proposed paragraph 12.21 – that is, for an entity to disclose the last date when fair value was determined for the affected assets and to state its specific reasons why fair value has not been determined since. This will be useful information for users in assessing the value of these assets in the absence of the current fair value.
6	**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 favoured 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 the 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	AOSSG members generally agree (or do not disagree) with the IASB's proposal to align the definition of joint control, consistent with the alignment of the definition of control in Section 9.

Ref	Question	Response (*Please give clear reasoning to support your response*)
	classifications? Why or why not? If you disagree with the proposal, plese explain what you suggest instead and why.	On the classification of a joint arrangement, AOSSG members have mixed views. Generally, members agree with the proposal to retain the current classification of a joint arrangement as jointly controlled assets, jointly controlled operation or jointly controlled entity in order not to add complexity to the financial reporting by SMEs with no significant benefit. A few AOSSG members disagree with retaining the classifications of joint arrangements. Instead, they ask the IASB to consider aligning the classification of joint arrangements in this Standard with IFRS 10 – that is based on the rights and obligations arising from the arrangements. Their reasons are as follows: • different classifications would lead to confusion to users of financial statements. To help SMEs determine the classification, the IASB should consider providing application guidance in determining whether an entity has rights to assets and obligations for liabilities (in which case, the parties have an interest in a joint operation) or whether the entity has rights to the net assets of an arrangement (in which case, the parties have an interest in a joint venture) • the 'economic substance' of the arrangement is defined by the rights and obligations assumed by the parties when carrying out the activities of the arrangement. • accounting for joint arrangements should faithfully reflect the rights and obligations that the parties have in respect of the assets

Ref	Question	Response (*Please give clear reasoning to support your response*)
		and liabilities relating to the arrangement and not be driven only by whether the arrangements are structured through an entity.
	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 the 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.	AOSSG members generally agree (or do not disagree) with the proposed amendments.
7	**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 recognising 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 recognise 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	

Ref	Question	Response (*Please give clear reasoning to support your response*)
	(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 recognised 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 recognised in a business combination is amortised. Paragraphs BC130–BC183 of the Basis for Conclusions on the Exposure Draft further explain the IASB's rationale for these proposals. Paragraph BC177 of the Basis for Conclusions on the 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 the Invitation to Comment. * IFRS 3 refers to the IFRS 3 (2008) version, including subsequent amendments to IFRS 3.	
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.	AOSSG members generally agree (or do not disagree) with the proposed requirement for the accounting for step acquisition that is aligned with IFRS 3.

Ref	Question	Response (*Please give clear reasoning to support your response*)
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.	AOSSG members generally agree (or do not disagree) with the proposal. One AOSSG member who does not disagree with the proposal indicates that it would not object to allow SMEs the option to measure non-controlling interest at its acquisition-date fair value which would align with the requirements in IFRS 3. This member believes that SMEs can make the election based on each transaction considering the cost and benefit of each transaction, adding this option would not deprive the SMEs of the option that is available under the IFRS Accounting Standards. Another AOSSG member sees merit of retaining the fair value option as there could be a situation where an SME has non-controlling interest in a listed company in which case measurement of that interest at fair value would be much easier and cost effective.
7(iii)	Do you have any further comments or suggestions on the proposed amendments to Section 19? Please explain the reasons for your suggestions.	No further comments.
8	**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 favoured this alignment without identifying a preferred approach.	

Ref	Question	Response (*Please give clear reasoning to support your response*)
	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 recognising revenue. Paragraphs BC184–BC193 of the Basis for Conclusions on the 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?	Although AOSSG members generally do not disagree that the revised Section 23 would be appropriate for SMEs and users of their financial statements with some AOSSG members noted that the revised Section 23 reframed the requirements of IFRS 15 in a much simpler and clearer language, suitable for SMEs that would be expected not to have complex 'revenue models', nonetheless a few AOSSG members expressed concerns over specific topics as appended below. One AOSSG member shares that some stakeholders in its jurisdiction expressed concern on the requirement to disclose unsatisfied promises as this is time-consuming to collate and more importantly, stakeholders are uncertain over the usefulness of the information to users of SMEs financial statements. Specific topics of concerns highlighted include: (i) Contract Modifications (paragraph 23.15 of the Exposure Draft)

Ref	Question	Response (*Please give clear reasoning to support your response*)
		An AOSSG member shared that when a contract modification increases the scope of the contract as a result of • additional goods or services promised that are distinct from those in the existing contract; and • increases the price of the existing contract by an amount of consideration that reflects the entity's stand-alone selling price of the additional goods or services and any appropriate adjustments to that price to reflect the circumstances of that contract, this member believes that in such a scenario, the reporting entity should be required to account for the modification as a separate contract [rather than providing entities with an option to account for the contract modification as either a separate contract or as part of the existing contract, as required by IFRS 15)]. If an option is given, entities would be able to pick and choose and in certain instances, the impact on revenue recognition could be significant. [*Please see an illustration provided by this member on this issue in Note 1 below*] (ii) <u>Principal versus agent considerations (paragraph 23.38 of the Exposure Draft)</u>

Ref	Question	Response (*Please give clear reasoning to support your response*)
		An AOSSG member *disagrees* with the IASB's attempt to restrict the number of factors used for assessing if a reporting entity is a principal or agent as given in paragraph BC 191(g). This AOSSG member although does not disagree with the IASB's attempt to make the assessment more prescriptive however, believes key elements have been missed out by the IASB. Particularly this AOSSG member would like the assessment to include the same principle as with IFRS 15 paragraph B37(c) i.e., in determining if an entity is a principal or agent, the entity has to consider if it has discretion in establishing the price for the specified good or service. Based on experience and practical scenarios, this AOSSG member believes this is an important indicator. Another AOSSG member asks the IASB to clarify, if, the reduction in the number of indicators used to determine if an entity is a principal or an agent as proposed in Section 23 would result in the same outcome had it been assessed based on the criteria in IFRS 15. This AOSSG member is concerned that the simplification in Section 23 might unintentionally result in different outcomes from the full IFRS. (iii) <u>Revenue recognition over time</u> The criteria for revenue recognition over time has changed from three criteria in IFRS 15.B2 to four criteria in the Exposure Draft. Hence, there is a concern that the

Ref	Question	Response (*Please give clear reasoning to support your response*)
		simplification may unintentionally result in different accounting outcomes from full IFRS in certain situations. Accordingly, this AOSSG member recommends the IASB clarify whether the principles and requirements on this area is the same under the Exposure Draft and IFRS 15 to avoid confusion. (iv) <u>Warranty (paragraph 23.27 of the Exposure Draft)</u> An AOSSG member notes that warranty (paragraph 23.27 of the Exposure Draft) and options to purchase additional goods or services (paragraph 23.35 of the Exposure Draft), involve the evaluation of whether the financial impact of the warranty/option is 'significant to the contract' in order to determine the accounting treatment. Such evaluation requirement does not exist in IFRS 15, and this AOSSG member believes that guidance or examples should be provided to illustrate how the 'significant' concept should be applied in those cases.
	Note 1 [Illustration by an AOSSG member raising concern over contract modification (as stated above) XYZ enters into a contract to sell 20,000 boxes of chocolates (250 grams each) to customer ABC for CU 200,000 (CU10 per box). Each box of chocolates is distinct, and the 20,000 boxes are to be transferred during a period of 3 months. XYZ recognises revenue after each delivery based on the number of boxes delivered.	

Ref	Question	Response (*Please give clear reasoning to support your response*)
	XYZ delivers 7,000 boxes in month 1. At the end of the first month, the contract is modified and XYZ agrees with ABC to deliver an additional 10,000 boxes of chocolates of the same variety. Therefore, a further 23,000 boxes are to be delivered to ABC (13,000 of the original 20,000 and the additional 10,000 from the contract modification). The price of each additional box will be CU 9 per box. This price reflects the standalone selling price of the product at the time of the contract modification. XYZ delivers a further 8,000 boxes of chocolate in month 2 to ABC. How should XYZ recognise the revenue in month 2? If modification is considered as a separate contract • the scope of the contract increased because of the addition of promised 10,000 boxes of chocolates that are distinct • the price of the contract has increased by an amount of consideration that reflects the entity's stand-alone selling price of the additional promised 10,000 boxes of chocolates If the modification is considered a separate contract, the 8,000 boxes of chocolates delivered in month 2 would come from the original contract as at the time of the contract modification a further 13,000 boxes are yet to be delivered/sold. Revenue of CU 80,000 (CU 10 X 8,000) will be recognised in month 2. If modification is considered as a continuation of the existing contract • Total undelivered goods prior to contract modification 13.000 boxes (at CU 10/box) CU 130,000 • Total undelivered goods after contract modification 23,000 boxes (13,000 boxes @ CU 10 and 10,000 boxes @ CU 9) CU 220,000 At what price would the revenue be recognized for month 2 delivery of 8,000 boxes? Would it be at weighted average price – CU 220,000 / 23,000 boxes = CU 9.57 per box = CU 76,560? Or would it be assumed that the initial quantity will have to be fulfilled first? i.e., revenue of CU 80,000 recognised as if the modification is considered a separate contract?	

Ref	Question	Response (*Please give clear reasoning to support your response*)
	If this is the case, why would the Standard state that the modification can be considered as a continuation of the existing contract? This would mean the modification is being considered a separate contract.	
	Determining whether a good or service promised to a customer is distinct can involve judgement. 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.	AOSSG members agree (or do not disagree) that the guidance is appropriate and adequate for entities to make the assessment of whether a good or service is distinct.
9	**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 the Exposure Draft explain the IASB's rationale for this proposal.	

Ref	Question	Response (*Please give clear reasoning to support your response*)
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?	AOSSG members have differing views on the proposals. A few AOSSG member agrees with the proposed deletion of paragraph 28.19, citing that the measurement simplification may not be needed for SMEs applying the projected unit credit method and that very few SMEs applies the paragraph for their defined benefits. Other AOSSG members disagree with the proposal and prefer paragraph 28.19 to be retained as the measurement simplification, for the following reasons: (i) one AOSSG member indicates it does not have sufficient information as to extent of the application of paragraph 28.19 currently in the Standard but believes that removing the simplification may result in higher costs for SMEs. (ii) one AOSSG member observes that most SMEs in its jurisdictions do not have a defined benefit plan, but it would prefer that paragraph 28.19 be retained for the limited few that operate defined benefit plans for their employees as the measurement simplifications in paragraph 28.19 offers a practical solution to these SMEs. (iii) another AOSSG member disagrees with the statement that only a few entities apply the measurement simplifications for defined benefits as given in paragraph 28.19 and therefore does not agree with the proposed deletion of paragraph 28.19.

Ref	Question	Response (*Please give clear reasoning to support your response*)
		This AOSSG member • trusts the IASB is aware that most SMEs do not have easy access to actuarial experiences and services either internally or by way of outsourcing. Therefore, the application of the projected unit credit method as an actuarial valuation method is not appropriate in the SMEs context and its cost would materially outweigh its benefit. That would be more obvious when the retirement benefit is in form of a lump sum payment immediately paid after leaving the service. • suggests the IASB to set separate requirements that simplify the accounting for end-of-service benefit when it is in the form of a lump sum payment immediately after leaving service, which is the mode of benefits in many jurisdictions. Simplifying the measurement of such benefit may be accomplished by ignoring salary increases, future services and discounting. Ignoring both salary increases, and discounting will result in an amount that faithfully represents the obligation at the end of the reporting period. In its jurisdiction, this AOSSG member found a full congruence among preparers, users, and authoritative bodies about the appropriateness of ignoring salary increases, future services and discounting when the end-

Ref	Question	Response (*Please give clear reasoning to support your response*)
		of-service benefit is in the form of a lump sum payment immediately after leaving service. The IASB has a precedence in simplifying accounting for deferred income tax by requiring classification of such an amount as non-current and ignoring discounting of this amount, and hence this member believes end-of-service benefit warrants similar simplification.
	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?	AOSSG members who disagree with the proposed deletion find that the alternative approach further clarifies paragraph 28.19. One AOSSG member further asks for illustrative examples of how SMEs should apply the paragraph. Another AOSSG member shares the following observation on discounting a defined benefit obligation in which the IASB may consider in deciding if further simplification is required.

Ref	Question	Response (*Please give clear reasoning to support your response*)
		• If the defined benefit obligation is in the form of a lump sum amount paid at the date of retirement (e.g., final salary multiplied by the number of years of service, which is the mode of end-of-benefit service) and if an entity decides to apply the simplifications allowed in paragraph 28.19, the entity can effectively ignore salary increases (paragraph 28.19(a)), assuming no future service is to be received from the current employee (paragraph 28.19(b)) and if no future service is to be received, then mortality after service as required by 28.19 (c) is irrelevant. • Based on the above situation, this AOSSG member seeks clarification on the need for discounting defined benefit obligation – and whether discounting the only component of actuarial assumption is relevant. This AOSSG member believes this approach would be mutually incompatible and would therefore contradicts paragraph 28.16. • Accordingly, this AOSSG member would like the IASB to consider not requiring discounting of the defined benefit obligation and include this as a simplification in paragraph 28.19 as well.
10	**Question 10—Transition** The IASB, in paragraphs A2–A39 of the 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	A few AOSSG members strongly recommends the IASB considers

Ref	Question	Response (*Please give clear reasoning to support your response*)
	amendments to the *IFRS for SMEs* Accounting Standard? Why or why not? If not, please explain what you suggest instead and why.	a consistent approach for the transition requirement i.e., prospective application for all proposed amendments as this would be consistent with the IASB's simplification approach for the Standard. They find the proposed transition requirements confusing and costly to apply and cited the following reasons for all proposed amendments to be applied prospectively: • The proposed transition requirements differ for every section – some requiring retrospective application with undue cost or effort exemption and others prospective application. In anticipation that the Third Edition of the Standard would contain a significant number of amendments with certain sections completely rewritten, transition reliefs for entities initially applying the Third Edition of the Standard would be required to facilitate the transition and at the same time to reduce the cost of implementation without compromising on faithful representation. • The proposed mixed approach would be confusing and cumbersome to apply and a consistent approach, namely, prospective application for all proposed amendments is recommended in view that a number of the proposed amendments include transition requirements that do not require retrospective application as described in Appendix A, which is useful. • Retrospective application requires not only restatements of previous years' financial information but additional disclosures

Ref	Question	Response (*Please give clear reasoning to support your response*)
		on the restatements as well. These are time-consuming, incur unnecessary costs and potentially compromise the reliability of the information given the resource constraints faced by most SMEs. One AOSSG member further recommends the IASB to consider requiring additional disclosures to ensure users are aware of the basis on which the accounting policy has been adopted; and for the disclosures to include specific information relating to material transactions that have not been accounted for retrospectively. This member also believe that prospective application should be the default approach for all revisions. However, if the IASB decides to retain the proposal in the Exposure Draft, it is recommended that undue cost or effort exemption be provided for the following areas (if the proposals are retained in the final Standard) that require retrospective application when applying the Third Edition of the Standards initially: • requirement on the expected credit loss model in Section 11 • including financial guarantee contracts within the scope of Section 11 • including bearer plants within the scope of Section 17
11	**Question 11—Other proposed amendments** Table A1, included in the Introduction to the Exposure Draft, summarises the proposals for amending sections of the Standard not included	

Ref	Question	Response (*Please give clear reasoning to support your response*)
	in questions 2–10.	
	Do you have any comments on these other proposed amendments in the Exposure Draft?	A few AOSSG members provide specific comments as detailed below. (i) <u>Section 11 – Financial guarantee contracts (FGC)</u> One AOSSG member does not support the proposal for FGC to be within the scope of Section 11 for the following reasons: • In the context of SMEs, FGCs are predominantly issued by related parties and in most cases at zero transaction price. Applying the measurement relief, the proposal would have no initial accounting but would lead to subsequent accounting that is based on the proposed ECL model. Response to Question 4 has highlighted that the application of the ECL model would introduce complexity and increase cost of compliance with no significant benefit to users. Hence, in its view, this approach does not align with the overarching principle of not imposing undue cost or effort on the SMEs. • In respect of FGCs, users of financial statements would be primarily interested in the liquidity risk of the issuer and the credit risk of the borrower as well as the contingency surrounding the potential payments and amount of exposure. The information needs of these users could be achieved by way

Ref	Question	Response (*Please give clear reasoning to support your response*)
		of disclosure. • If the incurred loss model is retained for all financial assets measured at amortised cost, FGCs could be subsequently measured applying the incurred loss model. (ii) <u>Section 17 – Bearer plants</u> One AOSSG member prefers to retain the existing requirements of Section 34 *Specialised Activities* whereby the bearer plants and produce growing on the bearer plants are accounted for as a single asset; due to concerns that bifurcation of bearer plants and the produce growing on them would introduce unnecessary complexity for SMEs. That said, this AOSSG member also notes that the Exposure Draft includes an undue cost or effort exemption allowing SMEs to apply Section 34 to the entire plant if, at initial recognition, bearer plants cannot be measured separately from the produce on them without undue cost or effort. Hence, should the IASB decide to finalise the proposal in the Exposure Draft, the member believes that the undue cost or effort exemption would be helpful to facilitate the implementation of the proposed amendments. (iii) <u>Measurement of investment property</u> Another AOSSG member asks the IASB to consider providing accounting policy choice to apply either the cost model or fair value model in measuring investment property.

Ref	Question	Response (*Please give clear reasoning to support your response*)
		This AOSSG member observes that there is no clear justification between offering the two models in the full IFRS Accounting Standard and restricting these options in this Standard; and is of the view that simplification can be made by not requiring an SME to disclose fair value information when it chooses to apply the cost model. (iv) <u>Non-current liabilities with covenant</u> One AOSSG member notes that the Exposure Draft does not consider or incorporate the recent amendments made to IAS 1 *Presentation of Financial Statements* i.e., Classification of Liabilities as Current or Non-Current (January 2020) and Non-current Liabilities with Covenants (October 2022). This AOSSG member believes that; • the clarifications regarding the classification of liabilities to be equally relevant to entities without public accountability (e.g., entities that apply this Standard) and is concerned that entities applying this Standard may have to classify liabilities with covenants as current, whilst entities applying full IFRS Accounting Standards could classify the same liabilities as non-current. • that SMESs could be disadvantaged if the above-mentioned Amendments to IAS 1 are not reflected in this Standard. This AOSSG member shares that stakeholders in its jurisdiction,

Ref	Question	Response (*Please give clear reasoning to support your response*)
		including those representing the interests of entities without public accountability, support the Amendments to IAS 1 and have expressed an intention to adopt the amendments early. For this reason, there is a current project on its work programme to consider amendments to its Standard on *General Purpose Financial Statements – Simplified Disclosures For For-profit And Not-For-Profit Tier 2 Entities*, to reflect the recent amendment to its Standard on *Presentation of Financial Statements* to ensure that Tier 2 entities are not disadvantaged.
Questions for respondents—Whether further action is required		
12	**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 prioritised 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: • aligning Section 20 with IFRS 16 at this time imposes a workload on SMEs disproportionate to the benefit to users of their financial statements— specifically, considering:	

Ref	Question	Response (*Please give clear reasoning to support your response*)
	(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 realised from recognising the lessee's right to use an underlying asset (and the lessee's obligation to make lease payments) in the statement of financial position. • 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 the 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) of Question 12.	AOSSG members generally agree with the IASB's decision to only consider amending the Standard to align with IFRS 16 in a future review of the Standard. These AOSSG members share the following reasons supporting the IASB's decision: (i) The application of IFRS 16 as adopted in some jurisdictions proves to be challenging and costly due to the lack of technical expertise. (ii) The current timing of alignment may not be appropriate considering the current level of IFRS 16 implementation experience is insufficient to effectively align and/or simplify its requirements for SMEs' purposes.

Ref	Question	Response (*Please give clear reasoning to support your response*)
		• The issuance of several Agenda Decisions on IFRS 16 since its issuance is indicative of IFRS 16 implementation challenges and the need for more implementation experience, before considering a similar application by SMEs. Against this backdrop, SMEs could reasonably be expected to face even greater challenges in implementing IFRS 16 considering the generally lower resource capacity and capability, adding to the cost of implementation. • There is a merit for the alignment to be reconsidered at least after the completion of the post-implementation review of IFRS 16, and after obtaining sufficient feedback on whether simplification of lease accounting for the SMEs is required. (iii) Leveraging on the implementation experience of IFRS Accounting Standards preparers would help to reduce implementation cost. From the perspective of the users of financial statements of SMEs, concerns if any would arise mainly from operating leases that are not recognised as assets and liabilities in the financial statements under Section 20. However, the current disclosure requirements in Section 20, particularly the disclosures on the total of future minimum lease payments under non-cancellable operating leases according to the time band would help to close the gap. (iv) Although simplifications (from IFRS 16 to Section 20) might help to reduce the cost of implementation, nonetheless, a

Ref	Question	Response (*Please give clear reasoning to support your response*)
		deeper implementation experience is required prior to identifying areas whereby simplifications are needed and in determining how best to simplify the requirements. Without the benefit of such experience, any simplifications proposed now may not adequately and effectively address the challenges that SMEs would face, potentially leading to future amendments to the Standard which is not cost effective nor efficient. Please see Note 2 below on observations of IFRS 16 implementation challenges and some recommendations (e.g., on lease term and leases of low value assets) for the IASB to consider at the next review.
	Note 2 [Observations of IFRS 16 implementation challenges and recommendations for the IASB to consider at the next review] <u>Improvement to financial reporting as a result of aligning Section 20 with IFRS 16</u> Aligning Section 20 with IFRS 16 will increase the visibility of SMEs lease commitments and better depict the economic reality. The alignment would also enhance comparability between entities that lease their assets and entities that borrow funds to acquire their assets and create a level playing field. The alignment of Section 20 with IFRS 16 will also have an immediate impact on financial metrics of a company - primarily EBITDA, net debt and therefore the indicated enterprise value. <u>Implementation costs that preparers of financial statements will have to incur:</u> (i) The implementation costs that preparers of financial statements would have to incur would be for collating information and for know how to make the required judgements. This would require significant amount of time and effort which would effectively mean an additional cost in terms of internal staff time or payment to a third party if the SME does not have adequate staff and know how.	

Ref	Question	Response (*Please give clear reasoning to support your response*)
	• Collating information relating to leases. While SMEs would have a mechanism to monitor leases (currently classified as finance and operating leases) for operational purposes, the information required to apply the principles of IFRS 16 would not be readily available. • Making accounting judgements. Judgements to be made will include; determining the lease term, including any renewal, termination and purchase options, as well as rent-free periods, accounting for various types of lease payments (variable and fixed), determining appropriate discount rate, accounting for lease incentives, initial directs costs and dismantling costs. (ii) Software or Excel based model – Quantification of impact • Certain SMEs would be able to afford acquiring a new software solution. Others might have to develop an excel worksheet or require a consultant to do the same. (iii) Updating or changing controls, systems, and processes • Ensuring the right data is captured and maintained up to date controls, systems, and processes will need to be updated or changed. <u>Costs that users of financial statements could incur when information is unavailable.</u> Although IFRS 16 will bring greater transparency by ensuring all leases will be reflected on the balance sheet, and users of SMEs' financial statements would not have this benefit if Section 20 is not aligned with IFRS 16 (and details relating to the ROU assets and related liabilities will not be available to these users in the current version of the Standard), nonetheless, based on paragraph 20.16, a lessee is required to disclose the total of future minimum lease payments under non-cancellable operating leases as well as a general description of the lessee's significant leasing arrangements including, for example, information about contingent rent, renewal or purchase options and escalation clauses etc., the financial institutions and supplier being the primary external users of SMEs financial statements could derived a fair understanding of the impact on the financial statements based on the current version of the Standard. <u>Introducing possible simplifications</u>	

Ref	Question	Response (*Please give clear reasoning to support your response*)
	A little more research would have to go into determining if the following would be acceptable. (a) Determining discount rate – using the principles of FASB's Leases (Topic 842): "Discount rate for lessees that are not public business entities". FASB's pronouncement allows entities to make the risk-free rate election by class of underlying asset, rather than at the entity-wide level. An entity that makes the risk-free rate election is required to disclose which asset classes it has elected to apply a risk-free rate. The amendments require that when the rate implicit in the lease is readily determinable for any individual lease, the lessee use that rate (rather than a risk-free rate or an incremental borrowing rate), regardless of whether it has made the risk-free rate election. This AOSSG member believes the IASB could use the principles in FASB's pronouncement and come up with the following choices: • If risk-free rate is used by a lessee as its discount rate, it should be used for all leased assets (entity-wide) if the rate implicit in the lease is not readily determinable. • Risk-free rate be used for all leases even if rate implicit in the lease is readily determinable. • Follow the guidelines of FASB's pronouncement as it is (entities to make the risk-free rate election by class of underlying asset). This AOSSG member further believes the impact on the financial statements would be very limited if either option given above is used and hence appropriate disclosures will have to be designed depending on which option the IASB decides on. (b) Assessment of lease term Based on this AOSSG member's experience, a significant amount of judgement is required when determining if an option to renew a lease will be exercised. Instead of listing indicators as in IFRS 16, the IASB could design a rule-based checklist based on paragraph B37-B40 of IFRS 16 for SMEs to determine if an option to renew will be exercised or not. (c) Setting a specific value to determine what is considered a "low-value" lease.	

Ref	Question	Response (*Please give clear reasoning to support your response*)
	Rather than a monetary figure this could be given as a percentage of total asset value or total value of Right of Use asset to ensure this is applicable for all jurisdictions. Subsequent measurement of the lease liability (reassessment) – using the originally determined discount rate if the SME is unable to determine a revised discount rate.	
13	**Question 13—Recognition and measurement requirements for development costs** The Standard requires all development costs to be recognised 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 the Exposure Draft further explain the IASB's rationale. The entity would be required to demonstrate all of the criteria in paragraphs 57(a)–(f) of IAS 38, that is: (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.	

Ref	Question	Response (*Please give clear reasoning to support your response*)
	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 recognise intangible assets arising from development costs that meet the criteria in paragraphs 57(a)–(f) of IAS 38?	There are diverse views on capitalisation of development costs as intangible assets. Generally, AOSSG members agree that SMEs should be allowed to capitalise development costs as intangible assets. One AOSSG member recommends the IASB to consider an 'undue cost or effort' exemption to recognise and measure development costs as this would balance the principles of simplicity and faithful representation for SMEs. In addition, this approach is expected to encourage the comparability of financial statements among the SMEs. While there is support for an accounting policy option, there are also concerns that allowing such an accounting policy option may lead to unfaithful representation, particularly in cases where an entity should have been capitalising eligible development costs as intangible assets, but instead choose to expense immediately solely because the Standard allows for such policy option. In addition, introduction of options would also reduce comparability and create unnecessary complexities – not to mention additional implementation costs for entities to demonstrate if all the criteria listed in paragraph 57(a) – (f) of IAS 38 are met. To balance the concerns, one AOSSG member recommends that the option to be made available on each project basis i.e., permitting SMEs to determine whether they would recognise the development costs as intangibles asset subject to meeting the capitalisation criteria based on each project. This would allow SMEs to assess the cost-benefit for each project and would not impair the faithful

Ref	Question	Response (*Please give clear reasoning to support your response*)
		representation in the financial statements. Entities invest in development activities with the expectation that these will bring about future economic benefits. This AOSSG member observes that SMEs could have incurred significant development costs, possibly more so now than when the Standard was first issued more than a decade ago and further notes that: • recognising development costs as an intangible asset subject to meeting the capitalisation criteria would result in a fairer presentation of the financial statements particularly when development costs incurred is significant. Recognising these costs in profit or loss as incurred could potentially be misleading to the users of financial statements. • when the capitalisation criteria are met, it would appear counter-intuitive for SMEs to report lower profits or possibly losses as a result of expensing the development costs incurred during the period to profit or loss. SMEs would then have to incur cost and/or effort to explain the financial performance to the users of their financial statements as the impact to the financial statements could be material. • SMEs should not be deprived of the option to recognise development costs as an intangible asset subject to meeting the capitalisation criteria. • with an accounting policy option, SMEs that have adopted an accounting policy of recognising development costs as an intangible asset subject to meeting the capitalisation criteria

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		would have to apply that policy *consistently to all* development costs incurred. In certain cases, the cost of assessment of the capitalisation criteria by the SMEs may outweigh the benefit.
Questions for respondents – Full IFRS Accounting Standards in the scope of this review for which the IASB is not proposing to align the Standard		
14	**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)?	AOSSG members generally agree with the proposal to remove paragraph 22.7(a) as there is no similar requirement in the IFRS Accounting Standard. A few AOSSG members further state that paragraph 22.7(a) could potentially be in conflict with local legislations hence supporting the removal to allow interactions with local laws. However, one AOSSG member *encourages* paragraph 27.2(a) to be retained because, according to its local legislation, issued share capital and calls in arrears / unpaid calls can be disclosed in a share capital notes and this member has observed situations where such receivables remain unpaid for several years while the affected entities showing the issued shares as fully paid-up share capital.

Ref	Question	Response (*Please give clear reasoning to support your response*)
Questions for respondents——Updating the paragraph numbers of the IFRS for SMEs Accounting Standard		
15	**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 the Exposure Draft?	AOSSG members have differing views on the approach: • Some AOSSG members agree with amending the paragraph numbers i.e., renumbering the paragraph numbers within the Sections particularly when a Section goes through significant revisions. • Others AOSSG members prefer an approach similar to the IFRS Accounting Standards i.e., to retain the paragraph numbers.