SAS Quadra 05. Bloco J. CFC
Brasília, Distrito Federal – Brazil
www.cpc.org.br

March 2014

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

RE: Exposure Draft – Proposed amendments to the International Financial Reporting Standard for Small and Medium-sized Entities

Dear Board Members

The Comitê de Pronunciamentos Contábeis - CPC (Brazilian Accounting Pronouncements Committee)[1] welcomes the opportunity to respond the questions about the proposed amendments to IFRS for SMEs.

We are a standard-setting body engaged in the study, development and issuance of accounting standards, interpretations and guidance for Brazilian companies.

If you have any questions about our comments, please contact us at operacoes@cpc.org.br

Yours sincerely,

Idésio S. Coelho Júnior
Chair of International Affairs
Comitê de Pronunciamentos Contábeis (CPC)

[1] The Brazilian Accounting Pronouncements Committee (CPC) is a standard-setting body engaged in the study, development and issuance of accounting standards, interpretations and guidance for Brazilian companies. Our members are nominated by the following entities: ABRASCA (Brazilian Listed Companies Association), APIMEC (National Association of Capital Market Investment Professionals and Analysts), BMFBOVESPA (Brazilian Stock Exchange and Mercantile & Future Exchange), CFC (Federal Accounting Council), FIPECAFI (Financial and Accounting Research Institute Foundation) and IBRACON (Brazilian Institute of Independent Auditors).

COMITÊ DE PRONUNCIAMENTOS CONTÁBEIS

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QUESTIONS and ANSWERS

Question 1—Definition of 'fiduciary capacity'

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

(a) Are you aware of circumstances where the use of the term 'fiduciary capacity' has created uncertainty or diversity in practice? If so, please provide details.

(b) Does the term 'fiduciary capacity' need to be clarified or replaced? Why or why not? If you think it needs to be clarified or replaced, what changes do you propose and why?

Answer:

(a) and (b) The term "fiduciary capacity" appears to be a reasonable term to be used in the way that the Board intended to segregate public-accountable firms from the others. However, in some jurisdictions the legislation could bring a different meaning for the term "fiduciary". As the challenge could be related to translating the desired meaning of "fiduciary capacity" in different jurisdictions, one suggestion is to develop a definition and to insert it on the Glossary.

Question 2—Accounting for income tax

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

When the *IFRS for SMEs* was issued in 2009, Section 29 was based on the IASB's Exposure Draft *Income Tax* (the '2009 ED'), which was issued in March 2009. However, the 2009 ED was never finalised by the IASB. Consequently, the IASB has concluded that it is better to base Section 29 on IAS 12. The IASB proposes to align the recognition and measurement principles in Section 29 with IAS 12 (see paragraphs BC55–BC60) whilst retaining some of the presentation and disclosure simplifications from the original version of Section 29.

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The IASB continues to support its reasoning for not permitting the 'taxes payable' approach as set out in paragraph BC145 of the *IFRS for SMEs* that was issued in 2009. However, while the IASB believes that the principle of recognising deferred tax assets and liabilities is appropriate for SMEs, it would like feedback on whether Section 29 (revised) can currently be applied (operationalised) by SMEs, or whether further simplifications or guidance should be considered.

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

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

Answer:

The alignment of the Section 29 and IAS 12 is desirable, since it leads to consistency across the Standards. The Board should base the future changes of the SME Standard only on the actual version of a related IFRS.

Question 3—Other proposed amendments to the *IFRS for SMEs*

The IASB proposes to make a number of other amendments to the *IFRS for SMEs*. The proposed amendments are listed and numbered 1–43 and 45–57 in the list of proposed amendments. Most of those amendments are minor and/or clarify existing requirements.
(a) Are there any amendments that you do not agree with or have comments on?
(b) Do any of the amendments require additional guidance or disclosure requirements to be added to the *IFRS for SMEs*? If so, which ones and what are your suggestions?

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

Answer:

(a) and (b) One concern is related to the decision to establish a maximum period for the amortization of an intangible asset when its useful life cannot be estimated. We acknowledge that the change from defining 10 years to a maximum of 10 years is a significant improvement. However, we recommend that the Board make it explicit that if the entity is able to estimate the useful life and the contractual terms are longer than 10 years, this longer period should be used. Just to avoid the understanding that 10 years is the maximum period of amortization to all intangibles.

Another concern is related to the application of the concept of "undue effort" to a fair value measurement of an investment property (paragraph 16.8). The Standard states that:

> *"If a reliable measure of fair value is no longer available without undue cost or effort for an item of investment property measured using the fair value model, the entity shall thereafter account for that item as property, plant and equipment in accordance with Section 17 until a reliable measure of fair value becomes available" (paragraph 16.8).*

If, for example, an entity stops applying fair value in 2014 and its application comes back in 2016, there is a concern about how to treat the difference between the deemed cost and the new fair value estimate. It does not seems right to treat all the difference in the 2016 results. We would like to make three suggestions: (1) if possible, the entity should evaluate the fair value from the beginning of 2016 until the actual date, treating this difference in the 2016 results; all the difference between the deemed cost (2014) and the initial fair value measurement for 2016 should be treated directly in equity; (2) the impact in results due to the change from cost to fair value should be disclosed separately; and (3) the Board considers expanding the disclosure requirements in this situation.

Question 4—Additional issues

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

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

Answer:

1) Fair value measurements: a specific Section dealing with fair value measurements would be desirable, based on IFRS 13 – Fair Value Measurements.
2) Income taxes: in some jurisdictions, like Brazil, the government promotes a simplified mechanism to determine the income tax for SMEs. Instead of calculating the taxes based on the "taxable profit", the estimate is based on the entity's revenues. Therefore, the IASB should promote guidance for cases when the income tax is not based on taxable profit. A possibility is to make clear in Section 29 that income tax that is not based on taxable profit should be accounted as sales taxes.

3) Application of the IFRS for SMEs for public-accountable firms: We acknowledge that the complete set of Standards (IFRSs) is the global benchmark for capital and financial markets and that SME standard was designed specifically for non-public-accountable firms. However, we understand that the decision whether to apply the full-set of Standards or the SME Standard should be made by each specific regulator in each jurisdiction, evaluating its costs and benefits, and not by the Standard and the IASB themselves.

4) Development costs: The Standard should at least allow SMEs to define an accounting policy related to development costs: they should state if they are going to treat all development costs as expense when incurred or if they are going to evaluate if the 6 criteria (as described in IAS 38 – Intangible Assets) are met and then recognize an intangible asset. Entities, like many start-ups, could benefit from this option; otherwise they would present only losses if they are required to treat all development costs as expenses.

Another alternative is to allow entities not to recognize an intangible asset related to development costs based on the "undue cost or effort" exception. But the benchmark treatment would be the same as stated in IAS 38 – Intangible Assets.

Question 5—Transition provisions

The IASB does not expect retrospective application of any of the proposed amendments to be significantly burdensome for SMEs and has therefore proposed that the amendments to the *IFRS for SMEs* in Sections 2–34 are applied retrospectively.
Do you agree with the proposed transition provisions for the amendments to the *IFRS for SMEs*? Why or why not? If not, what alternative do you propose?

Answer:

It rests unclear if the argument that retrospective application of all proposed amendments would be simple. For example, there were significant changes in Section 29 and also there Board will probably receive comment letters arguing that other changes should be made. We believe that possibly some changes would not be simple, requiring that the Board at least develops specific guidance for these situations.

Question 6—Effective date

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

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

Answer:

Certain jurisdictions, like Brazil, adopted the SME Standard indirectly. There is a national standard setter that issues standards according to IFRSs, including the IFRS for SMEs. The potential challenge to establish a one-year window for the changes is the additional required time for national standard setters to open for public comments and to approve the new version of the Standard. Maybe a longer period (two years) would be desirable.

Question 7—Future reviews of the *IFRS for SMEs*

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

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

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

Answer:

The discussion of "urgent issues" may become a concern for SMEs, since the Standard is designed for entities that do not necessarily have the appropriate resources to evaluate the proposed changes if they become too frequent. However, we acknowledge that some urgent issues may become extremely relevant to be discussed earlier than the 3-year cycle. The Board should keep this possibility while stating that it would be done just in exceptional situations.

The 3-year period would be advisable, because in practice, all the changes would be implemented in 4 or 5 years. If we allow a longer period, it could take 6 or 7 years for the changes to become effective.

Question 8—Any other comments

Do you have any other comments on the proposals?

Answer:

No, we support the proposed changes.