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Re: EFRAG draft comment letter on Proposed amendments to the International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs)

Dear Françoise,

We are pleased to have the opportunity to provide our comments in order to contribute to the finalization of the EFRAG comment letter on the Exposure Draft Proposed amendments to the International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs).

We generally concur with EFRAG's Draft Comment Letter on the ED and with the amendments proposed by the IASB. We disagree with EFRAG's position only on the addition of an option to allow entities to use the revaluation model for property, plant and equipment, to capitalise borrowing costs that are directly attributable to the acquisition, construction or production of a 'qualifying asset' and to capitalise development costs. Indeed, we support IASB's decision to not add these options.

Our detailed responses to the ED questions are in the Appendix.

Should you need any further information, please do not hesitate to contact us.

Yours sincerely,
Angelo Casò

(Chairman)

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.

- ***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.***

- ***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?***

We are not aware of circumstances where the use of the term 'fiduciary capacity' has created uncertainty or diversity in practice. However, we appreciate the IASB's efforts to clarify the term 'fiduciary capacity' to allow individual jurisdictions and entities to apply the current definition of public accountability.

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.

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?***

We believe that the SMEs should recognise deferred income taxes using the temporary difference method (i.e the approach currently used in both the IFRS for SMEs and full IFRSs).

In order to simplify the rules for SMEs, we believe that it is necessary to revise Section 29 to conform it to the current IAS 12.

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.

- ***Are there any amendments that you do not agree with or have comments on?***
- ***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.

We support most of the proposed amendments as they will improve existing guidance. We also agree with EFRAG's proposals to expand the proposed amendments.

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.***

We agree with the IASB and EFRAG's view that the main changes from IFRS 3 *Business Combinations* (2008), IFRS 11 *Joint Arrangements* and IFRS 13 *Fair Value Measurement* should not be incorporated in the IFRS for SMEs until there is practical experience with their use. We believe that it is appropriate to await the outcome of the post-implementation review of these standards and then to assess whether, or not, to introduce them in the IFRS for SMEs.

As regard to IFRS 10, we are aware of the complexity of this standard. However, we believe that the definition of control in the IFRS for SMEs should be aligned to that in full IFRSs.

We also agree with EFRAG's proposal to modify or delete par. 22.7(a) as it does not permit share subscription receivables to be presented as an asset and, in order to simplify the rules for SMEs, we believe that it is necessary to revise the IFRS for SMEs to remove the profit or loss option for all actuarial gains and losses.

We support the IASB’s position to not add an option to revalue property, plant and equipment on a similar basis to IAS 16, to allow an entity to either capitalise or expense borrowing costs on qualifying assets on a similar basis to IAS 23 and to allow an entity to either capitalise or expense development costs on similar basis to IAS 38. In order to simplify the rules for SMEs, we believe that it is not necessary to change the current requirements.

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?***

We agree with proposed transition provisions for the amendments to the IFRS for SMEs, as it facilitates the comparability of financial statements.

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?***

We support the IASB’s decision to establish that the effective date should be one year after the publication of the final amendments. We also support the IASB’s proposal to allow early application.

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.

- ***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?***

In order to guarantee the stability required by the entity, a five-year cycle policy should be introduced.

We believe that, if relevant, when the IASB makes a change to full IFRSs, the IASB should perform a costs/benefits analysis from the perspective of SMEs to assess if to incorporate these changes also in the IFRS for SMEs.

ANY OTHER COMMENTS

- ***Do you have any other comments on the proposals?***

We believe that the standard could be more user friendly if the guidance on fair value measurement is placed in a separate section.