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(The Italian Standard Setter)**

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Re: EFRAG draft comment letter on IASB Request for Information: Comprehensive Review of the 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 Request for Information: Comprehensive Review of the IFRS for SMEs (the RI).

We appreciate EFRAG's efforts to question itself about the role of the IFRS for SMEs compared to full IFRSs. We agree with EFRAG that *the first step should be a high level review covering the reconsideration of the objectives of the IFRS for SMEs, what types of entities one should have in mind when considering the requirements of the standard, and how the standard should be linked to full IFRSs.*

Before answering the individual questions in the IASB document we would like to express our thoughts on the two general questions for EFRAG's constituents.

With regard to the role of the IFRS for SMEs compared to full IFRSs (first question), we believe that the IFRS for SMEs should be considered as a stand-alone set of rules independent from full IFRSs. However, 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. Moreover, we believe that principles can be developed specifically for the SMEs.

In relation to the basic concepts (e.g. definition of asset, liability, control, leasing, etc.), we believe that they should be aligned even if the IFRS for SMEs and full IFRSs are two stand-alone documents.

With reference to the second question for EFRAG's constituents, we believe that the use of options in the IFRS for SMEs should be limited as much as possible to allow SMEs to have simple and sure rules to prepare their financial statements.

Detailed answers follow below.

Question S1 - Use by publicly traded entities (Section 1)

Are the scope requirements of the IFRS for SMEs currently too restrictive for publicly traded entities?

(a) No - do not change the current requirements. Continue to prohibit an entity whose debt or equity instruments trade in a public market from using the IFRS for SMEs.

(b) Yes - revise the scope of the IFRS for SMEs to permit each jurisdiction to decide whether entities whose debt or equity instruments are traded in a public market should be permitted or required to use the IFRS for SMEs.

(c) Other – please explain.

Please provide reasoning to support your choice (a), (b) or (c).

Question S2 - Use by financial institutions (Section 1)

Are the scope requirements of the IFRS for SMEs currently too restrictive for financial institutions and similar entities?

(a) No—do not change the current requirements. Continue to prohibit all financial institutions and other entities that hold assets for a broad group of outsiders as one of their primary businesses from using the IFRS for SMEs.

(b) Yes—revise the scope of the IFRS for SMEs to permit each jurisdiction to decide whether any financial institutions and other entities that hold assets for a broad group of outsiders as one of their primary businesses should be permitted or required to use the IFRS for SMEs.

(c) Other—please explain.

Please provide reasoning to support your choice of (a), (b) or (c).

We believe that the individual jurisdictions are the competent body to assess the possibility/obligation to adopt the IFRS for SMEs also for other types of entities (not the IASB). In this context, we believe that it would be important for the IASB to clarify the objectives of the IFRS for SMEs and who are its stakeholders in order to allow individual jurisdictions to assess whether the IFRS for SMEs is suitable, or less, for certain types of entities.

Question S3 - Clarification of use by not-for-profit entities (Section 1)

Should the IFRS for SMEs be revised to clarify whether an NFP entity is eligible to use it?

(a) Yes—clarify that soliciting and accepting contributions does not automatically make an NFP entity publicly accountable. An NFP entity can use the IFRS for SMEs if it otherwise qualifies under Section 1.

(b) Yes—clarify that soliciting and accepting contributions will automatically make an NFP entity publicly accountable. As a consequence, an NFP entity cannot use the IFRS for SMEs.

(c) No—do not revise the IFRS for SMEs for this issue.

(d) Other—please explain.

Please provide reasoning to support your choice of (a), (b), (c) or (d).

We agree with the EFRAG's position.

Question S4 - Consideration of recent changes to the consolidation guidance in full IFRSs (Section 9)

Should the changes outlined above be considered, but modified as appropriate to reflect the needs of users of SME financial statements and cost-benefit considerations?

(a) No—do not change the current requirements. Continue to use the current definition of control and the guidance on its application in Section 9. They are appropriate for SMEs, and SMEs have been able to implement the definition and guidance without problems.

(b) Yes—revise the IFRS for SMEs to reflect the main changes from IFRS 10 outlined above (modified as appropriate for SMEs).

(c) Other—please explain.

Please provide reasoning to support your choice of (a), (b) or (c).

We are aware of the complexity of IFRS 10. However, as said above, we believe that the definition of control in the IFRS for SMEs should be aligned to that in full IFRSs.

Our constituents are split on this issue:

- some believe that it is appropriate to await the outcome of the post-implementation review of IFRS 10 and then to assess whether, or not, introduce it in the IFRS for SMEs (even if they think it does not seem necessary to introduce these rules for SMEs);
- others believe that it is important to have rules in the IFRS for SMEs that are based on the same principles of full IFRSs, especially in terms of control and consolidation.

Question S5- Use of recognition and measurement provisions in full IFRSs for financial instruments (Section 11)

How should the current option to use IAS 39 in the IFRS for SMEs be updated once IFRS 9 has become effective?

(a) There should be no option to use the recognition and measurement provisions in either IAS 39 or IFRS 9. All SMEs must follow the financial instrument requirements in Sections 11 and 12 in full.

(b) Allow entities the option of following the recognition and measurement provisions of IFRS 9 (with the disclosure requirements of Sections 11 and 12).

(c) Other—please explain.

Please provide reasoning to support your choice of (a), (b) or (c).

Note: the purpose of this question is to assess your overall view on whether the fallback to full IFRSs in Sections 11 and 12 should be removed completely, should continue to refer to an IFRS that has been superseded, or should be updated to refer to a current IFRS. It does not ask respondents to consider whether any of the recognition and measurement principles of IFRS 9 should result in amendments of the IFRS for SMEs at this stage, because the IASB has several current agenda projects that are expected to result in changes to IFRS 9 (see paragraph 13 of the Introduction to this Request for Information).

In order to simplify the rules for SMEs, we believe that there should be no option to use the recognition and measurement provisions in either IAS 39 or IFRS 9.

Question S6- Guidance on fair value measurement for financial and non-financial items (Section 11 and other sections)

Should the fair value guidance in Section 11 be expanded to reflect the principles in IFRS 13, modified as appropriate to reflect the needs of users of SME financial statements and the specific circumstances of SMEs (for example, it would take into account their often more limited access to markets, valuation expertise, and other cost-benefit considerations)?

(a) No—do not change the current requirements. The guidance for fair value measurement in paragraphs 11.27–11.32 is sufficient for financial and non-financial items.

(b) Yes—the guidance for fair value measurement in Section 11 is not sufficient. Revise the IFRS for SMEs to incorporate those aspects of the fair value guidance in IFRS 13 that are important for SMEs, modified as appropriate for SMEs (including the appropriate disclosures).

(c) Other—please explain.

Please provide reasoning to support your choice of (a), (b) or (c).

Note: an alternative is to create a separate section in the IFRS for SMEs to deal with guidance on fair value that would be applicable to the entire IFRS for SMEs, rather than leaving such guidance in Section 11. This is covered in the following question (question S7).

Considering the complexity of IFRS 13, we believe it is appropriate to await the outcome of the post-implementation review of IFRS 13 and then to assess whether, or not, introduce it in the IFRS for SMEs.

Question S7- Positioning of fair value guidance in the Standard (Section 11)

Should the guidance be moved into a separate section? The benefit would be to make clear that the guidance is applicable to all references to fair value in the IFRS for SMEs, not just to financial instruments.

(a) No—do not move the guidance. It is sufficient to have the fair value measurement guidance in Section 11.

(b) Yes—move the guidance from Section 11 into a separate section on fair value measurement.

(c) Other—please explain.

Please provide reasoning to support your choice of (a), (b) or (c).

Note: please answer this question regardless of your answer to question S6.

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

Question S8- Consideration of recent changes to accounting for joint ventures in full IFRSs (Section 15)

Should the changes above to joint venture accounting in full IFRSs be reflected in the IFRS for SMEs, modified as appropriate to reflect the needs of users of SME financial statements and cost-benefit considerations?

(a) No—do not change the current requirements. Continue to classify arrangements as jointly controlled assets, jointly controlled operations and jointly controlled entities (this terminology and classification is based on IAS 31 Interests in Joint Ventures). The existing Section 15 is appropriate for SMEs, and SMEs have been able to implement it without problems.

(b) Yes—revise the IFRS for SMEs so that arrangements are classified as joint ventures or joint operations on the basis of the parties' rights and obligations under the arrangement (terminology and classification based on IFRS 11 Joint Arrangements, modified as appropriate for SMEs).

(c) Other—please explain.

Please provide reasoning to support your choice of (a), (b) or (c).

Note: this would not change the accounting options available for jointly-controlled entities meeting the criteria to be joint ventures (ie cost model, equity method and fair value model).

Considering the complexity of IFRS 11, we believe that it is appropriate to await the outcome of the post-implementation review of IFRS 11 and then to assess whether, or not, introduce it in the IFRS for SMEs.

Question S9- Revaluation of property, plant and equipment (Section 17)

Should an option to use the revaluation model for PPE be added to the IFRS for SMEs?

(a) No—do not change the current requirements. Continue to require the cost-depreciation-impairment model with no option to revalue items of PPE.

(b) Yes—revise the IFRS for SMEs to permit an entity to choose, for each major class of PPE, whether to apply the cost-depreciation-impairment model or the revaluation model (the approach in IAS 16).

(c) Other—please explain.

Please provide reasoning to support your choice of (a), (b) or (c).

In order to simplify the rules for SMEs, we believe that it is not necessary to change the current requirements.

Question S10- Capitalisation of development costs (Section 18)

Should the IFRS for SMEs be changed to require capitalisation of development costs meeting criteria for capitalisation (on the basis of on the criteria in IAS 38)?

(a) No—do not change the current requirements. Continue to charge all development costs to expense.

(b) Yes—revise the IFRS for SMEs to require capitalisation of development costs meeting the criteria for capitalisation (the approach in IAS 38).

(c) Other—please explain.

Please provide reasoning to support your choice of (a), (b) or (c).

In order to simplify the rules for SMEs, we believe that it is not necessary to change the current requirements.

Question S11- Amortisation period for goodwill and other intangible assets (Section 18)

Should paragraph 18.20 be modified to state: “If an entity is unable to make a reliable estimate of the useful life of an intangible asset, the life shall be presumed to be ten years unless a shorter period can be justified”?

(a) No—do not change the current requirements. Retain the presumption of ten years if an entity is unable to make a reliable estimate of the useful life of an intangible asset (including goodwill).

(b) Yes—modify paragraph 18.20 to establish a presumption of ten years that can be overridden if a shorter period can be justified.

(c) Other—please explain.

Please provide reasoning to support your choice of (a), (b) or (c).

We believe that if an entity is unable to make a reliable estimate of the useful life of an intangible asset, the life shall be presumed to be ten years unless a shorter period can be justified.

Question S12- Consideration of changes to accounting for business combinations in full IFRSs (Section 19)

Should Section 19 be amended to incorporate the above changes, modified as appropriate to reflect the needs of users of SME financial statements and cost-benefit considerations?

(a) No—do not change the current requirements. The current approach in Section 19 (based on IFRS 3 (2004)) is suitable for SMEs, and SMEs have been able to implement it without problems.

(b) Yes—revise the IFRS for SMEs to incorporate the main changes introduced by IFRS 3 (2008), as outlined above and modified as appropriate for SMEs.

(c) Other—please explain.

Please provide reasoning to support your choice of (a), (b) or (c).

We believe that it is appropriate to await the outcome of the post-implementation review of IFRS 3 revised and then to assess whether, or not, introduce it in the IFRS for SMEs.

Question S13- Presentation of share subscriptions receivable (Section 22)

Should paragraph 22.7(a) be amended either to permit or require the presentation of the receivable as an asset?

(a) No—do not change the current requirements. Continue to present the subscription receivable as an offset to equity.

(b) Yes—change paragraph 22.7(a) to require that the subscription receivable is presented as an asset.

(c) Yes—add an additional option to paragraph 22.7(a) to permit the subscription receivable to be presented as an asset, ie the entity would have a choice whether to present it as an asset or as an offset to equity.

(d) Other—please explain.

Please provide reasoning to support your choice of (a), (b), (c) or (d).

We agree with the EFRAG's position.

Question S14- Capitalisation of borrowing costs on qualifying assets (Section 25)

Should Section 25 of the IFRS for SMEs be changed so that SMEs are required to capitalise borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset, with all other borrowing costs recognised as an expense when incurred?

(a) No—do not change the current requirements. Continue to require all borrowing costs to be recognised as an expense when incurred.

(b) Yes—revise the IFRS for SMEs to require capitalisation of borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset (the approach in IAS 23).

(c) Other—please explain.

Please provide reasoning to support your choice of (a), (b) or (c).

In order to simplify the rules for SMEs, we believe that it is not necessary to change the current requirements.

Question S15- Presentation of actuarial gains or losses (Section 28)

Should the option to recognise actuarial gains and losses in profit or loss be removed from paragraph 28.24?

(a) No—do not change the current requirements. Continue to allow an entity to recognise actuarial gains and losses either in profit or loss or in other comprehensive income as an accounting policy election.

(b) Yes—revise the IFRS for SMEs so that an entity is required to recognise all actuarial gains and losses in other comprehensive income (ie removal of profit or loss option in paragraph 28.24).

(c) Other—please explain.

Please provide reasoning to support your choice of (a), (b) or (c). Note: IAS 19 (revised 2011) made a number of other changes to full IFRSs. However, because Section 28 was simplified from the previous version of IAS 19 to reflect the needs of users of SME financial statements and cost-benefit considerations, the changes made to full IFRSs do not directly relate to the requirements in Section 28.

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.

Question S16- Approach for accounting for deferred income taxes (Section 29)

Should SMEs recognise deferred income taxes and, if so, how should they be recognised?

(a) Yes—SMEs should recognise deferred income taxes using the temporary difference method (the approach currently used in both the IFRS for SMEs and full IFRSs).

(b) Yes—SMEs should recognise deferred income taxes using the timing difference method.

(c) Yes—SMEs should recognise deferred income taxes using the liability method.

(d) No—SMEs should not recognise deferred income taxes at all (ie they should use the taxes payable method), although some related disclosures should be required.

(e) Other—please explain.

Please provide reasoning to support your choice of (a), (b), (c), (d) or (e).

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).

Question S17- Consideration of IAS 12 exemptions from recognising deferred taxes and other differences under IAS 12 (Section 29)

Should Section 29 be revised to conform it to IAS 12, modified as appropriate to reflect the needs of the users of SME financial statements?

(a) No—do not change the overall approach in Section 29.

(b) Yes—revise Section 29 to conform it to the current IAS 12 (modified as appropriate for SMEs).

(c) Other—please explain.

Please provide reasoning to support your choice of (a), (b) or (c).

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.

Question S18- Rebuttable presumption that investment property at fair value is recovered through sale (Section 29)

Should Section 29 be revised to incorporate a similar exemption from paragraph 29.20 for investment property at fair value?

(a) No—do not change the current requirements. Do not add an exemption in paragraph 29.20 for investment property measured at fair value.

(b) Yes—revise Section 29 to incorporate the exemption for investment property at fair value (the approach in IAS 12).

(c) Other—please explain.

Please provide reasoning to support your choice of (a), (b) or (c).

Note: please answer this question regardless of your answer to questions S16 and S17 above.

In order to simplify the rules for SMEs, we believe that it is necessary to revise Section 29 to incorporate the exemption for investment property at fair value.

Question S19- Inclusion of additional topics in the IFRS for SMEs

Are there any topics that are not specifically addressed in the IFRS for SMEs that you think should be covered (ie where the general guidance in paragraphs 10.4–10.6 is not sufficient)?

(a) No.

(b) Yes (please state the topic and reasoning for your response).

Note: this question is asking about topics that are not currently addressed by the IFRS for SMEs. It is not asking which areas of the IFRS for SMEs require additional guidance. If you think more

guidance should be added for a topic already covered by the IFRS for SMEs, please provide your comments in response to question S20.

We are not aware of any additional topics.

Question S20- Opportunity to add your own specific issues

Are there any additional issues that you would like to bring to the IASB's attention on specific requirements in the sections of the IFRS for SMEs?

(a) No.

(b) Yes (please state your issues, identify the section(s) to which they relate, provide references to paragraphs in the IFRS for SMEs where applicable and provide separate reasoning for each issue given).

We do not have any issues we want to bring to the IASB's attention.

Question G1- Consideration of minor improvements to full IFRSs

How should the IASB deal with such minor improvements, where the IFRS for SMEs is based on old wording from full IFRSs?

(a) Where changes are intended to improve requirements in full IFRSs and there are similar wordings and requirements in the IFRS for SMEs, they should be incorporated in the (three-yearly) omnibus exposure draft of changes to the IFRS for SMEs.

(b) Changes should only be made where there is a known problem for SMEs, ie there should be a rebuttable presumption that changes should not be incorporated in the IFRS for SMEs.

(c) The IASB should develop criteria for assessing how any such improvements should be incorporated (please give your suggestions for the criteria to be used).

(d) Other—please explain.

Please provide reasoning to support your choice of (a), (b), (c) or (d).

As said above, 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.

Question G2- Further need for Q&As

Do you believe that the current, limited programme for developing Q&As should continue after this comprehensive review is completed?

(a) Yes—the current Q&A programme should be continued.

(b) No—the current Q&A programme has served its purpose and should not be continued.

(c) Other—please explain.

Please provide reasoning to support your choice of (a), (b) or (c).

We agree with the EFRAG's view.

Question G3- Treatment of existing Q&As

Should the Q&As be incorporated into the IFRS for SMEs?

(a) Yes—the seven final Q&As should be incorporated as explained above, and deleted.

(b) No—the seven final Q&As should be retained as guidance separate from the IFRS for SMEs.

(c) Other—please explain.

Please provide reasoning to support your choice of (a), (b) or (c).

We agree with the EFRAG's view.

Question G4- Training material

Do you have any comments on the IFRS Foundation's IFRS for SMEs training material available on the link above?

(a) No.

(b) Yes (please provide your comments).

Not used.

Question G5- Opportunity to add any further general issues

Are there any additional issues you would like to bring to the IASB's attention relating to the IFRS for SMEs?

(a) No.

(b) Yes (please state your issues and provide separate reasoning for each issue given).

No, there aren't.

Question G6- Use of IFRS for SMEs in your jurisdiction

1 What is your country/jurisdiction?

2 Is the IFRS for SMEs currently used in your country/jurisdiction?

(a) Yes, widely used by a majority of our SMEs.

(b) Yes, used by some but not a majority of our SMEs.

(c) No, not widely used by our SMEs.

(d) Other (please explain).

3 If the IFRS for SMEs is used in your country/jurisdiction, in your judgement what have been the principal benefits of the IFRS for SMEs?

(Please give details of any benefits.)

4 If the IFRS for SMEs is used in your country/jurisdiction, in your judgement what have been the principal practical problems in implementing the IFRS for SMEs?

(Please give details of any problems.)

The IFRS for SMEs is not currently used in your country.

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

Yours sincerely,

Angelo Casò
(Chairman)