The Japanese Institute of
Certified Public Accountants
4-4-1, Kudan-Minami, Chiyoda-ku, Tokyo 102-8264 JAPAN
Phone: +81-3-3515-1128 Fax: +81-3-5226-3355
e-mail: kigyokaikei@jicpa.or.jp
http://www.hp.jicpa.or.jp/english/

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International Accounting Standards Board
Columbus Building, 7 Westferry Circus
Canary Wharf, London, E14 4HD
United Kingdom

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

To the Board Members:

The Japanese Institute of Certified Public Accountants ("we" and "our") appreciates the continued efforts of the International Accounting Standards Board on this project, and welcomes the opportunity to comment on the Request for Information *Comprehensive Review of the IFRS for SMEs Standard.*

It is essential for the IASB to consider whether and how the *IFRS for SMEs* Standard should be aligned with the full IFRS Standards in order to allow small and medium-sized entities (SMEs) to better serve users of financial statements without undue cost or effort. From that perspective, JICPA supports the IASB's effort to conduct comprehensive review of the *IFRS for SMEs* Standard.

JICPA generally supports the idea of aligning both principles and important definitions in the *IFRS for SMEs* Standard with those in full IFRS Standards. In terms of relevance to SMEs and simplicity, though, we believe the *IFRS for SMEs* Standard should consider further allowing simplifications to be applied to certain recognition and measurement requirements and replacing complex definitions with other definitions or explanations using simple language.

We agree with the Board applying the three principles (or 'alignment principles') to align the *IFRS for SMEs* Standard with the full IFRS Standards. That said, the IASB should consider whether or not it is necessary to explicitly state that the IFRS *Conceptual Framework* as well as 'Section 2 *Concepts and Pervasive Principles*' of the *IFRS for SMEs* Standard, which is supposed to align with the IFRS *Conceptual Framework* to certain extent, provide the basis for the development of the *IFRS for SMEs* Standard.

Furthermore, we suggest the alignment should basically focus on changes to IFRS Standards, amendments to IFRS Standards or IFRIC Interpretations that became effective before the publication date of the Request for Information. However, we also recommend the Board carefully consider the extent to which significant IFRS Standards should be incorporated for alignment purposes when post-implementation reviews (PIR) are not completed for those IFRS standards, including those for revenue recognition and leases.

Please see our responses to the Request for Information, including questions on aligning specific sections of the *IFRS for SMEs* Standard, in the following pages.

Part A—Strategic and general questions

G1 Alignment approach

The *IFRS for SMEs* Standard was originally developed using an alignment approach. That is, the Standard was based on the 1989 *Framework for the Preparation and Presentation of Financial Statements* and the principles and related requirements of full IFRS Standards, with modifications that were appropriate in the light of users' needs and cost-benefit considerations.

In considering how to approach this comprehensive review of the *IFRS for SMEs* Standard, the Board considered whether it should continue to follow the alignment approach or if the Board should only consider issues raised by stakeholders regarding the *IFRS for SMEs* Standard. The second approach would see the *IFRS for SMEs* Standard diverge from full IFRS Standards over time and become an independent Standard.

The Board's approach at the first stage of the review is to continue to align the principles in the *IFRS for SMEs* Standard with those in full IFRS Standards and to seek views on this approach.

This approach is discussed in paragraph 30 of part A of the Request for Information.

Question G1A

In your view, should the *IFRS for SMEs* Standard be aligned with full IFRS Standards?

Please explain why you are suggesting the *IFRS for SMEs* Standard should or should not be aligned with full IFRS Standards.

Comment:

JICPA believes that the *IFRS for SMEs* Standard should be aligned with full IFRS Standards.

However, we suggest that the *IFRS for SMEs* Standard should allow some kind of practical expedient for recognition and measurement requirements. Also, we expect the *IFRS for SMEs* Standard will significantly reduce the burden of disclosures when compared to full IFRS Standards.

Reason:

- Even though the *IFRS for SMEs* Standard is developed for SMEs, it is a standard that is applied around the globe with a need to maintain comparability for users, including lenders. Therefore, we believe basic principles of the *IFRS for SMEs* Standard should be consistent with full IFRS Standards.

- According to paragraphs 30 (b) and (d) of the Request for Information, the alignment is consistent with constituents' expectations that full IFRS Standards and the *IFRS for SMEs* Standard reflect the same principles, and it is also conducive to an entity potentially migrating, in time, to full IFRS Standards. As long as the *IFRS for SMEs* Standard uses the name 'IFRS Standard,' it is expected to keep the quality up to a certain level. In other words, we suggest the *IFRS for SMEs* Standard align with full IFRS Standards to a certain degree in order to protect the IFRS brand.

- Having that said, the alignment principles in G2 include relevance to SMEs and simplicity, implicating that an alignment of precise wording is not required between the standards. Although basic principles should align with full IFRS Standards, we suggest that the *IFRS for SMEs* Standard allow some kind of practical expedient for recognition and measurement requirements. Particularly, disclosures should be simplified to a considerable degree.

Question G1B

What extent of alignment of the *IFRS for SMEs* Standard with full IFRS Standards do you consider most useful, and why?

(a) alignment of principles;

(b) alignment of both principles and important definitions; or

(c) alignment of principles, important definitions and the precise wording of requirements?

Please explain the reasoning that supports your choice of (a), (b) or (c).

Comment:

JICPA supports option (b).

However, when an important definition is structured based on complex and abstract concepts, we recommend such definition, even though it may be important, should be able to be replaced with other definitions using simple language, while retaining objectives of the original definition.

Reason:

- In comparison with full IFRS Standards, the *IFRS for SMEs* Standard has been developed by simplifying recognition and measurement requirements, making reductions in the number of disclosures required and simplifying language. This policy should be maintained throughout the second comprehensive review. Although we are aware of significant inconsistencies in some areas, such as capitalisation of development costs and amortisation of goodwill, we have to live with inconsistencies to certain extent, given that the *IFRS for SMEs* Standard needs to be useful for SMEs at the same time.

- With that in mind, option (c) seems too much as a requirement for SMEs, and the cost of implementing option (c) may outweigh expected benefits. Option (a) also seems to be insufficient as a requirement, given that certain terms, including the term 'IFRS,' should be consistent among standards in order to protect the IFRS brand. We suggest important definitions should also be aligned with full IFRS Standards.

- At the same time, we understand that there are important definitions structured based on complex and abstract concepts, such as definitions related to 'performance obligations' and 'leases.' We highly recommend that the Board consider replacing such complex definitions with other definitions or explanations using simple language, while retaining the objective of the original definition.

G2 Alignment principles

The Board decided that in assessing whether and how to consult on aligning the *IFRS for SMEs* Standard with full IFRS Standards not currently included in the *IFRS for SMEs* Standard, the Board would apply three principles:

(a) relevance to SMEs;

(b) simplicity; and

(c) faithful representation.

These principles are discussed in paragraphs 32– 37 of part A of the Request for Information.

Question G2

In your view, do these principles provide a framework to assist in determining whether and how the *IFRS for SMEs* Standard should be aligned with full IFRS Standards?

Please explain the reasoning that supports your response.

Comment:

We support the Board's decision to apply the three principles. We further recommend that the Board consider whether or not the following needs to be considered in developing the *IFRS for SMEs* Standard:

・Explicitly state that the IFRS *Conceptual Framework* as well as 'Section 2 *Concepts and Pervasive Principles*' of the *IFRS for SMEs* Standard, which is supposed to align with the IFRS *Conceptual Framework* to certain extent (which also should be clarified in the *IFRS for SMEs* Standard), provide the basis for the development of the *IFRS for SMEs* Standard.

Reason:

The three principles seem to be reasonable as an approach to align with full IFRS Standards; however, the Board should additionally consider the following:

・The relationship is not clear between the three principles and certain concepts set out both in the IFRS *Conceptual Framework* and 'Section 2 *Concepts and Pervasive Principles*' of the *IFRS for SMEs* Standard. Such concepts include 'objectives' and 'qualitative characteristics.' In developing the *IFRS for SMEs* Standard, we believe priority should be given to the concepts set out in IFRS Standards and the *IFRS for SMEs* Standard (including the concepts of 'objective of financial statements of small and medium-sized entities' and 'undue cost or effort' added to the *IFRS for SMEs* Standard). The three principles should rather be put into context as a basis when aligning concepts between the standards.

G3 When to consider alignment If the alignment approach is maintained there needs to be an agreed approach as to how soon after an IFRS Standard, an amendment to an IFRS Standard, or an IFRIC Interpretations is issued the Board should consider that change for incorporation into the *IFRS for SMEs* Standard.
Question G3 Three possible dates for when to consider alignment are discussed in paragraphs 38–40 of part A of the Request for Information. Which, if any, of these possible dates do you prefer? Those IFRS Standards, amendments to IFRS Standards or IFRIC Interpretations: (a) issued up to the publication date of the Request for Information; (b) effective before the publication date of the Request for Information;

(c) effective and on which the post-implementation review was completed before the publication date of the Request for Information; or

(d) issued or effective on some other date (please specify).

Please explain the reasoning that supports your views, for example, the benefits of the date selected.

Comment:

We prefer option (b) as a date for when to consider alignment.

However, when the Board has not completed the post-implementation review for new IFRS standards (particularly the major ones, including those related to revenue recognition and leases), we recommend the Board carefully consider the extent to which full IFRS Standards should be incorporated into the *IFRS for SMEs* Standard for alignment purposes.

Reason:

・We understand that the issue of when to consider alignment between the standards has already been assessed in the first comprehensive review. We cannot find a good enough reason to go through another assessment, given that one of the purposes of the *IFRS for SMEs* Standard is to bring in stability for SMEs' practice. Thus, we recommend the Board take option (b) into consideration.

・Although the latest version of the full IFRS Standards is deemed to have the highest quality, we understand certain IFRS Standards that became effective over the last few years are sometimes complex, covering a wide range (e.g. IFRS 9 *Financial Instruments*, IFRS 15 *Revenue from Contracts with Customers*, IFRS 16 *Leases*). In such cases, a number of interpretation issues still arise even after the application of full IFRS Standards. This indicates certain IFRS Standards are far from being applied steadily.

・Moreover, a number of practical issues related to the implementation of new IFRS Standards are brought up to Transition Resource Groups (TRG) and the IFRS Interpretations Committee, occasionally leading to amendments to IFRS Standards (e.g. IFRS 11 *Joint Arrangements*, IFRS 15, IFRS 17 *Insurance Contracts*).

・Accordingly, although we prefer option (b) 'IFRS Standards effective before the publication date of the Request for Information' as a date for when to consider alignment, we recommend the Board carefully consider the extent to which full IFRS Standards should be incorporated into the *IFRS for SMEs* Standard for new IFRS Standards on which the post-implementation review is not yet completed in terms of cost-benefit considerations. Instead of rushing into implementation, we suggest that those complex IFRS Standards should first go through post-implementation reviews. When the review result indicates that implementation costs are too high for certain IFRS requirements, we propose amending such requirements as necessary before incorporating them into the *IFRS for SMEs* Standard.

Part B—Questions on aligning specific sections of the *IFRS for SMEs* Standard

S1 Aligning Section 2 *Concepts and Pervasive Principles* of the *IFRS for SMEs* Standard with the 2018 *Conceptual Framework for Financial Reporting*

In developing the *IFRS for SMEs* Standard, the Board stated that the 1989 *Framework for the Preparation and Presentation of Financial Statements (1989 Framework)* provides the foundation for the *IFRS for SMEs* Standard as well as for full IFRS Standards. Section 2 is currently aligned with the *1989 Framework*.

The Board is seeking views on aligning Section 2 with the *Conceptual Framework for Financial Reporting* issued in 2018 *(2018 Conceptual Framework)*. This alignment would require amendments to other sections of the *IFRS for SMEs* Standard. For example, Section 17 *Property, Plant and Equipment* paragraph 17.4 uses the definition of 'asset' from Section 2.

Section 2 also includes the concept of 'undue cost or effort', a concept that is made available to an entity applying the *IFRS for SMEs* Standard in specified circumstances. The 2018 *Conceptual Framework* has no direct equivalent concept; however, the Board is seeking views on retaining the concept of 'undue cost or effort' in Section 2 because it provides a mechanism the Board can use to balance the costs and benefits of the requirements of the *IFRS for SMEs* Standard.

Question S1

What are your views on:

(a) aligning Section 2 with the *2018 Conceptual Framework*?

(b) making appropriate amendments to other sections of the *IFRS for SMEs* Standard?

(c) retaining the concept of 'undue cost or effort'?

Comment:

(a) In principle, we believe 'Section 2 *Concepts and Pervasive Principles*' of the *IFRS for SMEs* Standard should align with the *2018 Conceptual Framework*.

Given that the alignment comes with advantages and disadvantages, we recommend the Board carefully consider those disadvantages.

(b) Amendments should be made for items with significant discrepancies identified in accordance with the alignment principles.

That said, as mentioned at (a) above, we recommend the Board carefully consider disadvantages of the alignment.

(c) We support retaining the concept.

Reason:

(a) In general, we believe the *IFRS Conceptual Framework* should provide the basis for developing IFRS accounting standards, including the use of term 'IFRS Standard.' If full IFRS Standards refer to concepts that are different from the *IFRS for SMEs* Standard, including concepts of qualitative characteristics, the definition of assets or liabilities, recognition and measurement, such difference may cause confusion among users for their understanding.

That said, although we do support the alignment, it generally comes with advantages and disadvantages. Thus, we recommend the Board carefully consider those disadvantages at the same time.

・Advantage of the alignment

The *2018 Conceptual Framework* reintroduced the term 'stewardship' by explicitly stating it in the standard, and brought back the concept of 'prudence.' Section 2 of the *IFRS for SMEs* Standard explicitly refers to 'stewardship' as one of the objectives of financial statements of SMEs, and also retains 'prudence' as one of qualitative characteristics of information in financial statements. These indicate that certain discrepancies that use to exist between the *2010 Conceptual Framework*, in which 'stewardship' was not explicitly stated and 'prudence' was excluded, and Section 2 would be solved due to the alignment.

・Disadvantage of the alignment

On the other hand, certain deletions were made in the *2018 Conceptual Framework*. In detail, probability criterion and reliability criterion were deleted from the criteria for recognition and replaced them with 'relevance' and 'faithful representation' in the *2018 Conceptual Framework*. As the criteria for recognition in the *2018 Conceptual Framework* now seem to be more abstract compared to the *2010 Conceptual Framework*, we suggest that the Board should be careful in fully aligning the concepts in light of the alignment principle of 'simplicity.' Furthermore, while the *Conceptual Framework* does not override the full IFRS Standards, no such order of precedence is provided in the *IFRS for SMEs* Standard between 'Section 2 *Concepts and Pervasive Principles*' and other sections. With that in mind, a question arises as to how consistency can be maintained within the *IFRS for SMEs* Standard if probability criterion is deleted in Section 2 as in the *2018 Conceptual Framework*, but the same criterion is retained in Section 21 *Provisions and Contingencies*.

(b) In principle, we think it would be sufficient as long as important points in Section 2 are consistent with other sections in the *IFRS for SMEs* Standard in terms of bringing in stability for users of SMEs' financial statements. Given that such users often look into SMEs' financial statements for the purpose of collecting their investment and loans, they are primarily interested in obtaining a good understanding on SMEs' financial position rather than their earning power.

Although the order of precedence between Section 2 and Section 21 is unclear as stated in (a) above, if the probability criterion were deleted from Section 2 in order to align with the *2018 Conceptual Framework*, we still think it would be appropriate to retain the probability criterion in Section 21 in light of the alignment principle of 'simplicity.' This indicates that when aligning Section 2 with the *2018 Conceptual Framework,* the Board should be aware that it might not always be appropriate to make amendments to other sections of the *IFRS for SMEs* Standard.

(c) The cost constraint continues to be one of the significant concepts in full IFRS Standards under the revised *2018 Conceptual Framework*. Such concept is explicitly included in requirements for recognition and measurement. Hence, we do not recognise any changes in full IFRS Standards that would require amendments to the concept of 'undue cost or effort,' a specific concept for the *IFRS for SMEs* Standard.

S2 Aligning Section 9 *Consolidated and Separate Financial Statements* of the *IFRS for SMEs Standard* with IFRS 10 *Consolidated Financial Statements*

Section 9 of the *IFRS for SMEs* Standard establishes control as the basis for determining which entities are included in the consolidated financial statements. The definition of control in Section 9 is aligned with the definition of control from the superseded version of IAS 27 *Consolidated and Separate Financial Statements* and includes some of the guidance from the superseded SIC-12 *Consolidation—Special Purpose Entities.*

The Board is seeking views on aligning the definition of control in Section 9 with the definition in IFRS 10 *Consolidated Financial Statements* to provide a clearer principle and facilitate greater consistency among the financial statements of entities applying the *IFRS for SMEs* Standard. IFRS 10 sets out a single principle of control that applies to all investees.

The Board is also seeking views on retaining and updating the simplification in

paragraph 9.5 of the *IFRS for SMEs* Standard, which states that control is presumed to exist when the parent entity owns, directly or indirectly through subsidiaries, more than half the voting power of the entity.
Question S2A What are your views on: (a) aligning the definition of control in Section 9 with IFRS 10; and (b) retaining and updating paragraph 9.5 of the *IFRS for SMEs* Standard? *Further information on this question is provided in paragraphs B15–B24 of Appendix B of the Request for Information.*

Comment:

(a) JICPA agrees with aligning the definition of control if Section 9 is determined to be aligned with IFRS 10. However, we do not think precise wording needs to be aligned, given that the definition of control in IFRS 10 contains abstract concepts.

(b) We support the IASB's proposal to retain paragraph 9.5 of the *IFRS for SMEs* Standard, stating that control is presumed to exist when the parent owns more than half of the voting rights.

Reason:

(a) If Section 9 is to be aligned with IFRS 10, whose post-implementation review is currently in progress, we agree with aligning the definition of control stipulated in IFRS 10 because it is essential in determining the scope of consolidation. If there is any inconsistency in the definition, it could result in a low level of alignment between the standards, not only from a theoretical but also from a practical perspective.

For alignment purposes, we believe incorporating descriptions in paragraph 6 of IFRS 10 would be sufficient, given that the definition of control in IFRS 10 contains abstract concepts. In other words, we do not think the three factors in paragraph 7 need to be explained individually. Particularly, the concept in paragraph 7(c) can be simply substituted with the principal-agent application guidance under IFRS 10. As a reference, we have put the paragraphs of IFRS 10 below:

6. An investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

7. Thus, an investor controls an investee if and only if the investor has all the following:

(a) power over the investee (see paragraphs 10-14);

(b) exposure, or rights, to variable returns from its involvement with the investee (see paragraphs 15 and 16); and

(c) the ability to use its power over the investee to affect the amount of the investor's returns (see paragraphs 17 and 18).

(b) We understand that paragraph 9.5 of the *IFRS for SMEs* Standard would not significantly contradict with the concept of control in IFRS 10 and should be able to simplify the application without unreasonably undermining the benefit of application.

As stated in paragraph B23 of the Request for Information, a rebuttable presumption that the parent has control when it owns more than half of the voting rights represents a further simplification, which assists entities applying the *IFRS for SMEs* Standard, as such entities do not need to perform a complex review of other elements of the definition of control. We support the Board's argument in terms of the principle of 'simplification.'

In addition, paragraphs B38 to B50 of IFRS 10 discuss about cases when an investor can have power without a majority of the voting rights, including paragraph B42(a), which discusses about an investor's practical ability to control. We believe the *IFRS for SMEs* Standard need not align with paragraph B42(a) due to the following: it is not easy for application purposes; entities applying the *IFRS for SMEs* Standard would unlikely look into the size and dispersion of holding of the other vote holders when considering the scope of consolidation for their consolidated financial statements. At the same time, we suggest the *IFRS for SMEs* Standard should align with other IFRS 10 requirements related to contractual agreements.

S2B Investment entities

IFRS 10 requires an investment entity to measure an investment in a subsidiary at fair value through profit or loss and not consolidate such entity. The *IFRS for SMEs* Standard has no equivalent requirement.

Based on the definition of investment entity in IFRS 10 the Board considered that few entities eligible to apply the *IFRS for SMEs* Standard will also be investment entities. Consequently, the Board is seeking views on not introducing the requirement that an investment entity measure an investment in a subsidiary at fair value through profit or loss rather than consolidate such entities.

Question S2B

What are your views on not introducing the requirement that investment entities measure investments in subsidiaries at fair value through profit and loss?

Further information on this question is provided in paragraphs B25–B26 of Appendix B of the Request for Information.

Comment:

JICPA agrees with the IASB's view that few SMEs would be investment entities. That said, the Board should obtain sufficient evidence by seeking views on the Request for Information and an Exposure Draft before concluding there are actually few entities affected by the requirement.

S3 Aligning Section 11 *Basic Financial Instruments* and Section 12 *Other Financial Instrument Issues* of the *IFRS for SMEs* Standard with IFRS 9 *Financial Instruments*

In July 2014 the Board issued IFRS 9 *Financial Instruments*, completing its project to replace IAS 39 *Financial Instruments: Recognition and Measurement* with a principle-based Standard.

Classification and measurement of financial assets

IFRS 9 applies a principle-based approach to the classification of financial assets. Applying IFRS 9, when an entity initially recognises a financial asset, its classification is based on:

(a) the contractual cash flow characteristics of the financial asset; and

(b) the business model for managing the financial asset.

Section 11 of the *IFRS for SMEs* Standard provides a list of examples of basic financial instruments as well as the conditions a debt instrument must satisfy to qualify (that is to be classified) as a basic financial instrument and therefore be measured at amortised cost.

The Board's discussions on aligning the classification of financial assets included considering whether supplementing the list of examples in Section 11 with a principle based on their contractual cash flow characteristics would be helpful to entities in the circumstance in which a financial asset does not match the characteristics described in any of the examples.

Question S3A

What are your views on supplementing the list of examples in Section 11 with a principle for classifying financial assets based on their contractual cash flow characteristics?

Further information on this question is provided in paragraphs B27–B34 of Appendix B of the Request for Information.

Comment:

We agree with supplementing the list of examples in Section 11. Basic principles should align with IFRS 9.

Reason:

- As stated in paragraph B31 of the Request for Information, introducing a principle based on the contractual cash flow characteristics in IFRS 9 would provide a clear rationale for classifying financial assets and would certainly assist entities applying the *IFRS for SMEs* Standard.

- In accordance with the alignment principle of 'simplicity,' the classification of financial assets would certainly be simplified by removing the business model assessment from the IFRS 9 classification requirement and focusing on the contractual cash flow characteristics of the financial asset. This should be able to simplify the IFRS 9 classification, as the measurement of financial assets then will be classified into two types, either at amortised cost or FVPL, instead of three, including the FVOCI measurement (i.e. for debt instruments measured at fair value through other comprehensive income).

- When SMEs hold complex financial instruments, they are allowed to apply IFRS 9 depending on their economic conditions, given that the *IFRS for SMEs* Standard requires entities to fall back to IFRS 9.

S3B Impairment of financial assets

The current requirements for recognising and measuring impairment of financial assets measured at cost or amortised cost in the *IFRS for SMEs* Standard are based on IAS 39.

The impairment model in IAS 39 (an incurred loss model) may delay an entity's recognition of credit losses because an impairment test is not required until there is objective evidence of impairment. The impairment requirements in IFRS 9 addressed the problem of delayed recognition by requiring an entity to recognise expected credit losses. IFRS 9 includes a simplified approach to provide for lifetime expected credit losses for trade receivables, contract assets and lease receivables. The Board is seeking views on introducing the simplified approach into the *IFRS for SMEs* Standard.
Question S3B What is your view on aligning the *IFRS for SMEs* Standard with the simplified approach to the impairment of financial assets in IFRS 9? *Further information on this question is provided in paragraphs B35–B37 of Appendix B of the Request for Information.*

Comment:

Firstly, we would like to point out that credit unions and other financial institutions, as described in paragraph 1.3 of the *IFRS for SMEs* Standard, have public accountability and hence are not covered by the *IFRS for SMEs* Standard.

Consequently, it appears reasonable to introduce the simplified approach into the *IFRS for SMEs* Standard for the use of SMEs.

Reason:

- Most of the IFRS 9 requirements for the impairment of financial assets, other than the simplified approach, are for the use of financial institutions. In other words, all other entities in many cases are using the simplified approach. That said, we believe introducing the simplified approach should be sufficient for entities applying the *IFRS for SMEs* Standard on the basis of cost-benefit considerations.

S3C Hedge accounting

IFRS 9 includes new hedge accounting requirements that represent a major overhaul of hedge accounting and introduce significant improvements.

Section 12 sets out requirements for the types of hedging activities an entity applying the *IFRS for SMEs* Standard is likely to use to manage risks.

The Board decided to seek views on the need for Section 12 to provide hedge accounting requirements and to seek views on retaining the current requirements rather than aligning with IFRS 9.

Question S3C

(a) Do you consider Section 12 needs to include requirements on hedge accounting?

(b) If your answer is yes, what are your views on leaving the current requirements to address the needs of entities applying the Standard, rather than aligning Section 12 with IFRS 9?

(c) If your answer is no, please explain the reasons for your answer.

Comment:

(a) Yes.

(b) SMEs rarely hold complex derivative financial instruments. Thus, we believe retaining the current requirements would be sufficient for entities applying the *IFRS for SMEs* Standard.

S3D Using recognition and measurement requirements in IFRS Standards for financial instruments

The *IFRS for SMEs* Standard currently permits entities to opt to apply either:

(a) the requirements of both Sections 11 and 12 of the *IFRS for SMEs* Standard in full; or

(b) the recognition and measurement requirements of IAS 39 and the disclosure requirements of Sections 11 and 12.

In order to decide whether to amend the *IFRS for SMEs* Standard and permit an entity to opt to apply the recognition and measurement requirements of IFRS 9 and the disclosure requirements of Sections 11 and 12, the Board would like to obtain evidence on how frequently the option to apply IAS 39 is used.

Question S3D

(a) Are you aware of entities that opt to apply the recognition and measurement requirements of IAS 39 with the disclosure requirements of Sections 11 and 12?

(b) What are your views on changing the reference to IAS 39 to permit an entity to opt to apply the recognition and measurement requirements of IFRS 9 and the disclosure requirements of Sections 11 and 12?

Comment:

(a) We are not aware of such cases.

(b) We support changing the reference to IAS 39.

Paragraphs 11.2(b) and 12.2(b) of the *IFRS for SMEs* Standard should be replaced with 'recognition and measurement requirements of IFRS 9 and the disclosure requirements of Sections 11 and 12' in order to better align with the current IFRS Standards.

Reason:

(b) When SMEs do hold complex derivative financial instruments, we think it is appropriate for such SMEs to apply IFRS 9, instead of IAS 39. Accordingly, we recommend changing the reference from IAS 39 to IFRS 9 for recognition and measurement requirements. On the other hand, disclosure requirements of Sections 11 and 12 should be retained in the *IFRS for SMEs* Standard, given that those of IFRS 9 would be burdensome for SMEs.

S3E Treatment of Q&As on the *IFRS for SMEs* Standard

Since the 2015 *Amendments to the* IFRS for SMEs *Standard* were issued by the Board, the SMEIG has published one Q&A on *Accounting for financial guarantee contracts in individual or separate financial statements of the issuer* (Q&A 2017/12.1).

This comprehensive review provides an opportunity for the Q&A 2017/12.1 to be incorporated into the *IFRS for SMEs* Standard and for the Q&A to be withdrawn. The Board noted the SMEIG's recommendation that the Board revisit the accounting treatment for issued financial guarantee contracts during the second comprehensive review with a view to providing measurement relief. The SMEIG made this recommendation based on feedback that measuring issued financial guarantee contracts at fair value each reporting date is more complex than the accounting

requirements in IFRS 9. The Board is seeking views on aligning the accounting requirements in Section 12 for issued financial guarantee contracts with IFRS 9.
Question S3E What are your views on: (a) adding the definition of a financial guarantee contract from IFRS 9 to the *IFRS for SMEs* Standard; and (b) aligning the requirements in the *IFRS for SMEs* Standard for issued financial guarantee contracts with IFRS 9? *Further information on this question is provided in paragraphs B38–B45 of Appendix B of the Request for Information.*

Comment:

(a) JICPA does not see a problem adding the definition of a financial guarantee contract to the *IFRS for SMEs* Standard.

We are concerned that it would be too complex for SMEs to account for financial guarantee contracts, after initially measuring them at fair value, to be measured at the higher of the provision amount and the amount initially recognised less cumulative amount of income recognised in accordance with IFRS 15, as stipulated in paragraph 4.2.1(c) of IFRS 9. We believe it would be sufficient for entities applying the *IFRS for SMEs* Standard to record provision amount when guarantee performance becomes probable and a loss is expected to arise.

(b) We think it is appropriate.

S4 Aligning Section 15 *Investments in Joint Ventures* of the *IFRS for SMEs* Standard with IFRS 11 *Joint Arrangements* Section 15 of the *IFRS for SMEs* Standard is based on IAS 31 *Interests in Joint Ventures*, requiring entities that are jointly controlled to be classified as either jointly controlled operations, jointly controlled assets or jointly controlled entities. A significant difference between Section 15 and IAS 31 is that Section 15 does not permit proportionate consolidation for jointly controlled entities. In May 2011 the Board issued IFRS 11 *Joint Arrangements*, which replaced IAS 31. Applying IFRS 11, an entity classifies joint arrangements on the basis of the parties' rights and obligations under the arrangement. IFRS 11 changed the definitions and

requirements of IAS 31 and classifies arrangements as either joint operations or joint ventures.

The Board is seeking views on aligning the definition of joint control in Section 15 with the definition in IFRS 11 but retaining the three categories of joint arrangements—jointly controlled operations, jointly controlled assets and jointly controlled entities—in Section 15. Consequently, the accounting requirements of Section 15 would be retained.

Retaining these accounting requirements would include retaining the accounting policy election in Section 15 such that a venturer can choose to apply the cost model, the equity method or the fair value model to account for jointly controlled entities.

Question S4

What are your views on:

(a) aligning the definition of joint control in Section 15 with IFRS 11?

(b) retaining the categories of joint arrangements: jointly controlled operations, jointly controlled assets and jointly controlled entities?

(c) retaining the accounting requirements of Section 15, including the accounting policy election for jointly controlled entities in Section 15?

Further information on this question is provided in paragraphs B50–B54 of Appendix B of the Request for Information.

Comment:

We support the IASB's view on (a).
We also support (b) and (c).

Reason:

(a) If Section 15 is to be aligned with IFRS 11, the definition of joint control would be the key concept. That said, we do not recommend retaining the previous definition as it will only complicate the *IFRS for SMEs* Standard and cause unnecessary confusion in practice.

(b) and (c)
In applying IFRS 11, we have noticed the classification of arrangements as either joint operations or joint ventures is sometimes difficult in practice, but on the other hand, the accounting treatment based on the IFRS 11 classification ends up quite similar to

that based on the previous categories. Accordingly, we agree with the Board to retain the three categories of joint arrangements for the purpose of simplifying the *IFRS for SMEs* Standard.

S5 Aligning Section 19 *Business Combinations and Goodwill* of the *IFRS for SMEs* Standard with IFRS 3 (2008) *Business Combinations*

Section 19 of the *IFRS for SMEs* Standard is based on IFRS 3 (2004) *Business Combinations*, which applies the purchase method of accounting for business combinations.

The Board is seeking views on aligning Section 19 with parts of IFRS 3 (2008) to:

(a) introduce requirements for step acquisitions.

(b) recognise acquisition-related costs as an expense at the time of the acquisition.

(c) require contingent consideration to be recognised at fair value and subsequently accounted for as a financial instrument with changes in fair value recognised in profit or loss. The Board is also seeking views on permitting an entity to use the undue cost or effort exemption in paragraph 2.14A of the *IFRS for SMEs* and provide the related disclosures if measuring contingent consideration at fair value would involve undue cost or effort.

Question S5A

(a) Do you consider Section 19 needs to include requirements for the accounting for step acquisitions?

(b) If your answer is yes, should the requirements be aligned with IFRS 3 (2008).

Further information on this question is provided in paragraphs B55–B66 of Appendix B of the Request for Information.

Comment:

(a) Yes.

(b) Yes.

Although we do not see any inconvenience in applying the current accounting treatment, we still think the requirements should be aligned in pursuit of aligning the *IFRS for SMEs* Standard with the full IFRS Standards.

Reason:

- As stated in paragraph B60, introducing requirements for step acquisitions based on IFRS 3 (2008) into Section 19 would improve comparability and provide better-quality information to users. At the same time, any gain or loss arising from the accounting treatment does not involve cash flows. That being said, we recommend a thorough research be conducted by the Board to determine whether or not such information truly fulfill the needs of users of SMEs' financial statements of SMEs before introducing the requirements.

- In the Request for Information, the Board is seeking views on requirements for step acquisitions based on IFRS 3 (2008), but we also suggest considering a disposal of a subsidiary that results in a loss of control, as we understand that the parent is required to remeasure not only its previously held equity interest but also the remaining equity interest in its subsidiary. We also recommend the Board consider cases when there is an increase in equity interest after obtaining control or a decrease in equity interest without losing control. We understand that the accounting for such equity transactions is based on the amendments stipulated in IAS 27 (i.e. current IFRS 10), not IFRS 3; however, it does not appear to be covered in the comprehensive review of aligning Section 9 with IFRS 10. Given that both IFRS 3 and IFRS 10 are included in the scope of the comprehensive review, we are afraid that the above-mentioned accounting issues may never have a chance to be reviewed unless they are properly covered in this comprehensive review. We recommend the Board to include the accounting issues in its comprehensive review, although it does not mean it should be immediately aligned with full requirements of IFRS 10 requirements.

Question S5B

What are your views on aligning Section 19 with IFRS 3 (2008) for acquisition costs and contingent consideration, including permitting an entity to use the undue cost or effort exemption and provide the related disclosures if measuring contingent consideration at fair value would involve undue cost or effort?

Further information on this question is provided in paragraphs B55–B66 of Appendix B of the Request for Information.

Comment:

As M&A transactions take place quite often among SMEs, we recommend aligning

Section 19 with IFRS 3 (2008) with an option to use the exemption.

At the same time, the Board should incorporate the amendment to IFRS 3 in October 2018, aiming to clarify the definition of a business.

Reason:

- We support aligning the accounting treatment for acquisition-related costs with IFRS 3, because recognising such costs as an expense is fairly straightforward, requiring little cost for SMEs. On the other hand, the *IFRS for SMEs* Standard requires costs incurred for acquiring general assets to be capitalised. Thus, we recommend clarifying the difference between the accounting treatments in the *IFRS for SMEs* Standard. The definition of business in IFRS 3 prior to the October 2018 amendment was quite abstract and sometimes difficult for application purposes. However, thanks to the amendment, which simplified the accounting for the definition of business, we recommend incorporating the amended definition into the alignment at the same time.

- It is generally difficult to measure contingent consideration at fair value at the time of business combination and in subsequent periods. The implementation cost may even exceed the expected benefits. That said, we do not disagree with alignment as long as entities are permitted to use the 'undue cost or effort' exemption.

S5C Definition of a business

In October 2018 the Board issued an amendment to IFRS 3, effective for acquisitions on or after 1 January 2020, to improve consistency of application by clarifying the definition of a business. The amended definition emphasises that the output of a business is the goods and services it provides to customers; the previous definition defined outputs as having the ability to provide returns in the form of dividends, lower costs and other economic benefits to investors and others.

Question S5C

What are your views on aligning the IFRS for SMEs Standard with the amended definition of a business issued in October 2018?

Comment:

We support aligning with the amended definition of a business issued in October 2018.

Reason:

Although not within the scope of the post-implementation review of IFRS 3, the amendment was basically introduced to clarify and simplify the accounting treatment under IFRS 3. Compared to the previous definition, the amended definition seems to be able to reduce SMEs' additional costs in preparing financial statements. Hence, we recommend the amended definition of a business be brought forward and separately incorporated into the *IFRS for SMEs* Standard.

S6 Aligning Section 20 *Leases* of the *IFRS for SMEs* Standard with IFRS 16 *Leases*

In January 2016 the Board issued IFRS 16 *Leases.* IFRS 16 replaced IAS 17 *Leases* and became effective on 1 January 2019.

Section 20 of the *IFRS for SMEs* is based largely on IAS 17.

The Board noted that leases provide an important source of funding to SMEs and therefore decided to seek views on aligning Section 20 with IFRS 16, with simplifications. The requirements in IFRS 16 can be simplified so they are easier and less costly for SMEs to apply including by:

(a) simplifying recognition and measurement requirements in respect of matters such as variable lease payments, determining the discount rate and the term of the lease;

(b) retaining the disclosure requirements of Section 20; and

(c) simplifying the language in the Standard.

Question S6

What are your views on aligning Section 20 with IFRS 16, making the simplifications listed in paragraphs (a)–(c)?

Further information on this question is provided in paragraphs B67–B72 of Appendix B of the Request for Information.

Comment:

It seems too early to align Section 20 with IFRS 16. We strongly suggest the alignment should be considered only after the post-implementation review of IFRS 16.

In addition to the items described in S6, we believe other items should also be considered for their simplifications, including identifying leases. The IASB should first identify IFRS 16 issues in a more comprehensive manner before pursuing simplifications in Section 20.

We also highly recommend the IASB to conduct further research and obtain information on listed companies that already went through the application of IFRS 16.

Reason:

- Since IFRS 16 became effective in January 2019, various application issues have arisen and been discussed by the IFRS Interpretations Committee. Moreover, we are concerned that a wide range of alingments proposed by the IASB in this comprehensive review may cause practical difficulties in the application of the *IFRS for SMEs* Standard. Therefore, we strongly recommend that the alignment with IFRS 16 should be excluded from the scope of review this time. Instead, the IASB should consider the alignment in the next comprehensive review after the post-implementation review of IFRS 16.

- If the Board ever decides to proceed with the alignment, we are sure there would be certain IFRS 16 requirements that are difficult to be applied with too much practical burden. Such requirements include possible simplifications proposed in paragraph B71, such as those related to discount rates, lease term, and subsequent measurement, as well as the requirements for identifying leases. Moreover, we expect it would be difficult to determine how such requirements could be simplified in detail for SMEs. Accordingly, we recommend excluding IFRS 16 from the second comprehensive review, unless a sufficiently simplified approach can be introduced into the *IFRS for SMEs* Standard.

S7 Aligning Section 23 *Revenue* of the *IFRS for SMEs* Standard with IFRS 15 *Revenue from Contracts with Customers*

Section 23 of the *IFRS for SMEs* Standard is based on IAS 18 *Revenue*. IAS 18 provided relatively limited principles for the recognition of revenue from the supply of goods or services.

IFRS 15, effective from 1 January 2018, replaced IAS 18 and set out a more structured framework based on performance obligations and the timing of their satisfaction. The main distinction it makes is between performance over time and performance at a point in time, rather than between goods and services.

The Board considered that although there are substantive conceptual differences between IAS 18 and IFRS 15, the effect in practice for most entities in the scope of the *IFRS for SMEs* Standard would be minimal in terms of the timing and measurement of revenue. However, some feedback indicates that aligning principles and language

would be helpful for preparers who seek consistency with IFRS Standards. The Board is seeking views on the merits of three possible approaches to aligning Section 23 with IFRS 15: (a) Alternative 1—modifying Section 23 to remove the clear differences in outcome from applying Section 23 or IFRS 15, without wholly reworking Section 23; (b) Alternative 2—fully rewriting Section 23 to reflect the principles and language used in IFRS 15; and (c) Alternative 3—deciding not to make amendments to Section 23 as part of this comprehensive review.
Question S7A Which of the three alternatives do you prefer for amending Section 23 to align with IFRS 15? Why have you chosen this alternative? *Further information on this question is provided in paragraphs B73–B74 of Appendix B of the Request for Information.*

Comment:

We support Alternative 3.

We suggest the alignment with IFRS 15 should be considered only after the post-implementation review of IFRS 15 is completed.

Should the *IFRS for SMEs* Standard be aligned with the principles of IFRS 15 to seek alignment with full IFRS Standards, we recommend the Board to consider including practical expedient in the *IFRS for SMEs* Standard.

Reason:

JICPA does not agree with Alternatives 1 and 2 due to the following reasons:

- Alternative 1: 'Transfer of control' is the core principle of IFRS 15. And without incorporating the very principle, we wonder how it is possible to comprehensively modify Section 23 to remove differences in outcome from applying the *IFRS for SMEs* Standard or IFRS 15. Based on IAS 18, Section 23 takes into consideration the transfer of risks and rewards, which may lead to different outcomes between the standards. For example, when a customer has a right of return, it may result in different outcomes by taking different approaches between the transfer of risks and rewards approach and the transfer of control approach. Further, if the IASB is seeking an alignment with full IFRS Standards going forward, we doubt whether patchwork type of modifications would be sufficient from that perspective, too.

・Alternative 2: IFRS 15 just recently became applicable for annual periods beginning on or after 1 January 2018, and its post-implementation review is not yet due. With that in mind, we believe it is too early to align Section 23 with the principles and language used in IFRS 15.

Although two years have passed since IFRS 15 became effective, there are certain concepts and application guidance within IFRS 15 that are abstract and difficult to understand, including 'performance obligation,' 'contract assets and contract liabilities,' 'variable consideration,' and 'licensing.' Some application issues related to IFRS 15 are covered and discussed by the IFRS Interpretations Committee. Furthermore, given that the effect is expected to be minimal for applying the *IFRS for SMEs* Standard based on IAS 18, except for long-term contracts, we believe the alignment can be postponed without causing significant issues until the Board completes the post-implementation review of IFRS 15.

S7B The Board also discussed whether to provide transition relief, if Alternative 1 or Alternative 2 is chosen, by permitting an entity to continue its current revenue recognition policy for any contracts already in progress at the transition date or scheduled to be completed within a set time after the transition date.

Question S7B

If Alternative 1 or Alternative 2 is the basis for an Exposure Draft, should transitional relief be provided:

(a) by permitting an entity to continue its current revenue recognition policy for any contracts already in progress at the transition date or scheduled to be completed within a set time after the transition date?

(b) by some other method?

(c) not at all?

Please explain why you have chosen (a), (b) or (c) above.

Comment:

If Alternative 1 or Alternative 2 is the basis for an Exposure Draft, we support (b), suggesting transitional relief be provided by some other method (i.e. by introducing various simplifications).

Reason:

As commented in S7A above, we recommend considering the alignment with IFRS 15 after the post-implementation review of IFRS 15 is completed. However, if the alignment is going to take place before the post-implementation review, we suggest the IASB provide a transitional relief to the extent possible to lessen the burden on SMEs.

Should Section 23 be aligned with the principles of IFRS 15 in the future, we suggest the IASB provide various simplifications on top of transitional relief. In detail, we recommend referring to various simplifications that have been made in Japanese GAAP and US GAAP.

S8 Aligning Section 28 *Employee Benefits* of the *IFRS for SMEs* Standard with IAS 19 (2011) *Employee Benefits*

In 2011 the Board issued amendments to IAS 19 *Employee Benefits* that changed the requirements for presenting actuarial gains and losses relating to defined benefit plans.

Paragraph 28.24 of the *IFRS for SMEs* Standard permits an entity to select a policy for the presentation of actuarial gains and losses. The Board's view is this simplification is appropriate for entities applying the *IFRS for SMEs* Standard.

The 2011 amendments to IAS 19 also clarified that termination benefits should be recognised at the earlier of:

(a) when the entity can no longer withdraw those benefits; and

(b) when any related restructuring costs are recognised.

The Board is seeking views on aligning the recognition requirements for termination benefits in Section 28 with those in IAS 19.

Question S8

What are your views on aligning Section 28 with the 2011 amendments to IAS 19 only in respect of the recognition requirements for termination benefits?

Further information on this question is provided in paragraphs B75–B78 of Appendix B of the Request for Information

Comment:

We support aligning Section 28 with the 2011 amendments to IAS 19 only in respect of the recognition requirements in IAS 19.

Reason:
Given that IAS 19 has also not completed its post-implementation review yet, we basically think the alignment should be pursued after the post-implementation review. However, if the alignment is planned only for the recognition requirements, we do not disagree with the alignment, as long as the Board takes a fairly simplified approach.

S9 Aligning the *IFRS for SMEs* Standard with IFRS 13 *Fair Value Measurement*
The *IFRS for SMEs* Standard requires the use of fair value and thereby includes a definition of fair value. Paragraphs 11.27–11.32 of the *IFRS for SMEs* Standard set out requirements for estimating fair value and are also referred to in other sections of the *IFRS for SMEs* Standard, for example, Sections 14 and 15 (regarding the fair value model for associates and jointly controlled entities), Section 16 (regarding investment property) and Section 28 (regarding the fair value of pension plan assets). The definition of fair value and the requirements to estimate fair value are not aligned with IFRS 13. In the first comprehensive review of the *IFRS for SMEs* Standard, the Board consulted on aligning the definition of fair value, but decided to wait, because IFRS 13 had only recently become effective. The Board completed its post-implementation review of IFRS 13 in December 2018 and concluded that the Standard is working as intended. The Board is seeking views on aligning the *IFRS for SMEs* Standard with IFRS 13 and including the illustrative examples in the Standard. This change would not add new requirements for the use of fair value measurement.
Question S9 What are your views on: (a) aligning the definition of fair value in the *IFRS for SMEs* Standard with IFRS 13? (b) aligning the guidance on fair value measurement in the *IFRS for SMEs* Standard with IFRS 13 so the fair value hierarchy incorporates the principles of the fair value hierarchy set out in IFRS 13? (c) including examples that illustrate how to apply the hierarchy? (d) moving the guidance and related disclosure requirements to Section 2?

Further information on this question is provided in paragraphs B79–B83 of Appendix B of the Request for Information.

Comment:

We agree with the IASB's positions on (a) to (d).

We believe it is unnecessary to require disclosing the level in the hierarchy at which fair value measurements are made and thus strongly support the IASB decision in June 2019 not to seek views in the Request for Information on requiring that disclosure.

S10 Aligning multiple sections of the *IFRS for SMEs* Standard for amendments to IFRS Standards and IFRIC Interpretations

The Board is seeking views on whether and how to align the *IFRS for SMEs* Standard with the amendments to IFRS Standards and IFRIC Interpretations set out in Appendix A of the Request for Information.

In aligning the *IFRS for SMEs* Standard with amendments to IFRS Standards and IFRIC Interpretations the Board would introduce simplifications and language appropriate to the *IFRS for SMEs* Standard.

Appendix A groups the amendments to IFRS Standards and IFRIC Interpretations using the following tables:

Table A1–Amendments to IFRS Standards—Board is seeking views on aligning the *IFRS for SMEs* Standard;

Table A2–Amendments to IFRS Standards—Board is seeking views on leaving the *IFRS for SMEs* Standard unchanged;

Table A3–Amendments to IFRS Standards and IFRIC Interpretations and—Board is requesting further information on whether to align the *IFRS for SMEs* Standard;

Table A4–Amendments to IFRS Standards—Board will consider along with the full IFRS Standards they amend; and

Table A5–Amendments to IFRS Standards with which the *IFRS for SMEs* Standard is already aligned.

Question S10

What are your views on:

(a) aligning the *IFRS for SMEs* Standard with the amendments to IFRS Standards outlined in Table A1 of Appendix A?

(b) leaving the *IFRS for SMEs* Standard unchanged by the amendments to IFRS Standards listed in Table A2 of Appendix A? (c) whether to align the *IFRS for SMEs* Standard with the amendments to IFRS Standards and IFRIC Interpretations listed in Table A3 of Appendix A? Please explain your views and provide any relevant information in support of your views.

Comment:

(a) No comment provided.

(b) No comment provided.

(c) We suggest simplifying IAS12/IFRIC23 before incorporating them in the *IFRS for SMEs* Standard.

- Assuming Section 2 will be aligned with the *2018 Conceptual Framework*, IFRIC 21 should not be included in the alignment. This is because the guidance on liabilities in the *2018 Conceptual Framework* (i.e. the 'no practical ability to avoid' criteria) does not align with requirements in IFRIC 21.

- If the FVOCI measurement category is not introduced for debt instruments, we think 'Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12)' need not be considered.

Reason:

Our proposal is based on the alignment principles.

Part C—Questions on new topics and other matters related to the *IFRS for SMEs* Standard

N1 Aligning the *IFRS for SMEs* Standard with IFRS 14 *Regulatory Deferral Accounts*
The Board issued IFRS 14 *Regulatory Deferral Accounts* in January 2014. IFRS 14 addresses regulatory deferral account balances that arise when an entity provides goods or services to customers at a price or rate that is subject to rate regulation. The *IFRS for SMEs* Standard has no section that corresponds to IFRS 14. Entities applying the *IFRS for SMEs* Standard cannot recognise regulatory deferral account balances if these balances would not be permitted or required to be recognised by other sections of the *IFRS for SMEs* Standard. Entities subject to rate regulation may be in the scope of the *IFRS for SMEs* Standard and hence the topic may be relevant. The Board, however, has an active project on Rate-regulated Activities which could lead to the replacement of IFRS 14. Consequently, the Board's view is it should not, as part of this comprehensive review, amend the *IFRS for SMEs* Standard to align with IFRS 14.
Question N1
What are your views on not aligning the IFRS for SMEs Standard with IFRS 14, that is, not including requirements for regulatory deferral account balances within the IFRS for SMEs Standard?

Comment:
We agree with the IASB, assuming that regulatory deferral accounts would arise in very few SMEs.

N2 Cryptocurrency
The Board would like to gather information about the prevalence of holdings of cryptocurrency and issues of cryptoassets among entities eligible to apply the *IFRS for SMEs* Standard. Obtaining this information will help the Board decide whether the *IFRS for SMEs* Standard should address the accounting for holdings of cryptocurrency and issues of cryptoassets.
Question N2
Are holdings of cryptocurrency and issues of cryptoassets prevalent (that is, are there material holdings among entities eligible to apply the *IFRS for SMEs* Standard) in

your jurisdiction?

Further information on this question is provided in paragraphs B85–B86 of Appendix B of the Request for Information.

Comment:

We think the accounting for cryptocurrency goes beyond the scope of the *IFRS for SMEs* Standard, because in certain jurisdictions, issuing cryptocurrency might make an entity publicly accountable. We recommend that the Board first consider how to incorporate the topic in the IFRS Standards.

N3 Defined benefit plans—simplifications allowed in measuring the defined benefit obligation

Section 28 *Employee Benefits* of the *IFRS for SMEs* Standard allows an entity to apply simplifications in measuring a defined benefit obligation if the entity is unable, without undue cost or effort, to use the projected unit credit method. Paragraph 28.19 of the *IFRS for SMEs* Standard allows an entity to ignore estimated future salary progression, the effect of future service and death in service.

The Board has received feedback that some preparers are uncertain about how to apply the simplifications.

To decide whether to clarify how to apply the simplifications in paragraph 28.19, the Board would like to know how frequently the simplifications are applied and whether constituents experience difficulties in applying them.

Question N3

Are you aware of entities applying the simplifications allowed by paragraph 28.19 of the *IFRS for SMEs* Standard? If so, are you aware of difficulties arising in applying the simplifications? Please include a brief description of the difficulty encountered in applying the simplification.

Comment:

No comment provided.

N4 Other topics not addressed by the *IFRS for SMEs* Standard

The Board intended that the 35 sections in the *IFRS for SMEs* Standard would cover the kinds of transactions, events and conditions typically encountered by most SMEs.

The Board also provided guidance on how an entity's management should exercise judgement in developing an accounting policy in a case in which the *IFRS for SMEs* Standard does not specifically address a topic (see paragraphs 10.4–10.6 of the *IFRS for SMEs* Standard).

Note: *this question is asking about topics that the* IFRS for SMEs *Standard does not address. It is not asking for areas of the* IFRS for SMEs *Standard for which additional guidance is required. If you think more guidance should be added for a topic already covered by the* IFRS for SMEs *Standard, please provide your comments in response to question N5.*

Question N4

Are there any topics the *IFRS for SMEs* Standard does not address that you think should be the subject of specific requirements (for example, topics not addressed by the Standard for which the general guidance in paragraphs 10.4–10.6 of the *IFRS for SMEs* Standard is insufficient)?

Comment:
No comment provided.

Question N5

Please describe any additional issues you would like to bring to the Board's attention relating to the *IFRS for SMEs* Standard.

Comment:
No comment provided.

Yours faithfully,

Takako Fujimoto
Executive Board Member — Business Accounting Standards and Practice/Corporate Disclosure
The Japanese Institute of Certified Public Accountants