COMITÊ DE PRONUNCIAMENTOS CONTÁBEIS

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Reference: Request for Information – Comprehensive Review of the IFRS for SMEs Standard

The Comitê de Pronunciamentos Contábeis - CPC (Brazilian Accounting Pronouncements Committee)[1]welcomes the opportunity to respond to theRequest for Information Comprehensive Review of the IFRS for SMEs Standard.

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

If you have any questions about our comments, please do not hesitate to contact us at operacoes@cpc.org.br.

Yours sincerely,

Rogério Lopes Mota
Chair of International Affairs
Comitê de Pronunciamentos Contábeis (CPC)

[1]The Brazilian Accounting Pronouncements Committee (CPC) is a standard-setting body engaged in the study, development and issuance of accounting standards, interpretations and guidances for Brazilian companies. Our members are nominated by the following entities: ABRASCA (Brazilian Listed Companies Association), APIMEC (National Association of Capital Market Investment Professionals and Analysts), B3 (Brazilian Stock Exchange and Mercantile & Future Exchange), CFC (Federal Accounting Council), FIPECAFI (Financial and Accounting Research Institute Foundation) and IBRACON (Brazilian Institute of Independent Auditors).

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Part A—Strategic and general questions

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.

CPC's response:

The IFRS for SMEs Standard should be aligned with full IFRS Standards because theConceptual Framework and the objectives of the financial statements do not change depending on the type of entity that prepares the financial statements. So, the CPC believes that Alignment Approach isparticularly important, mainly because the IFRS for SMEs will be aligned considering the follow principles: relevance to SMEs, simplicity; and faithful representation.

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).

***CPC's* response:**

Under the CPC's view, according to answer to Question G1A, would be most useful the alignment of both principles and important definitions (letter b). The reasoning that supports CPC's response are:

- The IFRS for SMEs Standard just simplifies recognition and measurement requirements, makes reductions in the number of disclosures required and simplifies language, therefore, the alignment results in financial statements prepared under the IFRS for SMEs that are comparable with those prepared under full IFRS;
- The principle of simplicity should not damage the quality of information and the outcomes obtained must faithfully represent the transactions and events in words and numbers; and
- The alignment makes it easier for an entity applying the IFRS for SMEs to migrate to full IFRS.

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.

CPC's response:

CPC agrees that these principles (relevance to SMEs, simplicity; and faithful representation) provide a framework to assist in determining whether and how the IFRS for SMEs Standard should be aligned with full IFRS Standards. The reasoning that supports CPC's response are the same in the answers to the questionsG1A and G1B (above), because the SMEs, in general, have less complex information demands, but this cannot imply in accounting information (about economic phenomenon) without faithful representation or in misalignment with the Conceptual Framework.

Question G3:

Three possible dates for when to consider alignment are discussed inparagraphs 38–40 of this part 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 completedbefore the publication date of the Request for Information; or
(d) issued or effective on some other date (please specify).

Please explain the reasoning.

CPC's response:

In the CPC view, the alignment is appropriate when the IFRSStandards, amendments to IFRS Standards and IFRIC Interpretations are effective before the publication date of the Request for Information.

This response is justified because (a) some topics in full IFRS Standards are not relevant to the typical SMEs, (b) some accounting policy options in full IFRS Standards are not allowed to SMEs because a simplified method is available in the IFRS for SMEs Standard, and (d) many of the recognition and measurement principles in full IFRS Standards have been simplified, so, the results of post-implementation review (PIR) of an IFRS Standards couldn't be relevant to the IFRS for SMEs Standard. Besides, the material amendments made after a post-implementation review is rare.

Part B—Questions on aligning specific sections of theIFRS 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'?

CPC's response:

In the CPC view, the IFRS for SMEs' Section 2 should be aligned with the 2018 Conceptual Framework, making appropriate amendments to other sections of the IFRS for SMEs Standard.Despite the 2018 Conceptual Framework has no direct equivalent concept of 'undue cost or effort', it has the topic "The cost constraint on useful financial reporting" (paragraphs 2.39 to 2.43). So, the CPC believes that it is enough to retaining the concept because in the paragraph 2.43 of the 2018 Conceptual Framework states:*"That does not mean thar assessments of costs and benefits always justify the same reporting requirements for all entities. Differences may be appropriate because of different sizes of entities, different way of raising capital (publicly or privately), different users' needs or other factors"*.

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?

CPC's response:

The CPC understands that the definition of control in Section 9 of the IFRS for SMEs Standard should be alignedwith the definition in IFRS 10 (Consolidated Financial Statements) to provide a clearerprinciple and facilitate greater consistency among the financial statements ofentities applying the IFRS for SMEs Standard. In CPC's view, the paragraph 9.5 of the IFRS for SMEs Standard contains just examples of rights that give an investor power over an investee. So, CPC's suggestion is that a rebuttable presumption that the parent has control when it directly or indirectly owns more than half of the voting rights is, due to the principle of simplicity, just a practical expedient, which does not affect the alignment, as long as the definition of control be that one in IFRS 10.

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?

CPC's response:

The CPC agrees that few entities will be eligible to apply the IFRS for SMEs Standard and will also be investment entities. However, we understand that the Board should introduce the requirement that investment entities measure investments in subsidiaries at fair value through profit and loss, unless that a fair value will not be reliably measurable on a continuing basis. This is because for that few entities this requirement will be relevant (relevance to SMEs) and will avoid faithful representation problems.

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?

CPC's response:

The CPC agrees that the IFRS for SMEs' Section 11 should be aligned with the principle-based approach to the classification of financial assets in IFRS 9and the Board should supplement the list of examples in Section 11 with a principle based on their contractual cash flow characteristics because it would be helpful to entities in the circumstance in which a financial asset does not match the characteristics described in any of the examples. However, we suggest that the Board also should:

(a) supplement the list of examples including guidance to clarify that circumstances in which a financial asset meet or not meet the conditions to be subsequently measured at amortised cost (when the contractual cash flows is solely principal and interest), such as presented in paragraphs B4.1.7 to B4.1.19 in IFRS 9 (for example, financial assets that include leverage increases the variability of the contractual cash flows, or with modified time value of money element and this could result in contractual (undiscounted) cash flows that are significantly different from the (undiscounted) benchmark cash flows, among others); and

(b) not remove the option to present in other comprehensive income subsequent changes in the fair value of an investment in an equity instrument (because it is just an option, so the entity must consider which alternative is more practicable,relevant,and appropriated).

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?

CPC's response:

The CPC agrees that if Section 11 in the IFRS for SMEs were amended to include the simplified approach in IFRS 9 (that requires the loss allowance to be measured at an amount equal to lifetime expected credit losses), users would be better able to predict future cash flows than they could using the incurred loss model in Section 11.

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 retaining 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.

CPC's response:

The CPC does not consider that Section 12 should be include requirements on hedge accounting because the SMEs, in general, have less complex information demands and also because some topics in full IFRS Standards, such as hedge accounting are not relevant to the typical SMEs.

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 apply the recognition and measurement requirements of IFRS 9 and the disclosure requirements of Sections 11 and 12?

CPC's response:

The CPC is not aware of entities that opt to apply the recognition and measurement requirements of IAS 39 with the disclosure requirements of Sections 11 and 12, but we believe that all typical SMEs opt to apply the disclosure requirements of both Sections 11 and 12 because they are less complex and are more relevant to them.In CPC's view, the reference to IAS 39 shall be changed to permit an entity to apply the recognition and measurement requirements of IFRS 9 and the disclosure requirements of Sections 11 and 12.

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?

CPC's response:

The CPC understands that the Board should add the IFRS 9 definition of financial guarantee contracts to the IFRS for SMEs Standard and align the accounting requirements for issued financial guarantee contracts with IFRS 9.

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?

CPC's response:

Considering the CPC's answers to the questions G1A-G3, the CPC understands that the alignment should be made both inthe definition of joint control in Section 15 with IFRS 11 and the categories of joint arrangements (joint operations and joint ventures), as also in its respective accounting requirements.In the CPC view, the categories of joint arrangements and accounting requirements in IFRS 11 are more consistent with alignment approach principles (relevance to SMEs, simplicity; and faithful representation) and also because we believe that if the accounting requirements of Section 15 (mainly the accounting policy election for jointly controlled entities) have retaining, this could bring situations which under IFRS 11 the joint arrangement structured through a separate vehicle will be classified as joint operation, but under IFRS for SMEs Standard (Section 15), the same joint arrangement will be classified as joint venture.

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)?

CPC's response:

The CPC understands that the Board should include requirements for the accounting for step acquisitions in Section 19 of the IFRS for SMEs Standard, and also that the requirements should be aligned with IFRS 3, due to be more consistent with alignment approach principles (relevance to SMEs, simplicity, and faithful representation). In the CPC's view, the IFRS for SMEs Standard should not be diverged from the acquisition method of accounting required by IFRS 3 (2008).

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?

CPC's response:

The CPC understands that the alignment between Section 19 of the IFRS for SMEs Standard and IFRS 3 (2008) for acquisition costs and contingent consideration would not introduce significant complexity (including new fair value measurement requirements), so we consider this alignment as necessary because this would improve comparability and provide better-quality information to users. In this case, faithful representation is more important,and, on the other hand, this exception could be used indiscriminately with potential negative impacts. Therefore, the undue cost or effort exemption could not be allowed in the IFRS for SMEs Standard and the contingent consideration must be measured at fair value.

Question S5C:

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

CPC's response:

The CPC understand that it should be aligned because this is more consistent with alignment approach principles (relevance to SMEs, simplicity, and faithful representation) and because this would improve comparability and provide better-quality information to users.

Question S6:

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

CPC's response:

The CPC understands that the Section 20 should be aligned with IFRS 16 because it is more consistent with alignment approach principles (relevance to SMEs, simplicity, and faithful representation) and it would improve comparability and provide better-quality information to users. In relation to simplifications listed in paragraphs (a)-(c), we agree that the language like the recognition and measurement requirements (in respect of matters such as variable lease payments, determining the discount rate and the term of the lease) should be simplified. However, the CPC understand that the disclosure requirements of Section 20 should be aligned with those in IFRS 16 considering the alignment approach principles (relevance to SMEs, simplicity, and faithful representation).

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?

CPC's response:

The CPC understands that the Alternative 2 (fully rewriting Section 23 to reflect the principles and language used in IFRS 15) is better than the others, because:

(a) the importance of revenue to financial statements to all entities (SMEs or no);

(b) the aligned Section 23 (with IFRS 15), mainly the 5 steps that an entity applies when recognising revenue, would faithfully represent an entity's assets, liabilities and profit or loss in a better way and would provide more useful and relevant information to the users; and

(c) this is more consistent with alignment approach principles (relevance to SMEs, simplicity, and faithful representation).

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.?

CPC's response:

The CPC agrees that a transitional relief should be provided as in the letter (a), permitting an entity could opt 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. We understand that this could avoid undue cost or effort.

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?

CPC's response:

The CPC is not aware of Brazilians SMEs that have defined benefit plans and believes that, in Brazil, only entities that apply the full IFRS Standards (when this is required by law or by regulatory authority) would had defined benefit plans. Additionally, if there is a SME that grants defined benefit plans to its employees, it will certainly not be a typical SME, as this implies that its operationsand structure are much more complex.

Another relevant point is that, before amendments in IAS 19, the requirements of both Standards were the same or similar, except for (a) recognition and the measurement of post-retirement defined benefit plans, (b) recognition of actuarial gains and losses, (c) how the defined benefit obligation must be measured by SMEs, and (d) the greater guidance provided only in IAS 19, in special for termination benefits.

For these reasons, we suggest that the accounting requirements to defined benefit plans and termination benefits in IAS 19 be applied in full bySMEs. We believe that in this way, it will be more consistent with the alignment approach principles (relevance to SMEs, simplicity, and faithful representation), mainly in relation to the faithful of representation of economic transactions and events.

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?

CPC's response:

The CPC understands that the Section 2 should be aligned with IFRS 13 because this is more consistent with alignment approach principles (relevance to SMEs, simplicity, and faithful representation) and because this would improve comparability and provide better-quality information to users. So, this implies in: to move the guidance and related disclosure requirements to Section 2, to include examples that illustrate how to apply the hierarchy to Section 2 and to align both definition of fair value and guidance on fair value measurement with IFRS 13. In consequence, should be included in IFRS SMEs Standard all cross-refer to the fair value measurement and disclosure in Section 2.

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 for 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 the IFRIC Interpretations listed in Table A3 of Appendix A?

Please explain your views and provide any relevant information in support of your views.?

CPC's response:

The CPC supports that the IFRS for SMEs Standard should be aligned with the amendments to IFRS Standards outlined in Table A1 of Appendix A.

The CPC agree with the Board proposal to leaving the IFRS for SMEs Standard unchanged for the amendments to IFRS Standards listed in Table A2 of Appendix A and, also, with the Board's rationale in Table A1, except in relation to:

(a) Assets held for sale (that are not addressed in the IFRS for SMEs Standard). In the CPC'sview, this is the moment to include a section related to this topic, because we do not think substantive reasons for this topic to be away of the IFRS for SMEs Standard, so we suggest that a section aligned with IFRS 5 should be included in IFRS for SMEs Standard.

(b) Defined benefit plans because the CPC's suggestion in answer to Question S8 (accounting requirements about defined benefit plans and termination benefits in IAS 19 should be applied in full by SMEs).

The CPC understands that the IFRS for SMEs Standard should be aligned with the amendments to IFRS Standards and the IFRIC Interpretations listed in Table A3 of Appendix A because this would improve comparability and provide better-quality information to the users.

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

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 in the IFRS for SMEs Standard?

CPC's response:

Considering that the Board has an active project on Rate-regulated Activities which could lead to the replacement of IFRS 14, the CPC support the Board's view, that is, it should not, as part of this comprehensive review, amend the IFRS for SMEs Standard to align with IFRS 14.

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?

CPC's response:

The CPC is not aware of entities eligible to apply the IFRS for SMEs Standard that have material holdings of cryptocurrency and prevalent issues of cryptoassets in our jurisdiction, but the CPC believes that this must be very rare.

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.

CPC’s response:

Considering CPC’s answer to Question S8, it was suggested that accounting requirements about defined benefit plans and termination benefits in IAS 19 should be applied in full by SMEs, because:

(a) The CPC is not aware of Brazilians SMEs that have defined benefit plans and believes that, in Brazil, only entities that apply the full IFRS Standards (when this is required by law or by regulatory authority) would had defined benefit plans. Additionally, if there is an SME that grants defined benefit plans to its employees, it will certainly not be a typical SME, as this implies that its operations and structure are much more complex.

(b) Before amendments in IAS 19, the requirements of both Standards were the same or similar, except for (a) recognition and the measurement of post-retirement defined benefit plans, (b) recognition of actuarial gains and losses, (c) how the defined benefit obligation must be measured by SMEs, and (d) the greater guidance provided only in IAS 19, in special for termination benefits.

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)?

CPC’s response:

According to CPC’s answer to Question S10, we suggested that a section aligned with IFRS 5 should be included in IFRS for SMEs Standard.

Question N5:

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

CPC's response:

The CPC believes that the IFRS for SMEs Standard should be more aligned with full IFRS Standards in respect to guidance and illustrative examples (there is generally significantly less guidance in IFRS for SMEs, which may result in different entities taking different interpretations of the requirements in some cases).

We understand that this would be especially useful and of great help to SMEs financial statement preparers and it will contribute to provide better-quality information to users and to reduceproblems relate to the faithful representation or comparability.

Another CPC's suggestion is that Section 25 (Borrowing costs) should be amended to allow the capitalisation of borrowing costs as IFRS for SMEs. For some entities, particularly in the construction industry this may result in significant expenses being recognised in profit or loss and impairing comparability.