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Reference: Request for Information – Exposure draft: Third edition of the IFRS for SMEs accounting standard

The Comitê de Pronunciamentos Contábeis - CPC (Brazilian Accounting Pronouncements Committee)[1] welcomes the opportunity to respond to the ED Third edition of the IFRS for SMEs accounting standard.

We are a standard-setting body engaged in studying, developing, and issuing 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 Brasil (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).

Context - Accounting Standards in Brazil and their alignment with IFRS Accounting Standards

The Brazilian Accounting Pronouncements Committee (CPC) issues accounting standards for Brazilian companies in accordance with IFRS Accounting Standards and the *IFRS for SMEs* Accounting Standard, which have been enforced by the CFC (national professional accountancy organization in Brazil) since 2010.

1 Large companies

Approximately 200,000 Brazilian companies are required by law to present audited financial reports according to IFRS Accounting Standards. Of these, there are public companies regulated by the CVM (Securities and Exchange Commission of Brazil).

2 Medium-sized companies

Approximately 900,000 Brazilian companies should apply the *IFRS for SMEs* Accounting Standard. However, a low number of companies are doing so. Application is limited because of a lack of effective enforcement, accountants' lack of knowledge and the influence of tax—because accountants prefer to follow tax rules and see no advantage in applying accounting standards.

3 Small and micro-companies

For around 5 million Brazilian micro-companies, the *IFRS for SMEs* Accounting Standard is too complex, and the CFC issued simplified accounting requirements for micro-companies.

I was part of a CFC study group that identified the need to segregate the 900,000 companies that should apply the *IFRS for SMEs* Accounting Standard. This is because the reality of a medium-sized company is very different from that of a small company. Thus, as of 2023, Brazil will have the following sets of standards:

- IFRS Accounting Standards for large companies;
- the *IFRS for SMEs* Accounting Standard for medium-sized companies;
- a standard for small companies; and
- a standard for micro-companies.

The two standards for small companies and micro-companies are aligned with the *IFRS for SMEs* Accounting Standard with some simplifications, which been developed considering the characteristics of these companies and the limitations regarding the availability of financial resources for administrative activities, and therefore are expected to allow the application of these two standards by a larger number of companies. These standards were recently issued and are effective since January 1, 2022, NBC TG 1001 – *Contabilidade para Pequenas Empresas* (Accounting for Small Entities) and NBC TG 1002 – *Contabilidade para Micro Entidades* (Accounting for Micro Entities) which propose the simplification of the applicable standard for small and medium-sized entities for entities with revenue of

up R$78 million (average USD 15.1 million in February, 2023) and R$4.8 million (average USD 929 thousand in February, 2023), respectively.

But we still have a great challenge ahead—to engage SME accountants in regulatory processes and train them so they have adequate knowledge to apply the standards.

We believe that jurisdictions end up addressing the difficulties of applying IFRS SME by creating new standards for smaller companies. In this sense, we understand that the main objective of this standard must be evaluated. If, on the one hand, greater convergence to the full IFRS provides an ease for companies to migrate to the full standards, on the other hand, they reduce their application.

To gather a broader range of views, a stakeholder consultation was held between January 17 and 31. Related to some critical questions we included the participants' views on a Appendix into this Letter. However, CPCs responses does not necessarily reflects the feedback for the consultation as other things were taken into consideration.

Questions for respondents—Scope of the Standard

Question 1—Definition of public accountability

Respondents to the Exposure Draft Subsidiaries without Public Accountability: Disclosures, published in July 2021, expressed some concerns about applying the definition of public accountability. The description of 'public accountability' in the Exposure Draft Subsidiaries without Public Accountability: Disclosures comprises the definition and supporting guidance in paragraphs 1.3–1.4 of the IFRS for SMEs Accounting Standard (Standard).

In response to this feedback, the IASB is proposing to amend paragraph 1.3(b) to list banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks as examples of entities that often meet the second criterion of public accountability in paragraph 1.3(b). To assist an understanding of the basis for the definition of public accountability, the IASB is also proposing to clarify that an entity with these characteristics would usually have public accountability:

(a) there is both a high degree of outside interest in the entity and a broad group of users of the entity's financial statements (existing and potential investors, lenders and other creditors) who have a direct financial interest in or substantial claim against the entity.

(b) the users in (a) depend primarily on external financial reporting as their means of obtaining financial information about the entity. These users need financial information about the entity but lack the power to demand the information for themselves.

Paragraphs BC11–BC19 of the Basis for Conclusions on this Exposure Draft explain the IASB's rationale for clarifying the definition of public accountability in Section 1. The IASB expects that the amendments to paragraphs 1.3 and 1.3A of Section 1 will add clarity, without changing the intended scope of the Standard.

1(i) Do you agree that the amendments will add clarity without changing the intended scope of the Standard? If you do not agree, which types of entities do you believe would be newly scoped in or scoped out?

1(ii) Do you agree with the proposal to clarify the definition of public accountability? If you do not agree with the proposal, please explain what you suggest instead and why.

Response 1(i): We agree with the proposed amendments.

Response 1(ii): We agree with the proposed definition. Additionally, we understand that local regulators may provide exceptions, if necessary, to the definition of public accountability, especially related to what commented in (a) above "high degree of outside interest in the entity and a broad group of users of the entity's financial statements" which allows different interpretation and judgment requiring a greater application, for example including venture capital. Clarifying that for Brazil it is not a problem as we have described in the law those entities that has public accountability.

Question 2 — Revised Section 2 Concepts and Pervasive Principles

The IASB in its Request for Information asked for views on aligning Section 2 Concepts and Pervasive Principles with the Conceptual Framework for Financial Reporting, issued in 2018. In the Request for Information, the IASB noted that the 1989 Framework for the Preparation and Presentation of Financial Statements (1989 Framework) had provided the foundations of the Standard.

Based on feedback on the Request for Information, the IASB is proposing to revise Section 2 to align it with the 2018 Conceptual Framework for Financial Reporting. The IASB is proposing that Section 18 Intangible Assets other than Goodwill and Section 21 Provisions and Contingencies continue to use the definitions of an asset and of a liability from the previous version of Section 2, which was based on the 1989 Framework, to avoid unintended consequences arising from revising the definitions of an asset and of a liability.

Paragraphs BC38–BC51 of the Basis for Conclusions on this Exposure Draft explain the IASB's rationale for the revisions proposed for Section 2.

(i) Do you have comments or suggestions on the revised Section 2? Please explain the reasons for your suggestions.

2(ii) Do you agree that Section 18 and Section 21 should continue to use the definition of an asset and of a liability from the previous version of Section 2 (based on the 1989 Framework)?

Response 2(i):
We agree with the proposed Section 2.

Response 2(ii):
We agree with the proposed definition of an asset and of a liability for Sections 18 e 21, in line to the way it is presented in section "Definitions" of IAS 37 - Provisions, Contingent Liabilities and Contingent Assets and IAS 38 - Intangible Assets.

However given that the proposal will allow the existence of two different concepts on the same standard IFRS for SMEs, as it is observed in full IFRS, we understand that when IAS 38 and IAS 37 update the definition of an asset and a liability to the Conceptual Framework, there should be a commitment to update the IFRS for SMEs, in order to avoid future asymmetries.

Question 3—Proposed amendments to the definition of control in Section 9 Consolidated and Separate Financial Statements

The IASB in its Request for Information asked for views on aligning the definition of control in Section 9 Consolidated and Separate Financial Statements with the definition in IFRS 10 Consolidated Financial Statements and using that definition as the single basis for consolidation (control model) to facilitate greater consistency between financial statements prepared applying the Standard.

Respondents to the Request for Information were in favour of the alignment, and the IASB is proposing amendments to align Section 9 with IFRS 10, introducing control as the single basis for consolidation that applies to all entities.

The IASB is proposing to retain the rebuttable presumption that control exists when an investor owns more than a majority of the voting rights of an investee. The rebuttable presumption is a simplification of the control model.

Paragraphs BC52–BC62 of the Basis for Conclusions on this Exposure Draft explain the IASB's rationale for aligning the definition of 'control' in Section 9 with IFRS 10 and introducing a control model as the single basis for consolidation.

Do you agree with the IASB's proposal to retain the rebuttable presumption as a simplification of the definition of control? If not, please explain why you do not agree with this simplification.

Response (3):
We agree with proposal to retain the rebuttable presumption because it brings simplicity to SMEs.

Question 4—Proposed amendments to impairment of financial assets in Section 11 Basic Financial Instruments (renamed Financial Instruments)

The IASB in its Request for Information asked for views on replacing the incurred loss model for the impairment of financial assets in Section 11 Basic Financial Instruments with an expected credit loss model aligned with the simplified approach in IFRS 9 Financial Instruments. Feedback suggested that the simplified approach in IFRS 9 would be complex for SMEs to apply and would not result in substantial changes in the amount of impairment for the types of financial assets held by typical SMEs, namely short-term trade receivables.

The IASB anticipates that an expected credit loss model would provide relevant information for users of financial statements when SMEs hold longer-term financial assets. Consequently, the IASB is proposing to:

(a) retain the incurred loss model for trade receivables and contract assets in the scope of the revised Section 23 Revenue from Contracts with Customers;

(b) require an expected credit loss model for all other financial assets measured at amortised cost, aligned with the simplified approach in IFRS 9; and

(c) retain the requirements in Section 11 for impairment of equity instruments measured at cost.

Paragraphs BC72–BC80 of the Basis for Conclusions on this Exposure Draft explain the IASB's rationale for introducing an expected credit loss model for only some financial assets.

4(i) Do you agree with the proposal to introduce an expected credit loss model for only some financial assets? Why or why not? If you disagree with the proposal, please explain what you suggest instead and why.

4(ii) Do you agree that the proposal strikes the right balance in deciding which financial assets should be in the scope of the expected credit loss model, considering the costs for SMEs and benefits for users of SMEs' financial statements?

Response 4 (i):
We agree with the proposal.

Response 4 (ii):
We agree with the proposal.

Question 5—Proposal for a new Section 12 Fair Value Measurement

The IASB in its Request for Information asked for views on aligning the Standard with IFRS 13 Fair Value Measurement and introducing illustrative examples into the Standard. This alignment would not amend the requirements for when to use fair value measurement.

Respondents to the Request for Information favoured aligning the Standard with the definition of fair value in IFRS 13 to provide clarity and enhance comparability between financial statements prepared applying the Standard. The IASB is proposing that the requirements on measuring fair value and related disclosure requirements be consolidated in a new Section 12 Fair Value Measurement.

Paragraphs BC108–BC118 of the Basis for Conclusions on this Exposure Draft explain the IASB's rationale for this proposal.

Do you have comments or suggestions on the new Section 12? Please explain the reasons for your suggestions.

Response (5):
It is well aligned with IFRS 13 and makes it clear how the measurement at fair value should be performed.
We agreed on the solution of creating a Section 12 to replace the section that would be eliminated.

Question 6—Proposed amendments to Section 15 Investments in Joint Ventures (renamed Joint Arrangements)

The IASB in its Request for Information asked for views on aligning the definition of joint control with IFRS 11 Joint Arrangements, while retaining the three classifications of joint arrangements in Section 15 Investments in Joint Ventures (jointly controlled operations, jointly controlled assets and jointly controlled entities).

Respondents to the Request for Information favoured aligning the definition of joint control. However, respondents expressed mixed views on whether to align the classification and measurement requirements with IFRS 11 or to retain the Section 15 classification and measurement requirements.

The IASB is proposing to align the definition of joint control and retain the Section 15 classification and measurement requirements as set out in the Request for Information.

Paragraphs BC119–BC127 of the Basis for Conclusions on this Exposure Draft explain the IASB's rationale for these proposals.

6(i) Do you agree with the IASB's proposal to align the definition of joint control and retain the classification of a joint arrangement as jointly controlled assets, a jointly controlled operation, or a jointly controlled entity, and the measurement requirements for these classifications? Why or why not? If you disagree with the proposal, please explain what you suggest instead and why. The IASB is also proposing amendments to align Section 15 with the requirements of paragraph 23 of IFRS 11, so that a party to a jointly controlled operation or a jointly controlled asset that does not have joint control of those arrangements would account for its interest according to the classification of that jointly controlled operation or the jointly controlled asset.

Paragraphs BC128–BC129 of the Basis for Conclusions on this Exposure Draft explain the IASB's rationale for this proposal.

6(ii) Do you agree with this proposal? Why or why not? If you disagree with the proposal, please explain what you suggest instead and why

Response 6(i):

We do not agree with the proposal. The IFRS 11 categories of joint arrangement, joint operations and joint ventures brings more consistency and representation. We believe when the entity has this kind of transaction, more complex and rare for a SME, the

management of the entity usually have more experience and would be able to deal with the complexity of the concepts presented in the IFRS 11.

Response 6(ii):
As mentioned in 6(i) CPC believes that aligning the SME guidelines to the IFRS 11 concepts would bring more benefits to the users of the financial statements.

Question 7—Proposed amendments to Section 19 Business Combinations and Goodwill

Based on the feedback to the Request for Information, the IASB is proposing to align Section 19 Business Combinations and Goodwill with the acquisition method of accounting in IFRS 3 Business Combinations* by:

(a) adding requirements and guidance for a new entity formed in a business combination;

(b) updating the references when recognising the identifiable assets acquired and liabilities assumed in a business combination to refer to the definitions of an asset and a liability in the revised Section 2 Concepts and Pervasive Principles;

(c) clarifying that an acquirer cannot recognise a contingency that is not a liability;

(d) requiring recognition of acquisition-related costs as an expense;

(e) requiring measurement of contingent consideration at fair value if the fair value can be measured reliably without undue cost or effort; and

(f) adding requirements for an acquisition achieved in stages (step acquisitions).

For other aspects of the acquisition method of accounting, the IASB is proposing to retain the requirements in Section 19. The IASB is of the view that:

(a) the guidance in IFRS 3 on reacquired rights is unlikely to be relevant to entities applying the Standard;

(b) restricting the measurement of non-controlling interest in the acquiree to the non-controlling interest's proportionate share of the recognised amounts of the acquiree's identifiable net assets (and not introducing the fair value option) is an appropriate simplification; and

(c) retaining recognition criteria for intangible assets acquired in a business combination balances the costs and benefits of separate recognition of these items because goodwill recognised in a business combination is amortised. Paragraphs BC130–BC183 of the Basis for Conclusions on this Exposure Draft further explain the IASB's rationale for these proposals.

Paragraph BC177 of the Basis for Conclusions on this Exposure Draft explains that there were mixed views on whether step acquisitions are relevant to SMEs. The IASB

is asking for views on adding requirements for step acquisitions and on the proposed requirements themselves. Asking for views on whether to add requirements allows stakeholders to evaluate the proposals when responding to this Invitation to Comment.

7(i) Do you agree with the proposal to introduce requirements for the accounting for step acquisitions? If your answer is yes, do you agree with the proposed requirements in the Exposure Draft? If you disagree with the proposal, please explain why and give your alternative suggestion.

7(ii) Do you agree that the IASB's proposals appropriately simplify the measurement of non-controlling interests by excluding the option to measure them at fair value? If your answer is no, please explain your reasons.

7(iii) Do you have any further comments or suggestions on the proposed amendments to Section 19? Please explain the reasons for your suggestions

Response 7 (i):
We agree with the proposal for the step acquisitions because it better reflects the cost acquisition of a control. Additionally we want to stress out that this kind of transaction has become more common in Brazilian SMEs.

Response 7 (ii):

Regarding measurement of Non Controlling Interest (NCI), we understand that having an option to measure at fair value could make some companies provide better-quality information to users.

Response 7 (iii):
We have no further comments.

Question 8—Revised Section 23 Revenue (renamed Revenue from Contracts with Customers)

The IASB in its Request for Information asked for views on possible approaches to aligning Section 23 Revenue with IFRS 15 Revenue from Contracts with Customers. Respondents favoured this alignment without identifying a preferred approach.

Consequently, the IASB is proposing to revise Section 23 to align it with the principles and language used in IFRS 15. The revised requirements are based on the five-step model in IFRS 15, with simplifications that retain the basic principles in IFRS 15 for recognising revenue.

Paragraphs BC184–BC193 of the Basis for Conclusions on this Exposure Draft further explain the IASB's rationale for this proposal and the proposed simplifications of the IFRS 15 requirements.

8(i) Do you agree that the revised Section 23 would be appropriate for SMEs and users of their financial statements? If not, what modifications—for example, further simplifications or additional guidance—do you suggest and why?

Determining whether a good or service promised to a customer is distinct can involve judgement. To assist entities in making this assessment, the IASB is proposing to simplify the requirements in paragraphs 27–29 of IFRS 15 by:

(a) specifying that a good or service that an SME regularly sells separately is capable of being distinct (see paragraph 23.21 of the Exposure Draft);

(b) expressing the criterion in paragraph 27(b) of IFRS 15 in simpler language and reflecting the objective of the criterion by focusing on whether a good or service is an input used to produce a combined item or items transferred to the customer (see paragraphs 23.20(b) and 23.23 of the Exposure Draft); and

(c) including examples that illustrate the factors supporting that criterion (see paragraph 23.23(a)–(c) of the Exposure Draft).

8(ii) Do you believe the guidance is appropriate and adequate for entities to make the assessment of whether a good or service is distinct? If not, is there any guidance that could be removed or additional guidance that is needed?

Response 8(i):
We agree with proposal of fully rewriting Section 23 to reflect the principles and language used in IFRS 15, having a single framework to recognise revenue for both goods and services, which requires revenue to be recognised when the customer obtains control of the good or service which will result in consistent and comparable information that more faithfully represents an entity's performance.

Response 8(ii):
The guidance presented in the ED is appropriate and adequate for the application of the standard.

Question 9—Proposed amendments to Section 28 Employee Benefits

The IASB in its Request for Information asked for views on applying paragraph 28.19 of the Standard, that is the measurement simplifications for defined benefit obligations.

The feedback identified challenges when applying paragraph 28.19, resulting in diversity of application. However, the feedback also provided evidence that only a few entities apply paragraph 28.19. Therefore, the IASB is proposing to delete paragraph 28.19. Paragraphs BC197–BC203 of the Basis for Conclusions on this Exposure Draft explain the IASB's rationale for this proposal.

9(i) Do you agree that only a few entities apply the measurement simplifications for defined benefits? Therefore, do you agree with the IASB's proposal to delete paragraph 28.19?

Alternatively, if you do not agree with deleting paragraph 28.19, should the IASB clarify the paragraph by:

(a) stating that an entity may apply any, or all, of the simplifications permitted by paragraph 28.19 when measuring a defined benefit obligation; and

(b) explaining that when an entity applies paragraph 28.19(b), examples of future service of current employees (assumes closure of the plan for existing and any new employees) that can be ignored include:

(i) the probability of employees' not meeting the vesting conditions when the vesting conditions relate to future service (future turnover rate); and

(ii) the effects of a benefit formula that gives employees greater benefits for later years of service.

9(ii) If you disagree with the proposal in 9(i), do you agree that this alternative approach clarifies paragraph 28.19?

Response (9):
We agree with the proposal despite of the fact that we do not see this kind of transaction in the Brazilian SMEs and also when it happens it is not relevant.

Question 10—Transition

The IASB, in paragraphs A2–A39 of this Exposure Draft, sets out limited relief from retrospective application for those proposed amendments for which the IASB thought the costs of retrospective application would exceed the benefits.

Do you agree with the proposed transition requirements for the amendments to the IFRS for SMEs Accounting Standard? Why or why not? If not, please explain what you suggest instead and why.

Response (10):
We agree with the proposed transition requirements. The default approach to require retrospective application would provide consistent and comparable information to the users but the exceptions of the retrospective approach, set in the Appendix A of the Standard are convenient and would balance the costs and benefits relationship.

Question 11—Other proposed amendments

Table A1, included in the Introduction, summarises the proposals for amending sections of the Standard not included in questions 2–10.

Do you have any comments on these other proposed amendments in the Exposure Draft?

Response (11):

We suggest including in Section 25 an option to capitalize borrowing costs for qualifying assets.
This change would be very useful, as there are SMEs that have investment in long-term assets in their business model.
These entities have a greater trend of growth and, possibly, migration to IFRS Full. This migration increases the impact of borrowing costs on the initial adoption of complete standards, confirming the relevance of the option for capitalization of these costs.

Questions for respondents—Whether further action is required

Question 12—Section 20 Leases and IFRS 16 Leases

The IASB in its Request for Information asked for views on aligning Section 20 Leases with IFRS 16 Leases by simplifying some of the recognition and measurement requirements, the disclosure requirements and the language of IFRS 16.

Feedback on the Request for Information was mixed. Stakeholders suggested the IASB assess the costs and benefits of aligning the Standard with IFRS 16, even with the simplifications, and obtain more information about the experience of entities that apply IFRS 16.

The IASB decided not to propose amendments to Section 20 at this time and to consider amending the Standard to align it with IFRS 16 during a future review of the Standard. Therefore, the Exposure Draft does not propose amendments to Section 20. In making this decision the IASB placed greater emphasis on cost–benefit considerations and prioritised timing—that is, to obtain more information on entities' experience of applying IFRS 16.

The IASB is asking for further information on cost–benefit considerations, particularly on whether:

(a) aligning Section 20 with IFRS 16 at this time imposes a workload on SMEs disproportionate to the benefit to users of their financial statements— specifically, considering:

(i) the implementation costs that preparers of financial statements could incur;

(ii) the costs that users of financial statements could incur when information is unavailable; and

(iii) the improvement to financial reporting that would be realised from recognising the lessee's right to use an underlying asset (and the lessee's obligation to make lease payments) in the statement of financial position.

(b) introducing possible simplifications—for example, for determining the discount rate and the subsequent measurement of the lease liability (reassessment)— could help to simplify the requirements and reduce the cost of implementing an amended Section 20 (aligned with IFRS 16) without reducing the usefulness of the reported information.

Paragraphs BC230–BC246 of the Basis for Conclusions on this Exposure Draft further explain the IASB's rationale for not proposing amendments to Section 20 at this time and instead for considering amending the Standard to align it with IFRS 16 during a future review of the Standard.

Do you agree with the IASB's decision to consider amending the Standard to align it with IFRS 16 in a future review of the Standard? In responding to this question, please comment on the cost–benefit considerations in paragraphs (a) and (b).

Response (12):
We disagree with the decision to postpone the alignment with IFRS 16 with simplifications. We understand that this standard brings many benefits related to accounting information that should already be included for SMEs. Furthermore, the inclusion only in the next revision of the standard will take a long time for its incorporation into the statements. See in the Appendix that 70% of the respondents that answered our research opined to have align with IFRS 16.

Question 13—Recognition and measurement requirements for development costs

The Standard requires all development costs to be recognised as expenses, whereas IAS 38 Intangible Assets requires the recognition of intangible assets arising from development costs that meet specified criteria. This simplification in the Standard was made for cost–benefit reasons. However, feedback on this comprehensive review questioned this cost–benefit decision. Therefore, the IASB is seeking views on whether it should amend the Standard to align it with IAS 38, including views on the costs and benefits of doing so.

Paragraphs BC253–BC257 of the Basis for Conclusions on this Exposure Draft further explain the IASB's rationale.

What are your views on the costs and benefits, and the effects on users, of introducing an accounting policy option that permits an SME to recognise intangible assets arising from development costs that meet the criteria in paragraphs 57(a)–(f) of IAS 38? The entity would be required to demonstrate all of these criteria:

(a) the technical feasibility of completing the intangible asset so that it will be ready for use or sale;

(b) its intention to complete the intangible asset and use or sell it;

(c) its ability to use or sell the intangible asset;

(d) how the intangible asset will generate probable future economic benefits;

(e) the availability of adequate technical, financial and other financial resources to complete the development and to use or sell the intangible asset; and

(f) its ability to measure reliably the expenditure attributable to the intangible asset during its development.

Response (13): We believe that this amendment should be made, since costs and benefits does not overcome fair presentation and simplicity advocated by CPC in the IFRS for SME. CPC believes that the criteria listed above will not introduce such a high level of judgement mentioned in BC 257 in order to eliminate such amendment in the comprehensive review of the Standard. We understand that the classification as an intangible has some complexity as there is a lot of judgement involved, however nowadays even small companies have been development new products, se as an example the startups.

Question for respondents—Full IFRS Accounting Standards in the scope of this review for which the IASB is not proposing to align the Standard

Question 14—Requirement to offset equity instruments

Paragraph 22.7(a) of the Standard states that if equity instruments are issued before an entity receives cash or other resources, the amount receivable is presented as an offset to equity in the statement of financial position, instead of being presented as an asset. Feedback from the first comprehensive review suggested that this requirement may conflict with local legislation. Stakeholders provided similar feedback during this second comprehensive review, suggesting that the IASB remove the requirement in paragraph 22.7(a) because it diverges from full IFRS Accounting Standards, which include no similar requirement for equity instruments.

What are your views on removing paragraph 22.7(a)?

Response (14):
We disagree with the proposal. Removing paragraph 22.7(a) will conflict with Brazilian Corporate Law (article 182 of Law 6.404/76). Despite of the fact that withdraw this paragraph does not lead to a disagreement of the legislation as the IFRS will not

require to offset it will be only silent we believe that as state in our law it is the right way to present.

Question for respondents—Updating the paragraph numbers of the IFRS for SMEs Accounting Standard

Question 15—Updating the paragraph numbers of the IFRS for SMEs Accounting Standard

The proposed amendments to the requirements in the IFRS for SMEs Accounting Standard include the addition of new paragraphs and the deletion of existing paragraphs. A new paragraph is numbered in continuation from a previous paragraph. A deleted paragraph retains the paragraph number.

Sometimes, the addition or deletion of paragraphs within a section may complicate the readability of the Standard (for example, Section 19 Business Combinations and Goodwill). As an alternative, a section may be revised, with paragraphs renumbered to show only requirements that would still be applicable, without a placeholder for deleted paragraphs (for example, Section 2 Concepts and Pervasive Principles).

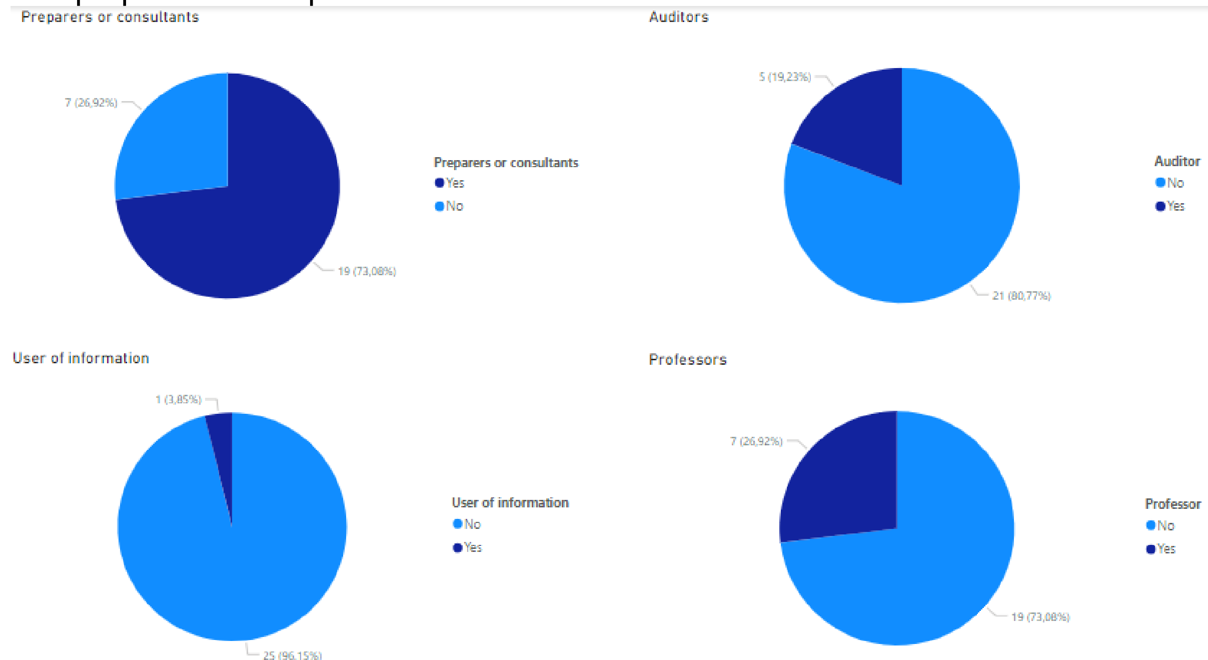
What are your views on the approach taken to retain or amend paragraph numbers in each section of this Exposure Draft?

Response (15): We believe that the second option of paragraphs renumbered to show only requirement that would still be applicable would increase the comprehensibility of the Standard.

APPENDIX

The questions were sent to various professionals and users. However, there was not much feedback, with 26 responses. At the time, we sought to stratify by type of participants, divided into four groups (which could be in more than one category): users of SME financial statements, accountants working in SMEs (preparers or consultants), auditors, and professors.

The proportion of respondents was as follows:



Leases

The IASB's proposal is not to align Section 20 of the IFRS for SMEs with IFRS 16/CPC 06 (R2), especially concerning lessees, which under IFRS 16 must recognize a right-of-use asset and a lease liability. In your opinion, it should:
( ) Not in line with IFRS 16
( ) Align with IFRS 16 for only some leases, for example, leases of the productive area only (with simplifications)
( ) Align with IFRS 16 for all leases (with simplifications)

Financial Instruments - Recognition of Losses

The IASB proposes to align Section 11 to IFRS 9/CPC 48 with some adaptations. The IASB anticipates that an expected credit loss model would provide relevant information for users of financial statements when SMEs hold long-term financial assets. In this sense, the IASB proposes:
(a) maintain the incurred loss model for receivables and contract assets within the scope of Section 23 (proposal) Revenue from Contracts with Customers;
(b) require an expected credit loss model for all other financial assets measured at amortized cost, in line with the simplified approach of IFRS 9;

(c) maintain the requirements of Section 11 for impairment of equity instruments measured at cost.
In your opinion, what is the best approach for this matter? *
( ) According to the proposal of the IASB.
( ) Expected loss model, including for financial assets within the scope of Section 23 (as required).
( ) Expected loss model including for financial assets within the scope of Section 23 as a general approach, allowing the incurred loss model when there is undue cost or effort.

Financial Instruments – Recognition of Losses – Receivables from Related Parties

Another aspect of Financial Instruments is the IASB's proposal to include related party receivables in the calculation of expected losses. This criterion can be costly and of little use for SMEs.
In your opinion, what is the best approach?
( ) According to the proposal of the IASB.
( ) Maintain the Loss Incurred criterion for accounts receivable from related parties.
( ) Adopt the Expected Loss criterion if there is no undue cost or effort.

Goodwill – Reduction

The IASB maintained the amortization of Goodwill based on expected future profitability (Goodwill) for SMEs. The full IFRS does not allow amortization (and it should not change this view in a short frame of time).
In your opinion, what is the best approach for SMEs?
( ) Maintain Goodwill amortization.
( ) Maintain the amortization of Goodwill and include the possibility of non-amortization, in which case, the impairment test is mandatory annually, as an accounting practice policy eligible by the PME.
( ) Remove the possibility of amortization, remaining only the impairment.

Research and Development Expenses

The IASB maintained the ban on recognizing Development expenses as an intangible asset, which must have the same treatment as research as an expense in income when incurred (the R&D D). The full IFRS provides that Development expenditures are recognized as intangible assets (when they meet specific requirements).
In your opinion, what is the best approach?
( ) According to the proposal of the IASB.
( ) Obligatorily require the recognition of Development expenses as an intangible asset.
( ) Require the recognition of Development expenses as an intangible asset as an accounting practice option; that is, it can be recognized as an expense or asset.

Borrowing Costs

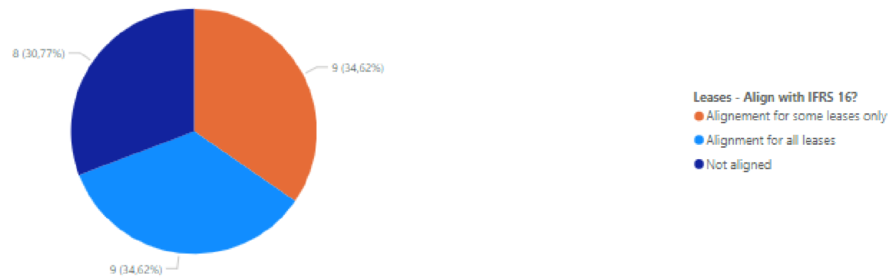
The IASB maintained the forecast for recognizing borrowing costs as an expense. On the other hand, IAS 23/CPC 20 provides that the borrowing costs of qualifying assets must be identified in assets.
In your opinion, what is the best approach?
( ) According to the proposal of the IASB.
( ) Require the capitalization of borrowing costs for mandatorily qualifying assets.
( ) Require the capitalization of borrowing costs of qualifying assets as an option; that is, it can be recognized as an expense or with the asset.

Business Combination

The IASB proposes to align Section 19 with IFRS 3, with simplifications.
In your opinion, what is the best approach?
( ) Full alignment with IFRS 3.
( ) Alignment with IFRS 3 excluding measurement of non-controlling interest in the acquired company at fair value.
( ) Alignment without recognition of the cost of pre-existing contracts. According to the proposal of the IASB.

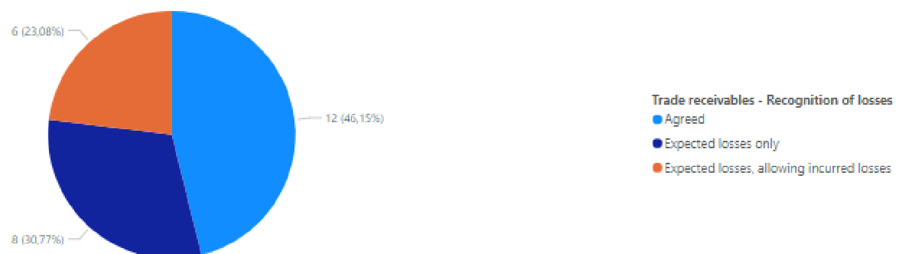
The general responses were:

Leases - Alignment with IFRS 16?



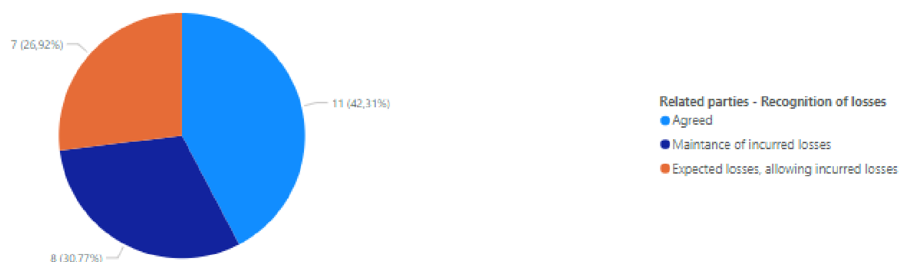
Alignment (or not) with IFRS 16?

Financial Instruments – Trade receivables - Recognition of losses



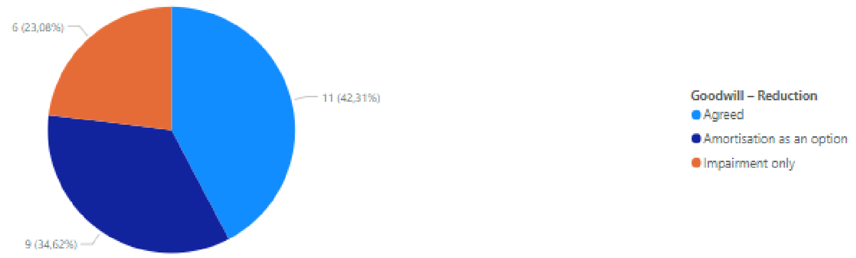
Financial Instruments – Trade receivables - Incurred or expected losses

Financial Instruments – Related parties - Recognition of losses



Financial Instruments – Related parties - Expected or incurred losses

Goodwill – Reduction

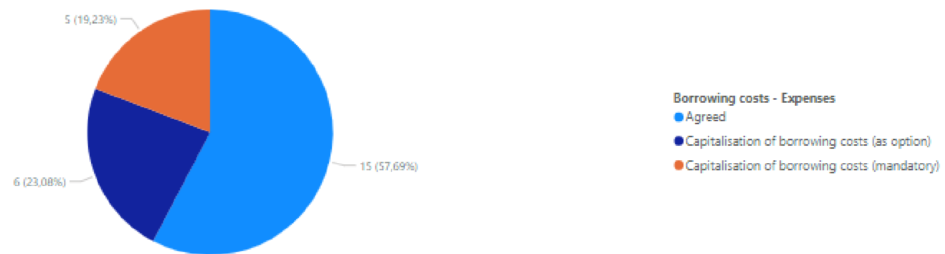


Goodwill – Reduction - Amortisation

Development costs - Expenses

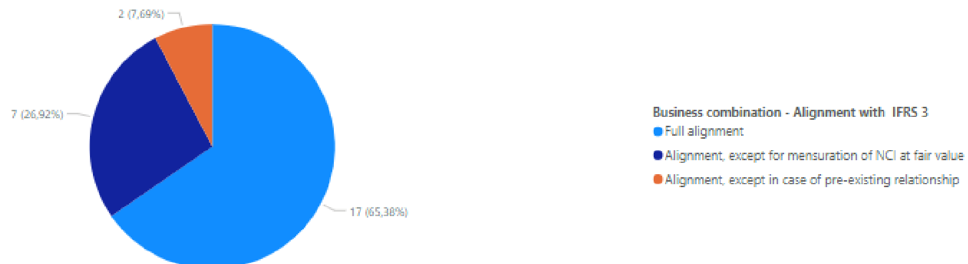
Development costs - Expense or intangible

Borrowing costs - Expenses



Borrowing costs - Expense or capitalisation

Business combination - Alignment with IFRS 3



Business combination - Full alignment or aligned with exceptions with IFRS 3

The responses categorized by type of respondent were:

In the view of the only user who answered the consultation, IASB would:

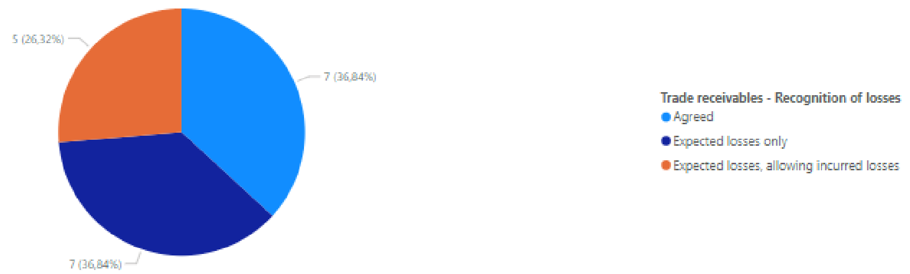
- Align with IFRS 16 for all leases (with simplifications)
- Include expected loss model, including for financial assets within the scope of Section 23 (as required).
- Maintain the Loss Incurred criterion for accounts receivable from related parties.
- Maintain Goodwill amortization.
- Maintain development costs as expenses.
- Full alignment with IFRS 3.

- Preparers or consultants:

Leases - Alignment with IFRS 16?

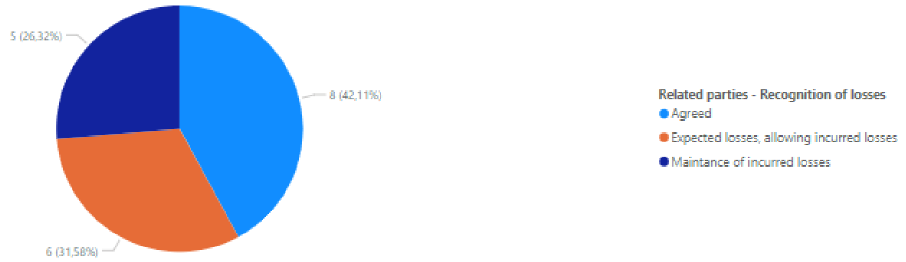
Alignment (or not) with IFRS 16?

Financial Instruments – Trade receivables - Recognition of losses



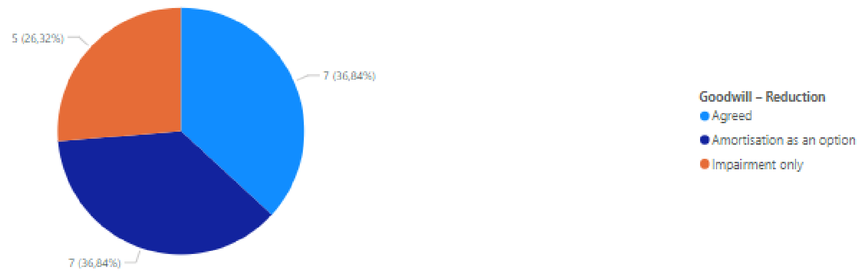
Financial Instruments – Trade receivables - Incurred or expected losses

Financial Instruments – Related parties - Recognition of losses



Financial Instruments – Related parties - Expected or incurred losses

Goodwill – Reduction

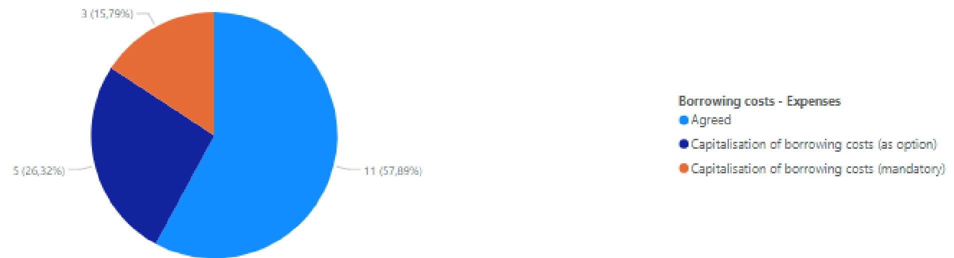


Goodwill – Reduction - Amortisation

Development costs - Expenses

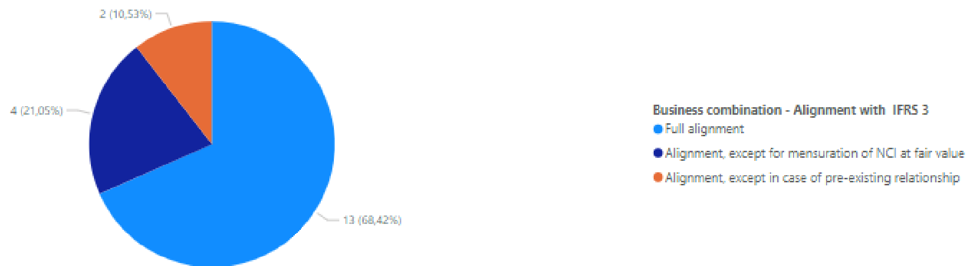
Development costs - Expense or intangible

Borrowing costs - Expenses



Borrowing costs - Expense or capitalisation

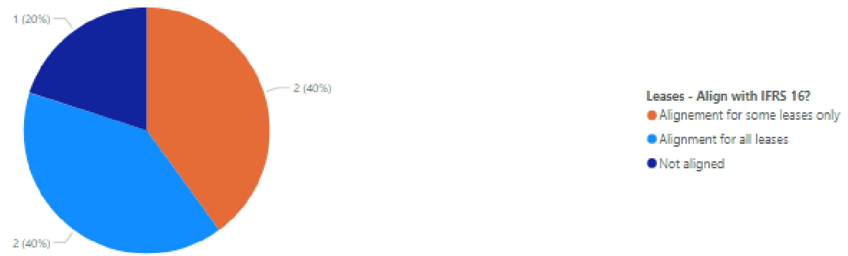
Business combination - Alignment with IFRS 3



Business combination - Full alignment or aligned with exceptions with IFRS 3

- Auditors:

Leases - Alignment with IFRS 16?

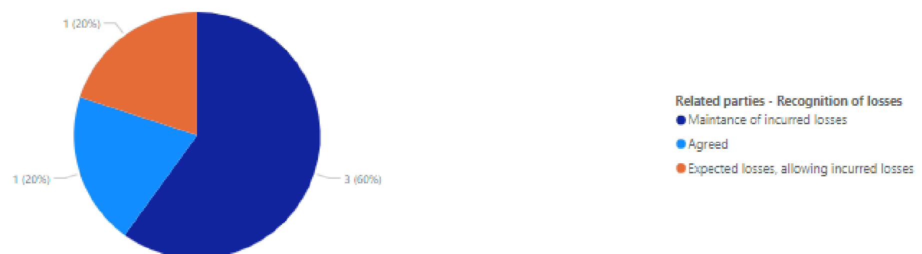


Alignment (or not) with IFRS 16?

Financial Instruments – Trade receivables - Recognition of losses

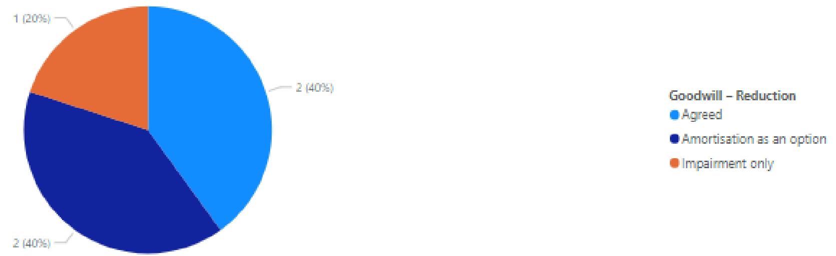
Financial Instruments – Trade receivables - Incurred or expected losses

Financial Instruments – Related parties - Recognition of losses



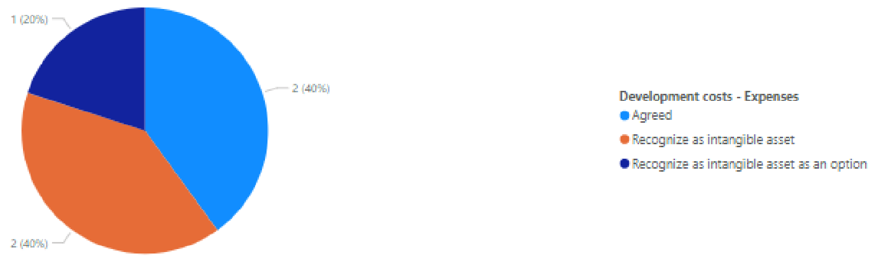
Financial Instruments – Related parties - Expected or incurred losses

Goodwill – Reduction



Goodwill – Reduction - Amortisation

Development costs - Expenses

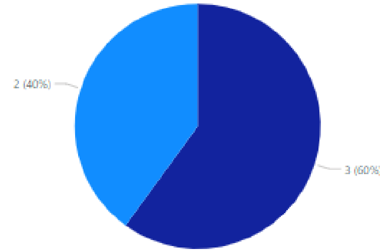


Development costs - Expense or intangible

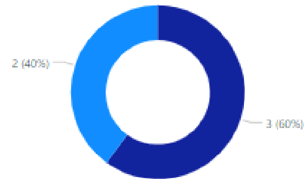
Borrowing costs - Expenses

Borrowing costs - Expense or capitalisation

Business combination - Alignment with IFRS 3

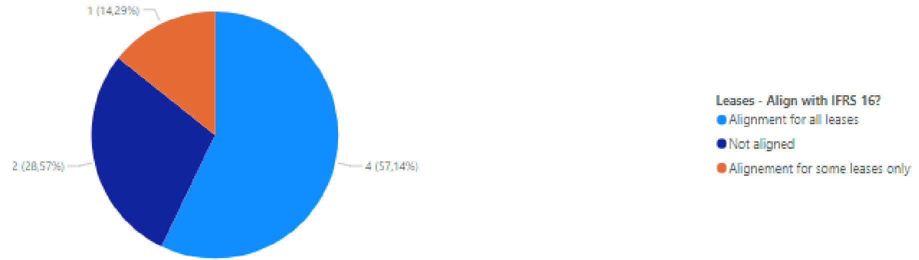


Business combination - Full alignment or aligned with exceptions with IFRS 3



- Professors:

Leases - Alignment with IFRS 16?

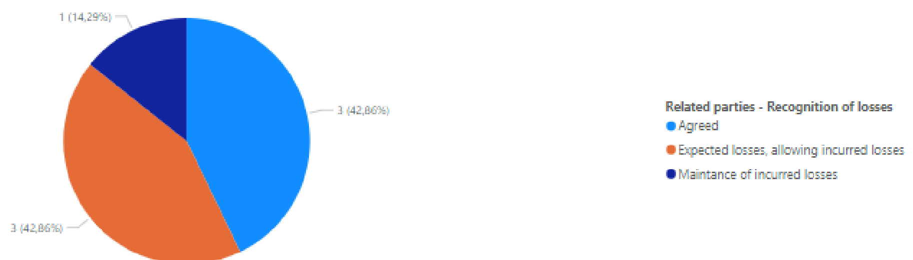


Alignment (or not) with IFRS 16?

Financial Instruments – Trade receivables - Recognition of losses

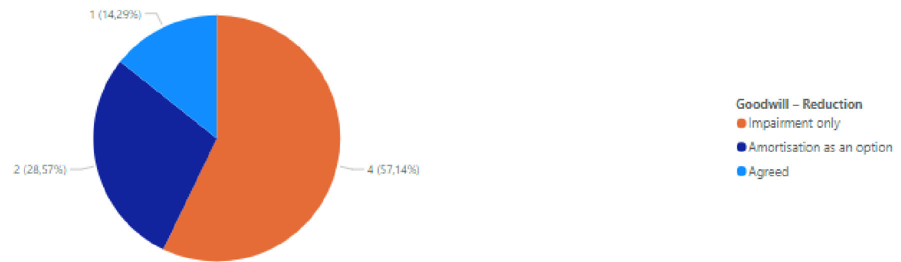
Financial Instruments – Trade receivables - Incurred or expected losses

Financial Instruments – Related parties - Recognition of losses



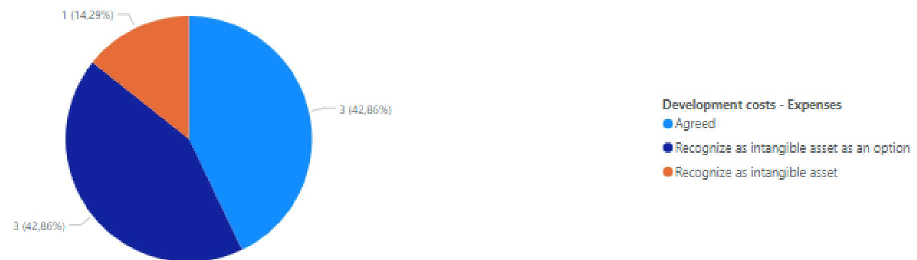
Financial Instruments – Related parties - Expected or incurred losses

Goodwill – Reduction



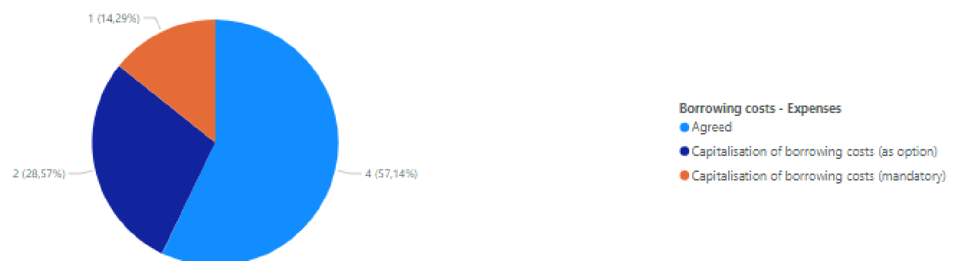
Goodwill – Reduction - Amortisation

Development costs - Expenses



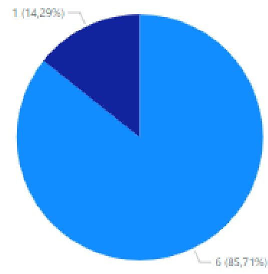
Development costs - Expense or intangible

Borrowing costs - Expenses



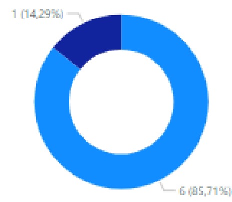
Borrowing costs - Expense or capitalisation

Business combination - Alignment with IFRS 3



Business combination - Alignment with IFRS 3
- Full alignment
- Alignment, except for mensuration of NCI at fair value

Business combination - Full alignment or aligned with exceptions with IFRS 3



Full alignment or aligned with exceptions with IFRS 3
- Full alignment
- Aligned with exceptions