Mr. Nishan Fernando

Chairman

Asian-Oceanian Standard-Setters Group (AOSSG)

25 February 2023

Dear Mr. Fernando,

Comments on IASB Exposure Draft-Third edition of the IFRS for SMEs Accounting Standard

Institute of Chartered Accountants of the Maldives is pleased to provide comments on the IASB Exposure Draft-Third edition of the IFRS for SMEs Accounting Standard. The views of the CA members in relation to the specific questions in the Exposure Draft are provided in the **Appendix**.

We will be happy to discuss or provide further clarification on the matters set out in this letter.

Yours sincerely,

H. Niyazy

Mr. Hussain Niyazy

President

APPENDIX

Ref	Question	Response
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?	*We do not agree, because there could be entities (whose shares and debentures are not listed) having a large number of creditors and lenders get scoped out applying the amendments, which is not consistent with the intended scope of the standard.*
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.	*We agree with the clarifying the definition of the public accountability, however proposed amendment is not consistent with the definition of the public accountability. Therefore, we propose to change the definition of public accountability to be consistent with the amendments.*

2(i)	Do you have comments or suggestions on the revised Section 2? Please explain the reasons for your suggestions.	*We fully agree with replacing the current section by the conceptual framework 2018.*
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)?	*No, we do not agree to make any exception. The definition given in the Conceptual Framework 2018 should be applicable to all the sections.*

3	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.	*Yes. we do agree with the proposed amendments to align the section 9 with IFRS 10, introducing control as the single basis for consolidation that applies to all entities. Yes, we agree that the rebuttable presumption retained in the standard does simplify the definition of 'control'.*
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.	*The amendment has envisaged trade receivables as short term in nature and therefore has not prescribed the forward-looking approach of impairment. However, there can be trade receivables spanning realisation period for more than a year, especially in case of instalment basis realisation of sales proceeds. In that case macro-economic indicators could possibly impact the probability of default and loss given default. Therefore, our suggestion is to apply incurred loss model for short term trade receivables while forward looking model will be more appropriate for long term trade receivables. Secondly, if the amendment is based on a conclusion of long-term financial asset for application of forward looking factors, we suggest to follow incurred loss model for other financial assets realizable in short term.* *Alternatively, forward looking approach of impairment could be made applicable to all the financial assets, without making an exception to attain simplification.*
4(ii)	Do you agree that the proposal strikes the right balance in deciding which financial assets should be in the scope of the	*The Proposal does not strike a right balance, since it does not follow a basis. We rather suggest to go by short-term/ Long-term principle, wherein the short-term financial assets should be subjected to*

	expected credit loss model, considering the costs for SMEs and benefits for users of SMEs' financial statements?	*incurred loss model and long-term financial assets should be subjected to expected credit loss model.*
5	Do you have comments or suggestions on the new Section 12? Please explain the reasons for your suggestions.	*We have no further comments*
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.	*We agree with IASB on aligning the concept of joint control in line with IFRS 11 however retaining classification as jointly controlled asset, jointly controlled operation or jointly controlled entity could also be in line with IFRS 11 as joint operations or joint ventures. While jointly controlled entity is similar to joint venture, both jointly controlled assets or jointly controlled operation are similar to joint operations. In the basis of conclusion IASB has justified retaining the three classifications is to simplify but we feel that additional classification is a duplication and an additional classification without any real value in terms of recognition, measurement and disclosure will only make it complex instead of simple.*
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.	*We disagree with the proposal to retain the same classification for the rationale explained in our comment under question 6(i).*
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	*Yes, we agree with the proposal to introduce requirements for accounting for step acquisitions for business combination achieved in stages. The alignment with IFRS 3 Business Combinations will*

	give your alternative suggestion.	*improve consistency on the accounting treatment for such transactions*
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.	*Yes, we agree that excluding the option to measure them at fair value will simplify the measurement process of non-controlling interest.* *However, there could be a situation where an SME can have non-controlling interest in a listed company in which case measurement of that interest apply level 1 fair value method could be much easier and cost effective. Therefore, the option to fair value should be retained.*
7(iii)	Do you have any further comments or suggestions on the proposed amendments to Section 19? Please explain the reasons for your suggestions.	*We do not have any further comments.*

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?	*We agree that the revised Section 23 would be appropriate for SMEs and users of their financial statements. The Section aligns with the fundamental principles of IFRS 15, which is an advantage for the preparers and the users of the Financial Statement, as it would be easy to understand, and information can be compared. Furthermore, the revised Section 23 expresses the requirements of IFRS 15 in a simple and in a clearer language, and this should be as SMEs would have less complex revenue models compared to non-SMEs.*
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	*We agree that the guidance in the ED is appropriate and adequate for entities to make the assessment of whether a good or service is distinct. And the examples that illustrates the factors give further clarifications.*
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?	*Yes, we agree, very few entities apply this measurement because not considering the future possible service period, salary increment, mortality, labour turnover will not result in a practicable determination of employee benefit liability.*
9(ii)	If you disagree with the proposal in 9(i), do you agree that this alternative approach clarifies paragraph 28.19?	*N/A*

10	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.	*Agree with the proposed transition requirements. Due to implementation of the amendments proposed in the 3rd Edition, if there is a change in the accounting policy then retrospective adjustments should be carried out in line with the Conceptual Framework and section 10 (Accounting Policies, Estimates and Errors).*
11	Do you have any comments on these other proposed amendments in the Exposure Draft?	*We do not have further comments*

12	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) of Question 12.	*Yes we agree, with the IASB's decision to consider amending the Standard to align it with IFRS 16 in a future review of the Standard, considering the cost and benefit, especially for small sized SMEs. However, there are large sized private Companies and State owned entities who are using significant amount of leased assets but need not disclose the ROU and lease liabilities if they adopt IFRS for SME as their framework. Given their size surely, the users of their financial statements like potential lessor, creditors, Banks will not be in a position to know this information. These large entities can very well afford the cost of implementing IFRS 16 like requirements. Entities having large amount of leased assets should be required to comply with IFRS 16. Therefore, there should be an option given to SMEs those who intend to adopt IFRS 16.*

13	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?	*There are large sized private Companies and State owned entities who are in pursuing research and development especially in pharmaceutical industry. Expensing development expenses without treating as intangible assets those meeting the recognition criteria will overstate the expenses and understate the assets having economic values. Therefore, there should be an option given to SMEs those who intend to adopt IAS 38 for capitalisation of development expenses*

14	What are your views on removing paragraph 22.7(a)?	*In case equity shares issued without receiving cash or consideration other than cash, it should be treated as an arrear or unpaid capital and should be set off against issued share capital to reflect paid up share capital in a transparent manner. To satisfy the local legislative requirements issued share capital and calls in arrear/unpaid calls can be disclosed in a Share capital note. Showing it as receivables from shareholders as an item of asset instead of setting off against issued share capital will be a misleading reflection of paid up share capital. We have seen such receivables are remaining unpaid several years, wherein the Company can show the issued shares as fully paid up share capital. Therefore we encourage retaining such requirement instead of deleting.*

15	What are your views on the approach taken to retain or amend paragraph numbers in each section of the Exposure Draft?	*We believe in renumbering the paragraphs and not keeping a placeholder for deleted paragraphs. In future many updates to come, the deleted paragraph numbers will be many without serving a real purpose of having those. In case of addition and deletion of paragraphs other Sections should be consequentially amended which refer to any paragraph in any other sections.*