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Grupo Latinoamericano
de Emisores de Normas
de Información Financiera

Group of Latin-american
Accounting Standard Setters

December 10, 2012

International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

RE: IFRS for SMEs Comprehensive Review - Request for Information

Dear Board Members,

The "Group of Latin American Accounting Standard Setters" – GLASS[1] welcomes the opportunity to comment on the Request for Information (RFI) regarding the IFRS for SMEs Comprehensive Review. This response summarizes the views of our country-members, in accordance with the following due process.

Due-process

The discussions in regard to the RFI were held within a specified Technical Working Group (TWG). All country-members had the opportunity to designate at least one member to constitute this TWG, and the following countries did so: Argentina (coordinator of this TWG), Bolivia, Brazil, Colombia, Mexico, Uruguay, Venezuela, Chile and Ecuador.

The working steps in developing the present response were the follows:

1. ***Conformation of the TWG.***
2. ***Agreement of all the TWG members in advance for requesting information in their own jurisdictions:*** each standards-setters' bodies represented in the TWG have made different works in their respective countries (e.g. discussion forums, surveys; internal working groups).

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[1] The general objective of the Group of Latin American Accounting Standard Setters (GLASS) is to present technical contributions in respect to all documents issued by the IASB. Therefore, GLASS aims to have a single regional voice before the IASB. GLASS is constituted by: Brazil (Chairman), Argentina (Vice Chairman), Colombia (Board), Mexico (Board), Uruguay (Board), Venezuela (Board), Bolivia, Chile, Ecuador, Panama, Paraguay, Peru and Dominican Republic.

Grupo Latinoamericano
de Emisores de Normas
de Información Financiera

Group of Latin-american
Accounting Standard Setters

3. ***Invitation to different stakeholders to contribute with the TWG:*** we received 35 individual responses from Bolivia, Brazil, Mexico, Colombia, Costa Rica, Ecuador, El Salvador, Nicaragua, Panama, Dominican Republic and Uruguay.
4. ***Summarization of the all points of views collected:*** All the results from the works stated in 2 and 3 were summarized, and this summary was the platform for the TWG discussing process.

The TWG discussed in several virtual meetings about the different points of view included in the summary. In those virtual meetings, Argentina, Brazil, Venezuela, Mexico, Uruguay and Colombia participated actively. Depart from this meetings, the WTG developed a final documents on the basis of the consensus responses and the technical point of view of its members. Finally, the WTG document was presented to the GLASS Board.

Overall comments

The IFRS for SMEs is a very important accounting issue for the Latin America region. As you well know, the majority of our countries has adopted –or is in the process of adoption– this Standard, that involves to millions of entities around the world (and specifically in this part of the globe).

While the application of this standard has not experienced the same progress in all countries of our region, however all Latin American accounting standard setters have followed this process in a cooperative work since this Standard was published in July 2009. That's why we hope our experience will become in an important input for the IASB work in this matter.

If you have any questions about our comments, please contact glenif@glenif.org.

Yours sincerely,

Juarez Domingues Carneiro
Chairman
Group of Latin American Accounting Standard Setters (GLASS)

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Responses to the Request for Information (RFI)

S1 Use by publicly traded entities (Section 1)

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

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

GLASS comments

In the Group opinion, no change the current requirements. Therefore, the Group considers most appropriate application of full IFRSs in an entity whose debt or equity instruments trade in a public market.

S2 Use by financial institutions (Section 1)

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

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

GLASS comments

The Group supports that no change the current requirements and continue to prohibit all financial institutions and other entities that hold assets for a broad group of outsiders as one of their primary businesses from using the IFRS for SMEs.

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

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

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

GLASS comments

The Group majority opinion was expressed according to the response (a). NFP entities should not be automatically treated as public accountable entities. They have donors and other resources providers that do not expect a return like investors (i.e. who provide this contributions are not necessarily a wide range of outsider, in the sense used in the IFRS for SMEs and then indicated by SMEIG in the Q&A 2011/02 *Basis for Conclusions*). In the majority Group opinion, NFP entities should be eligible for applying the IFRS for SMEs, unless in the cases that NFP holds asset for a broad group of outsiders, as paragraph 1.3(b) establishes.

However, there is a minority opinion in the Group that believes neither IFRSs nor the IFRS for SMEs should be used for preparing NFP financial statements. In their opinion, the IASB should develop a deeper research task about the information that those financial reports' users need, maybe in the context of the framework reviewing, as it was originally announced.

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

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

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

GLASS comments

The Group supports the position that the IFRS for SMEs should be revised to reflect the main changes from IFRS 10 (modified as appropriate for SMEs), because:

1) IFRS 10 clarifies the definition of control, and
2) this change:

- would improve the consistence between full IFRSs principles and concepts and the IFRS for SMEs principles and concept;
- should not represent more efforts than currently for SMEs, if it is modified as appropriate for SMEs.

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

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

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

GLASS comments

The definition of SME varies between jurisdictions. Thus, it is reasonable to assume that many entities would have more complex transactions than others. Allowing the option to follow IFRS 9 could help them to better reflect these transactions. Besides, the basis for the conclusions applied for allowing the option to refer to IAS 39 are valid for introducing the change purposed. Therefore, the Group majority opinion was that the IFRS for SMEs should be modified to allow entities the option of following the recognition and measurement provisions of IFRS 9 (with the disclosure requirements of Sections 11 and 12).

However, there is a minority opinion in the Group that believes the IASB should make a new public request for information about this issue if IFRS 9 is finalized before the revision of the IFRS for SMEs.

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

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

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

GLASS comments

The Group supports the position to revise the IFRS for SMEs to incorporate a fair value guidance based on IFRS 13. It would improve the conceptual consistence between full IFRSs and the IFRS for SMEs. In the other hand, the Group considers this change could help SMEs in a fair value measuring for and non financial item (that in many cases represents a widespread doubt among SMEs).

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

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

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

GLASS comments

The majority opinion of the Group supports that moving guidance for fair value measurement to a separate section of the IFRS for SMEs would be clearer for SMEs that apply this Standard. However, according with reasons presented in the answer to question S6, the Group considers that this separate guidance should be developing in accordance with the IFRS 13, and the guidance of Section 11 should be eliminated.

Another minority position in the Group supports that the fair value guidance should be included into Section 2, because it is a pervasive concept of the Standard.

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

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

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

GLASS comments

In the Group vision, the IFRS for SMEs should be revised for adopting terminology and classification based on IFRS 11 (modified as appropriate for SMEs), because IFRS 11 seeks to better reflect the economic reality of joint arrangements, basing the classification between joint operations and joint ventures on the essence of the arrangement –and not only on its formal structure–. Otherwise, the Group believes that this change would improve the consistence between full IFRSs principles and concepts and the IFRS for SMEs principles and concepts; without representing more efforts than currently for SMEs.

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

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

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

GLASS comments

Many members of the Group have noted that revaluation model would be a very important alternative for SMEs from inflationary jurisdictions or from countries with restrictions relating to foreign currency exchange. That's why the Group considers the IFRS for SMEs should be revised for including this accounting policy option.

S10 Capitalisation of development costs (Section 18)

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

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

GLASS comments

The majority opinion of the Group supports that Section 18 should be revised for including a similar approach of IAS 38, because the mandatory treatment as an expense for development costs could impair the relevance of the financial statements of many SMEs, especially those that develop technology. However, a minority opinion of the Group supports the idea that this requirement should be included on the basis of '*undue cost or effort*' (similar to other current requirements on the Standard).

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

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

A: (c) Other—please explain.

Glass comments

All the Group supports that option (b) is not valid, because if an entity could justify a shorter useful life than 10 year, then it is capable to estimate the useful life, and therefore presumption would not be applicable.

The majority of the Group believes that it would be convenient to move through an approach similar to IAS 38, on the basis of impairment test for this kind of intangible assets. However, other minority point of view in the Group supports the option (a), and believes that currents requirements should not be changed. They opine that the actual approach simplifies the requirements for SMEs and it is in accordance with the approach maintained by the IASB for developing a separate simplified Standard for SMEs.

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

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

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

GLASS comments

The Group vision is that it would be convenient to revise the IFRS for SMEs to incorporate the main changes introduced by IFRS 3 (2008) into the Section 19, modified as appropriate for SMEs. This change would improve the consistence between full IFRSs principles and concepts and the IFRS for SMEs principles and concepts; and should not represent more efforts than currently for SMEs.

S13 Presentation of share subscriptions receivable (Section 22)

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

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

GLASS comments

The majority of the Group supports option (a), because this would better reflect *essence over the form* and would be consistent with other offsetting requirements of the Standard. However, a minority of the Group recognises that in certains jurisdictions this issue is an important problem for complying with local regulations, and supports the idea of allowing that an entity chooses between the current requirements, or other based on presetting this account as an asset.

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

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

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

GLASS comments

The majority of the Group considers that it would be convenient to revise the IFRS for SMEs to require capitalisation of borrowing costs, based on the current IAS 23 approach. In their opinion, it would improve the consistence between full IFRSs and the IFRS for SMEs. However, there is a minority point of view into the Group that believes it would be convenient to adopt an approach similar to the prior IAS 23, and allowing this treatment as an accounting policy option. They opine that including this requirement as a mandatory treatment could be very onerous for many SMEs.

S15 Presentation of actuarial gains or losses (Section 28)

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

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

GLASS comments

The IFRS for SMEs should be revised to be aligned to the new text of IAS 19. Maintaining the two approaches under the IFRS for SMEs would lead the Standard to be more complex than IAS 19, which is not the objective of a simplified model. Besides, maintaining two alternatives could impair comparability between different entities.

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

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

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

GLASS comments

In our opinion, SMEs should recognise deferred income taxes using the temporary difference method (the approach currently used in both the IFRS for SMEs and full IFRSs). This recognition is necessary for complying with the objective of financial statements of Section 2. Otherwise, evidence has demonstrated that the temporary difference method produces better information than the others, and it approach is simpler than the timing difference method.

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

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

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

GLASS comments

In the Group opinion, it would be convenient to revise Section 29 to conform it to the current IAS 12 (modified as appropriate for SMEs). Many members of the Group note that current requirements would allow to arrive to different deferral taxes amount, on the basis of the differences between of IAS 12 and Section 29 (even, if we consider similar recognition and measurement requirements, ignoring differences between full IFRSs and the IFRS for SMEs requirements for the items relating with those tax deferral assets and liabilities).

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

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

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

GLASS comments

The Group considers that introducing this presumption into the IFRS for SMEs would reduce the complexity for the SMEs in relation to the determination of deferral tax about investment property at fair value. If this presumption were not introduce, and SME should determinate over a prospective basis which part of the investment property expects to recovered from leasing rentals and which part from the disposal of the asset. The Group notes that the current approach on this point becomes the IFRS for SMES broader than IAS 12, and this is not the objective of a simplified Standard.

S19 Inclusion of additional topics in the IFRS for SMEs

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

A: (b) Yes.

GLASS comments

On the basis of the different members of the GLASS' opinions, the Group has identified the following as issues to be included in the IFRS for SMEs:

- Non-current assets for sale requirements of classification, measurement and presentation.
- Specific requirements for NFP financial statements.

Some members of the Group also consider the need to include sections about interim financial reporting when the SME needs to do this reporting.

S20 Opportunity to add your own specific issues

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

A: (b) Yes.

GLASS comments

On the basis of the different members of the GLASS' opinions, the Group has identified the following as issues to be revised of the IFRS for SMEs:

- **Section 2**

The *objective of the SMEs general purpose financial statement* should be aligned to the revised framework (for introducing the concept of *SMEs general purpose financial statement main users* and revising *users decisions*), and the same revised qualitative characteristics of the useful information from the revised framework should be included into this Section.

- **Section 11**

The Group opinion is it would be convenient to clarify the requirement of paragraph 11.14(a), because the current wording seems to require a different method than amortized cost (the Group notes that it is not the same to use a market interest rate than to use the effective interest rate, as the amortized cost method requires).

- **Section 16**

Some members of the Group note Section 16 should be revised for incorporated in this scope those properties without a defined use.

- **Section 31**

The Group supports the need to revise this Section, because its requirements are not sufficient for countries involved in inflationary economies.

- **Section 34**

The Group notes that the current requirements for specialized activities (particularly for *agriculture* and *extractive activities*) are so brief and it would be convenient to introduce a more accurate guidance for these issues.

- **Inconsistencies between sections definitions and Glossary definitions**

The Group notes that there are many inconsistencies between the definitions included into the Glossary and those of the different sections (e.g. definition of cash and equivalents on Section 7; definition of property, plant and equipment on Section 17).

- **<u>Section 35</u>**

In the Group opinion, it would be necessary to revise the exemption referred to not to recognise deferral taxes assets and liabilities on the transition date, on the basis of 'undue cost or effort' (35.10(h)) because:

1) it produces an impact in the comprehensive income of the transition period (because of the unrecognized deferral taxes on the transition date);

2) this exemption does not simplify first-time adoption process and instead: (a) creates a distortion in the comprehensive income of the transition period; and (b) impairs the comparability.

G1 Consideration of minor improvements to full IFRSs

<u>Q:</u> How should the IASB deal with such minor improvements, where the IFRS for SMEs is based on old wording from full IFRSs?

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

<u>GLASS comments</u>

The Group majority opinion was that the proposal on option (a) would allow achieving a stable platform for at least 3 years for the SMEs. This approach is consistent with the IASB expressions on the *Preface to the IFRS for SMEs* (paragraph P16 - P18) and *the IFRS for SMEs Basis for Conclusions* (paragraph BC163 - BC165).

G2 Further need for Q&As

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

<u>A:</u> (a) Yes—the current Q&A programme should be continued.

<u>GLASS comments</u>

In the Group majority point of view, the SMEIG Q&A programme was a valuable assistance for users of the IFRS for SMEs that raised questions about implementation and application issues of the Standard. However, the Group considers it would be convenient to give a major diffusion to this works.

G3 Treatment of existing Q&As

<u>Q:</u> Should the Q&As be incorporated into the IFRS for SMEs?

<u>A:</u> (b) No—the seven final Q&As should be retained as guidance separate from the IFRS for SMEs.

<u>GLASS comments</u>

The majority opinion of the Group supports the option (a). However, other minority position supports the option (c) because they consider that it issues should be considered Q&A by Q&A. For example:

- Q&A 2011/01, 2011/02 y 2011/03 should be added as a part of Section 1 (e.g. Q&A 2011/01 should modify paragraph 1.6; Q&A; Q&A 2011/02 to paragraph 1.3(b)), but in a short way (the other parts of these Q&A could be included as modifications of the IFRS for SMEs Basis for Conclusions).
- Q&A 2012/01 should be included as a part of Section 2.
- If the option to use the IAS 39 is eliminated, Q&A 2012/03 should be eliminated.

G4 Training material

<u>Q:</u> Do you have any comments on the IFRS Foundation's IFRS for SMEs training material available on the link above?

<u>A:</u> (b) Yes (please provide your comments).

<u>GLASS comments</u>

The IFRS Foundation's IFRS for SMEs training material is a very useful tool for helping the study of the IFRS for SMEs. However, some members of the Group note that the criteria in the resolution of some examples or cases sometimes differ from the requirements of the IFRS for SMEs. Therefore, the Group supports the idea that the IFRS Foundation's Education Initiative should publish a request for feedback on the different modules to initiate a comprehensive quality review, in assistance with the SMEIG and the IASB. Besides, it would be convenient to develop a maintenance programme for the training material.

G5 Opportunity to add any further general issues

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

The group supports that it is necessary to reevaluate the name of standard. A first step will be a survey about that issue.

G6 Use of IFRS for SMEs in your jurisdiction

Q: This question contains four sub-questions. The purpose of the questions is to give us some information about the use of the IFRS for SMEs in the jurisdictions of those responding to this Request for Information.

A:

ARGENTINA	IFRS for SMEs applies as optional for companies that are not required to apply IFRS, since 2012. Early application since 2011 is allowed.
BOLIVIA	The National Technical Committee of Auditors and Accountants of the Board of Auditors of Bolivia (College of Auditors and Accountants of Bolivia) has adopted the IFRS for SMEs in Bolivia accounting standards from 1 January 2013. However, the Authority Company (agency approves rules for companies) has not been issued in this regard.
BRAZIL	In 2009, the CPC translated the IFRS for SMEs rendering it mandatory for all companies not required to take full IFRSs.
CHILE	For SME companies was established in 2010 the optional application of IFRS for SME companies. This option is ending in 2012, as in 2013 these companies should implement mandatory IFRS to SME companies.

COLOMBIA	IFRS for SMEs applies as mandatory for corporations that are classified as large and medium, according to the Colombian legal classification of companies.
ECUADOR	IFRS for SMEs applies as mandatory since 2012 for corporations that qualify as SMEs to Ecuador legislation.
MEXICO	In Mexico IFRS for SMEs is not adopted.
PANAMA	The Accounting Technical Board issued a resolution of IFRS for SMEs adoption, however it was not made the same promulgation of Official Gazette due to copyright agreement to be signed with the IASB, the latter is in pending.
PARAGUAY	IFRS for SMEs applies as mandatory since 2012 for corporations that qualify as SMEs under Section 1 of these rules.
PERU	IFRS for SMEs applies as mandatory for companies that are not required to apply IFRS, since 2011. SMEs also have the option to adopt IFRS.
DOMINICAN REPUBLIC	IFRS for SMEs applies as mandatory for companies that are not required to apply IFRS, since 2014. ICPARD temporarily authorizes use only 23 of the 35 sections of the IFRS for SMEs,
URUGUAY	In Uruguay IFRS for SMEs is not adopted.
VENEZUELA	IFRS for SMEs applies as mandatory for companies that are not required to apply IFRS, since 2011.