SOCPA
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VISION رؤية
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المملكة العربية السعودية
KINGDOM OF SAUDI ARABIA

March 2, 2023

IFRS Foundation
7 West ferry Circus
Canary Wharf
London E14 4HD, United Kingdom

RE: Third Edition of the IFRS for SMEs Accounting Standard

Dear Colleagues,

The Saudi Organization for Chartered and Professional Accountants (SOCPA) appreciates the efforts of the IASB and welcomes the opportunity to comment on the Exposure Draft Draft, ***Third Edition of the IFRS for SMEs Accounting Standard.***

Our detailed comments on the questions raised in the Exposure Draft are attached in the appendix to this letter. SOCPA's Accounting Standard Board has conducted an extensive outreach activities with stakeholders in Saudi Arabia to arrive to the congruence of views reflected in the comments on the Exposure Draft.

Please feel free to contact Dr. Abdulrahman Alrazeen at (razeena@socpa.org.sa) for any clarification or further information.

Sincerely,

Dr. Ahmad Almeghames

SOCPA Chief Executive Officer

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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.

SOCPA Comments:

1(i) SOCPA agrees that the amendments will add clarity without changing the intended scope of the Standard. However, SOCPA believes while giving examples of entities holding assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses, a definition of "fiduciary capacity" should be included.

Preparers in many jurisdictions have been using the definition of public accountability in applying the current standard. Nevertheless, a definition of "fiduciary capacity" (referred to in

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paragraph 1.3 (b)) will bring clarity – particularly for modern-day transactions and entities that are being structured in various ways.

SOCPA understands as given in the basis for conclusions BC19, that the IASB believes that it would be difficult to develop guidance relating to "fiduciary capacity" that would be "applicable, translatable and capable of being consistently applied across all jurisdictions applying the Standard." The IASB's concern stems from the fact that the standard has already been established in many jurisdictions and if a definition of "fiduciary capacity" is added now it could create problems if it contradicts the basis on which "fiduciary capacity" has been presently interpreted in these jurisdictions. SOCPA disagrees with this thinking and believes it is important to have a concrete definition which is valid across all jurisdictions even if it means there would be changes to current thinking. It is important to get this right in order to ensure that the term "fiduciary capacity" is not misinterpreted in the future.

1(ii) SOCPA agrees with the proposals made by the IASB to clarify the definition of public accountability. However, there are instances where there is both a high degree of outside interest in the entity and a broad group of users of the entity's financial statements who depend primarily on external financial reporting as their means of obtaining financial information about the entity, but those users are neither investors nor creditors in the general sense of the meaning of investors and creditors. A primary example is government-managed pension funds. SOCPA recommends that IASB add government-managed pension funds to the list of examples in paragraph 1.3(b).
In addition, based on an outreach carried out by SOCPA, stakeholders showed concern with regard to the use of the phrases "high degree" and "broad group of users" in paragraph 1.3A (a). Although SOCPA is aware that IASB's intention is not to define a specific range, percentage or number and prefers to leave it to the preparer's judgement, a clarification or some illustrative examples of these phrases would help in determining whether the entity is qualified for applying the IFRS for SMEs.

Question 2 — Revised Section 2 Concepts and Pervasive Principle

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.

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

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)?

SOCPA Comments:

2(i)

- While agreeing with the proposed revisions to Section 2, SOCPA is concerned with Section 2 stating: "In some circumstances there may be inconsistencies between the concepts and principles in this section and the requirements in another section of the Standard. In these circumstances, the requirements in the other section take precedence over this section."

SOCPA believes Section 2 should highlight the specific instances in which other sections take precedence over Section 2 rather than making an open statement, particularly as sections of the Standards are issued concurrently, hence all inconsistencies with Section 2 are already known and therefore should be stated. While standard setters would be well aware of these exceptions, the users and preparers who use the IFRS for SMEs are not going to be. The preparers who use the IFRS for SMEs are not the same as the ones who use Full IFRSs. Therefore, making an open statement as above could make preparers who use the IFRS for SMEs question the validity of concepts and principles.

- It is often thought that small business managers perceive the cost of compliance with accounting standards to be greater than their benefit. With that in mind, we would like to highlight the comments we made during the "Request for Information" stage regarding the concept of undue cost or effort.

SOCPA believes this concept is the center of all flaws in the application of the IFRS for SMEs and it causes lots of tension between entities, auditors and local standard setters.
It should also be noted that the concept of "undue cost or effort" has been removed from the FRS 102 (UK GAAP) due to the inconsistency in application of the concept by preparers.
The judgement required to consider how the economic decisions of those who are expected to use the financial statements could be affected by not having a piece of information is expected to be beyond the normal ability of the preparers of financial statements especially in the case of an SME.
The IASB should assess the cost and benefit of a requirement and decide whether to retain such a requirement, remove it or make it an option.
It might be relevant to bring to the Board's attention that the Board has decided to carry out such an assessment in various standards. Here are few examples:

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1. In its basis for conclusions for IFRS 1 (BC42): "… the Board concluded that balancing costs and benefits was a task for the Board when it sets accounting requirements rather than for entities when they apply those requirements."
2. In its basis for conclusion for IAS 1 (BC36) and for IAS 8 (BC 24): "… the Board decided that an exemption based on management's assessment of undue cost or effort was too subjective to be applied consistently by different entities. Moreover, balancing costs and benefits was a task for the Board when it sets accounting requirements rather than for entities when they apply them. Therefore, the Board retained the 'impracticability' criterion for exemption. … Impracticability is the only basis on which IFRSs allow specific exemptions from applying particular requirements when the effect of applying them is material."
3. The Board itself acknowledges the difficulty of such assessment: IFRS 9 (BCE.3): "The evaluation of costs and benefits are necessarily qualitative, instead of quantitative. This is because quantifying costs and, particularly, benefits, is inherently difficult…"

2(ii) SOCPA disagrees 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). As the whole standard is under revision, Concepts and Pervasive Principles should be really pervasive and reflected consistently in all sections of the Standard. The Board has a duty to make sure that no unintended consequences should arise from such a revision.

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.

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SOCPA Comments:

SOCPA agrees with the IASB's proposal to retain the rebuttable presumption as a simplification of the definition of control. However, SOCPA would like paragraph 9.4B (C) to be amended to read as "the **current** ability to use its power over the investee to affect the amount of the investor's returns". This would make the explanation of "control" in the IFRS for SMEs consistent with IFRS 10.

Paragraphs 9.4D, 9.4E and 9.4F all refer to "current ability". However, section 9 does not provide any clarification on what it is meant by "current ability". This would need to be addressed.

Further, unlike IFRS 10, exposure draft Section 9 of the IFRS for SMEs does not state that rights have to be substantive when determining if an investor controls an investee. There is no apparent reason for not making such a requirement in the IFRS for SMEs. For a right to be substantive as per IFRS 10, it must give the holder the current ability to direct the relevant activities when decisions about those activities need to be made, and the holder must have the practical ability to exercise the right.

SOCPA believes, whether applying full IFRSs or the IFRS for SMEs, an investor's voting rights are sufficient to give it power over the investee regardless of whether it has exercised its voting power, unless those rights are not substantive or there are separate arrangements providing another entity with the power over the investee. Therefore, it would be important for section 9 to be aligned with IFRS 10 and state that rights have to be substantive when determining if an investor controls an investee.

In response to RFI, SOCPA warned about making the IFRS for SMEs Standard as a mere summarization of full IFRSs, where some texts are taken and some other are ignored without taking into consideration the effect of the missing texts.

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;

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(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?

SOCPA Comments:

4(i) SOCPA agrees with retaining the incurred loss model for trade receivables and contract assets. However, does not believe that the requirement to use expected credit loss model for all other financial assets measured at amortised cost makes sense. For an entity within the scope of the IFRS for SMEs in most cases other financial assets measured at amortised cost would be, related company loans receivables (in most instances without a stated repayment date), employee loans receivables, receivables from disposal of property, plant and equipment, lease receivables relating to own assets of the entity given on lease and other miscellaneous receivables. SOCPA does not believe prescribing the expected credit loss model for such financial assets would be beneficial for the users or preparers of the financial statements.

An entity within the scope of the IFRS for SMEs in very rare circumstances could also have other financial assets which are measured at amortised cost, that do not arise in day-to-day operations. Example:

- loans to third parties without any options attached to it. In most jurisdictions, such loans are prohibited by law.
- investments in zero-coupon bonds.
- restricted cash – as financial covenants requirements for loans.

These would be in very limited instances. SOCPA would like to raise the question as to whether using the expected loss model - simplified approach in these instances be able to provide any useful information and if the incurred loss model is used would the impact on the financial statements be significantly different? Further, impairment modelling for such financial assets would be a lot more complicated and would probably require even external expertise for a SME.

4(ii) If the incurred loss model is considered acceptable for trade receivables and contract assets, as explained in 4(i) above SOCPA does not believe the use of expected credit loss model for other financial assets measured at amortised cost would be significant enough to

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warrant a separate method of assessment of impairment – considering the costs and benefits for users of SMEs' financial statements.

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.

SOCPA Comments:

If a reliable measure of fair value is no longer available for an asset measured at fair value (or is not available without undue cost or effort when such an exemption is provided), Section 12 paragraph 12.21 allows, the assets carrying amount at the last date the asset was reliably measurable to be used as its new "cost". We believe this a significant area for SMEs as there could be many such instances. Example: Valuation of unlisted equity investments, property, plant & equipment, and investment property. SOCPA believes in such instances when these fair values determined previously are referred to as "cost" in the financial statements, specific disclosures be required by Section 12 "disclosures", requiring the reporting entity to state the last date when fair value was determined for these items and specific reasons why fair value has not been determined since. This will be useful information for users in assessing the value of these assets in the absence of the current fair value.

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.

SOCPA Comments:

6 (i) SOCPA agrees with the IASB's proposal to align the definition of joint control with IFRS 11 however, does not agree with continuing with the classification of joint arrangements using the previous principles. This is because SOCPA believes classification of a joint arrangement as jointly controlled assets, a jointly controlled operation, or a jointly controlled entity is driven only by whether the arrangements are structured through a separate entity. For example: 'jointly controlled operations' and 'jointly controlled assets' are arrangements that do not require the existence of an entity. Parties are simply required to recognise assets, liabilities, revenues and expenses arising from the arrangements. However, when the same arrangements are structured through an entity, the joint arrangement is classified as a 'jointly controlled entity' and offers parties an accounting choice between cost, the equity method and fair value.

If the principles of IFRS 11 are incorporated into the IFRS for SMEs the accounting for joint arrangements will be driven by a principle, namely that parties would recognise their rights and obligations arising from the arrangements. The parties' rights and obligations will result in either the recognition of assets and liabilities and corresponding revenues and expenses or in the recognition of an investment. If application guidance is provided as in IFRS 11 it will assist entities in determining precisely whether they have rights to assets and obligations for liabilities (in which case, the parties have an interest in a joint operation) or whether they have rights to the net assets of an arrangement (in which case, the parties have an interest in a joint venture).

SOCPA believes that the 'economic substance' of the arrangement is defined by the rights and obligations assumed by the parties when carrying out the activities of the arrangement. As a result, the accounting for joint arrangements should faithfully reflect the rights and obligations that the parties have in respect of the assets and liabilities relating to the arrangement and not be driven only by whether the arrangements are structured through an entity.

6 (ii) As with our observations noted in 6(i) SOCPA believes that a party to a joint operation or a joint venture that does not have joint control of those arrangements should account for either its rights to assets and obligations for liabilities or the rights to the net assets of the arrangement. If it is determined that it is entitled to a share of the net assets of the arrangement, then the applicable interest in the arrangement should be accounted for in accordance with the relevant section in the IFRS for SMEs.

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.

* IFRS 3 refers to the IFRS 3 (2008) version, including subsequent amendments to IFRS 3.

SOCPA Comments:

7(i) SOCPA agrees with the proposed requirements relating to accounting for step acquisitions included in the exposure draft and believe that accounting for step acquisitions should be aligned with IFRS 3.

7(ii) SOCPA agrees with the proposal to simplify the measurement of non-controlling interest by excluding the option to measure them at fair value. Based on experience there have been very limited instances in which SOCPA has noted that entities that apply full IFRSs using this option as well. Therefore, it is reasonable to conclude that this option is not required for the IFRS for SMEs.

7(iii) SOCPA has no other comments relating to section 19.

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?

SOCPA Comments:

8(i) SOCPA agrees that the revised Section 23 would be appropriate for SMEs and users of their financial statements. However, SOCPA has concerns regarding the following and will like the IASB to revisit these aspects:

1. Contract Modifications (paragraph 23.15)

When there is a contract modification increasing the scope of the contract as a result of

- additional goods or services promised that are distinct from those in the existing contract; and
- increases the price of the existing contract by an amount of consideration that reflects the entity's stand-alone selling price of the additional goods or services and any appropriate adjustments to that price to reflect the circumstances of that contract.

SOCPA believes rather than providing the preparer an option to account for the contract modification as a separate contract or as if it were part of the existing contract, as required by IFRS 15 in such a scenario the reporting entity should be required to account for the modification as a separate contract. If an option is given entities would be able to pick and choose and in certain instances the impact on revenue recognition could be significant. See example below:

XYZ enters into a contract to sell 20,000 boxes of chocolates (250 grams each) to customer ABC for CU 200,000 (CU10 per box).

Each box of chocolates is distinct, and the 20,000 boxes are to be transferred during a period of 3 months.

XYZ recognises revenue after each delivery based on the number of boxes delivered.

XYZ delivers 7,000 boxes in month 1. At the end of the first month the contract is modified and XYZ agrees with ABC to deliver an additional 10,000 boxes of chocolates of the same variety. Therefore, a further 23,000 boxes are to be delivered to ABC (13,000 of the original 20,000 and the additional 10,000 from the contract modification). The price of each additional box will be CU 9 per box. This price reflects the standalone selling price of the product at the time of the contract modification.

XYZ delivers a further 8,000 boxes of chocolate in month 2 to ABC. How should XYZ recognize the revenue in month 2?

If modification considered separate contract

- The scope of the contract increased because of the addition of promised 10,000 boxes of chocolates that are distinct

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- the price of the contract has increased by an amount of consideration that reflects the entity's stand-alone selling price of the additional promised 10,000 boxes of chocolates

If the modification is considered a separate contract, the 8,000 boxes of chocolates delivered in month 2 comes from the original contract as at the time of the contract modification a further 13,000 boxes are yet to be delivered/sold.

Revenue of CU 80,000 (CU 10 X 8,000) will be recognized in month 2.

If modification considered continuation of existing contract

- Total undelivered goods prior to contract modification 13.000 boxes (at CU 10/box) CU 130,000
- Total undelivered goods after contract modification 23,000 boxes (13,000 boxes @ CU 10 and 10,000 boxes @ CU 9) CU 220,000
- At what price would the revenue be recognized for month 2 delivery of 8,000 boxes?
- Would it be at weighted average price – CU 220,000 / 23,000 boxes = CU 9.57 per box = CU 76,560? Or would it be assumed that the initial quantity will have to be fulfilled first? ie. revenue of CU 80,000 recognized as if the modification is considered a separate contract? If this is the case, why would the standard state that the modification can be considered as a continuation of the existing contract? This would mean the modification is being considered a separate contract.

2. Principal versus agent considerations (paragraphe 23.38)

SOCPA disagrees with the IASB's attempt to restrict the number of factors used for assessing if a reporting entity is a principal or agent as given in the basis for conclusions BC 191(g). SOCPA does not disagree with the IASB's attempt to make the assessment more prescriptive however believes key elements have been missed out by the IASB. Particularly SOCPA would like the assessment to include as given in IFRS 15 paragraph B37(c), in determining if an entity is a principal or agent to consider if the reporting entity has discretion in establishing the price for the specified good or service. Based on experience and practical scenarios SOCPA believes this is an important indicator.
Additionally, SOCPA would like to highlight that during an outreach carried out certain preparers indicated that instead of aligning Section 23 with IFRS 15 they would have preferred to see the revision of the existing Section 23. They were of the view that IFRS for SME's was created to simplify accounting for SME's whereas with every revision to the IFRS for SMEs it has increasingly tried to adopt all of the principles in full IFRSs.

SOCPA is also of the view that in aligning Section 23 with IFRS 15, SME's would be required to incur a significant cost upfront at the time of transition as many SME's would not have the expertise to implement the standard and would require third party expertise.

8(ii) SOCPA believes the guidance for entities to make the assessment of whether a good or service is distinct, is appropriate and adequate. The additional examples included in the exposure draft brings clarity that preparers of the financial statements of SMEs would require.

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?

SOCPA Comments:

9(i) SOCPA disagrees that only a few entities apply the measurement simplifications for defined benefits as given in paragraph 28.19 and therefore does not agree to deleting paragraph 28.19. There are more than 100,000 entities in Saudi Arabia alone that are required to apply (apart from hundreds of thousands apply voluntary) the standard and taking advantage of the simplification as clarified by SOCPA in response to numerous inquiries about the meaning of the simplifications (in the absence of a clarification by the IASB, which was requested formally by SOCPA). We trust that the Board is aware that most SMEs do not have easy access to actuarial experiences and services either internally or by way of outsourcing. Therefore, the application of the projected unit credit method as an actuarial valuation method is not appropriate in the SMEs context and its cost would materially outweigh its benefit. That would be more obvious when the retirement benefit is in form of a lump sum payment immediately paid after leaving the service. SOCPA suggests the Board to set separate requirements that simplify the accounting for end of service benefit when it is in the form of a lump sum payment immediately after leaving service, which is the mode of benefits in many jurisdictions. Simplifying the measurement of such benefit may be accomplished by ignoring salary increases, future services and discounting. Ignoring both salary increases, and discounting will result in an amount that faithfully represent the obligation at the end of the reporting period. In our jurisdiction we found a full congruence among preparers, users, and authoritative bodies about the appropriateness of ignoring salary increases, future services and discounting when the end of service benefit is in the form of a lump sum payment immediately after leaving service. The Board has a precedence in simplifying accounting for deferred income tax by requiring classification of such an amount as non-current and ignoring discounting of this amount. SOCPA believes end of service benefit warrants similar simplification.

9(ii) SOCPA disagrees with the proposed clarification of the simplifications allowed by paragraph 28.19 since the actuarial assumptions used by an SME could be mutually incompatible and would not lead to the best estimate of the future cash flows.

If the defined benefit obligation is in the form of a lump sum amount paid at the date of retirement (e.g., final salary multiplied by the number of years of service, which is the mode of end of service in our jurisdiction and many others) and an entity decides to apply the simplifications allowed in paragraph 28.19 the entity can effectively ignore salary increases (paragraph 28.19(a)), assume no future service is to be received from the current employee (paragraph 28.19(b)) and if no future service is to be received then mortality after service required by 28.19 (c) is irrelevant. In such a situation SOCPA would like to raise the question why would the defined benefit obligation need to be discounted? Is discounting the only actuarial assumption that is relevant? SOCPA believes this approach would be mutually incompatible and would therefore contradict paragraph 28.16.

Based on the above SOCPA would like the IASB to consider not requiring discounting of the defined benefit obligation and include this as a simplification in paragraph 28.19 as well.

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.

SOCPA Comments:

Simplification is an objective for the IFRS for SMEs. Based on experience in our jurisdiction, accounting for transactions on first application of a revision on retrospective basis has very limited impact for SMEs. We strongly believe this would be the case in many jurisdictions. Therefore, as a general approach, the IASB should allow SMEs to apply new requirements prospectively for transactions initiated after the first application of a revision with certain exceptions such as leases (when Section 20 "leases" is aligned with IFRS 16). However, SOCPA suggests additional disclosures be required to ensure users are aware of the basis on which the accounting policy has been adopted. If required, disclosures can also include specific information relating to material transactions which have not been accounted for retrospectively. Specific concerns have been raised relating to the retrospective application of Section 23 (Revenue from Contracts with customers) and Section 9 (Control Model) by stakeholders during an outreach carried out by SOCPA. They are of the view that there would be a significant cost and effort required from SME's when accounting for these transactions, while the impact on the financial statements would be very minimal.

Overall, SOCPA does not consider that it would be appropriate or fair to make the application of new requirements in the IFRS for SMEs complicated for SMEs and therefore believe prospective application should be the default basis for all revisions.

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?

SOCPA Comments:

SOCPA would like the Board to consider offering an SME the choice of applying cost model and fair value model in measuring investment property. There is no clear justification of offering the two models in full IFRSs and restricting these options in the SME standard. Simplification can be made by not requiring an SME to disclose fair value information when it chooses to applying the cost model.

SOCPA is also of the view that SMEs should be allowed to capitalize borrowing costs. The information is readily available and there is no reason for IFRS for SME's not to be aligned with full IFRSs relating to borrowing costs as well.

In addition, during an outreach carried out by SOCPA, certain preparers were of the view that Section 24 (Government Grants) should be aligned with the concepts of IAS 20.

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).

SOCPA Comments:

SOCPA does not believe it would be appropriate to align section 20 to IFRS 16 at this time as the post implementation review of IFRS 16 is yet to take place. On completion of the post implementation review there would be better understanding of how best to simplify the IFRS 16 requirements to suit SMEs.

Cost – benefit considerations are given below:

Improvement to financial reporting as a result of aligning section 20 to IFRS 16

Aligning section 20 with IFRS 16 will increase the visibility of SMEs lease commitments and better depict economic reality. The alignment would also enhance comparability between entities that lease their assets and entities that borrow funds to acquire their assets and create a level playing field. The aligning of section 20 with IFRS 16 will also have an immediate impact implied financial metrics of a company - primarily EBITDA, net debt and therefore indicated enterprise value.

Implementation costs that preparers of financial statements will have to incur:

I. The implementation costs that preparers of financial statements would have to incur would be for collating information and for know how to make the required judgements. This would require significant amount of time and effort which would effectively mean an additional cost in terms of internal staff time or payment to a third party if the SME does not have adequate staff and know how.

- collating information relating to leases. While SMEs would have a mechanism to monitor leases (currently classified as finance and operating leases) for operational purposes, the information required to apply the principles of IFRS 16 would not be readily available.
- Making accounting judgements. Judgements to be made will include; determining the lease term, including any renewal, termination and purchase options, as well as rent-free periods, accounting for various types of lease payments (variable and fixed),

determining appropriate discount rate, accounting for lease incentives, initial directs costs and dismantling costs.

II. Software or Excel based model – Quantification of impact
Certain SMEs would be able to afford acquiring a new software solution. Others might have to develop an excel worksheet or require a consultant to do the same.

III. Updating or changing controls, systems, and processes
Ensuing the right data is captured and maintained up to date controls, systems, and processes will need to be updated or changed.

Costs that users of financial statements could incur when information is unavailable:
The implementation of principles of IFRS 16 in SMEs will bring greater transparency by ensuring all leases will be reflected on the balance sheet. Users of financial statements would not have this benefit if section 20 is not aligned with IFRS 16. The primary external users of SME financial statement will be financial institutions and suppliers. While details relating to the ROU assets and related liabilities will not be available to these users in the current version of the IFRS for SMEs, based on paragraph 20.16 a lessee is required to disclose the total of future minimum lease payments under non-cancellable operating leases as well as a general description of the lessee's significant leasing arrangements including, for example, information about contingent rent, renewal or purchase options and escalation clauses etc. Therefore, a fair understanding of the impact on the financial statements can be derived from this information.

Introducing possible simplifications
A little more research would have to go into determining if the following would be acceptable.

- Determining discount rate – using the principles of FASB's "Leases (Topic 842): Discount rate for lessees that are not public business entities". FASB's pronouncement allows to make the risk-free rate election by class of underlying asset, rather than at the entity-wide level. An entity that makes the risk-free rate election is required to disclose which asset classes it has elected to apply a risk-free rate. The amendments require that when the rate implicit in the lease is readily determinable for any individual lease, the lessee use that rate (rather than a risk-free rate or an incremental borrowing rate), regardless of whether it has made the risk-free rate election.

SOCPAS believes the IASB could use the principles of FASB's pronouncement and come up with the following choices:

a) If risk-free rate is used by a lessee as its discount rate, it be used for all leased assets entity wide if rate implicit in the lease is not readily determinable
b) Risk-free rate be used for all leases even if rate implicit in the lease is readily determinable
c) Follow the guidelines of FASB's pronouncement as it is

SOCPA believes the impact on the financial statements would be very limited if either option given above is used. Appropriate disclosures will have to be designed depending on which option IASB decides on.

- Assessment of lease term – based on experience, a significant amount of judgement is required when determining if an option to renew a lease will be exercised. Instead of listing indicators as in IFRS 16, the IASB could design a rule-based checklist based on paragraph B37-B40 of IFRS 16 for SMEs to determine if an option to renew will be exercised or not.
- Setting a specific value to determine what is considered a "low-value" lease. Rather than a monetary figure this could be given as a percentage of total asset value or total value of Right of Use asset to ensure this is applicable for all jurisdictions.
- Subsequent measurement of the lease liability (reassessment) – using the originally determined discount rate if the SME is unable to determine a revised discount rate.

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.

SOCPA Comments:

SOCPA believes that capitalization of development costs as it is currently in IAS 38 is not a complex requirement for the IFRS for SMEs that actually incur development costs. These would be entities who have completed a research phase and are quite aware of the status of their "development" activities. Therefore, SOCPA suggests that similar treatment to full IFRSs in this respect should be required for the IFRS for SMEs.

Many start-ups / digital entities in the modern era which are funded specifically to conduct research and development activities would not be able to include development costs in their balance sheet if this requirement was not included in the IFRS for SMEs. This intangible asset would be the most significant asset of these entities. Not recognizing such an asset would contradict the concept of faithful representation.

SOCPA also does not believe that capitalization of development costs as it is currently in IAS 38 should be included as an option in the IFRS for SMEs as introducing accounting policy options would reduce comparability between entities and will create unnecessary complexities.

There would be a cost an entity will have to incur when it attempts to demonstrate if all of the criteria listed in paragraph 57(a)–(f) of IAS 38 is met. This could be costs to streamline processes and systems, payments to third party consultants / advisors for validation of information as well as processes and systems. However, SOCPA is of the opinion that these costs would be very insignificant for a company that has any such asset in a "development" stage.

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)?

SOCPA Comments:

SOCPA agrees that paragraph 22.7(a) should be removed to allow for diversity in local laws and regulations.

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?

SOCPA Comments:

SOCPA agrees a new paragraph should be numbered in continuation from a previous paragraph and a deleted paragraph should retain the paragraph number.

However, when a section goes a through significant revision SOCPA believes that paragraphs should be renumbered in order to ensure there is some order maintained in the numbering.

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