



30 November 2011

Our ref: ICAEW Rep 113/11

Paul Pacter
SME Implementation Group
30 Cannon Street
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Dear Paul

Q&As General Issues 1&2 and Section 3 Issues 1-3

ICAEW welcomes the opportunity to comment on the draft Q&As General Issues 1&2 and Section 3 Issues 1-3 published by SME Implementation Group in September 2011.

ICAEW operates under a Royal Charter, working in the public interest. Its regulation of its members, in particular its responsibilities in respect of auditors, is overseen by the Financial Reporting Council. As a world leading professional accountancy body, we provide leadership and practical support to over 136,000 members in more than 160 countries, working with governments, regulators and industry in order to ensure the highest standards are maintained. We are a founding member of the Global Accounting Alliance with over 775,000 members worldwide.

We are a strong supporter of principles based accounting standards and have been a strong advocate of the work of the IASB in widening the global acceptance of such a framework. Over time we have enthusiastically supported the emergence of the IFRS for SMEs, bringing the principles based approach to private companies. However, as we have also recently commented to the Implementation Group (ICAEW REP 52/11), we are concerned by the risks posed to the principles based regime by the threatened accretion of incremental Interpretations (in the case of full IFRS) and Q&As (for the IFRS for SMEs). Additional literature of this kind risks cladding IFRS principles with prescriptive rules, restricting the scope for the exercise of appropriate judgement. This is not a desirable situation. Therefore we have some objections in principle to the pace of development implied by the issuance already this year of 11 draft Q&As. We believe that publication should be made on an exceptional basis only, and therefore we are opposed to the adoption as Q&As of the responses to General Issue 1 and to Section 3 issues.

We do accept however that, on an exceptional basis, the concept of 'undue cost or effort' could benefit from some further elucidation. The term is not employed in full IFRS, where it has been considered too subjective (IAS 1 BC 36). However, it is central to the IFRS for SMEs, being used in no less than eight different sections, yet no definition is supplied in the glossary. This lack of guidance is potentially problematic, particularly for smaller businesses where costs of compliance may be disproportionately high and where the exemption is presumably intended to be targeted. One of those areas affected is agriculture, where it has been highlighted by our members that the scope of the exemption is potentially unclear. We therefore welcome the work of the Implementation Group in addressing this issue.

As in principle we wish to see the number of Q&As to be limited, while we recognise the need for this issue to be addressed we suggest that any resultant Q&A should be regarded as a temporary solution only until the IFRS for SMEs is next updated and the relevant guidance can be added. We are also mindful of the danger of the exercise of IFRS principles being restricted by incremental 'rules' and

therefore feel that the interpretation provided by the Q&A could be softened by including an explicitly non-exhaustive list of the type of things that could be taken into account when making judgments in this area (one such item, valuers' fees, is already indicated). The drafting of this qualifier needs careful consideration, as while undue prescription should be avoided, clearly the bounds of 'undue cost or effort' do need to be tightly drawn to avoid the exemption being used inappropriately.

We would also suggest that the term 'impracticable' be clearly separated out in the Q&A; this term is also used in full IFRS and therefore care should be taken in potentially expanding upon this crucial definition by introducing further considerations in the context of the IFRS for SMEs.

Please contact me should you wish to discuss any of the points raised in this response.

Yours sincerely

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