

Accounting Standards Board of Japan (ASBJ)

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

Dear Sirs,

Comments on the Staff Questionnaire on Possible Recognition and Measurement Modifications for Small and Medium-sized Entities (SMEs)

The Accounting Standards Board of Japan (ASBJ) is pleased to comment on the Staff Questionnaire on Possible Recognition and Measurement Modifications for Small and Medium-sized Entities. The views expressed in this letter are those of International Issues Standing Committee of the ASBJ.

Areas for possible simplification of recognition and measurement principles for SMEs? (Question 1)

- **Deferred income tax accounting under IAS 12.**

It seems often difficult for SMEs to prepare an income tax scheduling, which is a premise of recognition of deferred income tax assets. It also seems often difficult to estimate taxable income for future fiscal year for the situation that to develop medium-term business plan is rare. Above measurement would be too complex for SMEs to do. (Reason d)

We believe that simplified methods would be solutions for above problems. For example, the amount of deductible temporary difference multiplied by the applicable tax rate is recognized as deferred tax assets, if the amount of deductible temporary difference is less than the amount of taxable income in the past fiscal years equal to the terms which the medium-term business plan is developed.

- **Measurement of defined benefit pension or other post-employment benefit liabilities under IAS 19.**

An actuarial valuation should be used to measure defined benefit obligation of the retirement benefit plan, however, above measurement is difficult for SMEs. Even if SMEs request external

professionals to calculate defined benefit obligation, it would be too costly for SMEs. (Reason b)

In addition, SMEs which consist of a relatively small number of employees would not be able to obtain the employee data required for an actuarial valuation. (Reason f)

We believe that simplified method would be useful. For example, the amount of obligation assuming all employees terminated voluntary as of the end of the period is treated as a defined benefit obligation.

- **Impairment of property, plant, and equipment under IAS 36.**

It seems that identifying the cash-generating units or measuring value in use with an estimate of the future cash flows would be too costly for SMEs. (Reason b) Especially, when measuring value in use, a data for an estimate of the future cash flows indicated in medium-term business plan would be difficult. (Reason d)

We believe that the simplified method of the recoverable amount which is applicable to SMEs would be fair value less costs to sell rather than value in use.

- **Measurement of share-based payments under IFRS 2.**

It seems that the transactions of treasury stocks of SMEs, defined as non-public entities, would be rare, and determining the fair value of stock options of SMEs granted would not be generally reasonable.

We believe the provision for determining the fair value of equity instruments granted in IFRS2 would not be needed for SMEs.

Topics addressed in IFRSs might be omitted from SME standards because they are unlikely to occur in an SME context. (Question 2)

- **IFRS 4**

Because companies that issue insurance contracts hold assets in a fiduciary capacity, they have public accountability. IASB standards for SMEs would not be intended for them. Therefore, an SME version of IFRS 4 is not needed.

- **IAS 27 and IAS 28**

It seems that SMEs are rarely required to prepare its consolidated financial statements. Even if SMEs are required to prepare its consolidated statements, we believe that simplifying the standards provided by IAS27 and 28 is impossible and is not needed.

We hope that our comments will contribute to the work of the IASB in arriving at its final decision.

Best Regards,

Ikuo Nishikawa
Chairman, International Issues Standing Committee
Vice-Chairman, Accounting Standards Board of Japan