

STAFF PAPER

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IASB Paper

Project	<i>IFRS for SMEs Standard</i>		
Paper topic	Timing of the next review of the <i>IFRS for SMEs Standard</i>		
CONTACT(S)	Michelle Fisher	mfisher@ifrs.org	+44(0)20 7246 6918

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Objective of this meeting

1. The objective of this meeting is to ask the Board whether an interim review of the *IFRS for SMEs Standard* should commence this year to consider:
 - (a) the fallback to IAS 39 *Financial Instruments: Recognition and Measurement* in Sections 11 and 12 of the *IFRS for SMEs Standard*; and/or
 - (b) changes to full IFRS Standards that have not yet been incorporated in the *IFRS for SMEs Standard* (new and amended full IFRS Standards); and/or
 - (c) any urgent issues that have been identified.
2. If the Board decides not to perform an interim review, (a), (b) and (c) will not be considered until the next comprehensive review of the *IFRS for SMEs Standard*. This is expected to start in early 2019.
3. Note: the purpose of this meeting is to discuss whether any changes to the *IFRS for SMEs Standard* should be considered in advance of the next comprehensive review. The staff are not asking Board members for their views on whether or not the new and amended full IFRS Standards referred to in this paper should ultimately be incorporated in the *IFRS for SMEs Standard*. The issue being addressed at this meeting is only the timing for considering making these changes.

Structure of this paper

4. This paper includes the following sections:
- (a) Timing of the next review;
 - (b) The Board's principles for dealing with new and amended full Standards;
 - (c) Fallback to IAS 39;
 - (d) New and amended full IFRS Standards not yet incorporated in the *IFRS for SMEs* Standard;
 - (e) Staff analysis;
 - (f) SME Implementation Group (SMEIG) recommendation;
 - (g) Staff recommendation and questions for the Board;
 - (h) Appendix A: Key changes to consider in new and amended full IFRS Standards; and
 - (i) Appendix B: Summary of feedback from SMEIG members

Timing of the next review

The Board's plan for future reviews of the IFRS for SMEs Standard

5. The Board completed its initial comprehensive review of the *IFRS for SMEs* Standard in May 2015. During that review the Board developed the following tentative approach for future reviews:¹
- (a) A comprehensive review of the *IFRS for SMEs* Standard should commence approximately two years after the effective date of the amendments to the *IFRS for SMEs* Standard that resulted from a previous comprehensive review. This would allow time for SMEs to apply the amendments and for interested parties to identify any

¹ paragraph BC264 of the Basis for Conclusions accompanying the *IFRS for SMEs* Standard.

implementation issues or unintended consequences that result from those amendments. Comprehensive reviews would normally begin with the issue of a Request for Information (RFI).

- (b) Between comprehensive reviews, the Board, with input from the SMEIG, would decide whether there is a need for an interim review to consider any changes in new and amended full IFRS Standards or any urgent issues that have been identified.

- 6. The approach in paragraph 5 would mean that amendments to the *IFRS for SMEs* Standard would not typically be more frequent than approximately once every three years, to provide SMEs with a stable platform.

Possible timetables for the next review of the IFRS for SMEs Standard

- 7. In accordance with paragraph 5:

- (a) the next comprehensive review of the *IFRS for SMEs* Standard should begin with a RFI in early 2019 (beginning two years after the date the 2015 amendments resulting from the initial comprehensive review become effective—1 January 2017). Based on the timing of the initial comprehensive review, the next comprehensive review would likely be completed in 2021, with amendments to the *IFRS for SMEs* Standard effective for annual reporting periods beginning on or after 1 January 2023.
- (b) if the Board decides there are amendments that need to be made more urgently, then an interim review could commence this year, with the issuance of an Exposure Draft (ED) likely in late 2017. Because we would not issue an RFI, the review process would be shorter. The staff expect it could probably be completed in 2019, with any amendments to the *IFRS for SMEs* Standard effective for annual reporting periods beginning on or after 1 January 2021.

The Board's principles for dealing with new and amended full IFRS Standards²

8. The *IFRS for SMEs* Standard was developed using full IFRS Standards as a starting point and then considering what modifications to full IFRS Standards are appropriate in the light of the needs of users of SME financial statements and cost-benefit considerations.
9. Consequently, one of the most significant issues when maintaining the *IFRS for SMEs* Standard is how to consider ongoing changes to full IFRS Standards. In particular, how to balance the importance of maintaining alignment with full IFRS Standards with having a stable, stand-alone Standard that focusses on the needs of SMEs.
10. The Board's primary aim when developing the *IFRS for SMEs* Standard was to provide a stand-alone, simplified set of accounting principles for entities that do not have public accountability and that typically have less complex transactions, limited resources to apply full IFRS Standards and that operate in circumstances in which comparability with their listed peers is not an important consideration. With this primary aim in mind, the Board developed the following principles for how to deal with new and amended full IFRS Standards during reviews of the *IFRS for SMEs* Standard:
 - (a) decisions, both on which changes to full IFRS Standards to incorporate in the *IFRS for SMEs* Standard and the appropriate timing for incorporating those changes, should be weighed against the need to provide SMEs with a stable platform and the suitability of such changes for SMEs and users of their financial statements. It may be appropriate to incorporate changes from a complex new or amended full IFRS Standard only after implementation experience has been assessed. However, this does not necessarily mean waiting until a Post-implementation Review of a full IFRS Standard has taken place.

² based on paragraphs BC185-BC197 of the Basis for Conclusions accompanying the *IFRS for SMEs* Standard.

- (b) each new and amended full IFRS Standard should be considered individually on a case-by-case basis to decide whether, and if so how, its requirements should be incorporated into the *IFRS for SMEs* Standard.
 - (c) when incorporating any changes to full IFRS Standards in the *IFRS for SMEs* Standard, modifications may be appropriate to the requirements in full IFRS Standards for SMEs in the light of users' needs and cost-benefit considerations.
 - (d) new and amended full IFRS Standards should not be considered until they have been issued (because prior to this the Board's views are tentative and subject to change).
 - (e) new and amended full IFRS Standards published after an Exposure Draft of proposed amendments to the *IFRS for SMEs* Standard has been issued would generally be postponed to the next review of the *IFRS for SMEs* Standard, unless they address an urgent need for SMEs or users of their financial statements (because of the likely need for re-exposure).
 - (f) changes to the *IFRS for SMEs* Standard could be considered at the same time that new and amended full IFRS Standards are issued. However, the *IFRS for SMEs* Standard would only be updated for those changes at the next periodic review.
11. The Board also decided there was a greater need for stability during the initial comprehensive review of the *IFRS for SMEs* Standard than there may be in future reviews, because for the majority of SMEs the *IFRS for SMEs* Standard was still a new Standard.

Fall back to IAS 39

12. During the initial comprehensive review, the Board discussed the fallback to the recognition and measurement requirements in IAS 39.³ The Board considered whether the fallback should be retained in Sections 11/12 of the *IFRS for SMEs* Standard, and if so, whether and when it should be updated to IFRS 9 *Financial Instruments* once IFRS 9 becomes effective. The Board observed:

- (a) that there was insufficient information available to determine how frequently the fallback is being used in practice.
- (b) if entities are currently applying the fallback to IAS 39 and it is removed or replaced with a fallback to IFRS 9 once IFRS 9 becomes effective, those entities would be required to assess and potentially change their accounting policies. This is because they would need to then apply either the recognition and measurement requirements in IFRS 9 or those in Section 11/12 of the *IFRS for SMEs* Standard. If, at the next review of the *IFRS for SMEs* Standard Sections 11/12 are then modified to incorporate the changes in IFRS 9 and the fallback to IFRS 9 is removed, entities would be required to reassess and potentially change their accounting policies a second time within a relatively short period of time in accordance with the revised versions of Sections 11/12.

Consequently, the fallback to IAS 39 was left in place during the initial comprehensive review. The Board noted that keeping the fallback to IAS 39 in place until 2023⁴ implied that that Standard may need to be maintained for five

³ The *IFRS for SMEs* Standard has only one fallback to full IFRS Standards. When the *IFRS for SMEs* Standard was issued the Board decided that SMEs should be permitted to have the same accounting policy options as in IAS 39 pending completion of the Board's *Financial Instruments* project. Consequently, paragraph 11.2 of the *IFRS for SMEs* Standard permits SMEs to apply the recognition and measurement requirements in IAS 39 instead of the recognition and measurement requirements for financial instruments in Section 11 and 12 of the *IFRS for SMEs* Standard.

⁴ See paragraph 7(a)—based on the timing of the initial comprehensive review, the next comprehensive review would likely result in amendments to the *IFRS for SMEs* Standard effective for annual reporting periods beginning on or after 1 January 2023.

years beyond its expected termination date. The Board therefore noted that it may be important to revisit this issue before the next comprehensive review.

Changes to full IFRS Standards not yet incorporated in the *IFRS for SMEs* Standard

Major new full IFRS Standards

13. The following full IFRS Standards were issued prior to commencement of balloting of the October 2013 Exposure Draft of proposed amendments to the *IFRS for SMEs* Standard (2013 ED) but were not incorporated in the *IFRS for SMEs* Standard:

- (a) IFRS 3 (2008) *Business Combinations*;
- (b) IFRS 10–12 Consolidation suite of Standards (and changes to IAS 27 and IAS 28);
- (c) IFRS 13 *Fair Value Measurement*; and
- (d) IAS 19 (2011) *Employee Benefits*.

The reasons the Board decided not to incorporate changes under these full IFRS Standards during the initial comprehensive review of the *IFRS for SMEs* Standard are summarised in Appendix A.

14. The following full IFRS Standards were not considered during the initial comprehensive review because they were issued after the commencement of balloting of the 2013 ED:

- (a) IFRS 9 *Financial Instruments*;
- (b) IFRS 14 *Regulatory Deferral Accounts*;
- (c) IFRS 15 *Revenue from Contracts with Customers*; and
- (d) IFRS 16 *Leases*.

Amendments to full IFRS Standards, including new interpretations

Amendments not yet considered by the Board

15. The following amendments to full IFRS Standards were issued prior to commencement of balloting of the 2013 ED but were not incorporated in the *IFRS for SMEs* Standard because they related to full IFRS Standards that the Board decided not to incorporate:

- (a) IFRS 10 (amendment) *Investment Entities*.
- (b) Three annual improvements to IFRS 3 (2008) in the May 2010

Improvements to IFRSs:

- (i) Transition requirements for contingent consideration;
- (ii) Measurement of non-controlling interests; and
- (iii) Share-based payments in a business combination.

16. The following amendments to full IFRS Standards were not considered during the initial comprehensive review because they were issued after the 2013 ED:

- (a) Issued in 2016:
 - (i) *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts* (Amendments to IFRS 4)
 - (ii) *Classification and Measurement of Share-based Payment Transactions* (Amendments to IFRS 2);
 - (iii) *Disclosure Initiative* (Amendments to IAS 7); and
 - (iv) *Recognition of Deferred Tax Assets* (Amendments to IAS 12).
- (b) Issued in 2014:⁵
 - (i) *Investment Entities: Applying the Consolidation Exception* (Amendments to IFRS 10, IFRS 12 and IAS 28);

⁵ Notwithstanding the general principle in paragraph 10(e) of this paper, *Equity Method in Separate Financial Statements* (August 2014 amendments to IAS 27) does not appear in this list because it was included in the 2015 amendments to the *IFRS for SMEs* Standard. The Board decided that SMEs should be permitted the same flexibility to use the equity method as in full IFRS Standards if they prepare additional financial statements (see paragraph BC206 of the *IFRS for SMEs* Standard).

- (ii) *Disclosure Initiative* (Amendments to IAS 1);
 - (iii) *Annual Improvements to IFRSs 2012–2014 Cycle*;
 - (iv) *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (Amendments to IFRS 10 and IAS 28);
 - (v) *Agriculture: Bearer Plants* (Amendments to IAS 16 and IAS 41);
 - (vi) *Clarification of Acceptable Methods of Depreciation and Amortisation* (Amendments to IAS 16 and IAS 38); and
 - (vii) *Accounting for Acquisitions of Interests in Joint Operations* (Amendments to IFRS 11).
- (c) Issued in 2013:
- (i) *Annual Improvements to IFRSs 2010–2012 Cycle*⁶;
 - (ii) *Annual Improvements to IFRSs 2011–2013 Cycle*;
 - (iii) *Defined Benefit Plans: Employee Contributions* (Amendments to IAS 19);
 - (iv) *Novation of Derivatives and Continuation of Hedge Accounting* (Amendments to IAS 39); and
 - (v) *Recoverable Amount Disclosures for Non-Financial Assets* (Amendments to IAS 36); and
 - (vi) *IFRIC 21 Levies*.

Amendments already considered by the Board

17. The following amendments to full IFRS Standards were issued prior to commencement of balloting of the 2013 ED but were not incorporated because they were not considered relevant to the requirements in the *IFRS for SMEs*

⁶ Notwithstanding the general principle in paragraph 10(e), the amendment to the definition of a related party in *Annual Improvements to IFRSs 2010–2012 Cycle* does not appear in this list because it was included in the 2015 amendments to the *IFRS for SMEs*. This is because the 2013 ED proposed to align the definition of a related party with IAS 24 *Related Party Disclosures* and this minor change enabled full alignment (see paragraph BC206 of the *IFRS for SMEs*).

Standard. Consequently, the staff do not think these would need to be reconsidered at the next review:⁷

- (a) IFRS 1 (amendment) *Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters*;
- (b) IFRS 7 (amendment) *Disclosures: Transfers of Financial Assets*;
- (c) IAS 32 (amendment) *Classification of Rights Issues*;
- (d) IAS 32 (amendment) *Offsetting Financial Assets and Financial Liabilities*;
- (e) IFRIC 14 (amendment) *Prepayments of a Minimum Funding Requirement*;
- (f) IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine*;
and
- (g) Some annual improvements in the May 2010 *Improvements to IFRSs* and the May 2012 *Annual Improvements to IFRSs (2009–2011 Cycle)*.

Staff analysis

18. In Appendix A, the staff have provided a high-level summary of the expected changes that would need to be considered for SMEs if the new and amended full IFRS Standards in paragraphs 13–16 are incorporated in the *IFRS for SMEs* Standard.
19. Considering the major new full IFRS Standards listed in paragraphs 13-14:
- (a) **IFRS 3(2008) and IFRS 10–13**: as assessed during the initial comprehensive review of the *IFRS for SMEs* Standard and summarised in paragraph A1 in Appendix A, the changes under IFRS 3 (2008) and

⁷ The staff explanation for why the amendments in paragraphs 17(a), (b) and (d)-(g) are not relevant to the requirements in the *IFRS for SMEs* Standard, which was supported by the Board in the public meeting, was provided in Agenda Paper 8A for the May 2014 Board meeting. The amendment in paragraph 17(c) was included in the 2013 ED but removed in the final amendments to the *IFRS for SMEs* Standard because the Board decided the scenario addressed by the amendments was unlikely to affect SMEs.

IFRS 10-13 would be expected to have a limited practical impact on the financial statements of most SMEs. The staff do not think these changes are urgent for SMEs.

- (b) **IFRS 15–16:** these changes are significant and are not yet effective in full IFRS Standards. The staff think IFRS 15 and 16 will likely result in, and benefit from, implementation guidance/experience.

Consequently, the staff do not think these full IFRS Standards should be considered for SMEs until the next comprehensive review when some implementation experience will be available.

- (i) IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2017. This means that, apart from experience from early adopters, there would only be limited implementation experience available towards the end of an interim review of the *IFRS for SMEs* Standard. Furthermore, IFRS 15 would be unlikely to have a significant effect on the amount and timing of revenue recognition for most SMEs, for example those with straightforward retail transactions.

- (i) IFRS 16 was only published at the start of this year and is not effective until annual reporting periods beginning on or after 1 January 2019. Consequently, the staff think that it would be too soon to consider IFRS 16 during an interim review.

- (c) **IFRS 9:**

- (i) classification and measurement of financial instruments in the *IFRS for SMEs* Standard is based on a similar approach to IFRS 9, but simplified. Consequently, the staff think that changes in IFRS 9 in this area would have little practical impact for most SMEs.

- (ii) the changes to the hedging and impairment requirements in IFRS 9 could introduce significant complexity for SMEs. The staff think these requirements will probably result in, and benefit from, implementation

guidance/experience. IFRS 9 is effective for annual periods beginning on or after 1 January 2018 and so the staff think it would be too soon to incorporate it during an interim review.

- (iii) a key advantage of bringing in IFRS 9 would be the ability to remove the only fallback to full IFRS Standards in the *IFRS for SMEs* Standard, the fallback to IAS 39.⁸ This would also ensure that IAS 39 does not need to be maintained solely for the purposes of the *IFRS for SMEs* Standard when it is superseded by IFRS 9. Nevertheless, based on the feedback received from SMEIG members and from respondents to the comprehensive review, use of the fallback appears to be rare. Consequently, the staff do not think removing the fallback to IAS 39 is urgent. Furthermore, the Board has recently issued an amendment to IFRS 4 to defer application of IFRS 9 for some insurers, which means some entities applying full IFRS Standards will also apply IAS 39 after the effective date of IFRS 9.
- (d) **IAS 19 (2011):** the staff think that alignment with IAS 19 (2011) would be appropriate for SMEs, in particular to remove the option for recognition of remeasurements of the defined benefit liability (currently permitted in other comprehensive income or in profit or loss) and to simplify measurement requirements through use of a single net interest component. Nevertheless, the staff do not think the practical impact of these changes would be significant and do not think the changes are urgent.
- (e) **IFRS 14:** the staff think that incorporating these changes would be appropriate to provide SMEs with the same relief as entities applying full IFRS Standards. However, during the recent comprehensive

⁸ The Board decided that the fallback to IAS 39 should be retained until IFRS 9 is considered at a future review of the *IFRS for SMEs* Standard (see paragraph BC217 of the *IFRS for SMEs* Standard for the Board's reasoning).

review, the staff did not identify any concerns that suggest this needs to be an urgent change for SMEs.

20. The staff think that the costs, to preparers, national authorities/standard-setters and other parties, of dealing with an interim set of changes to the *IFRS for SMEs* Standard, do not justify the benefits of bringing in changes in IAS 19 (2011), IFRS 3 (2008) and IFRS 10-IFRS 14 before the next comprehensive review. The staff think it would be too early to consider changes in IFRS 9 and IFRS 15-16 at the current time.
21. Other notable amendments:
- (a) *Agriculture: Bearer Plants* (Amendments to IAS 16 and IAS 41). Some respondents to the 2013 ED said these amendments were important for SMEs. However, the *IFRS for SMEs* Standard only requires an entity to account for a biological asset using the fair value model if its fair value is readily determinable without undue cost or effort. The amendments to full IFRS Standards responded to concerns that, under certain circumstances, fair value measurements of bearer plants are complex and costly in the absence of active markets for those assets. In these circumstances, the undue cost or effort exemption may be available to SMEs. Consequently, the Board decided that incorporating the changes were not urgent.⁹
- (b) the staff do not think the practical impact of any of the other amendments to full IFRS Standards in this paper would be significant for SMEs and users of their financial statements. The staff further note that no significant concerns were identified about the areas addressed by these amendments during the recent comprehensive review of the *IFRS for SMEs* Standard.
22. After analysing the new and amended full IFRS Standards, the staff do not think there is an urgent need for an interim review of the *IFRS for SMEs* Standard ahead

⁹ See paragraph BC207 of the *IFRS for SMEs*.

of the next comprehensive review. Consequently, at the present time the staff do not think that an interim review would be a good use of the Board or SMEIG time, or staff resources. Furthermore, the staff think there is, currently, still an enhanced need for stability, because the *IFRS for SMEs* Standard is still a new Standard in many jurisdictions and many SMEs have only recently started using the *IFRS for SMEs* Standard.

SMEIG recommendation

23. Most SMEIG members do not think there is an urgent need to:
 - (a) incorporate any of the changes to full IFRS Standards listed in paragraphs 13–16 in advance of the next comprehensive review; or
 - (b) to consider the fallback to IAS 39.
24. SMEIG members are not aware of any other urgent changes that need to be made to the *IFRS for SMEs* Standard at the current time.
25. Consequently, most SMEIG members do not think that the Board should perform an interim review of the *IFRS for SMEs* Standard in advance of the next comprehensive review.
26. Some SMEIG members suggested that the Board should perform research, in advance of the next comprehensive review:
 - (a) to consider how changes in new and amended full IFRS Standards might affect SMEs; and
 - (b) start to plan how the changes will be incorporated in the *IFRS for SMEs* Standard.
27. Appendix B provides a more detailed summary of SMEIG members' feedback.

Staff recommendation

28. The staff agree with the SMEIG recommendation. Consequently, the staff recommend that the Board should not perform an interim review of the *IFRS for SMEs* Standard.
29. In addition, as suggested by some of the SMEIG members, the staff think that there should be a research phase in advance of the next comprehensive review. In this research phase the staff on this project would liaise with staff who worked on the projects resulting in the more significant changes in new and amended IFRS Standards. The objective would be to consider how those changes might be incorporated in the *IFRS for SMEs* Standard and ensure that we are well informed for the next comprehensive review. The staff think that this would be a better use of staff resources at the current time, and would result in more effective amendments to the *IFRS for SMEs* Standard, than an interim review of the *IFRS for SMEs* Standard.

Questions for the Board

Do you think there is a need for the Board to perform an interim review of the *IFRS for SMEs* Standard starting this year?

Do you agree that staff resources would be better utilised by starting a research phase in advance of the next comprehensive review?

Appendix A: Key changes to consider in new and amended full IFRS Standards

Significant new full IFRS Standards

A1. The following full IFRS Standards were issued prior to balloting of the 2013 ED but were not incorporated in the 2015 amendments to the *IFRS for SMEs* Standard:

Full IFRS Standard	Main changes to consider if incorporated in the <i>IFRS for SMEs</i> Standard	Reasons not included in the 2015 amendments to the <i>IFRS for SMEs</i> Standard (in addition to enhanced need for stability in the early years of implementation)
IFRS 3 (2008) <i>Business Combinations</i>	<p>The requirements in the <i>IFRS for SMEs</i> Standard are based on IFRS 3 (2004). IFRS 3 (2008) addressed some deficiencies in IFRS (2004) without changing the underlying accounting.</p> <p>Main changes from IFRS 3 (2008):</p> <ul style="list-style-type: none"> • Acquisition costs recognised as expenses rather than treated as part of the business combination. • Contingent consideration recognised at fair value and accounted for as a financial instrument instead of as an adjustment to the cost of the business combination. • In determining goodwill, remeasurement to fair value of any existing interest in the acquiree and measurement of any NCI in the acquiree. 	<p>Changes would have resulted in additional complexity for SMEs, in particular because of the additional fair value measurements required.</p> <p>On the basis of feedback from respondents the 2012 RFI, the current approach (based on IFRS 3 (2004)) works well in practice for SMEs and is well understood and accepted by SME preparers and users.</p>

<p>IFRS 10-12 Consolidation suite of Standards (and consequential changes to IAS 27 and IAS 28)</p>	<p>IFRS 10 includes additional guidance on applying the control principle in a number of situations, with the intention of avoiding divergence in practice. The guidance generally affects borderline cases when it is difficult to establish if an entity has control.</p> <p>IFRS 10 has an exemption from consolidation of subsidiaries for entities meeting the definition of 'investment entity'.</p> <p>IFRS 11 classifies and accounts for a joint arrangement on the basis of the parties' rights and obligations under the arrangement (rather than the structure of the arrangement being the main determinant). In most cases, there would be no change to the accounting for SMEs because jointly controlled assets/operations would become joint operations, and jointly controlled entities would become joint ventures. Nevertheless, an investment that previously met the definition of a jointly controlled entity could become a joint operation (because existence of a separate legal vehicle is no longer the main factor in classification).</p> <p>IFRS 12 combines together the disclosures on subsidiaries, associates and joint arrangements and adds new disclosures, including about structured entities.</p>	<p>IFRS 10-12 were only recently effective at the time of the initial comprehensive review. In addition, they introduced complex changes that were expected to result in, and benefit from, implementation guidance/experience.</p> <p>IFRS 10-11 were expected to have a limited practical impact on the majority of SMEs, because changes would be unlikely to affect the accounting for simple group structures. Furthermore, many investment entities would not be within the scope of the <i>IFRS for SMEs</i> Standard. Consequently, addressing the changes was not considered urgent.</p> <p>Disclosures about investments in subsidiaries, associates and joint arrangements are significantly reduced from full IFRS Standards for cost-benefit reasons. Consequently, it is likely that many of the IFRS 12 disclosures would also be reduced if incorporated in the <i>IFRS for SMEs</i> Standard.</p>
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<p>IFRS 13 <i>Fair Value Measurement</i></p>	<p>IFRS 13 has more specific guidance on determining fair value, including assessing the highest and best use of non-financial assets and identifying the principal market. Some other changes include an emphasis that fair value is a market-based measurement (not an entity-specific measurement) and amending the definition of fair value to focus on an exit price.</p> <p>SMEs may need to re-evaluate their methods for determining fair value amounts to check they are still appropriate (particularly for non-financial assets) and use greater judgement in assessing what data market participants would use when pricing an asset or liability.</p>	<p>Recently effective at the time of the initial comprehensive review and introduced complex changes that were expected to result in, and benefit from, implementation guidance/experience.</p> <p>Expected to have a limited practical impact on the majority of SMEs, because changes would be unlikely to affect straightforward fair value measurements.</p>
<p>IAS 19 (2011) <i>Employee Benefits</i></p>	<p>Main changes:</p> <ul style="list-style-type: none"> • Requirement to disaggregate the defined benefit cost into service cost, net interest and remeasurements. • Requirement to recognise remeasurements in other comprehensive income (currently SMEs can recognise actuarial gains and losses in other comprehensive income (OCI) or profit and loss). • Replacing the expected return on assets and interest costs on the defined benefit obligation with a single net interest component determined by multiplying the net defined benefit liability/asset by the discount rate used to determine the defined benefit obligation. • Modifying the recognition and measurement requirements for termination benefits. 	<p>The main change would be a requirement to present actuarial gains and losses in OCI. At the time of the initial comprehensive review the Board was expected to reconsider the distinction between profit or loss and OCI (including the use of recycling) during its full IFRS projects, eg in the <i>Conceptual Framework</i> project, and so this was not considered an urgent change.</p>

A2. Full IFRS Standards issued after 2013 ED:

Full IFRS Standard	Main changes to consider if incorporated in the <i>IFRS for SMEs</i> Standard
<p>IFRS 9 <i>Financial Instruments</i></p>	<p>Currently in the <i>IFRS for SMEs</i> Standard:</p> <ul style="list-style-type: none"> • financial instruments that meet specified criteria are measured at amortised cost, and all others are measured at fair value through profit or loss (similar to business model approach in IFRS 9). • similar hedge accounting mechanics to IAS 39, but simplified. However, the <i>IFRS for SMEs</i> Standard only permits hedge accounting in specific circumstances. • incurred loss impairment model similar to IAS 39. <p>Main changes from IFRS 9:</p> <ul style="list-style-type: none"> • addition of a fair value through OCI category. • changes in the fair value of an entity's own credit risk recognised in other OCI. • moving from an incurred loss model to an expected credit loss model for impairment. • considering the new hedge accounting requirements in IFRS 9 that align the accounting more closely with risk management. <p>The <i>IFRS for SMEs</i> Standard allows an option to apply the recognition and measurement requirements in IAS 39, rather than in the <i>IFRS for SMEs</i> Standard. This fallback would probably be removed on incorporation of IFRS 9.</p>
<p>IFRS 14 <i>Regulatory Deferral Accounts</i></p>	<p>The <i>IFRS for SMEs</i> Standard does not have specific requirements for rate regulation.</p> <p>IFRS 14 permits first-time adopters of full IFRS Standards to continue to recognise amounts related to rate regulation in accordance with their previous GAAP requirements on adoptions. Consequently, bringing in a similar change would affect first time adopters of the <i>IFRS for SMEs</i> Standard, but not SMEs currently applying the <i>IFRS for SMEs</i> Standard.</p>
<p>IFRS 15 <i>Revenue from Contracts with Customers</i></p>	<p>The requirements in the <i>IFRS for SMEs</i> Standard are based on IAS 11 <i>Construction Contracts</i> and IAS 18 <i>Revenue</i>, combined in one section.</p> <p>IFRS 15 would introduce a comprehensive five-step framework for determining when to recognise revenue and how much revenue to recognise. There may be little effect on the amount and timing of revenue recognition for many SMEs, eg those with straightforward retail transactions. However, IFRS 15 could result in changes to the amount or timing of the revenue recognised by SMEs with long-term service contracts and multiple-element arrangements.</p>

<p>IFRS 16 <i>Leases</i></p>	<p>The requirements in the <i>IFRS for SMEs</i> Standard are based on IAS 17 <i>Leases</i>.</p> <p>The main change under IFRS 16 would be the removal of the requirement for lessees to classify leases as either operating leases or finance leases. Instead all leases would be treated in a similar way to the current finance leases accounting (with exceptions for leases of less than 12 months and low-value assets). The effect would be an increase in lease assets and financial liabilities.</p>
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Amendments to full IFRS Standards

(excluding amendments that clarify requirements in IFRS 3 (2008), IFRS 10–16 and IAS 19 (2011) because these are in paragraphs A1–A2)¹⁰

A3. Issued in 2016:

Amendment to full IFRS Standards	Main changes to consider if incorporated in the <i>IFRS for SMEs</i> Standard
<p><i>Classification and Measurement of Share-based Payment Transactions</i> (Amendments to IFRS 2)</p>	<p>Clarification about:</p> <ul style="list-style-type: none"> • the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; • share-based payment transactions with a net settlement feature for withholding tax obligations; and • a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.
<p><i>Disclosure Initiative</i> (Amendments to IAS 7)</p>	<p>Requirement to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities.</p>
<p><i>Recognition of Deferred Tax Assets</i> (Amendments to IAS 12)</p>	<p>Clarifying how to account for deferred tax assets related to debt instruments measured at fair value.</p>

A4. Issued in 2014:

Amendment to full IFRS Standards	Main changes to consider if incorporated in the <i>IFRS for SMEs</i> Standard
<p><i>Disclosure Initiative</i> (Amendments to IAS 1)</p>	<p>Clarifying amendments on materiality, order of the notes, subtotals, accounting policies and disaggregation of line</p>

¹⁰ Also excludes the recent amendments to IFRS 4 *Insurance Contracts* as insurance companies are generally outside the scope of the *IFRS for SMEs* Standard.

	items.
<i>Annual Improvements to IFRSs 2012–2014 Cycle</i>	Change likely to affect SMEs: Clarification that the depth of the market for high-quality corporate bonds should be assessed at a currency level for post-employment benefit obligations.
<i>Agriculture: Bearer Plants</i> (Amendments to IAS 16 and IAS 41) June 2014	Including bearer plants within the scope of IAS 16, thereby permitting a choice of a revaluation model or cost model (rather than fair value through profit or loss).
<i>Clarification of Acceptable Methods of Depreciation and Amortisation</i> (Amendments to IAS 16 and IAS 38)	Clarification that a depreciation method that is based on revenue that is generated by an activity that includes the use of an asset is not appropriate.

A5. Issued in 2013:

Amendment to full IFRS Standards	Main changes to consider if incorporated in the <i>IFRS for SMEs</i> Standard
<i>Annual Improvements to IFRSs 2010–2012 Cycle</i>	Changes likely to affect SMEs: <ul style="list-style-type: none"> • Clarifying definitions relating to vesting conditions for share-based payments. • Clarifying that when an item of property, plant and equipment is revalued, the gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount.
<i>Annual Improvements to IFRSs 2011–2013 Cycle</i>	Change likely to affect SMEs: Clarifying the interrelationship of IFRS 3 and IAS 40 when classifying property as investment property or owner-occupied property.
<i>Novation of Derivatives and Continuation of Hedge Accounting</i> (Amendments to IAS 39)	Relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria.
<i>Recoverable Amount Disclosures for Non-Financial Assets</i> (Amendments to IAS 36)	Clarification of the amendments made to the disclosures in IAS 36 when IFRS 13 was issued. Also adds a requirement for an entity to disclose the discount rates that have been used if recoverable amount based on fair value less costs of disposal was measured using a present value technique.
IFRIC 21 <i>Levies</i>	Specific guidance on accounting for a liability to pay a levy if that liability is within the scope of IAS 37.

Appendix B: Summary of feedback from SMEIG members

- B1. SMEIG members were provided with the same information as is presented in this agenda paper, including Appendix A. They were asked to respond to four questions. We received feedback from 31 SMEIG members.¹¹

Summary of SMEIG members' responses to main question

Do you think there is a need for an interim review before the next comprehensive review?

- B2. Nearly all SMEIG members do not think an interim review should take place before the next comprehensive review begins in 2019. They think that the Board should prioritise stability over immediate alignment with full IFRS Standards. Some SMEIG members noted the significance of recent changes under IFRS 9, 15 and 16 and thought that the Board should wait until these have been implemented under full IFRS Standards before assessing their suitability for SMEs. Some SMEIG members thought that the Board would be criticised for starting an interim review so soon after the 2015 amendments to the *IFRS for SMEs* Standard from the initial comprehensive review.
- B3. A few SMEIG members suggested the Board should instead begin a research phase preceding the next comprehensive review. The research phase could begin immediately. These SMEIG members noted that the Board will need to consider some significant changes in new and amended full IFRS Standards at the next comprehensive review. These SMEIG members think the Board should perform some initial research on how these changes might affect SMEs, and also start to plan how the changes will be incorporated in the *IFRS for SMEs* Standard in advance of the next review.
- B4. Whilst not supporting an interim review, two SMEIG members thought that the RFI for the next comprehensive review could be issued earlier than 2019. Most of

¹¹There are currently 27 SMEIG members. This slightly larger number reflects the fact that some SMEIG members that retired in June 2016 also provided comments.

the 2015 amendments to the *IFRS for SMEs* Standard were minor and so are unlikely to result in significant implementation difficulties. Consequently, these SMEIG members do not think that there is a need to wait two years after the effective date of those amendments (1 January 2017) before starting the next comprehensive review.

Summary of SMEIG responses to the three detailed questions

1) Is there an urgent need to incorporate any new and amended IFRS Standards in advance of the next comprehensive review?

B5. Four SMEIG members said there should be an interim review because they think some changes in new and amended full IFRS Standards cannot wait until the next comprehensive review. These were:

- (a) IFRS 16 because it will have a significant impact on the financial statements of many SMEs (3 SMEIG members). One SMEIG member noted that it is particularly important for those SMEs that want to align their accounting policies as closely as possible with full IFRS Standards, eg subsidiaries of a full IFRS parent.
- (b) IFRS 13 because it is useful for preparers and prevents earnings management (2 SMEIG members).
- (c) IFRS 9 because it is a significant improvement to IAS 39 particularly the hedging requirements. SMEs should be allowed to apply the better accounting for financial instruments (1 SMEIG member).
- (d) IFRS 3, IFRS 10-12, IFRS 15, IAS 19, and *Agriculture: Bearer Plants* (Amendments to IAS 16 and IAS 41) because these topics are important for SMEs (1 SMEIG member).

B6. Whilst not recommending an interim review, three other SMEIG members said that if the Board does perform an interim review the following changes in new and amended full IFRS Standards are the more urgent ones to consider

- (e) *Agriculture: Bearer Plants* (2 SMEIG members)

- (f) IFRS 3(2008) (1 SMEIG member)
- (g) Aligning the definition of fair value in the *IFRS for SMEs* Standard with IFRS 13 (1 SMEIG member)

2) Do you think there is an urgent need to consider the fallback to IAS 39 before the next comprehensive review?

- B7. Only one SMEIG members said there is an urgent need to consider the fallback to IAS 39. This SMEIG member thinks that SMEs should be able to use the superior accounting in IFRS 9 (as noted in the previous question).
- B8. Several SMEIG members voiced support for removing the fallback to IAS 39 at the next comprehensive review.

3) Are you aware of any other changes, eg implementation issues, that need to be made to the IFRS for SMEs Standard before the next comprehensive review?

- B9. No SMEIG members identified any other urgent issues. However, one SMEIG member said there is some concern, specifically from practitioners, on application of judgement when considering the undue cost or effort exemptions in the IFRS for SMEs Standard, for example the undue cost or effort exemption for biological assets. These concerns exist even though the 2015 amendments to the *IFRS for SMEs* Standard provided some additional guidance.