

STAFF PAPER

March 2013

SMEIG Meeting

Project	Comprehensive review of the <i>IFRS for Small and Medium-sized Entities (IFRS for SMEs)</i>		
Paper topic	Report of the SME Implementation Group		
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This paper has been prepared by the staff of the IFRS Foundation for discussion at a public meeting of the IASB and does not represent the views of the IASB or any individual member of the IASB. Comments on the application of IFRSs do not purport to set out acceptable or unacceptable application of IFRSs. Technical decisions are made in public and reported in IASB *Update*.

Purpose of this paper

1. This SMEIG Paper 4 presents the report of the SME Implementation Group (SMEIG) containing their recommendations on possible amendments to the *IFRS for SMEs* based on discussions at the 4-5 February 2013 SMEIG meeting.

Structure of this paper

2. This SMEIG Paper 4 is set out as follows:
 - (a) Introduction
 - (b) Development of the report of the SMEIG
 - (c) Part I: SMEIG recommendations on issues addressed by individual questions in the Request for Information (RFI): *Comprehensive Review of the IFRS for SMEs*
 - (d) Part II: SMEIG recommendations on other issues raised by respondents to the RFI
 - (e) Part III: Other points raised by SMEIG members

Introduction

3. The SMEIG met on 4 and 5 February 2013 for the first time in person. The SMEIG has previously conducted all of its work by email. The objective of the meeting was for the SMEIG to discuss the public comments received on the RFI and develop a set of recommendations for the IASB on possible amendments to the *IFRS for SMEs*.
4. At the SMEIG meeting the IASB staff presented three papers to the SMEIG:
 - (a) SMEIG Agenda Paper 1: Cover paper providing background information on the comprehensive review.
 - (b) SMEIG Agenda Paper 2: Covers the issues addressed by individual questions in the RFI. For each issue this paper provides a summary of the main comments received in comment letters, the IASB staff's initial recommendation based on those comments and questions for the SMEIG to discuss.
 - (c) SMEIG Agenda Paper 3: Covers other issues raised by respondents to the RFI. This paper sets out the issues raised by respondents, the IASB staff's initial recommendation and questions for the SMEIG to discuss.

These three papers are available on the IASB website via the following link:

<http://www.ifrs.org/Meetings/Pages/SMEIG-Feb-13.aspx>.

5. This SMEIG Paper 4 provides the SMEIG recommendations on the issues in SMEIG Agenda Paper 2 and 3. For background information on the issues discussed and the associated comment letter analysis please refer to SMEIG Agenda Paper 2 and 3.

Development of the report of the SMEIG

6. The process for developing the report of the SMEIG (as presented in this SMEIG Paper 4) was as follows:
 - (a) Based on discussions at the SMEIG meeting, IASB staff prepared an initial draft of the SMEIG report.

- (b) The initial draft was sent to all SMEIG members by email for review.
- (c) All original comments from SMEIG members on the initial draft were posted to the SMEIG section of the IASB's SharePoint internal database as they were received by IASB staff. All SMEIG members have access to that database and can access each other's responses. IASB members can also access those responses.
- (d) After considering comments from SMEIG members, IASB staff prepared a revised draft of the report. IASB staff also prepared a summary of SMEIG comments. That summary included every substantive comment made by a SMEIG member and explained how the IASB staff addressed that comment in the revised draft of the report.
- (e) The summary of SMEIG comments and revised draft of the report were sent to the SMEIG members. SMEIG members were asked to review the revised draft, submit any further comments they may have, and inform the IASB staff whether they approve the final draft of the report to be submitted to the IASB.
- (f) After incorporating any further comments from SMEIG members, IASB staff prepared the final report as presented in this SMEIG Paper 4.

7. The SMEIG recommendation for each issue is set out as follows:

- (a) Where there was a broad support among SMEIG members, this report provides this as the SMEIG recommendation in an upfront box, with SMEIG members' reasoning where this was clearly given.
- (b) Where the SMEIG was divided, the upfront box indicates the differing views and arguments put forward.
- (c) For some recommendations in this paper, the report includes further information about the SMEIG discussions either to further expand on the SMEIG recommendation or due to the depth of the discussion in that area.

Part I: SMEIG Recommendations on issues addressed by individual questions in the RFI

Content

8. Part I covers the following issues in SMEIG Agenda Paper 2:
- (a) Scope of the *IFRS for SMEs* (Issue 1-3)
 - (b) New and revised IFRSs (Issue 4)
 - (c) Accounting policy options (Issue 5-7)
 - (d) Income tax (Issue 8)
 - (e) Two issues on specific paragraphs in the *IFRS for SMEs*:
 - (i) Amortisation period for goodwill and other intangible assets (Issue 9)
 - (ii) Presentation of share subscriptions receivable (Issue 10)
 - (f) Inclusion of additional topics in the *IFRS for SMEs* (Issue 11)
 - (g) SMEIG Q&As (Issue 12).

Issue 1) Use by publicly traded entities

9. *Are the scope requirements of the IFRS for SMEs currently too restrictive for publicly traded entities?*

The majority of SMEIG members recommend deleting paragraph 1.5 of the *IFRS for SMEs*. They consider that local authorities are best placed to decide whether the *IFRS for SMEs* should be permitted or required for any entities in their jurisdiction. However, these SMEIG members feel that the *IFRS for SMEs* should remain clear that its intended scope is entities that do not have public accountability and its requirements should not be amended to cater for publicly traded entities.

A significant minority of SMEIG members recommend retaining paragraph 1.5. They believe all publicly traded entities should be applying full IFRSs. Alternatively, they would support replacing paragraph 1.5 by a requirement for such entities to disclose that they are not in the intended scope of the *IFRS for SMEs*.

SMEIG discussion

10. Whilst the broad view of the SMEIG was that publicly traded entities should in general apply full IFRSs, the majority also considered that there are limited circumstances where the *IFRS for SMEs* could be appropriate for a publicly traded entity or group of entities. These SMEIG members supported deleting paragraph 1.5 of the *IFRS for SMEs* because they consider local authorities best placed to judge whether the *IFRS for SMEs* should be permitted or required for entities within their jurisdiction.
11. Nevertheless, these SMEIG members considered this an exception. They felt that the *IFRS for SMEs* should remain clear that its intended scope is entities that do not have public accountability. It therefore follows that, when amending the *IFRS for SMEs*, the IASB should keep the same mind-set and not cater for publicly traded entities.
12. A significant minority of SMEIG members supported retaining paragraph 1.5. These SMEIG members felt all publicly traded entities should have consistent reporting requirements and that it would be confusing to have two sets of standards used by publicly traded companies in different jurisdictions. Furthermore they argued the *IFRS for SMEs* was not developed to cater for publicly traded entities. Some SMEIG members felt that if paragraph 1.5 is deleted it should be replaced by a requirement for entities to disclose that they are publicly traded entities and are not in the intended scope of the *IFRS for SMEs*.
13. An additional point raised was whether the definition of ‘publicly accountable’ could be modified to cater for both views summarised in paragraphs 10-12 above. For example, the IASB could add more flexible guidance for jurisdictions to determine which entities are publicly accountable. Therefore, in limited cases, publicly traded entities could fall within the scope of the *IFRS for SMEs* if they are essentially more like entities without public accountability (for example they have a limited number of investors).

Issue 2) Use by financial institutions

14. *Are the scope requirements of the IFRS for SMEs currently too restrictive for entities that hold assets for a broad group of outsiders as one of their primary businesses?*

The majority of SMEIG members recommend deleting paragraph 1.5 of the IFRS for SMEs. Consistent with their views for Issue 1, they consider that local authorities are best placed to decide whether the *IFRS for SMEs* should be permitted or required for any entities in their jurisdiction that hold assets for a broad group of outsiders as one of their primary businesses (eg financial institutions). Equally, these SMEIG members feel that the *IFRS for SMEs* should remain clear that its intended scope is entities that do not have public accountability and its requirements should not be amended to cater for publicly accountable entities.

A significant minority of SMEIG members recommend retaining paragraph 1.5. Consistent with their views for Issue 1, they believe all entities that hold assets for a broad group of outsiders as one of their primary businesses should be applying full IFRSs. As an alternative, they would again support replacing paragraph 1.5 by a requirement for such entities to disclose that they are not in the intended scope of the *IFRS for SMEs*.

SMEIG discussion

15. Whilst the broad view of the SMEIG was that entities that hold assets for a broad group of outsiders as one of their primary businesses should in general be applying full IFRSs, the majority of SMEIG members acknowledged that circumstances vary across jurisdictions. SMEIG members provided examples of micro banks and small credit unions that could in essence be more like entities without public accountability and many do not have complex transactions.
16. However, some SMEIG members were concerned that the *IFRS for SMEs* does not sufficiently cater for the complexity of transactions most financial institutions and similar entities enter into. As for Issue 1 SMEIG members generally felt the *IFRS for SMEs* should remain clear that its intended scope is entities without public accountability and not try to cater for entities with complex financial instrument transactions.

Issue 3) Clarification of use by not-for-profit (NFP) entities

17. *Should the IFRS for SMEs be revised to clarify whether an NFP entity is eligible to use it?*

The SMEIG recommends that no change be made to the IFRS for SMEs. In the view of the SMEIG, paragraph 1.4 is clear that soliciting and accepting contributions does not automatically make NFP entities publicly accountable.

SMEIG discussion

18. The broad view of the SMEIG was that soliciting and accepting contributions does not automatically make an NFP entity publicly accountable. Furthermore SMEIG members did not think further clarification is necessary in the *IFRS for SMEs*. They noted that paragraph 1.4 clearly states that if charitable organisations hold assets in a fiduciary capacity for a broad group of outsiders for reasons incidental to their primary business that does not make them publicly accountable.
19. A few SMEIG members expressed support for the IASB considering issues specific to NFP entities as part of a separate project. An international standard would prevent jurisdictions from having to develop their own standard/guidance if guidance for NFPs is deemed necessary in that jurisdiction.

Issue 4) Consideration of new and revised IFRSs

20. *As a matter of policy, how should the IFRS for SMEs be updated for new and revised IFRSs and annual improvements?*

The SMEIG made the following recommendations:

- a) Changes to the *IFRS for SMEs* should be driven in order of priority by:
- (i) implementation experience of SMEs, and
 - (ii) changes to full IFRSs.
- b) New or significantly amended IFRSs should not be incorporated until implementation experience has been assessed (after the post-implementation review). Exceptions may be considered, for example where they would help

solve a known problem for SMEs, or changes are simplifications and easily understood.

- c) Minor amendments to full IFRSs should only be incorporated where there is a known problem for SMEs.

Applying these principles, the SMEIG recommends:

- a) Changes to IAS 19 should be incorporated during this review.
- b) Changes to IFRS 3, 10, 11, 12 and 13 should wait until implementation experience has been assessed

SMEIG discussion

Objective of the *IFRS for SMEs*

21. The SMEIG had a general discussion about the objective of the *IFRS for SMEs*. The majority of SMEIG members considered that the main focus of the Standard should be on the users of the financial statements. SMEIG members envisaged entities applying the *IFRS for SMEs* would be those with a limited or closed user group and where the users are likely to be less distant from the entity. The SMEIG felt this is consistent with the current scope of the *IFRS for SMEs*, which is based on public accountability. A few SMEIG members felt that the Preface to the *IFRS for SMEs* should reflect the objective of the *IFRS for SMEs* more clearly.
22. In line with paragraph 21, the majority of SMEIG felt the main focus when making changes to the *IFRS for SMEs* should be on the needs of the users of SME financial statements. Other factors such as the size of the entity, the complexity of its transactions and the resources available to it, are secondary factors to consider when making changes to the *IFRS for SMEs*.
23. A few SMEIG members noted that size and complexity of entities using the *IFRS for SMEs* would be self-regulating. For example, entities with a wider range of complex transactions may find that the *IFRS for SMEs* does not cater for their needs and so they would need to apply full IFRSs.
24. The broad view of the SMEIG was that the *IFRS for SMEs* should be maintained as a standalone standard catering for the specific requirements of SMEs. Based on

this, the majority of SMEIG members felt that the main driver for changes to the *IFRS for SMEs* should be the implementation experience of SMEs. SMEIG members felt that small and medium sized practices (SMPs) would be the best source of knowledge on this implementation experience. The SMEIG also strongly supported having a stable platform for SMEs and not making frequent changes to the *IFRS for SMEs*.

Changes to full IFRSs

25. SMEIG members noted that changes to full IFRSs are made for good reason, that where possible consistency in principles is desirable, and that a few entities will need to transition between the *IFRS for SMEs* and full IFRSs (although it was acknowledged that the vast majority of SMEs will never transition to publicly accountable entities). Therefore, the broad view of the SMEIG was that all changes to full IFRSs should be considered individually but that changes should only be incorporated in the *IFRS for SMEs* if they would result in an improvement in financial reporting for SMEs.
26. To avoid unnecessarily increasing the reporting burden for SMEs, the SMEIG broadly felt minor amendments to full IFRSs to address unintended consequences, conflicts or oversights should only result in a change to the *IFRS for SMEs* where there is a known problem for SMEs, ie that there should be a rebuttable presumption that changes should not be incorporated in the *IFRS for SMEs*.

Timing

27. The SMEIG generally felt that changes to full IFRSs should only be considered after the changes have been implemented under full IFRSs and are seen to be working well in practice. However it was generally agreed that the approach should be flexible to allow some changes to be adopted earlier if necessary.
28. The SMEIG agreed on the following approach:
 - (a) A review of the *IFRS for SMEs* should take place approximately every three years. The timing could vary slightly, to coincide with changes to full IFRSs that are considered important for SMEs or to deal with urgent or time sensitive issues.

- (b) All changes to full IFRSs that are effective at the time of the review of the *IFRS for SMEs* should be considered for inclusion as part of that review. For example, it may be appropriate to incorporate some of the more principle-based or straight forward changes to full IFRSs as soon as they become effective under full IFRSs if they are considered relevant for SMEs and/or would help solve a known problem for SMEs.
- (c) However, most changes to full IFRSs, in particular those that are complex, would not be incorporated until implementation experience has been assessed (eg after the post-implementation review has been performed, where appropriate).

Changes to incorporate during this review

29. Based on the process set out in paragraph 28 the SMEIG recommended incorporating the 2011 revision to IAS 19 to require all actuarial gains and losses to be recognised in other comprehensive income in the period in which they arise. It was generally agreed that this change would be simple to implement. However, the SMEIG decided that changes to IFRS 3, 10, 11, 12 and 13 should not be considered until after the post-implementation reviews of those IFRSs had been carried out due to the complexity of these IFRSs. The SMEIG agreed that the staff should look at the minor amendments to full IFRSs under the Annual Improvements project individually and adopt those that respond to a known problem for SMEs.

Issue 5) Revaluation of property, plant and equipment (PPE)

30. *Should an option to use the revaluation model for PPE be added to the IFRS for SMEs?*

The majority of SMEIG members recommend adding a revaluation option for PPE. SMEIG members supporting this option emphasised the business requirements of SMEs, especially access to loan financing, and a view that entities should not be prohibited from providing more relevant information.

A significant minority of SMEIG members recommend not permitting a revaluation option. These members emphasised concerns with users of SME financial statements being less able to deal with different options, and the added complexity options introduce in the Standard.

SMEIG discussion

31. SMEIG members were divided on this issue. Those who supported adding the option noted that in certain jurisdictions, the valuations of PPE could change significantly between periods. Additionally, they noted that in certain industries, it is common for PPE to form a significant part of the reported value of an entity. Those SMEIG members further argued that this information is useful for making credit decision relating to the entity. In the view of those supporting the change, under in particular these circumstances, the revaluation of PPE would constitute more relevant information.
32. Other SMEIG members did not support an option. These members felt that an option would add complexity to the Standard. They noted that complexity comes in multiple forms – the additional complexity relates to the actual form of the Standard which would have to incorporate the option, the judgement required from the preparers in deciding which option to pursue and the care necessary from users who would have to determine which option had been chosen. These members also noted that entities are free to disclose the fair value of PPE in their financial statements, and that this disclosure should suffice for credit decision making.
33. SMEIG members also noted a concern that once one additional option was introduced into the standard, it may prove difficult not to introduce other options.

Issue 6) Capitalisation of borrowing costs/development costs

34. *Should Section 18 be changed to permit or require capitalisation of development costs on a similar basis to IAS 38?*

A slight majority of SMEIG members recommend allowing SMEs an option to either expense (current treatment) or capitalise development costs. SMEIG members note that this issue is similar to Issue 5, but that it would only affect relatively few SMEs.

A strong minority of SME members recommend no change to current requirements for cost-benefit reasons.

A smaller minority recommend requiring capitalisation of development costs based on similar criteria to IAS 38.57, but adding an undue cost or effort exemption. These members emphasise the importance of aligning the *IFRS for SMEs* with full IFRSs.

35. *Should Section 25 of the IFRS for SMEs be changed so that SMEs are required to capitalise borrowing costs on a similar basis to IAS 23?*

SMEIG members have the same views as for accounting for development costs.

36. SMEIG members discussed these two issues at the same time. They noted some similarity between these issues and Issue 5, and acknowledged the concern expressed in paragraph 33 above.
37. Those SMEIG members who supported introducing an option noted the significance to certain industries of development and interest costs. They also stressed their concern that the accounting required under full IFRSs is not permitted under the *IFRS for SMEs*. They noted their view that based on the IASB's decisions under full IFRSs, it is apparent that the capitalisation approach produces more relevant information. However, they also conceded that these changes would apply to relatively few SMEs, and that the accounting approach would be onerous for many SMEs to apply. Consequently, they supported an option.
38. Those SMEIG members who supported no change to the current requirements did so for many of the same reasons set out in paragraph 32.
39. The small minority of SMEIG members who supported changing the standard to introduce a requirement for the capitalisation of development costs supported most of the arguments put forward by the majority (set out in paragraph 37 above). However, these SMEIG members also agreed that adding an option created complexity. Consequently they felt that the issues described could be

dealt with by making the capitalisation approach a requirement, with an ‘undue cost or effort’ qualifier to alleviate the potentially onerous nature of the requirement.

Issue 7) Use of recognition and measurement provisions in full IFRSs for financial instruments

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

The SMEIG recommends:

- a) **Removing the fallback to IAS 39.**
- b) **Failing that, the IAS 39 fallback should be retained until IFRS 9 is considered for incorporation in the *IFRS for SMEs*.**

If the second alternative is followed, the SMEIG recommends that the fallback to IAS 39 should only be deleted once IFRS 9 has been considered for incorporation.

SMEIG discussion

41. The SMEIG generally felt the fallback to full IFRSs should be removed. However, it was agreed that before doing so it was important to assess to what extent the fallback was being used in practice. This could be done by asking a question in the exposure draft of amendments to the *IFRS for SMEs*. Several SMEIG members stated that in their experience few entities were using the fallback in practice and it was limited to subsidiaries of full IFRSs groups.
42. If feedback on the exposure draft indicates that the fallback to full IFRSs is being used more widely in practice, the SMEIG felt the fallback to IAS 39 should be retained until IFRS 9 is considered for incorporation in the *IFRS for SMEs* (under the criteria established in Issue 4). Once IFRS 9 is considered for incorporation, the fallback to full IFRSs could be deleted.
43. SMEIG members would not support allowing a fallback to IFRS 9 once it becomes effective as this would result in entities needing to do a two-step transition (firstly from IAS 39 to IFRS 9, and secondly from IFRS 9 to Section

11/12 when IFRS 9 is incorporated and the fallback to full IFRSs is deleted). It was generally noted that a fallback to a superseded standard is not ideal. However the strong preference is to remove the fallback altogether if it is found that the fallback to IAS 39 has limited use in practice.

Issue 8) Accounting for income tax

44. *Should Section 29 Income Tax be revised?*

The majority of SMEIG members recommend that Section 29 should be aligned with IAS 12.

A small minority of SMEIG members recommend requiring a taxes payable approach with additional disclosure requirements for cost-benefit reasons.

An even smaller minority recommend a temporary difference approach with an undue cost or effort exemption (fallback to the taxes payable method).

Further, the SMEIG recommends that the amendment to IAS 12 to add a rebuttable presumption that the carrying amount of investment property measured at fair value will be recovered entirely through sale should be incorporated in Section 29.

This is because entities applying full IFRSs have found the amendment to be a simplification and reduce subjectivity.

SMEIG discussion

45. The SMEIG noted the complexity of applying IAS 12, however some members also acknowledged the economic validity of recognising deferred tax. Members further noted that the earlier recommendation to revalue PPE further emphasised a requirement for a deferred tax type recognition.
46. On balance, a majority of SMEIG members supported a proposal that *IFRS for SMEs* be amended to align with the principles of IAS 12. These members argued that deferred taxation provides important and relevant information about an entity, and agreed with the basic economic rationale for the deferred tax treatment. Whilst acknowledging the flaws and complexities of IAS 12, they felt that it was

operating in practice, and that many practitioners were comfortable with it. These members stressed the importance of alignment with full IFRSs.

47. A minority of SMEIG members, whilst acknowledging the economic rationale for deferred tax, supported a tax payable model. These members placed more emphasis on the simplicity and verifiability of the tax payable model, and less on the relevance of the deferred tax model. They feel the benefits of deferred tax information are questionable and that many users do not understand the information provided.
48. A smaller minority acknowledged both views set out above, and believed these could be reconciled by requiring alignment with IAS 12, but with an undue cost and effort override.

Issue 9) Amortisation period for goodwill and other intangible assets

49. *Should paragraph 18.20 be modified?*

The SMEIG recommends that paragraph 18.20 be amended as follows:

“If an entity is unable to make a reliable estimate of the useful life of an intangible asset, the useful life shall be determined based on management’s best estimate and shall not exceed 5 years”.

The SMEIG suggest that staff give further consideration to the words ‘best estimate’.

SMEIG discussion

50. The SMEIG characterised paragraph 18.20 as a two-step approach. In the first step, the entity determines whether it can reliably estimate the useful life of an intangible asset. If so, it uses that value. If not, it proceeds to the second step.
51. The SMEIG noted that, by definition, an entity applying the second step does not have reliable information. SMEIG members accepted that in this circumstance, the entity should use the best information it has available to determine the useful expected life of the asset. The SMEIG also strongly supported the view that this estimate should be curtailed or restricted to a relatively short period. It was noted that for some entities the 10 year default life would not be too long, eg where intangible assets like customer lists that sometimes have long lives are included

within goodwill. However, on balance, the SMEIG felt that the 10 year period currently in the standard was too long. After some discussion, the members generally supported a period of five years.

52. Members expressed some concern with the terminology ‘reliable estimate’ and ‘best estimate’ and asked that staff review term used in full IFRSs before confirming this usage.

Issue 10) Presentation of share subscriptions receivable

53. *Should paragraph 22.7(a) be modified or deleted?*

The SMEIG recommends that Paragraph 22.7(a) be deleted. The SMEIG note that full IFRSs is silent on this issue and there are mixed views across jurisdictions of whether the share subscription receivable should be treated as an asset or offset to equity. The SMEIG further suggest that additional guidance on classification of share subscriptions receivable could be provided in education material.

Issue 11) Inclusion of additional topics in the *IFRS for SMEs*

54. *Are there any topics that are not specifically addressed in the IFRS for SMEs that should be covered?*

The SMEIG recommends that no additional topics need to be specifically addressed in the *IFRS for SMEs*. The general guidance in paragraphs 10.4–10.6 is sufficient to deal with the topics suggested by comment letters.

Issue 12) Q&As

55. *Should the Q&A programme continue after this comprehensive review is completed? If so, should any changes be made to the current programme?*

The SMEIG recommends that the Q&A programme should continue as a two tier system:

- Tier 1 issues would be those requiring authoritative guidance and would require full due process.
- Tier 2 issues would be dealt with by non-mandatory education material subject to the normal due process for educational material.

The SMEIG also recommends:

- The IASB should establish a procedure for constituents to submit issues to SMEIG via the IASB website.
- The IASB should interact with local standard setters to encourage them to address local issues (eg scope issues), and to submit more significant issues to the SMEIG for consideration. It was acknowledged that this process would need to be governed well to ensure local jurisdictions do not issue interpretative guidance.

The SMEIG recommends where possible, Q&As should be incorporated in the *IFRS for SMEs* and deleted. The majority of SMEIG members think that other Q&As should be maintained separately to the extent they remain relevant. However, a minority of SMEIG members believe any Q&As that are not incorporated in the *IFRS for SMEs* should be included in the IFRS Foundation education material and deleted.

Q&As programme

56. The broad view of the SMEIG is that the Q&A programme should continue. However SMEIG members felt it would be better to have a two tier system for dealing with questions raised:

- (a) Tier 1 issues would be those requiring authoritative guidance. Any SMEIG guidance on these issues would require full due process. Issues would have to pass a high hurdle before they could be treated as Tier 1 guidance. Such issues would probably only be required if a problem was identified with the *IFRS for SMEs* and would be rare.
- (b) Tier 2 issues would be dealt with by non-mandatory education material developed by the SMEIG. This guidance would be subject to the same due process as other educational material (a lesser due process than currently required for Q&As).

57. SMEIG members also noted that the SMEIG should avoid dealing with issues that are also issues under full IFRSs, where possible.

Identifying issues through national standard setters

58. The SMEIG generally felt that the IASB should interact with local standard setters to encourage them to:
- (a) identify issues causing problems in their jurisdictions, and
 - (b) to provide a mechanism to support entities in the jurisdiction, including addressing localised issues.

It was acknowledged that this process would need to be governed well to prevent local jurisdictions interpreting the standard and a formalisation of the understanding between the IASB and the local standard setters might be required.

59. The SMEIG also felt that the IASB should encourage standard setters (and other accounting organisations) to submit significant issues to the SMEIG. Local standard setters could act as a filter by providing guidance on smaller localised issues (eg helping the different types of entities in their jurisdiction determine whether they are within the scope of the *IFRS for SMEs*), but should submit significant issues that are likely to affect other jurisdictions to the SMEIG for consideration.

Submitting issues via IASB website

60. The SMEIG broadly felt that the IASB should also establish a procedure for constituents to submit issues to SMEIG via the IASB website (as set out in paragraph 19 of the SMEIG Terms of Reference). However, many SMEIG members expressed concern that this could lead to a high volume of issues being submitted to the SMEIG. Therefore, it would be important for the IASB to manage expectations about the manner in which submissions would be dealt with. A few different suggestions were made by SMEIG members. One suggestion that received broad support from SMEIG members was that issues submitted by respondents should not be posted online and that issues should as a matter of course be considered in developing the education material. Only issues that were

prevalent in multiple jurisdictions, or of particular urgency, or pervasive to the literature would be forwarded the SMEIG for their consideration.

Existing Q&As

61. The SMEIG felt that, where possible, Q&As should be incorporated in the *IFRS for SMEs* during this review (and future reviews) and deleted. The majority of SMEIG members think that the other Q&As should be maintained separately to the extent they remain relevant. However, a minority of SMEIG members believe any Q&As that are not incorporated in the *IFRS for SMEs* should be included in the IFRS Foundation education material and deleted. SMEIG members felt that Tier 1 Q&As should always be incorporated and deleted.
62. SMEIG members generally supported dealing with the existing Q&As as follows:

Q&A number and title	SMEIG's suggested treatment
2012/04 Recycling of cumulative exchange differences on disposal of a subsidiary	Can easily be incorporated by modifying the wording in paragraph 9.18. Q&A can be deleted.
2012/03 Fallback to IFRS 9 <i>Financial Instruments</i>	Dealt with under Issue 7. Q&A can be deleted.
2012/02 Jurisdiction requires fallback to full IFRSs	Too detailed to incorporate. Q&A will be maintained separately as Tier 2 non-mandatory educational Q&A.
2012/01 Application of 'undue cost or effort'	Dealt with under Issue A.13.
2011/03 Interpretation of 'traded in a public market'	Too detailed to incorporate. Q&A will be maintained separately as Tier 2 non-mandatory educational Q&A.
2011/02 Entities that typically have public accountability	Need to relook at the Q&A after the IASB makes a decision on the scope (see Issues 1 and 2).
2011/01 Use of the <i>IFRS for SMEs</i> in a parent's separate financial statements	Can be incorporated in paragraph 1.6. Q&A can be deleted. In particular, the <i>IFRS for SMEs</i> should clarify if a parent can prepare consolidated financial statements under either full IFRSs or local GAAP and present its separate statements under the <i>IFRS for SMEs</i> .

Part II: SMEIG recommendations on other issues raised by respondents to the RFI

Content

63. Part II covers the following issues in SMEIG Agenda Paper 3:
- (a) Issues on specific requirements in the *IFRS for SMEs* (Issues A.1-A.13)
 - (b) General issues about the *IFRS for SMEs* (Issues B.1-B.3)

Issue A.1) The revised IFRS Conceptual Framework

64. *Should the IFRS for SMEs be revised as a result of the changes under Chapter 1 and 3 of the Conceptual Framework?*

The majority of SMEIG members recommend no change to the current requirements during this comprehensive review. Consistent with the SMEIG recommendation for new and revised IFRSs (see Issue 4), the Conceptual Framework should only be considered for incorporation when it has been completed under full IFRSs.

A small minority of SMEIG members recommend aligning the objective and qualitative characteristics with the amended IFRS Conceptual Framework during this comprehensive review. These members note that Chapter 1 and 3 of the Framework are unlikely to be amended further and they do not introduce changes for which implementation experience of entities needs to be tested.

Issue A.2) Other comprehensive income (Section 5)

65. *Should the IFRS for SMEs be revised to require all items of income and expense to be recognised in profit or loss?*

The majority of SMEIG members recommend no change to the current requirements. Consistent with the SMEIG recommendation for new and revised IFRSs (see Issue 4), these members believe it would be better to wait until the IASB provides clarity on the conceptual reasoning for transferring items to OCI under the Conceptual Framework project. They further note that if revaluation of PPE is permitted, it would be more difficult to remove OCI altogether.

A minority of SMEIG members recommend removing the concept of OCI from the IFRS for SMEs. These members recommend that items currently recognised in OCI be recognised directly in equity.

Issue A.3) Uniform reporting dates for consolidation purposes (Section 9)

66. *Should paragraph 9.16 be revised either to allow further simplification or to provide additional guidance?*

The majority of SMEIG members recommend retaining the impracticable criteria from deviation from uniform reporting dates.

A small minority of SMEIG members recommend simplifying the impracticable criterion. They would permit a parent entity to use the financial statements of a subsidiary if the reporting date of the subsidiary is not more than three months before or after the balance sheet date of the parent entity.

All SMEIG members feel additional guidance on the necessary adjustments if uniform reporting dates are not used would be helpful and support adding the following wording to paragraph 9.16 as suggested by the IASB staff.

“If it is impracticable to use the same reporting dates, the parent shall consolidate the financial information of the subsidiary using the most recent financial statements of the subsidiary adjusted for the effects of significant transactions or events that occur between the date of those financial statements and the date of the consolidated financial statements.”

Issue A.4) Definition of a basic financial instrument (Section 11)

67. *Does paragraph 11.9 need to be revised so that loans payable in a foreign currency and loans with standard loan covenants are basic financial instruments?*

The SMEIG recommends that paragraph 11.9 be clarified as suggested by the IASB staff to correct unintended consequences of the current wording.

Issue A.5) Hedging instruments (Section 12)

68. *Should any changes be made to Section 12's hedge accounting requirements to permit additional hedging strategies?*

The majority of SMEIG members recommend no change to the current requirements. The SMEIG note that entities that have the capability to follow other hedging strategies have the capability to apply the recognition and measurement requirements in IAS 39. Under Issue 7 the SMEIG recommend that before removing the fallback to IAS 39 it is important to assess to what extent it was being used in practice.

A minority of SMEIG members recommend removing all requirements for hedge accounting from the IFRS for SMEs. They note this would not prevent SMEs from using hedging instruments to hedge risks or from disclosing the effect of doing so. It only prohibits hedge accounting.

There was very little support for adding additional requirements to Section 12 to cater for other hedging strategies, eg purchased options. Hedge accounting requirements will, however, be reconsidered when the IASB considers changes under IFRS 9.

Issue A.6) Accounting for investment property (Section 16)

69. *Should Section 16 be revised, eg to permit a choice of using the cost model or the fair value model for investment property like IAS 40?*

The majority of SMEIG members recommend no change to the current requirements. These SMEIG members believe the current model is working in practice so there is no need to change it.

A minority of SMEIG members recommend introducing an option between the cost and fair value model.

SMEIG discussion

70. The majority of SMEIG members recommended keeping the current requirements. Whilst some of these members see the benefit of permitting SMEs the choice of accounting for investment property either under the cost model or the fair value model, they believed the current model is working in practice and such a significant change is not necessary.

71. A few SMEIG members noted that some SMEs are accounting for their investment property at cost because the cost of hiring an external valuer is considered to be undue. These SMEIG members supported this interpretation of undue cost or effort for the SMEs concerned.
72. A minority of SMEIG members expressed concern about potential abuse of the undue cost or effort exemption and didn't agree that it should be treated as such a low hurdle. In general these SMEIG members supported giving entities a choice between the cost and fair value model instead.
73. The broad view of the SMEIG was that further guidance should be added in the *IFRS for SMEs* to help SMEs interpret 'undue cost or effort'. The discussion on undue cost or effort was deferred to Issue A.13 below.
74. Some SMEIG members suggested that investment property could be accounted for as PPE with the revaluation option as discussed in Issue 5 above. The SMEIG members generally decided not to pursue this alternative. A few SMEIG members also felt that if a revaluation option is permitted for PPE, it would be inconsistent not to allow a choice of fair value or cost for investment property.

Issue A.7) Allocation of the cost of a business combination (Section 19)

75. *Should any exemptions from fair value measurement be included in paragraph 19.14?*

The SMEIG recommends the clarification suggested by the staff.

Several SMEIG members note that although the current wording is unclear, they believe that in practice SMEs are already determining deferred tax assets/liabilities and defined benefit obligations of the acquiree in accordance with Section 28/29 rather than trying to determine a 'pure' fair value.

76. *Should any change be made to provide relief from recognising intangible assets of the acquiree in a business combination?*

The SMEIG recommends that an undue cost or effort exemption should be added to the requirement to recognise intangible assets separately from goodwill in a business combination for cost-benefit reasons (subject to comments in Issue A.13).

Issue A.8) Common control exemptions (Section 22)

77. *Should an exemption be added to paragraph 22.8 for equity instruments issued as part of a business combination under common control?*

The SMEIG recommends that an exemption for equity instruments issued as part of a business combination of entities or businesses under common control should be allowed. However the exemption should be clear that those equity instruments can be, but are not required to be, accounted for under paragraph 22.8 (ie the exemption should not be absolute).

78. *Should an exemption be added to paragraph 22.18 for a distribution of non-cash assets controlled by the same parties before and after the distribution?*

The SMEIG recommends that a scope exemption similar to IFRIC 17.5 be introduced. The SMEIG note that otherwise Section 22 is more onerous than full IFRSs. The SMEIG support the wording suggested by the IASB staff.

Issue A.9) Related party definition (Section 33)

79. *Should the related party definition in Section 33 be revised to be consistent with IAS 24?*

The SMEIG recommends that the current definition of a related party should be revised to be consistent with the definition in IAS 24. This would remove the term ‘significant voting power’ which is causing confusion in practice. Plus a definition of close family member should be added to the *IFRS for SMEs*.

Issue A.10) Accounting for biological assets (Section 34)

80. *Are the current requirements appropriate for entities engaged in agricultural activity?*

The SMEIG recommend no change to the current requirements. Consistent with the SMEIG recommendation for new and revised IFRSs (see Issue 4), the current project on IAS 41 for bearer biological assets should not be considered until the final amendment to IAS 41 is effective. The SMEIG also think that additional guidance is not necessary for agricultural activities.

Issue A.11) Extractive activities (Section 34)

81. *Are the current requirements appropriate for entities engaged in the exploration for, evaluation or extraction of mineral resources?*

The SMEIG recommend additional guidance should be added to Section 34 for entities involved in extractive activities. The SMEIG believe that it is better to include some guidance, rather than remain silent, to avoid confusion in practice. Guidance should provide those entities with reassurance that they can use their current accounting policies (similar to IFRS 6).

Issue A.12) Further reduction in disclosure requirements (several sections)

82. *Should any further disclosure reduction be considered in the IFRS for SMEs?*

The SMEIG recommend no further simplification of the disclosure requirements. However, the SMEIG supported the suggestion by the staff that prior year reconciliations of balances should not be required (currently this is only stated in some sections of the *IFRS for SMEs*).

Issue A.13) Undue cost or effort (several sections)

83. *Should additional explanation be added to the IFRS for SMEs to help SMEs interpret and apply the ‘undue cost or effort’ exemption?*

The SMEIG recommends that Q&A 2012/01 *Application of undue cost or effort* should be incorporated in to the *IFRS for SMEs*. The SMEIG also recommends that further guidance should be provided on the assessment of ‘undue cost and effort’. Finally, the SMEIG recommends that entities applying any of the ‘undue cost or effort’ exemptions in the standard should be required to disclose their reasons for doing so.

SMEIG discussion

84. The SMEIG felt that Q&A 2012/01 *Application of ‘undue cost or effort’* should be incorporated into the *IFRS for SMEs*. There was also broad support for requiring entities applying any of the ‘undue cost or effort’ exemptions in the standard to disclose their reasons for doing so.
85. There was also broad support amongst SMEIG members for the IASB to provide further clarity on how the ‘undue cost or effort’ exemption should be applied. This is because there are mixed views in practice, and amongst SMEIG members, on how the exemption should be interpreted. The main views expressed by SMEIG members are as follows:
- (a) Some SMEIG members felt the ‘undue cost or effort’ exemption is intended to be a relaxation of the impracticable exemption and the focus should be on whether or not the requirement results in excessive cost or effort for SMEs.
 - (b) Others felt that determination of whether the amount of cost or effort is excessive requires consideration of how the economic decisions of the users of the financial statements could be affected by the availability of the information. This is the view expressed in the Q&A. However, there were also mixed views within SMEIG members on how that user group should be defined for the purposes of the exemption:
 - (i) Some believed it should focus on a hypothetical broad user group to be consistent with the fact that entities are preparing general purpose financial statements that are intended for a broad user group.

- (ii) Others believed the SME should only consider its own specific user group. However it was noted that in reality the user group may be bigger than envisaged by the SME, eg do they know if credit rating organisations are using their financial statements.

Issue B.1) Reduced disclosure framework for subsidiaries

86. *Should the IASB consider a potential project, outside the IFRS for SMEs, to develop a reduced disclosure framework for subsidiaries of a listed group?*

The SMEIG recommends that this be a potential project for the consideration of the IASB as there is significant worldwide demand for an international reduced disclosure framework for subsidiaries of listed group.

SMEIG discussion

87. There was broad support amongst SMEIG members for suggesting this as a potential project to the IASB. It was noted at the meeting that there is significant demand across the world for an international reduced disclosure framework for subsidiaries of listed groups. Several jurisdictions have already developed their own framework.
88. Several SMEIG members noted that this would not need to be a long project if the scope of the project is pre-defined. One SMEIG member said the UK reduced disclosure framework (FRS 101) is only approximately 10 pages long. It was noted that a starting point for the scope of the project could be to use the same criteria as the scope exemption from producing consolidated financial statements (IFRS 10.4(a)).

Issue B.2) Size-dependent reliefs

89. *Should the IASB consider adding size-dependent reliefs from some of the requirements in the IFRS for SMEs?*

The SMEIG recommends that the IASB not consider size-dependent reliefs from requirements in the *IFRS for SMEs*.

Issue B.3) Name of the Standard

90. *Should the IASB reconsider the name of the Standard?*

The SMEIG recommends that the title of the standard should not be changed. The title of the standard is well established as a brand. Furthermore, it has been incorporated in the national law in many jurisdictions and changing the law would cause significant problems.

91. Several SMEIG members noted that the title is a problem because it doesn't describe the entities in its scope. However, the broad view of the SMEIG was because the title of the standard is well established as a brand it should not be changed now. Several SMEIG members noted that the *IFRS for SMEs* has been incorporated in the national law in many jurisdictions and changing those laws would cause significant problems.
92. As noted in paragraph 21 there is general support amongst SMEIG members for including additional guidance in the Preface to the *IFRS for SMEs* to clarify the objective of the *IFRS for SMEs* to help jurisdictions. This would counteract any confusion caused by the name of the Standard. SMEIG members also generally felt that the IASB should interact with local standard setters to help them better understand the purpose of the *IFRS for SMEs*, particularly if the scope of the *IFRS for SMEs* is opened up to other entities (see Issues 1 and 2).

Part III: Other points raised by SMEIG members

Section 1

93. Several SMEIG members noted that some jurisdictions do not clearly understand the concept of general purpose financial statements. Some SMEIG members suggested that staff review the drafting in the Preface to the *IFRS for SMEs* to

ensure it explains this concept clearly. Also the IASB should consider other ways of educating the standard setters.

Section 22

94. A few SMEIG members noted that the requirement to measure unlisted equity instruments at fair value if the fair value can be measured reliably is causing problems. In practice this means SMEs need to try to determine fair value and if they can, they have to do this on an annual basis regardless of the cost. This requirement is inconsistent with requirements elsewhere in the standard for the valuation of difficult to measure items. These SMEIG members recommend that the IASB consider allowing an ‘undue cost or effort’ exemption from measurement of such instruments, as has been done for biological assets and investment property.

Section 23

95. A few SMEIG members suggested the IASB should consider adding guidance on barter transactions as such transactions occur frequently for some SMEs.

General

96. A view supported by a few SMEIG members was to allow jurisdictions to adopt the *IFRS for SMEs* augmented to allow or require use of full IFRSs in certain areas to meet their local requirements. For example *IFRS for SMEs* augmented by full IFRSs requirements for revaluation of PPE. There was some debate amongst SMEIG members on whether or not such a standard could be called “*IFRS for SMEs* augmented by...” to give it international recognition. Or whether “*IFRS for SMEs*” would need to be removed from the title and it would need to be named as a local GAAP.