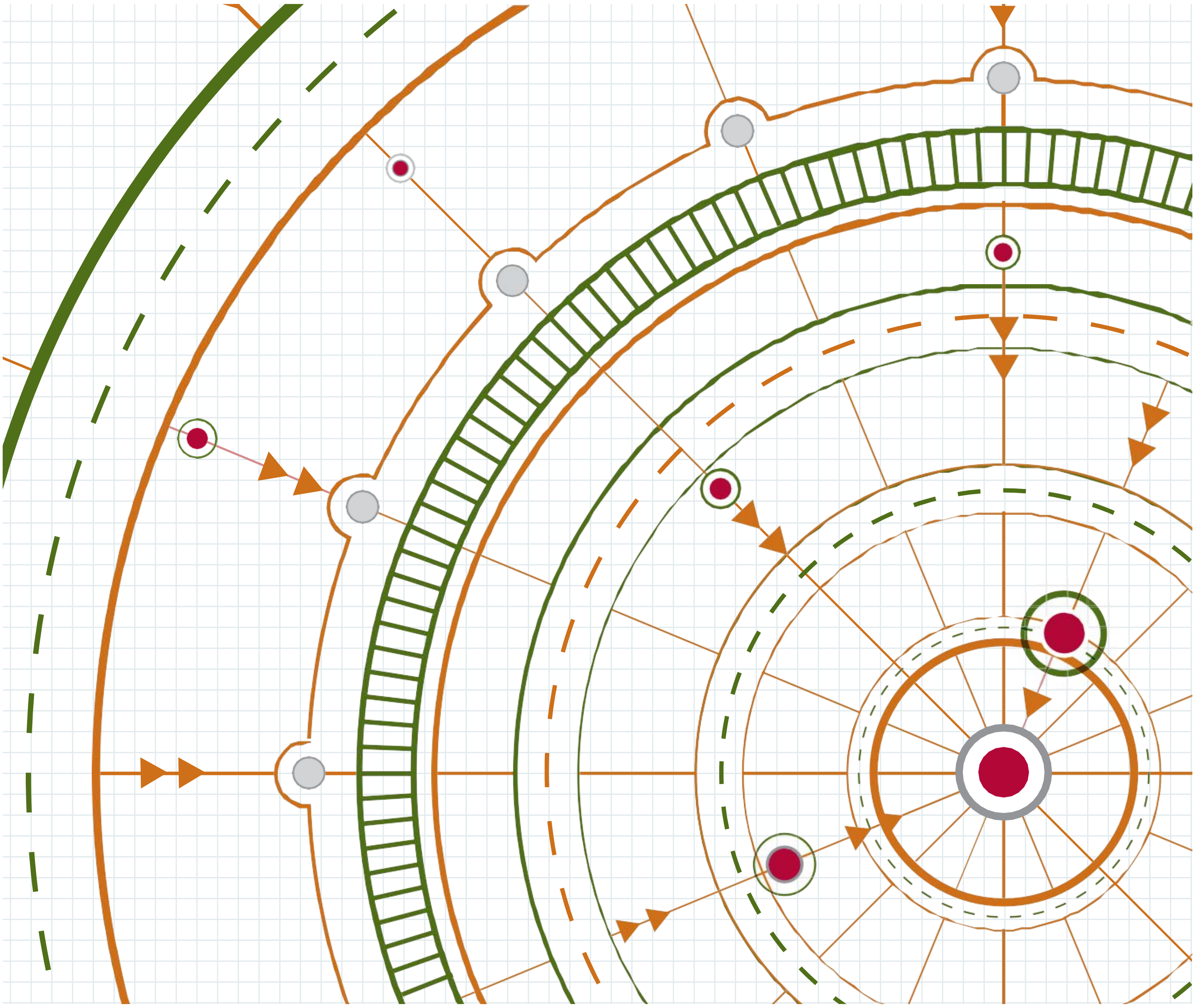
IFRS for SMEs® Standard (2015) + Q&As

IFRS® Foundation—Supporting Material for the *IFRS for SMEs* Standard

Module 1—Small and Medium-sized Entities



IFRS®

IFRS® Foundation Supporting Material for the *IFRS for SMEs®* Standard

including the full text of
Section 1 *Small and Medium-sized Entities*
of the *IFRS for SMEs* Standard
issued by the International Accounting Standards Board in October 2015

with extensive explanations, self-assessment questions and a case study

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Module 1—Small and Medium-sized Entities

The accounting requirements applicable to small and medium-sized entities (SMEs) discussed in this module are set out in the *IFRS for SMEs* Standard, issued by the International Accounting Standards Board (Board) in October 2015.
This module has been prepared by IFRS Foundation education staff.
The contents of Section 1 *Small and Medium-sized Entities* of the *IFRS for SMEs* Standard are set out in this module and shaded grey. The Glossary of terms of the *IFRS for SMEs* Standard (Glossary) is also part of the requirements. Terms defined in the Glossary are reproduced in **bold type** the first time they appear in the text of Section 1.
The notes and examples inserted by the education staff are not shaded. These notes and examples do not form part of the *IFRS for SMEs* Standard and have not been approved by the Board.

INTRODUCTION

Which version of the *IFRS for SMEs* Standard?

When the *IFRS for SMEs* Standard was first issued in July 2009, the Board said it would undertake an initial comprehensive review of the Standard to assess entities' experience of the first two years of its application and to consider the need for any amendments. To this end, in June 2012, the Board issued a Request for Information: *Comprehensive Review of the IFRS for SMEs*. An Exposure Draft proposing amendments to the *IFRS for SMEs* Standard was subsequently published in 2013, and in May 2015 the Board issued *2015 Amendments to the IFRS for SMEs®*.

The document published in May 2015 only included amended text, but in October 2015, the Board issued a fully revised edition of the Standard, which incorporated additional minor editorial amendments as well as the substantive May 2015 revisions. This module is based on that version.

The *IFRS for SMEs* Standard issued in October 2015 is effective for annual periods beginning on or after 1 January 2017. Earlier application was permitted, but an entity that did so was required to disclose the fact.

Any reference in this module to the *IFRS for SMEs* Standard refers to the version issued in October 2015.

Why a global financial reporting standard for SMEs?

Global financial reporting standards, applied consistently, enhance the comparability of financial information. Accounting differences can obscure the comparisons that investors, lenders and others need to make. By requiring the presentation of useful financial information (ie information that is relevant, reliable, comparable etc.), high quality global financial reporting standards improve the efficiency of the allocation and pricing of capital. This benefits not only those who provide debt or equity capital; it also benefits those entities that seek capital because it reduces their compliance costs and removes uncertainties that affect their cost of capital. Global standards also improve consistency in audit quality and facilitate education and training.

The benefits of global financial reporting standards are not limited to entities whose securities are traded in public capital markets. In the Board's judgement, SMEs—and those who use their financial statements—can benefit from a common set of accounting standards for the reasons outlined in the Basis of Conclusions paragraph 37:

- Financial institutions make loans across borders and operate multinationally. In most jurisdictions, over half of all SMEs, including the very small ones, have bank loans. Bankers rely on financial statements in making lending decisions and in establishing terms and interest rates.
- Vendors want to evaluate the financial health of buyers in other countries before they sell goods or services on credit.
- Credit rating agencies try to develop ratings uniformly across borders. Banks and other institutions that operate across borders often develop similar ratings. Reported financial information is crucial to the rating process.
- Many SMEs have overseas suppliers and use a supplier's financial statements to assess the prospects of a viable long-term business relationship.
- Venture capital firms provide funding to SMEs across borders.
- Many SMEs have outside investors who are not involved in the day-to-day management of the entity.

The title of the Standard—IFRS for SMEs

The term 'SMEs' is widely recognised and used around the world, although many jurisdictions have developed their own definitions of the term for a broad range of purposes, including prescribing financial reporting obligations. Often those national or regional definitions include quantitative criteria based on revenue, assets, employees or other factors. Frequently, the term is used to mean, or to include, very small entities whether or not they publish general purpose financial statements for external users.

The Board considered whether to use another term. Before publishing the exposure draft in February 2007, the Board had used the term 'non-publicly accountable entity' (NPAE) for several months during 2005. During its redeliberations of the proposals in the exposure draft during 2008, the IASB also used both 'NPAEs' and 'private entities' for several months. Because the Board concluded that full IFRS Standards are necessary for entities with public accountability, the terms 'publicly accountable entity' and 'non-publicly accountable entity' had some appeal. However, constituents argued that this term was not widely recognised, whereas 'small and medium-sized entities' and its acronym were universally known. Also, some constituents worried that 'non-publicly accountable entities' seemed to imply, incorrectly, that the smaller entities were not publicly accountable for anything.

The term 'private entities' is commonly used in some jurisdictions—most particularly in North America—to refer to the kinds of entity that meet the Board's definition of SMEs (entities without public accountability). In other jurisdictions, however—most particularly those in which government ownership of equity interests in business entities is common—the term 'private entities' is used much more restrictively to refer only to those entities in which there is no government ownership. In such jurisdictions, the term 'private entities' would be likely to be misunderstood.

For these reasons, the Board decided to use the term 'small and medium-sized entities'.

Module 1—Small and Medium-sized Entities

The needs of different users, and cost–benefit considerations

General purpose financial statements are financial statements prepared for the common information needs of a wide range of users who are not in a position to demand reports tailored to meet their particular information needs. The objective of general purpose financial statements is to provide information about the financial position, performance and changes in financial position of an entity that is useful to a wide range of users in making economic decisions.

In establishing standards for the form and content of general purpose financial statements, the needs of users of financial statements are paramount.

The Basis for Conclusions of the *IFRS for SMEs* Standard highlights a number of such external users, including:

- banks that make loans to SMEs;
- vendors that sell to SMEs and use SMEs' financial statements to make credit and pricing decisions;
- credit rating agencies and others that use SMEs' financial statements to rate SMEs;
- customers of SMEs that use SMEs' financial statements to decide whether to do business; and
- those who hold shares in an SME but who do not also manage that enterprise.

Users of the financial statements of SMEs may have less interest in some information than users of financial statements of entities whose securities are registered for trading in public securities markets or that otherwise have public accountability. For example, users of the financial statements of SMEs may have a greater interest in short-term cash flows, liquidity, balance sheet strength and interest coverage, and in the historical trends of profit or loss and interest coverage, than they do in information that is intended to assist in forecasting an entity's long-term cash flows, profit or loss, and value. However, users of financial statements of SMEs may need some information that is not ordinarily presented in the financial statements of listed entities. For example, as an alternative to the public capital markets, SMEs often obtain capital from shareholders, directors and suppliers, and shareholders and directors often pledge personal assets so that an SME can obtain bank financing.

The nature and degree of the differences between full IFRS Standards and the *IFRS for SMEs* Standard is determined on the basis of users' needs and cost–benefit analyses. In practice, the benefits of applying accounting standards differ across reporting entities, depending primarily on the nature, number and information needs of the users of their financial statements. The related costs may not differ significantly. Therefore, the Board concluded that the cost–benefit trade-off should be assessed in relation to the information needs of the users of an entity's financial statements (ie the 'benefits' side of the cost–benefit trade-off).

This module

This module focuses on the scope of the *IFRS for SMEs* Standard in accordance with Section 1 *Small and Medium-sized Entities*. It introduces the subject and reproduces the official text along with explanatory notes and examples designed to enhance understanding of the requirement. The module identifies the significant judgements required in determining whether or not the *IFRS for SMEs* standard can be applied by the entity. In addition, the module includes questions designed to test your understanding of the requirements and a case study that provides a practical opportunity to determining whether or not the *IFRS for SMEs* Standard can be applied by certain entities.

Upon successful completion of this module, you should, be able to:

- determine which entities are SMEs as defined by the *IFRS for SMEs* Standard; and
- identify which entities are not permitted to assert compliance with the *IFRS for SMEs* Standard.

IFRS for SMEs Standard

The *IFRS for SMEs* Standard is intended to apply to the general purpose financial statements of entities that do not have public accountability.

The *IFRS for SMEs* Standard is comprised of mandatory requirements and other non-mandatory material.

The non-mandatory material includes:

- a preface, which provides a general introduction to the *IFRS for SMEs* Standard and explains its purpose, structure and authority;
- implementation guidance, which includes illustrative financial statements and a table of presentation and disclosure requirements;
- the Basis for Conclusions, which summarises the Board's main considerations in reaching its conclusions in the *IFRS for SMEs* Standard issued in 2009 and, separately, in the 2015 Amendments; and
- the dissenting opinion of a Board member who did not agree with the issue of the *IFRS for SMEs* Standard in 2009 and the dissenting opinion of a Board member who did not agree with the 2015 Amendments.

In the *IFRS for SMEs* Standard, the Glossary is part of the mandatory requirements.

In the *IFRS for SMEs* Standard, there are appendices to Section 21 *Provisions and Contingencies*, Section 22 *Liabilities and Equity* and Section 23 *Revenue.* These appendices provide non-mandatory guidance.

The *IFRS for SMEs* Standard has been issued in two parts: Part A contains the preface, all the mandatory material and the appendices to Section 21, Section 22 and Section 23; and Part B contains the remainder of the material mentioned above.

Further, the SME Implementation Group (SMEIG), which assists the Board with supporting implementation of the *IFRS for SMEs* Standard, publishes implementation guidance as 'questions and answers' (Q&As). These Q&As provide non-mandatory, timely guidance on specific accounting questions raised with the SMEIG by entities implementing the *IFRS for SMEs* Standard and other interested parties. At the time of issue of this module (April 2018) the SMEIG has not issued any Q&As relevant to this module.

Module 1—Small and Medium-sized Entities

Introduction to the requirements

The objective of general purpose financial statements of a small or medium-sized entity is to provide information about the entity's financial position, performance and cash flows that is useful for economic decision-making by a broad range of users who are not in a position to demand reports tailored to meet their particular information needs. Such users include, for example, owners who are not involved in managing the business, existing and potential creditors and credit rating agencies.

The objective of Section 1 *Small and Medium-sized Entities* is to describe the characteristics of small and medium-sized entities for which the *IFRS for SMEs* Standard is intended.

What has changed since the 2009 *IFRS for SMEs* Standard

The main changes made by the 2015 Amendments to Section 1 of the *IFRS for SMEs* Standard were, first, clarification that the types of entities listed in paragraph 1.3(b) are not automatically publicly accountable; and, second, the addition of clarifying guidance on the use of the *IFRS for SMEs* Standard in a parent's separate financial statements. The second clarification was based on Q&A 2011/01 *Use of the IFRS for SMEs in a parent's separate financial statements* and amended paragraph 1.7 (Q&As are non-mandatory guidance issued by the SME Implementation Group (SMEIG)).

Module 1—Small and Medium-sized Entities

REQUIREMENTS AND EXAMPLES

Intended scope of this Standard

1.1 The *IFRS for SMEs* is intended for use by **small and medium-sized entities** (SMEs). This section describes the characteristics of SMEs.

Notes

Which entities can use the IFRS for SMEs *Standard?*

Decisions on which entities are required or permitted to use the *IFRS for SMEs* Standard rest with the legislative and regulatory authorities and standard-setters in individual jurisdictions (paragraph 13 of the Preface to the *IFRS for SMEs* Standard). Many jurisdictions have developed their own definitions of SMEs for a broad range of purposes, including prescribing financial reporting obligations. Those national or regional definitions often include quantitative criteria based on revenue, assets, employees or other factors. Others use the term 'SMEs' to mean or to include very small entities without regard to whether they publish general purpose financial statements for external users.

The *IFRS for SMEs* standard includes a clear definition of the class of entity to which the Standard is intended to apply. This serves two purposes. It is useful so that the legislative and regulatory authorities, standard-setters, and reporting entities and their auditors are aware of the Standard's intended scope of applicability. In addition, it ensures that those entities that are not eligible to use the *IFRS for SMEs* Standard are not able to assert that they comply with it (see paragraph 1.5).

The term 'small and medium-sized entities' as used by the Board in the Standard is defined in the Glossary and is explained in paragraphs 1.2–1.7 of the Standard. The key elements of an SME, as defined by the Board, is that it does not have public accountability (see paragraph 1.3) and that it publishes general purpose financial statements (as defined in the Glossary). The notes and examples to paragraphs 1.2–1.7 expand on these elements.

Entities often produce financial statements only for the use of owner-managers or for the exclusive use of tax authorities or other government agencies. Financial statements produced solely for those purposes are not necessarily general purpose financial statements.

Quantitative size criteria?

The Board's definition of SMEs does not include quantified size criteria for defining a small or medium-sized entity because it is not feasible to develop quantified size tests that would be applicable and long-lasting in numerous jurisdictions.

As noted above, a jurisdiction may choose to prescribe quantified size criteria in deciding which entities should be required or permitted to use the *IFRS for SMEs* Standard. However, an entity would still need to assess whether it complies with the definition of an SME in the Standard before concluding whether it can assert compliance with the Standard.

Similarly, a jurisdiction may decide that its economically significant entities should be required to use full IFRS Standards rather than the *IFRS for SMEs* Standard.

Module 1—Small and Medium-sized Entities

Description of small and medium-sized entities

1.2 Small and medium-sized entities are entities that:

(a) do not have **public accountability;** and

(b) publish **general purpose financial statements** for external users.

Examples of external users include **owners** who are not involved in managing the business, existing and potential creditors, and credit rating agencies.

Notes

The *IFRS for SMEs* Standard has been developed considering the needs of preparers and users of general purpose financial statements and other financial reporting of profit-oriented entities that do not have public accountability. Public accountability is discussed in paragraph 1.3.

General purpose financial statements

The objective of general purpose financial statements prepared in accordance with the *IFRS for SMEs* Standard is to provide useful information about an entity's financial position, performance and cash flows to a wide range of users who are unable to demand reports tailored to meet their particular information needs. Accordingly, general purpose financial statements are directed towards the common information needs of a wide range of users, for example, shareholders, creditors and employees.

Because the *IFRS for SMEs* Standard was developed to apply to general purpose financial statements, it follows that financial statements prepared by applying the Standard will be general purpose financial statements.

General purpose financial statements include those that are presented separately or within another public document, such as an annual report.

Decisions on which entities are required or permitted to prepare general purpose financial statements in accordance with the *IFRS for SMEs* Standard typically rest with legislative and regulatory authorities and standard-setters in individual jurisdictions. Entities often produce financial statements only for a specific purpose—for example for the use of owner-managers, or for tax reporting or other non-securities regulatory filing purposes. As described above in relation to paragraph 1.1, the need to produce financial statements solely for those purposes does not necessarily imply a need to produce general purpose financial statements.

Tax authorities often use the financial statements of SMEs. Tax authorities generally have the power to demand whatever information they need, however they often look to financial statements as the starting point for determining taxable profit, and some may seek to minimise the adjustments required. Nonetheless, global accounting standards for SMEs cannot accommodate tax reporting in individual jurisdictions without a reconciliation.

Owner-managers of SMEs may also make use of their general purpose financial statements to make management decisions. However, such managers are able to obtain whatever information they need to run their business. Consequently, it is not an objective of *IFRS for SMEs* Standard to provide information to help owner managers make management decisions.

Examples—general purpose financial statements

Ex 1 **An entity that does not have public accountability, chooses to comply with the *IFRS for SMEs* Standard, despite not being required to do so. The entity sends the financial statements to the entity's primary suppliers, bankers and non-manager owners. The entity makes an explicit and unreserved statement of compliance with the *IFRS for SMEs* Standard in the notes.**

The entity's financial statements are general purpose financial statements—the financial statements are prepared on a basis (the *IFRS for SMEs* Standard) that is designed to provide useful information to a wide range of users who are not in a position to demand reports tailored to meet their particular information needs.

Ex 2 **The facts are the same as in Example 1. However, in this example, the financial statements are not sent to anyone outside the management of the organisation.**

The entity's financial statements are general purpose financial statements—the financial statements are prepared on a basis (the *IFRS for SMEs* Standard) that is designed to provide useful information to a wide range of users who are not in a position to demand reports tailored to meet their particular information needs.

(Note: The fact that the general purpose financial information is not accessible to anyone outside the entity is irrelevant to the determination of whether the financial statements are for a general purpose. It is the design of the basis on which the financial statements are prepared that is the determining factor, ie are the requirements of the basis of preparation directed to the general information needs of a wide range of users who are not in a position to demand reports tailored to meet their information needs?)

Ex 3 **An entity that does not have public accountability prepares its financial statements following the local GAAP of the jurisdiction in which it operates. The local GAAP is, except in name, word for word the same as the *IFRS for SMEs* Standard. The entity sends the financial statements to the entity's primary suppliers, bankers and tax authorities. The entity makes an explicit and unreserved statement of compliance with local GAAP in the notes.**

The entity's financial statements are general purpose financial statements—the financial statements are prepared on a basis (local GAAP that is word for word the same as the *IFRS for SMEs* Standard) that is designed to provide useful information to a wide range of users who are not in a position to demand reports tailored to meet their particular information needs.

Examples—not necessarily general purpose financial statements

Ex 4 **An entity that does not have public accountability prepares financial statements in compliance with the tax requirements for calculating taxable income (and tax expenses) in the jurisdiction in which it operates. The jurisdiction's tax requirements are different from the requirements of the *IFRS for SMEs* Standard. The entity sends the financial statements only to the tax authorities. The entity makes an explicit and unreserved statement of compliance with local tax requirements in the notes.**

The entity's financial statements are special purpose financial statements—they are produced specifically for tax reporting (ie tax accounts). The requirements of tax accounts are determined by fiscal considerations and are unlikely to be designed to provide useful information to a wide range of users who are not in a position to demand reports tailored to meet their particular information needs. Accordingly, the tax accounts are unlikely to be general purpose financial statements.

Ex 5 **The facts are the same as in Example 4. However, in this example, the entity also sends the financial statements to the entity's bankers and the national repository (a legal requirement of the jurisdiction in which the entity operates). A copy of all financial statements lodged with the national repository can be downloaded by anyone free of charge from the national repository's website.**

The entity's financial statements are special purpose financial statements—they are produced on a basis designed for tax reporting (ie tax accounts). The requirements of tax accounts are determined by fiscal considerations and are unlikely to be designed to provide useful information to a wide range of users who are not in a position to demand reports tailored to meet their particular information needs. Accordingly, even though the tax accounts are available to anyone who would like access to them, they are unlikely to be general purpose financial statements.

1.3 An entity has public accountability if:

(a) its debt or equity instruments are traded in a public market or it is in the process of issuing such instruments for trading in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets); or

(b) it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses (most banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks would meet this second criterion).

Notes

Securities are traded in a public market

Public securities markets, by their nature, bring together entities that seek capital and investors who are not involved in managing the entity and who are considering whether to provide capital, and at what price. Although such public investors often provide longer-term risk capital, they do not generally have the power to demand the financial information they might find useful for investment decision-making. Therefore, they must rely on general purpose financial statements.

Occasionally an investor may hold a controlling interest and thus can require additional information. However, if the interest is such that the entity's shares continue to be listed in the public market, then the non-controlling shareholders will likely rely on general purpose financial statements.

An entity's decision to enter a public capital market makes it publicly accountable—and it will almost certainly be required to provide the outside debt and equity investors with a broader range of financial information than may be needed by users of financial statements of entities that obtain capital only from private sources.

Governments recognise this public accountability by establishing laws, regulations and regulatory agencies that deal with market regulation and disclosures to investors in public securities markets.

The Board concluded that, regardless of size, entities whose securities are traded in a public market should follow full IFRS Standards (see paragraphs BC58 and BC76 of the Basis for Conclusions). Consequently, the Board also concluded that, even if such entities have fully complied with all the requirements of *IFRS for SMEs* Standard, they should not describe their financial statements as complying with the *IFRS for SMEs* Standard (see paragraph 1.5).

Q&A 2011/03 - Interpretation of 'traded in a public market' in applying the *IFRS for SMEs*

As part of the 2012 Comprehensive Review of the *IFRS for SMEs* Standard the Board decided that the then existing Q&As should be deleted, with the content either incorporated into the *IFRS for SMEs* Standard or IFRS Foundation education material. Q&A 2011/3 was not incorporated into the *IFRS for SMEs* Standard, and only a summary is presented.

Issue

How broadly should 'traded in a public market' be interpreted in the definition of public accountability? For example in Europe does it include only those markets that are defined as 'regulated markets' for the purpose of EU accounting regulations or does it also include other markets such as growth share markets and over-the-counter markets? In addition, would a listing of convenience, ie a market in which a 'net asset value' price is published but no trading occurs in that market, make an entity publicly accountable?

Response

'Public market' is defined in paragraph 1.3 as 'a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets'. A 'public market' is not restricted to recognised and/or regulated stock exchanges. It includes all markets that bring together entities that seek capital and investors who are not involved in managing the entity. For a market to be public it must be accessible by a broad group of outsiders. If the instruments can only be exchanged between parties involved in the management of the entity, such as key management personnel or shareholders, the instruments are not traded in a public market.

In some jurisdictions, a shareholder of a small or medium-sized entity is permitted by law to publicly advertise those shares for sale, for example, on a website or in a newspaper, without any active involvement (or sometimes without even the knowledge) of the entity issuing those shares. Because the entity did not take an affirmative step to permit public trading of shares (such as, but not limited to, share registration), such advertising by a shareholder does not, by itself, create an over-the-counter public market and would not prevent an entity that otherwise meets the criteria in Section 1 from using the *IFRS for SMEs* Standard.

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Furthermore, the availability of a published price does not necessarily mean that an entity's debt or equity instruments are traded in a public market. For example, in some countries over-the-counter shares have a quoted price, but the market has no facility for trading and so buyers and sellers deal with each other directly. This would not constitute trading in a public market. However, if trading occurs only occasionally in a public market, even only a few times a year, this would constitute trading.

The assessment of whether an entity's debt or equity instruments are traded in a public market, or are in the process of being issued for trading in a public market, should be an ongoing one.

The Basis for Conclusions to the Q&A made it clear that this Q&A was not intended to modify in any way the application of full IFRS Standards.

Small publicly traded entities

A jurisdiction that believes that the *IFRS for SMEs* Standard is appropriate for small publicly traded entities in that jurisdiction could incorporate the requirements of the Standard into its national standards for small publicly traded entities. In that case, however, the financial statements would be described as conforming to national GAAP. The *IFRS for SMEs* Standard prohibits them from being described as conforming to the Standard (see paragraph 1.5).

Financial institutions

In most cases, financial institutions are regulated by laws and government agencies. A primary business of most banks, insurance companies, securities brokers/dealers, pension funds, mutual funds and investment banks is to hold and manage financial resources entrusted to them by a broad group of clients, customers or members who are not involved in the management of the entities. Because such an entity acts in a public fiduciary capacity, it is publicly accountable. The *IFRS for SMEs* Standard prohibits such an entity's financial statements from being described as conforming to it (see paragraph 1.5).

In limited circumstances an investment entity or insurance company may not have public accountability. Examples could include:

- Captive insurance subsidiaries. A captive insurance company is typically an insurance company that insures only the risks of a single entity (often its parent company) or only the risks of entities within the same group of entities as the captive insurance company (such as fellow subsidiaries or parent entities). Where this is the case, the captive insurance company holds assets in a fiduciary capacity only for other group entities, which would not be considered a broad group of outsiders. Consequently, the captive insurance subsidiary is not publicly accountable, and the group will not be publicly accountable solely as a result of the captive insurance subsidiary.
- Investment funds with only a few participants. Mutual funds and similar institutions, such as unit trusts, undertakings for collective investments in

transferable securities (UCITS), and other professionally managed collective investment programmes, typically take investment funds from the general public. Doing so makes those entities publicly accountable. However, if an entity holds and manages financial resources for only a few investors, or only for investors that are not considered to be outsiders (for example, the investors all participate in the investment decisions), then this would not constitute a broad group of outsiders. Examples of entities that are not holding assets in a fiduciary capacity for a broad group of outsiders include:

- a venture capital fund with a few investors all of whom are directly involved in the fund's investment and management decisions;
- a pooled investment fund whose participants are limited to a parent, its subsidiaries and a few of its associates/joint venture; and
- a pooled investment fund, closed to the general public and with only a few specifically selected participants.

Examples—publicly accountable

Ex 6 **An entity operates two types of business from its premises—banking and retail clothing. Its banking operation takes deposits from the general public in return for a promise to pay to its clients their capital plus a return of 2% of the amount deposited 90 days after receiving the cash from them. The entity uses the funds generated in its banking operation partially to fund its retail clothing operations.**

The entity is publicly accountable—through its banking operation (a primary business) the entity holds assets in a fiduciary capacity for a broad group of outsiders (its banking customers).

Ex 7 **An entity's shares are not listed on a stock exchange but do trade on an over-the-counter market that is subject to government regulation, though to a lesser degree than the stock exchange.**

The entity is publicly accountable—its shares are traded in a public market. The regulated over-the-counter market is a public capital market.

Examples—not publicly accountable

Ex 8 **An entity's only business is earning interest on money that it lends to its clients. The entity obtains all of its funds direct from its two owner-managers both of whom are billionaires (ie the entity does not take deposits from customers).**

The entity is not publicly accountable—its instruments are not traded in a public market and it does not hold assets in a fiduciary capacity for a broad group of outsiders. The business of lending money to the general public does not itself give rise to public accountability. (Note: Banks typically have public accountability because of their deposit-taking activities rather than their lending activities. The entity in this example does not take deposits from a broad group of outsiders—it holds assets only for its two owner-managers.)

Ex 9 **The ordinary shares of an entity's parent are listed on a stock exchange.**

The fact that the ordinary shares of an entity's parent are listed on a stock exchange does not, in itself, make the entity (ie the subsidiary) publicly accountable.

Ex 10 **An entity is the only provider of electricity and natural gas in its jurisdiction. The entity is also one of the largest business entities in the jurisdiction and its activities constitute around 4% of the jurisdiction's gross domestic product.**

The fact that the entity provides an essential public service (electricity and natural gas), the size of the entity and its significance in its local economy do not, in themselves, make the entity publicly accountable.

1.4 Some entities may also hold assets in a fiduciary capacity for a broad group of outsiders because they hold and manage financial resources entrusted to them by clients, customers or members not involved in the management of the entity. However, if they do so for reasons incidental to a primary business (as, for example, may be the case for travel or real estate agents, schools, charitable organisations, co-operative enterprises requiring a nominal membership deposit and sellers that receive payment in advance of delivery of the goods or services such as utility companies), that does not make them publicly accountable.

Examples—incidental to a primary business

Ex 11 **An entity, whose assets include investment property and demand deposits, prepares its financial statements in compliance with the *IFRS for SMEs* Standard. The entity requires tenants to pay a refundable deposit equal to two months' rental before occupying the entity's investment property. Provided the property rented is not damaged during the tenant's lease term, the entity repays the deposit to the tenant when the tenant vacates the premises at the end of the lease term.**

The holding of rental deposits does not in itself make the entity publicly accountable—the holding of deposits is incidental to the entity's main business. Unless, for other reasons, the entity is publicly accountable, and provided its financial statements comply with all the requirements of the Standard, the entity must make an explicit and unreserved statement of compliance with the *IFRS for SMEs* Standard in the notes (see paragraphs 3.3 and 1.5).

Ex 12 **An entity, whose only business is operating a travel agency, prepares its financial statements in compliance with the *IFRS for SMEs* Standard. The entity requires its clients to pay a deposit equal to 60% of the price of its package holidays when booking. The balance (40%) must be paid 30 days before departure. The deposit is refunded in full if the client cancels the booking more than 60 days before the departure date. No refunds are provided for later cancellations.**

The holding of travel deposits does not in itself make the entity publicly accountable—the holding of deposits is incidental to the entity's primary travel agency business. Unless, for other reasons, the entity is publicly accountable, and provided its financial statements comply with all the requirements of the Standard, the entity must make an explicit and unreserved statement of compliance with the *IFRS for SMEs* Standard in the notes (see paragraphs 3.3 and 1.5).

Examples—not incidental to a primary business

Ex 13 **An entity, whose main business is operating a supermarket, wishes to prepare its financial statements in compliance with the *IFRS for SMEs* Standard. In the current reporting period the entity extended its operations to include taking deposits from its customers in return for a promise to return to each customer their capital plus a return of 2% of the amount deposited 90 days after receiving the cash from the customer. At the end of the reporting period, the deposit-taking business represents less than 1% of the entity's assets and liabilities. It also represented less than 1% of the entity's profit for the current year.**

The entity is publicly accountable—in the current reporting period the entity started a banking operation in which it holds assets in a fiduciary capacity for a broad group of outsiders (its banking customers). The banking business is not incidental to its supermarket operations (ie it is a second primary business). Because the entity operates a banking business it is publicly accountable. Consequently, the entity is not within the intended scope of the *IFRS for SMEs* Standard. If it nevertheless prepares its financial statements in compliance with the *IFRS for SMEs* Standard, for example, because legislation in the jurisdiction in which the entity operates requires it to do so, the entity must not assert its financial statements comply with the *IFRS for SMEs* Standard in the notes (see paragraph 1.5).

(Note: The entity is publicly accountable even if the deposit-taking activities are not subject to banking regulations in that jurisdiction.)

1.5 If a publicly accountable entity uses this Standard, its financial statements shall not be described as conforming to the *IFRS for SMEs*—even if law or regulation in its jurisdiction permits or requires this Standard to be used by publicly accountable entities.

Notes

An entity whose financial statements comply with all the requirements of the *IFRS for SMEs* Standard is required to make an explicit and unreserved statement of such compliance in its financial statements (see paragraph 3.3). However, a publicly accountable entity is prohibited from making this statement (see paragraph 1.5)—this would be the case even if it were required by law to prepare its financial statements in accordance with the *IFRS for SMEs* Standard.

An entity that is not publicly accountable and complies with all the requirements of the *IFRS for SMEs* Standard could satisfy the disclosure requirement in paragraph 3.3 as follows:

[Extract from] *Note 2 Basis of preparation and accounting policies*

These financial statements have been prepared applying the *IFRS for SMEs* Standard.

Examples—compliance statement is not appropriate

Ex 14 **A small community bank that takes deposits from the general public wishes to apply the *IFRS for SMEs* Standard and assert that its financial statements are prepared in compliance with its requirements. The jurisdiction in which the bank operates has no formal reporting requirements that apply to the entity.**

The entity has public accountability—it holds assets in a fiduciary capacity for a broad group of outsiders as its primary business (see paragraph 1.3(b)). Therefore, it is not within the intended scope of the Standard and, should it nevertheless prepare its financial statements by applying the *IFRS for SMEs* Standard, it cannot assert that its financial statements comply with it.

Ex 15 **An entity whose ordinary shares are traded in Jurisdiction A's securities exchange (a public market) wishes to assert that its financial statements are prepared in compliance with the *IFRS for SMEs* Standard. Entities whose ordinary shares are traded in Jurisdiction A's securities exchange are required by local law to prepare their financial statements in accordance with the *IFRS for SMEs* Standard.**

The entity has public accountability—its shares are traded in a public market (see paragraph 1.3(a)). Therefore, it cannot describe its financial statements as complying with the *IFRS for SMEs* Standard. This applies even though the entity is required by law to prepare its financial statements in accordance with the *IFRS for SMEs* Standard (see paragraph 1.5).

Ex 16 **An entity whose debt instruments (but not its shares) are traded in Jurisdiction A's securities exchange (a public market) wishes to assert that its financial statements are prepared in compliance with the requirements of the *IFRS for SMEs* Standard.**

The entity has public accountability—its debt instruments are traded in a public market (see paragraph 1.3(a)). Therefore, it cannot describe its financial statements as complying with the *IFRS for SMEs* Standard (see paragraph 1.5).

Ex 17 **An entity that is in the process of listing its ordinary shares in Jurisdiction A's securities exchange (a public market) wishes to assert that its financial statements are prepared in compliance with the requirements of the *IFRS for SMEs* Standard.**

The entity has public accountability—it is in the process of issuing its ordinary shares for trading in a public market (see paragraph 1.3(a)). Therefore, it cannot describe its financial statements as complying with the *IFRS for SMEs* Standard (see paragraph 1.5).

1.6 A **subsidiary** whose **parent** uses **full IFRS,** or that is part of a consolidated **group** that uses full IFRS, is not prohibited from using this Standard in its own financial statements if that subsidiary by itself does not have public accountability. If its financial statements are described as conforming to the *IFRS for SMEs*, it must comply with all of the provisions of this Standard.

1.7 A parent entity (including the ultimate parent or any intermediate parent) assesses its eligibility to use this Standard in its **separate financial statements** on the basis of its own status without considering whether other group entities have, or the group as a whole has, public accountability. If a parent entity by itself does not have public accountability, it may present its separate financial statements in accordance with this Standard (see Section 9 *Consolidated and Separate Financial Statements*), even if it presents its **consolidated financial statements** in accordance with full IFRS or another set of generally accepted accounting principles (GAAP), such as its national accounting standards. Any financial statements prepared in accordance with this Standard shall be clearly distinguished from financial statements prepared in accordance with other requirements.

Notes

SMEs should assess their eligibility to use the *IFRS for SMEs* Standard in their own financial statements on the basis of their own circumstances, even if they also submit financial information in accordance with full IFRS Standards to a parent, venturer or investor. The assessment would apply to its single-entity financial statements. If the entity were a parent entity, either ultimate parent or intermediate parent, that was required to prepare consolidated financial statements, it would separately assess whether the group (which might be a subgroup) for which it was required to prepare consolidated financial statements was eligible to use the *IFRS for SMEs* Standard in those consolidated financial statements.

A subsidiary whose parent uses full IFRS Standards, or is part of a consolidated group that uses full IFRS Standards, is not permitted to make the simplified disclosures required by the *IFRS for SMEs* Standard while following the accounting recognition and measurement principles in full IFRS Standards that are used by its parent, if they are different from the accounting recognition and measurement principles in the *IFRS for SMEs* Standard. In other words, the *IFRS for SMEs* Standard must be applied in its entirety; it is not a 'pick and choose' set of options. If an entity's financial statements are described as complying with the *IFRS for SMEs* Standard, they must comply with all of its provisions (see paragraphs 1.6 and 3.3).

Because both full IFRS Standards and the *IFRS for SMEs* Standard allow accounting policy choices for some recognition and measurement principles, differences between the accounting policies of a parent using full IFRS Standards and its subsidiaries using the *IFRS for SMEs* Standard in some cases could be minimised by particular accounting policy choices.

In some jurisdictions, parent entities are required, or choose, to prepare separate financial statements in addition to consolidated financial statements. Separate financial statements are sometimes presented together with the consolidated financial statements and sometimes as a separate document. If a parent entity is required to present consolidated financial statements in accordance with full IFRS Standards, it may still be able to use the *IFRS for SMEs* Standard in its separate financial statements if the parent itself does not have public accountability.

SIGNIFICANT ESTIMATES AND OTHER JUDGEMENTS

An entity that is publicly accountable must not claim compliance with the *IFRS for SMEs* Standard. In most cases little difficulty is encountered in determining whether an entity is publicly accountable. However, in some cases it might be difficult to determine whether the reasons why an entity holds assets in a fiduciary capacity for a broad group of outsiders is incidental to a primary business of the entity.

COMPARISON WITH FULL IFRS STANDARDS

Full IFRS Standards are designed to apply to the general purpose financial statements and other financial reporting of all profit-oriented entities. The *IFRS for SMEs* Standard is intended to apply only to the general purpose financial statements of entities that do not have public accountability. Full IFRS Standards may be used by entities whether they have public accountability or not.

TEST YOUR KNOWLEDGE

Test your knowledge of the characteristics of the entities for which use of the *IFRS for SMEs* Standard is intended by answering the questions provided.

You should assume that all items mentioned are material.

Once you have completed the test, check your answers against those set out beneath it.

Mark the box next to the most correct statement.

Question 1

In which of the following situations can an entity that does not have public accountability claim compliance with the *IFRS for SMEs* Standard in its financial statements?

☐ (a) The entity prepares its financial statements in accordance with local tax requirements that are substantially the same as the *IFRS for SMEs* Standard.

☐ (b) The entity prepares its financial statements in accordance with local tax requirements that are, except in name, word for word the same as the *IFRS for SMEs* Standard.

☐ (c) The entity prepares its financial statements in accordance with local tax requirements that are, except in name, word for word the same as full IFRS Standards.

☐ (d) In both cases (b) and (c) above.

Question 2

In which of the following situations can an entity that does not have public accountability claim compliance with the *IFRS for SMEs* Standard in its financial statements?

☐ (a) The entity prepares its financial statements in accordance with local GAAP that is substantially the same as the *IFRS for SMEs* Standard.

☐ (b) The entity prepares its financial statements in accordance with local GAAP that is, except in name, word for word the same as the *IFRS for SMEs* Standard.

☐ (c) The entity prepares its financial statements in accordance with the *IFRS for SMEs* Standard.

☐ (d) In both cases (b) and (c) above.

Question 3

Which of the following entities must not describe its (or their) financial statements as being in compliance with the *IFRS for SMEs* Standard even if it is (or they are) required by law to prepare its (or their) financial statements in accordance with the *IFRS for SMEs* Standard?

☐ (a) the entity is a subsidiary whose parent uses full IFRS Standards.

☐ (b) the entity is an associate of an investor that uses full IFRS Standards.

☐ (c) the entity is a jointly controlled entity whose venturers (investors) use full IFRS Standards.

☐ (d) cases (a), (b) and (c) above.

☐ (e) none of the cases (a)–(c) above.

Question 4

Which of the following entities must not describe its (or their) financial statements as being in compliance with the *IFRS for SMEs* Standard even if it is (or they are) required by law to prepare its (or their) financial statements in accordance with the *IFRS for SMEs* Standard?

☐ (a) an entity that holds assets in a fiduciary capacity for a broad group of outsiders as its primary business (eg a bank).

☐ (b) an entity that operates two divisions in each of its retail outlets—a supermarket and a bank (which holds assets in a fiduciary capacity for a broad group of outsiders). Both divisions are primary businesses of the entity.

☐ (c) an entity that operates primarily as a supermarket chain. However, it also enters into insurance contacts (as the insurer) with its customers. The entity's short-term insurance and life insurance operations are small relative to the size of its supermarket operations and are operated from the entity's supermarkets.

☐ (d) an entity holds assets in a fiduciary capacity for a broad group of outsiders for reasons incidental to a primary business (eg a law firm that is legally required to hold in trust advances from its clients for legal services to be rendered).

☐ (e) cases (a), (b) and (c) above.

☐ (f) cases (a)–(d) above.

Question 5

Which of the following entities must not describe its (or their) financial statements as being in compliance with the *IFRS for SMEs* Standard even if it is (or they are) required by law to prepare its (or their) financial statements in accordance with it?

☐ (a) an entity whose shares are traded in a public market (eg a local securities exchange).

☐ (b) an entity whose debt instruments (but not its shares) are traded in a public market (eg a local securities exchange).

☐ (c) an entity that is in the process of issuing its shares for trading in a public market (eg a local securities exchange).

☐ (d) an entity that is in the process of issuing its debt instruments (but not its shares) for trading in a public market (eg a local securities exchange).

☐ (e) cases (a) and (b) above.

☐ (f) cases (a)–(d) above.

Answers

Q1 (b)—see paragraphs 3.3 and 1.5.
Q2 (d)—see paragraphs 3.3 and 1.5.
Q3 (e)—see paragraphs 3.3, 1.5 and 1.6.
Q4 (e)—see paragraphs 3.3, 1.2, 1.3(b), 1.4 and 1.5.
Q5 (f)—see paragraph s 3.3, 1.2, 1.3(a) and 1.5.

APPLY YOUR KNOWLEDGE

Apply your knowledge of the requirements for Section 1 *Small and Medium-sized Entities* of the *IFRS for SMEs* Standard by completing the case study provided.

Once you have completed the case study, check your answers against those set out beneath it.

Case study

The parent of a multinational group that is listed on a securities exchange has subsidiaries in many countries. The parent prepares consolidated financial statements for the group using full IFRS Standards. The 10 subsidiaries, A–J, prepare their financial statements using the reporting requirements that apply in the jurisdiction in which they are situated (ie local GAAP). In preparing the consolidated financial statements for the group in prior reporting periods, the financial reporting team had to reconcile the financial statements of each of its subsidiaries from local GAAP to IFRS Standards. This required knowledge of the local GAAP in 10 different jurisdictions.

The parent entity wants to simplify the process of preparing its consolidated financial statements and is considering the following options:

- Option 1: Require subsidiaries to prepare their financial statements in accordance with the recognition and measurement requirements of full IFRS Standards and provide the disclosures required by the *IFRS for SMEs* Standard.
- Option 2: Require subsidiaries to prepare their financial statements in accordance with the recognition and measurement requirements of the *IFRS for SMEs* Standard, but using the option to recognise and measure financial instruments in accordance with IAS 39 *Financial Instruments: Recognition and Measurement* (see paragraph 11.2), and provide the disclosures required by the *IFRS for SMEs* Standard.
- Option 3: Require subsidiaries to prepare their financial statements in accordance with the recognition and measurement requirements of the *IFRS for SMEs* Standard, except for borrowing costs which would be recognised and measured in accordance with full IFRS Standards (ie IAS 23 *Borrowing Costs*), and provide the disclosures required by the *IFRS for SMEs* Standard.
- Option 4: Require subsidiaries to prepare their financial statements in accordance with the *IFRS for SMEs* Standard.

None of the debt or equity instruments of any of the subsidiaries are traded in a public market.

The country in which subsidiary J is situated does not permit use of the *IFRS for SMEs* Standard. The countries in which the other subsidiaries are situated either require or permit its use by entities that do not have public accountability. The country in which subsidiary D is situated also requires use of the *IFRS for SMEs* Standard by entities that are publicly accountable.

In the current reporting period, subsidiary A embarked on the process of issuing compulsorily redeemable fixed-rate debentures in the domestic stock exchange (a public market).

Subsidiary B's primary business is the operation of a private school. When applying for a place at the school a deposit is paid to the entity by the applicant. If the application is not successful, the deposit is refunded to the applicant when the applicant is informed that their application was unsuccessful. If the applicant is granted a place at the school, the deposit is refunded when the student leaves the school. If the applicant is granted a place at the school but chooses not to take up that place, the deposit is forfeited by the applicant.

Subsidiary C operates a travel agency. It requires its clients to pay a deposit equal to 80% of the price of its package holidays when booking. The balance (20%) becomes due 30 days before departure. If the client cancels the booking 60 days or more before the departure date, the deposit is refunded in full. No refunds are provided for later cancellations.

Subsidiary D's main business is retailing food. As a sideline, it also takes deposits from its customers in return for a promise to repay to each customer their capital plus 3% of the amount deposited 120 days after receiving the customer's cash.

Subsidiary E's main business is retailing food. It also provides its employees with short-term interest-free loans so that they can purchase annual rail cards to travel to and from work. The entity deducts the repayments from the employees' salaries in 12 equal monthly instalments.

All of the entity's other subsidiaries are clothing retailers.

Part A: Which subsidiaries of the multinational entity are eligible to use the *IFRS for SMEs* Standard in their separate financial statements?

Part B: Under which of the options being considered by the multinational entity to simplify the preparation of its consolidated financial statements would the subsidiaries be able to state compliance with the *IFRS for SMEs* Standard?

Answer to case study—Part A

All of the subsidiaries, except subsidiaries A and D, meet the definition of an SME in the *IFRS for SMEs* Standard. As explained below, nothing in the *IFRS for SMEs* Standard prevents the subsidiaries, other than subsidiaries A and D, from preparing their financial statements in accordance with the *IFRS for SMEs* Standard. However, a regulation of the jurisdiction in which subsidiary J operates prohibits that subsidiary from using the *IFRS for SMEs* Standard.

Background information

SMEs must assess their eligibility to use the *IFRS for SMEs* Standard on the basis of their own circumstances, even if they also submit financial information in accordance with full IFRS Standards to their parent for consolidation purposes. There are two questions about an entity's eligibility to use the *IFRS for SMEs* Standard: (i) does the entity satisfy the definition of an SME in the *IFRS for SMEs* Standard? and (ii) is the entity required or permitted by law to use the *IFRS for SMEs* Standard?

Decisions on which entities are required or permitted to use the *IFRS for SMEs* Standard rest with legislative and regulatory authorities and standard-setters in individual jurisdictions (see paragraph 13 of the Preface to the Standard).

Accordingly some entities that satisfy the definition of an SME in the *IFRS for SMEs* Standard could nonetheless be prohibited from reporting using the Standard in the jurisdiction in which they operate (eg see the notes on subsidiary J below). Conversely, other entities that do not meet the definition of an SME could be required by law to report using the *IFRS for SMEs* Standard in the jurisdiction in which they operate (eg see the notes on subsidiary D below).

Failing the definition of SMEs

Subsidiaries A and D are publicly accountable and therefore are not SMEs as defined in the *IFRS for SMEs* Standard. Subsidiary A is publicly accountable because it is in the process of issuing debt instruments for trading in a public market (see paragraph 1.3(a)). Subsidiary D has public accountability because it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses (see paragraph 1.3(b)). This part of its operations is not incidental to its food-retailing operations, but is something quite separate and distinct.

(Note: The fact that subsidiary D is required by law to prepare its financial statements in accordance with the *IFRS for SMEs* Standard does not mean that subsidiary D meets the definition of an SME. In accordance with paragraph 1.5 of the *IFRS for SMEs* Standard the entity must not describe its financial statements as conforming to the Standard.)

Regulation in the jurisdiction in which subsidiary J operates does not permit use of the *IFRS for SMEs* Standard. Consequently subsidiary J may not apply the *IFRS for SMEs* Standard even though it meets the definition of an SME set out in the Standard. Although it would generally be permitted, and may choose, to prepare an additional set of financial statements, which are compliant with *IFRS for SMEs* Standard for use outside of the jurisdiction.

SMEs as defined in the IFRS for SMEs Standard

Like subsidiary D, subsidiaries B and C also hold assets in a fiduciary capacity for a broad group of outsiders. However, because subsidiaries B and C do so for reasons incidental to their primary businesses (unlike subsidiary D), this does not make them publicly accountable (see paragraph 1.4). Unless other factors give subsidiaries B and C public accountability, they satisfy the definition of an SME in the *IFRS for SMEs* Standard.

All of the other subsidiaries in the group also appear to be SMEs (ie they prepare general purpose financial statements and do not have public accountability). The fact that subsidiary E provides its employees with short-term interest-free loans does not give rise to public accountability. The provision of loans in itself does not result in holding assets in a fiduciary capacity for a broad group of outsiders.

Answer to case study—Part B

Option 1: Require subsidiaries to prepare their financial statements in accordance with the recognition and measurement requirements of full IFRS Standards and provide the disclosures required by the *IFRS for SMEs* Standard.

An entity applying this option cannot state compliance with the *IFRS for SMEs* Standard—a subsidiary applying the *IFRS for SMEs* whose parent uses full IFRS Standards, or is part of a consolidated group that uses full IFRS Standards, is not permitted to make the simplified disclosures required by the *IFRS for SMEs* but follow the accounting recognition and measurement principles in full IFRS Standards that are used by its parent if they are different from the accounting recognition and measurement principles in the *IFRS for SMEs* Standard. If an entity's financial statements are described as complying with the *IFRS for SMEs* Standard, it must comply with all of the provisions of the *IFRS for SMEs* (see paragraphs 1.6 and 3.3).

Option 2: Require subsidiaries to prepare their financial statements in accordance with the recognition and measurement requirements of the *IFRS for SMEs* Standard, but using the option to recognise and measure financial instruments in accordance with IAS 39 *Financial Instruments: Recognition and Measurement* (see paragraph 11.2), and provide the disclosures required by the *IFRS for SMEs* Standard.

In accordance with paragraph 11.2 of the *IFRS for SMEs* Standard an entity can choose to apply either the provisions of both Section 11 *Basic Financial Instruments* and Section 12 *Other Financial Instruments Issues* in full or the recognition and measurement provisions of IAS 39 *Financial Instruments: Recognition and Measurement* and the disclosure requirements of Sections 11 and 12.

Consequently, those subsidiaries that do not have public accountability (ie all the subsidiaries except A and D—see the answer to Part A) and are not otherwise prevented from applying the *IFRS for SMEs* Standard (ie excluding subsidiary J—see the answer to Part A) may adopt this option and state compliance with the *IFRS for SMEs* Standard.

Option 3: Require subsidiaries to prepare their financial statements in accordance with the recognition and measurement requirements of the *IFRS for SMEs* Standard, except for borrowing costs, which would be recognised and measured in accordance with full IFRS Standards (ie IAS 23 *Borrowing Costs*), and provide the disclosures required by the *IFRS for SMEs* Standard.

An entity applying this option cannot state compliance with the *IFRS for SMEs* Standard because a subsidiary applying the *IFRS for SMEs* Standard, whose parent uses full IFRS Standards, or is part of a consolidated group that uses full IFRS Standards, is not permitted to follow selected recognition and measurement principles in full IFRS Standards that are used by its parent if they are different from the accounting recognition and measurement principles in the *IFRS for SMEs* Standard. The only permitted fallback to full IFRS Standards is in respect of the recognition and measurement of financial instruments (see Option 2 above).

If an entity's financial statements are described as conforming to the *IFRS for SMEs* Standard, it must comply with all of its provisions (see paragraphs 1.6 and 3.3).

Option 4: Require subsidiaries to prepare their financial statements in accordance with the *IFRS for SMEs* Standard.

This option can be adopted by those subsidiaries that do not have public accountability (ie all the subsidiaries except A and D—see the answer to Part A) and are not otherwise prevented from applying the *IFRS for SMEs* Standard (ie excluding subsidiary J—see the answer to Part A). Those subsidiaries can, and should, state compliance with the *IFRS for SMEs* Standard (see paragraph 3.3).