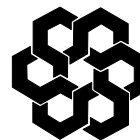


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International
Accounting Standards
Board

This document is provided as a convenience to observers at IASB meetings, to assist them in following the Board's discussion. It does not represent an official position of the IASB. Board positions are set out in Standards.

Note: These notes are based on the staff paper prepared for the IASB. Paragraph numbers correspond to paragraph numbers used in the IASB paper. However, because these notes are less detailed, some paragraph numbers may not be used.

INFORMATION FOR OBSERVERS

Board Meeting: January 2006, London

Project: Accounting Standards for Small and Medium-sized Entities
(Agenda Paper 7A)

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1. The issues for discussion at the January 2006 meeting are identified below. Those issues relate to Agenda Paper 7, which is a nearly complete first draft of an Exposure Draft of an International Financial Reporting Standard for Small and Medium-sized Entities (SMEs). [Agenda Paper 7 is not available for observers].
 2. Because of the length of Agenda Paper 7 (233 pages), staff's plan is that the Board discuss the content of the draft ED (the specific standards themselves) at the February 2006 meeting. That is expected to involve at least half of a day of Board meeting time.
 3. At the January 2006 meeting, staff will discuss with the Board:
 - (a) organisation and structure of the draft ED;
 - (b) staff's approach to developing the draft ED, including which portions of IFRSs are included, which are not included, and what has been added;
 - (c) what's left to draft, and timetable;
 - (d) key issues to think about in preparing for the February 2006 Board discussion of content.

The purpose of that discussion is to assist Board Members in their review of the draft ED for the February meeting. No Board decisions are requested in January.

Organisation and Structure of the Draft ED

Topical organisation

- 4 Consistent with the Board's decision in January 2005, the draft ED is organised into 40 Sections by topic, with each paragraph cross-referenced to the IFRS from which it came.

Broad sequencing within the draft ED

5. The broad topical sequencing within the draft ED is as follows:
 - Concepts and pervasive principles (Introduction and Section 1).
 - Financial report of an SME (Sections 2 to 9).
 - Balance sheet and then income statement sequence – for topics relating to a single type of asset, liability, income, or expense (Sections 10-29).
 - Broad accounting issues that relate to more than one type of asset, liability, income, or expense (Sections 30-39).
 - Transition (Section 40).

Pervasive recognition and measurement principles

6. One of the recommendations of the Working Group (in its report to the Board of August 2005) was that at the beginning of the IFRS for SMEs, the IASB should specify some broad recognition and measurement principles that underpin the IFRS for SMEs, to which SMEs can look in the absence of a specific SME standard. These have been set out in paragraphs 1.44 to 1.55. They are also cited in the SME equivalent of the "IAS 8 hierarchy" – see paragraph 17 below.

Splitting of topics that are in a single IFRS

7. Staff's intent was in almost all cases not to split topics that are in a single IFRS into two or more Sections of the IFRS for SMEs. In a very few cases (which are identifiable by the cross-reference back to the original IFRS) small sub-topics were moved.

Key terms and glossary

8. An issue remains to be considered with respect to definitions and glossary. There are several possible approaches that the IFRS for SMEs might take:
 - (a) Definitions of key terms in a Section would be at the beginning of each Section, but no comprehensive glossary.
 - (b) Definitions of key terms in a Section would be at the beginning of each Section, but with also a comprehensive glossary at the end of the Standard (ie at the end of the entire volume).
 - (c) Definitions of key terms in a would be only in a comprehensive glossary at the end of the Standard (ie at the end of the entire volume) with a typographical way of highlighting a defined term the first time it is used in a Section (eg bold, small caps or underlined).
 - (d) Key terms would be defined in each Section at the point they are introduced. There would also be a comprehensive glossary as in (c) above.
9. The current draft ED takes approach (d). This is an issue to discuss at the February meeting.

Sequencing within each Section

- 10 Generally, the sequencing in the original IFRS has been preserved in each of the Sections in the draft ED. Therefore, within each Section, recognition and measurement generally come first, followed by disclosure and presentation.

Paragraph numbering, fonts, and similar style issues

11. These are intended to follow normal IASB style. An early draft of portions of the draft ED was reviewed by the IASB's editorial director, with all recommendations followed. A review of the current draft is under way. Board recommendations are invited.

Approach to Developing the Draft ED

Virtually all black letter paragraphs are included

12. Virtually all black letter recognition and measurement standards in IFRSs are included in the draft ED. Implementation guidance considered relevant for SMEs is also included. In late 2003 and early 2004 the Board had reviewed very preliminary staff drafts of SME versions of approximately ten IASs. The Sections in the draft ED derived from those IASs reflect the Board comments on those ten preliminary drafts.
13. In some cases, the topical organisation required some redrafting of the black letter recognition and measurement standard in the IFRS. Where the redrafting is substantive, these have been marked as "modified" in the cross-reference.
14. A Section on equity has been added that does not have a counterpart in IFRSs. That Section sets out some basic recognition and measurement principles for the issuance of equity instruments. The principles are intentionally broad because of legal differences among jurisdictions.

Cross-references back to IFRSs

15. One exception to including in the draft ED all black letter paragraphs from an IFRS, of course, is where there is a cross-reference in the draft SME ED back to the IFRS. All such cross-references are highlighted in the draft ED by framing them in a box.

No black letter-grey letter distinction; equal authority

16. The introductory Section of the draft ED states that "All of the paragraphs in this Standard are part of IFRSs for SMEs and have equal authority." Because the IFRS for SMEs comprises primarily the black letter standards from IFRSs, with much of the non-black letter guidance omitted, staff concluded that there is no benefit to having a black-letter/grey-letter distinction in the SME standard.

"Mandatory fallback"

17. A Section of the draft ED addresses selection of accounting policies. Paragraph 9.4 of that Section provides that "In making the judgement described in paragraph 9.3, management shall refer to, and consider the applicability of, the following sources in descending order:
 - (a) the requirements and guidance in IASB Standards for SMEs dealing with similar and related issues; and
 - (b) the requirements and guidance in IFRSs and Interpretations of IFRSs dealing with similar and related issues; and

- (c) the definitions, recognition criteria and measurement concepts for assets, liabilities, income and expenses and the pervasive principles in Section 1 Concepts and Pervasive Principles of this Standard.

Subparagraph (b) above is the “mandatory fallback” agreed to by the Board in January 2005.

What Remains to be Drafted?

18. The main areas remaining that need to be added to the draft ED are:
 - (a) Section 10 *Financial Assets and Financial Liabilities*
 - (b) Section 29 *Income Taxes*
 - (c) Section 30 *Financial Instruments – Additional Issues*
 - (d) Section 40 *First-time Adoption of IFRSs for SMEs*
 - (e) *Guidance on Implementing Sections 4 to 7 – Illustrative Financial Statement Structure* comes immediately after Section 7. The current draft includes the illustrative financial statements from IAS 1 (balance sheet, income statement, equity statement, with X’s rather than actual monetary amounts) and illustrative cash flow statement from IAS 7 (with actual monetary amounts). There are no illustrative notes, including summary of accounting policies. Staff believes that the cash flow illustration should be integrated with the other three illustrative financial statements, and illustrative notes should be added.
 - (f) The current Section 8 only deals with consolidated financial statements. Separate company financial statements need to be addressed.
 - (g) Possible additional implementation guidance.
 - (h) A glossary is needed (or some alternative mechanism for defining terms).
 - (i) An index, though it is premature to develop this at this point.
19. Staff plans to have (a), (b), (c), (e) and (f) above to the Board for discussion in March 2006.

Key Issues to Think About in Reviewing the Draft

20. Staff’s intent for the February 2006 meeting is to seek Board members’ views on the overall structure and organisation of the draft ED, followed by a Section-by-Section review of content. The most fundamental question that the staff plans to bring to the Board in February is whether the general approach, organisation, and content of the draft ED represent an appropriate way forward for an IFRS for SMEs.
21. Staff suggests that the following are key issues to consider in reviewing the draft ED:
 - (a) Under the Board’s definition of an SME, a wide range of sizes of entity all fit within the SME definition – from very large unlisted companies down to the micro-sized entities that comprise the great majority of SMEs. It will be up to each jurisdiction to decide which of that range of entities should be required or permitted to use the IFRS for SMEs. In developing the IFRS for SMEs – and therefore in reviewing the draft ED – the IASB should be guided by the transactions and other events that commonly affect the financial statements of entities with approximately 50 employees and annual revenue of approximately €10 million. The staff (and the Working Group) recommend that the IASB choose this size of entity as its guide because the resulting IFRS for SMEs is

expected to be suitable for a substantial portion of entities without public accountability and because it will achieve meaningful simplification of full IFRSs. It also reflects the size of entity that many national standard setting bodies have had in mind when asking the IASB to undertake this project.

- (b) What recognition, measurement, and/or disclosure topics relevant to SMEs are missing?
- (c) Which areas need more implementation guidance to be useful for an SME? For those areas identified by Board members, is it the kind of guidance that was in the IFRS but omitted in this draft ED (and therefore should be reinstated), or is it new guidance aimed at the needs of SMEs?
- (d) Is it necessary to retain for SMEs all alternatives available under IFRSs?
- (e) In the Board's Preliminary Views Discussion Paper on the approach to developing an IFRS for SMEs, the Board identified a number of objectives for those standards:
 - (i) provide high quality, understandable and enforceable accounting standards suitable for SMEs globally;
 - (ii) focus on meeting the needs of users of SME financial statements;
 - (iii) be based on the same conceptual framework as IFRSs;
 - (iv) reduce the financial reporting burden on SMEs that want to use global standards; and
 - (v) allow easy transition to full IFRSs for those SMEs that become publicly accountable or choose to switch to full IFRSs.

Does this draft standard meet those objectives?