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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: March 2006, London

**Project: Accounting Standards for Small and Medium-sized Entities
(Agenda Paper 13)**

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1. At the March Board meeting, the Board will continue its discussion of the preliminary draft of an Exposure Draft of an International Financial Reporting Standard for Small and Medium-sized Entities (SMEs) that the Board discussed at the January and February 2006 meetings.
 2. The Board's discussion of the draft ED in February centered on the recommendations in a draft summary of the views expressed by Working Group members at their 30-31 January 2006 meeting.
 3. The draft summary of the WG's 30-31 January 2006 meeting was sent to the WG members at the same time as it went to the Board in February. Subsequently, WG members have proposed no substantive changes.
 4. The summary of the WG meeting contains over 80 recommendations, expressed as the general view of WG members. That means that a substantial majority of WG members supported this view. If a significant minority expressed a different view, that is also noted.

5. In February, the Board discussed most of the recommendations up to paragraph 90 (Construction Contracts) of the WG recommendations. A summary of the Board's decisions is presented as an Appendix to this Agenda Paper.
6. At the March meeting, staff requests that the Board complete its review of the WG recommendations.
7. Staff plans to bring back to the Board, at the May 2006 meeting, a revised draft ED including the sections on income taxes and financial instruments that are not in the current draft.

Note to Observers at the March Board meeting:

Because the preliminary draft of an Exposure Draft of an International Financial Reporting Standard for Small and Medium-sized Entities is a staff draft that has not yet been reviewed by the Board, it is not publicly available.

Also, because the Summary of the Views Expressed by Working Group Members at the 30-31 January 2006 meeting is an internal document, it is not publicly available.

Appendix

Summary of Board Discussions and Decisions, February 2006

Mandatory fallback

The Board discussed the WG recommendation for a stand-alone, self-contained IFRS for SMEs - with designated fallbacks to full IFRSs on specific matters, but not a general mandatory fallback. The Board decided:

- Standards in full IFRSs that address transactions, events or conditions commonly encountered by SMEs should be included in the IFRS for SMEs, either directly or by cross-reference back to the full IFRS. Standards relating to transactions, events, or conditions not generally encountered by SMEs should not be included in the IFRS for SMEs. The goal would be to minimise the circumstances in which an SME would need to fall back to full IFRSs in the absence of guidance in the IFRS for SMEs.
- If the IFRS for SMEs does not specifically address a transaction, event or condition, an SME should be required to look to the requirements and guidance elsewhere in the IFRS for SMEs dealing with similar and related issues (that is, select an appropriate accounting policy ‘by analogy’). Failing that, the SME should be required to look to the requirements and guidance in IFRSs and Interpretations of IFRSs dealing with similar and related issues. In the Board’s view the absence of such a requirement would substantially increase the amount of material from full IFRSs that would have to be included in the IFRS for SMEs.

Disclosures

Put all disclosures in a separate section.

Glossary

Define all terms in a separate glossary in the IFRS for SMEs. Highlight defined terms the first time they are used in each section.

Preface

Include a short preface explaining the nature of the IFRS for SMEs. This explanation was included in the Introduction section of the draft ED.

Scope

Include the definition of SMEs in a scope section. This definition was included in the Introduction section of the draft ED.

IASB Framework

The draft ED currently includes the objective of financial reporting, qualitative characteristics, definitions of financial statement elements, and recognition concepts extracted from the IASB Framework. This section should be retained.

Pervasive principles

The Board asked the staff to prepare revised pervasive principles for consideration at a future meeting.

‘True and fair override’

A ‘true and fair override’ similar to that in paragraph 17 of IAS 1 should not be included in the IFRS for SMEs. However, a question about whether to do so should be included in the invitation to comment on the exposure draft.

Use of IFRS for SMEs by small listed entities

The Board believes that full IFRSs are appropriate for an entity whose securities are publicly traded, because they include disclosures and guidance especially intended for public capital markets. This should be explained in the basis for conclusions. A jurisdiction that believes that the standards in the IFRS for SMEs are appropriate for small listed entities could adopt those standards, even word for word, as their national standards for small listed entities. In that case, however, the financial statements would be described as conforming to national GAAP, not to the IFRS for SMEs. This should be explained in the basis for conclusions of the IFRS for SMEs.

Financial report of an SME

The IASB is currently working on a reorganisation of IAS 1 as part of its proposals for Segment A of the Performance Reporting project. Staff should consider reorganising the financial report section of the IFRS for SMEs in line with the reorganised IAS 1.

Statement of income and retained earnings

The IFRS for SMEs will provide that if the only changes to an SME’s equity during a period arise from profit or loss and payment of dividends, the SME may present a combined statement of income and retained earnings.

Cash flow statement

The IFRS for SMEs will illustrate only the indirect method. An SME electing the direct method would be directed to IAS 7 for guidance.

Consolidation

An SME group (parent and one or more subsidiaries) will be required to prepare consolidated financial statements. The IFRS for SMEs will include only the basic principles for consolidation, with a cross-reference to IAS 27 for detailed guidance.

Combined financial statements

Guidance should be added regarding preparation of combined financial statements of two SMEs controlled by the same shareholder(s). Guidance would require elimination of intercompany profits, and related party disclosures.

Correction of errors

Retrospective treatment should be the principle, as it is in IAS 8. Adjust retained earnings if retrospective restatement is impracticable.

Investments in associates

Allow an SME to elect (a) the cost method with impairment or (b) fair value through profit and loss or (c) equity method. Cross-reference to IAS 28 would replace the details of the equity method. Do not require conformity of accounting policies of the associate and investor. If the cost or fair value method is used, intercompany profits would not be eliminated, but related party disclosures would be required.

Investments in joint ventures

Allow an SME to elect (a) the cost method with impairment or (b) fair value through profit and loss or (c) equity method or (d) proportionate consolidation. Cross-reference to IAS 31 would replace the details of methods (c) and (d). If the cost or fair value method is used, intercompany profits would not be eliminated, but related party disclosures would be required.

Property, plant, and equipment

SMEs should be permitted to use the revaluation model, with a cross-reference to IAS 16 for guidance on applying it.

Investment property

The section on investment property should be brief. A simple definition of investment property should be included in the glossary. The IAS 40 accounting policy choice of

(a) cost-depreciation-impairment model and (b) fair value through profit and loss model should be retained. An SME electing (a) should be referred to the property, plant, and equipment section of the IFRS for SMEs for guidance. An SME electing (b) should be referred to IAS 40.

Business combinations

SMEs need not separate out acquired indefinite-life intangible assets from goodwill, but would separate definite-life intangible assets..

Goodwill and indefinite-life intangible assets that are separated from goodwill

An SME would be required to do an impairment test only if there is an indication of impairment. The Board did not support an amortisation approach.

Leases

Retain the distinction between operating and finance leases.

Assets held for sale

Instead of a separate section these requirements should be included in the section on property, plant, and equipment.

Provisions

Staff should consider whether this section can be simplified and which of the examples in the appendix to IAS 37 should be included in the IFRS for SMEs. Address restructurings and onerous contracts as examples.

Equity-redeemable and puttable capital

The IASB is developing a general exposure draft on this topic. It is a transaction frequently encountered by SMEs. Include the general exposure draft principles in the IFRS for SMEs. Also include the guidance on co-operatives from IFRIC 2.

Revenue

Include the guidance on accounting for construction contracts in this section, rather than as a separate section.

Basis for conclusions

The Exposure Draft of the IFRS for SMEs will include a basis for conclusions explaining the basis for any changes from full IFRSs.

‘Plain English’

The Board encouraged the staff to review the entire draft ED for opportunities to rewrite in ‘plain English’.

Amendment of the IFRS for SMEs

The Board asked the staff to develop a proposal for amendment of the IFRS for SMEs following its initial adoption.