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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.

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

INFORMATION FOR OBSERVERS

Board Meeting: 18 October 2006, London

Project: Accounting Standards for Small and Medium-sized Entities

Subject: Revised Draft of an IFRS for SMEs (Agenda Paper 10)

1. There are four SME Agenda Papers for this meeting:
 - (a) Agenda Paper 10 – Issues for Board Discussion
 - (b) Agenda Paper 10A - a marked draft of an exposure draft of an IFRS for SMEs. It reflects all changes to the draft discussed or requested by the Board in September 2006 as well as editorial changes made by the IASB's editing manager.
 - (c) Agenda Paper 10B - illustrative financial statements and disclosure checklist. The illustrative financial statements had been Section 9 of the September 2006 draft.
 - (d) Agenda Paper 10C – draft Basis for Conclusions.
2. Issues for Board discussion relating to all three agenda papers 10A, 10B, and 10C are set out in Agenda Paper 10. These observer notes correspond to Agenda Paper 10.

Agenda Paper 10A

- Classified balance sheet**
3. Paragraph 4.5 requires all SMEs to present a classified balance sheet (current and non-current items sub-totaled).

Question for Board: Should SMEs be allowed to use a liquidity presentation (no sub-totals)?

Amendment to IFRS for SMEs not yet applied

4. Paragraph 10.12 states:
- 10.12 When an entity has not applied an amendment to this IFRS that has been issued but is not yet effective, the entity shall disclose:
- (a) that fact; and
 - (b) either:
 - (i) information that is known or can reasonably be estimated that is relevant to assessing the possible impact that application of the amendment will have on the entity's financial statements in the period of initial application; or
 - (ii) a statement that an estimate has not yet been made. [IAS 8.30]
5. 10.12(a) and (b)(i) are taken from IAS 8.30. Sub-paragraph (b)(ii) is new.

Question for Board: Do Board members concur with including 10.12(b)(ii)?

Net realisable value vs. fair value less costs to sell

6. In the IFRS for SMEs we use Net Realisable Value in several places. Paragraph 2.31 defines it as fair value less costs to sell. We use it that way in discussing inventories (Section 13) and impairment of inventories (Section 26).
7. In September the Board asked that the term "recoverable amount" be replaced, throughout the document, by "fair value less costs to sell".
8. Staff believes that there is no substantive difference between net realisable value and fair value less costs to sell. Staff proposes that, with respect to inventories, net realisable value be replaced by fair value less costs to sell.

Question for Board: Does the Board concur with using Fair Value less Costs to Sell?

Borrowing costs

9. Paragraph 24.1(c) states that borrowing costs include amortisation of ancillary costs incurred in connection with the arrangement of borrowings. This implies that the appropriate initial accounting for these ancillary costs is deferral and amortisation. This is identical to IAS 23. Staff proposes to make this explicit in the IFRS for SMEs.

Question for Board: Can we specify that an entity shall capitalise ancillary costs incurred in connection with the arrangement of borrowings and shall amortise them over the term of the borrowing in proportion to the amount of the outstanding borrowing.

Guidance on moving to/from IFRS for SMEs.

10 This has not yet been added to the draft ED but it will be.

Hedging instrument

11 Paragraph 11.32 requires that a hedging instrument involve a party “external to the reporting entity (ie external to the group, segment or individual entity being reported on)”. Staff believes that this means that the issuer of the hedging instrument cannot be any related party. If the Board concurs, staff proposes to use the term “unrelated party” rather than party “external to the reporting entity”.

Question for the Board: Does the Board concur with using “unrelated party”?

Agenda Paper 10B

12 As the Board requested, the illustrative financial statements have been moved to a second exposure draft, and the disclosure checklist has been added. The Board reviewed the first draft of the disclosure checklist in July. The draft in Agenda Paper 10B has been updated to reflect changes made to the disclosure sections of the ED.

Question for Board: Do Board members have any comments on the illustrative financial statements or disclosure checklist?

Agenda Paper 10C

13 Agenda Paper 10C contains a staff draft of the Basis for Conclusions of the IFRS for SMEs. The Board has not seen this draft before.

Staff is presenting it to the Board at the October meeting with a request that the Board review it to identify:

- (a) Issues that should be covered that are not now in the draft.**
- (b) Issues that are given inadequate consideration in the draft.**

Notes for Observers

Agenda Papers 10A, 10B, and 10C contain revised drafts of an exposure draft (ED) that is not yet a public document. Accordingly, these Agenda Papers are not available to observers. However, in August 2006 the IASB posted on its website a draft of the ED prepared by staff that is close to, but not identical to, Agenda Paper 10A and 10B. That draft can still be downloaded from the IASB's website.