



**International
Accounting Standards
Board**

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This document is provided as a convenience to observers at Standards Advisory Council meetings, to assist them in following the Council'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 Council. Paragraph numbers correspond to paragraph numbers used in the Council paper.

INFORMATION FOR OBSERVERS

SAC Meeting: February 2007, London

**Project: International Financial Reporting Standard for Small and Medium-sized Entities (SMEs): Discussion of the IASB Exposure Draft
(Agenda Paper 7A)**

1. IASB Exposure Draft

- IASB has issued an Exposure Draft of an IFRS for SMEs.

Note to SAC Members: At the time this Agenda Paper is being prepared and distributed, the Exposure Draft is in production by the IASB's publications staff team. It is likely to be posted to the IASB's website the second week of February 2007. Meanwhile, SAC members may wish to review the near-final staff draft that was posted on the IASB website in November 2006. It is also posted to the SAC private website for the February 2006 meeting.

- ED organised by topic.
- Plus illustrative financial statements, disclosure checklist, and basis for conclusions.
- Comment deadline 1 October 2007.

2. February SAC agenda:

- Summarise the ED.
- Discussion of key questions in the invitation to comment.

3. IASB Definition of SME

IASB view: IFRS for SMEs is appropriate for an entity with no public accountability:

- not publicly traded; and
- not a financial institution.

Entity whose securities are publicly traded has public accountability.

- Need full IFRSs for investor protection.
- Even if small in size.

No quantified size test:

- Each jurisdiction should develop guidelines on which entities will use the IFRS for SMEs.
- Could include quantified size test.

4. IASB Approach

IFRS for SMEs is designed to produce general purpose financial statements for external users, including:

- Non-manager owners.
- Existing and potential lenders and creditors.
- Credit rating agencies.

Auditor could give an opinion on fair presentation (or true and fair view) of financial position, results of operations, and cash flows.

Focus on typical SME with about 50 employees in deciding the content of the IFRS for SMEs.

Stand-alone document:

- SME must try to find answers in the IFRS for SMEs:
 - by analogy, and
 - by using pervasive principles in first section of IFRS for SMEs.
- SME may look to full IFRSs as a “safety net” – if answer cannot be found otherwise.
- But, no mandatory fallback to full IFRSs.

5. Simplifications based on user needs and cost-benefit:

- Some topics in IFRSs not included if irrelevant to SME.
- Where IFRS has options, include only simpler option.
- Recognition and measurement simplifications.
- Simplified drafting.

6. Material not relevant to typical SME omitted, with cross-references to full IFRSs if needed:

- Equity-settled share-based payment.
- Determining FV of agricultural assets.
- Extractive industries.
- Interim reporting.
- Lessor finance leases.
- Hyperinflation.

7. Only simpler of options in full IFRS are included. Other(s) cross-referenced. So, only:

- Cost for investment property.
- Cost for PP&E and intangibles.
- Expense all borrowing costs.
- Indirect operating cash flows.
- One method for all grants.
- Jurisdictions could eliminate options.

8. Recognition and measurement simplifications:

- Financial instruments:
 - Two classifications, not four.
 - Drop “continuing involvement approach” for derecognition.
 - Much simplified hedge accounting.
- Goodwill impairment – indicator approach.
- Expense all R&D.

- Cost method for associates and JVs.
- Income taxes – simplified method.
- Less fair value for agriculture – only if “readily determinable without undue cost or effort”.
- Defined benefit plans – principle approach, no corridor tests.
- Share-based payment – intrinsic value.
- First-time adoption – less prior data.
- Leases – simplified calculations.

9. Suitability for micro-SMEs (tiny)

- Yes, definitely.
- Full IFRSs are required for micros in about 25 countries and permitted in another 50 countries.
- Issue is whether micro prepares general purpose financial statements that present fairly position, performance, and cash flows.

10. Rejected Simplifications

- Drop the cash flow statement.
- All leases operating.
- All pension plans defined contribution.
- Completed contract only.
- Fewer provisions.
- Non-recognition of share-based payment.
- Non-recognition of deferred taxes.
- Cost model for all agriculture.
- No consolidation.
- Derivatives at cost.

11. The Effort: Due Process

- Comprehensive due process, including:
- Discussion paper (June 2004).
- Recognition and measurement questionnaire (April 2005).

- Public roundtables on R&M (Oct. 2005).
- Working Group (35 members).
- Deliberations at over 30 Board meetings.
- Feb. 2007 is the 6th SAC discussion.

12. Maintenance

- Maintaining the IFRS for SMEs:
- Update the IFRS for SMEs every 2 years.
- Omnibus Exposure Draft.

13. Exposure Draft

- Board vote to issue the ED: 13 to 1.
- Comment deadline 1 October 2007.
- French, Spanish, German translations.
- Field tests and/or visits to SMEs?
- Final Standard – 1H 2008.
- Effective – whenever adopted locally.

14. Questions for SAC

- Invitation to comment raises 11 questions
- SAC: 3 breakout groups
- Discuss questions and report back

Question 1

ED is intended to be fully stand-alone document for typical SME with 50 employees.

1. Are there transactions not addressed in the ED that should be?

Are there transactions addressed in the ED that can be omitted?

Question 2

BC70-93 identify the recognition and measurement simplifications that were made.

Summarised in Section 8 above and in Slides 10 & 11 (Paul Pacter's presentation at the SAC meeting).

2. Are there other simplifications that should be considered?

Which ones?

Why?

Question 3

BC94-107 identify some recognition and measurement simplifications that were considered but rejected.

Summarised in Section 10 above and in Slide 13.

3. Should the Board reconsider any of those?

Which ones?

Why?

Question 4

ED would make all options in full IFRSs available to SMEs.

Simpler option in the ED.

Other option allowed via cross reference.

Summarised in Section 7 above and in Slide 9.

4. Do you agree with which ones Board defined as simpler?

Should any/all cross references to other options be eliminated?

Question 5

ED proposes to retain the immediate expensing option for borrowing costs even if that option is eliminated from IAS 23.

5. Do you agree that SMEs should have an option for immediate expensing?

Question 6

BC 57-65 explain why some topics in full IFRSs are omitted from IFRS for SMEs, but cross referenced to full IFRS.

Summarised in Section 6 above and in Slide 8.

6. Should any additional topics be omitted and replaced by a cross reference?

Question 7

ED contains guidance on how an SME should deal with an accounting issue not specifically covered.

Analysed, and look to concepts and pervasive principles in Section 2.

But no mandatory fallback to full IFRSs.

7. Does this approach provide sufficient guidance?

Question 8

ED is accompanied by illustrative financial statements and disclosure checklist. But much detailed guidance in full IFRSs is omitted.

8. Is more guidance needed? In which areas? How to provide?

Question 9

Many disclosures in full IFRSs are omitted from the ED.

9. Are there disclosures not proposed in the ED that should be required? Which ones?

Are there disclosures that are proposed in the ED that could be omitted? Which ones?

Question 10

Section 38 provides guidance for transition:

- From national GAAP to IFRS for SMEs.
- From full IFRSs to IFRS for SMEs.

10. Is that guidance adequate? How can it be improved?

Question 11

IFRS for SMEs will be updated approximately once every two years via an omnibus ED.

11. Is this an appropriate approach for SMEs? If not, how to modify?

Time for breakout sessions:

Group A: Ques. 1, 4, and if time permits Ques 7

Group B: Ques. 2, 5, and if time permits Ques 8

Group C: Ques. 3, 6, and if time permits Ques 11

Please return at 14:45.