



30 Cannon Street, London EC4M 6XH, United Kingdom
Phone: +44 (0)20 7246 6410 Fax: +44 (0)20 7246 6411
Email: iasb@iasb.org Website: <http://www.iasb.org>

**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: 12 March 2008, London

Project: IFRS for Small and Medium-sized Entities

Subject: Overview of Key Issues Raised in Comment Letters and Project Plan

Objective of Discussion at this Board Meeting

1. At the March 2008 Board meeting, the staff plans to:
 - a. Summarise the project activities since issuance of the Exposure Draft (ED) in February 2007.
 - b. Identify the key issues that have been raised in the letters of comment on the ED. This list of issues is based on a preliminary analysis of the letters by the staff. These issues will also serve as the basis for discussion at the meeting of the Board's SME Working Group on 10-11 April 2008.
 - c. Review the staff's work plan for completion of a final IFRS for Small and Medium-sized Entities (SMEs).
2. This agenda paper is intended as an input to the process of setting priorities for work through December 2008. It does not provide enough information to support decisions on technical issues. The staff plans to provide that level of detail to the Board in April 2008 and to provide both staff recommendations and Working Group recommendations to the Board in May 2008.
3. Therefore, discussion of the SME project at the March 2008 meeting is intended as an educational session. The staff does not ask the Board to make any decisions at this meeting. However, staff invites Board discussion about the preliminary list of key issues and the proposed work plan.

Project Activities since Issuance of the ED

Publication of the ED

4. The Board published an ED of a proposed IFRS for SMEs for comment in February 2007. Comment deadline was 30 November 2007 – extended from the original deadline of 1 October 2007 to allow companies and organisations participating in field tests to factor the results into their comment letters.

Translations of the ED

5. Translations of the ED were published and posted on the IASB's website as follows:
 - Spanish April 2007
 - French May 2007
 - German June 2007
 - Polish September 2007
 - Romanian September 2007

Letters of Comment on the ED

6. The Board received 162 letters of comment on the ED. These have been made available to Board members and posted on the IASB's website.
7. Thirteen comment letters were submitted in a language other than English (French 3, German 1, Portuguese 1, and Spanish 8). We had these professionally translated for purposes of preparing the comment letter analysis.
8. This agenda paper (starting with paragraph 20) identifies the key issues raised in the letters of comment.

Staff Overview of the ED

9. A 17-page staff overview of the ED, in question-and-answer format, was published in April 2007 and posted on the IASB's website. The overview was intended as a high level introduction to the ED. As stated in the overview, the document was not approved by the International Accounting Standards Board. Nor was it intended to serve as the basis for commenting on the Exposure Draft.

Field Testing of the ED

10. Subsequent to issuing the ED, the staff organised a programme of field testing of the ED. The goals of the field testing were:
 - **to assess understandability.** Identify parts of the proposed standard that field testers found hard to understand.
 - **to assess scope.** Identify transactions, events or conditions that the field tester encountered but that are not covered in the draft IFRS for SMEs, and find out how the field tester made its accounting policy decision, including whether they looked to full IFRSs as a reference.
 - **to assess burden.** Assess the burden of applying the draft IFRS for SMEs: for instance, whether information required to apply it was not available or available only with undue cost or effort.

- **to assess impact.** Assess the nature and degree of changes from the field tester’s current GAAP or current reporting practices.
 - **to assess accounting policy choices.** Where an accounting policy choice is allowed in the draft IFRS for SMEs, to identify any circumstances in which the field tester chose to use an accounting policy option in a full IFRS, and why.
 - **to assess micro and developing country problems.** Identify any special problems in applying the draft IFRS for SMEs that arise for field testers that are so-called ‘micro entities’ (those with fewer than 10 employees) and for field testers in developing economies.
 - **to assess the adequacy of implementation guidance.** Identify where additional implementation guidance would be helpful to the field tester.
11. The field test questionnaire was posted on the IASB’s website in June 2007 in English, Spanish, and French. The deadline for submitting field test reports was initially 31 October 2007, but, in September 2007, the Board extended it and the comment deadline on the ED itself to 30 November 2007 to meet requests by field testers.
12. In total, 117 companies from the following 20 countries participated in the field tests:

Argentina	Italy	South Africa
Australia	Kenya	South Korea
Barbados	Malawi	Tanzania
Denmark	Malaysia	Tunisia
France	Netherlands	United Kingdom
Germany	Nigeria	United States
India	Poland	

13. Field test companies were asked to provide background information about the company, submit their most recent annual financial statements under their existing accounting framework, prepare financial statements in accordance with the proposed IFRS for SMEs for the same financial year (though without presenting comparative prior year information), and respond to a series of questions designed to identify specific problems the field test company encountered in applying the proposed IFRS for SMEs. Most of the 117 companies provided all of the requested information, but a few provided financial statements without the completed questionnaire and a few completed the questionnaire without providing financial statements.
14. Field testers were promised that their responses will be treated confidentially.
15. Staff is in process of analysing the field test results. A report summarising and explaining the findings, without individual company data, will be presented to the Board in April 2008 and will be made publicly available.

Compliance Checklist

16. In May 2007, we posted on the IASB’s website a 111-page Compliance Checklist for the proposed IFRS for SMEs. The checklist was developed by one of the large international public accounting firms. The checklist identifies all of the accounting recognition and measurement requirements in Sections 3–38 of the ED. It was intended to allow users of the proposed IFRS for SMEs to identify quickly those sections and paragraphs that are directly relevant to them. We made it available in the expectation that some field testers would find it useful, though there was no obligation to use it. The checklist states that the document has not been reviewed or approved by the IASB.

Outreach

17. Staff has undertaken a greater-than-normal outreach effort in connection with this project. That effort included 96 roundtables and presentations in 39 jurisdictions in past four years, including the following since the ED was issued:

Location	Audience was N=National, R=Regional, G=Global
Austria	N
Belgium	R
Canada	N N N N R [5 different events]
Dubai	G
El Salvador	R
France	N
Germany	R N N
Holland	N
Honduras	N (Video)
Hong Kong	N
Hungary	N
Indonesia	N
Malaysia	R
Malta	G N
Mexico	R
Namibia	R
Poland	N
Romania	N
Singapore	R
South Africa	N N
Spain	N N
Switzerland	R
Thailand	N (Video)
Turkey	R
UK	N N G
Ukraine	R
USA	G G N N

18. In addition, the project was discussed at six meetings of the Standards Advisory Council and at five World Standard Setters’ meetings. Also staff has published

seven articles about the ED since the ED was issued, in English, Spanish, German, and (forthcoming) Ukrainian.

19. The foregoing reports only outreach activities undertaken by staff. In addition, many presentations made by Board members were devoted entirely or partly to the SME project.

Key Issues Arising in SME Comment Letters

20. The staff has completed a preliminary analysis of the letters of comment. In analysing the letters, staff has classified as a ‘key issue’ any suggested change to the recognition, measurement, or presentation requirements proposed in the SME ED that was mentioned in more than two comment letters, subject to the following.
- a. Key issues do not include those issues where the commentator said that more guidance is needed. Staff will deal with those comments as drafting matters.
 - b. Nor does the list below include disclosure changes proposed in comment letters. Staff will prepare an analysis of those separately.
 - c. Staff judged that several points raised in only one or two comment letters should still be included as ‘key issues’ because of the nature of the comment. Further, staff has captured all other points raised in only one or two comment letters and plans to review them for possible inclusion in Agenda Papers at future Board meetings.
 - d. Staff has identified upwards of 500 suggested editorial improvements that it will consider in redrafting the ED into a final IFRS for SMEs.

General Issues in the Letters – Not Related to a Specific Section in the ED

21. **Need for an IFRS for SMEs.** This was not a question in the Invitation to Comment in the ED. Nonetheless, some comment letters – particularly from several European countries – questioned the need for an IFRS for SMEs. They suggested, instead, that small entities should simply follow tax accounting requirements to avoid requiring an SME to ‘keep two sets of books’. In paragraphs BC28-BC30 of the Basis for Conclusions to the ED, the Board explains its view why determination of taxable income and determination of distributable income are not specific objectives of the proposed IFRS for SMEs. The ED also explains that the decision about whether small entities should be required to prepare ‘tax accounts’ or ‘general purpose financial statements’ rests with individual jurisdictions, not with the IASB.
22. The Board has received considerable earlier input on the issue of whether an IFRS for SMEs is needed. For example:
- a. In September 2003, at the outset of the project, staff surveyed national standard setters about the need for simplified financial reporting standards for SMEs and whether the IASB should be the one to develop such simplified standards. Of the 30 standard setters responding, all but one said the IASB should develop such a standard.
 - b. In their response to the 2004 IASCF Constitution Review, the European Commission also said the need exists and the IASB should develop an IFRS for SMEs. Similarly EFRAG’s response said that development of an IFRS for SMEs should be a specific objective of the IASB.

- c. Question 1(b) in the IASB's June 2004 Discussion Paper on the approach to an IFRS for SMEs asked:

“Do you agree that the Board should develop a separate set of financial reporting standards suitable for SMEs? If not, why not?”

Of the 106 comment letters that addressed this question, 93 agreed that the IASB should develop a separate IFRS for SMEs, and only 13 disagreed.

23. Some who did not question the need for an IFRS for SMEs nonetheless argued that it should have been developed using a ‘fresh start’ or ‘bottom up’ approach, rather than using the existing Conceptual Framework and existing IFRSs as the starting point. Preliminary View 6 in the IASB's June 2004 Discussion Paper explained the Board's reasoning for using existing IFRSs as the starting point. Question 6 asked:

“Do you agree that development of IASB Standards for SMEs should start by extracting the fundamental concepts from the Framework and the principles and related mandatory guidance from IFRSs (including Interpretations), and then making modifications deemed appropriate? If not, what approach would you follow?”

Of the 93 comment letters that addressed this question, 76 agreed with the Board's reasons for starting with full IFRSs, and only 17 disagreed.

24. **Cross references to full IFRSs.** Over 60% of the comment letters that addressed the ‘stand-alone’ issue would eliminate all cross references to full IFRSs, thereby making the IFRS for SMEs a fully stand-alone Standard. Another 35% of the letters either (a) would keep the number of cross references to an absolute minimum or (b) were indifferent between having minimal cross-references and removing all cross-references. Only 2 comment letters that addressed the stand-alone issue did not agree that the IFRS for SMEs should be a stand-alone document. (Note, though, that many of those that don't agree a SME standard should be developed in the first place did not address the stand-alone issue).
25. Respondents raised various ‘version control’ issues if cross-references are retained. For example, if an IAS/IFRS is amended or replaced, does that result in ‘automatic’ change to the cross reference, or does the cross reference to the earlier IAS/IFRS remain? Also there is an issue of where the cross-references end. For example, certain cross-referenced paragraphs, either directly or indirectly, refer to other paragraphs within IASs/IFRSs.
26. Attachment A to this Agenda Paper contains a list of all of the cross-references to full IFRSs currently in the draft IFRS for SMEs.
27. **Accounting Policy Options.** By a two to one margin, the letters of comment recommended that all or most options in full IFRSs should be available to SMEs.
- Those who favour reducing options usually favoured retaining the cost-based options (particularly with respect to property, plant and equipment; investment property; and intangible assets) and removing the revaluation/fair value alternatives.
 - A number of letters singled out revaluation of intangibles as an option that should not be available in the IFRS for SMEs.

- c. Around a dozen comment letters cited use by subsidiaries of full IFRS parents as one of the prime reasons for wanting all policy options available in the IFRS for SMEs. A handful more said that such entities should be addressed separately, to avoid complicating requirements for other entities.
28. The draft IFRS for SMEs currently includes the following accounting policy options by cross reference to full IFRSs:
- a. Investment property – fair value through profit or loss model
 - b. Property, plant and equipment – revaluation model
 - c. Intangible assets – revaluation model
 - d. Borrowing cost – capitalisation model
 - e. Presenting operating cash flows – direct method
 - f. Accounting for government grants – any of the IAS 20 methods
 - g. Development costs – capitalisation model
 - h. Associates – equity method
 - i. Joint ventures – equity method and proportionate consolidation
 - j. Financial instruments – use IAS 39 and IFRS 7 in full instead of Section 11. Also, SMEs choosing Section 11 are still given the ‘fair value option’ to measure all financial assets and financial liabilities at fair value through profit or loss.
29. It should also be noted that at least one of the recognition and measurement simplifications means that not all options in full IFRSs are available in the ED: the SME ED proposes that all actuarial gains or losses be recognised immediately in profit or loss. The various other options in IAS 19 (including corridor, other allowed spreading techniques, and recognition in other comprehensive income outside of profit or loss) would not be permitted.
30. Staff finds the view that SMEs should have all options in full IFRSs somewhat inconsistent with the general view in the majority of comment letters that the IFRS for SMEs should be a completely stand-alone document, with all cross-references to full IFRSs eliminated. At a minimum, the two views taken together would likely result in an increase in size of IFRS for SMEs. Moreover retention of all options was generally not the position taken by participants in the informal round-tables following issuance of the ED.
31. **Anticipating changes to full IFRSs.** In at least two circumstances, the ED anticipates changes that are likely to be proposed for full IFRSs based on decisions made by the Board in current agenda projects. Those circumstances are (a) elimination of the corridor approach for deferring and spreading actuarial gains and losses and (b) elimination of certain exceptions in IAS 12 to recognition of deferred taxes. Additionally, the principle of accounting for government grants in the ED is not one of the methods currently included in IAS 20 (though any of the methods in IAS 20 can be used by an SME by cross-reference). A number of comment letters said that, as a matter of policy, the IFRS for SMEs should not anticipate possible changes to full IFRSs. Changes to full IFRSs will first have to undergo a complete and specific public due process. Only after that due process is

completed should the Board consider their appropriateness for SMEs, in the view of these commentators.

32. **Disclosure.** Many letters of comment encouraged the Board to make further disclosure simplifications:
- a. Unfortunately, few comment letters proposed specifics.
 - b. Many letters of comment suggested that further research on this issue is needed. Staff is considering whether and how to do this, including the possibility of a user disclosure questionnaire (see paragraphs 72-73 of this Agenda Paper), and will report to the Board on this issue at a future Board meeting. Staff invites Board members' views.
33. **Name for SME.** Many comment letters agreed with the Board's description of entities that should be allowed to use the IFRS for SMEs – namely entities that do not have public accountability. Most concurred with the Board that the IASB should not establish a quantified 'size test'. However, they pointed out that use of the terms 'small' and 'medium-sized' imply a size test. Moreover, they noted that the term SME is often defined in quantified terms by local or regional laws or regulations. Therefore they recommended that the Board find a better term than SME. Possibilities suggested include:
- a. NPAE (non-publicly accountable entity).
 - b. NPIE (non-public-interest entity).
34. **Scope.** Reconsider whether the IFRS for SMEs is suitable for micros, small listed entities, and some other entities that the Board believes have public accountability because they act in a fiduciary capacity such as travel agencies and unit trusts managed for a small number of investors.
- a. **Micros.** Some letters question suitability for micro entities (under 10 employees) which, in most countries, are well over 95% of entities. Staff believes that the critical issue, from the viewpoint of the IASB, is whether such entities are required by law or regulation to publish general purpose financial statements. This is not IASB's issue.
 - b. **Small listed entities and small NPAEs.** Some letters question why small listed entities and small entities with public accountability because they act in a fiduciary capacity (eg small-sized security brokers, private equity houses, trustee companies, high street travel agents, etc) should be effectively barred from the scope of the IFRS for SMEs. Most letters addressing this issue suggested that paragraph 1.3 be removed and the decision be left to individual jurisdictions. Some argued that the quality of reporting by small listed entities in some countries would be improved if they were allowed to use the IFRS for SMEs instead of their current accounting framework.
 - c. **Special exemptions within the IFRS for SMEs?** A number of letters suggested that the IASB should exempt entities at the small end of the SME spectrum from certain requirements while retaining those requirements for entities at the larger end of the SME spectrum. An exemption from consolidation or from preparing a cash flow statement were perhaps the most frequently cited examples.

35. **Restatements.** In general, respondents favoured fewer required restatements of prior periods than now proposed.
36. **Fair value – general.** As a general principle, restrict use of fair value to:
- a. Market price is quoted or readily determinable without undue cost or effort (eg financial instruments, agriculture etc). Some respondents also thought it was necessary items were readily realisable and/or there is an intention to dispose or transfer; plus
 - b. All derivatives.
37. Staff will develop a complete list of references to fair value in the IFRS for SMEs and present it to the Board at a future meeting. Adoption of an ‘undue cost or effort’ exception would then have to be considered case by case.
38. **Structure of the standard.** Restructure the standard. For example, add an ‘SME Framework’, make qualitative characteristics SME specific (plus give a hierarchy for them), emphasise stewardship, put all general measurement requirements in only one place and include in sections only specific requirements for those items (not general requirements applicable to all assets or all liabilities or all revenues).
39. Staff believes that this is what the Board intended with Section 2. These commentators may want IFRS for SMEs to explicitly state that “historical cost is the default measurement for all assets and liabilities unless another measurement principle is stated”. Staff notes that even full IFRSs rarely use historical cost without some sort of adjustment (such as for impairment, net realisable value, amortised cost, etc.)
40. **Post-issuance review.** A number of respondents recommended that the Board commit to a post-issuance review of the IFRS for SMEs. This would be more comprehensive than the general review and update planned for approximately every two years. Many respondents thought that the first update to the IFRS for SMEs could come after a shorter period (such as after one year), to address significant implementation issues. Thereafter the standard could be updated over a two year (or potentially longer) period. About 25% of those who commented requested a longer regular update cycle than two years.
41. **Interpretations of the IFRS for SMEs.** The Board should either develop a formal process for considering interpretations of the IFRS for SMEs (including ‘rejection notices’ similar to IFRIC’s) or, at least, should explain its thinking in this regard. The IASB should at least have a permanent staff dedicated to implementation of the IFRS for SMEs.

Issues Related to a Specific Section in the ED

42. **Use by a subsidiary of an IFRS company (Section 1).** Clarify use of IFRS for SMEs by a subsidiary of a full IFRS entity:
- a. If there are recognition or measurement differences in IFRS for SMEs, can such a subsidiary use the recognition and measurement principles in full IFRSs but make only the disclosures required by IFRS for SMEs? Those who favoured this view felt it would make consolidation easier.
43. **Financial statement formats (Section 3-7).**

- a. Require a more standardised financial statement format – too many options now. Be more prescriptive of sections and line items and sequencing, as well as note disclosures.
- b. Conform to revised IAS 1, including the new requirement for a statement of comprehensive income and a single format for the statement of changes in equity.
- c. Do not allow a statement of income and retained earnings.

44. Statement of cash flows (Section 7).

- a. Remove the direct method for reporting operating cash flows (it is now a cross-referenced option).
- b. Exempt smaller entities from the requirement to prepare a statement of cash flows, or allow jurisdictions to decide under the IFRS for SMEs.

45. Consolidation (Section 9).

- a. Exempt smaller entities from the requirement to prepare consolidated financial statements, or allow jurisdictions to decide who prepares consolidated financial statements under the IFRS for SMEs.
- b. Or possibly establish criteria when consolidation should be required. Examples of such criteria might be:
 - Joint management.
 - Substantial intercompany transactions.
 - Borrowings of one entity secured by assets of the other.
- c. Allow a temporary control exemption from consolidation.

46. Separate financial statements (Section 9).

- a. Allow different accounting policies for categories of investments (for instance, one policy in accounting for associates in separate financial statements and a different policy in accounting for subsidiaries).
- b. Allow equity and proportionate consolidation methods in separate financial statements (that is, mirror treatment in consolidated financial statements to save time and explanations).

47. Accounting policies (Section 10).

- a. When an SME is following an option in a full IFRS and that full IFRS changes, do not require SMEs to follow the transitional provisions in that revised IFRS.
- b. Over 70 % of those who commented support the accounting policy hierarchy in paragraphs 10.2 to 10.4. Of those, quite a few suggested minor modifications – for instance, make it even clearer (a clear statement) that there is no ‘mandatory fallback’ to full IFRSs. Some feel that, currently, a mandatory fallback is implied due to all the cross-references and the ED being based on full IFRSs.

48. Financial instruments (Section 11):

- a. Make cost the default measurement basis, not fair value.
- b. Bring back available for sale category.

- c. Straight-line amortisation of discounts/premiums, not the effective interest method.
 - d. Hedge accounting:
 - Allow a shortcut method for hedging by which, if certain conditions are met, effectiveness could be presumed without a complex calculation.
 - Provide guidance for measuring hedge effectiveness (currently there is some guidance in the Basis for Conclusions).
 - Simplify hedging documentation.
 - e. Allow purchased options and debt instruments as hedging instruments.
 - f. Clarify what is required for derivatives and embedded derivatives. Section 11 would require that the full host contract be measured at fair value if there is an embedded derivative.
 - g. Add guidance on factoring.
 - h. Do not allow the choice of using full IAS 39. Respondents who held this view generally were opposed to allowing any accounting policy options in the IFRS for SMEs. Also, some said that IAS 39 is too complex or too costly for SMEs to apply, and that allowing its use would reduce comparability among SMEs.
49. **Associates and joint ventures (Section 13 and 14).** The proposed IFRS for SMEs permits too many options in accounting for associates and JVs. Consider removing options or using a hierarchy to determine which measurement basis is appropriate. [Note that the SME ED was developed before ED 9 on JVs and commentators may not have taken ED 9 into account.]
50. **Investment property (Section 15).** Remove the option to classify property held under an operating lease as investment property.
51. **Property, plant and equipment (Section 16).** Do not require:
- a. Component depreciation; or
 - b. Annual revisions to life and residual value.
52. **Goodwill (Section 18) and intangibles (Section 17) amortisation.** Permit or require amortisation of goodwill and other indefinite life intangibles over a limited number of years. Respondents generally acknowledged that there still would be a need to consider impairment. However, they pointed out that amortisation would lessen the need for an impairment write-down.
53. **Business combinations (Section 18).** Simplify allocation of cost. In particular
- a. Do not require separation of all or certain intangibles (such as those with no quoted market price, those that are not legal rights, and those that were not recognised by acquiree).
 - b. Do not require recognition of contingent liabilities.
 - c. Simplify requirements for initial accounting, for instance by prospective rather than retrospective adjustments, longer period for determination.
54. **Leases (Section 19).** Do not require:
- a. Straight-line for operating, or

- b. Finance lease measured only at fair value of leased property (that is, reinstate lower of FV and present value of minimum lease payments), or
 - c. Separation of land and buildings (or perhaps have an undue cost exemption), or
 - d. Classification of leases as finance leases (that is, treat all as operating leases).
55. **Provisions (Section 20).** Simplify measurement requirements, for example, simplify probability estimates and discounting (such as by using the average company borrowing rate).
56. **Debt - equity classification (Section 21).** Simplify the requirements for split accounting (or do not require it at all) and classification as equity or liabilities. Various suggestions were made. Note: these comments were before the IASB's final changes to IAS 32 were adopted for classification of puttable instruments and obligations arising on liquidation.
57. **Borrowing costs (Section 24).** Compute all capitalisation on the basis of average borrowing cost (do not require tracing of specific borrowings).
58. **Share-based payment (Section 25).** Simplify – intrinsic value is not much of a simplification. Possible simplifications include intrinsic value measured only at issuance (not updated) or FAS 123 calculated value method (again no subsequent 'true up'). Also, consider disclosure only for equity-settled share-based payments.
59. **Impairment (Section 26):**
- a. Allow or require consideration of value in use or a simplified value in use calculation. 'The ED requires only fair value measurement.
 - b. Require that future use of asset be considered in determining whether to use fair value (expected sale) or value in use (continued use in business).
 - c. Simplify requirements for impairment of goodwill.
 - d. Bring back cash generating units.
60. **Pensions (Section 27).** Simplify defined benefit pension plan accounting:
- a. Allow other options for actuarial gains and losses, in particular outside profit or loss, such as in equity or in other comprehensive income.
 - b. Allow deferral and amortisation of past service costs.
 - c. Do not require a specific actuarial method (projected unit credit). Also clarify that even if a specific method is required, an actuarial valuation performed by an outside actuary is not required to be done every year; updating prior period valuations for changes in circumstances can result in reasonable measurements.
 - d. Measure at current liquidation amount.
 - e. Treat multiemployer plans as defined contribution.
61. **Income taxes (Section 28).** Simplify income taxes (but how?) Suggestions included:
- a. Taxes payable method (no deferred tax recognised), with some disclosure about 'deferrals'.

- b. Taxes payable method plus accrual of those deferred taxes that are expected to reverse in a short period (say two or three years).
 - c. Timing difference method.
 - d. Timing difference method plus accrual of deferred taxes relating to book/tax basis differences that were recognised directly in other comprehensive income.
62. **Segment reporting (Section 31), earnings per share (Section 34), and interim reporting (Section 37).** Entities should be able to present voluntary information without having to apply the full IFRS. Remove these sections entirely. Allow the hierarchy in Section 10 to govern, but require clear disclosure of the basis of presentation used.
63. **Related parties (Section 33).** Do not require disclosure of sensitive information or information that could cause competitive disadvantage. Main example given is disclosure of key management personnel (KMP) compensation if entity only has one or two members of KMP.
64. **Assets held for sale and discontinued operations (Section 36).**
- a. Remove held for sale classification, or require note disclosure only.
 - b. Simplify (or even eliminate) discontinued operation disclosures and restatements.
65. **First-time adoption of the IFRS for SMEs (Section 38).** Include all of the IFRS 1 optional exemptions for first time adopters (eg parent and subsidiary adopt at different times, deemed cost for investment property and intangibles). Relax use of 'impracticable'. Relax requirements for moving to and from full IFRSs (maybe more than once). On the other hand, a number of respondents were concerned about entities switching between the IFRS for SMEs and full IFRSs many times and felt there should be some kind of restriction or grace period. This may be a matter left to each jurisdiction to decide.

Draft Work Plan for Completion of the Project

Board Meetings

66. **March 2008** – SME project on agenda one hour, educational session.

67. **April 2008** – SME project on agenda three hours, educational session.

- Educational Session. Objective is detailed report to Board on issues arising from comment letters and field tests. Board discussion on completeness of our list of issues.
- Agenda Paper 1 will be analyses of comment letters.
- Agenda Paper 2 will be report on the field tests.
- Agenda Paper 3 will be list of all substantive issues resulting from comment letters and field tests that staff believes should be addressed by the Board, with pros and cons for each, but (at this point) no staff recommendations. The objective of this discussion will be to identify all possible solutions that the staff should consider.
- Agenda Paper 4 will be report of users disclosure survey (see paragraph 77 below; may not be ready until a future meeting).

68. **May 2008** – SME project on agenda three hours, for decisions.

- Objective is Board decisions on how issues arising from comment letters and field tests should be resolved. This will be continued in June and July.
- Agenda Paper 1 will be an updated list of all substantive issues resulting from comment letters and field tests (update of April 2008 Agenda Paper 3) with pros and cons and staff recommendations. This list will be prioritised in sequence in which we need Board decisions. If additional issues arise from WG meeting (see item 4 below) they will be added in this updated list.
- Agenda Paper 2 will be report of the 10-11 April meeting of the Working Group (see below).
- Seek Board decisions on technical issues. In May (this month) decisions will be requested on the highest priority issues. Discussion and decisions will continue in June and July 2008 on other issues.

69. **June 2008** – SME project on agenda three hours, for decisions.

- Objective is Board decisions on how issues arising from comment letters and field tests should be resolved. This will be continued in July.
- Agenda Paper 1 will be an update of Agenda Paper 1 for May 2008 meeting plus a new cover note. Continue to discuss and get Board decisions on substantive issues.

70. **July 2008** – SME project on agenda three hours, for decisions.

- Objective is Board decisions on how remaining issues arising from comment letters and field tests should be resolved.
- Agenda Paper 1 will be an update of Agenda Paper 1 for May 2008 meeting plus a new cover note. Continue to discuss and get Board decisions on substantive issues.

- Goal is to have all substantive decisions on individual issues completed by July meeting.
71. **September 2008** – SME project on agenda three hours, for review of comprehensive draft of a final IFRS for SMEs (revised ED reflecting the technical decisions at the May, June, and July 2008 meetings).
- Objective: Get Board affirmation that draft final IFRS for SMEs reflects decisions made through July 2008 and, to the extent possible, to identify those issues on which there is significant disagreement within the Board. The latter issues will be discussed by the Board in October, November, and December 2008 as needed.
 - Agenda Paper 1 will be a complete revised marked draft of the ED reflecting all previous decisions. (Agenda Paper 2 will be a clean draft.)
72. **October 2008** – SME project on agenda three hours for review of a comprehensive draft of a final IFRS for SMEs.
- Objective: Board decisions on remaining substantive issues identified in September. Discussion continues in November and December 2008 as needed.
 - Agenda Paper 1 will be revised draft of IFRS for SMEs reflecting decisions from September meeting. (Agenda Paper 2 will be clean draft.)
73. **November 2008** – SME project on agenda three hours for review of a comprehensive draft of a final IFRS for SMEs.
- Objective: Board decisions on remaining substantive issues identified in September and October. Discussion continues in December 2008 as needed.
 - Agenda Paper 1 will be revised draft of IFRS for SMEs reflecting decisions from October meeting. (Agenda Paper 2 will be clean draft.)
74. **December 2008** – SME project on agenda three hours for review of a comprehensive draft of a final IFRS for SMEs.
- Objective: Board decisions on remaining substantive issues identified in September, October, and November.
 - Goal is to have final vote on IFRS for SMEs in December 2008, followed by votes on pre-ballot draft and ballot draft in January-February 2009.
 - Agenda Paper 1 will be revised draft of IFRS for SMEs reflecting decisions from the November meeting (Agenda Paper 2 will be clean draft.).

User Survey

75. Staff is considering whether to develop a questionnaire to send to bank lenders and other users of SMEs' financial statements that focuses on disclosures and presentation. We would ask for responses that can be easily tallied, rather than open-ended comments. For example:
- For the purpose of making our lending, credit, rating, or investment decisions, this information is (a) vital for all SMEs, (b) useful in certain cases (specify), (c) seldom used, or (d) we do not use this.
76. Board views on whether we should do this are invited.

Working Group

77. The IASB's Working Group (WG) on the IFRS for SMEs will meet on Thursday and Friday 10-11 April 2008 in London. Details will be posted on the IASB's website and provided to Board members.
78. Agenda Papers (AP) for that meeting are expected to be:
 - a. AP 1 will be analyses of comment letters (same as AP 1 for April Board).
 - b. AP 2 will be report on field tests (same as AP 2 for April Board).
 - c. AP 3 will be list of all substantive issues resulting from comment letters and field tests that staff believes should be addressed by the Board, with pros and cons for each, but no staff recommendations (same as AP 3 for April Board).
 - d. AP 4 will be the project work plan for the remainder of the project.
79. Goal of meeting is to get WG members' views on each of the above substantive issues. Immediately after the meeting, staff will prepare a report of the views of the WG and, after WG members have reviewed it, provide it to the Board as Agenda Paper 2 for the May 2008 Board meeting.

Attachment A: Cross-references to full IFRSs in the ED

#	Para	IFRS	Description	BC para
1	7.9	IAS 7	Option to use direct method for cash flows from operating activities under IAS 7	114
2	10.4	full IFRSs	Reference to full IFRSs dealing with similar & related issues in the hierarchy	56(c)
3	11.1	IAS 39 and IFRS 7	Option to follow IAS 39 in full for financial instruments and hence must also follow disclosures in IFRS 7 (also definition of hedging instrument refers back to IAS 39)	78
4	12.10	IAS 23	Including borrowing costs in inventory	n/a
5	13.5	IAS 28	Option to follow equity method and disclosures for associates under IAS 28	83
6	14.10	IAS 28/IAS 31	Option to follow equity method and disclosures for jointly controlled entities under IAS 28 (via IAS 31)	83
7	14.11	IAS 31	Option to follow proportionate consolidation method and disclosures for jointly controlled entities under IAS 31	83
8	15.5	IAS 40	Option to follow fair value model and disclosures for investment property under IAS 40	110
9	16.13	IAS 16	Option to follow revaluation model and disclosures for PPE under IAS 16	111
10	17.16	IAS 38	Option to follow capitalisation model for research and development under IAS 38	82
11	17.23	IAS 38	Option to follow revaluation model and disclosures for intangible assets under IAS 38	112
12	19.15	IAS 17	Omitted guidance - lessor in a finance lease refers to guidance and disclosures under IAS 17	62
13	23.3	IAS 20	Option to use IAS 20 for grants which are not related to assets measured at fair value through profit or loss.	115
14	24.4, 24.5	IAS 23	Option to use capitalisation model and disclosures for borrowing costs under IAS 23	113
15	25.4	IFRS 2	Omitted guidance - for equity settled share based payments refer to measurement and disclosures under IFRS 2.	59
16	25.7	IFRS 2	Omitted guidance - for share based payment transactions with cash alternatives refer to guidance under IFRS 2.	n/a
17	29.2, 29.3, 30.21	IAS 29	Omitted guidance - entities whose functional currency is hyperinflationary follow IAS 29 in full and related part of IAS 21.	58
18	31.1	IFRS 8	Omitted guidance - entities wishing to produce segment information refer to IFRS 8.	64
19	34.1	IAS 33	Omitted guidance - entities wishing to produce earnings per share refer to IAS 33	63
20	35.1(a)	IAS 41	Omitted guidance - entities with biological assets whose fair value is readily determinable without due cost and effort apply fair value model and give disclosures under IAS 41.	60
21	35.3	(IFRS 4)*	Omitted guidance - entities who are insurers are outside scope of IFRS for SMEs	65
22	37.1, 37.2	IAS 34	Option to follow IAS 34 for interim financial statements	61
23	Definitions	IAS 28 and IAS 31	Related party definition	
24	Definitions	IAS 39	Hedging instrument definition	

*Doesn't actually make an explicit reference to IFRS 4.

Numerous mentions of full IFRSs in the Preface.

Full IFRSs are also mentioned in 38.1 & 38.2 as a possible previous GAAP pre transition to IFRS for SMEs.

IFRSs are naturally mentioned in the definitions of 'first time adopter of IFRS for SMEs', 'full IFRSs' and 'International Financial Reporting Standards'.