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

INFORMATION FOR OBSERVERS

Board Meeting:	**May 2008, London**
Project:	**IFRS for Small and Medium-sized Entities**
Subject:	**Redeliberation – General Issues (Agenda Paper 9A)**

1. For the May 2008 Board meeting, the SME agenda papers are organised as follows:
   - **Agenda Paper 9 –** Overview
   - **Agenda Paper 9A –** General Issues
   - **Agenda Paper 9B –** Issues Relating to ED Sections 1-10
   - **Agenda Paper 9C –** Issues Relating to ED Sections 11-38
   - **Agenda Paper 9D –** Recommendations of the Working Group
2. This agenda paper (Agenda Paper 9A) sets out the general issues not related to a particular section in the Exposure Draft (ED) of a proposed IFRS for SMEs. The general issues are numbered sequentially G1, G2, and so on. Questions have the same number as the related issue and may also be labelled with a letter (A, B etc) if there is more than one question for a particular issue.

Issue G1: Stand-alone IFRS for SMEs

3. **Comment letters.** The Standard should be fully stand-alone.

   - 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.

4. **Field tests.** All relevant requirements should be within the IFRS for SMEs, and all cross-references should be removed. Needing to refer back to full IFRSs to apply certain options was found to be problematic.

5. **WG recommendation.** Working Group (WG) members recommended that the IFRS for SMEs should be a completely stand-alone document. Therefore, all cross-references to full IFRSs should be eliminated (with the possible exception of keeping the cross-references to IAS 39 if the option to use IAS 39 as an alternative to Section 11 *Financial Assets and Financial Liabilities* is retained – WG members were divided on whether to retain this option).

6. WG members recommended that if the Board decides to retain any cross-references to full IFRS, the IFRS for SMEs should be clear that the cross-reference relates to the full IFRS that was in place at the time the IFRS for SMEs was issued. That is, a change in the full IFRS would not automatically modify what is required of an SME.

7. **Staff comments.** The two most pervasive issues confronting the Board in redeliberating the ED are whether the final IFRS for SMEs should be completely stand-alone and whether SMEs should be allowed to use the more complex options currently available by cross-reference. These two issues are related. Currently the ED contains two types of cross-references:

   a. accounting policy options (optional cross-reference to the more complex option – see Issue G2 below) and

   b. omitted topics (mandatory cross-reference if the SME encounters the situation) – see Issue G3 below).

8. **Staff recommendation.** Staff recommend that the final Standard should be fully stand-alone for the following reasons**:**

   a. A stand-alone document would be more understandable and easier to use. It would also be perceived as a more user-friendly document and hence improve acceptance by jurisdictions considering adoption and by entities within the scope. Many respondents to the ED felt that the cross-references require SMEs to be familiar with both the IFRS for SMEs and full IFRSs – a requirement even more burdensome than for an entity following full IFRSs.

   b. Under the ED, if an entity is required (mandatory cross-reference for omitted topics) or chooses (optional cross-reference to the more complex option) to follow an IFRS by cross-reference, the entity must apply that IFRS (or part of that IFRS) in full. The twin criteria of user needs and cost-benefits on which the Board based its decisions in the IFRS for SMEs have not been applied to the cross-referenced material. However, if such cross-referenced topics were incorporated within the IFRS for SMEs, it would be possible to make appropriate simplifications of recognition and measurement principles and/or reduce disclosures based on the user needs and cost-benefit criteria adopted by the Board.

c. There would be 'version control' issues if cross-references are retained. For example, under the ED it is unclear, if an IAS/IFRS is amended or replaced, whether that results in an 'automatic' change to the cross-reference, or whether the cross-reference to the earlier IAS/IFRS remains. If there is an automatic change then this will cause more regular updates to the IFRS for SMEs than every two years and require SMEs applying cross-references to be aware of all changes to full IFRSs. If the cross-reference to the earlier IAS/IFRS remains, there may be confusion as to which version of the Standard should be applied, especially since in some cases certain cross-referenced paragraphs themselves, either directly or indirectly, refer to paragraphs of other full IFRS Standards (See (d) below). Also, the accounting chosen or required by cross-reference will not be comparable with that applied by full IFRS entities (which may be a reason a SME would choose to apply a more complex option). Additionally, if changes to full IFRSs are *de facto* amendments to the IFRS for SMEs, SMEs would need to participate in the due process that led to the changes in each IFRS – a burden SMEs generally have told the Board they cannot handle (in responses to both the June 2004 SME Discussion Paper and the ED).

d. There is an issue of where the cross-references end. Certain cross-referenced paragraphs, either directly or indirectly, refer to other paragraphs within full IFRSs. This is problematic because ongoing updates are made to full IFRSs, so SMEs would need to continuously monitor full IFRSs in case any changes might affect them via the cross-reference.

9. A key disadvantage of making the IFRS for SMEs stand-alone is that this may significantly increase its length, depending on the decisions made regarding inclusion of complex options and, but to a lesser extent, omitted topics. If the Board agrees with the staff recommendations for accounting policy options (Issue G2) and omitted topics (Issue G3), the increase in length will be minimal.

<u>Question G1</u>

Does the Board agree with the staff recommendation that the IFRS for SMEs should be fully stand-alone (remove all cross-references to full IFRSs)?

Issue G2: Accounting policy options

10. **Comment letters.** By a two-to-one margin, the letters of comment recommended that all or most options in full IFRSs should be available to SMEs.

a. Those who favoured reducing options almost always favoured retaining the historical cost-based options (particularly with respect to property, plant and equipment; investment property; and intangible assets) and removing the revaluation/fair value alternatives.

b. More than any other option, letters singled out revaluation of intangibles as an option that does not need to be available in the IFRS for SMEs.

c. Around a dozen comment letter 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 the great majority of other entities.

11. **Field tests.** Approximately 20 per cent of field test entities either noted they referred back to full IFRSs in order to apply an option available by cross-reference or said they would consider using one of the options only available by cross- reference (although they did not do so as part of the field test). The most commonly used options from full IFRSs were the revaluation model under IAS 16 *Property, Plant and Equipment* (used by 6 of the field testers); the capitalisation models under IAS 23 *Borrowing Costs* (used by 4 of the field testers) and IAS 38 *Intangible Assets* (used by 5 of the field testers); and the option to apply full IAS 39 *Financial Instruments: Recognition and Measurement* (used by 8 of the field testers).

12. Some entities, generally those already applying requirements similar to full IFRSs, noted that they would prefer all options in full IFRSs to be included. On the other hand, some of the smaller entities suggested deletion of options to decrease costs and increase comparability.

13. **WG recommendation.** All WG members wanted at least some of the options in the ED to be retained, though different WG members supported different options. Some WG members supported removing certain options for SMEs, for example revaluation of property, plant and equipment and intangibles and the fair value option for financial instruments, as these are rarely used by listed companies and are, therefore, likely to be rarely used by SMEs in most jurisdictions. However, overall WG members acknowledged that different jurisdictions attach different degrees of importance to the various options and, therefore, recommended that all options should be retained in the final IFRS for SMEs (with the exception of the direct method for reporting operating cash flows – see discussion of Section 7 in Agenda Paper 9B). WG members were also divided on whether to allow SMEs the choice to follow IAS 39/IFRS 7 in full rather than Section 11. Jurisdictions should have the ability to prohibit one or more options in their jurisdiction if they wish.

14. **Staff comments**. 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 costs – 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. Jointly controlled entities – 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.

15. 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) are not permitted

16. **Staff recommendation.** Staff do not feel that any of the accounting policy options above should be available to SMEs for the following reasons**:**

    a. The view that SMEs should be able to use all options in full IFRSs seems somewhat inconsistent with the general view in the great 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 a significant increase in the size of the IFRS for SMEs, especially if the option to allow IAS 39/IFRS 7 is permitted.

    b. Elimination of options will reduce the volume of guidance and make requirements easier to understand and apply. Some SMEs will find a choice of options confusing.

    c. Most SMEs will choose to follow the simpler options as they will generally be less costly and require less expertise. Hence, in the majority of cases, the more complex options would not be necessary.

    d. SMEs generally would find the more complex options more difficult to apply yet may wish to apply them nevertheless to achieve a certain accounting result. This could reduce the overall quality of financial reporting if SMEs lack the necessary expertise.

    e. Entities wishing to reduce their reporting burden by applying IFRS for SMEs instead of full IFRSs need to accept that the ability to apply more simplified requirements comes hand in hand with a restriction in ability to apply more complex options. Allowing complex options is not consistent with simplifying requirements. If entities have the capability and wish to apply more complex options, then they should consider whether they would be better off applying full IFRSs.

    f. Comparability between the financial statements of SMEs would increase, which would benefit any users of SME financial statements that need to make comparisons between SMEs. Users of SME financial statements are often less sophisticated than users of financial statements of publicly accountable entities so would benefit from less variation in accounting requirements between entities.

    g. Reducing options does not hinder comparability with entities using full IFRSs, since in many cases under full IFRSs entities may apply different accounting policies from each other for the same transactions.

17. Staff are aware of the following disadvantages of their recommendation**:**

    a. Subsidiaries of publicly accountable entities often align their accounting policies with those of their parent, which could mean wishing to apply one or more of the more complex accounting options. Hence, if subsidiaries follow the IFRS for SMEs, they will need to make adjustments for the different accounting policies for consolidation purposes. Staff feel the number of entities in this category is insufficient to justify complicating the IFRS for SMEs for other entities (see Issue 1.1 of Agenda Paper 9B, which discusses application of the IFRS for SMEs to subsidiaries of full IFRS parents). Staff also note that IFRS data produced for consolidation purposes has a different materiality threshold than in a subsidiary's separate financial statements, so it may still be less costly for entities to produce a second set of financial statements under the simplified IFRS for SMEs than to apply full IFRSs in their individual financial statements. If jurisdictions or parent entities believe subsidiaries have sufficient public accountability or user-driven need, full IFRSs can always be applied.

b. Restricting options may disadvantage entities considering applying full IFRSs in the future. Staff feel that the number of entities in this category is insufficient to justify complicating the IFRS for SMEs for other entities.

c. Some of the options considered more complex may be favoured/widespread in a particular jurisdiction/industry. Removing such options may make the IFRS for SMEs less attractive to certain entities. On the other hand, requiring an entity that is accustomed to applying the more complex options under their local GAAP to switch to the more simple option is not likely to be burdensome or costly to the entity. Staff believes that simplification of the Standard should have precedence over consistency with existing GAAP.

<u>Question G2</u>

Does the Board agree with the staff recommendation that accounting policy options should not be available to SMEs?

18. **Additional staff comment.** If the Board does not agree with the foregoing recommendation that the accounting policy options should not be available under the IFRS for SMEs, the Board will have to decide which ones should be addressed in the IFRS for SMEs, and how. In this regard, staff recommend:

a. **Which ones.** Staff's preliminary view would be to include in the IFRS for SMEs all of the options in paragraph 14 above, simplified as appropriate for SMEs, <u>except for</u>:

   i. revaluation of property, plant and equipment and intangible assets (as more complex than the cost method and rarely used by entities);

   ii. the direct method for reporting operating cash flows (as least preferred by users and rarely used by entities); and

   iii. the option to use IAS 39 and IFRS 7 in full instead of Section 11 (as IAS 39 is too complex for SMEs).

   Staff have addressed each of the options in paragraph 14 section by section in Agenda Papers 9B and 9C, so there will be further opportunity for Board members to consider which options are appropriate for SMEs. If the option of IAS 39/IFRS 7 is included in the IFRS for SMEs, this alone would more than double the length of the Standard. If the Board chooses to retain this option, staff recommend that, since this is a special case only, the IFRS for SMEs should have a cross-reference to IAS 39/IFRS 7.

b. **How.** The options could be addressed either within the relevant section of the IFRS for SMEs or in a separately published appendix of options. Staff have not yet developed a recommendation in this regard. In part, it will depend on the nature and extent of any simplifications of the complex option if it is brought within the IFRS for SMEs.

Issue G3: Omitted topics

19. **Comment letters.** As noted under Issue G1, nearly all respondents to the ED would make the IFRS for SMEs fully stand-alone or nearly so. To accomplish this, a decision must be made, for each of the topics in full IFRSs that was omitted from the ED but incorporated by cross-reference, whether to:

    a. exclude it entirely from the IFRS for SMEs; or

    b. address it in the IFRS for SMEs and, if this is done, identify what modifications are necessary to the full IFRS requirements for SMEs.

20. **Staff comments.** The draft IFRS for SMEs currently omits the following topics as they are not considered relevant to typical SMEs; however there are cross-references to the relevant IFRS if such cases are encountered:

    a. Lessor accounting for finance leases – IAS 17 (Section 19)

    b. Equity-settled share-based payment – the computational details are in IFRS 2 (Section 25).

    c. Financial reporting in a hyperinflationary environment – IAS 29 (Section 29).

    d. Segment reporting – IFRS 8 (Section 31).

    e. Earnings per share – IAS 33 (Section 34)

    f. Determining the fair value of agricultural assets – IAS 41 (Section 35).

    g. Insurance contracts (insurers would not be eligible to use the proposed IFRS for SMEs (Section 35).

    h. Interim reporting – IAS 34 (Section 37).

21. **Field tests.** All relevant requirements should be within the IFRS for SMEs, and all cross-references should be removed. Needing to refer back to full IFRSs for omitted topics was found to be problematic.

22. **WG recommendation.** WG members recommended addressing the omitted topics as shown in the table below. Where the WG members recommended addressing the omitted topic directly in the IFRS for SMEs, they also-generally recommended simplifying the requirements.

Para in IFRS for SMEs ED	IFRS in cross-ref	Omitted topic	Address but simplify from full IFRS	Do not address in IFRS for SMEs
19.15	IAS 17	Lessor in a finance lease refers to guidance and disclosures under IAS 17	X	
25.4	IFRS 2	For equity settled share based payments refer to measurement and disclosures under IFRS 2.	X	
25.7	IFRS 2	For share based payment transactions with cash alternatives refer to guidance under IFRS 2.	X	
29.2, 29.3, 30.21	IAS 29	Entities whose functional currency is hyperinflationary follow IAS 29 in full and related part of IAS 21.	X	
31.1	IFRS 8	Entities wishing to produce segment information refer to IFRS 8.		X
34.1	IAS 33	Entities wishing to produce earnings per share refer to IAS 33		X
35.1(a)	IAS 41	Entities with biological asses whose fair value is readily determinable without due cost or effort apply fair value model and give disclosures under IAS 41.	X	
35.3	(IFRS 4)*	Entities who are insurers are outside scope of IFRS for SMEs		X
37.1, 37.2	IAS 34	Entities wishing to prepare interim reports that conform to the IFRS for SMEs must follow IAS 34		X

23. **Staff recommendation.** Staff agree with the WG recommendation that the following topics should be included in the IFRS for SMEs, as they are likely to be encountered by SMEs, and if included they could benefit from rewording and simplification, as appropriate based on user needs and cost-benefit considerations, to be more understandable and easier to apply by SMEs:

a. Lessor accounting for finance leases: Many comment letters said SMEs often are lessors under finance leases and hence requirements should be included in IFRS for SMEs. Car dealers are an example. Being a finance lessor does not make an entity publicly accountable because it does not mean their main business is holding assets in a fiduciary capacity for a broad group of outsiders.

b. Share-based payment: Many comment letters said SMEs do provide share-based incentives for employees, which are sometimes equity-settled and sometimes cash-settled.

c. Financial reporting in a hyperinflationary environment: While most SMEs do not operate in a hyperinflationary environment, those few countries that are hyperinflationary do have many SMEs that should have some guidance on financial reporting in such an environment.

d. Determining the fair value of agricultural assets: Many agricultural entities are SMEs. The IFRS for SMEs would require the fair value through profit or loss model when fair value is readily determinable without undue cost or effort.

Therefore, many SMEs would use the guidance for determining the fair value of agricultural assets.

24. Staff agree with the WG recommendations that the following topics should be omitted:

    a. Segment reporting, earnings per share, and interim reporting: Delete completely, as requirements to provide such information are directed at entities whose debt or equity instruments are traded in a public market. SMEs should not be discouraged from providing users with potentially less costly supplementary information by applying the hierarchy in Section 10, even if this does not comply with full IFRS requirements. The need for comparability is not as great for SMEs and in any case staff recommend that the basis used for preparing the information should be disclosed.

    b. Insurance contracts: Insurers would not be eligible to use the proposed IFRS for SMEs. This is clear from the scope in Section 1; ED paragraph 35.3 is not needed.

Question G3

Does the Board agree with the staff recommendation to completely omit from the IFRS for SMEs guidance on segment reporting, earnings per share, insurance, and interim reporting and to address the other topics shown in the above table in the IFRS for SMEs, simplified as appropriate based on the Board's criteria?

Issue G4: Anticipating changes to full IFRSs

25. **Comment letters.** 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.

26. **Field tests.** No related comments.

27. **WG recommendation.** WG members felt that the IFRS for SMEs should not try to anticipate evolving changes to full IFRSs based on Board discussions or Exposure Drafts as these should be dealt with in full IFRSs first. However, WG members noted that if a genuine simplification of full IFRSs that is considered appropriate for SMEs happens to coincide with the direction that the IASB appears to be following in one of its projects to amend or replace full IFRSs, this should not prevent this simplification being included in the IFRS for SMEs.

28. **Staff comments**. 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 (although, except for grants related to assets measured at fair value through profit or loss, any of the methods in IAS 20 can be used by cross-reference).

29. **Staff recommendation.** Staff agree with the WG recommendations.

Question G4

Does the Board agree that the IFRS for SMEs should not try to anticipate evolving changes to full IFRSs, as these should be dealt with in full IFRSs first, but if a genuine simplification of full IFRSs that is appropriate for SMEs happens to coincide with the direction that the IASB appears to be following in one of its projects, this should not prevent inclusion of this simplification in the IFRS for SMEs?

Issue G5: Title of the Standard and which entities should be eligible

30. **Comment letters.** 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, most comment letters disagreed with the title of the Standard since 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, in particular one that better describes the scope of applicability of the Standard.

31. **Field tests.** There was some confusion relating to the title of the Standard, either because the definition of SME is inconsistent with the definition of SME in a particular jurisdiction or is inconsistent with the scope of the ED itself.

32. **WG recommendation.** WG members supported the Board's description of entities that jurisdictions could permit to use the IFRS for SMEs. They felt the IASB should not establish a quantified 'size test'. WG members' views differed on the title of the ED.

    a. Some WG members thought that the current title of the ED is not accurate because it suggests that the group of entities eligible to use the IFRS for SMEs is based on size whereas it is based on public accountability.

    b. Other WG members, however, liked the reference to size in the title and noted that the term SME is well recognised worldwide and does not pose any translation issues. There was concern that other less well recognised terms could cause confusion for national regulatory authorities, standard-setters and practitioners.

33. Among those WG members who would change the title, there was no clear consensus within the group as to the best title. However, the following possibilities were mentioned:

    a. IFRS for Non-publicly Accountable Entities

    b. IFRS for Non-public-Interest Entities

    c. IFRS for Private Entities (Some WG members thought there might be translation problems if the word 'private' is used.)

    d. IFRS for Private Companies

    e. IFRS for Smaller Entities (Some WG member thought this might imply a size test while others felt it was an improvement and only suggests size in relative, rather than absolute, terms.)

f. IFRS for Private-Interest Entities

g. IFRS for Unlisted Entities (However, this would be more than just a change of title but rather an expansion of the scope because it would not prohibit unlisted deposit-taking financial institutions from using the IFRS for SMEs. Some WG members support such an expansion of scope because 'unlisted' is easily understood and a jurisdiction that wants to prohibit small financial institutions from using the IFRS for SMEs is able to do so. On the other hand, this title might imply that full IFRSs are designed exclusively for listed companies, which is not the case.)

h. IFRS for Limited-Interest Entities

34. **Staff recommendation.** Staff recommend using a title that is more consistent with the scope of the Standard for the following reasons:

    a. Even though the term 'SME' is well-recognised, it is understood to mean different things in different jurisdictions and none of the jurisdictions describe SME in the same way as the ED. Hence using the term SME to describe non-publicly accountable entities is not well-understood.

    b. The term 'SME' implies that larger non-publicly accountable entities are not in the scope and, conversely, that small publicly accountable entities might be in the scope.

    c. Although a title making reference to size is easier to translate, staff do not believe that translation problems should be a big consideration, as a literal translation of the title is not really necessary. Individual, but similar, solutions can be reached in other languages as deemed appropriate by experienced technical translators.

35. Staff recommend that the title be changed to 'IFRS for Private Entities'. The word 'private' is an appropriate contrast to 'public' in 'publicly accountable entity'. It avoids a connotation of size. Some jurisdictions currently use 'private entities' or 'private companies' or 'private interest entities' to describe the class of entities that the ED calls SMEs.

<u>Question G5</u>

Does the Board agree with the staff recommendation that the title of the Standard should be changed to International Financial Reporting Standard for Private Entities, with private entities defined similarly to the definition of SME in the ED?

Issue G6: Suitability of the IFRS for SMEs for micro entities

36. **Comment letters.** IFRS for SMEs is not suitable for micro entities (say, fewer than 10 employees or turnover below US$5 million) which, in most countries, are well over 95% of entities. The IFRS for SMEs should explicitly state that it is not intended for use by micro entities.

37. **Field test.** 116 companies from 20 countries field tested the ED by restating their most recent annual financial statements and reporting the problems they encountered in applying the proposed IFRS for SMEs. Between one third and one half of them were micros (depending on definition):

    - <u>Employees.</u> Of the 116, 70% had fewer than 50 employees (35% had fewer than 10 employees)

- Turnover. 60% had annual turnover less than US$ 5 million (35% had annual turnover less than US$ 1 million)

38. Few of these entities encountered significant problems in applying the ED. About half of the field test entities identified no, or only one or two, issues or problems. In general there was not a very strong link between the type of problems an entity encountered and its size or industry. The main factor influencing the type of problems identified by field testers was the nature and extent of differences between the IFRS for SMEs and an entity's existing accounting framework.

39. **Working Group recommendation.** WG members do not recommend the exclusion of micro entities from the scope of the IFRS for SMEs.

40. **Staff recommendation.** Staff recommend not adding such an exclusion for the following reasons**:**

    a. Such an exclusion would imply, inappropriately, that full IFRSs are equally inappropriate for SMEs. Full IFRSs are currently required for all unlisted entities in 28 jurisdictions, required for some unlisted entities in 19 jurisdictions, and permitted for all or some unlisted entities in 36 jurisdictions. It is difficult to justify prohibiting the IFRS for SMEs for micro entities while full IFRSs are required or permitted for micro entities in over 80 jurisdictions.

    b. Use of the IFRS for SMEs is likely to improve the quality of financial reporting by micro entities in many jurisdictions.

    c. The critical issue, from the viewpoint of the staff, is whether micro entities are required by law or regulation to publish general purpose financial statements (GPFS). GPFS are financial statements that are intended to meet the needs of users who are not in a position to require an entity to prepare reports tailored to their particular information needs. The IFRS for SMEs is intended to result in GPFS on which an auditor could express an opinion regarding fair presentation (or true and fair view) of financial position, operating results, and cash flows. In publishing the ED the Board did not see a reason to prohibit micros that publish GPFS from using the IFRS for SMEs (just as it does not prohibit them from using full IFRSs). This is an issue to be resolved by legislation or regulation in each jurisdiction. It is not the Board who decide which entities must produce GPFS. That decision is made in each jurisdiction, usually by the government, and is usually based on a public interest assessment. If a jurisdiction determines that micro entities should produce GPFS, then the IFRS for SMEs is appropriate for such entities – though, of course, a decision whether to require such entities to follow the IFRS for SMEs rests with each jurisdiction.

    d. The structure and topical organisation of the IFRS for SMEs will make it easily usable by a very small entity because if such an entity has only 'basic' kinds of transactions, it can quickly identify those topics that are relevant and skip over those that are not relevant.

Question G6

Does the Board agree with the staff recommendation that the IFRS for SMEs should not explicitly exclude micro entities (such as fewer than 10 employees) from the intended scope?

Issue G7: Three-tier approach

41. **Comment letters.** Three tiers of financial reporting standards are needed: one set of standards for publicly accountable entities; a second set for non-publicly accountable entities other than micros; and a third and very simple set of standards for micros.

42. **Field tests.** The ED in its present form is designed for medium-sized rather than small entities. A separate standard for small entities could be developed which excludes some of the requirements in the IFRS for SMEs, for example the requirement to prepare a cash flow statement or consolidated financial statements.

43. **WG recommendation.** Not discussed

44. **Staff recommendation.** This issue is directly related to Issue G6 regarding suitability for micros. Staff recommend the IASB does <u>not</u> develop a third and very simple set of standards for micros for the same reasons given in Issue G6 and also because financial statements prepared using a simple and brief set of accounting requirements would not meet the objective of decision-usefulness. This is because they would not provide useful information about the entity's financial position, performance and changes in financial position that is useful to a wide range of users in making economic decisions. In addition such financial statements are unlikely to serve SMEs by improving their ability to obtain capital.

<u>Question G7</u>

Does the Board agree with the staff recommendation that the IASB should not consider developing a very simple set of standards (a third tier) for micros?

Issue G8: Special exemptions within the IFRS for SMEs

45. **Comment letters.** 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.

46. **Field tests.** Same comments as Issue G7.

47. **WG recommendation.** Not discussed.

48. **Staff recommendation.** Staff recommend the IASB does <u>not</u> exempt entities at the small end of the SME spectrum from certain requirements for the same reasons as set out under Issues G6 and G7 for not developing a third and very simple set of standards for micros.

<u>Question G8</u>

Does the Board agree with the staff recommendation that the IASB should not include special exemptions from some requirements for entities at the small end of the SME spectrum?

Issue G9: Small listed entities

49. **Comment letters.** Small listed entities should not be barred from the scope of the IFRS for SMEs. ED paragraph 1.3 should be removed and the decision on whether

small listed entities should be allowed to apply the IFRS for SMEs should be left to individual jurisdictions.

50. **Field tests.** No related comments.

51. **WG recommendation.** The WG was divided on whether it should be left to each jurisdiction to decide if small listed entities should be permitted to use the IFRS for SMEs.

52. **Staff comments.** Small listed entities meet the definition of public accountability and hence are outside the intended scope of the ED. In addition, ED paragraph 1.3 of the ED states "If a publicly accountable entity uses this [draft] standard, its financial statements shall not be described as conforming to the IFRS for SMEs—even if national law or regulation permits or requires this [draft] standard to be used by publicly accountable entities."

53. **Staff recommendation.** Staff recommend that small listed entities should not be included in the intended scope of the IFRS for SMEs for the following reasons:

    a. Entities, large or small, whose debt or equity instruments are traded in public capital markets have chosen to seek capital from outside investors who are not involved in managing the business and who do not have the power to demand information that they might find useful. Full IFRSs have been designed to serve public capital markets by providing disclosures and guidance especially intended for investors and creditors in such markets. Some of those disclosures and some of that guidance is not included in the draft IFRS for SMEs.

    b. In deciding on the content of the SME ED, the IASB focused on non-publicly accountable entities. Therefore the draft IFRS for SMEs is not designed to cater for the particular characteristics of listed entities.

54. Staff are aware there could be improvements in financial reporting in some developing countries and emerging markets if small listed entities are allowed to follow IFRS for SMEs. For example, such entities may choose not to follow full IFRSs as it is perceived as complex or they may currently be applying full IFRSs badly due to lack of expertise. Such entities may wish to follow IFRS for SMEs, as the requirements are less onerous, and this may lead to an improvement if the national GAAP is not as comprehensive. On balance, staff still support the reasoning in the preceding paragraph, but note that a jurisdiction that believes the IFRS for SMEs is appropriate for small publicly traded entities in that jurisdiction could incorporate the requirements of the IFRS for SMEs fully into its national standards for small publicly-traded entities. In that case, however, the financial statements would be described as conforming to national GAAP.

Question G9

Does the Board agree with the staff recommendation that small listed entities should not be included in the intended scope of the IFRS for SMEs, and that ED paragraph 1.3 should be retained?

Issue G10: Entities that receive funds in a fiduciary capacity

55. **Comment letters.** Receipt of funds in a fiduciary capacity should not automatically make an entity publicly accountable and hence outside the scope of IFRS for SMEs. Respondents had the following views:

a. Regulators in most jurisdictions provide special ‘prudential’ protections for depositors, investors, and others for whom banks, insurance companies, brokerages, pension funds, and mutual funds hold funds. Respondents argue that it should be left to each jurisdiction to decide whether further prudential protections should be provided by requiring full IFRSs. Small-sized security brokers, private equity houses, and trustee companies were given as examples.

b. The IASB should limit its view of public accountability to those entities whose securities trade in a public capital market, with individual jurisdictions deciding further restrictions.

c. The Board should elaborate on the term ‘fiduciary capacity’, particularly how it applies in the funds industry and whether the ‘fiduciary capacity’ criterion refers only to an entity whose principal business is to take funds in a fiduciary capacity (rather than as a sideline, for example deposits taken by utility companies or travel agencies).

56. **Field tests.** The definition of public accountability is too wide since the condition ‘holding assets in a fiduciary capacity’ (paragraph 1.2(b)) could effectively exclude many SMEs from the scope of the ED.

57. **WG recommendations.** WG members agreed that entities whose primary business is holding funds in a fiduciary capacity are publicly accountable and hence should be out of the scope of the IFRS for SMEs. However, WG members also recommended an entity that holds funds in a fiduciary capacity as a sideline to its principal business should be permitted to use the IFRS for SMEs if it otherwise qualifies. In addition, WG members felt an explanation should be given of what is meant by fiduciary capacity to avoid differing interpretations between jurisdictions.

58. **Staff comments.** In English, the term ‘fiduciary’ means “holding something in trust for another” or, simply, “held in trust”.

59. **Staff recommendations.** Staff agree with WG recommendations that holding funds in a fiduciary capacity should only lead to public accountability if it is an entity’s primary business and also that a clear explanation of ‘fiduciary capacity’ should be provided to ensure this term is applied correctly for the following reasons:

a. Banks, insurance companies, securities broker/dealers, pension funds, mutual funds, and investment bankers stand ready to hold and manage financial resources entrusted to them by a broad group of clients, customers or members who are not involved in the management of the entities. Because such entities act in a public fiduciary capacity, they are publicly accountable. The more comprehensive implementation guidance and broad range of disclosure requirements in full IFRSs are designed to meet the needs of users of financial statements of publicly accountable entities, including financial institutions. In contrast, in deciding on the content of the proposed IFRS for SMEs, the IASB focused on the needs of users of financial statements of non-publicly accountable entities.

b. Some entities that hold funds in a fiduciary capacity do so as a sideline to their principal business. Examples include travel agencies and public utilities that hold customer deposits. Although, in some jurisdictions, special laws apply to these deposits, in substance they are not much different from up-front payment received from customers for goods or services to be delivered in the future or from ‘good faith’ security deposits common in some industries. Staff believe that holding such deposits or up-front payments should not preclude an otherwise-qualified entity from using the IFRS for SMEs.

Question G10A

Does the Board agree with the staff recommendation that an entity whose primary business is holding funds in a fiduciary capacity is publicly accountable and hence should be out of the scope of the IFRS for SMEs?

Question G10B

Does the Board agree with the staff recommendation that an entity that holds funds in a fiduciary capacity as a sideline to its principal business - for example a utility company or travel agency that takes deposits - should be permitted to use the IFRS for SMEs if it otherwise qualifies?

Issue G11: Restatements

60. **Comment letters.** In general, comment letters favoured fewer required restatements of prior periods than now proposed.

61. **Field tests.** No related comments. However, field test entities were not requested to restate the prior year figures to comply with IFRS for SMEs.

62. **WG recommendation.** WG members supported adding an 'undue cost or effort' principle wherever the IFRS for SMEs requires restatement.

63. **Staff comments.** The IFRS for SMEs would require restatements for:

    a. Consistency of presentation (ED paragraph 3.10, with impracticability exemption)

    b. Corrections of prior period errors (ED paragraph 10.20, but ED paragraph 10.21 has an exemption for impracticability)

    c. Changes in accounting policy (ED paragraph 10.9, with impracticability exemption)

    d. Discontinued operations (ED paragraph 36.3, with impracticability exemption)

    e. Reclassification of assets as held for sale (ED paragraph 36.4)

    f. First-time adoption of the IFRS for SMEs (ED paragraph 38.5, with impracticability exemption in ED paragraph 38.9).

64. Impracticable is defined as follows: "Applying a requirement is impracticable when the entity cannot apply it after making every reasonable effort to do so." The definition does not include an undue cost or effort principle. Note that the definition of impracticable is used in the IFRS for SMEs for circumstances other than exemption from restatement, for instance, for exemption from measuring assets and liabilities at fair value

65. **Staff recommendation.** Staff agree with the WG recommendations to add an 'undue cost or effort' principle wherever the IFRS for SMEs requires restatement, for the following reasons:

    a. The calculations required for restatement/reclassification are often complex and may not always provide necessary information for users since the financial statements of non-publicly accountable entities are not subject to the same level of scrutiny, for example by analysts, as financial statements of publicly accountable entities. Some SMEs will have limited resources to perform such complex calculations. In the majority of cases an explanation of the changes may provide all or most of the information users need without the need for complex calculations.

b. Allowing such an exemption is consistent with the qualitative characteristic of ‘balance between benefit and cost’ in ED paragraph 2.11. However, clear guidance on the type of cases where the ‘undue cost or effort’ principle is expected to be applied is necessary to ensure correct use.

This recommendation only relates to adding ‘undue cost or effort’ with respect to the practicability of restatements. Issue G12 addresses whether to add ‘undue cost or effort’ with respect to fair value measurements (which the staff does not recommend).

Question G11

Does the Board agree with the staff recommendation that an ‘undue cost or effort’ principle should be added wherever the IFRS for SMEs requires restatement?

Issue G12: Clarify the circumstances in which fair value measurements are appropriate

66. **Comment letters.** Many letters of comment recommended that the IFRS for SMEs define, and thereby restrict, the circumstances in which fair value measurements are appropriate. The criteria proposed in the letters varied (see paragraph 68).

67. Many respondents made similar points in their comments on Section 2 *Concepts and Pervasive Principles* and/or in their comments on Section 11 *Financial Assets and Financial Liabilities*.

68. The following is a list of various criteria that have been proposed in comment letters for when fair value is appropriate – plus all derivatives. The criteria below are not mutually exclusive (that is, a fair value requirement could include two or more of these). Nor are they necessarily determinative (even if a criterion is met, fair value measurement would not automatically be required):

    a. Assets that the entity intends to dispose of or transfer.

    b. Assets and liabilities that are ‘readily realisable’.

    c. Assets and liabilities whose fair value is ‘objectively determinable’ from ‘observable market prices’.

    d. Assets and liabilities for which there is an active market.

    e. Assets and liabilities whose fair value is determinable without undue cost or effort.

69. **Field tests.** The single most problematic area highlighted by a high proportion of field test entities is annual determination of fair value where market prices or active markets are not available. The requirement to perform annual fair value measurements was noted as complex, costly, and often not possible due to lack of reliable values and inability to bear necessary specialists’ fees. Specific problems in applying fair value measurement within individual sections are set out below. In addition, many field test entities noted that the revaluation and fair value models in different sections are not needed as they would be too difficult for SMEs to apply, for example due to lack of available reliable measurements of current values.

70. A few field test entities noted that fair value measurement requirements in 2.41 - 2.43 (pervasive principles) are difficult to apply because of the absence of an active market for certain assets. In particular they cited the requirement 2.42 to remeasure a non-financial asset at the lower of cost and fair value less costs to sell as difficult to apply because there is no relevant industrial index or market data in their jurisdiction, as is often available in more advanced or developed countries.

71. **WG recommendations.** WG members discussed a number of aspects of the use of ‘fair value’ in the IFRS for SMEs.

    a. WG members did not agree that an overall ‘undue cost or effort’ exemption to fair value measurement should be included in the IFRS for SMEs.

    b. WG members felt that Sections 2, 11, and perhaps others could be rewritten to give more emphasis to the historical cost requirements that are already in the ED. This is discussed further in Issue G13 below and also within the relevant sections in Agenda Papers 9B and 9C.

    c. Some additional recommendations of WG members regarding fair value measurements for specific assets and liabilities are also set out in the relevant sections in Agenda Papers 9B and 9C.

72. **Staff recommendations.**

    a. Staff agree with WG recommendation that there should not be an overall undue cost or effort exemption from fair value measurement since this is often an important measurement, for example when assessing impairment.

    b. Staff feel many of the problems surrounding fair value measurement could be reduced by careful wording in the IFRS for SMEs and clear guidance. This is discussed further in Issue G13, where a staff recommendation is made.

    c. Staff do not support adding, as a condition for making a fair value measurement, that the entity intends to dispose of, settle, or transfer the asset or liability. Accounting measurements should not be based on management’s intentions. Measurement at a current amount often is appropriate, under an historical cost accounting model, in the absence of an intent to dispose, for example, write-downs of inventories and receivables to net realisable value and write-downs of impaired non-financial assets to recoverable amount under full IFRSs.

    d. Staff do not support adding general principles such as ‘readily realisable’, ‘objectively determinable’ from ‘observable market prices’, or ‘traded in an active market’ to restrict the use of fair value. As noted in (c) above, sometimes current measurements must be made, under an historical cost model, in the absence of quoted prices and active markets. However, staff have made a recommendation under Issue G13 for clarifying the measurement bases in the IFRS for SMEs.

    e. Staff will make recommendations relating to fair value measurement issues in some of the individual sections of the ED in Agenda Papers 9B and 9C.

<u>Question G12</u>

Does the Board agree with the staff recommendations that:

a. ***an overall 'undue cost or effort' principle should <u>not</u> be added for fair value measurement?***

b. ***the condition 'intent to dispose' should <u>not</u> be added whenever a fair value measurement is required?***

c. ***a condition such as 'is readily realisable' or 'has an observable market price' should <u>not</u> be added whenever a fair value measurement is required?***

Issue G13: Replace the term fair value

73. **Comment letters.** Replace the term 'fair value' with 'current value' or (if so intended) exit price or selling price. The term 'fair value' belongs to the language of experts and is not an easily understandable term.

74. **Field tests.** No related comments.

75. **WG recommendation.** WG members felt that the term 'fair value' was unclear to SMEs, even with a definition in the glossary of the IFRS for SMEs. WG members recommended that in each instance in which the IFRS for SMEs requires a current remeasurement, that requirement should clearly describe in simple language what the basis for measurement is rather than use the generic term 'fair value'. For example, be clear whether an exit price or an entry price is intended. Describe the measurement rather than just using a label. For example, say 'the amount that the entity would pay to acquire the asset if it decided to buy it rather than to lease it'. Be clear on whether transaction costs (entry and/or exit) are included.

76. **Staff recommendation.** Staff agree with most of the WG recommendation. The term fair value appears to give some SMEs/users of the IFRS for SMEs the perception that the ED requires complex measurements and would require an SME using it to engage outside valuers. Measurement at fair value is also perceived to result in some amounts being reported in an SME's financial statements that are not useful or understandable. If requirement are perceived as complex, this will hinder acceptance by jurisdictions and entities within the scope. Staff believe that replacing the term 'fair value' with a clear description of the measurement required in each specific case will enhance the understandability of the IFRS for SMEs and the resulting financial statements.

<u>Question G13</u>

Does the Board agree with the staff recommendation that when a current remeasurement is required, that requirement should clearly describe in simple language what the basis for measurement is rather than use the generic term 'fair value'?

Issue G14: Structure of the standard

77. **Comment letters.** The Standard should be restructured. 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).

78. **Field tests.** Although requirements in the ED are relatively easy to find, the structure of the ED could be more orientated to the balance sheet to ease use. Overall the language in the ED could be simplified.

79. **WG recommendation.** Not discussed.

80. **Staff recommendation.** Staff feel that certain sections of the ED could benefit from a rewrite in areas to improve understanding, most particularly Section 11. Specific recommendations are made for some of the ED sections in Agenda Papers 9B and 9C. However, Staff do not recommend an overall restructuring of the Standard, as suggested by a few comment letters, for the following reasons:

    a. Section 2 *Concepts and Pervasive Principles* was designed to act like an SME Framework and has been well received by most respondents (See comments relating to Section 2 in Agenda Paper 9B).

    b. Many comment letters and field test entities have noted that they find the ED easy to navigate and are supportive of the current structure. Topical organisation, starting with financial statement presentation followed by a balance sheet and income statement sequence, is user-friendly and makes the IFRS for SMEs more like a reference manual for an SME.

    c. Although several comment letters suggested an overall restructuring, few letters proposed solutions that are vastly different from the current structure. Of the different structures proposed, there was little consistency between them.

    d. Some comment letters suggest that putting all general measurement requirements in only one place would enable the 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 note that even full IFRSs rarely use 'historical cost' without some sort of adjustment (such as for impairment, net realisable value, amortised cost, etc.).

<u>Question G14</u>

Does the Board agree with the staff recommendation that the IFRS for SMEs does not need an overall restructuring?

Issue G15: Post-issuance assessment and ongoing review of the IFRS for SMEs

81. **Comment letters.** The Board should commit to a special post-issuance assessment of the IFRS for SMEs. This would be more comprehensive than the general review and update planned for approximately every two years. Some respondents thought that this special assessment might be done as part of the first general review and update, and possibly one year after the IFRS for SMEs is issued, rather than two years, to address significant implementation issues. With regard to ongoing updates, about 25 per cent of those who commented requested a longer regular update cycle than two years.

82. **Field tests.** No related comments.

83. **WG recommendations.** Not discussed.

84. **Staff comments.** In the ED it is proposed that the Board expects to publish an omnibus exposure draft of proposed amendments to the IFRS for SMEs approximately every other year. Also that, on occasion, the Board may identify a matter for which amendment of the IFRS for SMEs may need to be considered earlier than in the normal two-year cycle.

85. **Staff recommendation.** Staff recommend the first review and update to the IFRS for SMEs should be after two years, as proposed in the ED, since the obvious disadvantage of doing a review after, say, one year would be that the first year of application would be a 'start up year' and many of the implementation problems are likely to be part of an education process, while those problems that continue after the second year are more likely to be more substantive issues. Further, staff recommend that this first update be more in the nature of a post-issuance assessment of implementation problems on initial adoption of the IFRS for SMEs rather than consideration of whether recent changes that have been made to full IFRSs should be reflected in the IFRS for SMEs.

86. Staff recommend extending the cycle between updates (after the first post-issuance assessment) from two to three years for the following reasons:

    a. Providing SMEs with a stable platform for three years would reduce costs of training staff and changing systems and would also enhance quality of reporting since content will become more familiar to preparers.

    b. Some, but not all, changes to full IFRSs will impact IFRS for SMEs. By allowing a longer time lag between updates to the IFRS for SMEs, SMEs, and their advisors, will benefit from the insight of seeing how changes impact publicly accountable entities first. This will simplify implementation for SMEs.

    c. Allowing a longer time lag between updates would not prevent the IASB considering changes to the IFRS for SMEs at the same time as each amendment to full IFRSs is proposed if they wish to do so. It only means the issuance of and the effective date for the changes would be later than under full IFRSs.

    d. As proposed in the ED, the Board does have the opportunity to make a more regular update of IFRS for SMEs if a matter is considered urgent. However, staff feel it should be emphasised that such cases would be expected to be extremely rare.

    e. Staff are aware that this will mean updating of IFRS for SMEs will fall even further behind full IFRSs than under a two-year cycle, leading to loss of comparability between non-publicly and publicly accountable entities. However, staff feel that the need to provide SMEs with a stable platform to reduce costs and enhance quality of reporting is more important than comparability with publicly accountable entities.

87. Staff also recommend that the Board should have a stated policy of a period of at least one year between the issue date and the effective date of any proposed amendments from the periodic review of the IFRS for SMEs. This would give SMEs, in particular preparers, more opportunity to get accustomed to content and would enhance quality of implementation.

Question G15A

Does the Board agree with the staff recommendation that the first review and update of IFRS for SMEs should be a post-issuance assessment of implementation problems undertaken after two years and, thereafter, ongoing updates should be made on a three-year cycle?

Question G15B

Does the Board also agree that there should be a stated policy of at least a one year period between the issue date and the effective date of any proposed amendments from the periodic review of the IFRS for SMEs?

Issue G16: Interpretations of the IFRS for SMEs

88. **Comment letters.** 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.

89. **Field tests.** No related comments.

90. **WG recommendation.** WG members did not support establishing a process for developing official interpretations of the IFRS for SMEs (including ‘rejection notices’ similar to IFRIC’s).

91. **Staff recommendation.** Staff agree with the WG recommendations for the following reasons:

    a. SMEs can seek direction by applying the hierarchy of guidance in Section 10 of the ED which allows entities to look to full IFRSs (including IFRICs/SICs).

    b. Any issues raised by entities can be dealt with by updating the IASCF training material or in the omnibus updates to IFRS for SMEs.

    c. There are expected to be limited requests for interpretations. For example there have been no requests for interpretations made relating to the FRSSE, the UK Standard for small entities.

Question G16

Does the Board agree with the staff recommendation that the Board should not establish a process for developing official interpretations of the IFRS for SMEs?

Issue G17: Additional guidance

92. **Comment letters.** Additional worked examples or narrative guidance should be provided in a number of areas. Comment letters did not generally indicate whether they thought the additional guidance should be provided in the IFRS for SMEs, in accompanying Implementation Guidance, or in a supplementary fashion such as

through the planned IASCF Training Material (most respondents would not have been aware that such training material is being produced).

93. **Field tests.** Other than to use options available by cross-reference, only about 7 per cent of entities specifically noted that they needed to refer back to full IFRSs in order to understand or clarify requirements in the ED. Many entities did not list specific areas, but some of those that were specified are related party transactions, contract revenue, deferred taxation, and contingent consideration in a business combination.

94. Many field test entities said they found the Implementation Guidance, and also the examples in Section 20 (Provisions) and 22 (Revenue), very useful. Several field test entities suggested examples should be provided for other sections, in particular in complex areas, such as pensions and leases, and also in areas that all SMEs commonly encounter.

95. In addition, a few field test entities requested illustrative guidance on the format of financial statements for specialised industry sectors, in particular the financial service sector.

96. **WG recommendation.** WG members did not discuss specific areas needing additional guidance, although some relevant comments were made when discussing individual sections (see Agenda Papers 9B and 9C). At the WG meeting, the IASC Foundation Education Director presented the Foundation's plans for the training materials for the IFRS for SMEs. WG members felt that this will help a lot in providing the kind of implementation guidance that SMEs need and could be updated on an ongoing basis for emerging issues.

97. **Staff comments**. The draft IFRS for SMEs is accompanied by some implementation guidance, most notably a complete set of illustrative financial statements and a disclosure checklist. A sizeable amount of guidance (both examples and narrative 'grey letter' guidance) that is in full IFRSs is not included.

98. The IASC Foundation is developing comprehensive, multilingual, and free training materials for the IFRS for SMEs, which are expected to be released in mid- to late-2009.

99. **Staff recommendation.** Staff do not make any recommendation to the Board regarding additional guidance at this time. Staff have already prepared an inventory of the areas identified in comment letters and field tests for where additional guidance would be helpful. Staff will present a plan for addressing those issues to the Board at a future meeting.