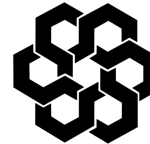

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International Accounting Standards Board

This document is provided as a convenience to observers at IASB meetings, to assist them in following the Board's discussion. It does not represent an official position of the IASB. Board positions are set out in Standards.
These notes are based on the staff papers prepared for the IASB. Paragraph numbers correspond to paragraph numbers used in the IASB papers. However, because these notes are less detailed, some paragraph numbers are not used.

INFORMATION FOR OBSERVERS

Board Meeting:	**January 2009, London**
Project:	**IFRS for Private Entities (formerly IFRS for SMEs)**
Subject:	**Redeliberation of Issues Relating to Other Sections (Agenda Paper 12B)**

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1. For the January 2009 Board meeting, the private entities agenda papers are organised as follows:
   - **Agenda Paper 12** – Overview (this agenda paper)
   - **Agenda Paper 12A** – Rewrite of Section 11 *Financial Assets and Financial Liabilities*
     - **Attachment A –** Rewrite of Section 11A *Basic Financial Instruments*
     - **Attachment B –** First draft of Section 11B *Additional Financial Instruments Issues*
   - **Agenda Paper 12B** – Redeliberation of Issues Relating to Other Sections
2. The issues in this agenda paper (Agenda Paper 12B) are presented in numerical order. Those numbers are based on the section in the Exposure Draft (ED) of a proposed IFRS for SMEs to which the issue relates. Where an issue has appeared in a past Board paper it has been given the same number as when it was first presented to the Board. All new issues are allocated a new number, ie one that has not been used for an issue in previous Board agenda papers.

3. The table on the following page provides a list of the issues presented in this paper for discussion. An issue is marked as 'new' if this is the first time the Board has seen it. Issues that are being revisited are marked as "revisited".

Issue number	**Title**	**New or revisited**
General issue		
G2	Accounting policy options	Revisited
G5	Title of the Standard and which entities should be eligible	Revisited
Section 9 Consolidated and Separate Financial Statements		
9.1	Reduce requirements for consolidation for all or some private entities	Revisited
9.9	Special purpose entities (SIC 12)	New
Section 9, 13 & 14 Investments in Subsidiaries, Associates and Joint Ventures		
9.10	Remove distinction between distributions from pre-acquisition and post-acquisition profits under the cost method in Sections 9, 13 and 14	New
Section 14 Investments in Joint Ventures		
14.1	Consideration of ED 9 on joint arrangements	New
Section 17 &18 Goodwill and other Intangible Assets		
17.1/18.1	Amortisation of goodwill and intangibles	Revisited

General Issue

Issue G2 (Revisited): Accounting policy options – Should options be available?

4. **Reason for revisiting issue.** In May 2008 the Board tentatively decided:

> In general, all accounting policy options in full IFRSs should be available to private entities. As in the ED, the body of the standard should include the simpler option. The more complex options would be in a separate appendix. While the appendix will increase the overall size of the standard, the length of the body of the document will be relatively unaffected. An entity choosing only the simpler options would not need to refer to the appendix. [IASB Update, May 2008]

5. Since the Board decision in May, the Board and the staff have received a significant amount of feedback from various parties that allowing the complex accounting policy options is not consistent with the Board's objective of a simplified standard for small entities and will hinder comparability. For example, while supporting the Board's tentative decision to make the IFRS for Private Entities a stand-alone standard, EFRAG, FEE, and several national professional bodies have written to the Board disagreeing with the tentative decision during redeliberations to retain all or most of the complex options. This issue was discussed at the Standards Advisory Council (SAC) meeting in November 2008 and all SAC members supported including in the IFRS for Private Entities only the simpler options. They noted that if a private entity felt strongly about using one or more of the complex options, it could elect to follow full IFRSs rather than the IFRS for Private Entities.

6. Staff acknowledge that some jurisdictions attach a high degree of importance to one or more of the complex options. Allowing all options would cater for these different views. However, staff have concluded that doing so is not consistent with the ultimate goal of producing a simplified and understandable standard suitable for the vast majority of entities in the intended scope of the standard. Staff set out their detailed reasoning for removing options in paragraph 9. Hence, based on the feedback received and the staff's own views on complex options, staff would like the Board to revisit their decision on whether to allow private entities to apply the more complex options.

7. Whether to allow the complex options is interrelated with the Board's decision that the IFRS for Private Entities should be a stand-alone document without cross references to full IFRSs. Incorporating and tailoring these complex options for private entities will result in the addition of a significant amount of new material in the standard. The complex options in question are the following:

    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 methods in IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance.* (In July 2008 the Board tentatively decided not to allow any of the IAS 20 alternatives, so the various options for accounting for grants no longer are an issue.)

    g. Development costs – capitalisation model

    h. Financial instruments – IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 7 *Financial Instruments: Disclosures* in full

    i. Associates – equity method

    j. Jointly controlled entities – equity method and proportionate consolidation

k. A fair value model is provided as one of the options for investments in associates and jointly-controlled entities. Staff note this could also be considered to be one of the complex options since the cost model would be the simpler option.

8. **Views expressed in the comment letters, field tests, and Working Group recommendations.** The views in the comment letters, field tests, and Working Group recommendations regarding these the complex options were set out in Agenda Paper 9A for the May 2008 Board meeting and are not repeated here. By a two-to-one margin, the letters of comment recommended that all or most options in full IFRSs should be available to private entities. A significant number of those who favoured keeping all or most options commented that this would enable non-publicly accountable subsidiaries of listed entities to prepare financial statements using the same recognition and measurement principles as their parent but with only the disclosures required for private entities. 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. 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, most such entities had a background in full IFRSs.

9. **Staff recommendation.** Staff have concluded that the complex options enumerated above should not be available to private entities, either by cross-reference to full IFRSs or by incorporating the principles and guidance in the standard (via an appendix or otherwise). Staff note that the Board has decided not to allow the more complex options for recognition of actuarial gains and losses (Section 27 *Employee Benefits*) and accounting for government grants (Section 23 *Government Grants)*. Staff have the following reasons to support their recommendation**:**

   a. Many of the respondents who would allow private entities all of the options under full IFRSs feel not allowing the options would be unfair to private entities whose main competitors are publicly accountable entities using full IFRSs. However, private entities would not be prevented from using the options as they would be able to choose to follow full IFRSs and be on a level playing field with publicly-accountable entities. The objective of the IFRS for Private Entities is to offer entities an additional accounting regime that provides simplified requirements for smaller entities that find full IFRSs burdensome. Most of these entities would struggle to apply the more complex options. Therefore, staff do not agree that omitting the complex options from the IFRS for Private Entities would be unfair to smaller entities.

   b. Even if the complex options are included in an appendix, they will still be perceived to result in a significant increase in the size and the complexity of the IFRS for Private Entities, especially if the option to allow IAS 39/IFRS 7 is permitted. Doing so would more than double the size of the standard for private entities. Including amendments issued up to 17 January 2008 and excluding the basis for conclusions, IAS 39 is 227 Bound Volume-sized pages and IFRS 7 is another 47 Bound Volume-sized pages. Although staff have not attempted to measure the volume of pages that the other complex options would require, an estimate of at least 100 pages is not unreasonable, bringing the total for the complex options to

nearly 400 pages. In contrast, the entire ED is about 200 Bound Volume-sized pages (250 ED-sized pages).

c. Most private entities will choose to follow the simpler options as they will generally be less costly and require less expertise.

d. Some private entities will find a choice of options confusing. Private entities 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 private entities lack the necessary expertise.

e. 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 private entities would increase if the complex options are removed. This would benefit any users of financial statements that need to make comparisons between private entities. Users of private entity 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. EFRAG's recent letter to the Board, for example, said that "users of private entity financial statements need to rely on financial reporting that is as standardised as possible",

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.

h. Some of the complex options are likely to undergo significant changes under full IFRSs on a fast-track basis in the next two to three years. Examples include those options now in IAS 39, IFRS 7, IAS 28 *Investments in Associates* and IAS 31 *Interests in Joint Ventures*. Including the complex options in an appendix to the IFRS for Private Entities would mean either that amendments to the IFRS for Private Entities would have to change in parallel with the changes to full IFRSs – resulting in rapid changes to the requirements for private entities – or that the appendix will be inconsistent with full IFRSs.

10. 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. Also, restricting options may disadvantage entities considering applying full IFRSs in the future. However, the number of entities in these two categories is a tiny percentage of total private entities and is insufficient to justify complicating the IFRS for Private Entities for the large number of other entities. In many cases full IFRSs may be more appropriate to the circumstances of subsidiaries of full IFRS entities and entities expecting to list as they are likely to have more complex transactions and have better expertise. And even if these entities do use the IFRS for Private Entities, the number of

adjustments necessary to convert the financial statements of any one entity to full IFRSs is likely to be just a few.

b. 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. However, 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.

Question G2A

Does the Board agree with the staff recommendation that the complex options enumerated in paragraph 7 of this Agenda Paper should not be available to private entities, either by cross-reference to full IFRSs or by incorporating the principles and guidance in the standard (via an appendix or otherwise)?

Question G2B

If the Board does not agree with the staff recommendation that the complex options enumerated in paragraph 7 should not be available to private entities, which of the complex accounting policy options should be available to private entities?

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 methods in IAS 20 Accounting for Government Grants and Disclosure of Government Assistance. (In July 2008 the Board tentatively decided not to allow any of the IAS 20 alternatives, so the various options for accounting for grants no longer are an issue.)

g. Development costs – capitalisation model

h. Financial instruments – IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures

i. Associates – equity method

j. Jointly controlled entities – equity method and proportionate consolidation

k. A fair value model is provided as one of the options for investments in associates and jointly-controlled entities. Staff note this could also be considered to be one of the complex options since the cost model would be the simpler option.

Issue G2: Accounting policy options – Setting out the appendix

11. **Additional staff issue.** This additional question under Issue G2 is only relevant if the Board rejects the staff proposal in Question G2A above and decides that some or all of the complex options should be made available in the IFRS for Private Entities. If complex options are to be incorporated into the IFRS for Private Entities, staff would like further direction from the Board on how to prepare and manage the appendix of complex options.

12. At the May Board meeting the Board decided the more complex options should be provided via a separate appendix. Therefore, although the appendix will increase the overall size of the standard, the length of the main part of the standard (which would include only the simple options) will be relatively unaffected (see paragraph 4 above). At the November 2008 SAC meeting (see paragraph 5 above), several SAC members commented that if the Board did not agree with the view of SAC members that complex options should be removed completely, then those complex options should be published in a completely separate volume that is an appendix to the IFRS for Private Entities. These SAC members felt that the great majority of private entities would use only the main volume with the simple options, and after a few years there may cease to be a need for the appendix.

13. **Staff recommendation.** There are no further staff recommendations here. The staff's objective is to get some direction from the Board on developing the appendix if the Board rejects the staff recommendation in Question G2A. Some examples of areas where staff seek direction include:

    - Whether the appendix should cross-reference to the main part of the IFRS for Private Entities or be stand-alone. Staff note that some requirements will be shared by both the complex options and the simple options, in particular scope, recognition and disclosure requirements.

    - How the appendix should be laid out, eg section by section, by complex option or another method. This requires some thought. For example, for the revaluation option in IAS 16 *Property Plant and Equipment* it is not just a case of including, with simplification, paragraphs 31- 42 and 77 of IAS 16 in the appendix since other sections refer to requirements for revalued assets. For example, Section 26 *Impairment of Non-financial Assets* has different measurement and disclosure requirements for revalued assets. Note, such impairment requirements will be shared by the complex option to revalue intangibles.

    - If the option to apply IAS 39/IFRS 7 in full, in lieu of Sections 11A and 11B, is retained, including this material in the appendix would significantly increase the size and complexity of the document. Should this item be included by cross-reference to full IFRSs instead of incorporating it into the appendix?

    - How the appendix should be updated as the complex options in full IFRSs are updated.

<u>Question G2C</u>

If it is decided that complex options should be made available, does the Board still feel the options should be published in a completely separate volume that is an appendix to the IFRS for Private Entities? Can the Board give the staff any guidance on the issues in paragraph 13?

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

14. **Reason for revisiting issue.** At the outset of the project, after soliciting views in a June 2004 Discussion Paper, the Board chose the term 'Small and Medium-sized Entities (SMEs)' to describe the entities eligible to use the standard, primarily because SME is widely recognised globally. However, roughly one-third of the respondents to the ED said that 'SME' is not appropriate because (a) 'small' and 'medium' imply a size test when, in fact, the ED does not have one and (b) the term SME already has precise, and differing, quantified definitions in many jurisdictions and two definitions for the same term would lead to confusion.

15. In May 2008, the Board tentatively decided that the title of the standard should be changed to IFRS for Private Entities, with private entities defined similarly to the definition of SMEs in the ED.

16. Despite the Board's statement that the name change did not change the underlying scope of applicability of the standard, some of the Board's constituents seem to feel that changing the name to 'private entities' indicates a move away from small and medium-sized entities toward those at the larger-size end of the spectrum of entities without public accountability. This point was made by many participants at the World Standard Setters' meeting in September 2008, by members of the Working Group, by representatives of development agencies, the SAC, and others. Additionally, the Board has been told that, like 'SME', the term 'private entity' has particular meaning in some countries.

17. 'SME' and 'private entity' describe the types of entities to which the standard would be applicable. Another approach might be for the title to describe the nature of the content of the standard (eg 'Simplified IFRSs', 'Abridged IFRSs', 'Concise IFRSs' etc.). However, some people are concerned that these titles could be perceived as implying that the standard is second class to full IFRSs and more in the nature of training materials for full IFRSs than a separate standard designed for a segment of the financial reporting market.

18. At the November 2008 meeting, the Board decided tentatively that the title should describe the types of entities to which the standard would be applicable. However, as Board members' views were divided on a specific title, the Board decided to invite the views of the National Standard Setters (NSS). The NSS is a grouping of national accounting standard-setters from around the world. Because the NSS group represents many jurisdictions and diverse points of view, Board members felt it is a good forum to advise the Board on this matter.

19. Specifically, NSS members were asked:

    1. Should the name of the standard:

a. Give an indication of the size of the entity the standard is aimed at (note that the standard does not contain a size test), eg 'SME', 'smaller entities', etc.?

b. Try to describe the entity, eg 'private interest', 'non-publicly accountable', 'restricted accountability', etc.?

c. Describe what the Board has done, that is, the nature of the standards, eg 'simplified', 'concise', etc.?

2. Having agreed on a, b, or c, which title within the chosen category does NSS support?

20. The NSS group has reported to the IASB the name most favoured by its members is 'IFRS for Non-Publicly Accountable Entities'. They noted that several members suggested variations of a title based on public accountability, including 'non-public interest', 'without public accountability', and 'with restricted accountability'. The NSS group also reported that 'IFRS for Private Entities' was the next best supported, but caused problems in some jurisdictions.

21. **Staff recommendation.** Consistent with the Board's decision that the title should describe the type of entities eligible to use the standard and with the views of members of the NSS, staff recommends that the title of the standard be 'International Financial Reporting Standard for Non-publicly Accountable Entities' (to be abbreviated IFRS for NPAEs). NPAEs would be defined similarly to the definition of SMEs in the ED.

Question G5

Does the Board agree that the title of the standard should be International Financial Reporting Standard for Non-publicly Accountable Entities' (to be abbreviated IFRS for NPAEs), with NPAEs defined similarly to the definition of SMEs in the ED?

Section 9 Consolidated and Separate Financial Statements

Issue 9.1 (Revisited): Reduce requirements for consolidation for all or some private entities

22. **Reason for revisiting issue.** In June 2008, the Board tentatively decided that consolidated financial statements should be required for all private entities that are parent entities as proposed in the ED. Staff have received a significant amount of feedback over the last few months from various parties that the Board should reconsider some of its tentative decisions at previous meetings in order to further simplify the recognition and measurement requirements as the requirements are perceived as too complex for smaller private entities. At the September 2008 meeting, some Board members suggested that the Board should revisit their decision on whether all parent entities should be required to prepare consolidated financial statements.

23. **Views expressed in the comment letters, field tests, and Working Group recommendations.** The views in the comment letters, field tests, and Working Group recommendations regarding these three issues were set out in Agenda Paper 2A for the June 2008 Board meeting and are not repeated here. The majority of the respondents

addressing this issue recommended either not requiring consolidation, allowing jurisdictions to decide who prepares consolidated financial statements or establishing criteria when consolidation should be required. WG members would restrict – but not eliminate – the requirement that private entity groups prepare consolidated financial statements.

24. **Staff recommendation.** Even though staff believe consolidation is conceptually the right answer, staff acknowledge that preparing consolidated financial statements can be burdensome for smaller private entities. Therefore, staff recommend that the Board does not require all private entity groups to prepare consolidated financial statements but, rather, that the Board establishes criteria for when consolidation should be required based on a user perspective. For other entities not meeting the criteria, consolidation would be optional. Staff propose such criteria should be when the group meets any one of the following:

    a. Substantial intercompany transactions between the group entities.

    b. A lender can make claims against other group entities, eg borrowings of one entity secured by assets of the other.

    c. The group being managed as a single economic entity or evidence of one group entity directing the operations of another

    d. The law in the jurisdiction requires that entity to prepare consolidated financial statements.

    Staff do not recommend a blanket exemption of entities at the smaller end of the private entity scale from a requirement to prepare consolidated financial statements, as some letters of comment proposed. Staff believe the exemption should be circumstance driven (based on criteria) and not size driven. Also staff do not recommend allowing individual jurisdictions to decide which entities should be exempt from preparing consolidated financial statements. This would mean that the jurisdiction, and not the IASB, decides what is a fair presentation. However, a jurisdiction could require presentation of consolidated financial statements if it chooses.

25. If the Board agrees with the staff recommendation, the standard may need to provide guidance on measurement and presentation when an entity first meets the criteria, and thus is required to prepare consolidated financial statements, and when an entity no longer meets the criteria and elects to stop preparing consolidated financial statements. The standard may also need to restrict an entity from frequent changes in the type of financial statements it presents if the entity meets the criteria in some periods but not others. Staff will consider this issue and bring a recommendation to the Board at a future meeting if the Board agrees with the staff recommendation.

26. If the entities take the option not to prepare consolidated financial statements, they should be required to provide additional related party disclosures, including the names of any subsidiaries, the number of voting rights held for each subsidiary and financial information for each subsidiary.

Question 9.1

Does the Board agree with the staff recommendation to amend the ED by establishing criteria for when consolidation should be required based on a user perspective as set out in paragraph 24, rather than require consolidated financial statements for all private entity groups? For other entities not meeting the criteria, consolidation would be optional but specific disclosures as set out in paragraph 26 would be required if the exemption is taken.

Issue 9.9 (New): Special Purpose Entities (SIC 12)

27. **Comment letters.** Some comment letters recommended that the Board review the outstanding interpretations to identify those that address issues that should be covered in the IFRS for Private Entities. This is one such issue.

28. **Staff recommendation.** Staff believe that the guidance in SIC 12 *Special Purpose Entities* is appropriate for private entities. Therefore, staff propose adding the following paragraphs to Section 9 *Consolidated and Separate Financial Statements*:

9.X1 An entity may be created to accomplish a narrow objective (e.g., to effect a lease, research and development activities or a securitisation of financial assets). Such a special purpose entity (SPE) may take the form of a corporation, trust, partnership or unincorporated entity. SPEs often are created with legal arrangements that impose strict requirements over the operations of the SPE. In most cases, the creator or sponsor retains a significant beneficial interest in the SPE's activities, even though it may own none of the SPE's equity. A beneficial interest in an SPE may take the form of an equity instrument, a debt instrument, a participation right, a residual interest or a lease.

9.X2 An entity shall prepare consolidated financial statements that include the entity and any SPEs that are controlled by that entity. In addition to the circumstances described in paragraph 9.4, the following circumstances may indicate that an entity controls an SPE (this is not an exhaustive list):

(a) the activities of the SPE are being conducted on behalf of the entity according to its specific business needs;

(b) the entity has the ultimate decision-making powers over the activities of the SPE even if the day to day decisions have been delegated;

(c) the entity has rights to obtain the majority of the benefits of the SPE and therefore may be exposed to risks incident to the activities of the SPE; or

(d) the entity retains the majority of the residual or ownership risks related to the SPE or its assets.

9.X3 Paragraphs 9.X1 and 9.X2 do not apply to post-employment benefit plans or other long-term employee benefit plans to which Section 27 applies.

Question 9.9

Does the Board agree with the staff recommendation to add the foregoing paragraphs 19.X1 to 19X3 to Section 9?

Section 9, 13 & 14 Investments in Subsidiaries, Associates and Joint Ventures

Issue 9.10 (New): Remove distinction between distributions from pre-acquisition and post-acquisition profits under the cost method in Sections 9, 13 & 14

29. **Staff comment.** In the ED, Section 9 permits a parent entity to account for its investments in subsidiaries, jointly controlled entities, and associates at cost in the separate financial statements. Guidance is not provided on applying the cost method. Sections 13 and 14 in the ED permit an investor to account for its investments in associates and jointly controlled entities in its primary financial statements using the cost model. Section 13 contains the following paragraph:

Cost model

13.4 An investor shall measure its investments in associates at cost less any accumulated impairment losses. The investor shall recognise income from the investment only to the extent that the investor receives distributions from accumulated profits of the associate arising after the date of acquisition. Distributions received in excess of such profits are regarded as a recovery of investment and are recognised as a reduction of the cost of the investment. The investor shall make disclosures required by this section. The investor shall recognise impairment in accordance with Section 26 *Impairment of Non-financial Assets*.

Section 14 contains a parallel paragraph for jointly controlled entities:

Cost model

14.9 A venturer shall measure its investments in jointly controlled entities at cost less any accumulated impairment losses. The investor shall recognise income from the investment only to the extent that the investor receives distributions from accumulated profits of the investee arising after the date of acquisition. Distributions received in excess of such profits are regarded as a recovery of investment and are recognised as a reduction of the cost of the investment. The venturer shall make disclosures required by this section. The venturer shall recognise impairment in accordance with Section 26 *Impairment of Non-financial Assets*.

30. ED paragraphs 13.4 and 14.9 are based on the following definition of the cost method in IAS 27 *Consolidated and Separate Financial Statements* (revised 2003):

4 …

The cost method is a method of accounting for an investment whereby the investment is recognised at cost. The investor recognises income from the investment only to the extent that the investor receives distributions from accumulated profits of the investee arising after the date of acquisition. Distributions received in excess of such profits are regarded as a recovery of investment and are recognised as a reduction of the cost of the investment

31. In May 2008 the Board issued Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards* and IAS 27 *Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate* which deleted the above definition of the cost model from IAS 27 (revised 2003). Deleting the definition removes the requirement to separate the retained earnings of the investee into pre-acquisition and post-acquisition components as a method for assessing whether a dividend is a recovery of its associated investment when investments are measured at cost in the separate financial statements under full IFRSs.

32. **Staff recommendation.** As the cost method in Sections 9, 13 and 14 is based on IAS 27, staff recommend that Sections 9, 13, and 14 similarly remove any requirement to separate the retained earnings of the investee into pre-acquisition and post-acquisition components as a method for assessing whether a dividend is a recovery of its associated investment. Instead, the requirement would be that 'the investor shall recognise the dividends in profit or loss when the entity's right to receive the dividend is established'. Such an amendment to the requirements proposed in the ED is appropriate as it will result in a simplification when applying the cost method. There is already a 'safeguard' against overstating the investment due to treating a dividend that is a return of investment as income, because in all three cases the investor is required to measure the investment at cost less impairment losses.

Question 9.10

Does the Board agree with the staff recommendation to remove, from Sections 9, 13, and 14, the requirement for the investor to separate pre- and post-acquisition retained earnings of the investee and, instead, to recognise all dividends received in profit or loss?

Section 14 Investments in Joint Ventures

Issue 14.1 (New): Consideration of ED 9 on joint arrangements

33. **Comment letters.** A couple of comment letters noted the Board should consider the requirements in the Exposure Draft (ED 9) on joint arrangements to ensure Section 14 is consistent with full IFRSs.

34. **Field tests.** No related comments.

35. **WG recommendation.** Not discussed.

36. **Staff comment:** The ED of a proposed IFRS for SMEs was developed before Exposure Draft 9 *Joint Arrangements* (issued September 2007), and most commentators will not

have taken Exposure Draft 9 into account. The Board project is not yet completed. A final standard is expected to be issued in the second half of 2009.

37. **Staff recommendation.** Staff recommend that Section 14 should not be revised to take account of Exposure Draft 9 since the final standard, which will replace IAS 31 *Interests in Joint Ventures* will not be issued until after the IFRS for Private Entities is issued. If the proposals in Exposure Draft 9 were to be reflected in Section 14, private entities would be required to apply the new requirements without the benefit of gathering experience of larger entities with bigger and more trained accounting staff. Moreover, the proposals in Exposure Draft 9 may yet be revised before a final IFRS on joint arrangements is issued. The staff is proposing in Issue G2A above that the cost method should be the only method allowed for jointly controlled entities. If the staff proposal in G2A is rejected by the Board, staff would recommend retaining the options proposed in Section 14 of the ED rather than follow the approach in Exposure Draft 9.

Question 33.1

Does the Board agree with the staff recommendation that Exposure Draft 9 should not be considered for inclusion in the IFRS for Private Entities at this time?

Section 17&18 Goodwill and other Intangible Assets

Issue 17.1 & 18.1 (Revisited): Amortisation of goodwill and intangibles

38. **Reason for revisiting issue.** In July 2008 the Board tentatively decided:

> The Board considered but rejected an amortisation approach for indefinite life intangibles. Therefore, an entity should assess whether the useful life of an intangible asset is finite or indefinite. Indefinite life assets will not be amortised. [IASB Update, July 2008]
>
> The Board considered but rejected an amortisation approach for goodwill. [IASB *Update*, July 2008]

The Board and the staff have received a significant amount of feedback over the last few months from various parties that the Board should reconsider some of its tentative decisions at previous meetings in order to further simplify the recognition and measurement requirements as the requirements are perceived as too complex for smaller private entities. In this regard, the issue most frequently recommended for reconsideration by the Board is amortisation of goodwill. Letters to the Board from EFRAG, FEE, and several national professional organisations have made this point. At the September 2008 meeting, some Board members suggested that the Board should revisit its decision on amortisation of indefinite life intangible assets, including goodwill at a future meeting.

39. **Views expressed in the comment letters, field tests, and Working Group recommendations.** The views in the comment letters, field tests, and Working Group recommendations regarding these three issues were set out in Agenda Paper 8A for the July 2008 Board meeting and are not repeated here. The majority of the respondents addressing this issue recommended that amortisation of goodwill should be permitted or

required over a limited number of years and that private entities should not be required to distinguish between intangible assets with finite and indefinite useful lives. WG members unanimously supported requiring amortisation of all intangibles, including goodwill, subject to an impairment test.

40. **Staff recommendation.** Staff recommend that all intangible assets, including goodwill, of private entities should be amortised over an estimated useful life. Staff recommend a maximum amortisation period of 10 years should be specified for goodwill and intangible assets with indefinite lives, ie those intangible assets where there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the entity.

41. Staff note that the proposed amortisation requirement would not eliminate the requirement, proposed in the ED, to assess at each reporting date whether there is an indication of impairment (indicator approach under Section 26 *Impairment of Non-financial Assets*). Staff support requiring amortisation for the following reasons:

    a. From a practical standpoint many smaller private entities would find it difficult to assess impairment as accurately and on such a timely basis as larger/listed entities, meaning the information could be less reliable. Amortisation – particularly if coupled with a relatively short maximum amortisation period – would reduce the circumstances in which an impairment calculation would be triggered.

    b. Users of private entity financial statements say they found little, if any, information content in goodwill at all; for example, lenders will not lend against goodwill as an asset.

Question 17.1A

Should all intangible assets of private entities, including goodwill, be considered to have a finite life and, therefore, be amortised over their estimated useful lives?

Question 17.1B

If the decision under Question 17.1A is yes, does the Board also agree that a maximum amortisation period of 10 years should be specified for goodwill and intangible assets with indefinite lives?