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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:** March 2009, London

**Project:** IFRS for Non-publicly Accountable Entities (formerly Private Entities, formerly SMEs)

**Subject:** Re-exposure (Agenda Paper 4)

**A note to observers: Re-exposure is the only NPAE issue on the March 2009 IASB agenda. Agenda Paper 4 contains complete background information, the staff's reasoning, and the staff's recommendation on that issue. Attachment 1 (55 pages long) and Attachment 2 (85 pages long) list all of the decisions made by the Board during redeliberation and are provided to the Board as evidence in support of the staff's recommendation. There are no issues or questions in either of the attachments that will be discussed by the Board at the March meeting. The IASB will provide printed copies of Agenda Paper 4, but not the two attachments, to persons who come to observe the Board meeting at the IASB's offices. The two attachments may be downloaded without charge from [www.iasb.org](http://www.iasb.org).**

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### Objective of Discussion at this Board Meeting

1. The objective of the discussion at the March 2009 Board meeting is to decide whether there is a need to re-expose the revised proposals for an *IFRS for Non-publicly Accountable Entities* (NPAEs) as a result of the changes made during the Board's redeliberations of the February 2007 exposure draft (ED).

## **Agenda Papers for March 2009**

2. For the March 2009 Board meeting, this is the only NPAE agenda paper. It has two attachments, as follows:
  - a. **Attachment 1.** Summary of Board Redeliberations of the Recognition, Measurement, and Presentation Principles Proposed in the ED.
  - b. **Attachment 2.** Summary of Board Redeliberations of the Disclosure Principles Proposed in the ED.

## **Re-exposure Guidelines**

3. The *Due Process Handbook for the IASB*, as approved by the IASC Foundation Trustees, includes the following guidelines for re-exposure:
  - 46 After resolving issues arising from the exposure draft, the IASB considers whether it should expose its revised proposals for public comment, for example by publishing a second exposure draft.
  - 47 In considering the need for re-exposure, the IASB
    - identifies substantial issues that emerged during the comment period on the exposure draft that it had not previously considered
    - assesses the evidence that it has considered
    - evaluates whether it has sufficiently understood the issues and actively sought the views of constituents
    - considers whether the various viewpoints were aired in the exposure draft and adequately discussed and reviewed in the basis for conclusions on the exposure draft.
  - 48 The IASB's decision on whether to publish its revised proposals for another round of comment is made in an IASB meeting. If the IASB decides that re-exposure is necessary, the due process to be followed is the same as for the first exposure draft.

## **The February 2007 Exposure Draft**

4. The Board published an exposure draft (ED) of a proposed *IFRS for Small and Medium-sized Entities* in February 2007. As part of the ED, the Board published a 127-paragraph Basis for Conclusions setting out the principal issues addressed by the Board, the alternatives considered, and the Board's reasons for accepting some alternatives and rejecting others.

## **Changes to the February 2007 Exposure Draft**

5. At the March 2008 Board meeting, staff presented an overview of the main issues (other than disclosure issues) raised in the comment letters on the ED. At the April 2008 Board meeting staff presented an overview of the main issues that were identified as a result of the programme for field testing the ED.

6. The Board began redeliberating the proposals in the ED at the May 2008 meeting. Redeliberations continued through February 2009, by which time decisions were made on all substantive (non-editorial) issues in all 38 sections of the ED. Those decisions were reported publicly, and on the IASB's website, immediately after each meeting in *IASB Update*. Some of those decisions reaffirmed the proposals in the ED. Some of the decisions modified the proposals in the ED.

*Redeliberation of recognition, measurement, and presentation principles*

7. Attachment 1 to this Agenda Paper identifies each of the issues redeliberated by the Board relating to the recognition, measurement, and presentation principles proposed in the ED, and the results of those redeliberations. Although many issues were redeliberated and hence are listed in Attachment 1, most of them resulted in no change to the ED.

*Redeliberation of disclosures*

8. In September 2008, the Board considered a report containing the views and recommendations of members of the NPAE Working Group on disclosure issues, as well as staff recommendations on each. Nearly all of those recommendations were for further disclosure simplifications, though in a few cases the staff recommended additional disclosures. The staff's recommendations, which were generally consistent with the recommendations of the Working Group, were set out in Agenda Paper 6B for the meeting. The Board agreed with the great majority, but not all, of the staff recommendations.
9. Attachment 2 to this Agenda Paper identifies each of the issues redeliberated by the Board relating to the disclosures proposed in the ED, and the results of those redeliberations. Attachment 2 is essentially Agenda Paper 6B for September 2008 marked to indicate the Board's decisions on each issue.

**Staff Recommendation Regarding Re-exposure**

*Changes to recognition, measurement, and presentation principles*

10. Attachment 1 sets out the substantive (non-editorial) decisions made by the Board on whether to modify the recognition, measurement, and presentation principles proposed in the ED. In virtually all cases in which the Board decided to change a recognition, measurement, or presentation principle proposed in the ED, the change had previously been considered by the Board when originally developing the ED. Therefore, for these issues, the Board had at least two rounds of discussions. The main changes include:
  - a. Making the final IFRS stand-alone
  - b. Eliminating most complex options (see paragraph 16 below)
  - c. Omitting topics that a typical NPAE is not likely to encounter
  - d. Not anticipating possible future changes to IFRSs
  - e. Title of the final Standard changed to *IFRS for Non-publicly Accountable Entities*

- f. Conforming to IAS 1 *Financial Statement Presentation* (revised 2007) presentation requirements
- g. Restructuring of Section 11 *Financial Assets and Financial Liabilities*, and clarifying that amortised-cost is applied to nearly all of the basic financial instruments held by NPAEs.
- h. Eliminating proportionate consolidation as an option for investments in jointly-controlled entities.
- i. Accounting policy for investment property based on circumstance, rather than free choice option.
- j. Not requiring an annual review of residual value, useful life, and depreciation method of property, plant and equipment and intangible assets.
- k. No revaluation option for property, plant and equipment.
- l. No revaluation option for intangibles.
- m. Amortisation of all indefinite life intangibles, including goodwill.
- n. Expensing all research and development costs.
- o. Expensing all borrowing costs.
- p. Guidance on applying the straight-line method by lessees for operating leases if minimum lease payments are structured to compensate the lessor for expected inflation.
- q. Incorporation of the ‘puttables’ amendments to IAS 32 *Financial Instruments: Presentation* and IAS 1.
- r. Accounting for all grants using the ‘IFRS for SMEs model’.
- s. Further simplifications for share-based payments than just the intrinsic value method.
- t. Value-in-use measurement for asset impairments.
- u. Cash generating unit testing of impairment.
- v. Simplified guidance for calculating impairment of goodwill.
- w. Simplification of the measurement of a defined benefit pension obligation if an IAS 19 *Employee Benefits* measurement is not available and would require undue cost or effort.
- x. Actuarial gains and losses may be recognised in other comprehensive income rather than in profit or loss.
- y. On disposal of a foreign operation, no recycling through profit or loss of any cumulative exchange differences that were previously recognised in equity.
- z. Eliminating the held-for-sale classification.
- aa. Incorporating all of the IFRS 1 *First-time Adoption of IFRSs* exemptions into Section 38 *Transition to the IFRS for NPAEs*

11. None of the foregoing changes arose as a result of a new issue identified as a result of the comment and field testing process. Rather, the comments and field tests brought additional insight into issues that the Board had previously considered in developing the ED, including insight into reasons for accepting some alternatives that the Board had previously considered and rejecting others (which were set out in the Basis for Conclusions that accompanied the ED). Through the ED comment process and field testing, the Board actively sought the views of its constituents. The Board received 162 letters of comment and 116 field test reports. In addition, the staff undertook a comprehensive outreach programme on this project entailing presentations at 104 conferences and roundtables in 40 countries, including 55 since the ED was issued. The comment process, field testing, and outreach did not identify new alternatives or approaches that the Board (and its constituents) had not previously considered. Therefore, the changes do not warrant re-exposure.
12. As mentioned above, all of the changes to the ED outlined in paragraph 10 (and presented in more detail in Attachment 1 to this agenda paper) were possibilities that were considered by the Board in developing the ED. In nearly all cases these viewpoints were aired in the ED and the related pros and cons were set out in the draft basis for conclusions, even if the Board did not choose that particular viewpoint when developing the ED. Therefore, they do not warrant re-exposure.
13. The Board deliberated the issues relating to the project at 31 public Board meetings prior to issuing the ED. Subsequent to the ED, the Board redeliberated the proposals in the ED at 11 public meetings from March 2008 through February 2009. Moreover, the ED was not the Board's first opportunity to receive the input of its constituents. Prior to the ED, the Board:
  - invited comments on its preliminary views on the project in a Discussion Paper in June 2004 (117 responses);
  - invited views on recognition and measurement simplifications in an April 2005 questionnaire (94 responses); and
  - held public roundtables with representatives of 43 organisations in October 2005.

In addition, the Standards Advisory Council discussed the project at 7 meetings, at which members of the SAC provided their views to the Board. Further, the Working Group of approximately 40 experts met four times and presented comprehensive reports with recommendations on the issues to the Board after each meeting, including two reports that took into account the responses received from comment letters and field tests. Also, the project was discussed at 5 of the annual meetings that the Board hosts with accounting standard-setters from around the world. Staff believe that the Board has carefully, extensively, and thoroughly examined the issues raised by its constituents and assessed the wide range of evidence that it has received.
14. One change that the Board made during redeliberations was to incorporate into the final *IFRS for NPAs* the guidance in those IFRICs and SICs that were considered to be relevant to a typical NPAs, including SIC 12 *Consolidation – Special Purpose Entities*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, IFRIC 8 *Scope of IFRS 2*, IFRIC 12 *Service Concession*

*Arrangements*, and IFRIC 15 *Agreements for the Construction of Real Estate*. Whether to add guidance from interpretations was not discussed in the Basis for Conclusions. In developing the ED, the Board included the so-called ‘black letter principles’ from IFRSs modified as appropriate on the basis of user needs and cost-benefit tradeoffs. The interpretive guidance in most so-called ‘gray letter paragraphs’ in IFRSs and in Interpretations was, for the most part, omitted from the proposals in the ED. The comment letters and field tests identified a number of areas where additional guidance would be helpful from the IFRICs and SICs stated above, and this will be added to the final *IFRS for NPAEs*. In the staff’s judgement, these additions do not change the proposals in the ED. Therefore, they do not warrant re-exposure.

15. Nearly all of the letters of comment on the ED, and nearly all of the field test reports, urged the Board to simplify many of the proposals in the ED. Virtually all of the changes outlined in paragraph 10 (and presented in more detail in Attachment 1 to this agenda paper) did just that. Although the letters and field test reports recommended additional simplifications that the Board did not adopt, the changes that were made are generally in the direction of the recommendations in the comment letters and field test reports. Re-exposure is unlikely to identify many, if any, disagreements with the changes that the Board has decided on. Rather, re-exposure is much more likely to result mainly in calls for yet more simplifications on matters that the Board has already considered and that were already raised in the Basis for Conclusions to the ED. Therefore, the changes made by the Board during redeliberations do not warrant re-exposure.
16. One of the changes that the Board made was to eliminate from the *IFRS for NPAEs* some of the complex options in full IFRSs that the ED proposed to allow by cross-references to the relevant Standard full IFRSs. Those eliminated options are:
  - a. Proportionate consolidation of jointly-controlled entities
  - b. Revaluation of property, plant and equipment and of intangible assets
  - c. Capitalising borrowing costs meeting specified criteria
  - d. Capitalising development costs meeting specified criteria

The other complex options are being retained but incorporated into the final Standard rather than by cross-reference. In each of the four cases in (a) to (d) above, an NPAE will find the alternative remaining in the Standard to be much simpler than the omitted option. An entity using the *IFRS for NPAEs* is not prohibited from disclosing information related to one or more of the four methods above in the notes to the financial statements should it wish users to have this information. An NPAE that wants to use one of the foregoing eliminated options can always follow full IFRSs. Staff does not believe that eliminating these four options warrants re-exposure.

17. Where a significant change was proposed in the comment letters or field tests and the Board decided not to make the change, in virtually all cases the proposed change had been considered by the Board when originally developing the ED. And the Board’s reasons for not making that change were set forth in the Basis for Conclusions that accompanied the ED. Staff does not

believe that the Board's decision not to change the ED for these issues warrants re-exposure.

*Changes to disclosures*

18. The ED had proposed substantial reduction in the disclosures required in full IFRSs. A section of the Basis for Conclusions explained the Board's criteria for keeping, dropping, or changing the disclosures in full IFRSs. In redeliberating the proposals in the ED, the Board made changes to those proposals (identified in Attachment 2 to this agenda paper). As compared to the ED itself, the changes proposed of substance are relatively few – including some additions, some deletions, and some modifications. Many of the changes in Attachment 2 are to assist clarity and to reflect changes to recognition and measurement requirements. With very few exceptions, the disclosure changes that the Board made during redeliberations are the ones recommended by the NPAE Working Group. Staff does not believe that changes made by the Board during redeliberations warrant re-exposure.

*Staff recommendation*

19. For the reasons explained in paragraphs 10 to 18, staff do not believe that changes made by the Board during redeliberations of the recognition, measurement, presentation, and disclosure principles proposed in the ED warrant re-exposure of the proposed *IFRS for NPAEs*. Staff's recommendation, therefore, is that re-exposure is not required.

**Question – Re-exposure**

***Does the Board agree with the staff recommendation that re-exposure is not required?***