STAFF PAPER

April 2013

IASB Meeting

Project	**Comprehensive review of the *IFRS for SMEs***		
Paper topic	New and revised IFRSs		
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Purpose of this paper

1. Agenda Paper 8C (this agenda paper) asks the IASB to continue its discussions on how to address new and revised IFRSs issued since the *IFRS for SMEs* was published.

2. This paper builds on discussions at the March 2013 IASB meeting on Issue 4 in Agenda Paper 6B for that meeting.

Structure of this paper

3. This paper is set out as follows:

   (a) Introduction

   (b) List of the main individual new and revised IFRSs issued since the *IFRS for SMEs* was published

   (c) Staff analysis

   (d) SMEIG recommendation

   (e) Staff recommendation

   (f) Questions for the IASB to discuss

(g) Appendix A: Questions extracted from the Request for Information (RFI), includes a high level summary of how the new and revised IFRSs would be expected to affect SMEs

(h) Appendix B: Comment letter analysis on new and revised IFRSs

Introduction

4. At its March 2013 meeting the IASB considered a framework for how to deal with new and revised IFRSs during this comprehensive review and future reviews of the *IFRS for SMEs*. At that meeting the IASB developed the following principles:

   (a) New and revised IFRSs should be considered individually on a case-by-case basis to decide if, and if so how, their requirements should be incorporated in the *IFRS for SMEs*.

   (b) New and revised IFRSs should not be considered until they have been published. However, it would generally not be appropriate to wait until the post-implementation reviews have been completed.

   (c) Minor change to IFRSs, eg as part of the IASB's Annual Improvements project, should also be considered on a case by case basis.

   (d) In order to provide a stable platform for SMEs, the *IFRS for SMEs* should only be updated for changes at the next three-yearly review.

5. At this meeting the staff would like the IASB to consider how to apply the framework in paragraph 4 to the main individual new and revised IFRSs issued since the *IFRS for SMEs* was published.

6. At the March 2013 IASB meeting the staff presented the IASB with the SME Implementation Group (SMEIG) and staff recommendations for a suitable framework for dealing with new and revised IFRSs during the three-yearly reviews of the *IFRS for SMEs*. (Agenda Paper 6B for the March 2013 meeting)). In this agenda paper the staff have presented the SMEIG and staff recommendations for how to deal with each individual new and revised IFRS during this comprehensive review.

7. At the March 2013 IASB meeting the staff also presented the IASB with a summary of the main comments made by respondents to the Request for Information (RFI) on new and revised IFRSs (this covered both matters discussed in paragraph 6). This comment letter analysis been repeated in Appendix B of this agenda paper for ease of reference.

The main individual new and revised IFRSs issued since the *IFRS for SMEs* was published

8. The RFI asked separate questions on each of the following individual new and revised IFRSs:

   (a) IFRS 10 *Consolidated Financial Statements* (Question S4 in the RFI)

   (b) IFRS 13 *Fair Value Measurement* (Question S6)

   (c) IFRS 11 *Joint Arrangements* (Question S8)

   (d) IFRS 3 (amended 2008) *Business Combinations* (Question S12)[1]

   (e) IAS 19 (amended 2011) *Employee Benefits* (Question S15)

   (f) IAS 12 (amended 2010) *Deferred Tax: Recovery of Underlying Assets* (Question S18)

   IFRS 9 *Financial Instruments* is not listed as it has not been completed/published in its entirety (see Agenda Paper 8E).

9. When developing the RFI the IASB and the SMEIG decided that the new and revised IFRSs listed in paragraph 8 contain the main recognition and measurement changes to full IFRSs since the *IFRS for SMEs* was issued in 2009 that could affect requirements in the *IFRS for SMEs.* The questions in the RFI asked respondents whether the *IFRS for SMEs* should be revised to reflect the main changes in each individual new or revised IFRS, but modified as appropriate to reflect the needs of users of SME financial statements and cost-benefit considerations (the full questions from the RFI are included in Appendix A).

[1] IFRS 3 (2008) was issued shortly before the *IFRS for SMEs* was issued but was not incorporated in the *IFRS for SMEs*.

10. This agenda paper considers the new and revised IFRSs in paragraphs 8(a) to (e). The questions in Appendix A summarise the main expected changes for SMEs if these new and revised IFRSs are incorporated in the *IFRS for SMEs*.

11. The amendments to IAS 12(2010) (paragraph 8(f)) will be considered with other income tax issues (Agenda Paper 8F for this meeting).

12. In addition to the new and revised IFRSs set out in paragraph 8, a number of other new and revised IFRSs have been issued since the *IFRS for SMEs* was published as well as several changes under the Annual Improvements project. Changes from these IFRSs are expected to be less significant and they will be considered at a later IASB meeting.

Staff analysis

13. As explained in Agenda Paper 6B (March 2013), the staff believe, and the SMEIG concur, that the primary aim when developing the *IFRS for SMEs* was to provide a standalone, simplified, set of accounting principles for entities that do not have public accountability, have less complex transactions, have limited resources to apply full IFRSs and operate in circumstances where comparability with their listed peers is not a key consideration. Therefore, in line with this primary aim and the principles in paragraph 4, the staff believe that all changes to full IFRSs should be considered after publication, but decisions both on which changes to incorporate and the appropriate timing for incorporating those changes in the *IFRS for SMEs* should be weighed against the need to provide SMEs with a stable platform and the suitability of such changes for SMEs and the users of their financial statements.

14. The staff also note that this comprehensive review is subject to additional considerations compared to future three-yearly reviews. This is the first review since the initial publication of the Standard. Over 80 countries have adopted the *IFRS for SMEs* or announced plans to do so. Although the *IFRS for SMEs* was issued in 2009, in many of these countries the *IFRS for SMEs* has been effective for a much shorter period of time. In addition where jurisdictions permit, rather than require, the *IFRS for SMEs*, in many cases SMEs are only starting to move to

the Standard. Therefore for the majority of SMEs using or about to use the *IFRS for SMEs* it is still a very new Standard. For these reasons, the staff believe that this comprehensive review should focus on fixing implementation issues and only making essential changes.

15. In line with the principles outlined in paragraph 4, the primary aim of the Standard as set out in paragraph 13, and the special circumstances of this initial comprehensive review outlined in paragraph 14, the staff recommend the following approach when considering new and revised IFRSs during this comprehensive review:

    (a) All new and revised IFRSs that have been published since the *IFRS for SMEs* was issued should be considered.

    (b) Changes under new and revised IFRSs should be incorporated where they respond to a need for SMEs or result in significant simplification.

    (c) Changes under new and revised IFRSs should not be incorporated if they are only expected to have a limited practical impact on SMEs for cost-benefit reasons.

    (d) Consideration should be given to delaying changes from very recent, complex new and revised IFRSs still subject to amendment or interpretation until the next triennial review.

    (e) All changes to the *IFRS for SMEs* should also be considered against the twin criteria of user needs and cost-benefit considerations (as explained in paragraphs 9-13 of Agenda Paper 8A).

16. The staff believe the approach in paragraph 15 would enable the Board to consider the alignment of the *IFRS for SMEs* with full IFRSs, whilst still considering the primary aim of the *IFRS for SMEs* and allowing SMEs to benefit from the implementation experience of entities applying full IFRSs, including allowing time for knowledge and training material to reach the market.

SMEIG recommendation on individual new and revised IFRSs (second half of the SMEIG recommendation on Issue 4)

The SMEIG made the following recommendations:

New or significantly amended IFRSs should not be incorporated until implementation experience has been assessed (after the post-implementation review). Exceptions may be considered, for example where they would help solve a known problem for SMEs, or changes are simplifications and easily understood. Applying these principles, the SMEIG recommends:

a) Changes to IAS 19 should be incorporated during this review.

b) Changes to IFRS 3, 10, 11, 12 and 13 should wait until implementation experience has been assessed.

Staff recommendation

17. For the reasons outlined in paragraphs 13-16 the staff do not recommend any changes are made during this comprehensive review for IFRS 3, 10, 11 and 13 and IAS 19(2010). The staff set out their reasoning on an individual standard basis below.

18. **IFRS 10, 11 and 13.** The staff believe that the changes under IFRS 10, 11 and 13 do not meet the criteria in paragraph 15 for the following reasons:

    (a) they are very recent changes, none of which were effective at the time the RFI was issued and so no implementation experience under full IFRSs was available for respondents to consider;

    (b) they introduce complex changes expected to result in, and benefit from significant implementation guidance in practice;

    (c) they would be expected to have a limited practical impact on SMEs, eg they are unlikely to affect straight forward arrangements; and

    (d) they have been the subject of several amendments and interpretation requests.

19. **IAS 19(2010).** The IASB is currently discussing the concept of other comprehensive income under its Conceptual Framework project. Therefore, the presentation of actuarial gains and losses under full IFRSs may be revisited (this is the main change under IAS 19 which will affect SMEs). For this reason, in line with the criteria set out in paragraph 15, the staff do not recommend that the changes under IAS 19 (2010) are made during this comprehensive review (ie SMEs should be permitted to continue to recognise actuarial gains and losses in profit or loss).

20. **Changes to IFRS 3.** The main changes introduced by IFRS 3 (2008) that could be considered for incorporation in the *IFRS for SMEs* are:

    (a) Acquisition-related costs are recognised as an expense rather than treated as part of the business combination (for example, advisory, valuation and other professional and administrative fees).

    (b) Contingent consideration is recognised at fair value (without regard to probability) and then subsequently accounted for as a financial instrument instead of as an adjustment to the cost of the business combination.

    (c) Determining goodwill requires remeasurement to fair value of any existing interest in the acquired company and measurement of any non-controlling interest in the acquired company.

    (d) There are also a number of other issues that may affect some SME business combinations, including guidance on pre-existing relationships, distinguishing post-combination compensation from consideration, etc.

21. Based on feedback from the RFI, SMEIG members and other interested parties, the current approach in the *IFRS for SMEs* (based on IFRS 3(2004)) is working well in practice and is well understood and accepted by users and preparers of financial statements. Furthermore, it has the same basic underlying approach as IFRS 3(2008) but simplified. Therefore the staff do not believe there is an essential need to change the current requirements during this initial comprehensive review.

22. The staff believe that the changes in IFRS 3(2008) would result in significant complexity for SMEs, in particular because of the additional fair value measurements required. Several comment letters said that the changes should not be incorporated as they would result in limited benefits for users, yet add significant complexity for SMEs. Furthermore, several of the comment letters supporting incorporating the requirements of IFRS 3(2008) also recommended adding relief from the fair value measurements for SMEs because of their cost and complexity.

23. For the reasons in paragraphs 21-22, and also the special need for more stability during this initial comprehensive review, the staff believe it would be better to wait and perform a thorough cost-benefits assessment for SMEs after the post-implementation review has been performed (due to start this year) and reconsider IFRS 3(2008) at the next triennial review.

Questions for the IASB

1) How should we address the following new or revised IFRSs?

- **a. IFRS 10 *Consolidated Financial Statements* (Question S4)**
- **b. IFRS 13 *Fair Value Measurement* (Question S6) (and whether guidance should be moved from Section 11 into a separate section (Question S7))**
- **c. IFRS 11 *Joint Arrangements* (Question S8)**
- **d. IFRS 3 *Business Combinations* (2008) (Question S12)**
- **e. IAS 19 (2011) *Employee Benefits* (2011) (Question S15)**

Appendix A: Questions extracted from the Request for Information (RFI) (includes a high level summary of how the new and revised IFRSs would be expected to affect SMEs)

A1. The questions on the following new and revised IFRSs have been extracted below

(a) IFRS 10 *Consolidated Financial Statements* (Question S4 in the RFI)

(b) IFRS 13 *Fair Value Measurement* (Question S6 and S7)

(c) IFRS 11 *Joint Arrangements* (Question S8)

(d) IFRS 3 (amended 2008) *Business Combinations* (Question S12)

(e) IAS 19 (amended 2011) *Employee Benefits* (Question S15)

Ref	**Question extracted from the RFI**
S4	**Consideration of recent changes to the consolidation guidance in full IFRSs (Section 9)** The *IFRS for SMEs* establishes control as the basis for determining which entities are consolidated in the consolidated financial statements. This is consistent with the current approach in full IFRSs. Recently, full IFRSs on this topic have been updated by IFRS 10 *Consolidated Financial Statements*, which replaced IAS 27 *Consolidated and Separate Financial Statements* (2008). IFRS 10 includes additional guidance on applying the control principle in a number of situations, with the intention of avoiding divergence in practice. The guidance will generally affect borderline cases where it is difficult to establish if an entity has control (ie, most straightforward parent-subsidiary relationships will not be affected). Additional guidance is provided in IFRS 10 for: • agency relationships, where one entity legally appoints another to act on its behalf. This guidance is particularly relevant to investment managers that make decisions on behalf of investors. Fund managers and entities that hold assets for a broad group of outsiders as a primary business are generally outside the scope of the *IFRS for SMEs*. • control with less than a majority of the voting rights, sometimes called ‘de facto control’ (this principle is already addressed in paragraph 9.5 of the *IFRS for SMEs* but in less detail than in IFRS 10). • assessing control where potential voting rights exist, such as options, rights or conversion features that, if exercised, give the holder additional voting rights (this principle is already addressed in paragraph 9.6 of the *IFRS for SMEs* but in less detail than in IFRS 10). The changes above will generally mean that more judgement needs to be applied in borderline cases and where more complex relationships exist. **Should the changes outlined above be considered, but modified as appropriate to reflect the needs of users of SME financial statements and cost-benefit considerations?** (a) No—do not change the current requirements. Continue to use the current definition of control and the guidance on its application in Section 9. They are appropriate for SMEs, and SMEs have been able to implement the definition and guidance without problems. (b) Yes—revise the *IFRS for SMEs* to reflect the main changes from IFRS 10 outlined above (modified as appropriate for SMEs). (c) Other—please explain. Please provide reasoning to support your choice of (a), (b) or (c).

S6	**Guidance on fair value measurement for financial and non-financial items (Section 11 and other sections)** Paragraphs 11.27–11.32 of the *IFRS for SMEs* contain guidance on fair value measurement. Those paragraphs are written within the context of financial instruments. However, several other sections of the *IFRS for SMEs* make reference to them, for example, fair value model for associates and jointly controlled entities (Sections 14 and 15), investment property (Section 16) and fair value of pension plan assets (Section 28). In addition, several other sections refer to fair value although they do not specifically refer to the guidance in Section 11. There is some other guidance about fair value elsewhere in the *IFRS for SMEs*, for example, guidance on fair value less costs to sell in paragraph 27.14. Recently the guidance on fair value in full IFRSs has been consolidated and comprehensively updated by IFRS 13 *Fair Value Measurement*. Some of the main changes are: • an emphasis that fair value is a market-based measurement (not an entity-specific measurement); • an amendment to the definition of fair value to focus on an exit price (fair value is defined in IFRS 13 as “the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date”); and • more specific guidance on determining fair value, including assessing the highest and best use of non-financial assets and identifying the principal market. The guidance on fair value in Section 11 is based on the guidance on fair value in IAS 39. The IAS 39 guidance on fair value has been replaced by IFRS 13. In straightforward cases, applying the IFRS 13 guidance on fair value would have no impact on the way fair value measurements are made under the *IFRS for SMEs*. However, if the new guidance was to be incorporated into the *IFRS for SMEs*, SMEs would need to re-evaluate their methods for determining fair value amounts to confirm that this is the case (particularly for non-financial assets) and use greater judgement in assessing what data market participants would use when pricing an asset or liability. **Should the fair value guidance in Section 11 be expanded to reflect the principles in IFRS 13, modified as appropriate to reflect the needs of users of SME financial statements and the specific circumstances of SMEs (for example, it would take into account their often more limited access to markets, valuation expertise, and other cost-benefit considerations)?** (a) No—do not change the current requirements. The guidance for fair value measurement in paragraphs 11.27–11.32 is sufficient for financial and non-financial items. (b) Yes—the guidance for fair value measurement in Section 11 is not sufficient. Revise the *IFRS for SMEs* to incorporate those aspects of the fair value guidance in IFRS 13 that are important for SMEs, modified as appropriate for SMEs (including the appropriate disclosures). (c) Other—please explain. Please provide reasoning to support your choice of (a), (b) or (c). **Note:** an alternative is to create a separate section in the *IFRS for SMEs* to deal with guidance on fair value that would be applicable to the entire *IFRS for SMEs*, rather than leaving such guidance in Section 11. This is covered in the following question (question S7).
S7	**Positioning of fair value guidance in the Standard (Section 11)** As noted in question S6, several sections of the *IFRS for SMEs* (covering both financial and non-financial items) make reference to the fair value guidance in Section 11. **Should the guidance be moved into a separate section? The benefit would be to make clear that the guidance is applicable to all references to fair value in the *IFRS for SMEs*, not just to financial instruments.** (a) No—do not move the guidance. It is sufficient to have the fair value measurement guidance in Section 11. (b) Yes—move the guidance from Section 11 into a separate section on fair value measurement. (c) Other—please explain. Please provide reasoning to support your choice of (a), (b) or (c).

	Note: please answer this question regardless of your answer to question S6.
S8	**Consideration of recent changes to accounting for joint ventures in full IFRSs (Section 15)** Recently, the requirements for joint ventures in full IFRSs have been updated by the issue of IFRS 11 *Joint Arrangements*, which replaced IAS 31 *Interests in Joint Ventures*. A key change resulting from IFRS 11 is to classify and account for a joint arrangement on the basis of the parties' rights and obligations under the arrangement. Previously under IAS 31, the structure of the arrangement was the main determinant of the accounting (ie establishment of a corporation, partnership or other entity was required to account for the arrangement as a jointly-controlled entity). In line with this, IFRS 11 changes the definitions and terminology and classifies arrangements as either joint operations or joint ventures. Section 15 is based on IAS 31 except that Section 15 (like IFRS 11) does not permit proportionate consolidation for joint ventures, which had been permitted by IAS 31. Like IAS 31, Section 15 classifies arrangements as jointly controlled operations, jointly controlled assets or jointly controlled entities. If the changes under IFRS 11 described above were adopted in Section 15, in most cases, jointly controlled assets and jointly controlled operations would become joint operations, and jointly controlled entities would become joint ventures. Consequently, there would be no change to the way they are accounted for under Section 15. However, it is possible that, as a result of the changes, an investment that previously met the definition of a jointly controlled entity would become a joint operation. This is because the existence of a separate legal vehicle is no longer the main factor in classification. **Should the changes above to joint venture accounting in full IFRSs be reflected in the *IFRS for SMEs*, modified as appropriate to reflect the needs of users of SME financial statements and cost-benefit considerations?** (a) No—do not change the current requirements. Continue to classify arrangements as jointly controlled assets, jointly controlled operations and jointly controlled entities (this terminology and classification is based on IAS 31 *Interests in Joint Ventures*). The existing Section 15 is appropriate for SMEs, and SMEs have been able to implement it without problems. (b) Yes—revise the *IFRS for SMEs* so that arrangements are classified as joint ventures or joint operations on the basis of the parties' rights and obligations under the arrangement (terminology and classification based on IFRS 11 *Joint Arrangements*, modified as appropriate for SMEs). (c) Other—please explain. Please provide reasoning to support your choice of (a), (b) or (c). **Note:** this would not change the accounting options available for jointly-controlled entities meeting the criteria to be joint ventures (ie cost model, equity method and fair value model).
S12	**Consideration of changes to accounting for business combinations in full IFRSs (Section 19)** The *IFRS for SMEs* accounts for all business combinations by applying the purchase method. This is similar to the 'acquisition method' approach currently applied in full IFRSs. Section 19 of the *IFRS for SMEs* is generally based on the 2004 version of IFRS 3 *Business Combinations*. IFRS 3 was revised in 2008, which was near the time of the release of the *IFRS for SMEs*. IFRS 3 (2008) addressed deficiencies in the previous version of IFRS 3 without changing the basic accounting; it also promoted international convergence of accounting standards. The main changes introduced by IFRS 3 (2008) that could be considered for incorporation in the *IFRS for SMEs* are: • A focus on what is given as consideration to the seller, rather than what is spent in order to acquire the entity. As a consequence, acquisition-related costs are recognised as an expense rather than treated as part of the business combination (for example, advisory, valuation and other professional and administrative fees). • Contingent consideration is recognised at fair value (without regard to probability) and then subsequently accounted for as a financial instrument instead of as an adjustment to the cost of the business combination. • Determining goodwill requires remeasurement to fair value of any existing interest in the acquired company and measurement of any non-controlling interest in the acquired company.

	Should Section 19 be amended to incorporate the above changes, modified as appropriate to reflect the needs of users of SME financial statements and cost-benefit considerations? (a) No—do not change the current requirements. The current approach in Section 19 (based on IFRS 3 (2004)) is suitable for SMEs, and SMEs have been able to implement it without problems. (b) Yes—revise the *IFRS for SMEs* to incorporate the main changes introduced by IFRS 3 (2008), as outlined above and modified as appropriate for SMEs. (c) Other—please explain. Please provide reasoning to support your choice of (a), (b) or (c).
S15	**Presentation of actuarial gains or losses (Section 28)** In accordance with the *IFRS for SMEs*, an entity is required to recognise all actuarial gains and losses in the period in which they occur, either in profit or loss or in other comprehensive income as an accounting policy election (paragraph 28.24). Recently, the requirements in full IFRSs have been updated by the issue of IAS 19 *Employee Benefits* (revised 2011). A key change as a result of the 2011 revisions to IAS 19 is that all actuarial gains and losses must be recognised in other comprehensive income in the period in which they arise. Previously, under full IFRSs, actuarial gains and losses could be recognised either in other comprehensive income or in profit or loss as an accounting policy election (and under the latter option there were a number of permitted methods for the timing of the recognition in profit or loss). Section 28 is based on IAS 19 before the 2011 revisions, modified as appropriate to reflect the needs of users of SME financial statements and cost-benefit considerations. Removing the option for SMEs to recognise actuarial gains and losses in profit or loss would improve comparability between SMEs without adding any complexity. **Should the option to recognise actuarial gains and losses in profit or loss be removed from paragraph 28.24?** (a) No—do not change the current requirements. Continue to allow an entity to recognise actuarial gains and losses either in profit or loss or in other comprehensive income as an accounting policy election. (b) Yes—revise the *IFRS for SMEs* so that an entity is required to recognise all actuarial gains and losses in other comprehensive income (ie removal of profit or loss option in paragraph 28.24). (c) Other—please explain. Please provide reasoning to support your choice of (a), (b) or (c). **Note:** IAS 19 (revised 2011) made a number of other changes to full IFRSs. However, because Section 28 was simplified from the previous version of IAS 19 to reflect the needs of users of SME financial statements and cost-benefit considerations, the changes made to full IFRSs do not directly relate to the requirements in Section 28.

Appendix B: Comment letter analysis on new and revised IFRSs

B1. Views on whether or not the *IFRS for SMEs* should be updated during this comprehensive review for new and revised IFRSs issued since the *IFRS for SMEs* was published were evenly split, with a slight majority in favour of updating. There were more respondents in favour of adopting the changes to IAS 19(2011) than the other new and revised IFRSs as it was felt it would result in comparability with full IFRSs without increasing complexity. Furthermore, many comment letters in favour of not updating during this review would favour updating the *IFRS for SMEs* for new and revised IFRSs in the future (at the next triennial review), once the changes become established under full IFRSs.

B2. The following points cover the main reasons given by respondents for not revising the *IFRS for SMEs* for new and revised IFRSs during this comprehensive review:

(a) An automatic requirement to align the *IFRS for SMEs* with full IFRSs would undermine the original purpose of developing a standalone, simplified, set of accounting principles for SMEs.

(b) SMEs need a stable platform. Frequent changes in requirements, even minor improvements and wording changes, would be burdensome for SMEs and users of their financial statements. The *IFRS for SMEs* should only be changed where there is a demonstrated need for improving SME reporting justified through an assessment of user needs and cost-benefit considerations.

(c) The IASB should not incorporate requirements into the *IFRS for SMEs* before they are effective under full IFRSs and the post-implementation reviews have been concluded. The implementation experience of entities applying full IFRSs will provide an insight on the suitability of the new requirements for SMEs eg whether they result in an improvement in financial reporting, any unintended consequences or implementation costs, etc. Such experience is particularly important in areas when changes are complex, for example IFRS 3, 10 and 13.

(d) Changes to full IFRSs should only be implemented in the *IFRS for SMEs* after they have become established under full IFRSs and are unlikely to be amended further. For example the presentation of actuarial gains and losses under full IFRSs is likely to be revisited and so the current accounting policy option in the *IFRS for SMEs* to recognise them in profit or loss should be retained for now.

B3. The following points cover the main reasons given by respondents for revising the *IFRS for SMEs* for new and revised IFRSs during the comprehensive review modified as appropriate to reflect the needs of users of SME financial statements and cost-benefit considerations:

(a) Changes are made to full IFRSs for good reasons, eg to improve the quality of financial reporting, clarify requirements or provide more guidance. Therefore it would be inappropriate for the *IFRS for SMEs* to become out of date with current requirements in full IFRSs and continue to be based on inferior versions of full IFRSs that have been replaced. The *IFRS for SMEs* was developed from full IFRSs and so it is logical that it should generally remain in line with full IFRSs where possible.

(b) Consistent accounting across companies under the *IFRS for SMEs* and full IFRSs is desirable. Although modifications to the *IFRS for SMEs* may be necessary for the needs of SMEs, they should be kept to a minimum. Where modifications are made, there should be an option for an entity to follow the recognition and measurement requirements of full IFRSs.

(c) Consistency with full IFRSs facilitates entities transitioning from the *IFRS for SMEs* to full IFRSs. Also, consistency between the recognition, measurement and presentation principles of full IFRSs and the *IFRS for SMEs* is important for subsidiaries that produce full IFRSs information for consolidation purposes.

(d) Many jurisdictions have adopted both full IFRSs and the *IFRS for SMEs*. It would be confusing for two unrelated sets of standards to be applied in the same jurisdiction. Differences between the *IFRS for SMEs* and full IFRSs could cause confusion for users of financial statements and requires additional education and training of accountants and other parties using both sets of standards.

(e) Having different definitions and terminology in use under full IFRSs and the *IFRS for SMEs* would be confusing. The definitions of control (IFRS 10) and fair value (IFRS 13) are fundamental to the IFRS Framework and so it is important that the revised definitions are incorporated in the *IFRS for SMEs*. Identical transactions should not be accounted for differently under the two sets of standards.

B4. Other suggestions made by comment letters include:

(a) The IASB should develop review criteria to be applied when assessing if and how changes to full IFRSs, including minor improvements, should be incorporated into the *IFRS for SMEs*. This would ensure a consistent approach is followed for updates of the *IFRS for SMEs*, would clarify the objective of the *IFRS for SMEs* and its relationship with full IFRSs, and also enable SMEs to plan for changes for effectively.

(b) Changes to full IFRSs should not be incorporated if they are unlikely to have a significant effect on the financial reporting of most SMEs, for example IFRS 10 and IFRS 13. To do so would result in an unnecessary burden as SMEs would still need to read and understand the requirements. However, changes to full IFRSs should be incorporated if they relate to SME transactions, eg IFRS 11, IFRS 3(2008) and IAS 19(2011).

(c) If some, but not all, of the changes from an IFRS standard are incorporated in the *IFRS for SMEs*, care is required to avoid ending up with a mixed approach, ie a mixture of ‘old and new’ IFRSs, as this may result in an incoherent model. For example, IFRS 3(2008) made significant changes to business combination accounting and the model in IFRS 3(2008) should be incorporated in full or not at all.

(d) Future updates of the *IFRS for SMEs* would be simplified if the IASB considered potential implications for the *IFRS for SMEs* at the same time as changes are made to full IFRSs. Any proposed changes to the *IFRS for SMEs* would be accumulated and included in the omnibus exposure draft issued as part of the IASB's review of the *IFRS for SMEs* expected to take place approximately once every three years.