

STAFF PAPER

April 2013

IASB Meeting

Project	Comprehensive review of the <i>IFRS for SMEs</i>		
Paper topic	Other questions in the Request for Information		
CONTACT(S)	Darrel Scott (Board Advisor)	dscott@ifrs.org	+44 (0) 20 7246 6489
	Michelle Fisher	mfisher@ifrs.org	+44 (0) 20 7246 6918

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Purpose of this paper

1. Agenda Paper 8G (this agenda paper) asks the IASB to consider the responses received to the remaining questions in the Request for Information (RFI) and to consider whether any amendments should be made to the *IFRS for SMEs*.

Introduction

2. The following are the remaining questions in the RFI:
 - (a) Amortisation period for goodwill and other intangible assets (Question S11 in the RFI and Issue 9 for the SME Implementation Group (SMEIG) meeting).
 - (b) Presentation of share subscriptions receivable (Question S13 in the RFI and Issue 10 for the SMEIG meeting).
 - (c) Inclusion of additional topics in the *IFRS for SMEs* (Question S19 in the RFI and Issue 11 for the SMEIG meeting).
 - (d) SMEIG Q&As (Question G2 and G3 in the RFI and Issue 12 for the SMEIG meeting Issue 12).

3. For each issue above this agenda paper includes:
 - (a) the question(s) asked in the RFI (condensed slightly for this agenda paper);
 - (b) a detailed summary of the main comments received (please see Appendix B of Agenda Paper 8D for explanation of the process staff followed in summarising responses in the comment letters);
 - (c) staff analysis;
 - (d) recommendations of the SMEIG and the IASB staff; and
 - (e) the question(s) for the IASB to discuss.
4. Appendix A contains a full extract of the SMEIG recommendations on the issues in this agenda paper from the final SMEIG report.

Amortisation period for goodwill and other intangible assets (Issue 9: Question S11)

Question S11 in the RFI: Amortisation period for goodwill and other intangible assets (Section 18)

Paragraph 18.21 requires an entity to amortise an intangible asset on a systematic basis over its useful life. This requirement applies to goodwill as well as to other intangible assets (see paragraph 19.23(a)). Paragraph 18.20 states “If an entity is unable to make a reliable estimate of the useful life of an intangible asset, the life shall be presumed to be ten years.” Some interested parties have said that, in some cases, although the management of the entity is unable to estimate the useful life reliably, management’s judgement is that the useful life is considerably shorter than ten years.

Should paragraph 18.20 be modified to state: “If an entity is unable to make a reliable estimate of the useful life of an intangible asset, the life shall be presumed to be ten years unless a shorter period can be justified”?

- (a) No—do not change the current requirements. Retain the presumption of ten years if an entity is unable to make a reliable estimate of the useful life of an intangible asset (including goodwill).
- (b) Yes—modify paragraph 18.20 to establish a presumption of ten years that can be overridden if a shorter period can be justified.
- (c) Other—please explain.

Please provide reasoning to support your choice of (a), (b) or (c).

Responses from comment letters

5. Approximately 30% of comment letters responding to Question S11 would not change the current requirements (choice (a)). They would retain the presumption of ten years if an entity is unable to make a reliable estimate of the useful life of an intangible asset (including goodwill). The following points cover the main reasons given:
- (a) Changing the wording as proposed (under choice (b)) is unlikely to have any effect because if a shorter period can be justified, a reliable estimate of useful life can probably be made.
 - (b) If management cannot estimate the useful life reliably it should be presumed to be ten years. This enhances comparability of financial statements.
 - (c) The current requirement causes a difference between EU directives and the *IFRS for SMEs*. However the *IFRS for SMEs* should not be amended at the request of certain regions to align with local laws/regulation as different regions will have different requests. Amendments should be considered under the objectives of the *IFRS for SMEs* (eg needs of users of SME financial statements and cost-benefit considerations).
6. Approximately 40% of comment letters responding to Question S11 would modify paragraph 18.20 to establish a presumption of ten years that can be overridden if a shorter period can be justified (choice (b)). The following points cover the main reasons given:
- (a) Sometimes a ten year period is too long (eg in difficult economic times). In cases where management is unable to make a reliable estimate of the useful life of an intangible asset, there may be indicators that the useful life is less than 10 years. In this situation it would be better to use management's best estimate than use the default life. This would prevent goodwill being overstated and prevent later impairment charges. The entity should provide disclosure of the basis for the estimate.

- (b) The problem with including ten years as the default useful life is entities will use it as an automatic default instead of trying to establish a basis for making an estimate of the useful life.
 - (c) A presumption of 10 years is arbitrary and may not be true in many cases. Consequently it would not always provide useful information to users of financial statements. Allowing a shorter amortisation period as proposed will allow more flexibility for management to exercise judgement.
 - (d) Modifying paragraph 18.20 to allow a shorter period if it can be justified would eliminate a difference with the new EU directives which requires goodwill to be written off over a maximum life of five years unless a longer life can be supported.
7. A few letters said the proposed wording in Question S11 is not clear:
- (a) If an entity is unable to make a reliable estimate of a useful life, then it seems counterintuitive that it is capable of justifying a shorter life than 10 years.
 - (b) If a shorter period than 10 years can be justified, it is not clear whether the entity has to estimate the life (even if they are unable to do so reliably) or whether it has a free choice over any period from 1-9 years.
 - (c) Additional guidance is needed on ‘reliable estimate’ and ‘can be justified’ to ensure entities do not default automatically to ten years. Examples of the factors that SME would have to consider to justify a shorter life should be provided, eg expectation of typical life cycles for similar assets, expectations of technical obsolescence, etc.
8. Approximately 30% of comment letters responding to Question S11 chose (c) “other”. Alternative suggestions made by comment letters include:
- (a) Paragraph 18.20 should be deleted. The *IFRS for SMEs* requires entities to make best estimates in several other sections with no default amount prescribed. The useful life of goodwill and other intangibles should be treated in the same way.

- (b) Goodwill should not be amortised for consistency with full IFRSs. Alternatively an option should be added to permit entities to follow an impairment only approach like full IFRSs.
- (c) The useful life of goodwill is often shorter than 10 years. It would be better to have a shorter default, such as five years. A longer period could be allowed in rare circumstances if the entity can demonstrate conditions that justify a longer useful life.
- (d) If the *IFRS for SMEs* allows a period shorter than 10 years to be used if it can be justified, it should also allow a period longer than 10 years to be used if it can be justified.
- (e) Consider rewording paragraph 18.20 to specify that if the entity is unable to make a reliable estimate of the useful life of an intangible asset, the useful life shall be presumed to be not more than ten years. Alternatively, reword to state that the useful life should be management's best estimate.

SMEIG recommendation

The SMEIG recommends that paragraph 18.20 be amended as follows:

“If an entity is unable to make a reliable estimate of the useful life of an intangible asset, the useful life shall be determined based on management's best estimate and shall not exceed 5 years”.

The SMEIG suggest that staff give further consideration to the words ‘best estimate’.

Staff recommendation

9. Staff suggest modifying paragraph 18.20 to state “If an entity is unable to make a reliable estimate of the useful life of an intangible asset, the useful life shall be determined based on management's best estimate and shall not exceed 10 years”. This is the same as the SMEIG recommendation, except the staff would retain the 10 year default (rather than 5 years) so that SMEs do not need to restate their amortisation figures. This wording would achieve the same intended result as option (b), but it is clearer. SMEs are required to make best estimates in many other sections of the *IFRS for SMEs*, eg Section 21 *Provisions and Contingencies*,

and so this wording should be well understood. The revised wording also responds to the concerns raised by respondents in paragraph 7.

10. Although a default useful life of 10 years is simple, it does not provide users of financial statements with any information about the period over which an asset is expected to be available for use. Requiring management to use their best estimate is unlikely to require additional work because paragraph 18.20 already requires management to assess if a reliable estimate of the life is possible. Management's best estimate is likely to result in better information for users of the financial statements than a default life provided disclosure of the basis is provided.

Question for the IASB

- 1) Should paragraph 18.20 be modified?

Presentation of share subscriptions receivable (Issue 10: Question S13)

Question S13 in the RFI: Presentation of share subscriptions receivable (Section 22)

Paragraph 22.7(a) requires that subscriptions receivable, and similar receivables that arise when equity instruments are issued before the entity receives the cash for those instruments, must be offset against equity in the statement of financial position, not presented as an asset.

Some interested parties have told the IASB that their national laws regard the equity as having been issued and require the presentation of the related receivable as an asset.

Should paragraph 22.7(a) be amended either to permit or require the presentation of the receivable as an asset?

- (a) No—do not change the current requirements. Continue to present the subscription receivable as an offset to equity.
- (b) Yes—change paragraph 22.7(a) to require that the subscription receivable is presented as an asset.
- (c) Yes—add an additional option to paragraph 22.7(a) to permit the subscription receivable to be presented as an asset, ie the entity would have a choice whether to present it as an asset or as an offset to equity.
- (d) Other—please explain.

Please provide reasoning to support your choice of (a), (b), (c) or (d).

Responses from comment letters

11. Approximately 30% of comment letters responding to Question S13 would not change the current requirements (choice (a)). They would continue to present the subscription receivable as an offset to equity. The following points cover the main reasons given:
- (a) The *IFRS for SMEs* should not be amended at the request of certain regions. It is not possible for the *IFRS for SMEs* to consider local laws/regulation of all the individual jurisdictions in the world. Amendments should be considered under the objectives of the *IFRS for SMEs*.
 - (b) Current requirements are clear and simple to apply. It is preferable to require presentation as an offset to equity for practical reasons as it avoids the need to assess whether the receivable meets the definition of a financial asset.
 - (c) Presentation in equity better presents the substance of the share subscription receivable.
12. Approximately 10% of comment letters responding to Question S13 would change paragraph 22.7(a) to require that the subscription receivable is presented as an asset (choice (b)). The reason given by most of these respondents is that the share subscription receivable meets the definition of an asset and so it is not appropriate to show it as an adjustment to equity.
13. Approximately 20% of comment letters responding to Question S13 would add an additional option to paragraph 22.7(a) to permit the subscription receivable to be presented as an asset, ie the entity would have a choice whether to present it as an asset or as an offset to equity (choice (c)). The reason given by most of these respondents is an option would allow entities to present their subscription receivable as an asset or offset to equity depending on the jurisdiction laws.
14. Approximately 40% of comment letters responding to Question S13 chose (d) “other”. Most of these respondents did not support any of the choices (a) to (c) provided in Question S13. The following points cover the main reasoning given:

- (a) Paragraph 22.7(a) should be deleted as it is not in full IFRSs. It is not appropriate for the *IFRS for SMEs* to stipulate the treatment of transactions on which full IFRSs is silent and subject to legal requirements in a number of jurisdictions.
- (b) Paragraph 22.7(a) should be revised to require an assessment based on the substance of the arrangement. Determination of whether the subscription receivable is an asset or an offset against equity depends on the facts and circumstances and whether the subscription receivable meets the definition and recognition criteria of an asset.
- (c) The subscription receivable should be presented as a receivable (no offsetting) when the following criteria are met:
 - (i) equity instruments provide holder with the same rights as equity instruments that have been fully paid; and
 - (ii) entity has an enforceable right to consideration to be received in exchange for the equity instruments.
- (d) This issue should be investigated further before a change in made. The IASB should explore whether benefits from amending 22.7(a) to permit or require presentation of the receivable, eg compliance with national laws, exceed the costs, eg lack of consistent treatment.

SMEIG recommendation

The SMEIG recommends that Paragraph 22.7(a) be deleted. The SMEIG note that full IFRSs is silent on this issue and there are mixed views across jurisdictions of whether the share subscription receivable should be treated as an asset or offset to equity. The SMEIG further suggest that additional guidance on classification of share subscriptions receivable could be provided in education material.

Staff recommendation

15. The staff agree with the SMEIG recommendation and recommend deleting paragraph 22.7(a). It was added to provide additional guidance and to simplify requirements. However, most respondents object to the current paragraph and

reasons given are wider than a conflict with legal requirements in some jurisdictions.

Question for the IASB

2) Should paragraph 22.7(a) be modified or deleted?

Inclusion of additional topics in the *IFRS for SMEs* (Issue 11: Question S19)

Question S19 in the RFI: Inclusion of additional topics in the *IFRS for SMEs*

The IASB intended that the 35 sections in the *IFRS for SMEs* would cover the kinds of transactions, events and conditions that are typically encountered by most SMEs. The IASB also provided guidance on how an entity's management should exercise judgement in developing an accounting policy in cases where the *IFRS for SMEs* does not specifically address a topic (see paragraphs 10.4–10.6).

Are there any topics that are not specifically addressed in the *IFRS for SMEs* that you think should be covered (ie where the general guidance in paragraphs 10.4–10.6 is not sufficient)?

- (a) No.
- (b) Yes (please state the topic and reasoning for your response).

Suggestions from comment letters

16. Only a few comment letters suggested adding additional topics to the *IFRS for SMEs*. The following are the suggestions made by two or more comment letters:
- (a) Segment information, eg based on IFRS 8 *Operating Segments*.
 - (b) Interim financial reporting, eg based on IAS 34 *Interim Reporting*.
 - (c) Earnings per Share, eg based on IAS 33 *Earnings per Share*.
 - (d) Incorporate requirements for non-current assets held for sale based on IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* to align with full IFRSs.
 - (e) Accounting for grant income from non-government grants. Non-governmental organisations represent a significant sector in many

emerging markets but the *IFRS for SMEs* doesn't contain requirements for non-government grants (the bulk of their resources).

- (f) A section containing addition guidance and disclosure requirements to address issues specific to not for profit (NFP) entities.

Staff comments

17. Paragraphs 10.4-10.6 of the *IFRS for SMEs* contains guidance if the *IFRS for SMEs* does not specifically address a transaction, other event or condition:

10.4 If this IFRS does not specifically address a transaction, other event or condition, an entity's management shall use its judgement in developing and applying an accounting policy that results in information that is:

- (a) relevant to the economic decision-making needs of users, and
- (b) reliable, in that the financial statements:
 - (i) represent faithfully the financial position, financial performance and cash flows of the entity;
 - (ii) reflect the economic substance of transactions, other events and conditions, and not merely the legal form;
 - (iii) are neutral, ie free from bias;
 - (iv) are prudent; and
 - (v) are complete in all material respects.

10.5 In making the judgement described in paragraph 10.4, management shall refer to, and consider the applicability of, the following sources in descending order:

- (a) the requirements and guidance in this IFRS dealing with similar and related issues, and
- (b) the definitions, recognition criteria and measurement concepts for assets, liabilities, income and expenses and the pervasive principles in Section 2 *Concepts and Pervasive Principles*.

10.6 In making the judgement described in paragraph 10.4, management may also consider the requirements and guidance in full IFRSs dealing with similar and related issues.

18. Paragraphs BC118 and BC119 of the *IFRS for SMEs* explain why the IASB simplified requirements for non-current assets held for sale:

BC118 IFRS 5 defines when non-current assets or groups of assets (and associated liabilities) are 'held for sale' and establishes accounting requirements for such assets. The accounting requirements are, in essence, (a) stop depreciating the asset (or assets in the group) and (b) measure the asset (or group) at the lower of carrying amount and fair value less costs to sell. There is also a requirement to disclose information about all non-current assets (groups) held for sale. The exposure draft of the *IFRS for SMEs* had proposed nearly identical requirements.

BC119 Many respondents to the exposure draft recommended that the *IFRS for SMEs* should not have a separate held-for-sale classification for cost-benefit reasons,

and working group members concurred. They felt that an accounting result similar to that of IFRS 5 could be achieved more simply by including intention to sell as an indicator of impairment. Many who held this view also recommended that the *IFRS for SMEs* require disclosure when an entity has a binding sale agreement for a major disposal of assets, or a group of assets or liabilities. The Board agreed with those recommendations because (a) the impairment requirements in the IFRS would ensure that assets are not overstated in the financial statements and (b) the disclosure requirements will provide relevant information to users of SMEs' financial statements.

SMEIG recommendation

The SMEIG recommends that no additional topics need to be specifically addressed in the *IFRS for SMEs*. The general guidance in paragraphs 10.4–10.6 is sufficient to deal with the topics suggested by comment letters.

Staff recommendation

19. The staff agree with the SMEIG recommendation and do not suggest adding any additional topics to the *IFRS for SMEs*.
20. Staff do not recommend adding requirements for segment information, interim financial reporting and earnings per share. When the *IFRS for SMEs* was issued, the IASB did not include requirements in these three areas because the information is more relevant to investment decisions in public capital markets than to users of SME financial statements. The *IFRS for SMEs* prescribes minimum required disclosures. An SME may disclose additional information if it is considered relevant to users of its financial statements, eg segment information and earnings per share figures. Alternatively it may choose (or be required by local law) to produce interim financial statements. An entity may choose to refer to full IFRSs (eg IAS 33 *Earnings per Share*, IAS 34 *Interim Financial Reporting* and IFRS 8 *Operating Segments*) under the general guidance in paragraphs 10.5–10.6 if it prepares such information.
21. Most respondents suggesting adding requirements for non-current assets held for sale did so because they support aligning the recognition and measurement requirements of the *IFRS for SMEs* with full IFRSs, eg to cater for subsidiaries of full IFRS groups or entities seeking comparability with entities applying full IFRSs. Staff continue to support the IASB decision and reasoning in paragraphs

BC118-119. The staff believe 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. This primary aim should not be undermined by trying to cater for other entities, eg those wanting full alignment with full IFRSs.

22. Staff do not think it is necessary to add additional guidance for non-governmental grant income. By analogy, the staff believe grants received from non-governmental agencies would be accounted for similarly to governmental grants (paragraphs 10.4-10.5).
23. The *IFRS for SMEs* and full IFRSs are aimed at the for-profit sector and do not consider the unique needs of NFP entities. The fact there are no special considerations in *IFRS for SMEs* for NFP entities does not imply it is inappropriate for them. However, to add a section providing guidance the address the specific issues related to NFP entities would be time consuming and would go beyond full IFRSs. The IASB will consider whether to address the special issues of NFP entities under full IFRSs/the *IFRS for SMEs* at a later date.

Question for the IASB

3) Are there any topics that are not specifically addressed in the *IFRS for SMEs* that should be covered (ie where the general guidance in paragraphs 10.4–10.6 is not sufficient)?

SMEIG Q&As

Introduction

24. There are two questions in the RFI about the SMEIG question and answer (Q&A) programme. The staff suggest the IASB discuss these two questions together to decide if, and if so how, the current Q&A programme should be continued and how the existing Q&As should be dealt with during this comprehensive review. The following questions in the RFI relate to Q&As:

- (a) Further need for Q&As (Question G2)
- (b) Treatment of existing Q&As (Question G3)

SMEIG Q&As (Issue 12: Questions G2 and G3)

Question G2 in the RFI: Further need for Q&As

One of the key responsibilities of the SMEIG has been to consider implementation questions raised by users of the *IFRS for SMEs* and to develop proposed non-mandatory guidance in the form of questions and answers (Q&As).

The SMEIG Q&A programme has been limited. Only seven final Q&As have been published. Three of those seven deal with eligibility to use the *IFRS for SMEs*. No additional Q&As are currently under development by the SMEIG.

Some people are of the view that, while the Q&A programme was useful when the *IFRS for SMEs* was first issued so that implementation questions arising in the early years of application around the world could be dealt with, it is no longer needed. Any new issues that arise in the future can be addressed in other ways, for example through education material or by future three-yearly updates to the *IFRS for SMEs*. Many who hold this view think that an ongoing programme of issuing Q&As is inconsistent with the principle-based approach in the *IFRS for SMEs*, is burdensome because Q&As are perceived to add another set of rules on top of the *IFRS for SMEs*, and has the potential to create unnecessary conflict with full IFRSs if issues overlap with issues in full IFRSs.

Others, however, believe that the volume of Q&As issued so far is not excessive and that the non-mandatory guidance is helpful, and not a burden, especially to smaller organisations and in smaller jurisdictions that have limited resources to assist their constituents in implementing the *IFRS for SMEs*. Furthermore, in general, the Q&As released so far provide guidance on considerations when applying judgement, rather than creating rules.

Do you believe that the current, limited programme for developing Q&As should continue after this comprehensive review is completed?

- (a) Yes—the current Q&A programme should be continued.
- (b) No—the current Q&A programme has served its purpose and should not be continued.
- (c) Other—please explain.

Please provide reasoning to support your choice of (a), (b) or (c).

Question G3 in the RFI: Treatment of existing Q&As

This comprehensive review provides an opportunity for the guidance in those Q&As to be incorporated into the *IFRS for SMEs* and for the Q&As to be deleted.

Non-mandatory guidance from the Q&As will become mandatory if it is included as requirements in the *IFRS for SMEs*. In addition, any guidance may need to be incorporated in the *IFRS for SMEs* in a reduced format or may even be omitted altogether (if the IASB deems that the guidance is no longer applicable after the Standard is updated or that the guidance is better suited for inclusion in training material). The IASB would also have to decide whether any parts of the guidance that are not incorporated into the *IFRS for SMEs*

should be retained in some fashion, for example, as an addition to the Basis for Conclusions accompanying the *IFRS for SMEs* or as part of the training material on the *IFRS for SMEs*.

An alternative approach would be to continue to retain the Q&As separately where they remain relevant to the updated *IFRS for SMEs*. Under this approach there would be no need to reduce the guidance in the Q&As, but the guidance may need to be updated because of changes to the *IFRS for SMEs* resulting from the comprehensive review.

Should the Q&As be incorporated into the *IFRS for SMEs*?

- (a) Yes—the seven final Q&As should be incorporated as explained above, and deleted.
- (b) No—the seven final Q&As should be retained as guidance separate from the *IFRS for SMEs*.
- (c) Other—please explain.

Please provide reasoning to support your choice of (a), (b) or (c).

Responses from comment letters

Question G2

25. Approximately 65% of comment letters responding to Question G2 support continuing the current programme for developing Q&As after this comprehensive review is completed (choice (a)). The following points cover the main reasons given:

- (a) The guidance in the Q&As is helpful. Issuing Q&As does not affect the stability of the Standard or add an additional burden on preparers as the Q&As are non-mandatory. Additional guidance is particularly useful for smaller organisations and in jurisdictions that have limited accounting resources.
- (b) Even though the initial period of implementation is over, issues will continue to arise. Many jurisdictions are still in the early stages of adopting the *IFRS for SMEs*, or haven't adopted it yet, and so implementation issues may arise in those jurisdictions. Furthermore, if significant changes are made to the *IFRS for SMEs* during this comprehensive review, additional implementation issues may arise on application of the new requirements.
- (c) If application issues arise for which non-mandatory guidance would be useful, Q&As should be developed. There have only been a few Q&As

issued so far and demand is likely to reduce in the future. Consequently, the Q&A programme will not result in excessive guidance being issued.

- (d) Issues are likely to become more complex in the future and non-mandatory guidance will be useful to address these issues.
- (e) So far Q&As have provided guidance on considerations when applying judgement, rather than creating rules.

26. Approximately 25% of comment letters responding to Question G2 believe the current Q&A programme has served its purpose and should not be continued (choice (b)). The following points cover the main reasons given:

- (a) The *IFRS for SMEs* should be the only source of guidance for SMEs. The initiative to provide non-mandatory guidance is inconsistent with objective of a single stable standalone Standard. New issues can be addressed by future updates of the *IFRS for SMEs* or in training material.
- (b) There is a risk that Q&As crystallise rules that over time make the *IFRS for SMEs* more prescriptive. The Standard's straight forward principles based approach should not be compromised.
- (c) The Q&A programme is no longer necessary as it mainly deals with implementation questions arising in the early years.

27. Suggestions to improve the Q&A programme include:

- (a) The current due process for the Q&As is not adequate. They do not go through as rigorous a due process as amendments to the *IFRS for SMEs* (in the three-yearly reviews). Although Q&As are non-mandatory, in practice documents issued from any part of the IASB are taken to be authoritative guidance. Some may regard Q&As as interpretations.
- (b) A large number of Q&As is not in keeping with the IASB's plan for periodic updating of the *IFRS for SMEs* and requires extra work for SMEs and users of their financial statements to keep up to date with guidance issued. The SMEIG should follow the criteria set out in their Terms of Reference more closely—ie issues should be urgent,

widespread and likely to result in significant divergence in practice. Issues not meeting this criteria should be addressed in next update rather than in a Q&A.

- (c) The Q&As must not address issues that also relate to full IFRSs. These issues must be subject to the IASB's full due process and issued by the IFRS Interpretations Committee. There is a danger the Q&As may be applied in the interpretation of full IFRSs.
- (d) Many SMEs do not have professional accounting staff to prepare financial statements. The SMEIG should have a process where it can respond to more minor issues and provide guidance in an informal way outside the Q&A process. It could also consider publishing the most useful responses, eg in a newsletter. The mechanism of the Q&A process is excessively time-consuming, inflexible and formal as the only process for responding to issues.
- (e) In paragraph 19 of the SMEIG Terms of Reference it states that the IASB will establish a procedure via its website for interested parties to refer questions to the SMEIG. This process should be set up.
- (f) Constituents should be allowed to submit a comment letter on the Q&As confidentially. Furthermore the response period should be increased to a minimum of 60 days to allow non-English speakers and organisations coordinating a response based on feedback from their members sufficient time to respond.

Question G3

28. Approximately 50% of comment letters responding to Question G3 think the guidance in the seven final Q&As should be considered for inclusion during this update of the *IFRS for SMEs*, or incorporated in other supporting material (eg the Basis for Conclusions) as suggested in Question G3, and then deleted (choice (a)). The following points cover the main reasons given:

- (a) Incorporation of the Q&As as proposed in Question G3 would keep the *IFRS for SMEs* standalone and comprehensive. It is less burdensome for SMEs if all guidance is in one place.
 - (b) None of the Q&As change requirements in the *IFRS for SMEs* so there would be no adverse consequences of incorporating them.
 - (c) Mandatory guidance is more useful than non-mandatory guidance.
 - (d) The Q&As clarify requirements in areas where requirements are unclear or there was diversity in practice so they should be incorporated.
 - (e) Consistent with our view that the Q&A programme should cease, there should not be any parallel non-mandatory guidance on the *IFRS for SMEs*. All Q&As should be incorporated into the *IFRS for SMEs* or the training material and deleted.
29. Approximately 25% of comment letters responding to Question G3 believe the seven final Q&As should be retained as separate guidance (choice (b)). The following points cover the main reasons given.
- (a) Q&As should be retained separately to ensure the *IFRS for SMEs* is kept as straightforward and principles-based as possible.
 - (b) The Q&As are interpretations of matters that are not that complex. So it is not necessary to incorporate them in the *IFRS for SMEs*.
 - (c) If Q&As are incorporated in the *IFRS for SMEs* as application guidance, future Q&As will be considered by constituents as being de facto authoritative (at least until the next review of the *IFRS for SMEs*).
30. Approximately 25% of comment letters responding to Question G3 had other suggestions for how to deal with the seven Q&As. The following points cover the main suggestions given:
- (a) A number of the Q&As are very detailed and they should be tailored appropriately before they are incorporated to avoid adding excessive guidance in the *IFRS for SMEs*. Too much detail would not fit the overall balance of the *IFRS for SMEs* and would undermine its

principles-based nature. On the other hand, a small amount of additional clarification may be needed in some areas.

- (b) Care is required when incorporating Q&As not to create any unintended new financial reporting requirements.
- (c) Incorporate in the *IFRS for SMEs* those Q&As that clarify its requirements. Keep the other Q&As as separate guidance.
- (d) All Q&As should be incorporated in training material, not the *IFRS for SMEs*.

31. A few comment letters provided suggestions of which Q&As should be incorporated in the *IFRS for SMEs*, which should be incorporated in the Basis for Conclusions or training material, and which should be simply deleted. Staff have considered these suggestions individually when developing their recommendation below.

Staff comments

32. Paragraphs 15-17 and 19-36 of the SMEIG *Terms of Reference and Operating Procedures* (Terms of Reference) set out the criteria for deciding whether SMEIG should address an issue in a Q&A and the due process in developing a Q&A:

Criteria for Q&As

- 15 In deciding whether to address an issue in a Q&A, the SMEIG shall consider the following criteria:
 - (a) The issue should be pervasive, ie it has arisen or is likely to arise in financial reporting by a broad group of SMEs in various jurisdictions.
 - (b) Owing to a lack of clarity in the *IFRS for SMEs*, unintended or inconsistent implementation has occurred or is likely to occur in the absence of a Q&A.
 - (c) The SMEIG can reach a consensus on the appropriate treatment on a timely basis.
- 16 The SMEIG is expected to focus on a limited number of pervasive issues and not to seek to create an extensive rule-oriented environment. Nor does the SMEIG act as an urgent issues group.
- 17 The SMEIG should not reach a consensus in a Q&A that changes or conflicts with the *IFRS for SMEs*. If the SMEIG concludes that the requirements of the *IFRS for SMEs* should be amended, the SMEIG should make a recommendation in that regard to the IASB in connection with the IASB's periodic review of the *IFRS for SMEs*.

Due process in developing a Q&A*Stage 1 Identification of issues*

- 19 Preparers, auditors and others with an interest in financial reporting by SMEs will be encouraged to refer to the SMEIG questions about the application of the *IFRS for SMEs*. The IASB will establish a procedure for doing so via its website (and possibly by email as well).

Stage 2 Deciding whether to publish a Q&A

- 20 Staff will prepare a brief analysis of each submitted question with a recommendation on:
- (a) whether it should be addressed by a Q&A (based on the criteria in paragraphs 15–17 above), and
 - (b) if the recommendation is to develop a Q&A, what the staff's recommended answer would be and why.

- 21 Staff will send their recommendations to members of the SMEIG by email. SMEIG members will have 30 days to respond on (a) whether the SMEIG member agrees with the staff recommendation on the need for a Q&A, and (b) if the recommendation is to publish a Q&A, whether the SMEIG member agrees with the substance of the staff's proposed answer and, if not, what the SMEIG member's answer would be and why. SMEIG members should respond in writing to the staff. Such correspondence will be made available to all SMEIG members and to members of the IASB. It will be treated as internal correspondence rather than as public documents.

Stage 3 Reaching a tentative consensus

- 22 Staff will prepare a summary of the views of SMEIG members.
- (a) A tentative consensus is reached on the need for a Q&A if a simple majority of SMEIG members agree with the staff recommendation.
 - (b) A tentative consensus is reached on the substance of the staff's proposed answer for a Q&A if a simple majority of SMEIG members agree with the staff recommendation.

- 23 If a tentative consensus is reached that a Q&A is needed and on the substance of the answer, staff shall prepare a draft Q&A. The draft Q&A will include the SMEIG's reasons for reaching the answer that it did.

Stage 4 The IASB's role in the draft Q&A

- 24 Members of the IASB will have access to all of the communications within the SMEIG leading to development of the draft Q&A.
- 25 The draft Q&A will be circulated to the members of the IASB by email. The draft Q&A is released for public comment unless four or more IASB members object within a week of being informed of its completion.

Stage 5 Inviting comments on the tentative consensus

- 26 The draft Q&A will be posted on the IASB's website for public comment for a period of 30 days. The website will include a procedure for submitting comments electronically. Comments will be posted on the IASB's website.

- 27 Staff will prepare an analysis of comments received. Staff will make recommendations for changes to the draft Q&A, if any, and send them to SMEIG members with a request for approval of a final Q&A. SMEIG members should respond in writing to the staff within 30 days. Such correspondence will be made available to all SMEIG members and to members of the IASB. It will be treated as internal correspondence rather than as public documents.

Stage 6 Reaching a final consensus

- 28 Staff will prepare a summary of the views of SMEIG members. A consensus is reached on the final Q&A if a simple majority of SMEIG members agree with the staff recommendation.

Stage 7 The IASB's role in the release of a final Q&A

- 29 Members of the IASB will have access to all of the communications within the SMEIG leading to development of the final Q&A, and to the public comments on a draft Q&A.

- 30 When the SMEIG has reached a consensus on a final Q&A, it will be circulated to members of the IASB by email.

(a) If four or more IASB members object(omitted because of its length)

(b) If no more than three IASB members object to the consensus within 15 days of being informed of its completion, the Q&A will be published.

- 31 Approved Q&As are informal guidance and not mandatory standards. Therefore, they are published in the name of the SMEIG, not the IASB.

Stage 7 Publication of a final Q&A

- 32 SMEIG final Q&As will be posted on the IASB's website, possibly in batches rather than one by one, and made available without charge. They will not be separately printed.

- 33 The IASB will create an email alert list by which interested parties can register to be kept informed about the *IFRS for SMEs*. Those who register will be notified of draft Q&As that have been posted on the IASB's website for public comment, and of final Q&As that are published.

- 34 SMEIG decisions not to develop a Q&A will not be published.

- 35 SMEIG Q&As will include the SMEIG's reasons for reaching the answer that it reached.

- 36 Correspondence among SMEIG members and IASB staff will not be made public.

33. Paragraph 26 of the SMEIG Terms of Reference currently states that "The draft Q&A will be posted on the IASB's website for public comment for a period of 30 days." When the first draft Q&A was issued in February 2011, many respondents said the comment period was too short. Since then comment periods for draft Q&As have typically been 2 months. This change will be incorporated in the SMEIG Terms of Reference next time it is updated.

34. The following are the seven Q&As issued by the SMIEG:

Q&A number/ title	Guidance
2012/04 Recycling of cumulative exchange differences on disposal of a subsidiary	Clarifies that the cumulative exchange differences that arise on translation of a foreign subsidiary into the group presentation currency for consolidation purposes are prohibited from being recognised in profit or loss on disposal of the subsidiary.
2012/03 Fallback to IFRS 9 <i>Financial Instruments</i>	Clarifies that the option of applying the recognition and measurement provisions for financial instruments in full IFRSs instead of Sections 11 and 12 of the <i>IFRS for SMEs</i> refers exclusively to IAS 39. SMEs are not permitted to apply IFRS 9.
2012/02 Jurisdiction requires fallback to full IFRSs	Addresses the situation where a jurisdiction requires entities applying the <i>IFRS for SMEs</i> to fallback to full IFRSs when transactions are not specifically covered by the <i>IFRS for SMEs</i> . The Q&A clarifies an entity can only assert compliance with the <i>IFRS for SMEs</i> if applying full IFRSs requirements does not conflict with paragraphs 10.4-10.6 of the <i>IFRS for SMEs</i> .
2012/01 Application of ‘undue cost or effort’	Provides guidance on how to interpret ‘undue cost or effort’ and how it differs from the defined term ‘impracticable’.
2011/03 Interpretation of ‘traded in a public market’	Provides guidance on what constitutes a ‘public market’ and also guidance on how to determine when something is ‘traded’ on a public market.
2011/02 Entities that typically have public accountability	Paragraph 1.3(b) of the <i>IFRS for SMEs</i> identifies certain entities that <u>typically</u> have public accountability, eg banks, credit unions etc. The Q&A clarifies that such entities should not automatically be assumed to have public accountability. The Q&A illustrates why the assumption might be wrong for captive insurance subsidiaries and investment funds with few participants.
2011/01 Use of <i>IFRS for SMEs</i> in a parent’s separate financial statements	Clarifies a parent entity that itself does not have public accountability may present its separate financial statements in accordance with the <i>IFRS for SMEs</i> if it is part of a group that is required, or chooses, to present consolidated financial statements in accordance with full IFRSs.

SMEIG recommendation

The SMEIG recommends that the Q&A programme should continue as a two tier system:

- Tier 1 issues would be those requiring authoritative guidance and would require full due process.
- Tier 2 issues would be dealt with by non-mandatory education material subject to the normal due process for educational material.

The SMEIG also recommends:

- The IASB should establish a procedure for constituents to submit issues to SMEIG via the IASB website.
- The IASB should interact with local standard setters to encourage them to address local issues (eg scope issues), and to submit more significant issues to the SMEIG for consideration. It was acknowledged that this process would need to be governed well to ensure local jurisdictions do not issue interpretative guidance.

The SMEIG recommends where possible, Q&As should be incorporated in the *IFRS for SMEs* and deleted. The majority of SMEIG members think that other Q&As should be maintained separately to the extent they remain relevant. However, a minority of SMEIG members believe any Q&As that are not incorporated in the *IFRS for SMEs* should be included in the IFRS Foundation education material and deleted.

Staff recommendation

35. The staff agree with the SMEIG that the Q&A programme should continue. Most of the respondents who think the Q&A programme should cease are from developed countries where SMEs have access to better accounting resources. Many comment letters, including those covering developing countries, say Q&As are helpful to smaller companies and jurisdictions with limited accounting expertise. Based on this feedback, staff are of the view that the Q&A process fulfils a helpful educational process, and should be continued.
36. The staff also agree with the SMEIG that the IASB should establish a procedure for constituents to submit issues to SMEIG via its website (paragraph 19 of the SMEIG Terms of Reference). However, the staff suggest that issues submitted by respondents should not be posted online and that issues should as a matter of course be considered in developing the education material. Only issues that are

prevalent in multiple jurisdictions, or of particular urgency, or pervasive to the literature should be forwarded the SMEIG for their consideration.

37. The staff also agree with the SMEIG that there should be a two tier system for Q&As. The staff think the current due process for Q&As is appropriate for an interpretive function, but is excessive for an educational function. This contributes to the view of many respondents that the non-mandatory Q&As are similar to mandatory interpretations issued by the IFRS Interpretations Committee. In contrast, the IFRS Foundation training material provides guidance and illustrative examples on requirements in the *IFRS for SMEs*, including guidance on requirements in the *IFRS for SMEs* that are similar to those in full IFRSs. The training material is not subject to formal due process like Q&As, eg not subject to a formal approval process involving all IASB members (see paragraphs 24, 25 and 29-31 of the SMEIG Terms of Reference). Consequently, it is perceived as educational, rather than interpreting the *IFRS for SMEs*.
38. Staff recommend that the approval process for the majority of Q&As (ie the Tier 2 Q&As) should be similar to that for other educational material. In line with this, the staff would consult assigned IASB members when writing their recommendations for SMEIG review, but only the SMEIG would approve the Q&As. This would ensure Q&As are seen as non-mandatory educational guidance developed by the SMEIG, rather than interpretations issued under the approval of the IASB. It would also allow more flexibility on the issues that the SMEIG addresses. The staff think Tier 1 Q&As, ie those requiring authoritative guidance, should only be issued in rare circumstances and would require full IASB due process (eg for IFRICs)
39. So far the SMEIG have only issued 7 Q&As. The staff do not expect that the suggested change in the due process will mean that the rate of issuing Q&As will increase. The staff do not think the SMEIG should respond to more minor issues and provide informal guidance. One of the primary aims of the training material issued by the IFRS Foundation education initiative is to provide this kind of guidance. The staff expects that the majority of issues that would be submitted via the website would be too minor to become Q&As and they instead would be considered for future updates of the IFRS Foundation training material.

40. Staff propose that Q&As are considered for incorporation in the *IFRS for SMEs* at each three-yearly review. The staff agree with the minority of SMEIG members who believe that all Q&As should be deleted during the comprehensive review process to maintain the standalone status of the *IFRS for SMEs*. All seven Q&As have already been incorporated in the IFRS Foundation training material. Staff suggest the Q&As should be incorporated in the *IFRS for SMEs* as follows:

Q&A number and title	Staff's suggested treatment
<p>2012/04 Recycling of cumulative exchange differences on disposal of a subsidiary</p>	<p>Can easily be incorporated in the <i>IFRS for SMEs</i> by modifying the wording in paragraph 9.18.</p> <p>It has also been included in the training material on Section 9 of the <i>IFRS for SMEs</i></p>
<p>2012/03 Fallback to IFRS 9 <i>Financial Instruments</i></p>	<p>Dealt with in Issue 7 in Agenda Paper 8F</p> <p>It has also been included in the training material on Section 11 of the <i>IFRS for SMEs</i></p>
<p>2012/02 Jurisdiction requires fallback to full IFRSs</p>	<p>Too detailed to incorporate in the <i>IFRS for SMEs</i>. It has been included in the training material on Section 10 of the <i>IFRS for SMEs</i></p>
<p>2012/01 Application of 'undue cost or effort'</p>	<p>To be discussed at a future IASB meeting.</p> <p>It has also been included in the training material in the relevant sections of the <i>IFRS for SMEs</i></p>
<p>2011/03 Interpretation of 'traded in a public market'</p>	<p>Too detailed to incorporate in the <i>IFRS for SMEs</i>. It has been included in the training material on Section 1 of the <i>IFRS for SMEs</i></p>
<p>2011/02 Entities that typically have public accountability</p>	<p>Suggest clarifying in the <i>IFRS for SMEs</i> that the entities listed in paragraph 1.3(b) are not automatically publicly accountable. There seems to be confusion in practice based on responses to the RFI</p> <p>Most of the detail in this Q&A is too complex to incorporate in the <i>IFRS for SMEs</i> but it has been included in the training material on Section 1 of the <i>IFRS for SMEs</i></p>
<p>2011/01 Use of <i>IFRS for SMEs</i> in a parent's separate financial statements</p>	<p>Can easily be incorporated in paragraph 1.6 in a few words. It has also been included in the training material on Section 1 of the <i>IFRS for SMEs</i></p>

Questions for the IASB

- 4) Should the Q&A programme continue after this comprehensive review is completed?**
- 5) If so, does the IASB agree with the two tier system recommended by the staff and the SMEIG?**
- 6) Should the IASB establish a procedure for constituents to submit issues to SMEIG via its website?**
- 7) How should Q&As be incorporated into the *IFRS for SMEs*?**

Appendix A: Extract from near final draft of the SMEIG (Issues 9-12)

Issue 9) Amortisation period for goodwill and other intangible assets

A1. *Should paragraph 18.20 be modified?*

The SMEIG recommends that paragraph 18.20 be amended as follows:

“If an entity is unable to make a reliable estimate of the useful life of an intangible asset, the useful life shall be determined based on management’s best estimate and shall not exceed 5 years”.

The SMEIG suggest that staff give further consideration to the words ‘best estimate’.

SMEIG discussion

- A2. The SMEIG characterised paragraph 18.20 as a two-step approach. In the first step, the entity determines whether it can reliably estimate the useful life of an intangible asset. If so, it uses that value. If not, it proceeds to the second step.
- A3. The SMEIG noted that, by definition, an entity applying the second step does not have reliable information. SMEIG members accepted that in this circumstance, the entity should use the best information it has available to determine the useful expected life of the asset. The SMEIG also strongly supported the view that this estimate should be curtailed or restricted to a relatively short period. It was noted that for some entities the 10 year default life would not be too long, eg where intangible assets like customer lists that sometimes have long lives are included within goodwill. However, on balance, the SMEIG felt that the 10 year period currently in the standard was too long. After some discussion, the members generally supported a period of five years.
- A4. Members expressed some concern with the terminology ‘reliable estimate’ and ‘best estimate’ and asked that staff review terms used in full IFRSs before confirming this usage.

Issue 10) Presentation of share subscriptions receivable

A5. *Should paragraph 22.7(a) be modified or deleted?*

The SMEIG recommends that paragraph 22.7(a) be deleted. The SMEIG note that full IFRSs is silent on this issue and there are mixed views across jurisdictions of whether the share subscription receivable should be treated as an asset or offset to equity. The SMEIG further suggest that additional guidance on classification of share subscriptions receivable could be provided in education material.

Issue 11) Inclusion of additional topics in the *IFRS for SMEs*

A6. *Are there any topics that are not specifically addressed in the IFRS for SMEs that should be covered?*

The SMEIG recommends that no additional topics need to be specifically addressed in the *IFRS for SMEs*. The general guidance in paragraphs 10.4–10.6 is sufficient to deal with the topics suggested by comment letters.

Issue 12) Q&As

A7. *Should the Q&A programme continue after this comprehensive review is completed? If so, should any changes be made to the current programme?*

The SMEIG recommends that the Q&A programme should continue as a two tier system:

- Tier 1 issues would be those requiring authoritative guidance and would require full due process.
- Tier 2 issues would be dealt with by non-mandatory education material subject to the normal due process for educational material.

The SMEIG also recommends:

- The IASB should establish a procedure for constituents to submit issues to SMEIG via the IASB website.
- The IASB should interact with local standard setters to encourage them to address local issues (eg scope issues), and to submit more significant issues to the SMEIG

for consideration. It was acknowledged that this process would need to be governed well to ensure local jurisdictions do not issue interpretative guidance.

The SMEIG recommends where possible, Q&As should be incorporated in the *IFRS for SMEs* and deleted. The majority of SMEIG members think that other Q&As should be maintained separately to the extent they remain relevant. However, a minority of SMEIG members believe any Q&As that are not incorporated in the *IFRS for SMEs* should be included in the IFRS Foundation education material and deleted.

Q&As programme

- A8. The broad view of the SMEIG is that the Q&A programme should continue. However SMEIG members felt it would be better to have a two tier system for dealing with questions raised:
- (a) Tier 1 issues would be those requiring authoritative guidance. Any SMEIG guidance on these issues would require full due process. Issues would have to pass a high hurdle before they could be treated as Tier 1 guidance. Such issues would probably only be required if a problem was identified with the *IFRS for SMEs* and would be rare.
 - (b) Tier 2 issues would be dealt with by non-mandatory education material developed by the SMEIG. This guidance would be subject to the same due process as other educational material (a lesser due process than currently required for Q&As).
- A9. SMEIG members also noted that the SMEIG should avoid dealing with issues that are also issues under full IFRSs, where possible.

Identifying issues through national standard setters

- A10. The SMEIG generally felt that the IASB should interact with local standard setters to encourage them to:
- (a) identify issues causing problems in their jurisdictions, and
 - (b) to provide a mechanism to support entities in the jurisdiction, including addressing localised issues.

It was acknowledged that this process would need to be governed well to prevent local jurisdictions interpreting the standard and a formalisation of the understanding between the IASB and the local standard setters might be required.

- A11. The SMEIG also felt that the IASB should encourage standard setters (and other accounting organisations) to submit significant issues to the SMEIG. Local standard setters could act as a filter by providing guidance on smaller localised issues (eg helping the different types of entities in their jurisdiction determine whether they are within the scope of the *IFRS for SMEs*), but should submit significant issues that are likely to affect other jurisdictions to the SMEIG for consideration.

Submitting issues via IASB website

- A12. The SMEIG broadly felt that the IASB should also establish a procedure for constituents to submit issues to SMEIG via the IASB website (as set out in paragraph 19 of the SMEIG Terms of Reference). However, many SMEIG members expressed concern that this could lead to a high volume of issues being submitted to the SMEIG. Therefore, it would be important for the IASB to manage expectations about the manner in which submissions would be dealt with. A few different suggestions were made by SMEIG members. One suggestion that received broad support from SMEIG members was that issues submitted by respondents should not be posted online and that issues should as a matter of course be considered in developing the education material. Only issues that were prevalent in multiple jurisdictions, or of particular urgency, or pervasive to the literature would be forwarded the SMEIG for their consideration.

Existing Q&As

- A13. The SMEIG felt that, where possible, Q&As should be incorporated in the *IFRS for SMEs* during this review (and future reviews) and deleted. The majority of SMEIG members think that the other Q&As should be maintained separately to the extent they remain relevant. However, a minority of SMEIG members believe any Q&As that are not incorporated in the *IFRS for SMEs* should be included in

the IFRS Foundation education material and deleted. SMEIG members felt that Tier 1 Q&As should always be incorporated and deleted.

A14. SMEIG members generally supported dealing with the existing Q&As as follows:

Q&A number and title	SMEIG's suggested treatment
2012/04 Recycling of cumulative exchange differences on disposal of a subsidiary	Can easily be incorporated by modifying the wording in paragraph 9.18. Q&A can be deleted.
2012/03 Fallback to IFRS 9 <i>Financial Instruments</i>	Dealt with under Issue 7. Q&A can be deleted.
2012/02 Jurisdiction requires fallback to full IFRSs	Too detailed to incorporate. Q&A will be maintained separately as Tier 2 non-mandatory educational Q&A.
2012/01 Application of 'undue cost or effort'	Dealt with under Issue A.13.
2011/03 Interpretation of 'traded in a public market'	Too detailed to incorporate. Q&A will be maintained separately as Tier 2 non-mandatory educational Q&A.
2011/02 Entities that typically have public accountability	Need to relook at the Q&A after the IASB makes a decision on the scope (see Issues 1 and 2).
2011/01 Use of the <i>IFRS for SMEs</i> in a parent's separate financial statements	Can be incorporated in paragraph 1.6. Q&A can be deleted. In particular, the <i>IFRS for SMEs</i> should clarify if a parent can prepare consolidated financial statements under either full IFRSs or local GAAP and present its separate statements under the <i>IFRS for SMEs</i> .