IFRS™

STAFF PAPER

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SMEIG Meeting

Project	**Comprehensive review of the *IFRS for SMEs***
Paper topic	Other issues raised by respondents

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This paper has been prepared by the staff of the IFRS Foundation for discussion at a public meeting of the IASB and does not represent the views of the IASB or any individual member of the IASB. Comments on the application of IFRSs do not purport to set out acceptable or unacceptable application of IFRSs. Technical decisions are made in public and reported in IASB *Update*.

Purpose of this paper

1. This Agenda Paper 3 asks the SME Implementation Group (SMEIG) to discuss additional issues raised by respondents to the IASB's 2012 Request for Information (RFI): *Comprehensive Review of the IFRS for SMEs* and to develop a set of recommendations on those issues for the International Accounting Standards Board (IASB) on possible amendments to the *IFRS for SMEs*.

2. This Agenda Paper 3 describes the issues raised by respondents, sets out the questions that IASB staff would like the SMEIG to provide recommendations for, and provides the IASB staff recommendation for each question asked.

Structure of this paper

3. This Agenda Paper 3 is set out as follows:

   (a) Organisation of the issues

   (b) Selecting issues from the comment letters

   (c) Part A: Issues on specific requirements in the *IFRS for SMEs* (Issues A.1-A.13)

   (d) Part B: General issues about the *IFRS for SMEs* Scope (Issues B.1-B.3)

4. Agenda Paper 2 covers the issues addressed by individual questions in the RFI. The RFI also asked two questions to encourage respondents to raise their own issues on specific requirements in the sections of the *IFRS for SMEs* (Question S20 of the RFI) and on any other general issues relating to the *IFRS for SMEs* (Question G5 of the RFI). This Agenda Paper 3 covers the additional issues raised by respondents under these two questions.

Organisation of the issues

5. Each of the sixteen issues in this paper is set out as follows:
   (a) Description of the issue raised by comment letters.
   (b) Staff comments. Additional information that may be useful for SMEIG discussions eg relevant paragraphs in the *IFRS for SMEs* or in the Basis for Conclusions accompanying the *IFRS for SMEs*.
   (c) Staff recommendation. The staff recommendation provides the initial views of the IASB staff members working on the comprehensive review of the *IFRS for SMEs* (this is not the view of the IASB). The SMEIG should not feel restricted by the staff's view when developing their proposals during the meeting.
   (d) Questions for the SMEIG to discuss. Staff would like the SMEIG to develop recommendations on these questions for the IASB.

Selecting issues from the comment letters

6. The aim of the discussion on this Agenda Paper 3 is for the SMEIG to develop a set of recommendations on how the IASB should deal with the main issues raised by respondents to the RFI. The SMEIG do not have time to discuss all the additional issues raised in the comment letters at this meeting. To ensure the main issues are discussed, IASB staff have selected those issues raised by more than two comment letters for inclusion in this Agenda Paper 3. However, in a few instances, staff have also included an issue raised by only one or two comment

letters because of the nature of the comment and because staff would like SMEIG guidance on the issue.

7. Some of the additional issues raised by respondents relate to issues covered in Agenda Paper 2, in which case they have been incorporated in that paper rather than being addressed separately in Agenda Paper 3.

8. The IASB staff have not included comments on the overall procedure of the comprehensive review and triennial review process, eg timing of the review, effective date, and other due process issues. This is because the staff do not propose that the SMEIG comment on the IASB due process for amendments to standards. The update of the *IFRS for SMEs* will follow the same due process and procedure as full IFRSs. The IASB will consider whether any modifications to this are necessary in light of comments received.

9. The staff will review all comments individually for possible inclusion in agenda papers at future IASB meetings. Staff will consider comments that highlight minor wording changes or highlight minor inconsistencies when drafting the proposed amendments to the *IFRS for SMEs*.

Part A: Issues on specific requirements in the *IFRS for SMEs*

10. Question S20 in the RFI asked whether respondents had any additional issues that they would like to bring to the IASB's attention on specific requirements in the sections of the *IFRS for SMEs.* The staff have identified thirteen issues for the SMEIG to discuss.

Issue A.1) The revised IFRS Conceptual Framework (Section 2)

Issue raised in comment letters

11. The objective of financial statements of SMEs and qualitative characteristics of information in financial statements should be aligned with the revised IFRS *Conceptual Framework for Financial Reporting*.

Staff comments

12. In September 2010, the IASB completed the first phase of its full IFRS project to revise the Conceptual Framework for Financial Reporting. As part of the first phase the IASB issued Chapter 1: *The objective of general purpose financial reporting* and Chapter 3: *Qualitative characteristics of useful financial information*.

13. In 2012 the IASB started the second phase of the project to revise the Conceptual Framework. This phase will include chapters addressing elements of financial statements (including recognition and derecognition), measurement, reporting entity, presentation and disclosure.

14. The RFI asked several questions about whether changes to the *IFRS for SMEs* are needed as a result of new and revised IFRSs. The questions in the RFI only covered new or revised IFRSs that would be expected to result in significant changes to financial reporting for SMEs if incorporated (See Issue 4 of Agenda Paper 2). There was no question on changes to the Conceptual Framework in the RFI as the staff felt that such changes are unlikely to result in significant changes to financial reporting for SMEs.

Staff recommendation

15. The staff recommend no change to the current requirements. If Section 2 *Concepts and Pervasive Principles* is updated for changes under Chapter 1 and Chapter 3 of the Conceptual Framework, there would be no changes to the specific recognition, measurement, presentation and disclosure requirements of the *IFRS for SMEs*. Therefore, it is unlikely to affect the financial reporting of the vast majority of SMEs. However, SMEs would still need to read and understand the new requirements. Furthermore, the IASB would need to consider whether any changes are required to the rest of the *IFRS for SMEs*, eg to align wording with the revised requirements in Section 2. Therefore, SMEs would need to understand the changes made to other sections of the *IFRS for SMEs*. As the new requirements are unlikely to affect the financial reporting of the vast majority of

SMEs, it would be an unnecessary burden on SMEs to make the changes at this time.

16. SMEs need a stable platform. Section 2 should not be changed in stages as chapters of the Conceptual Framework are completed. Instead, staff suggest the Conceptual Framework is considered for incorporation (amended appropriately) when it has been completed and implementation experience has been assessed. This is consistent with the staff recommendation for new and revised IFRSs (see Issue 4 of Agenda Paper 2).

Question to the SMEIG
A.1) Should any changes be made to Section 2 as a result of the changes under Chapter 1 and 3 of the Conceptual Framework modified as appropriate to reflect the needs of users of SME financial statements and cost-benefit considerations?

Issue A.2) Other comprehensive income (Section 5)

Issue raised in comment letters

17. Instances where items are presented in other comprehensive income (OCI) are limited. The conceptual reasoning for transferring items to OCI is unclear. The IASB should consider whether OCI should be removed from the *IFRS for SMEs*.

Staff comments

18. Paragraph BC148-BC150 of the Basis for Conclusions accompanying the *IFRS for SMEs* explain the IASB's reasons for requiring SMEs to recognise certain items in OCI:

> BC148 The *IFRS for SMEs* requires SMEs to recognise items of income or expense in other comprehensive income, rather than in profit or loss, in three circumstances:
>
> (a) Paragraph 12.23 requires SMEs to recognise changes in the fair value of some hedging instruments in other comprehensive income.
>
> (b) Paragraph 28.24 gives SMEs the option to recognise actuarial gains and losses either in profit or loss or in other comprehensive income.
>
> (c) Paragraph 30.13 provides that, in consolidated financial statements, SMEs must recognise in other comprehensive income a foreign exchange difference (gain or loss) arising on a monetary item that forms part of the

reporting entity's net investment in a foreign operation (subsidiary, associate or joint venture).

BC149 In developing the *IFRS for SMEs*, the Board considered whether to require SMEs to recognise the foreign exchange gains or losses and actuarial gains and losses only in profit or loss, rather than as part of other comprehensive income. Because the *IFRS for SMEs* requires SMEs to present a statement of comprehensive income, the Board concluded not to require presentation of those gains and losses in profit or loss.

BC150 Because the Board has begun a comprehensive project on financial instruments as part of its convergence programme with the US Financial Accounting Standards Board, the Board did not consider requiring SMEs to recognise changes in the fair value of all hedging instruments in profit or loss at this time.

Staff recommendation

19. In 2012 the IASB started its second phase of the project to revise the Conceptual Framework. This phase will include chapters addressing elements of financial statements, measurement, reporting entity, presentation and disclosure. The IASB will consider OCI and recycling as part of the topic of presentation and this may result in changes to the current requirements relating to OCI under full IFRSs. Therefore, given these potential changes in the future, the staff recommend no change is made to the *IFRS for SMEs* during this comprehensive review.

20. One of the questions in the RFI asked respondents to consider whether the *IFRS for SMEs* should be revised to incorporate changes to IAS 19 (2011) *Employee Benefits* that require all actuarial gains and losses to be recognised in OCI (see Issue 4 of Agenda Paper 3). Such a change would not be possible if OCI is removed.

Question to the SMEIG
A.2) Should the *IFRS for SMEs* be revised to require all items of income and expense to be recognised in profit or loss?

Issue A.3) Uniform reporting dates for consolidation purposes (Section 9)

Issue raised in comment letters

21. When preparing consolidated financial statements the *IFRS for SMEs* should state that a parent can use the financial statements of a subsidiary if the reporting date of the subsidiary is not more than three months before or after the balance sheet date of the parent entity. The impracticable criteria for deviation from uniform reporting dates are unnecessarily strict for preparation of consolidated financial statements for groups in the SME category.

22. Full IFRSs provides additional guidance on the necessary adjustments if uniform reporting dates are not used. The IFRS for SME should include similar guidance.

Staff comments

23. Paragraph 9.16 of the *IFRS for SMEs* state:

> 9.16 The financial statements of the parent and its subsidiaries used in the preparation of the consolidated financial statements shall be prepared as of the same reporting date unless it is impracticable to do so.

24. Section 9 was based on IAS 27(2008) *Consolidated and Separate Financial Statements*. Paragraphs 22 and 23 of IAS 27(2008) state:

> 22 The financial statements of the parent and its subsidiary used in the preparation of the consolidated financial statements shall be prepared as of the same date. When the end of the reporting period of the parent is different from that of a subsidiary, the subsidiary prepares, for consolidation purposes, additional financial statements as of the same date as the financial statements of the parent unless it is impracticable to do so
>
> 23 When, in accordance with paragraph 22, the financial statements of a subsidiary used in the preparation of consolidated financial statements are prepared as of a date different from that of the parent's financial statements, adjustments shall be made for the effects of significant transactions or events that occur between that date and the date of the parent's financial statements. In any case, the difference between the end of the reporting period of the subsidiary and that of the parent shall be no more than three months. The length of the reporting periods and any difference between the ends of the reporting periods shall be the same from period to period.

25. Current requirements under full IFRSs are similar to IAS 27(2008). Paragraph B92 and B93 of IFRS 10 *Consolidated Financial Statements* state:

B92 The financial statements of the parent and its subsidiaries used in the preparation of the consolidated financial statements shall have the same reporting date. When the end of the reporting period of the parent is different from that of a subsidiary, the subsidiary prepares, for consolidation purposes, additional financial information as of the same date as the financial statements of the parent to enable the parent to consolidate the financial information of the subsidiary, unless it is impracticable to do so.

B93 If it is impracticable to do so, the parent shall consolidate the financial information of the subsidiary using the most recent financial statements of the subsidiary adjusted for the effects of significant transactions or events that occur between the date of those financial statements and the date of the consolidated financial statements. In any case, the difference between the date of the subsidiary's financial statements and that of the consolidated financial statements shall be no more than three months, and the length of the reporting periods and any difference between the dates of the financial statements shall be the same from period to period.

Staff recommendation

26. The staff does not suggest further simplifying the *IFRS for SMEs*. Requirements in the *IFRS for SMEs* are less strict than full IFRSs. Both full IFRSs and the *IFRS for SMEs* require that the financial statements of the parent and its subsidiaries used in the preparation of the consolidated financial statements shall be prepared at the same reporting date unless it is impracticable to do. Full IFRSs also specifically requires the difference between the date of the subsidiary's financial statements and that of the consolidated financial statements to be no more than three months and that adjustments for the effects of significant transactions between the two dates are made. The *IFRS for SMEs* is silent on both these matters. Therefore it allows greater flexibility on the difference between the two dates and on making adjustments for the effects of significant transactions.

27. Using financial information prepared to different dates for consolidation purposes would increase complexity, eg related party balances would not balance, and out-of date information will make the consolidated financial statements less useful, and probably confusing, for users. Therefore staff do not recommend relaxing the impracticable criteria. In addition, staff recommend amending paragraph 9.16 as shown in underline to provide additional guidance and ensure information is more meaningful:

9.16 The financial statements of the parent and its subsidiaries used in the preparation of the consolidated financial statements shall be prepared as of the same reporting

date unless it is impracticable to do so. If it is impracticable to use the same reporting dates, the parent shall consolidate the financial information of the subsidiary using the most recent financial statements of the subsidiary adjusted for the effects of significant transactions or events that occur between the date of those financial statements and the date of the consolidated financial statements.

Question to the SMEIG
A.3) Should paragraph 9. 16 of the *IFRS for SMEs* be revised either to allow further simplification or to provide additional guidance on what to do when it is impracticable to use uniform reporting dates?

Issue A.4) Definition of a basic financial instrument (Section 11)

Issue raised in comment letters

28. Two problems have been raised regarding the criteria for a basic debt instrument in paragraph 11.9:

    (a) Most loan covenants will result in bank loans failing to meet the criteria in paragraph 11.9(c).

    (b) Loans in a foreign currency will fail the criteria in paragraph 11.9(a).

Staff comments

29. Paragraphs 11.9 and 11.10 of the *IFRS for SMEs* state:

    11.9 A debt instrument that satisfies all of the conditions in (a)–(d) below shall be accounted for in accordance with Section 11:

    (a) Returns to the holder are

    (i) a fixed amount;

    (ii) a fixed rate of return over the life of the instrument;

    (iii) a variable return that, throughout the life of the instrument, is equal to a single referenced quoted or observable interest rate (such as LIBOR); or

    (iv) some combination of such fixed rate and variable rates (such as LIBOR plus 200 basis points), provided that both the fixed and variable rates are positive (eg an interest rate swap with a positive fixed rate and negative variable rate would not meet this criterion). For fixed and variable rate interest returns, interest is calculated by multiplying the rate for the applicable period by the principal amount outstanding during the period.

(b) There is no contractual provision that could, by its terms, result in the holder losing the principal amount or any interest attributable to the current period or prior periods. The fact that a debt instrument is subordinated to other debt instruments is not an example of such a contractual provision.

(c) Contractual provisions that permit the issuer (the debtor) to prepay a debt instrument or permit the holder (the creditor) to put it back to the issuer before maturity are not contingent on future events.

(d) There are no conditional returns or repayment provisions except for the variable rate return described in (a) and prepayment provisions described in (c).

11.10 Examples of financial instruments that would normally satisfy the conditions in paragraph 11.9 are:

(a) trade accounts and notes receivable and payable, and loans from banks or other third parties.

(b) accounts payable in a foreign currency. However, any change in the account payable because of a change in the exchange rate is recognised in profit or loss as required by paragraph 30.10.

(c) loans to or from subsidiaries or associates that are due on demand.

(d) a debt instrument that would become immediately receivable if the issuer defaults on an interest or principal payment (such a provision does not violate the conditions in paragraph 11.9).

30. Paragraphs 11.10(b) and (d) provide accounts payable in a foreign currency and loans with standard loan covenants as examples of financial instruments that would be expected to meet the criteria in 11.9.

Staff recommendation

31. Although the two examples in 11.10(b) and (d) partly address the concerns in paragraph 28, the staff agree that the criteria in 11.9 should be amended to clarify that loans payable in a foreign currency and loans with standard loan covenants will usually be basic financial instruments accounted for at amortised cost in accordance with Section 11. The staff recommend revising 11.9 as follows:

(a) Change paragraph 11.9(a) as shown in underline to consider loans payable in a foreign currency:

11.9 A debt instrument that satisfies all of the conditions in (a)–(d) below shall be accounted for in accordance with Section 11:

(a) Returns to the holder <u>assessed in the currency in which the financial asset is denominated</u> are

(i) a fixed amount;

(ii) …….

(b) Change paragraph 11.9(c) as shown in underline to consider standard loan covenants are not caught:

> 11.9(c) Contractual provisions that permit the issuer (the debtor) to prepay a debt instrument or permit the holder (the creditor) to put it back to the issuer before maturity are not contingent on future events other than to protect
>
> (i) the holder against the credit deterioration of the issuer (eg defaults, credit downgrades or loan covenant violations), or a change in control of the issuer, or
>
> (ii) the holder or issuer against changes in relevant taxation or law.

32. Staff have taken the revised wording from paragraphs B4.1.8 and B4.1.10 of IFRS 9 *Financial Instruments*. It is possible to do this without incorporating other parts of IFRS 9 because the requirements in Section 11 and IFRS 9 are similar. The staff recommend revising the wording as suggested in order to correct unintended consequences of the current wording in the *IFRS for SMEs*. However, the staff does not recommend incorporating other changes in IFRS 9 during this review (see Issue 7 of Agenda Paper 2).

Question to the SMEIG
A.4) Does paragraph 11.9 need to be revised so that loans payable in a foreign currency and loans with standard loan covenants are basic financial instruments?

Issue A.5) Hedging instruments (Section 12)

Issue raised in comment letters

33. The types of hedging instruments permitted is too limited. SMEs frequently use options for hedging purposes. Also some SMEs use other types of hedging instruments, eg cash instruments and swaps.

Staff comments

34. Paragraph BC101(c) and BC104 of the Basis for Conclusions accompanying the *IFRS for SMEs* explain the IASB's reasons for omitting certain hedging strategies from the *IFRS for SMEs*:

> BC101(c) The *IFRS for SMEs* focuses on the types of hedging that SMEs are likely to do, specifically hedges of:
>
> - interest rate risk of a debt instrument measured at amortised cost.
> - foreign exchange risk or interest rate risk in a firm commitment or a highly probable forecast transaction.
> - price risk of a commodity that it holds or in a firm commitment or a highly probable forecast transaction to purchase or sell a transaction.
> - foreign exchange risk in a net investment in a foreign operation.
>
> BC104 Section 12 also differs from IAS 39 with respect to hedge accounting in the following ways:
>
> (a) Hedge accounting cannot be achieved by using debt instruments ('cash instruments') as hedging instruments. IAS 39 permits this for a hedge of a foreign currency risk.
>
> (b) Hedge accounting is not permitted with an option-based hedging strategy. Because hedging with options involves incurring a cost, SMEs are more likely to use forward contracts as hedging instruments than options.
>
> (c) Hedge accounting for portfolios is not permitted……{omitted text}.
>
> The simplification in (a) is appropriate since hedge accounting would not have a significant effect on the financial statements because of the offsetting effects of the accounting for a foreign currency debt instrument under Section 11 and the recognition of exchange differences on most monetary items in profit or loss under Section 30 *Foreign Currency Translation*. In addition, the Board does not believe that the simplifications in (b) and (c) will affect SMEs adversely because these are not hedging strategies that are typical of SMEs.

Staff recommendation

35. The staff recommend no change to the current requirements. Adding additional requirements to Section 12 to cater for other hedging strategies would add further complexity. Hedge accounting requirements will be reconsidered at a future review when the IASB considers whether Section 11 and 12 should be amended for any of the changes under IFRS 9 *Financial Instruments*.

36. Under Issue 7 of Agenda Paper 2 the staff have recommended retaining the fallback to full IFRSs during this comprehensive review. Therefore, if SMEs want to use other hedging strategies, and have the ability to apply hedge accounting to those strategies, staff think that they have the expertise to apply IAS 39/IFRS 9 (and hence can use the fallback to full IFRSs). Staff further note that the fact the *IFRS for SMEs* does not permit certain hedge accounting strategies does not prevent SMEs from using purchased options, or other hedging instruments, to hedge risks or from disclosing the effect of doing so. It only prohibits hedge accounting for those transactions.

Question to the SMEIG
A.5) Should any changes be made to Section 12's hedge accounting requirements to permit additional hedging strategies?

Issue A.6) Accounting for investment property (Section 16)

Issue raised in comment letters

37. SMEs should be able to choose to account for their investment property either under a fair value through profit or loss model or cost-depreciation-impairment model like IAS 40 *Investment Property.* The current approach in the *IFRS for SMEs* is more complex than full IFRSs due to the need to assess undue cost or effort.

Staff comments

38. Under Section 16 of the *IFRS for SMEs* if an entity can measure the fair value of an item of investment property reliably without undue cost or effort, it must use the fair value model. Otherwise, it must use the cost model. Paragraph BC133 of the Basis for Conclusions accompanying the *IFRS for SMEs* explains the IASB's reasoning for the current approach:

BC133 IAS 40 allows an accounting policy choice of either fair value through profit or loss or a cost-depreciation-impairment model (with some limited exceptions). An entity following the cost-depreciation-

impairment model is required to provide supplemental disclosure of the fair value of its investment property. The *IFRS for SMEs* does not have an accounting policy choice but, rather, the accounting for investment property is driven by circumstances. If an entity knows or can measure the fair value of an item of investment property without undue cost or effort, it must use the fair value through profit or loss model for that investment property. It must use the cost-depreciation-impairment model for other investment property. Unlike IAS 40, the *IFRS for SMEs* does not require disclosure of the fair values of investment property measured on a cost basis.

Staff recommendation

39. The staff recommend no change to the current requirements. The current approach is simpler than full IFRSs. Full IFRSs requires fair value to be determined for all investment property. Even if an entity chooses the cost model, IAS 40 requires fair value disclosure in the notes to the financial statements unless the fair value of a property cannot be measured reliably. In contrast the *IFRS for SMEs* only requires fair value to be determined if it can be measured reliably without undue cost or effort.

40. Staff do not think SMEs should have the option to account for investment property at cost with no fair value disclosures. Due to the nature of investment property (often held for capital appreciation) if reliable fair value information is available it is useful to users of the financial statements. An undue cost or effort exemption was added for SMEs for cost-benefit reasons. Furthermore, if fair value information is known or is easily obtainable for an item of investment property, SMEs may find it easier to account for that item at fair value.

41. An alternative approach that staff would support would be to require all investment property to be accounted for under a cost model, with fair value disclosures in the notes for investment property that can be measured reliably without undue cost or effort. This would be a simplified version of the cost model under IAS 40. However, a change to this alternative approach would require SMEs to change their current accounting policy for investment property and restate their prior year financial information. As the alternative approach would not be any easier to apply by SMEs and would produce similar financial information the staff recommend the current approach is retained.

Question to the SMEIG
A.6) Should Section 16 be revised, eg to permit a choice of using the cost model or the fair value model for investment property like IAS 40?

Issue A.7) Allocation of the cost of a business combination (Section 19)

Issue raised in comment letters

42. Two issues regarding simplifying the allocation of the cost of a business combination:

    (a) Recognising all intangible assets of the acquiree in a business combination is too complex for SMEs.

    (b) Some of the simplifications in IFRS 3 *Business Combinations* concerning the allocation of the cost of a business combination to the identifiable assets and liabilities, especially defined benefit obligations and deferred taxes, are equally necessary for SMEs (paragraph 19.14). Without this, SMEs are obliged to determine 'pure' fair value instead of being able to benefit from the simplifications which allow certain measures to be treated as fair values.

Staff comments

43. Paragraphs 18.8, 19.14 and 19.15 in the *IFRS for SMEs* address acquisition of intangible assets as part of a business combination and allocation of the cost of a business combination:

    18.8 An intangible asset acquired in a business combination is normally recognised as an asset because its fair value can be measured with sufficient reliability. However, an intangible asset acquired in a business combination is not recognised when it arises from legal or other contractual rights and its fair value cannot be measured reliably because the asset either

    (a) is not separable from goodwill, or

    (b) is separable from goodwill but there is no history or evidence of exchange transactions for the same or similar assets, and otherwise estimating fair value would be dependent on immeasurable variables

19.14 The acquirer shall, at the acquisition date, allocate the cost of a business combination by recognising the acquiree's identifiable assets and liabilities and a provision for those contingent liabilities that satisfy the recognition criteria in paragraph 19.20 at their fair values at that date. Any difference between the cost of the business combination and the acquirer's interest in the net fair value of the identifiable assets, liabilities and provisions for contingent liabilities so recognised shall be accounted for in accordance with paragraphs 19.22–19.24 (as goodwill or so-called 'negative goodwill').

19.15 The acquirer shall recognise separately the acquiree's identifiable assets, liabilities and contingent liabilities at the acquisition date only if they satisfy the following criteria at that date:

(a) In the case of an asset other than an intangible asset, it is probable that any associated future economic benefits will flow to the acquirer, and its fair value can be measured reliably.

(b) In the case of a liability other than a contingent liability, it is probable that an outflow of resources will be required to settle the obligation, and its fair value can be measured reliably.

(c) In the case of an intangible asset or a contingent liability, its fair value can be measured reliably

44. Paragraphs B16 and B17 of IFRS 3(2004) and paragraphs 24-31 of IFRS 3(2008) provide certain exceptions to the requirement to recognise assets and liabilities at their fair value and guidance on fair value measurement. Staff have not included these paragraphs here due to their length.

Staff recommendation

45. Section 19 is based on IFRS 3(2004). If Section 19 is updated for changes under IFRS 3(2008) the issues in paragraph 42 will need to be considered as part of the fundamental change to Section 19 (see Issue 4 of Agenda Paper 2).

46. However, if as proposed by the staff, Section 19 is not updated for IFRS 3(2008) during this comprehensive review, the staff recommend that paragraph 19.14 is amended as shown in underline:

19.14 The acquirer shall, at the acquisition date, allocate the cost of a business combination by recognising the acquiree's identifiable assets and liabilities and a provision for those contingent liabilities that satisfy the recognition criteria in paragraph 19.20 at their fair values at that date. Any difference between the cost of the business combination and the acquirer's interest in the net fair value of the identifiable assets, liabilities and provisions for contingent liabilities so recognised shall be accounted for in accordance with paragraphs 19.22–19.24 (as goodwill or so-called 'negative goodwill'). <u>For the purpose of allocating the cost of a business combination, the acquirer shall treat the following measures as fair values</u>:

(a) a deferred tax asset or liability arising from the assets acquired and liabilities assumed in a business combination recognised and measured in accordance with Section 29 *Income Tax*.

(b) a liability (or asset, if any) related to the acquiree's employee benefit arrangements recognised and measured in accordance with Section 28 *Employee Benefits*.

47. As Section 19 is based on IFRS 3(2004) staff have considered the exemptions in paragraphs B16 and B17 of IFRS 3(2004). For most assets and liabilities, paragraphs B16 and B17 provide further guidance on determining fair value. The only two cases where these paragraphs permit a measurement which is not similar to fair value are for deferred tax and defined benefit plans. Therefore, the staff think these are the only two exemptions required in paragraph 19.14. The staff do not think it is necessary to add additional guidance on fair value measurement as the current requirements in Section 11 will be sufficient for the majority of SMEs.

48. The proposed changes to paragraph 19.14 are unlikely to have a material effect for most SMEs. However, staff suggest revising the wording as it will result in a simplification and correct unintended consequences of the current wording.

49. Staff further suggest adding an undue cost or effort exemption from recognising intangible assets separately from goodwill in a business combination. Therefore paragraphs 18.8 and 19.15 should be modified to require an intangible asset to be measured separately if its fair value can be measured reliably without undue cost or effort". Goodwill will normally be amortised over a period less than 10 years so the risk of overstatement is low.

Question to the SMEIG
A.7a) Should any exemptions from fair value measurement be included in paragraph 19.14? **A.7b) Should any change be made to provide relief from recognising intangible assets of the acquiree in a business combination?**

Issue A.8) Common control exemptions (Section 22)

Issue raised in comment letters

50. Two issues regarding common control exemptions in Section 22:

(a) The requirement in paragraph 22.8 to measure equity instruments at the fair value of the cash or other resources received would prohibit business combinations under common control applying the pooling of interests method.

(b) Paragraph 22.18 incorporates the conclusion of IFRIC 17 *Distributions of Non-cash Assets to Owners* but not the scope. An important exception from the scope is distribution of a non-cash asset ultimately controlled by the same parties before and after distribution. Such distributions are inside the scope of 22.18. The scope should be aligned with IFRIC 17.

Staff comments

51. The relevant paragraphs in the *IFRS for SMEs* are as follows:

> 22.8 An entity shall measure the equity instruments at the fair value of the cash or other resources received or receivable, net of direct costs of issuing the equity instruments. If payment is deferred and the time value of money is material, the initial measurement shall be on a present value basis.
>
> 22.18 Sometimes an entity distributes assets other than cash as dividends to its owners. When an entity declares such a distribution and has an obligation to distribute non-cash assets to its owners, it shall recognise a liability. It shall measure the liability at the fair value of the assets to be distributed. At the end of each reporting period and at the date of settlement, the entity shall review and adjust the carrying amount of the dividend payable to reflect changes in the fair value of the assets to be distributed, with any changes recognised in equity as adjustments to the amount of the distribution.

52. IFRIC 17.5 contains the following paragraph relating to the scope of IFRIC 17:

> 5 This Interpretation does not apply to a distribution of a non-cash asset that is ultimately controlled by the same party or parties before and after the distribution. This exclusion applies to the separate, individual and consolidated financial statements of an entity that makes the distribution.

Staff recommendation

53. Full IFRSs does not contain a general principle for the initial recognition and measurement of equity instruments. However, the staff think paragraph 22.8 is helpful and should be retained. Instead, the staff recommend that paragraph 22.8 is amended as shown in underline to include an exemption for equity instruments

issued as part of a business combinations of entities or businesses under common control:

> 22.8 An entity shall measure the equity instruments, other than those issued as part of a business combination of entities or businesses under common control, at the fair value of the cash or other resources received or receivable, net of direct costs of issuing the equity instruments. If payment is deferred and the time value of money is material, the initial measurement shall be on a present value basis.

54. Staff also believe a scope exemption like IFRIC 17.5 is necessary otherwise Section 22 is more onerous and prescriptive than full IFRSs. The staff recommend adding paragraph 22.19 as shown below:

> 22.18 Sometimes an entity distributes assets other than cash as dividends to its owners. When an entity declares such a distribution and has an obligation to distribute non-cash assets to its owners, it shall recognise a liability. It shall measure the liability at the fair value of the assets to be distributed. At the end of each reporting period and at the date of settlement, the entity shall review and adjust the carrying amount of the dividend payable to reflect changes in the fair value of the assets to be distributed, with any changes recognised in equity as adjustments to the amount of the distribution.
>
> 22.19 Paragraph 22.18 does not apply to a distribution of a non-cash asset that is ultimately controlled by the same party or parties before and after the distribution. This exclusion applies to the separate, individual and consolidated financial statements of an entity that makes the distribution.

Question to the SMEIG
A.8a) Should an exemption be added to paragraph 22.8 for equity instruments issued as part of a business combination of entities or businesses under common control? **A.8b) Should an exemption be added to paragraph 22.18 for a distribution of non-cash assets that is ultimately controlled by the same parties before and after the distribution?**

Issue A.9) Related party definition (Section 33)

Issue raised in comment letters

55. The related party definition in Section 33 is based on the 2008 Exposure Draft, *Relationships with the State* (Proposed amendments to IAS 24). What is meant by the term 'significant voting power'? Also, there is no guidance on what constitutes a close family member.

Staff comments

56. The *IFRS for SMEs* was issued before the revised version of IAS 24 *Related Party Disclosures* was completed. However, because the objective of revising IAS 24 was to simplify the definition of a related party and to provide an exemption from the disclosure requirements for some government-related entities it was decided to base Section 33 on the 2008 exposure draft so that SMEs could benefit from the simplifications.

57. A few changes were made to the definition of a related party when IAS 24 was issued. In particular, the IASB removed the term 'significant voting power' because it was undefined and created unnecessary complexity. The term 'significant voting power' is still used in Section 33.

58. Paragraph 33.2 of the *IFRS for SMEs* defines a related party as follows:

> 33.2 A related party is a person or entity that is related to the entity that is preparing its financial statements (the reporting entity).
>
> (a) A person or a close member of that person's family is related to a reporting entity if that person:
>
> (i) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity;
>
> (ii) has control over the reporting entity; or
>
> (iii) has joint control or significant influence over the reporting entity or has significant voting power in it.
>
> (b) An entity is related to a reporting entity if any of the following conditions applies:
>
> (i) the entity and the reporting entity are members of the same **group** (which means that each parent, subsidiary and fellow subsidiary is related to the others).
>
> (ii) either entity is an associate or joint venture of the other entity (or of a member of a group of which the other entity is a member).
>
> (iii) both entities are joint ventures of a third entity.
>
> (iv) either entity is a joint venture of a third entity and the other entity is an associate of the third entity.
>
> (v) the entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the plan.
>
> (vi) the entity is controlled or jointly controlled by a person identified in (a).
>
> (vii) a person identified in (a)(i) has significant voting power in the entity.

(viii) a person identified in (a)(ii) has significant influence over the entity or significant voting power in it.

(ix) a person or a close member of that person's family has both significant influence over the entity or significant voting power in it and joint control over the reporting entity.

(x) a member of the key management personnel of the entity or of a parent of the entity, or a close member of that member's family, has control or joint control over the reporting entity or has significant voting power in it.

59. IAS 24.9 defines a related party as follows:

9 A *related party* is a person or entity that is related to the entity that is preparing its financial statements (in this Standard referred to as the 'reporting entity').

(a) A person or a close member of that person's family is related to a reporting entity if that person:

(i) has control or joint control of the reporting entity;

(ii) has significant influence over the reporting entity; or

(iii) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.

(b) An entity is related to a reporting entity if any of the following conditions applies:

(i) The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity.

Staff recommendation

60. Staff recommend the current definition of a related party is revised to be consistent with the definition in IAS 24. This will remove the term 'significant voting power' which is causing confusion in practice. The current definition is

similar to the definition in IAS 24. Therefore, it is better to use the definition in the final IAS 24, rather than in the 2008 Exposure Draft. Staff also recommend the definition of close family member in IAS 24 is added to the *IFRS for SMEs*.

Question to the SMEIG
A.9) Should the related party definition in Section 33 be revised to be consistent with IAS 24?

Issue A.10) Accounting for biological assets (Section 34)

Issue raised in comment letters

61. A cost model should be permitted for biological assets. Alternatively, the IASB should consider the progress on their current project on IAS 41 *Agriculture* which may permit a cost model for bearer biological assets.

62. A few comment letters also said more guidance should be added on accounting for biological assets.

Staff comments

63. The *IFRS for SMEs* only requires an entity to measure a biological asset under a fair value model if fair value is readily determinable without undue cost or effort.

64. Paragraph BC124 and BC146 of the Basis for Conclusions accompanying the *IFRS for SMEs* explain why the IASB chose the current approach for agriculture:

> BC124 Some preparers and auditors of the financial statements of SMEs engaged in agricultural activities said that the 'fair value through profit or loss' model is burdensome for SMEs, particularly when applied to biological assets of those SMEs operating in inactive markets or developing countries. They said that the presumption in IAS 41 that fair value can be estimated for biological assets and agricultural produce is unrealistic with respect to biological assets of some SMEs. Some proposed that SMEs should be permitted or required to use a 'cost-depreciation-impairment' model for all such assets. The Board did not support this approach for the reasons explained in paragraph BC146. However, the Board concluded, both because of the measurement problems in inactive markets and developing countries and for cost-benefit reasons, that SMEs should be required to use the fair value through profit or loss model only when fair value is readily determinable without undue cost or

effort. When that is not the case, the Board concluded that SMEs should follow the cost-depreciation-impairment model.

BC146 Not only is fair value generally regarded as a more relevant measure in this industry, quoted prices are often readily available, markets are active, and measuring cost is actually more burdensome and arbitrary because of the extensive allocations required. Moreover, managers of most SMEs that undertake agricultural activities say that they manage on the basis of market prices or other measures of current value rather than historical costs. Users also question the meaningfulness of allocated costs in this industry.

Staff recommendation

65. The staff recommend no change to the current requirements. The staff continue to support the IASB's decision and reasoning as outlined in paragraph BC124 and BC146. Furthermore the staff do not propose considering the current project on IAS 41 for bearer biological assets until it is completed, the final amendment to IAS 41 is effective and implementation experience has been assessed. This is consistent with the staff recommendation for new and revised IFRSs (see Issue 4 of Agenda Paper 2).

66. The staff does not think the *IFRS for SMEs* should provide detailed industry guidance. Therefore, the staff does not propose adding additional guidance to the *IFRS for SMEs* for agricultural activities.

Question to the SMEIG
A.10) Are the current requirements appropriate for entities engaged in agricultural activity?

Issue A.11) Extractive activities (Section 34)

Issue raised in comment letters

67. More guidance is required for extractive activities. Currently paragraph 34.11 just has a cross-reference to Section 17 and 18 without referring to the specific paragraphs for consideration. Section 17 and 18 also contain scope exclusions which are creating confusion.

Staff comments

68. Paragraph 34.11 of the *IFRS for SMEs* states:

> 34.11 An entity using this IFRS that is engaged in the exploration for, evaluation or extraction of mineral resources (extractive activities) shall account for expenditure on the acquisition or development of tangible or intangible assets for use in extractive activities by applying Section 17 *Property, Plant and Equipment* and Section 18 *Intangible Assets other than Goodwill*, respectively. When an entity has an obligation to dismantle or remove an item, or to restore the site, such obligations and costs are accounted for in accordance with Section 17 and Section 21 *Provisions and Contingencies*.

69. Paragraph 17.3 and 18.3 of the *IFRS for SMEs* state:

> 17.3 Property, plant and equipment does not include:
>
> (a) ……
>
> (b) mineral rights and mineral reserves, such as oil, natural gas and similar non-regenerative resources
>
> 18.3 Intangible assets do not include:
>
> (a) ….
>
> (b) mineral rights and mineral reserves, such as oil, natural gas and similar non-regenerative resources.

70. Paragraph IN 1 of IFRS 6 *Exploration for and Evaluation of Mineral Resources* states:

> IN1 The International Accounting Standards Board decided to develop an International Financial Reporting Standard (IFRS) on exploration for and evaluation of mineral resources because:
>
> (a) until now there has been no IFRS that specifically addresses the accounting for those activities and they are excluded from the scope of IAS 38 *Intangible Assets*. In addition, 'mineral rights and mineral resources such as oil, natural gas and similar non-regenerative resources' are excluded from the scope of IAS 16 *Property, Plant and Equipment*. Consequently, an entity was required to determine its accounting policy for the exploration for and evaluation of mineral resources in accordance with paragraphs 10–12 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors.*
>
> (b) …….

71. Paragraph 34.11 together with the two scope exclusions in paragraph 17.3 and 18.3 results in a similar outcome as explained in IN1(a). Therefore, the staff interpret the current requirements as requiring SMEs to determine their accounting policy for the exploration for and evaluation of mineral resources in accordance with paragraphs 10.4-10.6 in Section 10 *Accounting Policies, Estimates and Errors*. Paragraph 10.4 states that when the *IFRS for SMEs* does

not specifically address a transaction, event or other condition, the entity's management will use its judgement in developing an accounting policy. Section 10.5 states that the entity considers other requirements and guidance in the *IFRS for SMEs* dealing with similar and related issues. Consequently an entity may, by analogy, use the requirements of Sections 17 and 18 when developing an accounting policy for mineral rights and reserves. Management may also choose to consider full IFRSs (paragraph 10.6).

72. The staff think there are three ways to address this issue:

(a) No change to the current requirements.

(b) Delete paragraphs 17.3(b) and 18.3(b).

(c) Incorporate the requirements of IFRS 6 into the *IFRS for SMEs* modified as appropriate to reflect the needs of users of SME financial statements and cost-benefit considerations.

Staff recommendation

73. Staff recommend deleting paragraphs 17.3(b) and 18.3(b). This will clarify the current requirements for extractive activities. Staff do not think many small non-publicly accountable entities will be involved in extractive activities and does not suggest having special industry guidance in the *IFRS for SMEs*.

Question to the SMEIG
A.11) Are the current requirements appropriate for entities engaged in the exploration for, evaluation or extraction of mineral resources?

Issue A.12) Further reduction in disclosure requirements (several sections)

Issue raised in comment letters

74. The IASB should consider further ways to reduce the disclosure requirements in the *IFRS for SMEs*. The main suggestions given were do not require reconciliations of balances and reduce the extent of related party disclosures. One

comment letter suggested that addressing disclosures at a principle level, rather than individual standard level, could lead to further disclosure reduction.

Staff comment

75. The IASB's reasoning for the current disclosure simplification is explained in paragraphs BC156-BC158 of the Basis for Conclusions accompanying the *IFRS for SMEs*:

> BC156 The disclosure requirements in the *IFRS for SMEs* are substantially reduced when compared with the disclosure requirements in full IFRSs. The reasons for the reductions are of four principal types:
>
> (a) Some disclosures are not included because they relate to topics covered in IFRSs that are omitted from the *IFRS for SMEs* (see paragraph BC88).
>
> (b) Some disclosures are not included because they relate to recognition and measurement principles in full IFRSs that have been replaced by simplifications proposed in the draft IFRS (see paragraphs BC98–BC136).
>
> (c) Some disclosures are not included because they relate to options in full IFRSs that are not included in the *IFRS for SMEs* (see paragraphs BC84–BC86).
>
> (d) Some disclosures are not included on the basis of users' needs or cost-benefit considerations (see paragraphs BC44–BC47, BC157 and BC158).
>
> BC157 Assessing disclosures on the basis of users' needs was not easy, because users of financial statements tend to favour more, rather than fewer, disclosures. The Board was guided by the following broad principles:
>
> (a) Users of the financial statements of SMEs are particularly interested in information about short-term cash flows and about obligations, commitments or contingencies, whether or not recognised as liabilities. Disclosures in full IFRSs that provide this sort of information are necessary for SMEs as well.
>
> (b) Users of the financial statements of SMEs are particularly interested in information about liquidity and solvency. Disclosures in full IFRSs that provide this sort of information are necessary for SMEs as well.
>
> (c) Information on measurement uncertainties is important for SMEs.
>
> (d) Information about an entity's accounting policy choices is important for SMEs.
>
> (e) Disaggregations of amounts presented in SMEs' financial statements are important for an understanding of those statements.
>
> (f) Some disclosures in full IFRSs are more relevant to investment decisions in public capital markets than to the transactions and other events and conditions encountered by typical SMEs.

BC158 The Board also relied on the recommendations of the working group, which undertook a comprehensive review of the disclosure proposals in the exposure draft, and the comments on those proposals in responses to the exposure draft. The working group sent its comprehensive recommendations to the Board in July 2008. In addition, the staff of the German Accounting Standards Committee met representatives of six German banks that lend extensively to small private entities and provided the IASB with a comprehensive report on disclosure needs from a bank lender's perspective.

Staff recommendation

76. When developing the *IFRS for SMEs* significant time was spent assessing which disclosures are appropriate for SMEs and users of their financial statements (as described in paragraph BC156-BC158). Staff do not have any suggestions on how to further simplify disclosures. The IASB is currently looking at ways of improving disclosure under full IFRSs in its Conceptual Framework project. As part of this work the IASB performed a public survey on disclosure and is holding a public forum to discuss disclosure overload. The IASB will consider the outcome of this work at the next review of the *IFRS for SMEs*.

77. Some respondents suggested removing reconciliations of balances for SMEs. Staff disagree as the information necessary to prepare these reconciliations should be easily available to SMEs. However, staff think it is generally unnecessary to require prior year reconciliations as they will be available in the prior year financial statements. Most sections of the *IFRS for SMEs* already provide relief from prior year reconciliations. The staff think such relief should be extended to all reconciliations in the *IFRS for SMEs* for consistency.

78. Some respondents suggested reducing related party disclosures. The staff disagree as related party disclosures are likely to be especially important to users of the general purpose financial statements of SMEs. For example, transactions such as the following are likely to be common for smaller owner managed entities:

    (a) transactions between an entity and its principal owner(s).

    (b) transactions between an entity and another entity when both entities are under the common control of a single entity or person.

    (c) transactions in which a person that controls the entity incurs expenses directly that otherwise would have been borne by the entity.

Question to the SMEIG
A.12) Should any further disclosure reduction be considered in the *IFRS for SMEs*?

Issue A.13) Undue cost or effort (several sections)

Issue raised in comment letters

79. An "undue cost or effort" exemption is used in several sections of the *IFRS for SMEs*. More explanation is needed to understand how this concept should be interpreted in practical situations. Evaluating benefits to the user is a complicated assessment.

Staff comments

80. The SMEIG considered this issue in 2012 and issued the following Q&A:

Q&A 2012/01 Application of 'undue cost or effort'

Issue

1 Several sections of the *IFRS for SMEs* contain exemptions in relation to certain requirements on the basis of 'undue cost or effort' or because they are 'impracticable'. 'Impracticable' is defined in the *IFRS for SMEs* as follows: "applying a requirement is impracticable when the entity cannot apply it after making every reasonable effort to do so". 'Undue cost or effort' is not defined. How should 'undue cost or effort' be applied?

Response

2 'Undue cost or effort' is deliberately not defined in the *IFRS for SMEs*, because it would depend on the SME's specific circumstances and on management's professional judgement in assessing the costs and benefits. Whether the amount of cost or effort is excessive (undue) necessarily requires consideration of how the economic decisions of the users of the financial statements could be affected by the availability of the information. Applying a requirement would result in 'undue cost or effort' because of either excessive cost (eg if valuers' fees are excessive) or excessive endeavours by employees in comparison to the benefits that the users of the SME's financial statements would receive from having the information. Assessing whether a requirement will result in 'undue cost or effort' should be based on information available at the time of the transaction or event about the costs and benefits of the requirement. On any subsequent measurement, 'undue cost or effort' should be based on information available at the subsequent measurement date (eg the reporting date).

3 'Undue cost or effort' is specifically included for some requirements. It may not be used for any other requirements in the *IFRS for SMEs*.

4 ‘Undue cost or effort’ is used either instead of, or together with, ‘impracticable’ for certain requirements in the *IFRS for SMEs* to make it clear that if obtaining or determining the information necessary to comply with the requirement would result in excessive cost or an excessive burden for an SME, the SME would be exempt from the requirement. Where ‘undue cost or effort’ is used together with ‘impracticable’, this should be applied in the same way as for ‘undue cost or effort’ on its own.

Basis for Conclusions

BC1 ‘Impracticable’ is defined in the *IFRS for SMEs* in the same way as under full IFRSs. The definition refers to effort, not cost. Consequently, some people have interpreted ‘impracticable’ to mean that if the data required to apply a principle in an IFRS can be obtained, an entity must do so regardless of cost.

BC2 It could be argued that ‘every reasonable effort to do so’ would not include consuming excessive resources in order to comply with a requirement. However, enquiries to the IASB concerning the difference between ‘impracticable’ and ‘undue cost or effort’ suggest that the *IFRS for SMEs* is not clear as to whether cost alone could render a requirement impracticable.

BC3 The inclusion of ‘undue cost or effort’ for certain requirements in the *IFRS for SMEs* is intended to clarify that cost is a consideration when applying that requirement. Although there is no direct reference to benefits in the term ‘undue cost or effort’, SMEs that are assessing whether cost or effort is undue would have to make an assessment of how important the information is to users. If the information that the user needs is not provided, they may have to incur additional costs to obtain that information elsewhere or to estimate it.

BC4 Paragraphs 2.13 and 2.14 of Section 2 *Concepts and Pervasive Principles* highlight the balance between benefit and cost, and state the general principle to which the IASB refers in making its standard-setting decisions. The requirements within the *IFRS for SMEs* have been developed by taking into consideration the balance between benefits and costs. ‘Undue cost or effort’ is not a general principle/exemption that can be applied by SMEs for every accounting requirement in the *IFRS for SMEs*.

Staff recommendation

81. ‘Undue cost or effort’ is deliberately not defined in the *IFRS for SMEs*, because it is intended to be based on management’s judgement of the costs and benefits of applying the requirements under the SME’s own specific circumstances. Therefore, the staff do not believe further guidance should be provided.

82. In general, the staff think detailed guidance in Q&As should not be added to the *IFRS for SMEs* (see Issue 12 of Agenda Paper 2). However, in this case, many respondents have concerns about interpretation of ‘undue cost or effort’.

Therefore, the staff recommends that Q&A2012/01 should be incorporated in the *IFRS for SMEs* when the Q&A is deleted.

83. Staff suggest that paragraph 2 and 3 of Q&A2012/01 are added to Section 2 of the *IFRS for SMEs*. Staff think it is useful to add paragraph 3 as some constituents seem to wrongly interpret paragraphs 2.13 and 2.14 of Section 2 as permitting an undue cost or effort exemption for all requirements in the *IFRS for SMEs*.

84. Staff further suggest that paragraphs BC1-BC4 are added to the Basis for Conclusions accompanying the *IFRS for SMEs*.

Question to the SMEIG
A.13) Should additional explanation be added to the *IFRS for SMEs* to help SMEs interpret and apply the 'undue cost or effort' exemption?

Part B: General issues

85. Question G5 in the RFI asked whether respondents had any additional general issues that they would like to bring to the IASB's attention. The staff have identified three general issues for the SMEIG to discuss.

Issue B.1) Reduced disclosure framework for subsidiaries

Issue raised in comment letters

86. Subsidiaries of listed groups are applying the *IFRS for SMEs* in order to take advantage of the reduced disclosures in comparison to full IFRSs. However, they are then required to make adjustments for differences between the *IFRS for SMEs* and full IFRSs when preparing information for consolidation purposes. Subsidiaries of listed groups would prefer a framework that is fully aligned with the recognition, measurement and presentation requirements of full IFRSs, but provides relief from the disclosure requirements of full IFRSs. Such a regime could be developed outside the *IFRS for SMEs* and would respond to a well identified need.

87. Many jurisdictions have already developed their own reduced disclosure framework, eg UK, Australia, New Zealand.

Staff recommendation

88. Staff recommend suggesting this as a potential project to the IASB. However, realistically it would probably only be considered after disclosure requirements are considered as part of the Conceptual Framework (see paragraph 76) and then it would need to compete with other projects for space on the IASB's agenda.

89. It would be better to develop an international reduced disclosure framework for subsidiaries of listed groups than have individual jurisdictions develop their own. Plus, it would also reduce pressure from constituents to align the requirements of the *IFRS for SMEs* with full IFRSs to cater for subsidiaries of listed groups (eg addition of complex options, adopting full IFRSs before implementation experience is assessed, etc). Such a project would be separate from the *IFRS for SMEs*.

Question to the SMEIG
B.1) Should the IASB consider a potential project, outside the *IFRS for SMEs*, to reduced disclosure framework for subsidiaries of listed groups?

Issue B.2) Size-dependent reliefs

Issue raised in comment letters

90. There is a wide range of entities within the scope of the *IFRS for SMEs*. The IASB should consider adding size-dependent reliefs from some of the requirements in the *IFRS for SMEs*, in particular disclosure requirements. National regulators or standard setters in individual jurisdictions could decide which entities in their jurisdictions should be entitled to these reliefs.

Staff recommendation

91. The staff do not recommend the IASB consider size-dependent reliefs from requirements in the *IFRS for SMEs*. The *IFRS for SMEs* is designed for entities that are either required to, or choose to, publish general purpose financial statements for external users. External users such as lenders, vendors, customers, rating agencies and employees need specific types of information but are not in a position to demand reports tailored to meet their particular information needs. They must rely on general purpose financial statements. This is as true for very small entities as it is for larger SMEs. Financial statements prepared using the *IFRS for SMEs* are intended to meet those needs.

92. If size-dependent exemptions are incorporated, the resulting financial statements may not meet the objective of decision-usefulness because they would omit information about the entity's financial position, performance and changes in financial position that is useful to a wide range of users in making economic decisions. It was for this reason the IASB did not develop a separate standard for micro-sized entities. For this reason staff do not recommend that the IASB consider size-dependent reliefs.

93. A jurisdiction may decide to incorporate its own size-dependent relief by adopting a reduced version of the *IFRS for SMEs* as its local GAAP, eg for micro-sized entities that do not prepare general purpose financial statements.

Question to the SMEIG
B.2) Should the IASB consider adding size-dependent reliefs from some of the requirements in the *IFRS for SMEs*?

Issue B.3) Name of the Standard

Issue raised in comment letters

94. The title of the standard should be changed to focus on the entities within its scope. One suggestion is to survey constituents about a possible name change.

Another suggestion was to remove the term 'IFRS' from the title to avoid confusion.

Staff comments

95. The Board has discussed the name on several occasions during its redeliberations. At the outset of the project, after soliciting views in a June 2004 Discussion Paper, the Board chose the term 'Small and Medium-sized Entities (SMEs)' to describe the entities eligible to use the standard, primarily because SME is widely recognised globally. However, a significant number of respondents said that 'SME' is not appropriate because (a) 'small' and 'medium' imply a size test and (b) the term SME already has precise, and differing, quantified definitions in many jurisdictions and two definitions for the same term would lead to confusion.
96. In May 2008, the Board tentatively decided that the title of the standard should be changed to IFRS for Private Entities. However, some of the Board's constituents felt changing the name to 'private entities' indicated a move away from small and medium-sized entities toward those at the larger-size end of the spectrum of entities without public accountability. Additionally, like 'SME', the term 'private entity' has particular meaning in some countries.
97. In January 2009 the name was changed to IFRS for Non-publicly Accountable Entities. The reaction to this name was unfavourable because (a) it is expressed in the negative, (b) all entities have some accountability to the public and (c) 'non-publicly accountable entity' is a complicated phrase to say and to translate.
98. Suggestions such as 'Simplified IFRSs', 'Abridged IFRSs', 'Concise IFRSs' etc. were rejected because many constituents are concerned that these titles could be perceived as implying that the standard is second class to full IFRSs and more in the nature of training materials for full IFRSs than a separate standard.
99. Finally in March 2009 after raising the issue with the National Standard-Setters, the Board decided that the name of the standard will be the *IFRS for SMEs*.

Staff recommendation

100. The name of the Standard has been discussed at length and no better alternative to the *IFRS for SMEs* has been found. Although the scope of the *IFRS for SMEs* covers all non-publicly accountable entities, the staff believe the aim of the IFRS for SMEs is to address the needs of smaller non-publicly accountable entities (see paragraph 46 of Agenda Paper 2 for further explanation). The staff do not think the issue should be opened again. The title *IFRS for SMEs* is well established and staff recommend it is not changed.

Question to the SMEIG
B.3) Should the IASB reconsider the name of the Standard?