

STAFF PAPER

March 2013

IASB Meeting

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

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 6A asks the IASB to consider the responses received to the questions in the IASB's 2012 Request for Information (RFI) on the scope of the *IFRS for SMEs* and to consider whether any amendments should be made to the *IFRS for SMEs*.
2. This Agenda Paper 6A includes the questions asked in the RFI, a detailed summary of the main comments received, the IASB staff and SMEIG recommendations, and the questions for the IASB to discuss.

Structure of this paper

3. This Agenda Paper 6A is set out as follows:
 - (a) Introduction
 - (b) Organisation of the issues
 - (c) The three issues about the scope of the *IFRS for SMEs*:
 - (i) Issues 1 and 2: Use by publicly accountable entities
 1. Issue 1: Use by publicly traded entities (Question S1 in the RFI)

2. Issue 2: Use by financial institutions and similar entities
(Question S2 in the RFI)

(ii) Issue 3: Clarification of use by not-for-profit entities (Question S3
in the RFI)

(d) Appendix containing full extract from the near final draft of the SME
Implementation Group (SMEIG) report on Issues 1-3

Note, issue numbers in Agenda Paper 6A follow the same numbering as in the
agenda papers for the SMEIG meeting.

Introduction

4. The RFI asked three questions on the scope of the *IFRS for SMEs*. The questions address issues frequently raised with us by interested parties.
5. The IASB staff think it would be beneficial for the IASB to start their discussions under the comprehensive review of the *IFRS for SMEs* by first addressing the issues relating to the scope. This is because before deciding whether changes to the *IFRS for SMEs* should be proposed, the staff think it is important to clarify which entities the *IFRS for SMEs* is intended for.
6. The staff suggest that the IASB discuss Issues 1 and 2 together as the staff and SMEIG recommendation are identical for both issues.

Organisation of the issues

7. The issues in this paper contain the following information:
 - (a) The question in the RFI.
 - (b) Summary of the main comments received in response to each question in the RFI.
 - (c) Staff comments. Additional information that may be useful to the IASB discussions, eg relevant paragraphs in the *IFRS for SMEs* or the Basis for Conclusions accompanying the *IFRS for SMEs*.

- (d) SMEIG recommendation based on the near final draft of the SMEIG report.
- (e) Staff recommendation. This has been updated from the initial recommendation presented in the agenda papers for the SMEIG meeting to reflect further staff thinking in light of discussions at the SMEIG meeting.
- (f) Questions for the IASB to discuss.

Issues 1 and 2 Use by publicly accountable entities

Issue 1: Use by publicly traded entities

Extract from RFI: Question S1

Use by publicly traded entities (Section 1)

The *IFRS for SMEs* currently prohibits an entity whose debt or equity instruments are traded in a public market from using the *IFRS for SMEs* (paragraph 1.3(a)). The IASB concluded that all entities that choose to enter a public securities market become publicly accountable and, therefore, should use full IFRSs.

Some interested parties believe that governments and regulatory authorities in each individual jurisdiction should decide whether some publicly traded entities should be eligible to use the *IFRS for SMEs* on the basis of their assessment of the public interest, the needs of investors in their jurisdiction and the capabilities of those publicly traded companies to implement full IFRSs.

Are the scope requirements of the *IFRS for SMEs* currently too restrictive for publicly traded entities?

- (a) No—do not change the current requirements. Continue to prohibit an entity whose debt or equity instruments trade in a public market from using the *IFRS for SMEs*.
- (b) Yes—revise the scope of the *IFRS for SMEs* to permit each jurisdiction to decide whether entities whose debt or equity instruments are traded in a public market should be permitted or required to use the *IFRS for SMEs*.
- (c) Other—please explain.

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

Responses from comment letters on Issue 1

- 8. Approximately 70% of comment letters responding to Question S1 would continue to prohibit an entity whose debt or equity instruments trade in a public

market (publicly traded entity) from using the *IFRS for SME* (choice (a) for question S1). The following points cover the main reasons given:

- (a) Entities that choose to enter a public market are publicly accountable and should apply full IFRSs. Users of the financial statements of publicly traded entities have more comprehensive needs. Full IFRSs have been designed to meet these needs.
- (b) The *IFRS for SMEs* was created for entities that do not have public accountability and users of their financial statements. If the scope is widened to include publicly traded entities, then additional requirements, in particular disclosure requirements, must be added to the *IFRS for SMEs* to satisfy the needs of users of their financial statements. This will make the *IFRS for SMEs* more complex and undermine the original purpose of developing a simplified standard for SMEs.
- (c) It is important that all publicly traded companies have consistent reporting requirements (and therefore apply full IFRSs). Many publicly traded entities have overseas or global stakeholders who compare entities in different jurisdictions. Allowing some publicly traded entities to use the *IFRS for SMEs* may confuse stakeholders. Plus it would be step away from harmonisation of accounting standards in the world's capital markets.
- (d) Jurisdictions can already incorporate *IFRS for SMEs* into local GAAP if they wish to allow certain publicly traded entities to use it. Consequently, there is no need to remove the scope exclusion.
- (e) It would be difficult to extend the scope of the *IFRS for SMEs* to cover some publicly traded entities, but not others because it would be difficult to make an appropriate distinction between different types of publicly traded entities.

9. Approximately 20% of comment letters responding to Question S1 would revise the scope of the *IFRS for SMEs* to permit each jurisdiction to decide whether

publicly traded entities should be permitted or required to use the *IFRS for SMEs* (choice (b) for question S1). The following points cover the main reasons given:

- (a) The IASB should not decide which standards are applied in different jurisdictions. Local authorities are best placed to judge how the *IFRS for SMEs* is applied in their jurisdiction.
- (b) Some jurisdictions do not require full IFRSs for publicly traded entities due to its complexity and lack of available local expertise. Instead publicly traded entities use local accounting standards that are inferior to *IFRS for SMEs*. Permitting *IFRS for SMEs* for those entities could be the first step toward full IFRSs and may result in improved reporting. Plus it would lead to greater comparability worldwide through use of an internationally acceptable standard that has close links to full IFRSs.
- (c) Similarly some publicly traded entities are currently applying full IFRSs, but do not have the expertise to apply it properly. These entities may benefit from being able to use the *IFRS for SMEs*, which may improve their financial reporting.
- (d) Restricting the scope may cause unnecessary obstacles for adoption of the *IFRS for SMEs* in certain jurisdiction because the scope restriction may conflict with local laws.

10. Some specific concerns were highlighted by comment letters about the current scope:

- (a) Some jurisdictions have junior markets in which the entities are small and public interest is limited. Full IFRSs is onerous for those companies and the *IFRS for SMEs* may be more suitable. Examples of junior markets given in comment letters were the UK Plus market and the Canadian TSX Venture Exchange, including the NEX.
- (b) Currently the definition of public accountability would include small privately held entities with debt traded in over the counter (OTC) markets with limited market participants. Such entities should not be

considered to be publicly accountable. They should be permitted to use the *IFRS for SMEs*.

- (c) The *IFRS for SMEs* seems to have been simplified from full IFRSs more on the basis of reducing costs than on an assessment of how the needs of users of financial statements of publicly accountable entities differ from those of entities without publicly accountability.
- (d) The *IFRS for SMEs* was simplified from full IFRSs on the basis of users' needs and cost-benefit analyses. A cost-benefits analysis considers the size and resources of the entity—this is inconsistent with the scope which focuses only on public accountability.

11. Approximately 10% of comment letters responding to Question S1 chose (c) “other”. Other suggestions made by comment letters include:

- (a) Consider removing the scope restriction for publicly-traded entities but provide guidance to assist local authorities in deciding which entities should be permitted or required to use the *IFRS for SMEs*. For example clearly articulate the type of entities for which the *IFRS for SMEs* is intended, explain why it is unsuitable for publicly accountable entities and highlight where it is deficient for their needs and needs of users of their financial statements.
- (b) If an entity with public accountability applies the *IFRS for SMEs*, it would be beneficial for users of its financial statements to be alerted through disclosure that the *IFRS for SMEs* is not intended for that entity.

Issue 2: Use by financial institutions and similar entities

Extract from RFI: Question S2

Use by financial institutions (Section 1)

The *IFRS for SMEs* currently prohibits financial institutions and other entities that hold assets for a broad group of outsiders as one of their primary businesses from using the *IFRS for SMEs* (paragraph 1.3(b)). The IASB concluded that standing ready to take and hold funds from a broad group of outsiders makes those entities publicly accountable and, therefore, they should use full IFRSs. In every jurisdiction financial institutions are subject

to regulation.

In some jurisdictions, financial institutions such as credit unions and micro banks are very small. Some believe that governments and regulatory authorities in each individual jurisdiction should decide whether some financial institutions should be eligible to use the *IFRS for SMEs* on the basis of their assessment of the public interest, the needs of investors in their jurisdiction and the capabilities of those financial institutions to implement full IFRSs.

Are the scope requirements of the *IFRS for SMEs* currently too restrictive for financial institutions and similar entities?

- (a) No—do not change the current requirements. Continue to prohibit all financial institutions and other entities that hold assets for a broad group of outsiders as one of their primary businesses from using the *IFRS for SMEs*.
- (b) Yes—revise the scope of the *IFRS for SMEs* to permit each jurisdiction to decide whether any financial institutions and other entities that hold assets for a broad group of outsiders as one of their primary businesses should be permitted or required to use the *IFRS for SMEs*.
- (c) Other—please explain.

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

Responses from comment letters on Issue 2

12. Approximately 65% of comment letters responding to Question S2 would continue to prohibit all entities that hold assets for a broad group of outsiders as one of their primary businesses from using the *IFRS for SMEs* (choice (a) for question S2). The reasons given are similar to those summarised in paragraph 8 for Issue 1. Additional reasons not covered in paragraph 8 include:

- (a) Regardless of its size, if an entity holds funds for a broad group of outsiders as one of its primary businesses it is publicly accountable and it should apply full IFRSs. There is significant public interest in these entities and they have a responsibility to provide high quality financial statements to address needs of their users.
- (b) Entities that hold assets for a broad group of outsiders are more likely to undertake complex transactions that necessitate full IFRSs. If the scope of the *IFRS for SMEs* is widened to include small financial institutions and similar entities, it is likely that additional requirements, such as disclosure requirements in *IFRS 7 Financial Instruments: Disclosures* will need to be added to satisfy the needs of users of their financial

statements. Many small financial institutions have complex financial instruments transactions and the simplified requirements for financial instruments in Section 11 and 12 of the *IFRS for SMEs* may not be sufficient. Adding additional requirements to cater for these entities will add complexity to the *IFRS for SMEs* and undermine the original purpose of developing a simplified standard for SMEs.

13. Approximately 25% of comment letters responding to Question S2 would revise the scope of the *IFRS for SMEs* to permit each jurisdiction to decide whether entities that hold assets for a broad group of outsiders as one of their primary businesses should be permitted or required to use the *IFRS for SME* (choice (b) for question S2). The reasons given are similar to those summarised in paragraph 9 for Issue 1. Additional reasons not covered in paragraph 9 include:
- (a) Costs of compliance with full IFRSs are onerous to some smaller financial institutions, eg very small credit unions and micro banks. These entities often do not have the resources to implement full IFRSs properly. The *IFRS for SMEs* may result in better quality reporting or better suit the needs of these entities and users of their financial statements.
 - (b) In contrast to publicly listed entities, unlisted financial institutions do not have responsibilities related to public capital markets. Satisfaction of local regulatory requirements is sufficient.
 - (c) There is no reason why financial institutions and similar entities should be treated differently from other industries.
 - (d) Financial institutions and similar entities differ in nature and complexity around the world. Some small financial institutions have simple transactions and are similar in nature to small entities without public accountability. Local regulators may consider the *IFRS for SMEs* provides sufficient information for accountability purposes.
14. In addition the following concern was highlighted about the current scope:

- (a) The information needs of stakeholders of publicly traded entities are not necessarily the same as stakeholders of entities holding assets for a broad group of outsiders. For example the most important factor in policyholders' decisions to buy policies from a mutual insurer and remain with these policies or transfer out, is specific policy performance rather than general entity performance. Similar considerations may apply to friendly societies and credit unions.
 - (b) The meaning of fiduciary is unclear as it is a term with different implications across jurisdictions
15. Approximately 10% of comment letters responding to Question S2 chose (c) “other”. Other suggestions made by comment letters are similar to those summarised in paragraph 11 for Issue 1.

Staff comments on Issue 1 and 2

16. Paragraph P13 of Preface to the *IFRS for SMEs* states the following about the authority of the *IFRS for SMEs*:
- P13 Decisions on which entities are required or permitted to use the IASB’s standards rest with legislative and regulatory authorities and standard-setters in individual jurisdictions. This is true for full IFRSs and for the *IFRS for SMEs*. However, a clear definition of the class of entity for which the *IFRS for SMEs* is intended—as set out in Section 1 of the IFRS—is essential so that (a) the IASB can decide on the accounting and disclosure requirements that are appropriate for that class of entity and (b) the legislative and regulatory authorities, standard-setters, and reporting entities and their auditors will be informed of the intended scope of applicability of the *IFRS for SMEs*. A clear definition is also essential so that entities that are not small or medium-sized entities, and therefore are not eligible to use the *IFRS for SMEs*, do not assert that they are in compliance with it (see paragraph 1.5).
17. Paragraph 1.1 and 1.2 of the *IFRS for SMEs* state that the intended scope of the *IFRS for SMEs* is entities that do not have public accountability and publish general purpose financial statements for external users. Paragraph 1.3 provides the definition of public accountability:
- 1.3 An entity has public accountability if:
- (a) its debt or equity instruments are traded in a public market or it is in the process of issuing such instruments for trading in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets), or

- (b) it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses. This is typically the case for banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks.

18. The IASB cannot prohibit jurisdictions from permitting or requiring publicly accountable entities to use the *IFRS for SMEs*. However, publicly traded entities are prohibited from stating compliance with the *IFRS for SMEs* in their financial statements. Paragraph 1.5 of the *IFRS for SMEs* states:

- 1.5 If a publicly accountable entity uses this IFRS, its financial statements shall not be described as conforming to the *IFRS for SMEs*—even if law or regulation in its jurisdiction permits or requires this IFRS to be used by publicly accountable entities

19. The *IFRS for SMEs* was simplified from full IFRSs on the basis of users' needs and cost-benefit analyses. A few comment letters stated a cost-benefit analysis is inconsistent with the scope of the *IFRS for SMEs* which focusses only on whether or not an entity has public accountability, not its size or capabilities (see paragraph 10(c)-(d)). However, staff note that in a cost-benefit analysis, the 'benefit' of the information will differ depending on the type of users of the entity's financial statements. Paragraph BC46 of the Basis for Conclusions accompanying the *IFRS for SMEs* highlights this point:

- BC46 In the Board's judgement, the nature and degree of the differences between full IFRSs and an *IFRS for SMEs* must be determined on the basis of users' needs and cost-benefit analyses. In practice, the benefits of applying accounting standards differ across reporting entities, depending primarily on the nature, number and information needs of the users of their financial statements. The related costs may not differ significantly. Therefore, consistently with the *Framework*, the Board concluded that the cost-benefit trade-off should be assessed in relation to the information needs of the users of an entity's financial statements.

SMEIG recommendation for Issues 1 and 2

The majority of SMEIG members recommend deleting paragraph 1.5 of the *IFRS for SMEs*. They consider that local authorities are best placed to decide whether the *IFRS for SMEs* should be permitted or required for any entities in their jurisdiction. However, these SMEIG members feel that the *IFRS for SMEs* should remain clear that its intended scope is entities that do not have public accountability and its requirements should not be amended to cater for publicly traded entities and entities holding assets for a broad group of outsiders as one of their primary businesses (eg financial institutions).

A significant minority of SMEIG members recommend retaining paragraph 1.5.

They believe all publicly traded entities and entities holding assets for a broad group of outsiders as one of their primary businesses should be applying full IFRSs. Alternatively, they would support replacing paragraph 1.5 by a requirement for such entities to disclose that they are not in the intended scope of the *IFRS for SMEs*.

Staff recommendation for Issues 1 and 2

20. The staff agree with the majority of SMEIG members and recommend that paragraph 1.5 of the *IFRS for SMEs* is deleted. Decisions on which entities are required or permitted to use the IASB's standards rest with the relevant authorities in individual jurisdictions. The staff believe in some cases it may be beneficial for those authorities to permit entities with public accountability (as currently defined) to apply the *IFRS for SMEs* for some of the reasons raised by comment letters. Consequently staff think paragraph 1.5 may be unduly restrictive. The staff believe that the relevant authorities in individual jurisdictions are best placed to decide whether these entities should be permitted to use the *IFRS for SMEs*. The staff think it is appropriate for the IASB to set out a clear intended scope of the *IFRS for SMEs*. However, paragraph 1.5 goes beyond the role of the IASB as a standard-setter.
21. The *IFRS for SMEs* was simplified from full IFRSs on the basis of users' needs and cost-benefit analyses. Therefore, in general, staff do not think the *IFRS for SMEs* is suitable for the needs of users of publicly accountable entities. Therefore the staff agrees with the majority of SMEIG members and recommends that the *IFRS for SMEs* should remain clear that its intended scope is entities that do not have public accountability and its requirements should not be amended to cater for publicly accountable entities.
22. However, the staff also think that in limited cases the needs of the users of certain entities meeting the definition of publicly accountable in paragraph 1.3 may be similar to the needs of users of entities without public accountability. For example, this might be the case for privately held entities with debt traded in over the counter (OTC) markets with limited market participants, or also some small

credit unions with a closed group of members. Therefore, staff also recommend the IASB consider whether there is any additional guidance that could be added in the *IFRS for SMEs* (or in the Basis of Conclusions) on the characteristics of entities that do not have public accountability to help jurisdictions assess whether any entities meeting the definition of publicly accountable in paragraph 1.3 have similar characteristics.

23. If additional guidance is added in the *IFRS for SMEs* (or Basis of Conclusions) on the characteristics of entities without public accountability, this will help eliminate concerns raised by a few respondents that the term ‘fiduciary capacity’ is not well understood.

Question to the IASB

- a) Does the IASB agree with the staff and SMEIG recommendation that paragraph 1.5 of the *IFRS for SMEs* should be deleted?
- b) Does the IASB agree with the staff and SMEIG recommendation that the *IFRS for SMEs* should remain clear that its intended scope is entities that do not have public accountability and its requirements should not be amended to cater for publicly traded entities or entities holding assets for a broad group of outsiders as one of their primary businesses?
- c) Should additional guidance be added on the term public accountability?

Issue 3) Clarification of use by not-for-profit entities (Question S3)

Extract from RFI: Question S3

Clarification of use by not-for-profit entities (Section 1)

The *IFRS for SMEs* is silent on whether not-for-profit (NFP) entities (eg charities) are eligible to use the *IFRS for SMEs*. Some interested parties have asked whether soliciting and accepting contributions would automatically make an NFP entity publicly accountable. The *IFRS for SMEs* specifically identifies only two types of entities that have public accountability and, therefore, are not eligible to use the *IFRS for SMEs*:

- those that have issued debt or equity securities in public capital markets; and
- those that hold assets for a broad group of outsiders as one of their primary businesses.

Should the *IFRS for SMEs* be revised to clarify whether an NFP entity is eligible to use it?

- (a) Yes—clarify that soliciting and accepting contributions does not automatically make an NFP entity publicly accountable. An NFP entity can use the *IFRS for SMEs* if it otherwise qualifies under Section 1.

- (b) Yes—clarify that soliciting and accepting contributions will automatically make an NFP entity publicly accountable. As a consequence, an NFP entity cannot use the *IFRS for SMEs*.
- (c) No—do not revise the *IFRS for SMEs* for this issue.
- (d) Other—please explain.
- Please provide reasoning to support your choice of (a), (b), (c) or (d).

Responses from comment letters on Issue 3

24. Approximately 45% of comment letters responding to Question S3 would clarify that soliciting and accepting contributions does not automatically make an NFP entity publicly accountable (choice (a) for question S3). The following points cover the main reasons given:

- (a) We do not believe it is the IASB’s intention that NFP entities, eg charities, are publicly accountable.
- (b) NFP entities are often small and full IFRSs is onerous for them. In the absence of an international standard for NFP entities it would be useful to clarify that the *IFRS for SMEs* could be used/adapted in those countries which have no local NFP standard.
- (c) The fact that the *IFRS for SMEs* does not address specific issues for NFP entities does not imply it is inappropriate for them. Individual companies should assess whether it meets their needs. Alternatively, jurisdictions can determine whether the *IFRS for SMEs* is appropriate for NFP entities.
- (d) Clarification would avoid diversity in practice. However, such guidance should be clearly worded to avoid unintended misuse by entities.

25. Approximately 5% of comment letters responding to Question S3 would clarify that soliciting and accepting contributions will automatically make an NFP entity publicly accountable (choice (b) for question S3). The following points cover the main reasons given:

- (a) Entities that accept contributions from the public should have a higher level of accountability and apply full IFRSs. They have a responsibility

to provide high quality financial statements to address needs of donors, beneficiaries, etc.

- (b) Often donations are sourced from tax payers money (eg due to tax relief) and so there is significant public interest in these entities.

26. Approximately 30% of comment letters responding to Question S3 would not revise the *IFRS for SMEs* for this issue (choice (c) for question S3). The following points cover the main reasons given:

- (a) The *IFRS for SMEs* and full IFRSs are aimed at the for-profit sector and do not consider the unique needs of NFP entities and users of their financial statements. If the scope is widened, the *IFRS for SMEs* would need to incorporate additional guidance and disclosure requirements to address issues specific to NFP entities. This would add complexity to the *IFRS for SMEs*.
- (b) The Trustees of the IFRS Foundation concluded that in the short term the primary focus of the IFRS Foundation and the IASB should remain on developing standards for for-profit entities. The next Constitution Review commencing in less than three years' time will provide an opportunity to consider any expansion of scope. Until this time the *IFRS for SMEs* should remain silent on NFP entities.
- (c) Whether the *IFRS for SMEs* or full IFRSs can be extended to NFP entities requires analysis and should not be part of this comprehensive review of the *IFRS for SMEs*.
- (d) Application of the *IFRS for SMEs* to NFP entities should be left to local authorities in individual jurisdictions to decide.
- (e) There is no need for further clarification. Paragraph 1.4 of the *IFRS for SMEs* already notes that if charitable organisations hold assets in a fiduciary capacity for a broad group of outsiders for reasons incidental to a primary business it does not make them publicly accountable.

27. Approximately 20% of comment letters responding to Question S3 chose (d) “other”. Other suggestions made by comment letters include:

- (a) The *IFRS for SMEs* should not be revised. Instead, the IASB should clearly state in the Basis for Conclusions accompanying the *IFRS for SMEs* that it is not appropriate for NFP entities. The IASB should further state the reason for this is it doesn't deal with the type of transaction they typically face (rather than because they are publicly accountable).
- (b) The IASB should consider a separate project to address the application of the *IFRS for SMEs* and full IFRSs to NFP entities. The IASB should also consider whether to develop a separate accounting standard for NFP entities. Alternatively there should be a separate section in the *IFRS for SMEs* dealing with NFP issues.
- (c) NFP entities do not meet the definition of public accountability. However, these entities may be publicly accountable in the general sense of that term rather than under the definition in the *IFRS for SMEs*.
- (d) Clarify what is meant by NFP entities. For example, credit unions are often considered NFP institutions because they are cooperatives which exist to serve their members rather than to maximize profits. This is distinguishable from concept of a 'non-profit' like a charity.
- (e) The meaning of fiduciary capacity should be clarified and tightened in the *IFRS for SMEs* to help address issues like this.

Staff comments on Issue 3

28. Paragraph 1.4 of the *IFRS for SMEs* states:

- 1.4 Some entities may also hold assets in a fiduciary capacity for a broad group of outsiders because they hold and manage financial resources entrusted to them by clients, customers or members not involved in the management of the entity. However, if they do so for reasons incidental to a primary business (as, for example, may be the case for travel or real estate agents, schools, charitable organisations, co-operative enterprises requiring a nominal membership deposit, and sellers that receive payment in advance of delivery of the goods or services such as utility companies), that does not make them publicly accountable.

SMEIG recommendation on Issue 3

The SMEIG recommends that no change be made to the *IFRS for SMEs*. In the view of the SMEIG, paragraph 1.4 is clear that soliciting and accepting contributions does not automatically make NFP entities publicly accountable.

Staff recommendation on Issue 3

29. The staff agree with the SMEIG and recommend that the *IFRS for SMEs* is not changed. Staff agree that soliciting and accepting contributions does not automatically make an NFP entity publicly accountable. However, paragraph 1.4 of the *IFRS for SMEs* provides sufficient guidance on this matter. Staff does not propose adding further guidance for the following reasons:
- (a) To include guidance would involve defining what is meant by a NFP entity and this may be difficult across different jurisdictions.
 - (a) The fact there are no special considerations in the *IFRS for SMEs* for NFP entities does not imply it is inappropriate for them. However, staff feel it is better to stay silent rather than indicate the *IFRS for SMEs* may be appropriate for them. This is not done in full IFRSs.
30. There is nothing in the *IFRS for SMEs* to prohibit NFP entities from using the *IFRS for SMEs*. Therefore, if a NFP entity is not publicly accountable (as defined in Section 1 of the IFRS for SME), it may apply and state compliance with the *IFRS for SMEs* provided it is permitted to do so by the laws in its jurisdiction.

Question to the IASB

d) Does the IASB agree with the staff and SMEIG recommendation that no change needs to be made to the *IFRS for SMEs* to address NFP entities?

Appendix A: Extract from near final draft of the SMEIG (Issues 1-3)

Issue 1) Use by publicly traded entities

31. *Are the scope requirements of the IFRS for SMEs currently too restrictive for publicly traded entities?*

The majority of SMEIG members recommend deleting paragraph 1.5 of the IFRS for SMEs. They consider that local authorities are best placed to decide whether the *IFRS for SMEs* should be permitted or required for any entities in their jurisdiction. However, these SMEIG members feel that the *IFRS for SMEs* should remain clear that its intended scope is entities that do not have public accountability and its requirements should not be amended to cater for publicly traded entities.

A significant minority of SMEIG members recommend retaining paragraph 1.5. They believe all publicly traded entities should be applying full IFRSs. Alternatively, they would support replacing paragraph 1.5 by a requirement for such entities to disclose that they are not in the intended scope of the *IFRS for SMEs*.

SMEIG discussion

32. Whilst the broad view of the SMEIG was that publicly traded entities should in general apply full IFRSs, the majority also considered that there are limited circumstances where the *IFRS for SMEs* could be appropriate for a publicly traded entity or group of entities. These SMEIG members supported deleting paragraph 1.5 of the *IFRS for SMEs* because they consider local authorities best placed to judge whether the *IFRS for SMEs* should be permitted or required for entities within their jurisdiction.
33. Nevertheless, these SMEIG members considered this an exception. They felt that the *IFRS for SMEs* should remain clear that its intended scope is entities that do not have public accountability. It therefore follows that, when amending the *IFRS for SMEs*, the IASB should keep the same mind-set and not cater for publicly traded entities.
34. A significant minority of SMEIG members supported retaining paragraph 1.5. These SMEIG members felt all publicly traded entities should have consistent

reporting requirements and that it would be confusing to have two sets of standards used by publicly traded companies in different jurisdictions. Furthermore they argued the *IFRS for SMEs* was not developed to cater for publicly traded entities. Some SMEIG members felt that if paragraph 1.5 is deleted it should be replaced by a requirement for entities to disclose that they are publicly traded entities and are not in the intended scope of the *IFRS for SMEs*.

35. An additional point raised was whether the definition of ‘publicly accountable’ could be modified to cater for both views summarised in paragraphs 32-34 above. For example, the IASB could add more flexible guidance for jurisdictions to determine which entities are publicly accountable. Therefore, in limited cases, publicly traded entities could fall within the scope of the *IFRS for SMEs* if they are essentially more like entities without public accountability (for example they have a limited number of investors).

Issue 2) Use by financial institutions

36. *Are the scope requirements of the IFRS for SMEs currently too restrictive for entities that hold assets for a broad group of outsiders as one of their primary businesses?*

The majority of SMEIG members recommend deleting paragraph 1.5 of the *IFRS for SMEs*. Consistent with their views for Issue 1, they consider that local authorities are best placed to decide whether the *IFRS for SMEs* should be permitted or required for any entities in their jurisdiction that hold assets for a broad group of outsiders as one of their primary businesses (eg financial institutions). Equally, these SMEIG members feel that the *IFRS for SMEs* should remain clear that its intended scope is entities that do not have public accountability and its requirements should not be amended to cater for publicly accountable entities.

A significant minority of SMEIG members recommend retaining paragraph 1.5.

Consistent with their views for Issue 1, they believe all entities that hold assets for a broad group of outsiders as one of their primary businesses should be applying full IFRSs. As an alternative, they would again support replacing paragraph 1.5 by a

requirement for such entities to disclose that they are not in the intended scope of the *IFRS for SMEs*.

SMEIG discussion

37. Whilst the broad view of the SMEIG was that entities that hold assets for a broad group of outsiders as one of their primary businesses should in general be applying full IFRSs, the majority of SMEIG members acknowledged that circumstances vary across jurisdictions. SMEIG members provided examples of micro banks and small credit unions that could in essence be more like entities without public accountability and many do not have complex transactions.
38. However, some SMEIG members were concerned that the *IFRS for SMEs* does not sufficiently cater for the complexity of transactions most financial institutions and similar entities enter into. As for Issue 1 SMEIG members generally felt the *IFRS for SMEs* should remain clear that its intended scope is entities without public accountability and not try to cater for entities with complex financial instrument transactions.

Issue 3) Clarification of use by not-for-profit (NFP) entities

39. *Should the IFRS for SMEs be revised to clarify whether an NFP entity is eligible to use it?*

The SMEIG recommends that no change be made to the *IFRS for SMEs*. In the view of the SMEIG, paragraph 1.4 is clear that soliciting and accepting contributions does not automatically make NFP entities publicly accountable.

SMEIG discussion

40. The broad view of the SMEIG was that soliciting and accepting contributions does not automatically make an NFP entity publicly accountable. Furthermore SMEIG members did not think further clarification is necessary in the *IFRS for SMEs*. They noted that paragraph 1.4 clearly states that if charitable organisations hold assets in a fiduciary capacity for a broad group of outsiders for reasons incidental to their primary business that does not make them publicly accountable.

41. A few SMEIG members expressed support for the IASB considering issues specific to NFP entities as part of a separate project. An international standard would prevent jurisdictions from having to develop their own standard/guidance if guidance for NFPs is deemed necessary in that jurisdiction.