STAFF PAPER

May 2013

IASB Meeting

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

1. At its April 2013 meeting the IASB considered whether to make changes to the *IFRS for SMEs* for six new and revised IFRSs. Agenda Paper 8A (this agenda paper) asks the IASB to address the other new and revised IFRSs issued since the *IFRS for SMEs* was published.

2. This agenda paper builds on discussions at the March and April 2013 IASB meetings on new and revised IFRSs.

Structure of this paper

3. This agenda paper is set out as follows:

   (a) Discussions to date on new and revised IFRSs

   (b) Objective of discussions at this meeting

   (c) Staff analysis

   (d) Staff recommendation

   (e) Questions for the IASB to discuss

   (f) Appendix A: Staff reasoning to support recommendations for annual improvements to IFRSs issued in 2010 and 2012

Discussions to date on new and revised IFRSs

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

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

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

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

   (d) In order to provide a stable platform for SMEs, the *IFRS for SMEs* should only be updated for changes to IFRSs during the triennial reviews.

   The IASB also acknowledged that many jurisdictions have only recently adopted the *IFRS for SMEs* and so there is a special need to provide these entities with a stable platform at this time.

5. At its April 2013 meeting the IASB considered how to apply the framework in paragraph 4 to the five new or revised IFRSs that staff believe had the potential to result in the most significant changes to the *IFRS for SMEs*, namely IFRS 3 *Business Combinations* (2008), IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements*, IFRS 13 *Fair Value Measurement* and IAS 19 *Employee Benefits* (2011). The IASB tentatively supported the staff recommendation not to amend the *IFRS for SMEs* during this initial review to incorporate these new and revised IFRSs (the staff reasoning for each of the five IFRSs is in Agenda Paper 8C for the April 2013 IASB meeting).

6. As part of its discussion on accounting for income taxes, the IASB also considered the December 2010 amendment to IAS 12 *Income Taxes* to add a rebuttable presumption that the carrying amount of investment property measured

at fair value will be recovered through sale. The IASB tentatively decided to incorporate this amendment in the *IFRS for SMEs* because it would provide a simplification for SMEs and because the *IFRS for SMEs* will be aligned with IAS 12 during this review.

Objective of discussions at this meeting

7. At this meeting the staff would like the IASB to consider the other new and revised IFRSs issued since the *IFRS for SMEs* was published that were not considered when developing the *IFRS for SMEs*. These are:

    (a) Three amendments to IFRS 1 *First-time Adoption of IFRSs*

        (i) *Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters* (January 2010)

        (ii) *Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters* (December 2010)

        (iii) *Government Loans* (March 2012)

    (b) IFRS 7 (amendment) *Disclosures: Transfers of Financial Assets* (October 2010)

    (c) IFRS 10 (amendment) *Investment Entities* (October 2012)

    (d) The other three standards in the consolidation suite issued with IFRS 10 and IFRS 11 (May 2011):

        (i) IFRS 12 *Disclosure of Interests in Other Entities*

        (ii) IAS 27 (amendment) *Separate Financial Statements*

        (iii) IAS 28 (amendment) *Investments in Associates and Joint Ventures*

    (e) IAS 1 (amendment) *Presentation of Items of Other Comprehensive Income* (June 2011)

    (f) IAS 32 (amendment) *Classification of Rights Issues* (October 2009)

    (g) IAS 32 (amendment) *Offsetting Financial Assets and Financial Liabilities* (December 2011)

(h) IFRIC 14 (amendment) *Prepayments of a Minimum Funding Requirement* (November 2009)

(i) IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments* (November 2009)

(j) IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine* (October 2011)

(k) Annual improvements to IFRSs issued in May 2010 and May 2012 (see Appendix A).

Staff analysis

8. In Agenda Paper 8C for the April 2013 IASB meeting the staff stated that the staff believe, and the SMEIG concur, that the primary aim when developing the *IFRS for SMEs* was to provide a standalone, simplified, set of accounting principles for entities that do not have public accountability, have less complex transactions, have limited resources to apply full IFRSs and operate in circumstances where comparability with their listed peers is not a key consideration.

9. At the April IASB meeting the staff also recommended the following approach when considering new and revised IFRSs during this comprehensive review (consistent with this primary aim, the principles outlined in paragraph 4, and the special need for stability during this initial comprehensive review):

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

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

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

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

(e) Any changes to the *IFRS for SMEs* should be considered against the twin criteria of user needs and cost-benefit considerations.

10. The staff believe the approach in paragraph 9 enables the IASB to consider the alignment of the *IFRS for SMEs* with full IFRSs, whilst still considering the primary aim of the *IFRS for SMEs* and allowing SMEs to benefit from the implementation experience of entities applying full IFRSs, including allowing time for knowledge and training material to reach the market.

Staff recommendation

11. The staff recommendation is based on applying the approach in paragraph 9. The staff have also providing additional reasoning for each individual IFRSs.

12. The staff recommend that changes are made for the following four new or revised IFRSs:

(a) IAS 32 (amendment) *Classification of Rights Issues*—requires rights, options and warrants entitling the holder to receive a fixed number of the entity's own equity instruments for a fixed amount of any currency to be accounted for as equity instruments provided the offer is made pro-rata to all existing owners.

(b) IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments*—provides guidance on debt for equity swaps, ie where a debtor and creditor renegotiate the terms of a financial liability with the result that the debtor extinguishes the liability fully or partially by issuing equity instruments to the creditor.

(c) IFRS 1 (amendment) *Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*—provides guidance for entities emerging from severe hyperinflation that are applying full *IFRSs* for the first time.

(d) IFRS 1 (amendment) *Government Loans*—adds an exception to the retrospective application of IFRSs to government loans existing at the date of transition to full IFRSs.

13. The staff think that the four new and revised IFRSs in paragraph 12 should be incorporated in the *IFRS for SMEs* during this comprehensive review for the following reasons:

(a) They provide clarity, and in most cases a simplification, for the transactions they cover and so are likely to be welcomed by SMEs and users of their financial statements.

(b) They fix known or expected problems or diversity in practice in full IFRSs and the transactions and events they address are just as likely to be encountered by SMEs as publicly accountable entities.

(c) As each amendment is only likely to modify one or two paragraphs of the *IFRS for SMEs* the resulting changes will be minimal (and are consistent with maintaining stability during this initial comprehensive review).

(d) IFRIC 19 and IAS 32 (amendment) were published in 2009 and have been effective since 2010. Therefore they have been implemented under full IFRSs for some time.

14. For cost-benefit reasons the staff further suggest that if IFRIC 19 is incorporated in the *IFRS for SMEs* an 'undue cost or effort' exemption should be included to provide relief from fair value measurement of the equity instruments issued to extinguish the financial liability (see also Issue 9 in Agenda Paper 8B).

15. The staff do not propose making changes for the following new and revised IFRSs:

New and revised IFRSs	Staff reasoning
(a) **IFRS 1 (amendment) *Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters***	This amendment is not applicable because the *IFRS for SMEs* does not contain the transition provisions of IFRS 7.

Permits first-time adopters to use the same transition provisions permitted for existing IFRS preparers.	
(b) **IFRS 7 (amendment) *Disclosures: Transfers of Financial Assets*** Amended the required disclosures to help users of financial statements evaluate the risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position.	Section 11 includes the great majority of the 'significance' disclosures that are in IFRS 7. However, the *IFRS for SMEs* includes only some of the 'risk' disclosures that are in IFRS 7. The disclosures in IFRS 7 were significantly reduced for the *IFRS for SMEs* for cost benefit reasons and because the IASB decided many disclosures were primarily intended for financial institutions and companies whose securities trade in public capital markets. For the same reason the staff do not propose to incorporate this amendment to the 'risk' disclosures. The staff think the current disclosures in Section 11 and 12 are sufficient for SMEs.
(c) **IFRS 10 (amendment) *Investment Entities*** Provides an exemption from consolidation of subsidiaries for entities which meet the definition of an 'investment entity', such as certain investment funds. Instead, such entities would measure their investment at fair value through profit or loss.	The amendment relates to IFRS 10 and the IASB has already concluded that IFRS 10 will not be incorporated. Consequently, the staff think it would be inconsistent to incorporate this amendment. Furthermore, the staff note this is a very recent change to full IFRSs and so no implementation experience is available. The staff note that an investment entity will only meet the definition of an SME if it does not hold funds for a broad group of investors.
(d) **IFRS 12 *Disclosure of Interests in Other Entities*** Also IAS 27 (amendment) *Separate Financial Statements* and IAS 28 (amendment) *Investments in Associates and Joint Ventures* These form part of the suite of five standards on consolidation, joint arrangements and disclosures.	The IASB has already concluded that IFRS 10 and 11 will not be incorporated. Consequently, the staff think it would be inconsistent to incorporate these related standards. In particular: • IFRS 12 integrates the disclosures previously in other IFRSs and adds new disclosures to support the requirements in IFRS 10 and 11. • The amendments to IAS 27 and IAS 28 were consequential amendments from the issue of IFRS 10, 11 and 12 and do not directly introduce or amend existing accounting themselves.
(e) **IAS 1 (amendment) *Presentation of Items of Other Comprehensive Income*** A requirement for entities to group items presented in OCI on the basis of whether they are potentially reclassifiable to profit	There are only three types of OCI under the *IFRS for SMEs*—some gains and losses arising on translating the financial statements of a foreign operation, some actuarial gains and losses and some changes in fair values of hedging instruments (see paragraph 5.4(b)). Consequently the staff do not think these amendments need to be incorporated in the *IFRS for SMEs*.

or loss subsequently (reclassification adjustments).	
(f) **IAS 32 (amendment) *Offsetting Financial Assets and Financial Liabilities*** Clarified offsetting requirements and amended disclosures to include information that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with the entity's recognised financial assets and liabilities, on the entity's financial position.	The *IFRS for SMEs* does not have specific offset requirements for financial assets and liabilities like IAS 32. Instead the *IFRS for SMEs* only has the following general requirement for all assets and liabilities—"An entity shall not offset assets and liabilities, or income and expenses, unless required or permitted by this IFRS" (see paragraph 2.52). Accordingly under the *IFRS for SMEs* financial assets and liabilities may not be offset. Therefore the staff do not think the changes in this amendment are applicable to SMEs.
(g) **IFRIC 14 (amendment) *Prepayments of a Minimum Funding Requirement*** Removes an unintended consequence in IFRIC 14 arising from the treatment of prepayments of future contributions in some circumstances when there is a minimum funding requirement.	The *IFRS for SMEs* does not incorporate IFRIC 14. Therefore the staff do not think the changes in this amendment are applicable to the *IFRS for SMEs*. Currently under the *IFRS for SMEs* an entity is required to recognise a plan surplus as a defined benefit plan asset only to the extent that it is able to recover the surplus either through reduced contributions in the future or through refunds from the plan (paragraph 28.22).
(h) **IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine*** This Interpretation applies to waste removal costs that are incurred in surface mining activity during the production phase of the mine ('production stripping costs')	The staff do not propose to include such specific industry guidance in the *IFRS for SMEs*. SMEs can choose to refer to IFRIC 20 under the accounting policy hierarchy in paragraphs 10.4-10.6 of Section 10.

16. The staff recommend that the following annual improvements to IFRSs issued in 2010 and 2012 should be incorporated in the *IFRS for SMEs* during this review.

    (a) IFRS 1—

        (i) Revaluation basis as deemed cost

        (ii) Use of deemed cost (rate regulation)

        (iii) Repeated application of IFRS 1

(b) IAS 1—Clarification of OCI

(c) IAS 16— Servicing equipment

(d) IAS 32— Tax effect of distributions

The staff reasoning for incorporating these minor changes is in Appendix A.

Questions for the IASB
1) Does the IASB agree to incorporate the following new or revised IFRSs during this comprehensive review **a. IAS 32 (amendment)** ***Classification of Rights Issues*****?** **b. IFRIC 19** ***Extinguishing Financial Liabilities with Equity Instruments (with an undue cost or effect exemption)*****?** **c. IFRS 1 (amendment)** ***Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*****?** **d. IFRS 1 (amendment)** ***Government Loans?*** **2) Does the IASB agree not to incorporate the other new and revised IFRSs listed in paragraph 15?** **3) Does the IASB agree with the staff recommendation in paragraph 16 for the annual improvements to IFRSs issued in 2010 and 2012?**

Appendix A- Staff reasoning to support recommendations for annual improvements to IFRSs issued in 2010 and 2012

A1. This appendix provides the staff reasoning to support its recommendations in paragraph 16 for how to address the annual improvements to IFRSs issued since the *IFRS for SMEs* was published.

A2. **2010 annual improvements**

IFRS	**Changes**	**Staff recommendation on whether changes should be incorporated**
(a) IFRS 1 *First-time adoption of IFRSs*	(i) **Accounting policy changes:** Addresses situation where a first-time adopter changes its accounting policies or its use of IFRS 1 exemptions after it has prepared an interim report in accordance with IAS 34 *Interim Financial Reporting.*	N/A—The *IFRS for SMEs* does not address interim reporting.
	(ii) **Revaluation basis as deemed cost:** A first-time adopter can use an event driven fair value as 'deemed cost' at the measurement date for measurement events that occurred after the date of transition but during the period covered by the first IFRS financial statements.	**Yes**—adds an additional option which provides a simplification.
	(iii) **Use of deemed cost (rate regulation):** A first time adopter may elect to use the previous GAAP carrying amount of items of property plant and equipment or intangibles that are, or were, used in operations subject to rate regulations.	**Yes**—adds an additional option which provides a simplification.
(b) IFRS 3 *Business Combinations*	(i) **Transition requirements for contingent consideration under IFRS 3(2008).**	N/A—The IASB has concluded that IFRS 3 (2008) should not be incorporated.
	(ii) **Measurement of NCI:** The option to measure non-controlling interests at fair value or at the proportionate share of the acquiree's net assets at the acquisition date under IFRS 3(2008) applies only to those that are present ownership interests and entitle holders to a proportionate share of the acquiree's net assets in the event of liquidation.	N/A— The IASB has concluded that IFRS 3 (2008) should not be incorporated.
	(iii) **Share-based payments:** Addresses accounting for unreplaced and voluntarily replaced share-based payment awards under IFRS 3(2008).	N/A—The IASB has concluded that IFRS 3 (2008) should not be incorporated.
(c) IFRS 7 *Financial Instruments Disclosure*	**Clarification of disclosures:** Encourages qualitative disclosures to help users to form an overall picture of the nature and extent of risks arising from financial instruments. Clarifies the	N/A—Section 11 and 12 do not include the risk disclosures addressed by the amendment to IFRS 7.

	required level of disclosure around credit risk and collateral held and provides relief from disclosure of renegotiated loans.	The staff think the current disclosures in Section 11 and 12 are sufficient for SMEs.
(d) IAS 1 *Presentation of Financial Statements*	**Clarification of OCI:** Clarifies an entity may present the analysis of other comprehensive income by item either in the statement of changes in equity or in the notes.	**Yes**—adds a minor clarification.
(e) IAS 27 *Consolidated and Separate Financial Statements*	**Transition requirements for amendments arising as a result of IAS 27.**	N/A—*IFRS for SMEs* doesn't contain the transitional provisions of IAS 27.
(f) IAS 34 *Interim Financial Reporting*	**Significant events:** Emphasises disclosures about significant events in interim periods should update the relevant information presented in the most recent annual financial report.	N/A—The *IFRS for SMEs* does not address interim reporting.
(g) IFRIC 13 *Customer Loyalty Programmes*	**Fair value of award credits:** Clarifies the 'fair value' of award credits should take into account discounts or incentives that would otherwise be offered to customers and any expected forfeitures.	No—The *IFRS for SMEs* only has limited guidance on customer loyalty programmes (see paragraph 23.9). Therefore the staff do not think it is appropriate to include this level of detail. The *IFRS for SMEs* would therefore continue to allow more flexibility.

A3. 2012 improvements

IFRS	**Changes**	**Staff reasoning**
(a) IFRS 1 *First-time adoption of IFRSs*	(i) **Repeated application of IFRS 1:** An entity may apply IFRS 1 if its most recent previous annual financial statements did not contain an explicit and unreserved statement of compliance with IFRSs, even if the entity applied IFRS 1 in the past. Certain disclosures are required.	**Yes**—Permitting repeated application of Section 35 would provide a simplification for SMEs. Note 1: Section 35 provides a general impracticability exemption from restatement (see paragraph 35.11) which is not in IFRS 1. Hence, incorporating this amendment would enable this general exemption to be used a second time. Note 2: The IASB discussed whether SMEs should be permitted to use Section 35 a second time in September 2008 but rejected the proposal. At that time, however, there was no

		equivalent alternative in IFRS 1.
	(ii) **Borrowing costs:** Borrowing costs capitalised before the date of transition to IFRSs may be carried forward without adjustment at the transition date. A first-time adopter can choose to apply IAS 23 at a date earlier than the transition date.	No—The *IFRS for SMEs* does not permit capitalisation of borrowing costs. Therefore staff do not think this exemption is required. Section 35 provides relief from retrospective application by allowing use of a deemed cost for PPE, investment property and intangible assets. Plus restatement of the opening statement of financial position for one or more adjustments is not required if impracticable (general impracticability exemption).
(b) IAS 1 *Presentation of Financial Statements*	**Comparative information:** If additional comparative information is provided, it should be presented in accordance with IFRSs, including disclosure of comparative information for any additional statements included beyond the minimum comparative requirements. An entity that changes accounting policies retrospectively, or makes a retrospective restatement which has a material effect on the information in the statement of financial position at the beginning of the preceding period would present a third statement of financial position.	No—The staff do not think this additional disclosure should be incorporated in the *IFRS for SMEs* for cost-benefit reasons.
(c) IAS 16 *Property, Plant and Equipment (PPE)*	**Servicing equipment:** Spare parts, stand-by equipment and servicing equipment should be classified as PPE when they meet the definition of PPE in IAS 16 and otherwise as inventory.	**Yes**—addresses a perceived inconsistency and would make the wording in the *IFRS for SMEs* clearer.
(d) IAS 32 *Financial Instruments: Presentation*	**Tax effect of distributions**: Income tax relating to distributions to equity holders and to transaction costs of an equity transaction should be accounted for in accordance with IAS 12.	**Yes**—clarifies existing treatment and makes sense to make amendment at the same time Section 29 *Income Tax* is aligned with IAS 12
(e) IAS 34 *Interim Financial Reporting*	**Segment information:** Total assets and liabilities for a reportable segment would be separately disclosed in interim reports only when the amounts are regularly provided to the chief operating decision maker and there has been a material change from the prior year.	N/A—The *IFRS for SMEs* does not address interim reporting.