STAFF PAPER

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IASB Meeting

Project	Comprehensive review of the *IFRS for SMEs*
Paper topic	Additional issues raised by respondents: Paper I (changes proposed by staff)

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Purpose of this paper

1. Agenda Paper 8B (this agenda paper) asks the IASB to discuss the additional issues raised by respondents to the IASB's 2012 Request for Information (RFI): *Comprehensive Review of the IFRS for SMEs* for which the staff are proposing changes. This paper also includes one issue raised by members of the SME Implementation Group for which the staff proposes changes.

Structure of this paper

2. This agenda paper is set out as follows:
   (a) Part A covers issues raised by respondents
   (b) Part B covers the issue raised by members of the SMEIG
   (c) Appendix A contains a full extract of the SMEIG recommendations on the issues in part A of this agenda paper
   (d) Appendix B explains the process staff followed in selecting the issues from the comment letters for IASB discussion

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3. As well as asking questions on known issues, the RFI also encouraged respondents to raise their own issues. This agenda paper and Agenda Paper 8C together cover the issues raised by respondents to the RFI (subject to the selection criteria explained in Appendix B). This agenda paper contains those issues for which the staff propose changes to the *IFRS for SMEs*. Agenda Paper 8C contains those issues for which the staff does not propose changes. For each issue the staff have included:

   (a) the issue raised by respondents to the RFI;

   (b) staff analysis;

   (c) recommendations of the SMEIG and the IASB staff; and

   (d) the question for the IASB to discuss.

Part A: Issues raised by respondents

Issue 1) Undue cost or effort (in several sections of the *IFRS for SMEs*)

Issue raised in comment letters

4. 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. Plus, evaluating benefits to the user is a complicated assessment.

Staff analysis

Use of 'undue cost or effort' in the IFRS for SMEs

5. 'Undue cost or effort' exemptions are available for the following requirements in the *IFRS for SMEs:*

   (a) Measurement of fair value of investments in associates and/or jointly-controlled entities if the entity chooses the fair value model for such investments (paragraphs 14.10 and 15.15 of the *IFRS for SMEs*)

(b) Measurement of fair value of investment property (paragraphs 16.1-16.7)

(c) Disclosure of an estimate of the financial effect for contingent assets (paragraph 21.16)

(d) Use of the projected unit credit method for defined benefit plans (paragraphs 28.18-28.19)

(e) Measurement of fair value of biological assets (paragraphs 34.2-34.6)

(f) Recognition of deferred tax assets/liabilities on first-time adoption of the *IFRS for SMEs* (paragraph 35.10(h))

6. Entities are not required to disclose their reasons for applying any of the above 'undue cost or effort' exemptions in the *IFRS for SMEs*.

SMEIG Q&A

7. In 2012 the SMEIG considered a number of requests to provide guidance on application of the 'undue cost or effort' exemption 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*.

Discussions at SMEIG meetings

8. The staff feel it is worth highlighting the following discussion at the SMEIG meeting (from paragraph A4 in appendix A of this agenda paper):

9. SMEIG members had mixed views on how the ‘undue cost or effort’ exemption should be interpreted:

(a) Some felt the exemption is intended to be a relaxation of the 'impracticable' exemption and the focus is only on whether the requirement results in excessive cost or effort for SMEs (cost focus).

(b) Others felt that determination requires consideration of how the decisions of the users of the financial statements are affected by the availability of the information (user and cost focus). However, there were mixed views on how the user group should be defined for the purposes of the exemption:

  (i) Some believed it should be a hypothetical broad user group to be consistent with the fact that entities are preparing general purpose financial statements intended for a broad user group.

  (ii) Others believed the SME should only consider its own specific user group. However it was noted that in reality the user group may be bigger than envisaged by the SME.

SMEIG recommendation

The SMEIG recommends that Q&A 2012/01 *Application of 'undue cost or effort'* should be incorporated into the *IFRS for SMEs*.

The SMEIG also recommends that further guidance should be provided on the assessment of 'undue cost and effort'.

Finally, the SMEIG recommends that entities applying any of the 'undue cost or effort' exemptions in the standard should be required to disclose their reasons for doing so.

Staff recommendation

10. At its April 2013 meeting the IASB decided that all existing Q&As should be incorporated in the *IFRS for SMEs* and/or the IFRS Foundation education material as appropriate and the original Q&A deleted. In line with this decision, the staff agree with the SMEIG recommendation to incorporate the key parts of Q&A 2012/01 in the *IFRS for SMEs*. The staff note that the guidance in Q&A 2012/01

was issued fairly recently, and is not mandatory, which may explain why concerns about interpretation of 'undue cost or effort' have been raised even though some of them are addressed by that Q&A. Including the Q&A in the *IFRS for SMEs* means the guidance will become mandatory.

11. The staff suggests incorporating the following in the body of the *IFRS for SMEs:*

    (a) Paragraph 2 of Q&A 2012/01 because it addresses some of the concerns about how to interpret 'undue cost or effort' expressed by respondents to the RFI and other interested parties, eg whether the assessment requires consideration of how the economic decisions of the users of the financial statements could be affected.

    (b) Paragraph 3 of the Q&A 2012/01 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.*

12. The staff also think that guidance should be provided on how to determine the user group for the purposes of the exemption to address the mixed views expressed by SMEIG members in paragraph 9(b). Q&A 2012/01, paragraph 2 clarifies "*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"*. However, it does not provide guidance on whether these users should be the SME's own specific user group or a hypothetical broad user group. The staff agree with the statement in the Q&A that the '*undue cost and effort' exemption "depends on the SME's specific circumstances and on management's professional judgement in assessing the costs and benefits"*. Consistent with this statement the staff believe management should be required to apply judgement to determine who the expected users of the financial statements are.

13. The staff do not think the IASB should define 'undue cost or effort' or provide further guidance on its interpretation in the *IFRS for SMEs* (except as described in paragraphs 11-12) because ultimately application of the exemption depends on the SME's specific circumstances and on management's judgement.

14. Therefore, the staff recommend the following approach:

(a) Not to add a definition of 'undue cost or effort'.

(b) Incorporate paragraphs 2 and 3 of Q&A 2012/01 providing additional guidance on the balance between benefits and cost in Section 2 of the *IFRS for SMEs*.

(c) Amend the references in paragraphs 2 and 3 of Q&A 2012/01 to 'all expected users of the financial statements' to indicate management should consider all of its expected users, rather than either the known group of users or a hypothetical group of users.

(d) Adding paragraphs BC1-BC4 of Q&A 2012/01 to the Basis for Conclusions accompanying the amendment to the *IFRS for SMEs*.

15. The staff do not agree with the SMEIG recommendation that entities should be required to disclose their reasons for applying the 'undue cost or effort' exemptions. The staff think such disclosures would be too limited to provide useful information to users.

Questions for the IASB
1a) Does the IASB agree to incorporate Q&A 2012/01 in the *IFRS for SMEs*, together with guidance on the user group, as recommended by the staff in paragraph 14 and that no further guidance should be provided on how to apply the 'undue cost or effort' exemption? **1b) Does the IASB agree that entities should not be required to disclose their reasons for applying any of the 'undue cost or effort' exemptions in the *IFRS for SMEs?***

Issue 2) Uniform reporting dates for consolidation purposes (Section 9)

Issue raised in comment letters

16. 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.

17. 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 analysis

18. Paragraph 9.16 of the *IFRS for SMEs* states:

> 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.

19. Section 9 is 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
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> 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.

20. Paragraph B92 and B93 of IFRS 10 *Consolidated Financial Statements* contains similar requirements:

> 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.

21. Requirements in the *IFRS for SMEs* are less strict than full IFRSs. Both full IFRSs and the *IFRS for SMEs* require the financial statements of the parent and its subsidiaries used in the preparation of the consolidated financial statements to 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.

SMEIG recommendation

The majority of SMEIG members recommend retaining the impracticable criteria from deviation from uniform reporting dates.

A small minority of SMEIG members recommend simplifying the impracticable criterion. They would permit a parent entity to 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.

All SMEIG members feel additional guidance on the necessary adjustments if uniform reporting dates are not used would be helpful and supported the wording suggested by the IASB staff (see paragraph 23).

Staff recommendation

22. The staff agree with the recommendation by the majority of SMEIG members that further simplification of the impracticable criteria is not required. Furthermore, the staff note that the requirements in the *IFRS for SMEs* are already simplified from full IFRSs as explained in paragraph 21.

23. The staff and the SMEIG support amending paragraph 9.16 as shown in underline to provide additional guidance and improve the information provided to users of the financial statements:

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 for the IASB

2) Does the IASB agree to add guidance to paragraph 9.16 of the *IFRS for SMEs* as recommended by the staff in paragraph 23 but not to relax the impracticable criteria?

Issue 3) Definition of a basic financial instrument (Section 11)

Issue raised in comment letters

24. 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 analysis

25. 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).

26. 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.

SMEIG recommendation

The SMEIG recommends that paragraph 11.9 be clarified as suggested by the IASB staff (see paragraph 27).

Staff recommendation

27. Although the two examples in 11.10(b) and (d) partly address the concerns in paragraph 24, the staff recommend 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 and the SMEIG recommend revising paragraph 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 assessed in the currency in which the financial asset is denominated 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.

28. Staff have taken the revised wording from paragraphs B4.1.8 and B4.1.10 of IFRS 9 *Financial Instruments*. The staff think 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*.

Question for the IASB
3) Does the IASB agree to amend paragraph 11.9 of the *IFRS for SMEs* as recommended by the staff in paragraph 27?

Issue 4) Intangible assets acquired in a business combination (Section 18/19)

Issue raised in comment letters

29. Recognising all intangible assets of the acquiree in a business combination is too complex for SMEs and it is costly to use valuation experts.

Staff analysis

30. Paragraphs 18.8 and 19.15 in the *IFRS for SMEs* address acquisition of intangible assets as part 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
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> (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.
>
> 19.15 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

31. The wording in paragraph 18.8 of the *IFRS for SMEs* is based on the wording in IAS 38 (2004) *Intangible Assets*. In 2008 the IASB amended IAS 38 as part of the second phase of its business combinations project. IAS 38 (2008) removed the exemption in paragraph 18.8 from full IFRSs and clarified that the fair value of an intangible asset acquired in a business combination can be measured with sufficient reliability to be recognised separately from goodwill.

32. The staff think there are two simplifications that could be considered for SMEs. These simplification could either be used instead of, or as well as, the current exemption in paragraph 18.8:
    (a) add an undue cost or effort exemption from recognising intangible assets in a business combination; or
    (b) do not require separation of certain intangibles (such as those with no quoted market price, those that are not legal rights, and/or those that were not recognised by the acquiree).

33. The *IFRS for SMEs* differs from full IFRSs on the treatment of goodwill and indefinite life intangibles, and also on the requirements for determining the useful life of intangible assets. Under the *IFRS for SMEs* all intangible assets, including goodwill, are required to be amortised over their useful lives. Furthermore, paragraph 18.20 of the *IFRS for SMEs* currently requires that if an entity is unable to make a reliable estimate of the useful life of an intangible asset/goodwill, it is presumed to be ten years. At its April 2013 meeting, the IASB tentatively decided to modify paragraph 18.20 slightly to specify that if an entity is unable to make a reliable estimate of the useful life then it should not exceed 10 years (ie imposing an upper limit of 10 years in the absence of a reliable estimate, rather than a fixed life of 10 years). Under both the current and proposed paragraph 18.10 the staff expect that most SMEs will be required to amortise goodwill and other intangibles over a period of 10 years or less. This is particularly likely to be true when an entity has difficulty identifying and/or measuring intangible assets acquired in a business combination as it could also have difficulty estimating the useful life of those assets.

SMEIG recommendation

The SMEIG recommends that an undue cost or effort exemption should be added to the requirement to recognise intangible assets separately from goodwill in a business combination for cost-benefit reasons.

Staff recommendation

34. The staff agree with the SMEIG recommendation to add an 'undue cost or effort' exemption to the requirement to recognise intangible assets separately in a business combination. In light of the removal of the exemption in paragraph 18.8 from full IFRSs, the staff suggest replacing that exemption with an undue cost or effort exemption rather than trying to combine the two.

35. Therefore the staff suggest amending paragraph 18.8 with the following requirement:

    18.8 An intangible asset acquired in a business combination is recognised as an asset if its fair value can be measured reliably without undue cost or effort.

36. Similarly, the staff suggest amending paragraph 19.15(c) with a revised 19.15(c) and (d):

    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) ……

    (c) In the case of a contingent liability, its fair value can be measured reliably.

    (d) In the case of an intangible asset its fair value can be measured reliably without undue cost or effort.

37. As explained in paragraph 33, in the situation where an SME has significant difficultly identifying and measuring certain intangible assets separately from goodwill, most SMEs will be required to amortise those intangible assets over 10 years or less. In most cases SMEs will also be required to amortise goodwill over a period less than 10 years. Consequently, the staff think that the outcome of not separately recognising those intangible assets is unlikely to have a significant impact on profit or loss or financial position.

Question for the IASB
4) Does the IASB agree to amend paragraphs 18.8 and 19.15 of the *IFRS for SMEs* as recommended by the staff in paragraphs 35 and 36?

Issue 5) Exceptions from fair value measurement on allocation of the cost of a business combination (Section 19)

Issue raised in comment letters

38. Some of the simplifications in IFRS 3 *Business Combinations* for 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 analysis

39. Paragraph 19.14 in the *IFRS for SMEs* addresses the allocation of the cost of a business combination:

> 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').

40. 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. In April 2013, the IASB decided that IFRS(2008) should not be incorporated. Therefore for this reason and because Section 19 is based on IFRS 3(2004) staff have considered the exemptions in paragraphs B16 and B17 of IFRS 3(2004) when redrafting paragraph 19.14 below.

SMEIG recommendation

The SMEIG recommends that paragraph 19.14 be clarified as suggested by the IASB staff (see paragraph 41)**.**

Several SMEIG members note that although the current wording is unclear, they believe that in practice SMEs are already determining deferred tax assets/liabilities and defined benefit obligations of the acquiree in accordance with Section 28/29 rather than trying to determine a 'pure' fair value.

Staff recommendation

41. The staff and the SMEIG 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'). For the purpose of allocating the cost of a business combination, the acquirer shall treat the following measures as fair values:

    (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*.

42. For most assets and liabilities, paragraphs B16 and B17 of IFRS 3(2004) 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 also note that these were the only two items specifically highlighted by comment letters. 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.

43. The staff think that their recommended changes to paragraph 19.14 are unlikely to have a material effect for most SMEs. Furthermore, SMEIG members told the staff that they believe in practice SMEs are already determining deferred tax assets/liabilities and defined benefit obligations of the acquiree in accordance with

Section 28/29 rather than trying to determine a 'pure' fair value. Nevertheless, staff suggest revising the wording as it will result in a simplification and correct possible unintended consequences of the current wording.

Question for the IASB
5) Does the IASB agree to amend paragraph 19.14 of the *IFRS for SMEs* as recommended by the staff in paragraph 41?

Issue 6) Common control exemptions (Section 22)

Issue raised in comment letters

44. 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 use of the pooling of interests method for business combinations under common control.

    (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 analysis

45. 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.

46. 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.

SMEIG recommendation

The SMEIG recommends that an exemption for equity instruments issued as part of a business combination of entities or businesses under common control should be allowed. However the exemption should be clear that those equity instruments can be, but are not required to be, accounted for under paragraph 22.8 (ie the exemption should not be absolute).

The SMEIG recommends that a scope exemption similar to IFRIC 17.5 be introduced. The SMEIG note that otherwise Section 22 is more onerous than full IFRSs. The SMEIG support the wording suggested by the IASB staff (see paragraph 49).

Staff recommendation

47. The staff agree with the SMEIG recommendation that an exemption for equity instruments issued as part of a business combination under common control should be added. Full IFRSs does not contain a general principle like paragraph 22.8 for the initial recognition and measurement of equity instruments. Paragraph 22.8 was added to clarify the accounting treatment and the staff think it is helpful and should be retained. Therefore, the staff recommend that paragraph 22.8 should be amended as shown in underline to include an exemption for equity instruments issued as part of a business combination under common control:

> 22.8 An entity shall measure the equity instruments, <u>other than those issued as part of a business combination of entities or businesses under common control</u>, 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.

48. Some SMEIG members had concerns that the staff's proposed amendment to paragraph 22.8 above appears to prohibit accounting for instruments issued as part of a business combination under common control under paragraph 22.8. The staff disagrees. Paragraph 10.4 of the accounting policy hierarchy in Section 10 *Accounting Policies, Estimates and Errors* states that if the *IFRS for SMEs* does not specifically address a transaction, the entity's management uses its judgement in developing an accounting policy. Paragraph 10.5 states that the entity considers other guidance in the *IFRS for SMEs* dealing with similar and related issues. Consequently, the staff think by amending paragraph 22.8 as shown and remaining silent on accounting for equity instruments issued as part of a business combination under common control, SMEs can apply paragraph 22.8 by analogy. SMEs may also consider other accounting treatments if they comply with paragraphs 10.4-10.5.

49. The staff agree with the SMEIG recommendation to add a scope exemption like IFRIC 17.5 otherwise Section 22 is more onerous and prescriptive than full IFRSs. The staff and the SMEIG recommend adding paragraph 22.19 as shown below:

> 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.

Questions for the IASB
6a) Does the IASB agree to amend paragraph 22.8 of the *IFRS for SMEs* as recommended by the staff in paragraph 47? **6b) Does the IASB agree to add paragraph 22.19 to the *IFRS for SMEs* as recommended by the staff in paragraph 49?**

Issue 7) Related party definition (Section 33)

Issue raised in comment letters

50. 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 analysis

51. 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 (ED) *Relationships with the State (Proposed amendments to IAS 24)* so that SMEs could benefit from the simplifications.

52. A few changes were made to the definition of a related party in the 2008 ED when IAS 24 (2009) 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.

53. 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.

54. 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.

SMEIG recommendation

The SMEIG recommends that the current definition of a related party should be revised to be consistent with the definition in IAS 24(2009). This would remove the term 'significant voting power' which is causing confusion in practice. Plus a definition of close family member should be added to the *IFRS for SMEs.*

Staff recommendation

55. The staff agree with the SMEIG recommendation to revise the current definition of a related party to be consistent with the definition in IAS 24(2009). The current definition in the *IFRS for SMEs* is similar to the definition in IAS 24 and the staff believe that incorporating the definition in IAS 24(2009) would be unlikely to change the identified related parties for the vast majority of SMEs. Therefore, the staff think is better to use the definition in the IAS 24(2009), rather than in the 2008 ED. Staff also recommend the definition of close family member in IAS 24 (2009) is added to the *IFRS for SMEs*.

Question for the IASB
7) Does the IASB agree that the related party definition in Section 33 should be revised to be consistent with IAS 24 and a definition of close family member should be included?

Issue 8) Extractive activities (Section 34)

Issue raised in comment letters

56. 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 analysis

57. 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*.

58. 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.

59. 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) …….

60. 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 entities 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. 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. The entity may also choose to consider full IFRSs (paragraph 10.6) or consider another approach in accordance with paragraphs 10.4 and 10.5.

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

    (a) No change to the current requirements. Therefore allowing the practice explained in paragraph 60.

    (b) Delete paragraphs 17.3(b) and 18.3(b). Therefore requiring use of Section 17 and 18.

    (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.

SMEIG recommendation

The SMEIG recommend additional guidance should be added to Section 34 for entities involved in extractive activities. The SMEIG believe that it is better to include some guidance, rather than remain silent, to avoid confusion in practice. Guidance should provide those entities with reassurance that they can use their current accounting policies (similar to IFRS 6).

Staff recommendation

62. The staff agree with the SMEIG recommendation and suggest amending paragraph 34.11 of the *IFRS for SMEs* as shown in underline to clarify the current treatment and incorporate guidance from IFRS 6:

    34.11 An entity using this IFRS that is engaged in the exploration for, evaluation or extraction of mineral resources (extractive activities) shall determine an accounting policy specifying which expenditures are recognised as exploration and evaluation assets in accordance with paragraphs 10.4-10.6 in Section 10 *Accounting Policies, Estimates and Errors* and apply the policy consistently. Expenditures related to the development of mineral resources shall not be recognised as exploration and evaluation assets. ~~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*.~~

34.11A <u>Exploration and evaluation assets shall be measured at cost. After recognition, an entity shall apply Section 17 *Property, Plant and Equipment* and Section 18 *Intangible Assets* to the exploration and evaluation assets. If 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*.</u>

63. The staff also think that if paragraph 34.11 is revised as suggested, the IASB should also consider adding to Section 35 *Transition to the IFRS for SMEs* the deemed cost exemption for oil and gas assets in paragraph D8A of IFRS 1 *First-time Adoption of IFRSs*.

64. Staff do not suggest deleting paragraphs 17.3(b) and 18.3(b) because then entities would be required to apply the requirements of Sections 17 and 18 in specifying which expenditures are recognised as exploration and evaluation assets which would be more onerous and prescriptive than full IFRSs.

Questions for the IASB
8a) Does the IASB agree to amend paragraph 34.11 as recommended by the staff in paragraph 62? **8b) If so, does the IASB also agree a deemed cost exemption should be added to Section 35 for first time adopters of the *IFRS for SMEs* holding oil and gas assets based on the exemption in IFRS 1?**

Part B: Issue raised by members of the SMEIG

Issue 9) Unlisted equity instruments (Section 11-12)

Issue raised by members of the SMEIG

65. A few SMEIG members noted that the requirement to measure unlisted equity instruments at fair value if the fair value can be measured reliably is causing problems. In practice this means entities need to try to determine fair value and if they can, they have to do this on an annual basis regardless of the cost. This requirement is inconsistent with requirements elsewhere in the standard for the

valuation of difficult to measure items. These SMEIG members recommend that the IASB consider allowing an 'undue cost or effort' exemption from measurement of such instruments, as has been done for biological assets and investment property.

Staff analysis

66. Section 11 and 12 of the *IFRS for SMEs* require investments in equity instruments to be measured at fair value if they are publicly traded or fair value can otherwise be measured reliably. Other investments in equity instruments are measured at cost less impairment (paragraphs 11.14(c) and 12.8).

67. Paragraph 11.30 states:

> 11.30 The fair value of investments in assets that do not have a quoted market price in an active market is reliably measurable if:
>
> (a) the variability in the range of reasonable fair value estimates is not significant for that asset, or
>
> (b) the probabilities of the various estimates within the range can be reasonably assessed and used in estimating fair value

68. Under the current requirements an entity is required to try to estimate the fair value of investments in unquoted equity instruments in order to apply paragraph 11.30 regardless of the cost, time or effort of doing so.

Staff recommendation

69. For cost-benefit reasons the staff recommend that an undue cost or effort exemption should be added to paragraphs 11.14(c) and 12.8 as follows:

> 11.14(c) Investments in non-convertible preference shares and non-puttable ordinary or preference shares that meet the conditions in paragraph 11.8(d) shall be measured as follows (paragraphs 11.27–11.33 provide guidance on fair value):
>
> (i) if the shares are publicly traded or their fair value can otherwise be measured reliably without undue cost or effort, the investment shall be measured at fair value with changes in fair value recognised in profit or loss.
>
> (ii) all other such investments shall be measured at cost less impairment.
>
> 12.8 At the end of each reporting period, an entity shall measure all financial instruments within the scope of Section 12 at fair value and recognise changes in fair value in profit or loss, except as follows: equity instruments that are not publicly traded and whose fair value cannot otherwise be measured reliably

> without undue cost or effort, and contracts linked to such instruments that, if exercised, will result in delivery of such instruments, shall be measured at cost less impairment.

70. Adding an undue cost or effort exemption to paragraphs 11.14(c) and 12.8 as suggested in paragraph 69 would mean that an entity would not need to apply paragraph 11.30 if doing so would result in excessive cost, time and effort. Such an exemption is provided in other areas of the *IFRS for SMEs* for cost-benefit reasons, eg for measurement of investment property and biological assets, and the staff believe an exemption is equally appropriate here.

Question for the IASB
9) Does the IASB agree to amend paragraph 11.9 of the *IFRS for SMEs* as recommended by the staff in paragraph 69?

Appendix A: Extracts from the final SMEIG report

A1. This appendix contains the full SMEIG recommendations for the issues addressed in this agenda paper as extracted from the final SMEIG report. The issue numbers in this agenda paper do not follow the same numbering system as the issues in the SMEIG report. However, the SMEIG recommendations in this appendix have been presented in the same order as the issues in the main body of this agenda paper for ease of reference. The agenda papers for the SMEIG meeting and the SMEIG report are available on the IASB website: http://www.ifrs.org/Meetings/Pages/SMEIG-Feb-13.aspx .

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

A2. Should additional explanation be added to the IFRS for SMEs to help SMEs interpret and apply the 'undue cost or effort' exemption?

The SMEIG recommends that Q&A 2012/01 *Application of 'undue cost or effort'* should be incorporated in to the *IFRS for SMEs*. The SMEIG also recommends that further guidance should be provided on the assessment of 'undue cost and effort'. Finally, the SMEIG recommends that entities applying any of the 'undue cost or effort' exemptions in the standard should be required to disclose their reasons for doing so.

SMEIG discussion

A3. The SMEIG felt that Q&A 2012/01 *Application of 'undue cost or effort'* should be incorporated into the *IFRS for SMEs*. There was also broad support for requiring entities applying any of the 'undue cost or effort' exemptions in the standard to disclose their reasons for doing so.

A4. There was also broad support amongst SMEIG members for the IASB to provide further clarity on how the 'undue cost or effort' exemption should be applied. This is because there are mixed views in practice, and amongst SMEIG members, on how the exemption should be interpreted. The main views expressed by SMEIG members are as follows:

(a) Some SMEIG members felt the 'undue cost or effort' exemption is intended to be a relaxation of the impracticable exemption and the focus should be on whether or not the requirement results in excessive cost or effort for SMEs.

(b) Others felt that determination of whether the amount of cost or effort is excessive requires consideration of how the economic decisions of the users of the financial statements could be affected by the availability of the information. This is the view expressed in the Q&A. However, there were also mixed views within SMEIG members on how that user group should be defined for the purposes of the exemption:

    (i) Some believed it should focus on a hypothetical broad user group to be consistent with the fact that entities are preparing general purpose financial statements that are intended for a broad user group.

    (ii) Others believed the SME should only consider its own specific user group. However it was noted that in reality the user group may be bigger than envisaged by the SME, eg do they know if credit rating organisations are using their financial statements.

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

A5. Should paragraph 9.16 be revised either to allow further simplification or to provide additional guidance?

The majority of SMEIG members recommend retaining the impracticable criteria from deviation from uniform reporting dates.

A small minority of SMEIG members recommend simplifying the impracticable criterion. They would permit a parent entity to 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.

All SMEIG members feel additional guidance on the necessary adjustments if uniform reporting dates are not used would be helpful and support adding the following wording to paragraph 9.16 as suggested by the IASB staff.

"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."

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

A6. 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?

The SMEIG recommends that paragraph 11.9 be clarified as suggested by the IASB staff to correct unintended consequences of the current wording.

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

A7. Should any exemptions from fair value measurement be included in paragraph 19.14?

The SMEIG recommends the clarification suggested by the staff.

Several SMEIG members note that although the current wording is unclear, they believe that in practice SMEs are already determining deferred tax assets/liabilities and defined benefit obligations of the acquiree in accordance with Section 28/29 rather than trying to determine a 'pure' fair value.

A8. Should any change be made to provide relief from recognising intangible assets of the acquiree in a business combination?

The SMEIG recommends that an undue cost or effort exemption should be added to the requirement to recognise intangible assets separately from goodwill in a business combination for cost-benefit reasons (subject to comments in Issue A.13).

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

A9. Should an exemption be added to paragraph 22.8 for equity instruments issued as part of a business combination under common control?

The SMEIG recommends that an exemption for equity instruments issued as part of a business combination of entities or businesses under common control should be allowed. However the exemption should be clear that those equity instruments can be, but are not required to be, accounted for under paragraph 22.8 (ie the exemption should not be absolute).

A10. ***Should an exemption be added to paragraph 22.18 for a distribution of non-cash assets controlled by the same parties before and after the distribution?***

The SMEIG recommends that a scope exemption similar to IFRIC 17.5 be introduced. The SMEIG note that otherwise Section 22 is more onerous than full IFRSs. The SMEIG support the wording suggested by the IASB staff.

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

A11. Should the related party definition in Section 33 be revised to be consistent with IAS 24?

The SMEIG recommends that the current definition of a related party should be revised to be consistent with the definition in IAS 24. This would remove the term 'significant voting power' which is causing confusion in practice. Plus a definition of close family member should be added to the *IFRS for SMEs*.

Issue A.11) Extractive activities (Section 34)

A12. Are the current requirements appropriate for entities engaged in the exploration for, evaluation or extraction of mineral resources?

The SMEIG recommend additional guidance should be added to Section 34 for entities involved in extractive activities. The SMEIG believe that it is better to include some guidance, rather than remain silent, to avoid confusion in practice. Guidance should

provide those entities with reassurance that they can use their current accounting policies (similar to IFRS 6).

Appendix B: Selecting issues from the comment letters for IASB discussion

B1. The IASB staff have selected those issues raised by more than two comment letters for inclusion in agenda papers for this meeting unless they have already been discussed by the Board as part of issues at the March and April 2013 meetings. 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.

B2. The IASB staff have not included comments on the overall procedure of the triennial review process, eg timings of the review, effective date, and other due process issues. This is because the staff will deal with these issues at a future meeting.

B3. Staff note that a number of more minor issues were also raised by comment letters, eg those that highlight minor wording changes or inconsistencies. Staff will consider these more minor comments when drafting the proposed amendments to the *IFRS for SMEs*.