STAFF PAPER

May 2013

IASB Meeting

Project	**Comprehensive review of the *IFRS for SMEs***		
Paper topic	Additional issues raised by respondents: Paper 2 (changes not proposed by staff)		
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Purpose of this paper

1. Agenda Paper 8C (this agenda paper) asks the IASB to consider 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 not proposing changes to the *IFRS for SMEs*. This paper also includes one issue raised by members of the SME Implementation Group for which the staff do not propose changes.

2. The staff are not proposing changes to the *IFRS for SMEs* for any of the issues in this agenda paper. Consequently, at this meeting the staff suggest the IASB only discuss those issues for which IASB members have objections to the staff recommendation or queries.

Structure of this paper

3. 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

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

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

   (b) staff analysis; and

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

5. When introducing this paper the staff will ask whether any IASB members object or query any of the staff recommendations in this paper. Only those issues identified by IASB members will be discussed.

Part A: Issues raised by respondents

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

Issue raised in comment letters

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

Staff analysis

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

8. In 2012 the IASB started the second phase of the project to revise the Conceptual Framework. This phase will include chapters addressing elements of financial

statements (including recognition and derecognition), measurement, reporting entity, presentation and disclosure.

SMEIG recommendation

The majority of SMEIG members recommend no change to the current requirements during this comprehensive review. Consistent with the SMEIG recommendation for dealing with new and revised IFRSs during this comprehensive review, the Conceptual Framework should only be considered for incorporation when it has been completed under full IFRSs.

A small minority of SMEIG members recommend aligning the objective and qualitative characteristics with the amended IFRS Conceptual Framework during this comprehensive review. These members note that Chapter 1 and 3 of the Framework are unlikely to be amended further and they do not introduce changes for which implementation experience of entities needs to be tested**.**

Staff recommendation

9. The staff agree with the recommendation by the majority of SMEIG members not to incorporate Chapters 1 and 3 of the Conceptual Framework during this comprehensive review for the following reasons:

    (a) At its meetings in March and April 2013, the IASB tentatively decided that new or revised IFRSs should only be considered after they have been published. The IASB also decided that IFRS 9 *Financial Instruments* should only be considered after it has been completed even though parts of IFRS 9 have already been published. Consistent with these decisions the staff believe the Conceptual Framework should only be considered once it has been completed.

    (b) If Section 2 *Concepts and Pervasive Principles* is updated for changes under Chapters 1 and 3 of the Conceptual Framework, there would be no changes to the specific recognition, measurement, presentation and disclosure requirements of the *IFRS for SMEs*. Therefore, incorporating

Chapters 1 and 3 would not affect the financial reporting of the vast majority of SMEs. For this reason the staff do not believe there is an essential need to change the current requirements during this initial comprehensive review and it may be better update Section 2 in its entirety at the next review of the *IFRS for SMEs*.

10. For this reasons outlined in paragraph 9 and also the special need for stability during this initial comprehensive review, the staff think the Conceptual Framework should be considered for incorporation in its entirety when it has been completed.

Issue 2) Other comprehensive income (Section 5)

Issue raised in comment letters

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

Staff analysis

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

BC148 The *IFRS for SMEs* requires SMEs to recognise items of income or expense in other comprehensive income, rather than in profit or loss, in three circumstances:

(a) Paragraph 12.23 requires SMEs to recognise changes in the fair value of some hedging instruments in other comprehensive income.

(b) Paragraph 28.24 gives SMEs the option to recognise actuarial gains and losses either in profit or loss or in other comprehensive income.

(c) Paragraph 30.13 provides that, in consolidated financial statements, SMEs must recognise in other comprehensive income a foreign exchange difference (gain or loss) arising on a monetary item that forms part of the reporting entity's net investment in a foreign operation (subsidiary, associate or joint venture).

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

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

SMEIG recommendation

The majority of SMEIG members recommend no change to the current requirements. Consistent with the SMEIG recommendation for dealing with new and revised IFRSs during this comprehensive review, these members believe it would be better to wait until the IASB provides clarity on the conceptual reasoning for transferring items to OCI under the Conceptual Framework project.

A minority of SMEIG members recommend removing the concept of OCI from the *IFRS for SMEs*. These members recommend that items currently recognised in OCI be recognised directly in equity**.**

Staff recommendation

13. The staff agree with the recommendation by the majority of SMEIG members not to change the current requirements for items recognised in OCI. The IASB is reconsidering the treatment of OCI and recycling as part of its Conceptual Framework project and this is expected to result in changes to the requirements relating to OCI under full IFRSs. Given these expected changes in the future, the staff recommend no change is made to the *IFRS for SMEs* during this comprehensive review.

Issue 3) Hedging instruments (Section 12)

Issue raised in comment letters

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

Staff analysis

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

BC101(c) The *IFRS for SMEs* focuses on the types of hedging that SMEs are likely to do, specifically hedges of:

- interest rate risk of a debt instrument measured at amortised cost.
- foreign exchange risk or interest rate risk in a firm commitment or a highly probable forecast transaction.
- price risk of a commodity that it holds or in a firm commitment or a highly probable forecast transaction to purchase or sell a transaction.
- foreign exchange risk in a net investment in a foreign operation.

BC104 Section 12 also differs from IAS 39 with respect to hedge accounting in the following ways:

(a) Hedge accounting cannot be achieved by using debt instruments ('cash instruments') as hedging instruments. IAS 39 permits this for a hedge of a foreign currency risk.

(b) Hedge accounting is not permitted with an option-based hedging strategy. Because hedging with options involves incurring a cost, SMEs are more likely to use forward contracts as hedging instruments than options.

(c) Hedge accounting for portfolios is not permitted……{omitted text}.

The simplification in (a) is appropriate since hedge accounting would not have a significant effect on the financial statements because of the offsetting effects of the accounting for a foreign currency debt instrument under Section 11 and the recognition of exchange differences on most monetary items in profit or loss under Section 30 *Foreign Currency Translation*. In addition, the Board does not believe that the simplifications in (b) and (c) will affect SMEs adversely because these are not hedging strategies that are typical of SMEs.

SMEIG recommendation

The majority of SMEIG members recommend no change to the current requirements. The SMEIG note that entities that have the capability to follow other hedging strategies have the capability to apply the recognition and measurement requirements in IAS 39 *Financial Instruments: Recognition and Measurement*.

A minority of SMEIG members recommend removing all requirements for hedge accounting from the *IFRS for SMEs*. They note this would not prevent SMEs from using hedging instruments to hedge risks or from disclosing the effect of doing so.

There was very little support for adding additional requirements to Section 12 to cater for other hedging strategies, eg purchased options. Hedge accounting requirements will, however, be reconsidered when the IASB considers changes under IFRS 9 *Financial Instruments*.

Staff recommendation

16. The staff agree with the recommendation by the majority of SMEIG members not to change the current requirements. Adding additional requirements to Section 12 to cater for other hedging strategies would add complexity. Hedge accounting requirements will be reconsidered at a future review of the *IFRS for SMEs* when the IASB considers whether Section 11 and 12 should be amended for any of the changes under IFRS 9 *Financial Instruments*.

17. At its April 2013 meeting the IASB tentatively decided to keep the option in paragraph 11.2(b) of the *IFRS for SMEs* for entities to use the recognition and measurement principles in IAS 39 until IFRS 9 is completed and considered at a future review of the *IFRS for SMEs*. Therefore, if SMEs want to use other hedging strategies, and have the ability to apply hedge accounting to those strategies, staff think that they have the expertise to use the fallback to IAS 39. Staff further note that the fact the *IFRS for SMEs* does not permit certain hedge accounting strategies does not prevent SMEs from using purchased options, or other hedging instruments, to hedge risks or from disclosing the effect of doing so. It only prohibits hedge accounting for those transactions.

Issue 4) Accounting for investment property (Section 16)

Issue raised in comment letters

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

Staff analysis

19. Under the *IFRS for SMEs* if an entity can measure the fair value of an item of investment property reliably without undue cost or effort, it must use the fair value model. Otherwise, it must use the cost model.

20. The current approach is simpler than full IFRSs because full IFRSs requires fair value to be determined for all investment property. Even if an entity chooses the cost model, IAS 40 requires fair value disclosure in the notes to the financial statements unless the fair value of a property cannot be measured reliably.

21. Paragraph BC133 of the Basis for Conclusions accompanying the *IFRS for SMEs* explains the IASB's reasoning for the current approach:

> BC133 IAS 40 allows an accounting policy choice of either fair value through profit or loss or a cost-depreciation-impairment model (with some limited exceptions). An entity following the cost-depreciation-impairment model is required to provide supplemental disclosure of the fair value of its investment property. The *IFRS for SMEs* does not have an accounting policy choice but, rather, the accounting for investment property is driven by circumstances. If an entity knows or can measure the fair value of an item of investment property without undue cost or effort, it must use the fair value through profit or loss model for that investment property. It must use the cost-depreciation-impairment model for other investment property. Unlike IAS 40, the *IFRS for SMEs* does not require disclosure of the fair values of investment property measured on a cost basis.

SMEIG recommendation

The majority of SMEIG members recommend no change to the current requirements. These SMEIG members believe the current model is working in practice so there is no need to change it.

A minority of SMEIG members recommend introducing an option between the cost and fair value model.

Staff recommendation

22. The staff agree with the recommendation by the majority of SMEIG members not to change the current requirements. As explained in paragraph 20 the current approach is simpler than full IFRSs.

23. Staff do not think SMEs should have the option to account for investment property at cost with no fair value disclosures. Due to the nature of investment property (often held for capital appreciation) if reliable fair value information is available to the entity without undue cost or effort, the staff think it should be disclosed. Furthermore, if fair value information is known or is easily obtainable for an item of investment property, SMEs may find it easier to account for that item at fair value.

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

Issue 5) Accounting for biological assets (Section 34)

Issue raised in comment letters

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

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

Staff analysis

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

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

> BC124 Some preparers and auditors of the financial statements of SMEs engaged in agricultural activities said that the 'fair value through profit or loss' model is burdensome for SMEs, particularly when applied to biological assets of those SMEs operating in inactive markets or developing countries. They said that the presumption in IAS 41 that fair value can be estimated for biological assets and agricultural produce is unrealistic with respect to biological assets of some SMEs. Some proposed that SMEs should be permitted or required to use a 'cost-depreciation-impairment' model for all such assets. The Board did not support this approach for the reasons explained in paragraph BC146. However, the Board concluded, both because of the measurement problems in inactive markets and developing countries and for cost-benefit reasons, that SMEs should be required to use the fair value through profit or loss model only when fair value is readily determinable without undue cost or effort. When that is not the case, the Board concluded that SMEs should follow the cost-depreciation-impairment model.
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> BC146 Not only is fair value generally regarded as a more relevant measure in this industry, quoted prices are often readily available, markets are active, and measuring cost is actually more burdensome and arbitrary because of the extensive allocations required. Moreover, managers of most SMEs that undertake agricultural activities say that they manage on the basis of market prices or other measures of current value rather than historical costs. Users also question the meaningfulness of allocated costs in this industry.

SMEIG recommendation

The SMEIG recommend no change to the current requirements. Consistent with the SMEIG recommendation for dealing with new and revised IFRSs during this comprehensive review, the current project on IAS 41 for bearer biological assets should not be considered until the final amendment to IAS 41 is effective. The SMEIG also think that additional guidance is not necessary for agricultural activities**.**

Staff recommendation

29. The staff agree with the SMEIG recommendation not to change to the current requirements. The staff continue to support the IASB's decision and reasoning as outlined in paragraphs BC124 and BC146.

30. At its meeting in March 2013, the IASB tentatively decided that changes to IFRSs should be considered after the final new or revised IFRS is published. Therefore, the staff do not propose considering the current project on IAS 41 for bearer plants during this comprehensive review.

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

Issue 6) Further reduction in disclosure requirements (several sections)

Issue raised in comment letters

32. The IASB should consider further ways to reduce the disclosure requirements in the *IFRS for SMEs*. The main suggestions given were do not require reconciliations of balances and reduce the extent of related party disclosures. One comment letter suggested that addressing disclosures at a principle level, rather than individual standard level, could lead to further disclosure reduction.

Staff analysis

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

BC156 The disclosure requirements in the *IFRS for SMEs* are substantially reduced when compared with the disclosure requirements in full IFRSs. The reasons for the reductions are of four principal types:

(a) Some disclosures are not included because they relate to topics covered in IFRSs that are omitted from the *IFRS for SMEs* (see paragraph BC88).

(b) Some disclosures are not included because they relate to recognition and measurement principles in full IFRSs that have been replaced by simplifications proposed in the draft IFRS (see paragraphs BC98–BC136).

(c) Some disclosures are not included because they relate to options in full IFRSs that are not included in the *IFRS for SMEs* (see paragraphs BC84–BC86).

(d) Some disclosures are not included on the basis of users' needs or cost-benefit considerations (see paragraphs BC44–BC47, BC157 and BC158).

BC157 Assessing disclosures on the basis of users' needs was not easy, because users of financial statements tend to favour more, rather than fewer, disclosures. The Board was guided by the following broad principles:

(a) Users of the financial statements of SMEs are particularly interested in information about short-term cash flows and about obligations, commitments or contingencies, whether or not recognised as liabilities. Disclosures in full IFRSs that provide this sort of information are necessary for SMEs as well.

(b) Users of the financial statements of SMEs are particularly interested in information about liquidity and solvency. Disclosures in full IFRSs that provide this sort of information are necessary for SMEs as well.

(c) Information on measurement uncertainties is important for SMEs.

(d) Information about an entity's accounting policy choices is important for SMEs.

(e) Disaggregations of amounts presented in SMEs' financial statements are important for an understanding of those statements.

(f) Some disclosures in full IFRSs are more relevant to investment decisions in public capital markets than to the transactions and other events and conditions encountered by typical SMEs.

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

SMEIG recommendation

The SMEIG recommend no further simplification of the disclosure requirements.

However, the SMEIG supported the suggestion by the staff that prior year reconciliations of balances should not be required (currently this is only stated in some sections of the *IFRS for SMEs*)**.**

Staff recommendation

34. The staff agree with the SMEIG recommendation not to look to provide further relief of the current disclosure requirements. When developing the *IFRS for SMEs* significant time was spent assessing which disclosures are appropriate for SMEs and users of their financial statements (as described in paragraphs BC156-BC158 of the Basis for Conclusions). Furthermore, respondents only provided two specific suggestions for how to simplify the current disclosures and staff have addressed these in paragraphs 35 and 36 below. Staff do not have any other suggestions on how to further simplify disclosures. The IASB is currently looking at ways of improving disclosure under full IFRSs in its Conceptual Framework project. Therefore, the IASB will be able to consider the outcome of this work at the next review of the *IFRS for SMEs*.

35. Some respondents suggested removing reconciliations of balances for SMEs. Staff disagree as the information necessary to prepare these reconciliations should be easily available to SMEs. However, staff think it is generally unnecessary to require prior year reconciliations as they will be available in the prior year financial statements. Nearly all sections of the *IFRS for SMEs* already provide relief from prior year reconciliations. The staff intend to extend such relief to all reconciliations of balances in the *IFRS for SMEs* for consistency. The staff suggest this is dealt with during drafting of the amendments to the *IFRS for SMEs*.

36. Some respondents suggested reducing related party disclosures. The staff disagree as related party disclosures are likely to be especially important to users of the

general purpose financial statements of SMEs. For example, transactions such as the following are likely to be common for smaller owner managed entities:

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

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

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

Issue 7) Reduced disclosure framework for subsidiaries

Issue raised in comment letters

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

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

Staff analysis

39. The staff do not propose to discuss this issue during this meeting as such a project would be separate from the comprehensive review of the *IFRS for SMEs*. Plus, the staff note that the project would probably only be considered after disclosure requirements are considered as part of the Conceptual Framework (see paragraph 34) and would need to compete with other projects for space on the IASB's agenda.

SMEIG recommendation

The SMEIG recommends that this be a potential project for the consideration of the IASB as there is significant worldwide demand for an international reduced disclosure framework for subsidiaries of listed group.

Staff recommendation

40. The staff agree with the SMEIG recommendation to suggest this as a potential project to the IASB because there is a significant worldwide demand for such a framework. It would be better to develop an international reduced disclosure framework for subsidiaries of listed groups than have individual jurisdictions develop their own. Plus, it would also reduce pressure from constituents to align the requirements of the *IFRS for SMEs* with full IFRSs to cater for subsidiaries of listed groups (eg addition of complex options, adopting full IFRSs before implementation experience is assessed, etc). Such a project would be separate from the *IFRS for SMEs*.

Issue 8) Size-dependent reliefs

Issue raised in comment letters

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

SMEIG recommendation

The SMEIG recommends that the IASB not consider size-dependent reliefs from requirements in the *IFRS for SMEs*.

Staff recommendation

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

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

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

Issue 9) Name of the Standard

Issue raised in comment letters

45. The title of the standard should be changed to focus on entities within its scope. One suggestion is to survey constituents about a possible name change. Another suggestion was to remove the term 'IFRS' from the title to avoid confusion.

Staff analysis

46. The IASB has discussed the name on several occasions during its redeliberations. At the outset of the project, after soliciting views in a June 2004 Discussion Paper, the IASB chose the term 'Small and Medium-sized Entities (SMEs)' to describe the entities eligible to use the standard, primarily because SME is widely recognised globally. However, a significant number of respondents said that 'SME' is not appropriate because (a) 'small' and 'medium' imply a size test and (b) the term SME already has precise, and differing, quantified definitions in many jurisdictions and two definitions for the same term would lead to confusion.

47. In May 2008, the IASB tentatively decided that the title of the standard should be changed to IFRS for Private Entities. However, some of the IASB's constituents felt changing the name to 'private entities' indicated a move away from small and medium-sized entities toward those at the larger-size end of the spectrum of entities without public accountability. Additionally, like 'SME', the term 'private entity' has particular meaning in some countries.

48. In January 2009 the name was changed to IFRS for Non-publicly Accountable Entities. The reaction to this name was unfavourable because (a) it is expressed in the negative, (b) all entities have some accountability to the public and (c) 'non-publicly accountable entity' is a complicated phrase to say and to translate.

49. Suggestions such as 'Simplified IFRSs', 'Abridged IFRSs', 'Concise IFRSs' etc. were rejected because many constituents are concerned that these titles could be perceived as implying that the standard is second class to full IFRSs and more in the nature of training materials for full IFRSs than a separate standard.

50. Finally in March 2009 after raising the issue with the National Standard-Setters, the IASB decided that the name of the standard will be the *IFRS for SMEs*.

SMEIG recommendation

The SMEIG recommends that the title of the standard should not be changed. The title of the standard is well established as a brand. Furthermore, it has been incorporated in the national law in many jurisdictions and changing the law would cause significant problems**.**

Staff recommendation

51. The staff agree with the SMEIG recommendation that the IASB should not reconsider the name of the Standard. The name has been discussed at length and no better alternative to the *IFRS for SMEs* has been found. The staff do not think the issue should be opened again. The title *IFRS for SMEs* is well established and staff recommend it is not changed.

Part B: Issue raised by members of the SMEIG

Issue 10) Barter transactions (Section 23)

Issue raised by members of the SMEIG

52. A small minority of SMEIG members suggested the IASB should consider adding guidance on barter transactions because these transactions occur frequently for some SMEs.

Staff analysis

53. The staff think the following are the main paragraphs in the *IFRS for SMEs* that apply to accounting for barter transactions:

> 23.3 An entity shall measure revenue at the fair value of the consideration received or receivable. The fair value of the consideration received or receivable takes into account the amount of any trade discounts, prompt settlement discounts and volume rebates allowed by the entity.
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> 23.6 An entity shall not recognise revenue:
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> (a) when goods or services are exchanged for goods or services that are of a similar nature and value, or
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> (b) when goods or services are exchanged for dissimilar goods or services but the transaction lacks commercial substance.
>
> 23.7 An entity shall recognise revenue when goods are sold or services are exchanged for dissimilar goods or services in a transaction that has commercial substance. In that case, the entity shall measure the transaction at

(a) the fair value of the goods or services received adjusted by the amount of any cash or cash equivalents transferred; or

(b) if the amount under (a) cannot be measured reliably, then at the fair value of the goods or services given up adjusted by the amount of any cash or cash equivalents transferred; or

(c) if the fair value of neither the asset received nor the asset given up can be measured reliably, then at the carrying amount of the asset given up adjusted by the amount of any cash or cash equivalents transferred.

54. The above paragraphs are similar to the requirements under paragraph 12 of IAS 18 *Revenue*. However IAS 18 does not include paragraph 23.7(c).

55. Under full IFRSs, SIC 31 *Revenue—Barter Transactions Involving Advertising Services* provides additional guidance on the circumstances under which a seller can reliably measure revenue at the fair value of advertising services received or provided in a barter transaction. The consensus in paragraph 5 of SIC 31 is:

> 5 Revenue from a barter transaction involving advertising cannot be measured reliably at the fair value of advertising services received. However, a Seller can reliably measure revenue at the fair value of the advertising services it provides in a barter transaction, by reference only to non-barter transactions that:
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> (a) involve advertising similar to the advertising in the barter transaction;
>
> (b) occur frequently;
>
> (c) represent a predominant number of transactions and amount when compared to all transactions to provide advertising that is similar to the advertising in the barter transaction;
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> (d) involve cash and/or another form of consideration (eg marketable securities, non-monetary assets, and other services) that has a reliably measurable fair value; and
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> (e) do not involve the same counterparty as in the barter transaction.

Staff recommendation

56. The staff think the current guidance in Section 23 of the *IFRS for SMEs* (see paragraph 53) is sufficient to address the accounting for barter transactions and do not recommend providing further guidance, eg incorporating the consensus in SIC 31. Entities would be permitted to refer to SIC 31 for guidance under the accounting policy hierarchy in Section 10 *Accounting Policies, Estimates and Errors*.

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.

A2. Some of the recommendations in this appendix make reference to other issues. These are references to other issues in the SMEIG report (and not the issues in the body of this agenda paper). 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.1) The revised IFRS Conceptual Framework

A3. Should the IFRS for SMEs be revised as a result of the changes under Chapter 1 and 3 of the Conceptual Framework?

The majority of SMEIG members recommend no change to the current requirements during this comprehensive review. Consistent with the SMEIG recommendation for new and revised IFRSs (see Issue 4), the Conceptual Framework should only be considered for incorporation when it has been completed under full IFRSs.

A small minority of SMEIG members recommend aligning the objective and qualitative characteristics with the amended IFRS Conceptual Framework during this comprehensive review. These members note that Chapter 1 and 3 of the Framework are unlikely to be amended further and they do not introduce changes for which implementation experience of entities needs to be tested.

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

A4. Should the IFRS for SMEs be revised to require all items of income and expense to be recognised in profit or loss?

The majority of SMEIG members recommend no change to the current requirements. Consistent with the SMEIG recommendation for new and revised IFRSs (see Issue 4), these members believe it would be better to wait until the IASB provides clarity on the conceptual reasoning for transferring items to OCI under the Conceptual Framework project. They further note that if revaluation of PPE is permitted, it would be more difficult to remove OCI altogether.

A minority of SMEIG members recommend removing the concept of OCI from the *IFRS for SMEs*. These members recommend that items currently recognised in OCI be recognised directly in equity.

Issue A.5) Hedging instruments (Section 12)

A5. Should any changes be made to Section 12's hedge accounting requirements to permit additional hedging strategies?

The majority of SMEIG members recommend no change to the current requirements. The SMEIG note that entities that have the capability to follow other hedging strategies have the capability to apply the recognition and measurement requirements in IAS 39. Under Issue 7 the SMEIG recommend that before removing the fallback to IAS 39 it is important to assess to what extent it was being used in practice.

A minority of SMEIG members recommend removing all requirements for hedge accounting from the *IFRS for SMEs*. They note this would not prevent SMEs from using hedging instruments to hedge risks or from disclosing the effect of doing so. It only prohibits hedge accounting.

There was very little support for adding additional requirements to Section 12 to cater for other hedging strategies, eg purchased options. Hedge accounting requirements will, however, be reconsidered when the IASB considers changes under IFRS 9.

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

A6. Should Section 16 be revised, eg to permit a choice of using the cost model or the fair value model for investment property like IAS 40?

The majority of SMEIG members recommend no change to the current requirements. These SMEIG members believe the current model is working in practice so there is no need to change it.

A minority of SMEIG members recommend introducing an option between the cost and fair value model.

SMEIG discussion

A7. The majority of SMEIG members recommended keeping the current requirements. Whilst some of these members see the benefit of permitting SMEs the choice of accounting for investment property either under the cost model or the fair value model, they believed the current model is working in practice and such a significant change is not necessary.

A8. A few SMEIG members noted that some SMEs are accounting for their investment property at cost because the cost of hiring an external valuer is considered to be undue. These SMEIG members supported this interpretation of undue cost or effort for the SMEs concerned.

A9. A minority of SMEIG members expressed concern about potential abuse of the undue cost or effort exemption and didn't agree that it should be treated as such a low hurdle. In general these SMEIG members supported giving entities a choice between the cost and fair value model instead.

A10. The broad view of the SMEIG was that further guidance should be added in the *IFRS for SMEs* to help SMEs interpret 'undue cost or effort'. The discussion on undue cost or effort was deferred to Issue A.13 below.

A11. Some SMEIG members suggested that investment property could be accounted for as PPE with the revaluation option as discussed in Issue 5 above. The SMEIG members generally decided not to pursue this alternative. A few SMEIG members also felt that if a revaluation option is permitted for PPE, it would be inconsistent not to allow a choice of fair value or cost for investment property.

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

A12. Are the current requirements appropriate for entities engaged in agricultural activity?

The SMEIG recommend no change to the current requirements. Consistent with the SMEIG recommendation for new and revised IFRSs (see Issue 4), the current project on IAS 41 for bearer biological assets should not be considered until the final amendment to IAS 41 is effective. The SMEIG also think that additional guidance is not necessary for agricultural activities.

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

A13. Should any further disclosure reduction be considered in the IFRS for SMEs?

The SMEIG recommend no further simplification of the disclosure requirements.

However, the SMEIG supported the suggestion by the staff that prior year reconciliations of balances should not be required (currently this is only stated in some sections of the *IFRS for SMEs*).

Issue B.1) Reduced disclosure framework for subsidiaries

A14. Should the IASB consider a potential project, outside the IFRS for SMEs, to develop a reduced disclosure framework for subsidiaries of a listed group?

The SMEIG recommends that this be a potential project for the consideration of the IASB as there is significant worldwide demand for an international reduced disclosure framework for subsidiaries of listed group.

SMEIG discussion

A15. There was broad support amongst SMEIG members for suggesting this as a potential project to the IASB. It was noted at the meeting that there is significant demand across the world for an international reduced disclosure framework for subsidiaries of listed groups. Several jurisdictions have already developed their own framework.

A16. Several SMEIG members noted that this would not need to be a long project if the scope of the project is pre-defined. One SMEIG member said the UK reduced disclosure framework (FRS 101) is only approximately 10 pages long. It was noted that a starting point for the scope of the project could be to use the same criteria as the scope exemption from producing consolidated financial statements (IFRS 10.4(a)).

Issue B.2) Size-dependent reliefs

A17. Should the IASB consider adding size-dependent reliefs from some of the requirements in the IFRS for SMEs?

The SMEIG recommends that the IASB not consider size-dependent reliefs from requirements in the *IFRS for SMEs*.

Issue B.3) Name of the Standard

A18. Should the IASB reconsider the name of the Standard?

The SMEIG recommends that the title of the standard should not be changed. The title of the standard is well established as a brand. Furthermore, it has been incorporated in the national law in many jurisdictions and changing the law would cause significant problems.

A19. Several SMEIG members noted that the title is a problem because it doesn't describe the entities in its scope. However, the broad view of the SMEIG was because the title of the standard is well established as a brand it should not be changed now. Several SMEIG members noted that the *IFRS for SMEs* has been incorporated in the national law in many jurisdictions and changing those laws would cause significant problems.

A20. As noted in Issue 4 there is general support amongst SMEIG members for including additional guidance in the Preface to the *IFRS for SMEs* to clarify the objective of the *IFRS for SMEs* to help jurisdictions. This would counteract any confusion caused by the name of the Standard. SMEIG members also generally felt that the IASB should interact with local standard setters to help them better understand the purpose of the *IFRS for SMEs*, particularly if the scope of the *IFRS for SMEs* is opened up to other entities (see Issues 1 and 2).