

Meeting documentation

World Standard-setters Meeting

Smaller group discussions: IFRS for SMEs



World Standard-setters Meeting

Monday 23 and Tuesday 24 September 2013
The Grange City Hotel (London)

Smaller group discussion
IFRS for SMEs

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List of proposed amendments to the *IFRS for SMEs*

(near final draft)

The following table summarises the proposed amendments in the draft Exposure Draft by section of the *IFRS for SMEs*:

Section	Subject of proposed amendment
Section 1 <i>Small and Medium-sized Entities</i>	<ol style="list-style-type: none"> 1. Rewording of the clarification that the types of entities listed in paragraph 1.3(b) are not automatically publicly accountable. 2. Clarification of the use of the <i>IFRS for SMEs</i> in the parent's separate financial statements—based on Q&A 2011/01 <i>Use of the IFRS for SMEs in a parent's separate financial statements</i>¹.
Section 2 <i>Concepts and Pervasive Principles</i>	<ol style="list-style-type: none"> 3. Guidance on the 'undue cost or effort' exemption that is used in several sections of the <i>IFRS for SMEs</i>—based on Q&A 2012/01 <i>Application of 'undue cost or effort'</i>.
Section 4 <i>Statement of Financial Position</i>	<ol style="list-style-type: none"> 4. Relief from the requirement to disclose comparative information for the reconciliation of the opening and closing number of shares outstanding.
Section 5 <i>Statement of Comprehensive Income and Income Statement</i>	<ol style="list-style-type: none"> 5. Clarification that the single amount presented for discontinued operations includes any impairment of the discontinued operation measured in accordance with Section 27. 6. Incorporation of the main change under IAS 1 (2011 amendment) <i>Presentation of Items of Other Comprehensive Income</i>, which requires entities to group items presented in other comprehensive income (OCI) on the basis of whether they are potentially reclassifiable to profit or loss.
Section 6 <i>Statement of Changes in Equity and Statement of Income and Retained Earnings</i>	<ol style="list-style-type: none"> 7. Incorporation of <i>Clarification of statement of changes in equity</i> (IAS 1) from <i>Improvements to IFRSs</i>, issued in May 2010, which clarifies that an entity may present the required analysis for each component of OCI either in the statement of changes in equity or in the notes.
Section 9 <i>Consolidated and Separate Financial Statements</i>	<ol style="list-style-type: none"> 8. Clarification that all subsidiaries acquired with the intention of sale or disposal within one year should be excluded from consolidation. 9. Additional guidance on the preparation of consolidated financial statements if group entities have different reporting dates. 10. Clarification that all cumulative exchange differences that arise from the translation of a foreign subsidiary are not recognised in profit or loss on disposal of the subsidiary—based on Q&A 2012/04 <i>Recycling of cumulative exchange differences on disposal of a subsidiary</i>.

¹Q&As are non-mandatory guidance issued by the SME Implementation Group.

	<p>11. Amendment to the definition of ‘combined financial statements’ to refer to entities under common control, rather than only those under common control by a single investor.</p>
<p>Section 11 <i>Basic Financial Instruments</i></p>	<p>12. Addition of an ‘undue cost or effort’ exemption from the measurement of investments in equity instruments at fair value.</p> <p>13. Clarification of the interaction of the scope of Section 11 with other sections of the <i>IFRS for SMEs</i>.</p> <p>14. Clarification that foreign currency loans and loans with standard loan covenants will usually be basic financial instruments.</p> <p>15. Clarification in the guidance on fair value measurement in Section 11 that the best evidence of fair value may be a price in a binding sale agreement. The wording used is consistent with paragraph 27.14.</p>
<p>Section 12 <i>Other Financial Instruments Issues</i></p>	<p>16. Clarification of the interaction of the scope of Section 12 with other sections of the <i>IFRS for SMEs</i>.</p> <p>17. Addition of an ‘undue cost or effort’ exemption from the measurement of investments in equity instruments at fair value.</p> <p>18. Clarification that hedging instruments are accounted for under paragraph 12.23 and are therefore exempt from paragraph 12.8.</p> <p>19. Clarification of the requirements for hedge accounting, including a sentence that clarifies the treatment of exchange differences relating to a net investment in a foreign operation for consistency with paragraphs 9.18 and 30.13.</p>
<p>Section 17 <i>Property, Plant and Equipment</i></p>	<p>20. Incorporation of <i>Classification of servicing equipment</i> (IAS 16) from <i>Annual Improvements 2009–2011 Cycle</i>, issued in May 2012, which clarifies the classification of spare parts, stand-by equipment and servicing equipment as property, plant and equipment or inventory.</p>
<p>Section 18 <i>Intangible Assets other than Goodwill</i></p>	<p>21. Modification to require that if an entity is unable to make a reliable estimate of the useful life of an intangible asset, the useful life should not exceed 10 years, rather than be fixed at 10 years.</p>
<p>Section 19 <i>Business Combinations and Goodwill</i></p>	<p>22. Replacement of the undefined term ‘date of exchange’ with ‘date of acquisition’.</p> <p>23. Clarification of the measurement requirements for employee benefit arrangements and deferred tax when allocating the cost of a business combination.</p> <p>24. Addition of an ‘undue cost or effort’ exemption to the requirement to recognise intangible assets separately in a business combination.</p> <p>25. Guidance on the calculation of non-controlling interest referred to in paragraph 9.13(d)(i).</p> <p>26. Modification to require that if an entity is unable to make a reliable</p>

	<p>estimate of the useful life of goodwill, the useful life should not exceed 10 years, rather than be fixed at 10 years, and should be disclosed.</p>
Section 20 <i>Leases</i>	<p>27. Inclusion of leases with an interest rate variation clause linked to market interest rates within the scope of Section 20, rather than Section 12.</p> <p>28. Clarification that not all outsourcing arrangements, telecommunication contracts that provide rights to capacity and take-or-pay contracts, are, in substance, leases.</p>
Section 22 <i>Liabilities and Equity</i>	<p>29. Additional guidance on classifying financial instruments as equity or liability.</p> <p>30. Exemption from the initial measurement requirements in paragraph 22.8 for equity instruments issued as part of a business combination, including business combinations of entities or businesses under common control.</p> <p>31. Incorporation of the conclusions of IFRIC 19 <i>Extinguishing Financial Liabilities with Equity Instruments</i> to provide guidance on debt for equity swaps when the financial liability is renegotiated and the debtor extinguishes the liability by issuing equity instruments.</p> <p>32. Incorporation of <i>Tax effect of distributions to holders of equity instruments</i> (IAS 32) from <i>Annual Improvements 2009–2011 Cycle</i>, issued in May 2012, which clarifies that income tax relating to distributions to holders of equity instruments and to transaction costs of an equity transaction should be accounted for in accordance with Section 29.</p> <p>33. Amendment to require that the liability component of a compound financial instrument is accounted for in the same way as a similar standalone financial liability.</p> <p>34. Additional guidance on accounting for the settlement of the dividend payable for a distribution of non-cash assets.</p> <p>35. Exemption from the requirements in paragraph 22.18 for distributions of non-cash assets ultimately controlled by the same parties before and after the distribution.</p>
Section 26 <i>Share-based Payment (SBP)</i>	<p>36. Alignment of the scope and the definitions with IFRS 2 <i>Share-based Payment</i> to clarify that share-based payment (SBP) transactions involving equity instruments of other group entities are in the scope of Section 26.</p> <p>37. Clarification that Section 26 applies to all SBP transactions in which the identifiable consideration appears less than the fair value of the equity instruments granted or the liability incurred and not only when such SBP transactions are required by law.</p> <p>38. Clarification of the accounting treatment for vesting conditions.</p>

	<p>39. Clarification that the requirements for modifications to grants of equity instruments apply to all SBP transactions measured by reference to the fair value of equity instruments granted, not just SBP transactions made to employees, and also that modifications may or may not be beneficial to the counterparty.</p> <p>40. Clarification that the simplification provided for group plans is for the measurement of the SBP expense only and does not provide relief from its recognition.</p>
Section 27 <i>Impairment of Assets</i>	41. Clarification that Section 27 does not apply to assets arising from construction contracts.
Section 28 <i>Employee Benefits</i>	<p>42. Clarification that only some of the accounting requirements in paragraph 28.23 are relevant to other long-term employee benefits.</p> <p>43. Removal of the requirement to disclose the accounting policy for termination benefits.</p>
Section 29 <i>Income Tax</i>	<p>44. Alignment of the main principles of Section 29 with IAS 12 <i>Income Taxes</i> for the recognition and measurement of deferred tax, modified to be consistent with the other requirements in the <i>IFRS for SMEs</i>.</p> <p>45. Addition of an 'undue cost or effort' exemption to the requirement to offset income tax assets and liabilities.</p>
Section 30 <i>Foreign Currency Translation</i>	46. Clarification that financial instruments that derive their value from the change in a specified foreign exchange rate are excluded from Section 30, but not financial instruments denominated in a foreign currency.
Section 33 <i>Related Party Disclosures</i>	47. Alignment of the definition of 'related party' with IAS 24 <i>Related Party Disclosures</i> (2009).
Section 34 <i>Specialised Activities</i>	<p>48. Relief from the requirement to disclose comparative information for the reconciliation of changes in the carrying amount of biological assets.</p> <p>49. Clarification of the accounting requirements for extractive activities.</p>
Section 35 <i>Transition to the IFRS for SMEs</i>	<p>50. Incorporation of <i>Repeated application of IFRS 1</i> (IFRS 1) from <i>Annual Improvements 2009–2011 Cycle</i>, issued in May 2012, which permits Section 35 to be used more than once.</p> <p>51. Incorporation of the change under IFRS 1 (2012 amendment) <i>Government Loans</i> to provide an exception to the retrospective application of the <i>IFRS for SMEs</i> to government loans that exist at the date of transition to the <i>IFRS for SMEs</i>.</p> <p>52. Incorporation of <i>Revaluation basis as deemed cost</i> (IFRS 1) from <i>Improvements to IFRSs</i>, issued in May 2010, which permits first-</p>

	<p>time adopters to use an event-driven fair value measurement as ‘deemed cost’.</p> <p>53. Incorporation of <i>Use of deemed cost for operations subject to rate regulation</i> (IFRS 1) from <i>Improvements to IFRSs</i>, issued in May 2010, which allows an entity to use the previous GAAP carrying amount of items of property, plant and equipment, or intangible assets used in operations subject to rate regulations.</p> <p>54. Incorporation of the change under IFRS 1 (2010 amendment) <i>Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters</i> to provide guidance for entities emerging from severe hyperinflation and that are applying the <i>IFRS for SMEs</i> for the first time.</p> <p>55. Simplification of the wording used in the exemption from restatement of financial information on first-time adoption.</p>
Glossary (amended definitions)	<p>56. In addition to consequential amendments to glossary definitions as a result of the proposed amendments above the following existing definitions have been proposed for amendment:</p> <ul style="list-style-type: none"> • ‘financial liability’—incorporation of IAS 32 (2009 amendment) <i>Classification of Rights Issues</i>; • ‘separate financial statements’—definition rewritten to make it easier to understand; and • ‘substantively enacted’—definition rewritten to make it easier to understand.
Glossary (new definitions)	<p>57. In addition to new definitions being added to the glossary as a result of the proposed amendments above, the following new definitions have been proposed:</p> <ul style="list-style-type: none"> • active market; • close members of the family of a person; • foreign operation; • minimum lease payments; and • transaction costs.

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NOTES

September 2013

International Financial Reporting Standards

2009

International Accounting Standards Board (IASB)

IFRS[®] for SMEs
International Financial Reporting Standards (IFRS[®])
for Small and Medium-Sized Entities (SMEs)

**Comprehensive review
of the IFRS for SMEs**

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Comprehensive review 2


Initial comprehensive review: After 2 years implementation experience

- Fix errors and omissions, lack of clarity, and other implementation problems
- Also consider need for improvements based on recent changes to full IFRSs

Thereafter: Once every three years (approximately) omnibus exposure draft of updates

- urgent issues may be addressed more frequently

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Comprehensive review 3

Request for Information (Rfi) issued June 2012

- Comments due 30 November 2012

SME Implementation Group meeting February 2013

- Developed recommendations for the IASB on possible amendments to the *IFRS for SMEs*

IASB deliberations April - June 2013

Exposure Draft planned September/October 2013

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Request for Information 4

The IASB received 89 comment letters on the Rfi. Posted on IASB website

- Africa (10)
- Asia (13)
- Europe (38)
- Global (11)
- Latin America (8)
- North America (5)
- Oceania (4)

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Exposure Draft 5

Limited amendments


- Few significant new issues identified by RFI
- *IFRS for SMEs* is still a new Standard
- **Primary aim** for a standalone, simplified set of accounting principles for entities
 - that do not have public accountability
 - typically have less complex transactions
 - limited resources to apply full IFRSs
 - comparability with listed peers not key consideration

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Proposed amendments 6

57 in total



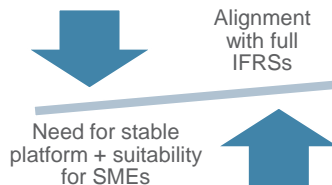
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Proposed amendments *Principles for new and revised IFRSs*

7

- Each new and revised IFRS considered individually
- New IFRSs only considered once published



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Proposed amendments *New and revised IFRSs incorporated*

8

- IAS 1 *Presentation of Items of Other Comprehensive Income* (2011)
- IAS 32 *Classification of Rights Issues* (2009)
- IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments*
- 2 amendments to IFRS 1 *First-time Adoption of IFRSs*
 - *Severe Hyperinflation* (2010) & *Government Loans* (2012)
- Scope of IFRS 2 *Share-based Payment*
- Definition of related party in IAS 24 (2009)



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Proposed amendments *Annual improvements incorporated*

9

2010

- Revaluation basis as deemed cost (IFRS 1)
- Deemed cost for operations subject to rate regulation (IFRS 1)
- Clarification of statement of changes in equity (IAS 1)

2012

- Repeated application of IFRS 1 (IFRS 1)
- Classification of servicing equipment (IAS 16)
- Tax effect of distributions to equity holders (IAS 32)



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Proposed amendments *New and revised IFRSs not incorporated*

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- Changes under IFRS 3(2008), IFRS 10, IFRS 11 and IFRS 13, IAS 19(2011)
 - Individual reasoning in basis for conclusions
- Current and future changes under IFRS 9 and *Conceptual Framework*
- Future changes under other IASB projects



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Proposed amendments *Changes*

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Section 29 *Income Tax*

- Current requirements
 - Based on IASB's 2009 Exposure Draft *Income Tax* that was never finalised
- Proposed requirements
 - Alignment of main principles for recognition and measurement of deferred tax with full IFRSs
 - Retains presentation and disclosure simplifications



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Proposed amendments *Changes continued*

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- If **useful life of goodwill**/other intangible asset cannot be estimated reliably, must not exceed 10 years
 - previously fixed at 10 years
- **Leases with interest rate variation** clause linked to market interest rates moved to section on leases
 - previously fair value through profit or loss
- **Liability component of a compound financial instrument** treated like standalone financial liability
 - previously amortised cost



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Proposed amendments New guidance

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Other guidance (based on full IFRSs guidance)

- Preparation of consolidated financial statements if group entities have different reporting dates
- Calculation of non-controlling interest
- Classifying financial instruments as equity or liability
- Settlement of non-cash distribution
- Share-based payments when identifiable consideration is less than fair value of equity instruments/liability
- Extractive activities
- Definitions



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Proposed amendments New exemptions

14

'Undue cost or effort' exemptions

- Measurement of investments in equity instruments at fair value
- Recognising intangible assets separately in a business combination
- Offsetting income tax assets and liabilities

Other exemption

- Fair value requirements for distributions of non-cash assets controlled by same parties both before/after



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Proposed amendments SMEIG Q&As

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New guidance from SMEIG Q&As (so based on existing non mandatory guidance)

- Use of *IFRS for SMEs* in parent's separate financial statements
- Application of 'undue cost or effort' exemption
- Cumulative exchange differences are not recognised in profit or loss on disposal of subsidiary



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Proposed amendments Minor issues under proposals

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Disclosure

- Relief from prior year reconciliations of balances for biological assets and share capital (for consistency)

Minor clarifications

- Not expected to result in changes in practice for majority of SMEs
 - clarifying wording/intention
 - rewriting unclear sentences
 - clarification of scope of sections
 - removing inconsistencies



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Issues not resulting in amendments

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No amendments to the following

- scope of the *IFRS for SMEs*
- option to use recognition and measurement requirements in IAS 39 *Financial Instruments*
- presentation of share subscription receivables in equity

Not to incorporate the following

- option to (or require) capitalisation of development or borrowing costs on a similar basis to full IFRSs
- revaluation option for PPE



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Issues not resulting in amendments

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Issues raised by respondents to RFI

- Eliminate other comprehensive income (OCI) altogether
- Permit other hedging instruments eg options, cash instruments and swaps
- Allow fair value or cost model for investment property
- Permit cost model for biological assets
- Develop reduced disclosure framework for subsidiaries
- Allow size-dependent reliefs
- Reconsider the title of the Standard



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Questions in invitation to comment

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Questions

- Amendments you disagree with or have comments on?
- Any further issues not addressed by the amendments?
- Does 'fiduciary capacity' need to be clarified or replaced?
- Are the proposed transition provisions and effective date appropriate?
- Is tentative 3-year cycle for updating *IFRS for SMEs* (+ possibility to address urgent issues more frequently) appropriate?
- Other comments?



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Comment period

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Exposure Draft

- Planned September/October 2013
- Comment deadline **February 2014 (150 days)**



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Guidance booklet on micro SMEs

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IASB staff have developed guidance to help micro-sized SMEs apply *IFRS for SMEs*

- Tiny companies
- Not a new standard
- Extract relevant principles from *IFRS for SMEs*
- Guidance booklet will contain cross-references to *IFRS for SMEs* for matters omitted in micro booklet
- Expected to be issued in June 2013



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Thank you

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International Financial Reporting Standards

Appendix For information only

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The *IFRS for SMEs*

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Good Financial Reporting Made Simple

- 230 pages, issued 9 July 2009
- Simplified IFRSs, but built on a full IFRS foundation
- Modifications based on 2 criteria:
 - needs of users of SME financial statements
 - cost-benefit considerations
- Completely stand-alone



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Who is eligible to use it?

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Any entity that does not have public accountability:

- its debt or equity instruments are not traded in a public market, and
- it does not hold assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses, eg not a financial institution

and is required or chooses to produce General Purpose Financial Statements (GPFS)



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Jurisdiction adoption

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Today (September 2013), to the best of our knowledge:

- Over 80 jurisdictions have either adopted the *IFRS for SMEs* or stated a plan to adopt it within the next three years

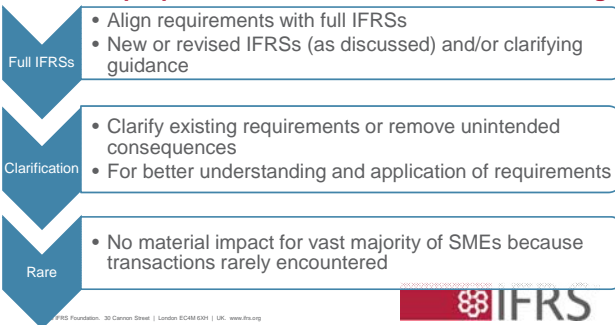


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Proposed amendments

27

All but 5 proposed amendments are one of following



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Proposed amendments

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Other 5 amendments

- Revised requirements for estimating useful life of goodwill and other intangible assets (2)
- New undue cost or effort exemptions (3)



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