

STAFF PAPER

December 2014

IASB Meeting

Project	Comprehensive review of the <i>IFRS for SMEs</i>		
Paper topic	Due process steps and permission for balloting		
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This paper has been prepared by the staff of the IFRS Foundation for discussion at a public meeting of the IASB and does not represent the views of the IASB or any individual member of the IASB. Comments on the application of IFRSs do not purport to set out acceptable or unacceptable application of IFRSs. Technical decisions are made in public and reported in IASB *Update*.

Objective of this meeting

1. The purpose of this meeting is for the International Accounting Standards Board (IASB) to review the due process steps taken in the comprehensive review of the *IFRS for SMEs* and decide whether the staff can begin the balloting process for the final amendments to the *IFRS for SMEs* ('the amendments').

Structure of this paper

2. This agenda paper is set out as follows:
 - (a) Background
 - (b) Projects steps
 - (c) Staff analysis and recommendations
 - (d) Questions for the IASB
 - (e) Appendix A: Summary of the IASB's decisions made post-Exposure Draft with analysis of the effects
 - (f) Appendix B: Action taken to meet the due process requirements

Background

3. When the IASB issued the *IFRS for SMEs* in July 2009, it stated that it planned to undertake an initial comprehensive review of SMEs' experience in applying the *IFRS for SMEs* when two years of financial statements using the *IFRS for SMEs* have been published by a broad range of entities. Therefore, the initial comprehensive review commenced in 2012.

Project steps

4. In June 2012 the IASB issued a Request for Information (RfI) as the first step in the comprehensive review with a comment deadline in November 2012. Details about the RfI and the steps performed between November 2012 and July 2013 are covered by paragraphs 4-10 of July 2013 Agenda Paper 8, the paper covering the due process steps performed up to issuance of the Exposure Draft of proposed amendments to the *IFRS for SMEs* (the 'ED').
5. In October 2013 the ED was issued with a comment deadline of March 2014.
6. The following steps were taken post March 2014:
 - (a) May 2014: The staff presented their comment letter analysis to the IASB.
 - (b) June 2014: The staff presented an optional education session at the IFRS Advisory Council¹.
 - (c) 1 July 2014: Start of the third term of the SME Implementation Group (SMEIG), an advisory body to the IASB on the *IFRS for SMEs*. 11 existing members reappointed (two year terms) and 16 new members appointed (majority on three year terms).
 - (d) July–September 2014: The SMEIG considered the staff comment letter analysis and developed a report of recommendations for the IASB on the proposals in the ED.

¹ In June 2013 the IFRS Advisory Council provided advice in a main session on the three main issues in the comprehensive review (see paragraph 9 of July 2013 Agenda Paper 8).

- (e) September 2014: The staff presented an update on the comprehensive review and their comment letter analysis at the World Standards-setters Meeting and had a discussion about the more significant issues.
- (f) October 2014: The SMEIG report of recommendations was posted on the IASB website² and the recommendations were inserted in agenda papers for the following IASB meetings.
- (g) October–November 2014: The IASB discussed the issues raised by respondents to the ED, and the SMEIG and staff recommendations for addressing those issues.
- (h) The IASB's progress on the project was reported to the Trustees and the Trustees' Due Process Oversight Committee (DPOC) at their April 2014, July 2014 and October 2014 meetings as part of the update on the IASB's technical activities.

Staff analysis and recommendations

Effects analysis

- 7. An analysis of the effects of the proposals in the ED was presented in paragraphs BC100-BC103 of the Basis for Conclusions accompanying the ED (and also in July 2013 Agenda Paper 8). The staff have provided an analysis of the effects of the IASB decisions made post-ED in Appendix A.

Re-exposure

- 8. The result of the IASB's post-ED redeliberations is only three significant changes will be made to the proposals in the ED (see paragraphs A1-A2) and a number of relatively minor changes (see paragraphs A3-A10). The three significant changes were in areas addressed by the RfI and the ED. Consequently, there are no substantive changes being made to the *IFRS for SMEs* on which respondents have

² <http://www.ifrs.org/Alerts/SME/Pages/SMEIG-report-available-October-2014.aspx>

not had the opportunity to comment and so it is unlikely re-exposure would reveal any new concerns. Furthermore, based on the responses to the ED, the staff think that those three changes will be well received. The staff recommend that the IASB does not re-expose the amendments.

Permission to ballot

9. The IASB finalised its technical discussions in November 2014. The IASB has undertaken all of the activities identified as being ‘required’ in the Due Process Handbook and many additional non-mandatory activities (see Appendix B).
10. The staff think the IASB has undertaken sufficient due process steps to finalise the amendments. If the IASB is satisfied that it has been provided with sufficient analysis, and undertaken appropriate consultation, to support the publication of the amendments, the staff requests permission to start the balloting process.

Dissents

11. No IASB members dissented from the ED. Any IASB members who intend to dissent from the final amendments are asked to make their intention known at this meeting.

Questions for the IASB

- 1) **Re-exposure:** Does the IASB agree with the staff recommendation not to re-expose the amendments?
- 2) **Permission to ballot:** Is the IASB satisfied that the due process requirements have been met and it has undertaken sufficient consultation and analysis to begin the balloting process for the amendments?
- 3) **Dissents:** Do any members of the IASB plan to dissent from the publication of the amendments?

Appendix A: Summary of the IASB's decisions made post-ED (October and November 2014 meetings) with effects analysis

Transition provisions

- A1. The IASB tentatively decided to modify the ED proposal that the amendments to the *IFRS for SMEs* should be applied retrospectively as follows:
- (a) if it is impracticable for an entity to apply any of the amendments to Sections 2–34 retrospectively, the entity shall apply those requirements in the earliest period for which it is practicable to do so.
 - (b) an entity may elect to apply the amendments to Section 29 *Income Tax* prospectively as of the beginning of the annual period in which the amendments are initially applied.

Effects analysis

The staff think the transition provisions are supported by cost-benefit considerations. Furthermore, including a general 'impracticable' exemption is consistent with paragraph 35.11 of the *IFRS for SMEs* for first time adopters.

For the majority of SMEs the amendments to Section 29, which align the section with IAS 12 *Income Taxes* are not expected to significantly affect the amounts recognised for deferred tax and the related disclosures. This is because the amendments do not change the underlying approach to accounting for deferred tax. However in order to apply Section 29 retrospectively, SMEs would need to consider the effect of each individual amendment to the requirements in Section 29, including minor wording changes. The staff do not think the benefit to users of SME financial statements of restated information under Section 29 (which is only likely to be required in a small percentage of cases) justifies requiring all SMEs to apply Section 29 retrospectively.

Other significant changes

- A2. The staff think the following are the only other significant tentative IASB decisions post-ED:

- (a) to add an option to use the revaluation model for property, plant and equipment.
- (b) to align the main recognition and measurement requirements for exploration and evaluation assets with IFRS 6 *Exploration for and Evaluation of Mineral Resources*.

Effects analysis

Paragraphs A2(a) and A2(b) align the related requirements of the *IFRS for SMEs* with full IFRSs. The effects analysis for these requirements was considered under full IFRSs.

Users of SME financial statements have told the IASB that in general they do not like entities to apply different accounting policy options for similar transactions because it affects comparability between entities. Nevertheless, a revaluation option is provided under full IFRSs and the IASB has received significant feedback from preparers, accounting standard setters, accounting firms and other interested parties that the option is important to SMEs in many jurisdictions (eg affects their ability to raise capital).

Paragraph A2(a) introduces an option, not a requirement, so does not necessitate a change for SMEs.

Paragraph A2(b) only applies to a specific industry and so will not affect most SMEs. The change is expected to make the requirements for SMEs less onerous for preparers.

Minor changes

Changes based on full IFRSs

A3. The IASB tentatively decided to incorporate in the *IFRS for SMEs* the following changes in new and revised IFRSs issued since the *IFRS for SMEs* was published:

- (a) amend the definition of a related party in the ED to include a management entity providing key management personnel services based on similar changes in *Annual Improvements to IFRS 2010-2012 Cycle*.

- (b) permit an SME to account for investments in subsidiaries, associates and jointly controlled entities in its separate financial statements using the equity method based on similar changes in *Equity Method in Separate Financial Statements* (Amendments to IAS 27).

A4. The IASB tentatively decided to permit the exemption in paragraph 70 of IAS 16 *Property, Plant and Equipment* that an entity may use the cost of the replacement as an indication of what the cost of the replaced part was at the time it was acquired, if it is not practicable to determine the carrying amount of a part of an item of property, plant and equipment that has been replaced.

A5. The IASB tentatively decided to incorporate the following guidance from IAS 12 in Section 29:

- (a) to align the criteria for assessing the probability that taxable profit will be available against which unused tax losses or credits can be utilised with the criteria in paragraph 36 of IAS 12.
- (b) to add the requirement in paragraph 41C of IAS 12 that the presumption that the carrying amount of investment property will be recovered through sale is rebutted if the property is depreciable and held within a business model that will consume substantially all of the economic benefits of the investment over time.

Effects analysis

The effects analysis for these requirements was considered under full IFRSs.

Additional ‘undue cost or effort’ exemption

A6. The IASB tentatively decided to add an ‘undue cost or effort’ exemption from the requirement to measure the liability to pay a non-cash distribution at the fair value of the non-cash assets to be distributed.

Effects analysis

The staff think that adding this exemption is consistent with having ‘undue cost or effort’ exemptions for the types of non-cash assets that may be distributed—eg fair value measurements for investments in equity instruments and investment property.

If the exception is used, it would be in circumstances where fair value measurement would be subjective. Furthermore the reasoning for using the exemption would need to be disclosed (see paragraph A7), together with any applicable related party disclosures. Consequently the staff think this exemption would reduce compliance costs for preparers without a significant loss of information for users of SME financial statements.

Additional presentation and disclosure requirements

A7. The IASB tentatively decided to add the following presentation and disclosure requirements:

- (a) to require investment property measured under the cost model to be presented separately from investment property measured under the fair value model on the face of the statement of financial position.
- (b) for each ‘undue cost or effort’ exemption in the *IFRS for SMEs*, to require that an SME should disclose when it has used the exemption and disclose its reasoning for doing so.

Effects analysis

The staff think the additional requirements will help ensure appropriate use of the ‘undue cost or effort’ exemption, and provide clearer and more useful information for users at little cost or effort for SMEs.

Additional clarification

A8. The IASB tentatively decided to make the following minor changes that clarify, but do not change, the proposals in the ED:

- (a) to move guidance on ‘substantively enacted’ from the Glossary into the body of Section 29 to avoid defining a term in full IFRSs.
- (b) to redraft paragraph 29.29 to clarify the use of the ‘undue cost or effort’ exemption for offsetting deferred tax assets and liabilities.
- (c) to clarify how to account for a subsidiary acquired with the intention of sale or disposal within one year if the subsidiary is not sold or disposed of within that timeframe.

- (d) to clarify when a price in a binding sale agreement may be a good estimate of fair value.
- (e) to clarify the criterion for basic financial instruments in paragraph 11.9(a)(iv) through clearer drafting and the addition of examples.
- (f) to state more clearly when financial instruments are not measured at their transaction price in paragraph 11.13.

Effects analysis

The staff think these changes will have a limited additional effect because the intention is to clarify what was proposed by the ED or already required in the *IFRS for SMEs*.

However, the clarification will improve understanding and could ensure better application of requirements in the *IFRS for SMEs*.

- A9. The IASB also tentatively decided not to modify the definition of a financial liability as proposed in the ED to incorporate IAS 32 (2009 amendment) *Classification of Rights Issues*.

Effects analysis

Unlikely to be relevant to SMEs.

- A10. Paragraph 11.2 of the *IFRS for SMEs* permits an entity to apply the recognition and measurement provisions of IAS 39 *Financial Instruments: Recognition and Measurement* and the disclosure requirements of Sections 11 and 12, instead of Sections 11 and 12 in full. The IASB tentatively decided that it would post the latest version of IAS 39, not updated by IFRS 9 *Financial Instruments*, to the SME project pages of the IASB website. The updated version of the *IFRS for SMEs* would refer to this location.

Effects analysis

N/A

Appendix B: Action taken to meet the due process requirements

B1. This appendix shows how the IASB has complied with the due process requirements for final amendments to Standards as set out in the *Due Process Handbook* published in February 2013.

<i>Step</i>	<i>Required/Optional</i>	<i>Metrics or evidence</i>	<i>Evidence provided to DPOC</i>	<i>Actions</i>
Consideration of information gathered during consultation				
The IASB posts all of the comment letters that are received in relation to the ED on the project pages.	Required if request issued	Letters posted on the project pages.	The IASB has reported on progress as part of its quarterly report at Trustee meetings, including summary statistics of respondents.	Comment letters on the ED have been posted on the IFRS Foundation website. A comment letter analysis was presented to the IASB at its May 2014 meeting and is available on the project page. Progress has been reported in the quarterly reports at Trustee meetings.
Round-tables between external participants and members of the IASB.	Optional	Extent of meetings held.	The DPOC has received a report of outreach activities.	Not considered necessary because the IASB is only making relatively minor amendments to the <i>IFRS for SMEs</i> . The IASB has received sufficient input via the 2012 RfI and the 2013 ED, consultations with the SMEIG and additional user outreach performed by staff.
IASB meetings are held in public, with papers being available for observers. All decisions are made in public sessions.	Required	Meetings held. Project website contains a full description with up-to-date information. Meeting papers posted in a timely fashion. Extent of meetings with consultative group held and confirmation that critical issues have been reviewed with them.	The IASB and the DPOC have discussed progress on major projects, in relation to the due process being conducted. The IASB and the DPOC have reviewed the due process over the project life cycle, and how any issues about the due process have been/are being addressed. The DPOC has met with the Advisory Council to understand stakeholders' perspectives. The DPOC has	The IASB held public meetings from June 2012 to November 2014. Agenda Papers are all available on the IFRS Foundation website. A project page on the comprehensive review has been in place over the course of the project. It contains a full description of the project with up-to-date information on progress, including agenda papers and decision summaries (all posted on a timely basis). The DPOC has been regularly updated on the status of the project. It will receive a copy of this agenda paper and perform a life cycle review at its February 2015 meeting before the amendments are issued.

<i>Step</i>	<i>Required/ Optional</i>	<i>Metrics or evidence</i>	<i>Evidence provided to DPOC</i>	<i>Actions</i>
			reviewed and responded to comments on due process as appropriate.	
Analysis of likely effects of the forthcoming Standard or major amendment, for example, costs or on-going associated costs.	Required	Publication of the Effect Analysis.	The IASB and the DPOC have reviewed the results of the Affect Analysis and how it has considered such findings in the proposed Standard. The IASB has provided a copy of the Effect Analysis to the DPOC at the point of the Standard's publication.	An analysis of the effects of the ED was included in its Basis for Conclusions and in Agenda Paper 8 for the July 2013 IASB meeting. An analysis of the likely effects of the final amendments will be included in the final Basis for Conclusions. The IASB has only made a few significant changes to the proposals in the ED. Consequently the effects analysis in the ED will be mainly unchanged. The expected effects of the changes to the proposals in the ED are in Appendix A. The IASB will review the effects analysis in the final amendments as part of the balloting process.
Email alerts are issued to registered recipients.	Optional	Evidence that alerts have occurred.	The DPOC has received a report of outreach activities.	<i>IFRS for SMEs</i> subscribers have been notified when key documents are issued. There is also a monthly <i>IFRS for SMEs</i> Update newsletter which is issued to subscribers and posted on the IASB website.
Outreach meetings to promote debate and hear views on proposals that are published for public comment.	Optional	Extent of meetings held, including efforts aimed at investors.	The DPOC has received a report of outreach activities.	Not considered necessary because the IASB is only making relatively minor amendments to the <i>IFRS for SMEs</i> . The IASB has received sufficient input via the 2012 RfI and the 2013 ED, meetings and consultations with the SMEIG and additional user outreach performed by staff.
Regional discussion forums are organised with national standard-setters and the IASB.	Optional	Extent of meetings held.	The DPOC has received a report of outreach activities.	Regional discussion forums were not considered necessary because the IASB is only making relatively minor amendments to the <i>IFRS for SMEs</i> .
Finalisation				
Due process steps are reviewed by the IASB.	Required	Summary of all due process steps have been discussed by the	The DPOC has received a summary report of the due process	This agenda paper provides a summary of all due process steps and is to be discussed by the IASB at this December 2014 meeting.

<i>Step</i>	<i>Required/ Optional</i>	<i>Metrics or evidence</i>	<i>Evidence provided to DPOC</i>	<i>Actions</i>
		IASB before a Standard is issued.	steps that have been followed before the Standard is issued.	This agenda paper will also be sent to the DPOC. The DPOC will undertake a life-cycle review at its February 2015 meeting before the amendments are issued.
Need for re-exposure of a Standard is considered.	Required	An analysis of the need to re-expose is considered at a public IASB meeting, using the agreed criteria.	The IASB has discussed its thinking on the issue of re-exposure with the DPOC.	Paragraph 7 of this agenda paper considers the need for re-exposure of the amendments. There are only a few significant changes to the proposals in the ED, the most significant of which have substantial support amongst respondents to the ED. Consequently, it is unlikely re-exposure would reveal any new concerns. The staff recommend that the IASB does not re-expose the amendments.
The IASB sets an effective date for the Standard, considering the need for effective implementation, generally providing at least a year.	Required	Effective date set, with full consideration of the implementation challenges.	The IASB has discussed any proposed shortening of the period for effective application with the DPOC.	In November 2014, the IASB tentatively decided that the effective date should be 1 January 2017. This will allow nearly two years for implementation. This is considered sufficient because the IASB is only making relatively minor amendments to the <i>IFRS for SMEs</i> . Some relief from retrospective restatement will also be provided by the transition provisions.
Drafting				
Drafting quality assurance steps are adequate.	Required	The Translations team has been included in the review process.	The DPOC has received a summary report of the due process steps that have been followed before a Standard is issued.	The IFRS Foundation translations staff will be consulted as part of the balloting process to take into account the need for language in the proposed document that is translatable into other languages.
Drafting quality assurance steps are adequate.	Required	The XBRL team has been included in the review process.	The DPOC has received a summary report of the due process steps that have been followed before a Standard is issued.	The IFRS Foundation XBRL staff will be consulted as part of the balloting process to take into account the need for language in the proposed document that is translatable into the IFRS XBRL Taxonomy.
Drafting quality assurance steps are adequate.	Optional	The Editorial team has been included in the review process. In addition,	The DPOC has received a summary report of the due process steps that have been followed before an ED is	The staff have begun discussions with the editorial team about the timing of their review. The staff will be liaising with the editorial team and provide drafts for them to review in the finalisation of the

<i>Step</i>	<i>Required/ Optional</i>	<i>Metrics or evidence</i>	<i>Evidence provided to DPOC</i>	<i>Actions</i>
		external reviewers used to review drafts for editorial review and the comments collected have been considered by the IASB.	issued, including the extent to which external reviewers have been used in the drafting process.	amendments. The staff intend to send a draft of the amendments to the SMEIG and other external parties for fatal flaw review before finalisation. This process allows external parties to review and report back to the staff on the clarity and understandability of the draft, mainly with editorial comments. The fatal flaw review process does not grant external parties the opportunity to question the IASB's technical decisions.
Drafting quality assurance steps are adequate.	Optional	Draft for editorial review has been made available to members of the IFASS and the comments have been collected and considered by the IASB.	The DPOC has received a summary report of the due process steps that have been followed before a Standard is issued.	The staff will make a draft of the amendments available on an internal site accessible by national standard-setters.
Drafting quality assurance steps are adequate.	Optional	Draft for editorial review has been posted on the project website.	The DPOC has received a summary report of the due process steps that have been followed before a Standard is issued.	The staff does not intend to publish a draft of the amendments on the project website. However the staff intend to send a draft of the amendments to external parties for fatal flaw review before finalisation.
Publication				
Press release to announce final Standard.	Required	Press release has been announced in a timely fashion. Media coverage of the release.	The DPOC has received a copy of the press release and a summary of the media coverage.	To be completed in due course.
A Feedback Statement is provided, which provides high level executive summaries of the Standard and explains how the IASB has responded to the comments received.	Required	Publication of the Feedback Statement.	The IASB has provided a copy of the Feedback Statement to the DPOC at the point of the Standard's publication.	To be completed in due course.

<i>Step</i>	<i>Required/ Optional</i>	<i>Metrics or evidence</i>	<i>Evidence provided to DPOC</i>	<i>Actions</i>
Podcast to provide interested parties with high level updates or other useful information about the Standard.	Optional	Number of podcasts held.	The DPOC has received a report of outreach activities.	To be considered in due course.
Standard is published.	Required	Official release.	The DPOC has been informed of the release.	To be completed in due course.