STAFF PAPER

February 2015

IASB Meeting

Project	**Comprehensive review of the *IFRS for SMEs***
Paper topic	Future reviews of the *IFRS for SMEs*

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Objective of this meeting

1. This agenda paper covers the comments made by respondents to ED/2013/9 *Proposed amendments to the IFRS for SMEs* (the '2013 ED') on the process for future reviews of the *IFRS for SMEs*. It asks the IASB to have an initial discussion about this process and also decide whether the wording in the Preface to the *IFRS for SMEs* about the review process should be updated in the forthcoming amendments.

Structure of this paper

2. This agenda paper is set out as follows:
   (a) Introduction
   (b) Feedback from respondents to the 2013 ED
   (c) Feedback from the IFRS Advisory Council
   (d) Staff analysis
   (e) Staff recommendation, including views of the SME Implementation Group (SMEIG)
   (f) Question for the IASB

Introduction

3. When the *IFRS for SMEs* was issued in 2009 the IASB stated that after the initial comprehensive review it expected to propose amendments to the *IFRS for SMEs* by publishing an omnibus Exposure Draft (ED) approximately once every three years. The IASB stated that it intended this three-year cycle to be a tentative plan, not a firm commitment. It also noted that, on occasion, it may identify a matter for which an amendment to the *IFRS for SMEs* may need to be considered earlier than in the normal three-year cycle; eg to address an urgent issue.

4. Since issue of the *IFRS for SMEs*, the IASB has received some feedback that amendments once every three years (three-year cycle) may be too frequent and that a five-year cycle, with the ability for an urgent issue to be addressed earlier, may be more appropriate. Therefore the IASB asked a question in the 2013 ED asking respondents if they agreed with the approach set out in paragraph 3.

5. The Preface to the *IFRS for SMEs* refers to the review process described in paragraph 3. Consequently the staff think the IASB should discuss the future review process before issuing the final amendments under the current review so that, if necessary, the relevant paragraphs in the Preface can be updated as part of the amendments.

Feedback from respondents to the 2013 ED

Length of the review cycle

6. A slight majority of respondents supported keeping the three-year cycle. Other respondents generally suggested increasing the length of the cycle, with five years being the most common suggestion. However, it was clear from the responses that there were different interpretations as to what the IASB meant by a three-year cycle. For example some respondents thought that a three-year cycle meant that the next review will commence three years after a revised Standard is issued from the previous review (ie 2018 if the revised Standard is issued in 2015)—this is likely to equate to an ED being issued every five years, or longer if a Request for Information (RFI) is issued first.

7. Overall, the staff think there was approximately an even split between respondents that would retain the three-year cycle and respondents that would extend it.

8. The following points summarise the main comments made by respondents supporting retaining a three-year cycle:

    (a) A three-year cycle strikes an appropriate balance between providing SMEs with a stable platform and the need for requirements in the *IFRS for SMEs* to be kept up to date.

    (b) A longer cycle would increase the risk of unwarranted inconsistencies between full IFRSs and the *IFRS for SMEs*.

    (c) More experience in applying the *IFRS for SMEs* is required before moving to a longer review cycle.

    (d) A longer cycle would lead to the need for more frequent 'urgent' amendments making application of the *IFRS for SMEs* more onerous than originally intended.

    (e) A longer review cycle could lead to a longer list of amendments that SMEs would have to cope with at the same time, which could add undue burden.

9. The following points summarise the main comments made by these respondents supporting increasing the length of the cycle:

    (a) SMEs often have limited resources to deal with frequent changes to their accounting policies and systems and evaluate their impact.

    (b) A longer cycle would provide the ability to leverage on implementation experience of entities applying full IFRSs before considering incorporating any new requirements.

    (c) In practice a three-year cycle will lead to amendments once every five or six years, because of the due process for amendments—ie the time needed to solicit ideas, issue a discussion paper/RFI and ED, collate responses, issue a new version of the Standard, and allow sufficient implementation time before the changes are effective.

(d) A review that commences two years after the effective date of amendments from the previous review would allow the IASB to consider any implementation issues or unintended consequences that result from those amendments.

Principles on amendments to the IFRS for SMEs

10. Some global accounting firms and European accounting organisations said that the IASB should develop a clearer framework/criteria formalising a procedure for future reviews of the *IFRS for SMEs* to enhance transparency of the review process. Some said this should cover clearer principles on whether/when changes to full IFRSs should be incorporated, whether and to what extent to allow options from full IFRSs, whether and to what extent the *IFRS for SMEs* should be amended to address specific issues, and clarifying the timescale for the due process steps. Respondents asserted that this framework would assist the IASB in formulating proposed changes to the Standard and constituents in evaluating whether such proposed changes should be implemented.

11. Some respondents said the IASB should consider how changes would be likely to affect SMEs and users of their financial statements at the same time as developing new and revised IFRS, even though actual amendments to the *IFRS for SMEs* would not be made until the next review. These respondents said it would benefit SMEs if they could prepare in advance for expected future changes to the *IFRS for SMEs*.

Urgent issues

12. Most respondents were supportive of the IASB addressing urgent issues earlier than the normal review cycle. However, some respondents had concerns that urgent issues should only be addressed in rare cases to ensure they do not detract from providing a stable platform for SMEs. Some respondents said that strict criteria should be established to determine when an issue should be regarded as urgent.

Feedback from the IFRS Advisory Council

13. In June 2013 the IFRS Advisory Council discussed the frequency of future reviews of the *IFRS for SMEs.* A majority of Advisory Council members favoured increasing the time between future reviews of the *IFRS for SMEs* from three to five years.

Staff analysis

14. The Preface to the *IFRS for SMEs* currently states the following about future maintenance of the *IFRS for SMEs*:

> P17 After that initial implementation review, the IASB expects to propose amendments to the *IFRS for SMEs* by publishing an omnibus exposure draft approximately once every three years. In developing those exposure drafts, it expects to consider new and amended IFRSs that have been adopted in the previous three years as well as specific issues that have been brought to its attention regarding possible amendments to the *IFRS for SMEs*. The IASB intends the three-year cycle to be a tentative plan, not a firm commitment. On occasion, it may identify a matter for which amendment of the *IFRS for SMEs* may need to be considered earlier than in the normal three-year cycle. Until the *IFRS for SMEs* is amended, any changes that the IASB may make or propose with respect to full IFRSs do not apply to the *IFRS for SMEs.*
>
> P18 The IASB expects that there will be a period of at least one year between when amendments to the *IFRS for SMEs* are issued and the effective date of those amendments

15. The staff think that paragraph P17 is clear that the IASB's intention when the Standard was issued was to publish an omnibus ED approximately once every three years—and not that the next review will commence approximately three years after final amendments to the *IFRS for SMEs* are issued from the previous review.

Comprehensive reviews

16. Notwithstanding paragraph P17 of the Preface, the staff think that if the IASB intends to send out a RFI as the first step in future reviews, it would be more appropriate for reviews to commence at least two years after the effective date of the amendments from the previous review. This would allow time for SMEs to apply the amendments, and for interested parties to identify and comment on any implementation issues or unintended consequences that result from those amendments. Based on the timetable for the initial comprehensive review, the staff acknowledge that this approach would be likely to lead to amendments to the

IFRS for SMEs approximately once every six years. On this principle, and considering the current amendments are expected to be effective 1 January 2017, the next RFI would be issued in late 2018 at the earliest.

17. The staff think that a RFI is an important part of helping the IASB identify implementation issues and obtain public feedback on key issues. Consequently the staff recommend that a comprehensive review of the *IFRS for SMEs* should be performed on approximately a six year cycle starting with a RFI.

Interim reviews

18. The staff acknowledge that six years is a long time and the *IFRS for SMEs* may need to be amended more frequently to ensure that it does not diverge too far from full IFRSs. During the current review, the IASB decided that new and revised IFRSs should not be considered until they have been issued and it may be appropriate only to incorporate changes from a complex new or revised IFRS after implementation experience of that IFRS has been assessed. Consequently, the staff note that updating the *IFRS for SMEs* approximately every six years may result in some changes to full IFRSs only being considered for incorporation up to twelve years after those changes are published—for example if the changes to full IFRSs are not incorporated in the comprehensive review following their issue because the IASB perceived a need to allow for implementation experience.

19. For this reason the staff suggest that the IASB should also perform an interim review, and where necessary develop amendments to the *IFRS for SMEs*, with the objective of incorporating changes to full IFRSs which were not considered as part of the previous comprehensive review. The staff envisage that this process would make use of information already at the disposal of the IASB, and consequently would not require the additional step of an RFI.

20. If interim proposals are developed, the process may also be used to address any urgent implementation issues that have come to the attention of the IASB, eg through the SMEIG Q&A process. However the primary objective of the interim review would be to ensure that the *IFRS for SMEs* does not diverge too far from full IFRSs by considering new and revised IFRSs. If the IASB decided to publish

interim amendments, it would still only be publishing amendments to the IFRS for SMEs approximately once every three years.

21. The staff do not think an interim process should replace the ability for the IASB to deal with a rare urgent amendment more quickly. However, by providing the ability to make more frequent updates, it is likely to reduce the need to issue urgent amendments.

Principles on amendments to the IFRS for SMEs

22. During development of the 2013 ED the IASB developed the following principles for how to deal with new and revised IFRSs during this comprehensive review and future reviews of the *IFRS for SMEs* (see appendix for full extract from the Basis for Conclusions in the 2013 ED):

    (a) each new and revised IFRS should be considered individually on a case-by-case basis to decide if, and how, its requirements should be incorporated into the *IFRS for SMEs*.

    (b) new and revised IFRSs should not be considered until they have been issued. However, it would generally not be necessary to wait until their Post-implementation Reviews (PIRs) have been completed.

    (c) minor changes/annual improvements to full IFRSs should also be considered on a case-by-case basis.

    (d) expected changes to the *IFRS for SMEs* could be considered informally by the staff at the same time that new and revised IFRSs are issued. However, the *IFRS for SMEs* would only be updated for those changes at the next three-yearly review, in order to provide a stable platform for SMEs.

23. Some respondents said that these principles were not sufficient and that the IASB should develop clearer principles for future reviews of the *IFRS for SMEs* (see paragraph 10). The staff think that the criteria in the IASB and IFRS Interpretations Committee Due Process Handbook for new Standards or major amendments (paragraph 5.4 of the Handbook), which focus primarily on the needs of users of financial reports (which, for SMEs, would exclude public investors),

together with the principles in paragraph 22 and clearly stated objectives of the comprehensive and interim reviews, are sufficient. The staff think it would be difficult to add further criteria regarding future changes to the *IFRS for SMEs* without making the process overly restrictive.

24. Some respondents said the IASB should consider how changes affect SMEs and users of their financial statements at the same time as new and revised IFRS are published (see paragraph 11). The staff do not think a formal assessment should be required at this time because to do so would be likely to result in additional work. This is because a further and more informed assessment would be required at the time of making the amendments to the *IFRS for SMEs* in light of implementation experience under full IFRSs.

Urgent amendments

25. Some respondents said that criteria should be established to determine when an issue should be regarded as urgent (see paragraph 12). The staff think any assessment of the need for an urgent amendment should be left to the judgement of the IASB. Nevertheless the staff suggest that the IASB could emphasise that such amendments would be extremely infrequent in order to ease concerns about more regular updates being made to the *IFRS for SMEs*.

Staff recommendation

26. The staff recommend the following:

    (a) Comprehensive reviews of the *IFRS for SMEs* should commence approximately two years after the effective date of amendments to the *IFRS for SMEs* from a previous comprehensive review. They should begin with the issuance of a RFI. The objective of the comprehensive review would be to consider whether to make changes for the following:

        (i) implementation issues identified by the RFI process;

        (ii) Q&As issued by the SMEIG;

(iii) new and amended IFRSs not yet incorporated; and

(iv) any other issues, eg urgent issues that have arisen since the last update of the *IFRS for SMEs.*

(b) The IASB should conduct an interim review to consider if there is a need to develop interim proposals. The objective of the interim review would be to consider whether to incorporate any new and revised IFRSs not yet incorporated. However it would also enable the IASB to address any urgent issues that have arisen since the last comprehensive review.

(c) The IASB should emphasise that separate urgent amendments, eg amendments with a reduced exposure period or at more regular intervals, would be extremely rare.

27. The staff recommend drafting paragraph P17 of the Preface as follows to reflect the recommendation above:

P17 ~~After that initial implementation review, t~~The IASB expects to propose amendments to the *IFRS for SMEs* by publishing an omnibus exposure draft periodically, but no more frequently than ~~approximately~~ once every three years. In developing those exposure drafts, it expects to consider new and amended IFRSs as well as specific issues that have been brought to its attention regarding possible amendments to the *IFRS for SMEs*. ~~The IASB intends the three-year cycle to be a tentative plan, not a firm commitment.~~ On occasion, the IASB ~~it~~ may identify a matter for which amendment of the *IFRS for SMEs* may need to be considered earlier than in the normal review process ~~three-year cycle.~~ However such instances are expected to be extremely rare. Until the *IFRS for SMEs* is amended, any changes that the IASB may make or propose with respect to full IFRSs do not apply to the *IFRS for SMEs*

P18 The IASB expects that there will be a period of at least one year between when amendments to the *IFRS for SMEs* are issued and the effective date of those amendments.

28. The staff do not recommend additional principles should be developed to govern the process for future reviews or urgent updates of the *IFRS for SMEs*.

SMEIG view

The majority of SMEIG members supported the staff recommendation to have a comprehensive review every six years and the option for an additional interim review every three years.

A few[1] SMEIG members stated that they would prefer updates to the *IFRS for SMEs* to take place at least every three years.

A few SMEIG members supported not having the interim review proposed in the staff recommendation, or only having one in rare circumstances, and instead only having the comprehensive review every 5-6 years.

A few SMEIG members said the IASB should further clarify the scope of the review process and the criteria for amending the *IFRS for SMEs*.

Question for the IASB

1) Do you agree with the staff recommendation?

[1] Where reference is made to 'a few SMEIG members', this signifies 5 or less of the 27 members.

Appendix: The IASB's principles for dealing with new and revised IFRSs (extract from the Basis for Conclusions in the 2013 ED)

The IASB's principles for dealing with new and revised IFRSs

BC29 The IASB observed that the primary aim when developing the *IFRS for SMEs* was to provide a standalone, simplified set of accounting principles for entities that do not have public accountability and that typically have less complex transactions, limited resources to apply full IFRSs and that operate in circumstances in which comparability with their listed peers is not an important consideration. The IASB also noted its decision not to extend the scope of the *IFRS for SMEs* to permit publicly accountable entities to use the *IFRS for SMEs*.

BC30 With this primary aim in mind the IASB considered a framework for how to deal with new and revised IFRSs during this comprehensive review and future reviews of the *IFRS for SMEs*. The IASB developed the following principles:

(a) each new and revised IFRS should be considered individually on a case-by-case basis to decide if, and how, its requirements should be incorporated into the *IFRS for SMEs*.

(b) new and revised IFRSs should not be considered until they have been published. However, it would generally not be necessary to wait until their Post-implementation Reviews have been completed.

(c) minor changes/annual improvements to full IFRSs should also be considered on a case-by-case basis.

(d) changes to the *IFRS for SMEs* could be considered at the same time that new and revised IFRSs are published. However, the *IFRS for SMEs* would only be updated for those changes at the next three-yearly review, in order to provide a stable platform for SMEs.

BC31 The IASB further observed that, when applying the principles in paragraph BC30(a)–(c), decisions both on which changes to incorporate into the *IFRS for SMEs* and the appropriate timing for incorporating those changes should be weighed against the need to provide SMEs with a stable platform and the suitability of such changes for SMEs and users of their financial statements. The IASB noted that it may decide only to incorporate changes from a complex new or revised IFRS after implementation experience of that IFRS has been assessed. However, it will make this assessment when new or revised IFRSs are published rather than automatically waiting until there is substantial experience from entities who have applied a new or revised IFRS or until a Post-implementation Review on an IFRS has taken place.

BC32 The IASB decided new and revised IFRSs should not be considered until they have been published. This is because, until a final IFRS is issued, the IASB's views are always tentative and subject to change. Sometimes, the principles in a final IFRS differ significantly from those examined in a Discussion Paper or initially proposed in an Exposure Draft. In other cases, a final IFRS is not issued at all, or work on a project is suspended for an indefinite period. The IASB noted that it had decided to base Section 29 *Income Tax* on a 2009 Exposure Draft that was expected to amend IAS 12, but the 2009 Exposure Draft was never finalised (see paragraphs BC55–BC60).