IFRS

AGENDA PAPER

IFRS Foundation Trustees meeting – Due Process Oversight Committee

ZURICH	3 FEBRUARY 2015	Agenda ref 2C
AUTHOR	MICHELLE FISHER	
PRESENTER	HUGH SHIELDS	

Comprehensive review of the *IFRS for SMEs*: Due process ‘lifecycle’ review

Introduction

1. This purpose of this paper is set out a lifecycle review of the due process steps completed in the IASB’s comprehensive review of the *IFRS for SMEs*. The review will result in amendments to the *IFRS for SMEs*.
   (a) Appendix A of this report summarises discussions with the Trustees and the DPOC on this project.
   (b) Appendix B contains the due process protocol table. This table has been updated from the version set out in the Due Process Agenda Paper presented to the IASB in December 2014 (*Comprehensive Review of the IFRS for SMEs: Due process steps and permission for balloting.* A copy of this paper was circulated to the DPOC under cover of an e-mail message from Michelle Sansom on 8 December 2014).
   (c) Appendix C provides a staff draft of the IASB’s reasoning for its approach to addressing the main issues raised by respondents to the Exposure Draft.
   (d) Appendix D provides a staff draft of the analysis of the likely effects of the amendments to the *IFRS for SMEs*.
2. One IASB member indicated her likely intention to dissent from the amendments to the *IFRS for SMEs* because of the Board’s decision to make reporting of non-cash distributions at fair value subject to an undue cost or effort exemption. Her alternative view will be written after she has considered the changes made to the Exposure Draft in the pre-ballot draft.

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.

Main changes to the *IFRS for SMEs*

4. The amendments to the *IFRS for SMEs* resulting from this review are relatively minor, with the exception of the following three amendments:
   (a) allowing an option to use the revaluation model for property, plant and equipment;
   (b) aligning the main recognition and measurement requirements for deferred income tax with IAS 12 *Income Taxes*; and
   (c) aligning the main recognition and measurement requirements for exploration and evaluation assets with IFRS 6 *Exploration for and Evaluation of Mineral Resources*.

Due process steps

5. In June 2012 the IASB issued a Request for Information (RFI) as the first step in the initial comprehensive review. The objective of the RFI was to seek public views on whether there is a need to make any amendments to the *IFRS for SMEs*.
6. In February 2013 the SME Implementation Group (SMEIG) met to discuss the public comments received on the RFI and develop a set of recommendations for the IASB on possible amendments to the *IFRS for SMEs*. The recommendations were published in March 2013.
7. The IASB discussed the issues identified during the RFI process and a few additional issues during its March-June 2013 meetings.
8. In June 2013 the IFRS Advisory Council discussed three of the most central issues to the comprehensive review. These issues were use of the *IFRS for SMEs* by publicly accountable entities, addressing changes to full IFRSs during reviews of the *IFRS for SMEs* and the frequency of future reviews of the *IFRS for SMEs.* A majority of Advisory Council members favoured:
   (a) keeping the requirement in paragraph 1.5 of the *IFRS for SMEs* that prevents publicly accountable entities from stating compliance with the *IFRS for SMEs*;
   (b) prioritising the need to provide SMEs with a stable, independent and standalone Standard over maintaining close alignment with full IFRSs; and

(c) increasing the time between future reviews of the *IFRS for SMEs* from three to five years.

The views of the majority of Advisory Council members in (a) and (b) were consistent with those of the IASB. The IASB has not yet discussed the frequency of future reviews of the *IFRS for SMEs* and plans to do so at its February 2015 meeting.

9. In October 2013 the Exposure Draft (the '2013 ED') was issued with a comment deadline of March 2014. 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 Council.

   (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.

   (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 website 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.

   (i) December 2014: as noted above, the IASB discussed due process steps on the project and, having confirmed that the amendments did not need to be re-exposed, the Board gave its permission for the balloting process to begin.

Responses to the 2013 ED and the IASB's redeliberations

10. The Board received 57 comment letters on the 2013 ED. Most respondents to the 2013 ED supported the majority of the changes proposed in the 2013 ED. The following are the main areas where respondents had concerns (Appendix 4 contains extracts from the draft Basis for Conclusions containing the IASB's reasoning for its approach to addressing these concerns):
    - (a) The scope of the *IFRS for SMEs* (see paragraph BC179–BC183 and BC191–BC193 in Appendix 4).
    - (b) The IASB's proposed approach for dealing with new and revised IFRS (see paragraphs BC185–BC197).
    - (c) The decision of the IASB not to propose accounting policy options for revaluation of property, plant and equipment, and capitalisation of borrowing costs and development costs (see paragraphs BC208–BC211 and BC212–BC214).
    - (d) The transition requirements (see paragraphs BC256–BC260).
11. The result of the IASB's redeliberations of the issues raised is that three significant changes have been made to the proposals in the 2013 ED:
    - (a) permitting a revaluation model for property, plant and equipment;
    - (b) simplified transition requirements; and
    - (c) aligning the main recognition and measurement requirements for exploration and evaluation assets with IFRS 6 *Exploration for and Evaluation of Mineral Resources*. As the draft effects analysis at Appendix D makes clear (see paragraph BC269(c)) the IASB believes that the amendments are important to ensure that the requirements in the IFRS for SMEs are not more onerous than in full IFRS.
12. The balloting process is now underway and the revised IFRS for SMEs is scheduled to be published later in the first half of 2015.

Question for the DPOC

13. Is the DPOC content to confirm that all necessary due process steps have been followed and that its review of due project on this project is now complete?

Appendix A

Reporting to the Trustees and the DPOC

Date	Trustees/DPOC	Report
Jul 2012	Trustees	Reference in *Report of the IASB Chair* (Agenda Paper, AP, 2). The report noted that the initial comprehensive review of the *IFRS for SMEs* was commencing, with a Request for Information (RfI) issued in late June 2012, with a deadline for responses of 30 November 2012. The SME Implementation Group (SMEIG) was providing recommendations to the IASB throughout the review.
Jul 2012	DPOC	Reference in *Update on Technical Activities* (AP 4D) on the issue of the RfI.
Oct 2012	Trustees	Reference in *Report of the IASB Chair* (Agenda Paper, AP, 2) to the fact that the RfI was still out for comment.
Jan 2013	Trustees	Reference in *Technical Projects – Update* (AP 2B) noting that the deadline for responses to the RfI had passed and that the SMEIG was scheduled to meet to discuss the responses in February 2013 and, would develop a list of specific recommendations to the IASB for amendments to the *IFRS for SMEs*.
Jan 2013	DPOC	Reference as above in *Update on Technical Activities* (AP 3C (i)).
Apr 2013	Trustees/MB	Reference in *Report of the IASB Chairman* (AP MB2) noting that a report containing the SMEIG's recommendations for amendments to the *IFRS for SMEs* had been provided to the IASB in March 2013. The IASB had started to discuss issues arising from the RfI and expected to publish an Exposure Draft (ED) in Q3 2013.
Apr 2013	Trustees	Reference in *Technical Projects – Update* (AP 2A) as above.
Apr 2013	DPOC	Reference in *Technical Projects – Update* (AP 3A) as above. The report noted that the most controversial issue concerned the scope of the *IFRS for SMEs*, and whether jurisdictions should be able to decide which entities could use the Standard and state compliance with the *IFRS for SMEs*.
Jul 2013	DPOC	Reference in *Technical Projects – Update* (AP 3B).
Jul 2013	DPOC	E-mail to DPOC 15 July with a copy of the paper to be presented to the IASB *Comprehensive Review of the IFRS for SMEs: Due Process Steps and Permission for Balloting* (IASB Meeting July 2013 – AP 8).
Oct 2013	DPOC	Reference in *Technical Projects – Update* (AP 3B), noting that the ED of proposed amendments to the *IFRS for SMEs* had been published in October 2013, with an extended comment period of 150 days to allow organisations additional time to solicit and consolidate the views of smaller businesses in their jurisdictions.
Jan 2014	Trustees/MB	Reference in *Report of the IASB Chairman* (AP MB3) to developments, noting that the IASB had published an ED in October 2013. The report noted that, after considering the feedback received on the RfI, and taking into account the fact that the *IFRS for SMEs* was still a new Standard, the IASB was proposing to make only limited amendments.
Jan 2014	DPOC	Reference in *Technical Projects – Update* (AP 3B) as above.
Apr 2014	Trustees	Reference in *Report of the IASB Chairman* (AP 2) as above (the closing date for comments on the ED was 3 March 2014).
Apr 2014	DPOC	Reference in *Technical Activities – Update* (AP 3B). The paper noted that the staff were currently compiling the comments received to the ED and would seek recommendations from the SMEIG before

Date	Trustees/DPOC	Report
		the IASB began its redeliberations (which were expected to start in Q3 2014).
Jul 2014	Trustees	Reference in *Report of the IASB Chairman* (AP 2) noting that the IASB would redeliberate the proposals in the ED during 2014.
Jul 2014	DPOC	Reference in *Technical Activities – Update* (AP 3B). The report noted that the IASB had discussed a summary of the feedback received on the ED at its May 2014 meeting, but that no decisions had been made.
Oct 2014	Trustees	The *Summary of the conclusions of the IFRS Foundation Trustees' meeting* noted that the IASB was discussing issues raised in the responses to the ED.
Oct 2014	DPOC	Reference in *Technical Activities – Update* (AP 3B) noting that the SMEIG had been considering the feedback to the proposals in the ED and a report of its recommendations to the IASB was being prepared (scheduled for completion October 2014). The *Report of the DPOC meeting* noted the above and the fact that the IASB was scheduled to discuss the issues at its October 2014 meeting.
Dec 2014	DPOC	E-mail to DPOC 8 December with a copy of AP 5 for the IASB's December meeting *Comprehensive review of the IFRS for SMEs: Due process steps and permission for balloting.*

Appendix B

Action taken to meet the due process requirements

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.

Step	***Required/ Optional***	***Metrics or evidence***	***Evidence provided to DPOC***	***Actions***
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 *IFRS for SMEs*. 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	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.

Step	***Required/ Optional***	***Metrics or evidence***	***Evidence provided to DPOC***	***Actions***
			stakeholders' perspectives. The DPOC has 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.	*IFRS for SMEs* subscribers have been notified when key documents are issued. There is also a monthly *IFRS for SMEs* 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, other than the amendments referred to in paragraph 4 of the covering paper, the IASB is only making relatively minor amendments to the *IFRS for SMEs*. 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-	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 *IFRS for SMEs*.

Step	*Required/ Optional*	*Metrics or evidence*	*Evidence provided to DPOC*	*Actions*
setters and the IASB.				
Finalisation				
Due process steps are reviewed by the IASB.	Required	Summary of all due process steps have been discussed by the IASB before a Standard is issued.	The DPOC has received a summary report of the due process steps that have been followed before the Standard is issued.	This agenda paper provides a summary of all due process steps and is to be discussed by the IASB at this December 2014 meeting. 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 *IFRS for SMEs*. 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	Required	The XBRL team has been included in the review	The DPOC has received a summary report	The IFRS Foundation XBRL staff will be consulted as part of the balloting process to take into

Step	***Required/ Optional***	***Metrics or evidence***	***Evidence provided to DPOC***	***Actions***
are adequate.		process.	of the due process steps that have been followed before a Standard is issued.	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, external reviewers used to review drafts for editorial review and the comments collected have been considered by the IASB.	The DPOC has received a summary report of the due process steps that have been followed before an ED is issued, including the extent to which external reviewers have been used in the drafting process.	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 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.

Step	***Required/ Optional***	***Metrics or evidence***	***Evidence provided to DPOC***	***Actions***
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.
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.

Appendix C

Draft paragraphs from the Basis for Conclusions on the main issues raised by respondents to the Exposure Draft

This appendix reproduces a few paragraphs from the Basis for Conclusions in the pre-ballot draft of *Amendments to the IFRS for SMEs* sent to IASB members on 23 January 2015 (as referred to in paragraph 10 of this agenda paper). This analysis has not been reviewed by IASB members.

Use of the IFRS for SMEs by publicly accountable entities

BC179 Some respondents to the RFI and the 2013 ED said that the scope should not be restricted to non-publicly accountable entities. The IASB considered whether paragraph 1.5 is too restrictive and whether jurisdictions should have the authority to decide which publicly accountable entities should be able to use and state compliance with the *IFRS for SMEs*.

BC180 The IASB observed that the *IFRS for SMEs* was specifically designed for SMEs and users of SME financial statements and so it may not appropriately cater for a wider group of entities. Furthermore, the IASB noted that if the scope was widened to include some publicly accountable entities, it may lead to pressure to make changes to the *IFRS for SMEs* to accommodate that wider group, which would increase its complexity. The IASB also had concerns about the risks associated with inappropriate use of the *IFRS for SMEs* if the restriction on publicly accountable entities using the *IFRS for SMEs* was removed from paragraph 1.5. A majority of IFRS Advisory Council and SMEIG members shared the IASB's concerns and recommended keeping the requirement in paragraph 1.5 of the *IFRS for SMEs* that prevents publicly accountable entities from stating compliance with the *IFRS for SMEs.*

BC181 After considering the responses to the 2013 ED the IASB decided that there was no new information that would require the IASB to reconsider its previous decision. Consequently, the IASB decided to keep paragraph 1.5. The IASB noted that jurisdictions can already incorporate the *IFRS for SMEs* into their local GAAP if they wish to allow certain publicly accountable entities to use it. However, those entities would state compliance with local GAAP, not with the *IFRS for SMEs*.

Meaning of fiduciary capacity

BC182 Some respondents to the RFI said that the meaning of 'fiduciary capacity' in the definition of public accountability is unclear as it is a term with different implications across jurisdictions. However, respondents generally did not suggest alternative ways of describing public accountability or indicate what guidance would help to clarify the meaning of fiduciary capacity. Consequently, the IASB asked a question in the 2013 ED to find out more information about the concerns raised.

BC183 Most respondents to the 2013 ED said there is no need to clarify or replace the term fiduciary capacity. However, a few respondents noted that the term had created uncertainty on implementation of the *IFRS for SMEs* in their jurisdictions. The IASB observed that it would be difficult to provide a definition of the term fiduciary capacity and/or provide guidance that would be applicable in all jurisdictions applying the *IFRS for SMEs* because of the different legal requirements and types of entities in different jurisdictions. Furthermore, the IASB noted that local legislative and regulatory authorities, and standard-setters, in individual jurisdictions may be best placed to identify the kinds of entities in their jurisdiction that hold assets in a fiduciary capacity for a broad group of outsiders as a primary business. By this the IASB does not mean that those authorities and standard-setters are best placed to choose which entities in their jurisdiction meet the criterion in paragraph 1.3(b). Instead, the IASB's intention was to ensure the definition in paragraph 1.3 is applied consistently and appropriately in accordance with the intended scope of the *IFRS for SMEs* in their jurisdiction. Furthermore, those local authorities and standard setters are also best placed to decide whether other factors may mean that in their jurisdiction full IFRSs may be more suitable for certain SMEs than the *IFRS for SMEs.* Consequently, the IASB decided not to provide guidance on applying the term 'fiduciary capacity'.

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New and revised IFRSs

Introduction

BC185 The *IFRS for SMEs* was developed using full IFRSs as a starting point and then considering what modifications are appropriate in the light of users' needs and cost-benefit considerations (see paragraphs BC95–BC97). Consequently, one of the most significant issues confronting the IASB was how the *IFRS for SMEs* should be updated in the light of the new and revised IFRSs issued after the *IFRS for SMEs* was issued in 2009—in particular, how to balance the importance of maintaining alignment with full IFRSs while having a stable and independent IFRS that focuses on the needs of SMEs.

BC186 Respondents to the RFI and the 2013 ED were divided on how the *IFRS for SMEs* should be updated during this comprehensive review for new and revised IFRSs. The views expressed by respondents were generally influenced by the respondent's understanding of the purpose of the *IFRS for SMEs* and which entities it should cater for, for example:

(a) some respondents stated that the *IFRS for SMEs* should cater for subsidiaries that are eligible to use the *IFRS for SMEs* but that need to provide full IFRS information for consolidation purposes. Other respondents thought that the *IFRS for SMEs* should act as an intermediate IFRS for a company that expects to transition to full IFRSs in the future. Both groups of respondents would prefer the *IFRS for SMEs* to be fully aligned with full IFRSs, ideally without any time lag, with simplifications from full IFRSs being restricted to disclosure requirements.

(b) other respondents noted that the primary aim of the *IFRS for SMEs* is an independent IFRS tailored for smaller businesses. Those respondents think that maintaining alignment with full IFRSs is less important and also that it is more important to test the implementation experience of new and revised IFRSs first before introducing those requirements for SMEs.

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

BC187 The IASB observed that the primary aim when developing the *IFRS for SMEs* was to provide a stand-alone, 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*.

BC188 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 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) changes to the *IFRS for SMEs* could be considered 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.

BC189 The IASB further observed that, when applying the principles in paragraph BC188(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 issued instead of automatically waiting until there is substantial experience from entities who have applied a new or revised IFRS or until a PIR on an IFRS has taken place.

BC190 The IASB decided new and revised IFRSs should not be considered until they have been issued. 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 on a 2009 Exposure Draft that was expected to amend IAS 12, but the 2009 Exposure Draft was never finalised (see paragraphs BC219–BC223).

BC191 Some respondents to the 2013 ED expressed concern that the IASB's primary aim in developing the *IFRS for SMEs*, as set out in paragraph BC187, means the reporting needs of 'large', complex non-publicly accountable entities are not effectively addressed. The IASB agreed that the *IFRS for SMEs* is intended for all SMEs, which are defined to be those entities that do not have public accountability, regardless of size or complexity, that are required, or elect, to publish general purpose financial statements for external users. The IASB noted that its reasons for developing an IFRS intended for all SMEs are explained in paragraphs BC55–BC77. Nevertheless, the IASB observed that when deciding on the content of the *IFRS for SMEs*, the primary aim of the IASB was to include the kinds of transactions, events and conditions encountered by typical SMEs that are likely to apply the *IFRS for SMEs*. If the IASB had tried to cater for all possible transactions that SMEs may enter into, the *IFRS for SMEs* would have had to retain most of the content of full IFRSs. In particular, the IASB bore in mind that many SMEs have limited resources, and that the *IFRS for SMEs* should accommodate that limitation. Conversely, entities, including SMEs, with more complex transactions and activities, are likely to have more sophisticated systems and greater resources to manage those transactions.

BC192 If an SME has very complex transactions or determines that comparability with its publicly accountable peers is of key importance to its business, the IASB observed that it would expect that the entity would want to, and have sufficient expertise to, either refer to the more detailed guidance on complex transactions in full IFRSs if guidance is not provided in the *IFRS for SMEs* (see paragraph 10.6) or apply full IFRSs instead of the *IFRS for SMEs*. Paragraphs BC69–BC70 explain why it is not possible for the IASB to set additional criteria that would be appropriate across all jurisdictions for entities that may find full IFRSs more appropriate to their needs. However, jurisdictions may choose to prescribe quantified size criteria or decide that entities that are economically significant in that country should be required to use full IFRSs instead of the *IFRS for SMEs.*

BC193 Some respondents to the 2013 ED said that the IFRS was too complex for owner-managed entities. The IASB noted that the *IFRS for SMEs* is intended for entities that choose, or are required, to publish general purpose financial statements. General purpose financial statements are those directed to the general financial information needs of a wide range of users who are not in a position to demand reports tailored to meet their particular information needs. The Preface to the *IFRS for SMEs* explains that SMEs often produce financial statements only for the use of owner-managers or only for the use of tax authorities or other governmental authorities, and that financial statements produced solely for those purposes are not necessarily general purpose financial statements. The IASB noted that the *IFRS for SMEs* is not intended for small owner-managed entities preparing financial statements solely for tax reasons or to comply with local laws. However, small owner-managed entities may still find the *IFRS for SMEs* helpful in preparing such financial statements.

BC194 Some respondents to the 2013 ED said the IASB should establish a formal framework or clearer principles to determine whether and when changes to full IFRSs should be incorporated in the *IFRS for SMEs*. These respondents noted that the principles developed by the IASB in paragraph BC188 are not robust enough and/or do not help interested parties to predict when changes to full IFRSs will be considered. Some respondents provided suggestions that they thought would improve the criteria. The IASB noted that there are special considerations applicable to this initial review of the *IFRS for SMEs*, which led the IASB to place greater emphasis on the need for limiting changes. However, the

IASB will discuss to what extent a more comprehensive framework for future reviews of the *IFRS for SMEs* can be developed after this review has been completed. This will allow more time for discussion and enable IASB members to reflect on the lessons learnt during this initial review.

BC195 Some respondents to the 2013 ED said they found it difficult to understand the conceptual basis for differences between the *IFRS for SMEs* and full IFRSs and that the IASB should clearly identify the needs of users of SME financial statements. The IASB noted that this Basis for Conclusions is clear on both of these points. In particular:

(a) paragraph BC95 notes that the *IFRS for SMEs* was developed by considering the modifications that are appropriate to full IFRSs in the light of users' needs and cost-benefit considerations; and

(b) paragraphs BC44–BC47 and BC157 describe the needs of users of SME financial statements and explaining how they differ from the needs of users of financial statements of publicly accountable entities.

BC196 Some respondents to the 2013 ED said that if cost-benefit considerations are a major driver of the differences between the *IFRS for SMEs* and full IFRSs, public accountability is not an appropriate criterion. The IASB agree that the related costs of publicly and non-publicly accountable entities may not differ significantly. However, the IASB noted that the 'benefits' side of the cost-benefit trade-off considers the different information needs of different financial statement users as explained in paragraphs BC44–BC47.

Individual new and revised IFRSs during the current review

BC197 The IASB considered how to deal with individual new and revised IFRSs during this comprehensive review in the light of the principles in paragraph BC188. The IASB observed that this comprehensive review is subject to additional considerations compared to future reviews because this is the first review since the initial publication of the *IFRS for SMEs*. Although the *IFRS for SMEs* was issued in 2009, in many of the jurisdictions that have adopted it, it has been effective for a much shorter period of time. In addition, in jurisdictions that permit, instead of require, the *IFRS for SMEs*, many SMEs have only just started the transition to it. As a result, for the majority of SMEs using or about to use the *IFRS for SMEs*, it is still a new IFRS. For these reasons, the IASB decided that there is a greater need for stability during this initial comprehensive review than there may be in future reviews. A majority of IFRS Advisory Council members also recommended prioritising the need to provide SMEs with a stable, independent and stand-alone IFRS over maintaining close alignment with full IFRSs.

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Accounting policy options

BC208 The RFI asked whether SMEs should be permitted to use a revaluation model for property, plant and equipment, and be either permitted or required to capitalise borrowing and development costs that meet criteria similar to those in full IFRSs. The IASB considered the responses to the RFI together with the IASB's original reasons for restricting accounting policy options in the *IFRS for SMEs* (see paragraphs BC89–BC94) and decided not to propose any changes in the 2013 ED to incorporate these options. In particular the IASB noted that users of SME financial statements that need to understand the accounting policies used, and that often make comparisons between different SMEs, prefer SMEs to have no, or only limited, accounting options. Furthermore, the IASB noted that while SMEs could still choose to apply the simpler option, adding complex options to the *IFRS for SMEs* would add complexity throughout the IFRS. For example, allowing an option to revalue property, plant and equipment would also affect the sections covering presentation of the statement of comprehensive income, impairment and deferred tax.

BC209 The staff outreach to providers of finance, who are considered to be the primary external user group of SMEs, confirmed the importance to users of restricting accounting policies for SMEs. The participants in the outreach noted that they generally input the information from the audited financial statements of an SME directly into their models when making lending decisions. Consequently, it is important to these parties that SMEs should provide comparable information and that they do not need to make adjustments to that information.

Revaluation model for property, plant and equipment

BC210 The most common concern raised by respondents to the 2013 ED was the decision of the IASB not to propose an accounting policy option for revaluation of property, plant and equipment. The IASB has received feedback from preparers, standard-setters, accounting firms and other interested parties that not having a revaluation option is a barrier to the adoption of the *IFRS for SMEs* in jurisdictions where SMEs commonly revalue their property, plant and equipment and/or are required by law to revalue property, plant and equipment. Those interested parties note that, for entities that are currently applying the revaluation model under local GAAP, a change to the cost model may have implications for current and future borrowing arrangements. Furthermore, some respondents have noted that a revaluation option is important in jurisdictions that are experiencing high inflation. Approximately half of the members of the SMEIG also recommended that the IASB should reconsider its decision not to permit a revaluation model for property, plant and equipment.

BC211 During its redeliberations on the 2013 ED, and in the light of the ongoing and widespread concerns raised by respondents, the IASB decided to permit an option for SMEs to revalue property, plant and equipment. Although the IASB thinks that limiting complex options is important for the reasons given in paragraphs BC208-BC209, it acknowledges that, based on responses to the RFI and the 2013 ED, not allowing a revaluation model for property, plant and equipment appears to be the single biggest impediment to adoption of the *IFRS of the SMEs* in some jurisdictions. The IASB also agreed with those respondents who stated that current value information is potentially more useful than historical cost information. The IASB therefore decided that the benefits of wider use of the *IFRS for SMEs*, and hence the potential for global improvements in reporting and consistency, together with the usefulness of the information provided, outweigh any perceived costs to users and preparers of adding this option. Furthermore, the IASB noted that the change introduces only an option, not a requirement. Consequently, it does not necessitate a change or additional costs for preparers. The IASB also noted that there was nothing to prevent authorities and standard-setters in individual jurisdictions from requiring all SMEs in their jurisdiction to use only the cost model, or only the revaluation model for property, plant and equipment. Such action would not prevent SMEs from stating compliance with the *IFRS for SMEs*.

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Capitalisation of development or borrowing costs

BC213 Only a small number of respondents to the RFI and the 2013 ED supported a requirement for SMEs to capitalise development and/or borrowing costs based on similar criteria to full IFRSs. However, several respondents supported giving SMEs an option to capitalise development and borrowing costs based on similar criteria to full IFRSs for similar concerns to those expressed by respondents in paragraph BC210, ie access to finance and high-inflation environments. However, many respondents would not change the current requirements, ie would continue to require SMEs to expense all development and borrowing costs.

BC214 The *IFRS for SMEs* requires all borrowing and development costs to be recognised as expenses. Full IFRSs requires capitalisation of borrowing and development costs meeting certain criteria; otherwise they are recognised as expenses. Consequently, the *IFRS for SMEs* simplifies the requirements in full IFRSs, instead of removing an option permitted in full IFRSs. The IASB therefore noted that allowing options to capitalise certain development and borrowing costs would involve different considerations than allowing a revaluation option for property, plant and equipment. In particular the IASB observed that permitting accounting policy options to capitalise development and borrowing costs that meet the criteria for capitalisation in IAS 38/IAS 23, in addition to the current approach, would result in more accounting policy options than full IFRSs. The IASB noted that it continues to support its rationale for requiring the recognition of all development and borrowing costs as expenses, for cost-benefit reasons as set out in paragraphs BC113–BC114 and BC120 and for not providing the additional, more complex, accounting policy options for SMEs as set out in paragraphs BC208-BC209. The IASB noted that an SME may disclose additional information about its borrowing costs or development costs if it is considered relevant to users of its financial statements.

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Transition provisions

BC256 The IASB does not expect retrospective application of any of the amendments to be significantly burdensome for SMEs. This is because most of the amendments to the *IFRS for SMEs* provide clarification of existing requirements or relief from existing requirements. Consequently, in the 2013 ED the IASB proposed that the amendments to Sections 2–34 in the *IFRS for SMEs* should be applied retrospectively.

BC257 Aligning the requirements of Section 29 with IAS 12 is the most significant change being made to the *IFRS for SMEs* because it affects most of the requirements in that section and the requirements in Section 29 are likely to be applicable to nearly all SMEs. However, the IASB noted that like IAS 12, Section 29 currently requires SMEs to recognise deferred tax using the temporary difference approach. Consequently, the IASB observed that most SMEs will find the amendments to Section 29 will not significantly affect the amounts they recognise for deferred tax. Furthermore, the IASB noted that because of the additional exemptions included in IAS 12 compared to Section 29, alignment would be expected to result in deferred tax arising on fewer assets and liabilities, and hence require fewer deferred tax calculations. Nevertheless, some respondents to the 2013 ED noted that retrospective application of the amendments to Section 29 could be burdensome, because SMEs will need to consider the effect of each individual change to the requirements for recognising and measuring deferred tax, including minor wording changes. They noted that determining how all these individual changes applied retrospectively would affect the financial statements could be time-consuming and complex for some SMEs.

BC258 The IASB observed that the amendments to Section 29 are not expected to significantly affect the amounts most SMEs recognise for deferred tax, because the amendments do not change the underlying approach to accounting for deferred tax. Furthermore, the IASB is only making minor changes to the disclosure requirements in Section 29. Consequently, the IASB noted that it would expect the impact of the amendments to Section 29 on the information in the financial statements to be limited for most SMEs. Nevertheless, the IASB do not think the benefit to users of SME financial statements of restated information under Section 29, which the IASB thinks is only likely to be required in a small percentage of cases, justifies requiring all SMEs to apply Section 29 retrospectively. As a result, the IASB decided allowing SMEs to apply the amendments to Section 29 prospectively from the beginning of the period in which the entity first adopts the amendments is supported by cost-benefit reasons.

BC259 The IASB also decided to require prospective application of the option to use the revaluation model from the beginning of the period in which the entity first adopts the amendments. The IASB observed that such a requirement is consistent with the requirements for a change in accounting policy from the cost model to the revaluation model under full IFRSs and that the requirements for SMEs should not be made more onerous than this. The IASB also noted that it may be difficult to apply the revaluation model retrospectively to property, plant and equipment without the use of hindsight in selecting the inputs that would have been appropriate in prior periods.

BC260 Some respondents also said that some of the other amendments may also be costly to apply retrospectively and they did not think the benefits of restated information would justify incurring significant costs. The IASB observed that Section 35 does not require first-time adopters to retrospectively apply requirements in the *IFRS for SMEs* if it would be impracticable (see paragraph 35.11) and including a general 'impracticable' exemption in the transition requirements would be consistent with this. Consequently, the IASB decided that although it does not think that applying the amendments to Sections 2–28 and 30–35 retrospectively would be significantly burdensome for SMEs, it would include an 'impracticable' exemption, that would apply to each amendment in isolation in case there are circumstances that it has not considered in which retrospective application would be impracticable.

Appendix D

Draft effects analysis

This appendix reproduces the Effects Analysis in the pre-ballot draft of *Amendments to the IFRS for SMEs* sent to IASB members on 23 January 2015. This analysis has not been reviewed by IASB members.

Analysis of the likely effects of the amendments

BC264 Before the IASB issues new requirements, or makes amendments to existing IFRSs, it considers the costs and benefits of the new pronouncements. This includes assessing the effects on the costs for both preparers and users of financial statements. The IASB also considers the comparative advantage that preparers have in developing information that would otherwise cost users of financial statements to develop. The IASB takes into account the benefits of economic decision-making resulting from improved financial reporting. The IASB gains insight on the likely effects of the proposals for new or revised IFRSs through its formal exposure of proposals and through its analysis and consultations with relevant parties through outreach activities.

BC265 The IASB conducted extensive outreach activities with interested parties during the comprehensive review of the *IFRS for SMEs*. This included issuing two public consultation documents (the RFI and the 2013 ED), additional outreach to providers of finance to SMEs and discussing the main issues at meetings of the IFRS Advisory Council and world standard-setters. In addition, the IASB consulted the SMEIG on its proposed amendments during development of the 2013 ED and the final amendments. This Effects Analysis is based on the feedback received through this process.

BC266 The evaluation of costs and benefits are necessarily qualitative, instead of quantitative. This is because quantifying costs and, particularly, benefits, is inherently difficult. Although other standard-setters undertake similar types of analyses, there is a lack of sufficiently well-established and reliable techniques for quantifying this analysis. Consequently, the IASB sees this Effects Analysis as being part of an evolving process. In addition, the assessment undertaken is that of the likely effects of the new requirements, because the actual effects will not be known until after the new requirements have been applied. These will be considered at the next review of the *IFRS for SMEs*.

BC267 The IASB is committed to assessing and sharing knowledge about the likely costs of implementing new requirements, and the likely ongoing application costs and benefits of new or revised IFRSs—the costs and benefits are collectively referred to as 'effects'.

BC268 In evaluating the likely effects of the amendments, the IASB has considered how:

(a) activities would be reported in the financial statements of those applying the *IFRS for SMEs*;

(b) comparability of financial information would be improved both between different reporting periods for the same entity and between different entities in a particular reporting period;

(c) more useful financial reporting would result in better economic decision-making;

(d) better economic decision-making as a result of improved financial reporting could be achieved;

(e) the compliance costs for preparers would likely be affected; and

(f) the costs of analysis for users of financial statements would likely be affected.

Changes that could have a significant effect

BC269 The following are the significant amendments to the *IFRS for SMEs*. All of these amendments closely align the related requirements with full IFRSs. An important benefit of these amendments to the *IFRS for SMEs* is closer alignment with full IFRSs. The following is a further consideration of the effects of these amendments in the context of SME financial statements:

(a) Addition of an option to use the revaluation model.

Users of SME financial statements have told the IASB that they do not like entities to apply different accounting policy options for similar transactions because it affects comparability between entities. Nevertheless, the IASB has received significant feedback from preparers, standard-setters, accounting firms and other interested parties that not having an option to revalue property, plant and equipment is a barrier to the adoption of the *IFRS for SMEs* in jurisdictions where SMEs commonly revalue their property, plant and equipment and/or are required by law to revalue property, plant and equipment. Consequently, the IASB decided that in this special case, the benefits of wider use of the *IFRS for SMEs*, and hence the potential for global improvements in reporting and consistency, outweigh the importance to users of SME financial statements of prohibiting this option for property, plant and equipment. Furthermore, the IASB noted that although the additional requirements to incorporate the revaluation option may increase the perceived complexity of the *IFRS for SMEs* slightly, the amendments introduce an option, not a requirement. Consequently, they do not necessitate a change or additional costs for preparers (see also paragraphs BC208–BC212).

(b) Alignment of the main recognition and measurement requirements for deferred income tax with IAS 12.

Alignment is expected to have a limited overall effect on the recognition, measurement, presentation and disclosure of deferred tax (see paragraphs BC219–BC223). Consequently, the IASB does not expect the information provided to users of financial statements to be significantly affected. Furthermore, although preparers will initially have to spend time understanding the revised requirements, in most cases this is not expected to cause undue cost or effort—and if it does, the transition requirements provide relief from retrospective restatement of the amounts for deferred tax. The IASB noted that some SMEs may find the revised requirements in Section 29 easier to apply than the previous requirements, eg if they are familiar with accounting for deferred tax under full IFRSs or because of the significant training material and expertise in some jurisdictions on application of IAS 12.

(c) Alignment of the main recognition and measurement requirements for exploration and evaluation assets with IFRS 6.

The IASB noted that the amendments were important to ensure that the requirements in the *IFRS for SMEs* are not more onerous than full IFRSs. These requirements only apply to a specific industry and so will not affect most SMEs and users of their financial statements.

Other changes supported for cost-benefits reasons

BC270 The IASB thinks that the following changes are supported by cost-benefit reasons as explained in the paragraphs that are made reference to:

(a) amending paragraph 18.20 to specify that if an entity is unable to make a reliable estimate of the useful life of an intangible asset, including goodwill, the useful life should be based on management's best estimate and not exceed ten years. This replaces the requirement to use a fixed ten-year life in the absence of a reliable estimate. Using the best estimate is expected to provide better information for users of financial statements than requiring a fixed ten-year life at no additional cost to preparers (see paragraphs BC247).

(b) the addition of an undue cost or effort exemption for the following five requirements (see paragraphs BC202, BC222 and BC239–241):

(i) measurement of investments in equity instruments at fair value in Sections 11 and 12;

(ii) recognising intangible assets separately in a business combination;

(iii) measurement of the entity's own equity instruments at fair value when they are issued to a creditor to extinguish a liability (which results from incorporating the conclusions of IFRIC 19);

(iv) the requirement to measure the liability to pay a non-cash distribution at the fair value of the non-cash assets to be distributed; and

(v) the requirement to offset income tax assets and liabilities.

(c) a requirement that an entity must disclose its reasoning for using any undue cost or effort exemption (see paragraph BC252).

(d) the transition requirements for the amendments to the *IFRS for SMEs* (see paragraphs BC258–BC260).

Changes that are expected to have a limited effect

BC271 Apart from the changes described in paragraphs BC269–BC270, the IASB's amendments to the *IFRS for SMEs* are either one or more of the following types:

(a) relatively minor changes that align the requirements in the *IFRS for SMEs* with full IFRSs, either to incorporate some of the changes in new or revised IFRSs and/or to include clarifying guidance from full IFRSs. These changes were introduced to reduce the costs of applying *IFRS for SMEs* because they either provide additional clarity, a simplification, and/or they fix known or expected problems or the potential for diversity in practice. These changes are not expected to add complexity for SMEs preparers and are in areas where the needs of users of SME financial statements are expected to be similar to the needs of users of publicly accountable entities.

(b) changes that clarify existing requirements or remove unintended consequences of the existing wording in the *IFRS for SMEs.* The effect of those amendments is expected to be a better understanding and application of the requirements in the *IFRS for SMEs* and in most cases they would not be expected to affect the current accounting for those transactions.

(c) changes that are not expected to have a material impact for the vast majority of SMEs because, for example, they relate to transactions that are only rarely encountered by SMEs.

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