STAFF PAPER

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SME Implementation Group meeting

Project	**Second Comprehensive Review of the *IFRS for SMEs*® Standard**
Paper topic	Other topics

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Purpose of the paper

1. The purpose of this paper is to:

   (a) discuss feedback from comment letters and the online survey on Questions N4 and N5 in the Request for Information *Comprehensive review of the* IFRS for SMEs *Standard*, which was published by the International Accounting Standards Board (Board) in January 2020; and

   (b) seek SME Implementation Group (SMEIG) members' views on whether a topic mentioned by respondents in the comment letters and online survey requires any further action by the Board (see paragraph 11 of this paper).

2. In this paper, the term SMEs refers to small and medium-sized entities that are eligible to apply the *IFRS for SMEs* Standard.

Structure of the paper

3. This paper discusses feedback on questions N4 and N5 in the Request for Information and staff preliminary thoughts on this feedback. The paper is structured as follows:
   (a) questions in the Request for Information;
   (b) overall feedback;
   (c) staff preliminary thoughts for:
      (i) topics for which the staff think no further action is needed;
      (ii) topics for which the staff think further action is needed; and
      (iii) topics for which the staff are seeking advice from the SMEIG on whether any further action is needed;
   (d) questions for SMEIG members.
4. Appendix A to this paper includes an index which lists the topics discussed and their corresponding paragraphs within this paper.

Questions in the Request for Information

5. Question N4 in the Request for Information asked whether there are any topics the *IFRS for SMEs* Standard does not address that respondents think should be the subject of specific requirements (for example, topics not addressed by the Standard for which the general guidance in paragraphs 10.4–10.6 of the *IFRS for SMEs* Standard is insufficient).
6. Question N5 in the Request for Information asked respondents to describe any additional issues that they would like to bring to the Board’s attention relating to the *IFRS for SMEs* Standard.

7. This paper considers and discusses feedback on questions N4 and N5 together as the staff noted that:

(a) some respondents commented on other topics in general; and

(b) in some cases, different respondents regarded the same topic as a topic not addressed by the *IFRS for SMEs* Standard or as an additional issue.

Overall feedback

8. Respondents to Questions N4 and N5 in the Request for Information commented on over 50 different topics.

9. A summary of comments received was discussed in Agenda Paper 2 *Comment letter summary* for the SMEIG February 2021 meeting.[1]

10. Some topics mentioned by respondents to Questions N4 and N5 are not considered further in this paper as these topics are addressed or will be addressed when the Board discusses feedback on other questions in the Request for Information or as topics separately from 'other topics'. These topics include:

(a) undue cost or effort—addressed in Question S1;

(b) GAAP hierarchy—addressed in Question S1;

(c) disposal of interest in subsidiaries in which control is lost/retained—addressed in Question S2;

(d) investments in associates—addressed in Question S2;

(e) defined benefit plans—addressed in Question S8;

(f) financial instruments—addressed in Question S3;

(g) sale and leaseback transactions—addressed in Question S6;

(h) cryptocurrency—addressed in Question N2;

[1] See Agenda Paper 2 for the February 2021 SMEIG meeting.

(i) title of the Standard—to be addressed separately; and

(j) scope of the Standard—to be addressed separately.

Staff preliminary thoughts

11. The staff have classified the remaining topics into the following categories:

    (a) topics for which the staff think no further action is needed (paragraphs 13–72 of this paper);

    (b) topics for which the staff think further action is needed (paragraphs 73–75 of this paper); and

    (c) topics on which the staff are seeking advice from the SMEIG on whether any further action is needed (paragraphs 76–98 of this paper).

12. The staff are asking SMEIG members' views on the staff preliminary thoughts for each of the three categories of topics listed in paragraph 11 of this paper.

Take no further action

13. The staff think the Board should not consider further action for some topics mentioned by respondents. The topics are grouped into the following categories:

    (a) suggestions for new accounting requirements in the *IFRS for SMEs* Standard (paragraphs 14–30 of this paper);

    (b) suggestions relating to existing accounting requirements in the *IFRS for SMEs* Standard (paragraphs 31–38 of this paper);

    (c) suggestions pertaining to disclosures (paragraphs 39–45 of this paper);

    (d) suggestions to include guidance and clarification (paragraphs 46–51 of this paper);

    (e) suggestions to allow accounting policy options (paragraphs 52–63 of this paper); and

(f) suggestions to consider topics within the Board's work plan or Third Agenda Consultation (paragraphs 64–72 of this paper).

Suggestions for new accounting requirements in the IFRS for SMEs *Standard*

14. Respondents to the Request for Information suggested the Board consider incorporating in the *IFRS for SMEs* Standard:

    (a) guidance for a new entity formed in a business combination (paragraphs 15–16 of this paper);

    (b) requirements for financial instruments in relation to the Interbank offered rate (IBOR) reform (paragraphs 17–21 of this paper);

    (c) requirements for not-for-profit entities (paragraphs 22–23 of this paper);

    (d) requirements for earnings per share and operating segments (paragraphs 24–26 of this paper);

    (e) requirements for the consensus of IFRIC 2 (paragraphs 27–28 of this paper); and

    (f) requirements for non-governmental grants (paragraphs 29–30 of this paper)

15. A small number of respondents suggested the Board expand Section 19 *Business Combinations and Goodwill* of the *IFRS for SMEs* Standard to incorporate the guidance for a new entity in paragraph B18 of IFRS 3 *Business Combinations* that states that a new entity formed to effect a business combination is not necessarily the acquirer in that business combination.

16. The staff think no further action should be taken because:

    (a) the Board could amend IFRS 3 as part of its Business Combinations under Common Control project; and

    (b) the *IFRS for SMEs* Standard would not in any event include this level of detail because of the principle of simplicity.

17. A small number of respondents suggested the Board keep the progress of IBOR reform under review and where necessary incorporate similar reliefs into the *IFRS for SMEs* Standard. These respondents are referring to the effects of the interest rate benchmark reform on a company's financial statements that arise when, for example, an interest rate benchmark used to calculate interest on a financial asset is replaced with an alternative benchmark rate. The Board issued amendments to IFRS Standards in 2019 and 2020 to address the effects of interest rate benchmark reform.[2]

18. In February 2020 the SMEIG were asked for advice on whether:

    (a) IBOR reform is relevant to entities applying the *IFRS for SMEs* Standard; and

    (b) the Board should consider amending the *IFRS for SMEs* Standard for IBOR reform.

19. Seven SMEIG members provided views of which four members considered IBOR reform relevant to SMEs; the other three members did not consider the matter relevant to SMEs.

20. As to whether to amend the *IFRS for SMEs* Standard, only one SMEIG member said the *IFRS for SMEs* Standard should provide an equivalent relief to the IBOR reform that is provided in full IFRS Standards.

21. Based on the previous advice of SMEIG members the staff think that no further action should be taken during this review for the amendments to IFRS Standards relating to the IBOR reform. The amendments should not be in the scope of the review because:

    (a) in many jurisdictions the IBOR reform is likely to be completed before the amendments to the *IFRS for SMEs* Standard from the second comprehensive review are issued and therefore any reliefs are unlikely to be helpful for many entities applying the *IFRS for SMEs* Standard; and

    (b) the amendments assist entities to address issues that might affect financial reporting during the reform, including the effects of changes to contractual cash flows because of the interest rate benchmark reform. The *IFRS for SMEs*

[2] See IBOR Reform and its Effects on Financial Reporting—Phase 1 and IBOR Reform and its Effects on Financial Reporting—Phase 2

Standard does not include detailed requirements for contract modifications.[3] Introducing changes to such requirements could lead to complexity.

22. A small number of respondents suggested the Board considers a new standalone Standard for not-for-profit entities.

23. The staff think no further action should be taken as the Charted Institute of Public Finance and Accountancy (CIPFA) is addressing this demand through its International Financial Reporting for Non-Profit Organizations (IFR4NPO) initiative.[4]

24. A small number of respondents expressed the view that all topics addressed by full IFRS Standards should also be addressed by the *IFRS for SMEs* Standard, to minimise the differences between the two frameworks. A respondent mentioned including requirements for operating segments and earnings per share within the *IFRS for SMEs* Standard.

25. The staff think no further action should be taken because entities applying the *IFRS for SMEs* Standard are non-publicly accountable entities. As such, these entities are not required to apply the requirements in IAS 33 *Earnings per Share* and IFRS 8 *Operating segments* as the scope of these Standards are intended for publicly accountable entities. Therefore, given the scope of IAS 33 and IFRS 8, the staff think including those requirements would not be relevant to entities applying the *IFRS for SMEs* Standard.

26. Additionally, to retain the simplicity of the *IFRS for SMEs* Standard, the staff think these requirements should not be included in the Standard.

27. A respondent expressed the view that Section 22 *Liabilities and Equity* should be amended to incorporate the consensus of IFRIC 2 *Members' Shares in Co-operative Entities and Similar Instruments.*

[3] Paragraphs 11.19–11.20 of the *IFRS for SMEs* Standard include requirements about changes in market rates of interest and revision to estimated cash flows for financial assets and liabilities.
[4] See the Charted Institute of Public Finance and Accountancy (CIPFA)'s policy and guidance.

28. The staff think no further action is necessary as the consensus from IFRIC 2 has been considered and incorporated in Section 22 of the *IFRS for SMEs* Standard (for example, in paragraph 22.6).

29. A small number of respondents suggested the Board consider expanding Section 24 *Government Grants* of the *IFRS for SMEs* Standard to include non-governmental funding.

30. The staff think no further action should be taken because the Board would have no basis to expand Section 24 to include requirements for non-governmental funding as the scope of IAS 20 is limited to government grants. To feasibly develop accounting requirements for non-governmental grants, the Board would need to conduct necessary research and outreach to identify the demand to address requirements for non-governmental grants first.

Suggestions relating to existing requirements in the IFRS for SMEs *Standard*

31. Respondents to the Request for Information suggested the Board considers expanding existing requirements in the *IFRS for SMEs* Standard for:

    (a) the existing consolidation exemption (paragraphs 32–33 of this paper);

    (b) useful life of intangible assets (paragraphs 34–35 of this paper); and

    (c) alignment with the European Accounting Directive (paragraphs 36–38 of this paper).

32. A small number of respondents suggested the Board could expand the existing consolidation exemption in paragraph 9.3 of the *IFRS for SMEs* Standard, for example by:

    (a) extending the exemption to subsidiaries of entities preparing consolidated financial statements applying other recognised GAAPs in addition to full IFRS Standards and the *IFRS for SMEs* Standard; and

    (b) permitting a free choice of whether to prepare consolidated financial statements because, according to these respondents, SMEs prefer to prepare only individual financial statements as their stakeholders do not often use their consolidated financial statements.

33. The staff think no further action should be taken because:

(a) expanding the existing consolidation exemption would be inconsistent with IFRS 10 *Consolidated Financial Statements,* which only exempts subsidiaries from preparing consolidated financial statements when their parent entity prepares consolidated financial statements that comply with IFRS Standards (see paragraph 4 of IFRS 10); and

(b) continuing to allow the consolidation exemption only for subsidiaries with parents preparing consolidated financial statements complying with IFRS Standards or the *IFRS for SMEs* Standard is consistent with the Board's decision in developing the Exposure Draft *Subsidiaries without Public Accountability: Disclosures* (see paragraphs BC20–BC21 of the Basis for Conclusions on the Exposure Draft *Subsidiaries without Public Accountability: Disclosures*)

34. One respondent suggested the Board adds to the *IFRS for SMEs* Standard a fall-back option to IAS 38 *Intangible Assets* in respect of the subsequent measurement of intangible assets instead of having a finite useful life not exceeding 10 years. The *IFRS for SMEs* Standard initially prescribed that if a reliable estimate could not be made, the useful life is presumed to be 10 years. The Standard was subsequently amended during the first comprehensive review to introduce a cap of 10 years instead of a presumed life of 10 years.

35. The staff think no further action should be taken as the Board concluded that placing a 10-year limit on intangible assets with useful life that cannot be established reliably would retain the simple application of the Standard and would provide users of financial statements with information about the period over which the intangible asset is expected to be available for use (see paragraph BC247 of the Basis for Conclusions on the *IFRS for SMEs* Standard).

36. A European respondent suggested the Board consider further alignment of the *IFRS for SMEs* Standard with the European Accounting Directive, to ensure greater comparability of SME reporting practice across jurisdictions.

37. The staff think no further action should be taken as the *IFRS for SMEs* Standard was developed and designed to enable adoption and application globally. Considering alignment of the *IFRS for SMEs* Standard with the European Accounting Directive or any other set of local legislation could result in its departure from IFRS Standards, and thus making global adoption of the Standard unattractive to other jurisdictions.

38. The staff also note that this suggestion would be inconsistent with the Board's objective when it introduced the *IFRS for SMEs* Standard as a globally recognised self-contained Standard.

Suggestions pertaining to disclosures

39. Respondents to the Request for Information suggested the Board consider:

    (a) introducing specific disclosures in the *IFRS for SMEs* Standard for tax authorities and lenders (paragraphs 40–42 of this paper); and

    (b) amending disclosures in the *IFRS for SMEs* Standard for related party transactions (paragraphs 43–45 of this paper).

40. A respondent suggested the Board conduct further research to identify other disclosures that can be introduced in the *IFRS for SMEs* Standard to better address the specific information needs of tax authorities and lenders.

41. The staff note that the *IFRS for SMEs* Standard is intended for non-publicly accountable entities that publish general purpose financial statements for external users. In developing the Standard, the main groups of external users identified and considered include lenders but not tax authorities (see paragraph BC80 of the Basis for Conclusions on the *IFRS for SMEs* Standard). However, the staff think no further action should be taken because paragraph 1.10 of the *Conceptual Framework for Financial Reporting* sets out that general purpose financial statements published are not primarily directed to regulators such as tax authorities. Additionally, the staff

think introducing specific disclosure requirements for tax authorities would be difficult to implement as taxation requirements vary between jurisdictions.

42. As lenders were identified as one of the main groups of external users in developing the *IFRS for SMEs* Standard, the staff think no further action should be taken because the information needs of lenders are sufficiently met through the existing disclosures required by the Standard. The Board has considered disclosure needs of lenders and other main groups of external users through its guiding principles in assessing the required disclosures, which includes information such as short-term cash flows, liquidity and solvency (see paragraph BC157 of the Basis for Conclusions on the *IFRS for SMEs* Standard).

43. A respondent expressed the view that disclosures for related party transactions require further simplification and suggested the Board amend the *IFRS for SMEs* Standard to only require related party transaction disclosures if transactions are not at arms-length prices. According to this respondent:

    (a) the primary users of SME financial statements are already aware of related party transactions as these transactions are frequent for SMEs; and

    (b) disclosures for related party transactions do not add value to users of the financial statements.

44. The staff think no further action should be taken regarding this topic because:

    (a) related party transactions are material by nature; and

    (b) the suggestion from this respondent is inconsistent with the feedback obtained from the user survey and user interviews conducted in August 2020 to October 2020.[5]

45. Based on the survey and interviews conducted, feedback from both users and non-users cited the importance of related party disclosures, as opposed to simplification and reduced disclosures for related party transactions.[6]

[5] See Agenda Paper 5 for the February 2021 SMEIG meeting
[6] See Agenda Paper 5 for the February 2021 SMEIG meeting.

Suggestions to include guidance and clarification

46. Respondents to the Request for Information suggested the Board consider including guidance and clarification for the following topics:

    (a) applying a new IFRS Standard (paragraphs 47–49 of this paper); and

    (b) uncertainty (paragraphs 50–51 of this paper).

47. A small number of respondents questioned whether a new IFRS Standard (such as IFRS 16 *Leases*) can be applied by an entity that applies the *IFRS for SMEs* Standard and suggested the Board clarify the possibility of this application. For example:

    (a) one respondent suggested the Board consider amending the Standard to permit entities to apply a new or amended IFRS Standard; and

    (b) another respondent suggested the Board develop transition requirements, should the Board permit the application of a new or amended IFRS Standard.

48. The staff think no further action should be taken because:

    (a) the Board has considered the broader topic of aligning the *IFRS for SMEs* Standard with a new requirement in IFRS Standards as part of the strategic questions in the Request for Information (Questions G1–G3).

    (b) feedback on these strategic questions were discussed by the SMEIG at its February 2021 meeting.[7]

    (c) in the light of the feedback and the SMEIG recommendations, the Board tentatively decided to:

        (i) develop proposed amendments to the *IFRS for SMEs* Standard using the approach on which the Board consulted in the Request for Information. This approach treats alignment with IFRS Standards as the starting point, and applies the principles of relevance to SMEs, simplicity and faithful representation,

[7] See Agenda Paper 2 for the February 2021 SMEIG meeting.

including the assessment of costs and benefits, in determining whether and how that alignment should take place.[8]

(ii) confirm that the scope of the review is as set out in the Request for Information and considers only new requirements effective on or before 1 January 2020.

(d) paragraph BC154 of the Basis for Conclusions on the *IFRS for SMEs* Standard explains that an entity chooses to apply either the complete set of full IFRS Standards or the *IFRS for SMEs* Standard.

49. Accordingly, an entity applying the *IFRS for SMEs* Standard cannot apply a new IFRS Standard if the *IFRS for SMEs* Standard contains a section (requirement) addressing the relevant topic. In the absence of a requirement in the *IFRS for SMEs* Standard, paragraphs 10.4–10.5 of the *IFRS for SMEs* Standard outline the approach required.

50. A respondent suggested the Board include guidance for the application of present value techniques under conditions of uncertainty, particularly the expected value technique.

51. The staff think no further action should be taken because, in the staff's view, the education material already available for the *IFRS for SMEs* Standard, such as Module 02—*Concepts and Pervasive Principles*, Module 21—*Provisions and Contingencies* and Module 27—*Impairment of Assets*, are sufficient to address the respondent's concern over the application of present value techniques under conditions of uncertainty.

[8] See IASB Update March 2021.

Suggestions to allow accounting policy options

52. Respondents to the Request for Information suggested the Board consider allowing an accounting policy choice for:

    (a) the capitalisation of borrowing costs and development costs (paragraphs 53–57 of this paper);

    (b) the subsequent measurement of investment property (paragraphs 58–60 of this paper); and

    (c) recognition requirements for government grants (paragraphs 61–63 of this paper).

53. Some respondents suggested the Board allow capitalisation of:

    (a) development costs on a similar basis to IAS 38 *Intangible Assets*; and

    (b) borrowing costs on a similar basis to IAS 23 *Borrowing Costs*.

54. The staff note that the *IFRS for SMEs* Standard requires research and development costs to be expensed when incurred, as many preparers and auditors said that SMEs do not have the resources to assess whether a project is commercially viable on an ongoing basis (see paragraphs BC113–BC114 of the Basis for Conclusions on the *IFRS for SMEs* Standard). Similarly, the Standard requires borrowing costs to be expensed when incurred due to cost-benefit reasons (see paragraph BC120 of the Basis for Conclusions on the *IFRS for SMEs* Standard). Full IFRS Standards require the capitalisation of development and borrowing costs meeting specified criteria. Costs that do not meet those criteria are recognised as expenses. The *IFRS for SMEs* Standard simplifies the requirements in full IFRS Standards, it does not remove an option permitted in full IFRS Standards. Adding a complex option would add complexity to the Standard.

55. The Board discussed this topic during the first comprehensive review of the *IFRS for SMEs* Standard in 2013. In 2013, the SMEIG members had mixed views on the capitalisation of development costs: some members recommended allowing SMEs an option to either expense or capitalise development costs, some members

recommended requiring capitalisation of such costs but with an undue cost or effort exemption, other members recommended to retain the Standard unchanged for cost-benefit reasons.[9]

56. The staff think that, if such an option were available, those SMEs that would be inclined to choose to capitalise development costs and borrowing costs are primarily subsidiaries with a parent preparing consolidated financial statements applying full IFRS Standards as described in paragraphs BC66–BC68 of the Basis for Conclusions on the *IFRS for SMEs* Standard.

57. As such, the staff think no further action should be taken because the subset of SMEs that would want to apply the recognition and measurement of full IFRS Standards would be eligible to apply the reduced-disclosure standard proposed by the Board in its Exposure Draft *Subsidiaries without Public Accountability: Disclosures*.[10]

58. A small number of respondents suggested the Board explicitly allows the application of the cost model for investment properties as an accounting policy choice in paragraph 16.7 of Section 16 *Investment Property* of the *IFRS for SMEs* Standard in the same way as is permitted in IAS 40 *Investment Property.*

59. This topic was also discussed with the SMEIG during the first comprehensive review of the *IFRS for SMEs* Standard in 2013. In 2013, the majority of SMEIG members recommended no change to the requirements in the *IFRS for SMEs* Standard as the model was said to be working in practice.[11]

[9] See Agenda Paper 2 for the February 2013 SMEIG meeting and Agenda Paper 4 for the March 2013 SMEIG meeting report.

[10] The Board's proposal in Exposure Draft *Subsidiaries without Public Accountability: Disclosures* would permit subsidiaries eligible to apply the *IFRS for SMEs* Standard to apply the recognition, measurement and presentation requirements in IFRS Standards with reduced disclosure requirements.

[11] See Agenda Paper 2 for the February 2013 SMEIG meeting and Agenda Paper 4 for the March 2013 SMEIG meeting report.

60. The staff note that the requirements of the *IFRS for SMEs* Standard reflect some simplifications to the requirements of IAS 40.[12] Similar to the staff's response to the suggestions to allow capitalisation of borrowing costs and development costs, the staff think no further action should be taken in the light of the feedback on the first comprehensive review of the *IFRS for SMEs* Standard in 2013 and, as noted above, the Board's proposals in the Exposure Draft *Subsidiaries without Public Accountability: Disclosures* would address this matter for subsidiaries.

61. A small number of respondents suggested that Section 24 *Government Grants* should be revised to align with IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance.* A respondent suggested that Section 24 be revised to allow an accounting policy choice of either the performance model or accrual model in the recognition of government grants. The respondent said that:

    (a) in its view, Section 24 is a departure from IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* as the accrual model is not permitted in the *IFRS for SMEs* Standard; and

    (b) an accounting policy choice exists under FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland.*

62. The staff think no further action should be taken for the suggestion to align Section 24 with IAS 20 to retain simple application of the Standard, which does not include accounting policy options. In developing a Standard consistent with its principle of simplification, the Board requires a single, simplified method of accounting for all government grants (see paragraph BC134 of the Basis for Conclusions on the *IFRS for SMEs* Standard).

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

63. Additionally, the staff think the demands from entities that prefer recognising and measuring government grants as per IAS 20 or IAS 41 *Agriculture* would be addressed in the Board’s Exposure Draft *Subsidiaries without Public Accountability: Disclosures.*

Suggestions to consider topics within the Board’s work plan or Third Agenda Consultation

64. Respondents to the Request for Information suggested the Board considers topics which the Staff note are:

    (a) part of the Board’s work plan (paragraphs 65–67 of this paper); or

    (b) part of the Third Agenda Consultation (paragraphs 68–72 of this paper).

65. A small number of respondents suggested the Board considers incorporating amendments and final guidance from the Exposure Draft *General Presentation and Disclosures* and the Discussion Paper *Business Combinations under Common Control* into the *IFRS for SMEs* Standard.

66. In addition, a respondent raised concerns over the accounting for goodwill prescribed by Section 27 *Impairment of Assets* of the *IFRS for SMEs* Standard, which this respondent said is complex, costly and requires significant judgement.

67. The staff agree that requirements about general presentation and disclosure and about reporting of business combinations under common control could be relevant for SMEs. However, the staff think the Board should consider these projects and any amendments to the accounting for goodwill in Section 27 as part of the next comprehensive review. Question G3 of the Request for Information consulted on how soon after an IFRS Standard was issued the Board should consider that change for incorporation in the *IFRS for SMEs* Standard. Although respondents suggested the Board retain some flexibility, they generally supported considering only requirements that are effective and for which there is enough implementation experience. Consequently, the Board decided not to amend the scope of the second comprehensive review to include consideration of possible future changes from projects in the Board’s work plan.

68. A small number of respondents suggested the Board considers topics which, the staff note, are being considered as potential projects as part of the Third Agenda Consultation.[13] These topics include:

(a) going concern (paragraph 69–70 of this paper); and

(b) hyperinflation (paragraph 71–72 of this paper).

69. Respondents suggested the Board provides further guidance on the preparation of financial statements when the going concern assumption is no longer appropriate for an entity.

70. The staff note that IFRS Standards are silent on the basis on which financial statements should be prepared when the going concern assumption is inappropriate. The Board is considering going concern as a potential project in its Third Agenda Consultation. The staff think the Board should consider the feedback on going concern from its Third Agenda Consultation before considering adding any potential changes to the *IFRS for SMEs* Standard.

71. A respondent suggested the Board considers studying the effects of hyperinflation on financial information reported. By conducting a study, the respondent was of the view that the Board could assess if the scope of IAS 29 *Financial Reporting in Hyperinflationary Economies* should be changed and subsequently Section 31 *Hyperinflation*.

72. Similar to going concern, the staff think the Board should consider the feedback on inflation from its Third Agenda Consultation before considering any potential changes for hyperinflation to the *IFRS for SMEs* Standard.

Take further action

73. The staff think the Board should consider further action for the suggestion to simplify accounting for share-based payments.

[13] See the Third Agenda Consultation Request for Information

74. A respondent suggested the Board should include the scope exclusions from paragraph 5 of IFRS 2 *Share-based Payment* in Section 26 *Share-based Payment* of the *IFRS for SMEs* Standard. This paragraph sets out that IFRS 2 does not apply to transactions in which the entity acquires goods as part of the net assets acquired in a business combination, in a combination of entities under common control or the contribution of a business on the formation of a joint venture.

75. The staff think:

(a) these scope exclusions should be considered by the Board based on the simplification principle— that is introducing these exemptions would simplify the *IFRS for SMEs* Standard and align with IFRS 2 requirements; and

(b) including the scope exclusions would assist entities applying Section 26.

Advice required from the SMEIG

76. For some topics mentioned by respondents to the Request for Information the staff would value further input and feedback from SMEIG members to assess whether any further action is needed.

77. Based on the feedback from SMEIG members, the staff plan to classify these topics as either a topic which requires further action or a topic which requires no further action.

78. The staff are seeking advice from SMEIG members on the following topics:

(a) interim financial reporting (paragraphs 79–80 of this paper);

(b) agriculture—biological assets (paragraphs 81–82 of this paper);

(c) simplification of accounting treatment (paragraphs 83–90 of this paper); and

(d) assets held for sale and discontinued operations (paragraphs 91–98 of this paper).

Interim financial reporting

79. A respondent commented that the *IFRS for SMEs* Standard does not include any requirements for interim financial reporting, including requirements for special purpose financial statements prepared to meet the specific needs of some users (for example, liquidation statements).

80. To assess the relevance of this request the staff are requesting SMEIG members' views on how often interim financial reports or special purpose reports are prepared for SMEs.

Agriculture—biological assets

81. A respondent suggested the Board consider providing clear guidance in the *IFRS for SMEs* Standard that would simplify and ensure consistent application of the requirements relating to subsequent measurement of biological assets.

82. The staff are requesting SMEIG members' views on whether SMEIG members are aware of inconsistent application in accounting for biological assets.

Simplification of accounting treatment

83. A small number of respondents suggested the Board consider amending the requirements in the *IFRS for SMEs* Standard for topics they believe are simpler when applying FRS 102, compared to the *IFRS for SMEs* Standard. FRS 102 is the UK Standard derived from the *IFRS for SMEs* Standard but with significant modifications. Suggestions from these respondents include:

    (a) Loans from a director—Section 11 *Basic Financial Instruments* of the *IFRS for SMEs* Standard could be simplified to permit SMEs to measure loans from a director (or their group of close family members when that group contains at least one shareholder) at transaction price, rather than at present value as currently required by the *IFRS for SMEs* Standard (see staff preliminary views in paragraphs 84–85 of this paper).

(b) Share-based payment—Section 26 *Share-based Payment* of the *IFRS for SMEs* Standard could be amended to require equity settled as the default treatment when share-based payment transactions give either the entity or the counterparty a choice of settling the transaction in cash or transfer of equity. One respondent said applying cash settled as the default treatment required by Section 26 is more onerous than applying the requirements in IFRS 2 (see staff preliminary views in paragraphs 86–87 of this paper).

(c) Shares and equity instruments—Section 22 *Liabilities and Equity* of the *IFRS for SMEs* Standard requires entities to recognise the issue of shares or other equity instruments as equity when another entity is obliged to provide cash or other resources to the entity in exchange. One respondent suggested the Board removes this requirement as it is not a requirement of IFRS Standards, and thus would only lead to divergence between the *IFRS for SMEs* Standard and IFRS Standards (see staff preliminary views in paragraphs 88–90 of this paper).

84. The staff think the suggestion to permit SMEs to measure some loans from a director at transaction price, rather than at present value, would not be appropriate for the *IFRS for SMEs* Standard because to permit such exemption, the Board would first need to consider the scope of the exemption by either introducing exemption criteria, which define a small entity eligible to the exemption, or make the exemption more widely available.

85. The staff note that in FRS 102, this simplification is only available to those entities eligible for the ‘small entities regime’. To introduce a similar simplification in the *IFRS for SMEs* Standard, the Board would need to consider a quantified size of entities eligible to apply the exemption, but this would be inconsistent with the Board’s general principle-based approach to standard setting (see paragraphs BC69–BC70 of the Basis for Conclusions on the *IFRS for SMEs* Standard). However, the alternative of making the exemption more widely available for all entities would be conflicting with the current accepted accounting for these loans as required by Section 11.

86. In developing the *IFRS for SMEs* Standard, the Board received feedback that the recognition and measurement of equity-settled share-based transactions prescribed by IFRS 2 was not sufficiently simple for SMEs. As the Board considered this feedback, further simplification was introduced into the *IFRS for SMEs* Standard for measurement of equity-settled share-based transactions, and cash-settled was made as the default treatment instead of equity-settled when share-based payment transactions give either the entity or the counterparty a choice of settling the transaction in cash or transfer of equity (see paragraphs BC129–BC131 of the Basis for Conclusions on the *IFRS for SMEs* Standard).

87. The staff note that cash-settled was made as the default treatment, instead of equity-settled, for share-based payment with settlement option due to cost-benefit reasons. However, given the recent feedback on the Request for Information, the Staff think the Board should revisit the requirement prescribed in Section 26.

88. Paragraph 22.7(a) of the *IFRS for SMEs* Standard requires the issue of shares or other equity instruments to be recognised as equity when the entity issues those instruments and another entity is obliged to provide cash or other resources to the entity in exchange. If the equity instruments are issued before the entity receives the cash or other resources, the amount receivable is presented as an offset to equity in the balance sheet not as an asset.

89. The staff note that the IFRS Standards contained no similar requirement. To retain the simple application of the *IFRS for SMEs* Standard, the staff think the Standard should not contain a requirement additional to the IFRS Standards.

90. The staff also note that FRS 102 had a similar requirement, but the requirement was subsequently removed as it conflicted with the United Kingdom (UK) company law. The staff think the Board would benefit from eliminating paragraph 22.7 of the *IFRS for SMEs* Standard if many SME preparers have indicated that the requirement is similarly conflicting with the law or regulation in their local jurisdiction.

Assets held for sale and discontinued operations

91. A small number of respondents to the Request for Information suggested the Board consider including in the *IFRS for SMEs* Standard a section aligned with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, but with simplifications to the extent necessary for SMEs. In contrast some respondents said the recognition, measurement and disclosure requirements in IFRS 5 may be complex for SMEs.

92. Applying IFRS 5, an entity classifies a non-current asset (or disposal group) as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. A non-current asset (or a disposal group) classified as held for sale is measured at the lower of its carrying amount and fair value less cost to sell.

93. The *IFRS for SMEs* Standard already aims to provide similar information to IFRS 5 through a simplified approach.

94. In particular, the *IFRS for SMEs* Standard currently requires:

    (a) specific disclosures if the SME has a binding sale agreement for a major disposal of assets, or a group of assets and liabilities (paragraph 4.14 of Section 4 *Statement of Financial Position)*. However, it does not require separate measurement of assets held for sale.

    (b) presentation of discontinued operations (paragraph 5.5(e) of Section 5 *Statement of Comprehensive Income and Income Statement*).

    (c) the impairment requirements in the *IFRS for SMEs* Standard ensure that assets are not overstated in the financial statements (paragraph 27.9(f) states that a plan to dispose of an asset before the previously expected date is an indicator of impairment).

95. The staff think there are:

    (a) arguments supporting expanding the requirements in the *IFRS for SMEs* Standard for assets held for sale and discontinued operations to align with IFRS 5; and

(b) arguments supporting retaining unchanged the simplified requirements in the *IFRS for SMEs* Standard for assets held for sale and discontinued operations.

96. The staff think arguments for further aligning the *IFRS for SMEs* Standard with IFRS 5 are:

(a) a simplified IFRS 5 within the Standard would assist entities to report these types of transaction. A small number of respondents, such as the South African Institute of Charted Accountants, mentioned that questions on assets held for sale and discontinued operations, which are dealt under IFRS 5, are common in some jurisdictions when applying the *IFRS for SMEs* Standard.

(b) although complex, separate measurement of assets held for sale applying the requirements in IFRS 5 would be relevant to SMEs and of interest to users of SME financial statements as they relate to information on cash flows, liquidity and solvency, which is aligned to the principles explained in paragraph BC157 of the Basis for Conclusions on the *IFRS for SMEs* Standard.

97. The staff think arguments for not further aligning *IFRS for SMEs* Standard with IFRS 5 are:

(a) the *IFRS for SMEs* Standard already requires disclosure of assets held for sale if there is a binding sale agreement and presentation of discontinued operations. Adding the measurement requirements of IFRS 5 to the *IFRS for SMEs* Standard would add complexity to the Standard.

(b) the sale of assets in SMEs are often relatively quick transactions compared to similar sales in publicly accountable entities, thus SMEs tend to only hold assets intended for sale for a short period of time and are therefore proportionally less likely to have any assets classified as held for sale at their reporting date.

(c) the Exposure Draft of the *IFRS for SMEs* Standard published in 2007 initially proposed nearly identical requirements to IFRS 5 but these requirements were subsequently retracted as respondents to the Exposure Draft commented that the *IFRS for SMEs* Standard should not have a separate held-for-sale classification for cost-benefit reasons (see paragraph BC119 of the Basis for Conclusions on the *IFRS for SMEs* Standard).

98. In the light of these arguments, the staff are requesting SMEIG members' view on the relevance to SMEs of proposing amendments to further align the *IFRS for SMEs* Standard with IFRS 5.

Questions for SMEIG members

Question 1 for the SMEIG
Do SMEIG members agree with the staff's preliminary thoughts to recommend the Board: (a) take no action on topics outlined in Table A1 of Appendix A to this paper; and (b) take further actions on topics outlined in Table A2 of Appendix A to this paper?

Question 2 for the SMEIG
Do SMEIG members have any advice on topics outlined in Table A3 of Appendix A to this paper, which are: (a) Interim financial reporting—Is preparing interim financial reports or special purpose reports frequent among SMEs? (b) Agriculture (biological assets)— Are SMEIG members aware of inconsistent application in accounting for biological assets? (c) Loans from a director—Would you suggest Section 11 of the *IFRS for SMEs* Standard is simplified so that loans from directors are allowed to be initially measured at transaction price rather than at present value? (d) Share-based payment—Would you suggest Section 26 of the *IFRS for SME*s Standard is amended so that the default treatment for share-based payments with settlement options is equity settled rather than cash settled?

(e) Shares and equity instruments—Is the requirement in 22.7(a) of the *IFRS for SMEs* Standard in conflict with the legal position for an SME preparer in your jurisdiction?

(f) Assets held for sale—Would the Board proposing amendments to further align the *IFRS for SMEs* Standard with IFRS 5 be relevant to SMEs?

Appendix A—Index of topics discussed and their corresponding paragraphs within this paper.

A1. Index of topics for which the staff think no further action is needed

Topic	Paragraphs of this paper discussing the topic
Guidance for a new entity formed in a business combination	Paragraphs 15–16
Requirements for financial instruments in relation to IBOR reform	Paragraphs 17–21
Requirements for not-for-profit entities	Paragraphs 22–23
Requirements for earnings per share and operating segments	Paragraphs 24–26
Requirements for the consensus of IFRIC 2	Paragraphs 27–28
Requirements for non-governmental grants	Paragraphs 29–30
The existing consolidation exemption	Paragraphs 32–33
Useful life of intangible assets	Paragraphs 34–35
Align with the European Accounting Directive	Paragraphs 36–38
Introducing specific disclosures in the *IFRS for SMEs* Standard for tax authorities and lenders	Paragraphs 40–42
Amending disclosures in the *IFRS for SMEs* Standard for related party transactions	Paragraphs 43–45
Applying a new IFRS Standard	Paragraphs 47–49
Uncertainty	Paragraphs 50–51
Capitalisation of development costs	Paragraphs 53–57
Capitalisation of borrowing costs	
Subsequent measurement of investment property	Paragraphs 58–60
Recognition requirements for government grants	Paragraphs 61–63
Primary Financial Statement project (General Presentation and Disclosure)	Paragraphs 65–67
Business Combinations Under Common Control project	
Impairment of goodwill	
Going concern	Paragraphs 69–70
Hyperinflation	Paragraphs 71–72

A2. Index of topics for which the staff think further action is needed

Topic	Paragraphs of this paper discussing the topic
Simplification of share-based payment	Paragraphs 73–75

A3. Index of topics on which the staff are seeking advice from the SMEIG on whether any further action is needed

Topic	Paragraphs of this paper discussing the topic	Input required from the SMEIG
Interim financial reporting	Paragraphs 79–80	Is preparing interim financial reports or special purpose reports frequent among SMEs?
Agriculture (biological assets)	Paragraphs 81–82	Are SMEIG members aware of inconsistent application in accounting for biological assets?
Loans from a director	Paragraph 83(a)	Would you suggest Section 11 of the *IFRS for SMEs* Standard is simplified so that loans from a director are allowed to be initially measured at transaction price rather than at present value?
Share-based payment	Paragraph 83(b)	Would you suggest Section 26 of the *IFRS for SMEs* Standard is amended so that the default treatment for share-based payments with settlement options is equity settled rather than cash settled?
Shares and equity instruments	Paragraph 83(c)	Is the requirement in 22.7(a) of the *IFRS for SMEs* Standard in conflict with the legal position for an SME preparer in your jurisdiction?
Assets held for sale and discontinued operations	Paragraphs 91–98	Would the Board proposing amendments to further align the *IFRS for SMEs* Standard with IFRS 5 be relevant to SMEs?