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STAFF PAPER

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Project	**Second Comprehensive Review of the *IFRS for SMEs*® Accounting Standard**
Paper topic	Towards an exposure draft—sweep issues

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Purpose of the paper

1. This paper discusses sweep issues for the International Accounting Standards Board (IASB) to consider that:

   (a) are consequential to amendments to the *IFRS for SMEs* Accounting Standard (the Standard) that the IASB has tentatively decided to propose;[1] and

   (b) have been identified by the staff in developing the Exposure Draft of the Third edition of the Standard.

2. In this paper:

   (a) the term SMEs refers to small and medium-sized entities that are eligible to apply the Standard.

[1] A summary of the IASB's tentative decisions to date is included in Agenda Paper 30 *Cover paper* of this meeting.

(b) the term ‘revised Section 2’ refers to the staff draft of a revised Section 2 aligning with the *Conceptual Framework for Financial Reporting* issued in 2018 (2018 *Conceptual Framework*).

(c) the term ‘amended Section 19’ refers to the staff draft of an amended Section 19 including all of the changes that the IASB has tentatively decided to propose.

Structure of the paper

3. The staff have identified the following sweep issues for consideration of the IASB:

   (a) amendments to the amended Section 19 *Business Combinations and Goodwill*.

   (b) the scope of the review of the Standard, considering potential exceptions for:

      (i) Definition of Accounting Estimates (Amendments to IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*).

      (ii) Supplier Finance Arrangements.

   (c) amendments to Section 11 *Basic Financial Instruments* to reflect the Amendments to IFRS 9 *Prepayment Features with Negative Compensation* issued in 2017.

   (d) amendments to Section 14 *Investments in Associates* to reflect the Amendments to IAS 28 *Long-term Interests in Associates and Joint Ventures* issued in 2017 and to clarify, for SMEs, the treatment of financial instruments that form part of an entity’s net investment in an associate or jointly controlled entity.

   (e) amendments to Section 33 *Related Party Disclosures* to align it with IAS 24 *Related Party Disclosures*.

4. The paper includes five questions for the IASB; questions for the IASB are included at the end of the staff analysis for each sweep issue.

Summary of staff recommendations

5. The staff recommend the IASB:

   (a) propose amendments to Section 19 of the Standard:

      (i) to align with the requirements set out in paragraph 11 of IFRS 3 *Business Combinations* (as amended in May 2020)—so that:

         (1) to qualify for recognition, the identifiable assets acquired and liabilities assumed must meet the definitions of assets and liabilities in the revised Section 2 *Concepts and Pervasive Principles* at the acquisition date;

         (2) for liabilities and contingent liabilities that would be within the scope of Section 21 *Provisions and Contingencies*, if they were incurred separately rather than assumed in a business combination, an acquirer applies paragraph 21.6 of the Standard to determine whether at the acquisition date a present obligation exists as a result of past events for a provision or contingent liability; and

         (3) ask for further views in the *Invitation to Comment* of the Exposure Draft on aligning with IFRS 3 (as amended in May 2020).

      (ii) to align with the requirement of IFRS 3 that an acquirer cannot recognise a contingency that is not a liability—so that, an SME is required to recognise contingent liabilities assumed in a business combination only if they are present obligation and is prohibited from recognising 'possible obligations';

   (b) propose amendments to the Standard to align with the definition of accounting estimates as set out in IAS 8 as amended in February 2021 and, consequently, introduce the application guidance relevant to SMEs as set out in IAS 8;

(c) propose amendments to paragraph 11.9 of the Standard to reflect the 2017 Amendments to IFRS 9 to enable SMEs to measure at amortised cost debt instruments that have prepayment features with negative compensation;

(d) propose amendments to paragraph 14.8 of the Standard to reflect the 2017 Amendments to IAS 28 and to clarify, for SMEs, the treatment of financial instruments that form part of an entity's net investment in an associate or jointly controlled entity; and

(e) propose amendments to Section 33 of the Standard to align it with IAS 24, with simplifications, by:

   (i) introducing simplified disclosure requirements for government-related entities applying the exemption in paragraph 33.11 of the Standard (based on paragraphs 25 and 26 of IAS 24);

   (ii) changing the terminology 'state' to 'government';

   (iii) replacing the subheading 'Disclosure of parent-subsidiary relationships' above paragraph 33.5 of the Standard with 'Disclosure of controlling party relationships';

   (iv) amending the requirement in paragraph 33.9(b) of the Standard, regarding disclosure of the amount of outstanding balances, to include commitments; and

   (v) aligning the disclosure requirements relating to key management personnel services with the amendments to IAS 24 issued in 2013.

Amended Section 19

Reference to revised Section 2 and adding a further exception to the recognition principle in amended Section 19

6. Section 19 is currently based on IFRS 3 (2004).[2] Applying paragraph 19.15 of the Standard, the acquirer shall recognise separately the acquiree's identifiable assets, liabilities and contingent liabilities at the acquisition date only if they satisfy the following criteria at that date:

   (a) in the case of an asset other than an intangible asset, it is probable that any associated future economic benefits will flow to the acquirer and its fair value can be measured reliably;

   (b) in the case of a liability other than a contingent liability, it is probable that an outflow of resources will be required to settle the obligation and its fair value can be measured reliably;

   (c) in the case of an intangible asset, its fair value can be measured reliably without undue cost or effort; and

   (d) in the case of a contingent liability, its fair value can be measured reliably.

[2] Paragraph BC74 of the Basis for Conclusions on IFRS 3 (2004) explained that IFRS 3 (2004) carries forward the general principle previously in IAS 22 *Business Combinations*. That principle required an acquirer to recognise separately, from the acquisition date, the acquiree's identifiable assets and liabilities at that date that can be measured reliably and for which it is **probable** that any associated future economic benefits will flow to, or resources embodying economic benefits will flow from, the acquirer.

7. The Request for Information *Comprehensive Reviews of the* IFRS for SMEs *Standard* was published in January 2020.[3] At the date of publication of the Request for Information applying paragraph 11 of IFRS 3 to qualify for recognition as part of applying the acquisition method, the identifiable assets acquired and liabilities assumed needed to meet the definitions of assets and liabilities in the *Framework for the Preparation and Presentation of Financial Statements (*1989 *Framework)* at the acquisition date.[4]

8. In May 2020 the IASB issued *Updating a Reference to the Conceptual Framework (Amendments to IFRS 3)*, which made amendments to IFRS 3 by replacing a reference to the 1989 *Framework* with a reference to the 2018 *Conceptual Framework*. The amendments to IFRS 3 are effective for business combinations occurring in reporting periods starting on or after 1 January 2022.[5]

9. Paragraphs BC114A–BC114D of the Basis for Conclusions on IFRS 3 explain that:

   (a) the IASB decided originally to retain the reference to the 1989 *Framework* in paragraph 11 of IFRS 3 until it had completed an analysis of the possible consequences of referring in that paragraph to the revised definitions of an asset and a liability as set out in 2018 *Conceptual Framework*.

[3] The scope of the review includes requirements that are effective on or before 1 January 2019.

[4] Paragraphs BC112–BC130 of the Basis for Conclusions on IFRS 3 explained that the IASB decided that to achieve a reasonably high degree of consistency in practice and to resolve existing inconsistencies, IFRS 3 (2008) should provide guidance on applying the recognition principle. IASB decided that the appropriate first step is to apply, *as part of applying the acquisition method*, the definitions of assets and liabilities in the 1989 *Framework*. Also:

(a) paragraph BC126 of the Basis for Conclusions on IFRS 3 explained that IFRS 3 (2008) *does not* contain that **probability** recognition criterion (mentioned in the footnote 2 of this paper) and thus it requires the acquirer to recognise identifiable assets acquired and liabilities assumed regardless of the degree of probability of an inflow or outflow of economic benefits.

(b) paragraph BC127 of the Basis for Conclusions on IFRS 3 explained that the recognition criteria in the 1989 *Framework* include the concept of probability to refer to the degree of uncertainty that the future economic benefits associated with an asset or liability will flow to or from the entity.

[5] For more detail of the differences in the definition of an asset and liability between 1989 *Framework* and 2018 *Conceptual Framework* see Paragraph 13 of Nov 2018 AP10: When and how to update the reference, which explains that the main difference is the removal of the requirement for '**expected'** inflows or outflows of economic benefits. The definitions in the 2018 *Conceptual Framework* instead require that a right has the '**potential'** to produce economic benefits or that an obligation has the 'potential' to require the entity to transfer an economic resource.

(b) the IASB's analysis led it to conclude that the problem of Day 2 gains or losses would be significant in practice only for liabilities that an acquirer accounts for after the acquisition date by applying IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.[6] To avoid the problem, the IASB decided to add a further exception to the recognition principle in IFRS 3.

(c) the IASB replaced the reference to the 2018 *Conceptual Framework* and added the exception to its recognition principle in May 2020.

10. At its May 2021 meeting, the IASB tentatively decided to propose amendments to Section 2 to align it with the 2018 *Conceptual Framework*.[7]

11. At its December 2021 and February 2022 meetings, the IASB tentatively decided to propose amendments to Section 19 to align it with IFRS 3 for the acquisition method of accounting and to simplify the acquisition method of accounting by:[8]

(a) not introducing the option to measure non-controlling interests at fair value; and

(b) not changing the criteria for recognising intangible assets acquired in a business combination (see paragraph 6(c) of this paper).

12. In developing the Exposure Draft of the Third edition of the Standard the staff have identified that amended Section 19 is not aligned with the requirements in IFRS 3 as amended in May 2020 and that there could be an inconsistency between amended Section 19 and revised Section 2. This is because, changing the recognition principles and the definitions (including the supporting concepts) could

[6] In developing 2018 *Conceptual Framework*, the IASB considered whether it should replace the reference in paragraph 11 of IFRS 3 with a reference to the revised definitions in the 2018 *Conceptual Framework*. In some cases, and due to applying the revised definitions that could change which assets and liabilities qualify for recognition in a business combination, the post-acquisition accounting required by other IFRS Accounting Standards could then lead to immediate derecognition of assets or liabilities recognised in a business combination, resulting in so-called Day 2 gains or losses that do not depict an economic gain or loss.

[7] For more detail of the IASB's tentative decisions see IASB Update May 2021.

[8] For more detail of the IASB's tentative decisions see IASB Update December 2021 and IASB Update February 2022.

change which assets and liabilities qualify for recognition in a business combination.

13. The staff think that the IASB could address the inconsistency by proposing a further amendment to amended Section 19 to align with IFRS 3 as amended in May 2020—so that, to qualify for recognition, the identifiable assets acquired and liabilities assumed must meet the definitions of assets and liabilities in revised Section 2 at the acquisition date.

14. In doing so, the staff think that the IASB could bypass the amendments made first in IFRS 3 (2008), mentioned in footnote 4 of this paper, and instead:

    (a) propose a further amendment to amended Section 19 to align with IFRS 3 as amended in May 2020 in one step; and

    (b) adopt the approach it applied in developing the amendment to IFRS 3 as amended in May 2020, leveraging from the efforts and feedback the IASB received from the Accounting Standards Advisory Forum (ASAF) and large accounting firms (see paragraph 17 of this paper).[9]

15. Although the amendments to IFRS 3, as noted in paragraph 8 of this paper, are effective for business combinations occurring in reporting periods starting on or after 1 January 2022 and therefore are outside the scope of this review, the IASB has tentatively decided to consider amendments that provide clarification and would assist application of the Standard but are outside the scope of review (see paragraphs 24–25 of this paper).

16. Therefore, the staff think that:

    (a) amending Section 19 to align with IFRS 3 as amended in May 2020—by referring to revised definitions of an asset and a liability in revised Section 2—would address the inconsistency between amended Section 19

[9] For more detail see [Nov 2018 AP10: When and how to update the reference](#).

and revised Section 2 in the Third edition of the Standard discussed in paragraph 12 of this paper; and

(b) SMEs could benefit from the improvements brought by the amendment without delay, considering that the IASB had completed its analysis of the possible consequences of IFRS 3 referring to the revised definitions of an asset and a liability as set out in 2018 *Conceptual Framework* (see paragraphs 9 and 14 of this paper).

17. As noted in paragraph 9(b) of this paper, the IASB decided to add a further exception to the recognition principle in IFRS 3 to avoid Day 2 gains or losses for liabilities that an acquirer applies IAS 37 to after the acquisition date. The staff think that adding a new exception to the recognition principle in amended Section 19—as set out in paragraphs 21A–21C of IFRS 3 as amended in May 2020—would avoid immediate derecognition of liabilities recognised in a business combination that could resulting in Day 2 gains. Therefore, for liabilities and contingent liabilities that would be within the scope of Section 21, if they were incurred separately rather than assumed in a business combination, an acquirer would apply paragraph 21.6 to determine whether at the acquisition date a present obligation exists as a result of past events for a provision or contingent liability.

18. In the light of the staff analysis, the staff recommend the IASB:

(a) propose amendments to Section 19 to:

(i) refer to the revised definitions of an asset and a liability as set out in revised Section 2; and

(ii) add the exception to its recognition principle as set out in paragraph 17 of this paper; and

(b) ask for further views in the *Invitation to Comment* of the Exposure Draft on aligning with IFRS 3 (as amended in May 2020).

Recognition of contingent liabilities

19. Applying paragraph 19.15(d) of the Standard, SMEs recognise contingent liabilities assumed in a business combination, whether they are possible obligations or present obligations, only when their fair value can be measured reliably.

20. In contrast, applying IFRS 3, entities recognise contingent liabilities only if they are present obligations arising from past events whose fair value can be measured reliably. These entities do not recognise possible obligations.

21. Paragraphs BC272–BC275 of the Basis for Conclusions on IFRS 3 explain that the IASB concluded that an acquirer should recognise a contingent liability assumed in a business combination only if it satisfies the definition of a liability in the *Framework*. However, the IASB:

    (a) reasoned that the definition of a contingent liability in IAS 37 includes both (a) 'possible obligations' and (b) present obligations for which either it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation or the amount of the obligation cannot be measured reliably.

    (b) concluded that a contingent liability assumed in a business combination should be recognised only if it is a present obligation. IFRS 3 currently does not permit the recognition of 'possible obligations'.[10]

22. In developing amended Section 19, the staff have identified that continuing to recognise such contingent liabilities (ie continuing to permit the recognition of 'possible obligations') applying paragraph 19.15(d) of the Standard could be inconsistent with:

    (a) the principle that only those identifiable items that satisfy the definition of a liability in the 2018 *Conceptual Framework* should be recognised; and

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[10] At the same time as the IASB published the 2005 Exposure Draft of IFRS 3, the IASB also published for comment a separate exposure draft of IAS 37. However, the IASB expected to issue a revised IAS 37 at a later date. Accordingly, *except for clarifying that an acquirer should not recognise a so-called contingent liability that is not an obligation at the acquisition date*, the IASB decided to carry forward the related requirements in the original IFRS 3, pending completion of the project to revise IAS 37.

(b) the staff recommendation to propose a further amendment to amended Section 19 to align it with IFRS 3 as amended in May 2020—by referring to the definitions of assets and liabilities in revised Section 2 and adding a new exception to the recognition principle in Section 19 (see paragraph 18 of this paper).

23. Therefore, the staff recommend the IASB propose amending Section 19 to clarify that an acquirer cannot recognise a contingency that is not a liability. This clarification:

(a) would improve the financial information provided applying amended Section 19, by requiring an SME to recognise contingent liabilities assumed in a business combination only if it is a present obligation and prohibiting the recognition of 'possible obligations';

(b) would reduce or eliminate the efforts needed to measure the 'possible obligations' at fair value—ie an SME would recognise contingent liabilities assumed in a business combination only if they are present obligations, removing an unnecessary complexity into the Standard; and

(c) would result in the recognition of an amount of goodwill that more faithfully represent the underlying economics of the business combination—ie an SME would recognise contingent liabilities assumed in a business combination only if they are present obligations, avoiding any potential overstatement of the amount of goodwill recognised.

Question 1 for the IASB

Does the IASB agree with the staff recommendations to propose amendments to Section 19 of the Standard:

(a) to align with the requirements set out in paragraph 11 of IFRS 3 (as amended in May 2020) so that:

(i) to qualify for recognition, the identifiable assets acquired and liabilities assumed must meet the definitions of assets and liabilities in revised Section 2 at the acquisition date;

(ii) for liabilities and contingent liabilities that would be within the scope of Section 21, if they were incurred separately rather than assumed in a business combination, an acquirer applies paragraph 21.6 of the Standard to determine whether at the acquisition date a present obligation exists as a result of past events for a provision or contingent liability; and

(iii) ask for further views in the *Invitation to Comment* of the Exposure Draft on aligning with IFRS 3 (as amended in May 2020).

(b) to align it with the requirement of IFRS 3 that an acquirer cannot recognise a contingency that is not a liability—so that, an SME is required to recognise contingent liabilities assumed in a business combination only if they are present obligation and is prohibited from recognising 'possible obligations'.

Scope of the review of the Standard

24. At its March 2021 meeting, the IASB has tentatively decided to confirm the scope of the review as set out in the Request for Information. This scope includes:

(a) requirements that are effective on or before 1 January 2019; and

(b) amendments that provide clarification and would assist application of the Standard but are outside the scope of the review.[11]

25. At its December 2021 meeting, the IASB tentatively decided to propose amendments to the Standard to align it with *Disclosure of Accounting Policies* (Amendments to IAS 1 *Presentation of Financial Statements*), which the IASB issued in February 2021 and are effective on 1 January 2023, because the amendments are interrelated with other amendments to IAS 1 and SMEs could benefit from the improvements brought by the amendment without delay.

[11] When developing the Request for Information, the IASB decided to include in the scope of the review two amendments effective on 1 January 2020 (*Definition of Material* (Amendments to IAS 1 and IAS 8) and *Definition of a Business* (Amendments to IFRS 3)).

26. Some IASB members suggested to perform a comprehensive analysis of the new requirements proposed or issued after the Request for Information was published to identify any amendments assisting the application of the Standard, in addition to those discussed in paragraph 25 of this paper.

27. The staff have identified three possible topics:

    (a) *Updating a Reference to the Conceptual Framework (Amendments to IFRS 3)*, as discussed in paragraphs 6–18 of this paper;

    (b) *Definition of Accounting Estimates*, which amended IAS 8 (paragraphs 28–30 of this paper); and

    (c) *Supplier Finance Arrangements*, which proposed to amend IAS 7 *Statement of Cash Flows* and IFRS 7 *Financial Instruments: Disclosures* (paragraphs 31–33 of this paper).

Definition of Accounting Estimates

28. In February 2021, the IASB issued *Definition of Accounting Estimates*, which introduced the definition of accounting estimates and included other amendments to IAS 8 to help entities distinguish changes in accounting estimates from changes in accounting policies.

29. Paragraph 10.15 of the Standard includes the definition of 'a change in accounting estimate' equivalent to that in paragraph 5 of IAS 8 that the IASB replaced with the definition of 'accounting estimates' in February 2021.

30. The staff recommend the IASB propose amendments to the Standard to align with the definition of accounting estimates and, consequently, introduce the application guidance relevant to SMEs as set out in IAS 8—so that SMEs can benefit from the improvements to IAS 8 without delay. Alignment of the definitions in the Standard with the definitions in full IFRS Accounting Standards would be consistent with the

feedback on the Request for Information that the alignment of both principles and important definitions is considered the most useful.[12]

Supplier Finance Arrangements

31. In November 2021, the IASB published the Exposure Draft *Supplier Finance Arrangements* that proposed to add to existing disclosure requirements that apply to supplier finance arrangements. The proposed additions would improve the transparency of supplier finance arrangements (sometimes referred to as reverse factoring) and their effects on an entity's liabilities and cash flows.

32. The staff think this topic could be relevant to SMEs. However, the staff recommend the IASB not propose adding disclosure requirements for supplier finance arrangements in the Standard at this stage, pending the completion of the project.

33. This recommendation is consistent with the IASB's tentative decision to consider topics that are part of the IASB's work plan only when projects are completed and, therefore, exclude from the scope of the review possible new requirements of full IFRS Accounting Standards resulting from projects in the IASB's work plan.[13]

Question 2 for the IASB
Does the IASB agree with the staff recommendations to propose amendments to the Standard to align with the definition of accounting estimates as set out in IAS 8 as amended in February 2021 and, consequently, introduce the application guidance relevant to SMEs as set out in IAS 8?

[12] See Agenda Paper 2 *Comment letter summary* of the February 2021 SMEIG meeting.

[13] For example, at its November 2021 meeting, IASB tentatively decided to consider requirements about general presentation and disclosure and about reporting of business combinations under common control as part of a future comprehensive review.

Amendments to IFRS 9 *Prepayment Features with Negative Compensation*

34. In October 2017, the IASB issued Amendments to IFRS 9 *Prepayment Features with Negative Compensation* (Amendment to IFRS 9) to enable entities to measure at amortised cost some prepayable financial assets with negative compensation. The assets affected, which include some loans and debt securities, would otherwise have been measured at fair value through profit or loss. To qualify for amortised cost measurement, the negative compensation must be 'reasonable compensation for early termination of the contract'.

35. Negative compensation arises where the contractual terms permit the borrower to prepay the instrument before its contractual maturity, but the prepayment amount could be less than unpaid amounts of principal and interest, such as at the instrument's current fair value or an amount that reflects the instrument's remaining contractual cash flows discounted at a current market interest rate.

36. Feedback on the Request for Information generally supported alignment with the amendments to full IFRS Accounting Standards discussed in Appendix A of the Request for Information, which included this Amendment to IFRS 9. The staff think it is possible that an SME could be party to a debt instrument that has prepayment features with negative compensation. However, the Standard is currently silent on how to measure such debt instruments. Therefore, the staff recommend the IASB propose amending paragraph 11.9 of the Standard, which prescribes the conditions for a debt instrument (both for financial assets and financial liabilities) to be a basic financial instrument measured at amortised cost, as follows considering the Amendment to IFRS 9:

> 11.9 A debt instruments that satisfies all of the conditions in (a)–(d) shall be accounted for in accordance with Section 11:
>
> (a) …
>
> (b) there is no contractual provision that could, by its terms, result in the holder (the lender/creditor) losing the principal amount or any interest attributable to the current period or prior periods. <u>However, a party may pay or receive reasonable compensation on early termination of a contract and still meet this condition.</u> The fact that a debt instrument is subordinated to other debt instruments is not an example of such a contractual provision.

Question 3 for the IASB
Does the IASB agree with the staff recommendations to propose amendments to paragraph 11.9 of the Standard to reflect the 2017 Amendments to IFRS 9 to enable SMEs to measure at amortised cost debt instruments that have prepayment features with negative compensation?

Amendments to IAS 28 *Long-term Interests in Associates and Joint Ventures*

37. In October 2017, the IASB issued Amendments to IAS 28 *Long-term interests in Associates and Joint Ventures* (Amendment to IAS 28). The amendments clarify that an entity applies IFRS 9 to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture.

38. Feedback on the Request for Information generally supported alignment with the amendments to full IFRS Accounting Standards discussed in Appendix A of the Request for Information, which included this Amendment to IAS 28. The staff think that SMEs may hold financial instruments that constitute long-term interests in associates (for example, long-term receivables or preference shares), and that the Amendment to IAS 28 is relevant to SMEs. However, the Standard is currently silent on accounting for such long-term interests. Therefore, the staff think amendments should be made to the Standard to clarify the treatment of long-term interests that in substance form part of the entity's net investment in an associate or jointly controlled entity.

39. The staff recommend the IASB clarify the following in Section 14 to align with the accounting treatment in IAS 28 for such long-term interests:

    (a) the interest in an associate is the carrying amount of the investment in the associate determined using the equity method together with any financial instruments that in substance form part of the entity's net investment in the associate;

(b) a financial instrument with the associate for which settlement is neither planned nor likely to occur in the foreseeable future is, in substance, part of the entity's net investment (for example, may include preference shares or long-term receivables or loans); and

(c) an entity applies Section 11 to any such financial instrument before applying paragraph 14.8(d) or paragraph 14.8(h).

Question 4 for the IASB
Does the IASB agree with the staff recommendations to propose amendments to paragraph 14.8 of the Standard to reflect the 2017 Amendments to IAS 28 and to clarify, for SMEs, the treatment of financial instruments that form part of an entity's net investment in an associate or jointly controlled entity.

Amendments to related party disclosures

Government-related entity disclosures

40. Section 33 *Related Party Disclosures* of the Standard includes the government-related entity exemption from IAS 24 *Related Party Disclosures* but not the additional disclosures required if an entity applies that exemption under IAS 24.[14] Feedback from users of SME financial statements indicated that related party transactions is an area where additional disaggregation and information is important to them. The staff recommend the IASB propose amendments to Section 33:

(a) to align the basic disclosure requirements, based on paragraphs 25 and 26 of IAS 24, should an SME use that exemption.

[14] An entity is exempt from disclosing the nature of the relationship as well as information about the transactions and outstanding balances with government-related entities.

(b) to change the terminology 'state' in Section 33 to 'government' to align with IAS 24 (which would also align the terminology with Section 24 *Government Grants*).

41. The staff think the recommended amendments would enable users of SME financial statements to understand the effect of the related party transactions covered by the exemption. The staff recommend adding the following disclosures:

33.15 If a reporting entity applies the exemption in paragraph 33.11, it shall disclose the following about the transactions and related outstanding balances referred to in paragraph 33.11:

(a) the name of the government and the nature of its relationship with the reporting entity (that is, control, joint control or significant influence);

(b) the following information:

(i) the nature and amount of each individually significant transaction.

(ii) for other transactions that are collectively, but not individually, significant, a qualitative or quantitative indication of their extent. Types of transactions include those listed in paragraph 33.12.

Other recommended amendments

42. A subheading 'Disclosure of parent-subsidiary relationships' is included above paragraph 33.5 of the Standard. The text goes on to require, among other things, disclosure of the ultimate controlling party. The ultimate controlling party could for some entities be an individual rather than a parent company. Therefore, the staff recommend the IASB propose that the heading is replaced with 'Disclosure of controlling party relationships'.

43. The staff also recommend the IASB propose amendments to Section 33 to:

(a) amend the requirement in paragraph 33.9(b) of the Standard, regarding disclosure of the amount of outstanding balances, to include commitments to align with IAS 24; and

(b) align with the amendments to IAS 24 issued in 2013 about disclosure requirements relating to key management personnel services if these services are provided by a separate management entity, using the text in the Exposure Draft *Subsidiaries without Public Accountability: Disclosures*. The proposed amendments would require amounts incurred by an entity for the provision of key management services that are provided by a separate management entity to be disclosed separately.

Question 5 for the IASB

Does the IASB agree with the staff recommendations to propose amendments to Section 33 of the Standard to align it with IAS 24, with simplifications, by:

(a) introducing simplified disclosure requirements for government-related entities applying the exemption in paragraph 33.11 of the Standard (based on paragraphs 25 and 26 of IAS 24);

(b) changing the terminology ‘state’ to ‘government’;

(c) replacing the subheading ‘Disclosure of parent-subsidiary relationships’ above paragraph 33.5 of the Standard with ‘Disclosure of controlling party relationships’;

(d) amending the requirement in paragraph 33.9(b) of the Standard, regarding disclosure of the amount of outstanding balances, to include commitments; and

(e) aligning the disclosure requirements relating to key management personnel services with the amendments to IAS 24 issued in 2013.