# Issues Paper – ED/2013/9 *Proposed amendments to IFRS for SMEs*

## Introduction and background

1 *IFRS for SMEs* was published in 2009 following the IASB's *Exposure Draft* (ED) *of a Proposed IFRS for Small and Medium-sized Entities* in 2007. The AASB provided comments to the IASB in regards to the extent in which the AASB would adopt the disclosure principles in *IFRS for SMEs*.

2 In June 2010, in contrast to the IASB, the AASB decided it would adopt the same recognition and measurement principles for Tier 2 entities as required for Tier 1 entities. Tier 2 entities were provided with disclosure simplification, known as the differential reporting framework (RDR).

3 Tier 2 entities are those entities that do not have public accountability. Public accountability refers to entities that are accountable "to those existing and potential resource providers and others external to the entity who make economic decisions but are not in a position to demand reports tailored to meet their particular information needs. A for-profit private sector entity has public accountability if:

(a) its debt or equity instruments are traded in a public market or it is in the process of issuing such instruments for trading in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets); or

(b) it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses. This is typically the case for banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks." [1]

4 For-profit entities who are deemed to have public accountability are:[2]

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1. AASB 1053 *Application of Tiers of Australian Accounting Standards* (Appendix A)
2. AASB 1053 *Application of Tiers of Australian Accounting Standards* (Appendix B paragraph B2)

(a) disclosing entities, even if their debt or equity instruments are not traded in a public market or are not in the process of being issued for trading in a public market;

(b) co-operatives that issue debentures;

(c) registered managed investment schemes;

(d) superannuation plans regulated by the Australian Prudential Regulation Authority (APRA) other than Small APRA Funds as defined by APRA Superannuation Circular No. III.E.1 *Regulation of Small APRA Funds*, December 2000; and

(e) authorised deposit-taking institutions.

## Overall Comments

5 Although Australia has not adopted the *IFRS for SMEs*, the disclosure requirements of the *IFRS for SMEs* are relevant in determining disclosure requirements for Tier 2 entities in Australia.

6 The Disclosure Principles[3] for determining Tier 2 disclosure requirements in Australia are as follows:

(a) drawing directly on the *IFRS for SMEs* when Tier 2 recognition and measurement requirements are the same as those under the *IFRS for SMEs;* and

(b) using the 'user need' and 'cost-benefit' principles applied by the IASB in developing its *IFRS for SMEs* when Tier 2 recognition and measurement requirements are not the same as those available under the *IFRS for SMEs*.

7 As noted in the AASB's previous submissions to the IASB, the area of most concern to AASB staff in regards to the ED proposals are the continuing differences between the recognition and measurement criteria of *IFRS for SMEs* compared to full IFRSs. In particular, these differences include:

3. http://www.aasb.gov.au/Work-In-Progress/Reduced-Disclosure-Requirements/Tier-2-Disclosure-Principles.aspx (accessed 28 January 2014)

(a) SMEs are limited in terms of accounting policy options – either one option in full IFRSs is mandated or a 'new' accounting policy is required; and

(b) recognition and measurement differences.

8 Furthermore, the difference in accounting policy hierarchies between *IFRS for SMEs* and full IFRSs might lead to identical transactions being accounted for differently by separate entities, which include publicly accountable entities.

9 In addition, a commonly stated accounting policy option difference between entities reporting under *IFRS for SMEs* and those reporting under full IFRSs is the absence of the revaluation measurement in *IFRS for SMEs*. This policy option, also traditionally adopted in the United Kingdom and New Zealand, is seen as indispensable in relation to public sector financial reporting in Australia. The absence of this accounting policy option creates a significant impediment for Australia, and some other jurisdictions, in relation to adopting *IFRS for SMEs*.

10 The issue of recognition and measurement differences between *IFRS for SMEs* and full IFRSs could be dealt with by allowing entities reporting under *IFRS for SMEs* the option to adopt the recognition and measurement accounting policies required by full IFRSs. By doing so, the adoption of RDR in Australia and New Zealand would be consistent with the adoption of *IFRS for SMEs* and entities would be able to state compliance, if they wish, with the standard.

**Question 1 to the Board:**

Does the Board agree with the overall comments noted above?

## Comments on Specific Questions asked in ED/2013/9

### Definition of 'fiduciary capacity' (Question 1)

*The IASB has received feedback that the meaning of 'fiduciary capacity' in the definition of 'public accountability' (see paragraph 1.3(b) of the IFRS for SMEs) 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'. Based on the outreach activities to date, the IASB has determined that the use of this term does not appear to create significant uncertainty or diversity in practice.*

*(a) Are you aware of circumstances where the use of the term 'fiduciary capacity' has created uncertainty or diversity in practice? If so, please provide details.*

*(b) Does the term 'fiduciary capacity' need to be clarified or replaced? Why or why not? If you think it needs to be clarified or replaced, what changes do you propose and why?*

*AASB staff analysis*

11 AASB staff agree with the ED that the term 'fiduciary' in the definition of public accountability appears to have inconsistent meanings in different jurisdictions. Consequently, AASB staff think that the differing interpretations have potentially led to ambiguities in determining entities that have this particular characteristic and, therefore, clarification is needed.

**Question 2 to the Board:**

Does the Board agree with the staff analysis in paragraph 11 above?

### Accounting for income tax (Question 2)

*The proposal to align the main principles of Section 29 Income Tax with IAS 12 Income Taxes for the recognition and measurement of deferred tax (see amendment number 44 in the list of proposed amendments at the beginning of this Exposure Draft) is the most significant change being proposed to the IFRS for SMEs.*

*When the IFRS for SMEs was issued in 2009, Section 29 was based on the IASB's Exposure Draft Income Tax (the '2009 ED'), which was issued in March 2009. However, the 2009 ED was never finalised by the IASB. Consequently, the IASB has concluded that it is better to base Section 29 on IAS 12. The IASB proposes to align the recognition and measurement principles in Section 29 with IAS 12 (see paragraphs BC55–BC60) whilst retaining some of the presentation and disclosure simplifications from the original version of Section 29.*

*The IASB continues to support its reasoning for not permitting the 'taxes payable' approach as set out in paragraph BC145 of the IFRS for SMEs that was issued in 2009. However, while the IASB believes that the principle of recognising deferred tax assets and liabilities is appropriate for SMEs, it would like feedback on whether Section 29 (revised) can currently* *be applied (operationalised) by SMEs, or whether further simplifications or guidance should be considered.*

*A 'clean' version of Section 29 (revised) with the proposed changes to Section 29 already incorporated is set out in the appendix at the end of this Exposure Draft.*

*Are the proposed changes to Section 29 appropriate for SMEs and users of their financial statements? If not, what modifications, for example further simplifications or additional guidance, do you propose and why?*

*AASB staff analysis*

12 AASB staff are of the view that *IFRS for SMEs* should be updated to be consistent with the latest recognition, measurement and presentation requirements of relevant IFRS, but not 'peek ahead' to proposals contained in Exposure Drafts. Recent experience (not limited to IAS 12 *Income Taxes*) has demonstrated that Exposure Draft proposals are often subject to significant change.

13 Therefore, AASB staff agree with the decision to base Section 29 on IAS 12. AASB staff agree with the IASB's reasoning to retain the temporary difference method in *IFRS for SMEs*. This approach is in line with the recognition and measurement criteria for entities applying full IFRSs.

**Question 3 to the Board:**

Does the Board agree with the staff analysis in paragraphs 12-13 above?

**Other Proposed amendments to the *IFRS for SMEs* (Question 3)**

*The IASB proposes to make a number of other amendments to the IFRS for SMEs. The proposed amendments are listed and numbered 1–43 and 45–57 in the list of proposed amendments. Most of those amendments are minor and/or clarify existing requirements.*

*(a) Are there any amendments that you do not agree with or have comments on?*

*(b) Do any of the amendments require additional guidance or disclosure requirements to be added to the IFRS for SMEs? If so, which ones and what are your suggestions?*

*If you disagree with an amendment please state any alternatives you propose and give your reasoning.*

*AASB staff analysis*

14 While AASB staff agree with many of the amendments, there are certain amendments that we disagree with.

15 The amendments AASB staff disagree with are noted in the table below.

| **Proposed amendment** | **AASB staff comments** |
|---|---|
| <u>Section 9 *Consolidation and Separate Financial Statements*</u><br><br>*Paragraphs 9 – 9.3A clarification that all subsidiaries acquired with the intention of sale or disposal within one year should be excluded from consolidation.* | AASB staff disagree that subsidiaries acquired for sale or disposal within one year should be excluded from consolidation. AASB staff think requiring the consolidation of subsidiaries acquired with the intention to sell would make *IFRS for SMEs* more consistent with recognition and measurement requirements of full IFRSs.<br><br>AASB staff think that, in line with paragraph 38 of IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, disposal groups held for sale should be presented in a separate line in the consolidated financial statements.<br><br>Any divergence from IFRS principles has potential to create difficulties for IFRS compliant parent entities undertaking consolidating non-IFRS compliant subsidiaries. |
| <u>Section 18 *Intangible Assets other than Goodwill*</u><br><br>*Paragraph 18.8 Exemption for recognising an intangible asset in a business combination if the fair value cannot be reliably measured without undue cost or effort.* | AASB staff disagree with the addition to the first line of paragraph 18.8 which exempts entities from recognising intangible assets in the event the fair value cannot be reliably measured without undue cost or effort. AASB staff think that in many jurisdictions non-publicly accountable entities may have the resources to assess whether a project is commercially viable on an ongoing basis and therefore have no difficulty in capitalising development costs. Accordingly, AASB staff think the *IFRS for SMEs* should require recognition of intangible assets on the same basis as is required by IAS 38 *Intangible Assets*.<br><br>Further, AASB staff consider that in many circumstances, a business combination would not take place unless the value of the intangible assets were known and, therefore, an entity would require a reliable fair value of an intangible asset prior to combination. |
| <u>Section 28 *Employee Benefits*</u><br><br>*Removal of the requirement to disclose the* | AASB staff disagree with the IASB's proposed amendment to remove the requirement to disclose the accounting policy for termination |

| **Proposed amendment** | **AASB staff comments** |
| --- | --- |
| *accounting policy for termination benefits.* | benefits. AASB staff think, in line with paragraph 119 of IAS 1 *Presentation of Financial Statements*, when deciding whether or not to disclose an accounting policy management should consider whether the disclosure would assist users in "understanding how transactions, other events and conditions are reflected in reported financial performance and financial position."<br><br>As such, AASB staff think that disclosure of the termination benefits accounting policy should not be specifically excluded. Rather, an entity should assess whether or not the disclosure of the accounting policy may be useful for users of general purpose financial reports. |

**Question 4 to the Board:**

Does the Board agree with the staff analysis in the table above?

**Additional Issues (Question 4)**

*In June 2012 the IASB issued a Request for Information (RfI) seeking public comment on whether there is a need to make any amendments to the IFRS for SMEs (see paragraphs BC2–BC15). The RfI noted a number of specific issues that had been previously identified and asked respondents whether the issues warranted changes to the IFRS for SMEs. Additionally, the RfI asked respondents to identify any additional issues that needed to be addressed during the review process. Any issues so identified were discussed by the IASB during its deliberations.*

*Do respondents have any further issues that are not addressed by the 57 amendments in the list of proposed amendments that they think the IASB should consider during this comprehensive review of the IFRS for SMEs? Please state these issues, if any, and give your reasoning.*

*AASB staff analysis*

16 *IFRS for SMEs* should be revised to reflect the changes from the following IFRSs, subject to the principles underlying the *IFRS for SMEs*:

(a) IFRS 3 *Business Combinations*;

(b) IFRS 10 *Consolidated Financial Instruments*;

(c) IFRS 11 *Joint Arrangements*;

(d) IFRS 12 *Disclosure of Interests in Other Entities*;

(e) IFRS 13 *Fair Value Measurement*; and

(f) IAS 19 *Employee Benefits*.

17 The IASB decided incorporating the amendments to IFRS 3, IFRS 10, IFRS 11, IFRS 13 and IAS 19 since the implementation of *IFRS for SMEs* would not be appropriate in the review of *IFRS for SMEs*. In addition, the amendments of IFRS 12 were not considered in the IASB's review of *IFRS for SMEs*.

18 The IASB decided not to implement changes to IFRS 3 because of the complexity it would create for SMEs due to the additional fair value measurements required.[4]

19 The IASB's reasoning for not incorporating changes to IFRS 10, IFRS 11 and IFRS 13 in the proposed amendments to *IFRS for SMEs* are as follows:

(a) they are only recent;

(b) would benefit from significant implementation guidance in practice; and

(c) would have little practical impact for the majority of SMEs.[5]

20 The IASB decided not to incorporate revisions to IAS 19 (2011) as it would require SMEs to recognise actuarial gains and losses in Other Comprehensive Income (OCI). Furthermore, the IASB, in its review of the conceptual framework, is considering changes to OCI and any amendments made may affect OCI in full IFRSs. Therefore, the IASB decided it was best to wait for the conclusions in its review of the conceptual framework.[6]

21 AASB disagree with the IASB's reasoning's listed in paragraphs 18-20 above. AASB staff think that any full IFRS issued since the previous update to *IFRS for SMEs* should be considered under the *IFRS for SMEs* principles of user need and cost benefit considerations in relation to disclosures. Generally, we think SMEs should be able to

4. IASB ED/2013/9: *Proposed amendments to the International Financial Reporting Standard for Small and Medium-sized Entities* (paragraph BC 34(c)).
5. IASB ED/2013/9: *Proposed amendments to the International Financial Reporting Standard for Small and Medium-sized Entities* (paragraph BC 34(a)).
6. IASB ED/2013/9: *Proposed amendments to the International Financial Reporting Standard for Small and Medium-sized Entities* (paragraph BC 34(b)).

avail themselves of any improvements in recognition, measurement and presentation requirements of full IFRSs. Any amendments to full IFRS, particularly in regards to recognition and measurement criteria, which are not incorporated in *IFRS for SMEs* would potentially reduce comparability between reporting entities. Accordingly, AASB staff think the amendments to the IFRSs mentioned above should be incorporated in the amendments to *IFRS for SMEs*.

**Question 5 to the Board:**

Does the Board agree with the staff analysis in paragraphs 16-21 above?

**Transition Provisions (Question 5)**

*The IASB does not expect retrospective application of any of the proposed amendments to be significantly burdensome for SMEs and has therefore proposed that the amendments to the IFRS for SMEs in Sections 2–34 are applied retrospectively.*

*Do you agree with the proposed transition provisions for the amendments to the IFRS for SMEs? Why or why not? If not, what alternative do you propose?*

*AASB staff analysis*

22 AASB staff think that the retrospective application of these proposed amendments, due to the fact the amendments are minimal, would not be particularly burdensome on preparers. We, therefore, agree that the proposed amendments should be applied retrospectively.

**Question 6 to the Board:**

Does the Board agree with the staff analysis in paragraph 22 above?

**Effective Date (Question 6)**

*The IASB does not think that any of the proposed amendments to the IFRS for SMEs will result in significant changes in practice for SMEs or have a significant impact on their financial statements. It has therefore proposed that the effective date of the amendments to the IFRS for SMEs should be one year after the final amendments are issued. The IASB also proposes that early adoption of the amendments should be permitted.*

*Do you agree with the proposed effective date and the proposal to permit early adoption? Why or why not? If not, what alternative do you propose?*

*AASB staff analysis*

23 As the AASB has not adopted *IFRS for SMEs*, AASB staff do not think the Board should provide feedback as to whether the amendments will significantly impact financial statements.

| **Question 7 to the Board:** |
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| Does the Board agree with the staff analysis in paragraph 23 above? |

**Future reviews of *IFRS for SMEs* (Question 7)**

> *When the IFRS for SMEs was issued in 2009 the IASB stated that after the initial comprehensive review, the IASB expects to propose amendments to the IFRS for SMEs by publishing an omnibus Exposure Draft approximately once every three years. The IASB further stated that it intended this three-year cycle to be a tentative plan, not a firm commitment. It also noted that, on occasion, it may identify a matter for which an amendment to the IFRS for SMEs may need to be considered earlier than in the normal three-year cycle; for example to address an urgent issue.*
>
> *During the comprehensive review, the IASB has received feedback that amendments to the IFRS for SMEs once every three years (three-year cycle) may be too frequent and that a five-year cycle, with the ability for an urgent issue to be addressed earlier, may be more appropriate.*
>
> *Do you agree with the current tentative three-year cycle for maintaining the IFRS for SMEs, with the possibility for urgent issues to be addressed more frequently? Why or why not? If not, how should this process be modified?*

*AASB staff analysis*

24 AASB staff agree with the current three-year cycle for maintaining *IFRS for SMEs*. However (as noted in our response to Question 4 above), we think that all changes to full IFRSs since the previous amendments should be incorporated as part of the review of the *IFRS for SMEs*.

25 This approach will help to reduce the gap in reporting between entities reporting under full IFRSs and those reporting under *IFRS for SMEs*.

| **Question 8 to the Board:** |
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| Does the Board agree with the staff analysis in paragraphs 24–25 above? |

**Any other comments (Question 8)**

*Do you have any other comments on the proposals?*

26 As mentioned in the AASB's response to the RFI, AASB staff think SMEs should be able to avail themselves to all recognition and measurement policy options available in full IFRS. For example, the fact SMEs cannot adopt the revaluation model was a major obstacle for the adoption of *IFRS for SMEs* in Australia. AASB staff, therefore, continue to think that the revaluation model should be included as an option for entities reporting under *IFRS for SMEs*.

| **Question 9 to the Board:** |
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| Does the Board agree with the staff analysis in paragraph 26 above? |

## Analysis of proposed disclosure amendments

27 In accordance with the AASB's Tier 2 Disclosure Principles, the disclosure requirements adopted in *IFRS for SMEs* are used by the AASB in determining disclosure requirements for Tier 2 entities in Australia. As a result, proposed amendments to disclosure requirements in *IFRS for SMEs* are may have implications for RDR in Australia.

28 The purpose of this section is to consider proposed amendments to *IFRS for SMEs* that may have implications for RDR in Australia. The proposed amendments are considered below.

| **Disclosure** | **IASB proposal** | **Current RDR treatment** |
|---|---|---|
| Section 4 *Statement of Financial Position*<br><br>*Relief from the requirement to disclose comparative information for the reconciliation of the opening and closing number of shares outstanding.* | The IASB has proposed to remove the requirement in paragraph 4.12(iv) of *IFRS for SMEs* to disclose a reconciliation of the opening and closing number of shares outstanding. | The equivalent paragraph is AASB 101 paragraph 79(iv). This paragraph is currently retained for RDR.<br><br>If the ED proposal is approved by the IASB, the RDR treatment of this paragraph may need to be reconsidered by the Board. |

| **Disclosure** | **IASB proposal** | **Current RDR treatment** |
|---|---|---|
| Section 34 *Specialised Activities*<br><br>*Relief from the requirement to disclose comparative information for the reconciliation of changes in the carrying amount of biological assets.* | The IASB has proposed to remove the requirement in paragraph 34.7(c) of *IFRS for SMEs* to disclose the reconciliation of changes in the carrying amount of biological assets in prior periods. | The proposal aligns with AASB 141 *Agriculture* paragraph RDR 50.1.<br><br>AASB staff agree with the proposed amendment. |

29 Note that AASB staff are also undertaking work to review all RDR amendments made since 2009 to determine if there are any disclosures required for Tier 2 entities in Australia that have not been included in the proposed amendments to the *IFRS for SMEs.* AASB staff will report the results of this analysis to the Board at a future Board meeting.

**Question 9 to the Board:**

Does the Board have any comments on the analysis in paragraphs 27-29 above?