October 2013

AASB 13 February 2014
Agenda paper 11.3 (M136)

Exposure Draft

# Snapshot: Comprehensive review of the *IFRS for SMEs*®

This Snapshot provides an overview of the proposals in the Exposure Draft *Proposed amendments to the International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs)* which has been developed by the International Accounting Standards Board (IASB) based on its initial comprehensive review of the *IFRS for SMEs*.

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| Project objectives: | The IASB is conducting an initial comprehensive review of the *IFRS for SMEs* to address identified implementation issues and to consider whether there is a need to amend the *IFRS for SMEs* to reflect recent changes to full IFRSs. |
| Project stage: | The IASB is inviting comments on its proposals to amend the *IFRS for SMEs*. Once these proposals are finalised, the *IFRS for SMEs* will be updated. |
| Comment deadline: | 3 March 2014 |
| Next steps: | Comment letters received on the Exposure Draft will be published on the IASB's website. The IASB will discuss the feedback received and will redeliberate on the proposals in public IASB meetings in the second and third quarters of 2014.<br>The IASB expects to issue the final amendments to the *IFRS for SMEs* in the second half of 2014. |

IFRS for SMEs

# Background

## Why is the IASB undertaking a comprehensive review of the *IFRS for SMEs*?

The IASB issued the *IFRS for SMEs* in July 2009 in response to strong international support from the world's national accounting standard-setters for the IASB to develop global standards for SMEs. The *IFRS for SMEs* was developed over a five-year period and included opportunities for public input at several stages throughout the process.

At the time of its issue, the IASB stated that it planned to undertake an initial comprehensive review of the *IFRS for SMEs* to assess the first two years' experience that entities would have had in implementing it and to consider whether there is a need for any amendments.

Specifically, the IASB said it would consider whether to amend the *IFRS for SMEs* to address any implementation issues identified during that review and also whether to reflect any changes to full IFRSs since the *IFRS for SMEs* was published.

The IASB also said that, after the initial review, it expected to consider amendments to the *IFRS for SMEs* approximately once every three years.

In many jurisdictions companies started using the *IFRS for SMEs* in 2010. Consequently, the IASB began its initial comprehensive review in 2012.

## How did the IASB identify which issues to address during the comprehensive review?

In June 2012 the IASB issued a Request for Information (RfI) to seek the views of those who have been applying the *IFRS for SMEs*, those who have been using financial information prepared in accordance with the *IFRS for SMEs*, national standard-setters, professional bodies, regulators and all other interested parties, on whether there is a need to make any amendments to the *IFRS for SMEs* and, if so, what amendments should be made. The RfI was developed together with the SME Implementation Group (SMEIG), an advisory body to the IASB.

The IASB received 89 comment letters on the RfI. All the letters were posted on the IASB's website.

In addition to encouraging respondents to raise their own issues, the RfI asked specific questions based on matters that had been frequently raised with the IASB by interested parties and also relating to recent changes to full IFRSs.

In February 2013 the SMEIG met to discuss the public comments received on the RfI. On the basis of discussions at that meeting, the SMEIG developed a set of recommendations on possible amendments to the *IFRS for SMEs* to assist the IASB during its redeliberations under the comprehensive review.

# Overview of the proposals

After considering the feedback it received, and taking into consideration the fact that the *IFRS for SMEs* is still a new Standard, the IASB proposes to only make limited amendments to the *IFRS for SMEs*.

In total the IASB have proposed 57 amendments. These are summarised in a list at the start of the Exposure Draft. With the exception of the proposed amendments to Section 29 *Income Tax*, each individual amendment only affects a few sentences and in many cases only a few words in the *IFRS for SMEs*.

Most of the proposed amendments clarify existing requirements or add supporting guidance, rather than propose changes to the underlying requirements in the *IFRS for SMEs*. Consequently, for most SMEs, the proposals are expected to improve understanding of the existing requirements, without resulting in changes in practice or affecting the financial statements.

## 57 proposed amendments

# What is the IASB proposing?

## The basis for making limited amendments

In addition to considering the feedback received from the SMEIG and from respondents to the RfI, the IASB was mindful that the primary aim when developing the *IFRS for SMEs* was to provide a standalone, simplified set of accounting principles for entities that do not have public accountability and that typically have less complex transactions, limited resources to apply full IFRSs and that operate in circumstances in which comparability with their publicly accountable peers is not an important consideration.

The IASB also noted that there is a greater focus on stability during this initial comprehensive review because this is the first review since the initial publication of the *IFRS for SMEs*. Although the *IFRS for SMEs* was issued in 2009, in many of the countries that have adopted it, it has been effective for a much shorter period of time. In addition, in jurisdictions that permit, rather than require, the *IFRS for SMEs*, many SMEs have only just started the transition to it. As a result, for the majority of SMEs using or about to use the *IFRS for SMEs*, it is still a new Standard.

## Amendments to incorporate new and revised IFRSs

**(Thirteen amendments)**

The *IFRS for SMEs* was developed using full IFRSs as a starting point and then considering the modifications that are appropriate to reflect the different needs of users of SME financial statements and cost-benefit considerations. Consequently, one of the most significant issues considered by the IASB was how the *IFRS for SMEs* should be updated in the light of changes to full IFRSs since the *IFRS for SMEs* was published in 2009—in particular, how to balance the importance of maintaining alignment with full IFRSs while maintaining a stable and independent Standard that focuses on the needs of SMEs.

The IASB considered each new and revised IFRS issued since the *IFRS for SMEs* was published individually to decide which changes to incorporate in the *IFRS for SMEs*.

On the basis of this assessment the IASB proposes to incorporate the main changes in the following new and revised IFRSs:

- IAS 1 *Presentation of Items of Other Comprehensive Income* (2011 amendment).
- IAS 32 *Classification of Rights Issues* (2009 amendment).
- IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments*.
- two amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards*:
  - o *Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters* (2010) and *Government Loans* (2012).
- six minor amendments from 2010 and 2012 annual improvements to full IFRSs.

The IASB also proposes to update the scope of Section 26 *Share-based Payment* and the definitions in Section 33 *Related Party Transactions for amendments* made to full IFRSs in 2009.

The IASB proposes to incorporate the above new and revised IFRSs on the basis that they are particularly relevant to SMEs and are consistent with the primary aim of the *IFRS for SMEs*; they provide additional clarity and in most cases a simplification, and/or they fix known or expected problems or diversity in practice.  Furthermore, the IASB noted that these changes will modify a limited number of paragraphs in the *IFRS for SMEs*, with minimal resulting changes and so are consistent with its objective of maintaining stability during this first review of the *IFRS for SMEs*.

The IASB proposes not to include many of the most recent and significant changes to full IFRSs, including those under IFRS 3 (2008) *Business Combinations*, IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements*, IFRS 13 *Fair Value Measurement* and IAS 19 (2011) *Employee Benefits*. The IASB also decided that new and revised IFRSs should not be considered until they have been completed and published—this includes changes under IFRS 9 *Financial Instruments*, the *Conceptual Framework* and other IASB projects.

# What is the IASB proposing? continued...

## Amendments that change requirements in the *IFRS for SMEs*

**(Five amendments)**

When the *IFRS for SMEs* was issued in 2009 Section 29 *Income Tax* was based on the IASB's Exposure Draft *Income Tax* (the '2009 ED'), which was issued in March 2009. At that time the 2009 ED was expected to amend IAS 12 *Income Taxes*. However, the 2009 ED was never finalised by the IASB. Consequently, the IASB proposes to align the recognition and measurement principles in Section 29 with IAS 12 but to retain the presentation and disclosure simplifications in the original version of Section 29.

The IASB also proposes to make the following amendments:

- Require that if an entity is unable to make a reliable estimate of the useful life of goodwill or another intangible asset, the useful life should not exceed 10 years. It is currently required to be fixed at 10 years.
- Account for leases with an interest rate variation clause linked to market interest rates under the requirements for leases in Section 20 *Leases*, rather than requiring them to be measured at fair value through profit or loss in Section 12 *Other Financial Instrument Issues*.
- Require that the liability component of a compound financial instrument is accounted for in the same way as a similar standalone financial liability. It is currently measured at amortised cost.

## Amendments that introduce new guidance

**(Seven amendments)**

The IASB proposes to add new guidance in the following areas based on full IFRS guidance:

- Preparation of consolidated financial statements if group entities have different reporting dates.
- Calculation of non-controlling interest.
- Classifying financial instruments as equity or liability.
- Accounting for the settlement of the dividend payable for a distribution of non-cash assets.
- Share-based payment transactions in which the identifiable consideration appears less than the fair value of the equity instruments granted or the liability incurred.
- Accounting requirements for extractive activities.
- New definitions, including active market, foreign operation, minimum lease payments and transaction costs.

## Amendments that introduce new exemptions

**(Five amendments)**

The IASB proposes to add new exemptions as follows:

- 'Undue cost or effort' exemptions from the measurement of investments in equity instruments at fair value in the two sections on financial instruments (Sections 11 and 12).
- An 'undue cost or effort' exemption from recognising intangible assets separately in a business combination.
- Exemption from the requirements in paragraph 22.18 for distributions of non-cash assets ultimately controlled by the same parties before and after the distribution.
- An 'undue cost or effort' exemption from the requirement to offset income tax assets and liabilities.

## Amendments that reproduce guidance from SMEIG Q&As

**(Three amendments)**

The IASB proposes to include the following guidance from Q&As developed by the SMEIG:

- Clarification of the use of the *IFRS for SMEs* in a parent entity's separate financial statements—based on Q&A 2011/01 *Use of the IFRS for SMEs in a parent's separate financial statements*.
- Guidance on the 'undue cost or effort' exemption that is used in several sections of the *IFRS for SMEs*—based on Q&A 2012/01 *Application of 'undue cost or effort'*.
- Clarification that all cumulative exchange differences that arise from the translation of a foreign subsidiary are not recognised in profit or loss on disposal of the subsidiary—based on Q&A 2012/04 *Recycling of cumulative exchange differences on disposal of a subsidiary*.

The SMEIG Q&As are currently available to SMEs on the IASB website. The result of incorporating guidance from the non-mandatory SMEIG Q&As is that it will become mandatory.

## Amendments that simplify disclosures requirements

**(Three amendments)**

The IASB proposes relief from the need to prepare prior year reconciliations of balances for biological assets and share capital for consistency with other sections of the *IFRS for SMEs*. The IASB also proposes to remove the requirement to disclose the accounting policy for termination benefits.

# What is the IASB proposing? continued...

## Amendments that provide minor clarifications

**(Twenty one amendments)**

The remaining proposed amendments are minor and are not expected to result in changes in practice or to affect the financial statements for the vast majority of SMEs. Such amendments fall into one or more of the following types:

- clarifying wording/IASB's intention;
- rewriting unclear sentences;
- clarification of the scope of sections; and
- removing inconsistencies.

## Editorial amendments

During the comprehensive review of the *IFRS for SMEs*, respondents and/or the IASB staff identified a number of editorial amendments that affect paragraphs that would not otherwise be exposed for comment in the Exposure Draft. Those editorial amendments are minor, and have been made largely to ensure consistency of terminology and wording throughout the *IFRS for SMEs*. They do not have any effect on the underlying requirements in the *IFRS for SMEs*. In line with the IFRS Foundation's due process, and to remain consistent with the current practice of the IFRS Foundation, the editorial amendments have been prepared by the staff, and do not require formal approval by the IASB.

To make it easier for respondents to review the substantive amendments to the *IFRS for SMEs*, paragraphs containing only editorial amendments have not been included in the Exposure Draft. However, all of the editorial amendments are available on the IASB website (see the links at the end of this document).

# Further information

For most of the proposed amendments the IASB has only included in the Exposure Draft those paragraphs/subparagraphs of the *IFRS for SMEs* that would be affected. To further assist respondents with their review of the amendments, a full mark-up of the *IFRS for SMEs*, which includes all paragraphs of the Standard, has been posted to the SME webpages on the IASB website. Accompanying the mark-up is a list of the editorial amendments that are proposed to be made when the final amendment to the *IFRS for SMEs* is issued.

This Exposure Draft includes questions on the proposals. Respondents are invited to comment on any or all of those questions and also on any other issues that the IASB should consider when finalising the proposals. The IASB's redeliberations of the proposals will take place in public meetings. Information about these public meetings will be available from the IASB's website.

The deadline for comments on the exposure draft is 3 March 2014.

## Relevant links:

- Exposure Draft and instructions on how to submit comments **http://go.ifrs.org/Open-to-comment**
- Markup of the *IFRS for SMEs* and editorial amendments **http://go.ifrs.org/smereview**
- Background on the initial comprehensive review **http://go.ifrs.org/smereview**
- Request for Information and comment letters **http://go.ifrs.org/IFRS-for-SMEs**
- Background on the SMEIG **http://go.ifrs.org/smeig**
- SMEIG meeting agenda papers and report of recommendations to the IASB **http://go.ifrs.org/smeig-papers**
- SMEIG Q&As **http://go.ifrs.org/QA-SMEs**

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