October 2013

Basis for Conclusions

Exposure Draft ED/2013/9

IFRS for SMEs®

Proposed amendments to the International Financial Reporting Standard for Small and Medium-sized Entities

Comments to be received by 3 March 2014

IASB®

IFRS™ for SMEs

Basis for Conclusions on Exposure Draft Proposed amendments to the International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs)

Comments to be received by 3 March 2014

This Basis for Conclusions accompanies the Exposure Draft ED/2013/9 *Proposed amendments to the International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs)* (issued October 2013; see separate booklet). The proposals may be modified in the light of the comments received before being issued in final form. Comments need to be received by **3 March 2014** and should be submitted in writing to the address below or electronically via our website www.ifrs.org using the 'Comment on a proposal' page.

All responses will be put on the public record and posted on our website unless the respondent requests confidentiality. Requests for confidentiality will not normally be granted unless supported by good reason, such as commercial confidence.

ISBN for this part: 978-1-909704-12-1; ISBN for set of two parts: 978-1-909704-10-7

IFRS Foundation Publications Department
30 Cannon Street, London EC4M 6XH, United Kingdom
Tel: +44 (0)20 7332 2730 Fax: +44 (0)20 7332 2749
Email: publications@ifrs.org Web: www.ifrs.org

IFRS®

CONTENTS

	from paragraph
BASIS FOR CONCLUSIONS ON EXPOSURE DRAFT *PROPOSED AMENDMENTS TO THE INTERNATIONAL FINANCIAL REPORTING STANDARD FOR SMALL AND MEDIUM-SIZED ENTITIES (IFRS FOR SMEs)*	
INTRODUCTION	**BC1**
BACKGROUND	**BC2**
Reasons for undertaking the comprehensive review of the *IFRS for SMEs*	**BC2**
Request for Information (RfI)	**BC4**
Responses to the RfI	**BC7**
SMEIG meeting and recommendations	**BC10**
IASB deliberations	**BC11**
SCOPE OF THE *IFRS FOR SMEs*	**BC16**
Use of the *IFRS for SMEs* by publicly accountable entities	**BC17**
Use of the *IFRS for SMEs* by not-for-profit entities	**BC23**
NEW AND REVISED IFRSs	**BC27**
Introduction	**BC27**
The IASB's principles for dealing with new and revised IFRSs	**BC29**
Individual new and revised IFRSs during the current review	**BC33**
ACCOUNTING POLICY OPTIONS	**BC39**
Revaluation model for property, plant and equipment	**BC40**
Capitalisation of development or borrowing costs	**BC45**
OPTIONAL FALLBACK TO FULL IFRSs FOR FINANCIAL INSTRUMENTS	**BC49**
ACCOUNTING FOR INCOME TAX	**BC55**
USEFUL LIVES OF GOODWILL AND OTHER INTANGIBLES	**BC61**
SHARE SUBSCRIPTION RECEIVABLES	**BC64**
SMEIG Q&AS	**BC67**
ADDITIONAL ISSUES RAISED BY RESPONDENTS TO THE RFI (AMENDMENTS PROPOSED)	**BC73**
Addition of two 'undue cost or effort' exemptions	**BC74**
Alignment of the definition of related party with full IFRSs	**BC76**
Common control exemptions	**BC78**
Clarification of existing requirements	**BC80**
ADDITIONAL ISSUES RAISED BY RESPONDENTS TO THE RFI (NO AMENDMENTS PROPOSED)	**BC86**
OTHER ISSUES IDENTIFIED BY THE IASB	**BC87**
Improvements to existing requirements	**BC88**
Clarification of existing requirements	**BC90**

TRANSITION BC93
Retrospective application of proposed amendments BC93
Effective date of the proposed amendments BC96
Early adoption BC98
ANALYSIS OF THE EFFECTS OF THIS EXPOSURE DRAFT BC100

Basis for Conclusions on Exposure Draft *Proposed amendments to the International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs)*

This Basis for Conclusions accompanies, but is not part of, the proposed amendments.

Introduction

BC1 This Basis for Conclusions summarises the considerations of the International Accounting Standards Board (IASB) when developing this Exposure Draft of proposed amendments to the *International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs)*. Individual IASB members gave greater weight to some factors than to others.

Background

Reasons for undertaking the comprehensive review of the *IFRS for SMEs*

BC2 The *IFRS for SMEs* was issued by the IASB in 2009 following due process that began in late 2003 and included opportunities for public input at several stages throughout the process. The due process also included field testing of the February 2007 Exposure Draft that preceded the final *IFRS for SMEs*.

BC3 At the time of its issue, the IASB stated its plans to undertake an initial comprehensive review of the *IFRS for SMEs* to enable it 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. In many jurisdictions, companies started using the *IFRS for SMEs* in 2010. Consequently, the IASB commenced its initial comprehensive review in 2012. The IASB also said that, after the initial review, it expected to consider amendments to the *IFRS for SMEs* approximately once every three years.

Request for Information (RfI)

BC4 In June 2012 the IASB issued a Request for Information (RfI) as the first step in its initial comprehensive review. The RfI was developed together with the SME Implementation Group (SMEIG), an advisory body to the IASB.

BC5 The objective of the RfI was to seek the views of those who had been applying the *IFRS for SMEs*, those who had been using financial information prepared in accordance with the *IFRS for SMEs* and all other interested parties, on whether there is a need to make any amendments to it and, if so, what amendments should be made. The RfI did not contain any preliminary views of the IASB or the SMEIG.

BC6 In addition to encouraging respondents to raise their own issues, the IASB asked specific questions in the RfI covering the following issues about the *IFRS for SMEs*. These issues were based on matters that had been frequently raised with the IASB by interested parties and also relating to changes to full IFRSs since the *IFRS for SMEs* was published in 2009:

(a) whether publicly accountable entities should be permitted to apply the *IFRS for SMEs*.

(b) whether there is a need to clarify the scope requirements for not-for-profit entities.

(c) how the *IFRS for SMEs* should be updated in the light of the changes made to full IFRSs since the *IFRS for SMEs* was published in 2009 (these changes are referred to as 'new and revised IFRSs' in this Basis for Conclusions). The RfI asked specific questions on the most significant new and revised IFRSs and also on annual improvements.

(d) whether to consider allowing SMEs an option to use the revaluation model for property, plant and equipment.

(e) whether to consider permitting or requiring the capitalisation of development or borrowing costs that meet specified criteria (for example, on the basis of the criteria in full IFRSs).

(f) how the current option to use IAS 39 *Financial Instruments: Recognition and Measurement in the IFRS for SMEs* should be updated once IFRS 9 *Financial Instruments* becomes effective.

(g) whether to continue to require a temporary difference approach for the accounting for deferred tax and, if so, whether to align the requirements with IAS 12 *Income Taxes*.

(h) whether there is a need to modify the requirements for determining the useful lives of goodwill and other intangible assets.

(i) whether to permit or require the presentation of share subscription receivables as an asset.

(j) whether there are any additional topics that should be specifically addressed in the *IFRS for SMEs*.

(k) whether the SMEIG Q&A programme should continue and how to deal with the existing Q&As during this comprehensive review.

Responses to the RfI

BC7 The IASB received 89 comment letters on the RfI. All letters were made available to IASB members and posted on the IASB's website. In addition to responding to the specific questions in paragraph BC6, many of the comment letters responded to the request to raise their own issues. The main issues raised are listed in paragraphs BC8–BC9. Some respondents also commented on the overall procedure of the triennial review process, including the timing of future reviews of the *IFRS for SMEs* and other due process issues.

BC8 The following are issues that were raised by respondents for which the IASB has proposed amendments:

(a) more guidance is required to help SMEs apply the 'undue cost or effort' exemption in practice (used in several sections of the *IFRS for SMEs*).

(b) requirements should be simplified and/or additional guidance provided for use of uniform reporting dates in the preparation of consolidated financial statements.

(c) the criteria in paragraph 11.9 should be clarified to ensure loans with standard loan covenants and loans in a foreign currency are basic financial instruments accounted for at amortised cost.

(d) an 'undue cost or effort' exemption from measurement of investments in equity instruments at fair value should be included in Section 11 *Basic Financial Instruments* and Section 12 *Other Financial Instruments Issues*.

(e) the recognition of all intangible assets of the acquiree in a business combination is too complex for SMEs and it is costly to use valuation experts.

(f) the simplifications in IFRS 3 *Business Combinations* for the allocation of the cost of a business combination to defined benefit obligations and deferred tax should be permitted for SMEs in paragraph 19.14.

(g) the requirement in paragraph 22.8 to measure equity instruments at the fair value of the cash or other resources received would prohibit the use of the historical cost of the seller for business combinations under common control.

(h) distributions of non-cash assets ultimately controlled by the same parties before and after distribution should be excluded from paragraph 22.18 (consistent with IFRIC 17 *Distributions of Non-cash Assets to Owners*).

(i) the definition of 'related party' should be made consistent with IAS 24 *Related Party Disclosures* (2009) and the definition 'close members of the family of a person' should be added.

(j) the accounting requirements for entities involved in extractive activities should be clarified.

BC9 The following are issues raised by respondents for which the IASB has not proposed amendments:

(a) the objective of the financial statements of SMEs and the qualitative characteristics of information in financial statements should be aligned with the revised *Conceptual Framework for Financial Reporting* (the '*Conceptual Framework*').

(b) instances in which items are presented in other comprehensive income (OCI) in the *IFRS for SMEs* are limited and OCI should be removed altogether from the *IFRS for SMEs*.

(c) the type of hedging instruments permitted is too limited. SMEs should be permitted to designate other types of instruments as hedging instruments under Section 12, for example, options, cash instruments and swaps.

(d) SMEs should be able to choose to account for their investment property either under a fair value model or cost model like IAS 40 *Investment Property*.

(e) guidance on barter transactions should be added, because these transactions occur frequently for some SMEs.

(f) a cost model should be permitted for biological assets. Alternatively, the IASB should consider the progress on its current project on IAS 41 *Agriculture*, which may permit a cost model for bearer biological assets.

(g) more guidance should be added on accounting for biological assets.

(h) the IASB should consider further ways to reduce the disclosure requirements in the *IFRS for SMEs*.

(i) the IASB should consider developing a reduced disclosure framework for subsidiaries of parent entities that apply full IFRSs in their consolidated financial statements.

(j) the IASB should consider adding size-dependent reliefs from some of the requirements in the *IFRS for SMEs*, in particular disclosure requirements.

(k) the title of the *IFRS for SMEs* should be changed to focus on entities within its scope.

SMEIG meeting and recommendations

BC10 In February 2013 the SMEIG met to discuss the public comments received on the RfI and to develop a set of recommendations for the IASB on possible amendments to the *IFRS for SMEs*. The recommendations developed by the SMEIG were presented in the IASB agenda papers for the IASB's March–May 2013 meetings, along with the issues being discussed. The recommendations were also provided in a separate report that was published on the IASB website in March 2013. In the majority of cases the decisions of the IASB were consistent with the suggestions made by the SMEIG.

IASB deliberations

BC11 The IASB discussed the issues identified during the RfI process during its March–May 2013 meetings. The decisions made during those meetings were included in the relevant *IASB Updates*. All of the significant amendments proposed by the IASB are listed in the table at the beginning of this Exposure Draft.

BC12 The IASB discussed the issues in paragraph BC6 at its March–May 2013 meetings. Paragraphs BC16–BC72 set out the IASB's reasoning for the decisions it has made on those issues and provide brief information on the alternative views expressed in the comment letters.

BC13 The IASB considered all of the additional issues raised by comment letters to the RfI at its May 2013 meeting. The issues for which the IASB has proposed amendments to the *IFRS for SMEs* are listed in paragraph BC8. The issues for which the IASB does not propose to make amendments are listed in paragraph BC9. Paragraphs BC73–BC86 set out the IASB's reasoning for the decisions it has made about both sets of issues.

BC14 The IASB has asked a question in the Invitation to Comment on the timing of future reviews of the *IFRS for SMEs*. The other due process issues raised by respondents to the RfI are not covered by this Exposure Draft but will be considered in future reviews of the *IFRS for SMEs*.

BC15 It is beyond the scope of this Basis for Conclusions to include a detailed analysis of the views and reasoning provided by respondents in response to the RfI due to the extent and breadth of comments received. However, a detailed summary of the comment letter analysis was provided to IASB members in the agenda papers for the IASB's March–May 2013 meetings and to SMEIG members at their February 2013 meeting. These agenda papers are available on the IASB website (www.ifrs.org).

Scope of the *IFRS for SMEs*

BC16 The IASB started its discussions of the comprehensive review of the *IFRS for SMEs* by first addressing the issues relating to its scope. The IASB noted that it was important to clarify the entities for which the *IFRS for SMEs* is intended before deciding what kind of amendments should be made.

Use of the *IFRS for SMEs* by publicly accountable entities

BC17 The IASB asked a question in the RfI on whether publicly accountable entities should be permitted to apply the *IFRS for SMEs*. The *IFRS for SMEs* defines 'SMEs' as entities that do not have public accountability and that prepare general purpose financial statements (see paragraph 1.3). Paragraph 1.5 prohibits a publicly accountable entity from stating compliance with the *IFRS for SMEs*—even if the law or regulation in its jurisdiction permits or requires the *IFRS for SMEs* to be used by publicly accountable entities.

BC18 Most of the respondents to the RfI were of the view that the current scope is appropriate. However, some would permit certain publicly accountable entities to use the *IFRS for SMEs*. Some of the reasons given for why the *IFRS for SMEs* may improve financial reporting for those entities include:

(a) some entities whose shares are classified as publicly traded may be considered borderline cases because they are thinly traded or traded on over-the-counter markets. In some cases the needs of the users of their financial statements may be similar to the needs of users of entities without public accountability.

(b) credit unions and micro-sized banks meet the definition of publicly accountable entities. However, some are very small, their shares are not publicly traded and the primary users of their financial statements (depositors) do not require the level of detail that is required in financial statements prepared in accordance with full IFRSs.

(c) some jurisdictions have not adopted full IFRSs for all publicly accountable entities because of the perceived complexity or lack of resources in the jurisdiction. Currently, those entities may be applying local standards that are inferior to the *IFRS for SMEs*.

(d) some publicly accountable entities are currently producing poor quality financial information under full IFRSs due to a lack of expertise or resources available to them.

BC19 The IASB considered whether paragraph 1.5 is too restrictive and whether jurisdictions should have the authority to decide which publicly accountable entities should be able to use and state compliance with the *IFRS for SMEs*. The IASB observed that if a publicly accountable entity applied the *IFRS for SMEs* it would be important that users of its financial statements were alerted to the fact that a publicly accountable entity is applying a Standard that was not designed for it. Consequently, the IASB specifically discussed whether paragraph 1.5 could be replaced by a requirement for a publicly accountable entity to disclose that it is not within the intended scope of the *IFRS for SMEs* but that the laws in its jurisdiction permit it to use the *IFRS for SMEs*.

BC20 The IASB observed that the *IFRS for SMEs* was specifically designed for SMEs and users of SME financial statements and so it may not appropriately cater for a wider group of entities. Furthermore, the IASB noted that if the scope was widened to include some publicly accountable entities, it may lead to pressure to make changes to the *IFRS for SMEs* to accommodate that wider group, which would increase its complexity. The IASB also had concerns about the risks associated with inappropriate use of the *IFRS for SMEs* if the restriction on publicly accountable entities using the *IFRS for SMEs* was removed from paragraph 1.5. For these reasons the IASB decided to keep paragraph 1.5.

BC21 The IASB further noted that jurisdictions can already incorporate the *IFRS for SMEs* into their local GAAP if they wish to allow certain publicly accountable entities to use it. However, those entities would state compliance with local GAAP, not with the *IFRS for SMEs*.

BC22 Some respondents to the RfI said that the meaning of 'fiduciary capacity' in the definition of public accountability is unclear as it is a term with different implications across jurisdictions. Those respondents suggested that the IASB should provide additional guidance to clarify its intention when using the term to help local authorities/standard-setters and entities apply the current definition of 'public accountability'. 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. Furthermore, 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. Consequently, the IASB decided not to clarify this term but instead to ask a question in the Invitation to Comment in this Exposure Draft to find out more information about the concerns raised.

Use of the *IFRS for SMEs* by not-for-profit entities

BC23 The IASB asked, in the RfI, whether there is a need to clarify the scope requirements for not-for-profit (NFP) entities. This is because some interested parties have asked whether soliciting and accepting contributions would automatically make an NFP entity publicly accountable because such activity involves the entity holding financial resources entrusted to it by clients. Most of the respondents to the RfI felt that NFP entities are not publicly accountable and should be permitted to apply the *IFRS for SMEs*.

BC24 The IASB noted that the *IFRS for SMEs* specifically identifies only two types of entities that have public accountability and, therefore, are not eligible to use the *IFRS for SMEs*:

(a) those that have issued, or are in the process of issuing, debt or equity securities for trading in public markets; and

(b) those that hold assets in a fiduciary capacity for a broad group of outsiders as one of their primary businesses.

BC25 The IASB further noted that paragraph 1.4 lists charitable organisations as an example of an entity that is not automatically publicly accountable if it only holds financial resources entrusted to it by others, for reasons incidental to a primary business. The IASB therefore decided that the *IFRS for SMEs* is sufficiently clear that soliciting and accepting contributions does not automatically make NFP entities publicly accountable and, consequently, it decided that no amendment needs to be made.

BC26 A number of respondents to the RfI commented that the IASB should address the specific issues and transactions encountered by NFP entities either in the *IFRS for SMEs* or as a separate project. The IASB noted that the Trustees of the IFRS Foundation have concluded that the short-term primary focus of the IFRS Foundation and the IASB should remain on developing Standards for for-profit entities. The IASB therefore decided not to further consider these issues as part of this comprehensive review of the *IFRS for SMEs*.

New and revised IFRSs

Introduction

BC27 The *IFRS for SMEs* was developed using full IFRSs as a starting point and then considering what modifications are appropriate in the light of users' needs and cost-benefit considerations. The IASB used full IFRSs as a starting point, rather than a fresh start approach, because, whilst there are differences between the needs of users of the financial statements of SMEs and those of publicly accountable entities, there are similarities as well. Consequently, one of the most significant issues confronting the IASB was how the *IFRS for SMEs* should be updated in the light of the new and revised IFRSs published after the *IFRS for SMEs* was issued in 2009—in particular, how to balance the importance of maintaining alignment with full IFRSs whilst having a stable and independent Standard that focuses on the needs of SMEs.

BC28 Respondents to the RfI were divided on whether or not the *IFRS for SMEs* should be updated during this comprehensive review for new and revised IFRSs. The views expressed by respondents were generally influenced by the respondent's understanding of the purpose of the *IFRS for SMEs* and which entities it should cater for, for example:

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

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

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

BC29 The IASB observed 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 listed peers is not an important consideration. The IASB also noted its decision not to extend the scope of the *IFRS for SMEs* to permit publicly accountable entities to use the *IFRS for SMEs*.

BC30 With this primary aim in mind the IASB considered a framework for how to deal with new and revised IFRSs during this comprehensive review and future reviews of the *IFRS for SMEs*. The IASB developed the following principles:

(a) each new and revised IFRS should be considered individually on a case-by-case basis to decide if, and how, its requirements should be incorporated into the *IFRS for SMEs*.

(b) new and revised IFRSs should not be considered until they have been published. However, it would generally not be necessary to wait until their Post-implementation Reviews have been completed.

(c) minor changes/annual improvements to full IFRSs should also be considered on a case-by-case basis.

(d) changes to the *IFRS for SMEs* could be considered at the same time that new and revised IFRSs are published. However, the *IFRS for SMEs* would only be updated for those changes at the next three-yearly review, in order to provide a stable platform for SMEs.

BC31 The IASB further observed that, when applying the principles in paragraph BC30(a)–(c), decisions both on which changes to incorporate into the *IFRS for SMEs* and the appropriate timing for incorporating those changes should be weighed against the need to provide SMEs with a stable platform and the suitability of such changes for SMEs and users of their financial statements. The

IASB noted that it may decide only to incorporate changes from a complex new or revised IFRS after implementation experience of that IFRS has been assessed. However, it will make this assessment when new or revised IFRSs are published rather than automatically waiting until there is substantial experience from entities who have applied a new or revised IFRS or until a Post-implementation Review on an IFRS has taken place.

BC32 The IASB decided new and revised IFRSs should not be considered until they have been published. This is because, until a final IFRS is issued, the IASB's views are always tentative and subject to change. Sometimes, the principles in a final IFRS differ significantly from those examined in a Discussion Paper or initially proposed in an Exposure Draft. In other cases, a final IFRS is not issued at all, or work on a project is suspended for an indefinite period. The IASB noted that it had decided to base Section 29 *Income Tax* on a 2009 Exposure Draft that was expected to amend IAS 12, but the 2009 Exposure Draft was never finalised (see paragraphs BC55–BC60).

Individual new and revised IFRSs during the current review

BC33 The IASB then considered how to deal with individual new and revised IFRSs during this comprehensive review in the light of the above principles. The IASB observed that this comprehensive review is subject to additional considerations compared to future reviews because this is the first review since the initial publication of the *IFRS for SMEs*. Although the *IFRS for SMEs* was issued in 2009, in many of the 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. For these reasons, the IASB decided that there is a greater need for stability during this initial comprehensive review than there may be in future reviews.

BC34 The IASB first considered how to address the five new or revised IFRSs that the IASB believed had the potential to result in the most significant changes to the *IFRS for SMEs*, namely IFRS 3 (2008), IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements*, IFRS 13 *Fair Value Measurement* and IAS 19 *Employee Benefits* (2011). The IASB made the following observations:

(a) IFRS 10, IFRS 11 and IFRS 13 only recently became effective and they introduce complex changes that are expected to result in, and benefit from, significant implementation guidance in practice. Furthermore, they would be expected to have a limited practical impact on the majority of SMEs because the new requirements are unlikely to affect many common fair value measurements and the accounting for groups of entities with a simple group structure.

(b) the main change in IAS 19 (2011), if incorporated for SMEs, would be a requirement to present actuarial gains and losses in OCI. As part of its *Conceptual Framework* project, the IASB is currently considering its treatment of OCI and this may result in changes to the requirements relating to OCI under full IFRSs. Given these possible changes, the IASB decided that it may be better to continue to permit SMEs the choice of recognising actuarial gains and losses in profit or loss or OCI until this subject has been discussed further.

(c) the changes in IFRS 3 (2008) would result in significant complexity for SMEs, particularly because of the additional fair value measurements required. Based on feedback from the RfI, SMEIG members and other interested parties, the current approach in the *IFRS for SMEs* (based on IFRS 3 (2004)) is working well in practice and is well understood and accepted by preparers and users of SME financial statements. Furthermore, it has the same basic underlying approach as IFRS 3 (2008) but simplified.

For the reasons outlined in this paragraph and in paragraph BC33, the IASB decided not to amend the *IFRS for SMEs* during this initial review to incorporate IFRS 3 (2008), IFRS 10, IFRS 11 and IFRS 13, and IAS 19 (2011).

BC35 The IASB then considered whether any of the changes introduced by other new and revised IFRSs should be incorporated in the *IFRS for SMEs*. Based on an individual assessment of each new and revised IFRS the IASB decided that the main changes in the following new and revised IFRSs should be incorporated:

(a) IAS 1 *Presentation of Items of Other Comprehensive Income* (2011 amendment);

(b) IAS 32 *Classification of Rights Issues* (2009 amendment);

(c) IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments*; and

(d) two amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards*:

   (i) *Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters* (2010); and

   (ii) *Government Loans* (2012).

BC36 The IASB selected the new and revised IFRSs specified in paragraph BC35 on the basis that they are relevant to 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 each of the new or revised IFRSs in paragraph BC35 is only likely to modify one or two paragraphs in the *IFRS for SMEs* and so the resulting changes will be minimal and are consistent with maintaining stability during the early years of implementing the *IFRS for SMEs*.

BC37 The IASB also noted that the measurement of unquoted equity instruments is often very difficult for SMEs because it involves substantial judgement and complex calculations. The IASB therefore decided to include an 'undue cost or effort' exemption from the requirement to measure own equity instruments at fair value under IFRIC 19 as it felt that the benefits to users of SME financial statements of having the information do not justify the SME preparer spending undue cost or effort to provide the necessary fair value information.

BC38 The IASB also decided that the main changes in the following annual improvements should be incorporated in the *IFRS for SMEs* because they are relevant to SMEs and they provide clarity and in most cases simplification:

(a) *Improvements to IFRSs* (issued in 2010):

  (i) revaluation basis as deemed cost (IFRS 1);

  (ii) use of deemed cost for operations subject to rate regulation (IFRS 1); and

  (iii) clarification of statement of changes in equity (IAS 1).

(b) *Annual Improvements to IFRSs 2009–2011 Cycle* (issued in 2012):

  (i) repeated application of IFRS 1 (IFRS 1);

  (ii) classification of servicing equipment (IAS 16); and

  (iii) tax effect of distributions to holders of equity instruments (IAS 32).

Accounting policy options

BC39 The IASB asked three questions in the RfI about whether SMEs should be able to apply a more complex accounting policy based on requirements currently required or permitted in full IFRSs:

(a) whether to consider allowing SMEs an option to use the revaluation model for property, plant and equipment;

(b) whether to consider permitting or requiring capitalisation of development costs that meet specified criteria (such as on the basis of the criteria in IAS 38 *Intangible Assets*); and

(c) whether to consider permitting or requiring capitalisation of borrowing costs that meet specified criteria (such as on the basis of the criteria in IAS 23 *Borrowing Costs*).

Revaluation model for property, plant and equipment

BC40 The IASB has received feedback from interested parties that not having a revaluation option is a barrier to the adoption of the *IFRS for SMEs* in jurisdictions where SMEs commonly revalue their property, plant and equipment (PPE). Those interested parties note that, for entities that are currently applying the revaluation model under local GAAP, a change to the cost model may have potential implications for current and future borrowing arrangements. Furthermore, some note that a revaluation option is important in jurisdictions that are experiencing high inflation. In the RfI, the IASB asked for further information on whether a revaluation option should be considered for SMEs. Most of the respondents to the RfI supported a revaluation option. Although some raised similar concerns as those stated earlier in this paragraph, most of the respondents supporting a revaluation option did so because they supported alignment with full IFRSs (see paragraph BC28). Some respondents to the RfI would not add to the *IFRS for SMEs* an accounting policy option to revalue PPE.

BC41 As explained in paragraph BC29, the IASB thinks 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 listed peers is not an important consideration. Such entities generally prioritise simplified accounting and do not require complex accounting policy options.

BC42 Some respondents to the RfI noted that providing a revaluation option would not add significant preparer complexity to the *IFRS for SMEs* because SMEs can choose the simpler option, ie the cost model. However, the IASB noted that adding a revaluation model for PPE would add complexity in other areas of the *IFRS for SMEs*, like the requirements for impairment and deferred tax. Furthermore, the IASB observed that users of SME financial statements that need to understand the accounting policies used and that often make comparisons between different SMEs would benefit from less variation in the accounting requirements between SMEs.

BC43 The IASB acknowledged that if entities are currently applying the revaluation model under local GAAP, a change to the cost model may have potential implications for borrowing arrangements. However, the IASB thinks that this can be resolved through additional disclosures in the financial statements or separate third-party valuations—the latter is often required by lenders even if the revaluation model is applied by an entity. The *IFRS for SMEs* prescribes the minimum required disclosures. An SME may disclose additional information if it is considered relevant to users of their financial statements. Similarly, entities experiencing high inflation may provide additional disclosures in their financial statements to explain the effects of high inflation.

BC44 After considering the responses to the RfI, the IASB does not feel that there is a convincing argument to reconsider the current approach in the *IFRS for SMEs*. Consequently, the IASB continues to support the reasoning it set out for not permitting complex accounting policy options in paragraphs BC84–BC94 in the *IFRS for SMEs* that was issued in 2009.

Capitalisation of development or borrowing costs

BC45 Since the *IFRS for SMEs* was issued the IASB has received feedback from some interested parties that SMEs should not be prevented from capitalising development or borrowing costs. The reasons given were the same as those provided for permitting a revaluation option for PPE (see paragraph BC40). For those reasons, in the RfI the IASB asked for further information on whether SMEs should be required to capitalise development or borrowing costs that meet specified criteria.

BC46 Only a small number of respondents to the RfI supported a requirement for SMEs to capitalise development and/or borrowing costs based on similar criteria to full IFRSs. However, many respondents supported giving SMEs an option to capitalise development and borrowing costs based on similar criteria to full IFRSs. A similar number of respondents would not change the current requirements, ie would continue to require SMEs to expense all development and borrowing costs.

BC47 The IASB observed that permitting accounting policy options to capitalise development and borrowing costs that meet the criteria for capitalisation in

IAS 38/IAS 23 (as well as the current approach of expensing such costs) would result in more accounting policy options than full IFRSs because full IFRSs do not permit an expense-only option. For the reasons explained in paragraphs BC41–BC44, the IASB does not support providing complex accounting policy options for SMEs. The IASB also noted that an SME may disclose additional information about its borrowing costs or development costs if it is considered relevant to users of their financial statements.

BC48 The IASB does not feel that there is a convincing argument to reconsider the current approach for accounting for development and borrowing costs in the *IFRS for SMEs*. Consequently, the IASB continues to support its reasoning for not permitting these accounting policy options/requirements for cost-benefit reasons as set out in paragraphs BC113–BC114 and BC120 in the *IFRS for SMEs* that was issued in 2009.

Optional fallback to full IFRSs for financial instruments

BC49 The *IFRS for SMEs* currently permits entities to choose to apply either (see paragraph 11.2):

(a) the provisions of both Sections 11 and 12 in full; or

(b) the recognition and measurement provisions of IAS 39 and the disclosure requirements of Sections 11 and 12.

The *IFRS for SMEs* refers specifically to IAS 39. SMEs are not permitted to apply IFRS 9.

BC50 The IASB asked a question in the RfI seeking feedback on how the current option to use IAS 39 in the *IFRS for SMEs* should be updated once IFRS 9 has become effective and once IAS 39 has been replaced under full IFRSs. The purpose of the question was to ask whether the fallback to full IFRSs in Sections 11 and 12 should either be removed completely, continue to refer to an IFRS that has been superseded or be updated to refer to a current IFRS.

BC51 Respondents in favour of retaining a fallback to full IFRSs were generally those supporting alignment of the *IFRS for SMEs* with full IFRSs (see paragraph BC28). Furthermore, many of those respondents also supported updating the fallback to IFRS 9 when IFRS 9 becomes effective under full IFRSs. In contrast, those respondents who felt the primary aim of the *IFRS for SMEs* is an independent Standard tailored for smaller businesses generally felt that the fallback to full IFRSs should be removed completely.

BC52 Paragraphs BC29–BC32 explain the IASB's principles for dealing with new and revised IFRSs. In line with those principles, the IASB decided that IFRS 9 should not be considered during this comprehensive review because it has not yet been completed.

BC53 Consistent with the primary aim of developing a standalone, simplified set of accounting principles for SMEs, the IASB would prefer the fallback to full IFRSs to be ultimately removed. However, the IASB decided that the fallback to IAS 39 should be retained until IFRS 9 is considered at a future three-yearly review for the following reasons:

(a) when the *IFRS for SMEs* was issued the IASB decided that SMEs should be permitted to have the same accounting policy options as in IAS 39 pending completion of the IASB's *Financial Instruments* project and this reasoning remains valid.

(b) when entities are currently applying IAS 39, the IASB does not think it is appropriate to require them to change to Sections 11 and 12 when it is likely that those sections could be amended at a future review in the light of current IASB projects to complete IFRS 9.

(c) the IASB thinks most SMEs, except subsidiaries of full IFRS groups, will have found the fallback to full IFRSs onerous and will have chosen to follow Sections 11 and 12 in full. However, without evidence that this is the case the IASB does not think that the fallback to full IFRSs should be removed during this comprehensive review.

BC54 The IASB noted that an SME that elects to follow the recognition and measurement principles of IAS 39, rather than those in Sections 11 and 12, would currently apply the version of IAS 39 that is in effect at the entity's reporting date (without early adoption of IFRS 9). This is consistent with the IASB's approach in full IFRSs when making cross references to other IFRSs. However, the IASB observed that if IAS 39 is superseded under full IFRSs, it would need to be maintained separately for use by SMEs whilst the fallback to IAS 39 remains.

Accounting for income tax

BC55 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 and so, in the RfI, the IASB asked for views on whether the accounting for deferred tax should be reconsidered for SMEs. The requirements for accounting for current tax in Section 29 are already consistent with IAS 12.

BC56 Most of the respondents to the RfI supported the continuation of the requirement for SMEs to recognise deferred tax using the temporary difference method and also supported the alignment of the main recognition and measurement requirements for deferred tax in Section 29 with IAS 12. Some respondents were in favour of not recognising deferred tax at all (sometimes called the 'taxes payable' approach). There was only limited support for keeping Section 29 unchanged or considering other methods of recognising deferred tax.

BC57 The IASB agreed with those respondents who supported aligning the requirements for recognising and measuring deferred tax in Section 29 with the approach in IAS 12, modified to be consistent with the other requirements of the *IFRS for SMEs*, rather than with the 2009 ED that was never finalised. The IASB observed that in many jurisdictions IAS 12 has been applied by entities, including SMEs, for years. Aligning the requirements with IAS 12 would have the added advantage of enabling SMEs to draw on this experience, as well as the education material available on IAS 12, to understand the requirements. The IASB continues to support its reasoning for not permitting the taxes payable approach as set out in paragraph BC145 in the *IFRS for SMEs* that was issued in

2009. However, while believing that the principle of recognising deferred tax assets and liabilities is appropriate for SMEs, the IASB decided to ask a question in the Invitation to Comment seeking feedback on whether Section 29 (revised) can currently be applied (operationalised) by SMEs, or whether further simplifications or guidance should be considered.

BC58 When aligning the main recognition and measurement requirements for deferred tax in Section 29 with IAS 12, the IASB decided to keep the simplified presentation requirements in Section 29 with one further simplification. The IASB noted that IAS 12 has separate requirements for offsetting deferred tax assets and liabilities to avoid the need for detailed scheduling, whereas under Section 29 the requirements for offsetting deferred tax assets and liabilities are the same as for offsetting current tax assets and liabilities. The IASB therefore decided to add an 'undue cost or effort' exemption to clarify that offsetting income tax assets and liabilities would not be required if significant, detailed scheduling is required. The exemption is intended to provide similar relief to IAS 12 without including the more complex wording used in IAS 12.

BC59 The IASB also decided to keep the same level of disclosures as in the existing Section 29. The existing disclosures were reduced and simplified from the 2009 ED on the basis of user needs and cost-benefits. However, because of the amendments made to the recognition and measurement of deferred tax to align them with IAS 12, the IASB has proposed a number of consequential amendments to the disclosures. In order to provide stability for SMEs, the IASB did not propose to further align the disclosures with IAS 12.

BC60 Most respondents to the RfI also supported incorporating the amendment to IAS 12 (December 2010) *Deferred Tax: Recovery of Underlying Assets* in Section 29. This amendment added a rebuttable presumption that the carrying amount of investment property measured at fair value will be recovered entirely through sale. The IASB agreed with incorporating the 2010 amendment for SMEs for the following two reasons:

(a) many entities applying full IFRSs have adopted the amendments early and found that the rebuttable presumption results in a simplification and reduces subjectivity, ie favourable implementation experience is available; and

(b) if Section 29 is revised to conform it to IAS 12, it makes sense to include all amendments at the same time.

Useful lives of goodwill and other intangibles

BC61 The *IFRS for SMEs* requires goodwill and other intangible assets to be amortised on a systematic basis over their useful lives. The *IFRS for SMEs* further requires that, if an entity is unable to make a reliable estimate of the useful life of an intangible asset, the life shall be presumed to be ten years (see paragraphs 18.20 and 19.23). Since the *IFRS for SMEs* was issued the IASB has received feedback from interested parties that a presumption of ten years is arbitrary and in many cases too long, and also that it causes problems in some jurisdictions if the local law requires a different default useful life. The IASB asked a question in the RfI about whether this requirement in paragraphs 18.20 and 19.23 should be modified to allow the presumption of ten years to be overridden if a shorter period can be justified.

BC62 Some respondents to the RfI were supportive of allowing the presumption of ten years to be overridden if it can be justified rather than continuing to require a fixed ten-year life. For example, many respondents thought that even if the management of the entity is unable to estimate the useful life reliably, it may be clear that the useful life is considerably shorter than ten years. Other respondents would retain the presumption of ten years if an entity is unable to make a reliable estimate of the useful life of goodwill or another intangible asset for simplicity.

BC63 The IASB noted that although a default useful life of ten years is simple, it does not provide users of financial statements with any information about the period over which goodwill or another intangible asset is expected to be available for use. The IASB also noted that requiring management to make a best estimate is unlikely to require additional work because paragraphs 18.20 and 19.23 already require management to assess if a reliable estimate of the life is possible. The IASB also noted that SMEs are required to make best estimates in other sections of the *IFRS for SMEs*. Consequently, the IASB decided to modify paragraphs 18.20 and 19.23 to specify 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 be based on management's best estimate and not exceed ten years. The IASB also decided to add a specific requirement for the useful life of goodwill to be disclosed consistently with the requirements for other intangible assets.

Share subscription receivables

BC64 Paragraph 22.7(a) requires that share subscriptions receivable, and similar receivables that arise when equity instruments are issued before the entity receives the cash for those instruments, must be offset against equity in the statement of financial position. Since the *IFRS for SMEs* was issued some interested parties have told the IASB that the treatment in the *IFRS for SMEs* conflicts with their national laws that require the presentation of the related receivable as an asset. Consequently, the IASB asked a question in the RfI to obtain further views.

BC65 Responses to the RfI were evenly mixed between the following three approaches:

(a) continue to present the subscription receivable as an offset to equity.

(b) either permit or require the subscription receivable to be presented as an asset, with most of those respondents preferring to give SMEs a choice.

(c) neither (a) nor (b). Some of those respondents noted that full IFRSs are silent on this matter and felt that the *IFRS for SMEs* should not stipulate the treatment of transactions on which full IFRSs are silent and that are subject to legal requirements in a number of jurisdictions. Other respondents thought that the subscription receivable should either be presented as an asset or be offset against equity depending on certain criteria.

BC66 The IASB noted that it is not possible for the *IFRS for SMEs* to consider local laws and regulations in individual jurisdictions and that any amendments should be considered under the objectives of the *IFRS for SMEs*. The IASB also noted that although full IFRSs are silent on the matter, paragraph 22.7(a) had been added to the *IFRS for SMEs* in order to provide additional guidance to make the requirements easier to apply. Consequently, the IASB decided that because this additional clarification had already been provided, it was not appropriate to remove it and remain silent without a strong argument for a different approach.

SMEIG Q&As

BC67 One of the key responsibilities of the SMEIG has been to consider implementation questions raised by users of the *IFRS for SMEs* and to develop non-mandatory guidance in the form of questions and answers (Q&As). Seven final Q&As have been published on the IASB's website. This comprehensive review provides an opportunity to consider whether any of the guidance in those Q&As should be incorporated into the *IFRS for SMEs*. In the RfI, the IASB asked for views on how to deal with the existing Q&As during this comprehensive review.

BC68 Most respondents to the RfI supported incorporating the Q&As in the *IFRS for SMEs* or other supporting material and then deleting them. Some respondents thought that the existing Q&As should continue to be maintained separately.

BC69 The IASB decided that existing Q&As should be incorporated into the *IFRS for SMEs* and/or the IFRS Foundation educational material as appropriate and the original Q&As should then be deleted. The IASB decided that the following guidance from the Q&As should be incorporated into the *IFRS for SMEs*:

(a) clarification of the use of the *IFRS for SMEs* in the parent's separate financial statements in Section 1 *Small and Medium-sized Entities* (taken from Q&A 2011/01).

(b) guidance on the 'undue cost or effort' exemption that is used in several sections of the *IFRS for SMEs* (taken from Q&A 2012/01). The IASB's additional reasoning for incorporating this Q&A is explained in paragraphs BC80–BC83.

(c) clarification in paragraph 9.18 that cumulative exchange differences that arise from the translation of a foreign subsidiary are not recognised in profit or loss on the disposal of the subsidiary (taken from Q&A 2012/04).

BC70 The IASB agrees with the SMEIG guidance in paragraph BC69(a)–(c) and also the SMEIG reasoning that supports the guidance as set out in the SMEIG Q&As. The IASB decided that the remaining guidance in the Q&As was more educational in nature and so decided it should only be provided as part of the IFRS Foundation's educational material.

BC71 The result of incorporating any non-mandatory guidance from the Q&As in the *IFRS for SMEs* is that it will become mandatory. Only the parts of the Q&As incorporated in the *IFRS for SMEs* will become mandatory, and not the full Q&As from which the guidance was taken.

BC72 The IASB intends to delete the Q&As when the final amendments to the *IFRS for SMEs* have been published. The IASB noted that since the RfI was issued all Q&As have been incorporated (unamended) into the IFRS Foundation educational material that is available on the IASB website: http://go.ifrs.org/smetraining. Consequently, the guidance from the Q&As will continue to be available on the IASB website after the Q&As are deleted.

Additional issues raised by respondents to the RfI (amendments proposed)

BC73 The additional issues raised by respondents to the RfI for which the IASB has proposed related amendments to the *IFRS for SMEs* are listed in paragraph BC8. The IASB's reasoning for how it has addressed these issues is provided in paragraphs BC74–BC85.

Addition of two 'undue cost or effort' exemptions

BC74 The IASB agreed with respondents who suggested adding 'undue cost or effort' exemptions for the following two requirements in the *IFRS for SMEs*:

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

(b) recognising intangible assets of the acquiree separately in a business combination.

BC75 The IASB noted that the requirements in paragraph BC74(a)–(b) are often very difficult for SMEs to apply in the absence of market data because they involve substantial judgement and complex calculations. The IASB therefore decided that, in these two situations, the benefits to users of SME financial statements of having the information do not justify the SME preparer spending undue cost or effort to provide the necessary fair value information.

Alignment of the definition of related party with full IFRSs

BC76 The IASB agreed with respondents who suggested aligning the definition of a 'related party' with IAS 24 (2009). Those respondents noted that the undefined term 'significant voting power' was causing problems in practice. They also noted that a definition of 'close members of the family of a person' would be helpful.

BC77 The *IFRS for SMEs* was issued before IAS 24 was revised in 2009. However, because the objective of revising IAS 24 was to simplify the definition of a related party and to provide an exemption from the disclosure requirements for some government-related entities, it was decided to base Section 33 *Related Party Disclosures* on the 2008 Exposure Draft (the '2008 ED') *Relationships with the State* (Proposed amendments to IAS 24) so that SMEs could benefit from the simplifications. A few changes were made to the definition of a related party in the 2008 ED when IAS 24 (2009) was issued. In particular, the IASB removed the term 'significant voting power' because it was undefined and created unnecessary complexity. The term is still used in Section 33. Consequently, the

IASB decided to replace the definition of related party in Section 33 with the definition in IAS 24 (2009) and also add a definition of 'close members of the family of a person'.

Common control exemptions

BC78 The IASB agreed with respondents who suggested adding exemptions for the following transactions to align the requirements with full IFRSs:

(a) paragraph 22.8—exemption from initial measurement at fair value for equity instruments issued as part of a business combination of entities or businesses under common control.

The IASB observed that full IFRSs do not contain a general principle like paragraph 22.8 for the initial measurement of equity instruments and that paragraph 22.8 was added to clarify the accounting treatment. The IASB thinks that the clarification is helpful and should be retained. However, the IASB agrees that an exemption should be added to clarify that paragraph 22.8 does not have to be applied for equity instruments issued as part of a business combination of entities or businesses under common control.

The IASB also noted that paragraph 19.11 already provides specific guidance for the accounting for equity instruments that are issued as part of a business combination other than a business combination of entities or businesses under common control. The IASB therefore decided to include an exemption in paragraph 22.8 to cover all business combinations.

(b) paragraph 22.18—exemption for distributions of non-cash assets that are ultimately controlled by the same parties before and after distribution in line with full IFRSs.

The IASB noted that paragraph 22.18 was added to the *IFRS for SMEs* to incorporate the conclusions in IFRIC 17. The IASB agrees it was an oversight not to include the corresponding scope exclusion in paragraph 5 of IFRIC 17.

BC79 The IASB noted that paragraph 10.4 of the accounting policy hierarchy in Section 10 *Accounting Policies, Estimates and Errors* states that if the *IFRS for SMEs* does not specifically address a transaction, an entity's management uses its judgement in developing an accounting policy. Paragraph 10.5 states that the entity considers other guidance in the *IFRS for SMEs* dealing with similar and related issues. Consequently, the IASB observed that by not providing specific requirements for equity instruments issued as part of a business combination of entities or businesses under common control SMEs would still be able to apply paragraphs 19.11 or 22.8 by analogy. Similarly, SMEs would be permitted to apply paragraph 22.18 by analogy to distributions of non-cash assets that are ultimately controlled by the same parties before and after distribution. However, SMEs would also be able to consider other accounting treatments for those transactions, provided that the accounting treatments chosen are applied consistently and comply with the accounting policy hierarchy in paragraphs 10.4–10.5.

Clarification of existing requirements

Clarification of 'undue cost or effort'

BC80 The SMEIG issued a Q&A in 2012 ('Q&A 2012/01'), which provides non-mandatory guidance on applying the 'undue cost or effort' exemption that is used in several sections of the *IFRS for SMEs*. The IASB noted that Q&A 2012/01 already addresses many of the concerns that were raised by respondents to the RfI. However, the IASB also noted that the guidance in Q&A 2012/01 was issued fairly recently and is not mandatory, which may explain why concerns about interpretation of undue cost or effort have still been raised.

BC81 The IASB thinks that the guidance provided in Q&A 2012/01 is helpful and decided to incorporate some of the key points into the *IFRS for SMEs*, thereby making such guidance mandatory (see paragraphs BC68–BC72).

BC82 The IASB also considered whether further guidance should be provided on how to determine the user group for the purposes of the exemption as this was a key concern raised by respondents to the RfI. Q&A 2012/01, paragraph 2 clarifies "*Whether the amount of cost or effort is excessive (undue) necessarily requires consideration of how the economic decisions of the users of the financial statements could be affected by the availability of the information*". However, it does not provide guidance on whether these users should be the SME's own specific user group or a hypothetical broad user group. The IASB agrees with the statement in the Q&A that the undue cost and effort exemption "*depends on the SME's specific circumstances and on management's professional judgement in assessing the costs and benefits*". To remain consistent with this statement the IASB thinks that management should be required to apply judgement to determine who the expected users of the financial statements are. Consequently, the IASB decided to specifically refer to 'expected users' in the guidance to be incorporated in the *IFRS for SMEs* on undue cost or effort.

BC83 The IASB decided not to define undue cost or effort in the glossary or provide further guidance on its interpretation in the *IFRS for SMEs* (except as described in paragraphs BC80–BC82) because, ultimately, application of the exemption depends on the SME's specific circumstances and on management's judgement.

Clarification of other requirements

BC84 The IASB also agreed with the respondents that suggested making the following amendments to the *IFRS for SMEs*. The IASB observed that such amendments clarify existing requirements and would result in a better understanding and application of those requirements:

(a) additional guidance on the preparation of consolidated financial statements if group entities have different reporting dates (see paragraph 9.16).

(b) clarification that foreign currency loans and loans with standard loan covenants will usually be basic financial instruments (see paragraphs 11.9(a) and (c)).

(c) clarification of the measurement requirements for employee benefit arrangements and deferred tax when allocating the cost of a business combination (see paragraph 19.14).

The IASB noted that these are the only two areas where measurement exemptions are necessary under paragraph 19.14 and that SMEs should not assume that they can treat other measures as fair value for other items when allocating the cost of a business combination.

(d) clarification of the accounting requirements for extractive activities (see paragraphs 34.11–34.11A).

BC85 The IASB observed that the amendments in paragraph BC84 are not expected to affect current accounting for these transactions. Consequently, they are unlikely to have a material impact.

Additional issues raised by respondents to the RfI (no amendments proposed)

BC86 The following are the additional issues raised by respondents to the RfI for which the IASB has not proposed amendments to the *IFRS for SMEs* together with the IASB's reasoning:

(a) the revised *Conceptual Framework*—align the objective of financial statements of SMEs and qualitative characteristics of information in financial statements with the revised *Conceptual Framework*.

The IASB decided that the revised *Conceptual Framework* should only be considered after it has been published (see paragraphs BC29–BC32 for the IASB's principles for dealing with new and revised IFRSs).

(b) use of OCI—instances in which items are presented in OCI in the *IFRS for SMEs* are limited and OCI could be removed altogether from the *IFRS for SMEs*.

The IASB noted that it is considering the treatment of OCI as part of its *Conceptual Framework* project, which may result in changes to the requirements relating to OCI under full IFRSs. Since changes may be made as a result, the IASB decided not to reconsider the use of OCI in the *IFRS for SMEs* during this comprehensive review.

(c) additional hedging instruments—the type of hedging instruments permitted is too limited. SMEs should be permitted to designate other types of instruments as hedging instruments under Section 12, for example, options, cash instruments and swaps.

The IASB observed that adding additional requirements to Section 12 to cater for other hedging strategies would add complexity. The IASB also noted that if SMEs want to use other hedging strategies, and have the ability to apply hedge accounting to those strategies, they have the expertise to use the fallback to IAS 39. The IASB also observed that the fact that the *IFRS for SMEs* does not permit certain hedge accounting strategies does not prevent SMEs from using purchased options, or other hedging instruments, to economically hedge risks or from disclosing the effect of doing so. It only prohibits hedge accounting for those transactions.

The IASB also noted that hedge accounting requirements will be reconsidered at a future review of the *IFRS for SMEs* when the IASB considers whether Sections 11 and 12 should be amended for any of the changes under IFRS 9 (see paragraphs BC49–BC54).

(d) accounting for investment property—SMEs should be able to choose to account for their investment property either under a fair value model or a cost model as permitted under IAS 40.

The IASB does not think that SMEs should have the option to account for investment property at cost with no fair value disclosures. Due to the nature of investment property, ie often held for capital appreciation, if reliable fair value information is available to the entity without undue cost or effort, the IASB thinks that it should be made available to users of financial statements. Furthermore, the IASB noted that if fair value information is known or is obtainable for an item of investment property, SMEs may find it easier to account for that item at fair value than use the cost model.

The IASB noted that the current approach is easier to apply than full IFRSs. Under full IFRSs, even if an entity chooses the cost model, IAS 40 requires the disclosure of the fair value of investment property except for items for which fair value cannot be measured reliably. Under the *IFRS for SMEs* an entity is only required to measure the fair value of an item of investment property if it can do so reliably on an ongoing basis without undue cost or effort.

The IASB does not feel that there is a convincing argument to reconsider the current approach in the *IFRS for SMEs*.

(e) guidance for barter transactions—add guidance on barter transactions because they occur frequently for some SMEs.

The IASB thinks that the current guidance in Section 23 *Revenue* is sufficient to address the accounting for barter transactions and decided not to provide further guidance in the *IFRS for SMEs*. The IASB noted that entities are permitted, but not required, to refer to SIC 31 *Revenue—Barter Transactions Involving Advertising Services* for guidance under the accounting policy hierarchy in Section 10.

(f) accounting for biological assets—a cost model should be permitted for biological assets. Alternatively, the IASB should consider the progress on their current project on IAS 41, which may permit a cost model for bearer biological assets. In addition, more guidance should be added on accounting for biological assets.

The IASB does not feel that there is a convincing argument to reconsider the current approach in the *IFRS for SMEs* for biological assets. Furthermore, the IASB also thinks that the level of guidance in the *IFRS for SMEs* is appropriate.

The IASB decided that the current project on IAS 41 should only be considered when a final amendment to IAS 41 has been published (see paragraphs BC29–BC32 for the IASB's principles for dealing with new and revised IFRSs).

The IASB noted that the IFRS Foundation has developed comprehensive free-to-download self-study training material to support the implementation of the *IFRS for SMEs*, which provides SMEs with additional guidance on the accounting for biological assets.

(g) disclosure requirements—consider further ways to reduce the disclosure requirements in the *IFRS for SMEs*.

The IASB noted that respondents to the RfI generally did not provide specific suggestions for simplifying the current disclosures. When developing the *IFRS for SMEs* the IASB spent significant time assessing which disclosures are appropriate for SMEs and the users of their financial statements (as described in paragraphs BC156–BC158 in the *IFRS for SMEs* that was issued in 2009) and does not believe that the current level of disclosures is excessive for SMEs. The IASB also noted that it is currently looking at ways of improving disclosure under full IFRSs. The IASB will consider the outcome of this work at the next review of the *IFRS for SMEs*.

However, during its discussions the IASB noted that most sections of the *IFRS for SMEs* provide relief from prior-year reconciliations of opening and closing balances. The IASB decided to extend this relief to all reconciliations of balances in the *IFRS for SMEs* for consistency.

(h) reduced disclosure framework—consider developing a reduced disclosure framework for subsidiaries of parent entities that apply full IFRSs in their consolidated financial statements.

The IASB noted that any such project would be separate from the *IFRS for SMEs*. Consequently, the IASB agreed not to discuss this issue as part of the comprehensive review of the *IFRS for SMEs.*

(i) size-dependent reliefs—consider adding size-dependent reliefs from some of the requirements in the *IFRS for SMEs*, in particular disclosure requirements.

The IASB noted that the *IFRS for SMEs* is designed for entities that are either required to, or choose to, publish general purpose financial statements for external users. External users such as lenders, vendors, customers, rating agencies and employees need specific types of information but are not in a position to demand tailored reports to meet their particular information needs. They must rely on general purpose financial statements. This is as true for very small entities as it is for larger SMEs. For this reason the IASB decided not to consider size-dependent reliefs.

The IASB also noted that the *Guide for Micro-sized Entities Applying the IFRS for SMEs* was published in June 2013. This guide was developed in response to requests for the IASB to develop guidance both to assist very small entities that currently apply the *IFRS for SMEs* and to make the *IFRS for SMEs* more accessible for those considering applying it in the future.

(j) title of the *IFRS for SMEs*—should be changed to focus on entities within its scope.

The IASB noted that the title of the *IFRS for SMEs* has been discussed at length and no better alternative has been found. Paragraphs BC78–BC79 in the *IFRS for SMEs* that was issued in 2009 set out the IASB's reasoning for using the current title. The title *IFRS for SMEs* is well established and the IASB does not think that the issue should be opened again.

Other issues identified by the IASB

BC87 The IASB identified a number of additional issues independently of the responses to the RfI. Paragraphs BC88–BC92 describe the amendments proposed by the IASB to address those additional issues and also its reasoning for proposing those amendments.

Improvements to existing requirements

BC88 The IASB decided to make the following amendments to the *IFRS for SMEs* to improve the current accounting requirements:

(a) combined financial statements—amendment to the definition of combined financial statements to refer to entities under common control, rather than only those under common control by a single investor (see paragraph 9.28).

The IASB observed that combined financial statements may be prepared for entities controlled by a group of investors, such as a family.

(b) leases with an interest rate variation clause linked to market interest rates—such leases should be included within the scope of Section 20 *Leases*, rather than Section 12 (see paragraph 20.1(e)).

The IASB decided that a lease with an interest rate variation clause linked to market interest rates should be included in Section 20 rather than being accounted for at fair value through profit or loss under Section 12. The IASB noted that such clauses are sometimes found in leases entered into by SMEs. Furthermore the IASB noted that such an embedded risk (embedded derivative) would not normally require separate accounting under full IFRSs.

(c) compound financial instruments—the liability component should be accounted for in the same way as a similar standalone financial liability (see paragraph 22.15)

Paragraph 22.15 currently requires the liability component of a compound financial instrument to be accounted for at amortised cost even if the liability component, had it been a stand-alone instrument, would have been accounted for at fair value through profit or loss under

Section 12. The IASB decided to remove this inconsistency and require the liability component to be accounted for in the same way as a similar standalone financial liability.

(d) scope of Section 26 *Share-based Payment*—Section 26 should be applied to all share-based payment (SBP) transactions in which the identifiable consideration appears to be less than the fair value of the equity instruments granted or liability incurred and not only those required by law (see paragraph 26.17).

Paragraph 26.17 deals with the scenario in which the identifiable consideration received by an entity appears to be less than the fair value of the equity instruments granted or the liability incurred. However, it only addresses government-mandated plans. The IASB noted that in some jurisdictions the issue arises in instances that are not restricted to government mandated plans. Consequently, the IASB decided to specifically state that the guidance applies to all SBP transactions in which the identifiable consideration appears to be less than the fair value of the equity instruments granted or liability incurred and not only to those required by law.

BC89 The IASB observed that the proposals in paragraph BC88 are unlikely to affect the vast majority of SMEs as they relate to rare or complex scenarios.

Clarification of existing requirements

BC90 The IASB decided to make the following amendments to the *IFRS for SMEs*. The IASB thinks that such amendments clarify existing requirements and would result in a better understanding and application of those requirements. For some of the amendments the IASB has provided additional background information below to assist with the understanding:

(a) clarification that the single amount presented for discontinued operations includes any impairment of the discontinued operation measured in accordance with Section 27 *Impairment of Assets* (see paragraph 5.5(e)(ii)). The wording previously referred to 'the measurement to fair value less costs to sell'.

The IASB noted that this amendment is a correction to the wording because Section 27 requires measurement at the lower of cost and recoverable amount, not the lower of cost or fair value less costs to sell. However, the amendment is not expected to have a material impact on SMEs because when an entity expects to recover the carrying amount of the net assets of a discontinued operation through sale and the future cash flows from the remaining use of the discontinued operation are estimated to be negligible, the value in use would approximate fair value less costs to sell (and therefore fair value less costs to sell would approximate recoverable amount).

(b) clarification that all subsidiaries acquired with the intention of sale or disposal within one year should be excluded from consolidation (see paragraphs 9.3–9.3A).

(c) clarification of the interaction of the scope of Sections 11 and 12 with other sections of the *IFRS for SMEs* (see paragraphs 11.7 and 12.3).

(d) clarification in the guidance on fair value measurement in Section 11 that the best evidence of fair value may be a price in a binding sale agreement. The wording used is consistent with paragraph 27.14. The guidance applies to fair value measurements in other sections and not just financial instruments in the scope of Section 11 (see paragraph 11.27).

(e) clarification that some changes in fair value of hedging instruments are recognised initially in other comprehensive income rather than in profit or loss (see paragraph 12.8).

(f) clarification of the requirements for hedge accounting, including adding a sentence that clarifies the treatment for exchange differences relating to a net investment in a foreign operation for consistency with paragraphs 9.18 and 30.13 (see paragraphs 12.23 and 12.25).

(g) replacement of the undefined term 'date of exchange' with 'date of acquisition' (see paragraph 19.11).

(h) guidance on the calculation of non-controlling interest referred to in paragraph 9.13(d)(i) (see paragraph 19.14).

(i) clarification that not all outsourcing arrangements, telecommunication contracts that provide rights to capacity and take-or-pay contracts are, in substance, leases (see paragraph 20.3).

(j) additional guidance on classifying financial instruments as equity or liability (see paragraph 22.3A).

(k) additional guidance on accounting for the settlement of the dividend payable for a distribution of non-cash assets (see paragraph 22.18).

(l) alignment of the scope and the definitions with IFRS 2 *Share-based Payment* to clarify that SBP transactions involving equity instruments of other group entities are within the scope of Section 26 (see paragraphs 26.1–26.1A and the related revisions to definitions in the glossary).

Interested parties have told the IASB that it is not clear that the *IFRS for SMEs* applies to equity instruments of other group entities even though paragraph 26.16 addresses group plans. The IASB noted that the *IFRS for SMEs* was finalised at a similar time to the 2009 amendments to IFRS 2 that clarified the scope of IFRS 2 in relation to group plans. Consequently, the 2009 amendments to IFRS 2 were not available during the drafting of the *IFRS for SMEs*. To address the concerns raised by interested parties, the IASB decided to amend the scope and definitions of Section 26 in line with those in IFRS 2 (after the 2009 amendments) to correct possible unintended consequences of the current wording.

(m) clarification of the accounting treatment of vesting conditions (see paragraph 26.9 and three new definitions in the glossary).

(n) clarification that the requirements for modifications to grants of equity instruments applies to all SBP transactions measured by reference to fair value of equity instruments granted, not just SBP transactions to employees, and also that modifications may or may not be beneficial to the counterparty (see paragraph 26.12).

(o) clarification that the simplification provided for group plans is for the measurement of the SBP expense only and does not provide relief from its recognition (see paragraph 26.16).

(p) clarification that Section 27 does not apply to assets arising from construction contracts (see paragraphs 27.1(f)).

(q) clarification that only some of the accounting requirements in paragraph 28.23 are relevant to other long-term employee benefits (see paragraph 28.30).

(r) removal of the requirement to disclose the accounting policy for termination benefits (see paragraph 28.43).

The IASB decided to remove this requirement because Section 28 *Employee Benefits* does not provide a choice of accounting treatment for termination benefits.

(s) clarification that financial instruments that derive their value from the change in a specified foreign exchange rate are excluded from Section 30 *Foreign Currency Translation*, but not financial instruments denominated in a foreign currency (see paragraph 30.1).

(t) simplification of the wording used in the exemption from restatement of financial information on first time adoption of the *IFRS for SMEs* (see paragraph 35.11).

(u) clarification of glossary items for ‘separate financial statements’ and ‘substantively enacted’.

(v) new glossary items for ‘active market’, ‘foreign operation’, ‘minimum lease payments’ and ‘transaction costs’ as helpful guidance.

BC91 The IASB observed that the amendments in paragraph BC90 clarify existing requirements and are therefore not expected to affect the current accounting for those transactions. Consequently, such amendments are unlikely to have a material impact.

BC92 The amendments listed in paragraph BC90 only affect a few sentences of the *IFRS for SMEs* and most are very minor clarifications.

Transition

Retrospective application of proposed amendments

BC93 The IASB does not expect retrospective application of any of the proposed amendments to be significantly burdensome for SMEs. This is because most of the proposed amendments to the *IFRS for SMEs* provide clarification of existing requirements or relief from existing requirements.

BC94 Aligning the requirements of Section 29 with IAS 12 is the most significant change being proposed to the *IFRS for SMEs*. The IASB noted that because of the additional exemptions included in IAS 12 compared to Section 29, alignment would be expected to result in deferred tax arising on fewer assets and liabilities, and hence require fewer deferred tax calculations. Consequently, the IASB thinks that applying the amendments retrospectively is unlikely to pose a significant burden on SMEs.

BC95 Because of the reasoning provided in paragraphs BC93–BC94 the IASB decided that the amendments to Sections 2–34 in the *IFRS for SMEs* should be applied retrospectively. However, to further support the IASB's initial assessment, the IASB decided to ask in the Invitation to Comment whether there are any circumstances when retrospective application of the proposed amendments may cause significant problems.

Effective date of the proposed amendments

BC96 Paragraph P18 of the Preface to the *IFRS for SMEs* states:

> The IASB expects that there will be a period of at least one year between when amendments to the *IFRS for SMEs* are issued and the effective date of those amendments.

BC97 The IASB does not expect any of the proposed amendments to the *IFRS for SMEs* to result in significant changes for SMEs. Consequently, it decided that the effective date should be set as the first suitable date one year from the date that the amendments are issued.

Early adoption

BC98 The IASB decided that early adoption of the amendments to the *IFRS for SMEs* should be permitted to assist entities and jurisdictions that are currently in the process of adopting, or planning to adopt, the *IFRS for SMEs*. The IASB noted that early adoption would also permit SMEs to use the revised *IFRS for SMEs* for financial statements prepared for earlier years. For example, some SMEs may not be required to file financial statements or may have a significant length of time in order to file them and so they may prepare financial statements well after the year end.

BC99 The IASB further noted that the decision on the effective date and on permitting early adoption are linked and decided to ask a question in the Invitation to Comment to see if respondents support its proposals in BC97 and BC98.

Analysis of the effects of this Exposure Draft

BC100 The IASB is committed to assessing and sharing knowledge about the likely costs of implementing proposed new requirements, and the likely ongoing application costs and benefits of new or revised Standards—the costs and benefits are collectively referred to as 'effects'. Paragraphs BC101–BC102 describe the IASB's analysis of the likely effects that will result from the amendments proposed by this Exposure Draft.

BC101 Apart from the proposed amendments described in paragraph BC102, the IASB's proposals to amend the *IFRS for SMEs* (see the list of proposed amendments at the beginning of this Exposure Draft) are either one or more of the following types:

(a) proposals that align requirements in the *IFRS for SMEs* with full IFRSs, either to incorporate some of the changes in new or revised IFRSs and/or to include clarifying guidance from full IFRSs. The analysis of the likely effects of those amendments was performed under full IFRSs at the time that the full IFRSs were amended.

(b) proposals that clarify existing requirements or remove unintended consequences of the existing wording in the *IFRS for SMEs*. The effect of those amendments will be a better understanding and application of the requirements in the *IFRS for SMEs*.

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

BC102 Four of the IASB's proposals are not covered by paragraphs BC101(a)–(c). The IASB thinks that those proposals are supported by cost-benefit reasons:

(a) amending paragraph 18.20 to specify that if an entity is unable to make a reliable estimate of the useful life of an intangible asset, including goodwill, the useful life should be based on management's best estimate and not exceed ten years. This replaces the requirement to use a fixed ten-year life in the absence of a reliable estimate. Using the best estimate is expected to provide better information for users of financial statements than requiring a fixed ten-year life at no additional cost to preparers (see paragraphs BC61–BC63).

(b) the addition of an undue cost or effort exemption for the following three requirements:

(i) measurement of investments in equity instruments at fair value in Sections 11 and 12 (see paragraphs BC74–BC75);

(ii) recognising intangible assets separately in a business combination (see paragraphs BC74–BC75); and

(iii) measurement of the entity's own equity instruments at fair value when they are issued to a creditor to extinguish a liability (which results from incorporating the conclusions of IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments*; see paragraph BC37).

BC103 The IASB noted that the requirements in paragraph BC102(b)(i)–(iii) are often very difficult for SMEs to apply in the absence of market data because they involve substantial judgement and complex calculations. The IASB therefore decided that, in these three circumstances, the benefits to users of SME financial statements of having the information do not justify the SME preparer spending undue cost or effort.

