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Basis for Conclusions
International Financial Reporting Standard[®] (IFRS[®])
for Small and Medium-sized Entities (SMEs)

2015 Amendments to the IFRS[®] for SMEs

IASB[®]



**2015 Amendments to the Basis for
Conclusions on the International
Financial Reporting Standard for Small
and Medium-sized Entities
(IFRS for SMEs)**

This Basis for Conclusions accompanies *2015 Amendments to the International Financial Reporting Standards (IFRS for SMEs)* (issued May 2015; see separate booklet) and is issued by the International Accounting Standards Board (IASB).

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2015 Amendments to the Basis for Conclusions on the IFRS for SMEs

Paragraph BC1 is renumbered paragraph BC1C and paragraphs BC1A–BC1B and their related heading are added. Paragraphs BC82 and BC165 are amended. Deleted text is struck through and new text is underlined.

Introduction

BC1A This Basis for Conclusions summarises the considerations of the International Accounting Standards Board (IASB) when developing the *International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs)*. Individual Board members gave greater weight to some factors than to others.

BC1B In May 2015 the IASB issued *2015 Amendments to the International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs)*. These amendments are discussed in paragraphs BC166–BC272.

Background

~~BC1~~BC1C In its transition report of December 2000 to the newly formed ~~International Accounting Standards Board (IASB)~~, the outgoing Board of the International Accounting Standards Committee said ‘A demand exists for a special version of International Accounting Standards for Small Enterprises’.

...

BC82 Over 60 per cent of the comment letters that addressed the ‘stand-alone’ issue would eliminate all cross-references to full IFRSs. Another 35 per cent either (a) would keep the number of cross-references to an absolute minimum or (b) were indifferent between having minimal cross-references and removing all cross-references. Also, the working group members recommended that the *IFRS for SMEs* should be a completely stand-alone document. The principal reasons put forward by those recommending a stand-alone IFRS were:

(a) ...

(c) Cross-references cause ‘version control’ issues. For example, if a cross-referenced IAS or IFRS or Interpretation is amended or replaced, should that result in an ‘automatic’ change to the cross-reference? Or does the cross-reference to the earlier version of the IAS or IFRS or Interpretation remain? If there is an automatic change, then this will cause more frequent updates to the *IFRS for SMEs* than ~~every three years as~~ the periodic review planned by the Board. Also it would require SMEs applying cross-references to be aware of all changes to full IFRSs. If the cross-reference to the earlier version of the pronouncement remains, there may be confusion about which version of the Standard should be applied, especially because some cross-referenced paragraphs themselves, either directly or indirectly, refer to paragraphs of other full

IFRSs (see (d) below). Also, the accounting chosen or required by cross-reference will not be comparable with that applied by full IFRS entities. Additionally, if changes to full IFRSs are *de facto* amendments to the *IFRS for SMEs*, SMEs would need to participate in the due process that led to the changes in each IFRS—a burden SMEs generally told the Board they cannot handle (in responses to both the June 2004 discussion paper and the exposure draft).

...

BC165 On balance, the Board found the arguments set out in paragraph BC163 for periodic, rather than contemporaneous, updating of the *IFRS for SMEs* generally persuasive. Accordingly, the Board has decided:

- (a) ~~to undertake a thorough review of SMEs' experience in applying the *IFRS for SMEs* when two years of financial statements using the IFRS have been published by a broad range of entities and, based on that review, to propose amendments to address implementation issues. At that time, the Board will also consider new and amended IFRSs that have been adopted since the *IFRS for SMEs* was issued.~~
- (b) ~~after that initial implementation review, to propose amendments to the *IFRS for SMEs* by publishing an omnibus exposure draft approximately once every three years.~~

Paragraphs P16–P18 of the Preface to the *IFRS for SMEs* explain the Board's plan for maintaining the *IFRS for SMEs*.

Paragraphs BC166–BC272 and their related headings are added.

Initial comprehensive review (2015 Amendments)

Background to the initial comprehensive review

Reasons for undertaking the initial review

BC166 At the time of issuing the *IFRS for SMEs*, the IASB stated its plan to undertake an initial comprehensive review of the *IFRS for SMEs* that would enable it to assess the experience that entities had had in implementing this IFRS and to consider whether there was a need for any amendments. Jurisdictions did not start using the *IFRS for SMEs* on a consistent date. However, by 2010, entities in several jurisdictions had adopted this IFRS. Consequently, the IASB decided to commence its initial comprehensive review in 2012. The IASB also stated that, after the initial review, it expected to consider amendments to the *IFRS for SMEs* approximately once every three years. Paragraph BC264 covers the IASB's discussion about the procedure for future reviews of the *IFRS for SMEs*.

Request for Information (RFI)

BC167 In June 2012 the IASB issued a Request for Information (the 'RFI') as the first step in its initial comprehensive review. The RFI was developed together with the SME Implementation Group (SMEIG). The SMEIG is an advisory body to the IASB

that was set up by the IFRS Foundation in 2010. The objective of the SMEIG is to support the international adoption of the *IFRS for SMEs* and monitor its implementation.

- BC168 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. The IASB received 89 comment letters on the RFI. A detailed summary of the comment letter analysis was provided to SMEIG members at their February 2013 meeting and to IASB members in the agenda papers for its March–May 2013 meetings. These agenda papers are available on the IASB website (www.ifrs.org).

Exposure Draft (2013 ED)

- BC169 In October 2013 the IASB issued an Exposure Draft of proposed amendments to the *IFRS for SMEs* (the ‘2013 ED’). After considering the feedback it had received on the RFI, and taking into consideration the fact that the *IFRS for SMEs* is still a new IFRS, the IASB proposed to only make relatively limited amendments to the *IFRS for SMEs*.
- BC170 In total, the IASB proposed 57 amendments in the 2013 ED. With the exception of the proposed amendments to Section 29 *Income Tax*, each individual amendment only affected a few sentences or words in the *IFRS for SMEs*. Furthermore, most of the proposed amendments were intended to clarify existing requirements or add supporting guidance, instead of proposing changes to the underlying requirements in the *IFRS for SMEs*. Consequently, for most SMEs, the proposals were expected to improve understanding of the existing requirements, without necessarily resulting in changes in practice or changes that would affect the financial statements.
- BC171 The IASB received 57 comment letters on the 2013 ED. A detailed summary of the comment letter analysis was provided to the IASB at its May 2014 meeting and to the SMEIG in July 2014. During March–May 2014, the staff also performed additional user outreach with providers of finance to SMEs to supplement the views it had received from other interested parties on the RFI and the 2013 ED. A summary of this outreach was provided to the IASB in October 2014. These summaries are available in the agenda papers on the IASB website.

SMEIG recommendations

- BC172 In February 2013 the SMEIG met to discuss the comments received on the RFI and to develop a report of recommendations for the IASB on possible amendments to the *IFRS for SMEs*. The report was published on the IASB website in March 2013. In July 2014 the SMEIG also considered the public comments received on the 2013 ED and developed a second report of recommendations for the IASB on the proposals in the 2013 ED. The second report was published on the IASB website in October 2014. All but one of the recommendations that were supported by a majority of SMEIG members in the second report are consistent

with the IASB's decisions during its redeliberations on the 2013 ED. The exception is regarding permitting the revaluation model for property, plant and equipment for which the views of SMEIG members were almost evenly split.

Changes to the proposals in the 2013 ED

BC173 Most respondents to the 2013 ED supported the majority of the changes proposed in the 2013 ED. The following is a summary of the main issues raised by respondents:

- (a) the most common concern was the decision of the IASB not to propose an accounting policy option for the revaluation of property, plant and equipment. Some respondents also expressed concern that the IASB had not proposed options to capitalise development and borrowing costs (see paragraphs BC208–BC214).
- (b) many respondents commented on the IASB's proposed approach for dealing with new and revised IFRSs (see paragraphs BC185–BC207). The following were the most common issues raised:
 - (i) the criteria used for assessing changes to full IFRSs should be clarified.
 - (ii) some respondents said changes to the *IFRS for SMEs* should not be introduced until sufficient implementation experience exists under full IFRSs. In contrast, others said that the *IFRS for SMEs* should be closely aligned with full IFRSs without a long time lag.
 - (iii) to better identify the needs of users of SME financial statements.
 - (iv) the simplifications under IAS 19 *Employee Benefits*, issued in June 2011, should be incorporated during this review.
- (c) many respondents commented on the scope of the *IFRS for SMEs* (see paragraph BC178–BC184 and BC191–BC193). The following were the most common issues raised:
 - (i) the scope should not be restricted to non-publicly accountable entities;
 - (ii) there is a disparity between the scope (all non-publicly accountable entities) and the primary aim of the IASB in developing the *IFRS for SMEs* in the 2013 ED (repeated in paragraph BC187), which is seen to be a focus on smaller/less complex non-publicly accountable entities; and
 - (iii) the *IFRS for SMEs* is too complex for small owner-manager entities.
- (d) most respondents supported aligning Section 29 with IAS 12 *Income Taxes*. However, about half of these respondents also suggested simplifications or modifications to the proposals (see paragraphs BC219–BC223).
- (e) relatively few respondents commented on many of the other proposed amendments in the 2013 ED or had other comments on specific requirements in the *IFRS for SMEs*. However, the IASB redeliberated the following issues, which were the main ones upon which respondents had comments:

- (i) application of ‘undue cost or effort’ (proposed amendment (PA) 3 in the 2013 ED)—see paragraph BC233;
 - (ii) definition of basic financial instruments (PA 14)—see paragraph BC246;
 - (iii) requirements for estimating the useful life of goodwill/other intangible assets (PA 21/26)—see paragraph BC247;
 - (iv) exemption from requirements for offsetting income tax assets and liabilities (PA 45)—see paragraph BC222;
 - (v) consolidation of group entities with different reporting dates (PA 9)—see paragraph BC255(f);
 - (vi) use of undue cost or effort exemption in a business combination (PA 25)—see paragraph BC241;
 - (vii) accounting for extractive activities (PA 49)—see paragraphs BC224–BC226;
 - (viii) grouping items in other comprehensive income (PA 6)—see paragraph BC203;
 - (ix) cumulative exchange differences on the disposal of a subsidiary (PA 10)—see paragraph BC234;
 - (x) disclosure of accounting policy for termination benefits (PA 43)—see paragraph BC253;
 - (xi) subsidiaries acquired and held for sale (PA 8)—see paragraph BC255(e);
 - (xii) distribution of non-cash assets (PA 34)—see paragraph BC239;
 - (xiii) best evidence of fair value (PA 15)—see paragraph BC255(k); and
 - (xiv) classification of spare parts (PA 20)—see paragraph BC205.
- (f) most respondents supported the proposals in the 2013 ED for the transition requirements and the effective date. However, a significant minority thought that there should be relief from full retrospective application for some or all the proposed amendments, in particular for proposed changes to Section 29 (see paragraph BC256–BC263).
- BC174 The result of the IASB’s redeliberations of the issues raised is that three significant changes and ten other changes, excluding minor drafting changes, have been made to the proposals in the 2013 ED.
- BC175 The three significant changes are:
- (a) permitting a revaluation model for property, plant and equipment (see paragraphs BC208–BC212);
 - (b) simplified transition requirements (see paragraphs BC256–BC260); and
 - (c) aligning the main recognition and measurement requirements for exploration and evaluation assets with IFRS 6 *Exploration for and Evaluation of Mineral Resources* (see paragraphs BC224–BC226).

- BC176 The other changes are:
- (a) requiring that for each undue cost or effort exemption in the *IFRS for SMEs*, an SME should disclose when it has used the exemption and its rationale for doing so;
 - (b) requiring investment property measured at cost less accumulated depreciation and impairment to be presented separately on the face of the statement of financial position;
 - (c) adding clarifying guidance on the accounting for a subsidiary acquired with the intention of sale or disposal within one year if the subsidiary is not sold or disposed of during that time frame;
 - (d) permitting an SME to account for investments in subsidiaries, associates and jointly controlled entities in its separate financial statements using the equity method, based on similar changes in *Equity Method in Separate Financial Statements* (Amendments to IAS 27), issued in August 2014;
 - (e) clarifying the criterion for basic financial instruments in paragraph 11.9 of the *IFRS for SMEs* and adding examples of simple loan arrangements meeting that criterion;
 - (f) the addition of the exemption in paragraph 70 of IAS 16 *Property, Plant and Equipment*, which allows an entity to use the cost of the replacement part as an indication of what the cost of the replaced part was at the time that it was acquired or constructed, if it is not practicable to determine the carrying amount of a part of an item of property, plant and equipment that has been replaced;
 - (g) adding an undue cost or effort exemption from the requirement to measure the liability to pay a non-cash dividend at the fair value of the non-cash assets to be distributed;
 - (h) a few further modifications to Section 29, including clarifying the wording in the exemption from the requirements for offsetting income tax assets and liabilities;
 - (i) amending the definition of a related party to include a management entity providing key management personnel services, based on similar changes in *Annual Improvements to IFRSs 2010–2012 Cycle*, issued in December 2013; and
 - (j) not modifying the definition of a financial liability as proposed in the 2013 ED to incorporate *Classification of Rights Issues* (Amendments to IAS 32), issued in October 2009.
- BC177 Paragraphs BC178–BC234 and BC264 cover the IASB’s discussion about the main issues identified during the comprehensive review and how they were resolved. Paragraphs BC235–BC255 list all the changes made to the *IFRS for SMEs* and provide the IASB’s rationale for making those changes to the extent the explanation is not already covered in BC178–BC234. Paragraphs BC256–BC263 explain the IASB’s considerations in setting the transition requirements and the effective date. Paragraphs BC265–BC272 provide an analysis of the likely effects of the amendments.

Main issues identified during the initial comprehensive review

Scope of the *IFRS for SMEs*

- BC178 The IASB first addressed the issues relating to the 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 to the *IFRS for SMEs* should be made.

Use of the IFRS for SMEs by publicly accountable entities

- BC179 Some respondents to the RFI and the 2013 ED said that the scope should not be restricted to non-publicly accountable entities. Consequently, the IASB considered whether paragraph 1.5 of the *IFRS for SMEs* is too restrictive and whether jurisdictions should have the authority to decide whether publicly accountable entities should be able to use and state compliance with the *IFRS for SMEs*.
- BC180 The IASB observed that the *IFRS for SMEs* was specifically designed for SMEs and users of SME financial statements and so it may not be appropriate 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 address issues that may arise from that wider group, which would increase the complexity of the *IFRS for SMEs*. The IASB also had concerns about the risks associated with the 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 of the *IFRS for SMEs*. A majority of IFRS Advisory Council and SMEIG members shared the IASB's concerns and recommended keeping the requirement in paragraph 1.5 that prevents publicly accountable entities from stating compliance with the *IFRS for SMEs*.
- BC181 After considering the responses to the 2013 ED, the IASB decided that there was no new information that would lead the IASB to reconsider its previous decision. Consequently, it decided to keep paragraph 1.5 of the *IFRS for SMEs*. The IASB 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*.

Meaning of fiduciary capacity

- BC182 Some respondents to the RFI said that the meaning of 'fiduciary capacity' in the definition of public accountability is unclear, because it is a term that has different implications in different jurisdictions. However, respondents generally did not suggest alternative ways of describing public accountability or indicate what guidance would help to clarify the meaning of fiduciary capacity. Consequently, the IASB asked a question in the 2013 ED to find out more information about the concerns raised.
- BC183 Most respondents to the 2013 ED said that there is no need to clarify or replace the term fiduciary capacity. However, a few respondents noted that the term had created uncertainty on the implementation of the *IFRS for SMEs* in their jurisdictions. The IASB observed that it would be difficult to provide a definition

of the term fiduciary capacity and/or provide guidance that would be applicable in all jurisdictions applying the *IFRS for SMEs* because of the different legal requirements and types of entities in different jurisdictions. Furthermore, the IASB noted that local legislative and regulatory authorities, and standard-setters in individual jurisdictions, may be best placed to identify the kinds of entities in their jurisdiction that hold assets in a fiduciary capacity for a broad group of outsiders as a primary business. By this, the IASB does not mean that those authorities and standard-setters are best placed to choose which entities in their jurisdiction meet the criterion in paragraph 1.3(b) of the *IFRS for SMEs*. Instead, the IASB's intention was to ensure that the definition in paragraph 1.3 is applied consistently in accordance with the intended scope of the *IFRS for SMEs* in their jurisdiction. Furthermore, the IASB noted that those local authorities and standard-setters are also best placed to decide whether other factors may mean that, in their jurisdiction, full IFRSs may be more suitable for certain SMEs than the *IFRS for SMEs*. Consequently, the IASB decided not to provide guidance on applying the term fiduciary capacity.

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

- BC184 Some interested parties have asked whether soliciting and accepting contributions would automatically make a not-for-profit (NFP) entity publicly accountable, because such an activity involves the entity holding financial resources entrusted to it by clients. The IASB noted that an entity only has public accountability if it meets the criteria in paragraph 1.3 of the *IFRS for SMEs*. 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.

New and revised IFRSs

Introduction

- BC185 The *IFRS for SMEs* was developed using full IFRSs as a starting point and then considering what modifications are appropriate in the light of the needs of users of SME financial statements and cost-benefit considerations (see paragraphs BC95–BC97). 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 issued after the *IFRS for SMEs* was issued in 2009—in particular, how to balance the importance of maintaining alignment with full IFRSs with having a stable, independent and stand-alone IFRS that focuses on the needs of SMEs.
- BC186 Respondents to the RFI and the 2013 ED were divided on how 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 noted 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 IFRS 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 IFRS tailored for smaller businesses. Those respondents said that maintaining alignment with full IFRSs is less important and also that it is more important to have 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

- BC187 The IASB observed that the primary aim when developing the *IFRS for SMEs* was to provide a stand-alone, 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 it.
- BC188 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 issued. However, it would generally not be necessary to wait until their Post-implementation Reviews (PIRs) 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 issued. However, the *IFRS for SMEs* would only be updated for those changes at the next periodic review of the *IFRS for SMEs*, in order to provide a stable platform for SMEs.
- BC189 The IASB further observed that, when applying the principles in paragraph BC188, 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 at the periodic review following the issue

of new or revised IFRSs instead of automatically waiting until there is substantial experience from entities who have applied a new or revised IFRS or until a PIR on an IFRS has taken place.

- BC190 The IASB decided that new and revised IFRSs should not be considered until they have been issued. This is because, until a final IFRS is issued, the IASB's views are always tentative and subject to change.
- BC191 Some respondents to the 2013 ED expressed concern that the IASB's primary aim in developing the *IFRS for SMEs*, as set out in paragraph BC187, means that the reporting needs of 'large', complex non-publicly accountable entities are not effectively addressed. The IASB agreed that the *IFRS for SMEs* is intended for all SMEs, which are defined to be those entities that do not have public accountability that are required, or elect, to publish general purpose financial statements for external users. The IASB noted that its reasons for developing an IFRS intended for all SMEs are explained in paragraphs BC55–BC77. Nevertheless, the IASB observed that when deciding on the content of the *IFRS for SMEs*, the primary aim of the IASB was to focus on the kinds of transactions, events and conditions encountered by typical SMEs that are likely to apply the *IFRS for SMEs*. If the IASB had tried to cater for all possible transactions that SMEs may enter into, the *IFRS for SMEs* would have had to retain most of the content of full IFRSs. In particular, the IASB bore in mind that many SMEs have limited resources, and that the *IFRS for SMEs* should accommodate that limitation. Conversely, entities with more complex transactions and activities, including SMEs, are likely to have more sophisticated systems and greater resources to manage those transactions.
- BC192 If an SME has very complex transactions or determines that comparability with its publicly accountable peers is of key importance to its business, the IASB observed that it would expect that the entity would want to, and have sufficient expertise to, either refer to the more detailed guidance on complex transactions in full IFRSs if specific guidance is not provided in the *IFRS for SMEs* (see paragraph 10.6) or apply full IFRSs instead of the *IFRS for SMEs*. Paragraphs BC69–BC70 explain why it is not possible for the IASB to set additional criteria that would be appropriate across all jurisdictions for entities that may find full IFRSs more appropriate to their needs. However, jurisdictions may choose to establish size criteria or decide that entities that are economically significant in that country should be required to use full IFRSs instead of the *IFRS for SMEs*.
- BC193 Some respondents to the 2013 ED said that the *IFRS for SMEs* was too complex for owner-managed entities. The IASB noted that the *IFRS for SMEs* is intended for entities that choose, or are required, to publish general purpose financial statements. General purpose financial statements are those directed to the general financial information needs of a wide range of users who are not in a position to demand reports tailored to meet their particular information needs. The Preface to the *IFRS for SMEs* explains that SMEs often produce financial statements only for the use of owner-managers or only for the use of tax authorities or other governmental authorities, and that financial statements produced solely for those purposes are not necessarily general purpose financial statements. The IASB noted that the *IFRS for SMEs* is not intended for small owner-managed entities preparing financial statements solely for tax reasons or

to comply with local laws. However, small owner-managed entities may still find the *IFRS for SMEs* helpful in preparing such financial statements.

- BC194 Some respondents to the 2013 ED said that the IASB should establish a formal framework or clearer principles to determine whether and when changes to full IFRSs should be incorporated in the *IFRS for SMEs*. These respondents noted that the principles developed by the IASB in paragraph BC188 are not robust enough and/or do not help interested parties to predict when changes to full IFRSs will be considered. Some respondents provided suggestions that they thought would improve the criteria. The IASB noted that there are special considerations applicable to this initial review of the *IFRS for SMEs*, which led the IASB to place greater emphasis on the need for limiting changes. However, the IASB will discuss to what extent a more developed framework for future reviews of the *IFRS for SMEs* should be established before the next periodic review of the *IFRS for SMEs*.
- BC195 Some respondents to the 2013 ED said that they found it difficult to understand the conceptual basis for differences between the *IFRS for SMEs* and full IFRSs and that the IASB should clearly identify the needs of users of SME financial statements. The IASB noted that this Basis for Conclusions is clear on both of these points. In particular:
- (a) paragraph BC95 notes that the *IFRS for SMEs* was developed by considering the modifications that are appropriate to full IFRSs in the light of users' needs and cost-benefit considerations; and
 - (b) paragraphs BC44–BC47 and BC157 describe the needs of users of SME financial statements and explain how they differ from the needs of users of financial statements of publicly accountable entities.
- BC196 Some respondents to the 2013 ED said that if cost-benefit considerations are a major driver of the differences between the *IFRS for SMEs* and full IFRSs, public accountability is not an appropriate criterion. The IASB agrees that the related costs of publicly and non-publicly accountable entities may not differ significantly. However, it noted that the 'benefits' side of the cost-benefit trade-off considers the different information needs of different financial statement users as explained in paragraphs BC44–BC47.

Individual new and revised IFRSs during the current review

- BC197 The IASB considered how to deal with individual new and revised IFRSs during this comprehensive review in the light of the principles in paragraph BC188. The IASB observed that this comprehensive review is subject to additional considerations compared to future reviews, because it 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 jurisdictions that have adopted it, it has been effective for a shorter period of time. In addition, in jurisdictions that permit, instead of require, the *IFRS for SMEs*, many SMEs have only 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 IFRS. For these reasons, the IASB decided that there is a greater need for stability during this initial review than there may be in future reviews. A

majority of IFRS Advisory Council members also recommended prioritising the need to provide SMEs with a stable, independent and stand-alone IFRS over maximising alignment with full IFRSs.

IFRS 3 (2008), IFRS 10, IFRS 11, IFRS 13 and IAS 19 (2011)

BC198 The IASB first considered how to propose to address the five new or revised IFRSs in the 2013 ED that the IASB believed had the potential to result in the most significant changes to the *IFRS for SMEs*, namely IFRS 3 (2008) *Business Combinations*, IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements*, IFRS 13 *Fair Value Measurement* and IAS 19 (2011). During development of the 2013 ED, 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 other comprehensive income. As part of its *Conceptual Framework* project, the IASB is currently considering its treatment of other comprehensive income and this may result in changes to the requirements relating to other comprehensive income 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 other comprehensive income 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) *Business Combinations*) 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 BC197, the IASB decided not to amend the *IFRS for SMEs* during this initial review to incorporate IFRS 3 (2008), IFRS 10, IFRS 11, IFRS 13 and IAS 19 (2011).

BC199 Apart from those that support full alignment with full IFRSs (see paragraph BC186), very few respondents to the 2013 ED had specific comments on the IASB's decision not to incorporate IFRS 3 (2008), IFRS 10, IFRS 11 and IFRS 13. In contrast, several respondents said that the IASB should reconsider its decision not to incorporate some of the changes introduced by IAS 19 (2011) during this comprehensive review. Those respondents asserted that some of the changes introduced by IAS 19 (2011) would simplify the requirements in the *IFRS for SMEs* while at the same time increasing consistency with full IFRSs.

BC200 The IASB observed that the new and revised IFRSs that are being incorporated during this review would only make minimal changes to the *IFRS for SMEs* for the majority of SMEs (see paragraphs BC201–BC207). This would not be the case for IAS 19 (2011). Furthermore, the IASB did not think that it would be appropriate to incorporate only one or two of the changes made by IAS 19 (2011), for example, those that may provide a simplification for SMEs such as the basis of the calculation of net interest, without considering the other changes. Section 28 *Employee Benefits* is currently based on IAS 19 before it was amended in 2011. Incorporating only one or two of the changes introduced by IAS 19 (2011) risks developing a mixed model of the old and new IAS 19 for employee benefits. The IASB noted that this could lead to confusion and result in inconsistencies in the *IFRS for SMEs*.

Other new and revised IFRSs issued before the 2013 ED was published

BC201 The IASB then considered how to propose to address other changes introduced by other new and revised IFRSs in the 2013 ED. 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) *Presentation of Items of Other Comprehensive Income* (Amendments to IAS 1), issued in June 2011;
- (b) IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments*, issued in November 2009; and
- (c) 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*, issued in December 2010; and
 - (ii) *Government Loans*, issued in March 2012.

BC202 The IASB selected the new and revised IFRSs specified in paragraph BC201 based on selecting changes that are relevant to SMEs; provide additional clarity or a simplification, and/or fix known or expected problems or diversity in practice. Furthermore, the IASB noted that each of the new or revised IFRSs listed in paragraph BC201 is likely to only 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*. When incorporating the main changes in these new and revised IFRSs the IASB also decided to make two further changes:

- (a) to complement the changes made regarding the presentation of items of other comprehensive income, the IASB decided to clarify that the *IFRS for SMEs* does not prescribe how, when or if amounts can be transferred between components of equity (see paragraph 2.22 of the *IFRS for SMEs*).
- (b) the IASB noted that the measurement of unquoted equity instruments is often very difficult for SMEs because it involves substantial judgement and complex calculations. The IASB also observed that it would usually expect that the benefits to users of an SME's financial statements of having fair value information about the SME's equity instruments would

not justify the SME spending undue cost or effort to provide the information. Consequently, the IASB decided to include an undue cost or effort exemption from the requirement to measure own equity instruments at fair value in IFRIC 19, but to otherwise align the requirements with IFRIC 19.

- BC203 Some respondents to the 2013 ED noted that they did not think the change in paragraph BC201(a) was useful for users of SME financial statements, because of the limited circumstances in which items are recognised in other comprehensive income under the *IFRS for SMEs*. These respondents also asserted that incorporating this amendment was inconsistent with the IASB's decision during development of the 2013 ED not to reconsider the use of other comprehensive income during this comprehensive review, because it is considering the treatment of other comprehensive income as part of its *Conceptual Framework* project. However, the IASB observed that the grouping of items of other comprehensive income would be easy for SMEs to apply and the resulting information would have useful predictive value. Consequently, it decided that the change is appropriate for cost-benefit reasons. The IASB also noted that its decision to include an option for SMEs to apply a revaluation model for property, plant and equipment (see paragraph BC210-BC212) will mean that more SMEs may have one or more items recognised in other comprehensive income.
- BC204 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 May 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 May 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).
- BC205 Some respondents to the 2013 ED said that the cost and effort of monitoring and tracking the individual spare parts, stand-by equipment and servicing equipment as either property, plant and equipment or inventory (in paragraph BC204(b)(ii)) would not justify the benefits to users of SME financial statements. The IASB observed that the change only clarifies what has always been required by Section 17 *Property, Plant and Equipment*. The IASB also thinks that the changes to the wording in paragraph 17.5 of the *IFRS for SMEs* make the requirements easier to understand.

New and revised IFRSs issued since the 2013 ED was published

BC206 The IASB observed that during reviews of the *IFRS for SMEs*, it would generally consider only new and revised IFRSs published after the related Exposure Draft of proposed amendments to the *IFRS for SMEs* has been issued if they address an urgent need for SMEs or users of their financial statements. This is because if the IASB makes fundamental changes to the proposals in an Exposure Draft, on which respondents have not had the opportunity to comment, this would probably result in the need to re-expose the proposals. By the end of the re-exposure period there would be another list of new and revised IFRSs to consider. On this basis, the IASB noted that it would make only two changes as a result of new and revised IFRSs issued since the 2013 ED was published:

- (a) the amendment to the definition of a related party for a management entity providing key management personnel services in *Annual Improvements to IFRSs 2010–2012 Cycle*. The IASB noted that the 2013 ED proposed to align the definition of a related party with IAS 24 *Related Party Transactions* during this comprehensive review and this minor change would allow full alignment.
- (b) the main change under *Equity Method in Separate Financial Statements* (Amendments to IAS 27), ie permitting entities to use the equity method to account for subsidiaries, associates and jointly controlled entities in the separate financial statements. The IASB noted that this change would not affect an SME's primary financial statements and that the *IFRS for SMEs* does not require the preparation of separate financial statements. Consequently, the IASB decided to permit SMEs this flexibility if they prepare such additional financial statements.

BC207 Some respondents to the 2013 ED said that it was important for the IASB to consider *Agriculture: Bearer Plants* (Amendments to IAS 16 and IAS 41), issued in June 2014, that permits a cost model for bearer plants, a subset of biological assets, during this comprehensive review. However, the IASB noted that the *IFRS for SMEs* only requires an entity to account for a biological asset using the fair value model if its fair value is readily determinable without undue cost or effort. The amendments to IAS 16 and IAS 41 responded to concerns raised by some plantation companies that, under certain circumstances, the fair value measurements of bearer plants are complex and costly in the absence of active markets for those assets. In the circumstances in which this is the case, the IASB noted that the undue cost or effort exemption should be considered by SMEs. Consequently, the IASB does not think that there is an urgent need to make an exemption to incorporate the changes under *Agriculture: Bearer Plants* (Amendments to IAS 16 and IAS 41) during this comprehensive review.

Accounting policy options

BC208 The IASB noted that users of SME financial statements that need to understand the accounting policies used, and that make comparisons between different SMEs, have said that they prefer SMEs to have no, or only limited, accounting policy options. Furthermore, the IASB noted that while SMEs could still choose to apply the simpler option, adding complex options to the *IFRS for SMEs* would add complexity throughout the IFRS. Consequently the IASB continues to

support its original reasons for restricting accounting policy options in the *IFRS for SMEs* as set out in paragraphs BC89–BC94.

- BC209 The staff's outreach to providers of finance, who are considered to be the primary external user group of SMEs, confirmed the importance to that user group of restricting accounting policy options for SMEs. The participants in the outreach noted that they generally input the information from the audited financial statements of an SME directly into their models when making lending decisions. Consequently, it is important to these parties that SMEs should provide comparable information and that they do not need to make adjustments to that information.

Revaluation model for property, plant and equipment

- BC210 The most common concern raised by respondents to the 2013 ED was the decision of the IASB not to propose an accounting policy option for the revaluation of property, plant and equipment. The IASB has received feedback from preparers, standard-setters, accounting firms and other interested parties that not having a revaluation option is a barrier to the adoption of the *IFRS for SMEs* in jurisdictions in which SMEs commonly revalue their property, plant and equipment and/or are required by law to revalue property, plant and equipment. 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 implications for current borrowing arrangements and affect their ability to raise finance in the future. Furthermore, some respondents have noted that a revaluation option is important in jurisdictions that are experiencing high inflation. Approximately half of the members of the SMEIG also recommended that the IASB should reconsider its proposal not to permit a revaluation model for property, plant and equipment.
- BC211 During its redeliberations on the 2013 ED, and in the light of the ongoing and widespread concerns raised by respondents, the IASB decided to permit an option for SMEs to revalue property, plant and equipment. Although the IASB thinks that limiting options is important for the reasons given in paragraphs BC208–BC209, it acknowledges that, based on the responses to the RFI and the 2013 ED, not allowing a revaluation model for property, plant and equipment appears to be the single biggest impediment to adoption of the *IFRS for SMEs* in some jurisdictions. The IASB also agreed with those respondents who stated that current value information is potentially more useful than historical cost information. The IASB therefore decided that the benefits of a wider use of the *IFRS for SMEs*, and hence the potential for global improvements in reporting and consistency, together with the usefulness of the information provided, outweigh the perceived costs to users and preparers of financial statements of adding this option. Furthermore, the IASB noted that the change introduces only an option, not a requirement. Consequently, it does not necessitate a change or additional costs for preparers. The IASB also noted that there was nothing to prevent authorities and standard-setters in individual jurisdictions from requiring all SMEs in their jurisdiction to use only the cost model, or only the revaluation model for property, plant and equipment. Such action would not prevent SMEs from stating compliance with the *IFRS for SMEs*.

BC212 Consistently with full IFRSs, the *IFRS for SMEs* does not generally prescribe how, when or if amounts can be transferred between components of equity (see paragraph BC202(a)). Instead, these decisions are left to the discretion of preparers, subject to the constraints imposed by Section 2 *Concepts and Pervasive Principles*. Section 2 requires that the information presented must be understandable, relevant and reliable. The IASB noted that, in certain circumstances, it may be appropriate to transfer all or some of the accumulated other comprehensive income from the revaluation surplus for property, plant and equipment directly to retained income or another component of equity. The IASB also noted that in other circumstances, such transfers may be mandated or prohibited by local legislation. Consequently, consistently with the requirements for other elements of accumulated other comprehensive income, when adding an option to use the revaluation model for property, plant and equipment, the IASB decided not to prescribe how, when or if items of accumulated other comprehensive income should be transferred to other components of equity.

Capitalisation of development or borrowing costs

BC213 Only a small number of respondents to the RFI and the 2013 ED supported a requirement for SMEs to capitalise development and/or borrowing costs based on similar criteria to full IFRSs. However, several respondents supported giving SMEs an option to capitalise development and borrowing costs based on similar criteria to full IFRSs. They supported introducing this option for reasons similar to those expressed by respondents in paragraph BC210, ie the effect on current and future borrowing arrangements and high-inflation environments. However, many respondents did not support changing the current requirements and would continue to require SMEs to expense all development and borrowing costs.

BC214 The *IFRS for SMEs* requires all borrowing and development costs to be recognised as expenses. Full IFRSs requires the capitalisation of borrowing and development costs meeting certain criteria; otherwise they are recognised as expenses. Consequently, the *IFRS for SMEs* simplifies the requirements in full IFRSs, instead of removing an option permitted in full IFRSs. The IASB therefore noted that allowing options to capitalise certain development and borrowing costs would involve different considerations than allowing a revaluation option for property, plant and equipment. In particular 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, in addition to the current approach, would result in more accounting policy options than full IFRSs. The IASB noted that it continues to support its rationale for requiring the recognition of all development and borrowing costs as expenses, for cost-benefit reasons as set out in paragraphs BC113–BC114 and BC120, and for not providing the additional, more complex, accounting policy options for SMEs as set out in paragraphs BC208–BC209. The IASB noted that an SME should disclose additional information about its borrowing or development costs if it is considered relevant to users of its financial statements.

Optional fallback to full IFRSs for financial instruments

BC215 The *IFRS for SMEs* permits entities to choose to apply either (see paragraph 11.2 of the *IFRS for SMEs*):

- (a) the provisions of both Sections 11 and 12 in full; or
- (b) the recognition and measurement provisions of IAS 39 *Financial Instruments: Recognition and Measurement* 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 *Financial Instruments*.

BC216 Paragraphs BC187–BC196 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 when developing the 2013 ED because, at that time, it had not yet been completed. In addition, the IASB’s reasoning for not considering changes to full IFRSs after the 2013 ED had been issued is set out in paragraphs BC206–BC207. The IASB noted that its reasoning for not considering IFRS 10, IFRS 11, IFRS 12 and IFRS 13 during this review (see paragraph BC198) is equally applicable to IFRS 9.

BC217 Consistently with the primary aim of developing a stand-alone, 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 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 until IFRS 9 is considered (see paragraph BC106).
- (b) if entities are currently applying IAS 39, the IASB does not think that it is appropriate to require them to change to Sections 11 and 12 when it is expected that IFRS 9 will be considered at the next review of the *IFRS for SMEs*.
- (c) the IASB notes that, based on its outreach, most SMEs, except subsidiaries of full IFRS groups, appear to have found the fallback to full IFRSs onerous and have chosen to follow Sections 11 and 12 in full. However, without sufficient evidence, the IASB does not think that the fallback to full IFRSs should be removed during this comprehensive review.

The IASB discussed introducing a fallback to IFRS 9 as a further (third) option. This was rejected because the IASB considered that the potential confusion created by having three alternative models outweighed any potential benefits.

BC218 The IASB noted that an SME that elects to follow the recognition and measurement principles of IAS 39, instead of those in Sections 11 and 12, would currently apply the version of IAS 39 in the full IFRS publication titled *International Financial Reporting Standards IFRS[®] Consolidated without early application* (Blue Book) that is in effect at the entity’s reporting date (ie without early

application of parts of IFRS 9). The IASB also observed that when IAS 39 is superseded by IFRS 9, a copy of the version of IAS 39 that applied immediately prior to IFRS 9 will need to be retained for reference on the SME webpages of the IASB's website while the fallback to IAS 39 remains.

Accounting for income tax

- BC219 When the *IFRS for SMEs* was issued in 2009, Section 29 was based on the IASB's Exposure Draft *Income Tax* (the '2009 IAS 12 ED'), which was published in March 2009. However, the changes proposed in the 2009 IAS 12 ED were never finalised by the IASB. Consequently, the IASB decided to align the main 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*. The IASB noted that most of the respondents to the RFI supported this approach. The IASB also 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 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 as set out in paragraph BC145 for not permitting the taxes payable approach. However, while believing that the principle of recognising deferred tax assets and liabilities is appropriate for SMEs, the IASB asked a question in the 2013 ED seeking feedback on whether Section 29 (revised) in the 2013 ED would be operational for SMEs, or whether further simplifications or guidance should be considered.
- BC220 Some of the respondents to the 2013 ED supported having an undue cost or effort exemption for some or all of the requirements of Section 29 (revised). However, those respondents who suggested having an undue cost or effort exemption for some requirements of Section 29 (revised) did not identify which requirements should qualify for exemption. Furthermore, the only simplified fallback solution suggested that could be applied if an undue cost or effort exemption was used was the taxes payable approach with disclosures. The IASB decided not to consider such an exemption because it thinks that most SMEs will have similar types of transactions year on year. The IASB noted that once those SMEs understand the deferred tax computations for those transactions, the accounting treatment should be relatively straightforward from then on.
- BC221 Some respondents supported including additional material from IAS 12. In response to some of the concerns raised, the IASB decided to add paragraph 29.21(c) to the *IFRS for SMEs* and modify paragraphs 29.30 and 29.40(c).
- BC222 The IASB decided to keep the simplified presentation requirements in the existing 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 so 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. In response to concerns that the exemption proposed in the 2013 ED was unclear, the IASB clarified the wording in the final amendments.

- BC223 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 IAS 12 ED on the basis of user needs and cost-benefits. However, because of the amendments to align the recognition and measurement requirements with IAS 12, the IASB has made a number of consequential amendments to the disclosures.

Exploration for and evaluation of mineral resources

- BC224 The 2013 ED proposed to describe more clearly the accounting requirements for entities involved in the exploration for, or evaluation of, mineral resources in response to requests by respondents to the RFI. However, some respondents to the 2013 ED asserted that the proposed requirements were more onerous than the related requirements in full IFRSs. These respondents noted that paragraph 7 of IFRS 6 *Exploration for and Evaluation of Mineral Resources* exempts an entity under full IFRSs from paragraphs 11–12 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* when developing accounting policies for the recognition and measurement of exploration and evaluation assets. These respondents observed that paragraph 34.11 of the 2013 ED would require an entity to determine an accounting policy in accordance with the accounting policy hierarchy in paragraphs 10.4–10.6 of the *IFRS for SMEs*, which would require an entity to consider the concepts and principles in Section 2. Respondents suggested providing a similar exemption to that in full IFRSs in paragraph 34.11. In addition, a few respondents also said that specific guidance should be provided for the accounting for impairment of exploration and evaluation assets, instead of requiring entities to follow the general requirements in Section 27 *Impairment of Assets*. Those respondents asserted that developing specific guidance for the impairment of exploration and evaluation assets was an important issue in IFRS 6.
- BC225 Some respondents said that permitting a fallback to IFRS 6 would be a good solution to address those concerns. However, the IASB noted that the *IFRS for SMEs* is intended to be a stand-alone IFRS and so it did not support introducing another fallback to full IFRSs (see paragraph BC217). Consequently, the IASB decided to add requirements in Section 34 that align the main recognition and measurement requirements for exploration and evaluation assets with IFRS 6. The IASB noted that this would ensure that the *IFRS for SMEs* provides the same relief as full IFRSs for these activities. The IASB thinks that this is important for the reasons set out in paragraphs BC2–BC5 of IFRS 6. The IASB noted that these changes are consistent with maintaining stability during the early years of implementing the *IFRS for SMEs*, because they only affect SMEs with one specific type of activity and they respond to a need for clarity and constitute a simplification for those entities, particularly those making the transition to the *IFRS for SMEs*.
- BC226 However, the IASB decided not to make any changes to the presentation and disclosure requirements. It noted that it is not possible for the *IFRS for SMEs* to

include industry-specific disclosures for different industries and remain user-friendly for simple SMEs. Nevertheless, it noted that when additional disclosures are important to an understanding of specific industry activities, paragraph 8.2(c) of the *IFRS for SMEs* would apply.

SMEIG Q&As

- BC227 The IASB decided that existing Q&As should be incorporated into the *IFRS for SMEs* and/or the IFRS Foundation's educational material 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) clarifying 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); and
 - (c) clarification in paragraph 9.18 of the *IFRS for SMEs* 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).
- BC228 The IASB agrees with the SMEIG guidance in paragraph BC227(a)–(c) and also the SMEIG's reasoning that supports the guidance as set out in the SMEIG Q&As. The IASB has provided additional reasoning for paragraph BC227(b)–(c) in paragraphs BC231–BC235. The IASB decided that the remaining guidance in the SMEIG Q&As was more educational in nature and so decided that it should only be provided as part of the IFRS Foundation's educational material.
- BC229 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.
- BC230 The IASB decided to delete all of the existing SMEIG Q&As at the time of issuing the amendments to the *IFRS for SMEs*. All Q&As have been incorporated (unamended) into the IFRS Foundation's 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.

Undue cost or effort

- BC231 Paragraphs 2.13 and 2.14 of the *IFRS for SMEs* highlight the balance between benefits and costs, and state the general principle to which the IASB refers in making its standard-setting decisions. The requirements within the *IFRS for SMEs* have been developed by taking into consideration the balance between benefits and costs. In addition to this consideration, the *IFRS for SMEs* also allows an undue cost or effort exemption in certain specific and defined circumstances. The IASB noted that some interested parties appear to have misunderstood the undue cost or effort exemption, and that these interested parties have concluded that it is a general principle/exemption that can be applied throughout the

IFRS for SMEs. Consequently, the IASB decided that including additional guidance on applying the undue cost or effort exemptions will help to eliminate this misconception.

BC232 The IASB also thinks that the clarifying guidance will help to emphasise two further points:

- (a) that the undue cost or effort exemption is not intended to be a low hurdle. This is because an entity is required to carefully weigh the expected effects of applying the exemption on the users of the financial statements against the cost or effort of complying with the related requirement. In particular, the IASB observed that it would expect that if an entity already had, or could easily and inexpensively acquire, the information necessary to comply with a requirement, any related undue cost or effort exemption would not be applicable. This is because, in that case, the benefits to the users of the financial statements of having the information would be expected to exceed any further cost or effort by the entity.
- (b) that an entity must make a new assessment of whether a requirement will involve undue cost or effort at each reporting date.

BC233 Some respondents to the 2013 ED asked for further guidance and/or a definition of undue cost or effort. The IASB decided that it was not appropriate to provide further guidance in the *IFRS for SMEs* because, ultimately, application of an undue cost or effort exemption depends on an SME's specific circumstances and on management's judgement. The IASB also noted that the terms 'undue cost' and 'undue cost or effort' are used in full IFRSs and it would not be appropriate to define a term under the *IFRS for SMEs* that is used, but not defined, in full IFRSs. This is because it may be used to interpret requirements in full IFRSs. The IASB also observed that the application of an undue cost or effort exemption necessitates consideration of how those that are expected to use the financial statements would be affected if that exemption is taken. Consequently, undue cost or effort would generally be easier to meet for SMEs than for entities with public accountability, because the notion is applied relative to the benefits to users and SMEs are not accountable to public stakeholders.

Exchange differences on the translation of a foreign subsidiary

BC234 Some respondents to the 2013 ED said cumulative exchange differences from the translation of a foreign subsidiary should be recognised in profit or loss on disposal of a subsidiary, which would be consistent with full IFRSs. The IASB noted that not requiring 'recycling' through profit and loss was a change specifically made during the IASB's redeliberations in response to comments on the 2007 Exposure Draft (see paragraph BC34(ee)). Some of the respondents to the 2013 ED also noted that if there is no requirement to recycle the exchange differences to profit or loss on disposal of a subsidiary, an SME should be permitted to recognise those exchange differences in retained earnings either immediately or on disposal; otherwise they will remain as a separate component of equity forever. The IASB noted that the *IFRS for SMEs* does not contain any requirements that prohibit SMEs from transferring amounts recognised in other comprehensive income within equity. Consequently, an SME could, in

accordance with the *IFRS for SMEs*, transfer any cumulative exchange differences recognised in other comprehensive income and shown as a separate component of equity (for example, in a foreign currency translations reserve) directly into retained earnings on disposal of the related subsidiary (see paragraph BC202(a)). Nevertheless, the IASB observed that an entity would also need to consider whether there were jurisdiction-specific restrictions on transfers between components of equity.

The amendments to the *IFRS for SMEs* as a result of the initial comprehensive review

BC235 The IASB made 56 changes to the *IFRS for SMEs* during the initial comprehensive review. They are of the following types:

- (a) three significant changes;
- (b) twelve relatively minor changes/clarifications based on new and revised IFRSs;
- (c) seven new exemptions from the requirements in the *IFRS for SMEs* that are permitted only in special cases;
- (d) six other changes to the recognition and measurement requirements;
- (e) six other changes to the presentation and measurement requirements; and
- (f) minor clarifications or clarifying guidance that are not expected to change current practice.

Significant changes to the *IFRS for SMEs*

BC236 The IASB made three significant changes during the initial comprehensive review:

- (a) addition of an option to use the revaluation model for property, plant and equipment (see paragraphs BC208–BC212);
- (b) alignment of the main recognition and measurement requirements for deferred income tax with IAS 12 (see paragraphs BC219–BC223); and
- (c) alignment of the main recognition and measurement requirements for exploration and evaluation assets with IFRS 6 (see paragraph BC224–BC226).

Other changes to the *IFRS for SMEs*

New and revised IFRSs

BC237 The IASB made twelve relatively minor changes/clarifications based on new and revised IFRSs during the initial comprehensive review (see paragraphs BC201–BC207).

New exemptions

BC238 The IASB added seven new exemptions during the initial comprehensive review that are permitted in special cases:

- (a) four undue cost or effort exemptions (see paragraphs BC239–BC241).
- (b) two exemptions for common control transactions (see paragraph BC242–BC243).
- (c) the exemption in paragraph 70 of IAS 16 that an entity may use the cost of the replacement part as an indication of what the cost of the replaced part was at the time that it was acquired or constructed, if it is not practicable to determine the carrying amount of the latter. This exemption was added in response to concerns raised on the 2013 ED that the *IFRS for SMEs* should not be more onerous than full IFRSs.

Undue cost or effort exemptions

- BC239 The IASB decided to add undue cost or effort exemptions for the following requirements in the *IFRS for SMEs* in response to comments raised by respondents to the RFI and the 2013 ED:
- (a) measurement of investments in equity instruments at fair value in Sections 11 and 12;
 - (b) recognising intangible assets of the acquiree separately in a business combination;
 - (c) the requirement to measure the liability to pay a non-cash distribution at the fair value of the non-cash assets to be distributed; and
 - (d) the requirement to offset income tax assets and liabilities (see paragraph BC222).
- BC240 The IASB noted that the requirements in paragraph BC239(a)–(c) 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 situations, the benefits of having the information to users of SME financial statements do not justify SMEs spending undue cost or effort to provide the necessary fair value information. Nevertheless, the IASB also noted that an undue cost or effort exemption is not intended to be a low hurdle and that the additional guidance on application of the exemption will help to clarify this (see paragraphs BC231–BC233).
- BC241 Some respondents to the 2013 ED noted that the identification of contingent liabilities in a business combination is also challenging and said that the exemption should be extended to contingent liabilities. The IASB decided not to extend the exemption. The IASB noted that one of the reasons that the IASB permitted an undue cost or effort exemption for intangible assets acquired in a business combination is because the outcome of not separately recognising those intangible assets is unlikely to have a significant impact on an SME's profit or loss or financial position. This is because any intangible assets that are not separately recognised will be included in the amount recognised as goodwill, and the resulting accounting will be similar because many SMEs will be required to amortise goodwill and other intangibles over a period of 10 years or less (see paragraph BC247). This reason does not apply to contingent liabilities assumed in a business combination.

Common control exemptions

- BC242 In response to the concerns raised by respondents to the RFI, the IASB decided to add exemptions for the following transactions:
- (a) paragraph 22.8 of the *IFRS for SMEs*—exemption from determination of the value of equity issued as the fair value of cash or other resources received or receivable for equity instruments issued as part of a business combination under common control. The IASB further decided that the exemption added to paragraph 22.8 should cover equity instruments issued as part of a business combination (including business combinations under common control), because paragraph 19.11 provides specific guidance for the accounting for equity instruments that are issued as part of a business combination within the scope of Section 19.
 - (b) paragraph 22.18B of the *IFRS for SMEs*—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 *Distributions of Non-cash Assets to Owners*. The IASB agrees that it was an oversight not to include the scope exclusion in paragraph 5 of IFRIC 17.

- BC243 The IASB noted that paragraph 10.4 of the accounting policy hierarchy in the *IFRS for SMEs* 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. The IASB also observed that this would be the case for the types of transactions covered by the exemptions in paragraph 22.15C(a)–(b).

Other changes to the recognition and measurement requirements

- BC244 The IASB made the following six additional changes to the recognition and measurement requirement in the *IFRS for SMEs* during the initial comprehensive review. The IASB observed that four of those changes (see paragraphs BC245 and BC248–BC250) are unlikely to affect the vast majority of SMEs.

Combined financial statements

- BC245 The IASB decided to amend the definition of combined financial statements to refer to entities under common control, instead of only those under common control by a single investor (see paragraph 9.28 of the *IFRS for SMEs*). This is

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

Basic financial instruments

- BC246 The 2013 ED proposed to clarify that foreign currency loans and loans with standard loan covenants will usually be basic financial instruments, after considering concerns from respondents to the RFI that these instruments do not meet the current criteria in paragraph 11.9 of the *IFRS for SMEs*. However, some respondents to the 2013 ED raised concerns that, even given the proposed changes to paragraph 11.9, certain 'basic' debt instruments, such as loans with stepped interest rates and early repayment penalties, would not meet the criteria in paragraph 11.9. They noted that this would mean that such debt instruments would be required to be measured at fair value in accordance with Section 12. Some respondents also said that paragraph 11.9 was difficult to understand and that the IASB should try to simplify the wording. The IASB concluded that many of the debt instruments about which the respondents had concerns would actually meet the criteria in paragraph 11.9. Consequently, the IASB reaffirmed that the criteria in paragraph 11.9 should result in amortised cost measurement for most simple loans taken out by SMEs. The IASB also decided to add illustrative examples to help SMEs apply paragraph 11.9. These examples address some of the specific debt instruments about which the respondents had concerns and that the IASB also thinks are likely to be commonly entered into by SMEs.

Useful life of intangible assets

- BC247 The IASB decided to require that if the useful life of goodwill or another intangible asset cannot be established reliably then the useful life shall be estimated by management, but shall not exceed 10 years. Previously, the *IFRS for SMEs* required that if a reliable estimate could not be made, the useful life would be presumed to be 10 years. The IASB noted that although a default useful life of 10 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 of the *IFRS for SMEs* already require management to assess whether the useful life can be established reliably. Some respondents to the 2013 ED expressed concern about requiring management to estimate the useful life if the useful life cannot be established reliably. The IASB noted that SMEs are required to make best estimates in other sections of the *IFRS for SMEs*. Consequently, the IASB confirmed its decision to modify the requirements in the *IFRS for SMEs*.

Leases with an interest rate variation clause linked to market interest rates

- BC248 The IASB decided that a lease with an interest rate variation clause linked to market interest rates should be included in Section 20 instead of being accounted for at fair value through profit or loss under Section 12. The IASB noted that such clauses are occasionally found in leases entered into by SMEs.

Furthermore, the IASB noted that such an embedded risk would not normally require separate accounting under full IFRSs.

Compound financial instruments

- BC249 Paragraph 22.15 of the *IFRS for SMEs* required 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 stand-alone financial liability.

Scope of Section 26

- BC250 Paragraph 26.17 of the *IFRS for SMEs* 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, the IASB observed that it only addressed 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 modify paragraph 26.17 to require the guidance to be applied to all share-based payment transactions in which the identifiable consideration appears to be less than the fair value of the equity instruments granted or the liability incurred, and not only to share-based payment transactions provided in accordance with programmes established under law.

Changes to the presentation and disclosure requirements

- BC251 The IASB made the following six changes to the presentation and disclosure requirements during the initial comprehensive review:
- (a) addition of a requirement that an entity must disclose its reasoning for using an undue cost or effort exemption (see paragraph BC252).
 - (b) addition of a requirement to present investment property measured at cost less accumulated depreciation and impairment separately on the face of the statement of financial position. The IASB decided to add this line item for consistency with the requirement for biological assets, and because it noted that it was important that investment property measured under the cost model in Section 17 is presented separately from property, plant and equipment.
 - (c) removal of the requirement to prepare prior year reconciliations of balances for both biological assets and share capital for consistency with other sections of the *IFRS for SMEs*.
 - (d) removal of the requirement to disclose the accounting policy for termination benefits (see paragraph BC253).
 - (e) alignment of the definition of 'related party' with IAS 24 (2009). The IASB agreed with respondents to the RFI who suggested aligning the definition of a related party with IAS 24 (2009), because the undefined term 'significant voting power' was causing problems in practice. The IASB also added a definition of 'close members of the family of a person'.

- BC252 In the 2013 ED the IASB proposed to add clarifying guidance on the application of an undue cost or effort exemption (see paragraphs BC231–BC233). However, the IASB did not propose that an SME should be required to disclose the reasoning for using the exemption. This is because the IASB thought that disclosing the reasoning may be too limited to provide useful information to users of financial statements. However, some respondents to the 2013 ED asserted that disclosure would help to control the use of the exemption and may provide useful information for users of the financial statements at little cost to SMEs. The IASB agreed with this reasoning and decided to require SMEs to disclose their reasoning each time an undue cost or effort exemption was used, with one exception. The IASB decided that a requirement to disclose a qualitative description of the factors that make up any goodwill recognised in a business combination would provide more useful information than the disclosure of the reasons for using the undue cost or effort exemption to support the non-recognition of certain intangible assets if their fair value could not be measured reliably.
- BC253 Some respondents to the 2013 ED disagreed with removing the accounting policy disclosure requirement for termination benefits, solely because entities do not have a choice of accounting treatment for termination benefits. These respondents said that an entity should disclose all accounting policies for which disclosure is relevant to an understanding of the financial statements. The IASB agreed with this reasoning but noted that removing the requirement would be consistent with the disclosure requirements in other sections. The *IFRS for SMEs* has specific disclosure requirements for accounting policies when a choice of models or methods is permitted because, when the related transactions are material, this would normally mean that the disclosure of the accounting policy applied is important in understanding the financial statements. The IASB thinks that when a choice of accounting policy is not available, the general requirement in paragraph 8.5 of the *IFRS for SMEs* to disclose ‘... accounting policies used that are relevant to an understanding of the financial statements’ is sufficient.
- BC254 Some respondents to the RFI and the 2013 ED said that the IASB should consider further ways to reduce the disclosure requirements in the *IFRS for SMEs*, but few examples were provided of when the existing disclosures are excessive. In addition, some respondents requested additional disclosure requirements in some areas of the *IFRS for SMEs*. The IASB considered any specific suggestions made but, except as specified in paragraph BC251, did not think that additional changes were necessary. The IASB noted that it is currently looking at ways of improving disclosure under full IFRSs and it will consider the outcome of this work at the next review of the *IFRS for SMEs*. The IASB also noted that paragraph 8.2(c) of the *IFRS for SMEs* contains a general requirement that entities must provide additional information if that information is relevant to an understanding of the financial statements.

Minor clarifications of existing requirements in the *IFRS for SMEs*

- BC255 The IASB decided to make the following minor amendments to the *IFRS for SMEs* in response to concerns that had been highlighted by interested parties either formally or informally during the initial comprehensive review. The IASB thinks

that such amendments clarify existing requirements and would result in a better understanding and application of those requirements. The IASB also observed that because these amendments clarify existing requirements, in most cases they would not be expected to affect the current accounting for affected transactions:

- (a) clarification that the entities listed in paragraph 1.3(b) are not automatically publicly accountable (see paragraph 1.3(b) of the *IFRS for SMEs*).
- (b) addition of clarifying guidance on the use of the *IFRS for SMEs* in the parent's separate financial statements—based on Q&A 2011/01 (see paragraph 1.7 of the *IFRS for SMEs*).
- (c) addition of clarifying 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 (see paragraphs 2.14A–2.14D of the *IFRS for SMEs*).

The IASB's additional reasoning is covered in paragraphs BC231–BC233.

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

The IASB noted that Section 27 requires measurement at the lower of cost and the recoverable amount, not the lower of cost and fair value less costs to sell. However, the IASB does not expect the amendment 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 the recoverable amount).

- (e) clarification that all subsidiaries acquired with the intention of sale or disposal within one year shall be excluded from consolidation and clarifying guidance on how to account for and disclose those subsidiaries (see paragraphs 9.3–9.3C and 9.23A of the *IFRS for SMEs*).

In response to concerns raised by respondents, the IASB has expanded on the guidance previously proposed in the 2013 ED.

- (f) addition of clarifying guidance on the preparation of consolidated financial statements if group entities have different reporting dates (see paragraph 9.16 of the *IFRS for SMEs*).

Some respondents to the 2013 ED said that this guidance, which permits a parent entity to use the subsidiary's most recent financial statements, allows too much flexibility. These respondents generally thought that the IASB should also add the requirement in IFRS 10 that the difference between the reporting date of the subsidiary and the parent should be no more than three months and should be consistent for each period. The IASB decided not to add this requirement for SMEs. This is because it

noted that, in the rare case in which it would be impracticable to prepare financial statements at the same date, paragraph 9.16 would require the subsidiary's financial statements to be adjusted for the effects of significant transactions or events that occur between the date of those financial statements and the date of the consolidated financial statements. The IASB noted that the removal of the three-month restriction was also a change specifically made during the IASB's redeliberations in response to comments on the 2007 Exposure Draft (see paragraph BC34(l)).

- (g) clarification 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—based on Q&A 2012/04 (see paragraph 9.18 of the *IFRS for SMEs*).
- (h) clarification of the definition of separate financial statements (see paragraphs 9.24–9.25 and the related definition in the glossary).
- (i) 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 of the *IFRS for SMEs*).
- (j) clarification of when an arrangement would constitute a 'financing transaction' (see paragraph 11.13 of the *IFRS for SMEs*).

Some respondents to the 2013 ED asserted that some SMEs are interpreting paragraph 11.13 as requiring them to use the price of the transaction, for example, the nominal value of a loan, instead of the present value of the future payments, for off-market interest-based arrangements with related parties, for example, loans made to employees at less than market rates. Consequently, the IASB decided to clarify that when applying paragraph 11.13, the entity must consider whether an arrangement constitutes a financing transaction for the purposes of the *IFRS for SMEs* for either itself or the counterparty. In other words the entity must consider both financial assets and financial liabilities.

- (k) clarification in the guidance on fair value measurement in Section 11 of when the best evidence of fair value may be a price in a binding sale agreement. The guidance applies to fair value measurements in other sections and not just financial instruments within the scope of Section 11 (see paragraph 11.27 of the *IFRS for SMEs*).

In response to concerns raised by respondents, the IASB expanded on the wording previously proposed in the 2013 ED.

- (l) clarification of the requirements for hedge accounting, including the addition of 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 12.8, 12.23, 12.25 and 12.29 of the *IFRS for SMEs*).

- (m) replacement of the undefined term ‘date of exchange’ with ‘date of acquisition’ in the requirements on measuring the cost of a business combination (see paragraph 19.11(a) of the *IFRS for SMEs*).
- (n) addition of clarifying guidance on the measurement requirements for employee benefit arrangements, deferred tax and non-controlling interests when allocating the cost of a business combination (see paragraph 19.14 of the *IFRS for SMEs*).

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

- (o) clarification that only some outsourcing arrangements, telecommunication contracts that provide the rights to capacity and take-or-pay contracts are, in substance, leases (see paragraph 20.3 of the *IFRS for SMEs*).
- (p) addition of clarifying guidance on classifying financial instruments as equity or a liability (see paragraph 22.3A of the *IFRS for SMEs*).
- (q) addition of clarifying guidance on the accounting for the settlement of the dividend payable for a distribution of non-cash assets (see paragraph 22.18 of the *IFRS for SMEs*).
- (r) alignment of the scope and the definitions of Section 26 with IFRS 2 to clarify that share-based payment transactions involving equity instruments of other group entities are within the scope of Section 26 (see paragraphs 26.1–26.1A and the related definitions in the glossary of the *IFRS for SMEs*).

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*. However, to address the concerns raised by interested parties, the IASB decided to align the scope and definitions of Section 26 with IFRS 2 (after the 2009 amendments) to correct possible unintended consequences of the current wording.

- (s) clarification of the accounting treatment for vesting conditions and modifications to grants of equity instruments (see paragraphs 26.9, 26.12 and three new definitions in the glossary of the *IFRS for SMEs*).
- (t) clarification that the simplification provided for group plans is for the measurement of the share-based payment expense only and does not provide relief from its recognition (see paragraphs 26.16 and 26.22 of the *IFRS for SMEs*).
- (u) clarification that Section 27 does not apply to assets arising from construction contracts (see paragraph 27.1(f) of the *IFRS for SMEs*).

- (v) clarification of the application of the accounting requirements in paragraph 28.23 to other long-term employee benefits (see paragraph 28.30 of the *IFRS for SMEs*).
- (w) clarification that financial instruments that derive their value from the change in a specified foreign exchange rate are excluded from Section 30, but not financial instruments denominated in a foreign currency (see paragraph 30.1 of the *IFRS for SMEs*).
- (x) simplification of the wording used in the exemption from the restatement of financial information on the first-time adoption of the *IFRS for SMEs* (see paragraph 35.11 of the *IFRS for SMEs*).
- (y) new glossary items for 'active market', 'close members of the family of a person', 'foreign operation', 'minimum lease payments' and 'transaction costs'.

Transition and effective date

Transition provisions

- BC256 The IASB does not expect retrospective application of any of the amendments to be significantly burdensome for SMEs. This is because most of the amendments to the *IFRS for SMEs* provide clarification of, or relief from, existing requirements. Consequently, in the 2013 ED the IASB proposed that the amendments to Sections 2–34 in the *IFRS for SMEs* should be applied retrospectively.
- BC257 Some respondents to the 2013 ED noted that retrospective application of the amendments to Section 29 could be burdensome, because SMEs will need to consider the effect of each individual change to the requirements for recognising and measuring deferred tax, including minor wording changes. They noted that determining how all these individual changes if applied retrospectively would affect the financial statements could be time-consuming and complex for some SMEs.
- BC258 The IASB observed that the amendments to Section 29 are not expected to significantly affect the amounts most SMEs recognise for deferred tax, because the amendments do not change the underlying approach to accounting for deferred tax. Furthermore, the IASB is only making minor changes to the disclosure requirements in Section 29. Consequently, the IASB noted that it would expect the impact of the amendments to Section 29 on the information in the financial statements to be limited for most SMEs. Nevertheless, the IASB does not think that the benefit to users of SME financial statements of restated information under Section 29, which the IASB thinks is only likely to be required in a small percentage of cases, justifies requiring all SMEs to apply Section 29 retrospectively. As a result, the IASB decided allowing SMEs to apply the amendments to Section 29 prospectively from the beginning of the period in which the entity first applies the amendments, because it is supported by cost-benefit reasons.
- BC259 The IASB also decided to require prospective application from the beginning of the period in which the entity first applies the amendments for the following two amendments:

- (a) the option to use the revaluation model for property, plant and equipment. The IASB observed that such a requirement is consistent with the requirements for a change in accounting policy from the cost model to the revaluation model under full IFRSs and that the requirements for SMEs should not be made more onerous than this. The IASB also noted that it may be difficult to apply the revaluation model retrospectively to property, plant and equipment without the use of hindsight in selecting the inputs that would have been appropriate in prior periods.
- (b) replacement of the undefined term 'date of exchange' with the defined term 'date of acquisition'. The IASB observed that this would avoid the entity needing to review past business combinations to determine whether these two dates are the same.

BC260 Some respondents also said that some of the other amendments may also be costly to apply retrospectively and they did not think the benefits of restated information would justify incurring significant costs. The IASB observed that Section 35 does not require first-time adopters to retrospectively apply requirements in the *IFRS for SMEs* if it would be impracticable (see paragraph 35.11 of the *IFRS for SMEs*) and including a general 'impracticable' exemption in the transition requirements would be consistent with this. Consequently, the IASB decided that, although it does not think that applying the amendments to Sections 2–28 and 30–35 retrospectively would be significantly burdensome for SMEs, it would include an impracticable exemption that would apply to each amendment in isolation in case there are circumstances that it has not considered in which retrospective application would be impracticable.

Effective date of the amendments

BC261 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.

BC262 The IASB does not expect any of the amendments to the *IFRS for SMEs* to result in significant changes for SMEs and therefore it decided that the effective date should be set as the first suitable date one year from the date that the amendments are issued. Some respondents said that the implementation time of one year was too short and suggested that a period of 18 months to two years was more appropriate. Some of these respondents noted that SMEs need sufficient time to make the transition to any new requirements because of resource constraints. Some respondents also noted that additional time is required for jurisdictions that have to comply with local endorsement processes to provide sufficient implementation lead time to their SMEs. The IASB observed that the amendments are being issued in May 2015 and therefore the effective date of 1 January 2017 would fall more than 18 months after issue. Consequently, the IASB decided there was no need to reconsider this date.

Early application

BC263 The IASB decided that early application 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 application 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 need a significant length of time in order to file them. Consequently, these SMEs might be preparing financial statements a long time after their reporting date and may want to apply the amendments to earlier years.

The IASB's plan for future reviews of the *IFRS for SMEs*

BC264 Respondents to the 2013 ED were evenly divided on whether the IASB should update the *IFRS for SMEs* approximately once every three years, or if it should follow a longer cycle, with five years being the most common alternative suggestion. The IASB supported the following as a tentative approach for future reviews of the *IFRS for SMEs*:

- (a) a comprehensive review of the *IFRS for SMEs* should commence approximately two years after the effective date of the amendments to the *IFRS for SMEs* resulting from a previous comprehensive review. This would allow time for SMEs to apply the amendments, and for interested parties to identify and comment on any implementation issues or unintended consequences that result from those amendments. The IASB observed that it expected that comprehensive reviews would begin with the issuance of an RFI.
- (b) between comprehensive reviews, the IASB, with input from the SMEIG, would decide whether there is a need for an interim review to consider any new and revised IFRSs not yet incorporated or any urgent amendments that have been identified.
- (c) this process would mean that amendments to the *IFRS for SMEs* would not typically be expected to be more frequent than approximately once every three years to provide SMEs with a stable platform.

Analysis of the likely effects of the amendments

BC265 Before the IASB issues new requirements, or makes amendments to existing IFRSs, it considers the costs and benefits of the new pronouncements. This includes assessing the effects on the costs for both preparers and users of financial statements. The IASB also considers the comparative advantage that preparers have in developing information that would otherwise require users of the financial statements to incur costs to develop. The IASB takes into account the benefits of economic decision-making resulting from improved financial reporting. The IASB gains insight on the likely effects of the proposals for new or revised IFRSs through its formal exposure of proposals and through its analysis and consultations with interested parties through outreach activities.

BC266 The IASB conducted extensive outreach activities with interested parties during the comprehensive review of the *IFRS for SMEs*. This included issuing two public

consultation documents (the RFI and the 2013 ED), additional outreach to providers of finance to SMEs and discussing the main issues at meetings of the IFRS Advisory Council and world standard-setters. In addition, the IASB consulted the SMEIG on its proposed amendments during the development of the 2013 ED and the final amendments. This Effects Analysis is based on the feedback received through this process.

- BC267 The evaluation of costs and benefits are necessarily qualitative, instead of quantitative. This is because quantifying costs and, particularly, benefits, is inherently difficult. Although other standard-setters undertake similar types of analyses, there is a lack of sufficiently well-established and reliable techniques for quantifying this analysis. Consequently, the IASB sees this Effects Analysis as being part of an evolving process. In addition, the assessment undertaken is that of the likely effects of the new requirements, because the actual effects will not be known until after the new requirements have been applied. These will be considered at the next review of the *IFRS for SMEs*.
- BC268 The IASB is committed to assessing and sharing knowledge about the likely costs of implementing new requirements, and the likely ongoing application costs and benefits of new or revised IFRSs—the costs and benefits are collectively referred to as ‘effects’.
- BC269 In evaluating the likely effects of the amendments, the IASB has considered how:
- (a) activities would be reported in the financial statements of those applying the *IFRS for SMEs*;
 - (b) comparability of financial information would be improved both between different reporting periods for the same entity and between different entities in a particular reporting period;
 - (c) more useful financial reporting would result in better economic decision-making;
 - (d) the compliance costs for preparers would likely be affected; and
 - (e) the costs of analysis for users of financial statements would likely be affected.

Changes that could have a significant effect

- BC270 The following are the significant amendments to the *IFRS for SMEs*. All of these amendments closely align the related requirements with full IFRSs. Consequently, an important benefit of these amendments is closer alignment with full IFRSs. The following is a further consideration of the effects of these amendments in the context of SME financial statements:
- (a) addition of an option to use the revaluation model.

Users of SME financial statements have told the IASB that they do not like entities to apply different accounting policy options for similar transactions because it affects comparability between entities. Nevertheless, the IASB has received significant feedback from preparers, standard-setters, accounting firms and other interested parties that not having an option to revalue property, plant and equipment is a barrier to

the adoption of the *IFRS for SMEs* in jurisdictions in which SMEs commonly revalue their property, plant and equipment and/or are required by law to revalue property, plant and equipment. In addition, the IASB also agreed with those respondents who stated that current value information is potentially more useful than historical cost information. Consequently, the IASB decided that in this special case, the benefits of a wider use of the *IFRS for SMEs*, and hence the potential for global improvements in reporting and consistency, outweigh the importance to users of SME financial statements of prohibiting this option for property, plant and equipment. Furthermore, the IASB noted that although the additional requirements to incorporate the revaluation option may increase the perceived complexity of the *IFRS for SMEs* slightly, the amendments introduce an option, not a requirement. Consequently, they do not necessitate a change or additional costs for preparers (see also paragraphs BC208–BC212).

- (b) alignment of the main recognition and measurement requirements for deferred income tax with IAS 12.

Alignment is expected to have a limited overall effect on the recognition, measurement, presentation and disclosure of deferred tax (see paragraphs BC219–BC223). Consequently, the IASB does not expect the information provided to users of financial statements to be significantly affected. Furthermore, although preparers will initially have to spend time understanding the revised requirements, in most cases this is not expected to cause undue cost or effort—and if it does, the transition provisions provide relief from the retrospective restatement of the amounts for deferred tax. The IASB noted that some SMEs may find the revised requirements in Section 29 easier to apply than the previous requirements, for example, if they are familiar with the accounting for deferred tax under full IFRSs or because of the significant training material and expertise in some jurisdictions on application of IAS 12.

- (c) alignment of the main recognition and measurement requirements for exploration and evaluation assets with IFRS 6.

The IASB noted that this amendment ensures that the requirements in the *IFRS for SMEs* are not more onerous than full IFRSs. These requirements only apply to a specific type of activity and so will not affect most SMEs and users of their financial statements.

Other changes supported by cost-benefits reasons

BC271 The IASB thinks that the following changes are supported by cost-benefit reasons as explained in the paragraphs that are made reference to:

- (a) amending paragraph 18.20 of the *IFRS for SMEs* to specify that if the useful life of an intangible asset, including goodwill, cannot be established reliably, the useful life shall be determined based on management's best estimate but shall not exceed 10 years. This replaces the requirement to use a fixed 10-year life in the absence of a reliable estimate of the useful life. Using the best estimate is expected to provide

- better information for users of financial statements than requiring a fixed 10-year life at no additional cost to preparers (see paragraphs BC247).
- (b) the addition of an undue cost or effort exemption for the following five requirements (see paragraphs BC202, BC222 and BC239–BC241):
- (i) measurement of investments in equity instruments at fair value in Sections 11 and 12;
 - (ii) recognising intangible assets separately in a business combination;
 - (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);
 - (iv) the requirement to measure the liability to pay a non-cash distribution at the fair value of the non-cash assets to be distributed; and
 - (v) the requirement to offset income tax assets and liabilities.
- (c) a requirement that an entity must disclose its reasoning for using any undue cost or effort exemption (see paragraph BC252).
- (d) the transition requirements for the amendments to the *IFRS for SMEs* (see paragraphs BC258–BC260).

Changes that are expected to have a limited effect

BC272 Apart from the changes described in paragraphs BC270–BC271, the IASB's amendments to the *IFRS for SMEs* are either one or more of the following types:

- (a) relatively minor changes that align the requirements in the *IFRS for SMEs* with full IFRSs to incorporate some of the changes in new or revised IFRSs and/or to include clarifying guidance from full IFRSs. These changes were introduced to reduce the costs of applying the *IFRS for SMEs* because they either provide additional clarity, a simplification, and/or they fix known or expected problems or the potential for diversity in practice. These changes are not expected to add complexity for SME preparers and are in areas in which the needs of users of SME financial statements are expected to be similar to the needs of users of the financial statements of publicly accountable entities.
- (b) changes that clarify existing requirements or remove unintended consequences of the existing wording in the *IFRS for SMEs*. The effect of those amendments is expected to be a better understanding and application of the requirements in the *IFRS for SMEs* and, in most cases, they would not be expected to affect the current accounting for those transactions.
- (c) changes 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.

Dissenting opinion

Dissent of Ms Tokar

- DO1 Ms Tokar is dissenting because of the IASB's decision to make reporting of non-cash distributions at fair value subject to an undue cost or effort exemption. She is concerned that the undue cost or effort relief will deprive financial statement users of relevant information about the value of assets distributed to owners. While she could accept that an undue cost or effort exemption may be appropriate with respect to remeasuring the asset to be distributed between the time of recognition of the distribution payable and the time of settlement, she dissents from providing an undue cost or effort exemption in respect of the initial measurement of the transaction.
- DO2 In her view, fair value information should normally be used to assess the merits of the distribution decision from a corporate governance perspective, and thus this information should be available when financial statements are prepared. Although the IASB has sought to clarify, in these amendments, the circumstances in which an undue cost or effort exemption is available, Ms Tokar is concerned that allowing an undue cost or effort exemption for transactions for which fair value information should be available implies a lower hurdle than the IASB intends for the use of such an exemption. She believes that the effectiveness of the *IFRS for SMEs*, which includes a number of undue cost or effort exemptions, requires the exemption to be used only in circumstances in which the costs (both monetary and in entity resources, or 'effort') clearly outweigh the benefits to users of having the information.

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