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IFRS Foundation[®]

Terms of Reference and Operating Procedures for the SME Implementation Group



**Terms of Reference and Operating
Procedures for the SME Implementation
Group**

IFRS Foundation

*Approved by the Trustees
February 2014*

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TERMS OF REFERENCE AND OPERATING PROCEDURES

CONTENTS

paragraphs

SME IMPLEMENTATION GROUP TERMS OF REFERENCE AND OPERATING PROCEDURES	
PART A: BACKGROUND	1–8A
The need for implementation guidance	2–4
Commitment of the IASB	5–8
Revision of the <i>Terms of Reference and Operating Procedures</i>	8A
PART B: DECISIONS OF THE IFRS FOUNDATION TRUSTEES	9–17A
Responsibilities of the SMEIG and scope of its work	9
Membership of the SMEIG	10–13
Chair of the SMEIG	14
Criteria for non-mandatory guidance	15–17A
PART C: THE WORK OF THE SMEIG	18–36A
Due process in developing non-mandatory guidance	19–36A
Stage 1 Identification of issues	19
Stage 2 Deciding whether to publish a Q&A	20–21
Stage 3 Reaching a tentative consensus	22–23
Stage 4 The IASB’s role in the draft Q&A	24–25
Stage 5 Inviting comments on the tentative consensus	26–27
Stage 6 Reaching a final consensus	28
Stage 7 The IASB’s role in the release of a final Q&A	29–31
Stage 8 Publication of a final Q&A	32–36A
Due process in developing mandatory guidance	36B–36E
Reaching a tentative recommendation for the IASB	36C–36E
PART D: MEETINGS AND VOTING	37–40
Meetings of the SMEIG	37–38
Voting	39–40

SME Implementation Group Terms of Reference and Operating Procedures

PART A: BACKGROUND

- 1 At their meeting in July 2009 the Trustees of the IFRS Foundation¹ approved the formation of an SME Implementation Group (SMEIG). The mission of the SMEIG is to support the international adoption of the *International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs)* and monitor its implementation.

The need for implementation guidance

- 2 The International Accounting Standards Board (IASB) issued the *IFRS for SMEs* in July 2009. It is a new Standard that is expected to be used by millions of SMEs throughout the world. Many of those entities have not been using IFRSs in the past and are unfamiliar with the principles in full IFRSs. And while the *IFRS for SMEs* is based on the principles in full IFRSs, it is a separate Standard that contains many simplifications as compared with full IFRSs. The simplifications—which reflect the needs of users of SMEs’ financial statements and the technical and financial capabilities of small companies to produce them—include:
- (a) omitting topics in full IFRSs that are regarded as not relevant for most small companies.
 - (b) allowing only the easier option where full IFRSs allow accounting policy choices.
 - (c) simplifying many of the principles in full IFRSs for recognising and measuring assets, liabilities, income and expenses.
 - (d) requiring substantially fewer disclosures.
 - (e) redrafting for clarity.

- 3 Because the *IFRS for SMEs* is a new Standard with a new constituency, it is inevitable that implementation questions will arise, particularly in the early years of application around the world.

- 4 To assist in implementation, the IFRS Foundation and the IASB took a number of steps, one of which was to set up the SMEIG to support the implementation of the Standard.

Commitment of the IASB

- 5 In the Preface to the *IFRS for SMEs*, the IASB stated that it intends to review thoroughly SMEs’ experiences in applying the *IFRS for SMEs* when two years of financial statements using the Standard have been published by a broad range of entities and—on the basis of that review—to propose amendments to address implementation issues. At that time, the IASB will also consider new and

1 At that time called the IASC Foundation.

TERMS OF REFERENCE AND OPERATING PROCEDURES

amended IFRSs that have been approved since the *IFRS for SMEs* was issued. After that initial implementation review, the IASB expects to propose amendments to the *IFRS for SMEs* by publishing a single omnibus exposure draft once every three years.

6 [DELETED]

7 Because the *IFRS for SMEs* was issued in mid-2009, the first two years in which the Standard was used by a broad range of entities were 2010 and 2011. The initial review of the Standard began in June 2012.²

8 Between the IASB's periodic reviews, there will be a need to provide guidance on pervasive implementation questions and to consider whether any short-term amendments to the Standard are needed in the interim to respond to a significant problem that has been identified. The SMEIG has been formed to address these issues.

Revision of the *Terms of Reference and Operating Procedures*

8A The *Terms of Reference and Operating Procedures* are updated by the Trustees of the IFRS Foundation from time to time to reflect changes in circumstances, due process or requirements. This revised document was issued by the Trustees of the IFRS Foundation in February 2014. Previous *Terms of Reference and Operating Procedures* are available on request.

² The review got underway in June 2012 when the IASB published a Request for Information *Comprehensive Review of the IFRS for SMEs*.

PART B: DECISIONS OF THE IFRS FOUNDATION TRUSTEES

Responsibilities of the SMEIG and scope of its work

- 9 The Trustees of the IFRS Foundation have set up the SMEIG and have given it two main responsibilities:
- (a) To consider implementation questions raised by users of the *IFRS for SMEs*, decide which ones merit published implementation guidance based on the criteria set out below, reach a consensus on what that guidance should be and develop non-mandatory guidance in the form of questions and answers (Q&As) that would be made publicly available to interested parties on a timely basis. The Q&As are intended to help those who use the *IFRS for SMEs* to think about specific accounting questions. In rare cases the SMEIG may decide to develop mandatory guidance that is subject to approval by the IASB.
 - (b) To consider, and make recommendations to the IASB on the need to amend the *IFRS for SMEs*:
 - (i) for implementation issues that cannot be addressed by Q&As, and
 - (ii) for new and amended IFRSs that have been approved since the *IFRS for SMEs* was issued or last amended.

Membership of the SMEIG

- 10 The SMEIG shall have at least 12 and not more than 30 members appointed by the Trustees of the IFRS Foundation. The Trustees will invite nominations, including self-nominations, on the IFRS Foundation's website.
- (a) The terms of all members who were appointed before 1 January 2013 shall expire on 30 June 2014;
 - (b) The Trustees shall appoint at least 12 and not more than 30 members for terms starting 1 July 2014 as follows:
 - (i) Not more than 10 members who were appointed before 1 January 2013 will be eligible for reappointment; all such reappointments will be for a period of 2 years ending 30 June 2016; such members shall not be eligible for further reappointment;
 - (ii) Not more than 15 new appointments will be for a term of 3 years. The remaining new appointments will be for a term of 2 years;
 - (c) All subsequent terms will be for a period of 3 years;
 - (d) Except as set out under 10(b)(i) above, no member will serve more than two consecutive terms, unless in the opinion of the Trustees, no suitable replacement with similar expertise is available;
 - (e) Where a member is unable to complete his/her term, the Trustees may at their discretion choose to fill the vacancy created. Where a vacancy is filled in this way, the new member will complete the term of the member being replaced. Such a member would be eligible for two further complete terms following the partial term.

TERMS OF REFERENCE AND OPERATING PROCEDURES

- 11 Members of the SMEIG are selected for their knowledge of and experience in financial reporting by SMEs and, preferably, their knowledge of and direct experience with the *IFRS for SMEs*. They would normally include accountants working in SMEs, auditors in small or medium-sized public practices, and bank lenders and other users of financial statements of SMEs, with a reasonably broad geographical representation.
- 12 All members of the SMEIG shall serve on a voluntary, unpaid basis.
- 13 The SMEIG also may include appointed observers who have the right to participate in SMEIG deliberations, but not to vote.

Chair of the SMEIG

- 14 The Trustees of the IFRS Foundation will appoint the Chair of the SMEIG, who may be, but need not be, the IASB's Director of Standards for SMEs. With respect to the technical activities of the SMEIG, the Chair of the SMEIG shall report to the Chair of the IASB. The SMEIG shall have such additional staff as provided in the budget of the IFRS Foundation.

Criteria for non-mandatory guidance

- 15 In deciding whether to address an issue in a Q&A, the SMEIG shall consider the following criteria:
- (a) The issue should be pervasive, ie it has arisen or is likely to arise in financial reporting by a broad group of SMEs in various jurisdictions.
 - (b) Owing to a lack of clarity in the *IFRS for SMEs*, unintended or inconsistent implementation has occurred or is likely to occur in the absence of a Q&A.
 - (c) The SMEIG can reach a consensus on the appropriate treatment on a timely basis.
- 16 The SMEIG is expected to focus on a limited number of pervasive issues and not to seek to create an extensive rule-oriented environment. Nor does the SMEIG act as an urgent issues group.
- 17 The SMEIG should not reach a consensus in a Q&A that changes or conflicts with the *IFRS for SMEs*.
- 17A The SMEIG may decide that mandatory guidance is required that would require approval by the IASB. In addition, if the SMEIG concludes that the requirements of the *IFRS for SMEs* should be amended, the SMEIG should make a recommendation in that regard to the IASB that will be considered during the IASB's periodic review of the *IFRS for SMEs* or, in rare cases, as an urgent amendment to the *IFRS for SMEs*.

PART C: THE WORK OF THE SMEIG

- 18 The SMEIG assists the IASB in improving financial reporting by undertaking the responsibilities as set out in paragraph 9 above, namely:
- (a) developing non-mandatory guidance for implementing the *IFRS for SMEs* in the form of Q&As, that would be made publicly available to interested parties on a timely basis, and
 - (b) making recommendations to the IASB on the need to amend the *IFRS for SMEs*.

Due process in developing non-mandatory guidance

Stage 1 Identification of issues

- 19 Preparers, auditors and others with an interest in financial reporting by SMEs will be encouraged to refer to the SMEIG questions about the application of the *IFRS for SMEs*. The IASB will establish a procedure for doing so via its website.

Stage 2 Deciding whether to publish a Q&A

- 20 Staff will review each submitted question against the criteria in paragraphs 15–17 above and, if guidance might be appropriate, will prepare a brief analysis with a recommendation on:
- (a) whether it should be addressed by a Q&A (based on that criteria), and
 - (b) if the recommendation is to develop a Q&A, what the staff's recommended answer would be and why.

If the staff think that the question should be dealt with by mandatory guidance they will state this in their recommendation.

- 21 Staff will send their recommendations to members of the SMEIG by email. SMEIG members will have 30 days to respond on (a) whether the SMEIG member agrees with the staff recommendation on the need for a Q&A, (b) if the recommendation is to publish a Q&A, whether the SMEIG member agrees with the substance of the staff's proposed answer and, if not, what the SMEIG member's answer would be and why and (c) whether the SMEIG member thinks the question should be dealt with by mandatory guidance (see paragraphs 36B–36E below). SMEIG members should respond in writing to the staff. Such correspondence will be made available to all SMEIG members. It will be treated as internal correspondence rather than as public documents.

Stage 3 Reaching a tentative consensus

- 22 Staff will prepare a summary of the views of SMEIG members.
- (a) A tentative consensus is reached on the need for a Q&A if a simple majority of SMEIG members agree with the staff recommendation.
 - (b) A tentative consensus is reached on the substance of the staff's proposed answer for a Q&A if a simple majority of SMEIG members agree with the staff recommendation.

TERMS OF REFERENCE AND OPERATING PROCEDURES

23 If a tentative consensus is reached that a Q&A is needed and on the substance of the answer, staff shall prepare a draft Q&A. The draft Q&A will include the SMEIG's reasons for reaching the answer that it did.

Stage 4 The IASB's role in the draft Q&A

24 Q&As are non-mandatory guidance and are developed as education material. The development of educational material does not take place in public IASB meetings.

25 In accordance with the due process for educational material accompanying an IFRS, the draft Q&A must be reviewed by at least three IASB members.

Stage 5 Inviting comments on the tentative consensus

26 The draft Q&A will be posted on the IASB's website for public comment for a period of not less than 30 days. The website will include a procedure for submitting comments electronically. Comments will be posted on the IASB's website.

27 Staff will prepare an analysis of comments received. Staff will make recommendations for changes to the draft Q&A, if any, and send them to SMEIG members with a request for approval of a final Q&A. SMEIG members should respond in writing to the staff within 30 days. Such correspondence will be made available to all SMEIG members. It will be treated as internal correspondence rather than as public documents.

Stage 6 Reaching a final consensus

28 Staff will prepare a summary of the views of SMEIG members. A consensus is reached on the final Q&A if a simple majority of SMEIG members agree with the staff recommendation.

Stage 7 The IASB's role in the release of a final Q&A

29 [DELETED]

30 When the SMEIG has reached a consensus on a final Q&A, it must be reviewed by at least three IASB members.

31 Q&As are non-mandatory guidance. They are not mandatory Standards. Consequently, they are published in the name of the SMEIG, not the IASB.

Stage 8 Publication of a final Q&A

32 SMEIG final Q&As will be posted on the IASB's website, possibly in batches rather than one by one, and made available without charge. They will not be separately printed.

33 The IASB has created an email alert list by which interested parties can register to be kept informed about the *IFRS for SMEs*. Those who register will be notified of draft Q&As that have been posted on the IASB's website for public comment, and of final Q&As that are published.

34 SMEIG decisions not to develop a Q&A will not be published.

SME IMPLEMENTATION GROUP

- 35 SMEIG Q&As will include the SMEIG's reasons for reaching the answer that it reached.
- 36 Correspondence among SMEIG members will not be made public.
- 36A During each of the IASB's periodic reviews of the *IFRS for SMEs*, all existing Q&As will be incorporated into the *IFRS for SMEs* and/or the IFRS Foundation education material as appropriate. The original Q&As will then be deleted.

Due process in developing mandatory guidance

- 36B In rare cases under Stage 2 of the Q&A due process (see paragraphs 20–21 above) the staff and/or members of the SMEIG may identify an issue that requires mandatory guidance.

Reaching a tentative recommendation for the IASB

- 36C If a tentative consensus is reached that mandatory guidance is needed and also on the substance of the proposed guidance, staff shall prepare draft mandatory guidance for the IASB. The draft mandatory guidance will include the SMEIG's reasons for reaching the answer that it did.
- 36D Members of the IASB will have access to all of the communications within the SMEIG leading to development of the draft mandatory guidance.
- 36E The draft and final mandatory guidance will be subject to the same due process steps as for proposed and final amendments to the *IFRS for SMEs*.

PART D: MEETINGS AND VOTING

Meetings of the SMEIG

- 37 In developing a Q&A, the SMEIG will conduct its work via email correspondence. The SMEIG shall adopt procedures for doing so that are consistent with these *Terms of Reference and Operating Procedures*. SMEIG members are expected to participate in the SMEIG's deliberations on all issues. Membership is personal; members participate and vote in accordance with their own independent views, not as representatives voting according to the views of the firm, organisation or constituency with which they are associated.
- 38 If the Chair of the SMEIG believes that a physical meeting of the SMEIG is necessary, the Chair will seek the views of the SMEIG members. If a majority of the SMEIG members believe that a physical meeting is necessary, the Chair will organise such a meeting, including means for SMEIG members to participate by telephone or video link. The IFRS Foundation will not reimburse SMEIG members for the costs of attending a physical SMEIG meeting.

Voting

- 39 Each member of the SMEIG shall have one vote. The Chair of the SMEIG shall be non-voting except that, in the case of a tied vote, the Chair shall have a casting vote. Members vote in accordance with their own independent views, not as representatives voting according to the views of any firm, organisation or constituency with which they may be associated. Proxy voting is not permitted.
- 40 A simple majority vote of the members of the SMEIG is required to approve a draft Q&A and a final Q&A.