

STAFF PAPER

November 2014

IASB Meeting

Project	Comprehensive review of the <i>IFRS for SMEs</i>		
Paper topic	Additional issues raised by respondents: Paper 2 (changes not being proposed by staff)		
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This paper has been prepared by the staff of the IFRS Foundation for discussion at a public meeting of the IASB and does not represent the views of the IASB or any individual member of the IASB. Comments on the application of IFRSs do not purport to set out acceptable or unacceptable application of IFRSs. Technical decisions are made in public and reported in IASB *Update*

Objective of this paper

1. This agenda paper asks the IASB to consider the remaining issues raised by respondents to ED/2013/9 *Proposed amendments to the IFRS for SMEs* (the ED) for which the staff are not recommending changes to the requirements proposed in the ED. This paper also includes one issue raised by members of the SME Implementation Group (SMEIG) for which the staff are not recommending changes to the requirements proposed in the ED.
2. Because the staff are not recommending changes to the ED for any of the issues in this agenda paper, the staff suggest the IASB only discuss those issues for which IASB members have objections to the staff recommendation or questions.

Structure of this paper

3. This agenda paper is set out as follows:
 - (a) Organisation of the issues

(b) Issues in this paper:

- 12¹) Definition of ‘fiduciary capacity’
- 13) Useful life of goodwill/other intangible assets
- 14) Group entities with different reporting dates
- 15) Use of ‘undue cost or effort’ exemption in a business combination
- 16) Grouping items in OCI
- 17) Cumulative exchange differences on disposal of a subsidiary
- 18) Disclosure of policy for termination benefits
- 19) Classification of spare parts
- 20) Effective date
- 21) Other general issues
- 22) Disclosures about significant investees

Note, respondents were only asked to comment on those proposed amendments on which they had concerns. Most respondents either raised no issues or only commented on a few of the proposed amendments in the ED. Less than 10 of the 57 respondents to the ED raised the concerns outlined in Issues 13-19.

Organisation of the issues

4. The issues in this paper are set out as follows:

- (a) Introduction to the issue.
- (b) Summary of the main feedback received in comment letters on the ED.
This has been repeated and taken from Agenda Paper 15A from the May 2014 IASB meeting.
- (c) Staff analysis of the feedback received in comment letters on the ED.
- (d) Staff recommendation.
- (e) SMEIG recommendation. Taken from the final draft of the report of recommendations of the SMEIG.

¹ The numbering of the issues in this paper does not correspond to the numbering of the issues in the SMEIG agenda papers and report. However the titles of the issues are the same.

5. When introducing this paper the staff will ask whether any IASB members object or query any of the staff recommendations in this paper. Only those issues identified by IASB members will be discussed.

Issue 12) Definition of ‘fiduciary capacity’ (Question 1 in the ED)

Introduction

6. The *IFRS for SMEs* is intended for entities that do not have public accountability. An entity is considered to have public accountability if its debt or equity instruments are traded, or in the process of being issued for trading, in a public market, or it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses (paragraph 1.3 of the *IFRS for SMEs*)
7. Since issuing the *IFRS for SMEs*, the IASB has received feedback from interested parties that the meaning of ‘fiduciary capacity’ in the definition of ‘public accountability’ is unclear as it is a term with different implications across jurisdictions. However, those interested parties generally did not provide examples or suggest alternative wording/guidance. Therefore the IASB asked a question in the ED asking respondents if they are aware of circumstances where the term has created uncertainty or diversity in practice and whether the term needs to be clarified or replaced.

Feedback from respondents to the ED

8. A substantial majority of respondents who commented on Question 1 said there is no need to clarify or replace the term ‘fiduciary capacity’. Furthermore, no respondents provided examples of where the term had resulted in diversity in practice. However, a few respondents noted that the term had created uncertainty on implementation of the Standard in their jurisdictions. The following examples were given where respondents were uncertain if the entities should be considered to hold assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses:
 - (a) All banks and building societies (respondents in the UK).

- (b) Pension schemes (UK).
 - (c) Entities in the transport sector (road and air) that manage resources for a large group of people (Brazil)
9. Some standard setting and accountancy bodies in the UK and Australia noted that because of their concerns that the term ‘fiduciary capacity’ would not capture the entities it was intended for, eg some banks, the concept of public accountability was not used when setting the scope of their local Standards.
10. The three most common suggestions made for how the IASB should deal with the uncertainty caused by the term ‘fiduciary capacity’ were:
- (a) The IASB should add a definition of fiduciary capacity to the Glossary of the *IFRS for SMEs*. The IASB should also be mindful of how the definition would translate into other languages.
 - (b) The meaning of 'fiduciary capacity' is a legal concept and should be left to each jurisdiction to provide additional guidance on its interpretation in that jurisdiction. Local legislative and regulatory authorities, and standard setters, in individual jurisdictions are best placed to decide which entities should be permitted to use the *IFRS for SMEs*.
 - (c) The IASB should provide further guidance. The following points summarise the main suggestions:
 - (i) Add examples to illustrate the term ‘fiduciary capacity’. Some respondents noted that there are examples in the training material developed by the IFRS Foundation Education Initiative and suggested the IASB could make reference to that training material in, for example, the Preface to the *IFRS for SMEs*.
 - (ii) State the factors management need to consider in establishing if an entity's fiduciary activities are incidental to its primary business. The rationale behind the examples in paragraph 1.4 of the ED should be explained.

Staff analysis of the feedback on the ED

11. Most respondents who commented on Question 1 said there is no need to clarify or replace the term ‘fiduciary capacity’. Furthermore, no respondents provided examples of where the term had resulted in diversity in practice. Consequently, the staff do not think it is necessary for the IASB to try to define, further clarify or replace the term ‘fiduciary capacity’. The staff also think 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.
12. The staff think 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 staff do not mean they are best placed to choose which entities should be in the scope of paragraph 1.3(b), but rather ensure the definition in paragraph 1.3 is applied consistently and appropriately in their jurisdiction. These organisations can then determine which entities should be permitted or required to use the IFRS for SMEs in that jurisdiction consistently with the intended scope of the *IFRS for SMEs*. The IFRS Foundation training material contains examples of applying the term ‘fiduciary capacity’ and the staff think that this guidance will be helpful to these organisations when they are making their assessment.

Staff recommendation

13. The staff recommend no changes to the current requirements in the *IFRS for SMEs*.

SMEIG view on staff recommendation

Slightly more than half of SMEIG members supported the staff recommendation without modification.

A significant minority of SMEIG members² did not support the staff recommendation. The following were the three main reasons given:

- ‘Fiduciary capacity’ should be clearly defined and included in the glossary, or replaced by another term that is more easily interpreted.
- Additional guidance and/or illustrative examples should be provided, eg in the IFRS Foundation training material, to assist in interpretation of the term.
- The relevant authorities in individual jurisdictions should be left to decide which entities should be permitted or required to use the *IFRS for SMEs*.

Nearly all SMEIG members³ said that they were not aware of circumstances where the use of the term ‘fiduciary capacity’ has created uncertainty or diversity in practice

However a few SMEIG members⁴ noted that ‘fiduciary capacity’ has a different meaning in some jurisdictions than that intended by the IASB. Consequently in some jurisdictions, significant time and effort had been required by authorities to interpret the term in the context of the *IFRS for SMEs* and explain the term to local constituents. Furthermore a few SMEIG members said that there are problems in translating the term into other languages.

Question for the IASB

12) Do you agree with the staff recommendation?

Issue 13) Useful life of goodwill/other intangible assets (Proposed Amendments 21 and 26 in the ED)

14. The ED proposed that an SME that is unable to make a reliable estimate of the useful life of goodwill/another intangible asset should be required to use a useful

² Where reference is made to ‘a significant minority of SMEIG members’, this signifies between 6 and 11 of the 27 members.

³ Where reference is made to ‘nearly all SMEIG members’ in this report, this signifies 24 or more of the 27 members.

⁴ Where reference is made to ‘a few SMEIG members’, this signifies 5 or less of the 27 members.

life that does not exceed 10 years. Previously an SME was required to use a fixed life of 10 years if it could not make a reliable estimate (see paragraphs 18.20 and 19.23 of the ED). The IASB proposed this amendment after considering concerns raised by respondents to the RfI that a presumption of ten years is arbitrary and in many cases too long, and also that it causes problems in some jurisdictions if the local law requires a different default useful life.

Feedback from respondents to the ED

15. Respondents generally had concerns about permitting management to use its judgement to determine a useful life when a reliable estimate was not possible. Concerns of respondents included a reduction in comparability between entities, how to verify/audit the best estimate and whether an unreliable estimate provides useful information to users of financial statements.

Staff analysis of the feedback on the ED

16. The ED proposed the following changes to paragraphs 18.20 and 19.23(a) of the *IFRS for SMEs*:
 - 18.20 If an entity is unable to make a reliable estimate of the useful life of an intangible asset, the life shall be determined based on management's best estimate and shall not exceed ~~presumed to be~~ ten years.
 - 19.23(a) ... If an entity is unable to make a reliable estimate of the useful life of goodwill, the life shall be determined based on management's best estimate and shall not exceed ~~presumed to be~~ ten years.
17. Paragraphs BC61-BC63 of the ED contain the IASB's reasoning for modifying 18.20 and 19.23(a). In particular, paragraph BC63 explains that the IASB observed that although a default useful life of ten years is simple, it does not provide users of financial statements with any information about the period over which goodwill or another intangible asset is expected to be available for use. Furthermore, it explains that the IASB noted SMEs are required to make best estimates in other sections of the *IFRS for SMEs*. The IASB also noted requiring management to make a best estimate of the useful life is unlikely to require additional work because paragraphs 18.20 and 19.23 already require management

to assess if a reliable estimate of the life is possible. The staff support this reasoning.

Staff recommendation

18. The staff recommend no changes to the proposed amendments to paragraphs 18.20 and 19.23(a) in the ED.

SMEIG view on staff recommendation

The majority of SMEIG members⁵ supported the staff recommendation without modification.

However a few SMEIG members disagreed with the staff recommendation because they thought that no changes should be made to the existing requirements in the *IFRS for SMEs*. These SMEIG members generally thought that the related proposed amendments in the ED added unnecessary cost/complexity for SMEs and/or they did not support use of an “unreliable estimate”.

A few SMEIG members noted that the carrying amount and the useful life of goodwill do not provide relevant information for users of SME financial statements.

One SMEIG member expressed concern about the interaction between this issue and Issue 15, the permitted use of an ‘undue cost or effort’ for intangible assets in a business combination. This SMEIG member noted that the relief proposed under that amendment will have the consequence that other intangible assets may be included in goodwill, and therefore the best estimate of the life of goodwill will involve consideration of those intangible assets.

Question for the IASB

13) Do you agree with the staff recommendation?

⁵ Where reference is made to ‘a majority of SMEIG members’, this signifies between 16 and 23 of the 27 members

Issue 14) Group entities with different reporting dates (Proposed Amendment 9 in the ED)

19. The ED proposed additional guidance on how to prepare consolidated financial statements if group entities have different reporting dates (see paragraph 9.16 of the ED). The IASB proposed this amendment in response to requests from respondents to the RfI for additional guidance on the necessary adjustments if uniform reporting dates are not used.

Feedback from respondents to the ED

20. Respondents thought the additional guidance was helpful. However they were generally concerned that permitting a parent entity to use the subsidiary's most recent financial statements allowed too much flexibility. Some respondents asserted that the ED would permit the financial statements of the subsidiary to be from a previous year or even from several years ago. These respondents commented that if the difference between the reporting date of the subsidiary and the parent was too great, it would not provide relevant, comparable information for users of the parent's consolidated financial statements.
21. Some respondents recommended that the requirement in Paragraph B93 of IFRS 10 *Consolidated Financial Statements* should be added to paragraph 9.16— it would require the difference to be no more than three months and be consistent each period. Other respondents agreed, but suggested a greater difference than three months be allowed.

Staff analysis of the feedback on the ED

22. The ED proposed the following changes to paragraphs 9.16 of the *IFRS for SMEs*:
- 9.16 The financial statements of the parent and its subsidiaries used in the preparation of the consolidated financial statements shall be prepared as of the same **reporting date** unless it is **impracticable** to do so. If it is impracticable to prepare the financial statements of a subsidiary as of the same reporting date as the parent, the parent shall consolidate the financial information of the subsidiary using the most recent financial statements of the subsidiary, 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.
23. Under full IFRSs, IFRS 10.B93 requires "...the difference between the date of the subsidiary's financial statements and that of the consolidated financial statements

shall be no more than three months, and the length of the reporting periods and any difference between the dates of the financial statements shall be the same from period to period.”. The IASB did not include this requirement in the ED.

24. Some respondents asserted that the ED would permit the financial statements of the subsidiary to be from a previous year or even from several years ago. The staff do not think in practice it will be common for a group to consolidate a subsidiary using financial statements that are more than a year old. This is because paragraph 9.16 requires the most recent financial statements to be used. In the rare case that financial statements of a subsidiary were more than one year old, the proposed requirements in paragraph 9.16 in the ED would require those 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. Consequently the staff do not think it is necessary to add a restriction on the difference between the date of the subsidiary's financial statements and that of the consolidated financial statements. The staff note that paragraph 9.23(c) of the *IFRS for SMEs* already requires disclosure of any difference in the reporting date of the financial statements of the parent and its subsidiaries used in the consolidated financial statements.

Staff recommendation

25. The staff recommend no changes to the proposed amendments to paragraph 9.16 in the ED.

SMEIG view on staff recommendation

The majority of SMEIG members⁶ supported the staff recommendation without modification.

However a significant minority disagreed with not having a restriction on the time period between the reporting date of the subsidiary and the reporting date of the group used in the consolidated financial statements. Most of these SMEIG members

⁶ Where reference is made to ‘a majority of SMEIG members’, this signifies between 16 and 23 of the 27 members

thought that the period should be no longer than three months, like full IFRSs. These SMEIG members generally thought that if the difference between the two dates is greater than three months, the consolidated financial statements would not provide useful and comparable information for users of those financial statements. A few SMEIG members noted that if the difference between the two reporting dates was longer than three months it may actually be less burdensome to prepare additional financial statements of the subsidiary at the same date of the group, than it would be to account for adjustments for the effect of significant transactions and events of the subsidiary between the two dates.

Question for the IASB

14) Do you agree with the staff recommendation?

Issue 15) Use of ‘undue cost or effort’ exemption in a business combination (Proposed Amendment 25 in the ED)

26. The ED proposed addition of an ‘undue cost or effort’ exemption to the requirement to recognise intangible assets separately in a business combination (see paragraph 19.15 of the ED). The IASB proposed this amendment after considering concerns raised by respondents to the RfI that the benefits to users of SME financial statements of separate fair value information about intangible assets in a business combination do not justify the SME spending undue cost or effort, eg spending excessive fees on using valuation experts.

Feedback from respondents to the ED

27. Respondents did not raise concerns with this amendment, but noted that identification of contingent liabilities in a business combination is also challenging and said that the exemption should be extended to contingent liabilities.

Staff analysis of the feedback from respondents

28. The staff agree that identification of contingent liabilities in a business combination may sometimes be challenging. However, the staff think that most SMEs will estimate contingent liabilities as part of the negotiating process.
29. One of the reasons that the IASB permitted an ‘undue cost or effort’ exemption for intangible assets in a business combination, but not contingent liabilities, is 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 goodwill figure and, in accordance with paragraphs 18.10 and 19.23(a) of the ED, most SMEs will be required to amortise goodwill and other intangibles over a period of 10 years or less. This is particularly likely to be the case if an SME has difficulty identifying and/or measuring certain intangible assets acquired in a business combination. This is because it would also then likely have difficulty estimating the useful lives of those intangible assets, meaning they would be restricted to 10 years or less in accordance with paragraph 18.20 of the ED.

Staff recommendation

30. The staff recommend that the ‘undue cost or effort’ exemption proposed in paragraph 19.15 of the ED is not extended to contingent liabilities.

SMEIG view on staff recommendation

The majority of SMEIG members supported the staff recommendation without modification.

However a significant minority of SMEIG members thought that the exemption should also be available for contingent liabilities acquired in a business combination because they are also complex to value.

Refer also to the comment in the last paragraph of the SMEIG view for Issue 13.

Question for the IASB

15) Do you agree with the staff recommendation?

Issue 16) Grouping items in OCI (Proposed Amendment 6 in the ED)

31. The ED proposed incorporating the main change under IAS 1 (2011 amendment) *Presentation of Items of Other Comprehensive Income*, which requires entities to group items presented in other comprehensive income (OCI) on the basis of whether they are potentially reclassifiable to profit or loss (see paragraph 5.5(g) of the ED).

Feedback from respondents to the ED

32. Respondents generally did not think the change was useful for users of SME financial statements, given the limited circumstances where it would be applicable. The *IFRS for SMEs* only has one item of OCI for which recycling is required, ie changes in fair value of hedging instruments in a cash flow hedge.
33. Some respondents noted that the IASB had decided not to reconsider use of OCI during this comprehensive review and had also decided not to require actuarial gains and losses to be presented in OCI (see paragraphs BC34(b) and BC86(b) of the ED). These respondents noted that the IASB's main reasoning for this was because it is considering the treatment of OCI as part of its *Conceptual Framework* project, which may result in changes to the requirements for OCI under full IFRSs. These respondents asserted if other changes affecting OCI were not made during this review, it was inconsistent for the ED to propose this change.

Staff analysis of the feedback on the ED

34. The ED proposed the following changes to paragraphs 5.5(g) of the *IFRS for SMEs*:
- 5.5 As a minimum, an entity shall include, in the statement of comprehensive income, line items that present the following amounts for the period:
- (a) ...

(g) each item of other comprehensive income (see paragraph 5.4(b)) classified by nature (excluding amounts in (h)). Such items shall be grouped into those that, in accordance with this IFRS:

(i) will not be reclassified subsequently to profit or loss—ie those in paragraphs 5.4(b)(i)–(ii), and

(ii) will be reclassified subsequently to profit or loss when specific conditions are met—ie those in paragraph 5.4(b)(iii).

35. The staff think that most SMEs will not have items of OCI. However, if they do have items of OCI, the staff thinks that the proposed grouping of items of OCI will be easy for SMEs to apply and would not be expected to result in additional costs. Consequently the staff think that the proposed changes are appropriate for cost-benefit reasons. The staff note that the IASB decision at its October 2014 meeting to include an option for SMEs to apply a revaluation model for PPE will mean that more SMEs may have one or more items recognised in OCI.

Staff recommendation

36. The staff recommend no changes to the proposed amendments to paragraph 5.5(g) in the ED.

SMEIG view on staff recommendation

The majority of SMEIG members agree with the staff recommendation without modification.

However, a few SMEIG members did not think that grouping items in OCI would be useful for users of SME financial statement, given the limited circumstances when items are recognised in OCI under the *IFRS for SMEs*. These SMEIG members thought that it was not necessary to amend paragraph 5.5(g) of the *IFRS for SMEs*.

Question for the IASB

16) Do you agree with the staff recommendation?

**Issue 17) Cumulative exchange differences on disposal of a subsidiary
(Proposed Amendment 10 in the ED)**

37. The ED proposed to clarify that cumulative exchange differences from the translation of a foreign subsidiary are not recognised in profit or loss on disposal of the subsidiary (see paragraph 9.18 of the ED). The IASB proposed this amendment to respond to concerns raised to the SMEIG, and addressed in SMEIG Q&A 2012/04, that the wording used to express this requirement is currently unclear.

Feedback from respondents to the ED

38. Respondents said cumulative exchange differences from the translation of a foreign subsidiary should be recognised in profit or loss on disposal of a subsidiary, consistent with full IFRSs. These respondents said that this was not a complex area and so there was no reason to diverge from full IFRSs. Other respondents noted that if there is no requirement to recycle the exchange gains 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.

Staff analysis of the feedback on the ED

39. The *IFRS for SMEs* prohibits cumulative exchange differences relating to a foreign subsidiary that were recognised in OCI from being ‘recycled’ through profit or loss on disposal of that subsidiary. The IASB included this simplification in the *IFRS for SMEs* because it eliminates the need for tracking the exchange differences after their initial recognition in OCI. The changes proposed to paragraph 9.18 in the ED respond to concerns raised by respondents to the RfI that the wording used to express this requirement was unclear. However, the ED did not propose to change this requirement. Consequently the staff note that concerns raised by respondents in paragraph 38 relate to the existing requirements in the *IFRS for SMEs*, not the changes proposed in the ED.

40. The staff note that the *IFRS for SMEs* does not contain any requirements that prohibit SMEs from transferring amounts recognised in OCI within equity. Consequently an SME would be permitted to transfer any cumulative exchange differences recognised in OCI and shown as a separate component of equity (eg in foreign currency translations reserve) directly into retained earnings on disposal of the subsidiary. Nevertheless, there could be jurisdiction-specific restrictions on transfers between components of equity.

Staff recommendation

41. The staff recommend no change to the current requirement in the *IFRS for SMEs* that cumulative exchange differences from the translation of a foreign subsidiary are not recognised in profit or loss on disposal of the subsidiary.

SMEIG view on staff recommendation

The majority of SMEIG members supported the staff recommendation without modification.

However a significant minority of SMEIG members disagreed with the requirement in the *IFRS for SMEs* that prohibits the recycling of cumulative exchange differences on disposal of a subsidiary. These SMEIG members thought that on disposal of a subsidiary any cumulative exchange differences should be recycled to profit or loss, in the same ways as required in full IFRSs. A few of these SMEIG members said that they didn't think that a requirement to recycle cumulative exchange differences would be burdensome. Therefore they thought that the existing requirement in the *IFRS for SMEs* created an unnecessary difference from full IFRSs.

Question for the IASB

17) Do you agree with the staff recommendation?

Issue 18) Disclosure of policy for termination benefits (Proposed Amendment 43 in the ED)

42. The ED proposed the removal of the requirement to disclose the accounting policy for termination benefits (see paragraph 28.43 of the ED). The IASB proposed to remove this requirement from paragraph 28.43 because Section 28 *Employee Benefits* does not provide a choice of accounting treatment for termination benefits.

Feedback from respondents to the ED

43. Respondents disagreed with the IASB's reasoning for removing the disclosure requirement—namely because entities do not have a choice of 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.

Staff analysis of the feedback on the ED

44. The staff think the concerns raised by respondents are sufficiently covered by paragraph 8.5 of the *IFRS for SMEs* which contains a general requirement for an SME to disclose "...accounting policies used that are relevant to an understanding of the financial statements".

Staff recommendation

45. The staff recommend no change to the proposal to remove the requirement to disclose the accounting policy for termination benefits from paragraph 28.43 in the ED.

SMEIG view on staff recommendation

Nearly all SMEIG members supported the staff recommendation without modification.

Question for the IASB

18) Do you agree with the staff recommendation?

Issue 19) Classification of spare parts (Proposed Amendment 20 in the ED)

46. The ED proposed to incorporate *Classification of servicing equipment* (IAS 16) from *Annual Improvements 2009–2011 Cycle*, issued in May 2012, which clarifies the classification of spare parts, stand-by equipment and servicing equipment as PPE or inventory (see paragraph 17.5 of the ED).

Feedback from respondents to the ED

47. Respondents asserted that the cost and effort of monitoring and tracking the individual spare parts, stand-by equipment and servicing equipment as either PPE or inventory would not justify the benefits to users. Respondents also noted that the requirements are unlikely to apply to the majority of SMEs.

Staff analysis of the feedback on the ED

48. The ED proposed the following changes to paragraphs 17.5 of the *IFRS for SMEs*:
- 17.5 ~~Items such as spare parts, stand-by equipment and servicing equipment are recognised in accordance with this section when they meet the definition of property, plant and equipment. Otherwise, such items are classified as inventory, usually carried as inventory and recognised in profit or loss as consumed. However, major spare parts and stand-by equipment are property, plant and equipment when an entity expects to use them during more than one period. Similarly, if the spare parts and servicing equipment can be used only in connection with an item of property, plant and equipment, they are considered property, plant and equipment.~~
49. The proposed amendment to paragraph 17.5 is based on a clarification made to IAS 16 *Property, Plant and Equipment* that addressed a perceived inconsistency in the classification requirements for servicing equipment. Previously some interested parties said that IAS 16 was unclear on the classification of servicing equipment as inventory or property, plant and equipment. As a result some entities applying IAS 16 thought that servicing equipment used during more than one period could be classified as part of inventory.
50. The staff think the proposed change clarifies what has always been intended by Section 17 (and IAS 16). The staff also think the proposed changes to the wording

in paragraph 17.5 make the requirements easier to understand. Consequently, the staff think that the proposed changes to paragraph 17.5 in the ED are appropriate.

Staff recommendation

51. The staff recommend no changes to the proposed amendments to paragraph 17.5 in the ED.

SMEIG view on staff recommendation

All SMEIG members supported the staff recommendation without modification.

Question for the IASB

19) Do you agree with the staff recommendation?

Issue 20) Effective date (Question 6 in the ED)

52. The ED proposed that the effective date of the amendments to the *IFRS for SMEs* would be one year after the final amendments are issued. The ED also proposed that early adoption of the amendments be permitted.

Feedback from respondents to the ED

53. A substantial majority of respondents who commented on Question 6 supported the proposals without modification because the proposed amendments are minor and are unlikely to have a significant impact on SME reporting.
54. Some respondents said that the implementation time of one year was too short and suggested that a period of 18-24 months was more appropriate. The following points summarise the main comments made by these respondents:
- (a) The effective date should be the beginning of the calendar year starting at least a year after the amendments are issued.
 - (b) SMEs need sufficient time to transition to any new requirements because of resource constraints.

- (c) Additional time is required for jurisdictions which have to comply with local endorsement processes to provide sufficient implementation lead time to their SMEs (raised by two jurisdictions that currently apply the *IFRS for SMEs*).

Staff analysis of the feedback from respondents

55. The final amendments to the *IFRS for SMEs* are expected to be issued in the first half of 2015. The IASB issues new and revised Standards with an effective date of 1 January. As a result, if the effective date is set one year after the final amendments are issued, the effective date will be 1 January 2017. Consequently the length of time between the date of issue and the effective date will be more than 18 months. The staff think this is sufficient.

Staff recommendation

56. The staff recommend no changes to the proposals for the effective date in the ED.

SMEIG view on staff recommendation

Nearly all SMEIG members supported the staff recommendation without modification.

Question for the IASB

20) Do you agree with the staff recommendation?

Issue 21) Other general issues

Feedback from respondents to the ED

57. The following is a summary of the other general issues about the *IFRS for SMEs* raised by respondents. Each of these was only made by a small number of respondents:
- (a) **Glossary items.** Some respondents said the IASB should align definitions with full IFRSs. They said where this is not possible terms

in the Glossary that are different from those in full IFRSs should be marked to avoid confusion. Some respondents noted that it is important for SMEs to identify these differences because some SMEs may refer to guidance in full IFRSs to help them apply the *IFRS for SMEs*. Some respondents said the IASB should not define terms in the *IFRS for SMEs* that are used but not defined in full IFRSs, eg ‘substantively enacted’, because this creates a risk entities may apply those definitions under full IFRSs.

- (b) **Due process for Q&As.** Some respondents expressed concern that the due process is not sufficient for Q&As and is not consistent with other IFRS Foundation procedures. Some said the number of Q&As issued should be reduced or stopped completely. Some respondents said that the IFRS Interpretations Committee should be involved in the process. Other respondents requested that it be made clearer that Q&As are non-mandatory guidance. Some expressed concern that if non-mandatory Q&As are incorporated into the *IFRS for SMEs* during the three-yearly reviews, new Q&As might be considered de facto authoritative.
- (c) **Size dependent relief.** Some respondents noted that the scope of *IFRS for SMEs* includes a wide range of companies, and note that it would be helpful if the *IFRS for SMEs* provided additional relief for smaller companies, in particular from disclosure requirements. Some respondents suggested either the IASB or national regulators/standard setters could define standardised size categories that would be permitted to use the relief.
- (d) **Reduce the disclosure requirements.** Respondents noted that the full IFRSs disclosure project may present the opportunity for the IASB to consider disclosure refinements for the *IFRS for SMEs*.

Staff analysis of the feedback on the ED

58. **Glossary items.** In response to the comments in paragraph 57(a):

- (a) The staff do not think the IASB should align the definitions in the *IFRS for SMEs* with those in full IFRSs unless the new or revised IFRSs that introduced/revised the related definitions under full IFRSs are also incorporated in the *IFRS for SMEs*. Otherwise to do so may risk developing a mixed model of old and new IFRS approaches for some transactions. The staff think this could lead to confusion and result in inconsistencies in the *IFRS for SMEs*.
- (b) The staff do not think terms in the Glossary that are different from those in full IFRSs should be marked. The *IFRS for SMEs* is intended to be a standalone Standard. SMEs are permitted, but not required, to refer to full IFRSs if the *IFRS for SMEs* does not specifically address a transaction, provided the requirements in full IFRSs do not conflict with paragraphs 10.4-10.5. This assessment requires SMEs to apply judgement based on their own specific circumstances. The staff do not think it should be assumed that when the definitions in full IFRSs are consistent with those in the *IFRS for SMEs* in a particular area then the related requirements in full IFRSs automatically satisfy paragraphs 10.4-10.5.
- (c) The staff agree the IASB should exercise care when defining or interpreting terms in the *IFRS for SMEs* that are used but not defined in full IFRSs. However, the staff think ‘substantively enacted’ is a special case. Specific guidance on ‘substantively enacted’ was added to Section 29 during development of the *IFRS for SMEs* based on the IASB’s Exposure Draft *Income Tax* (the ‘2009 ED’), which was issued in March 2009 (as explained in Agenda Paper 5A, Issue 1). At that time it was expected that the requirements in the 2009 ED would replace IAS 12. As this additional guidance is already in the *IFRS for SMEs*, the staff do not think it is appropriate to delete it. Plus, the staff do not think it will lead to differences from IAS 12 in practice. Nevertheless the staff think the guidance may be better in the body of Section 29 rather than in the Glossary to avoid explicitly defining a full IFRS term and has recommended this as part of the staff recommendation for Issue 1.

59. **Due process for Q&As.** The concerns raised by respondents to the ED in paragraph 57(b) were also raised by respondents to the RfI. In April 2013 the IASB responded to these concerns by removing the requirement for the IASB to review draft and final SMEIG Q&As before they are published. Prior to this decision if four or more IASB members objected to the consensus in a Q&A it would need to be discussed in a public IASB meeting. The staff think it was this requirement that led respondents to believe that Q&As were IASB documents, and hence should be subject to full due process for IASB Standards. In April 2013 the IASB also decided that the Q&A programme should continue as a two tier system:

- (a) Tier 1 (new category): issues would be those requiring authoritative guidance and would require full due process for amendments to the *IFRS for SMEs*. These issues are expected to be rare.
- (b) Tier 2 (existing): issues would be dealt with by non-mandatory education material in the name of the SMEIG subject to the normal due process for educational material.

The *Terms of Reference and Operating Procedures for the SMEIG* were only updated to reflect these decisions in February 2014 and the staff think this is why the same concerns were raised by respondents to the ED:

<http://www.ifrs.org/IFRS-for-SMEs/Documents/SMEIGtermsofreference.pdf>.

60. **Size dependent relief.** This issue was raised by respondents to the RfI and so has already been considered by the IASB. Only a small number of respondents raised the issue again. The staff do not think that there is a convincing enough argument to reconsider the IASB's previous decision. The staff support the IASB's reasoning in paragraph BC86(i) in the ED.

61. **Reduce the disclosure requirements.** The staff agree that once any final improvements to full IFRSs are published as a result of the disclosure initiative project under full IFRSs, they should be considered for SMEs at a future review of the *IFRS for SMEs*.

Staff recommendation

62. The staff recommended moving the definition of ‘substantively enacted’ from the Glossary into the body of Section 29 to avoid defining a term in full IFRSs (see Issue 1 in Agenda Paper 5A).
63. The staff do not recommend any other changes to the *IFRS for SMEs*.

SMEIG view on staff recommendation

All SMEIG members supported the staff recommendations for dealing with the four general issues without modification.

Question for the IASB

21) Do you agree with the staff recommendation?

Issue 22) Disclosures about significant investees

64. A few SMEIG members noted that the IASB should consider requiring SMEs to disclose a list of significant investees, eg subsidiaries, associates, joint ventures, and the percentage shareholdings.

Staff analysis

65. The staff note that this disclosure requirement is in full IFRSs. The disclosure requirements in the *IFRS for SMEs* are substantially reduced when compared with the disclosure requirements in full IFRSs. The IASB’s principles when making simplifications to the disclosures in full IFRSs are set out in paragraph BC156-BC158 of the 2009 Basis for Conclusions accompanying the *IFRS for SMEs*.
66. The staff think that not including this disclosure requirement is in line with the IASB’s principles for making disclosure reductions. In particular, the staff think this disclosure requirement is included in full IFRSs primarily to cater for entities with a significant number of investees. For example it would be useful for investors to see which companies are under the arm of a big conglomerate or understand a complex group structure. However the staff does not think that

disclosure of significant investees and the percentage shareholdings would add value to the financial statements of a typical SME because SMEs are unlikely to have many (or any) significant holdings in other entities.

67. In accordance with Section 9 *Consolidated and Separate Financial Statements*, all subsidiaries are required to be consolidated unless acquired and held with the intention of sale within one year. Also in accordance with Section 14 *Investments in Associates* and Section 15 *Investments in Joint Ventures*, the carrying amount and effect on the statement of comprehensive income are required to be shown separately for associates and joint ventures. Furthermore, a reporting entity is required to provide disclosures about transactions, outstanding balances and related terms with subsidiaries, associates, joint ventures on an aggregated basis (as a minimum) in accordance with Section 33 *Related Party Disclosures*. Other disclosure requirements for subsidiaries, associates, joint ventures are quite minimal and are included in Sections 9, 14 and 15 of the *IFRS for SMEs*. The staff think that these requirements are sufficient for typical SMEs. The staff further note that paragraph 8.2(c) of the *IFRS for SMEs* requires SMEs to “provide information that is not presented elsewhere in the financial statements but is relevant to an understanding of them”. The staff are of the view that paragraph 8.2(c) is applicable in the rare circumstances that an SME has unusual or complex group transactions where such information is relevant to users in understanding its financial statements.

Staff recommendation

68. The staff recommend no changes to the current disclosure requirements in the *IFRS for SMEs*.

Question for the IASB

22) Do you agree with the staff recommendation?