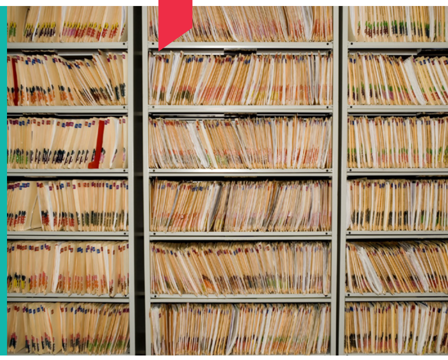
IFRSs FOR SMEs: PROPOSED AMENDMENTS
INTERNATIONAL FINANCIAL REPORTING BULLETIN 2013/20



STATUS
Exposure Draft

EFFECTIVE DATE
To be confirmed

ACCOUNTING IMPACT
Significant for entities currently applying *IFRS for SMEs*.

Summary

The International Accounting Standards Board (IASB) has issued Exposure Draft 2013/9 *IFRS for SMEs: Proposed amendments to the International Financial Reporting Standard for Small and Medium-sized Entities* (the ED) for public comment, which sets out a number of proposed amendments to the *IFRS for SMEs*. The proposals are derived from the first stage of the IASB's comprehensive review of the *IFRS for SMEs*, which was a Request for Information that was issued in 2012.

The proposals in the ED represent the first changes to *IFRS for SMEs* since they were first released in 2009.

In total there are 57 proposed amendments across 22 Sections of the *IFRS for SMEs*. The extent of the proposed changes varies from minor clarifications to amendments that change existing requirements. The proposed amendments that are likely to have the most significant effect on entities applying the *IFRS for SMEs* include:

– Aligning the requirements of **Section 29** – *Income tax* with those of IAS 12 *Income taxes*
– Relaxing the requirement for a fixed 10 year useful life for goodwill and intangible assets where a reliable estimate of useful life cannot be made, with the useful life instead being no more than 10 years
– Leases with interest rate variation clauses would be accounted for in accordance with **Section 20** – *Leases*, rather than as giving rise to a financial instrument to be measured as at fair value through profit or loss in accordance with **Section 12** – *Other Financial Instrument Issues*
– Liability components of a compound financial instrument would be accounted for in a manner similar to that of a standalone financial liability, rather than the current default treatment of amortised cost.

The ED has been published with a 150 day consultation period, with comments due by 3 March 2014.

Background

The *IFRS for SMEs* were originally released in July 2009 in response to requests for the IASB to develop global standards for SMEs. At that time, the IASB indicated its intention to carry out an initial comprehensive review to assess the first two years of implementation and determine whether amendments were necessary. The initial comprehensive review was subsequently initiated in 2012 with the IASB releasing a *Request for Information* to constituents in order to facilitate public feedback, as well as consultations with the *SME Implementation Group* (an advisory body to the IASB in relation to *IFRS for SMEs*).

After consideration of the feedback received, the IASB decided to propose making only limited amendments to *IFRS for SMEs*, the majority of which focus on clarifying existing requirements and/or adding additional supporting guidance. The one exception to this is a comprehensive change to **Section 29** – *Income taxes*, which has been revised so that it aligns more closely with the existing requirements of IAS 12 *Income Taxes*.

In total there a 57 proposed amendments, which the IASB has broken down into the following categories in the ED and *Snapshot* publication:

(i) 21 amendments relating to minor clarifications

(ii) 13 amendments relating to updates as a result of new or revised IFRSs

(iii) 7 amendments relating to the introduction of new guidance

(iv) 5 amendments relating to the changes in the requirements of *IFRS for SMEs*

(v) 5 amendments relating to new exemptions introduced to *IFRS of SMEs*

(vi) 3 amendments relating to guidance previously located in the *Questions & Answers* guidance developed by the SMEIG

(vii) 3 amendments relating to the simplification of disclosure requirements.

Summary of the proposals

The table below, ordered by Section, summarises the proposed amendments to the *IFRS for SMEs*.

Section	Proposed amendment	Nature of amendment/origin
Section 1 *Small and Medium-sized Entities*	*Scope* The proposed amendments would clarify the types of entities that hold assets in a fiduciary capacity (i.e. banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks). **Note: entities with public accountability are not intended to apply *IFRS for SMEs*.**	Minor clarification
	Use of IFRS for SMEs in parents separate financial statements The proposed amendments would clarify that when determining whether *IFRS for SMEs* can be applied to a parent's separate financial statements, the assessment is carried out on the parent alone and does not consider the public accountability of the group and/or other group entities.	*Questions & Answers* guidance developed by the SMEIG (2011/01)
Section 2 *Concepts and Pervasive Principles*	*Balance between benefit and cost* A new subsection and accompanying paragraphs would be added in respect of the undue cost or effort exemption found in various sections. The proposed amendments would clarify that undue cost or effort is dependent on the entity's specific circumstances and management's judgement thereof, which is to be determined based on the information that is available at the time of the transaction or event.	*Questions & Answers* guidance developed by the SMEIG (2012/01)
Section 4 *Statement of Financial Position*	*Disclosure of number of shares outstanding* The amendments propose that the reconciliation between the opening and closing number of shares outstanding would no longer be required for the prior period.	Simplified disclosure
Section 5 *Statement of Comprehensive Income and Income Statement*	*Single statement approach – impairment of discontinued operations* The proposed amendments would clarify that the single amount presented for discontinued operations includes any impairment.	Minor clarification
	Presentation of Items of Other Comprehensive Income The proposed amendments would require that items of other comprehensive income (OCI) are to be grouped separately depending on whether they will be, or will not be, subsequently reclassified to profit or loss.	New or revised IFRSs IAS 1 (Amendment) *Presentation of Items of Other Comprehensive Income* (2011)
Section 6 *Statement of Changes in Equity and Statement of Income and Retained Earnings*	*Analysis of each component of OCI* The proposed amendments would require that the analysis of each component of OCI be presented either in the: – Statement of changes in equity – Notes to the financial statements.	New or revised IFRSs IAS 1 (Amendment) *Improvements to IFRSs* (2010)

Section	Proposed amendment	Nature of amendment/origin
Section 9 *Consolidated and Separate Financial Statements*	*Subsidiaries acquired for disposal within one year* The proposed amendments would clarify that subsidiaries acquired with the intention of disposal within one year are not to be consolidated. Instead they would be accounted for as at fair value through profit or loss unless the fair value cannot be measured reliably, in which case they would be measured at cost less impairment.	Minor clarification
	Uniform reporting date The proposed amendments insert additional guidance for instances in which it is impracticable for a parent and subsidiary to have the same reporting date. In such cases, the most recent financial statements of the subsidiary would be used with adjustments being made for major transactions between the date of the subsidiary's financial statements and those of the parent's consolidated financial statements.	New guidance added
	Cumulative exchange differences relating to the translation of a foreign subsidiary upon disposal The proposed amendments would clarify that cumulative exchange differences relating to the translation of a foreign subsidiary are not reclassified to profit or loss upon disposal.	*Questions & Answers* guidance developed by the SMEIG (2012/04)
	Combined financial statements – Definition The proposed amendments would replace '*…two or more entities **controlled by a single investor***', with, '*…two or more entities **under common control***'.	Minor clarification
Section 11 *Basic Financial Instruments*	*Undue cost exemption – equity instruments at fair value* The proposed amendments would introduce an exemption for fair value measurement of equity instruments where the fair value cannot be determined without undue cost or effort. Disclosure would be required if this was the case.	New exemption
	Scope – Interaction with other IFRS for SMEs The proposed amendments would clarify how the scope of **Section 11** interacts with items recognised in other sections of *IFRS for SMEs* (i.e. items outside the scope of **Section 11** such as leases, share-based payments and financial instruments that meet the definition of an entity's own equity).	Minor clarification
	Basic financial instruments – debt instruments The proposed amendments would clarify that the following debt instruments would usually be considered to be basic financial instruments: – Foreign currency loans – Loans with ordinary lending covenants.	Minor clarification
	Fair value measurement The proposed amendments would clarify that the best evidence of fair value is a price in a binding sales agreement in an arm's length transaction or a quoted price for an identical asset in an active market.	Minor clarification

Section	Proposed amendment	Nature of amendment/origin
Section 12 *Other Financial Instruments Issues*	*Undue cost exemption – equity instruments at fair value* The proposed amendments would introduce an exemption for the fair value measurement of equity instruments where the fair value cannot be determined without undue cost or effort.	New exemption
	Scope – Interaction with other IFRS for SMEs The proposed amendments would clarify how the scope of **Section 12** interacts with items recognised in other sections of *IFRS for SMEs* (i.e. items outside the scope of **Section 12**, such as leases, share-based payments and financial instruments that meet the definition of an entity's own equity).	Minor clarification
	Subsequent measurement – hedging instruments The proposed amendments would clarify that certain fair value changes after the initial recognition of some hedging instruments are recognised initially in OCI (not profit or loss).	Minor clarification
	Cumulative amount of changes in the hedge of a net investment in a foreign operation upon disposal The proposed amendments would clarify that cumulative exchange differences relating to hedge of a net investment in a foreign operation are not reclassified to profit or loss upon disposal or partial disposal of the foreign operation.	Minor clarification
Section 17 *Property, Plant and Equipment*	*Spare parts, stand-by equipment, and servicing equipment* The proposed amendments would clarify that only spare parts, stand-by equipment, and servicing equipment that meet the definition of property, plant and equipment are recognised in accordance with **Section 17**, and are otherwise recognised in accordance with **Section 13** *Inventories*.	New or revised IFRSs IAS 16 (Amendment) *Annual Improvements 2009 – 2011 Cycle*
Section 18 *Intangible Assets other than Goodwill*	*Useful life – unable to make a reliable estimate* The proposed amendments would require that in instances where an entity is unable to make a reliable estimate of the useful life of an intangible asset, the useful life should now not exceed 10 years (currently, the requirement is that it is presumed to be 10 years).	Change in requirements
Section 19 *Business Combinations and Goodwill*	*Terminology – date of exchange* The proposed amendments would replace the term '***date of exchange***' with '***date of acquisition***'.	Minor clarification
	Allocating cost of a business combination The proposed amendments would clarify that the following items are to be measured in accordance with their respective Sections, rather than in accordance with **Section 19**: – Deferred tax assets/liabilities (**Section 29**) – Employee benefit liabilities/assets (**Section 28**).	Minor clarification
	Calculation of non-controlling interest The proposed amendments would require the measurement of non-controlling interest to be based on the proportionate share of the recognised amounts of the acquiree's identifiable net assets.	New guidance added
	Undue cost exemption – recognition of intangible assets The proposed amendments would introduce an exemption for the recognition of intangible assets in a business combination where fair value cannot be measured reliably without undue cost or effort.	New exemption
	Useful life of goodwill – unable to make a reliable estimate The proposed amendments would require that in instances where and entity is unable to make a reliable estimate of the useful life of goodwill, the useful life should now not exceed 10 years (currently, the requirement is that it is presumed to be 10 years).	Change in requirements

Section	Proposed amendment	Nature of amendment/origin
Section 20 *Leases*	*Scope – Leases with payments linked to variable market interest rates* The proposed amendments would require leases with payments linked to variable market interest rates to be accounted for in accordance with this Section (rather than at fair value through profit or loss in accordance with **Section 12**).	Change in requirements
	Scope – arrangements that are in-substance leases The proposed amendments would clarify that only some outsourcing arrangements, telecommunication contracts that provide rights to capacity, and take-or-pay contracts, are in-substance leases (i.e. they convey rights to use assets in return for payments).	Minor clarification
Section 22 *Liabilities and Equity*	*Classification – Equity vs. Liability* The proposed amendments would introduce additional guidance regarding the classification of financial instruments as equity or liability, including: – Classification is based on substance rather than legal form – Clarification that, where an entity does not have an unconditional right to avoid delivering cash or another financial asset, the obligation is a financial liability.	New guidance added
	Measurement of equity instruments at fair value The proposed amendments would exempt equity instruments issued as part of a business combination (including those under common control) to be measured at the fair value of the cash or other resources received or receivable. Instead, for business combinations (excluding those under common control, which are outside the scope of **Section 19**) the equity instruments would be measured at their fair value.	Minor clarification
	Extinguishing financial liabilities with equity instruments The proposed amendments would incorporate the conclusions of IFRIC 19 in respect of debt for equity swaps when a financial liability is extinguished through the issue of an entity's own equity instruments.	New or revised IFRSs IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments*
	Equity transactions – treatment of transaction costs and associated income tax The proposed amendments would clarify that for equity transactions: – Transaction costs are accounted for as a deduction from equity – Income tax related to transaction costs is accounted for in accordance with **Section 29**.	New or revised IFRSs IAS 32 *Annual Improvements 2009 – 2011 Cycle*
	Compound financial instruments – liability component The proposed amendments would require that the liability component of a compound financial instrument is accounted for in accordance with **Section 11** (i.e. as if it was a stand-alone financial liability).	Change in requirements
	Non-cash settlement of dividends payable The proposed amendments would introduce guidance that the difference between the carrying amounts of dividends payable and non-cash asset(s) transferred is taken to profit or loss.	New guidance added
	Non-cash settlement of dividends payable – non-cash asset(s) ultimate controlled by the same party In relation to the above, the proposed amendments would prohibit the above guidance being applied in instances where the non-cash asset(s) are ultimate controlled by the same party before and after transfer.	New exemption

Section	Proposed amendment	Nature of amendment/origin
Section 26 *Share-based Payment*	*Scope and definitions* The proposed amendments would align both the scope and definitions with those in IFRS 2 *Share based Payment*, and in turn clarify that share-based payment transactions involving equity instruments of other group entities are in the scope of **Section 26**.	Minor clarification
	Unidentifiable goods and services The proposed amendments would introduce new guidance that would result in **Section 26** being applicable to all share-based payments where the identifiable consideration received is less than the fair value of the equity instruments granted or the liability incurred (and not only when such share-based payments are required by law).	New guidance added
	Vesting conditions The proposed amendments would clarify the treatment for vesting conditions, including vesting conditions related to: – Employee services – Non-market performance condition. Three new definitions would also be added to the glossary.	Minor clarification
	Modifications to the grant terms and conditions The proposed amendments would clarify that the requirements, relating to modifications of share-based payments which are measured by reference to the fair value of the equity instruments granted, apply to all share-based payments (not only those made to employees).	Minor clarification
	Group plans The proposed amendments would clarify that the simplified approach for accounting for group plans that is afforded to entities where the group presents consolidated financial statements in accordance with either full IFRS or *IFRS for SMEs*, only provides relief from measurement requirements, and not from the recognition of share-based payments.	Minor clarification
Section 27 *Impairment of Assets*	*Scope exclusion – Construction Contracts* The proposed amendments would clarify that **Section 27** does not apply assets arising from construction contracts.	Minor clarification
Section 28 *Employee Benefits*	*Other long-term employee benefits* The proposed amendments would clarify that the certain changes in the net benefit obligation during the period are recognised separately in profit or loss, rather than being included in the cost of long term employee benefits for the period. These are changes in the net benefit obligation arising from: – Benefits paid to employees – Contributions from the employer.	Minor clarification
	Termination benefit disclosures The proposed amendments would remove the requirement for an entity to disclose its accounting policy in relation to termination benefits.	Simplified disclosure

Section	Proposed amendment	Nature of amendment/origin
Section 29 *Income tax*	*Significant changes to align with IAS 12 Income Taxes* When *IFRS for SMEs* was initially published **Section 29** was based on the then proposed changes to IAS 12 *Income taxes*. These changes were never finalised by the IASB, and resulted in full IFRS and *IFRS for SMEs* in certain respects being very different. The proposed amendments would align the requirements of **Section 29** with the current requirements of IAS 12.	Change in requirements
	Undue cost exemption – intention to offset income tax assets and liabilities The proposed amendments would introduce an exemption for the offset of income tax assets and liabilities when the intention for an entity to either settle on a net basis or to realise/settle the asset/liability simultaneously cannot be determined without undue cost or effort.	New exemption
Section 30 *Foreign Currency Translation*	*Scope exclusion – Financial instruments that derive their value from the change in a specified foreign exchange rate* The proposed amendments would clarify that financial instruments that derive their value from the change in a specified foreign exchange rate are not accounted for in accordance with this Section (instead they are accounted for in accordance with **Section 12** *Other Financial Instruments Issues*).	Minor clarification
Section 33 *Related Party Disclosures*	*Terminology – Related party* The proposed amendments would align the definition of a related party with IAS 24 *Related Party Disclosures (2009).*	Minor clarification
Section 34 *Specialised Activities*	*Disclosure of the carrying amount of biological assets* The amendments propose that the reconciliation between the opening and closing carrying values of biological assets is no longer required for comparative periods.	Simplified disclosure
	Exploration for, and evaluation of, mineral resources The proposed amendments would introduce new guidance, including: – That an accounting policy should be developed in accordance with **Section 10** in relation to which expenditures are recognised as exploration and evaluation assets – Initially, exploration and evaluation assets are measured at cost – Subsequently, exploration and evaluation assets are measured in accordance with **Section 17** *Property, Plant and Equipment* or **Section 18** *Intangible Assets* depending on their nature – Mineral resource development costs (after the E&E phase) are not capitalised as exploration and evaluation assets – Obligations to dismantle or remove an item, and site restoration obligations, are accounted for in accordance with **Section 17** and **Section 21** *Provisions and Contingencies*.	New guidance added

Section	Proposed amendment	Nature of amendment/origin
Section 35 *Transition to the IFRS for SMEs*	*Repeat application of IFRS* The proposed amendments would allow an entity, who had previously transitioned to *IFRS for SMEs* but whose most recent financial statements did not contain an unreserved statement of compliance with *IFRS for SMEs*, an accounting policy choice to either: – Reapply **Section 35** – Apply **Section 10** as if the entity had never stopped applying *IFRS for SMEs*.	New or revised IFRSs IFRS 1 *Annual Improvements 2009 – 2011 Cycle*
	Government loans The proposed amendments would require an entity that had government loans as at the date of transition to *IFRS for SMEs* to: – Recognise government loans in accordance with local GAAP up until its transition date – Recognise government loans in accordance with the *IFRS for SMEs* from the date of transition. Therefore, there is no retrospective recognition of the benefit in relation to government loans issued at a below-market rate of interest prior to transition date.	New or revised IFRSs IFRS 1 *Amendments – Government Loans*
	Event-driven fair values as deemed cost The proposed amendments would allow first-time adopters of *IFRS for SMEs* to determine 'deemed cost' by reference to event-driven fair values (e.g. business valuation). If the measurement date is at or before the date of transition to the *IFRS for SMEs*, that fair value may be used as deemed cost. If the measurement date is after the date of transition to the *IFRS for SMEs*, that fair value measurement may be used as deemed cost when the event giving rise to fair value measurement takes place.	New or revised IFRSs IFRS 1 (Amendment) *Improvements to IFRSs* (2010)
	Use of deemed cost for operations subject to rate regulation The proposed amendments would allow first-time adopters of *IFRS for SMEs* to use the previous carrying amounts of items of property, plant and equipment or intangible assets under local GAAP as deemed cost on transition in instances where those items were used in operations subject to rate-regulation.	New or revised IFRSs IFRS 1 (Amendment) *Improvements to IFRSs* (2010)
	Severe hyperinflation The proposed amendments would introduce additional guidance for those entities operating in jurisdictions subject to hyper-inflation, as well as new definitions in the glossary.	New or revised IFRSs IFRS 1 *Amendments – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*
	Exemption from restatement The proposed amendments would simplify the wording related to the exemption from restatement of financial information upon adoption of *IFRS for SMEs*.	Minor clarification
Glossary	*Amended definitions* Definitions of the following terms would be amended: – Financial liability – Separate financial statements – Substantively enacted.	Minor clarification
	New definitions Definitions of the following terms would be added: – Active market – Close members of the family of a person – Foreign operation – Minimum lease payments – Transaction costs.	Minor clarification

Effective date and comment period

The ED has been published with a 150 day consultation period, with comments due by 3 March 2014. At this point, no effective date has been proposed by the IASB.

www.bdointernational.com

1311-01