

IFRS for SMEs Fact Sheet

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Project history

- Project was carried forward from the former IASC agenda. IASB deliberations began in July 2003.
- June 2004: Publication of the discussion paper (DP) *Preliminary Views on Accounting Standards for Small and Medium-sized Entities*; comment deadline 24 September 2004
- April 2005: Staff *Questionnaire on Possible Recognition and Measurement Modifications for Small and Medium-sized Entities (SMEs)*.
- October 2005: Public round-table discussions with the Board on recognition and measurement simplifications.
- July 2003 - February 2007: Deliberation of the issues by the Board at 31 public Board meetings.
- August 2006: A complete staff draft of the exposure draft (ED) is posted on the IASB website
- November 2006: A revised staff draft is posted on the IASB website.
- February 2007: Publication of the ED (English language); comment deadline 30 November 2007. Translations into four languages posted subsequently.
- April 2007: Publication of a staff overview of the ED on the IASB's website.
- June 2007: Field-testing of the ED with the participation of 116 small companies in 20 countries
- November 2007: End of the comment period; 162 comment letters received.
- March – April 2008: Staff present to the Board an overview of the main issues raised in the comment letters and field tests.

- April 2008: Working Group submits comprehensive recommendations for possible changes to the ED.
- May 2008 — April 2009: Board redeliberations of the proposals in the ED at 13 public Board meetings.
- April 2009: Board decides that the name of the final standard will be *International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs)*, as proposed in the ED.
- June 2009: 13 Board members vote in favour, 1 dissenting opinion.
- July 2009: Publication of the *IFRS for SMEs*

Outreach and consultation

- Project discussed with the Standards Advisory Council at seven SAC meetings.
- World Accounting Standard-Setters: Project discussed at five annual meetings of the World Accounting Standard-Setters hosted by the IASB (2003, 2005, 2006, 2007, 2008).
- Working Group meetings: The Working Group met four times to discuss the issues and provide advice to the Board (2003, 2005, 2006, 2008)
- Translations: The ED was translated into five languages to increase outreach:
 - Spanish April 2007
 - French May 2007
 - German June 2007
 - Polish September 2007
 - Romanian September 2007
- Field testing: A questionnaire on the ED was posted on the IASB's website in June 2007 in English, French and Spanish. Deadline for submitting field test reports 30 November 2007. Field testers asked to restate their most recent financial statements using the ED and respond to a questionnaire. Responses received from 116 SMEs in 20 countries.
- IASB deliberations: The IASB discussed the project in a total of 44 public meetings.
- Presentations and conferences: With the objectives of encouraging SMEs and smaller auditing firms to become familiar with the IASB and the SMEs project, the staff undertook a comprehensive outreach programme that involved presentations at 104 conferences and round tables in 40 countries, including 55 presentations after the ED was published.
- Webcasts: The IASB explained the ED and responded to questions in two public webcasts for which nearly 1,000 participants registered.

About the *IFRS for SMEs*

Five types of simplifications

The *IFRS for SMEs* contains five types of simplifications of full IFRSs:

- some topics in IFRSs are omitted because they are not relevant to typical SMEs
- some accounting policy options in full IFRSs are not allowed because a more simplified method is available to SMEs
- simplification of many of the recognition and measurement principles that are in full IFRSs
- substantially fewer disclosures
- simplified redrafting

Omitted topics

The *IFRS for SMEs* does not address the following topics that are covered in full IFRSs:

- earnings per share
- interim financial reporting
- segment reporting
- special accounting for assets held for sale

Examples of options in full IFRSs NOT included in the *IFRS for SMEs*

- financial instrument options, including available-for-sale, held-to-maturity and fair value options
- the revaluation model for property, plant and equipment, and for intangible assets
- proportionate consolidation for investments in jointly-controlled entities
- for investment property, measurement is driven by circumstances rather than allowing an accounting policy choice between the cost and fair value models
- various options for government grants.

Recognition and measurement simplifications

The main simplifications to the recognition and measurement principles in full IFRSs include:

- **Financial instruments:**
 - Financial instruments meeting specified criteria are measured at cost or amortised cost. All others are measured at fair value through profit or loss. This avoids the inherent complexities of classifying financial instruments into four categories, such as assessing management's intentions and dealing with 'tainting provisions'.
 - The IFRS establishes a simple principle for derecognition. The 'pass-through' and 'continuing involvement' tests in full IFRSs are dropped.
 - Hedge accounting requirements, including the detailed calculations, are simplified and tailored for SMEs.
- **Goodwill and other indefinite-life intangible assets** — Always amortised over their estimated useful lives (ten years if useful life cannot be estimated reliably).

- **Investments in associates and joint ventures** - can be measured at cost unless there is a published price quotation (when fair value must be used).
- **Research and development costs** — must be recognised as expenses.
- **Borrowing costs** — must be recognised as expenses.
- **Property, plant and equipment and intangible assets** - Residual value, useful life and depreciation method for items of property, plant and equipment, and amortisation period/method for intangible assets, need to be reviewed only if there is an indication they may have changed since the most recent annual reporting date (full IFRSs require an annual review).
- **Defined benefit plans:**
 - All past service cost must be recognised immediately in profit or loss.
 - All actuarial gains and losses must be recognised immediately either in profit or loss or other comprehensive income.
 - An entity is required to use the projected unit credit method to measure its defined benefit obligation and the related expense only if it is possible to do so without undue cost or effort.
- **Income tax** — Requirements follow the approach set out in the Board's ED *Income Tax*, published in March 2009, which proposes a simplified replacement for IAS 12 *Income Taxes*.
- **No separate held-for-sale classification** — Instead, holding an asset (or group of assets) for sale is an impairment indicator.
- **Biological assets** — The fair value through profit or loss model is required for biological assets only when fair value is readily determinable without undue cost or effort. Otherwise, SMEs follow the cost-depreciation-impairment model.
- **Equity-settled share-based payment** — The directors' best estimate of the fair value of the equity-settled share-based payment is used to measure the expense if observable market prices are not available.

Main changes from the ED

The main changes that resulted from the Board's redeliberations of the recognition, measurement and presentation principles proposed in the ED include:

- **Making the IFRS a stand-alone document** (eliminating all but one of the 23 cross-references to full IFRSs that had been proposed in the ED, with the one remaining cross-reference providing an option, but not a requirement, to follow IAS 39 *Financial Instruments: Recognition and Measurement* instead of the two financial instruments sections of the *IFRS for SMEs*).
- **Eliminating most of the complex options and adding guidance on the remaining ones** (thereby removing the cross-references to full IFRSs proposed in the ED).

- **Omitting topics that typical SMEs are not likely to encounter** (thereby removing the cross-references to full IFRSs proposed in the ED).
- **Not anticipating possible future changes to IFRSs.**
- **Eliminating references to the pronouncements of other standard-setting bodies** as a source of guidance when the *IFRS for SMEs* does not address an accounting issue directly.
- **Restructuring of the single section on financial instruments in the ED into two sections** (Section 11 *Basic Financial Instruments* and Section 12 *Other Financial Instruments Issues*) and clarifying that amortised cost is applied to nearly all the basic financial instruments held or issued by SMEs.
- **Eliminating proportionate consolidation as an option** for investments in jointly controlled entities.
- **Removing the distinction between distributions from pre-acquisition and post-acquisition profits for investments accounted for by the cost method** and, instead, recognising all dividends received in profit or loss.
- **Eliminating the requirement** of a maximum three-month difference between the reporting date of the associate or jointly controlled entity and that of the investor when applying the equity method.
- **Requiring an entity to choose its accounting policy for investment property on the basis of circumstances**, rather than as a free choice option. Investment property whose fair value can be measured reliably without undue cost or effort will be measured at fair value through profit or loss. All other investment property will be accounted for as property, plant and equipment using a cost-depreciation-impairment model.
- **Not requiring an annual review of residual value**, useful life and depreciation method of property, plant and equipment and intangible assets.
- **Not permitting a revaluation option for property, plant and equipment.**
- **Not permitting a revaluation option for intangibles.**
- **Amortising all indefinite-life intangibles, including goodwill.**
- **Recognising as expenses all research and development costs.**
- **Incorporating 'present value of minimum lease payments' into the measurement of a finance lease.**
- **Allowing other than the straight-line method by lessees for operating leases** when the minimum lease payments are structured to compensate the lessor for expected general inflation.
- **Incorporating into the *IFRS for SMEs* the February 2008 'puttables' amendments to IAS 32 *Financial Instruments: Presentation* and IAS 1 *Presentation of Financial Statements*.**
- **Requiring all government grants to be accounted for using a single, simplified model:** recognition in income when the performance conditions are met (or earlier if there are no performance conditions) and measurement at the fair value of the asset received or receivable.

- **Recognising as expenses all borrowing costs.**
- **Adding further simplifications for share-based payments**, including directors' valuations, rather than the intrinsic value method.
- **Allowing subsidiaries to measure employee benefit and share-based payment expense** on the basis of a reasonable allocation of the group charge.
- **Adding value-in-use measurement for asset impairments.**
- **Introducing the notion of cash-generating unit for testing asset impairments.**
- **Simplifying the guidance for calculating impairment of goodwill.**
- **Simplifying the measurement of a defined benefit pension obligation** if a 'projected unit credit' measurement is not available and would require undue cost or effort.
- **Permitting recognition of actuarial gains and losses in other comprehensive income** as an alternative to recognition in profit or loss (while retaining the proposal in the exposure draft to prohibit deferral of actuarial gains and losses).
- **Eliminating the held-for-sale asset classification and related special measurement requirements.**
- **Incorporating into Section 35 *Transition to the IFRS for SMEs* all the exemptions in IFRS 1 *First-time Adoption of International Financial Reporting Standards*.**
- **Incorporating the conclusions of the following Interpretations**, which address transactions and circumstances that SMEs often encounter:
 - IFRIC 2 *Members' Shares in Co-operative Entities and Similar Instruments*
 - IFRIC 4 *Determining whether an Arrangement contains a Lease*
 - IFRIC 8 *Scope of IFRS 2*
 - IFRIC 12 *Service Concession Arrangements*
 - IFRIC 13 *Customer Loyalty Programmes*
 - IFRIC 15 *Agreements for the Construction of Real Estate*
 - IFRIC 17 *Distributions of Non-cash Assets to Owners*
 - SIC-12 *Consolidation—Special Purpose Entities*