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**International  
Accounting Standards  
Board**

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These notes are based on the staff papers prepared for the IASB. Paragraph numbers correspond to paragraph numbers used in the IASB papers. However, because these notes are less detailed, some paragraph numbers are not used.*

### **INFORMATION FOR OBSERVERS**

**Board Meeting:** September 2008, London

**Project:** IFRS for Private Entities (formerly IFRS for SMEs)

**Subject:** Redeliberation – Issues Relating to Sections 28 to 38 in the ED (Agenda Paper 6A)

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1. For the September 2008 Board meeting, the private entity agenda papers are organised as follows:
  - **Agenda Paper 6** – Overview
  - **Agenda Paper 6A** – Issues Relating to Exposure Draft (ED) Sections 28-38
  - **Agenda Paper 6B** – Issues relating to disclosure, including Working Group (WG) recommendations
2. This agenda paper (Agenda Paper 6A) sets out issues relating to Sections 28-38 in the ED of a proposed IFRS for SMEs (to be retitled IFRS for Private Entities). The body of Agenda Paper 6A is exactly the same as Agenda Paper 8A from the July 2008 Board meeting (including paragraph numbers), except Sections 13-27 have been removed as they were discussed at the July meeting, and also staff have amended the following two issues relating to Section 36:
  - **Issue 36.1: Eliminate held for sale classification** – Staff have not changed the substance of their recommendation. However, staff have now added to their recommendation that certain simple additional disclosures should be required to satisfy user needs if the 'held for sale' classification is eliminated. Those specific disclosures are proposed under Question 66 in Agenda Paper 6B.



- f. Do not require tax consequences of transactions to be attributed to discontinued operations or equity as this is complex.
203. **Field tests.** Several field test entities feel that deferred tax is too complex for them. However, a few other field test entities support deferred tax requirements as deferred tax is useful information for assessing cash flows. Several entities had problems with areas of Section 28. Some of the more significant issues identified include:
- a. Explanation of the underlying concept should be improved. It would be easier if the IASB used only one concept, either the timing or the temporary difference concept.
  - b. Problems measuring temporary differences. Measurements in the field test entity's restated financial statements are 'rough' or are not finalised.
  - c. The concept of recognising a deferred tax asset is not practical for private entities since private entities do not prepare the necessary budgets/forecasts. A few field test entities noted particular problems with tax loss carry forwards as the entities only prepared limited forecasts
  - d. Problems determining tax rates where, depending on the level of profits of the year, the entity may use a "reduced rate" on part of or all its profits.
  - e. Difficulties understanding certain paragraphs, for example ED paragraph 28.17 on initial recognition and ED paragraph 28.25 on measuring deferred tax at the rates applicable to undistributed profits.
  - f. 28.18 should note that if an entity considers the timing differences to be insignificant then there is no need to recognise deferred tax.
  - g. 28.18(b) should provide the same exemption for unremitted earnings of local subsidiaries as it does for foreign subsidiaries.
204. **WG recommendation.** WG members did not express a clear consensus on how private entities should account for income taxes; however the majority felt that the requirements as proposed in the ED are too complex for private entities. More WG members leaned toward the taxes payable method than any other method, supported by some note disclosures about tax deferrals. More WG members favoured a timing difference approach than the proposed temporary difference approach as a simplification because comparing the income statement and the tax return is relatively straightforward. There was also support for either not recognising deferred tax assets at all or restricting deferred tax assets to those that are deemed to be realisable in the very short term such as one or two years, because private entities often do not have accurate cash flow budgets.
205. **Staff recommendation.** Staff recommend that the taxes payable method is required for private entities on the grounds of cost-benefits. This is one of the most common areas of the ED that is highlighted by respondents as complex and burdensome. Requiring the taxes payable method would be seen as a significant concession and would significantly increase acceptance of the IFRS for Private Entities. Staff also note that South Africa have adopted the ED word for word as South African GAAP (effective 2007) and to date deferred tax has been one of the only two significant problem areas that have arisen on application. Staff recommend that this method is supplemented by appropriate disclosures in order to provide users with relevant information on deferred taxes. Such disclosure, at a

minimum, would include information on the implication of temporary differences arising in the current period that will have an impact on the amount paid to or recovered from authorities. Staff support the taxes payable approach for private entities for the following reasons:

- a. Deferred tax is an area that is not well understood by both preparers and users of private entity financial statements. The deferred tax requirements may be applied incorrectly if they are not clearly understood. Also many users of private entity financial statements are less sophisticated than users of listed entity financial statements and will often be unable to appreciate the significance of deferred tax information. Accounting for taxes using the taxes payable method with appropriate clear and simple disclosures of relevant information on the impact of temporary differences is likely to be applied well by private entities and will be better understood by many users. Therefore, in many cases, this will lead to more accurate and useful information.
- b. The continual tracking in subsequent years of the values of deferred tax assets and liabilities, once determined, is very expensive and would require substantial organisational effort. Private entities often have limited resources so will find such requirements burdensome.
- c. Some respondents feel that since the proposals prohibit discounting for deferred taxes, this could lead to large assets or liabilities that do not necessarily reflect the underlying economics of an entity's tax position or allow users of financial statements to predict tax cash flows in the future.
- d. Private entities would not be prohibited from provided additional detailed disclosure about deferred taxes in the notes to their financial statements.

**Question 28.1**

***Does the Board agree with the staff recommendation that the ED should be changed to require that the taxes payable method is applied by private entities on the grounds of cost-benefits, supplemented by suitable disclosures?***

**Section 29 Financial Reporting in Hyperinflationary Economies**

**Issue 29.1: Existence of hyperinflation**

206. **Comment letters.** Normally existence of hyperinflation is decided on a country-wide basis for consistency and so the criteria for assessing if an economy is hyperinflationary should be the same as IAS 29 *Financial Reporting in Hyperinflationary Economies*, rather than just having the numerical test that cumulative inflation over 3 years should approach or exceed 100 per cent.
207. **Field tests.** No related comments as not relevant to any of the field test entities.
208. **WG recommendation.** Not discussed.
209. **Staff recommendation.** Staff recommend all of the criteria for assessing if an economy is hyperinflationary in IAS 29.3 should be added to Section 29 to ensure a consistent approach in each country. The purely numerical approach to identifying whether there is a hyperinflationary economy in the ED (ie 100 per cent in 3 years) may give a different answer to IAS 29's more judgmental approach. Also staff feel there is no need to simplify the characteristics for

private entities since whether or not a country is considered to be experiencing hyperinflation is generally determined by a consensus of the accounting profession, rather than by each entity individually. It would be simpler for private entities to use the same criteria and reach the same outcome to determine existence of hyperinflation as used by publicly accountable entities operating in that economy. Staff note that, at the May 2008 meeting, the Board decided to bring hyperinflation into the IFRS for Private Entities, rather than addressing it by cross-reference to IAS 29.

**Question 29.1**

***Does the Board agree with the staff recommendation that all of the IAS 29 characteristics of hyperinflation should be added to Section 29?***

**Section 30 Foreign Currency Translation**

**Issue 30.1: Foreign currency translation – if financial statements must be presented in the national currency can that be the functional currency**

210. **Comment letters.** Where the law requires that financial statements must be presented in the national currency, allow that to be used as the functional currency.
211. **Field tests.** Private entities should not need to apply functional currency requirements since the presentation currency required by law is the local currency and it would be costly and unnecessary to keep financial statements in both the functional and presentation currencies.
212. **WG recommendation.** Where the law requires that financial statements must be presented in the national currency, WG members would allow that national currency to be deemed as the functional currency.
213. **Staff recommendation.** Staff agree with the WG recommendation. Staff acknowledge that, in the unusual case where a private entity's functional currency is not its national currency, presenting financial statements in the true functional currency would provide information about the entity that better reflects the economic substance of the underlying events and circumstances relevant to that entity. However, staff feel for cost-benefit reasons there should be an exemption from presenting financial statements in the true functional currency when law requires financial statements to be presented in the national currency and this is not the same as the functional currency. For private entities, such an exemption would significantly reduce the costs without significantly reducing the usefulness of the information presented.

**Question 30.1**

***Does the Board agree with the staff recommendation that the ED should be amended to state where the law requires that financial statements must be presented in the national currency, private entities should be given the option to deem the national currency as their functional currency?***

**Issue 30.2: Translation – recycling of cumulative exchange difference in equity**

214. **Comment letters.** Do not require, or possibly even prohibit, recognition of cumulative exchange differences deferred in equity in profit and loss when the gain or loss on disposal of a foreign operation is recognised, to avoid the administrative burden of tracking historical exchange rates.
215. **Field tests.** No related comments.
216. **WG recommendation.** WG members would leave cumulative exchange differences in equity on disposal of a foreign operation.
217. **Staff recommendation.** Staff recommend that private entities should be prohibited from recycling cumulative exchange differences due to the significant administrative burden needed to track such historical exchange differences. Staff do not recommend that private entities are given the option to recycle such exchange differences. Staff feel that simplification should have precedence over comparability with full IFRSs. At the May 2008 meeting, the Board decided that the IFRS for Private Entities should reflect the requirements of IAS 1 (2007) *Presentation of Financial Statements*. This means that private entities will be presenting a statement of comprehensive income. Consequently, all exchange differences will be reported in the statement of comprehensive income when they arise, making recycling less of an issue.

**Question 30.2**

***Does the Board agree with the staff recommendation that the ED should be amended to prohibit private entities from recycling cumulative exchange differences deferred in equity in profit and loss when the gain or loss on disposal of a foreign operation is recognised?***

**Section 33 Related Party Disclosures**

**Issue 33.1: Related parties – disclosure of sensitive information**

218. **Comment letters.** Section 33 should be amended for the requirements in the Exposure Draft of Amendments to IAS 24 *Related Parties* if that amendment is finalised before the IFRS for Private Entities is issued.
219. **Field tests.** No related comments.
220. **WG recommendation.** Not discussed.
221. **Staff comment:** Several other issues relating to Section 33 were raised. Other Section 33 issues will be covered together with other disclosure issues in later Board papers.

222. **Staff recommendation.** Staff recommend that the Exposure Draft of Amendments to IAS 24 is considered if finalised before the IFRS for Private Entities is completed for the following reasons:
- a. The main objective of the proposed changes to IAS 24 is to reduce disclosure requirements for some entities that are related only because they are each state-controlled or significantly influenced by the state. This issue is relevant to private entities in such jurisdictions. Reducing disclosure requirements is in line with the objective of simplification of requirements for private entities.
  - b. The Proposed Amendments to IAS 24 also intend to improve the wording used in IAS 24, in particular to make the definition of a related party easier to understand and interpret. In many cases Section 33 adopts the same or similar wording to IAS 24 and the IAS 24 definition of a related party is used. Hence, considering the changes in the final amendments to IAS 24 may lead to simplification.
  - c. The Proposed Amendments are intended to rectify some inconsistencies in IAS 24 and, hence, those inconsistencies should also be amended in the IFRS for Private Entities.

**Question 33.1**

***Does the Board agree with the staff recommendation that the final amendments to IAS 24 should be reflected in the IFRS for Private Entities?***

**Section 35 Specialised Industries**

**Issue 35.1: Agriculture – allow cost model as an option**

223. **Comment letters.** Respondents recommended greater use of cost, for example, by allowing the cost method as an accounting policy choice or by requiring fair value only in certain circumstances.
224. **Field tests.** In this section, all significant issues identified by field test entities relate to agriculture and mainly focus on use of fair values. Of the few entities needing to apply this section, most had problems with the requirement to use fair values for biological assets and agricultural produce and feel the cost model should be allowed because fair values are either not available, or because undue cost and effort is required to determine such values.
225. **WG recommendation.** WG members felt that the addition of an ‘undue cost or effort’ criterion for use of fair value of agricultural assets is appropriate and, therefore, the approach in Section 35 should not be changed.
226. **Staff comment.** ED paragraph 35.1 sets out the following approach
- 35.1 An entity using this [draft] standard that is engaged in agricultural activity shall determine, for each of its biological assets, whether the fair value of that biological asset is readily determinable without undue cost or effort:
- (a) The entity shall apply the fair value model in paragraphs 10–29 of IAS 41 Agriculture to account for those biological assets whose fair value is readily determinable without undue cost or effort, and the entity shall make all related disclosures required by IAS 41.

- (b) The entity shall measure at cost less any accumulated depreciation and any accumulated impairment losses those biological assets whose fair value is not readily determinable without undue cost or effort. The entity shall disclose, for such biological asset(s)...

227. **Staff recommendation.** Staff agree with the WG recommendation that the current approach in Section 35 provides appropriate simplification for a private entity and there is no need to allow the cost model as an accounting policy choice for the following reasons:
- a. For agriculture, measurement at fair value is normally considered to be a simpler requirement than measurement at cost. Quoted prices are often readily available, markets are active, and measuring cost is usually more burdensome and arbitrary because of the extensive allocations required.
  - b. Fair value is generally regarded as a more relevant measure in this industry. Managers of most private entities that undertake agricultural activities say that they manage biological assets on the basis of market prices or other measures of current value rather than historical costs. Users also question the meaningfulness of allocated costs in this industry.
  - c. Staff acknowledge in some cases fair values may not be available, particularly when applied to biological assets of those private entities operating in inactive markets or developing countries. However staff feel that the 'undue cost or effort' criterion caters adequately for such situations. Staff feel that more guidance may be necessary to ensure the 'undue cost or effort' criterion is applied appropriately.

**Question 35.1**

*Does the Board agree with the staff recommendation that the ED should not be amended to provide the cost model as an accounting policy choice for agricultural private entities and that the requirement to apply fair value measurement, with an 'undue cost or effort' criterion as proposed in the ED is a sufficient simplification for private entities?*

**Section 36 Discontinued Operations and Assets Held for Sale**

**Issue 36.1: Eliminate held for sale classification [Staff recommendation amended from Agenda Paper 8A July 2008]**

228. **Comment letters.** Remove the held for sale classification, or require note disclosure only. A few respondents said requirements could be briefly addressed within relevant sections, for example, in Section 16 *Property, Plant and Equipment*. Others said that holding an asset for sale could just be treated as an impairment indicator under Section 26 *Impairment of Non-financial Assets*, which would automatically trigger an impairment assessment and calculation.
229. **Field tests.** Several field test entities do not think that separate measurement requirements for discontinued operations and assets held for sale are necessary for private entities as they are too burdensome and costly, with limited benefits for users of their financial statements. Some additional significant issues identified include:

- a. Difficult to identify cash flows connected with discontinued operations and assets held for sale.
  - b. Difficult to determine fair value less costs to sell for held for sale items, for example for certain buildings.
  - c. Difficult to determine when an asset should be classified as held for sale. More guidance is necessary.
230. **WG recommendation.** WG members felt there is no need for a held for sale classification for private entities. Instead the impairment requirements in the individual sections of the IFRS for Private Entities cover this. The only substantive difference would be continued depreciation of non-current assets held for sale.
231. **Staff recommendation.** Staff agree with the WG recommendation for cost-benefit reasons. Staff note that the impairment requirements in the ED would ensure that assets are not overstated in the financial statements, and this should be clarified by adding the decision to sell an asset (group of assets) in the near future as an indicator of impairment. Staff acknowledge that information on assets and liabilities identified for disposal in the near future is useful to users. However, in most cases the needs of users of private entity financial statements would be met by simple disclosure requirements, removing the need for the additional ‘held for sale’ category and its relatively complex measurement requirements. In Agenda Paper 6B (see the staff recommendation to Question 66), staff propose adding simple disclosure requirements when there is a binding sale agreement or a formal plan for a major disposal of assets, or a group of assets and liabilities (e.g. disclose the carrying amount of those assets/liabilities and give a description of the particulars of the planned sale). Staff suggest the particulars to be disclosed are discussed when Agenda Paper 6B is considered.

**Question 36.1**

*Does the Board agree with the staff recommendation that there should be no ‘held for sale’ classification and hence the requirements for assets held for sale should be dropped from Section 36 – instead the decision to sell an asset should be added to Section 26 as an impairment indicator and simple additional disclosures should be provided to supply users with useful information?*

**Issue 36.2: Discontinued operations – simplify or eliminate this disclosure [Staff recommendation changed from Agenda Paper 8A July 2008]**

- 232. **Comment letters.** Simplify (or even eliminate) discontinued operations disclosures and restatements.
- 233. **Field tests.** See comments for Issue 36.1 above.
- 234. **WG recommendation.** WG members recommended that prior period financial statements not be restated to segregate a discontinued operation.
- 235. **Staff comment.** Issue 36.2 addresses only whether private entities should be required to identify and segregate amounts for discontinued operations in the statement of comprehensive income in the current and comparative periods. That is, Issue 36.2 is a presentation issue. The staff recommendation regarding the

level of detail that should be disclosed for discontinued operations will be discussed under Question 65 in Agenda Paper 6B.

236. **Staff recommendation.** Staff do not agree with the WG recommendation. Staff would require (not just encourage) presentation of comparative information for discontinued operations in the statement of comprehensive income to show the impact of such a major change in the business. Staff feel it is particularly important for users of financial statements to be able to make comparisons between periods when such a significant change in the business is taking place
237. Most private entity business environments are stable, and frequent changes due to investments and divestitures undergone by large multinational entities are not typical. A restatement requirement would not be burdensome for the vast majority of private entities, because private entities will seldom sell or dispose of a significant part of their business. Therefore, for private entities, the need to disclose information for discontinued operations will be rare. Staff note that there is already an ‘impracticability’ exemption in the ED from presenting prior period information under ED paragraph 5.3(e).
238. Staff feel that if these changes and the recommendations in Issue 36.1 for held for sale items are adopted, then Section 36 can be deleted and the requirements for disclosure of a discontinued operation can be added to the section of the IFRS for Private Entities dealing with the statement of comprehensive income (Section 5 of the ED). Staff note that the definition of a discontinued operation currently refers to assets held for sale and so the definition will need to be rewritten if the held for sale classification is dropped.

**Question 36.2**

*Does the Board agree with the staff recommendation that private entities should be required to identify and segregate amounts for discontinued operations in the statement of comprehensive income for the current and all prior periods presented in the financial statements as proposed in the ED?*

**Section 38 Transition to the IFRS for SMEs**

**Issue 38.1: First-time adoption of the IFRS for Private Entities – include all IFRS 1 exemptions**

239. **Comment letters.** The majority of respondents were happy with the approach in Section 38. However, a significant number of these suggested modifications. One frequent suggestion is to include all of the IFRS 1 optional exemptions for first time adopters, including:
- a. parent and subsidiary adopt at different times, and
  - b. deemed cost for investment property and intangibles.
240. **Field tests.** No related comments.
241. **WG recommendation.** WG members were generally happy with the approach in Section 38. Most WG members would include in Section 38 all of the IFRS 1 optional exemptions for first time adopters.
242. **Staff recommendation.** Staff agree with WG recommendation that the IFRS for Private Entities should not be more restrictive in this area than full IFRSs. Staff

recommend all of the IFRS 1 optional exemptions that relate to requirements in the IFRS for Private Entities should be included in Section 38.

**Question 38.1**

***Does the Board agree with the staff recommendation that all of the IFRS 1 optional exemptions for first time adopters (for example, parent and subsidiary adopt at different times, and deemed cost for investment property and intangibles) should be added to Section 38 so they are available to private entities adopting the IFRS for Private Entities for the first time?***

**Issue 38.2: First-time adoption – relax use of ‘impracticable’ [Staff recommendation changed from Agenda Paper 9C May 2008]**

243. **Comment letters.** Relax the use of ‘impracticable’ in ED paragraph 38.9 – that is, provide an exemption from restatement at a far lower hurdle than the ‘impracticable’ exemption in full IFRSs.
244. **Field tests.** A few entities said they used the impracticability exemption for certain issues, for example where information was not available, such as fair values for assets, or where adjustments were considered burdensome, for example restating the impact of government grants in the income statement. One entity suggested the impracticability exemption is likely to be needed by many small private entities in its jurisdiction. A few entities are unclear how the impracticability exemption should be interpreted, for example whether several items could remain at previous GAAP measurements and / or whether they could use a previous GAAP balance sheet as the opening balance sheet if restatement was considered impracticable.
245. **WG recommendation.** WG members generally favoured adding an ‘undue cost or effort’ exemption from the requirement to restate prior periods (a lower hurdle than ‘impracticable’).
246. **Staff comment.** ED paragraph 38.9 states:
- 38.9 If it is impracticable for an entity to restate the opening balance sheet at the date of transition in accordance with this [draft] standard, the entity shall apply paragraphs 38.5–38.8 in the earliest period for which it is practicable to do so, and shall disclose the date of transition and the fact that data presented for prior periods are not comparable. If it is impracticable for an entity to provide any disclosures required by this [draft] standard for any period before the period in which it prepares its first financial statements that conform to this [draft] standard, the omission shall be disclosed.
247. Whether an ‘undue cost or effort’ principle should be added wherever the IFRS for Private Entities requires restatement was discussed at the May 2008 Board meeting (Issues G11 in Agenda Paper 9A for the May meeting). At that meeting the Board decided that an ‘undue cost or effort’ principle should not be added wherever the standard requires restatement. The exemption for ‘impracticability’ was considered sufficient.

248. **Staff recommendation.** Given the Board’s decision on Issue G11, staff recommend that an ‘undue cost or effort’ principle should not be added to the impracticability exemption in ED paragraph 38.9.

**Question 38.2**

***Does the Board agree with the staff recommendation that an ‘undue cost or effort’ principle should not be added to the impracticability exemption for the requirement to restate prior periods on first-time adoption of the IFRS for Private Entities?***

**Issue 38.3: Make it easier to move to/from the IFRS for Private Entities**

249. **Comment letters.** Relax the requirements to allow an entity to move to and from the IFRS for Private Entities (maybe more than once). On the other hand, a number of respondents were concerned about entities switching between the IFRS for Private Entities and another accounting framework more than once. Some said that this may be a matter best left to each jurisdiction to decide.
250. **Field tests.** No related comments.
251. **WG recommendation.** Some WG members felt that it might not be a rare situation for an entity to find itself in the position of moving in and out of the category of entities required or permitted to apply IFRS for Private Entities, particularly if a jurisdiction adds a quantified size test. Those WG members felt, therefore, that Section 38 should be available to entities on transitioning to the IFRS for Private Entities on more than one occasion.
252. **Staff comment.** Section 38 applies only to a first-time adopter of the IFRS for Private Entities. So, as written, an entity could not take advantage of the special measurement and restatement exemptions in Section 38 (similar to those in IFRS 1) more than once. Staff can envision three circumstances in which an entity might potentially be in a circumstance to adopt the IFRS for Private Entities more than once:
- a. The entity uses the IFRS for Private Entities, switches to full IFRSs (either because it became publicly accountable or by choice) and subsequently is no longer publicly accountable (most likely due to ‘delisting’) or no longer chooses to use full IFRSs and so wants to re-adopt the IFRS for Private Entities.
  - b. The jurisdiction in which the entity is located requires or allows the IFRS for Private Entities only for entities that exceed a specified size threshold (very small entities are prohibited). The entity exceeds the threshold and, accordingly, switches from its national GAAP to the IFRS for Private Entities. Subsequently the entity falls below the threshold and, either by regulation or by choice, switches back to its national GAAP. Subsequently the entity is once again above the threshold where the IFRS for Private Entities is required or permitted, and the entity wants to re-adopt the IFRS for Private Entities.
  - c. The jurisdiction in which the entity is located requires or allows full IFRSs for large-sized non-publicly accountable entities (for instance, entities that are regarded as ‘economically significant’), and allows or requires the IFRS for Private Entities for smaller entities. Initially the entity is not

above the ‘economically significant’ threshold and so uses the IFRS for Private Entities. Subsequently it exceeds the jurisdiction’s size threshold for full IFRSs, and accordingly switches from the IFRS for Private Entities to full IFRSs. Subsequently it falls below the ‘economically significant’ threshold and, by regulation or by choice, wants to re-adopt the IFRS for Private Entities.

Staff believe that situations (a) and (c) – both of which involve an entity switching from full IFRSs to the IFRS for Private Entities – will occur only in extremely rare circumstances. Situation (b) will still be rare, but perhaps not as rare as situations (a) and (c).

253. **Staff recommendation.** Section 38 does not prohibit an entity from adopting the IFRS for Private Entities more than once. What it does is offer certain special exemptions, along with a few special prohibitions, to a first-time adopter. Section 38 offers those exemptions for the same reasons that IFRS 1 offered similar exemptions – to reduce the burden of making the transition and to ensure that the effect of the transition is disclosed. Because of the rarity of the instances of an entity adopting the IFRS for Private Entities twice, staff do not recommend allowing an entity to use the exemptions in Section 38 more than once.

**Question 38.3**

***Does the Board agree with the staff recommendation that an entity should not be allowed to benefit from the special measurement and restatement exemptions available under Section 38 more than once?***