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**International  
Accounting Standards  
Board**

Latest revision: 18 February 2009

**International Financial Reporting Standard  
for Non-publicly Accountable Entities  
(formerly IFRS for Small and Medium-sized Entities)**

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*Project Updates are provided for the information and convenience of constituents who wish to follow the IASB's deliberations. All conclusions reported are tentative and may be changed at future IASB meetings. Decisions become final only after completion of a formal ballot to issue an International Financial Reporting Standard, Interpretation, or Exposure Draft.*

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## Introduction

**This project report is structured as follows:**

- [Objective](#)
- [Next Steps](#)
- [Background and Tentative Decisions to Date](#)
- [Project History](#)
- [Contact information](#)

## Objective

1. The objective of this project is to develop an International Financial Reporting Standard (IFRS) expressly designed to meet the financial reporting needs of entities that (a) do not have public accountability and (b) publish general purpose financial statements for external users. Examples of such external users include owners who are not involved in managing the business, existing and potential creditors, and credit rating agencies.
2. An entity has public accountability if:
  - it files, or it is in the process of filing, its financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market; or
  - it holds assets in a fiduciary capacity for a broad group of outsiders, such as a bank, insurance company, securities broker/dealer, pension fund, mutual fund or investment banking entity.

## **IFRS FOR NON-PUBLICLY ACCOUNTABLE ENTITIES (FORMERLY SMALL AND MEDIUM-SIZED ENTITIES)**

[UPDATED 18 FEBRUARY 2009]

3. Until May 2008, the IASB had been using the term “Small and Medium-sized Entities” (SMEs) to refer to entities that do not have public accountability. In May 2008, the Board tentatively changed that term to “Private Entities”. In January 2009, the Board decided that the name of the final standard should be International Financial Reporting Standard for Non-publicly Accountable Entities, or IFRS for NPAEs. This project report refers to NPAEs except where reporting on historical documents or events that used the term SMEs.
4. In February 2007, the IASB published an Exposure Draft (ED) of a proposed IFRS for SMEs. Comment deadline was 30 November 2007. The Board received 162 letters of comment on the ED.
5. 116 SMEs from 20 countries participated in ‘field testing’ the ED by restating their most recent annual financial statements following the proposals in the ED and reporting to the Board on any problems encountered.

### **Next Steps**

1. The IASB staff presented to the Board (a) analyses of comments on the ED (March 2008) and (b) analyses of results of the field tests of the ED (April 2008).
2. The IASB’s Working Group met 10-11 April 2008 to review the staff analyses of the comments on the ED and the results of the field tests and to develop recommendations to the Board for possible modifications to the ED. The Working Group’s recommendations on all issues other than disclosure issues were provided to the Board in May 2008.
3. At the May 2008 meeting, staff presented its initial recommendations for changes to the ED. At that meeting, the Board began its redeliberations of the proposals in the ED.
4. Staff continued to present additional recommendations to the Board from June 2008 through February 2009. The Board’s redeliberations of the proposals in the ED were completed in February 2009, though some issues may arise during redrafting that may require Board consideration.
5. In March 2009, the Board will consider whether the changes made to the ED are of such a nature as to require re-exposure.
6. In the second quarter of 2009, staff plans to submit to the Board an initial pre-ballot draft IFRS for NPAEs, for written comments. Additional revised drafts will be submitted to the Board up through a ballot draft.
7. Staff plans to submit to the Board a ballot draft of a final IFRS for NPAEs in the second quarter of 2009. Expected issuance of a final Standard is late second quarter of 2009.
8. Throughout 2008 and 2009, the private entity project staff have been working with the IASCF Education team to develop comprehensive training materials for the IFRS for Private Entities. Target date for completion of the training materials is mid- to late-2009.

### **Background and Tentative Decisions to Date**

#### **Why Is the Board Undertaking this Project?**

1. Because full IFRSs were designed to meet the needs of equity investors in companies in public capital markets, they cover a wide range of issues, contain a sizeable amount of implementation guidance and include disclosures appropriate for public companies.
2. Users of the financial statements of private entities do not have those needs, but, rather are more focused on assessing shorter-term cash flows, liquidity and solvency.

## IFRS FOR NON-PUBLICLY ACCOUNTABLE ENTITIES (FORMERLY SMALL AND MEDIUM-SIZED ENTITIES)

[UPDATED 18 FEBRUARY 2009]

3. Also, many private entities say that full IFRSs impose a burden on small private entity preparers — a burden that has been growing as IFRSs have become more detailed and more countries have begun to use them. Thus, in developing the proposed IFRS for Private Entities, IASB's twin goals were to meet user needs while balancing costs and benefits from a preparer perspective.
4. In most jurisdictions, many or even all entities have a statutory obligation to prepare financial statements that conform to a required set of generally accepted accounting principles (GAAP). Often, an audit is required by law (with tiny companies often exempted). Those statutory financial statements are normally filed with a government agency or put on a website and thus are available to creditors, suppliers, employees, governments and others.
5. In Europe, where there are over 20 million business enterprises, more than 5 million private entities (generally referred to as small and medium-sized entities, or SMEs) have a statutory audit and reporting obligation. Virtually every European country has developed its own simplified national GAAP for private entities — some countries have two or even three levels of GAAP for private entities. The same is true in Asia and elsewhere across the globe.
6. There are shortcomings to having one or more individual national GAAPs for private entities in each jurisdiction:
  - **Lack of comparability in global markets.** The world's business markets are integrated, even for small private entities. In most jurisdictions, half to three-quarters of all private entities, including the very small ones, have bank loans. Banks operate across borders and rely on financial statements in making lending decisions, establishing terms and interest rates and monitoring loans.
    - **Banks.** Banks want data they can understand and compare. Companies buy and sell goods and services across borders.
    - **Vendors.** Vendors want to evaluate the financial health of buyers before they sell goods or services on credit, and this is especially true when the buyer is a private entity. Buyers use a supplier's financial statements to assess the prospects of a viable long-term business relationship.
    - **Credit rating agencies.** Credit rating agencies try to develop ratings uniformly across borders.
    - **Development institutions.** Development institutions, such as the World Bank, International Monetary Fund (IMF) and regional development banks, use financial statements for resource allocation decisions. Accounting differences reduce understandability, obscure comparisons and lead to sub-optimal decisions.
    - **Outside investors.** Many private entities have outside investors, sometimes family members or former employees. They generally have to rely on the financial information that is provided to them to assess financial position, performance, and cash flows in making investment decisions. National private entity GAAPs are often not designed for this purpose.
  - **Information quality.** The accounting standards for private entities in many countries have not been developed with the needs of lenders, vendors and other external users in mind. This has harmed private entities' access to capital or, at a minimum, raised the cost of capital, particularly in small and developing countries. In jurisdictions that require private entities to use full IFRSs, the quality of implementation often is problematic.
  - **Burden.** As IFRSs have gained greater acceptance around the world, many jurisdictions have adopted them or have developed national GAAP based on IFRSs. Today, IFRSs are required for listed companies in over 80 jurisdictions and permitted for listed firms in another 25 jurisdictions. As for unlisted (private) companies, nearly 30 jurisdictions require full IFRSs for all, another 20 jurisdictions require them for some, while another 36 jurisdictions permit (rather than require) private entities to use

## **IFRS FOR NON-PUBLICLY ACCOUNTABLE ENTITIES (FORMERLY SMALL AND MEDIUM-SIZED ENTITIES)**

[UPDATED 18 FEBRUARY 2009]

full IFRSs. Many other jurisdictions that do not require IFRSs directly are increasingly converging their national standards with IFRSs, which means that, de facto, IFRSs are being “pushed down” to private entities, which often don’t have the expertise or ability to bear the costs of complying with full IFRSs.

- **Other shortcomings.** Developing national standards is costly. Also, many jurisdictions lack country-specific textbooks, guidance, training materials and software for implementing national standards. This diminishes comparability even within a jurisdiction, as different requirements are interpreted differently. Furthermore, national standards mean that jurisdiction-specific auditing methodologies are needed.

### **Working Group on the IFRS for NPAEs**

7. The IASB appointed a Working Group to advise the Board in the development of the IFRS for NPAEs. The Working Group has met four times and has submitted written recommendations to the Board. These recommendations are available as agenda papers on the IASB’s website.

### **Views of National Standard Setters**

8. National standard-setters around the world strongly support an IASB initiative. In September 2003, the IASB hosted a meeting of 40 of the world’s national accounting standard-setters. In preparation for that meeting the IASB surveyed them about standards for private entities. With near unanimity, the 30 standard-setters that responded said that the IASB should develop global standards for non-publicly accountable entities. And nearly all indicated that their own national accounting requirements, in one way or another, already provided exemptions or simplifications for NPAEs. The IASB has developed a list of some 25 disclosure and presentation simplifications and another 25 recognition and measurement simplifications already in place at the national level for small entities in those 30 countries. IFRSs already provide several—such as exemption of unlisted companies from providing segment information and earnings per share data.
9. Of the 30 countries that responded to the survey, 29 said that an IFRS for NPAEs should include disclosure and presentation simplifications. And 24 of the 30 said that recognition and measurement simplifications are needed as well.
10. The Board also discussed the project with a broad group of national standard setters at meetings in London in September 2005, September 2006, and September 2007.

### **June 2004 Discussion Paper – Preliminary Views**

11. In June 2004, the Board issued a Discussion Paper, Preliminary Views on Accounting Standards for Small and Medium-sized Entities, setting out and inviting comments on the Board’s preliminary views on the approach to the project. The comment deadline was 24 September 2004. One hundred and twenty responses were received.
12. The major issues set out in the Discussion Paper were: [The Discussion Paper used the term SMEs rather than Private Entities.]
  - Should the IASB develop special financial reporting standards for SMEs?
  - What should be the objectives of a set of financial reporting standards for SMEs?
  - For which entities would IASB Standards for SMEs be intended?
  - If IASB Standards for SMEs do not address a particular accounting recognition or measurement issue confronting an entity, how should that entity resolve the issue?
  - May an entity using IASB Standards for SMEs elect to follow a treatment permitted in an IFRS that differs from the treatment in the related IASB Standard for SMEs?

## **IFRS FOR NON-PUBLICLY ACCOUNTABLE ENTITIES (FORMERLY SMALL AND MEDIUM-SIZED ENTITIES)**

[UPDATED 18 FEBRUARY 2009]

- How should the Board approach the development of IASB Standards for SMEs? To what extent should the foundation of SME standards be the concepts and principles and related mandatory guidance in IFRSs?
  - If IASB Standards for SMEs are built on the concepts and principles and related mandatory guidance in full IFRSs, what should be the basis for modifying those concepts and principles for SMEs?
  - In what format should IASB Standards for SMEs be published?
13. The Discussion Paper did not include proposals for specific financial reporting standards for SMEs. Instead, the Discussion Paper focused on the Board's approach to the project.

### **Board Consideration of Responses to the Discussion Paper**

14. At its meetings in the fourth quarter of 2004, the Board considered the issues raised by respondents to the Board's June 2004 Discussion Paper. At the December 2004 meeting, the Board made some tentative decisions on the appropriate way forward for the project. Those tentative decisions, which were reaffirmed at the January 2005 Board meeting, are as follows: [Note that some of these tentative decisions were changed in developing the Exposure Draft.]
- a. The responses to the Discussion Paper showed a clear demand for an IFRS for Private Entities and a preference, in many countries, to adopt a global private entity standard rather than locally or regionally developed standards. Hence, the Board decided to remain committed to this project and to develop an exposure draft of an IFRS for Private Entities as the next step.
  - b. The IFRS for Private Entities should focus on financial reporting by those non-publicly accountable entities that have external users of their financial statements (ie users other than primarily owner-managers). Jurisdictions could, of course, choose to permit or require them for all private entities, including very small ones.
  - c. The IASB will not develop detailed guidelines on which entities should or should not be eligible to use the IFRS for Private Entities. That is a matter to be decided by national jurisdictions. However, the Board will indicate those entities for which the IFRS for Private Entities is not appropriate and any such entities using the IFRS for Private Entities would not be able to assert their financial statements were prepared in accordance with the IFRS for Private Entities.
  - d. The Board agreed that the same IASB Framework should apply to all entities. However, the Board will consider recognition and measurement simplifications for private entities, as well as disclosure and presentation simplifications – based on user needs and cost-benefit considerations as provided for in the IASB Framework. There will be no preconceived objections to such changes.
  - e. If a recognition or measurement issue is addressed in an IFRS, but not in the IFRS for Private Entities, the entity will be required to apply that IFRS to the issue. This 'mandatory fallback' will be implemented by including IFRSs at the top of the accounting policy hierarchy in the private entity equivalent of IAS 8 paragraph 11.
  - f. An entity following the IFRS for Private Entities should follow that standard in its entirety and will not have a choice of reverting to IFRSs on a standard-by-standard or principle-by-principle basis.
  - g. If an entity follows the IFRS for Private Entities, the basis of presentation note and the auditor's report, if any, should make that clear so that the user understands that full IFRSs are not being followed.
  - h. When published in printed form, the IFRS for Private Entities will be organised topically, such as in balance sheet and income statement order, rather than having an equivalent private entity standard for each IAS and IFRS number.

## **April 2005 – Staff Questionnaire on Recognition and Measurement**

15. Most respondents to the Discussion Paper felt that recognition and measurement simplifications were needed, but few specifics were proposed. And where some specifics were proposed, the commentators generally did not indicate:
- a. the specific accounting recognition or measurement problem for a private entity under IFRSs;
  - b. the specific transactions or events that create the recognition or measurement problem for private entity under IFRSs;
  - c. why is it a problem; and
  - d. how that problem might be solved.
16. The IASB concluded that it needed further information to assess possible recognition and measurement simplifications. Consequently the Board decided to hold public round-table meetings with preparers and users of the financial statements of private entities to discuss possible modifications of the recognition and measurement principles in IFRSs for use in the IFRS for Private Entities. The Board instructed the staff to develop and publish a questionnaire as a tool to identify issues that should be discussed at those round-table meetings.
17. The questionnaire asked two questions [The questionnaire used the term SMEs rather than Private Entities.]:

**Question 1. What are the areas for possible simplification of recognition and measurement principles for SMEs? In responding, please indicate:**

- **the specific accounting recognition or measurement problem for an SME under IFRSs;**
- **the specific transactions or events that create the recognition or measurement problem for an SME under IFRSs;**
- **why is it a problem; and**
- **how that problem might be solved.**

18. An appendix to the questionnaire identified 17 possible simplifications of recognition and measurement principles in IFRSs.
19. Regarding why a recognition or measurement principle is perceived as a problem, the questionnaire asked respondents to indicate whether they believe that:
- Users do not use or would not benefit from the resulting information.
  - It is too costly for SMEs to apply the recognition or measurement principle relative to the benefit of the resulting information.
  - It is too costly for auditors to audit the resulting information.
  - Measurement is too complex for an SME to do.
  - Application of the recognition or measurement principle causes an undesirable effect on reported earnings or assets.
  - Other reasons (explain).

**Question 2. From your experience, please indicate which topics addressed in IFRSs might be omitted from SME standards because they are unlikely to occur in an SME context. If they occur, the standards would require the SME to determine its appropriate accounting policy by looking to the applicable IFRSs.**

## **IFRS FOR NON-PUBLICLY ACCOUNTABLE ENTITIES (FORMERLY SMALL AND MEDIUM-SIZED ENTITIES)**

[UPDATED 18 FEBRUARY 2009]

20. The Board received 101 responses to the questionnaire. Those responses were discussed with SAC (June 2005); Working Group (June 2005); World Standard Setters (September 2005); round-table participants (October 2005).

### **October 2005 – Public Roundtables on Recognition and Measurement**

21. The round-table meetings were held on 13-14 October 2005 in London. Representatives of 43 groups participated. The focus of the round-tables was question 1 in the Questionnaire (above), which asked: What are the areas for possible simplification of recognition and measurement principles for SMEs?

### **Deliberations leading to the Exposure Draft**

#### ***August 2005 – Working Group recommendations***

22. The Working Group met 29-30 June 2005. The Working Group submitted a comprehensive report, with recommendations, to the Board in August 2005.

#### ***Tentative decisions – late 2004 and 2005***

23. At public meetings during the fourth quarter of 2004 and throughout 2005, the Board considered the issues raised by respondents to the Board's June 2004 Discussion Paper, the views expressed in the responses to the recognition and measurement questionnaire, the comments made at the roundtables, and the views of the Working Group. The Board discussed and made preliminary and tentative decisions on a broad range of recognition, measurement, disclosure and presentation issues that would be reflected in an Exposure Draft (ED) of an IFRS for SMEs.

#### ***Initial draft of an Exposure Draft – January 2006***

24. On the basis of those tentative decisions, at the Board meeting in January 2006, the staff presented to the Board a preliminary staff draft of the ED.

#### ***Working Group comments on the draft Exposure Draft – January 2006***

25. The Working Group met in late January 2006 to review the staff draft of the ED and prepared a report of its recommendations for Board consideration.

#### ***Board deliberations and decisions concerning the Exposure Draft – throughout 2006***

26. Board discussion of that draft began in February 2006 and continued through the remainder of 2006 and January 2007. Revised drafts of the ED were prepared for each Board meeting from May 2006 onwards.
27. In August 2006 the IASB posted on its public website a staff draft of the ED, reflecting Board deliberations and decisions to date. Board deliberations on the draft ED continued in September and October 2006. At the October 2006 meeting the Board took an indicative vote and authorised the staff to prepare a pre-ballot draft of the ED. In November 2006 the IASB posted on its public website a revised draft of the ED.
28. Detailed reports of the Board's decisions are included in the IASB *Update* newsletter published shortly after each Board meeting. These are available for download without charge from the IASB's website. Individual meeting summaries are also available for download without charge on the private entities project page on the IASB's website.

### **February 2007 – Exposure Draft**

29. The final ED of an IFRS for SMEs was published by the IASB for comment on 15 February 2007. The comment deadline was 30 November 2007 (extended from the original deadline of 1 October 2007). Translations into Spanish, French, German,

## **IFRS FOR NON-PUBLICLY ACCOUNTABLE ENTITIES (FORMERLY SMALL AND MEDIUM-SIZED ENTITIES)**

[UPDATED 18 FEBRUARY 2009]

Romanian, and Polish were published (the first time an IASB ED has been published in a language other than English). Paragraphs 30 to 40 outline the content of the ED.

### ***Stand-alone document***

30. The Board intends the IFRS for Private Entities to be a stand-alone document for a typical private entity with about 50 employees. That is, it will cover the kinds of transactions and other events and conditions that companies of that size are likely to encounter. The '50 employees' concept was a guide to the Board in deciding the content of the standard. It is not intended as a quantified size test for defining a private entity, though jurisdictions adopting the IFRS for Private Entities may add one. There is no mandatory fallback to full IFRSs.

### ***Based on concepts and principles in full IFRSs***

31. The Exposure Draft was developed by extracting the fundamental concepts from the IASB Framework for the Preparation and Presentation of Financial Statements and the principles and related mandatory guidance from IFRSs with appropriate modifications in the light of users' needs and cost-benefit considerations.

### ***Modifications of IFRSs***

32. The modifications are of five broad types based on needs of users of private entities' financial statements and cost-benefit considerations:

- a. Topics omitted
- b. Only the simpler option included
- c. Recognition and measurement simplifications
- d. Disclosure reductions
- e. Redrafting in 'plain English'

### ***Topics omitted***

33. IFRS topics not relevant to a typical private entity are omitted, with cross-references to the IFRS if needed. These are:

- General price-level adjusted reporting in a hyperinflationary environment.
- Equity-settled share-based payment – the computational details are in IFRS 2 Share-based Payment.
- Determining fair value of agricultural assets – look to IAS 41 Agriculture, but the ED also proposes to reduce the use of fair value through profit or loss for agricultural entities that are private entities.
- Extractive industries – look to IFRS 6 Exploration for and Evaluation of Mineral Resources.
- Interim reporting – look to IAS 34 Interim Financial Reporting.
- Lessor accounting for finance leases – finance lessors are likely to be financial institutions who would be ineligible to use the IFRS for Private Entities anyway.
- Earnings per share and segment reporting, which are not required for private entities
- Insurance contracts – insurers would not be eligible to use the IFRS for Private Entities.

### ***Only the simpler option included***

34. Where the ED provides an accounting policy choice, only the simpler option is included in the ED. A private entity is permitted to use the other option(s) by cross-reference to the relevant IFRS. These are:

- Cost-depreciation model for investment property (fair value through profit or loss is permitted by reference to IAS 40 Investment Property).

## **IFRS FOR NON-PUBLICLY ACCOUNTABLE ENTITIES (FORMERLY SMALL AND MEDIUM-SIZED ENTITIES)**

[UPDATED 18 FEBRUARY 2009]

- Cost-amortisation-impairment model for property, plant and equipment and intangibles (the revaluation model is allowed by references to IAS 16 Property, Plant and Equipment and IAS 38).
- Expense borrowing costs (capitalisation allowed by reference to IAS 23 Borrowing Costs).
- Indirect method for reporting operating cash flows (the direct method is allowed by reference to IAS 7 Cash Flow Statement).
- One method for all grants (or a private entity can use any of the alternatives in IAS 20 Government Grants and Disclosure of Government Assistance).
- Expense development costs (capitalisation allowed by reference to IAS 38 Intangible Assets).
- Associates – cost model (equity method allowed by reference to IAS 28 Investments in Associates).
- Joint ventures – cost model (equity method and proportionate consolidation allowed by reference to IAS 31 Interests in Joint Ventures).
- Financial instruments – the Exposure Draft proposed a simplified model (option to use IAS 39 and IFRS 7 in full instead).

35. In adopting the IFRS for Private Entities, an individual jurisdiction could decide not to allow the option that is cross-referenced to the full IFRSs and entities in that jurisdiction would still be in compliance with the IFRS for Private Entities.

### ***Recognition and measurement simplifications***

36. Here are some examples:

- Financial instruments:
  - Two categories of financial assets rather than four. This means no need to deal with all of the intent-driven held to maturity rules or related 'tainting', no available for sale option, and many other simplifications.
  - A clear and simple principle for derecognition – if the transferor has any significant continuing involvement, do not derecognise. The complex 'pass-through testing' and 'control retention testing' of IAS 39 Financial Instruments: Recognition and Measurement are avoided.
  - Much simplified hedge accounting.
- Goodwill impairment – an indicator approach rather than mandatory annual impairment calculations.
- Expense all research and development costs (IAS 38 would require capitalisation after commercial viability has been assessed).
- Cost or fair value through profit or loss methods for associates and joint ventures (equity and proportionate consolidation methods are allowed by reference to IAS 28 and IAS 31).
- Less fair value for agriculture – only if 'readily determinable without undue cost or effort'.
- Defined benefit plans – a principle approach rather than the detailed calculation and deferral rules of IAS 19 Employee Benefits. Complex 'corridor approach' omitted.
- Share-based payment – intrinsic value method.
- Finance leases – simplified measurement of lessee's rights and obligations.
- First-time adoption – less prior period data would have to be restated than under IFRS 1 First-time Adoption of IFRSs.

## **IFRS FOR NON-PUBLICLY ACCOUNTABLE ENTITIES (FORMERLY SMALL AND MEDIUM-SIZED ENTITIES)**

[UPDATED 18 FEBRUARY 2009]

### ***Modifications considered but not adopted***

37. Modifications of IFRSs considered by the Board but not adopted:

- Drop the cash flow statement. Lenders to private entities and other users consistently say that information about cash flows is critical to them. Moreover it is easy to prepare.
- All leases treated as operating leases. Information about leased assets and obligations is important for lending and other credit decisions. Lenders consistently say that they do not want 'off balance sheet obligations'.
- All pension plans treated as defined contribution plans. Users of private entities' financial statements find information about the funding status of pension obligations useful and important to them.
- Completed contract method for all long-term contracts. This could produce a potentially misleading accounting result for a long-term contractor, with some years of large profits and other years of large losses.
- Fewer provisions. Provisions are obligations that meet the liability recognition criteria. Users want these obligations recognised in the balance sheet, with the measurement uncertainties explained.
- Non-recognition of share-based payment. Share-based payments to employees should be recognised as compensation expense because (a) they are intended as compensation, (b) they involve giving something of value in exchange for services, and (c) the consumption of the employee services received is an expense.
- Non-recognition of deferred taxes. Deferred taxes are liabilities (or sometimes assets) that can result in large outflows (inflows) of cash in the near future. Most of those who support non-recognition want the amounts, causes and other information disclosed in the notes. Note disclosure would entail the same tracking and computation effort for a private entity as recognition.
- Cost model for all agriculture. Not only is fair value generally regarded as a more relevant measure in this industry, quoted prices are often readily available, markets are active, and measuring cost is usually more burdensome and arbitrary because of the extensive allocations required.
- No consolidation. The separate financial statements of a parent and its subsidiary(ies) are not useful because those entities often enter into transactions with each other that are not on an arm's length basis. Consolidated statements are essential for users when two entities operate as a single economic entity.
- Derivatives at cost. This is the same as non-recognition. Real gains and losses are inappropriately ignored until settlement.

### ***Frequency of updating the IFRS for Private Entities***

38. Approximately once every two years via an 'omnibus' exposure draft.

### ***Organisation of the ED***

39. The ED is issued in three documents:

- The draft IFRS for SMEs (254 pages),
- Implementation guidance (consisting of illustrative financial statements and a disclosure checklist, 80 pages), and
- Basis for conclusions (48 pages).

40. The standard is organised topically, rather than in IAS/IFRS statement number sequence. It has 38 sections and a glossary. The Sections of the ED are as follows:

**IFRS FOR NON-PUBLICLY ACCOUNTABLE ENTITIES (FORMERLY SMALL AND MEDIUM-SIZED ENTITIES)**

[UPDATED 18 FEBRUARY 2009]

	Preface
1	Scope
2	Concepts and Pervasive Principles
3	Financial Statement Presentation
4	Balance Sheet
5	Income Statement
6	Statement of Changes in Equity and Statement of Income and Retained Earnings
7	Cash Flow Statement
8	Notes to the Financial Statements
9	Consolidated and Separate Financial Statements
10	Accounting Policies, Estimates and Errors
11	Financial Assets and Financial Liabilities
12	Inventories
13	Investments in Associates
14	Investments in Joint Ventures
15	Investment Property
16	Property, Plant and Equipment
17	Intangible Assets other than Goodwill
18	Business Combinations and Goodwill
19	Leases
20	Provisions and Contingencies
21	Equity
22	Revenue
23	Government Grants
24	Borrowing Costs
25	Share-based Payment
26	Impairment of Non-financial Assets
27	Employee Benefits
28	Income Taxes
29	Financial Reporting in Hyperinflationary Economies
30	Foreign Currency Translation
31	Segment Reporting
32	Events after the End of the Reporting Period
33	Related Party Disclosures
34	Earnings per Share
35	Specialised Industries
36	Discontinued Operations and Assets Held for Sale
37	Interim Financial Reporting
38	Transition to the IFRS for SMEs
	Glossary
	Derivation Table
	Basis for Conclusions (Separate Booklet)
	Implementation Guidance: Illustrative Financial Statements and Disclosure Checklist (Separate Booklet)

## **Redeliberations of the Exposure Draft**

### ***Education Sessions at the March and April 2008 Board Meetings***

41. The Board began its redeliberations of the Exposure Draft in March 2008. At that March 2008 Board meeting staff presented an overview of the main issues (other than disclosure issues) raised in the comment letters on the ED. (See Agenda Paper 4 for that meeting.)
42. At the April 2008 Board meeting staff presented an overview of the main issues that were identified as a result of the programme for field testing the ED. (See Agenda Paper 6 for that meeting.)
43. Both of those meetings were educational in nature, and the staff did not raise any issues for Board decision.

***Working Group Meeting 10-11 April 2008***

44. The IASB's Working Group (WG) on the project met on 10-11 April 2008. The recommendations of WG members on each issue (other than disclosure) were presented in their entirety in Agenda Paper 9D for the May 2008 Board meeting. Recommendations of WG members relating to disclosure were presented to the Board in Agenda Paper 8B for the July 2008 Board meeting and these will be considered at the September 2008 meeting when the Board will begin its redeliberations of the disclosures proposed in the ED.

***Redeliberations Begin in May 2008***

45. At the May 2008 Board meeting, the Board began the process of redeliberating the proposals in the ED by addressing the key issues relating to scope, recognition, measurement, and presentation that were raised in the letters of comment on the ED and in the reports prepared by field test entities. Those redeliberations continued in June and July 2008.

***Decisions at the May 2008 Meeting as Reported in IASB Update***

46. Here is a summary of the Board's decisions at the May 2008 Board meeting, as reported in *IASB Update* newsletter for that month:

**General issues not relating to specific sections in the ED**

**Title of the standard.** The title of the standard should be changed to International Financial Reporting Standard for Private Entities, with private entities defined similarly to the definition of SMEs in the ED.

**The standard should be stand-alone, with no cross-references to full IFRSs.** Requirements currently available by cross-reference will be either addressed in the standard or eliminated.

**In general, all accounting policy options in full IFRSs should be available to private entities.** As in the ED, the body of the standard should include the simpler option. The more complex options would be in a separate appendix. While the appendix will increase the overall size of the standard, the length of the body of the document will be relatively unaffected. An entity choosing only the simpler options would not need to refer to the appendix.

**The standard should address directly the following topics, which the exposure draft addressed by cross-reference to the related full IFRS:** lessor accounting for finance leases, share-based payment, fair value of agricultural assets, and hyperinflation. The standard would not address the following topics: segment information, earnings per share and interim reporting; if an entity presented such information it would be required to explain the basis of preparing the data.

**Small listed entities.** Small listed entities should not be included in the intended scope of the IFRS for Private Entities.

**Entities that receive funds in a fiduciary capacity.** An entity whose primary business is holding funds in a fiduciary capacity is publicly accountable and hence should be outside the scope of the standard. An entity that holds funds in a fiduciary capacity as a sideline to its principal business, for example a utility company or travel agency that takes deposits, should be permitted to use the standard if it otherwise qualifies.

**Restatements.** An 'undue cost or effort' principle should not be added wherever the standard requires restatement. The exemption for 'impracticability' is sufficient.

**Fair value measurement.** The staff proposed that when a current remeasurement is required, that requirement should clearly describe in simple language what the basis for measurement is rather than use the generic term 'fair value'. The Board asked the staff to present a proposal for each required measurement at a future Board meeting. The Board asked the staff, in developing the proposal, to consult the IASB staff teams working on fair value measurements and the measurement phase of the conceptual framework project.

## IFRS FOR NON-PUBLICLY ACCOUNTABLE ENTITIES (FORMERLY SMALL AND MEDIUM-SIZED ENTITIES)

[UPDATED 18 FEBRUARY 2009]

**Structure of the standard.** The standard does not need an overall restructuring.

**Post-implementation assessment.** The Board decided that an assessment of implementation problems should be undertaken when two years of financial statements using the standard are available for a broad range of entities.

### Issues relating to Sections 1–3

**Subsidiary of an IFRS entity.** The Board decided that if a subsidiary of an IFRS entity uses the recognition and measurement principles in full IFRSs it must provide the disclosures required by full IFRSs, not merely the disclosures required by the IFRS for private entities.

**Objective and qualitative characteristics.** The objective of financial statements of SMEs and the qualitative characteristics of information in such financial statements, as set out in Section 2 of the ED, reflect only partially the changes to the IASB Framework proposed in an exposure draft to be published shortly after the meeting. The Board will decide at a future meeting, whether the final IFRS for private entities should reflect those proposed changes.

**Concepts and pervasive principles.** While acknowledging that some respondents to the ED would prefer the concepts and pervasive principles in Section 2 to be rewritten in a more prescriptive rather than descriptive way, Board members expressed the view that the concepts and broad principles should not be significantly different from those in full IFRSs. Nor should they try to resolve issues that the Board is currently considering in other projects. The Board asked the staff to review Section 2 with that in mind.

**Objectives.** The Board decided that determination of taxable and distributable income should not be added to the objectives of financial statements of private entities.

**Financial statement presentation.** The Board decided:

- The standard should not prescribe financial statement formats, titles, subtotals, minimum line items, sequencing, and note disclosures with more specificity than in the ED.
- The standard should incorporate the requirements of IAS 1 Presentation of Financial Statements (as revised in 2007). This would mean, among other things, that SMEs would present a statement of comprehensive income. Also, the final IFRS for Private Entities would use new titles for financial statements used in IAS 1; however, as for entities using full IFRSs, those new titles would not be required in private entities' financial statements.

### ***Decisions at the June 2008 Meeting as Reported in IASB Update***

47. Here is a summary of the Board's decisions at the June 2008 Board meeting, as reported in *IASB Update* newsletter for that month:

The Board resumed its redeliberation of the proposals in the exposure draft (ED) of a proposed IFRS for SMEs (the IFRS will be titled IFRS for Private Entities). At this meeting the Board discussed issues relating to Sections 4-12 of the ED. The outcome of those discussions is summarised below.

**Presentation of financial statements.** At its meeting in May the Board decided that the IFRS for Private Entities should incorporate the requirements of IAS 1 Presentation of Financial Statements (as revised in 2007). At this meeting the Board made the following tentative decisions:

- Private entities should present their statement of financial position based on liquidity if this provides information that is reliable and more relevant than a current/non-current presentation. The criteria proposed in the ED for classifying assets and liabilities as current would be retained.
- The required analysis of expenses may be presented either by nature or function of expense. The additional disclosures proposed in paragraph 5.10 (when an

## IFRS FOR NON-PUBLICLY ACCOUNTABLE ENTITIES (FORMERLY SMALL AND MEDIUM-SIZED ENTITIES)

[UPDATED 18 FEBRUARY 2009]

entity chooses to classify expenses by function) are redundant and should be deleted.

- A private entity would be permitted to present a combined statement of comprehensive income and retained earnings in place of the statement of comprehensive income and the statement of changes in equity if the only changes to its equity during the period arise from profit or loss, payment of dividends, corrections of prior period errors, and changes in accounting policy. If an entity has other equity transactions with owners, a statement of changes in equity would be required.
- All private entities must present a statement of cash flows, and they could choose either the direct or indirect method for reporting operating cash flows.

**Consolidated financial statements.** These should be required for all private entities that are parent entities. For now, a temporary control exemption should not be added, but the Board may need to revisit this decision for consistency when it discusses discontinued operations.

**Combined financial statements.** The description of combined financial statements should be retained in the IFRS for Private Entities, with some additional guidance added.

**Separate financial statements.** Separate company financial statements should not be required. When an investor prepares separate statements, it should choose between cost or fair value through profit or loss for each different category of investment (eg different policies could be adopted for associates and for subsidiaries).

**Accounting policy hierarchy.** The accounting policy hierarchy in Section 10 is appropriate in principle. However, paragraph 10.4 should be modified to clarify that management may, but is not required to, consider the requirements and guidance in full IFRSs. The hierarchy should not include reference to recent pronouncements of other standard-setting bodies, other accounting literature or accepted industry practice.

**Financial instruments.** Regarding Section 11 Financial Assets and Financial Liabilities, the Board decided:

- to reorganise Section 11 to make it easier both to identify which instruments are within the scope and to apply the section if a private entity has only very simple financial instruments.
- to clarify by the use of examples that the cost model will be appropriate for the significant majority of financial instruments held by private entities. The examples should reflect the types of financial instruments that a private entity is likely to have, with clear guidance for the accounting required both at acquisition or when issued and subsequently. A private entity that has no other financial instruments would then not need to consider the remainder of Section 11 dealing with more complex financial instruments transactions.
- not to rewrite Section 11 so that cost or amortised cost is the default. Rewriting Section 11 in that way would have required the Board to include definitions and other explicit requirements for derivatives and embedded derivatives to ensure they are measured at their fair value. This would have added significant complexity.
- to combine the guidance on fair value proposed in Appendix B with the fair value measurement principles in paragraphs 11.14–11.16 and simplify it for a private entity context.
- not to add an 'available for sale' category for financial assets.
- not to allow straight-line amortisation of premiums and discounts as an elective accounting policy alternative to the effective interest rate (EIR) method. However, an example or examples illustrating EIR should be added as guidance.

## IFRS FOR NON-PUBLICLY ACCOUNTABLE ENTITIES (FORMERLY SMALL AND MEDIUM-SIZED ENTITIES)

[UPDATED 18 FEBRUARY 2009]

- not to permit a 'shortcut method' for hedge accounting.
- to include guidance on measuring hedge effectiveness in the training materials being developed by the IASC Foundation education team. The requirements in the IFRS should be kept short and general.
- to retain the requirements for hedging documentation proposed in the ED.
- not to allow debt instruments to be hedging instruments. The Board asked the staff to recommend at a future meeting whether to permit purchased options as hedging instruments. The recommendation should consider the extent of use of such instruments for hedging purposes by private entities and any desire to use hedge accounting for such instruments.
- to add guidance to clarify which types of risks are eligible for hedge accounting under Section 11.
- to add guidance on accounting for factoring transactions.
- to remove from Section 11 the option to follow IAS 32, IAS 39, and IFRS 7 in their entirety, in lieu of Section 11. However, the Board will revisit this tentative decision at a future meeting after Section 11 has been revised.
- to amend paragraph 11.22(b) to state that an impairment loss for an equity instrument carried at cost (because its fair value cannot be measured reliably) should be the difference between the asset's carrying amount and the best estimate (which will necessarily be an approximation) of the amount (which might be zero) that the entity would receive for the asset if it were to be sold.
- to rewrite paragraph 11.9(b) to clarify that interest rate swaps must be measured at fair value through profit or loss.
- The Board asked the staff to present a rewritten draft of Section 11 for consideration at a future Board meeting.

**Inventories.** The Board did not support simplifying any of the principles proposed in the ED for accounting for inventories. The Board rejected LIFO as an inventory costing method.

### ***Decisions at the July 2008 Meeting as Reported in IASB Update***

48. Here is a summary of the Board's decisions at the July 2008 Board meeting, as reported in *IASB Update* newsletter for that month:

The Board resumed its redeliberation of the proposals in the exposure draft (ED) of a proposed *IFRS for SMEs*. At this meeting the Board discussed issues relating to Sections 13-27 of the ED and made the following tentative decisions:

**Associates.** The cost model, equity method, and fair value through profit or loss model should be accounting policy options for investments in associates, as proposed in the ED, with one exception. The cost model would not be permitted for an investment in an associate that has a published price quotation, for example if it is a listed entity. The investor may still apply the cost model to its other investments in associates.

In addition, the Board tentatively decided to replace the requirement (for both the equity method and proportionate consolidation) that the difference between the reporting date of the financial statements of the associate/jointly controlled entity and those of the investor must not be greater than three months. Instead, there would be a general statement that the most current information should be used.

**Jointly controlled entities (JCEs).** If an IFRS developed from ED 9 *Joint Arrangements* is finalised before the *IFRS for Private Entities* is issued, the new requirements for joint ventures should be considered for inclusion in the *IFRS for Private Entities*. If ED 9 is not finalised, the *IFRS for Private Entities* should allow the

## IFRS FOR NON-PUBLICLY ACCOUNTABLE ENTITIES (FORMERLY SMALL AND MEDIUM-SIZED ENTITIES)

[UPDATED 18 FEBRUARY 2009]

cost model, fair value through profit or loss model, equity method and proportionate consolidation as accounting policy options for investments in JCEs, as proposed in the ED, with one exception. The cost model would not be permitted for an investment in a JCE that has a published price quotation.

**Investment property.** Both the cost model and the fair value through profit or loss model should be options. The option to classify property held under an operating lease as investment property if specified criteria are met should be retained. Mixed use property should be separated between investment property and property, plant and equipment (PPE) unless the entity applies the cost model to all its investment property and the applicable class of PPE.

**PPE.** Both the cost model and the revaluation model should be options. The cost of an item of PPE should be allocated to its significant parts, with each part depreciated separately (component depreciation) only when the parts have significantly different patterns of benefit consumption. The *IFRS for Private Entities* should also clarify that a private entity should reassess residual value, useful life and depreciation method for an asset only if there is an indication of change since the last reporting date. Section 16 should provide examples of indicators that could trigger such a reassessment.

**Intangible assets other than goodwill.** The Board considered but rejected an amortisation approach for indefinite life intangibles. Therefore, an entity should assess whether the useful life of an intangible asset is finite or indefinite. Indefinite life assets will not be amortised. Many of the Board's tentative decisions for PPE also apply to intangible assets (excluding goodwill), for example retaining an option to use the revaluation model and reassessing the amortisation period, method and residual value only when there is an indication of change. Both the expense model and the capitalisation model should be options for development costs.

**Business combinations.** The Board considered but rejected an amortisation approach for goodwill. Intangible assets and contingent liabilities acquired in a business combination should be separately recognised if their fair value can be measured reliably (an 'undue cost or effort' exemption should not be added). Specific requirements should be added on how to account for a business combination in which the initial accounting can be determined only provisionally due to uncertainties about the cost of the combination or the fair values of some acquired assets or liabilities. Pooling of interests accounting should not be permitted for business combinations (*IFRS for Private Entities* does not address combinations of entities under common control).

**Leases.** Criteria similar to those used in IAS 17 *Leases* should be retained to classify leases as either operating or financing according to their substance. The Board did not support accounting for all leases as operating leases. Additional guidance should be added to assist entities in applying the criterion 'major part of the economic life of the asset' in paragraph 19.4(d) of the ED. The Board discussed a staff proposal to modify the application of the straight-line method for operating leases if payments to the lessor are structured to compensate for expected inflation. The Board asked the staff to refine its recommendation for consideration at a future meeting.

**Provisions and contingencies.** The requirements proposed in the ED for accounting for provisions do not need to be simplified. However, more examples should be provided as implementation guidance for provisions commonly encountered by private entities.

**Equity.** An entity that issues a compound financial instrument should classify its components separately as financial liabilities, financial assets or equity instruments (sometimes known as split accounting). Examples should be added as implementation guidance to assist entities in accounting for compound instruments. The staff will present a recommendation for the distinction between debt and equity at a future Board meeting.

## IFRS FOR NON-PUBLICLY ACCOUNTABLE ENTITIES (FORMERLY SMALL AND MEDIUM-SIZED ENTITIES)

[UPDATED 18 FEBRUARY 2009]

**Revenue.** The percentage of completion method should be applied when recognising revenue from services and construction contracts, as proposed in the ED. Further examples will be added as implementation guidance.

**Government grants.** The 'IFRS for SMEs' model (as described in paragraphs 23.4 and 23.5 of the ED) will be required for all government grants. The option in the ED to apply IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* for those government grants not related to assets measured at fair value through profit or loss (paragraph 23.3(b) of the ED) will be removed.

**Borrowing costs.** Both the expense model and the capitalisation model should be options.

**Share-based payment (SBP).** The staff are researching measurement of equity-settled SBPs by private entities and will present a recommendation at a future Board meeting. No decisions were made at this meeting.

**Impairment of non-financial assets.** An entity will perform an impairment test only if there is an indication that an asset may be impaired, as proposed in the ED. However, the approach for determining the impairment loss once an impairment is indicated should be similar to IAS 36 *Impairment of Assets* and hence the standard should include the concepts of 'recoverable amount', 'value in use' and 'cash-generating units'. It should be clarified, in a way similar to IAS 36, that if it is not possible to determine fair value less costs to sell for an asset because there is no basis for making a reliable estimate of that amount, then the entity may use the asset's value in use as its recoverable amount.

The Board discussed the requirements for allocating goodwill to components of the entity, with a view to providing relief for entities that do not manage their business on the basis of cash-generating units. The Board asked the staff to rewrite paragraph 26.22 of the ED on the basis of the discussion and present a recommendation at a future Board meeting.

**Post-employment benefits.** All actuarial gains and losses and past service cost should be recognised immediately in profit or loss as proposed in the ED. The Board discussed whether, and in what circumstances, private entities might be allowed to measure the defined benefit obligation at a current liquidation amount, eg if information to apply the projected unit method as proposed in the ED was not available. No decision was made. The Board asked the staff to present a proposal at a future meeting that specifically sets out when a current liquidation amount might be used and exactly how it would be calculated, because current practice varies.

### ***Decisions at the September 2008 Meeting as Reported in IASB Update***

49. Here is a summary of the Board's decisions at the September 2008 Board meeting, as reported in *IASB Update* newsletter for that month:

The Board resumed its redeliberation of the proposals in the exposure draft (ED) of a proposed IFRS for SMEs. At this meeting the Board discussed issues relating to Sections 28–38 of the ED and made the following tentative decisions:

**Income taxes.** The Board considered but rejected a taxes payable with disclosure approach for deferred tax. The Board then discussed possible ways to simplify deferred tax recognition and measurement that take into account the needs of users of private entity financial statements and cost-benefit considerations. The Board asked the staff to develop the following two approaches for discussion at a future meeting:

- Recognising deferred taxes only for those differences between accounting and tax treatment of items of income or expense that are expected to reverse (and therefore affect an entity's cash flows) in a relatively short term.
- Starting from the temporary difference approach in IAS 12, but making simplifications in areas considered particularly complex.

## **IFRS FOR NON-PUBLICLY ACCOUNTABLE ENTITIES (FORMERLY SMALL AND MEDIUM-SIZED ENTITIES)**

[UPDATED 18 FEBRUARY 2009]

The Board expects to publish an exposure draft on income taxes later in 2008. One aim of that exposure draft is to enhance understandability by substantially rewriting IAS 12, without changing greatly the overall approach in IAS 12. The staff will take this redrafting into account when rewriting Section 28.

**Hyperinflationary economies.** All characteristics that indicate hyperinflation as listed in paragraph 3 of IAS 29 Financial Reporting in Hyperinflationary Economies should be added to the final IFRS for Private Entities.

**Foreign currency translation.** Private entities should be prohibited from recycling through profit or loss any cumulative exchange differences that were previously recognised in equity on disposal of a foreign operation. Private entities should not be allowed simply to elect to deem their local currency as their functional currency even if the law requires financial statements to be presented in the local currency.

**Related parties.** The final standard should reflect the final amendments to IAS 24 Related Party Disclosures, currently in exposure draft phase.

**Agriculture.** The cost model should not be added as an accounting policy choice for private entities since the addition of an 'undue cost or effort' exception to the requirement to apply fair value measurement, as proposed in the ED, is considered a sufficient simplification.

**Held for sale.** There should be no 'held for sale' classification for non-financial assets, or groups of assets and liabilities, as is required by IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, and the proposed requirements for assets held for sale in Section 36 should be dropped from the final standard. Instead, the decision to sell an asset should be added as an impairment indicator.

**Discontinued operations.** Private entities should be required to identify and segregate amounts for discontinued operations in the statement of comprehensive income for the current period and all prior periods presented in the financial statements, unless impracticable. To reflect the Board's decision directly above, the definition of a discontinued operation will no longer refer to components of an entity that are classified as held for sale.

**First-time adoption.** All of the optional exemptions for first time adopters in IFRS 1 First-time Adoption of International Financial Reporting Standards (eg parent and subsidiary adopt at different times, and deemed cost for investment property and intangible assets) should be added to Section 38 so they are available to private entities adopting the IFRS for Private Entities for the first time. An entity should not be allowed to benefit more than once from the special measurement and restatement exemptions available under Section 38, for example if the entity stops using the IFRS for Private Entities for a time and then is required, or chooses, to adopt it again later.

**Disclosures.** The Board considered a report on the views and recommendations of members of the Private Entities Working Group on disclosure issues, as well as staff recommendations on each. Nearly all of those recommendations were for further disclosure simplifications, although in a few cases the staff recommended additional disclosures. The staff's recommendations were generally consistent with the recommendations of the Working Group and are set out in the attachment to Agenda Paper 6B for the meeting, available on the IASB's Website. The Board agreed with most, but not all, of the staff recommendations. The Board's decisions on disclosures are too numerous and too detailed to be reported individually in Update.

**Outstanding issues.** The Board will discuss outstanding issues in October and November. Some of the main outstanding issues relate to restructuring the financial instruments section, concepts and pervasive principles, classification of equity and debt, measurement of equity-settled share-based payments, accounting for defined benefit plans, impairment of goodwill, and lessee recognition of rent expense under an operating lease. In addition, at the meeting in September 2008 some Board members suggested that the Board should revisit, at a future meeting, several of the tentative decisions made during redeliberations, including the name of the standard, consolidation, amortisation of indefinite-life intangibles, and recognition of actuarial gains and losses.

***Decisions at the October 2008 Meeting as Reported in IASB Update***

50. Here is a summary of the Board's decisions at the October 2008 Board meeting, as reported in *IASB Update* newsletter for that month:

At this meeting the Board discussed issues that had been deferred at previous meetings and made the following tentative decisions:

**Consolidation - temporary control.** In the light of the Board's decision at its meeting in September 2008 to eliminate the 'held for sale' classification, the Board considered whether there should be an exemption from consolidation for a subsidiary that was acquired with an intention to dispose of it in the near future. In effect, such an exemption exists under full IFRSs. The Board decided that a similar exemption from consolidation should be added for subsidiaries where on acquisition there is evidence that control is intended to be temporary (ie there is an intention to dispose of the subsidiary within twelve months and management is actively seeking a buyer). If the condition for exemption is met, the investor would need to provide specified disclosure.

**Options as hedging instruments.** Purchased options should not be permitted as hedging instruments under the hedge accounting provisions of Section 11. This decision would not prevent private entities from using purchased options to hedge risks or from disclosing the effect of doing so; it would only prohibit hedge accounting for those transactions.

**Operating leases.** The staff presented a revised proposal to modify the application of the straight-line method by lessees for operating leases if minimum lease payments are structured to compensate the lessor for expected inflation. The Board supported the staff proposal but clarified that 'expected inflation' means changes in general purchasing power based on published statistics, rather than a general estimate of the lessor's future cost increases.

**Classification of equity/liability.** The Board decided to incorporate into the IFRS for Private Entities the amendment to IAS 32 *Financial Instruments: Presentation* issued in February 2008 on puttable instruments and obligations arising on liquidation. The Board rejected a staff proposal to reword the amendment.

**Definition of government grant.** The staff withdrew a recommendation that would have removed from the definition of a government grant the phrase 'in return for past or future compliance with certain conditions relating to the operating activities of the entity'.

**Remaining issues.** The Board will discuss the remaining issues in November and December. Some of the main issues outstanding relate to restructuring the financial instruments section, possible replacement of the term 'fair value', concepts and pervasive principles, equity-settled share-based payments, defined benefit plans, income taxes, and impairment of goodwill. The staff will also ask the Board to revisit some of the tentative decisions made during its redeliberations, including the name of the standard, consolidation, amortisation of indefinite-life intangibles, and recognition of actuarial gains and losses.

***Decisions at the November 2008 Meeting as Reported in IASB Update***

51. Here is a summary of the Board's decisions at the November 2008 Board meeting, as reported in *IASB Update* newsletter for that month:

At this meeting the Board discussed some of the issues that had been deferred at previous meetings and some new issues on which respondents requested further guidance, in particular, on matters addressed by some IFRIC Interpretations. The Board made the following tentative decisions:

**Income taxes.** The Board decided tentatively:

- to pursue an approach that starts from the temporary difference approach as set out in the latest version of a forthcoming exposure draft of revisions to IAS 12 Income Taxes, but makes simplifications
- to retain the requirements proposed in the exposure draft of an IFRS for SMEs (ED) and contained in IAS 12 regarding the measurement of deferred tax when a jurisdiction imposes

## **IFRS FOR NON-PUBLICLY ACCOUNTABLE ENTITIES (FORMERLY SMALL AND MEDIUM-SIZED ENTITIES)**

[UPDATED 18 FEBRUARY 2009]

different tax rates on distributed and undistributed income, rather than follow the forthcoming exposure draft of revisions to IAS 12.

- to require all deferred tax assets and liabilities to be classified as non-current.
- to prohibit discounting of current and deferred tax assets and liabilities.
- not to require private entities to disaggregate the initial measurement of assets and liabilities that have a tax basis different from their initial carrying amount into (i) an asset or liability excluding entity-specific tax effects and (ii) any entity-specific tax advantage or disadvantage.
- that deferred tax assets should be recognised for unused tax loss and tax credit carry forwards, subject to the same criteria as in IAS 12.

**Share-based payment (SBP).** The Board decided tentatively that private entities should recognise an expense for equity-settled SBPs and that the expense should be measured on the basis of observable market prices, if available, or, if not, using the directors' best estimate of the fair value of the equity-settled SBPs. Disclosure alone, without expense recognition, would not be permitted.

For SBP transactions that give either the entity or the counterparty a choice of settlement in cash or equity instruments, the Board decided that the entity should account for the transaction as a cash-settled SBP transaction unless either:

- the entity has a past practice of issuing equity instruments, or
- the option to settle in cash has no commercial substance.

In the latter two circumstances, the transaction should be treated as equity-settled.

The Board decided tentatively to simplify the disclosure requirements for SBPs. However, the Board asked the staff to ensure that the disclosure requirements for private entities are sufficient for an understanding of how the amount recognised in profit or loss has been determined, including information on the key assumptions used in measuring SBPs.

**Post-employment benefit plans.** The Board rejected a staff proposal to require an entity to measure the defined benefit obligation of a defined benefit plan at the current termination amount (vested benefit obligation) in some circumstances. However, in the Board's view the defined benefit accounting under IAS 19 Employee Benefits should be simplified for private entities. The Board asked the staff to bring back an approach at a future meeting that is more in line with the current IAS 19 approach (eg it includes consideration of unvested benefits), but would be something that entities would generally be capable of applying themselves without needing to use external specialists. The Board suggested that the staff should also consider whether the concept of accumulated benefit obligation in SFAS 87 might be suitable.

The Board also decided tentatively:

- to retain the requirements for multi-employer plans as proposed in the ED (and contained in IAS 19), ie when sufficient information is not available to use defined benefit accounting for a multi-employer plan that is a defined benefit plan, an entity should treat the plan as a defined contribution plan with appropriate disclosure.
- to permit subsidiaries to recognise a charge based on a reasonable allocation of the group charge if the parent presents consolidated financial statements under the IFRS for Private Entities or full IFRSs.
- not to require entities to divide the return on assets into an expected return and an actuarial gain or loss.
- to allow two methods for recognising actuarial gains and losses - immediate recognition in profit or loss (as proposed in the ED) and immediate recognition in other comprehensive income.

**IFRIC Interpretations.** The Board decided tentatively to include in the IFRS for Private Entities the following IFRIC Interpretations, suitably adapted.

- IFRIC 4 Determining whether an Arrangement contains a Lease
- IFRIC 8 Scope of IFRS 2

## IFRS FOR NON-PUBLICLY ACCOUNTABLE ENTITIES (FORMERLY SMALL AND MEDIUM-SIZED ENTITIES)

[UPDATED 18 FEBRUARY 2009]

- IFRIC 12 Service Concession Arrangements
- IFRIC 15 Agreements for the Construction of Real Estate

**Name of standard.** The Board discussed the proposed title of the Standard in the light of some negative reactions received on the change from SMEs to private entities. The Board decided tentatively that the title should describe the types of entities to which the standard would be applicable. As Board members' views were divided on a specific title, the Board decided to invite public comment via the IASB's Website or a Webcast.

**Outstanding issues.** The staff noted that a few outstanding issues have been deferred at previous meetings, and the Board will discuss these at one or more future Board meetings. Some of the main outstanding issues relate to restructuring the financial instruments section, concepts and pervasive principle, impairment of goodwill and simplification of defined benefit pension accounting (see discussion above).

### ***Decisions at the December 2008 Meeting as Reported in IASB Update***

52. Here is a summary of the Board's decisions at the December 2008 Board meeting, as reported in *IASB Update* newsletter for that month:

At this meeting the Board discussed some of the remaining issues relating to the proposed IFRS for Private Entities.

**Financial statement presentation.** At its meeting in May 2008, the Board tentatively decided that the IFRS for Private Entities should incorporate the requirements of IAS 1 Presentation of Financial Statements as revised in 2007. At this meeting the Board considered issues resulting from that decision, and made the following tentative decisions:

Entities should have the option to present either a single statement of comprehensive income or two separate statements—an income statement displaying components of profit or loss and a statement of comprehensive income beginning with profit or loss and displaying components of other comprehensive income (OCI).

If an entity has no items of OCI, the statement of comprehensive income need not have a subtotal for 'profit for the period'. Instead, the bottom line could be labelled 'profit and comprehensive income for the period'. Furthermore, because an entity may use titles for financial statements other than those in the IFRS, if an entity has no items of OCI, the title of the statement could be, for example, 'statement of profit or loss' or 'statement of income'.

An entity should not be required to present a statement of financial position as at the beginning of the earliest comparative period when the entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements. IAS 1 (revised 2007) would require such a presentation.

**Impairment of non-financial assets.** The staff presented a revised Section 26 Impairment of Non-financial Assets reflecting tentative decisions made by the Board in July 2008. The revision:

- modifies the general approach for the impairment of non-financial assets to include the 'recoverable amount' and 'value in use' concepts;
- simplifies the requirements for assessing goodwill impairment; and
- introduces the concept of a cash-generating unit.

The indicator approach to impairment proposed in the ED is retained. In general, the Board was supportive of the rewrite. However, a few inconsistencies were highlighted, for example, regarding determining fair value in a forced sale (paragraph 26.14 of the rewrite). The Board also suggested modifications, such as deleting the 'market capitalisation' impairment indicator, deleting paragraph 23.13 (on allowing value in use to be used as recoverable amount in some circumstances) and shortening the section (for instance, some of the guidance for value in use could instead be covered by the training materials being developed by the IASC Foundation) to make it more manageable for private entities.

**Financial instruments.** In June 2008, the Board asked the staff to redraft Section 11 Financial Assets and Financial Liabilities and to present a recommendation at a future Board meeting. Among the tentative decisions made by the Board in June were:

## IFRS FOR NON-PUBLICLY ACCOUNTABLE ENTITIES (FORMERLY SMALL AND MEDIUM-SIZED ENTITIES)

[UPDATED 18 FEBRUARY 2009]

- Restructure Section 11 in two parts with one part (Section 11A) dealing with the simple payables and receivables and other basic financial instruments, and the second part (Section 11B) dealing with the more complex instruments and transactions.
- Clarify, by giving examples of the types of financial instruments that a private entity is likely to have, that the cost model will be appropriate for the significant majority of financial instruments held by private entities. A private entity with no other financial instruments would then not need to consider Section 11B.

The Board considered the first draft of Section 11A at this meeting and decided that changes or clarification are needed in a number of areas including:

- the initial measurement of a financial instrument: the fair value of whatever is receivable (for an asset) or payable (for a liability);
- the need to identify clearly which basic financial instruments cannot be carried at amortised cost; and
- derecognition, including factoring.

The staff will present an updated version of Section 11A at the meeting in January, along with a draft of Section 11B.

**Outstanding issues.** At its meeting in January, the Board will discuss the main outstanding issues, which include amortisation of goodwill, a requirement to prepare consolidated financial statements, whether the IFRS for Private Entities should allow use of the complex options, the section on concepts and pervasive principles, simplification of defined benefit pension accounting, and the revised and complete proposal for financial instruments.

### ***Decisions at the January 2008 Meeting as Reported in IASB Update***

53. Here is a summary of the Board's decisions at the January 2008 Board meeting, as reported in *IASB Update* newsletter for that month:

The Board continued its discussion of issues relating to the exposure draft (ED) of a proposed IFRS for SMEs and reached the following tentative decisions.

**Title of the standard.** The name of the final standard should be International Financial Reporting Standard for Non-publicly Accountable Entities, or IFRS for NPAEs.

**Complex accounting policy options.** In May 2008 the Board tentatively decided that, in general, all accounting policy options in full IFRSs should be available to NPAEs. As in the ED, the body of the standard should include the simpler option. The more complex options would be in a separate appendix rather than cross-referenced to full IFRSs. At this meeting, the Board made the following tentative decisions:

- **Investment property.** Measurement should be circumstance-driven rather than allowing NPAEs an accounting policy choice between the cost and fair value models. If an NPAE can measure fair value of an item of investment property reliably without undue cost or effort, it must use the fair value model. Otherwise, it must use the cost model.
- **Property, plant and equipment.** The revaluation model should not be an option.
- **Intangible assets.** The revaluation model should not be an option.
- **Borrowing costs.** All borrowing costs should be recognised as an expense. The capitalisation model should not be an option.
- **Presenting operating cash flows.** NPAEs could use either the indirect method or the direct method to present operating cash flows in the cash flow statement.
- **Development costs.** All research and development costs should be recognised as an expense. Capitalisation of development costs should not be an option.
- **Financial instruments.** An NPAE could apply either Section 11 of the IFRS for NPAEs or all requirements of full IFRSs – the three financial instrument standards (IAS 32 Financial Instruments: Presentation, IAS 39 Financial Instruments: Recognition and

## IFRS FOR NON-PUBLICLY ACCOUNTABLE ENTITIES (FORMERLY SMALL AND MEDIUM-SIZED ENTITIES)

[UPDATED 18 FEBRUARY 2009]

Measurement, IFRS 7 Financial Instruments: Disclosures), and related interpretations. The option to use full IFRSs will be available by cross-reference. This will be the only cross-reference to full IFRSs.

- **Associates.** The options proposed in the ED (cost method, equity method, and fair value through profit or loss) should all be allowed.
- **Jointly controlled entities.** The options in the ED should all be allowed with the exception of proportionate consolidation. Therefore NPAEs could choose the cost method, equity method, or fair value through profit or loss.

**Consolidation.** Consolidated financial statements should be required for all NPAE groups, with limited exceptions, as proposed in the ED.

**Goodwill and other indefinite-life intangible assets.** For cost-benefit reasons, rather than conceptual reasons, goodwill and other indefinite-life intangible assets should be considered to have finite lives. Therefore, such assets should be amortised over their estimated useful lives, with a maximum amortisation period of 10 years. The assets must also be assessed for impairment using the 'indicator approach' proposed in the ED.

## Project History

### Project History

#### 1. Key dates in the project history:

- Project was carried forward from IASC agenda. IASB deliberations began in July 2003.
- Discussion Paper (DP) Preliminary Views on Accounting Standards for Small and Medium-sized Entities was issued June 2004
- Staff Questionnaire on Possible Recognition and Measurement Modifications for Small and Medium-sized Entities (SMEs) was issued April 2005.
- Public round-table discussions on recognition and measurement simplifications were held 13-14 October 2005.
- From July 2003 until the Exposure Draft (ED) was published in February 2007, the issues were deliberated by the Board at 31 public Board meetings.
- Project was discussed with the Standards Advisory Council at seven SAC meetings.
- Project was discussed at four meetings of the World Accounting Standard Setters hosted by the IASB.
- The Working Group has met four times to discuss the issues and provide advice to the Board:
  - 23 April 2003
  - 29-30 June 2005
  - 30-31 January 2006
  - 10-11 April 2008
- Staff presented a complete draft of an ED to the Board in January 2006. The Board deliberated that draft almost monthly thereafter until the ED was issued in February 2007.
- A complete staff draft of the ED was posted on the IASB website in August 2006. A revised staff draft was posed on the IASB website in November 2006.
- ED was issued 15 February 2007 (English language) in print and posted on the IASB's website.

## IFRS FOR NON-PUBLICLY ACCOUNTABLE ENTITIES (FORMERLY SMALL AND MEDIUM-SIZED ENTITIES)

[UPDATED 18 FEBRUARY 2009]

- Comment deadline initially was 1 October 2007 but, in September 2007, the Board extended the deadline to 30 November 2007 to allow organisations participating in field tests to factor the results into their comment letters.
- Staff overview of the ED was published in April 2007 and posted on the IASB's website.
- Translations of the ED were published as follows:
  - Spanish April 2007
  - French May 2007
  - German June 2007
  - Polish September 2007
  - Romanian September 2007
- Field test questionnaire was posted on the IASB's website in June 2007 in English, Spanish, and French. Deadline for submitting field test reports was initially 31 October 2007, but, in September 2007, was extended to 30 November 2007 to meet requests by field testers.
- Comment period on the ED closed 30 November 2007.
- At the March 2008 Board meeting staff presented an overview of the main issues (other than disclosure issues) raised in the comment letters on the ED. At the April 2008 Board meeting staff presented an overview of the main issues that were identified as a result of the programme for field testing the ED. Both of those meetings were educational in nature, and the staff did not raise any issues for Board decision.
- The IASB's Working Group (WG) met on 10-11 April 2008. The recommendations of WG members on each issue (other than disclosure) that was discussed at that meeting were presented to the Board at the May 2008 Board meeting. Recommendations of WG members relating to disclosure were presented to the Board in an agenda paper at the July 2008 Board meeting.
- At the May 2008 Board meeting, the Board began the process of redeliberating the proposals in the ED by addressing the key issues relating to scope, recognition, measurement, and presentation that were raised in the letters of comment on the ED and in the reports prepared by field test entities. Those redeliberations continued through February 2009.
- In March 2009 the Board will consider whether the changes made to the ED during the redeliberation process require re-exposure.

### Field Tests of the ED

2. Subsequent to issuing the ED, the staff began a programme of field testing of the ED. By field testing the proposals in the ED the IASB intended to:
  - **to assess understandability.** Identify parts of the proposed standard that field testers found hard to understand.
  - **to assess scope.** Identify transactions, events or conditions that the field tester encountered but that are not covered in the draft IFRS for SMEs, and find out how the field tester made its accounting policy decision.
  - **to assess burden.** Assess the burden of applying the draft IFRS for SMEs: for instance, whether information required to apply it was not available or available only with undue cost or effort.
  - **to assess impact.** Assess the nature and degree of changes from the field tester's current GAAP or current reporting practices.

## IFRS FOR NON-PUBLICLY ACCOUNTABLE ENTITIES (FORMERLY SMALL AND MEDIUM-SIZED ENTITIES)

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- **to assess users' needs.** Assess results from users' perspective. Obtain the assessments of bank lenders and other users of the field tester's financial statements about the information content of financial statements prepared using the draft IFRS for SMEs.
  - **to assess accounting policy choices.** Where an accounting policy choice is allowed in the draft IFRS for SMEs, to identify any circumstances in which the field tester chose to use an accounting policy option in a full IFRS, and why.
  - **to assess micro and developing country problems.** Identify any special problems in applying the draft IFRS for SMEs that arise for field testers that are so-called 'micro entities' (those with fewer than 10 employees) and for field testers in developing economies.
  - **to assess the adequacy of implementation guidance.** Identify where additional implementation guidance would be helpful to the field tester.
3. Field test companies were asked to provide background information about the company, submit their most recent annual financial statements under their existing accounting framework, prepare financial statements in accordance with the draft IFRS for SMEs for the same financial year (though without presenting comparative prior year information), and respond to a series of questions designed to identify specific problems the field test company encountered in applying the draft IFRS for SMEs. The field test questionnaire may be downloaded from the IFRS for Private Entities project page on the IASB's website.
  4. The IASB worked with a number of organisations, including the International Federation of Accountants, national and regional professional accountancy bodies as well as accounting standard-setters and auditing firms to identify field test companies and to help them to apply the draft standard and respond to the field test questionnaire.
  5. Field testers were asked to submit their financial statements and questionnaire by 30 November 2007. Responses are confidential. A report summarising and explaining the findings, without individual company data, was made publicly available when it was presented to the Board in April 2008.

### Contact information

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