Straight away
IFRS bulletin from PwC

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IASB publishes exposure draft of proposed amendments to the IFRS for SMEs

What is the issue?

The IASB has published an exposure draft of proposed amendments to the International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs). SMEs include all entities that are not publicly traded and that are not banks or similar financial institutions.

The exposure draft lists 57 proposed amendments. However most of the proposed amendments clarify existing requirements or add supporting guidance, rather than propose changes to the existing requirements in the IFRS for SMEs.

The most significant proposed change is to align the principles of the income tax guidance with those of IAS 12, *Income Taxes* for the recognition and measurement of deferred tax.

The amendments are expected to apply one year after being issued in final form with early adoption permitted. The deadline for comments is 3 March 2014.

The main proposed amendments are summarised below.

Section 1- Small and Medium-sized Entities

The amendment clarifies that those entities that hold assets in a fiduciary capacity are not automatically publicly accountable. It also clarifies that a parent entity that does not itself have public accountability, may present its separate financial statements in accordance with IFRS for SMEs, even if it presents its consolidated financial statements in accordance with full IFRS or another GAAP.

Section 2 – Concepts and Pervasive Principles

The amendment provides guidance on the “undue cost or effort” exemption. The guidance clarifies that an entity is exempt from a specific requirement if obtaining or determining the information necessary to comply with that requirement would result in excessive incremental cost or excessive additional effort. This guidance is used in several sections of the IFRS for SMEs: measurement of investments in equity instruments at fair value (sections 11 and 12), recognition of intangible assets separately in a business combination (section 19), and offsetting of income tax assets and liabilities (section 29).

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Section 9 – Consolidated and Separate Financial Statements

The amendment clarifies that subsidiaries acquired with the intention of sale or disposal within one year should be excluded from consolidation. It also explains that the cumulative translation adjustment arising from the translation of a foreign subsidiary is not recycled to P&L on disposal of the subsidiary.

The ED proposes an amendment to the definition of 'combined financial statements' to refer all entities under common control, rather than only those under the common control of a single investor, and provides guidance on the preparation of consolidated financial statements if group entities have different reporting dates.

Section 18 and 19 – Intangible Assets and Goodwill

The amendment proposes that the useful life should not exceed 10 years (rather than be fixed at 10 years) if an entity is unable to make a reliable estimate of the useful life of an intangible asset (including goodwill).

Section 19 – Business Combination and Goodwill

The amendment replaces the undefined term 'date of exchange' to 'date of acquisition'.

It clarifies the measurement requirements for employee benefit arrangements and deferred tax when allocating the cost of a business combination.

The amendment also provides guidance on the calculation of non-controlling interest in the acquiree.

Section 29 – Income Tax

This section is substantially changed to align the main principles with IAS 12, 'Income taxes', for recognition and measurement of deferred tax. A 'clean version' of section 29 is provided in the appendix of the ED.

Other proposed alignments with full IFRSs

Section 5 – incorporates the main change under IAS 1 (2011 amendment), 'Presentation of items of other comprehensive income'.

Section 6 – incorporates *IAS 1,* 'clarification of statement of changes in equity' from *Improvements to IFRSs*, issued in May 2010.

Section 17 – incorporates IAS 16, 'Classification of servicing equipment', from *Improvements 2009-2011 Cycle*, issued in May 2012.

Section 22 – incorporates (i) the conclusions of IFRIC 19, 'Extinguishing financial liabilities with equity instruments'*; (ii) IAS 32,* 'Tax effect of distributions to holders of equity instruments', from *Improvements 2009-2011 Cycle*, issued in May 2012.

Section 26 – aligns the scope and the definitions with IFRS 2, 'Share-based payment'.

Section 33 – align the definition of 'related party' with IAS 24, 'Related party disclosures' (2009).

Section 35 – incorporates various limited scope amendments and improvements to IFRS 1 issued in 2010 and 2012.

Am I affected?

Entities that apply IFRS for SMEs will be affected by the proposed changes.

What do I need to do?

Management should read the proposed amendments in their entirety to determine the impact and consider commenting on the proposals.