IFRS NEWSLETTER
THE BALANCING ITEMS

Issue 5, October 2013

KPMG
cutting through complexity

The IASB is consulting on proposed amendments to the *IFRS for SMEs* as part of its first comprehensive review of the standard.

Keeping the *IFRS for SMEs* up to date

This *IFRS Newsletter: The Balancing Items* brings into focus the IASB's first comprehensive review of the *IFRS for Small and Medium-sized Entities (IFRS for SMEs)*.

New proposals issued by the IASB aim to bring the *IFRS for SMEs* up to date with IFRS developments since the standard was issued in 2009, but without adding complexity. With the exception of income taxes, most of the proposals are unlikely to result in significant changes in practice. To keep the standard simple, no changes are proposed to reflect the new requirements in full IFRS on consolidation, employee benefits and fair value measurement.

Highlights

- Proposals to bring the section on income taxes back in line with IAS 12 *Income Taxes* may impact preparers.
- Some new exemptions would be provided and disclosure requirements simplified.
- Clarifications, minor amendments and new guidance would be added, to update the standard for relevant developments in full IFRS.

The proposals are open for comment until 3 March 2014. SMEs should not miss this opportunity to provide their views to the IASB on whether the amendments are likely to improve the relevance of their financial statements to users, and if they would cause any practical challenges.

THE PROPOSALS

The *IFRS for SMEs* is a self-contained standard which was issued in 2009 and is now undergoing an initial comprehensive review.

The key question for the IASB has been whether, and to what extent, the standard should be amended for any issues identified during the period of initial application, and for any changes that were made to full IFRS since 2009. In answering this question, the IASB has sought input from various stakeholders through a request for information and through consultation with the SMEs Implementation Group (SMEIG). The exposure draft *Proposed Amendments to the IFRS for SMEs* (the ED) includes some, but not all, suggestions made by constituents.

Proposals to bring the section on income taxes back in line with IAS 12 *Income Taxes* may impact preparers.

Bringing income taxes back in line with full IFRS

The *IFRS for SMEs* was based on proposed revisions to IAS 12 that were under consideration when the *IFRS for SMEs* was issued in 2009. Those revisions to IAS 12 were never finalised, but remained in Section 29 of the *IFRS for SMEs*.

The IASB has therefore decided to bring the *IFRS for SMEs* back in line with IAS 12. The proposed changes may impact the way preparers recognise and measure deferred tax, and how they account for uncertain tax positions.

Management's intention for the recovery or settlement of an asset or liability

At present, the *IFRS for SMEs* presumes that an asset would be recovered through sale; therefore, deferred tax is calculated based on the tax consequences of the asset's sale – i.e. tax deductions and rates – regardless of whether management intends to use or sell the asset. This is particularly important in jurisdictions that have different tax deductions and rates available on use and on sale of assets.

Under the proposals, SMEs would consider whether an asset would be used or sold when measuring the related deferred tax. Similar to IAS 12, the proposals include a rebuttable presumption that investment property measured at fair value would be recovered through sale.

Initial recognition exception

Similar to entities applying full IFRS, SMEs would not recognise deferred tax for certain temporary differences that arise on the initial recognition of assets and liabilities outside a business combination.

Investments in subsidiaries, branches, associates and joint ventures

SMEs would not recognise deferred tax for temporary differences on their investments in subsidiaries, branches, associates and joint ventures if:

- they are able to control the timing of the reversal of the temporary difference; and
- it is probable that the temporary difference will not reverse in the foreseeable future.

Valuation allowance

Currently, SMEs recognise a deferred tax asset in full and, if its realisation is not probable, they create a valuation allowance. Similar to IAS 12, under the proposals they would not recognise a deferred tax asset to the extent that the recognition criteria are not met.

Uncertain tax positions

To ensure consistency with IAS 12, guidance on the recognition and measurement of uncertain tax positions would be removed.

Other guidance

The ED also proposes deleting guidance in some areas to align the standard with IAS 12. However, it would retain the existing simplified presentation and disclosure requirements.

Some new exemptions would be provided and disclosure requirements simplified.

Making application simpler

SMEs are exempted from applying some requirements in the *IFRS for SMEs* if obtaining or determining the information necessary to comply with them would result in excessive incremental cost or additional effort. Such exemptions are *conditional* and referred to as 'undue cost or effort'.

The ED includes explicit guidance on the undue cost or effort exemption, and proposes to extend it to new items. It also includes some new *unconditional* exemptions and reliefs. Under the proposals, SMEs may not necessarily need to:

- measure investments in equity instruments at fair value;
- recognise intangible assets separately in a business combination;
- offset income tax assets and liabilities;
- recognise any differences on the settlement of non-cash dividends if the non-cash asset distributed is ultimately controlled by the same parties before and after the distribution;
- prepare a prior-year reconciliation of balances for biological assets and share capital; or
- disclose the accounting policy for termination benefits.

Applying these exemptions and reliefs could bring about changes in practice.

Clarifications, minor amendments and new guidance would be added, to update the standard for relevant developments in full IFRS.

Keeping the standard up to date

In addition to exemptions and reliefs, the ED includes a large number of clarifications, minor amendments and some new guidance based on the 'Q&As'[1] to keep the standard up to date with overall IFRS developments that are relevant to SMEs. To keep the standard simple, no changes have been proposed for new requirements on consolidation, employee benefits and fair value measurement. In addition, for the same reason, some suggestions made by the SMEIG – e.g. allowing the use of the revaluation model for property, plant and equipment – have not been included.

Section	Key changes	Change in practice
Description of SMEs	Clarifications to the scope and new guidance on the use of the *IFRS for SMEs* in the parent's separate financial statements.	Possible
Statement of Comprehensive Income and Income Statement	Update for changes in IAS 1 *Presentation of Financial Statements* in respect of separate presentation of recyclable and non-recyclable items in other comprehensive income (OCI); plus some minor clarifications.	Likely
Statement of Changes in Equity and Statement of Income and Retained Earnings	Update for changes in IAS 1 allowing presentation of components of OCI either on the face of the primary statement or in the notes.	Possible

1 The Q&As for SMEs provide non-mandatory guidance issued by the SMEIG.

Section	Key changes	Change in practice
Consolidated and Separate Financial Statements	New guidance on different reporting dates within a group and non-recycling of exchange differences on disposal of a subsidiary; plus some minor clarifications.	Possible
Basic Financial Instruments	Various clarifications.	Unlikely
Other Financial Instruments Issues	Various clarifications.	Unlikely
Property, Plant and Equipment	Update for change in IAS 16 *Property, Plant and Equipment* for classification of servicing equipment.	Possible
Intangible Assets	Allowing a useful life of less than 10 years for goodwill and other intangible assets whose useful life cannot be determined reliably.	Possible
Business Combinations and Goodwill	New guidance on calculation of non-controlling interest, and other clarifications.	Possible
Leases	Clarifications to the scope of the section.	Possible
Liabilities and Equity	New guidance on classification of financial instruments as equity or liability, on compound financial instruments and on non-cash distributions. Update for IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments* and changes to IAS 32 *Financial Instruments: Presentation* in relation to tax on equity transactions.	Possible
Share-based Payment	Update for changes to IFRS 2 *Share-based Payment* and various clarifications.	Possible
Impairment of Assets	Clarification that assets under construction contracts are scoped out of the section.	Unlikely
Employee Benefits	Clarification in respect of long-term employee benefits.	Unlikely
Foreign Currency Translation	Clarification in respect of instruments denominated in a foreign currency.	Possible
Related Party Disclosures	Update for new definitions of related parties in IAS 24 *Related Party Disclosures*.	Possible
Specialised Activities	New guidance for extractive activities based on IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine*.	Possible
Transition to the *IFRS for SMEs*	Update for changes in IFRS 1 *First-time Adoption of International Financial Reporting Standards* and some clarifications.	Possible

NEXT STEPS

Your opportunity to comment

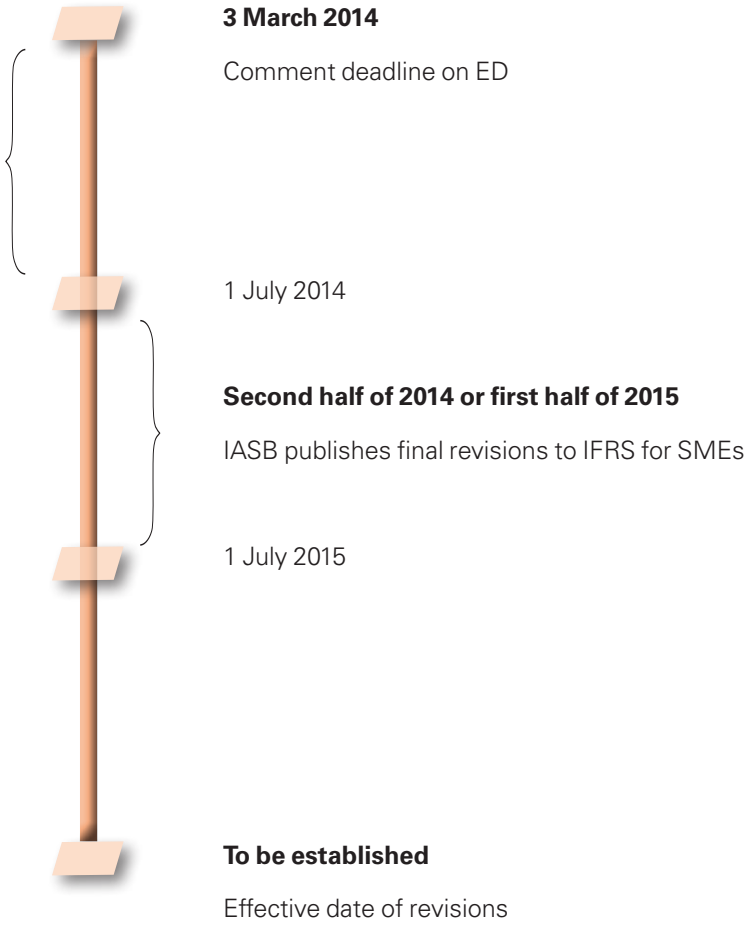
The proposals are open for comment until 3 March 2014. This consultation offers SMEs an opportunity to provide their views to the IASB on whether the amendments are likely to improve the relevance of their financial statements to users, and whether they would cause any practical challenges.

Frequency of review

The ED also seeks views on whether the three-year cycle for amending the IFRS for SMEs should be changed to five years with the option for an urgent issue to be addressed earlier.

Timeline

Redeliberations are expected to take place during the second and third quarters of 2014, and the final amendments are expected in the second half of 2014 or the first half of 2015.



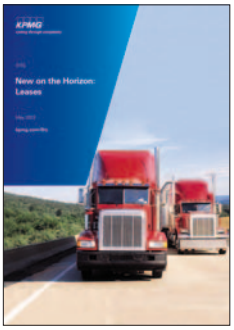
FIND OUT MORE

We provide publications, including the *IFRS Newsletters* and *New on the Horizon*, on the IASB's major projects. *IFRS Newsletter: The Balancing Items* provides a round-up of the Board's other activities.

For more information on the comprehensive review of the IFRS for Small and Medium-sized Entities go to the ED published on the IASB website.

Visit KPMG's *Global IFRS Institute* at kpmg.com/ifrs to access KPMG's most recent publications on the IASB's major projects.

Our IFRS – financial instruments hot topics page brings together our materials on the financial instruments project, including our *IFRS Newsletter: Financial Instruments*.



Our IFRS – leases hot topics page brings together our material on the leases project, including our *New on the Horizon*, which provides detailed analysis on the leases exposure draft published in May 2013.

Our IFRS – insurance hot topics page brings together our materials on the insurance project, including our *IFRS Newsletter: Insurance* and our suite of publications on the IASB's recently published re-exposure draft on insurance contracts.

Our IFRS Breaking News page brings you the latest need-to-know information on international standards in the accounting, audit and regulatory space.

Our IFRS – revenue hot topics page brings together our materials on the revenue project, including our *IFRS Newsletter: Revenue*.

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Publication name: *IFRS Newsletter: The Balancing Items*

Publication number: Issue 5

Publication date: October 2013

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This *IFRS Newsletter: The Balancing Items* brings into focus the narrow-scope amendments to IFRS

If you would like further information on any of the matters discussed in this Newsletter, please talk to your usual local KPMG contact or call any of KPMG firms' offices.