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Published on:
June 5, 2015

IASB issues 2015 Amendments to the IFRS for SMEs

Why are there amendments to the IFRS for SMEs?

The IFRS for SMEs was initially issued in 2009. At the time, the IASB proposed an initial comprehensive review after two years and a subsequent omnibus review every three years. The amendments follow the initial comprehensive review of the IFRS for SMEs by the IASB, which commenced in 2012

What are the amendments to IFRS for SMEs?

The amendments, other than minor amendments and clarifications, are summarized below together with their anticipated impact on the financial statements of an entity applying the IFRS for SMEs.

Amendments to the Standard	Recognition and Measurement	Presentation and Disclosure	Guidance or Clarification only
AMENDMENTS THAT COULD HAVE A SIGNIFICANT IMPACT			
Addition of an accounting policy option to measure property, plant and equipment using the revaluation model. The amendment should be applied prospectively.	X	X	
Alignment of the main recognition and measurement requirements for deferred income tax with IAS 12 *Income Taxes*. The IFRS for SMEs is currently based on ED/2009/2 *Income Tax* which was never finalised by the IASB.	X		
Alignment of the main recognition and measurement requirements for exploration and evaluation assets with IFRS 6 *Exploration for and Evaluation of Mineral Resources*.	X		
AMENDMENTS THAT ARE EXPECTED TO HAVE A LIMITED IMPACT			
New exemptions			
Undue cost or effort exemptions have been added for the following requirements:			
• Measurement of investments in equity instruments at fair value	X		
• Separate recognition of intangible assets of the acquiree in a business combination	X		
• The requirement to measure the liability to pay a non-cash distribution at the fair value of the non-cash assets to be distributed	X		
• The requirement to offset income tax assets and liabilities		X	
Addition of the exemption from fair value measurement for equity instruments issued as part of a business combination (including business combinations under common control)	X		
Addition of the exemption from the measurement requirements for distributions of non-cash assets ultimately controlled by the same parties before and after the distribution	X		
Addition of the exemption in paragraph 70 of IAS 16 allowing an entity to use the cost of a replacement part as an indication of the original cost of the replaced part where it is not practicable to determine the carrying amount of the replaced part	X		
Changes/clarifications based on new and revised IFRSs			
Addition of a requirement to group items of 'other comprehensive income' into items that will and will not subsequently be reclassified to profit or loss, consistent with the amendments to IAS 1 issued in June 2011		X	
Addition of the conclusions in IFRIC 19, whereby an entity is required to measure the equity instruments issued to extinguish a financial liability at their fair value with the difference between the carrying amount of the financial liability and the fair value of the equity instruments recognised in profit or loss. The requirement is subject to an "undue cost or effort" exemption, whereby the equity instruments issued are measured at the fair value of the liability extinguished if the fair value of the equity instruments cannot be measured reliably without undue cost or effort	X		
Alignment of the wording in the Standard with the amendments to IAS 16 with respect to the classification of spare parts, stand-by equipment and servicing equipment as inventory or property, plant and equipment			X
Clarification that income tax relating to the transaction costs of an equity transaction and income tax relating to distributions to owners should be accounted for in accordance with Section 29 *Income Tax* based on the amendments to IAS 32 *Financial Instruments: Presentation* in the *2009-2011 Annual Improvements Cycle*		X	
Option given for an SME to account for investments in subsidiaries, associates and jointly controlled entities using the equity method in its separate financial statements, based on the August 2014 amendments to IAS 27	X	X	

Amendments to the Standard	Recognition and Measurement	Presentation and Disclosure	Guidance or Clarification only
Other changes to existing guidance			
Clarification of the criterion for basic financial instruments in paragraph 11.9(a) (iv), and addition of examples of loan arrangements that would meet this criterion			X
Modification to require that where the useful life of goodwill or another intangible asset cannot be reliably measured, rather than assume a default period of 10 years, management should estimate the useful life, but the period should not exceed 10 years	X		
Modification resulting in leases with interest rate variation clauses linked to market interest rates no longer being accounted for as separate derivatives	X		
Modification to require that the liability component of compound financial instruments should be accounted for in the same way as a similar stand-alone financial liability (currently at amortised cost)	X		
Clarification that the share-based payment requirements in Section 26 apply to all share-based payment transactions in which the identifiable consideration appears less than the fair value of the equity instruments granted or liability incurred, not only to share-based payment programmes established under law	X		X
Elimination of the requirement to include prior year reconciliations for both biological assets and number of shares outstanding		X	
Alignment of the definition of a "related party" with the definition in IAS 24 *Related Party Disclosures,* including a management entity providing key management personnel services in the related party definition, consistent with the amendment to the IAS 24 definition in the *2010-2012 Annual Improvements Cycle*		X	
Addition of the requirement that an entity should disclose when the "undue cost or effort" exemption has been used, together with the reason for doing so		X	
Addition of a requirement that investment property measured under the cost model should be presented separately on the face of the statement of financial position		X	
Minor clarifications of existing requirements in the IFRS for SMEs			
Clarification that any impairment of a discontinued operation should be included in the single amount presented for discontinued operations		X	
Clarification that where it is impracticable to prepare the financial statements of a subsidiary as of the same reporting date as the parent, group entities with different reporting dates may be included in consolidated financial statements by using the most recent financial statements adjusted for significant transactions between the date of those financial statements and the group reporting date			X
Clarification that cumulative exchange differences arising on the translation of a foreign subsidiary are not reclassified to profit or loss on disposal of the foreign subsidiary			X
Clarification of when a price in a binding sale agreement may be the best evidence of fair value			X
Addition of guidance on the meaning of "undue cost or effort"			X
Clarification that all subsidiaries acquired with the intention of selling or disposing within one year should not be consolidated and guidance on accounting for such subsidiaries			X
Addition of guidance on the use of IFRS for SMEs in the parent's separate financial statements			X
Addition of new definitions, including 'active market', 'close members of the family of a person', 'foreign operation', 'minimum lease payments' and 'transaction costs'			X
Clarification of when financial instruments are not measured at their transaction prices and when an arrangement would constitute a 'financing transaction' in terms of paragraph 11.13 and 11.15			X
Clarification that the measurement of a non-controlling interest in a business combination should equal the non-controlling interest's proportionate share of the acquiree's recognised identifiable net assets	X		X

Observation

The IASB considered the following in issuing the amendments:

• how comparability of financial information would be improved, both between reporting periods and across different entities;

• the usefulness of financial information in decision making;

• the timing and suitability of the changes to the Standard;

• the complexity of the types of transactions, events and conditions encountered by typical SMEs;

• legislative requirements to revalue property, plant and equipment in certain jurisdictions;

• undue cost or effort in addressing the needs for users of the financial statements; and

• ensuring that the IFRS for SMEs is not more onerous than full IFRSs.

What are the anticipated effects of the amendments?

In their Basis for Conclusions, the IASB stated that the majority of the amendments are intended to clarify existing requirements or add supporting guidance, rather than to change the underlying requirements in the IFRS for SMEs. For most SMEs, the amendments are expected to improve understanding of the existing requirements, without necessarily resulting in changes in practice or changes that would affect the financial statements.

When are the amendments effective?

The amendments to IFRS for SMEs will be effective for annual periods beginning on or after 1 January 2017, with earlier application permitted. The amendments are to be applied retrospectively except as set out in the Standard.

In situations where it is impracticable for an entity to apply any new or revised requirements in the amendments retrospectively, the Standard allows an entity to apply those requirements in the earliest period for which is it practicable to do so. In addition, the Standard also provides that an entity:

• may elect to apply the amendments to the Income Tax section of the Standard prospectively from the beginning of the period in which it first applies the amendments;

• shall apply the amendment with respect to measuring the cost of a business combination prospectively from the beginning of the period in which the amendments are first applied; and

• shall apply the amendments in certain paragraphs prospectively if the revaluation model is applied to any classes of property, plant and equipment.

Entities are also required to identify the amounts in the financial statements that have not been restated as a result of applying the above exceptions to and exemptions from retrospective application.

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