Update No. 175

(Issued 29 September 2015)

This Update relates to the publication of:

- *Hong Kong Financial Reporting Standard for Private Entities*

Document Reference and Title	***Instructions***	***Explanations***
VOLUME II		
Contents of Volume II	Discard existing page iv & replace with revised page iv.	Revised contents page
HONG KONG FINANCIAL REPORTING STANDARDS (HKFRS)		
Hong Kong Financial Reporting Standard for Private Entities (Standard)	Replace the cover page, pages 2 and 4 with revised cover page, pages 2 and 4. Insert pages 237 – 285 after page 236.	- Note
Hong Kong Financial Reporting Standard for Private Entities (Basis for Conclusions)	Replace the cover page, pages 2 and 5 with revised cover page, pages 2 and 5. Insert pages 48-77 after page 47.	- Note

Note:

The *Hong Kong Financial Reporting Standard for Private Entities* (*HKFRS for Private Entities*) has been updated in response to the International Accounting Standards Board's issuance of the 2015 limited amendments to the *International Financial Reporting Standards for Small and Medium-sized Entities* (*IFRS for SMEs*). The key changes to the *HKFRS for Private Entities* are:

- Allowing an option to use the revaluation model for property, plant and equipment; and
- Replacing the modified text in section 29 Income Tax of *HKFRS for Private Entities* with the revised section 29 of the amendments to the *IFRS for SMEs.* As a result of this change, the recognition and measurement requirements for deferred income taxes of HKFRS for Private Entities, IFRS for SMEs and International Accounting Standard 12 *Income Taxes* are now aligned.

The other amendments clarify the existing requirements or add supporting guidance, instead of changing the underlying requirements in the standard.

Entities reporting using the *HKFRS for Private Entities* are required to apply the amendments for annual periods beginning on or after 1 January 2017. Earlier application is permitted provided all amendments are applied at the same time.

Effective upon issue

Hong Kong Financial Reporting Standard for Private Entities

Hong Kong Financial Reporting Standard for Private Entities (HKFRS for Private Entities) is effective immediately upon its issuance on 30 April 2010. Eligible entities are permitted to use HKFRS for Private Entities to prepare financial statements for prior period(s) where the relevant financial statements have not been finalised and approved.

Hong Kong Institute of
Certified Public Accountants
香港會計師公會

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The *Hong Kong Financial Reporting Standard for Private Entities (HKFRS for Private Entities)* is set out in Sections 1–35 and the Glossary. Terms defined in the Glossary are in **bold type** the first time they appear in each section. The *HKFRS for Private Entities* is accompanied by a preface, implementation guidance, a derivation table, illustrative financial statements and a presentation and disclosure checklist, and a basis for conclusions.

Appendix

2015 Amendments to the HKFRS for Private Entities

The following sets out amendments required for this HKFRS for Private Entities that are not yet effective. Once effective, the amendments set out below will be incorporated into the text of this HKFRS for Private Entities and this appendix will be deleted. In the amended paragraphs shown below, new text is underlined and deleted text is struck through.

Preface to HKFRS for Private Entities

Paragraphs P5, P13 and P20–P21 are amended. Deleted text is struck through and new text is underlined.

The Hong Kong Institute of Certified Public Accountants (HKICPA)

P5 In 2001, Council adopted the policy of achieving convergence of HKFRSs with IFRSs. Council's objectives in this respect are:

(a) to develop, in the public interest, a single set of high quality, understandable and enforceable financial reporting standards based on clearly articulated principles. These standards should ~~that~~ require high quality, transparent and comparable information in financial statements and other financial reporting to help investors, other participants in the capital markets and other users of ~~the~~ financial information to make economic decisions;

(b) to promote the use and rigorous application of those standards;

(c) to promote, support and enforce compliance with those standards by members of HKICPA whether as preparers or auditors of financial information; and

(d) to maintain convergence of financial reporting standards with IFRSs.

...

The HKFRS for Private Entities

P13 In this regard, Council considers that IFRS for SMEs should be adopted in Hong Kong as a reporting option for eligible private entities. Accordingly, this HKFRS for Private Entities is based on IFRS for SMEs by ~~with the following amendments to suit Hong Kong's circumstances:~~

~~(a)~~ ~~R~~replacing the term "SMEs" in IFRS for SMEs by "Private Entities" to suit Hong Kong's circumstances.

The term “SMEs” is widely used in Hong Kong and associated with the locally developed SME-FRF&FRS. For clarity and differentiation, this HKFRS which is based on “IFRS for SMEs” is to be called “Hong Kong Financial Reporting Standard for Private Entities” (HKFRS for Private Entities).

~~*(b) Replacing the recognition and measurement principles in section 29 Income Tax of the IFRS for SMEs with the extant version of HKAS 12 Income Taxes*~~

~~The accounting for income taxes contained in section 29 of IFRS for SMEs closely follows the proposals contained in the IASB Exposure Draft (ED) to replace IAS 12 Income Taxes. As the IASB has recently discontinued this ED, Council considers that it is more appropriate to replace the recognition and measurement principles contained in Section 29 of IFRS for SMEs with those contained in the extant version of HKAS 12 *Income Taxes* while retaining the relevant disclosures contained in the IFRS for SMEs.~~

~~*(c) The measurement of deferred tax liabilities associated with an investment property measured at fair value is capped at the amount of tax that would be payable on its sale to an unrelated market participant at fair value at the end of the reporting period*~~

~~This amendment will restrict the amount of deferred taxation recognised in relation to revaluation gains of investment properties as such tax is in practice never paid in Hong Kong. This provision removes an anomaly currently in HKAS 12/IAS 12 *Income Taxes.*~~

Maintenance of HKFRS for Private Entities

P20 HKICPA expects to undertake a review of HKFRS for Private Entities in accordance with the IASB timetable to review its IFRS for SMEs.~~, The IASB expects to undertake a thorough review of SMEs’ experience in applying the IFRS for SMEs when two years of financial statements using the IFRS have been published by a broad range of entities. The IASB expects to propose amendments to address implementation issues identified in that review. It will also consider new and amended IFRSs that have been adopted since the IFRS was issued.~~

~~P21~~ ~~After that initial implementation review, t~~The IASB expects to propose amendments to the *IFRS for SMEs* by publishing an omnibus exposure draft periodically, but not more frequently than approximately once every three years. In developing those exposure drafts, it expects to consider new and amended IFRSs ~~that have been adopted in the previous three years~~ as well as specific issues that have been brought to its attention regarding ~~possible amendments to~~ application of the *IFRS for SMEs*. ~~The IASB intends the three-year cycle to be a tentative plan, not a firm commitment.~~ On occasion, ~~it~~ the IASB may identify an urgent matter for which amendment of the *IFRS for SMEs* may need to be considered outside the periodic review process. However, such occasions are expected to be rare ~~earlier than in the normal three-year cycle~~.

P21 Until the *IFRS for SMEs* is amended, any changes that the IASB may make or propose with respect to full IFRSs do not apply to the *IFRS for SMEs*. Consistent with the current due process of HKICPA, comments will be invited publicly for the IASB omnibus exposure draft. FRSC will consider revising the HKFRS for Private Entities based on the IASB revisions to IFRS for SMEs. The HKFRS for Private Entities is a stand-alone document. Entity shall not anticipate or apply changes made in full HKFRSs before those changes are incorporated into the HKFRS for Private Entities unless, in the absence of specific guidance in the HKFRS for Private Entities, an entity chooses to apply guidance in full HKFRSs and those principles do not conflict with requirements in the hierarchy in paragraphs 10.4–10.5.

Amendments to Section 1 *Private Entities*

Paragraph 1.3 is amended and paragraph 1.7 is added. Deleted text is struck through and new text is underlined.

Description of private entities

...

1.3 An entity has public accountability if:

(a) ...

(b) it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses. ~~This is typically the case for~~ Most banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks would meet this second criterion.

...

1.7 A parent entity (including the ultimate parent or any intermediate parent) assesses its eligibility to use this HKFRS in its separate financial statements on the basis of its own status without considering whether other group entities have, or the group as a whole has, public accountability. If a parent entity by itself does not have public accountability, it may present its separate financial statements in accordance with this HKFRS (see Section 9 *Consolidated and Separate Financial Statements*), even if it presents its consolidated financial statements in accordance with full HKFRSs or another set of generally accepted accounting principles (GAAP), such as its national accounting standards. Any financial statements prepared in accordance with this HKFRS shall be clearly distinguished from financial statements prepared in accordance with other requirements.

Amendments to Section 2 *Concepts and Pervasive Principles*

A heading and paragraphs 2.14A–2.14D are added and paragraphs 2.22, 2.47 and 2.49–2.50 are amended. Deleted text is struck through and new text is underlined.

Undue cost or effort

2.14A An undue cost or effort exemption is specified for some requirements in this HKFRS. This exemption shall not be used for other requirements in this HKFRS.

2.14B Considering whether obtaining or determining the information necessary to comply with a requirement would involve undue cost or effort depends on the entity's specific circumstances and on management's judgement of the costs and benefits from applying that requirement. This judgement requires consideration of how the economic decisions of those that are expected to use the financial statements could be affected by not having that information. Applying a requirement would involve undue cost or effort by a private entity if the incremental cost (for example, valuers' fees) or additional effort (for example, endeavours by employees) substantially exceed the benefits that those that are expected to use the private entity's financial statements would receive from having the information. An assessment of undue cost or effort by a private entity in accordance with this HKFRS would usually constitute a lower hurdle than an assessment of undue cost or effort by a publicly accountable entity because private entities are not accountable to public stakeholders.

2.14C Assessing whether a requirement would involve undue cost or effort on initial recognition in the financial statements, for example at the date of the transaction, should be based on information about the costs and benefits of the requirement at the time of initial recognition. If the undue cost or effort exemption also applies subsequent to initial recognition, for example to a subsequent measurement of an item, a new assessment of undue cost or effort should be made at that subsequent date, based on information available at that date.

2.14D Except for the undue cost or effort exemption in paragraph 19.15, which is covered by the disclosure requirements in paragraph 19.25, whenever an undue cost or effort exemption is used by an entity, the entity shall disclose that fact and the reasons why applying the requirement would involve undue cost or effort.

...

Equity

2.22 Equity is the residual of recognised assets minus recognised liabilities. It may be subclassified in the statement of financial position. For example, in a corporate entity, subclassifications may include funds contributed by shareholders, retained earnings and ~~gains or losses recognised directly in~~ items of other comprehensive income recognised as a separate component of equity. This HKFRS does not prescribe how, when or if amounts can be transferred between components of equity.

...

Financial assets and financial liabilities

2.47 An entity measures basic **financial assets** and basic **financial liabilities**, as defined in Section 11 *Basic Financial Instruments*, at amortised cost less impairment except for investments in non-convertible ~~and non-puttable~~ preference shares and non-puttable ordinary or preference shares that are **publicly traded** or whose fair value can otherwise be measured reliably without undue cost or effort, which are measured at fair value with changes in fair value recognised in profit or loss.

...

Non-financial assets

2.49 Most non-financial assets that an entity initially recognised at historical cost are subsequently measured on other measurement bases. For example:

(a) An entity measures property, plant and equipment either at the lower of ~~depreciated~~ cost less any accumulated depreciation and impairment and the recoverable amount (cost model), or the lower of the revalued amount and the recoverable amount (revaluation model).

(b) ...

2.50 For the following types of non-financial assets, this HKFRS permits or requires measurement at fair value:

(a) ...

(d) property, plant and equipment that an entity measures in accordance with the revaluation model (see paragraph 17.15B).

Amendments to Section 4 *Statement of Financial Position*

Paragraphs 4.2 and 4.12 are amended. New text is underlined.

Information to be presented in the statement of financial position

4.2 As a minimum, the statement of financial position shall include line items that present the following amounts:

(a) ...

(ea) **investment property** carried at cost less accumulated depreciation and impairment.

(f) ...

Information to be presented either in the statement of financial position or in the notes

...

4.12 An entity with share capital shall disclose the following, either in the statement of financial position or in the notes:

(a) for each class of share capital:

(i) ...

(iv) a reconciliation of the number of shares outstanding at the beginning and at the end of the period. This reconciliation need not be presented for prior periods.

(v) ...

Amendments to Section 5 *Statement of Comprehensive Income and Income Statement*

Paragraphs 5.4–5.5 are amended. Deleted text is struck through and new text is underlined.

Single-statement approach

5.4 Under the single-statement approach, the statement of comprehensive income shall include all items of income and expense recognised in a period unless this HKFRS requires otherwise. This HKFRS provides different treatment for the following circumstances:

(a) ...

(b) ~~Three~~ Four types of **other comprehensive income** are recognised as part of total comprehensive income, outside of profit or loss, when they arise:

(i) ...

(iv) changes in the revaluation surplus for property, plant and equipment measured in accordance with the revaluation model (see Section 17 *Property, Plant and Equipment*).

5.5 As a minimum, an entity shall include, in the statement of comprehensive income, line items that present the following amounts for the period:

(a) ...

(d) **tax expense** excluding tax allocated to items (e), (g) and (h) below (see paragraph 29.35~~27~~).

(e) a single amount comprising the total of:

(i) ...

(ii) the post-tax gain or loss ~~recognised on the measurement to fair value less costs to sell or on~~ attributable to an impairment, or reversal of an impairment, of the assets in the discontinued operation (see Section 27 *Impairment of Assets*), both at the time and subsequent to being classified as a discontinued operation, and to the disposal of the net assets constituting the discontinued operation.

(f) ...

(g) each item of other comprehensive income (see paragraph 5.4(b)) classified by nature (excluding amounts in (h)). Such items shall be grouped into those that, in accordance with this HKFRS:

(i) will not be reclassified subsequently to profit or loss—ie those in paragraph 5.4(b)(i)–(ii) and (iv), and

(ii) will be reclassified subsequently to profit or loss when specific conditions are met—ie those in paragraph 5.4(b)(iii).

(h) ...

Amendments to Section 6 *Statement of Changes in Equity and Statement of Income and Retained Earnings*

Paragraphs 6.2–6.3 are amended. Deleted text is struck through and new text is underlined.

Purpose

6.2 The statement of changes in equity presents an entity's profit or loss for a **reporting period**, ~~items of income and expense recognised in~~ **other comprehensive income** for the period, the effects of changes in **accounting policies** and corrections of errors recognised in the period, and the amounts of investments by, and dividends and other distributions to, ~~equity investors~~ owners in their capacity as owners during the period.

Information to be presented in the statement of changes in equity

6.3 ~~An entity shall present a~~ The statement of changes in equity ~~showing in the statement~~ includes the following information:

(a) ...

(c) for each component of equity, a reconciliation between the carrying amount at the beginning and the end of the period, separately disclosing changes resulting from:

(i) ...

(ii) ~~each item of~~ other comprehensive income.

(iii) the amounts of investments by, and dividends and other distributions to, owners in their capacity as owners, showing separately issues of shares, treasury share transactions, dividends and other distributions to owners, and changes in ownership interests in subsidiaries that do not result in a loss of control.

Amendments to Section 9 *Consolidated and Separate Financial Statements*

Paragraphs 9.1–9.3, 9.16, 9.18, 9.24–9.26 and 9.28 are amended and paragraphs 9.3A–9.3C and 9.23A are added. Deleted text is struck through and new text is underlined.

Scope of this section

9.1 This section defines the circumstances in which an entity applying this HKFRS presents **consolidated financial statements** and the procedures for preparing those statements in accordance with this HKFRS. It also includes guidance on **separate financial statements** and **combined financial statements** if they are prepared in accordance with this HKFRS. If a parent entity by itself does not have public accountability, it may present its separate financial statements in accordance with this HKFRS, even if it presents its consolidated financial statements in accordance with full HKFRSs or another set of generally accepted accounting principles (GAAP).

Requirement to present consolidated financial statements

9.2 Except as permitted or required by paragraphs 9.3 and 9.3C, a **parent** entity shall present consolidated financial statements in which it consolidates its investments in **subsidiaries** ~~in accordance with this HKFRS~~. Consolidated financial statements shall include all subsidiaries of the parent.

9.3 A parent need not present consolidated financial statements if~~: (a)~~ both of the following conditions are met:

(~~i~~a) the parent is itself a subsidiary, and

(~~ii~~b) its ultimate parent (or any intermediate parent) produces consolidated **general purpose financial statements** that comply with **full HKFRSs, IFRSs,** this HKFRS or the IFRS for SMEs issued by the IASB.~~; or~~

(~~b~~) ~~it has no subsidiaries other than one that was acquired with the intention of selling or disposing of it within one year. A parent shall account for such a subsidiary:~~

(~~i~~) ~~at fair value with changes in fair value recognised in profit or loss, if the fair value of the shares can be measured reliably, or~~

(~~ii~~) ~~otherwise at cost less impairment (see paragraph 11.14(c)).~~

9.3A Subject to paragraph 9.3B, a subsidiary is not consolidated if it is acquired and is held with the intention of selling or disposing of it within one year from its acquisition date (ie the date on which the acquirer obtains control of the acquiree). Such a subsidiary is accounted for in accordance with the requirements in Section 11 as for investments in paragraph 11.8(d), rather than in accordance with this section. The parent shall also provide the disclosure in paragraph 9.23A.

9.3B If a subsidiary previously excluded from consolidation in accordance with paragraph 9.3A is not disposed of within one year from its acquisition date (ie the parent entity still has control over that subsidiary):

(a) the parent shall consolidate the subsidiary from the acquisition date unless it meets the condition in paragraph 9.3B(b). Consequently, if the acquisition date was in a prior period, the relevant prior periods shall be restated.

(b) if the delay is caused by events or circumstances beyond the parent's control and there is sufficient evidence at the reporting date that the parent remains committed to its plan to sell or dispose of the subsidiary, the parent shall continue to account for the subsidiary in accordance with paragraph 9.3A.

9.3C If a parent has no subsidiaries other than subsidiaries that are not required to be consolidated in accordance with paragraphs 9.3A–9.3B, it shall not present consolidated financial statements. However, the parent shall provide the disclosure in paragraph 9.23A.

...

Uniform reporting date

9.16 The financial statements of the parent and its subsidiaries used in the preparation of the consolidated financial statements shall be prepared as of the same **reporting date** unless it is **impracticable** to do so. If it is impracticable to prepare the financial statements of a subsidiary as of the same reporting date as the parent, the parent shall consolidate the financial information of the subsidiary using the most recent financial statements of the subsidiary, adjusted for the effects of significant transactions or events that occur between the date of those financial statements and the date of the consolidated financial statements.

...

Acquisition and disposal of subsidiaries

9.18 The income and expenses of a subsidiary are included in the consolidated financial statements from the acquisition date~~. The income and expenses of a subsidiary are included in the consolidated financial statements~~ until the date on which the parent ceases to control the subsidiary. When a parent ceases to control a subsidiary, ~~T~~the difference between the proceeds from the disposal of the subsidiary and its carrying amount ~~as of~~ at the date ~~of disposal, excluding the cumulative amount of any exchange differences that relate to a foreign subsidiary recognised in equity in accordance with Section 30 *Foreign Currency Translation*,~~ that control is lost is recognised in profit or loss in the consolidated statement of comprehensive income (or the income statement, if presented) as the gain or loss on the disposal of the subsidiary. The cumulative amount of any exchange differences that relate to a foreign subsidiary recognised in other comprehensive income in accordance with Section 30 *Foreign Currency Translation* is not reclassified to profit or loss on disposal of the subsidiary.

...

Disclosures in consolidated financial statements

...

9.23A In addition to the disclosure requirements in Section 11, a parent entity shall disclose the carrying amount of investments in subsidiaries that are not consolidated (see paragraphs 9.3A–9.3C) at the reporting date, in total, either in the statement of financial position or in the notes.

Separate financial statements

Presentation of separate financial statements

9.24 ~~Paragraph 9.2 requires a parent to present consolidated financial statements.~~ This HKFRS does not require presentation of **separate financial statements** for the parent entity or for the individual subsidiaries.

9.25 ~~The financial statements of an entity that does not have a subsidiary are not separate financial statements. Therefore, an entity that is not a parent but is an investor in an associate or has a **venturer's** interest in a **joint venture** presents its financial statements in compliance with Section 14 or Section 15, as appropriate. It may also elect to present separate financial statements.~~ Separate financial statements are a second set of financial statements presented by an entity in addition to any of the following:

(a) consolidated financial statements prepared by a parent,

(b) financial statements prepared by a parent exempted from preparing consolidated financial statements by paragraph 9.3C, or

(c) financial statements prepared by an entity that is not a parent but is an investor in an associate or has a venturer's interest in a joint venture.

Accounting policy election

9.26 When a parent, an investor in an associate, or a venturer with an interest in a jointly controlled entity prepares separate financial statements and describes them as conforming to the *HKFRS for Private Entities*, those statements shall comply with all of the requirements of this HKFRS except as follows. The entity shall adopt a policy of accounting for its investments in subsidiaries, associates and jointly controlled entities in its separate financial statements either:

(a) at cost less impairment; ~~,or~~

(b) at **fair value** with changes in fair value recognised in profit or loss; or~~.~~

(c) using the equity method following the procedures in paragraph 14.8.

...

Combined financial statements

9.28 **Combined financial statements** are a single set of financial statements of two or more entities ~~controlled by a single investor~~ under common control (as described in paragraph 19.2(a)). This HKFRS does not require combined financial statements to be prepared.

Amendments to Section 10 *Accounting Policies, Estimates and Errors*

Paragraph 10.10A is added. New text is underlined.

Changes in accounting policies

...

10.10A The initial application of a policy to revalue assets in accordance with Section 17 *Property, Plant and Equipment* is a change in an accounting policy to be dealt with as a revaluation in accordance with Section 17. Consequently a change from the cost model to the revaluation model for a class of property, plant and equipment shall be accounted for prospectively, instead of in accordance with paragraphs 10.11–10.12.

Amendments to Section 11 Basic Financial Instruments

Accounting policy choice

The following footnote is added to paragraph 11.2(b). New text is underlined.

Until HKAS 39 is superseded by HKFRS 9 *Financial Instruments*, an entity shall apply the version of HKAS 39 that is in effect at the entity's reporting date. When HKAS 39 is superseded by HKFRS 9, an entity shall apply the version of HKAS 39 that applied immediately prior to HKFRS 9 superseding HKAS 39.

Paragraphs 11.4, 11.7, 11.9, 11.11, 11.13–11.15, 11.27, 11.32 and 11.44 are amended and paragraphs 11.9A–11.9B are added. Deleted text is struck through and new text is underlined.

Introduction to Section 11

...

11.4 Section 11 requires an amortised cost model for all basic financial instruments except for investments in non-convertible ~~and non-puttable~~ preference shares and non-puttable ordinary or preference shares that are **publicly traded** or whose fair value can otherwise be measured reliably without undue cost or effort.

...

Scope of Section 11

11.7 Section 11 applies to all financial instruments meeting the conditions of paragraph 11.8 except for the following:

(a) …

(b) financial instruments that meet the definition of an entity's own equity, including the equity component of compound financial instruments issued by the entity (see Section 22 *Liabilities and Equity* ~~and Section 26 *Share-based Payment*~~).

(c) leases, to which Section 20 *Leases* or paragraph 12.3(f) apply~~ies~~. However, the derecognition requirements in paragraphs 11.33–11.38 apply to the derecognition of lease receivables recognised by a lessor and lease payables recognised by a lessee, and the impairment requirements in paragraphs 11.21–11.26 apply to lease receivables recognised by a lessor. ~~Also, Section 12 may apply to leases with characteristics specified in paragraph 12.3(f).~~

(d) ...

(e) financial instruments, contracts and obligations under share-based payment transactions to which Section 26 applies.

(f) reimbursement assets that are accounted for in accordance with Section 21 *Provisions and Contingencies* (see paragraph 21.9).

...

Basic financial instruments

…

11.9 A debt instrument that satisfies all of the conditions in (a)–(d) below shall be accounted for in accordance with Section 11:

(a) Returns to the holder (the lender/creditor) assessed in the currency in which the debt instrument is denominated are:

(i) ...

(iv) some combination of such fixed ~~rate~~ and variable rates ~~(such as LIBOR plus 200 basis points)~~, provided that both the fixed and variable rates are positive (eg an interest rate swap with a positive fixed rate and negative variable rate would not meet this criterion). For fixed and variable rate interest returns, interest is calculated by multiplying the rate for the applicable period by the principal amount outstanding during the period.

(b) There is no contractual provision that could, by its terms, result in the holder (the lender/creditor) losing the principal amount or any interest attributable to the current period or prior periods. The fact that a debt instrument is subordinated to other debt instruments is not an example of such a contractual provision.

(c) Contractual provisions that permit or require the issuer (the ~~debtor~~ borrower) to prepay a debt instrument or permit or require the holder (the lender/creditor) to put it back to the issuer (ie to demand repayment) before maturity are not contingent on future events~~.~~ other than to protect:

(i) the holder against a change in the credit risk of the issuer or the instrument (for example, defaults, credit downgrades or loan covenant violations) or a change in control of the issuer; or

(ii) the holder or issuer against changes in relevant taxation or law.

(d) ...

11.9A Examples of debt instruments that would normally satisfy the conditions in paragraph 11.9(a)(iv) include:

(a) a bank loan that has a fixed interest rate for an initial period that then reverts to a quoted or observable variable interest rate after that period; and

(b) a bank loan with interest payable at a quoted or observable variable interest rate plus a fixed rate throughout the life of the loan, eg LIBOR plus 200 basis points.

11.9B An example of a debt instrument that would normally satisfy the conditions set out in paragraph 11.9(c) would be a bank loan that permits the borrower to terminate the arrangement early, even though the borrower may be required to pay a penalty to compensate the bank for its costs of the borrower terminating the arrangement early.

...

11.11 Examples of financial instruments that do not satisfy the conditions in paragraph 11.9 (and are therefore within the scope of Section 12) include:

(a) ...

~~(e) a loan receivable from a third party that gives the third party the right or obligation to prepay if the applicable taxation or accounting requirements change, because such a loan does not meet the condition in paragraph 11.9(c).~~

...

Initial measurement

11.13 When a financial asset or financial liability is recognised initially, an entity shall measure it at the transaction price (including transaction costs except in the initial measurement of financial assets and liabilities that are subsequently measured at fair value through profit or loss) unless the arrangement constitutes, in effect, a financing transaction for either the entity (for a financial liability) or the counterparty (for a financial asset) to the arrangement. An arrangement constitutes a financing transaction ~~may take place in connection with the sale of goods or services, for example,~~ if payment is deferred beyond normal business terms, for example, providing interest-free credit to a buyer for the sale of goods, or is financed at a rate of interest that is not a market rate, for example, an interest-free or below market interest rate loan made to an employee. If the arrangement constitutes a financing transaction, the entity shall measure the financial asset or financial liability at the present value of the future payments discounted at a market rate of interest for a similar debt instrument as determined at initial recognition.

...

Subsequent measurement

11.14 At the end of each **reporting period**, an entity shall measure financial instruments as follows, without any deduction for transaction costs the entity may incur on sale or other disposal:

(a) Debt instruments that meet the conditions in paragraph 11.8(b) shall be measured at **amortised cost** using the **effective interest method**. Paragraphs 11.15–11.20 provide guidance on determining amortised cost using the effective interest method. Debt instruments that are classified as current assets or current liabilities shall be measured at the undiscounted amount of the cash or other consideration expected to be paid or received (ie net of impairment—see paragraphs 11.21–11.26) unless the arrangement constitutes, in effect, a financing transaction (see paragraph 11.13). ~~If the arrangement constitutes a financing transaction, the entity shall measure the debt instrument at the present value of the future payments discounted at a market rate of interest for a similar debt instrument.~~

(b) ...

(c) Investments in non-convertible preference shares and non-puttable ordinary or preference shares ~~that meet the conditions in paragraph 11.8(d)~~ shall be measured as follows (paragraphs 11.27–11.3~~3~~2 provide guidance on fair value):

(i) if the shares are publicly traded or their fair value can otherwise be measured reliably without undue cost or effort, the investment shall be measured at fair value with changes in fair value recognised in profit or loss.

(ii) ...

Amortised cost and effective interest method

11.15 The amortised cost of a financial asset or financial liability at each reporting date is the net of the following amounts:

(a) ...

Financial assets and financial liabilities that have no stated interest rate, that do not relate to an arrangement that constitutes a financing transaction and that are classified as current assets or current liabilities are initially measured at an undiscounted amount in accordance with paragraph 11.13~~4(a)~~. Therefore, (c) above does not apply to them.

...

Fair value

11.27 ~~Paragraph 11.14(c)(i) requires an investment in ordinary shares or preference shares to be measured at fair value if the fair value of the shares can be measured reliably.~~ An entity shall use the following hierarchy to estimate the fair value of ~~the shares~~ an asset:

(a) The best evidence of fair value is a quoted price for an identical asset (or similar asset) in an active market. This is usually the current bid price.

(b) When quoted prices are unavailable, the price ~~of~~ in a binding sale agreement or a recent transaction for an identical asset (or similar asset) in an arm's length transaction between knowledgeable, willing parties provides evidence of fair value ~~as long as there has not~~. However this price may not be a good estimate of fair value if there has been a significant change in economic circumstances or a significant ~~lapse~~ period of time ~~since~~ between the date of the binding sale agreement, or the transaction, and the measurement date ~~took place~~. If the entity can demonstrate that the last transaction price is not a good estimate of fair value (eg because it reflects the amount that an entity would receive or pay in a forced transaction, involuntary liquidation or distress sale), then that price is adjusted.

(c) If the market for the asset is not active and any binding sale agreements or recent transactions of an identical asset (or similar asset) on their own are not a good estimate of fair value, an entity estimates the fair value by using ~~a~~ another valuation technique. The objective of using a valuation technique is to estimate what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal business considerations.

Other sections of this HKFRS make reference to the fair value guidance in paragraphs 11.27–11.32, including Section 9, Section 12, Section 14, Section 15, ~~and~~ Section 16 *Investment Property*, Section 17 *Property, Plant and Equipment* and Section 28. ~~In applying that guidance to assets covered by those sections, the reference to ordinary shares or preference shares in this paragraph should be read to include the types of assets covered by those sections.~~

...

No active market~~: equity instruments~~

...

11.32 If a reliable measure of fair value is no longer available for an asset measured at fair value (or is not available without undue cost or effort when such an exemption is provided (see paragraphs 11.14(c) and 12.8(b) ~~eg an equity instrument measured at fair value through profit or loss~~), its carrying amount at the last date the asset was reliably measurable becomes its new cost. The entity shall measure the asset at this cost amount less impairment until a reliable measure of fair value becomes available (or becomes available without undue cost or effort when such an exemption is provided).

...

Statement of financial position – categories of financial assets and financial liabilities

…

11.44 If a reliable measure of fair value is no longer available, or is not available without undue cost or effort when such an exemption is provided, for any financial ~~equity~~ instruments that would otherwise be required to be measured at fair value through profit or loss in accordance with this HKFRS, the entity shall disclose that fact, the carrying amount of those financial instruments, and, if an undue cost or effort exemption has been used, the reasons why a reliable fair value measurement would involve undue cost or effort.

Amendments to Section 12 *Other Financial Instruments Issues*

Paragraphs 12.3, 12.8–12.9, 12.23, 12.25 and 12.29 are amended. Deleted text is struck through and new text is underlined.

Scope of Section 12

12.3 Section 12 applies to all financial instruments except the following:

(a) ...

(b) ~~interests in subsidiaries (see Section 9 *Consolidated and Separate Financial Statements*), associates (see Section 14 *Investments in Associates*) and joint ventures (see Section 15 *Investments in Joint Ventures*)~~ investments in **subsidiaries**, **associates** and **joint ventures** that are accounted for in accordance with Section 9 *Consolidated and Separate Financial Statements*, Section 14 *Investments in Associates* or Section 15 *Investments in Joint Ventures*.

(c) ...

(e) financial instruments that meet the definition of an entity's own equity, including the equity component of compound financial instruments issued by the entity (see Section 22 *Liabilities and Equity* ~~and Section 26 *Share-based Payment*~~).

(f) leases within the scope of ~~(see~~ Section 20 *Leases*~~)~~. Consequently, Section 12 applies to leases that ~~unless the lease~~ could result in a loss to the lessor or the lessee as a result of contractual terms that are unrelated to:

(i) ...

(ii) changes in foreign exchange rates; ~~or~~

(iii) ~~a default by one of the counterparties~~ changes in lease payments based on variable market interest rates; or

(iv) a default by one of the counterparties.

(g) ...

(h) financial instruments, contracts and obligations under share-based payment transactions to which Section 26 *Share-based Payment* applies.

(i) reimbursement assets that are accounted for in accordance with Section 21 *Provisions and Contingencies* (see paragraph 21.9).

...

Subsequent measurement

12.8 At the end of each **reporting period**, an entity shall measure all financial instruments within the scope of Section 12 at fair value and recognise changes in fair value in profit or loss, except as follows:

(a) some changes in the fair value of hedging instruments in a designated hedging relationship are required to be recognised in other comprehensive income by paragraph 12.23.

(b) equity instruments that are not publicly traded and whose fair value cannot otherwise be measured reliably without undue cost or effort, and contracts linked to such instruments that, if exercised, will result in delivery of such instruments, shall be measured at cost less impairment.

12.9 If a reliable measure of fair value is no longer available without undue cost or effort for an equity instrument, or a contract linked to such an instrument that if exercised will result in the delivery of such instruments, that is not publicly traded but is measured at fair value through profit or loss, its fair value at the last date that the instrument was reliably measurable without undue cost or effort is treated as the cost of the instrument. The entity shall measure the instrument at this cost amount less impairment until it is able to determine a reliable measure of fair value ~~becomes available~~ without undue cost or effort.

...

Hedge of variable interest rate risk of a recognised financial instrument, foreign exchange risk or commodity price risk in a firm commitment or highly probable forecast transaction, or a net investment in a foreign operation

12.23 If the conditions in paragraph 12.16 are met and the hedged risk is:

(a) ...

the entity shall recognise in other comprehensive income the portion of the change in the fair value of the hedging instrument that was effective in offsetting the change in the fair value or expected cash flows of the hedged item. The entity shall recognise in profit or loss in each period any excess (in absolute amount) of the cumulative change in fair value of the hedging instrument over the cumulative change in the fair value of the expected cash flows since inception of the hedge (sometimes called hedge ineffectiveness). The hedging gain or loss recognised in other comprehensive income shall be reclassified to profit or loss when the hedged item is recognised in profit or loss, ~~or when the hedging relationship ends.~~ subject to the requirements in paragraph 12.25. However, the cumulative amount of any exchange differences that relate to a hedge of a net investment in a foreign operation recognised in other comprehensive income shall not be reclassified to profit or loss on disposal or partial disposal of the foreign operation.

...

12.25 The entity shall discontinue prospectively the hedge accounting specified in paragraph 12.23 if:

(a) ...

If the forecast transaction is no longer expected to take place or if the hedged debt instrument measured at amortised cost is derecognised, any gain or loss on the hedging instrument that was recognised in other comprehensive income shall be reclassified ~~from other comprehensive income~~ to profit or loss.

Disclosures

...

12.29 If an entity uses hedge accounting for a hedge of variable interest rate risk, foreign exchange risk, commodity price risk in a firm commitment or highly probable forecast transaction, or a net investment in a foreign operation (paragraphs 12.23–12.25) it shall disclose the following:

(a) ...

(d) the amount that was reclassified ~~from other comprehensive income~~ to profit or loss for the period (paragraphs 12.23 and 12.25).

(e) the amount of any excess of the cumulative change in fair value of the hedging instrument over the cumulative change in the fair value of the expected cash flows that was recognised in profit or loss for the period (paragraph 12.23~~4~~).

Amendments to Section 14 *Investments in Associates*

Paragraph 14.15 is amended. New text is underlined.

Disclosures

...

14.15 For investments in associates accounted for by the fair value model, an investor shall make the disclosures required by paragraphs 11.41–11.44. <u>If an investor applies the undue cost or effort exemption in paragraph 14.10 for any associates it shall disclose that fact, the reasons why fair value measurement would involve undue cost or effort and the carrying amount of investments in associates accounted for under the cost model.</u>

Amendments to Section 15 *Investments in Joint Ventures*

Paragraph 15.21 is amended. New text is underlined.

Disclosures

...

15.21 For jointly controlled entities accounted for in accordance with the fair value model, the venturer shall make the disclosures required by paragraphs 11.41–11.44. <u>If a venturer applies the undue cost or effort exemption in paragraph 15.15 for any jointly controlled entity it shall disclose that fact, the reasons why fair value measurement would involve undue cost or effort and the carrying amount of investments in jointly controlled entities accounted for under the cost model.</u>

Amendments to Section 16 *Investment Property*

Paragraph 16.10 is amended. Deleted text is struck through and new text is underlined.

Disclosures

16.10 An entity shall disclose the following for all investment property accounted for at fair value through profit or loss (paragraph 16.7):

(a) ...

(e) a reconciliation between the carrying amounts of investment property at the beginning and end of the period, showing separately:

(i) ...

(iii) transfers to <u>and from investment</u> property~~, plant and equipment when a reliable measure of fair value is no longer available without undue cost or~~

~~effort~~ carried at cost less accumulated depreciation and impairment (see paragraph 16.8).

(iv) ...

Amendments to Section 17 *Property, Plant and Equipment*

Paragraphs 17.5–17.6 and 17.31–17.32 are amended. Paragraph 17.15 is renumbered paragraph 17.15A and a new paragraph 17.15 is added. Paragraphs 17.15B–17.15D and their related headings and paragraph 17.33 are also added. Deleted text is struck through and new text is underlined.

Recognition

...

17.5 Items such as ~~S~~spare parts, stand-by equipment and servicing equipment are recognised in accordance with this section when they meet the definition of property, plant and equipment. Otherwise, such items are classified as inventory. ~~usually carried as inventory and recognised in profit or loss as consumed. However, major spare parts and stand-by equipment are property, plant and equipment when an entity expects to use them during more than one period. Similarly, if the spare parts and servicing equipment can be used only in connection with an item of property, plant and equipment, they are considered property, plant and equipment.~~

17.6 Parts of some items of property, plant and equipment may require replacement at regular intervals (eg the roof of a building). An entity shall add to the **carrying amount** of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if the replacement part is expected to provide incremental future benefits to the entity. The carrying amount of those parts that are replaced is **derecognised** in accordance with paragraphs 17.27–17.30 regardless of whether the replaced parts had been depreciated separately. If it is not practicable for an entity to determine the carrying amount of the replaced part, the entity may use the cost of the replacement as an indication of what the cost of the replaced part was at the time it was acquired or constructed. Paragraph 17.16 provides that if the major components of an item of property, plant and equipment have significantly different patterns of consumption of economic benefits, an entity shall allocate the initial cost of the asset to its major components and **depreciate** each such component separately over its **useful life**.

...

Measurement after initial recognition

17.15 An entity shall choose either the cost model in paragraph 17.15A or the revaluation model in paragraph 17.15B as its accounting policy and shall apply that policy to an entire class of property, plant and equipment. An entity shall apply the cost model to investment property whose fair value cannot be measured reliably without undue cost or effort. An entity shall recognise the costs of day-to-day servicing of an item of property, plant and equipment in profit or loss in the period in which the costs are incurred.

Cost model

17.15A An entity shall measure ~~all~~ an item~~s~~ of property, plant and equipment after initial recognition at cost less any accumulated depreciation and any accumulated **impairment losses**. ~~An entity shall recognise the costs of day-to-day servicing of an item of property, plant and equipment in profit or loss in the period in which the costs are incurred.~~

Revaluation model

17.15B An entity shall measure an item of property, plant and equipment whose fair value can be measured reliably at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Paragraphs 11.27–11.32 provide guidance on determining fair value. If an item of property, plant and equipment is revalued, the entire class of property, plant and equipment to which that asset belongs shall be revalued.

17.15C If an asset's carrying amount is increased as a result of a revaluation, the increase shall be recognised in other comprehensive income and accumulated in equity under the heading of revaluation surplus. However, the increase shall be recognised in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss.

17.15D If an asset's carrying amount is decreased as a result of a revaluation, the decrease shall be recognised in profit or loss. However, the decrease shall be recognised in other comprehensive income to the extent of any credit balance existing in the revaluation surplus in respect of that asset. The decrease recognised in other comprehensive income reduces the amount accumulated in equity under the heading of revaluation surplus.

...

Disclosures

17.31 An entity shall disclose the following for each class of property, plant and equipment determined ~~that was deemed appropriate~~ in accordance with paragraph 4.11(a) and separately for investment property carried at cost less accumulated depreciation and impairment:

(a) ...

(e) a reconciliation of the carrying amount at the beginning and end of the reporting period showing separately:

(i) ...

(iv) increases or decreases resulting from revaluations under paragraphs 17.15B–17.15D and from impairment losses recognised or reversed in other comprehensive income in accordance with Section 27.

(~~i~~v) transfers to and from investment property ~~if a reliable measure of fair value becomes available~~ carried at fair value through profit or loss (see paragraph 16.8).

(vi) ...

17.32 The entity shall also disclose the following:

(a) ...

(c) If an entity has investment property whose fair value cannot be measured reliably without undue cost or effort it shall disclose that fact and the reasons why fair value measurement would involve undue cost or effort for those items of investment property.

17.33 If items of property, plant and equipment are stated at revalued amounts, the following shall be disclosed:

(a) the effective date of the revaluation;

(b) whether an independent valuer was involved;

(c) the methods and significant assumptions applied in estimating the items' fair values;

(d) for each revalued class of property, plant and equipment, the carrying amount that would have been recognised had the assets been carried under the cost model; and

(e) the revaluation surplus, indicating the change for the period and any restrictions on the distribution of the balance to shareholders.

Amendments to Section 18 *Intangible Assets other than Goodwill*

Paragraphs 18.8 and 18.20 are amended. Deleted text is struck through and new text is underlined.

Acquisition as part of a business combination

18.8 An intangible asset acquired in a **business combination** ~~is normally~~ shall be recognised ~~as an asset~~ unless its fair value cannot be measured reliably without undue cost or effort at the acquisition date. ~~because its **fair value** can be measured with sufficient reliability. However, an intangible asset acquired in a business combination is not recognised when it arises from legal or other contractual rights and its fair value cannot be measured reliably because the asset either~~

(~~a~~) ~~is not separable from **goodwill**, or~~

(~~b~~) ~~is separable from goodwill but there is no history or evidence of exchange transactions for the same or similar assets, and otherwise estimating fair value would be dependent on immeasurable variables.~~

…

Amortisation over useful life

...

18.20 If ~~an entity is unable to make a reliable estimate of~~ the useful life of an intangible asset cannot be established reliably, the life shall be ~~presumed to be~~ determined based on management's best estimate but shall not exceed ten years.

Amendments to Section 19 *Business Combinations and Goodwill*

Paragraphs 19.2, 19.11, 19.14–19.15, 19.23 and 19.25–19.26 are amended. Deleted text is struck through and new text is underlined.

Scope of this section

19.2 This section specifies the accounting for all business combinations except:

(a) combinations of entities or **businesses** under common **control**. Common control means that all of the combining entities or businesses are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory.

(b) ...

Cost of a business combination

19.11 The acquirer shall measure the cost of a business combination as the aggregate of:

(a) the fair values, at the date of ~~exchange~~ acquisition, of assets given, liabilities incurred or assumed, and equity instruments issued by the acquirer, in exchange for control of the acquiree, plus

(b) ...

Allocating the cost of a business combination to the assets acquired and liabilities and contingent liabilities assumed

19.14 The acquirer shall, at the acquisition date, allocate the cost of a business combination by recognising the acquiree’s identifiable assets and liabilities and a provision for those contingent liabilities that satisfy the recognition criteria in paragraph 19.~~20~~15 at their fair values at that date except as follows:~~.~~

(a) a deferred tax asset or liability arising from the assets acquired and liabilities assumed in a business combination shall be recognised and measured in accordance with Section 29 *Income Tax*.

(b) a liability (or asset, if any) related to the acquiree’s employee benefit arrangements shall be recognised and measured in accordance with Section 28 *Employee Benefits*.

Any difference between the cost of the business combination and the acquirer’s interest in the net fair value of the identifiable assets, liabilities and provisions for contingent liabilities so recognised shall be accounted for in accordance with paragraphs 19.22–19.24 (as goodwill or so-called ‘negative goodwill’). Any **non-controlling interest** in the acquiree is measured at the non-controlling interest's proportionate share of the recognised amounts of the acquiree’s identifiable net assets.

19.15 The acquirer shall recognise separately the acquiree’s identifiable assets, liabilities and contingent liabilities at the acquisition date only if they satisfy the following criteria at that date:

(a) ...

(c) In the case of an intangible asset ~~or a contingent liability~~, its fair value can be measured reliably without undue cost or effort.

(d) In the case of a contingent liability, its fair value can be measured reliably.

...

Goodwill

…

19.23 After initial recognition, the acquirer shall measure goodwill acquired in a business combination at cost less accumulated **amortisation** and accumulated **impairment** losses:

(a) An entity shall follow the principles in paragraphs 18.19–18.24 for amortisation of goodwill. If ~~an entity is unable to make a reliable estimate of~~ the useful life of goodwill cannot be established reliably, the life shall be ~~presumed to be~~ determined based on management's best estimate but shall not exceed ten years.

(b) ...

For business combination(s) ~~effected~~ during the reporting period

19.25 For each business combination ~~that was effected~~ during the period, the acquirer shall disclose the following:

(a) ...

(g) a qualitative description of the factors that make up the goodwill recognised, such as expected synergies from combining operations of the acquiree and the acquirer, or intangible assets or other items not recognised in accordance with paragraph 19.15.

For all business combinations

19.26 An acquirer shall disclose the useful lives used for goodwill and a reconciliation of the carrying amount of goodwill at the beginning and end of the reporting period, showing separately:

(a) ...

Amendments to Section 20 *Leases*

Paragraphs 20.1 and 20.3 are amended. Deleted text is struck through and new text is underlined.

Scope of this section

20.1 This section covers accounting for all **leases** other than:

(a) ...

(e) leases that could lead to a loss to the lessor or the lessee as a result of contractual terms that are unrelated to changes in the price of the leased asset, changes in foreign exchange rates, changes in lease payments based on variable market interest rates, or a default by one of the counterparties (see paragraph 12.3(f)).

(f) ...

20.3 Some arrangements, such as some outsourcing arrangements, telecommunication contracts that provide rights to capacity, and take-or-pay contracts, do not take the legal form of a lease but convey rights to use assets in return for payments. Such arrangements are in substance leases of assets, and they ~~should~~ shall be accounted for under this section.

Amendments to Section 21 *Provisions and Contingencies*

Paragraph 21.16 is amended. Deleted text is struck through and new text is underlined.

Disclosures about contingent assets

21.16 If an inflow of economic benefits is probable (more likely than not) but not virtually certain, an entity shall disclose a description of the nature of the contingent assets at the end of the **reporting period**, and, ~~when practicable without~~ unless it would involve undue cost or effort, an estimate of their financial effect, measured using the principles set out in paragraphs 21.7–21.11. If ~~it is impracticable to make this disclosure,~~ such an estimate would involve undue cost or effort, the entity shall disclose that fact ~~shall be stated~~ and the reasons why estimating the financial effect would involve undue cost or effort.

Amendments to Section 22 *Liabilities and Equity*

Paragraphs 22.8–22.9, 22.15 and 22.17–22.18 are amended and paragraphs 22.3A, 22.15A–22.15C and their related heading, 22.18A–22.18B, and 22.20 and its related headings are added. Deleted text is struck through and new text is underlined.

Classification of ~~an~~ financial instrument as liability or equity

...

22.3A An entity shall classify a financial instrument as a financial liability or as equity in accordance with the substance of the contractual arrangement, not merely its legal form, and in accordance with the definitions of a financial liability and an equity instrument. Unless an entity has an unconditional right to avoid delivering cash or another financial asset to settle a contractual obligation, the obligation meets the definition of a financial liability, and is classified as such, except for those instruments classified as equity instruments in accordance with paragraph 22.4.

...

Original issue of shares or other equity instruments

...

22.8 An entity shall measure ~~the~~ equity instruments, other than those issued as part of a business combination or those accounted for in accordance with paragraphs 22.15A–22.15B, at the fair value of the cash or other resources received or receivable, net of ~~direct costs of issuing the equity instruments~~ **transaction costs**. If payment is deferred and the time value of money is material, the initial measurement shall be on a **present value** basis.

22.9 An entity shall account for the transaction costs of an equity transaction as a deduction from equity~~, net of any related income tax benefit~~. Income tax relating to the transaction costs shall be accounted for in accordance with Section 29 *Income Tax*.

...

Convertible debt or similar compound financial instruments

...

22.15 In periods after the instruments were issued, the entity shall account for the liability component as follows:

(a) in accordance with Section 11 *Basic Financial Instruments* if the liability component meets the conditions in paragraph 11.9. In these cases, the entity shall systematically recognise any difference between the liability component and the principal amount payable at maturity as additional interest expense using the **effective interest method** (see paragraphs 11.15–11.20). The appendix to this section illustrates the issuer's accounting for convertible debt when the liability component meets the conditions in paragraph 11.9.

(b) in accordance with Section 12 *Other Financial Instruments Issues* if the liability component does not meet the conditions in paragraph 11.9.

Extinguishing financial liabilities with equity instruments

22.15A An entity may renegotiate the terms of a financial liability with a creditor of the entity with the result that the entity extinguishes the liability fully or partially by issuing equity instruments to the creditor. Issuing equity instruments constitutes consideration paid in accordance with paragraph 11.38. An entity shall measure the equity instruments issued at their fair value. However, if the fair value of the equity instruments issued cannot be measured reliably without undue cost or effort, the equity instruments shall be measured at the fair value of the financial liability extinguished. An entity shall derecognise the financial liability, or part of the financial liability, in accordance with paragraphs 11.36–11.38.

22.15B If part of the consideration paid relates to a modification of the terms of the remaining part of the liability, the entity shall allocate the consideration paid between the part of the liability extinguished and the part that remains outstanding. This allocation should be made on a reasonable basis. If the remaining liability has been substantially modified, the entity shall account for the modification as the extinguishment of the original liability and the recognition of a new liability as required by paragraph 11.37.

22.15C An entity shall not apply paragraphs 22.15A–22.15B to transactions in situations in which:

(a) the creditor is also a direct or indirect shareholder and is acting in its capacity as a direct or indirect existing shareholder.

(b) the creditor and the entity are controlled by the same party or parties before and after the transaction and the substance of the transaction includes an equity distribution by, or contribution to, the entity.

(c) extinguishing the financial liability by issuing equity instruments is in accordance with the original terms of the financial liability (see paragraphs 22.13–22.15).

...

Distributions to owners

22.17 An entity shall reduce equity for the amount of distributions to its owners (holders of its equity instruments)~~, net of any related income tax benefits. Paragraph 29.65A provides guidance on accounting for a withholding tax on dividends~~. Income tax relating to distributions to owners shall be accounted for in accordance with Section 29.

22.18 Sometimes an entity distributes assets other than cash ~~as dividends~~ to its owners (‘non-cash distributions’). When an entity declares such a distribution and has an obligation to distribute non-cash assets to its owners, it shall recognise a liability. It shall measure the liability at the fair value of the assets to be distributed unless it meets the conditions in paragraph 22.18A. At the end of each **reporting period** and at the date of settlement, the entity shall review and adjust the carrying amount of the dividend payable to reflect changes in the fair value of the assets to be distributed, with any changes recognised in equity as adjustments to the amount of the distribution. When an entity settles the dividend payable, it shall recognise in profit or loss any difference between the carrying amount of the assets distributed and the carrying amount of the dividend payable.

22.18A If the fair value of the assets to be distributed cannot be measured reliably without undue cost or effort, the liability shall be measured at the carrying amount of the assets to be distributed. If prior to settlement the fair value of the assets to be distributed can be measured reliably without undue cost or effort, the liability is remeasured at fair value with a corresponding adjustment made to the amount of the distribution and accounted for in accordance with paragraph 22.18.

22.18B Paragraphs 22.18–22.18A do not apply to the distribution of a non-cash asset that is ultimately controlled by the same party or parties before and after the distribution. This exclusion applies to the separate, individual and consolidated financial statements of an entity that makes the distribution.

...

Disclosures

22.20 If the fair value of the assets to be distributed as described in paragraphs 22.18–22.18A cannot be measured reliably without undue cost or effort, the entity shall disclose that fact and the reasons why a reliable fair value measurement would involve undue cost or effort.

Amendments to Section 26 *Share-based Payment*

Paragraphs 26.1, 26.9, 26.12, 26.16–26.17 and 26.22 and their related heading are amended and paragraphs 26.1A–26.1B are added. Deleted text is struck through and new text is underlined.

Scope of this section

26.1 This section specifies the accounting for all **share-based payment transactions** including those that are equity- or cash-settled or those in which the terms of the arrangement provide a choice of whether the entity settles the transaction in cash (or other assets) or by issuing equity instruments.~~:~~

(~~a~~) ~~**equity-settled share-based payment transactions**, in which the entity acquires goods or services as consideration for equity instruments of the entity (including shares or share options);~~

(~~b~~) ~~**cash-settled share-based payment transactions**, in which the entity acquires goods or services by incurring liabilities to the supplier of those goods or services for amounts that are based on the price (or value) of the entity's shares or other equity instruments of the entity; and~~

(~~c~~) ~~transactions in which the entity receives or acquires goods or services and the terms of the arrangement provide either the entity or the supplier of those goods or services with a choice of whether the entity settles the transaction in cash (or other assets) or by issuing equity instruments.~~

26.1A A share-based payment transaction may be settled by another group entity (or a shareholder of any group entity) on behalf of the entity receiving the goods or services. This section also applies to an entity that:

(a) receives goods or services when another entity in the same group (or a shareholder of any group entity) has the obligation to settle the share-based payment transaction; or

(b) has an obligation to settle a share-based payment transaction when another entity in the same group receives the goods or services

unless the transaction is clearly for a purpose other than the payment for goods or services supplied to the entity receiving them.

26.1B In the absence of specifically identifiable goods or services, other circumstances may indicate that goods or services have been (or will be) received, in which case this section applies (see paragraph 26.17).

…

Measurement principle

…

26.9 A grant of equity instruments might be conditional on employees satisfying specified vesting conditions related to service or performance. ~~For example,~~ An example of a vesting condition relating to service is when a grant of shares or share options to an employee is ~~typically~~ conditional on the employee remaining in the entity's employ for a specified period of time. ~~There might be~~ Examples of vesting conditions relating to performance ~~conditions that must be satisfied, such as~~ are when a grant of shares or share options is conditional on a specified period of service and on the entity achieving a specified growth in profit (a non-market vesting condition) or a specified increase in the entity's share price (a market vesting condition). Vesting conditions are accounted for as follows:

(a) ~~A~~all vesting conditions related to ~~solely~~ employee service or to a non-market performance condition shall be taken into account when estimating the number of equity instruments expected to vest. Subsequently, the entity shall revise that estimate~~, if necessary,~~ if new information indicates that the number of equity instruments expected to vest differs from previous estimates. On the vesting date, the entity shall revise the estimate to equal the number of equity instruments that ultimately vested. Vesting conditions related to employee service or to a non-market performance condition shall not be taken into account when estimating the fair value of the shares, share options or other equity instruments at the measurement date.

(b) ~~A~~all market vesting conditions and non-vesting conditions shall be taken into account when estimating the fair value of the shares, ~~or~~ share options or other equity instruments at the measurement date, with no subsequent adjustment to the estimated fair value, irrespective of the outcome of the market or non-vesting condition, provided that all other vesting conditions are satisfied.

…

Modifications to the terms and conditions on which equity instruments were granted

26.12 ~~If a~~An entity may modify~~ies~~ the ~~vesting~~ terms and conditions on which equity instruments are granted in a manner that is beneficial to the employee, for example, by reducing the exercise price of an option or reducing the vesting period or by modifying or eliminating a performance condition~~,~~. Alternatively an entity may modify the terms and conditions in a manner that is not beneficial to the employee, for example, by increasing the vesting period or adding a performance condition. T~~t~~he entity shall take the modified vesting conditions into account in accounting for the share-based payment transaction, as follows:

(a) …

The requirements in this paragraph are expressed in the context of share-based payment transactions with employees. The requirements also apply to share-based payment transactions with parties other than employees if these transactions are measured by reference to the fair value of the equity instruments granted, but reference to the grant date refers to the date that the entity obtains the goods or the counterparty renders service.

…

Group plans

26.16 If a share-based payment award is granted by ~~a **parent** entity to the employees of one or more **subsidiaries** in the group~~ an entity to the employees of one or more group entities, and the ~~parent~~ group presents consolidated financial statements using either the *HKFRS for Private Entities* or **full HKFRSs**, ~~such subsidiaries are permitted~~ the group entities are permitted, as an alternative to the treatment set out in paragraphs 26.3–26.15, to ~~recognise~~

~~and~~ measure the share-based payment expense ~~(and the related capital contribution by the parent)~~ on the basis of a reasonable allocation of the expense ~~recognised~~ for the group.

~~Government-mandated plans~~ Unidentifiable goods or services

26.17 If the identifiable consideration received appears to be less than the fair value of the equity instruments granted or the liability incurred, this situation typically indicates that other consideration (ie unidentifiable goods or services) has been (or will be) received. For example, ~~S~~some jurisdictions have programmes ~~established under law~~ by which ~~equity investors~~ owners (such as employees) are able to acquire equity without providing goods or services that can be specifically identified (or by providing goods or services that are clearly less than the fair value of the equity instruments granted). This indicates that other consideration has been or will be received (such as past or future employee services). ~~These are equity-settled share-based payment transactions within the scope of this section.~~ The entity shall measure the unidentifiable goods or services received (or to be received) as the difference between the fair value of the share-based payment and the fair value of any identifiable goods or services received (or to be received) measured at the grant date. For cash-settled transactions, the liability shall be remeasured at the end of each reporting period until it is settled in accordance with paragraph 26.14.

Disclosures

...

26.22 If the entity is part of a group share-based payment plan, and it ~~recognises and~~ measures its share-based payment expense on the basis of a reasonable allocation of the expense recognised for the group, it shall disclose that fact and the basis for the allocation (see paragraph 26.16).

Amendments to Section 27 *Impairment of Assets*

Paragraphs 27.1, 27.6, 27.14 and 27.30–27.31 are amended. Deleted text is struck through and new text is underlined.

Objective and scope

27.1 An **impairment loss** occurs when the **carrying amount** of an asset exceeds its **recoverable amount**. This section shall be applied in accounting for the impairment of all assets other than the following, for which other sections of this HKFRS establish impairment requirements:

(a) …

(f) assets arising from construction contracts (see Section 23 *Revenue*).

…

General principles

…

27.6 An entity shall recognise an impairment loss immediately in profit or loss, unless the asset is carried at a revalued amount in accordance with the revaluation model in Section 17

Property, Plant and Equipment. Any impairment loss of a revalued asset shall be treated as a revaluation decrease in accordance with paragraph 17.15D.

…

Fair value less costs to sell

27.14 Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal (paragraphs 11.27–11.32 provide guidance on fair value). ~~The best evidence of the fair value less costs to sell of an asset is a price in a binding sale agreement in an arm's length transaction or a market price in an active market. If there is no binding sale agreement or active market for an asset, fair value less costs to sell is based on the best information available to reflect the amount that an entity could obtain, at the reporting date, from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the costs of disposal. In determining this amount, an entity considers the outcome of recent transactions for similar assets within the same industry.~~

…

Reversal where recoverable amount was estimated for an individual impaired asset

27.30 When the prior impairment loss was based on the recoverable amount of the individual impaired asset, the following requirements apply:

(a) ….

(b) If the estimated recoverable amount of the asset exceeds its carrying amount, the entity shall increase the carrying amount to recoverable amount, subject to the limitation described in (c) below. That increase is a reversal of an impairment loss. The entity shall recognise the reversal immediately in profit or loss, unless the asset is carried at a revalued amount in accordance with the revaluation model in paragraph 17.15B. Any reversal of an impairment loss of a revalued asset shall be treated as a revaluation increase in accordance with paragraph 17.15C.

(c) ...

Reversal when recoverable amount was estimated for a cash-generating unit

27.31 When the original impairment loss was based on the recoverable amount of the cash-generating unit to which the asset belongs, the following requirements apply:

(a) ...

(b) If the estimated recoverable amount of the cash-generating unit exceeds its carrying amount, that excess is a reversal of an impairment loss. The entity shall allocate the amount of that reversal to the assets of the unit, except for goodwill, pro rata with the carrying amounts of those assets, subject to the limitation described in (c) below. Those increases in carrying amounts shall be treated as reversals of impairment losses for individual assets and be recognised immediately in profit or loss, unless the asset is carried at a revalued amount in accordance with the revaluation model in paragraph 17.15B. Any reversal of an impairment loss of a revalued asset shall be treated as a revaluation increase in accordance with paragraph 17.15C.

(c) ...

Amendments to Section 28 *Employee Benefits*

Paragraphs 28.30, 28.41 and 28.43 are amended. Deleted text is struck through and new text is underlined.

Other long-term employee benefits

…

28.30 An entity shall recognise a liability for other long-term employee benefits measured at the net total of the following amounts:

(a) …

An entity shall recognise the <u>net</u> change in the liability ~~in accordance with paragraph 28.23~~ <u>during the period, other than a change attributable to benefits paid to employees during the period or to contributions from the employer, as the cost of its other long-term employee benefits during the period. That cost is recognised entirely in profit or loss as an expense unless another section of this HKFRS requires it to be recognised as part of the cost of an asset, such as inventories or property, plant and equipment</u>.

…

Disclosures about defined benefit plans

28.41 An entity shall disclose the following information about defined benefit plans (except for any defined multi-employer benefit plans that are accounted for as defined contribution plans in accordance with paragraph 28.11, for which the disclosures in paragraph 28.40 apply instead). If an entity has more than one defined benefit plan, these disclosures may be made in total, separately for each plan, or in such groupings as are considered to be the most useful:

(a) ….

(c) ~~a narrative explanation~~ if the entity uses any of the simplifications in paragraph 28.19 in measuring its defined benefit obligation<u>, it shall disclose that fact and the reasons why using the projected unit credit method to measure its obligation and cost under defined benefit plans would involve undue cost or effort</u>.

(d) ….

…

Disclosures about termination benefits

28.43 For each category of termination benefits that an entity provides to its employees, the entity shall disclose the nature of the benefit~~, its accounting policy,~~ and the amount of its obligation and the extent of funding at the reporting date.

Section 29 *Income Tax*

Section 29 has been revised. Paragraphs 29.1–29.41 and their related headings are added.

Scope of this section

29.1 For the purpose of this HKFRS, **income tax** includes all domestic and foreign taxes that are based on **taxable profit**. Income tax also includes taxes, such as withholding taxes, that are payable by a subsidiary, associate or joint venture on distributions to the reporting entity.

29.2 This section covers accounting for income tax. It requires an entity to recognise the current and future tax consequences of transactions and other events that have been recognised in the financial statements. These recognised tax amounts comprise **current tax** and **deferred tax**. Current tax is income tax payable (recoverable) in respect of the taxable profit (tax loss) for the current period or past periods. Deferred tax is income tax payable or recoverable in future periods, generally as a result of the entity recovering or settling its **assets** and **liabilities** for their current carrying amount, and the tax effect of the carryforward of currently unused tax losses and tax credits.

29.3 This section does not deal with the methods of accounting for **government grants** (see Section 24 *Government Grants*). However, this section does deal with the accounting for temporary differences that may arise from such grants.

Recognition and measurement of current tax

29.4 An entity shall recognise a current tax liability for tax payable on taxable profit for the current and past periods. If the amount paid for the current and past periods exceeds the amount payable for those periods, the entity shall recognise the excess as a current tax asset.

29.5 An entity shall recognise a current tax asset for the benefit of a tax loss that can be carried back to recover tax paid in a previous period.

29.6 An entity shall measure a current tax liability (asset) at the amount it expects to pay (recover) using the tax rates and laws that have been enacted or substantively enacted by the **reporting date**. An entity shall regard tax rates and tax laws as substantively enacted when the remaining steps in the enactment process have not affected the outcome in the past and are unlikely to do so. Paragraphs 29.32–29.33 provide additional measurement guidance.

Recognition of deferred tax

General recognition principle

29.7 It is inherent in the recognition of an asset or a liability that the reporting entity expects to recover or settle the carrying amount of that asset or liability. If it is probable that recovery or settlement of that carrying amount will make future tax payments larger (smaller) than they would be if such recovery or settlement were to have no tax consequences, this section requires an entity to recognise a **deferred tax liability** (**deferred tax asset**) with certain limited exceptions. If the entity expects to recover the carrying amount of an asset or settle the carrying amount of a liability without affecting taxable profit, no deferred tax arises in respect of the asset or liability.

29.8 An entity shall recognise a deferred tax asset or liability for tax recoverable or payable in future periods as a result of past transactions or events. Such tax arises from the differences between the carrying amounts of the entity's assets and liabilities in the statement of financial position and the amounts attributed to those assets and liabilities by the tax authorities (such differences are called '**temporary differences**'), and the carryforward of currently unused tax losses and tax credits.

Tax bases and temporary differences

29.9 The **tax base** of an asset is the amount that will be deductible for tax purposes against any taxable economic benefits that will flow to an entity when it recovers the carrying amount of the asset. If those economic benefits will not be taxable, the tax base of the asset is equal to its carrying amount.

29.10 The tax base of a liability is its carrying amount less any amount that will be deductible for tax purposes in respect of that liability in future periods. In the case of revenue that is received in advance, the tax base of the resulting liability is its carrying amount less any amount of the revenue that will not be taxable in future periods.

29.11 Some items have a tax base but are not recognised as assets and liabilities in the statement of financial position. For example, research and development costs are recognised as an expense when determining **accounting profit** in the period in which they are incurred but may not be permitted as a deduction when determining taxable profit (tax loss) until a later period. The difference between the tax base of the research and development costs, being the amount that the taxation authorities will permit as a deduction in future periods, and the carrying amount of nil is a **deductible temporary difference** that results in a deferred tax asset.

29.12 Temporary differences are differences between the carrying amount of an asset or liability in the statement of financial position and its tax base. In consolidated financial statements, temporary differences are determined by comparing the carrying amounts of assets and liabilities in the consolidated financial statements with the appropriate tax base. The tax base is determined by reference to a consolidated tax return in those jurisdictions in which such a return is filed. In other jurisdictions, the tax base is determined by reference to the tax returns of each entity in the group.

29.13 Examples of situations in which temporary differences arise include:

(a) the identifiable assets acquired and liabilities assumed in a business combination are recognised at their fair values in accordance with Section 19 *Business Combinations and Goodwill*, but no equivalent adjustment is made for tax purposes (for example, the tax base of an asset may remain at cost to the previous owner). The resulting deferred tax asset or liability affects the amount of goodwill that an entity recognises.

(b) assets are remeasured but no equivalent adjustment is made for tax purposes. For example, this HKFRS permits or requires certain assets to be remeasured at fair value or to be revalued (for example, Section 16 *Investment Property* and Section 17 *Property, Plant and Equipment*).

(c) goodwill arises in a business combination, for example, the tax base of goodwill will be nil if taxation authorities do not allow the amortisation or the impairment of goodwill as a deductible expense when taxable profit is determined and do not permit the cost of goodwill to be treated as a deductible expense on disposal of the subsidiary.

(d) the tax base of an asset or a liability on initial recognition differs from its initial carrying amount.

(e) the carrying amount of investments in subsidiaries, branches and associates or interests in joint ventures becomes different from the tax base of the investment or interest.

Not all the above temporary differences will give rise to deferred tax assets and liabilities (see paragraphs 29.14 and 29.16).

Taxable temporary differences

29.14 A deferred tax liability shall be recognised for all **taxable temporary differences**, except to the extent that the deferred tax liability arises from:

(a) the initial recognition of goodwill; or

(b) the initial recognition of an asset or a liability in a transaction that:

(i) is not a business combination; and

(ii) at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).

However, for taxable temporary differences associated with investments in subsidiaries, branches and associates, and interests in joint ventures, a deferred tax liability shall be recognised in accordance with paragraph 29.25.

29.15 Some temporary differences arise when income or expense is included in accounting profit in one period but is included in taxable profit in a different period. Such temporary differences are often described as timing differences. The following are examples of temporary differences of this kind that are taxable temporary differences and that therefore result in deferred tax liabilities:

(a) interest revenue is included in accounting profit on a time-proportion basis but may, in some jurisdictions, be included in taxable profit when cash is collected. The tax base of any receivable with respect to such revenues is nil, because the revenues do not affect taxable profit until cash is collected; and

(b) depreciation used when determining taxable profit (tax loss) may differ from that used when determining accounting profit. The temporary difference is the difference between the carrying amount of the asset and its tax base, which is the original cost of the asset less all deductions in respect of that asset permitted by the taxation authorities when determining taxable profit of the current and prior periods. A taxable temporary difference arises, and results in a deferred tax liability, when tax depreciation is accelerated. If the tax depreciation is less rapid than the accounting depreciation, a deductible temporary difference arises resulting in a deferred tax asset (see paragraph 29.16).

Deductible temporary differences

29.16 **A deferred tax asset shall be recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised, unless the deferred tax asset arises from the initial recognition of an asset or a liability in a transaction that:**

(a) is not a business combination; and

(b) at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).

However, for deductible temporary differences associated with investments in subsidiaries, branches and associates, and for interests in joint ventures, a deferred tax asset shall be recognised in accordance with paragraph 29.26.

29.17 The following are examples of deductible temporary differences that result in deferred tax assets:

(a) retirement benefit costs may be deducted when determining accounting profit at the time that the service is provided by the employee, but deducted when determining taxable profit either when contributions are paid to a fund by the entity or when retirement benefits are paid by the entity. A temporary difference exists between the carrying amount of the liability and its tax base; the tax base of the liability is usually nil. Such a deductible temporary difference results in a deferred tax asset because economic benefits will flow to the entity in the form of a deduction from taxable profits when contributions or retirement benefits are paid.

(b) certain assets may be carried at fair value, without an equivalent adjustment being made for tax purposes. A deductible temporary difference arises if the tax base of the asset exceeds its carrying amount.

29.18 The reversal of deductible temporary differences results in deductions when taxable profits of future periods are determined. It is probable that taxable profit will be available against which a deductible temporary difference can be utilised when there are sufficient taxable temporary differences relating to the same taxation authority and the same taxable entity that are expected to reverse:

(a) in the same period as the expected reversal of the deductible temporary difference; or

(b) in periods into which a tax loss arising from the deferred tax asset can be carried back or forward.

In such circumstances, the deferred tax asset is recognised in the period in which the deductible temporary differences arise.

29.19 When there are insufficient taxable temporary differences relating to the same taxation authority and the same taxable entity, the deferred tax asset is recognised to the extent that:

(a) it is probable that the entity will have sufficient taxable profit relating to the same taxation authority and the same taxable entity in the same period as the reversal of the deductible temporary difference (or in the periods into which a tax loss arising from the deferred tax asset can be carried back or forward). When evaluating whether it will have sufficient taxable profit in future periods, an entity ignores taxable amounts arising from deductible temporary differences that are expected to originate in future periods, because the deferred tax asset arising from those deductible temporary differences will itself require future taxable profit in order to be utilised, or

(b) tax planning opportunities are available to the entity that will create taxable profit in appropriate periods.

29.20 When an entity has a history of recent losses, the entity considers the guidance in paragraphs 29.21–29.22.

Unused tax losses and unused tax credits

29.21 A deferred tax asset shall be recognised for the carryforward of unused tax losses and unused tax credits to the extent that it is probable that future taxable profit will be available against which the unused tax losses and unused tax credits can be utilised. When assessing the probability that taxable profit will be available against which the unused tax losses or unused tax credits can be utilised, an entity considers the following criteria:

(a) whether the entity has sufficient taxable temporary differences relating to the same taxation authority and the same taxable entity, which will result in taxable amounts against which the unused tax losses or unused tax credits can be utilised before they expire;

(b) whether it is probable that the entity will have taxable profits before the unused tax losses or unused tax credits expire;

(c) whether the unused tax losses result from identifiable causes which are unlikely to recur; and

(d) whether tax planning opportunities are available to the entity that will create taxable profit in the period in which the unused tax losses or unused tax credits can be utilised.

To the extent that it is not probable that taxable profit will be available against which the unused tax losses or unused tax credits can be utilised, the deferred tax asset is not recognised.

29.22 The existence of unused tax losses is strong evidence that future taxable profit may not be available. Consequently, when an entity has a history of recent losses, the entity recognises a deferred tax asset arising from unused tax losses or tax credits only to the extent that the entity has sufficient taxable temporary differences or to the extent that there is convincing other evidence that sufficient taxable profit will be available against which the unused tax losses or unused tax credits can be utilised by the entity.

Reassessment of unrecognised deferred tax assets

29.23 At the end of each reporting period, an entity reassesses any unrecognised deferred tax assets. The entity recognises a previously unrecognised deferred tax asset to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Investments in subsidiaries, branches and associates and interests in joint ventures

29.24 Temporary differences arise when the carrying amount of investments in subsidiaries, branches and associates, and interests in joint ventures (for example, in the parent's consolidated financial statements the carrying amount of a subsidiary is the net consolidated assets of that subsidiary, including the carrying amount of any related goodwill) becomes different from the tax base (which is often cost) of the investment or interest. Such differences may arise in a number of different circumstances, for example:

(a) the existence of undistributed profits of subsidiaries, branches, associates and joint ventures;

(b) changes in foreign exchange rates when a parent and its subsidiary are based in different countries; and

(c) a reduction in the carrying amount of an investment in an associate to its recoverable amount.

Investments may be accounted for differently in the parent's separate financial statements compared to the consolidated financial statements, in which case the temporary difference associated with that investment may also differ. For example, in the parent's separate financial statement the carrying amount of a subsidiary will depend on the accounting policy chosen in paragraph 9.26.

29.25 An entity shall recognise a deferred tax liability for all taxable temporary differences associated with investments in subsidiaries, branches and associates, and interests in joint ventures, except to the extent that both of the following conditions are satisfied:

(a) the parent, investor or venturer is able to control the timing of the reversal of the temporary difference; and

(b) it is probable that the temporary difference will not reverse in the foreseeable future.

29.26 An entity shall recognise a deferred tax asset for all deductible temporary differences arising from investments in subsidiaries, branches and associates, and interests in joint ventures, only to the extent that it is probable that:

(a) the temporary difference will reverse in the foreseeable future; and

(b) taxable profit will be available against which the temporary difference can be utilised.

Measurement of deferred tax

29.27 An entity shall measure a deferred tax liability (asset) using the tax rates and tax laws that have been enacted or substantively enacted by the reporting date. An entity shall regard tax rates and tax laws as substantively enacted when the remaining steps in the enactment process have not affected the outcome in the past and are unlikely to do so.

29.28 When different tax rates apply to different levels of taxable profit, an entity shall measure deferred tax liabilities (assets) using the average enacted or substantively enacted rates that it expects to be applicable to the taxable profit (tax loss) of the periods in which it expects the deferred tax liability to be settled (deferred tax asset to be realised).

29.29 The measurement of deferred tax liabilities and deferred tax assets shall reflect the tax consequences that would follow from the manner in which the entity expects, at the reporting date, to recover or settle the carrying amount of the related assets and liabilities. Consequently, an entity measures deferred tax liabilities and deferred tax assets using the tax rate and the tax base that are consistent with the expected manner of recovery or settlement. For example, if the temporary difference arises from an item of income that is expected to be taxable as a capital gain in a future period, the deferred tax expense is measured using the capital gain tax rate and the tax base that is consistent with recovering the carrying amount through sale.

29.30 If a deferred tax liability or deferred tax asset arises from a non-depreciable asset measured using the revaluation model in Section 17, the measurement of the deferred tax liability or deferred tax asset shall reflect the tax consequences of recovering the carrying amount of the non-depreciable asset through sale. If a deferred tax liability or asset arises from investment property that is measured at fair value, there is a rebuttable presumption that the carrying amount of the investment property will be recovered through sale. Accordingly, unless the presumption is rebutted, the measurement of the deferred tax liability or the deferred tax asset shall reflect the tax consequences of recovering the carrying amount of the investment property entirely through sale. This presumption is rebutted if the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. If the presumption is rebutted, the requirements of paragraph 29.29 shall be followed.

29.31 The carrying amount of a deferred tax asset shall be reviewed at the end of each reporting period. An entity shall reduce the carrying amount of a deferred tax asset to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that recognised deferred tax asset to be utilised. Any such reduction shall be reversed to the extent that it becomes probable that sufficient taxable profit will be available.

Measurement of both current and deferred tax

29.32 An entity shall not discount current or deferred tax assets and liabilities.

29.33 In some jurisdictions, income tax is payable at a higher or lower rate if part or all of the profit or retained earnings is paid out as a dividend to shareholders of the entity. In other jurisdictions, income tax may be refundable or payable if part or all of the profit or retained earnings is paid out as a dividend to shareholders of the entity. In both of those circumstances, an entity shall measure current and deferred tax at the tax rate applicable to undistributed profits until the entity recognises a liability to pay a dividend. When the entity recognises a liability to pay a dividend, it shall recognise the resulting current or deferred tax liability (asset), and the related **tax expense** (income).

Withholding tax on dividends

29.34 When an entity pays dividends to its shareholders, it may be required to pay a portion of the dividends to taxation authorities on behalf of shareholders. Such an amount paid or payable to taxation authorities is charged to equity as a part of the dividends.

Presentation

Allocation in comprehensive income and equity

29.35 An entity shall recognise tax expense in the same component of total comprehensive income (ie continuing operations, **discontinued operations**, or **other comprehensive income**) or equity as the transaction or other event that resulted in the tax expense.

Current/non-current distinction

29.36 When an entity presents current and non-current assets, and current and non-current liabilities, as separate classifications in its statement of financial position, it shall not classify any deferred tax assets (liabilities) as current assets (liabilities).

Offsetting

29.37 An entity shall offset current tax assets and current tax liabilities, or offset deferred tax assets and deferred tax liabilities if, and only if, it has a legally enforceable right to set off the amounts and the entity can demonstrate without undue cost or effort that it plans either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Disclosures

29.38 An entity shall disclose information that enables users of its financial statements to evaluate the nature and financial effect of the current and deferred tax consequences of recognised transactions and other events.

29.39 An entity shall disclose separately the major components of tax expense (income). Such components of tax expense (income) may include:

(a) current tax expense (income).

(b) any adjustments recognised in the period for current tax of prior periods.

(c) the amount of deferred tax expense (income) relating to the origination and reversal of temporary differences.

(d) the amount of deferred tax expense (income) relating to changes in tax rates or the imposition of new taxes.

(e) the amount of the benefit arising from a previously unrecognised tax loss, tax credit or temporary difference of a prior period that is used to reduce tax expense.

(f) adjustments to deferred tax expense (income) arising from a change in the tax status of the entity or its shareholders.

(g) deferred tax expense (income) arising from the write-down, or reversal of a previous write-down, of a deferred tax asset in accordance with paragraph 29.31.

(h) the amount of tax expense (income) relating to those changes in accounting policies and errors that are included in profit or loss in accordance with Section 10 *Accounting Policies, Estimates and Errors*, because they cannot be accounted for retrospectively.

29.40 An entity shall disclose the following separately:

(a) the aggregate current and deferred tax relating to items that are recognised as items of other comprehensive income.

(b) the aggregate current and deferred tax relating to items that are charged or credited directly to equity.

(c) an explanation of any significant differences between the tax expense (income) and accounting profit multiplied by the applicable tax rate. For example such differences may arise from transactions such as revenue that are exempt from taxation or expenses that are not deductible in determining taxable profit (tax loss).

(d) an explanation of changes in the applicable tax rate(s) compared with the previous reporting period.

(e) for each type of temporary difference and for each type of unused tax losses and tax credits:

(i) the amount of deferred tax liabilities and deferred tax assets at the end of the reporting period, and

(ii) an analysis of the change in deferred tax liabilities and deferred tax assets during the period.

(f) the amount (and expiry date, if any) of deductible temporary differences, unused tax losses and unused tax credits for which no deferred tax asset is recognised in the statement of financial position.

(g) in the circumstances described in paragraph 29.33, an explanation of the nature of the potential income tax consequences that would result from the payment of dividends to its shareholders.

29.41 If an entity does not offset tax assets and liabilities in accordance with paragraph 29.37 because it is unable to demonstrate without undue cost or effort that it plans to settle them on a net basis or realise them simultaneously, the entity shall disclose the amounts that have not been offset and the reasons why applying the requirement would involve undue cost or effort.

Amendments to Section 30 *Foreign Currency Translation*

Paragraphs 30.1 and 30.18 are amended. Deleted text is struck through and new text is underlined.

Scope of this section

30.1 An entity can conduct foreign activities in two ways. It may have transactions in foreign currencies or it may have foreign operations. In addition, an entity may present its financial statements in a foreign currency. This section prescribes how to include foreign currency transactions and foreign operations in the financial statements of an entity and how to translate financial statements into a **presentation currency**. Accounting for **financial instruments** ~~denominated in a foreign currency~~ <u>that derive their value from the change in a specified foreign exchange rate (for example, foreign currency forward exchange contracts)</u> and hedge accounting of foreign currency items are dealt with in ~~Section 11 *Basic Financial Instruments* and~~ Section 12 *Other Financial Instruments Issues*.

...

Translation to the presentation currency

...

30.18 An entity whose functional currency is not the currency of a hyperinflationary economy shall translate its results and financial position into a different presentation currency using the following procedures:

(a) ...

(c) All resulting exchange differences shall be recognised in other comprehensive income <u>and reported as a component of equity. They shall not subsequently be reclassified to profit or loss</u>.

Amendments to Section 31 *Hyperinflation*

Paragraphs 31.8–31.9 are amended. Deleted text is struck through and new text is underlined.

Statement of financial position

…

31.8 All other assets and liabilities are non-monetary:

(a) ...

(ba) Some non-monetary items are carried at amounts current at dates other than that of acquisition or the reporting date, for example, property, plant and equipment that has been revalued at some earlier date. In these cases, the carrying amounts are restated from the date of the revaluation.

(c) ...

31.9 At the beginning of the first period of application of this section, the components of **equity**, except retained earnings and any revaluation surplus, are restated by applying a general price index from the dates the components were contributed or otherwise arose. Any revaluation surplus that arose in previous periods is eliminated. Restated retained earnings are derived from all the other amounts in the restated statement of financial position.

Amendments to Section 33 *Related Party Disclosures*

Paragraph 33.2 is amended. Deleted text is struck through and new text is underlined.

Related party defined

33.2 A related party is a person or entity that is related to the entity that is preparing its financial statements (the reporting entity).

(a) A person or a close member of that person's family is related to a reporting entity if that person:

(i) ...

(ii) has control or joint control over the reporting entity; or

(iii) has ~~joint control or~~ significant influence over the reporting entity ~~or has significant voting power in it~~.

(b) An entity is related to a reporting entity if any of the following conditions applies:

(i) ...

(ii) ~~either~~ one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) both entities are joint ventures of the same ~~a~~ third entity.

(iv) ~~either~~ one entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) the entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the ~~plan~~ reporting entity.

(vi) ...

(vii) ~~a person identified in (a)(i) has significant voting power in the entity~~ the entity, or any member of a group of which it is a part, provides key management personnel services to the reporting entity or to the parent of the reporting entity.

(viii) a person identified in (a)(ii) has significant influence over the entity or ~~significant voting power in it~~ is a member of the key management personnel of the entity (or of a parent of the entity).

(i~~x~~) ~~a person or a close member of that person's family has both significant influence over the entity or significant voting power in it and joint control over the reporting entity.~~

(~~x~~) ~~a member of the key management personnel of the entity or of a parent of the entity, or a close member of that member's family, has control or joint control over the reporting entity or has significant voting power in it.~~

Amendments to Section 34 *Specialised Activities*

Paragraph 34.7 and paragraphs 34.10–34.11 and their related heading are amended and paragraphs 34.11A–34.11F are added. Deleted text is struck through and new text is underlined.

Disclosures – fair value model

34.7 An entity shall disclose the following with respect to its biological assets measured at fair value:

(a) ...

(c) a reconciliation of changes in the carrying amount of biological assets between the beginning and the end of the current period. The reconciliation shall include:

(i) ...

This reconciliation need not be presented for prior periods.

...

Disclosures – cost model

34.10 An entity shall disclose the following with respect to its biological assets measured using the cost model:

(a) ...

(b) an explanation of why fair value cannot be measured reliably without undue cost or effort.

(c) ...

~~Extractive activities~~ Exploration for and evaluation of mineral resources

34.11 An entity using this HKFRS that is engaged in the exploration for, or evaluation ~~or extraction~~ of~~,~~ mineral resources ~~(extractive activities)~~ shall ~~account for expenditure on the acquisition or development of tangible or intangible assets for use in extractive activities by applying Section 17 *Property, Plant and Equipment* and Section 18 *Intangible Assets other than Goodwill*, respectively~~ determine an accounting policy that specifies which expenditures are recognised as exploration and evaluation assets in accordance with paragraph 10.4 and apply the policy consistently. ~~When an entity has an obligation to dismantle or remove an item, or to restore the site, such obligations and costs are accounted for in accordance with Section 17 and Section 21 *Provisions and Contingencies*.~~ An entity is exempt from applying paragraph 10.5 to its accounting policies for the recognition and measurement of exploration and evaluation assets.

34.11A The following are examples of expenditures that might be included in the initial measurement of exploration and evaluation assets (the list is not exhaustive):

(a) acquisition of rights to explore;

(b) topographical, geological, geochemical and geophysical studies;

(c) exploratory drilling;

(d) trenching;

(e) sampling; and

(f) activities in relation to evaluating the technical feasibility and commercial viability of extracting a mineral resource.

Expenditures related to the development of mineral resources shall not be recognised as exploration and evaluation assets.

34.11B Exploration and evaluation assets shall be measured on initial recognition at cost. After initial recognition, an entity shall apply Section 17 *Property, Plant and Equipment* and Section 18 *Intangible Assets other than Goodwill* to the exploration and evaluation assets according to the nature of the assets acquired subject to paragraphs 34.11D–34.11F. If an entity has an obligation to dismantle or remove an item, or to restore the site, such obligations and costs are accounted for in accordance with Section 17 and Section 21 *Provisions and Contingencies*.

34.11C Exploration and evaluation assets shall be assessed for impairment when facts and circumstances suggest that the carrying amount of an exploration and evaluation asset may exceed its recoverable amount. An entity shall measure, present and disclose any resulting impairment loss in accordance with Section 27, except as provided by paragraph 34.11F.

34.11D For the purposes of exploration and evaluation assets only, paragraph 34.11E shall be applied instead of paragraphs 27.7–27.10 when identifying an exploration and evaluation asset that may be impaired. Paragraph 34.11E uses the term 'assets' but applies equally to separate exploration and evaluation assets or a cash-generating unit.

34.11E One or more of the following facts and circumstances indicate that an entity should test exploration and evaluation assets for impairment (the list is not exhaustive):

(a) the period for which the entity has the right to explore in the specific area has expired during the period or will expire in the near future, and is not expected to be renewed.

(b) substantive expenditure on further exploration for, and evaluation of, mineral resources in the specific area is neither budgeted nor planned.

(c) exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the entity has decided to discontinue such activities in the specific area.

(d) sufficient data exists to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

The entity shall perform an impairment test, and recognise any impairment loss, in accordance with Section 27.

34.11F An entity shall determine an accounting policy for allocating exploration and evaluation assets to cash-generating units or groups of cash-generating units for the purpose of assessing such assets for impairment.

Amendments to Section 35 *Transition to the HKFRS for Private Entities*

Paragraphs 35.2 and 35.9–35.11 are amended and paragraph 35.12A is added. Deleted text is struck through and new text is underlined.

Scope of this section

…

35.2 An entity ~~can be a first-time adopter of the *HKFRS for Private Entities* only once~~ that has applied the *HKFRS for Private Entities* in a previous reporting period, but whose most recent previous annual financial statements did not contain an explicit and unreserved statement of compliance with the *HKFRS for Private Entities*, must either apply this section or apply the *HKFRS for Private Entities* retrospectively in accordance with Section 10 *Accounting Policies, Estimates and Errors* as if the entity had never stopped applying the *HKFRS for Private Entities*. ~~If an entity using the *HKFRS for Private Entities* stops using it for one or more **reporting periods** and then is required, or chooses, to adopt it again later, the special exemptions, simplifications and other requirements in this section do not apply to the re-adoption.~~ When such an entity does not elect to apply this section, it is still required to apply the disclosure requirements in paragraph 35.12A in addition to the disclosure requirements in Section 10.

...

Procedures for preparing financial statements at the date of transition

…

35.9 On first-time adoption of this HKFRS, an entity shall not retrospectively change the accounting that it followed under its previous financial reporting framework for any of the following transactions:

(a) ...

(f) government loans. A first-time adopter shall apply the requirements in Section 11 *Basic Financial Instruments*, Section 12 and Section 24 *Government Grants* prospectively to government loans existing at the date of transition to this HKFRS. Consequently, if a first-time adopter did not, under its previous GAAP, recognise and measure a government loan on a basis that is consistent with this HKFRS, it shall use its previous GAAP carrying amount of the loan at the date of transition to this HKFRS as the carrying amount of the loan at that date and shall not recognise the benefit of any government loan at a below-market rate of interest as a government grant.

35.10 An entity may use one or more of the following exemptions in preparing its first financial statements that conform to this HKFRS:

(a) …

(da) **Event-driven fair value measurement as deemed cost.** A first-time adopter may have established a deemed cost in accordance with its previous GAAP for some or all of its assets and liabilities by measuring them at their fair value at one particular date because of an event, for example, a valuation of the business, or parts of the business, for the purposes of a planned sale. If the measurement date:

(i) is *at* or *before* the date of transition to this HKFRS, the entity may use such event-driven fair value measurements as deemed cost at the date of that measurement.

(ii) is *after* the date of transition to this HKFRS, but during the periods covered by the first financial statements that conform to this HKFRS, the event-driven fair value measurements may be used as deemed cost when the event occurs. An entity shall recognise the resulting adjustments directly in retained earnings (or, if appropriate, another category of equity) at the measurement date. At the date of transition to this HKFRS, the entity shall either establish the deemed cost by applying the criteria in paragraph

35.10(c)–(d) or measure those assets and liabilities in accordance with the other requirements in this section.

(e) ...

(f) **Separate financial statements**. When an entity prepares **separate financial statements**, paragraph 9.26 requires it to account for its investments in subsidiaries, associates, and jointly controlled entities either:

(i) at cost less impairment;~~, or~~

(ii) at **fair value** with changes in fair value recognised in profit or loss; or

(iii) using the equity method following the procedures in paragraph 14.8.

If a first-time adopter measures such an investment at cost, it shall measure that investment at one of the following amounts ~~in its separate opening statement of financial position prepared in accordance with this HKFRS~~ at the date of transition:

(i) ...

(g) ...

(h) **Deferred income tax.** A first-time adopter ~~is not required to recognise, at~~ may apply Section 29 prospectively from the date of transition to the *HKFRS for Private Entities*~~,~~ ~~deferred tax assets or deferred tax liabilities relating to differences between the tax base and the **carrying amount** of any assets or liabilities for which recognition of those deferred tax assets or liabilities would involve undue cost or effort~~.

(i) ...

(m) **Operations subject to rate regulation.** If a first-time adopter holds items of property, plant and equipment or intangible assets that are used, or were previously used, in operations subject to rate regulation (ie to provide goods or services to customers at prices/rates established by an authorised body) it may elect to use the previous GAAP carrying amount of those items at the date of transition to this HKFRS as their deemed cost. If an entity applies this exemption to an item, it need not apply it to all items. The entity shall test those assets for impairment at the date of transition to this HKFRS in accordance with Section 27.

(n) **Severe hyperinflation.** If a first-time adopter has a functional currency that was subject to severe hyperinflation:

(i) if its date of transition to this HKFRS is on, or after, the **functional currency normalisation date**, the entity may elect to measure all assets and liabilities held before the functional currency normalisation date at fair value on the date of transition to this HKFRS and use that fair value as the deemed cost of those assets and liabilities at that date; and

(ii) if the functional currency normalisation date falls within a twelve month comparative period, an entity may use a comparative period of less than twelve months, provided that a complete set of financial statements (as required by paragraph 3.17) is provided for that shorter period.

35.11 If it is **impracticable** for an entity to make ~~restate the opening statement of financial position at the date of transition for~~ one or more of the adjustments required by paragraph 35.7 at the date of transition, the entity shall apply paragraphs 35.7–35.10 for such adjustments in the earliest period for which it is practicable to do so, and shall identify ~~the data presented for prior periods that are not comparable with data for the period in which it prepares its first financial statements that conform to this HKFRS~~ which amounts in the financial statements have not been restated. If it is impracticable for an entity to provide any of the disclosures required by this HKFRS, ~~for any period before the period in which it prepares its first financial statements that conform to this HKFRS~~ including those for comparative periods, the omission shall be disclosed.

Disclosures

Explanation of transition to the *HKFRS for Private Entities*

...

35.12A An entity that has applied the *HKFRS for Private Entities* in a previous period, as described in paragraph 35.2, shall disclose:

(a) the reason it stopped applying the *HKFRS for Private Entities*;

(b) the reason it is resuming the application of the *HKFRS for Private Entities*; and

(c) whether it has applied this section or has applied the *HKFRS for Private Entities* retrospectively in accordance with Section 10.

Appendix A is added.

Appendix A
Effective date and transition

A1 *2015 Amendments to the HKFRS for Private Entities*, issued in September 2015, amended paragraphs 1.3, 2.22, 2.47, 2.49–2.50, 4.2, 4.12, 5.4–5.5, 6.2–6.3, 9.1–9.3, 9.16, 9.18, 9.24–9.26, 9.28, 11.2, 11.4, 11.7, 11.9, 11.11, 11.13–11.15, 11.27, 11.32, 11.44, 12.3, 12.8–12.9, 12.23, 12.25, 12.29, 14.15, 15.21, 16.10, 17.5–17.6, 17.15, 17.31–17.32, 18.8, 18.20, 19.2, 19.11, 19.14–19.15, 19.23, 19.25–19.26, 20.1, 20.3, 21.16, 22.8–22.9, 22.15, 22.17–22.18, 26.1, 26.9, 26.12, 26.16–26.17, 26.22, 27.1, 27.6, 27.14, 27.30–27.31, 28.30, 28.41, 28.43, 30.1, 30.18, 31.8–31.9 33.2, 34.7, 34.10–34.11, 35.2, 35.9–35.11 and the glossary of terms, revised Section 29 and added paragraphs 1.7, 2.14A–2.14D, 9.3A–9.3C, 9.23A, 10.10A, 11.9A–11.9B, 17.15A–17.15D, 17.33, 22.3A, 22.15A–22.15C, 22.18A–22.18B, 22.20, 26.1A–26.1B, 34.11A–34.11F, 35.12A and A2–A3. An entity shall apply those paragraphs for annual periods beginning on or after 1 January 2017. Amendments to Sections 2–34 shall be applied retrospectively in accordance with Section 10 *Accounting Policies, Estimates and Errors* except as stated in paragraph A2. Earlier application of *2015 Amendments to the HKFRS for Private Entities* is permitted. If an entity applies *2015 Amendments to the HKFRS for Private Entities* for an earlier period it shall disclose that fact.

A2 If it is impracticable for an entity to apply any new or revised requirements in the amendments to Sections 2–34 retrospectively, the entity shall apply those requirements in the earliest period for which it is practicable to do so. In addition an entity:

(a) may elect to apply the revised Section 29 prospectively from the beginning of the period in which it first applies *2015 Amendments to the HKFRS for Private Entities*.

(b) shall apply the amendments to paragraph 19.11 prospectively from the beginning of the period in which it first applies *2015 Amendments to the HKFRS for Private Entities*. This paragraph is only applicable if the entity has business combinations within the scope of Section 19.

(c) shall apply the amendments to paragraphs 2.49–2.50, 5.4, 17.15, 27.6, 27.30–27.31 and 31.8–31.9 and new paragraphs 10.10A, 17.15A–17.15D and 17.33 prospectively from the beginning of the period it first applies *2015 Amendments to the HKFRS for Private Entities*. These paragraphs are only applicable if the entity applies the revaluation model to any classes of property, plant and equipment in accordance with paragraph 17.15.

A3 The entity shall identify which amounts in the financial statements have not been restated as a result of applying paragraph A2.

Amendments to the glossary of terms

The glossary is placed in Appendix B. Only those definitions amended, added or deleted are shown. Deleted text is struck through and new text is underlined.

Appendix B
Glossary of terms

...

accounting profit Profit or loss for a period before deducting tax expense.

...

active market A market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

...

cash-settled share-based payment transaction A share-based payment transaction in which the entity acquires goods or services by incurring a liability to transfer cash or other assets to the supplier of those goods or services for amounts that are based on the price (or value) of ~~the entity's shares or other~~ equity instruments (including shares or share options) of the entity or another group entity.

...

close members of the family of a person Those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity, including:

(a) that person's children and spouse or domestic partner;

(b) children of that person's spouse or domestic partner; and

(c) dependants of that person or that person's spouse or domestic partner.

~~**combined financial statements**~~ ~~The financial statements of two or more entities controlled by a single investor.~~

...

deductible temporary differences Temporary differences that will result in amounts that are deductible in determining taxable profit (tax loss) of future periods when the carrying amount of the asset or liability is recovered or settled.

…

deferred tax assets The amounts of income tax recoverable in future reporting periods in respect of:

(a) deductible temporary differences;

(b) the carryforward of unused tax losses; and

(c) the carryforward of unused tax credits.

deferred tax liabilities The amounts of income tax payable in future reporting periods in respect of taxable temporary differences.

...

equity-settled share-based payment transaction	A share-based payment transaction in which the entity: (a) receives goods or services as consideration for its own equity instruments ~~of the entity~~ (including shares or share options)~~.~~; or (b) receives goods or services but has no obligation to settle the transaction with the supplier.

...

foreign operation	An entity that is a subsidiary, associate, joint venture or branch of a reporting entity, the activities of which are based or conducted in a country or currency other than those of the reporting entity.

...

functional currency normalisation date	The date when an entity's functional currency no longer has either, or both, of the two characteristics of severe hyperinflation, or when there is a change in the entity's functional currency to a currency that is not subject to severe hyperinflation.

...

market vesting condition	A condition upon which the exercise price, vesting or exercisability of an equity instrument depends that is related to the market price of the entity's equity instruments, such as attaining a specified share price or a specified amount of intrinsic value of a share option, or achieving a specified target that is based on the market price of the entity's equity instruments relative to an index of market prices of equity instruments of other entities.

…

minimum lease payments	The payments over the lease term that the lessee is or can be required to make, excluding contingent rent, costs for services and taxes to be paid by and reimbursed to the lessor, together with: (a) for a lessee, any amounts guaranteed by the lessee or by a party related to the lessee; or (b) for a lessor, any residual value guaranteed to the lessor by: (i) the lessee; (ii) a party related to the lessee; or (iii) a third party unrelated to the lessor that is financially capable of discharging the obligations under the guarantee. However, if the lessee has an option to purchase the asset at a price that is expected to be sufficiently lower than fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception of the lease, that the option will be exercised, the minimum lease payments comprise the minimum payments payable over the lease term to the expected date of exercise of this purchase option and the payment required to exercise it.

...

public accountability ~~Accountability to those existing and potential resource providers and others external to the entity who make economic decisions but are not in a position to demand reports tailored to meet their particular information needs.~~ An entity has public accountability if:

(a) its debt or equity instruments are traded in a public market or it is in the process of issuing such instruments for trading in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets), or

(b) it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses. ~~This is typically the case for banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks.~~

related party

A related party is a person or entity that is related to the entity that is preparing its financial statements (the reporting entity).

(a) A person or a close member of that person's family is related to a reporting entity if that person:

  (i) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity;

  (ii) has control or joint control over the reporting entity; or

  (iii) has ~~joint control or~~ significant influence over the reporting entity ~~or has significant voting power in it~~.

(b) An entity is related to a reporting entity if any of the following conditions applies:

  (i) the entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

  (ii) ~~either~~ one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

  (iii) both entities are joint ventures of ~~a~~ the same third entity.

  (iv) ~~either~~ one entity is a joint venture of a third entity and the other entity is an associate of the third entity.

  (v) the entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the ~~plan~~ reporting entity.

  (vi) the entity is controlled or jointly controlled by a person identified in (a).

  (vii) ~~a person identified in (a)(i) has significant voting power in the entity~~ the entity, or any member of a group of which it is a part, provides key management personnel services to the reporting entity or to the parent of the reporting entity.

  (viii) a person identified in (a)(ii) has significant influence over the entity or ~~significant voting power in it~~ is a member of the key management personnel of the entity (or of a parent of the entity).

  (~~ix~~) ~~a person or a close member of that person's family has both significant influence over the entity or significant voting power in it and joint control over the reporting entity.~~

  (~~x~~) ~~a member of the key management personnel of the entity or of a parent of the entity, or a close member of that member's family, has control or joint control over the reporting entity or has significant voting power in it.~~

...

separate financial statements Those presented by an ~~parent, an investor in an associate or a venturer in a jointly controlled~~ entity, in which the ~~investments are accounted for on the basis of the direct equity interest rather than on the basis of the reported results and net assets of the investees~~ entity could elect, in accordance with paragraphs 9.25–9.26, to account for its investments in subsidiaries, jointly-controlled entities and associates either at cost less impairment, at fair value with changes in fair value recognised in profit or loss, or using the equity method following the procedures in paragraph 14.8.

...

severe hyperinflation The currency of a hyperinflationary economy is subject to severe hyperinflation if it has both of the following characteristics:

(a) a reliable general price index is not available to all entities with transactions and balances in the currency; and

(b) exchangeability between the currency and a relatively stable foreign currency does not exist.

share-based payment arrangement An agreement between the entity (or another group entity or any shareholder of any group entity) and another party (including an employee) that entitles the other party to receive:

(a) cash or other assets of the entity for amounts that are based on the price (or value) of equity instruments (including shares or share options) of the entity or another group entity; or

(b) equity instruments (including shares or share options) of the entity or another group entity

provided the specified vesting conditions, if any, are met.

share-based payment transaction A transaction in which the entity:

(a) receives goods or services from the supplier of those goods or services (including an employee ~~services~~) in a share-based payment arrangement; or

(b) ~~as consideration for equity instruments of the entity (including shares or share options), or acquires goods or services by incurring liabilities to the supplier of those goods or services for amounts that are based on the price of the entity's shares or other equity instruments of the entity~~ incurs an obligation to settle the transaction with the supplier in a share-based payment arrangement when another group entity receives those goods or services.

...

tax base Tax base of an asset or liability is the amount attributed to that asset or liability for tax purposes.

…

taxable temporary differences Temporary differences that will result in taxable amounts in determining taxable profit (tax loss) of future periods when the carrying amount of the asset or liability is recovered or settled.

temporary differences Differences between the carrying amount of an asset, or liability in the statement of financial position and its tax base.

...

transaction costs (financial instruments)	Incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

...

vesting conditions	The conditions that determine whether the entity receives the services that entitle the counterparty to receive cash, other assets or equity instruments of the entity, under a share-based payment arrangement. Vesting conditions are either service conditions or performance conditions. Service conditions require the counterparty to complete a specified period of service. Performance conditions require the counterparty to complete a specified period of service and specified performance targets to be met (such as a specified increase in the entity's profit over a specified period of time). A performance condition might include a market vesting condition.
vesting period	The period during which all the specified vesting conditions of a share-based payment arrangement are to be satisfied.

Basis for Conclusions on
Hong Kong Financial Reporting Standards

Hong Kong Financial Reporting Standard for Private Entities

Hong Kong Institute of
Certified Public Accountants
香港會計師公會

APPENDIX

2015 Amendments to the Basis for Conclusions on the IFRS for SMEs

This appendix contains amendments to the Basis for Conclusions for IFRS for SMEs that are not yet effective. Once effective, the amendments set out below will be incorporated into the text of this Conclusions and this appendix will be deleted.

Paragraph BC1 is renumbered paragraph BC1C and paragraphs BC1A–BC1B and their related heading are added. Paragraphs BC82 and BC165 are amended. Deleted text is struck through and new text is underlined.

Introduction

BC1A This Basis for Conclusions summarises the considerations of the International Accounting Standards Board (IASB) when developing the *International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs)*. Individual Board members gave greater weight to some factors than to others.

BC1B In May 2015 the IASB issued *2015 Amendments to the International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs)*. These amendments are discussed in paragraphs BC166–BC272.

Background

~~BC1~~BC1C In its transition report of December 2000 to the newly formed ~~International Accounting Standards Board (~~IASB~~)~~, the outgoing Board of the International Accounting Standards Committee said 'A demand exists for a special version of International Accounting Standards for Small Enterprises'.

...

BC82 Over 60 per cent of the comment letters that addressed the 'stand-alone' issue would eliminate all cross-references to full IFRSs. Another 35 per cent either (a) would keep the number of cross-references to an absolute minimum or (b) were indifferent between having minimal cross-references and removing all cross-references. Also, the working group members recommended that the *IFRS for SMEs* should be a completely stand-alone document. The principal reasons put forward by those recommending a stand-alone IFRS were:

(a) ...

(c) Cross-references cause 'version control' issues. For example, if a cross-referenced IAS or IFRS or Interpretation is amended or replaced, should that result in an 'automatic' change to the cross-reference? Or does the cross-reference to the earlier version of the IAS or IFRS or Interpretation remain? If there is an automatic change, then this will cause more frequent updates to the *IFRS for SMEs* than ~~every three years as~~ the periodic review planned by the Board. Also it would require SMEs applying cross-references to be aware of all changes to full IFRSs. If the cross-reference to the earlier version of the pronouncement remains, there may be confusion about which version of the Standard should be applied, especially because some cross-referenced paragraphs themselves, either directly or indirectly, refer to paragraphs of other full IFRSs (see (d) below). Also, the accounting chosen or required by cross-reference will not be comparable with that applied by full IFRS entities. Additionally, if changes to full IFRSs are *de facto* amendments to the *IFRS for SMEs*, SMEs would need to participate in the due process that led to the changes in each IFRS—a burden SMEs generally told the Board they cannot handle (in responses to both the June 2004 discussion paper and the exposure draft).

...

BC165 On balance, the Board found the arguments set out in paragraph BC163 for periodic, rather than contemporaneous, updating of the *IFRS for SMEs* ~~generally~~ persuasive. ~~Accordingly, the Board has decided:~~

(~~a~~) ~~to undertake a thorough review of SMEs' experience in applying the *IFRS for SMEs* when two years of financial statements using the IFRS have been published by a broad range of entities and, based on that review, to propose amendments to address implementation issues. At that time, the Board will also consider new and amended IFRSs that have been adopted since the *IFRS for SMEs* was issued.~~

(~~b~~) ~~after that initial implementation review, to propose amendments to the *IFRS for SMEs* by publishing an omnibus exposure draft approximately once every three years.~~

Paragraphs P16–P18 of the Preface to the *IFRS for SMEs* explain the Board's plan for maintaining the *IFRS for SMEs*.

Paragraphs BC166–BC272 and their related headings are added.

Initial comprehensive review (2015 Amendments)

Background to the initial comprehensive review

Reasons for undertaking the initial review

BC166 At the time of issuing the *IFRS for SMEs*, the IASB stated its plan to undertake an initial comprehensive review of the *IFRS for SMEs* that would enable it to assess the experience that entities had had in implementing this IFRS and to consider whether there was a need for any amendments. Jurisdictions did not start using the *IFRS for SMEs* on a consistent date. However, by 2010, entities in several jurisdictions had adopted this IFRS. Consequently, the IASB decided to commence its initial comprehensive review in 2012. The IASB also stated that, after the initial review, it expected to consider amendments to the *IFRS for SMEs* approximately once every three years. Paragraph BC264 covers the IASB's discussion about the procedure for future reviews of the *IFRS for SMEs*.

Request for Information (RFI)

BC167 In June 2012 the IASB issued a Request for Information (the 'RFI') as the first step in its initial comprehensive review. The RFI was developed together with the SME Implementation Group (SMEIG). The SMEIG is an advisory body to the IASB that was set up by the IFRS Foundation in 2010. The objective of the SMEIG is to support the international adoption of the *IFRS for SMEs* and monitor its implementation.

BC168 The objective of the RFI was to seek the views of those who had been applying the *IFRS for SMEs*, those who had been using financial information prepared in accordance with the *IFRS for SMEs* and all other interested parties on whether there is a need to make any amendments to it and, if so, what amendments should be made. The RFI did not contain any preliminary views of the IASB or the SMEIG. The IASB received 89 comment letters on the RFI. A detailed summary of the comment letter analysis was provided to SMEIG members at their February 2013 meeting and to IASB members in the agenda papers for its March–May 2013 meetings. These agenda papers are available on the IASB website (www.ifrs.org).

Exposure Draft (2013 ED)

BC169 In October 2013 the IASB issued an Exposure Draft of proposed amendments to the *IFRS for SMEs* (the '2013 ED'). After considering the feedback it had received on the RFI, and taking into consideration the fact that the *IFRS for SMEs* is still a new IFRS, the IASB proposed to only make relatively limited amendments to the *IFRS for SMEs*.

BC170 In total, the IASB proposed 57 amendments in the 2013 ED. With the exception of the proposed amendments to Section 29 *Income Tax*, each individual amendment only affected a few sentences or words in the *IFRS for SMEs*. Furthermore, most of the proposed amendments were intended to clarify existing requirements or add supporting guidance, instead of proposing changes to the underlying requirements in the *IFRS for SMEs*. Consequently, for most SMEs, the proposals were expected to improve understanding of the existing requirements, without necessarily resulting in changes in practice or changes that would affect the financial statements.

BC171 The IASB received 57 comment letters on the 2013 ED. A detailed summary of the comment letter analysis was provided to the IASB at its May 2014 meeting and to the SMEIG in July 2014. During March–May 2014, the staff also performed additional user outreach with providers of finance to SMEs to supplement the views it had received from other interested parties on the RFI and the 2013 ED. A summary of this outreach was provided to the IASB in October 2014. These summaries are available in the agenda papers on the IASB website.

SMEIG recommendations

BC172 In February 2013 the SMEIG met to discuss the comments received on the RFI and to develop a report of recommendations for the IASB on possible amendments to the *IFRS for SMEs*. The report was published on the IASB website in March 2013. In July 2014 the SMEIG also considered the public comments received on the 2013 ED and developed a second report of recommendations for the IASB on the proposals in the 2013 ED. The second report was published on the IASB website in October 2014. All but one of the recommendations that were supported by a majority of SMEIG members in the second report are consistent with the IASB's decisions during its redeliberations on the 2013 ED. The exception is regarding permitting the revaluation model for property, plant and equipment for which the views of SMEIG members were almost evenly split.

Changes to the proposals in the 2013 ED

BC173 Most respondents to the 2013 ED supported the majority of the changes proposed in the 2013 ED. The following is a summary of the main issues raised by respondents:

(a) the most common concern was the decision of the IASB not to propose an accounting policy option for the revaluation of property, plant and equipment. Some respondents also expressed concern that the IASB had not proposed options to capitalise development and borrowing costs (see paragraphs BC208–BC214).

(b) many respondents commented on the IASB's proposed approach for dealing with new and revised IFRSs (see paragraphs BC185–BC207). The following were the most common issues raised:

   (i) the criteria used for assessing changes to full IFRSs should be clarified.

   (ii) some respondents said changes to the *IFRS for SMEs* should not be introduced until sufficient implementation experience exists under full IFRSs. In contrast, others said that the *IFRS for SMEs* should be closely aligned with full IFRSs without a long time lag.

   (iii) to better identify the needs of users of SME financial statements.

   (iv) the simplifications under IAS 19 *Employee Benefits*, issued in June 2011, should be incorporated during this review.

(c) many respondents commented on the scope of the *IFRS for SMEs* (see paragraph BC178–BC184 and BC191–BC193). The following were the most common issues raised:

(i) the scope should not be restricted to non-publicly accountable entities;

(ii) there is a disparity between the scope (all non-publicly accountable entities) and the primary aim of the IASB in developing the *IFRS for SMEs* in the 2013 ED (repeated in paragraph BC187), which is seen to be a focus on smaller/less complex non-publicly accountable entities; and

(iii) the *IFRS for SMEs* is too complex for small owner-manager entities.

(d) most respondents supported aligning Section 29 with IAS 12 *Income Taxes*. However, about half of these respondents also suggested simplifications or modifications to the proposals (see paragraphs BC219–BC223).

(e) relatively few respondents commented on many of the other proposed amendments in the 2013 ED or had other comments on specific requirements in the *IFRS for SMEs*. However, the IASB redeliberated the following issues, which were the main ones upon which respondents had comments:

(i) application of 'undue cost or effort' (proposed amendment (PA) 3 in the 2013 ED)—see paragraph BC233;

(ii) definition of basic financial instruments (PA 14)—see paragraph BC246;

(iii) requirements for estimating the useful life of goodwill/other intangible assets (PA 21/26)—see paragraph BC247;

(iv) exemption from requirements for offsetting income tax assets and liabilities (PA 45)—see paragraph BC222;

(v) consolidation of group entities with different reporting dates (PA 9)—see paragraph BC255(f);

(vi) use of undue cost or effort exemption in a business combination (PA 25)—see paragraph BC241;

(vii) accounting for extractive activities (PA 49)—see paragraphs BC224–BC226;

(viii) grouping items in other comprehensive income (PA 6)—see paragraph BC203;

(ix) cumulative exchange differences on the disposal of a subsidiary (PA 10)—see paragraph BC234;

(x) disclosure of accounting policy for termination benefits (PA 43)—see paragraph BC253;

(xi) subsidiaries acquired and held for sale (PA 8)—see paragraph BC255(e);

(xii) distribution of non-cash assets (PA 34)—see paragraph BC239;

(xiii) best evidence of fair value (PA 15)—see paragraph BC255(k); and

(xiv) classification of spare parts (PA 20)—see paragraph BC205.

(f) most respondents supported the proposals in the 2013 ED for the transition requirements and the effective date. However, a significant minority thought that there should be relief from full retrospective application for some or all the proposed amendments, in particular for proposed changes to Section 29 (see paragraph BC256–BC263).

BC174 The result of the IASB's redeliberations of the issues raised is that three significant changes and ten other changes, excluding minor drafting changes, have been made to the proposals in the 2013 ED.

BC175 The three significant changes are:

(a) permitting a revaluation model for property, plant and equipment (see paragraphs BC208–BC212);

(b) simplified transition requirements (see paragraphs BC256–BC260); and

(c) aligning the main recognition and measurement requirements for exploration and evaluation assets with IFRS 6 *Exploration for and Evaluation of Mineral Resources* (see paragraphs BC224–BC226).

BC176 The other changes are:

(a) requiring that for each undue cost or effort exemption in the *IFRS for SMEs*, an SME should disclose when it has used the exemption and its rationale for doing so;

(b) requiring investment property measured at cost less accumulated depreciation and impairment to be presented separately on the face of the statement of financial position;

(c) adding clarifying guidance on the accounting for a subsidiary acquired with the intention of sale or disposal within one year if the subsidiary is not sold or disposed of during that time frame;

(d) permitting an SME to account for investments in subsidiaries, associates and jointly controlled entities in its separate financial statements using the equity method, based on similar changes in *Equity Method in Separate Financial Statements* (Amendments to IAS 27), issued in August 2014;

(e) clarifying the criterion for basic financial instruments in paragraph 11.9 of the *IFRS for SMEs* and adding examples of simple loan arrangements meeting that criterion;

(f) the addition of the exemption in paragraph 70 of IAS 16 *Property, Plant and Equipment*, which allows an entity to use the cost of the replacement part as an indication of what the cost of the replaced part was at the time that it was acquired or constructed, if it is not practicable to determine the carrying amount of a part of an item of property, plant and equipment that has been replaced;

(g) adding an undue cost or effort exemption from the requirement to measure the liability to pay a non-cash dividend at the fair value of the non-cash assets to be distributed;

(h) a few further modifications to Section 29, including clarifying the wording in the exemption from the requirements for offsetting income tax assets and liabilities;

(i) amending the definition of a related party to include a management entity providing key management personnel services, based on similar changes in *Annual Improvements to IFRSs 2010–2012 Cycle*, issued in December 2013; and

(j) not modifying the definition of a financial liability as proposed in the 2013 ED to incorporate *Classification of Rights Issues* (Amendments to IAS 32), issued in October 2009.

BC177 Paragraphs BC178–BC234 and BC264 cover the IASB's discussion about the main issues identified during the comprehensive review and how they were resolved. Paragraphs BC235–BC255 list all the changes made to the *IFRS for SMEs* and provide the IASB's rationale for making those changes to the extent the explanation is not already covered in BC178–BC234. Paragraphs BC256–BC263 explain the IASB's considerations in setting the transition requirements and the effective date. Paragraphs BC265–BC272 provide an analysis of the likely effects of the amendments.

Main issues identified during the initial comprehensive review

Scope of the *IFRS for SMEs*

BC178 The IASB first addressed the issues relating to the scope. The IASB noted that it was important to clarify the entities for which the *IFRS for SMEs* is intended before deciding what kind of amendments to the *IFRS for SMEs* should be made.

Use of the IFRS for SMEs *by publicly accountable entities*

BC179 Some respondents to the RFI and the 2013 ED said that the scope should not be restricted to non-publicly accountable entities. Consequently, the IASB considered whether paragraph 1.5 of the *IFRS for SMEs* is too restrictive and whether jurisdictions should have the authority to decide whether publicly accountable entities should be able to use and state compliance with the *IFRS for SMEs*.

BC180 The IASB observed that the *IFRS for SMEs* was specifically designed for SMEs and users of SME financial statements and so it may not be appropriate for a wider group of entities. Furthermore, the IASB noted that if the scope was widened to include some publicly accountable entities, it may lead to pressure to make changes to the *IFRS for SMEs* to address issues that may arise from that wider group, which would increase the complexity of the *IFRS for SMEs*. The IASB also had concerns about the risks associated with the inappropriate use of the *IFRS for SMEs* if the restriction on publicly accountable entities using the *IFRS for SMEs* was removed from paragraph 1.5 of the *IFRS for SMEs*. A majority of IFRS Advisory Council and SMEIG members shared the IASB's concerns and recommended keeping the requirement in paragraph 1.5 that prevents publicly accountable entities from stating compliance with the *IFRS for SMEs*.

BC181 After considering the responses to the 2013 ED, the IASB decided that there was no new information that would lead the IASB to reconsider its previous decision. Consequently, it decided to keep paragraph 1.5 of the *IFRS for SMEs*. The IASB noted that jurisdictions can already incorporate the *IFRS for SMEs* into their local GAAP if they wish to allow certain publicly accountable entities to use it. However, those entities would state compliance with local GAAP, not with the *IFRS for SMEs*.

Meaning of fiduciary capacity

BC182 Some respondents to the RFI said that the meaning of 'fiduciary capacity' in the definition of public accountability is unclear, because it is a term that has different implications in different jurisdictions. However, respondents generally did not suggest alternative ways of describing public accountability or indicate what guidance would help to clarify the meaning of fiduciary capacity. Consequently, the IASB asked a question in the 2013 ED to find out more information about the concerns raised.

BC183 Most respondents to the 2013 ED said that there is no need to clarify or replace the term fiduciary capacity. However, a few respondents noted that the term had created uncertainty on the implementation of the *IFRS for SMEs* in their jurisdictions. The IASB observed that it would be difficult to provide a definition of the term fiduciary capacity and/or provide guidance that would be applicable in all jurisdictions applying the *IFRS for SMEs* because of the different legal requirements and types of entities in different jurisdictions. Furthermore, the IASB noted that local legislative and regulatory authorities, and standard-setters in individual jurisdictions, may be best placed to identify the kinds of entities in their jurisdiction that hold assets in a fiduciary capacity for a broad group of outsiders as a primary business. By this, the IASB does not mean that those authorities and standard-setters are best placed to choose which entities in their jurisdiction meet the criterion in paragraph 1.3(b) of the *IFRS for SMEs*. Instead, the IASB's intention was to ensure that the definition in paragraph 1.3 is applied consistently in accordance with the intended scope of the *IFRS for SMEs* in their jurisdiction. Furthermore, the IASB noted that those local authorities and standard-setters are also best placed to decide whether other factors may mean that, in their jurisdiction, full IFRSs may be more suitable for certain SMEs than the *IFRS for SMEs*. Consequently, the IASB decided not to provide guidance on applying the term fiduciary capacity.

Use of the IFRS for SMEs *by not-for-profit entities*

BC184 Some interested parties have asked whether soliciting and accepting contributions would automatically make a not-for-profit (NFP) entity publicly accountable, because such an activity involves the entity holding financial resources entrusted to it by clients. The IASB noted that an entity only has public accountability if it meets the criteria in paragraph 1.3 of the *IFRS for SMEs*. The IASB further noted that paragraph 1.4 lists charitable organisations as an example of an entity that is not automatically publicly accountable if it only holds financial resources entrusted to it by others for reasons incidental to a primary business. The IASB therefore decided that the *IFRS for SMEs* is sufficiently clear that soliciting and accepting contributions does not automatically make NFP entities publicly accountable.

New and revised IFRSs

Introduction

BC185 The *IFRS for SMEs* was developed using full IFRSs as a starting point and then considering what modifications are appropriate in the light of the needs of users of SME financial statements and cost-benefit considerations (see paragraphs BC95–BC97). Consequently, one of the most significant issues confronting the IASB was how the *IFRS for SMEs* should be updated in the light of the new and revised IFRSs issued after the *IFRS for SMEs* was issued in 2009—in particular, how to balance the importance of maintaining alignment with full IFRSs with having a stable, independent and stand-alone IFRS that focuses on the needs of SMEs.

BC186 Respondents to the RFI and the 2013 ED were divided on how the *IFRS for SMEs* should be updated during this comprehensive review for new and revised IFRSs. The views expressed by respondents were generally influenced by the respondent's understanding of the purpose of the *IFRS for SMEs* and which entities it should cater for, for example:

(a) some respondents noted that the *IFRS for SMEs* should cater for subsidiaries that are eligible to use the *IFRS for SMEs* but that need to provide full IFRS information for consolidation purposes. Other respondents thought that the *IFRS for SMEs* should act as an intermediate IFRS for a company that expects to transition to full IFRSs in the future. Both groups of respondents would prefer the *IFRS for SMEs* to be fully aligned with full IFRSs, ideally without any time lag, with simplifications from full IFRSs being restricted to disclosure requirements.

(b) other respondents noted that the primary aim of the *IFRS for SMEs* is an independent IFRS tailored for smaller businesses. Those respondents said that maintaining alignment with full IFRSs is less important and also that it is more important to have the implementation experience of new and revised IFRSs first before introducing those requirements for SMEs.

The IASB's principles for dealing with new and revised IFRSs

BC187 The IASB observed that the primary aim when developing the *IFRS for SMEs* was to provide a stand-alone, simplified set of accounting principles for entities that do not have public accountability and that typically have less complex transactions, limited resources to apply full IFRSs and that operate in circumstances in which comparability with their listed peers is not an important consideration. The IASB also noted its decision not to extend the scope of the *IFRS for SMEs* to permit publicly accountable entities to use it.

BC188 With this primary aim in mind the IASB considered a framework for how to deal with new and revised IFRSs during this comprehensive review and future reviews of the *IFRS for SMEs*. The IASB developed the following principles:

(a) each new and revised IFRS should be considered individually on a case-by-case basis to decide if, and how, its requirements should be incorporated into the *IFRS for SMEs*.

(b) new and revised IFRSs should not be considered until they have been issued. However, it would generally not be necessary to wait until their Post-implementation Reviews (PIRs) have been completed.

(c) minor changes/annual improvements to full IFRSs should also be considered on a case-by-case basis.

(d) changes to the *IFRS for SMEs* could be considered at the same time that new and revised IFRSs are issued. However, the *IFRS for SMEs* would only be updated for those changes at the next periodic review of the *IFRS for SMEs*, in order to provide a stable platform for SMEs.

BC189 The IASB further observed that, when applying the principles in paragraph BC188, decisions both on which changes to incorporate into the *IFRS for SMEs* and the appropriate timing for incorporating those changes should be weighed against the need to provide SMEs with a stable platform and the suitability of such changes for SMEs and users of their financial statements. The IASB noted that it may decide only to incorporate changes from a complex new or revised IFRS after implementation experience of that IFRS has been assessed. However, it will make this assessment at the periodic review following the issue of new or revised IFRSs instead of automatically waiting until there is substantial experience from entities who have applied a new or revised IFRS or until a PIR on an IFRS has taken place.

BC190 The IASB decided that new and revised IFRSs should not be considered until they have been issued. This is because, until a final IFRS is issued, the IASB's views are always tentative and subject to change.

BC191 Some respondents to the 2013 ED expressed concern that the IASB's primary aim in developing the *IFRS for SMEs*, as set out in paragraph BC187, means that the reporting needs of 'large', complex non-publicly accountable entities are not effectively addressed. The IASB agreed that the *IFRS for SMEs* is intended for all SMEs, which are defined to be those entities that do not have public accountability that are required, or elect, to publish general purpose financial statements for external users. The IASB noted that its reasons for developing an IFRS intended for all SMEs are explained in paragraphs BC55–BC77. Nevertheless, the IASB observed that when deciding on the content of the *IFRS for SMEs*, the primary aim of the IASB was to focus on the kinds of transactions, events and conditions encountered by typical SMEs that are likely to apply the *IFRS for SMEs*. If the IASB had tried to cater for all possible transactions that SMEs may enter into, the *IFRS for SMEs* would have had to retain most of the content of full IFRSs. In particular, the IASB bore in mind that many SMEs have limited resources, and that the *IFRS for SMEs* should accommodate that limitation. Conversely, entities with more complex transactions and activities, including SMEs, are likely to have more sophisticated systems and greater resources to manage those transactions.

BC192 If an SME has very complex transactions or determines that comparability with its publicly accountable peers is of key importance to its business, the IASB observed that it would expect that the entity would want to, and have sufficient expertise to, either refer to the more detailed guidance on complex transactions in full IFRSs if specific guidance is not provided in the *IFRS for SMEs* (see paragraph 10.6) or apply full IFRSs instead of the *IFRS for SMEs*. Paragraphs BC69–BC70 explain why it is not possible for the IASB to set additional criteria that would be appropriate across all jurisdictions for entities that may find full IFRSs more appropriate to their needs. However, jurisdictions may choose to establish size criteria or decide that entities that are economically significant in that country should be required to use full IFRSs instead of the *IFRS for SMEs*.

BC193 Some respondents to the 2013 ED said that the *IFRS for SMEs* was too complex for owner-managed entities. The IASB noted that the *IFRS for SMEs* is intended for entities that choose, or are required, to publish general purpose financial statements. General purpose financial statements are those directed to the general financial information needs of a wide range of users who are not in a position to demand reports tailored to meet their particular information needs. The Preface to the *IFRS for SMEs* explains that SMEs often produce financial statements only for the use of owner-managers or only for the use of tax authorities or other governmental authorities, and that financial statements produced solely for those purposes are not necessarily general purpose financial statements. The IASB noted that the *IFRS for SMEs* is not intended for small owner-managed entities preparing financial statements solely for tax reasons or to comply with local laws. However, small owner-managed entities may still find the *IFRS for SMEs* helpful in preparing such financial statements.

BC194 Some respondents to the 2013 ED said that the IASB should establish a formal framework or clearer principles to determine whether and when changes to full IFRSs should be incorporated in the *IFRS for SMEs*. These respondents noted that the principles developed by the IASB in paragraph BC188 are not robust enough and/or do not help interested parties to predict when changes to full IFRSs will be considered. Some respondents provided suggestions that they thought would improve the criteria. The IASB noted that there are special considerations applicable to this initial review of the *IFRS for SMEs*, which led the IASB to place greater emphasis on the need for limiting changes. However, the IASB will discuss to what extent a more developed framework for future reviews of the *IFRS for SMEs* should be established before the next periodic review of the *IFRS for SMEs*.

BC195 Some respondents to the 2013 ED said that they found it difficult to understand the conceptual basis for differences between the *IFRS for SMEs* and full IFRSs and that the IASB should clearly identify the needs of users of SME financial statements. The IASB noted that this Basis for Conclusions is clear on both of these points. In particular:

(a) paragraph BC95 notes that the *IFRS for SMEs* was developed by considering the modifications that are appropriate to full IFRSs in the light of users' needs and cost-benefit considerations; and

(b) paragraphs BC44–BC47 and BC157 describe the needs of users of SME financial statements and explain how they differ from the needs of users of financial statements of publicly accountable entities.

BC196 Some respondents to the 2013 ED said that if cost-benefit considerations are a major driver of the differences between the *IFRS for SMEs* and full IFRSs, public accountability is not an appropriate criterion. The IASB agrees that the related costs of publicly and non-publicly accountable entities may not differ significantly. However, it noted that the 'benefits' side of the cost-benefit trade-off considers the different information needs of different financial statement users as explained in paragraphs BC44–BC47.

Individual new and revised IFRSs during the current review

BC197 The IASB considered how to deal with individual new and revised IFRSs during this comprehensive review in the light of the principles in paragraph BC188. The IASB observed that this comprehensive review is subject to additional considerations compared to future reviews, because it is the first review since the initial publication of the *IFRS for SMEs*. Although the *IFRS for SMEs* was issued in 2009, in many of the jurisdictions that have adopted it, it has been effective for a shorter period of time. In addition, in jurisdictions that permit, instead of require, the *IFRS for SMEs*, many SMEs have only started the transition to it. As a result, for the majority of SMEs using, or about to use, the *IFRS for SMEs*, it is still a new IFRS. For these reasons, the IASB decided that there is a greater need for stability during this initial review than there may be in future reviews. A majority of IFRS Advisory Council members also recommended prioritising the need to provide SMEs with a stable, independent and stand-alone IFRS over maximising alignment with full IFRSs.

IFRS 3 (2008), IFRS 10, IFRS 11, IFRS 13 and IAS 19 (2011)

BC198 The IASB first considered how to propose to address the five new or revised IFRSs in the 2013 ED that the IASB believed had the potential to result in the most significant changes to the *IFRS for SMEs*, namely IFRS 3 (2008) *Business Combinations*, IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements*, IFRS 13 *Fair Value Measurement* and IAS 19 (2011). During development of the 2013 ED, the IASB made the following observations:

(a) IFRS 10, IFRS 11 and IFRS 13 only recently became effective and they introduce complex changes that are expected to result in, and benefit from, significant implementation guidance in practice. Furthermore, they would be expected to have a limited practical impact on the majority of SMEs, because the new requirements are unlikely to affect many common fair value measurements and the accounting for groups of entities with a simple group structure.

(b) the main change in IAS 19 (2011), if incorporated for SMEs, would be a requirement to present actuarial gains and losses in other comprehensive income. As part of its *Conceptual Framework* project, the IASB is currently considering its treatment of other comprehensive income and this may result in changes to the requirements relating to other comprehensive income under full IFRSs. Given these possible changes, the IASB decided that it may be better to continue to permit SMEs the choice of recognising actuarial gains and losses in profit or loss or other comprehensive income until this subject has been discussed further.

(c) the changes in IFRS 3 (2008) would result in significant complexity for SMEs, particularly because of the additional fair value measurements required. Based on feedback from the RFI, SMEIG members and other interested parties, the current approach in the *IFRS for SMEs* (based on IFRS 3 (2004) *Business Combinations*) is working well in practice and is well understood and accepted by preparers and users of SME financial statements. Furthermore, it has the same basic underlying approach as IFRS 3 (2008) but simplified.

For the reasons outlined in this paragraph and in paragraph BC197, the IASB decided not to amend the *IFRS for SMEs* during this initial review to incorporate IFRS 3 (2008), IFRS 10, IFRS 11, IFRS 13 and IAS 19 (2011).

BC199 Apart from those that support full alignment with full IFRSs (see paragraph BC186), very few respondents to the 2013 ED had specific comments on the IASB's decision not to incorporate IFRS 3 (2008), IFRS 10, IFRS 11 and IFRS 13. In contrast, several respondents said that the IASB should reconsider its decision not to incorporate some of the changes introduced by IAS 19 (2011) during this comprehensive review. Those respondents asserted that some of the changes introduced by IAS 19 (2011) would simplify the requirements in the *IFRS for SMEs* while at the same time increasing consistency with full IFRSs.

BC200 The IASB observed that the new and revised IFRSs that are being incorporated during this review would only make minimal changes to the *IFRS for SMEs* for the majority of SMEs (see paragraphs BC201–BC207). This would not be the case for IAS 19 (2011). Furthermore, the IASB did not think that it would be appropriate to incorporate only one or two of the changes made by IAS 19 (2011), for example, those that may provide a simplification for SMEs such as the basis of the calculation of net interest, without considering the other changes. Section 28 *Employee Benefits* is currently based on IAS 19 before it was amended in 2011. Incorporating only one or two of the changes introduced by IAS 19 (2011) risks developing a mixed model of the old and new IAS 19 for employee benefits. The IASB noted that this could lead to confusion and result in inconsistencies in the *IFRS for SMEs*.

Other new and revised IFRSs issued before the 2013 ED was published

BC201 The IASB then considered how to propose to address other changes introduced by other new and revised IFRSs in the 2013 ED. Based on an individual assessment of each new and revised IFRS, the IASB decided that the main changes in the following new and revised IFRSs should be incorporated:

(a) *Presentation of Items of Other Comprehensive Income* (Amendments to IAS 1), issued in June 2011;

(b) IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments*, issued in November 2009; and

(c) two amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards*:

  (i) *Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*, issued in December 2010; and

  (ii) *Government Loans*, issued in March 2012.

BC202 The IASB selected the new and revised IFRSs specified in paragraph BC201 based on selecting changes that are relevant to SMEs; provide additional clarity or a simplification, and/or fix known or expected problems or diversity in practice. Furthermore, the IASB noted that each of the new or revised IFRSs listed in paragraph BC201 is likely to only modify one or two paragraphs in the *IFRS for SMEs* and so the resulting changes will be minimal and are consistent with maintaining stability during the early years of implementing the *IFRS for SMEs*. When incorporating the main changes in these new and revised IFRSs the IASB also decided to make two further changes:

(a) to complement the changes made regarding the presentation of items of other comprehensive income, the IASB decided to clarify that the *IFRS for SMEs* does not prescribe how, when or if amounts can be transferred between components of equity (see paragraph 2.22 of the *IFRS for SMEs*).

(b) the IASB noted that the measurement of unquoted equity instruments is often very difficult for SMEs because it involves substantial judgement and complex calculations. The IASB also observed that it would usually expect that the benefits to users of an SME's financial statements of having fair value information about the SME's equity instruments would not justify the SME spending undue cost or effort to provide the information. Consequently, the IASB decided to include an undue cost or effort exemption from the requirement to measure own equity instruments at fair value in IFRIC 19, but to otherwise align the requirements with IFRIC 19.

BC203 Some respondents to the 2013 ED noted that they did not think the change in paragraph BC201(a) was useful for users of SME financial statements, because of the limited circumstances in which items are recognised in other comprehensive income under the *IFRS for SMEs*. These respondents also asserted that incorporating this amendment was inconsistent with the IASB's decision during development of the 2013 ED not to reconsider the use of other comprehensive income during this comprehensive review, because it is considering the treatment of other comprehensive income as part of its *Conceptual Framework* project. However, the IASB observed that the grouping of items of other comprehensive income would be easy for SMEs to apply and the resulting information would have useful predictive value. Consequently, it decided that the change is appropriate for cost-benefit reasons. The IASB also noted that its decision to include an option for SMEs to apply a revaluation model for property, plant and equipment (see paragraph BC210–BC212) will mean that more SMEs may have one or more items recognised in other comprehensive income.

BC204 The IASB also decided that the main changes in the following annual improvements should be incorporated in the *IFRS for SMEs* because they are relevant to SMEs and they provide clarity and, in most cases, simplification:

(a) *Improvements to IFRSs*, issued in May 2010:

  (i) revaluation basis as deemed cost (IFRS 1);

  (ii) use of deemed cost for operations subject to rate regulation (IFRS 1); and

  (iii) clarification of statement of changes in equity (IAS 1).

(b) *Annual Improvements to IFRSs 2009–2011 Cycle*, issued in May 2012:

  (i) repeated application of IFRS 1 (IFRS 1);

  (ii) classification of servicing equipment (IAS 16); and

  (iii) tax effect of distributions to holders of equity instruments (IAS 32).

BC205 Some respondents to the 2013 ED said that the cost and effort of monitoring and tracking the individual spare parts, stand-by equipment and servicing equipment as either property, plant and equipment or inventory (in paragraph BC204(b)(ii)) would not justify the benefits to users of SME financial statements. The IASB observed that the change only clarifies what has always been required by Section 17 *Property, Plant and Equipment*. The IASB also thinks that the changes to the wording in paragraph 17.5 of the *IFRS for SMEs* make the requirements easier to understand.

New and revised IFRSs issued since the 2013 ED was published

BC206 The IASB observed that during reviews of the *IFRS for SMEs*, it would generally consider only new and revised IFRSs published after the related Exposure Draft of proposed amendments to the *IFRS for SMEs* has been issued if they address an urgent need for SMEs or users of their financial statements. This is because if the IASB makes fundamental changes to the proposals in an Exposure Draft, on which respondents have not had the opportunity to comment, this would probably result in the need to re-expose the proposals. By the end of the re-exposure period there would be another list of new and revised IFRSs to consider. On this basis, the IASB noted that it would make only two changes as a result of new and revised IFRSs issued since the 2013 ED was published:

(a) the amendment to the definition of a related party for a management entity providing key management personnel services in *Annual Improvements to IFRSs 2010–2012 Cycle*. The IASB noted that the 2013 ED proposed to align the definition of a related party with IAS 24 *Related Party Transactions* during this comprehensive review and this minor change would allow full alignment.

(b) the main change under *Equity Method in Separate Financial Statements* (Amendments to IAS 27), ie permitting entities to use the equity method to account for subsidiaries, associates and jointly controlled entities in the separate financial statements. The IASB noted that this change would not affect an SME's primary financial statements and that the *IFRS for SMEs* does not require the preparation of separate financial statements. Consequently, the IASB decided to permit SMEs this flexibility if they prepare such additional financial statements.

BC207 Some respondents to the 2013 ED said that it was important for the IASB to consider *Agriculture: Bearer Plants* (Amendments to IAS 16 and IAS 41), issued in June 2014, that permits a cost model for bearer plants, a subset of biological assets, during this comprehensive review. However, the IASB noted that the *IFRS for SMEs* only requires an entity to account for a biological asset using the fair value model if its fair value is readily determinable without undue cost or effort. The amendments to IAS 16 and IAS 41 responded to concerns raised by some plantation companies that, under certain circumstances, the fair value measurements of bearer plants are complex and costly in the absence of active markets for those assets. In the circumstances in which this is the case, the IASB noted that the undue cost or effort exemption should be considered by SMEs. Consequently, the IASB does not think that there is an urgent need to make an exemption to incorporate the changes under *Agriculture: Bearer Plants* (Amendments to IAS 16 and IAS 41) during this comprehensive review.

Accounting policy options

BC208 The IASB noted that users of SME financial statements that need to understand the accounting policies used, and that make comparisons between different SMEs, have said that they prefer SMEs to have no, or only limited, accounting policy options. Furthermore, the IASB noted that while SMEs could still choose to apply the simpler option, adding complex options to the *IFRS for SMEs* would add complexity throughout the IFRS. Consequently the IASB continues to support its original reasons for restricting accounting policy options in the *IFRS for SMEs* as set out in paragraphs BC89–BC94.

BC209 The staff's outreach to providers of finance, who are considered to be the primary external user group of SMEs, confirmed the importance to that user group of restricting accounting policy options for SMEs. The participants in the outreach noted that they generally input the information from the audited financial statements of an SME directly into their models when making lending decisions. Consequently, it is important to these parties that SMEs should provide comparable information and that they do not need to make adjustments to that information.

Revaluation model for property, plant and equipment

BC210 The most common concern raised by respondents to the 2013 ED was the decision of the IASB not to propose an accounting policy option for the revaluation of property, plant and equipment. The IASB has received feedback from preparers, standard-setters, accounting firms and other interested parties that not having a revaluation option is a barrier to the adoption of the *IFRS for SMEs* in jurisdictions in which SMEs commonly revalue their property, plant and equipment and/or are required by law to revalue property, plant and equipment. Those interested parties note that, for entities that are currently applying the revaluation model under local GAAP, a change to the cost model may have implications for current borrowing arrangements and affect their ability to raise finance in the future. Furthermore, some respondents have noted that a revaluation option is important in jurisdictions that are experiencing high inflation. Approximately half of the members of the SMEIG also recommended that the IASB should reconsider its proposal not to permit a revaluation model for property, plant and equipment.

BC211 During its redeliberations on the 2013 ED, and in the light of the ongoing and widespread concerns raised by respondents, the IASB decided to permit an option for SMEs to revalue property, plant and equipment. Although the IASB thinks that limiting options is important for the reasons given in paragraphs BC208–BC209, it acknowledges that, based on the responses to the RFI and the 2013 ED, not allowing a revaluation model for property, plant and equipment appears to be the single biggest impediment to adoption of the *IFRS for SMEs* in some jurisdictions. The IASB also agreed with those respondents who stated that current value information is potentially more useful than historical cost information. The IASB therefore decided that the benefits of a wider use of the *IFRS for SMEs*, and hence the potential for global improvements in reporting and consistency, together with the usefulness of the information provided, outweigh the perceived costs to users and preparers of financial statements of adding this option. Furthermore, the IASB noted that the change introduces only an option, not a requirement. Consequently, it does not necessitate a change or additional costs for preparers. The IASB also noted that there was nothing to prevent authorities and standard-setters in individual jurisdictions from requiring all SMEs in their jurisdiction to use only the cost model, or only the revaluation model for property, plant and equipment. Such action would not prevent SMEs from stating compliance with the *IFRS for SMEs*.

BC212 Consistently with full IFRSs, the *IFRS for SMEs* does not generally prescribe how, when or if amounts can be transferred between components of equity (see paragraph BC202(a)). Instead, these decisions are left to the discretion of preparers, subject to the constraints imposed by Section 2 *Concepts and Pervasive Principles*. Section 2 requires that the information presented must be understandable, relevant and reliable. The IASB noted that, in certain circumstances, it may be appropriate to transfer all or some of the accumulated other comprehensive income from the revaluation surplus for property, plant and equipment directly to retained income or another component of equity. The IASB also noted that in other circumstances, such transfers may be mandated or prohibited by local legislation. Consequently, consistently with the requirements for other elements of accumulated other comprehensive income, when adding an option to use the revaluation model for property, plant and equipment, the IASB decided not to prescribe how, when or if items of accumulated other comprehensive income should be transferred to other components of equity.

Capitalisation of development or borrowing costs

BC213 Only a small number of respondents to the RFI and the 2013 ED supported a requirement for SMEs to capitalise development and/or borrowing costs based on similar criteria to full IFRSs. However, several respondents supported giving SMEs an option to capitalise development and borrowing costs based on similar criteria to full IFRSs. They supported introducing this option for reasons similar to those expressed by respondents in paragraph BC210, ie the effect on current and future borrowing arrangements and high-inflation environments. However, many respondents did not support changing the current requirements and would continue to require SMEs to expense all development and borrowing costs.

BC214 The *IFRS for SMEs* requires all borrowing and development costs to be recognised as expenses. Full IFRSs requires the capitalisation of borrowing and development costs meeting certain criteria; otherwise they are recognised as expenses. Consequently, the *IFRS for SMEs* simplifies the requirements in full IFRSs, instead of removing an option permitted in full IFRSs. The IASB therefore noted that allowing options to capitalise certain development and borrowing costs would involve different considerations than allowing a revaluation option for property, plant and equipment. In particular the IASB observed that permitting accounting policy options to capitalise development and borrowing costs that meet the criteria for capitalisation in IAS 38/IAS 23, in addition to the current approach, would result in more accounting policy options than full IFRSs. The IASB noted that it continues to support its rationale for requiring the recognition of all development and borrowing costs as expenses, for cost-benefit reasons as set out in paragraphs BC113–BC114 and BC120, and for not providing the additional, more complex, accounting policy options for SMEs as set out in paragraphs BC208–BC209. The IASB noted that an SME should disclose additional information about its borrowing or development costs if it is considered relevant to users of its financial statements.

Optional fallback to full IFRSs for financial instruments

BC215 The *IFRS for SMEs* permits entities to choose to apply either (see paragraph 11.2 of the *IFRS for SMEs*):

(a) the provisions of both Sections 11 and 12 in full; or

(b) the recognition and measurement provisions of IAS 39 *Financial Instruments: Recognition and Measurement* and the disclosure requirements of Sections 11 and 12.

The *IFRS for SMEs* refers specifically to IAS 39. SMEs are not permitted to apply IFRS 9 *Financial Instruments*.

BC216 Paragraphs BC187–BC196 explain the IASB's principles for dealing with new and revised IFRSs. In line with those principles, the IASB decided that IFRS 9 should not be considered when developing the 2013 ED because, at that time, it had not yet been completed. In addition, the IASB's reasoning for not considering changes to full IFRSs after the 2013 ED had been issued is set out in paragraphs BC206–BC207. The IASB noted that its reasoning for not considering IFRS 10, IFRS 11, IFRS 12 and IFRS 13 during this review (see paragraph BC198) is equally applicable to IFRS 9.

BC217 Consistently with the primary aim of developing a stand-alone, simplified set of accounting principles for SMEs, the IASB would prefer the fallback to full IFRSs to be ultimately removed. However, the IASB decided that the fallback to IAS 39 should be retained until IFRS 9 is considered at a future review for the following reasons:

(a) when the *IFRS for SMEs* was issued, the IASB decided that SMEs should be permitted to have the same accounting policy options as in IAS 39 pending completion of the IASB's *Financial Instruments* project and this reasoning remains valid until IFRS 9 is considered (see paragraph BC106).

(b) if entities are currently applying IAS 39, the IASB does not think that it is appropriate to require them to change to Sections 11 and 12 when it is expected that IFRS 9 will be considered at the next review of the *IFRS for SMEs*.

(c) the IASB notes that, based on its outreach, most SMEs, except subsidiaries of full IFRS groups, appear to have found the fallback to full IFRSs onerous and have chosen to follow Sections 11 and 12 in full. However, without sufficient evidence, the IASB does not think that the fallback to full IFRSs should be removed during this comprehensive review.

The IASB discussed introducing a fallback to IFRS 9 as a further (third) option. This was rejected because the IASB considered that the potential confusion created by having three alternative models outweighed any potential benefits.

BC218 The IASB noted that an SME that elects to follow the recognition and measurement principles of IAS 39, instead of those in Sections 11 and 12, would currently apply the version of IAS 39 in the full IFRS publication titled *International Financial Reporting Standards IFRS® Consolidated without early application* (Blue Book) that is in effect at the entity's reporting date (ie without early application of parts of IFRS 9). The IASB also observed that when IAS 39 is superseded by IFRS 9, a copy of the version of IAS 39 that applied immediately prior to IFRS 9 will need to be retained for reference on the SME webpages of the IASB's website while the fallback to IAS 39 remains.

Accounting for income tax

BC219 When the *IFRS for SMEs* was issued in 2009, Section 29 was based on the IASB's Exposure Draft *Income Tax* (the '2009 IAS 12 ED'), which was published in March 2009. However, the changes proposed in the 2009 IAS 12 ED were never finalised by the IASB. Consequently, the IASB decided to align the main requirements for recognising and measuring deferred tax in Section 29 with the approach in IAS 12, modified to be consistent with the other requirements of the *IFRS for SMEs*. The IASB noted that most of the respondents to the RFI supported this approach. The IASB also observed that in many jurisdictions IAS 12 has been applied by entities, including SMEs, for years. Aligning the requirements with IAS 12 would have the advantage of enabling SMEs to draw on this experience, as well as the education material available on IAS 12, to understand the requirements. The IASB continues to support its reasoning as set out in paragraph BC145 for not permitting the taxes payable approach. However, while believing that the principle of recognising deferred tax assets and liabilities is appropriate for SMEs, the IASB asked a question in the 2013 ED seeking feedback on whether Section 29 (revised) in the 2013 ED would be operational for SMEs, or whether further simplifications or guidance should be considered.

BC220 Some of the respondents to the 2013 ED supported having an undue cost or effort exemption for some or all of the requirements of Section 29 (revised). However, those respondents who suggested having an undue cost or effort exemption for some requirements of Section 29 (revised) did not identify which requirements should qualify for exemption. Furthermore, the only simplified fallback solution suggested that could be applied if an undue cost or effort exemption was used was the taxes payable approach with disclosures. The IASB decided not to consider such an exemption because it thinks that most SMEs will have similar types of transactions year on year. The IASB noted that once those SMEs understand the deferred tax computations for those transactions, the accounting treatment should be relatively straightforward from then on.

BC221 Some respondents supported including additional material from IAS 12. In response to some of the concerns raised, the IASB decided to add paragraph 29.21(c) to the *IFRS for SMEs* and modify paragraphs 29.30 and 29.40(c).

BC222 The IASB decided to keep the simplified presentation requirements in the existing Section 29 with one further simplification. The IASB noted that IAS 12 has separate requirements for offsetting deferred tax assets and liabilities to avoid the need for detailed scheduling, whereas under Section 29 the requirements for offsetting deferred tax assets and liabilities are the same as for offsetting current tax assets and liabilities. The IASB therefore decided to add an undue cost or effort exemption so that offsetting income tax assets and liabilities would not be required if significant, detailed scheduling is required. The exemption is intended to provide similar relief to IAS 12 without including the more complex wording used in IAS 12. In response to concerns that the exemption proposed in the 2013 ED was unclear, the IASB clarified the wording in the final amendments.

BC223 The IASB also decided to keep the same level of disclosures as in the existing Section 29. The existing disclosures were reduced and simplified from the 2009 IAS 12 ED on the basis of user needs and cost-benefits. However, because of the amendments to align the recognition and measurement requirements with IAS 12, the IASB has made a number of consequential amendments to the disclosures.

Exploration for and evaluation of mineral resources

BC224 The 2013 ED proposed to describe more clearly the accounting requirements for entities involved in the exploration for, or evaluation of, mineral resources in response to requests by respondents to the RFI. However, some respondents to the 2013 ED asserted that the proposed requirements were more onerous than the related requirements in full IFRSs. These respondents noted that paragraph 7 of IFRS 6 *Exploration for and Evaluation of Mineral Resources* exempts an entity under full IFRSs from paragraphs 11–12 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* when developing accounting policies for the recognition and measurement of exploration and evaluation assets. These respondents observed that paragraph 34.11 of the 2013 ED would require an entity to determine an accounting policy in accordance with the accounting policy hierarchy in paragraphs 10.4–10.6 of the *IFRS for SMEs*, which would require an entity to consider the concepts and principles in Section 2. Respondents suggested providing a similar exemption to that in full IFRSs in paragraph 34.11. In addition, a few respondents also said that specific guidance should be provided for the accounting for impairment of exploration and evaluation assets, instead of requiring entities to follow the general requirements in Section 27 *Impairment of Assets*. Those respondents asserted that developing specific guidance for the impairment of exploration and evaluation assets was an important issue in IFRS 6.

BC225 Some respondents said that permitting a fallback to IFRS 6 would be a good solution to address those concerns. However, the IASB noted that the *IFRS for SMEs* is intended to be a stand-alone IFRS and so it did not support introducing another fallback to full IFRSs (see paragraph BC217). Consequently, the IASB decided to add requirements in Section 34 that align the main recognition and measurement requirements for exploration and evaluation assets with IFRS 6. The IASB noted that this would ensure that the *IFRS for SMEs* provides the same relief as full IFRSs for these activities. The IASB thinks that this is important for the reasons set out in paragraphs BC2–BC5 of IFRS 6. The IASB noted that these changes are consistent with maintaining stability during the early years of implementing the *IFRS for SMEs*, because they only affect SMEs with one specific type of activity and they respond to a need for clarity and constitute a simplification for those entities, particularly those making the transition to the *IFRS for SMEs*.

BC226 However, the IASB decided not to make any changes to the presentation and disclosure requirements. It noted that it is not possible for the *IFRS for SMEs* to include industry-specific disclosures for different industries and remain user-friendly for simple SMEs. Nevertheless, it noted that when additional disclosures are important to an understanding of specific industry activities, paragraph 8.2(c) of the *IFRS for SMEs* would apply.

SMEIG Q&As

BC227 The IASB decided that existing Q&As should be incorporated into the *IFRS for SMEs* and/or the IFRS Foundation's educational material and the original Q&As should then be deleted. The IASB decided that the following guidance from the Q&As should be incorporated into the *IFRS for SMEs*:

(a) clarification of the use of the *IFRS for SMEs* in the parent's separate financial statements in Section 1 *Small and Medium-sized Entities* (taken from Q&A 2011/01);

(b) clarifying guidance on the undue cost or effort exemption that is used in several sections of the *IFRS for SMEs* (taken from Q&A 2012/01); and

(c) clarification in paragraph 9.18 of the *IFRS for SMEs* that cumulative exchange differences that arise from the translation of a foreign subsidiary are not recognised in profit or loss on the disposal of the subsidiary (taken from Q&A 2012/04).

BC228 The IASB agrees with the SMEIG guidance in paragraph BC227(a)–(c) and also the SMEIG's reasoning that supports the guidance as set out in the SMEIG Q&As. The IASB has provided additional reasoning for paragraph BC227(b)–(c) in paragraphs BC231–BC235. The IASB decided that the remaining guidance in the SMEIG Q&As was more educational in nature and so decided that it should only be provided as part of the IFRS Foundation's educational material.

BC229 The result of incorporating any non-mandatory guidance from the Q&As in the *IFRS for SMEs* is that it will become mandatory. Only the parts of the Q&As incorporated in the *IFRS for SMEs* will become mandatory, and not the full Q&As from which the guidance was taken.

BC230 The IASB decided to delete all of the existing SMEIG Q&As at the time of issuing the amendments to the *IFRS for SMEs*. All Q&As have been incorporated (unamended) into the IFRS Foundation's educational material that is available on the IASB website: http://go.ifrs.org/smetraining. Consequently, the guidance from the Q&As will continue to be available on the IASB website.

Undue cost or effort

BC231 Paragraphs 2.13 and 2.14 of the *IFRS for SMEs* highlight the balance between benefits and costs, and state the general principle to which the IASB refers in making its standard-setting decisions. The requirements within the *IFRS for SMEs* have been developed by taking into consideration the balance between benefits and costs. In addition to this consideration, the *IFRS for SMEs* also allows an undue cost or effort exemption in certain specific and defined circumstances. The IASB noted that some interested parties appear to have misunderstood the undue cost or effort exemption, and that these interested parties have concluded that it is a general principle/exemption that can be applied throughout the *IFRS for SMEs*. Consequently, the IASB decided that including additional guidance on applying the undue cost or effort exemptions will help to eliminate this misconception.

BC232 The IASB also thinks that the clarifying guidance will help to emphasise two further points:

(a) that the undue cost or effort exemption is not intended to be a low hurdle. This is because an entity is required to carefully weigh the expected effects of applying the exemption on the users of the financial statements against the cost or effort of complying with the related requirement. In particular, the IASB observed that it would expect that if an entity already had, or could easily and inexpensively acquire, the information necessary to comply with a requirement, any related undue cost or effort exemption would not be applicable. This is because, in that case, the benefits to the users of the financial statements of having the information would be expected to exceed any further cost or effort by the entity.

(b) that an entity must make a new assessment of whether a requirement will involve undue cost or effort at each reporting date.

BC233 Some respondents to the 2013 ED asked for further guidance and/or a definition of undue cost or effort. The IASB decided that it was not appropriate to provide further guidance in the *IFRS for SMEs* because, ultimately, application of an undue cost or effort exemption depends on an SME's specific circumstances and on management's judgement. The IASB also noted that the terms 'undue cost' and 'undue cost or effort' are used in full IFRSs and it would not be appropriate to define a term under the *IFRS for SMEs* that is used, but not defined, in full IFRSs. This is because it may be used to interpret requirements in full IFRSs. The IASB also observed that the application of an undue cost or effort exemption necessitates consideration of how those that are expected to use the financial statements would be affected if that exemption is taken. Consequently, undue cost or effort would generally be easier to meet for SMEs than for entities with public accountability, because the notion is applied relative to the benefits to users and SMEs are not accountable to public stakeholders.

Exchange differences on the translation of a foreign subsidiary

BC234 Some respondents to the 2013 ED said cumulative exchange differences from the translation of a foreign subsidiary should be recognised in profit or loss on disposal of a subsidiary, which would be consistent with full IFRSs. The IASB noted that not requiring 'recycling' through profit and loss was a change specifically made during the IASB's redeliberations in response to comments on the 2007 Exposure Draft (see paragraph BC34(ee)). Some of the respondents to the 2013 ED also noted that if there is no requirement to recycle the exchange differences to profit or loss on disposal of a subsidiary, an SME should be permitted to recognise those exchange differences in retained earnings either immediately or on disposal; otherwise they will remain as a separate component of equity forever. The IASB noted that the *IFRS for SMEs* does not contain any requirements that prohibit SMEs from transferring amounts recognised in other comprehensive income within equity. Consequently, an SME could, in accordance with the *IFRS for SMEs*, transfer any cumulative exchange differences recognised in other comprehensive income and shown as a separate component of equity (for example, in a foreign currency translations reserve) directly into retained earnings on disposal of the related subsidiary (see paragraph BC202(a)). Nevertheless, the IASB observed that an entity would also need to consider whether there were jurisdiction-specific restrictions on transfers between components of equity.

The amendments to the *IFRS for SMEs* as a result of the initial comprehensive review

BC235 The IASB made 56 changes to the *IFRS for SMEs* during the initial comprehensive review. They are of the following types:

(a) three significant changes;

(b) twelve relatively minor changes/clarifications based on new and revised IFRSs;

(c) seven new exemptions from the requirements in the *IFRS for SMEs* that are permitted only in special cases;

(d) six other changes to the recognition and measurement requirements;

(e) six other changes to the presentation and measurement requirements; and

(f) minor clarifications or clarifying guidance that are not expected to change current practice.

Significant changes to the *IFRS for SMEs*

BC236 The IASB made three significant changes during the initial comprehensive review:

(a) addition of an option to use the revaluation model for property, plant and equipment (see paragraphs BC208–BC212);

(b) alignment of the main recognition and measurement requirements for deferred income tax with IAS 12 (see paragraphs BC219–BC223); and

(c) alignment of the main recognition and measurement requirements for exploration and evaluation assets with IFRS 6 (see paragraph BC224–BC226).

Other changes to the *IFRS for SMEs*

New and revised IFRSs

BC237 The IASB made twelve relatively minor changes/clarifications based on new and revised IFRSs during the initial comprehensive review (see paragraphs BC201–BC207).

New exemptions

BC238 The IASB added seven new exemptions during the initial comprehensive review that are permitted in special cases:

(a) four undue cost or effort exemptions (see paragraphs BC239–BC241).

(b) two exemptions for common control transactions (see paragraph BC242–BC243).

(c) the exemption in paragraph 70 of IAS 16 that an entity may use the cost of the replacement part as an indication of what the cost of the replaced part was at the time that it was acquired or constructed, if it is not practicable to determine the carrying amount of the latter. This exemption was added in response to concerns raised on the 2013 ED that the *IFRS for SMEs* should not be more onerous than full IFRSs.

Undue cost or effort exemptions

BC239 The IASB decided to add undue cost or effort exemptions for the following requirements in the *IFRS for SMEs* in response to comments raised by respondents to the RFI and the 2013 ED:

(a) measurement of investments in equity instruments at fair value in Sections 11 and 12;

(b) recognising intangible assets of the acquiree separately in a business combination;

(c) the requirement to measure the liability to pay a non-cash distribution at the fair value of the non-cash assets to be distributed; and

(d) the requirement to offset income tax assets and liabilities (see paragraph BC222).

BC240 The IASB noted that the requirements in paragraph BC239(a)–(c) are often very difficult for SMEs to apply in the absence of market data, because they involve substantial judgement and complex calculations. The IASB therefore decided that, in these three situations, the benefits of having the information to users of SME financial statements do not justify SMEs spending undue cost or effort to provide the necessary fair value information. Nevertheless, the IASB also noted that an undue cost or effort exemption is not intended to be a low hurdle and that the additional guidance on application of the exemption will help to clarify this (see paragraphs BC231–BC233).

BC241 Some respondents to the 2013 ED noted that the identification of contingent liabilities in a business combination is also challenging and said that the exemption should be extended to contingent liabilities. The IASB decided not to extend the exemption. The IASB noted that one of the reasons that the IASB permitted an undue cost or effort exemption for intangible assets acquired in a business combination is because the outcome of not separately recognising those intangible assets is unlikely to have a significant impact on an SME’s profit or loss or financial position. This is because any intangible assets that are not separately recognised will be included in the amount recognised as goodwill, and the resulting accounting will be similar because many SMEs will be required to amortise goodwill and other intangibles over a period of 10 years or less (see paragraph BC247). This reason does not apply to contingent liabilities assumed in a business combination.

Common control exemptions

BC242 In response to the concerns raised by respondents to the RFI, the IASB decided to add exemptions for the following transactions:

(a) paragraph 22.8 of the *IFRS for SMEs*—exemption from determination of the value of equity issued as the fair value of cash or other resources received or receivable for equity instruments issued as part of a business combination under common control. The IASB further decided that the exemption added to paragraph 22.8 should cover equity instruments issued as part of a business combination (including business combinations under common control), because paragraph 19.11 provides specific guidance for the accounting for equity instruments that are issued as part of a business combination within the scope of Section 19.

(b) paragraph 22.18B of the *IFRS for SMEs*—exemption for distributions of non-cash assets that are ultimately controlled by the same parties before and after distribution in line with full IFRSs. The IASB noted that paragraph 22.18 was added to the *IFRS for SMEs* to incorporate the conclusions in IFRIC 17 *Distributions of Non-cash Assets to Owners*. The IASB agrees that it was an oversight not to include the scope exclusion in paragraph 5 of IFRIC 17.

BC243 The IASB noted that paragraph 10.4 of the accounting policy hierarchy in the *IFRS for SMEs* states that if the *IFRS for SMEs* does not specifically address a transaction, an entity's management uses its judgement in developing an accounting policy. Paragraph 10.5 states that the entity considers other guidance in the *IFRS for SMEs* dealing with similar and related issues. Consequently, the IASB observed that by not providing specific requirements for equity instruments issued as part of a business combination of entities or businesses under common control, SMEs would still be able to apply paragraphs 19.11 or 22.8 by analogy. Similarly, SMEs would be permitted to apply paragraph 22.18 by analogy to distributions of non-cash assets that are ultimately controlled by the same parties before and after distribution. However, SMEs would also be able to consider other accounting treatments for those transactions, provided that the accounting treatments chosen are applied consistently and comply with the accounting policy hierarchy in paragraphs 10.4–10.5. The IASB also observed that this would be the case for the types of transactions covered by the exemptions in paragraph 22.15C(a)–(b).

Other changes to the recognition and measurement requirements

BC244 The IASB made the following six additional changes to the recognition and measurement requirement in the *IFRS for SMEs* during the initial comprehensive review. The IASB observed that four of those changes (see paragraphs BC245 and BC248–BC250) are unlikely to affect the vast majority of SMEs.

Combined financial statements

BC245 The IASB decided to amend the definition of combined financial statements to refer to entities under common control, instead of only those under common control by a single investor (see paragraph 9.28 of the *IFRS for SMEs*). This is because the IASB observed that combined financial statements may be prepared for entities controlled by a group of investors, such as a family.

Basic financial instruments

BC246 The 2013 ED proposed to clarify that foreign currency loans and loans with standard loan covenants will usually be basic financial instruments, after considering concerns from respondents to the RFI that these instruments do not meet the current criteria in paragraph 11.9 of the *IFRS for SMEs*. However, some respondents to the 2013 ED raised concerns that, even given the proposed changes to paragraph 11.9, certain 'basic' debt instruments, such as loans with stepped interest rates and early repayment penalties, would not meet the criteria in paragraph 11.9. They noted that this would mean that such debt instruments would be required to be measured at fair value in accordance with Section 12. Some respondents also said that paragraph 11.9 was difficult to understand and that the IASB should try to simplify the wording. The IASB concluded that many of the debt instruments about which the respondents had concerns would actually meet the criteria in paragraph 11.9. Consequently, the IASB reaffirmed that the criteria in paragraph 11.9 should result in amortised cost measurement for most simple loans taken out by SMEs. The IASB also decided to add illustrative examples to help SMEs apply paragraph 11.9. These examples address some of the specific debt instruments about which the respondents had concerns and that the IASB also thinks are likely to be commonly entered into by SMEs.

Useful life of intangible assets

BC247 The IASB decided to require that if the useful life of goodwill or another intangible asset cannot be established reliably then the useful life shall be estimated by management, but shall not exceed 10 years. Previously, the *IFRS for SMEs* required that if a reliable estimate could not be made, the useful life would be presumed to be 10 years. The IASB noted that although a default useful life of 10 years is simple, it does not provide users of financial statements with any information about the period over which goodwill or another intangible asset is expected to be available for use. The IASB also noted that requiring management to make a best estimate is unlikely to require additional work, because paragraphs 18.20 and 19.23 of the *IFRS for SMEs* already require management to assess whether the useful life can be established reliably. Some respondents to the 2013 ED expressed concern about requiring management to estimate the useful life if the useful life cannot be established reliably. The IASB noted that SMEs are required to make best estimates in other sections of the *IFRS for SMEs*. Consequently, the IASB confirmed its decision to modify the requirements in the *IFRS for SMEs*.

Leases with an interest rate variation clause linked to market interest rates

BC248 The IASB decided that a lease with an interest rate variation clause linked to market interest rates should be included in Section 20 instead of being accounted for at fair value through profit or loss under Section 12. The IASB noted that such clauses are occasionally found in leases entered into by SMEs. Furthermore, the IASB noted that such an embedded risk would not normally require separate accounting under full IFRSs.

Compound financial instruments

BC249 Paragraph 22.15 of the *IFRS for SMEs* required the liability component of a compound financial instrument to be accounted for at amortised cost even if the liability component, had it been a stand-alone instrument, would have been accounted for at fair value through profit or loss under Section 12. The IASB decided to remove this inconsistency and require the liability component to be accounted for in the same way as a similar stand-alone financial liability.

Scope of Section 26

BC250 Paragraph 26.17 of the *IFRS for SMEs* deals with the scenario in which the identifiable consideration received by an entity appears to be less than the fair value of the equity instruments granted or the liability incurred. However, the IASB observed that it only addressed government-mandated plans. The IASB noted that in some jurisdictions the issue arises in instances that are not restricted to government mandated plans. Consequently, the IASB decided to modify paragraph 26.17 to require the guidance to be applied to all share-based payment transactions in which the identifiable consideration appears to be less than the fair value of the equity instruments granted or the liability incurred, and not only to share-based payment transactions provided in accordance with programmes established under law.

Changes to the presentation and disclosure requirements

BC251 The IASB made the following six changes to the presentation and disclosure requirements during the initial comprehensive review:

(a) addition of a requirement that an entity must disclose its reasoning for using an undue cost or effort exemption (see paragraph BC252).

(b) addition of a requirement to present investment property measured at cost less accumulated depreciation and impairment separately on the face of the statement of financial position. The IASB decided to add this line item for consistency with the requirement for biological assets, and because it noted that it was important that investment property measured under the cost model in Section 17 is presented separately from property, plant and equipment.

(c) removal of the requirement to prepare prior year reconciliations of balances for both biological assets and share capital for consistency with other sections of the *IFRS for SMEs*.

(d) removal of the requirement to disclose the accounting policy for termination benefits (see paragraph BC253).

(e) alignment of the definition of 'related party' with IAS 24 (2009). The IASB agreed with respondents to the RFI who suggested aligning the definition of a related party with IAS 24 (2009), because the undefined term 'significant voting power' was causing problems in practice. The IASB also added a definition of 'close members of the family of a person'.

BC252 In the 2013 ED the IASB proposed to add clarifying guidance on the application of an undue cost or effort exemption (see paragraphs BC231–BC233). However, the IASB did not propose that an SME should be required to disclose the reasoning for using the exemption. This is because the IASB thought that disclosing the reasoning may be too limited to provide useful information to users of financial statements. However, some respondents to the 2013 ED asserted that disclosure would help to control the use of the exemption and may provide useful information for users of the financial statements at little cost to SMEs. The IASB agreed with this reasoning and decided to require SMEs to disclose their reasoning each time an undue cost or effort exemption was used, with one exception. The IASB decided that a requirement to disclose a qualitative description of the factors that make up any goodwill recognised in a business combination would provide more useful information than the disclosure of the reasons for using the undue cost or effort exemption to support the non-recognition of certain intangible assets if their fair value could not be measured reliably.

BC253 Some respondents to the 2013 ED disagreed with removing the accounting policy disclosure requirement for termination benefits, solely because entities do not have a choice of accounting treatment for termination benefits. These respondents said that an entity should disclose all accounting policies for which disclosure is relevant to an understanding of the financial statements. The IASB agreed with this reasoning but noted that removing the requirement would be consistent with the disclosure requirements in other sections. The *IFRS for SMEs* has specific disclosure requirements for accounting policies when a choice of models or methods is permitted because, when the related transactions are material, this would normally mean that the disclosure of the accounting policy applied is important in understanding the financial statements. The IASB thinks that when a choice of accounting policy is not available, the general requirement in paragraph 8.5 of the *IFRS for SMEs* to disclose '… accounting policies used that are relevant to an understanding of the financial statements' is sufficient.

BC254 Some respondents to the RFI and the 2013 ED said that the IASB should consider further ways to reduce the disclosure requirements in the *IFRS for SMEs*, but few examples were provided of when the existing disclosures are excessive. In addition, some respondents requested additional disclosure requirements in some areas of the *IFRS for SMEs*. The IASB considered any specific suggestions made but, except as specified in paragraph BC251, did not think that additional changes were necessary. The IASB noted that it is currently looking at ways of improving disclosure under full IFRSs and it will consider the outcome of this work at the next review of the *IFRS for SMEs*. The IASB also noted that paragraph 8.2(c) of the *IFRS for SMEs* contains a general requirement that entities must provide additional information if that information is relevant to an understanding of the financial statements.

Minor clarifications of existing requirements in the *IFRS for SMEs*

BC255 The IASB decided to make the following minor amendments to the *IFRS for SMEs* in response to concerns that had been highlighted by interested parties either formally or informally during the initial comprehensive review. The IASB thinks that such amendments clarify existing requirements and would result in a better understanding and application of those requirements. The IASB also observed that because these amendments clarify existing requirements, in most cases they would not be expected to affect the current accounting for affected transactions:

(a) clarification that the entities listed in paragraph 1.3(b) are not automatically publicly accountable (see paragraph 1.3(b) of the *IFRS for SMEs*).

(b) addition of clarifying guidance on the use of the *IFRS for SMEs* in the parent's separate financial statements—based on Q&A 2011/01 (see paragraph 1.7 of the *IFRS for SMEs*).

(c) addition of clarifying guidance on the undue cost or effort exemption that is used in several sections of the *IFRS for SMEs*—based on Q&A 2012/01 (see paragraphs 2.14A–2.14D of the *IFRS for SMEs*).

The IASB's additional reasoning is covered in paragraphs BC231–BC233.

(d) clarification that the single amount presented for discontinued operations includes any impairment of the discontinued operation measured in accordance with Section 27 (see paragraph 5.5(e)(ii) of the *IFRS for SMEs*). The wording previously referred to 'the measurement to fair value less costs to sell'.

The IASB noted that Section 27 requires measurement at the lower of cost and the recoverable amount, not the lower of cost and fair value less costs to sell. However, the IASB does not expect the amendment to have a material impact on SMEs because, when an entity expects to recover the carrying amount of the net assets of a discontinued operation through sale, and the future cash flows from the remaining use of the discontinued operation are estimated to be negligible, the value in use would approximate fair value less costs to sell (and therefore fair value less costs to sell would approximate the recoverable amount).

(e) clarification that all subsidiaries acquired with the intention of sale or disposal within one year shall be excluded from consolidation and clarifying guidance on how to account for and disclose those subsidiaries (see paragraphs 9.3–9.3C and 9.23A of the *IFRS for SMEs*).

In response to concerns raised by respondents, the IASB has expanded on the guidance previously proposed in the 2013 ED.

(f) addition of clarifying guidance on the preparation of consolidated financial statements if group entities have different reporting dates (see paragraph 9.16 of the *IFRS for SMEs*).

Some respondents to the 2013 ED said that this guidance, which permits a parent entity to use the subsidiary's most recent financial statements, allows too much flexibility. These respondents generally thought that the IASB should also add the requirement in IFRS 10 that the difference between the reporting date of the subsidiary and the parent should be no more than three months and should be consistent for each period. The IASB decided not to add this requirement for SMEs. This is because it noted that, in the rare case in which it would be impracticable to prepare financial statements at the same date, paragraph 9.16 would require the subsidiary's financial statements to be adjusted for the effects of significant transactions or events that occur between the date of those financial statements and the date of the consolidated financial statements. The IASB noted that the removal of the three-month restriction was also a change specifically made during the IASB's redeliberations in response to comments on the 2007 Exposure Draft (see paragraph BC34(l)).

(g) clarification that cumulative exchange differences that arise from the translation of a foreign subsidiary are not recognised in profit or loss on the disposal of the subsidiary—based on Q&A 2012/04 (see paragraph 9.18 of the *IFRS for SMEs*).

(h) clarification of the definition of separate financial statements (see paragraphs 9.24–9.25 and the related definition in the glossary).

(i) clarification of the interaction of the scope of Sections 11 and 12 with other sections of the *IFRS for SMEs* (see paragraphs 11.7 and 12.3 of the *IFRS for SMEs*).

(j) clarification of when an arrangement would constitute a 'financing transaction' (see paragraph 11.13 of the *IFRS for SMEs*).

Some respondents to the 2013 ED asserted that some SMEs are interpreting paragraph 11.13 as requiring them to use the price of the transaction, for example, the nominal value of a loan, instead of the present value of the future payments, for off-market interest-based arrangements with related parties, for example, loans made to employees at less than market rates. Consequently, the IASB decided to clarify that when applying paragraph 11.13, the entity must consider whether an arrangement constitutes a financing transaction for the purposes of the *IFRS for SMEs* for either itself or the counterparty. In other words the entity must consider both financial assets and financial liabilities.

(k) clarification in the guidance on fair value measurement in Section 11 of when the best evidence of fair value may be a price in a binding sale agreement. The guidance applies to fair value measurements in other sections and not just financial instruments within the scope of Section 11 (see paragraph 11.27 of the *IFRS for SMEs*).

In response to concerns raised by respondents, the IASB expanded on the wording previously proposed in the 2013 ED.

(l) clarification of the requirements for hedge accounting, including the addition of a sentence that clarifies the treatment for exchange differences relating to a net investment in a foreign operation for consistency with paragraphs 9.18 and 30.13 (see paragraphs 12.8, 12.23, 12.25 and 12.29 of the *IFRS for SMEs*).

(m) replacement of the undefined term ‘date of exchange’ with ‘date of acquisition’ in the requirements on measuring the cost of a business combination (see paragraph 19.11(a) of the *IFRS for SMEs*).

(n) addition of clarifying guidance on the measurement requirements for employee benefit arrangements, deferred tax and non-controlling interests when allocating the cost of a business combination (see paragraph 19.14 of the *IFRS for SMEs*).

The IASB noted that employee benefit arrangements and deferred tax are the only two areas in which measurement exemptions are necessary under paragraph 19.14 when allocating the cost of a business combination and that SMEs should not assume that they can treat other measures as fair value for other items.

(o) clarification that only some outsourcing arrangements, telecommunication contracts that provide the rights to capacity and take-or-pay contracts are, in substance, leases (see paragraph 20.3 of the *IFRS for SMEs*).

(p) addition of clarifying guidance on classifying financial instruments as equity or a liability (see paragraph 22.3A of the *IFRS for SMEs*).

(q) addition of clarifying guidance on the accounting for the settlement of the dividend payable for a distribution of non-cash assets (see paragraph 22.18 of the *IFRS for SMEs*).

(r) alignment of the scope and the definitions of Section 26 with IFRS 2 to clarify that share-based payment transactions involving equity instruments of other group entities are within the scope of Section 26 (see paragraphs 26.1–26.1A and the related definitions in the glossary of the *IFRS for SMEs*).

Interested parties have told the IASB that it is not clear that the *IFRS for SMEs* applies to equity instruments of other group entities even though paragraph 26.16 addresses group plans. The IASB noted that the *IFRS for SMEs* was finalised at a similar time to the 2009 amendments to IFRS 2 that clarified the scope of IFRS 2 in relation to group plans. Consequently, the 2009 amendments to IFRS 2 were not available during the drafting of the *IFRS for SMEs*. However, to address the concerns raised by interested parties, the IASB decided to align the scope and definitions of Section 26 with IFRS 2 (after the 2009 amendments) to correct possible unintended consequences of the current wording.

(s) clarification of the accounting treatment for vesting conditions and modifications to grants of equity instruments (see paragraphs 26.9, 26.12 and three new definitions in the glossary of the *IFRS for SMEs*).

(t) clarification that the simplification provided for group plans is for the measurement of the share-based payment expense only and does not provide relief from its recognition (see paragraphs 26.16 and 26.22 of the *IFRS for SMEs*).

(u) clarification that Section 27 does not apply to assets arising from construction contracts (see paragraph 27.1(f) of the *IFRS for SMEs*).

(v) clarification of the application of the accounting requirements in paragraph 28.23 to other long-term employee benefits (see paragraph 28.30 of the *IFRS for SMEs*).

(w) clarification that financial instruments that derive their value from the change in a specified foreign exchange rate are excluded from Section 30, but not financial instruments denominated in a foreign currency (see paragraph 30.1 of the *IFRS for SMEs*).

(x) simplification of the wording used in the exemption from the restatement of financial information on the first-time adoption of the *IFRS for SMEs* (see paragraph 35.11 of the *IFRS for SMEs*).

(y) new glossary items for ‘active market’, ‘close members of the family of a person’, ‘foreign operation’, ‘minimum lease payments’ and ‘transaction costs’.

Transition and effective date

Transition provisions

BC256 The IASB does not expect retrospective application of any of the amendments to be significantly burdensome for SMEs. This is because most of the amendments to the *IFRS for SMEs* provide clarification of, or relief from, existing requirements. Consequently, in the 2013 ED the IASB proposed that the amendments to Sections 2–34 in the *IFRS for SMEs* should be applied retrospectively.

BC257 Some respondents to the 2013 ED noted that retrospective application of the amendments to Section 29 could be burdensome, because SMEs will need to consider the effect of each individual change to the requirements for recognising and measuring deferred tax, including minor wording changes. They noted that determining how all these individual changes if applied retrospectively would affect the financial statements could be time-consuming and complex for some SMEs.

BC258 The IASB observed that the amendments to Section 29 are not expected to significantly affect the amounts most SMEs recognise for deferred tax, because the amendments do not change the underlying approach to accounting for deferred tax. Furthermore, the IASB is only making minor changes to the disclosure requirements in Section 29. Consequently, the IASB noted that it would expect the impact of the amendments to Section 29 on the information in the financial statements to be limited for most SMEs. Nevertheless, the IASB does not think that the benefit to users of SME financial statements of restated information under Section 29, which the IASB thinks is only likely to be required in a small percentage of cases, justifies requiring all SMEs to apply Section 29 retrospectively. As a result, the IASB decided allowing SMEs to apply the amendments to Section 29 prospectively from the beginning of the period in which the entity first applies the amendments, because it is supported by cost-benefit reasons.

BC259 The IASB also decided to require prospective application from the beginning of the period in which the entity first applies the amendments for the following two amendments:

(a) the option to use the revaluation model for property, plant and equipment. The IASB observed that such a requirement is consistent with the requirements for a change in accounting policy from the cost model to the revaluation model under full IFRSs and that the requirements for SMEs should not be made more onerous than this. The IASB also noted that it may be difficult to apply the revaluation model retrospectively to property, plant and equipment without the use of hindsight in selecting the inputs that would have been appropriate in prior periods.

(b) replacement of the undefined term 'date of exchange' with the defined term 'date of acquisition'. The IASB observed that this would avoid the entity needing to review past business combinations to determine whether these two dates are the same.

BC260 Some respondents also said that some of the other amendments may also be costly to apply retrospectively and they did not think the benefits of restated information would justify incurring significant costs. The IASB observed that Section 35 does not require first-time adopters to retrospectively apply requirements in the *IFRS for SMEs* if it would be impracticable (see paragraph 35.11 of the *IFRS for SMEs*) and including a general 'impracticable' exemption in the transition requirements would be consistent with this. Consequently, the IASB decided that, although it does not think that applying the amendments to Sections 2–28 and 30–35 retrospectively would be significantly burdensome for SMEs, it would include an impracticable exemption that would apply to each amendment in isolation in case there are circumstances that it has not considered in which retrospective application would be impracticable.

Effective date of the amendments

BC261 The Preface to the *IFRS for SMEs* states:

> The IASB expects that there will be a period of at least one year between when amendments to the *IFRS for SMEs* are issued and the effective date of those amendments.

BC262 The IASB does not expect any of the amendments to the *IFRS for SMEs* to result in significant changes for SMEs and therefore it decided that the effective date should be set as the first suitable date one year from the date that the amendments are issued. Some respondents said that the implementation time of one year was too short and suggested that a period of 18 months to two years was more appropriate. Some of these respondents noted that SMEs need sufficient time to make the transition to any new requirements because of resource constraints. Some respondents also noted that additional time is required for jurisdictions that have to comply with local endorsement processes to provide sufficient implementation lead time to their SMEs. The IASB observed that the amendments are being issued in May 2015 and therefore the effective date of 1 January 2017 would fall more than 18 months after issue. Consequently, the IASB decided there was no need to reconsider this date.

Early application

BC263 The IASB decided that early application of the amendments to the *IFRS for SMEs* should be permitted to assist entities and jurisdictions that are currently in the process of adopting, or planning to adopt, the *IFRS for SMEs*. The IASB noted that early application would also permit SMEs to use the revised *IFRS for SMEs* for financial statements prepared for earlier years. For example, some SMEs may not be required to file financial statements or may need a significant length of time in order to file them. Consequently, these SMEs might be preparing financial statements a long time after their reporting date and may want to apply the amendments to earlier years.

The IASB's plan for future reviews of the *IFRS for SMEs*

BC264 Respondents to the 2013 ED were evenly divided on whether the IASB should update the *IFRS for SMEs* approximately once every three years, or if it should follow a longer cycle, with five years being the most common alternative suggestion. The IASB supported the following as a tentative approach for future reviews of the *IFRS for SMEs*:

(a) a comprehensive review of the *IFRS for SMEs* should commence approximately two years after the effective date of the amendments to the *IFRS for SMEs* resulting from a previous comprehensive review. This would allow time for SMEs to apply the amendments, and for interested parties to identify and comment on any implementation issues or unintended consequences that result from those amendments. The IASB observed that it expected that comprehensive reviews would begin with the issuance of an RFI.

(b) between comprehensive reviews, the IASB, with input from the SMEIG, would decide whether there is a need for an interim review to consider any new and revised IFRSs not yet incorporated or any urgent amendments that have been identified.

(c) this process would mean that amendments to the *IFRS for SMEs* would not typically be expected to be more frequent than approximately once every three years to provide SMEs with a stable platform.

Analysis of the likely effects of the amendments

BC265 Before the IASB issues new requirements, or makes amendments to existing IFRSs, it considers the costs and benefits of the new pronouncements. This includes assessing the effects on the costs for both preparers and users of financial statements. The IASB also considers the comparative advantage that preparers have in developing information that would otherwise require users of the financial statements to incur costs to develop. The IASB takes into account the benefits of economic decision-making resulting from improved financial reporting. The IASB gains insight on the likely effects of the proposals for new or revised IFRSs through its formal exposure of proposals and through its analysis and consultations with interested parties through outreach activities.

BC266 The IASB conducted extensive outreach activities with interested parties during the comprehensive review of the *IFRS for SMEs*. This included issuing two public consultation documents (the RFI and the 2013 ED), additional outreach to providers of finance to SMEs and discussing the main issues at meetings of the IFRS Advisory Council and world standard-setters. In addition, the IASB consulted the SMEIG on its proposed amendments during the development of the 2013 ED and the final amendments. This Effects Analysis is based on the feedback received through this process.

BC267 The evaluation of costs and benefits are necessarily qualitative, instead of quantitative. This is because quantifying costs and, particularly, benefits, is inherently difficult. Although other standard-setters undertake similar types of analyses, there is a lack of sufficiently well-established and reliable techniques for quantifying this analysis. Consequently, the IASB sees this Effects Analysis as being part of an evolving process. In addition, the assessment undertaken is that of the likely effects of the new requirements, because the actual effects will not be known until after the new requirements have been applied. These will be considered at the next review of the *IFRS for SMEs*.

BC268 The IASB is committed to assessing and sharing knowledge about the likely costs of implementing new requirements, and the likely ongoing application costs and benefits of new or revised IFRSs—the costs and benefits are collectively referred to as ‘effects’.

BC269 In evaluating the likely effects of the amendments, the IASB has considered how:

(a) activities would be reported in the financial statements of those applying the *IFRS for SMEs*;

(b) comparability of financial information would be improved both between different reporting periods for the same entity and between different entities in a particular reporting period;

(c) more useful financial reporting would result in better economic decision-making;

(d) the compliance costs for preparers would likely be affected; and

(e) the costs of analysis for users of financial statements would likely be affected.

Changes that could have a significant effect

BC270 The following are the significant amendments to the *IFRS for SMEs*. All of these amendments closely align the related requirements with full IFRSs. Consequently, an important benefit of these amendments is closer alignment with full IFRSs. The following is a further consideration of the effects of these amendments in the context of SME financial statements:

(a) addition of an option to use the revaluation model.

Users of SME financial statements have told the IASB that they do not like entities to apply different accounting policy options for similar transactions because it affects comparability between entities. Nevertheless, the IASB has received significant feedback from preparers, standard-setters, accounting firms and other interested parties that not having an option to revalue property, plant and equipment is a barrier to the adoption of the *IFRS for SMEs* in jurisdictions in which SMEs commonly revalue their property, plant and equipment and/or are required by law to revalue property, plant and equipment. In addition, the IASB also agreed with those respondents who stated that current value information is potentially more useful than historical cost information. Consequently, the IASB decided that in this special case, the benefits of a wider use of the *IFRS for SMEs*, and hence the potential for global improvements in reporting and consistency, outweigh the importance to users of SME financial statements of prohibiting this option for property, plant and equipment. Furthermore, the IASB noted that although the additional requirements to incorporate the revaluation option may increase the perceived complexity of the *IFRS for SMEs* slightly, the amendments introduce an option, not a requirement. Consequently, they do not necessitate a change or additional costs for preparers (see also paragraphs BC208–BC212).

(b) alignment of the main recognition and measurement requirements for deferred income tax with IAS 12.

Alignment is expected to have a limited overall effect on the recognition, measurement, presentation and disclosure of deferred tax (see paragraphs BC219–BC223). Consequently, the IASB does not expect the information provided to users of financial statements to be significantly affected. Furthermore, although preparers will initially have to spend time understanding the revised requirements, in most cases this is not expected to cause undue cost or effort—and if it does, the transition provisions provide relief from the retrospective restatement of the amounts for deferred tax. The IASB noted that some SMEs may find the revised requirements in Section 29 easier to apply than the previous requirements, for example, if they are familiar with the accounting for deferred tax under full IFRSs or because of the significant training material and expertise in some jurisdictions on application of IAS 12.

(c) alignment of the main recognition and measurement requirements for exploration and evaluation assets with IFRS 6.

The IASB noted that this amendment ensures that the requirements in the *IFRS for SMEs* are not more onerous than full IFRSs. These requirements only apply to a specific type of activity and so will not affect most SMEs and users of their financial statements.

Other changes supported by cost-benefits reasons

BC271 The IASB thinks that the following changes are supported by cost-benefit reasons as explained in the paragraphs that are made reference to:

(a) amending paragraph 18.20 of the *IFRS for SMEs* to specify that if the useful life of an intangible asset, including goodwill, cannot be established reliably, the useful life shall be determined based on management's best estimate but shall not exceed 10 years. This replaces the requirement to use a fixed 10-year life in the absence of a reliable estimate of the useful life. Using the best estimate is expected to provide better information for users of financial statements than requiring a fixed 10-year life at no additional cost to preparers (see paragraphs BC247).

(b) the addition of an undue cost or effort exemption for the following five requirements (see paragraphs BC202, BC222 and BC239–BC241):

(i) measurement of investments in equity instruments at fair value in Sections 11 and 12;

(ii) recognising intangible assets separately in a business combination;

(iii) measurement of the entity's own equity instruments at fair value when they are issued to a creditor to extinguish a liability (which results from incorporating the conclusions of IFRIC 19);

(iv) the requirement to measure the liability to pay a non-cash distribution at the fair value of the non-cash assets to be distributed; and

(v) the requirement to offset income tax assets and liabilities.

(c) a requirement that an entity must disclose its reasoning for using any undue cost or effort exemption (see paragraph BC252).

(d) the transition requirements for the amendments to the *IFRS for SMEs* (see paragraphs BC258–BC260).

Changes that are expected to have a limited effect

BC272 Apart from the changes described in paragraphs BC270–BC271, the IASB's amendments to the *IFRS for SMEs* are either one or more of the following types:

(a) relatively minor changes that align the requirements in the *IFRS for SMEs* with full IFRSs to incorporate some of the changes in new or revised IFRSs and/or to include clarifying guidance from full IFRSs. These changes were introduced to reduce the costs of applying the *IFRS for SMEs* because they either provide additional clarity, a simplification, and/or they fix known or expected problems or the potential for diversity in practice. These changes are not expected to add complexity for SME preparers and are in areas in which the needs of users of SME financial statements are expected to be similar to the needs of users of the financial statements of publicly accountable entities.

(b) changes that clarify existing requirements or remove unintended consequences of the existing wording in the *IFRS for SMEs*. The effect of those amendments is expected to be a better understanding and application of the requirements in the *IFRS for SMEs* and, in most cases, they would not be expected to affect the current accounting for those transactions.

(c) changes that are not expected to have a material impact for the vast majority of SMEs because, for example, they relate to transactions that are only rarely encountered by SMEs.

Dissenting opinion

Dissent of Ms Tokar

DO1 Ms Tokar is dissenting because of the IASB's decision to make reporting of non-cash distributions at fair value subject to an undue cost or effort exemption. She is concerned that the undue cost or effort relief will deprive financial statement users of relevant information about the value of assets distributed to owners. While she could accept that an undue cost or effort exemption may be appropriate with respect to remeasuring the asset to be distributed between the time of recognition of the distribution payable and the time of settlement, she dissents from providing an undue cost or effort exemption in respect of the initial measurement of the transaction.

DO2 In her view, fair value information should normally be used to assess the merits of the distribution decision from a corporate governance perspective, and thus this information should be available when financial statements are prepared. Although the IASB has sought to clarify, in these amendments, the circumstances in which an undue cost or effort exemption is available, Ms Tokar is concerned that allowing an undue cost or effort exemption for transactions for which fair value information should be available implies a lower hurdle than the IASB intends for the use of such an exemption. She believes that the effectiveness of the *IFRS for SMEs*, which includes a number of undue cost or effort exemptions, requires the exemption to be used only in circumstances in which the costs (both monetary and in entity resources, or 'effort') clearly outweigh the benefits to users of having the information.