The IASB's final Request for Information (RfI) to inform its *2019 Comprehensive Review of the IFRS for SMEs Standard* is expected in Q4 2019[1].

In particular, the RfI is expected to seek responses to questions about whether and how to align the *IFRS for SMEs* with full IFRS not incorporated in the *IFRS for SMEs* (2015). Some requirements of full IFRS issued before 2009 were not considered in developing the *IFRS for SMEs (2009)* because they were issued while it was being developed. Because of the limited scope when developing the *IFRS for SMEs (2015)* the implication of such requirements were not considered when developing the *IFRS for SMEs (2015)*.

In deciding whether (and if so, how) the IFRS for SMEs should be aligned with new and amended full IFRS requirements not currently incorporated into the *IFRS for SMEs (2015)* the IASB applies three principles:

a. relevance to SMEs;
b. simplicity; and
c. faithful representation.

For the purpose of developing Georgian input, it is suggested that it might be useful to consider, <u>in the Georgian context</u>, the consequences of changing (or not changing) the requirements of the *IFRS for SMEs (2015)* using the following questions:

1. Does the preliminarily proposed amendment better reflect the economics of the phenomenon?
    - perhaps partly in common with the IASB's relevance considerations.
2. What are the benefits, if any, of the preliminarily proposed amendment?
    - perhaps partly in common with the IASB's relevance considerations.
3. What are the costs of implementing the preliminarily proposed amendment?
    - assume IASB will minimise costs by allowing prospective application?
4. What are the incremental costs, if any, of applying the preliminarily proposed amendment on an ongoing basis?
    - perhaps partly in common with the IASB's simplicity considerations.
5. Do the benefits of the preliminarily proposed amendment (2 above) outweigh the costs of the preliminarily proposed amendment (3 and 4 above)?

The IASB's deliberations in its project *2019 Comprehensive Review of the IFRS for SMEs Standard* are underway. For example:[2]

1. Regarding IFRS 3 *Business Combinations* whether:

    - to align the definition of a business in Section 19 with IFRS 3?
    - to introduce requirements for step acquisitions?
        - if so, whether to align such requirements with IFRS 3?
    - to recognise acquisition-related costs as an expense at the time of the acquisition?

[1] see https://www.ifrs.org/projects/work-plan/
[2] for more information see Agenda Paper 30G for the IASB's September 2019 meeting

DRAFT

- to require that contingent consideration be measured at fair value on initial recognition?
    - If so, whether to extend the undue cost or effort exemption to apply to the fair value measurement of the contingent consideration?

2. Regarding IFRS 3 the IASB clarified that it does not intend to amend the requirements in the *IFRS for SMEs (2015)*:
    - to introduce the option to measure non-controlling interests at fair value;
    - to change the recognition criteria for recognising an intangible asset acquired in a business combination;
    - to clarify that an assembled workforce must not be recognised; and
    - to provide additional guidance in relation to reacquired rights.

3. Regarding IFRS 10 *Consolidated Financial Statements* the IASB decided to seek views on:
    - whether to align the definition of control of an entity in Section 9 with IFRS 10?
    - whether to retain the presumption that an entity controls an investee if it has direct power over that investee solely from voting rights?
    - whether <u>not to</u> introduce an investment entities' exception from consolidation?

4. Regarding IFRS 9 *Financial Instruments* the IASB decided to seek views on:
    - whether to introduce principles for the classification and measurement of financial assets based on contractual cash flows?
    - whether <u>not to</u> amend the requirements of the *IFRS for SMEs (2015)* for each of:

        i. the introduction of the fair value through OCI option for equity instruments?
        ii. the initial recognition of financial instruments at the transaction price?
        iii. financial liabilities and own credit?
        iv. derecognition principles?
    - whether there is a need for hedge accounting requirements to be specified in the IFRS for SMEs?
        - If needed, whether the extant hedge accounting requirements be retained?
    - whether to align the IFRS for SMEs with the simplified approach in IFRS 9 for the impairment of financial assets under the expected credit loss model?
    - whether there is a need for an optional fallback to full IFRS for the recognition and measurement financial instruments?
        - If needed, should the fallback be to IAS 39 or IFRS 9?

DRAFT

5. Regarding IFRS 13 *Fair Value Measurement* the IASB decided to seek views on aligning the IFRS for SMEs Standard with IFRS 13. In particular:

    - whether to align the definition of fair value in Appendix B *Glossary of terms* with IFRS 13?
    - whether to align the guidance on fair value measurement in Section 11 *Basic Financial Instruments* and other sections with IFRS 13 so the fair value hierarchy in Section 11 incorporates the principles of the IFRS 13 fair value hierarchy, and also includes examples that illustrate application of the hierarchy?
    - whether to move the general disclosure requirements to a single location, alongside the guidance for fair value measurement?
        - whether to move the guidance relating to amortised cost?
    - whether to move the guidance for fair value measurement in Section 11 and other sections to Section 2 *Concepts and Pervasive Principles*?
    - whether not to seek views on requiring the level in the hierarchy at which fair value measurements are made to be disclosed?

6. Regarding IFRS 14 *Regulatory Deferral Accounts* the IASB tentatively decided not to seek views on aligning the IFRS for SMEs with IFRS 14.

7. Regarding IFRS 15 *Revenue from Contracts with Customers* the IASB decided to seek views on aligning Section 23 *Revenue* with IFRS 15. In particular, the IASB decided to seek views on:

    - three alternative approaches:

        Alternative 1—modifying Section 23 to remove the clear differences in outcomes from applying Section 23 and IFRS 15, without a wholesale reworking of Section 23 (the IASB's preferred approach);
        Alternative 2—fully rewriting Section 23 to reflect the principles and language used in IFRS 15; and
        Alternative 3—omitting amendments to Section 23 from the 2019 Review.
    - whether to provide transition relief, under Alternative 1 or Alternative 2, by permitting an entity to continue its current revenue accounting treatment for any contracts already in progress at the transition date or scheduled to be completed within a set time after the transition date.

- Regarding IFRS 16 *Leases* the IASB decided to seek views on aligning Section 20 *Leases* with IFRS 16. In particular, the IASB decided to seek views on:

    - simplifications to the requirements in IFRS 16, namely:

        i. whether to introduce recognition exemptions for leases of: (i) 12 months or less (short-term leases); and (ii) leases of low-value assets?
        ii. whether to exempt entities from the requirement to separate lease components from any associated non-lease components? and
        iii. whether simplifying measurement requirements for some variable lease payments, and for optional payments, such as those relating to extension options?
    - additional simplifications, namely:

DRAFT

i. whether removing the quantitative threshold for low value assets and introducing a list of examples to assist entities identifying such assets, and on whether the IASB should retain the US$5,000 threshold for leases of low-value assets?
ii. whether providing additional relief to assist entities with identifying the discount rate to be applied when determining the liability;
iii. whether providing additional relief to assist entities with determining and reassessing the lease term?
iv. whether simplifying the requirements for subsequent measurement (reassessment) of lease liability? and
v. whether retaining the existing finance lease disclosures in the IFRS for SMEs.

8. At a future meeting, the IASB will decide whether to seek input on how, if at all to amend the IFRS for SMEs to align it with:

   - IFRS 12 *Disclosure of Interests in Other Entities*; and
   - IAS 23 *Borrowing Costs.*

     [Note: in September 2019 the IASB staff recommended that the IASB consults in the RfI on whether:
     (a) to require entities to capitalise borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset;
     (b) to introduce an accounting policy election to either capitalise or expense borrowing costs; or
     (c) to maintain the current requirements of Section 25.][3]

9. At its September 2019 the IASB will discuss whether to seek input on:

   - aligning Section 28 *Employee Benefits* with the 2011 Amendments to IAS 19 *Employee Benefits.* If so, how, ie what accounting should be specified?[4]
   - align Section 15 *Investments in Joint Ventures* with Amendments to IFRS 11 *Joint Arrangements.* If so, how, ie what accounting should be specified?[5]
   - The scope of the IFRS for SMEs. [Note: The IASB staff recommends that the IASB seek views in the RfI <u>not</u> to amend the scope of the IFRS for SMEs.][6]

10. Whether to amend the IFRS for SMEs to specify accounting for cryptocurrencies?

   - If so, how, ie what accounting should be specified?
     [Note: in September 2019 the IASB staff recommended that the IASB consults in the RfI on:

[3] For more information see Agenda Reference 30D for the September meeting of the IASB.
[4] For more information see Agenda Reference 30B for the September meeting of the IASB.
[5] For more information see Agenda Reference 30F for the September meeting of the IASB.
[6] For more information see Agenda Reference 30A for the September meeting of the IASB.

DRAFT

(a) whether the holdings of cryptocurrencies and issuing of crypto-assets are widespread and material among SMEs;
(b) the following three alternatives for the holdings of cryptocurrencies:
Alternative 1—doing nothing;
Alternative 2—introducing a revaluation model for intangible assets in Section 18 *Intangible Assets other than Goodwill*; or
Alternative 3—introducing a separate section on cryptocurrency?
(c) whether the IFRS for SMEs should address cryptocurrency mining and staking.][7]

11. Whether and how the Q&A on *Accounting for financial guarantee contracts in individual or separate financial statements of issuer* (Q&A 2017/12.1) should be incorporated into the *IFRS for SMEs*?

[Note: in September 2019 the IASB staff recommended that the IASB consults in the RfI on:
(a) adding the definition of financial guarantee contracts that is in IFRS 9 to the IFRS for SMEs Standard; and
(b) aligning the requirements for issued financial guarantee contracts in the IFRS for SMEs Standard with IFRS 9 by incorporating the Q&A into Section 12 and specifying the following accounting: at initial recognition measure at fair value and thereafter at the higher of (a) the amount of any expected credit losses that would have been recognised had the entity made the loan itself (rather than guaranteeing the loan repayments) and (b) the amount initially recognised less, when appropriate, the cumulative amount of income recognised applying the principles of IFRS 15 *Revenue from Contracts with Customers*.][8]

12. Regarding IFRIC Interpretations and amendments full IFRS the IASB decided to seek views on:

- Whether to amend Section 34 *Specialised Activities* to align with the *Agriculture: Bearer Plants (Amendments to IAS 16 and IAS 41)* that requires bearer plants such as grape vines be accounted for in the same way as PPE in IAS 16 *Property, Plant and Equipment*?

    - If so amended, should the IFRS for SMEs be simplified by not requiring the bifurcation of the produce growing on the bearer plants?

- Whether to amend Section 21 *Provisions and Contingencies* to align with IFRIC 21 *Levies* that consistently with IAS 37 sets out criteria for the recognition of a levy liability?

- Whether to amend Section 30 *Foreign Currency Translation* to align with IFRIC 22 *Foreign Currency Transactions and Advance Consideration* that clarifies the date of the transaction on the derecognition of an non-monetary item when the related income, expense or asset is recognised?

---

[7] For more information see Agenda Reference 30E for the September meeting of the IASB.
[8] For more information see Agenda Reference 30C for the September meeting of the IASB.

DRAFT

- Whether to clarify and align the definition of material in Section 3 *Financial Statement Presentation* to reflect the related full IFRS *Definition of Material Amendments to IAS 1 and IAS 8* (that become effective in 2020)?

- Whether to amend Section 17 *Property, Plant and Equipment* to align with full IFRS *Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38)* which clarifies that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset?

- Whether to amend Section 18 *Intangible Assets other than Goodwill* to align with full IFRS *Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38)* that clarifies that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. This presumption, however, can be rebutted in particular limited circumstances?

- Whether to amend Section 7 *Statement of Cash Flows* to align with full *IFRS Disclosure Initiative (Amendments to IAS 7)* that require disclosure of changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes?

- Whether to amend Section 16 *Investment Property* to:

  - align with full IFRS *Annual Improvements to IFRS Standards 2011–2013 Cycle (IAS 40)* that clarifies that determining whether a specific transaction satisfies the definition of both a business combination as defined in IFRS 3 *Business Combinations* and investment property as defined in IAS 40 *Investment Property* requires the separate application of both Standards independently of each other?

  - align with full IFRS *Transfers of Investment Property (Amendments to IAS 40)* which clarifies that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property satisfies, or ceases to satisfy, the definition of investment property?

- Whether to amend Section 26 *Share-Based Payment* to align with full IFRS:

  - *Annual Improvements to IFRS Standards 2010–2012 Cycle (IFRS 2)* that amends the definitions of 'vesting condition' and 'market condition' and adds definitions for 'performance condition' and 'service condition' (which were part of the definition of 'vesting condition' before)?

  - *Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2)?* This amendment clarifies accounting for:

(a) the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments? *[Note: IASB staff recommends alignment to addresses a deficiency in paragraph 26.14 that requires measurement at fair value and is silent about adjusting such fair value for the effect of non-market vesting conditions.]*
(b) share-based payment transactions with a net settlement feature for withholding tax obligations? *[note: the IASB staff recommends alignment because the amendment provides an exception on cost-benefit grounds, that would otherwise not be available to SMEs.]*
(c) a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. *[Note: the IASB staff recommends* <u>*ignore*</u> *because Section 26 does not specify accounting for modifications.]*

- Whether to amend Section 29 *Income Tax* to align with:

    - IFRIC 23 *Uncertainty over Income Tax Treatments* that specifies accounting for uncertain tax positions?

    - *Recognition of Deferred Tax Assets for Unrealised Losses* that clarifies that:

        (a) unrealised losses on debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use.
        (b) the carrying amount of an asset does not limit the estimation of probable future taxable profits.
        (c) estimates for future taxable profits exclude tax deductions resulting from the reversal of deductible temporary differences.
        (d) an entity assesses a deferred tax asset in combination with other deferred tax assets. Where tax law restricts the utilisation of tax losses, an entity would assess a deferred tax asset in combination with other deferred tax assets of the same type.

13. Whether to align Section 2 *Concepts and Pervasive Principles* with the Conceptual Framework (2018).

DRAFT