World Council

January 28, 2014

Summary and Request for Comment on IASB *IFRS for SMEs* Exposure Draft

The International Accounting Standards Board (IASB) in October 3, 2013 initiated a new round of consultations on International Financial Reporting Standards for Small and Medium Enterprises ("IFRS for SMEs") with a new IFRS for SMEs exposure draft. This document summarizes the IASB's IFRS for SMEs exposure draft, which can be accessed here with related materials accessible here. The comment deadline is March 3, 2014.

Please write World Council's VP and Chief Counsel Michael Edwards (medwards@woccu.org) with your views concerning the IASB's IFRS for SMEs proposal by February 26, 2014.

In July 2009, the IASB issued the currently applicable IFRS for SMEs standard. IFRS for SMEs in general applies to SMEs that are not "publicly accountable." The 2009 IFRS for SMEs standard states that it is "typically the case" for credit unions to be "publicly accountable" and therefore not allowed to use IFRS for SMEs. *See* IFRS for SMEs Paragraphs 1.3(b), 1.5, and 3.3.

Some jurisdictions such as Great Britain and Ireland, however, will require credit unions to follow IFRS for SMEs beginning in 2015.

Proposal to Increase Ability of Credit Unions to Use IFRS for SMEs

Most significantly for credit unions, the new IASB proposal would allow likely allow some (especially smaller) credit unions to be considered IFRS for SMEs "compliant." This is because the IASB is proposing to revise the standard's statement that credit unions "typically" are "publicly accountable" entities that cannot be considered "compliant" with IFRS for SMEs pursuant to Paragraph 1.5 ("If a publicly accountable entity uses this IFRS, its financial statements shall not be described as conforming to the *IFRS for SMEs*—even if law or regulation in its jurisdiction permits or requires this IFRS to be used by publicly accountable entities").

Specifically, in Paragraph 1.3(b) of the IFRS for SMEs standard, IASB proposes to remove language stating that it is "typically the case" (i.e. the essential characteristics of a group) for credit unions to be considered "publicly accountable." IASB proposes to replace "typically the case" with language saying "most" credit unions (i.e. the majority but not all) are "publicly accountable."

The proposed revision to Paragraph 1.3(b) responds to World Council's 2012 comment letter (in response to an earlier IASB consultation on IFRS for SMEs), which asked the IASB to expand the ability of credit unions to be considered IFRS for SMEs "compliant."

In discussing the comments received in 2012, IASB's basis for conclusions specifically mentions credit unions as follows:

> "[C]redit unions and micro-sized banks meet the definition of publicly accountable entities. However, some are very small, their shares are not publicly traded and the primary users of their financial statements (depositors) do not require the level of detail that is required in financial statements prepared in accordance with full IFRSs."

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Paragraphs 1.3(b) and 1.5 also affect application of IFRS for SMEs Paragraph 3.3, which states that:

> "An entity whose financial statements comply with the IFRS for SMEs shall make an explicit and unreserved statement of such compliance in the notes. Financial statements shall not be described as complying with the IFRS for SMEs unless they comply with all the requirements of this IFRS."

The interrelationship between Paragraphs 1.3(b), 1.5, and 3.3 means that credit unions which apply IFRS for SMEs pursuant to national accounting interpretations will need to state whether or not they are "compliant" with IFRS for SMEs, and this "compliance" determination likely depends on whether the credit union's accounting practitioner determines that the credit union is considered "publicly accountable" as defined by Paragraph 1.3(b).

If finalized as proposed, IASB replacing "typically the case with "most" in Paragraph 1.3(b) will likely allow accountants for some credit unions—especially those in jurisdictions like Great Britain and Ireland where local accounting authorities have decided that credit unions should apply IFRS for SMEs generally—to determine that the credit union is not "publicly accountable" within the meaning of Paragraph 1.5 and therefore is allowed to state that it is "compliant" with the IFRS for SMEs standard under Paragraph 3.3.

Expanded Undue Cost or Effort Exemptions

IASB is also proposing to add new "undue cost or effort exemptions" from some IFRS for SMEs requirements that could help reduce compliance burdens.

For example, the proposal includes an exemption from fair value measurement of a financial instrument subsequent to the credit union's initial recognition of the instrument: (a) if it is not publicly traded; and (b) the instrument cannot be revalued without "without undue cost or effort."

Section-by-Section Summary of Provisions Relevant to Credit Unions

The following summary includes the proposed text of the revised version of IFRS for SMEs with blackline strikethroughs (i.e. ~~strikethrough~~) for language that IASB has proposed to remove for the standard, and IASB's proposed additions underlined. (Note: IASB also typically writes key terms in **bold**; bolded words therefore do not indicate a change from the current version of IFRS for SMEs.) *Italicized text in Ariel font is World Council commentary and not part of the IASB proposal.*

Section 1: Small and Medium-sized entities

According to the IASB (but not some national accounting authorities) an entity cannot use IFRS for SMEs if the entity is defined as "publicly accountable." Paragraph 1.3 of IFRS for SMEs lists types of entities that are considered "publicly accountable." The revision to Paragraph 1.3(b), below, proposes to use less stringent wording with respect to whether credit unions and other SME financial institutions are not "publicly accountable" (and therefore eligible to apply IFRS for SMEs pursuant to official IASB guidance):

> An entity has public accountability if it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses. Most ~~This is typically the case for~~ banks, credit

unions, insurance companies, securities brokers/dealers, mutual funds and investment banks will meet this second criterion.

Section 2: Concepts and Pervasive Principles

Proposed revision to the definition of "Materiality" in Paragraph 2.6:

Information is **material**—and therefore has relevance—if its omission or misstatement could influence the economic decisions of users made on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor ~~of the item or error judged in the particular circumstances of its omission or misstatement~~. However, it is inappropriate to make, or leave uncorrected, immaterial departures from the *IFRS for SMEs* to achieve a particular presentation of an entity's financial position, financial performance or cash flows.

IASB also proposes to add new Paragraphs 2.14A, 2.14B, and 2.14C ("Undue cost or effort") to the discussion of "undue cost or effort exceptions" from IFRS for SMEs reporting requirements:

2.14A: An undue cost or effort exemption is specifically included for some requirements in the *IFRS for SMEs* to clarify that, if obtaining or determining the information necessary to comply with the requirement would result in excessive incremental cost or an excessive additional effort for an SME, the SME would be exempt from that specific requirement. The exemption may not be used for any other requirements in the *IFRS for SMEs*.

2.14B: Undue cost or effort depends on the entity's specific circumstances and on management's judgment when assessing the costs and benefits. Whether the cost or effort is excessive (undue) requires consideration of how the economic decisions of the expected users of the financial statements could be affected by the availability of the information.

2.14C: Assessing whether a requirement will result in undue cost or effort at the date of the transaction or event should be based on information about the costs and benefits of the requirement that is available at the time of the transaction or event. If the undue cost or effort exemption also applies to subsequent measurement of an item, for example, on the following reporting date, a new assessment of undue cost or effort should be made at that date, based on information available at that subsequent measurement date.

Proposed revision to the definition of "Equity" in Paragraph 2.22:

Equity is the residual interest in the assets of the entity after deducting all its liabilities ~~of recognized assets minus recognized 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 recognized in other comprehensive income or directly in equity.

Proposed revision to the definition of "Fair Value" in Paragraph 2.34(b):

> **fair value** is the amount for which an asset could be exchanged, ~~or~~ a liability settled, or an equity instrument granted could be exchanged, between knowledgeable, willing parties in an arm's length transaction. In the absence of any specific guidance provided in the relevant section of this IFRS, where fair value measurement is permitted or required the guidance in paragraphs 11.27 to 11.32 [i.e. the more detailed provisions of IFRS for SMEs concerning "fair value" calculations] shall be applied.

Proposed addition of an "undue cost or effort exception" to the "Subsequent Measurement" (i.e. after initial recognition) requirements for financial instrument valuation in Paragraph 2.47:

> An entity measures basic **financial assets** and basic **financial liabilities**, as defined in Section 11 *Basic Financial Instruments*, at amortized cost less impairment except for investments in non-convertible ~~and non-puttable~~ preference shares and non-puttable ordinary shares 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 recognized in profit or loss.

Section 4: Statement of Financial Position

Proposed relief from the requirement to disclose comparative information for the reconciliation of the opening and closing number of shares outstanding in Paragraph 4.12(a):

> 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) the number of shares authorized;
> - (ii) the number of shares issued and fully paid, and issued but not fully paid;
> - (iii) par value per share, or that the shares have no par value;
> - (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) the rights, preferences and restrictions attaching to that class including restrictions on the distribution of dividends and the repayment of capital;
> - (vi) shares in the entity held by the entity or by its subsidiaries or associates; and
> - (vii) shares reserved for issue under options and contracts for the sale of shares, including the terms and amounts.

Section 6: Statement of changes in equity and statement of income and retained earnings

IASB is proposing changes to Paragraphs 6.2 and 6.3, as well as the addition of a new Paragraph 6.3A, to incorporate amendments to IAS 1 concerning the statement of changes in equity.

These changes clarify that an entity may present the required analysis for each component of "other comprehensive income" (OCI) either in the statement of changes in equity or in the notes.

Paragraph 6.2 would be revised to read as follows:

> The statement of changes for entities presents a profit or loss for **reporting period**, ~~items of income and expense recognized in~~ **other comprehensive income** for the period, the effects of changes in accounting policies and corrections of errors recognized in the period, and the amounts of investments by, and dividends and other distributions to, owners' ~~equity investors~~ during the period.

Paragraph 6.3 would be revised to read as follows:

> ~~An entity shall present a~~ The statement of changes in equity includes the following information ~~shown in the financial statement~~:
>
> a) Total comprehensive income for the period, showing separately the total amount attributable owners of the parents and to non-controlling interests;
> b) for each component of equity, the effects of retrospective application or retrospective restatement recognized in accordance with Section 10 *Accounting Policies, Estimates and Errors*; and
> 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. Profit or loss
>   ii. ~~Each item of~~ other comprehensive income
>   iii. The amounts of investments by, and dividends and other distributions to, 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.

IASB proposes to add a new Paragraph 6.3A:

> For each component of equity an entity shall present, either in the statement of changes in equity or in the notes, an analysis of other comprehensive income by item (see paragraph6.3(c)(iii)).

Section 7: Statement of Cash Flows

Proposed revision to the definition of "cash equivalents" in Paragraph 7.2:

> **Cash equivalents** are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to an insignificant risk of changes in value. They are held to meet short-term cash commitments rather than for investment or other purposes. Therefore, an investment normally qualifies as a cash equivalent only when it has a short maturity of, say, three months or less from the date of acquisition. Bank overdrafts are normally

considered financing activities similar to borrowings. However, if they are repayable on demand and form an integral part of an entity's cash management, bank overdrafts are a component of cash and cash equivalents.

Proposed revision to add a new Paragraph 7.12A to allow an entity to use an approximate foreign exchange rate for foreign currency based transactions:

For practical reasons, in paragraphs 7.11 and 7.12 [regarding transactions in foreign exchange made by an entity or its subsidiaries] an entity may use a rate that approximates the actual exchange rate (see paragraph 30.19 [allowing an entity to use an average exchange rate, unless the rate fluctuates 'significantly']).

Section 9: Consolidated and Separate Financial Statements

Proposed revisions to Paragraphs 9.3 and the addition of Paragraph 9.3A may affect credit unions that own all or part of a subsidiary, such as a credit union service organization (CUSO), with respect to presenting a consolidated financial statement:

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 IFRSs or with this IFRS~~.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 recognized 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: A subsidiary shall be excluded from consolidation if it was acquired with the intention of selling or disposing of it within one year. A parent shall account for such a subsidiary:

(a): at fair value, with changes in fair value recognized in profit or loss, if the fair value of the shares can be measured reliably (see paragraph 11.27-11.32): or
(b): at cost less impairment if the fair value of the shares cannot be measured reliably (see paragraphs 11.21-11.26)

If a parent entity has no subsidiaries other than subsidiaries acquired with the intention of selling or disposing of them within one year, it does not present consolidated financial statements.

Acquisition and disposal of subsidiaries

Paragraph 9.18 addresses accounting treatment when the credit union or other entity has a controlling interest in a subsidiary:

> 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 at as of the date control is lost ~~of disposal, excluding the cumulative amount of any exchange differences that relate to a foreign subsidiary recognized in equity in accordance with Section 30 Foreign Currency Translation~~, is recognized 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 recognized in other comprehensive income in accordance with Section 30 Foreign Currency Translation is not reclassified to profit or loss on disposal of the subsidiary.

Presentation of separate financial statements

Paragraphs 9.24 and 9.25 revise the IFRS for SMEs approach to "separate" financial statements:

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

9.25: Separate financial statements are financial statements presented in addition to consolidated financial statements or in addition to financial statements prepared by an entity that is not a parent but is an investor in an associate or has a venture's interest in a joint venture. T~~he 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 venture's interest in a joint venture presents its financial statements in compliance with Section 14 or Section 15, as appropriate. It may also electo present separate financial statements.~~

Section 11: Basic Financial Instruments

Section 11 includes proposed additions of an "undue cost or effort exemption" from the measurement of investments in equity instruments at fair value in Paragraphs, 11.4-11.14 (c), 11.27, 11.32 and 11.44:

11.4: Section 11 requires an amortized 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 otherwise be measured reliably without undue cost or effort.

11.5: Basic Financial Instruments require an amortized cost model for all basic financial instruments except for investments in non-convertible and ~~non-puttable~~ preference shares and preference

shares that are publicly traded or whose fair value can otherwise be measured reliably without undue cost or effort. Basic financial instruments within the scope are those that account for:

(a) cash,

(b) demand and fixed-term deposits when the entity is the depositor i.e.; bank accounts;

(c) commercial paper and commercial bills held; accounts, notes and loans receivable and payable;

(d) bonds and similar debt instruments

(e) Investments in non-convertible preference shares and non-puttable ordinary preference shares

(f) Commitments to receive a loan if the commitment cannot be net settled in cash.

11.6: Examples of financial instruments that do not normally satisfy the conditions in paragraph 11.8, and are therefore within the scope of Section 12, include:

(a) asset-backed securities, such as collateralised mortgage obligations, repurchase agreements and securitised packages of receivables;

(b) options, rights, warrants, futures contracts, forward contracts and interest rate swaps that can be settled in cash or by exchanging another financial instrument;

(c) financial instruments that qualify and are designated as hedging instruments in accordance with the requirements in Section 12;

(d) commitments to make a loan to another entity; and

(e) commitments to receive a loan if the commitment can be net settled in cash.

11.7: Section 11 applies to all financial instruments meeting the conditions of paragraph 1.8 except for the following:

1. 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*;
2. Financial instruments that meet the definition of an entity's own equity and the equity component of compound financial instruments issued by the entity (see Section 22 *Liabilities and Equity* ~~and Section 26 Share-based payment~~);
~~3.~~ Leases, to which Section 20 Leases or paragraph 12.3 (f) apply~~ies~~. However, the de-recognition requirements in paragraphs 11.33-11.38 apply to the de-recognition of lease receivables recognized by a lessor and lease payables recognized by a lessee, and the impairment requirements in paragraphs 11.21-11.26 apply to lease receivables recognized by a lessor; ~~Also, Section 12 may apply to leases with characteristics specified in paragraph 12.3(f)~~

4. Employers' rights and obligations under employee benefit plans, to which Section 28 Employee Benefits applies;
5. Financial instruments, contracts and obligations under share-based payment transactions to which Section 26 applies; and
6. Reimbursements assets accounted for in accordance with Section 21 Provisions and Contingencies see paragraph 21.9)

Basic financial instruments

11.8: An entity shall account for the following financial instruments as basic financial instruments in accordance with Section 11:

(a) cash;

(b) a debt instrument (such as an account, note, or loan receivable or payable) that meets the conditions in paragraph 11.9;

(c) a commitment to receive a loan that:

(i) cannot be settled net in cash; and

(ii) when the commitment is executed, is expected to meet the conditions in paragraph 11.9.

(d) an investment in non-convertible preference shares and non-puttable ordinary shares or preference shares.

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 assessed in the currency in which the debt instrument is denominated are:
  (i) A fixed amount;
  (ii) A fixed rate of return over the life of the instrument;
  (iii) A variable return that, throughout the life of the instrument, is equal to a single referenced quoted or observable interest rate (such as LIBOR); or
  (iv) Some combination of such fixed rate and variable rates (such as LIBOR plus 200 basis points), provided that the sum of ~~both~~ the fixed and variable rates are positive (for example, 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 holders (the lender) 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 the issuer (the borrower ~~debtor~~ to prepay a debt instrument or permit the holder (the lender ~~creditor~~) to put it back to the issuer before maturity are not contingent on future events other than to protect;
   (i) The holder against the credit deterioration of the issuer (for example, defaults, credit downgrades or loan covenant violations), or a change in control of the issuer; or;
   (ii) The holder of issuer against changes in relevant taxation or law.

(d) There are no conditional returns or repayment provisions except for the variable rate return described in (a) and prepayments provisions described in (c)

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 amortized cost using the effective interest method. Paragraphs 11.15-11.20 provide guidance on determining amortized cost using the effective interest method. Debt instruments that are classified as current assets or liabilities shall be measured at the undisclosed 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 paragraphs 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) Commitments to receive a loan that meet the conditions in paragraph 11.8(c) shall be measured at cost (which sometimes is nil) less impairment.

(c) Investments in non-convertible preference shares and non-puttable ordinary or preference shares ~~that meet the conditions in paragraph 11.8d shall be measured as follows~~ (paragraphs 11.27-11.32~~3~~ 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 recognized in profit or loss; and

   (ii) All other investments shall be measured at cost less impairment.

   Impairment or un-collectability must be assed for financial instruments in (a) (b) and(c) (ii) above.

Measurement

11.25: An entity shall measure an impairment loss on the following financial assets ~~instruments~~ measured at cost or amortized cost as follows.

(a) For ~~an~~ financial asset instrument measured at amortized costs in accordance with paragraph 11.14 (a), the impairment loss is the difference between the asset's carrying amount and the present value of estimated cash flows discounted at the asset's original effective interest rate. If such a financial asset ~~instrument~~ has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

(b) For ~~an~~ financial asset instrument measured at cost less impairment in accordance with paragraph 11.14 (b) and c(ii) the impairment loss is the difference between the asset's carrying amount and the best estimate (which will necessarily be an approximation) of the amount (which might be zero) that the entity would receive for the asset if it were to be sold at the reporting date.

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 without undue cost or effort. An entity shall use the following hierarchy to estimate the fair value of the shares:

(a) the best evidence of fair value is a price in a binding sale agreement in an arm's length transaction or a quoted price for an identical asset in an active market-. (the latter This is usually the current bid price).

(b) if there is no binding sale agreement or active market for the asset ~~When quoted prices are unavailable~~, the price of a recent transaction for an identical asset provides evidence of fair value as long as there has not been a significant change in economic circumstances or a significant period lapse of time since the transaction took place. If the entity can demonstrate that the last transaction price is not a good estimate of fair value (for example, because it reflects the amount that an entity would receive or pay in a forced transaction, involuntary liquidation or distress ale), that price is adjusted.

(c) if there is no binding sale agreement or active market for the asset ~~If the market for the asset is not active~~ and recent transactions of an identical 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 IFRS make references 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 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

11.30: The fair value of investments in assets that do not have a quoted market price in an active market is reliably measurable if:

(a) the variability in the range of reasonable fair value estimates is not significant for that asset; or ;
(b) the probabilities of the various estimates within the range can be reasonably assessed and used in estimating fair value.

11.31: There are many situations in which the variability in the range of reasonable fair value estimates of assets that do not have a quoted market price is likely not to be significant. Normally if it is possible to estimate the fair value of an asset that an entity has acquired from an outside part. However, if the range of reasonable fair value estimates is significant and the probabilities of the various estimates cannot be reasonably assessed, an entity is precluded from measuring the asset at fair value.

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, for example, for 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 not ~~longer~~ available without undue cost or effort for an equity instrument measured at fair value through profit or loss, the entity shall disclose that fact.

Section 12: Other Financial Instrument Issues

Although most credit union assets (e.g., loans, bonds) are subject to Section 11, above, financial instruments that are not subject to Section 11 are usually subject to this Section 12:

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

(a) Those covered by Section 11;

(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) Employers' rights and obligations under employee benefit plans (see Section 28 Employee Benefits);

(d) Rights under insurance contracts unless the insurance contract could result in a loss to either party as a result of contractual terms that are unrelated to:

a. Changes in the insured risk;

b. Changes in foreign exchange rates; or

c. A default by one of the counterparties.

(e) Financial instruments that meet the definition of an entity's own equity and the equity component of compound financial instruments issued by the entity (section 22 Liabilities and Equity and ~~Section 26 Share-based payment~~);

(f) Leases (see Section 20 Leases) unless the lease could result in a loss to the lessor or the lessee as a result of contractual terms that are unrelated to:

a. Changes in the price of the leased asset;

b. Changes in foreign exchange rates; ~~or~~

c. ~~A default by one of the counterparties~~ changes in lease payments based on variable market interest rates; or

d. A default by one of the counterparties.

(g) Contracts for contingent consideration in a business combination (see Section 19 Business Combinations and Goodwill_. This exemption applies only to acquirer;

(h) Financial instruments, contracts and obligations under share-based payment transactions to which Section 26 applies; and

(i) Reimbursement assets accounted for in accordance with Section 21 Provisions and Contingencies (see paragraph 21.9)

12.4: Most contracts to buy or sell a non-financial item such as a commodity, inventory, or property, plant and equipment are excluded from this section because they are not financial instruments. However, this section applies to all contracts that impose risks on the buyer or seller that are not typical of contracts to buy or sell non-financial items, changes in foreign exchange rates, or a default by one of the counterparties.

12.5: In addition to the contracts described in paragraph 12.4, this section applies to contracts to buy or sell-non financial items if the contract can be settled net in cash or another financial instrument, or by exchanging financial instruments as if the contracts were financial instruments, with the following exception: contracts that were entered into and continue to be held for the purpose of the receipt or delivery of a non-financial item in accordance with the

entity's expected purchase, sale or usage requirements are not financial instruments for the purposes of this section.

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 recognize changes in fair value in profit or loss, except as follows:

(a) Some changes in fair value of hedging instruments in a designated hedging relationship are required to be recognized initially in other comprehensive income in accordance with paragraph 12.23; and

(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 is not publicly traded but is measured at fair value through profit or loss, its fair value at the last date 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 without undue cost or effort ~~becomes available~~.

Section 12.29 sets for the requirements for disclosures related to hedge accounting (of, e.g., variable interest rate risk):

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 probably forest transaction, or a net investment in a foreign operation (paragraphs 12.23-12.25) it shall disclose the following:

(a) The periods when the cash flows are expected to occur and when they are expected to affect profit or loss;
(b) A description of any forecast transaction for which hedge accounting had previously been used, but which is no longer expected to occur;
(c) The amount of the change in fair value of the hedging instrument that was recognized in other comprehensive income during the period)paragraph 12.23);
(d) The amount that was reclassified from equity ~~other comprehensive income~~ to profit or loss for the period (paragraphs 12.23 and 12.25) and
(e) The amount of any excess of the fair value of the hedging instrument over the change in the fair value of the expected cash flows that was recognized in profit or loss for the period (paragraph 12.24)

Section 17: Property, Plant and Equipment

Section 17 sets forth the IFRS for SMEs treatment of property that is not held for investment. (Property held for investment purposes is subject to Section 16 of IFRS for SMEs, which is not reprinted here because: (a) credit unions are generally prohibited from real estate speculation; and (b) IASB has not proposed significant changes to Section 16.) Property not held for investment generally includes the credit union's offices as well as its business equipment:

17.1: This section applies to accounting for property, plant and equipment and accounting for investment property whose fair value cannot be measured reliably without undue cost or effort. Section 16 Investment Property applies to investment property whose fair value can be measured reliably without undue cost or effort on an ongoing basis.

17.2: Property, plant and equipment are tangible assets that:

(a) are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and
(b) are expected to be used during more than one period.

17.3: Property, plant and equipment does not include:

(a) biological assets related to agricultural activity (see Section 34 *Specialised Activities*); or
(b) mineral rights and mineral reserves, such as oil, natural gas and similar non-regenerative resources.

Recognition

17.5: Items such as ~~S~~spare parts, stand-by equipment are recognized 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 recognized 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 items of property, plant and equipment, they are considered property, plant and equipment.~~

Section 19: Business Combinations

Section 19 of IFRS for SMEs ("Business Combinations") sets forth the rules for business combinations (e.g., mergers, purchase and assumption transactions, transfers of engagements, amalgamations, etc.) which uses the purchase method. This includes identification of which entity is the "acquirer" (in Paragraphs 19.8-19.10, below) as well as the IFRS for SMEs rules for "negative goodwill" (a/k/a "bargain purchase gain," in Paragraph 19.24, below):

19.6: All business combinations shall be accounted for by applying the purchase method.

19.7: Applying the purchase method involves the following steps:

(a) identifying an acquirer;

(b) measuring the cost of the business combination; and

(c) allocating, at the acquisition date, the cost of the business combination to the assets acquired and liabilities and provisions for contingent liabilities assumed.

Identifying the acquirer

19.8: An acquirer shall be identified for all business combinations. The acquirer is the combining entity that obtains control of the other combining entities or businesses.

19.9: Control is the power to govern the financial and operating policies of an entity or business so as to obtain benefits from its activities. Control of one entity by another is described in Section 9 *Consolidated and Separate Financial Statements*.

19.10: Although it may sometimes be difficult to identify an acquirer, there are usually indications that one exists. For example:

(a) if the fair value of one of the combining entities is significantly greater than that of the other combining entity, the entity with the greater fair value is likely to be the acquirer;

(b) if the business combination is effected through an exchange of voting ordinary equity instruments for cash or other assets, the entity giving up cash or other assets is likely to be the acquirer; or

(c) if the business combination results in the management of one of the combining entities being able to dominate the selection of the management team of the resulting combined entity, the entity whose management is able so to dominate is likely to be the acquirer.

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 acquisition ~~exchange~~ of assets given, liabilities incurred or assumed and equity instruments issued by the acquirer, in exchange for control of the acquire; plus

(b) Any costs directly attributable to the business combination.

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 recognizing the acquirer's identifiable assets and liabilities and a provision for those contingent liabilities that satisfy the recognition criteria in paragraph 19.15 ~~20~~ at their 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 recognized and measured in accordance with Section 29 Income Tax; and
(b) A liability (or asset, if any) related to the acquirer's employee benefit arrangements shall be recognized 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 recognized 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 acquire is measured at the non-controlling interest's proportionate share of the recognized amounts of the acquirer's identifiable net assets.

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

(a) in the case of an asset other than an intangible asset, it is probable that any associated future economic benefits will flow to the acquirer, and its fair value can be measured reliably;

(b) in the case of a liability other than a contingent liability, it is probable that an outflow of resources will be required to settle the obligation, and its fair value can be measured reliably;

(c) in the case of an intangible asset ~~or a continent liabilit~~y, its fair value can be measured reliably without undue cost of effort ;and

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

19.24: If the acquirer's interest in the net fair value of the identifiable assets, liabilities and provisions for contingent liabilities recognised in accordance with paragraph 19.14 exceeds the cost of the business combination (sometimes referred to as 'negative goodwill'), the acquirer shall:

(a) reassess the identification and measurement of the acquiree's assets, liabilities and provisions for contingent liabilities and the measurement of the cost of the combination; and

(b) recognise immediately in profit or loss any excess remaining after that reassessment.

Section 22: Liabilities and Equity

IASB proposes to add the following new Paragraph 22.3A to the IFRS for SMEs section on classification of an instrument as liability or equity; also, Paragraph 22.6, further below, addresses cooperative/credit union shares as equity:

22.3A: Entities should classify a financial instrument as a liability (i.e.; a financial liability) or as equity based on its substance, rather than its legal form. If an entity does not have 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 as equity instruments in accordance with paragraph 22.4.

22.4: Some financial instruments that meet the definition of a liability are classified as equity because they represent othe residual interest in the net assets of the entity:

(a) a puttable instrument is a financial instrument that gives the holder the right to sell that instrument toback to the issuer for cash or another financial asset or is automatically redeemed or repurchased by the issuer on the occurrence of an uncertain future event or the death or retirement of the instrument holder. A puttable instrument that has all of the following features is classified as an equity instrument:

(i) it entitles the holder to a pro rata share of the entity's net assets in the event of the entity's liquidation. The entity's net assets are those assets that remain after deducting all other claims on its assets.

(ii) the instrument is in the class of instruments that is subordinate to all other classes of instruments.

(iii) all financial instruments in the class of instruments that is subordinate to all other classes of instruments have identical features.

(iv) apart from the contractual obligation for the issuer to repurchase or redeem the instrument for cash or another financial asset, the instrument does not include any contractual obligation to deliver cash or another financial asset to another entity, or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity, and it is not a contract that will or may be settled in the entity's own equity instruments.

(v) the total expected cash flows attributable to the instrument over the life of the instrument are based substantially on the profit or loss, the change in the recognised net assets or the change in the fair value of the recognised and unrecognised net assets of the entity over the life of the instrument (excluding any effects of the instrument).

(b) instruments, or components of instruments, that are subordinate to all other classes of instruments are classified as equity if they impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation.

22.5: The following are examples of instruments that are classified as liabilities rather than equity:

(a) an instrument is classified as a liability if the distribution of net assets on liquidation is subject to a maximum amount (a ceiling). For example, if on liquidation the holders of the instrument receive a pro rata share of the net assets, but this amount is limited to a ceiling and the excess net assets are distributed to a charity organisation or the government, the instrument is not classified as equity.

(b) a puttable instrument is classified as equity if, when the put option is exercised, the holder receives a pro rata share of the net assets of the entity measured in accordance with this IFRS. However, if the holder is entitled to an amount measured on some other basis (such as local GAAP), the instrument is classified as a liability.

(c) an instrument is classified as a liability if it obliges the entity to make payments to the holder before liquidation, such as a mandatory dividend.

(d) a puttable instrument that is classified as equity in a subsidiary's financial statements is classified as a liability in the consolidated group financial statements.

(e) a preference share that provides for mandatory redemption by the issuer for a fixed or determinable amount at a fixed or determinable future date, or gives the holder the right to require the issuer to redeem the instrument at or after a particular date for a fixed or determinable amount, is a financial liability.

22.6: Members' shares in co-operative entities and similar instruments are equity if:

(a) the entity has an unconditional right to refuse redemption of the members' shares; or

(b) redemption is unconditionally prohibited by local law, regulation or the entity's governing charter.

Section 24: Government Grants

IASB does not propose significant changes to the IFRS for SMEs standard concerning government grants, however, we have reprinted the government grants section below because of such grants' relevance to credit union development:

24.1: This section specifies the accounting for all government grants. A **government grant** is assistance by government in the form of a transfer of resources to an entity in return for past or future compliance with certain ~~specified~~ conditions relating to the operating activities of the entity.

24.2: Government grants exclude those forms of government assistance that cannot reasonably have a value placed upon them and transactions with government that cannot be distinguished from the normal trading transactions of the entity.

24.3: This section does not cover government assistance that is provided for an entity in the form of benefits that are available in determining taxable profit or tax loss, or are determined or limited on the basis of income tax liability. Examples of such benefits are income tax holidays, investment tax credits, accelerated depreciation allowances and reduced income tax rates. Section 29 *Income Tax* covers accounting for taxes based on income.

Recognition and measurement

24.4: An entity shall recognise government grants as follows:

(a) a grant that does not impose specified future performance conditions on the recipient is recognised in income when the grant proceeds are receivable;

(b) a grant that imposes specified future performance conditions on the recipient is recognised in income only when the performance conditions are met; and

(c) grants received before the revenue recognition criteria are satisfied are recognised as a liability.

24.5: An entity shall measure grants at the fair value of the asset received or receivable.

Disclosures

24.6: An entity shall disclose the following ~~about government grants~~:

(a) the nature and amounts of government grants recognised in the financial statements;
(b) unfulfilled conditions and other contingencies attaching to government grants that have not been recognised in income; and
(c) an indication of other forms of government assistance from which the entity has directly benefited.

24.7: For the purpose of the disclosure required by paragraph 24.6(c), government assistance is action by government designed to provide an economic benefit specific to an entity or range of entities qualifying under specified criteria. Examples include free technical or marketing advice, the provision of guarantees, and loans at nil or low interest rates.

Section 26: Share-based payment

The following rules on share-based payments are likely relevant to payments of dividends on cooperative/credit union shares:

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

~~1. 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)~~

~~2. 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~~

~~3. Transactions in which the entity receives or acquires goods or services and the terms of the arrangement provide either the entity of 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 applies to an entity that:

- 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
- 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 and 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 has been or will be received, in which this applies.

26.2: Cash settled share-based payment transactions include share appreciation rights. For example, an entity might grant appreciation rights to employees as part of their remuneration package, whereby the employees will become entitled to a future cash payment (rather than an equity instrument), based on the increase in the entity's share price from a specified level or a specified period of time. Or an entity might grant to its employees a right to receive a future cash payment by granting to them a right to shares (including shares to be issued upon the exercise of share options) that redeemable, either mandatorily (for example, upon cessation of employment_ or the employee's option.

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

26.12: ~~If a~~An entity may modify 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 term and conditions that is not beneficial to the employee, for example, by increasing the vesting or adding a performance condition. T~~t~~he entity shall take the modified vesting conditions into account in accounting for the share-based payment transactions, as follows:

(a) If the modification increases the fair value of the equity instruments granted (or increases the number of equity instruments granted) measured immediately before and after the modification, the entity shall include the incremental fair value granted in the measurement of the amount recognized for services received as consideration for the equity instruments granted. The incremental fair value granted is the difference between the fair value of the

modified equity instrument and that of the original equity instrument, both estimated as at the date of the medication. If the modification occurs amount recognized for services received over the period from the modification date until the date when the modified equity instruments vest, in addition to the amount based on the grant date fair value of the original equity instruments, which is recognized over the remainder of the original investing period.

(b) If the medication reduces the total fair value of the **share-based payment arrangement**, or apparently is not otherwise beneficial to the employee, the entity shall nevertheless continue to account for the services received as consideration for the equity instruments granted as if that modification had not occurred.

The requirements in this paragraph are expressed in the context of share-based payment transactions with employees. However, the requirements shall also be applied share-based payment transactions with parties other than employees if these transactions are measured by reference of the fair value of the equity instruments granted.

Section 29: Income Tax

IASB has proposed significant changes to the recognition and measurement of taxes and tax assets under IFRS for SMEs:

Recognition and measurement of current tax

29.6: An entity shall measure a current tax liability (asset) at the amounts 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 a substantively enacted by the reporting date. ~~An entity shall regard tax rates as substantively enacted when future events required by the enactment process historically have not affected the outcome and are unlikely to do so~~. Paragraphs 29.230and 29.25 provide additional measurement guidance.

29.7: [Deleted] ~~An entity shall recognize changes in a current tax liability or current tax asset as tax expense in profit or loss, except that a change attributable to an item of income or expense recognized under the IFRS as other comprehensive shall be recognized in other comprehensive income.~~

29.8: [Deleted] ~~An entity shall include in the amounts recognized in accordance with paragraphs 29.4 and 29.5 the effect of the possible outcomes of a review by the tax authorities, measured in accordance with paragraph 29.24~~

Recognition of deferred tax: General recognition principle

29.8A: It is inherent in the recognition of an asset or a liability that the reporting entity expects to recover or settle the carrying amount 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 recover or settlement were to have no tax consequences, this section requires an entity to recognize 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.

29.9: An entity shall recognize 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 ~~recognized for~~ the entity's assets and liabilities in the statement of financial position and the amounts attributed to ~~recognition of~~ those assets and liabilities by the tax authorities (such differences are called '**temporary differences'**), and the carry forward of currently unused tax losses and tax credits.

~~*Assets and liabilities whose recovery or settlement will not affect taxable profit*~~

29.10: [Deleted] ~~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. Therefore, paragraphs 29.11-2917 apply only to assets and liabilities for which the entity expects the recovery or settlement of the carrying amount to affect taxable profit and to other items that have a tax basis.~~

Tax bases and temporary differences ~~Tax basis~~

29.11: The **tax base** of an asset is the amount the 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 benefited will not be taxable, the tax base of the asset is equal to its carrying amount. ~~An entity shall determine the tax basis of an asset, liability or other item in accordance with enacted or substantively enacted law. If the entity files a consolidated tax return, the tax basis is determined by the tax law governing the consolidated tax return. If the entity files separate tax returns for different operations, the tax basis is determined by the tax laws governing each tax return.~~

29.12: 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 less any amount of the revenue that will not be taxable in future periods. ~~The tax basis determines the amounts that will be included in taxable profit on recovery or settlement of the carrying amount of an asset or liability. Specifically:~~

~~(a) The tax basis of an asset equals the amount that would have been deductible in arriving at taxable profit if they carrying amount of the asset had been recovered through sale at the end of the reporting period. If the recovery of the asset through sale does not increase taxable profit, the tax basis shall be deemed to be equal to the carrying amount.~~

~~(b) The tax basis of a liability equals its carrying amount less any amounts deductible in determining taxable profit) or plus any amounts included in taxable profit that would have arisen if the liability had been settled for its carrying amount at the end of the reporting period. IN the case of deferred revenue, the tax base of the resulting liability is its carrying amount, less any amount of revenue that will not be taxable in future periods.~~

29.13: Some items have tax base but are not recognized as assets and liabilities in the statement of financial position. For example, research and development costs are recognized 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. ~~Some items have a tax basis but are not recognized as assets and liabilities. For example, research costs are recognized as an expense when they are incurred but may not be permitted as a deduction in determining taxable profit until a future period. Thus, the carrying amount of the research costs is nil and tax basis is the amount that will be deducted in future periods. An equity instrument issued by the entity may also give rise to deductions in a future period. There is no asset or liability in the statement of financial position, but the tax basis is the amount of the future deductions.~~

~~Temporary differences~~

29.14: In consolidated financial statements, temporary differences are determined by comparing the ferrying 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, tax base is determined by reference to the tax returns of each entity in the group. ~~Temporary differences arise.~~

(a) ~~When there is a difference between the carrying amounts and tax bases on the initial recognition of assets and liabilities, or at the time a tax basis is created for those items that have a tax basis but are not recognized an assets and liabilities.~~
(b) ~~When a difference between the carrying amount and tax basis arises after initial recognition because income or expense is recognized in comprehensive income or equity in one reporting period but is recognized in taxable profit in a different period.~~
(c) ~~When the tax basis of an asset or liability changes and the change will not be recognized in the asset or liability's carrying amount in any period.~~

~~Deferred tax liabilities and assets~~

29.15: Examples of situations where temporary differences arise:

(a) the identifiable assets acquired and liabilities assumed in a business combination are recognized 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 recognizes.
(b) Assets are remeasured, for example, investment property is measured at fair value at each reporting date in accordance with Section 16 Investment Property, and no equivalent adjustment is made for tax purposes.
(c) Goodwill arises in a business combination, for example, the tax base of goodwill be nil if taxation authorities do not allow the amortization 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 of an asset or a liability on initial recognition differs from its initial carrying amount; and

(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 29.16 and 29.17A).

~~Except as required by paragraph 29.16, an entity shall recognize:~~

~~(a) A deferred tax liability for all temporary differences that are expected to increase taxable profit in the future.~~

~~(b) A deferred tax asset for all temporary differences that are expected to reduce taxable profit in the future.~~

~~(c) A deferred tax asset for the carryforward of unused tax losses and unused tax credits.~~

Taxable temporary differences

29.16: A deferred tax liability shall be recognized 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 interests in joint ventures, a deferred tax liability shall be recognized in accordance with paragraph 29.17J.

~~The following, are exceptions to the requirements of paragraph 29.15:~~

~~(a) An entity shall not recognize a deferred tax asset or liability for temporary differences associated with unremitted earnings from foreign subsidiaries, branches, associates and joint ventures to the extent that the investment is essentially permanent in duration, unless it is apparent that the temporary difference will reverse in the foreseeable future.~~

~~(b) An entity shall not recognize a deferred tax liability for a temporary difference associated with the initial recognition of goodwill.~~

29.17: 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 different 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 the 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.
(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 29.17A).

~~An entity shall recognize changes in a deferred tax liability or deferred tax asset as tax expense in profit or loss; except that a change attributable to an item of income or expense recognized under this IFRS as other comprehensive income shall be recognized in other comprehensive income.~~

Deductible temporary differences

29.17A: A deferred tax asset shall be recognized 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 utilized, 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 recognized in accordance with paragraph 29.17K.

29.17B: The following are examples of deductible temporary differences that result in deffered 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.

29.17C: The reversal of deductible 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 utilized 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 the periods in to which a tax loss arising from the deferred tax can be carried back or forward.
In such circumstances, the deferred tax asset is recognized in the period in which the deductible temporary differences arise.

27.17D: When there are insufficient taxable temporary differences relating to the same taxation authority and the same taxable entity, the deferred tax asset is recognized 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 utilized; or
(b) tax planning opportunities are available to the entity that will create taxable profit in appropriate periods.

29.17E: When an entity has a history of recent losses, the entity considers the guidance in paragraphs 29.17F-29.17G

Unused tax losses and unused tax credits

29.17F: A deferred tax asset shall be recognized 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 the unused tax losses and unused tax credits can be utilized. When assessing the probability that taxable profit will be available, 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 utilized 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; and
(c) whether tax planning opportunities are available to the entity that will create taxable profit in the periods in which the unused tax losses or unused tax losses or unused tax credits can be utilized.

29.17G: 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 recognizes 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 utilized by the entity.

Reassessment of unrecognized deferred tax assets

29.17H: At the end of reach reporting period, an entity reassess any unrecognizsed deferred tax assets. The entity recognizes a previously unrecognized deferred tax asset to the extent that is 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

29.17I: Temporary differences arise when the carrying amount of investments in subsidiaries, branches and associates and interests in joint ventures (for example , for a subsidiary this is the parent's share of the net asset of that subsidiary, including the carrying amount of 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 parents' separate financial statements compared to the consolidated financial statements in which case the temporary difference associated with that investment may also differ.

2917J: An entity shall recognizes 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 venture is able to control the timing of the reversal of the temporary different; and
(b) it is probable that the temporary difference will not reverse in the foreseeable future.

29.17K: An entity shall recognize a deferred tax asset for all deductible temporary differences 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 utilized.

Measurement of deferred tax

29.18: An entity shall measure a deferred tax liability (asset) using the tax rates and laws that have been enacted or substantively by the reporting date~~. An entity shall regard tax rates as substantively enacted when future events required by the enactment process historically have not affected the outcome and are unlikely to do so.~~

29.19: When different tax rates apply to different levels of taxable profit, an entity shall measure ~~deferred tax expense (income) and related~~ deferred tax liabilities (assets using the average enacted or substantively enacted rates that it expects to be applicable to the taxable profit) tax loss in which it expects ~~the deferred tax asset to be realized or~~ the deferred tax liability to be settled (deferred tax asset to be realized.)

29.20: 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 capital gain in ta future period, the deferred tax expense is measured using the capital gain tax rate and the tax basis that is consistent with recovering the amount through sale.

Valuation allowance

29.21: 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 that presumption is rebutted 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 of the investment property entirely through sale. If the presumption is rebutted, the requirements of paragraph 29.20 shall be followed. ~~An entity shall recognize a valuation allowance against deferred tax assets so that the net carrying amount equals the highest amount that is more likely than not to be recovered based on current or future taxable profit.~~

29.22: 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 is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that recognize deferred tax asset to be utilized. Any such reduction shall be reversed to the extent that it becomes probable that sufficient taxable profit will be available.~~ An entity shall review the net carrying amount of a deferred tax asset each reporting dare and shall adjust the valuation allowance to reflect the current assessment of future taxable profits. Such adjustment shall be recognized in profit or loss, except that an adjustment attributable to an item of income~~

~~or expense recogniszd in accordance with this IFRS as other comprehensive income shall be recognized in other comprehensive income.~~

Measurement of both current and deferred tax

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

29.24: [Deleted[~~Uncertainty about whether the tax authorities will accept the amounts reported to them by the entity affects the amount of current tax and deferred tax, An entity shall measure current and deferred tax assets and liabilities using the probability weighted average amount of all possible outcomes, assuming that the tax authorities will review the amounts reported and hqave full knowledge of all relevant information. Changes in the probability weighted average amount of all possible outcomes shall be based on new information, not a new interpretation by the entity of previously available information.~~

Disclosures

29.31: 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 recognized 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 ratesor the imposition of new taxes;
(e) ~~the effect on deferred tax expense arising from a change in the effect of the possible outcomes of a review by the tax authorities (see paragraph 29.24~~) the amount of the benefit arising from a previously unrecognized 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 tis shareholders;
(g) ~~any change in the valuation allowance (see paragraph 29.21 and 29.22~~) 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 29.22;and
(h) the amount of tax expense (income) relating to changes in accounting policies and errors (see Section 10 Accounting Policies, Estimates and Errors)

29.32: An entity shall disclose the following separately:

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

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

(b) an explanation of the significant differences in amounts presented in the statement of comprehensive income and amounts reported to tax authorities;

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

(d) 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 ~~and valuation allowances~~ during the period and

ii. an analysis of the change in deferred tax liabilities and-, deferred tax assets ~~and valuation~~ allowances during the period.

(e) The expiry date, if any, of deductible temporary differences, unused tax losses and unused tax credits for which no deferred tax asset is recognized in the statement of financial position; and

(f) In the circumstances described in paragraph 29.25, an explanation of the nature of the potential income tax consequences that would result from the payment of dividends to its shareholders.

Section 33: Related Party Defined

The following sets for the definition of "related party" both with respect to natural, physical people, and with respect to corporate, legal persons like credit unions and CUSOs:

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. 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 parents, 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 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 reporting entity ~~plan.~~

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

vii. [deleted] ~~a person identified in (a) (i) has significant voting power in the entity~~.

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

~~ix. [deleted[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. [deleted] a member of the key management personnel of the entity or of a joint 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 power in it.~~

Section 35: Transition to the IFRS for SMEs

The transition to applying IFRS for SMEs provisions will be relevant for all credit unions that will transition to IFRS for SMEs in the future:

35.2: An entity that has applied the IFRS for SMEs in a previous reporting period, but whose most recent previous annual financial statements did not contain an explicit and unreversed statement of compliance with the IFRS for SMEs, must either apply this section or apply the IFRS for SMEs retrospectively in accordance with Section 10 Accounting Policies, Estimates and Errors as if the entity had never stopped applying the IFRS for SME's. 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. ~~can be a first time adopter of the IFRS for SMEs only once. If an entity using the IFRS for SMEs 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.~~

Procedures for preparing financial statements at the date of transition

35.9: On first-time adoption of this IFRS, an entity shall not retrospectively change the accounting that it following transactions:

(a) **derecognition** of financial assets and financial liabilities. Financial assets and liabilities recognized under an entity's previous accounting framework before the date of transition shall ~~should~~ not be recognized upon adoption of the IFRS for SMEs. Conversely, for financial assets and liabilities that would have been derecognized under the IFRS for SMEs in a transaction that of transition but that took place before the date of transition, but that were not derecognized under an entity's previous accounting framework, an entity may choose:

(a) to derecognize them on adoption of the IFRS for SMEs; or
~~(b~~ii) to continue to recognize them until disposed of or settled.

(b) Hedge accounting. An entity shall not change its hedge accounting before the date of transition to the IFRS for SMEs for ~~the~~ hedging relationship that no longer exist at the date of transition. For hedging relationship that exist at the date of transition, the entity shall follow the hedge accounting requirements of Section 12 *Other Financial Instruments Issues*, including the requirements for discontinuing hedge accounting for hedging relationship that not meet the conditions of Section 12.

(c) Accounting estimates

(d) **Discontinued operations**

(e) Measuring **non-controlling interests**. The requirements of paragraph 5.6 to allocate profit or loss total comprehensive income between non-controlling interest and owners of the parent shall be applied prospectively from the date of transition to the IFRS for SMEs (or from such earlier date as this IFRS is applied to restate business combinations—see paragraph 25.10(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 IFRS. Consequently, if a first-time adopter did not, under its previous GAAP, recognize and measure a government loan on a basis that is consistent with this IFRS, it shall use its previous GAAP carrying amount of the loan at the date of transition to this IFRS as the carrying amount of the loan at that date and shall not recognize 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 IFRS.

(a) ***Business combinations.*** A first-time adopter may elect not to apply Section 19 Business Combinations and Goodwill to business combinations that were effected before the date of transition to this IFRS. However, if a first-time adopter restates any business combination to comply with Section 19, it shall restate all later business combinations.

(b) ***share-based payment transactions.*** A first time adopter is not required to apply Section 26, *Share-based Payment t*o equity instruments that were granted before the date of transition to this IFRS, or to liabilities arising from share-based payment transactions that were settled before the date of transition to this IFRS.

(c) ***fair value as deemed cost***. A first-time adopter may elect to measure an item of property, plant and equipment, an investment property, or an intangible asset on the date of transition to this IFRS at its fair value and use that fair value as its deemed cost at that date.

(d) ***revaluation as deemed cost***. A first-time adopter may elect to use a previous GAAP revaluation of an item of property, plant and equipment, an investment property, or an intangible asset at, or before, the date of transition to this IFRS as its deemed cost at the revaluation date.

(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 IFRS, 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 IFRS, but during the periods covered by the first financial statements that conform to this IFRS, the event-driven fair value measurements may be used as deemed cost when the event occurs. An entity shall recognize 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 IFRS, the entity shall either establish the deemed cost by applying the criteria in paragraphs 35.10(c)–(d) or measure those assets and liabilities in accordance with the other requirements in this section.

(e) ***cumulative translation differences***. Section 30 *Foreign Currency Translation* requires an entity to classify some translation differences as a separate component of equity. A first-time adopter may elect to deem the cumulative translation differences for all **foreign operations** to be zero at the date of transition to the *IFRS for SMEs* (ie a 'fresh start').

(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 recognized in profit or loss.

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 IFRS:

(i) cost determined in accordance with Section 9 *Consolidated and Separate Financial Statements; or*
(ii) deemed cost, which shall be either fair value at the date of transition to the *IFRS for SMEs* or previous GAAP carrying amount on that date.

(g) ***compound financial instruments***. Paragraph 22.13 requires an entity to split a compound financial instrument into its liability and equity components at the date of issue. A first-time adopter need not separate those two components if the liability component is not outstanding at the date of transition to this IFRS.

(h) ***deferred income tax***. A first-time adopter is not required to recognize, at the date of transition to the *IFRS for SMEs*, **deferred tax assets** or **deferred tax liabilities** relating to differences between the **tax basis** 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) ***service concession arrangements***. A first-time adopter is not required to apply paragraphs 34.12–34.16 to service concession arrangements entered into before the date of transition to this IFRS.

(j) ***extractive activities***. A first-time adopter using full cost accounting under previous GAAP may elect to measure oil and gas assets (those used in the exploration, evaluation, development or production of oil and gas) on the date of transition to the *IFRS for SMEs* at the amount determined under the entity's previous GAAP. The entity shall test those assets for impairment at the date of transition to this IFRS in accordance with Section 27 *Impairment of Assets*.

k) ***arrangements containing a lease***. A first-time adopter may elect to determine whether an arrangement existing at the date of transition to the *IFRS for SMEs* contains a lease (see paragraph 20.3) on the basis of facts and circumstances existing at that date, rather than when the arrangement was entered into.

(l) ***decommissioning liabilities included in the cost of property, plant and equipment***. Paragraph 17.10(c) states that the cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during thatperiod. A first-time adopter may elect to measure this component of the cost of an item of property, plant and equipment at the date of transition to the *IFRS for SMEs*, rather than on the date(s) when the obligation initially arose.

(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 authorized body) it may elect to use the previous GAAP carrying amount of those items at the date of transitionto this IFRS 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 IFRS 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 IFRS is on, or after, the **functional currency normalization date**, the entity may elect to measure all assets and liabilities held before the functional currency normalization date at fair value on the date of transition to this IFRS and use that fair value as the deemed cost of those assets and liabilities at that date; and

(ii) if the functional currency normalization date falls within a 12-month comparative period, an entity may use a comparative period of less than 12 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 restate the opening statement of financial position at the date of transition for one or more of the adjustments required by paragraph 35.7, 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 disclose which amounts in the financial statements have not been restated ~~identify the data presented for prior periods that are not comparable with data for the period period in which it prepares its first financial statements that conform to this IFRS~~. If it is impracticable for an entity to provide any of the disclosures required by this IFRS, including those for comparative periods ~~for any period before the period in which it prepares its first financial statements that conform to this IFRS~~, the omission shall be disclosed.

Explanation of transition to the IFRS to SMEs

35.12A: An entity that has applied the IFRS for SMEs in a previous period, as described in paragraph 35.2, shall disclose:

(a) the reason it stopped applying the IFRS for SMEs;
(b) the reason it is resuming the application of the IFRS for SMEs; and
(c) whether it has applied this section or has applied the IFRS for SMEs retrospectively in accordance with Section 10.

Glossary of terms

Accounting period: The 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 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) dependents of that person or that person or that person's spouse or domestic partner.

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: Income tax payable (recoverable) in respect of the taxable profit (tax loss) for future ~~reporting~~ periods as a result of past transactions or events.

Deferred tax assets: The amounts of i~~I~~ncome 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 i~~I~~ncome tax payable in future ~~reporting~~ periods in respect of ~~taxable~~ temporary differences.

Financial liability: Any liability that is:

(a) a contractual obligation:
   i. to deliver cash or another financial asset to another entity; or
   ii. to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the entity, or
(b) a contract that will or may be settled in the entity's own equity instruments and:
   i. under which the entity is or may be obliged to deliver a variable number of the entity's own equity instruments, or
   ii. will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments. For this purpose, rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency are equity instruments if the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own equity instruments. Also for these purposes the entity's own equity instruments do not include instruments that are themselves contracts for the future receipt or delivery of the entity's own equity instruments.

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

Functional currency normalization 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

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 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 reporting entity ~~plan~~.
vi. The entity is controlled or jointly controlled by a person identified in (a).
vii. [deleted] ~~a person identified in (a)(i) has significant voting power in the entity~~.
viii. A person identified in (a)(ii) has significant influence over the entity or(is a member of the key management personnel of the entity) (or of a parent of the entity) ~~significant voting power in it.~~
~~ix.~~ [deleted] ~~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. [deleted] ~~a member of the key management personnel of the entity or of a parent of the entity or a close 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 a parent (i.e an investor with control of a subsidiary), or by an investor in an associate or a venturer in a jointly controlled entity, in which the

investments are accounted for at cost less impairment or at fair value with changes in fair value recognized in profit or loss in accordance with paragraph 9.26. Separate financial statements are presented in addition to consolidated financial statements or in addition to 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. ~~on the basis of the direct equity interest rather than on the basis of the reported results and net assets of the investees.~~

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.
(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) 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. ~~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.~~

Substantively enacted: Tax rates and tax laws shall be regarded substantively enacted when the remaining steps in ~~future events required by~~ the enactment process have not affected the outcome in the past and are unlikely to do so ~~will not change the outcome.~~

Tax base ~~basis~~: The tax base of an asset or liability is the amount attributed to that asset or liability for tax purposes. ~~The measurement, under applicable substantively enacted tax law, of an asset, liability or equity instrument.~~

Tax expense: The aggregate amount included in total comprehensive income or equity for the reporting period in respect of current and deferred tax.

Taxable profit (tax loss): The profit (loss) for a reporting period upon which income taxes are payable or recoverable, determined in accordance with the rules established by the taxation authorities. Taxable profit equals taxable income less amounts deductible from taxable income.

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 ~~or other item~~ in the statement of financial position ~~financial statements~~ and its tax base. ~~basis that the entity expects will affect taxable profit when the carrying amount of the asset or liability is recovered or settled (or in the case of items other than assets and liabilities, will affect taxable profit in the future)~~.

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.

Questions:

1. Do you support the proposed revisions to Paragraph 1.3(b) to remove the phrase stating that it is "typically the case" for credit unions to be considered "publicly accountable" (and therefore cannot be considered "compliant" with IFRS for SMEs since "publicly accountable" entities cannot use IFRS for SMEs) with less stringent language saying that "most" credit unions are "publicly accountable"? Should the IASB be more or less stringent with respect to the ability of credit unions to apply IFRS for SMEs?

2. Do you support the proposed "undue cost or effort exemptions"? Should the IASB provide more "undue cost or effort exemptions" under the IFRS for SMEs standard than are proposed here?

3. Do you agree with the proposed transition provisions for the amendments to the IFRS for SMEs?

4. Do any provisions or terms need to be clarified or replaced?

5. Do you have any other comments on the proposals?

6. Are there any other issues which the IASB should consider that have not been addressed in the proposed amendments?