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IFRS® Foundation

Terms of Reference and Operating Procedures for the SME Implementation Group



**Terms of Reference
and Operating Procedures
for the SME Implementation Group**

IFRS Foundation

Approved by the Trustees

June 2020

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SME Implementation Group

Terms of Reference and Operating Procedures

PART A: BACKGROUND

- 1 In July 2009 the Trustees of the IFRS Foundation¹ (Trustees) approved the establishment of the SME Implementation Group.
- 2 In June 2020, having considered the period for which the *IFRS for SMEs* Standard had been issued and how the role of the SME Implementation Group has progressed from supporting the implementation of the *IFRS for SMEs* Standard to also supporting its application, the Trustees approved these revised *Terms of Reference and Operating Procedures*.
- 3 The mission of the SMEIG is to support the international adoption, implementation and application of the *IFRS for SMEs* Standard.

The need for implementation guidance

- 4 The International Accounting Standards Board (Board) issued the *IFRS for SMEs* Standard in July 2009. It was a new Standard expected to be applied throughout the world by small and medium-sized entities (SMEs) that do not have public accountability. Many of those entities had not been applying IFRS Standards.
- 5 The *IFRS for SMEs* Standard is based on the principles in IFRS Standards, but is a separate Standard with simplified requirements. The simplifications reflect the needs of users of SMEs' financial statements and SMEs' technical and financial abilities to produce those financial statements. Such simplifications include:
 - (a) omitting topics in IFRS Standards that are regarded as not relevant for most SMEs;
 - (b) allowing SMEs to use the easier option where IFRS Standards allow accounting policy choices;
 - (c) simplifying many of the principles in IFRS Standards for recognising and measuring assets, liabilities, income and expenses;
 - (d) requiring substantially fewer disclosures; and
 - (e) simplifying wording.
- 6 The Trustees and the Board established the SMEIG to support adoption and implementation of the *IFRS for SMEs* Standard.
- 7 In June 2020 the Trustees revised the *Terms of Reference and Operating Procedures* to recognise the role of the SMEIG in also supporting application of the *IFRS for SMEs* Standard.

¹ In 2009, the IFRS Foundation was called the IASC Foundation.

Commitment of the Board

- 8 In the Preface to the *IFRS for SMEs* Standard, the Board states that it expects to propose amendments to the *IFRS for SMEs* Standard by publishing an omnibus exposure draft periodically, but not more frequently than approximately once every three years. The Board would propose those amendments after considering new and amended IFRS Standards as well as issues that have been brought to its attention regarding application of the *IFRS for SMEs* Standard.
- 9 Between the Board's periodic reviews of the *IFRS for SMEs* Standard the need may arise for guidance on pervasive implementation and application questions and recommendations on whether the Standard should be amended to respond to those pervasive questions. The Trustees established the SMEIG to address those questions.

Revision of the *Terms of Reference and Operating Procedures*

- 10 The *Terms of Reference and Operating Procedures* are updated by the Trustees from time to time to reflect changes in circumstances, due process or requirements. This revised document was issued by the Trustees in June 2020. The previous *Terms of Reference and Operating Procedures* are available on request.

PART B: DECISIONS OF THE IFRS FOUNDATION TRUSTEES

Responsibilities of the SMEIG

- 11 The Trustees have charged the SMEIG with two main responsibilities:
- (a) To consider questions on the implementation and application of the *IFRS for SMEs* Standard, decide which questions merit published educational material based on the criteria set out in paragraphs 20–22 and develop Q&As, which are educational materials, that are publicly available on a timely basis.
 - (b) To consider the need to amend the *IFRS for SMEs* Standard and make recommendations to the Board on:
 - (i) issues on the implementation and application of the *IFRS for SMEs* Standard that cannot be addressed by Q&As; and
 - (ii) new and amended IFRS Standards that have been approved since the *IFRS for SMEs* Standard was issued or last amended.

Membership of the SMEIG

- 12 The SMEIG shall have at least 12 and not more than 30 members appointed by the Trustees. The Trustees will invite nominations, including self-nominations, on the IFRS Foundation's website.
- 13 Members of the SMEIG are selected for their knowledge of and experience in financial reporting by SMEs and, preferably, their knowledge of and direct experience with the *IFRS for SMEs* Standard. They would normally include accountants working in SMEs, auditors in small or medium-sized public practices, bank lenders and other users of the financial statements of SMEs, with a reasonably broad geographical representation.
- 14 Membership is personal. SMEIG members voice their own views; they do not voice the views of any company, organisation or constituency.
- 15 No member will serve more than two consecutive three-year terms unless, in the opinion of the Trustees, no suitable replacement with similar expertise is available.
- 16 If a member is unable to complete his or her term, the Trustees may at their discretion choose to fill the vacancy created. When a vacancy is filled in this way, the new member will complete the term of the member being replaced. Such a new member would be eligible for two further complete terms after the partial term.
- 17 All members of the SMEIG shall serve on a voluntary, unpaid basis.
- 18 The Trustees may also appoint observers who have the right to participate in the SMEIG deliberations but cannot vote.

Chair of the SMEIG

- 19 The Chair of the Board will appoint the Chair of the SMEIG, who will be a member of the Board with appropriate experience. The Chair of the SMEIG shall report to the Chair of the Board on the technical activities of the SMEIG. The SMEIG shall have such additional staff as provided for in the budget of the IFRS Foundation.

Criteria for educational material

- 20 In deciding whether to address an issue in a Q&A, the SMEIG shall consider:
- (a) whether the issue is pervasive, that is, whether the issue has arisen or is likely to arise in financial reporting by a broad group of SMEs in various jurisdictions;
 - (b) whether owing to a lack of clarity in the *IFRS for SMEs* Standard, unintended or inconsistent application has occurred or is likely to occur in the absence of a Q&A; and
 - (c) whether the SMEIG can reach a consensus on the appropriate treatment on a timely basis.
- 21 The SMEIG is expected to focus on a limited number of pervasive issues and not to seek to create an extensive rule-oriented environment.
- 22 The SMEIG cannot publish a Q&A that changes or conflicts with the *IFRS for SMEs* Standard.
- 23 The SMEIG may decide that the requirements of the *IFRS for SMEs* Standard should be amended. If it does decide so, the SMEIG should make a recommendation to the Board to be considered during the Board's periodic review of the *IFRS for SMEs* Standard or, in rare cases, considered as an urgent amendment to the *IFRS for SMEs* Standard.

PART C: THE WORK OF THE SMEIG

- 24 The SMEIG assists the Board in its work to improve financial reporting by undertaking the responsibilities as set out in paragraph 11, namely:
- (a) developing timely and publicly available educational material for the *IFRS for SMEs* Standard in the form of Q&As; and
 - (b) making recommendations to the Board on the need to amend the *IFRS for SMEs* Standard.

Due process in developing educational material

Stage 1 Identifying issues

- 25 Preparers, auditors and others with an interest in financial reporting by SMEs may ask questions about the implementation and application of the *IFRS for SMEs* Standard via the IFRS Foundation's website.

Stage 2 Deciding whether to publish a Q&A

- 26 Staff will review each submitted question against the criteria in paragraphs 20–22, provide an analysis of the question and seek the advice of the SMEIG. The analysis may include:
- (a) a recommendation on whether, based on paragraphs 20–22, to respond with a Q&A; and
 - (b) if the recommendation is to develop a Q&A, the staff's recommended answer.
- 27 Staff will send their analysis to the SMEIG members electronically. SMEIG members will respond within 30 days on:
- (a) whether, if the staff makes a recommendation, the SMEIG member agrees with the staff's recommendation on the need, or not, for a Q&A based on paragraphs 20–22; and
 - (b) whether, if the staff recommends a Q&A, the SMEIG member agrees with the staff's recommended answer and, if not, what the SMEIG member recommends and why.

The SMEIG members' responses will be available to all members and treated as internal correspondence.

Stage 3 Developing a draft Q&A

- 28 Staff will prepare a summary of the SMEIG members' responses which states:
- (a) whether a simple majority of the SMEIG members (see paragraphs 44–45) agree on the need for a Q&A; and
 - (b) whether a simple majority of the SMEIG members (see paragraphs 44–45) agree with the staff's recommended answer.
- 29 If a simple majority of the SMEIG members agree that a Q&A is needed, and agree with the staff's recommended answer, the staff shall prepare a draft Q&A. The draft Q&A will include the rationale for the SMEIG's answer.

Stage 4 The Board's role in developing the draft Q&A

- 30 Q&As explain how the requirements of the *IFRS for SMEs* Standard apply to the transaction or fact pattern described in the Q&A.
- 31 The draft Q&A must adhere to the requirements of the IFRS Foundation's *Due Process Handbook* for the publication of educational material accompanying an IFRS Standard.

Stage 5 Inviting comments on the draft Q&A

- 32 The draft Q&A will be posted on the Foundation's website for public comment for no fewer than 30 days. The website provides a facility for submitting comments electronically. All comments received will be posted on the Foundation's website.
- 33 Staff will prepare an analysis of the comments and recommend changes to the draft Q&A, where necessary. The analysis of comments will be sent to SMEIG members with a request for approval of the proposed final Q&A.
- 34 The SMEIG members shall respond electronically to the staff within 30 days. The SMEIG members' responses on the analysis of the comments and on the proposed final Q&A will be available to all members and treated as internal correspondence.

Stage 6 Developing a final Q&A

- 35 Staff will prepare a summary of the SMEIG members' responses on the proposed final Q&A that states whether a simple majority of the SMEIG members agrees with the proposed final Q&A (see paragraphs 44–45).

Stage 7 The Board's role in developing the final Q&A

- 36 When a simple majority of the SMEIG members has reached a consensus on the proposed final Q&A, the requirements of the IFRS Foundation's *Due Process Handbook* for the publication of educational material accompanying an IFRS Standard must be complied with.
- 37 Q&As derive authority from the *IFRS for SMEs* Standard itself; consequently, they are published by the SMEIG, and not the Board.

Stage 8 Publishing a final Q&A

- 38 The final Q&A will be posted on the IFRS Foundation's website and made publicly available without cost.
- 39 The final Q&A will include the rationale for the SMEIG's answer.
- 40 Correspondence among SMEIG members will not be made public.
- 41 During each of the Board's reviews of the *IFRS for SMEs* Standard, all existing SMEIG Q&As will be incorporated into the *IFRS for SMEs* Standard, into the *IFRS for SMEs* modules or withdrawn, as appropriate. The existing Q&As will then be deleted from the IFRS Foundation's website.

PART D: MEETINGS AND VOTING

Meetings of the SMEIG

- 42 In developing a Q&A, the SMEIG will conduct its work electronically. The SMEIG shall adopt procedures for conducting its work that are consistent with the *Terms of Reference and Operating Procedures*. SMEIG members are expected to participate in the SMEIG's deliberations on all issues.
- 43 If the Chair of the SMEIG decides a meeting of the SMEIG is necessary, the Chair can seek the views of the SMEIG members on whether to hold a meeting. The Chair will organise such a meeting, including means for SMEIG members to participate by telephone or video link. The IFRS Foundation will not reimburse SMEIG members for the costs of attending a physical SMEIG meeting.

Voting

- 44 Each member of the SMEIG shall have one vote. The Chair of the SMEIG shall be non-voting except that, in the case of a tied vote, the Chair shall have a casting vote. Members vote in accordance with their own independent views, not as representatives voting according to the views of any firm, organisation or constituency with which they may be associated. Proxy voting is not permitted.
- 45 A simple majority vote by SMEIG members who have responded within the period of 30 days is required to approve a draft Q&A and a final Q&A, provided 12 or more SMEIG members have voted.