

STAFF PAPER

October 2021

IASB[®] meeting

Project	Second Comprehensive Review of the <i>IFRS for SMEs</i> [®] Standard	
Paper topic	Towards an Exposure Draft—IFRS 14 <i>Regulatory Deferral Accounts</i>	
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Introduction

1. This paper discusses whether and how to propose amending the *IFRS for SMEs* Standard to align with IFRS 14 *Regulatory Deferral Accounts*.
2. In this paper, the term SMEs refers to small and medium-sized entities that are eligible to apply the *IFRS for SMEs* Standard.

Purpose of the paper

3. The purpose of this paper is to ask the International Accounting Standards Board (Board) to:
 - (a) consider feedback on the Request for Information *Comprehensive Review of the IFRS for SMEs Standard*, published in January 2020, and the recommendations of the SME Implementation Group (SMEIG) on the alignment of the *IFRS for SMEs* Standard with IFRS 14; and
 - (b) decide whether to propose amendments to align the *IFRS for SMEs* Standard with IFRS 14.

Summary of staff recommendations

4. The staff recommend that the Board do not propose aligning the *IFRS for SMEs* Standard with IFRS 14 as part of this comprehensive review, and revisit this topic in a future review of the *IFRS for SMEs* Standard once it has completed its project on Rate-regulated Activities.

Structure of the paper

5. This paper is structured as follows:
 - (a) background (paragraphs 7–9 of this paper);
 - (b) question in the Request for Information (paragraph 10 of this paper);
 - (c) overall feedback and SMEIG recommendation (paragraphs 10–19 of this paper);
 - (d) staff analysis (paragraphs 20–25 of this paper); and
 - (e) staff recommendations and question for the Board (paragraph 26 of this paper).
6. Appendix A to this paper is an extract from the Request for Information explaining the Board’s rationale for seeking views on not aligning the *IFRS for SMEs* Standard with IFRS 14.

Background

7. The *IFRS for SMEs* Standard has no section that corresponds to IFRS 14. Entities applying the *IFRS for SMEs* Standard cannot recognise regulatory deferral account balances unless these balances would be permitted or required to be recognised by other sections of the *IFRS for SMEs* Standard.
8. The Board has an ongoing project on Rate-regulated Activities. The project is to provide information about the effects of regulatory income, regulatory expense,

regulatory assets and regulatory liabilities on entities' financial performance and financial position.

9. In January 2021, the Board published the Exposure Draft *Regulatory Assets and Regulatory Liabilities* with comment deadline in July 2021. If the proposals in the Exposure Draft are finalised the Board will issue as a new IFRS Standard, replacing IFRS 14.

Question in the Request for Information

10. Question N1 of the Request for Information asked for views on not aligning the *IFRS for SMEs* Standard with IFRS 14, that is, not including requirements for regulatory deferral account balances in the *IFRS for SMEs* Standard. The Board's rationale for seeking views on not aligning the *IFRS for SMEs* Standard with IFRS 14 is reproduced in Appendix A to this paper.

Overall feedback and SMEIG recommendation

Methods for obtaining feedback

11. Feedback on Question N1 of the Request for Information was gathered from comment letters and an online survey.
12. The SMEIG met on 9 September 2021 to discuss the feedback on the Request for Information and develop recommendations to enable the Board to decide on whether to propose aligning the *IFRS for SMEs* Standard with IFRS 14.

Feedback

13. Many respondents via comment letters expressed the view that the requirements of IFRS 14 should not be introduced into the *IFRS for SMEs* Standard. Reasons provided by respondents include:

- (a) the Board has an ongoing project on Rate-regulated Activities which could lead to the replacement of IFRS 14.
 - (b) the topic is not common among SMEs. Rate-regulated entities are generally large listed entities which do not meet the definition of an SME and are not eligible to apply the *IFRS for SMEs* Standard.
14. Many respondents to the online survey supported the requirements of IFRS 14 should not be introduced into the *IFRS for SMEs* Standard and provided reasons that are consistent with those from comment letters.
15. A small number of respondents via comment letters expressed the view that the *IFRS for SMEs* Standard should be aligned with the requirements of IFRS 14 because the topic may be relevant to some entities, and this relevance to some entities is sufficient to justify inclusion according to these respondents.
16. A small number of respondents also noted that the *IFRS for SMEs* Standard does not have requirements addressing rate-regulated activities, and suggested including simplified requirements as part of Section 34 *Specialised Activities* of the *IFRS for SMEs* Standard rather than the requirements of IFRS 14.
17. One respondent expressed concerns that, without alignment to IFRS 14, a first-time adopter of the *IFRS for SMEs* Standard might be required to change its accounting policies for regulatory deferral account balances twice: once when transitioning to the *IFRS for SMEs* Standard from its previous GAAP and secondly when, and if, the Standard is amended to align with the new IFRS Standard that may replace IFRS 14.

SMEIG recommendation

18. At its meeting on 9 September 2021 the SMEIG considered staff's preliminary thoughts that the Board should not propose alignment with IFRS 14 as part of the second comprehensive review and should wait until the project on Rate-regulated Activities is complete before considering introducing requirements in the *IFRS for SMEs* Standard. SMEIG members agreed with the staff's preliminary thoughts.

19. One SMEIG member suggested this topic should be addressed in a future review of the *IFRS for SMEs* Standard once the new IFRS Standard is issued and its scope is clear.

Staff analysis

20. In the Request for Information the Board noted that entities subject to rate regulation may be in the scope of the *IFRS for SMEs* Standard and hence the topic may be relevant. However, respondents to the Request for Information said the topic is not common for SMEs (see stakeholder feedback in paragraph 12(b) of this paper).
21. In considering whether and how to align the *IFRS for SMEs* Standard with new and amended IFRS Standards, the Board tentatively decided to apply three ‘alignment principles’. The first principle is relevance to SMEs. If a topic is not relevant to SMEs then the Board would not propose alignment of the *IFRS for SMEs* Standard with that topic in IFRS Standards. The analysis of the other two alignment principles ‘simplicity’ and ‘faithful representation’ would not be undertaken if the relevant principle is not met. Given the feedback from respondents that this topic is not common among SMEs that staff consider that respondents are effectively saying the topic is not relevant to SMEs.
22. Whilst respondents did not support the Board’s view that the topic may be relevant, they did support the Board’s view that the Board should not, as part of this comprehensive review, amend the *IFRS for SMEs* Standard to align with IFRS 14, given its ongoing project on Rate-regulated Activities.
23. The Board’s project on Rate-regulated Activities proposes that an entity shall apply the draft Standard to all its regulatory assets and all its regulatory liabilities. Whilst feedback on the Request for Information is that rate-regulatory activities are not common among SMEs it is possible that SMEs would be within the scope of the draft Standard. Consequently, the staff recommend this topic be revisited in a future review of the *IFRS for SMEs* Standard.
24. As described in paragraph 17 of this paper, an SME may be required to change its accounting policy for regulatory deferral account balances twice if the *IFRS for SMEs*

Standard is updated to include requirements for these balances as part of a future review. This would occur if an SME:

- (a) recognises regulatory deferral account balances in accordance with its previous GAAP; and
 - (b) adopts the *IFRS for SMEs* Standard for the first-time.
25. However, as feedback indicates that this topic is not common among SMEs, the staff would expect those instances described in paragraph 24 of this paper to rarely arise.

Staff recommendations and question for the Board

26. In the light of the staff analysis in paragraphs 20–25 of this paper, the staff recommend that the Board:
- (a) do not propose aligning the *IFRS for SMEs* Standard with IFRS 14 as part of this comprehensive review; and
 - (b) wait until the project on Rate-regulated Activities is completed before considering introducing requirements in the *IFRS for SMEs* Standard.

Question for the Board

Does the Board agree with the staff recommendations to not propose aligning the *IFRS for SMEs* Standard with IFRS 14 *Regulatory Deferral Accounts*, and to revisit this topic in a future review of the *IFRS for SMEs* Standard once it has completed its project on Rate-regulated Activities?

Appendix A—Board’s rationale in the Request for Information on not aligning the *IFRS for SMEs* Standard with IFRS 14 *Regulatory Deferral Accounts*

- A1. The Board issued IFRS 14 *Regulatory Deferral Accounts* in January 2014. IFRS 14 addresses regulatory deferral account balances that arise when an entity provides goods or services to customers at a price or rate that is subject to rate regulation. The *IFRS for SMEs* Standard has no section that corresponds to IFRS 14. Entities applying the *IFRS for SMEs* Standard cannot recognise regulatory deferral account balances if these balances would not be permitted or required to be recognised by other sections of the *IFRS for SMEs* Standard.
- A2. Entities subject to rate regulation may be in the scope of the *IFRS for SMEs* Standard and hence the topic may be relevant. The Board, however, has an active project on Rate-regulated Activities which could lead to the replacement of IFRS 14. Consequently, the Board's view is it should not, as part of this comprehensive review, amend the *IFRS for SMEs* Standard to align with IFRS 14.