

STAFF PAPER

September 2021

SME Implementation Group meeting

Project	Second Comprehensive Review of the <i>IFRS for SMEs</i> [®] Standard	
Paper topic	Alignment with IFRS 14 <i>Regulatory Deferral Accounts</i>	
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This paper has been prepared for discussion at a public meeting of the SME Implementation Group. The views expressed in this paper do not represent the views of the International Accounting Standards Board (Board) or any individual member of the Board. Comments on the application of IFRS[®] Standards or the *IFRS for SMEs*[®] Standard do not purport to set out acceptable or unacceptable application of IFRS Standards or the *IFRS for SMEs*[®] Standard. Technical decisions are made in public and reported in IASB[®] Update.

Purpose of the paper

1. This paper:
 - (a) summarises the feedback from comment letters and the online survey on not aligning the *IFRS for SMEs Standard* with IFRS 14 *Regulatory Deferral Accounts* as discussed in the Request for Information *Comprehensive review of the IFRS for SMEs Standard*, which was published by the International Accounting Standards Board (Board) in January 2020;
 - (b) includes some staff preliminary thoughts about the direction for this topic; and
 - (c) seeks views from the members of the SME Implementation Group (SMEIG) on these staff preliminary thoughts.
2. In this paper, the term SMEs refers to small and medium-sized entities that are eligible to apply the *IFRS for SMEs Standard*.

Structure of the paper

3. This paper is structured as follows:
 - (a) question in the Request for Information;
 - (b) overall feedback;
 - (c) staff preliminary thoughts; and
 - (d) question for the SMEIG.
4. Appendix A to this paper includes the Board's rationale in the Request for Information on seeking views on not aligning the *IFRS for SMEs* Standard with IFRS 14.

Question in the Request for Information

5. The Request for Information asked for views on not aligning the *IFRS for SMEs* Standard with IFRS 14 *Regulatory Deferral Accounts*, 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

6. Many respondents via comment letters and the online survey 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 for 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.

7. 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 that this relevance to some entities is sufficient to justify inclusion.
8. 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 Standard rather than the full detailed requirements from IFRS 14.
9. 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 the Standard is amended to align with the new IFRS Standard that may replace IFRS 14.

Staff preliminary thoughts

10. The feedback from comment letter and the online survey suggests that this topic is less relevant to SMEs, which is different from the Board's view that the rate regulation may be relevant to entities in the scope of the *IFRS for SMEs* Standard in the Request for Information. In considering whether to align the *IFRS for SMEs* Standard with IFRS Standards the Board has decided to adopt the alignment approach, which starts by considering whether a topic is relevant 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. Stating a topic is not common is equivalent to the topic not being relevant to SMEs.
11. The staff think that:
 - (a) the feedback from comment letters and the online survey provides support for the Board's rationale set out in the Request for Information, that is the Board has an active project on Rate-regulated Activities which could lead to the replacement of IFRS 14;

- (b) considering that many respondents said the topic is not common for SMEs, the number of entities with regulatory deferral account balances that might first apply the *IFRS for SMEs* Standard before the Board completes its project on regulatory deferral accounts is expected to be limited; and
- (c) the SMEIG should recommend the Board not propose aligning the *IFRS for SMEs* Standard with IFRS 14 as part of this comprehensive review and wait until the ongoing project on regulatory deferral accounts is complete before considering introducing requirements in the *IFRS for SMEs* Standard.

Question for the SMEIG

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Does the SMEIG agree with the staff's preliminary thoughts to recommend the Board does not propose aligning the *IFRS for SMEs* Standard with IFRS 14 *Regulatory Deferral Accounts*?

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.