
IASB[®] meeting

Date	December 2023
Project	Second Comprehensive Review of the <i>IFRS for SMEs</i>[®] Accounting Standard
Topic	Cover Paper
Contacts	Michelle Fisher (mfisher@ifrs.org)

This paper has been prepared for discussion at a public meeting of the International Accounting Standards Board (IASB). This paper does not represent the views of the IASB or any individual IASB member. Any comments in the paper do not purport to set out what would be an acceptable or unacceptable application of IFRS[®] Accounting Standards or the *IFRS for SMEs*[®] Accounting Standard. The IASB's technical decisions are made in public and are reported in the IASB[®] *Update*.

Purpose of this meeting

1. In September 2022, the International Accounting Standards Board (IASB) published Exposure Draft *Third edition of the IFRS for SMEs Accounting Standard* (the Exposure Draft). The purpose of this meeting is for the IASB to continue its redeliberations of the proposals in the Exposure Draft.
2. In this paper, the term SMEs refers to entities that are eligible to apply the *IFRS for SMEs* Accounting Standard (the Standard).

Overview of agenda papers for this meeting

3. The agenda papers for this meeting are:
 - (a) Agenda Paper 30A *Fair value measurement*
 - (b) Agenda Paper 30B *Investment entities*
 - (c) Agenda Paper 30C *Requirement to offset equity instruments*

For the topics in these papers, the IASB is asked to consider feedback on the Exposure Draft and decide whether to amend the proposals.

Possible factors to determine when guidance should be in the Standard

4. Some agenda papers for this meeting consider whether guidance should be added to the Standard to cater for relatively few SMEs, for example relating to complex transactions or rare circumstances.
5. At its September 2023 meeting, the IASB discussed factors that would help determine when guidance belongs in the Standard versus in educational material. At that meeting, the staff observed that if the Standard includes guidance for all possible transactions that an SME might encounter, then it would likely end up nearly the same size as full IFRS Accounting Standards. Consequently, based on the advice from the SME Implementation Group, the staff suggested guidance should only be in the Standard (that is, it would form part of the mandatory requirements) if it meets both of the following factors:
 - (a) the guidance is necessary to operationalise principles in the Standard; and
 - (b) applying the IASB's alignment approach, the guidance is relevant to many SMEs.
6. The IASB did not opine on these suggested factors. However, the staff think they are helpful factors to consider in deciding whether additional guidance should be added to Standard. Nevertheless, the staff observe in rare cases the IASB may need to make an exception to these factors. For example, when excluding guidance for a topic could have a significant effect on some SMEs or users of their financial statements, yet the guidance would not add complexity for most SMEs.
7. The *IFRS for SMEs* Accounting Standard is a standalone Standard. There is no requirement for SMEs to look to the requirements in full IFRS Accounting Standards. In the absence of specific guidance on a topic in the Standard (for example, for topics omitted because they are not relevant to most SMEs), in the rare cases an SME encounters those topics it would apply paragraphs 10.4–10.6 of the Standard.

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8. We further note that the educational modules supporting the Standard will provide guidance on how to apply paragraphs 10.4–10.6 of the Standard if an SME encounters a complex transaction that is not specifically addressed by the Standard. The educational material for individual sections of the Standard could also provide guidance on how the principles in the Standard could be applied to less common transactions encountered by SMEs and explain when an SME may consider the guidance in full IFRS Accounting Standards dealing with similar issues.

Background to this comprehensive review

9. In January 2020, the IASB published Request for Information *Comprehensive Review of the IFRS for SMEs Standard* (Request for Information) as a first step in its second comprehensive review. The objective of the Request for Information was to seek views on whether and how the IASB should amend the Standard, including views on the IASB's proposed alignment approach (see paragraph 11 of this paper).
10. Overall, stakeholders who provided feedback on the alignment approach agreed with continuing to base the Standard on full IFRS Accounting Standards. Some respondents queried whether the alignment principles appropriately assessed the costs and benefits of any possible amendment to the Standard, considering the limited resources and capabilities of SMEs, and the IASB used this feedback to refine the alignment approach.
11. In September 2022, the IASB published the Exposure Draft using the alignment approach. The alignment approach treats alignment with full IFRS Accounting Standards as the starting point for developing the Standard, and applies the principles of relevance to SMEs, simplicity and faithful representation, including the assessment of costs and benefits, in determining whether and how that alignment should take place. The Exposure Draft was open for comment for 180 days, which ended on 7 March 2023.

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12. The IASB received comprehensive feedback on the IASB's approach to this review and how to align the Standard with individual IFRS Accounting Standards through extensive outreach during the comment period on the Request for Information. This enabled a more targeted approach to obtaining feedback on the Exposure Draft. In particular, the Exposure Draft asked specific questions about the issues that had been more contentious in developing the Exposure Draft.
 13. At its June 2023 meeting, the IASB discussed the feedback on the Exposure Draft and redeliberated the proposed clarification to the definition of public accountability.
 14. The SME Implementation Group (SMEIG) met on 13 July 2023 to discuss the feedback on the Exposure Draft and provide advice to the IASB. The [minutes from the SMEIG meeting](#) are available on the IFRS Foundation website. The staff will present the advice from the SMEIG when the IASB redeliberates the related topics in the Exposure Draft.
 15. At its September 2023 meeting, the IASB discussed, among other topics, its project plan, staff research on the characteristics of SMEs and its approach to updating the *IFRS for SMEs* educational modules. At its October and November 2023 meetings, the IASB continued to redeliberate the proposals in the Exposure Draft. The IASB's tentative decisions to date on the proposals in the Exposure Draft are set out in the appendix to this paper.
 16. At its October 2023 meeting, the IASB also discussed recent amendments to full IFRS Accounting Standards. The IASB tentatively decided to publish an addendum to the Exposure Draft *Third Edition of the IFRS for SMEs Accounting Standard*. The addendum will propose amendments to the Standard to align with the requirements in full IFRS Accounting Standards on supplier finance arrangements and lack of exchangeability. The IASB aims to complete the redeliberations on the proposals in the addendum before it issues the third edition of the Standard. (see Agenda Paper 29 *Lack of Exchangeability and Supplier Finance Arrangements* for this meeting)

Appendix—IASB tentative decisions to date on redeliberating the proposals in the Exposure Draft

Month	Decision:
June 2023	<p><i>Definition of public accountability</i></p> <p>The IASB tentatively decided:</p> <ul style="list-style-type: none"> (a) to confirm the proposed amendment to paragraph 1.3(b) of the <i>IFRS for SMEs Accounting Standard</i> (the Standard) to list banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks as examples of entities that often meet the second criterion of public accountability. (b) to withdraw paragraph 1.3A of the Exposure Draft from the Standard, and not include it in the educational modules for the Standard and Basis for Conclusions on the Standard. (c) to explain in the Basis for Conclusions on the Standard its reasoning for deciding against further clarifying the role of local legislative and regulatory authorities in jurisdictions in the Preface to the Standard. (d) to consider whether other suggestions for guidance on the definition of public accountability should be covered in the educational modules supporting the Standard.
September 2023	<p><i>Project plan</i></p> <p>The IASB discussed the project plan for the third phase of the second comprehensive review in the light of feedback on the Exposure Draft. The IASB tentatively decided:</p> <ul style="list-style-type: none"> (a) to confirm the scope of the review and alignment approach as set out in the Exposure Draft. This approach treats alignment with IFRS Accounting Standards as the starting point, and applies the principles of relevance to SMEs, simplicity and faithful representation, including the assessment of costs and benefits, in determining whether and how that alignment should take place. (b) to continue to develop amendments to the <i>IFRS for SMEs Accounting Standard</i> by applying the alignment approach to IFRS Accounting Standards.

Month	Decision:
September 2023	<p><i>Approach to providing educational material on the Standard</i></p> <p>The IASB decided to either update the <i>IFRS for SMEs</i> educational modules that support the second edition of the Standard, or provide similar comprehensive educational material on the third edition.</p> <p><i>Impairment of financial assets</i></p> <p>The IASB tentatively decided that the problem it addressed in introducing the expected credit loss model in IFRS 9 does not meet its principle of relevance to SMEs because the population of entities eligible to apply the <i>IFRS for SMEs</i> Accounting Standard that have significant exposure to credit risk is expected to be small.</p> <p>IASB members acknowledged that a small sub-group of SMEs, such as non-bank lenders, might have significant exposure to credit risk. The IASB asked the staff to research alternatives that would seek to recognise expected credit losses for this sub-group of entities.</p>
October 2023	<p><i>Proposed revised Section 23 Revenue from Contracts with Customers</i></p> <p>The IASB tentatively decided to revise Section 23 of the Standard to reflect the principles in IFRS 15 <i>Revenue from Contracts with Customers</i>.</p> <p><i>Simplification of the control model in Section 9 Consolidated and Separate Financial Statements</i></p> <p>The IASB tentatively decided to clarify how an entity applies the rebuttable presumption in paragraph 9.5 of the Standard.</p> <p><i>Recognition of development costs</i></p> <p>The IASB tentatively decided to retain the requirements in the Standard for recognising development costs.</p> <p><i>Recognition of borrowing costs</i></p> <p>The IASB tentatively decided to retain the requirements in the Standard for recognising borrowing costs.</p>

Month	Decision:
October 2023	<p><i>Recent amendments to full IFRS Accounting Standards</i></p> <p>The IASB tentatively decided to expose for public comment a proposal to align the Standard with:</p> <ul style="list-style-type: none"> (a) Supplier Finance Arrangements, which amended IAS 7 <i>Statement of Cash Flows</i> and IFRS 7 <i>Financial Instruments: Disclosures</i>; and (b) Lack of Exchangeability, which amended IAS 21 <i>The Effects of Changes in Foreign Exchange Rates</i>.
November 2023	<p><i>Proposed amendments to Section 15 Investments in Joint Ventures (to be renamed Joint Arrangements)</i></p> <p>The IASB tentatively decided:</p> <ul style="list-style-type: none"> (a) to align the definition of ‘joint control’ in Section 15 of the Standard with the definition in IFRS 11 <i>Joint Arrangements</i>. (b) to retain the classification and measurement requirements for jointly controlled assets, jointly controlled operations and jointly controlled entities in Section 15. (c) to align Section 15 with the requirements of paragraph 23 of IFRS 11, so that a party to a jointly controlled operation or a jointly controlled asset that does not have joint control of those arrangements would account for its interest according to the classification of that jointly controlled operation or jointly controlled asset. <p><i>Simplification in paragraph 28.19</i></p> <p>The IASB tentatively decided:</p> <ul style="list-style-type: none"> (a) to retain paragraph 28.19 of the Standard. (b) to clarify that an entity applying paragraph 28.19 measures its obligation from the defined benefit plan at the current termination amount, assuming all the entity’s employees terminate their employment at the reporting date. (c) to specify that an entity applying paragraph 28.19 measures the current termination amount of its obligation from the defined benefit plan on an undiscounted basis. (d) to require that an entity applying paragraph 28.19 discloses its basis for determining the current termination amount of its obligation from the defined benefit plan.