

STAFF PAPER

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Project	Comprehensive Review of the <i>IFRS for SMEs</i>® Standard		
Paper topic	Approach to new and amended IFRS Standards		
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Purpose

1. This agenda paper is provided for information purposes only.
2. The agenda paper will form the basis of a chapter in the Request for Information summarising the Board's approach to determining whether and, if so, how to align the *IFRS for SMEs* Standard with new and amended IFRS Standards.

Background

3. The International Accounting Standards Board (Board) issued the *IFRS for SMEs* Standard in July 2009. The Board's intention was to perform an initial comprehensive review of the *IFRS for SMEs* Standard when entities would have had two years' experience implementing the Standard, then to consider further amendments approximately once every three years.¹
4. The initial comprehensive review (2012 Review) began with the release of a Request for Information in June 2012, moved through an exposure draft in October 2013 (2013

¹ *IFRS for SMEs* Standard, paragraphs P16, BC163, BC166.

Exposure Draft) and ended with the issue of amendments to the *IFRS for SMEs* Standard in May 2015. The amendments included 56 changes from the 2009 Standard, comprising:²

- (a) three significant changes;
- (b) twelve relatively minor changes or clarifications based on new and revised full IFRS Standards;
- (c) seven new exemptions from the requirements in the *IFRS for SMEs* Standard that are permitted only in special cases;
- (d) six other changes to the recognition and measurement requirements;
- (e) six other changes to the presentation and disclosure requirements; and
- (f) minor clarifications or clarifying guidance that are not expected to change current practice.

5. The changes were made after the Board reviewed the feedback on the Request for Information and feedback on the 2013 Exposure Draft. The Board and the SME Implementation Group (SMEIG) discussed 57 comment letters responding to the 2013 Exposure Draft. The Board supplemented its review with further outreach to providers of finance to SMEs, a user group from which the Board wanted additional feedback.³

6. The Board developed the following principles for determining whether and how full IFRS Standards issued or amended after the 2009 Standard should be integrated:⁴

- (a) each new and revised full IFRS Standard should be considered individually on a case-by-case basis to decide if, and how, its requirements should be incorporated into the *IFRS for SMEs* Standard.

² *IFRS for SMEs* Standard, paragraph BC235.

³ *IFRS for SMEs* Standard, paragraph BC171.

⁴ *IFRS for SMEs* Standard, paragraph BC188.

- (b) new and revised full IFRS Standards should not be considered until they have been issued. However, it would generally not be necessary to wait until their Post-Implementation Reviews (PIRs) have been completed.
 - (c) minor changes/annual improvements to full IFRS Standards should also be considered on a case-by-case basis.
 - (d) changes to the *IFRS for SMEs* Standard could be considered at the same time that new and revised full IFRS Standards are issued. However, the *IFRS for SMEs* Standard would only be updated for those changes at the next periodic review of the *IFRS for SMEs* Standard, in order to provide a stable platform for SMEs.
7. These principles were not universally supported, but the Board noted that there was particular emphasis in the initial review of the *IFRS for SMEs* Standard on the need to limit the number of amendments issued.⁵
8. In considering new and amended full IFRS Standards issued after the 2009 Standard, the Board relied on the principles set out in paragraph 6. In selecting changes to propose in the 2013 Exposure Draft, the Board considered certain IFRS Standards individually and looked at others with the intention of selecting changes that were relevant to SMEs. The Board also provided additional clarity or simplifications and fixed known or expected problems or diversity in practice.⁶

Approach to the next review of the *IFRS for SMEs* Standard

9. The 2015 *IFRS for SMEs* Standard was effective from 1 January 2017. During the 2012 Review, the Board decided subsequent reviews of the *IFRS for SMEs* Standard

⁵ *IFRS for SMEs* Standard, paragraph BC194.

⁶ *IFRS for SMEs* Standard, paragraph BC202.

should commence two years after the effective date of the amendments from the previous review, in this instance, after 1 January 2019.⁷

10. At the beginning of the 2019 comprehensive review of the *IFRS for SMEs* Standard the Board considered two theoretical approaches, these can be broadly characterised as:
 - (a) make as few changes as possible to the *IFRS for SMEs* Standard, considering updates only when clarification is requested by users, and prioritising maintaining a ‘stable platform’;
 - (b) periodically review all new and amended full IFRS Standards and propose changes to the *IFRS for SMEs* Standard that will work towards continuing alignment with the principles in full IFRS Standards, subject to certain guiding principles for assessing the suitability of each change.
11. During the previous review, the Board stated that ‘the next review of the *IFRS for SMEs* Standard will ask specific questions about any new or revised IFRSs that have been issued after this comprehensive review is completed’⁸.

Stable platform

12. One approach to maintaining the *IFRS for SMEs* Standard prioritises the stability of the Standard. The premise of this approach is that SMEs do not have the resources to keep adapting to changes in the *IFRS for SMEs* Standard and that alignment with full IFRS Standards is not necessary or desirable because it would lead to continuing changes.
13. While the desire for a relatively stable Standard is understandable, it is inconsistent with the principles outlined when the *IFRS for SMEs* Standard was issued. The intention was always to perform periodic reviews.

⁷ *IFRS for SMEs* Standard, paragraph BC264.

⁸ *Request for Information Comprehensive Review of the IFRS for SMEs*, paragraph 14.

14. Furthermore, the inclusion of ‘IFRS’ in the title of the Standard indicated a plan to maintain the Standard’s relationship with full IFRS Standards rather than to release it as a standalone guide that would become increasingly distant from IFRS Standards.

Alignment

15. The Board’s proposed approach is to consider, change by change, aligning the *IFRS for SMEs* Standard with full IFRS Standards; this is consistent with the approach used in the initial review and described in paragraph 6. The Preface to the *IFRS for SMEs* Standard states that ‘the *IFRS for SMEs* is based on full IFRS Standards with modifications to reflect the needs of users of SMEs’ financial statements and cost-benefit considerations’ and the Basis for Conclusions notes that ‘... this approach is appropriate because the needs of users of financial statements of SMEs are similar in many ways to the needs of users of financial statements of publicly accountable entities’.⁹
16. It continues to be the case that many preparers electing to use the *IFRS for SMEs* Standard consider that in the future they may wish to move to full IFRS Standards. The *IFRS for SMEs* Standard is also used by subsidiaries of parent companies where the group accounts are prepared under full IFRS Standards so that measurement consistencies (and known differences) ease the consolidation process. Using full IFRS Standards as a basis for the *IFRS for SMEs* Standard also supports efficiency in the education of accountants and users.

⁹ *IFRS for SMEs* Standard, paragraphs P9, BC96.

17. To work through the process of considering each change to full IFRS Standards as a candidate for inclusion in the *IFRS for SMEs* Standard, the Board could apply three ‘alignment principles’:
- (a) relevance;
 - (b) simplicity; and
 - (c) faithful representation.

Principle 1—Relevance

18. In determining whether, and how, to align the *IFRS for SMEs* Standard with new and amended IFRS Standards, the Board would first evaluate whether the problem the IFRS Standard seeks to address is relevant to entities applying the *IFRS for SMEs* Standard. This principle assesses whether aligning with a new or amended IFRS Standard would make a difference in the decisions of users of financial statements.
19. In some cases, the *IFRS for SMEs* Standard included accounting requirements that were not part of full IFRS Standards, since at the time of the last amendments there were already known future changes in IFRS Standards. For instance, the 2015 *IFRS for SMEs* Standard included an examples-driven approach to classifying financial instruments that effectively implemented a ‘solely payments of principal and interest’ test. This approach anticipated changes that would later be finalised in IFRS 9 *Financial Instruments*. Any review of the relevance of new and amended IFRS Standards will need to take into account the extent to which aligning changes have effectively already been made, as well as current practice by SMEs.
20. A further consideration on assessing relevance is that the *IFRS for SMEs* Standard is a concise Standard that addresses issues in considerably less detail than full IFRS Standards. Amendments to full IFRS Standards will only pass the relevance test to be considered for inclusion in the *IFRS for SMEs* Standard update if they are of a level of detail appropriate to the *IFRS for SMEs* Standard. Where an area was previously not addressed in the *IFRS for SMEs* Standard because it was a point of detail, there is a

reasonable presumption that further detail would not be relevant, even if such detail has been added in a new or amended IFRS Standard.

21. If the Board concludes that the first principle would be satisfied by aligning the *IFRS for SMEs* Standard with a new or amended IFRS Standard, it would then apply the second principle.

Principle 2—Simplicity

22. The *IFRS for SMEs* Standard provides simplified accounting requirements that are appropriate for entities applying the Standard. In so doing, the Standard reduces the cost of preparing financial statements and addresses the needs of users of these financial statements.
23. Simplicity is achieved by simplifying recognition and measurement requirements, reducing the number of disclosures required and simplifying language. Paragraph BC16 of the *IFRS for SMEs* Standard sets out five ways in which the requirements of full IFRS Standards can be simplified in the *IFRS for SMEs* Standard. They include:
- (a) omitting some topics;
 - (b) where an IFRS Standard permits options, permitting only the simpler option;
 - (c) simplifying recognition and measurement requirements;
 - (d) reducing disclosures; and
 - (e) simplifying language.
24. If the Board concludes that the second principle would be satisfied by simplifying the requirements of a new or amended IFRS Standard, it would then apply the third principle.

Principle 3—Faithful representation

25. While simplifications reduce the cost of applying the *IFRS for SMEs* Standard, those financial statements must still provide information that is useful for decision-making by users of those statements. At times, these users are not in a position to demand reports tailored to meet their particular information needs. The third principle seeks to ensure that financial statements prepared applying the *IFRS for SMEs* Standard faithfully represent the substance of the phenomena they purport to represent.

Summary of proposed approach

26. The Board’s intention is to apply an alignment-based approach using three principles—relevance, simplicity and faithful representation. Each new or amended IFRS Standard not yet incorporated into the *IFRS for SMEs* Standard would be tested against these principles to assess whether changes should be proposed for the next version of the *IFRS for SMEs* Standard.
27. The Board acknowledges that any changes to the *IFRS for SMEs* Standard will present some challenges to preparers, and will consult specifically on transition arrangements and adjustments that would ease the transition process and minimise time and resource costs for preparers.