

STAFF PAPER

September 2019

IASB® Meeting

Project	Comprehensive review of the <i>IFRS for SMEs</i>® Standard		
Paper topic	Summary of Board's tentative decisions		
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This paper has been prepared for discussion at a public meeting of the International Accounting Standards Board (Board) and does not represent the views of the 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

1. The objective of this paper is to summarise the Board's tentative decisions in the project up to the July 2019 Board meeting.
2. There are no questions for the Board in this Agenda Paper, but the staff would welcome any comments from Board members.

Structure of the paper

3. This paper is structured as follows:
 - (a) Table 1: Summary of the Board's tentative decisions;
 - (b) Appendix A—IFRIC Interpretations and amendments to IFRS Standards for which alignment is recommended

Table 1: Summary of the Board’s tentative decisions

Topic	Staff condensed summary of the Board’s tentative decisions	Board meeting
<p><i>A full record of the Board’s tentative decisions on the 2019 Comprehensive Review of the IFRS for SMEs Standard are available from the February 2019–July 2019 IASB Updates. All drafting in this summary is illustrative only and subject to change.</i></p>		
<p>Project plan (March 2019 Agenda Paper 30)</p>		
	<p>1. The Board established the proposed project timeline for the 2019 Comprehensive Review of the <i>IFRS for SMEs</i> Standard (2019 Review).</p> <p>2. The Board tentatively decided that the Request for Information should specifically request views on whether and, if so, how the <i>IFRS for SMEs</i> Standard should be updated to take account of new and amended IFRS Standards not currently incorporated into the <i>IFRS for SMEs</i> Standard.</p>	<p>February 2019</p>
<p>Alignment principles to be applied when considering whether and how the <i>IFRS for SMEs</i> Standard should be updated for new and amended full IFRS Standards (March 2019 Agenda Paper 30) and May 2019 Agenda Paper 30A)</p>		
	<p>3. The Board tentatively decided that the Request for Information to be issued as part of the 2019 Review should request views on whether and, if so, how the <i>IFRS for SMEs</i> Standard should be aligned with new and amended IFRS Standards not currently incorporated into the <i>IFRS for SMEs</i> Standard.</p> <p>4. In deciding whether and how the <i>IFRS for SMEs</i> Standard should be aligned with new and amended IFRS Standards not currently incorporated into the <i>IFRS for SMEs</i> Standard the Board would apply three principles:</p> <ul style="list-style-type: none"> a. relevance to SMEs; b. simplicity; and c. faithful representation. 	<p>March 2019 May 2019</p>
<p>2018 Conceptual Framework for Financial Reporting (2018 Conceptual Framework) (March 2019 Agenda Paper 30)</p>		
	<p>5. The Board tentatively decided that the Request for Information to be issued as part of the 2019 Review should request views on aligning Section 2 <i>Concepts and Pervasive Principles</i> of the <i>IFRS for SMEs</i> Standard with the 2018 <i>Conceptual Framework</i>.</p>	<p>March 2019</p>

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Aligning the <i>IFRS for SMEs</i> Standard with new and amended IFRS Standards not incorporated in the <i>IFRS for SMEs</i> Standard.		
IFRS 3 Business Combinations (July 2019 Agenda Paper 30A)	<p>6. The Board tentatively decided that, in the Request for Information, it will seek views on aligning the <i>IFRS for SMEs</i> Standard with IFRS 3. The Board tentatively decided to seek views on whether to:</p> <ul style="list-style-type: none"> a. introduce requirements for step acquisitions into the <i>IFRS for SMEs</i> Standard; b. align such requirements with IFRS 3, if introduced; c. recognise acquisition-related costs as an expense at the time of the acquisition; d. require that contingent consideration be measured at fair value on initial recognition; e. extend the undue cost or effort exemption to apply to the fair value measurement of the contingent consideration; and f. align the definition of a business. <p>7. The Board tentatively decided it will clarify, in the Request for Information, that it does not intend to amend the requirements in the <i>IFRS for SMEs</i> Standard to:</p> <ul style="list-style-type: none"> a. introduce the option to measure non-controlling interests at fair value; b. change the recognition criteria for recognising an intangible asset acquired in a business combination; c. clarify that an assembled workforce must not be recognised; and d. to provide additional guidance in relation to reacquired rights. 	July 2019
IFRS 9 Financial Instruments (June 2019 Agenda Paper 30C)	<p>8. The Board tentatively decided to seek views, in the Request for Information, on aligning the <i>IFRS for SMEs</i> Standard with IFRS 9 and, in particular, on:</p> <ul style="list-style-type: none"> a. introducing principles for the classification and measurement of financial assets based on contractual cash flows. b. not amending the requirements of the <i>IFRS for SMEs</i> Standard for: <ul style="list-style-type: none"> i. the introduction of the fair value through other comprehensive income option for equity instruments; ii. the initial recognition of financial instruments at the transaction price; iii. financial liabilities and own credit; and iv. derecognition principles; c. the need for requirements on hedge accounting for entities applying the <i>IFRS for SMEs</i> Standard and, subject to clarifying those needs, on retaining the current requirements for hedge accounting in Section 12 <i>Other Financial Instrument Issues</i>; d. aligning the <i>IFRS for SMEs</i> Standard with the simplified approach in IFRS 9 for the impairment of financial assets; 	June 2019

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	<ul style="list-style-type: none"> e. the need for the fall back to IAS 39 <i>Financial Instruments: Recognition and Measurement</i> or IFRS 9 for entities applying the <i>IFRS for SMEs</i> Standard; and subject to clarifying the need for the fall back f. on changing the fall back to IAS 39 to a fall back to IFRS 9 if the <i>IFRS for SMEs</i> Standard is aligned with IFRS 9. 	
IFRS 10 Consolidated Financial Statements (July 2019 Agenda Paper 30B)	<ul style="list-style-type: none"> 9. The Board tentatively decided that, in the Request for Information, it will seek views on aligning the <i>IFRS for SMEs</i> Standard with IFRS 10. The Board tentatively decided to seek views on: <ul style="list-style-type: none"> a. aligning the definition of control in Section 9 of the <i>IFRS for SMEs</i> Standard with IFRS 10; and b. retaining the presumption that an entity controls an investee if it has direct power over that investee solely from voting rights. 10. The Board tentatively decided it will clarify in the Request for Information that it does not intend to introduce an exception in the <i>IFRS for SMEs</i> Standard for the accounting for investment entities. 	July 2019
IFRS 11 Joint Arrangements (July 2019 Agenda Paper 30C)	<ul style="list-style-type: none"> 11. The Board tentatively decided it will clarify, in the Request for Information, that it does not intend to align the <i>IFRS for SMEs</i> Standard with IFRS 11. 12. The Board will reconsider this tentative decision at its September 2019 meeting (see Agenda Paper 30F). 	July 2019
IFRS 13 Fair Value Measurement (June 2019 Agenda Paper 30B)	<ul style="list-style-type: none"> 13. The Board tentatively decided to seek views, in the Request for Information, on aligning the <i>IFRS for SMEs</i> Standard with IFRS 13 and, in particular, on: <ul style="list-style-type: none"> a. aligning the definition of fair value in the <i>IFRS for SMEs</i> Standard with IFRS 13; b. aligning the guidance on fair value measurement in the <i>IFRS for SMEs</i> Standard with IFRS 13 so the fair value hierarchy incorporates the principles of the IFRS 13 fair value hierarchy, and also includes examples that illustrate application of the hierarchy; c. moving the general disclosure requirements to a single location, alongside the guidance for fair value measurement, and on moving the guidance relating to amortised cost; and d. moving the guidance for fair value measurement in the <i>IFRS for SMEs</i> Standard to Section 2 <i>Concepts and Pervasive Principles</i>. 14. The Board tentatively decided not to seek views in the Request for Information on requiring the level in the hierarchy at which fair value measurements are made to be disclosed. 	June 2019

Topic	Staff condensed summary of the Board's tentative decisions	Board meeting
IFRS 14 Regulatory Deferral Accounts (June 2019 Agenda Paper 30D)	15. The Board tentatively decided to seek views, in the Request for Information, on not aligning the <i>IFRS for SMEs</i> Standard with IFRS 14.	June 2019
IFRS 15 Revenue from Contracts with Customers (July 2019 Agenda Paper 30D)	16. The Board tentatively decided to seek views, in the Request for Information, on three approaches to aligning the <i>IFRS for SMEs</i> Standard with IFRS 15. Specifically, the Board tentatively decided to seek views on: <ol style="list-style-type: none"> a. the three alternative approaches to be set out in the Request for Information: <ol style="list-style-type: none"> i. Alternative 1—modifying Section 23 of the <i>IFRS for SMEs</i> Standard to remove the clear differences in outcomes from applying Section 23 and IFRS 15, without a wholesale reworking of Section 23; ii. Alternative 2—fully rewriting Section 23 to reflect the principles and language used in IFRS 15; and iii. Alternative 3—omitting amendments to Section 23 from the 2019 Review. b. identifying Alternative 1 as its preferred approach to alignment. c. whether to provide transition relief, if the Board proceeds to an exposure draft using Alternative 1 or Alternative 2, by permitting an entity to continue its current revenue accounting treatment for any contracts already in progress at the transition date or scheduled to be completed within a set time after the transition date. 	July 2019
IFRS 16 Leases (June 2019 Agenda Paper 30E)	17. The Board tentatively decided to seek views, in the Request for Information, on aligning the <i>IFRS for SMEs</i> Standard with IFRS 16 and, in particular, on: <ol style="list-style-type: none"> a. simplifications to the requirements in IFRS 16, namely: <ol style="list-style-type: none"> i. introducing recognition exemptions for leases of 12 months or less (short-term leases) and leases of low-value assets; ii. exempting entities from the requirement to separate lease components from any associated non-lease components; and iii. simplifying measurement requirements for some variable lease payments, and for optional payments, such as those relating to extension options. b. additional simplifications, namely: <ol style="list-style-type: none"> i. removing the quantitative threshold for low value assets and introducing a list of examples to assist entities identifying such assets, and on whether the Board should retain the US\$5,000 threshold for leases of low-value assets; ii. providing additional relief to assist entities with identifying the discount rate to be applied when determining the liability; iii. providing additional relief to assist entities with determining and reassessing the lease term; 	June 2019

Topic	Staff condensed summary of the Board's tentative decisions	Board meeting
	<ul style="list-style-type: none"> iv. simplifying the requirements for subsequent measurement (reassessment) of lease liability; and v. retaining the existing finance lease disclosures applying the <i>IFRS for SMEs</i> Standard. 	
Amendments to IFRS Standards and IFRIC Interpretations (July 2019 Agenda Paper 30E)	<p>18. The Board reviewed staff recommendations for aligning the <i>IFRS for SMEs</i> Standard with IFRIC Interpretations and amendments to IFRS Standards not incorporated in the <i>IFRS for SMEs</i> Standard. The Board tentatively decided to seek views on these recommendations in the Request for Information. The staff recommended that the Board seek views, in the Request for Information, on aligning the <i>IFRS for SMEs</i> Standard with the following IFRIC Interpretations and amendments to IFRS Standards modified to reflect the needs of users of SMEs' financial statements (see Appendix A):</p> <ul style="list-style-type: none"> a. <i>Definition of Material</i> (Amendments to IAS 1 and IAS 8); b. <i>Disclosure Initiative</i> (Amendments to IAS 7); c. <i>Annual Improvements to IFRS Standards 2011–2013 Cycle</i> (IAS 40); d. <i>Transfers of Investment Property</i> (Amendments to IAS 40); e. <i>Clarification of Acceptable Methods of Depreciation and Amortisation</i> (Amendments to IAS 16 and IAS 38); f. <i>Annual Improvements to IFRS Standards 2010–2012 Cycle</i> (IFRS 2); g. <i>Classification and Measurement of Share-based Payment Transactions</i> (Amendments to IFRS 2); h. IFRIC 23 <i>Uncertainty over Income Tax Treatments</i>; i. <i>Recognition of Deferred Tax Assets for Unrealised Losses</i>; j. <i>Agriculture: Bearer Plants</i> (Amendments to IAS 16 and IAS 41); k. IFRIC 21 <i>Levies</i>; and l. IFRIC 22 <i>Foreign Currency Transactions and Advance Consideration</i>. 	July 2019

Appendix A—IFRIC Interpretations and amendments to IFRS Standards for which alignment is recommended

IFRS for SME section	IFRIC or Amendments	Effective date	Overview	Staff reasoning
<p>Section 3 Financial Statement Presentation</p>	<p><i>Definition of Material</i> (Amendments to IAS 1 and IAS 8)</p>	<p>January 2020</p>	<p>Clarify and align the definition of 'material' across all IFRS Standard.</p>	<p>This amendment is outside the scope of the 2019 Review because the effective date is in 2020. However, staff recommended that the Board seek views on alignment because the amendments to the definition of materiality improve understandability. Alignment will not alter the concept of materiality in the <i>IFRS for SMEs</i> Standard. SMEIG members supported aligning the <i>IFRS for SMEs</i> Standard with this amendment, noting that the greater clarity is helpful, the guidance will simplify the application of materiality and the <i>IFRS for SMEs</i> Standard should be consistent with full IFRS Standard.</p>
<p>Section 7 Statement of Cash Flows</p>	<p><i>Disclosure Initiative</i> (Amendments to IAS 7)</p>	<p>January 2017</p>	<p>These amendments require disclosure of changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.</p>	<p>Staff recommended that the Board seek views on including this disclosure in the <i>IFRS for SMEs</i> Standard. The disclosure provides users of financial statements with an improved understanding of an entity's financing, and cash flows from financing activities. This is in line with principles agreed by the Board on disclosure simplification. Users of the financial statements of SMEs are particularly interested in information about liquidity and solvency. Disclosures in full IFRS Standards that provide this sort of information are necessary for SMEs as well (<i>IFRS for SMEs</i> Standard paragraph BC157(b)). The SMEIG argued that the amendment is not complex, and the disclosure is relevant to creditors.</p>

IFRS for SME section	IFRIC or Amendments	Effective date	Overview	Staff reasoning
Section 16 Investment Property	<i>Annual Improvements to IFRS Standards 2011–2013 Cycle</i> (IAS 40)	July 2014	Interrelationship between IFRS 3 and IAS 40 when classifying property as investment property or owner-occupied property - clarifies that determining whether a specific transaction meets the definition of both a business combination as defined in IFRS 3 <i>Business Combinations</i> and investment property as defined in IAS 40 <i>Investment Property</i> requires the separate application of both Standards independently of each other.	Staff is not aware whether this amendment is relevant to SMEs and recommended that the Board consult on the need for guidance on this topic.
Section 16 Investment Property	<i>Transfers of Investment Property</i> (Amendments to IAS 40)	January 2018	Clarifies that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property.	Several SMEIG members considered that the <i>IFRS for SMEs</i> Standard should be aligned because the amendment is a useful clarification and is not a complex amendment. Staff concurred and recommended that the Board seek views on aligning the <i>IFRS for SMEs</i> Standard with the amendment.
Section 17 Property, plant and Equipment	<i>Clarification of Acceptable Methods of Depreciation and Amortisation</i> (Amendments to IAS 16 and IAS 38)	July 2016	Clarifies that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset.	Several SMEIG members considered that the <i>IFRS for SMEs</i> Standard should be aligned because the amendment is a useful clarification and is not a complex amendment. Staff concurred and recommended that the Board seek views on aligning the <i>IFRS for SMEs</i> Standard with the amendment.

IFRS for SME section	IFRIC or Amendments	Effective date	Overview	Staff reasoning
Section 18 Intangible Assets other than Goodwill	<i>Clarification of Acceptable Methods of Depreciation and Amortisation</i> (Amendments to IAS 16 and IAS 38)	July 2016	Clarifies that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. This presumption, however, can be rebutted in certain limited circumstances.	Several SMEIG members considered that this amendment should be incorporated into the <i>IFRS for SMEs</i> Standard because it is a useful clarification and is not a complex amendment. Staff concurred and recommended the Board seek views on aligning the <i>IFRS for SMEs</i> Standard.
Section 26 Share-Based Payment	<i>Annual Improvements to IFRS Standards 2010–2012 Cycle</i> (IFRS 2)	July 2014	Definition of vesting condition - Amends the definitions of 'vesting condition' and 'market condition' and adds definitions for 'performance condition' and 'service condition' (which were part of the definition of 'vesting condition' before).	The clarification to the definition of 'vesting conditions' in IFRS 2 was to ensure the consistent classification of conditions attached to a share-based payments. The Board decided to separate the definitions of performance condition and service condition from the definition of vesting condition to make the description of each condition clearer. Staff recommended the <i>IFRS for SMEs</i> Standard to be aligned with this amendment as it will assist preparers.
Section 26 Share-Based Payment	<i>Classification and Measurement of Share-based Payment Transactions</i> (Amendments to IFRS 2)	January 2018	Clarifies the accounting for: (a) the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; (b) share-based payment transactions with a net settlement feature for withholding tax obligations; and (c) a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.	With regard to the clarifications in the previous column, the staff recommended: (a) alignment because paragraph 26.14 of the <i>IFRS for SMEs</i> Standard requires measurement at fair value and is silent about the effect of vesting conditions. This amendment would allow some vesting conditions not to be reflected at fair value, which would simplify the accounting for entities applying the <i>IFRS for SMEs</i> Standard. If an SME excludes non-market vesting conditions without the amendment then, strictly, it might be argued that they are not complying with the Standard. (b) alignment because the amendment provides an exception on cost-benefit grounds. Therefore, staff believe such relief should be included in the <i>IFRS for SMEs</i> Standard as it would be unfair for the <i>IFRS for SMEs</i> Standard to be more difficult to apply than full IFRS Standards. (c) that the Board does not align the Standard with

IFRS for SME section	IFRIC or Amendments	Effective date	Overview	Staff reasoning
				the amendment because the <i>IFRS for SMEs</i> Standard does not include guidance on this topic.
Section 29 Income Tax	IFRIC 23 <i>Uncertainty over Income Tax Treatments</i>	January 2019	IFRIC 23 adds to the requirements in IAS 12 by specifying how to reflect the effects of uncertainty in the accounting for income taxes.	<p>Staff recommended the Board seek views on the need for guidance on this topic.</p> <p>On balance SMEIG members supported aligning the <i>IFRS for SMEs</i> Standard with IFRIC 23. SMEIG members comments included that the amendment facilitates application of Section 29 by clarifying how to deal with uncertainty in the application of a tax law and the issue is likely to be applicable to SMEs.</p>
Section 29 Income Tax	<i>Recognition of Deferred Tax Assets for Unrealised Losses</i>	January 2017	<p>The amendments clarify that:</p> <p>(a) unrealised losses on debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use.</p> <p>(b) the carrying amount of an asset does not limit the estimation of probable future taxable profits.</p> <p>(c) estimates for future taxable profits exclude tax deductions resulting from the reversal of deductible temporary differences.</p> <p>(d) an entity assesses a deferred tax asset in combination with other deferred tax assets. Where tax law restricts the utilisation of tax losses, an entity would assess a deferred tax asset in combination with other deferred tax assets of the same type.</p>	Staff recommended the Board seek views on the need for guidance on these topics. Staff think this specific detailed guidance is not needed in the <i>IFRS for SMEs</i> Standard but recommended seeking views on this matter.

IFRS for SME section	IFRIC or Amendments	Effective date	Overview	Staff reasoning
Section 34 Specialised Activities	<i>Agriculture: Bearer Plants</i> (Amendments to IAS 16 and IAS 41)	January 2016	Requires bearer plants such as grape vines, rubber trees and oil palms be accounted for in the same way as property, plant and equipment in IAS 16 <i>Property, Plant and Equipment</i> , because their operation is similar to that of manufacturing.	<p>This amendment is a simplification and addressed concerns about the cost, complexity and practical difficulties of fair value measurements of bearer biological assets in the absence of markets for these assets. This amendment also addressed concerns about the volatility that arises from recognising changes in the fair value less costs to sell in profit or loss. Entities applying the <i>IFRS for SMEs</i> Standard should be able to obtain the same relief as entities applying full IFRS Standards.</p> <p>SMEIG members support aligning the <i>IFRS for SMEs</i> Standard arguing broadly that the amendment is an important issue for many users of <i>IFRS for SMEs</i> Standard. Staff concurred with the SMEIG and recommended that the Board seek views on alignment.</p> <p>Two SMEIG members think the amendment should be simplified by not requiring the bifurcation of the fruits or produce growing on the bearer plants.</p>

IFRS for SME section	IFRIC or Amendments	Effective date	Overview	Staff reasoning
Section 21 Provisions and Contingencies	IFRIC 21 <i>Levies</i>	January 2014	IFRIC 21 is an interpretation of IAS 37 <i>Provisions, Contingent Liabilities and Contingent Assets</i> . IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event. The Interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy.	<p>Staff did not recommend aligning the <i>IFRS for SMEs</i> Standard with IFRIC 21.</p> <p>On balance, SMEIG members do not support aligning the <i>IFRS for SMEs</i> Standard with IFRIC 21. SMEIG members reasons include that the Interpretation is less relevant to SMEs and therefore has limited practical impact on most SMEs. Furthermore, some SMEIG members consider applying the revised Conceptual Framework a different interpretation could be made.</p> <p>However, some SMEIG members support alignment as they consider government levies are relevant to SMEs and the IFRIC 21 will help SMEs appropriately apply the <i>IFRS for SMEs</i> Standard.</p> <p>The Board has tentatively decided to seek views on aligning Section 2 of the <i>IFRS for SMEs</i> Standard with the <i>Conceptual Framework</i>. Some consider an inconsistency may arise between the <i>Conceptual Framework</i> and IAS 37, as interpreted by IFRIC 21. Applying IFRIC 21, the event that gives rise to a liability for a levy is the activity that triggers payment of the levy. In contrast, applying the liability definition and supporting concepts in the <i>Conceptual Framework</i>, the event that gives rise to a liability for a levy could be an earlier activity if:</p> <ul style="list-style-type: none"> (a) that earlier activity means the entity may have to pay a levy that it would not otherwise have had to pay; and (b) the entity has no practical ability to avoid the later activity that triggers payment of the levy. <p>The Board tentatively decided to seek views on the need for guidance on this topic.</p>

IFRS for SME section	IFRIC or Amendments	Effective date	Overview	Staff reasoning
Section 30 Foreign Currency Translation	IFRIC 22 <i>Foreign Currency Transactions and Advance Consideration</i>	January 2018	Clarifies the date of the transaction on the derecognition of a non-monetary item when the related income, expense or asset is recognised.	Staff did not recommend the <i>IFRS for SMEs</i> Standard include this level of detail. The Board tentatively decided to seek views on the need for guidance on this topic.