

2019 Comprehensive Review of the *IFRS for SMEs* Standard (2019 Review)

Darrel Scott, IASB Board Member
Yousouf Hansye, IASB Technical Staff



World
Standard-setters
Conference
2019

#WSS_2019

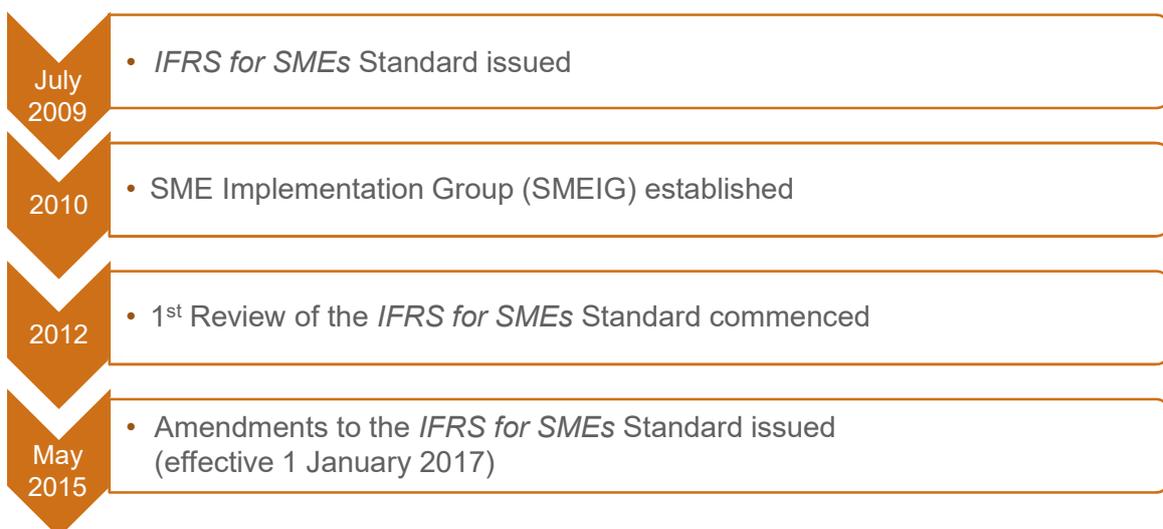
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Development of the *IFRS for SMEs* Standard

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Overview of the *IFRS for SMEs* Standard

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- 250 pages long
- Based on principles from full IFRS Standards
- Tailored for small and medium-sized entities (SMEs) that are not publicly accountable
- Focuses on information needs of lenders and other users of SME financial statements



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Adoption of the *IFRS for SMEs* Standard

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■ = the *IFRS for SMEs* Standard is required or permitted

86 of 166 jurisdictions require or permit use of the *IFRS for SMEs* Standard



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Slido—Question 1

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Does your jurisdiction require or permit use of the *IFRS for SMEs* Standard?

- A. Yes
- B. Entities are required or permitted to use a Standard based on the *IFRS for SMEs* Standard (ie: a modified version of the *IFRS for SMEs* Standard)
- C. No



 IFRS®

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2019 Review



 IFRS®

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Overview of the 2019 Review

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Phase I – Request for Information

Develop a Request for Information (RFI) setting out the Board's approach on whether and how to align the *IFRS for SMEs* Standard with new and amended IFRS Standards and IFRIC Interpretations

Phase II – Feedback analysis

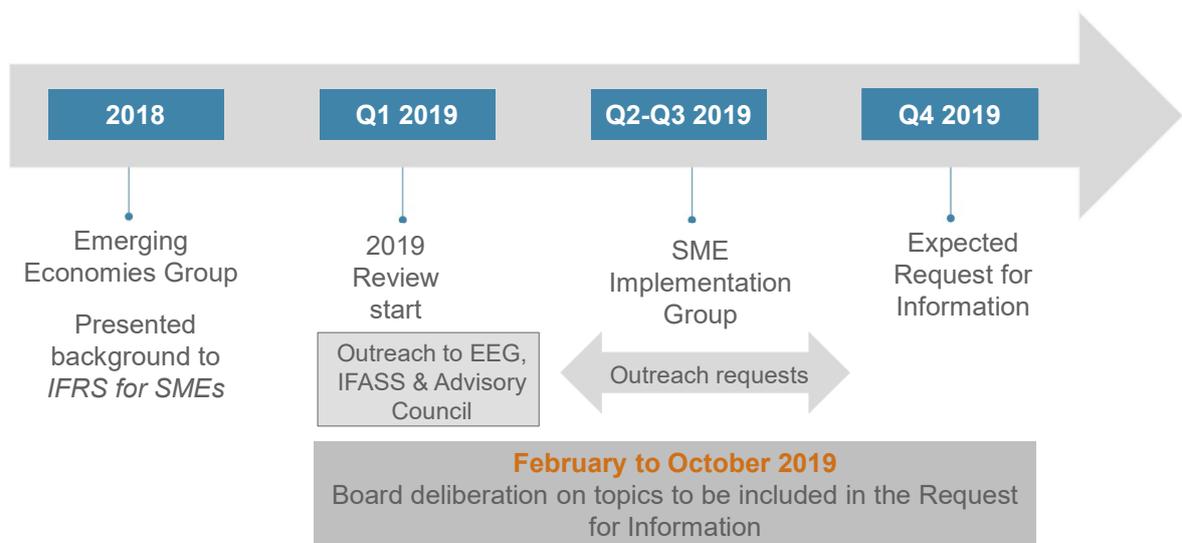
Decide if the Board should develop an Exposure Draft of amendments to the *IFRS for SMEs* Standard, and if so, what should be included



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IFRS for SMEs 2019 Review – Phase 1

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Topics to be included in the 2019 Review

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- Scope of the *IFRS for SMEs* Standard
- Approach to alignment *IFRS for SMEs* Standard and IFRS Standards
- Alignment of new and amended IFRS Standards and IFRIC Interpretations
- Existing differences between IFRS Standards and the *IFRS for SMEs* Standard eg: borrowing costs
- Matters of interest to entities applying the *IFRS for SMEs* Standard but not covered by IFRS Standards eg: cryptocurrency



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Scope of the *IFRS for SMEs* Standard



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Scope of the *IFRS for SMEs* Standard

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- The *IFRS for SMEs* Standard is intended for use by entities that:¹

Do not have public accountability

and

Publish general purpose financial statements for external users

Public accountability exists if:

An entity's debt or equity instruments are traded on a public market or it is in the process of issuing such instruments for trading in a public market

or

An entity holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses

¹ *IFRS for SMEs* Standard, paragraph 1.1 and 1.2



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Scope of the *IFRS for SMEs* Standard

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Some respondents¹ to the 2015 RFI suggested the Board:

- extend the scope to **include some publicly accountable** entities
- allow jurisdictions** to decide whether publicly accountable entities can use the *IFRS for SMEs* Standard
- clarify the meaning of 'fiduciary capacity'** in the definition of public accountability—the term is interpreted inconsistently across jurisdictions

¹ See paragraphs BC179 and BC182 of the *IFRS for SMEs* Standard Part B



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Scope: 2019 Research

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The staff sought advice¹ on permitting some entities whose securities are traded in public markets to apply the *IFRS for SMEs* Standard, for example if the entity's:

- shares are traded on an alternative market
- shares are closely held
- shares are not regularly traded
- shareholders unanimously agree

¹ IFRS Advisory Council, Emerging Economies Group, International Forum of Accounting Standard Setters (IFASS) and SMEIG



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Scope: 2019 Research

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The staff sought advice¹ on permitting some entities which hold assets in a fiduciary capacity to apply the *IFRS for SMEs* Standard, for example if the entity:

- is strictly defined and has limited group of members
- has fewer than a specified number of members
- members unanimously agree

¹ IFRS Advisory Council, Emerging Economies Group, International Forum of Accounting Standard Setters (IFASS) and SMEIG



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Feedback to the 2019 research

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- Staff sought advice from the IFRS Advisory Council, Emerging Economies Group, International Forum of Accounting Standard Setters and SMEIG
- Overall lack of support
 - potential **increased complexity** of the *IFRS for SMEs* Standard
 - **reduced comparability** of financial statements
 - drafting exemptions to public accountability definition would be difficult and may lead to **diversity in practice**
 - **jurisdictions** should rather be permitted to decide which entities should apply the *IFRS for SMEs* Standard



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Slido—Question 2

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The staff plan to recommend that the Board sets out in the RFI, the feedback to the outreach and it explains that it does not intend to amend the scope of the Standard. Do you:

- A. Agree with the scope of the *IFRS for SMEs* Standard
- B. Disagree with the scope of the *IFRS for SMEs* Standard and believe some publicly accountable entities should be permitted to apply the *IFRS for SMEs* Standard



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Approach to alignment *IFRS for SMEs* Standard and IFRS Standards



IFRS for SMEs Standard and IFRS Standards

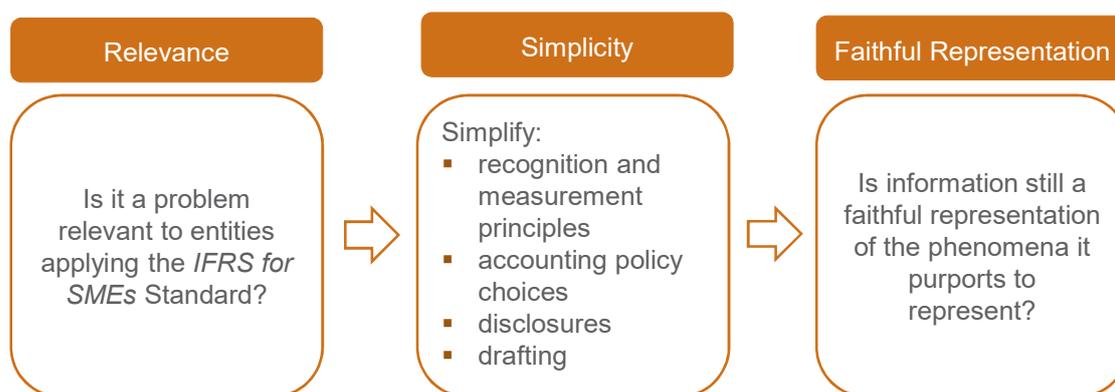
- *IFRS for SMEs* Standard was developed based on principles of IFRS Standards
- Board discussed approach to 2019 Review:



Alignment principles

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- The purpose of the alignment principles is to help the Board determine whether and how to align the *IFRS for SMEs* Standard with new and amended IFRS Standards



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Slido—Question 3

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The Board has developed alignment principles for determining whether and how to align the *IFRS for SMEs* Standard. Do you:

- A. Agree with the principles
- B. Disagree with the principles
- C. Do not care providing the Standard provides useful information



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IFRS Standards to be considered as part of the 2019 Review



Overview of IFRS Standards to be considered as part of the 2019 Review



2018 Conceptual Framework for Financial Reporting

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Fundamental concepts from the *Conceptual Framework* provide the foundation of the *IFRS for SMEs* Standard and the IFRS Standards

- Section 2 *Concepts and Pervasive Principles* of the *IFRS for SMEs* Standard is currently aligned with the 1989 *Framework for the Preparation and Presentation of Financial Statements*
- The 2019 RFI will seek views on :
 - aligning Section 2 with the 2018 *Conceptual Framework*
 - make consequential amendments to other Sections of the *IFRS for SMEs* Standard
 - retain the undue cost and effort concept in the *IFRS for SMEs* Standard



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Alignment of new IFRS Standards *Financial instruments and revenue*

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IFRS 9 *Financial Instruments*

- Retain Section 11 examples
- Add classification principle, if examples not applicable
- Add simplified expected credit loss impairment model
- Ask if there is a need for a fall-back?
- If so update to IFRS 9?

IFRS 15 *Revenue from Contracts with Customers*

- Three alternative approaches to be set out in RFI:
1. Update Section 23 to align the outcomes with IFRS 15
 2. Rewrite Section 23 to align with IFRS 15
 3. Wait until next review

June 2019 Board meeting, AP 30C and July 2019 Board meeting AP 30D



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Alignment of new IFRS Standards *Leases*

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IFRS 16 *Leases*

- Require a **single lease accounting** model for all leases but introduce recognition exemptions for short-term leases and leases of low-value assets
- Exempt entities from requirement to separate lease components from non-lease components
- **Simplify measurement** requirements for variable lease payments and optional payments relating to extension options
- **Additional simplifications for:** threshold for low-value assets; discount rate; determining and reassessing lease term; subsequent (reassessment) of lease liability; retaining finance lease disclosures of the *IFRS for SMEs* Standard

June 2019 Board meeting, AP 30E



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Alignment of IFRS Standards *Acquisitions and consolidation*

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IFRS 3 *Business Combinations*

- Add requirements for step acquisitions
- Acquisition cost as expense
- Fair value measurement of contingent consideration subject to undue cost or effort
- Align the definition of a business
- **Not to align:** additional guidance for reacquired rights, clarify assembled workforce is not to be recognised, recognition criteria for intangible asset acquired in a business combination and introducing option to measure NCIs at fair value

IFRS 10 *Consolidated Financial Statements*

- Definition of control with IFRS 10
- Retain presumption that control exists if investor has direct power over an investee solely from voting rights
- Do not introduce consolidation exception for investment entities

July 2019 Board meeting, AP 30A and AP 30B



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Alignment of IFRS Standards

Fair value

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IFRS 13 *Fair Value Measurement*

- Update definition of fair value
- Introduce IFRS 13 fair value hierarchy to provide clearer guidance for fair value measurement
- Carry forward the existing examples for inputs and levels in the hierarchy
- Move guidance and main disclosure requirements for fair value measurement to Section 2

June 2019 Board meeting, AP 30B



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IFRS Standards not-aligned

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IFRS 11 *Joint Arrangements*

Clarify in the RFI that the Board does not intend to align Section 15 with IFRS 11, as part of 2019 Review

IFRS 14 *Regulatory Deferral Accounts*

Clarify in the RFI that the Board does not align with IFRS 14 because:

- IFRS 14 may be replaced by the Board's current project
- number of entities likely to be affected are limited
- not aligning would not harm users as IFRS 14 applies to first-time adopters

July 2019 Board meeting, AP 30B and June 2019 Board meeting, AP 30D



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Slido—Question 4a

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Do you support the Board's tentative decision to consult on aligning the *IFRS for SMEs* Standard with IFRS 9 *Financial Instruments*, IFRS 15 *Revenue from Contracts with Customers*, IFRS 16 *Leases*, IFRS 3 *Business Combinations*, IFRS 10 *Consolidated Financial Statements* and IFRS 13 *Fair Value Measurement*?

- A. Yes
- B. No



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Slido—Question 4b

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If you have answered **No** to question 4a, which of the following new and amended Standards you do not support the Board's tentative decision to consult on aligning the *IFRS for SMEs* Standard?

- A. IFRS 9 *Financial Instruments*
- B. IFRS 15 *Revenue from Contracts with Customers*
- C. IFRS 16 *Leases*
- D. IFRS 3 *Business Combinations*
- E. IFRS 10 *Consolidated Financial Statements*
- F. IFRS 13 *Fair Value Measurement*



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Slido—Question 5

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Do you support the Board's tentative decision not to consult on aligning the *IFRS for SMEs* Standard with IFRS 11 *Joint Arrangements* and IFRS 14 *Regulatory Deferral Accounts*?

- A. Yes
- B. No



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IFRIC Interpretations and Amendments to IFRS Standards

- Alignment recommended



Note: For IFRIC Interpretations and Amendments to IFRS Standards for which alignment is not recommended, see slides 47- 49 in the Appendix



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Alignment of IFRIC Interpretations

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IFRIC Interpretation	Addresses	Reason alignment recommended
IFRIC 21 Levies	Interpretation clarifies the obligating event that gives rise to a liability to pay a levy	The topic is relevant as government levies may be applicable to SMEs
IFRIC 22 Foreign Currency Transactions and Advance Consideration	Interpretation clarifies the date of the transaction on derecognition of a non-monetary item when the related income, expense or asset has been recognised	The topic is relevant as SMEs may receive foreign currency advance payments
IFRIC 23 Uncertainty over Income Tax Treatments	IFRIC 23 adds to the requirements in IAS 12 by specifying how to reflect the effects of uncertainty in the accounting for income taxes	The topic is relevant to SMEs and can facilitate application of Section 29



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Amendments to IFRS Standards (1 of 2)

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Amendment	Reason alignment recommended
Definition of Material (Amendments to IAS 1 and IAS 8)	Guidance would simplify application of materiality therefore <i>IFRS for SMEs</i> Standard would be consistent with IFRS Standards
Disclosure Initiative (Amendments to IAS 7)	Users of SME financial statements are interested in solvency and liquidity information
Transfers of Investment Property (Amendments to IAS 40)	The amendment provides useful clarification on when investment property may be transferred and will assist preparers
Annual Improvements to IFRS Standards 2011-2013 Cycle (IAS 40)	Consult on relevance to SMEs
Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38)	The amendment is a useful clarification



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Amendments to IFRS Standards (2 of 2)

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Amendment	Reasons alignment recommended
Annual Improvements to IFRS Standards 2010-2012 Cycle (IFRS 2)	The amendment ensures consistent classification of conditions attached to share-based payments and will assist preparers
Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2)	The amendment would simplify the accounting for entities applying the <i>IFRS for SMEs</i> Standard and provides a relief that should be given to SMEs
Agriculture: Bearer Plants (Amendments to IAS 16 and IAS 38)	The amendment is a simplification about the cost, complexity and practical difficulties of fair value measurement
Recognition of Deferred Tax Assets for unrealised losses	Consult on the need for guidance on topics covered by the amendment



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Existing differences between IFRS Standards and the *IFRS for SMEs* Standard

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- Section 25 requires all **borrowing costs** incurred to be recognised as an expense in profit or loss
- Respondents to the 2012 Review requested that the Board reconsider allowing borrowing costs to be capitalised instead of expensed
- The staff are recommending the Board includes three alternative approaches in the RFI:
 - 1 Require entities to capitalise borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset
 - 2 Introduce an accounting policy election for SMEs to either capitalise or expense borrowing costs
 - 3 Maintain the current requirements

September 2019 Board meeting, AP 30D



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Other matters eg: cryptocurrencies

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- Holdings of **cryptocurrencies** and issuance of cryptoassets may be prevalent in SMEs
- RFI will seek views on the prevalence
- The staff are recommending three alternative approaches to be set in the RFI are:

1 Do nothing

2 Introduce a revaluation model for intangible assets in Section 18

3 Introduce a separate Section in the *IFRS for SMEs* Standard on cryptocurrency

September 2019 Board meeting, AP 30F



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Slido—Question 6

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Is the holding of cryptocurrency and the issuing of crypto assets **widespread and material** in your jurisdiction among entities applying the *IFRS for SMEs* Standard and/or SME entities?

- A. Yes
- B. No



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Slido—Question 7

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Which alternative to address the holding of cryptoassets do you support?

- A. Alternative 1—do nothing
- B. Alternative 2—introduce a revaluation model for intangible assets in Section 18
- C. Alternative 3—introduce a separate Section in the *IFRS for SMEs* Standard on cryptocurrency



 IFRS

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Other activities



 IFRS

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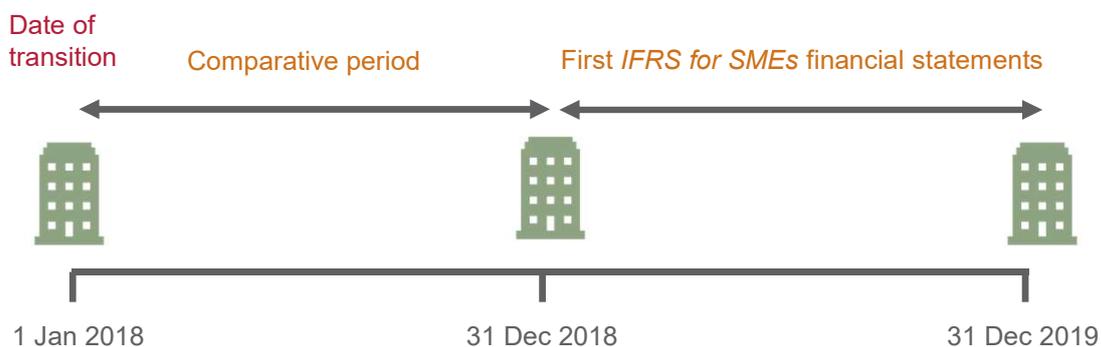
On transition should an entity base its assessment of whether an investment property can be measured reliably at fair value without **undue cost or effort** on information about the costs and benefits at the:

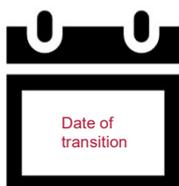
- entity's date of transition; or
- date of preparing the first financial statements?



An entity bases its assessment about the costs and benefits **at the entity's date of transition**.

Additional cost or effort due to the elapse of time between the date of transition and the date of preparing the first *IFRS for SMEs* financial statements shall not be considered.





Para 35.7: On the **date of transition** to the *IFRS for SMEs* Standard, unless there is an exception or exemption, apply the *IFRS for SMEs* Standard in measuring all recognised assets and liabilities.



Para 16.7: Investment property whose fair value can be measured reliably **without undue cost or effort** shall be measured at fair value at each reporting date.

Slido—Question 8

Do you agree with the draft Q&A that:

An entity bases its assessment of whether, at the date of transition, an investment property can be measured reliably at fair value without undue cost or effort on information about the costs and benefits **at the entity's date of transition**.

Additional cost or effort due to the elapse of time between the date of transition and the date of preparing the first *IFRS for SMEs* financial statements shall not be considered.

- A. Yes
- B. No



Resources available on our website

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<https://www.ifrs.org/issued-standards/ifrs-for-smes/>



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Appendix



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Amendments to IFRS Standards

- Alignment not recommended



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Amendments to IFRS Standards

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IFRS for SMEs Section	Amendment	Effective Date
No equivalent Section	Applying IFRS 9 <i>Financial Instruments</i> with IFRS 4 <i>Insurance Contracts</i>	January 2018
Section 3 <i>Financial Statement Presentation</i>	Annual Improvements 2009-2011 Cycle (IAS 1)	January 2013
	<i>Disclosure Initiative</i> (Amendments to IAS 1)	January 2016
Section 9 <i>Consolidated and Separate Financial Statements</i>	Annual Improvements to IFRS Standards 2014-2016 Cycle (IFRS 12)	January 2012
Section 11 <i>Basic Financial Instruments</i> ; Section 12 <i>Other Financial Instrument Issues</i>	Annual Improvements to IFRS Standards 2012-2014 Cycle (IFRS 7)	January 2016
	<i>Novation of Derivatives and Continuation of Hedge Accounting</i>	June 2013



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Amendments to IFRS Standards

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IFRS for SMEs Section	Amendment	Effective Date
Section 14 Investments in Associates	Annual Improvements to IFRS Standards 2014-2016 Cycle (IAS 28)	January 2018
	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> (Amendments to IFRS 10 and IAS 28)	Indefinitely deferred
Section 15 Investments in Joint Ventures	<i>Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance</i> (Amendments to IFRS 10, IFRS 11 and IFRS 12)	January 2013
Section 18 Intangible Assets other than Goodwill	Annual Improvements to IFRS Standards 2010-2012 Cycle (IAS 38)	July 2014
Section 23 Revenue	Effective Date of IFRS 15	January 2018



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Amendments to IFRS Standards

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IFRS for SMEs Section	Amendment	Effective Date
Section 27 Impairment of Assets	<i>Recoverable Amount Disclosures for Non-Financial Assets</i>	January 2014
	<i>Defined Benefit Plans: Employee Contributions</i>	July 2014
	<i>Plan Amendment, Curtailment or Settlement</i>	January 2019
	Annual Improvements to IFRS Standards 2012-2014 Cycle (IAS 19)	January 2016
Section 29 Income Tax	Annual Improvements to IFRS Standards 2015-2017 Cycle (IAS 12)	January 2019
Section 35 Transition to the IFRS for SMEs Standard	Annual Improvements to IFRS Standards 2011-2013 Cycle (IFRS 1)	
	Annual Improvements to IFRS Standards 2014-2016 Cycle (IFRS 1)	January 2018



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