IFRS® Accounting

Exposure draft *Third edition of the* IFRS for SMEs *Accounting Standard*

Jianqiao Lu
Michelle Sansom
Easton Bilsborough

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Presenters

Jianqiao Lu
IASB Member

Michelle Sansom
IASB Technical Staff

Easton Bilsborough
IASB Technical Fellow

Agenda

- Background — objective, scope and framework for review
- Main proposals in the Exposure Draft
- Other topics the IASB is seeking feedback on
- Questions

Background

Objective, scope and framework for review

Objective of the project

Objective

Update the *IFRS for SMEs* Accounting Standard to reflect improvements that have been made in full IFRS Accounting Standards (in the scope of the second comprehensive review) while keeping the Standard simple

Approach

Sought views via the **request for information** published in January 2020

Apply the **framework** for deciding whether, how and when to amend the Standard

Applying the framework and taking into consideration feedback on the request for information, propose improvements to the Standard by publishing the **Exposure Draft**

Scope of the review

Scope	A Requirements in full IFRS Accounting Standards issued: ▪ since the first review; and ▪ before the first review that did not result in amendments to the Standard in 2015
	B Other topics brought to the IASB's attention relating to the Standard

Alignment with IFRS Accounting Standard considered	The *Conceptual Framework*	IFRS 13 *Fair value measurement*	Minor amendments to IFRS Accounting Standards and IFRIC Interpretations
	IFRS 3 *Business Combinations*	IFRS 14 *Regulatory Deferral Accounts*	
	IFRS 9 *Financial Instruments*	IFRS 15 *Revenue from Contracts with Customers*	
	IFRS 10 *Consolidated Financial Statements*		
	IFRS 11 *Joint Arrangements*	IFRS 16 *Leases*	

Framework for the Second Comprehensive Review

Relevance to SMEs

Would a change make a difference to the decisions of users?

Simplification

Can appropriate simplifications be made?

Faithful representation

Does outcome faithfully represent economics?

Interaction with the proposed IFRS Accounting Standard *Subsidiaries without Public Accountability: Disclosures*

IFRS Accounting Standards

Recognition, measurement, presentation requirements

Proposed IFRS Accounting Standard *Subsidiaries without Public Accountability: Disclosures*

Developed for companies *with* publicly accountability

IFRS for SMEs Accounting Standard

Disclosure requirements*

Developed for companies *without* publicly accountability

* Disclosure requirements in the *IFRS for SMEs* Accounting Standard was used as a starting point.

Main proposals in the Exposure Draft

Concepts and basic principles

Reflect improvements from the 2018 *Conceptual Framework for Financial Reporting*

IASB's proposals

- **Introduce new concepts** on measurement, presentation, disclosure and guidance on derecognition
- **Update definitions** and recognition criteria for assets and liabilities
- **Clarify the concepts** of prudence, stewardship, measurement uncertainty and substance over form

- **Add an overriding principle** that the requirements in other sections of the Standard take precedence over Section 2
- **Retain the concept of 'undue cost or effort**'

Concepts and basic principles

Effect to SMEs

- Improvements will help SMEs when applying judgement in developing accounting policies when the Standard does not specify requirements
- Retaining the concept of ‘undue cost or effort’ enables the IASB to continue providing relief to SMEs in specified circumstances

Effect to Users

- Enhances information in the financial statements of SMEs—this has the potential of improving users’ understanding of information

What we want to know …

- Comments or suggestions on the revised Section 2?
- Do you agree that Section 18 and Section 21 should continue to use the previous definition of an asset and of a liability from Section 2 (based on the 1989 Framework)?

Business combinations

Reflects improvement from IFRS 3 *Business Combinations* (2018)

IASB's proposals

- **Update the definition** of a business, including application guidance and illustrative examples
- **Require the acquisition method of accounting** that includes introducing requirements for step-acquisitions and requiring contingent consideration be recognised at fair value

Business combinations

Effect to SMEs

- A clearer and simpler definition of a business will help SMEs to decide when to apply Section 19
- Providing requirements for step acquisitions would remove the need for SMEs to decide on an accounting policy

Effect to Users

- Improved consistency on what is a business combination
- Reduced diversity in how SMEs account for step acquisitions
- Enhanced information to assess the initial investment and performance of business combinations

What we want to know …

- Do you agree with the proposal to introduce requirements for the accounting for step acquisitions?
- Do you agree that not introducing the option to measure non-controlling interests at fair value is an appropriate simplification?

Financial instruments

Reflecting improvements from _some_ aspects of IFRS 9 *Financial Instruments*

IASB's proposals

- **Remove the option** to apply the recognition and measurement requirements of IAS 39

- **Introduce**:
  - an expected credit loss model for some financial assets measured at amortised cost
  - a principle for classification and measurement
  - new requirements for financial guarantee contracts

- **Retain the incurred loss model** for trade receivables and contract assets

Financial instruments

Effect to SMEs

- Simplified recognition and measurement requirements for issued financial guarantee contracts because such contracts are currently measured at fair value
- No changes for SMEs with simple trade receivables or payables

Effect to Users

- Enhanced comparability by removing the option to apply IAS 39
- Better information from earlier recognition of impairment losses for *some* financial assets measured at amortised cost

What we want to know …

- Do you agree with the proposal to introduce an expected credit model for only *some* financial assets?
- Do you agree that the proposal strikes the right balance in deciding which financial assets should be recognised under the expected credit loss model?

The ‘consolidation’ package

Reflecting improvements from <u>*some*</u> aspects of IFRS 10 *Consolidated Financial Statements* and IFRS 11 *Joint Arrangements*

IASB’s proposals

- **Update the definition of control** to align with IFRS 10
- **Retain the rebuttable presumption** that an SME controls an entity if the SME owns a majority of the voting rights of the entity
- **Add new requirements** for partial disposals that result in loss of control—an SME would measure any retained interest at fair value when control is lost

- **Update the definition of joint control** to align with IFRS 11
- **Retain the classifications** of joint arrangements
- **Add requirements** for when an entity participates but does not have joint control

The ‘consolidation’ package

Effect to SMEs

- A single basis to assess control of an investee
- A principle for joint control aligned with the updated definition of control

Effect to Users

- Increased comparability, usefulness and consistency of information from the proposed single basis for consolidation

What we want to know …

- Do you agree with the IASB’s proposal to retain the rebuttable presumption as a simplification of the definition of control?

Fair value measurement

Reflecting improvements from IFRS 13 *Fair Value Measurement*

IASB's proposals

- **Update the definition** of fair value
- **Update the framework** for measuring fair value, including examples relevant to SMEs
- **Require improved disclosures** about fair value measurements

A new section on fair value measurement is introduced in the Standard

Fair value measurement

Effect to SMEs

- No changes to when SMEs are permitted or required to measure an item at fair value
- Clear guidance on how to measure fair value

Effect to Users

- Improved disclosures on fair value
- Improved comparability across entities

What we want to know …

- Comments or suggestions on the new section for fair value measurement?

Revenue

Reflecting improvements from IFRS 15 *Revenue from Contracts with Customers*

IASB's proposals

- **Introduce a framework for recognising revenue** for goods and services, which requires revenue to be recognised when the customer obtains control of the good or service, based on the five-step model in IFRS 15
- **Simplify requirements of IFRS 15** to make the five-step model easier for SMEs to apply
- **Provide transition relief** to allow SMEs to apply their current revenue recognition policy to contracts already in progress

Revenue

Effect to SMEs

- A comprehensive framework for determining when and how much revenue to recognise for goods and services
- For many contracts, the revised Section 23 is expected to have little, if any, effect on the amount and timing of revenue recognition

Effect to Users

- Improved consistency in revenue reported for economically similar transactions
- Improved comparability across entities
- Improved disclosures to help understand the amount, timing and uncertainty of revenue and cash flows from contracts with customers

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What we want to know …

- Do you agree that the revised Section 23 would be appropriate for SMEs and users of their financial statements? If not, what modifications do you propose and why?
- The IASB is proposing to simplify the guidance in paragraphs 27-29 of IFRS 15. Do you believe the guidance is appropriate and adequate for entities applying the Standard?

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Other topics the IASB is seeking feedback on

Deleting paragraph 28.19 on employee benefits

The IASB is proposing to delete paragraph 28.19

Why?

- Feedback identified challenges when applying paragraph 28.19, resulting in diversity of application
- Feedback also provided evidence that a limited number of entities apply paragraph 28.19

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What we want to know …

- Do you agree that application of the measurement simplifications for defined benefit obligations is limited and, therefore, agree with the IASB's proposal to delete paragraph 28.19?
- If you disagree with IASB's proposal to delete paragraph 28.19, do you agree with an alternative approach that clarifies paragraph 28.19?

Not aligning with IFRS 16 *Leases*

The IASB decided not to align the Standard with IFRS 16 *Leases* during this review

Why?

- Costs and efforts for SMEs to apply IFRS 16 requirements (at this stage of IFRS 16's life cycle) might not be justified
- Findings from the post-implementation review of IFRS 16 and application questions may provide additional information about the costs and benefits of aligning with IFRS 16

What we want to know …

- Do you agree with the IASB's decision to consider amending the Standard to align it with IFRS 16 in a future review of the Standard?

Recognition and measurement of development costs

The IASB is seeking views on whether it should introduce an accounting policy option that allows recognition of intangible assets arising from development costs

Why?

- Feedback on this comprehensive review questioned the simplification to require all development costs to be recognised as expenses due to cost–benefit reasons
- SMEIG members agreed with amending the recognition and measurement requirements for development costs subject to the criteria in IAS 38

What we want to know …

- What are your views on introducing an accounting policy option that permits an entity applying the Standard to recognise intangible assets arising from development costs that meet the criteria in paragraphs 57(a)–(f) of IAS 38

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Questions?

Next steps

September 2022

Publication of the Exposure Draft

March 2023

Deadline for comments

Consultation period

Q2 2023

Discussion of feedback summary

2024

Expected publication of amendments to the *IFRS for SMEs* Accounting Standard

Get involved in this consultation

Access the consultation documents:

- Exposure Draft
- Basis for conclusions
- Snapshot

For further details, please visit the project page - Second Comprehensive Review of the *IFRS for SMEs* Accounting Standard

or

Scan the QR Code.

Tell us what you think:

- Submit a comment letter at https://www.ifrs.org/projects/work-plan/2019-comprehensive-review-of-the-ifrs-for-smes-standard/exposure-draft-and-comment-letters/
- Send us an email at sme@ifrs.org.com

Open for comment until 7 March 2023

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Thank you!

For more details about the project and the Exposure Draft, please refer to the project page on the IFRS website

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