

Emerging Economies Group  
December 2019  
Agenda paper 3

# Emerging Economies Group meeting 2019 Comprehensive Review of the *IFRS for SMEs Standard* (2019 Review)

Darrel Scott

The views expressed in this presentation are those of the presenter, not necessarily those of the International Accounting Standards Board or the IFRS Foundation.

# Development of the *IFRS for SMEs* Standard

July  
2009

- *IFRS for SMEs* Standard issued

2010

- SME Implementation Group (SMEIG) established

2012

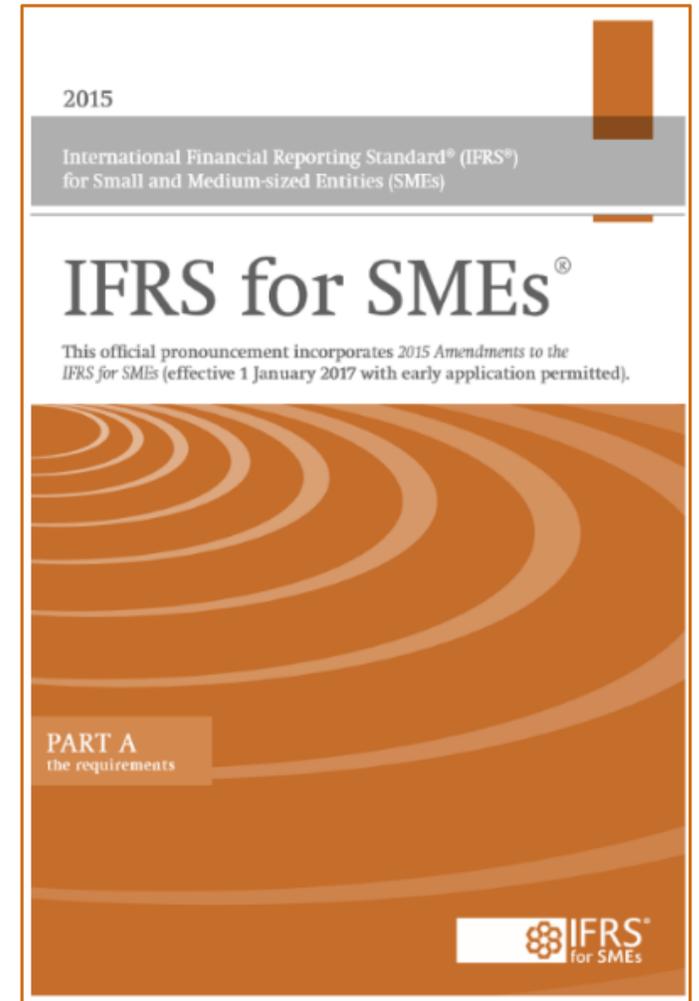
- 1<sup>st</sup> Review of the *IFRS for SMEs* Standard commenced

May  
2015

- Amendments to the *IFRS for SMEs* Standard issued (effective 1 January 2017)

# Overview of the *IFRS for SMEs* Standard

- 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

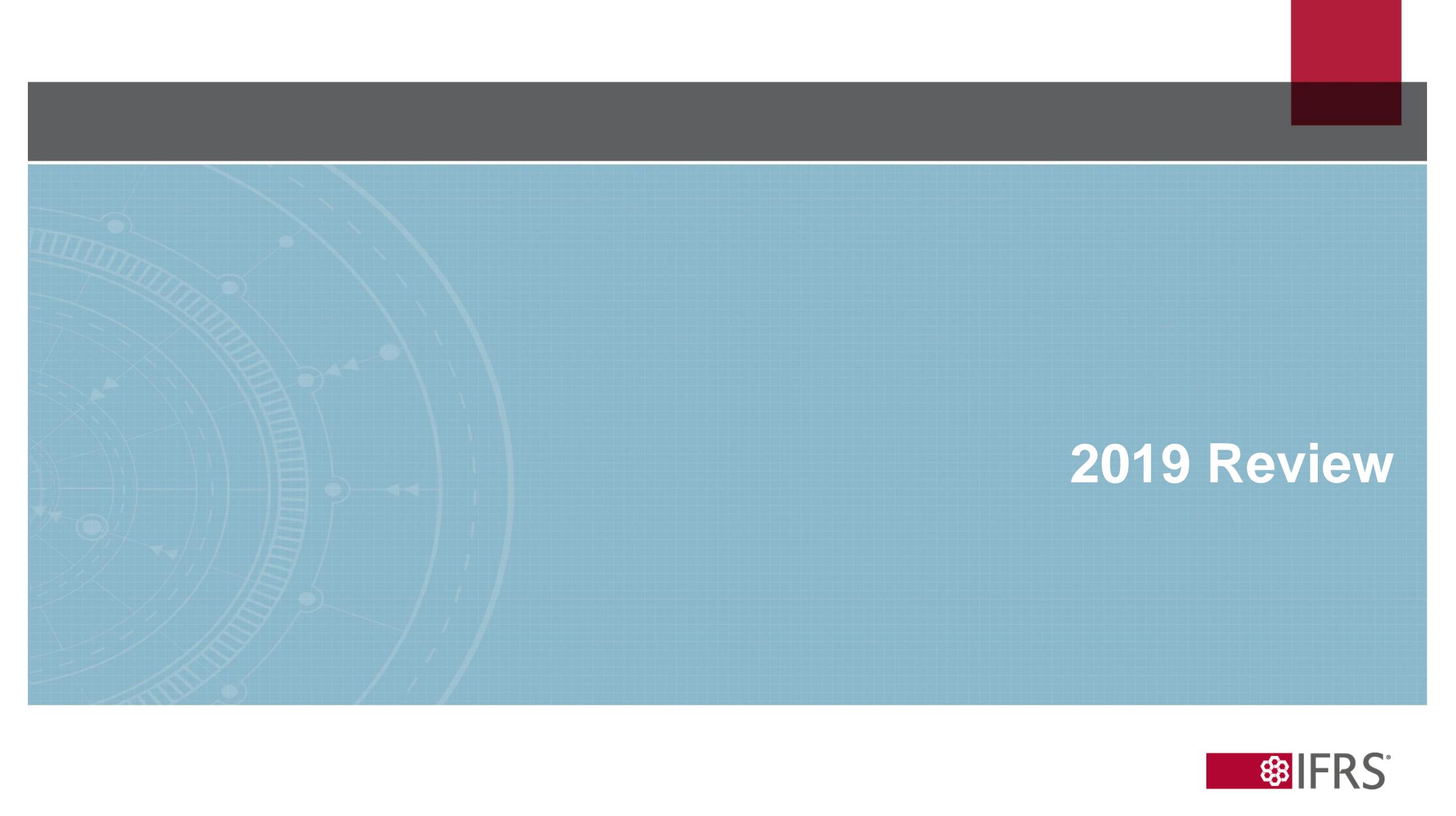


# Adoption of the *IFRS for SMEs* Standard



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

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



# 2019 Review

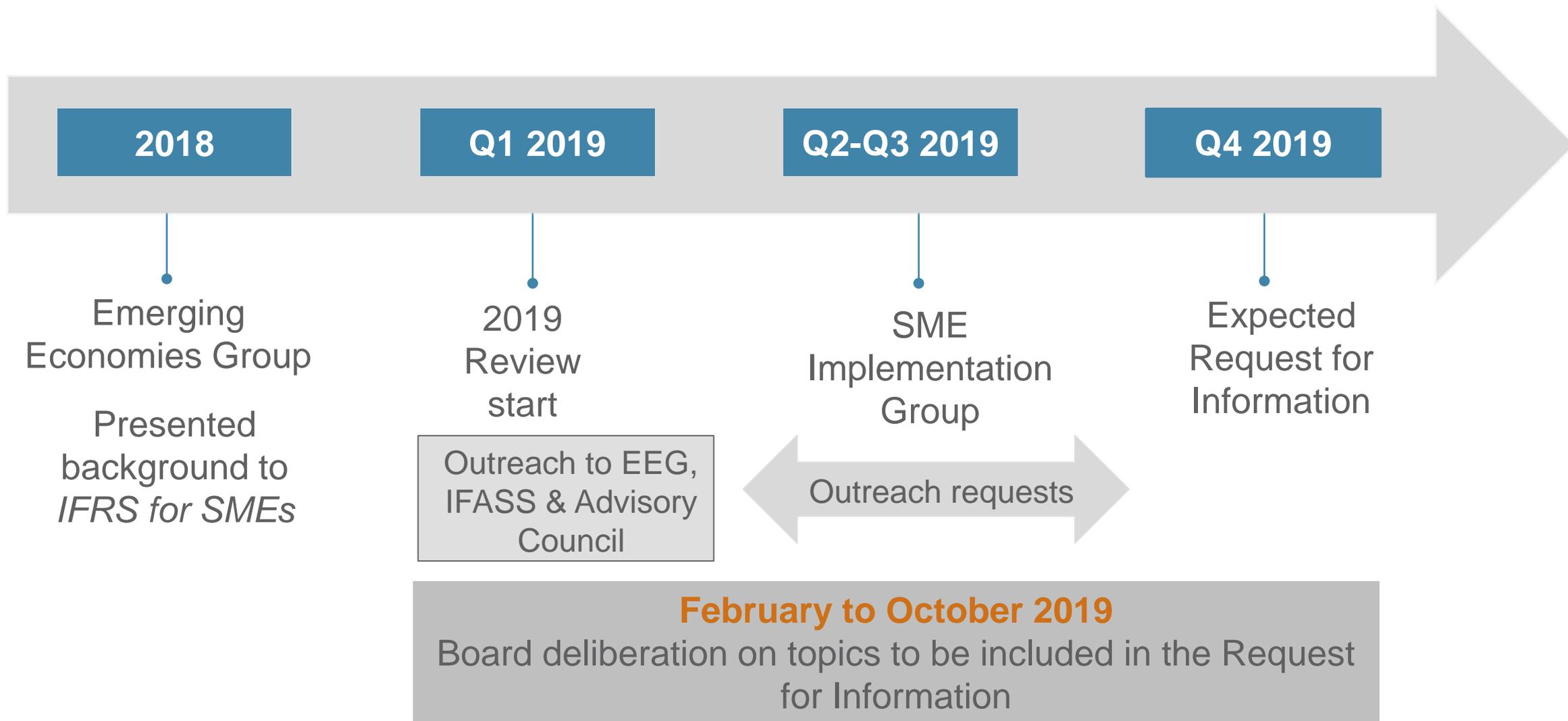
## Phase I – Request for Information

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

# IFRS for SMEs 2019 Review – Phase 1



# Topics to be included in the 2019 Review

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

Alignment of new and amended IFRS Standards and IFRIC Interpretations

Matters of interest to entities applying the *IFRS for SMEs* Standard but not covered by IFRS Standards eg: cryptocurrency

Existing differences between IFRS Standards and the *IFRS for SMEs* Standard eg: borrowing costs

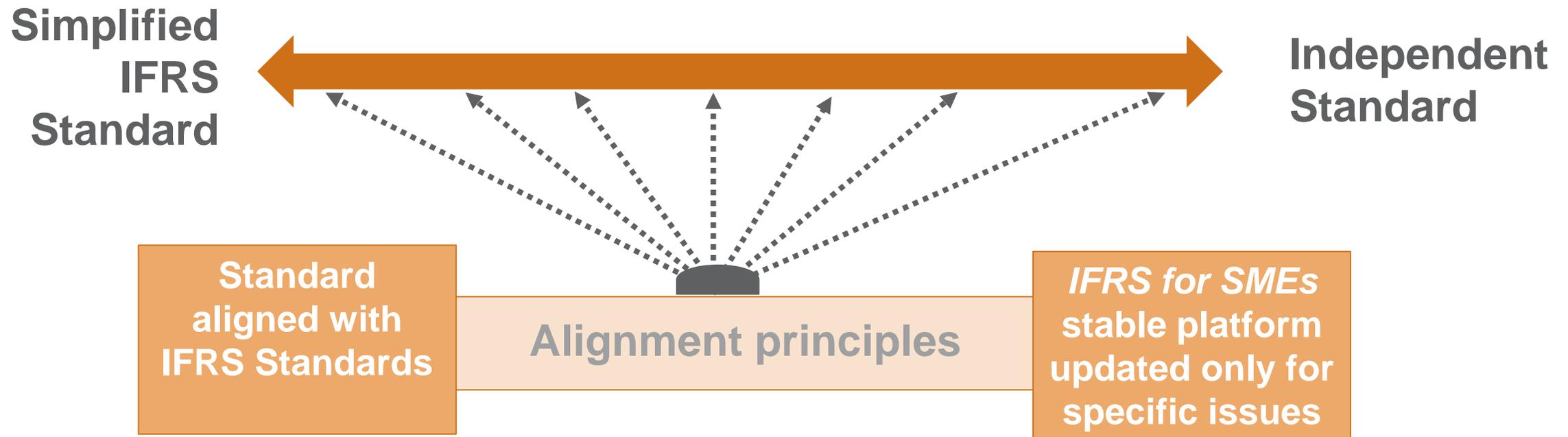
Scope of the *IFRS for SMEs* Standard



**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

- 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





# Alignment of IFRS Standards

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

Seeking views to align

Seeking views not to align

2018 *Conceptual Framework for Financial Reporting*

IFRS 14

IFRS 9

IFRS 13

IFRIC Interpretations

IFRS 12

IFRS 15

IFRS 3

IFRS Amendments

IFRS 16

IFRS 10

IFRS 11



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*

# Alignment of new IFRS Standards

## *Financial instruments and revenue*

15

### **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

# Alignment of new IFRS Standards

## Leases

16

### 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

# Alignment of IFRS Standards

## *Fair value*

17

### IFRS 13 *Fair Value Measurement*

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

# Alignment of IFRS Standards

## *Acquisitions and consolidation*

18

### 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

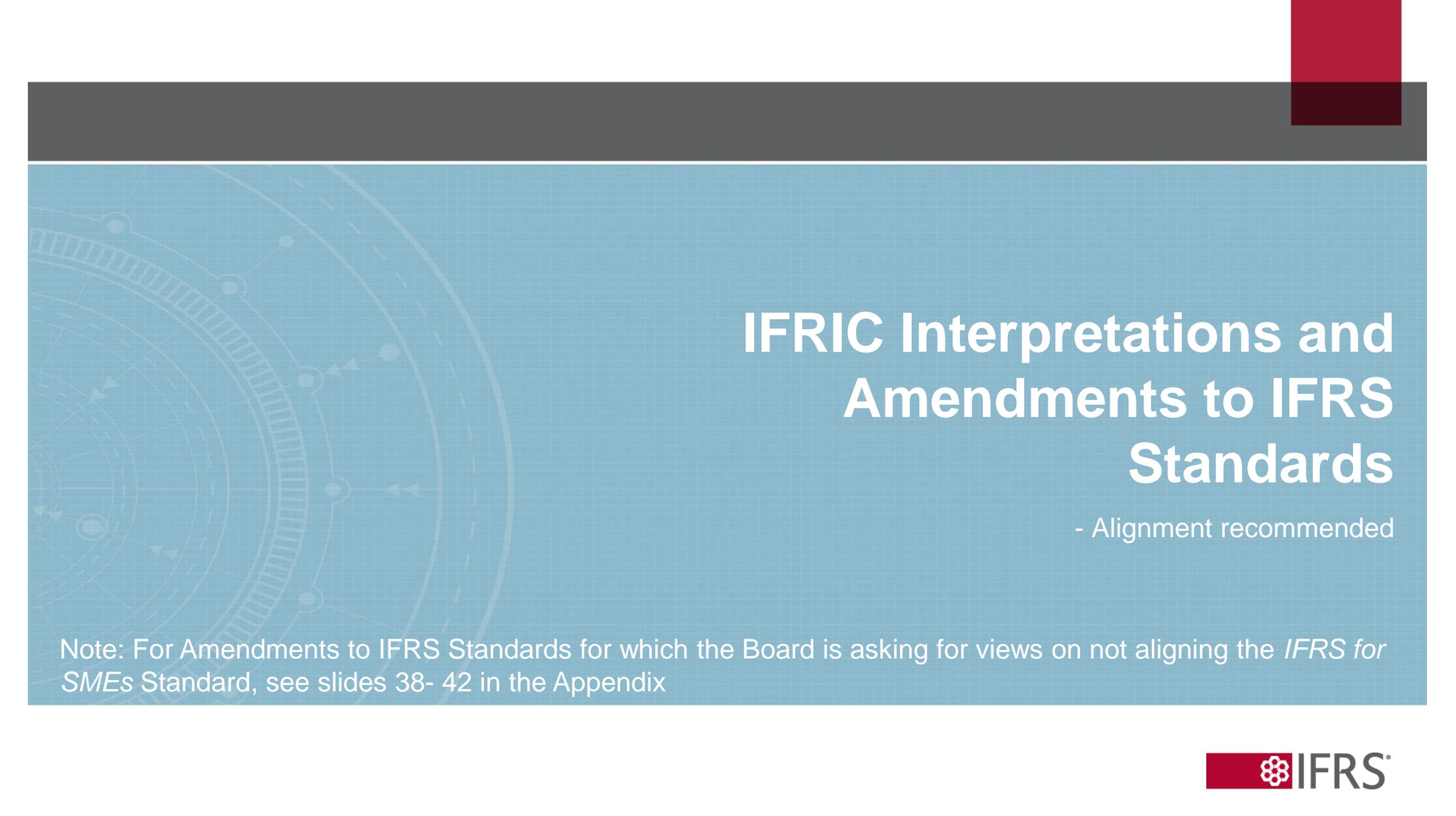
## IFRS 11 *Joint Arrangements*

- Single definition of 'control'
- Align definition of 'joint control' with IFRS 11
- Retaining the accounting requirements of Section 15:
  - Jointly controlled operations
  - Jointly controlled assets
  - Jointly controlled entities

**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



# IFRIC Interpretations and Amendments to IFRS Standards

- Alignment recommended

Note: For Amendments to IFRS Standards for which the Board is asking for views on not aligning the *IFRS for SMEs* Standard, see slides 38- 42 in the Appendix

# Amendments to IFRS Standards - seeking views on alignment (1 of 2)

22

Amendment	Reason alignment recommended
<b><i>Definition of Material</i></b> (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
<b><i>Disclosure Initiative</i></b> (Amendments to IAS 7)	Users of SME financial statements are interested in solvency and liquidity information
<b><i>Transfers of Investment Property</i></b> (Amendments to IAS 40)	The amendment provides useful clarification on when investment property may be transferred and will assist preparers
<b><i>Clarification of Acceptable Methods of Depreciation and Amortisation</i></b> (Amendments to IAS 16 and IAS 38)	The amendment is a useful clarification

# Amendments to IFRS Standards - seeking views on alignment (2 of 2)

23

Amendment	Reasons alignment recommended
<b><i>Annual Improvements to IFRS Standards 2010-2012 Cycle (IFRS 2)</i></b>	The amendment ensures consistent classification of conditions attached to share-based payments and will assist preparers
<b><i>Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2)</i></b>	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
<b><i>Agriculture: Bearer Plants (Amendments to IAS 16 and IAS 38)</i></b>	The amendment is a simplification about the cost, complexity and practical difficulties of fair value measurement

# Amendments to IFRS Standards and IFRIC Interpretations - requesting further information

24

Amendment / IFRIC	Overview
<i>Annual Improvements to IFRS Standards 2011-2013 Cycle (IAS 40)</i>	Clarifies the interrelationship of IFRS 3 and IAS 40 when classifying property as investment property or owner-occupied property
<i>Recognition of Deferred Tax Assets for unrealised losses (Amendments to IAS 12)</i>	Clarifies how to account for deferred tax assets related to debt instruments measured at fair value
IFRIC 21 <i>Levies</i>	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.
IFRIC 22 <i>Foreign Currency Transactions and Advance Consideration</i>	Clarifies the date of the transaction on the derecognition of a non-monetary item when the related income, expense or asset is recognised
IFRIC 23 <i>Uncertainty over Income Tax Treatments</i>	Adds to the requirements in IAS 12 by specifying how to reflect the effects of uncertainty in the accounting for income taxes



# Matters of interest for SMEs & existing differences

- The Board will **seek views** on:
  - If the holdings of **cryptocurrencies** and issuance of **cryptoassets** are prevalent to SMEs
- The Board will **not seek views** on:
  - Amending the **scope** of the *IFRS for SMEs* Standard
  - Aligning the accounting for **borrowing costs**



# Scope of the *IFRS for SMEs* Standard

# Scope of the *IFRS for SMEs* Standard

- The *IFRS for SMEs* Standard is intended for use by entities that:<sup>1</sup>

**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

<sup>1</sup> *IFRS for SMEs* Standard, paragraph 1.1 and 1.2

Some respondents<sup>1</sup> 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

<sup>1</sup> See paragraphs BC179 and BC182 of the *IFRS for SMEs* Standard Part B

# Scope: 2019 Research

The staff sought advice<sup>1</sup> 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

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

# Scope: 2019 Research

The staff sought advice<sup>1</sup> 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

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

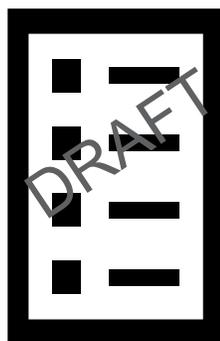
- Staff sought advice from the IFRS Advisory Council, Emerging Economies Group, International Forum of Accounting Standard Setters and SMEIG
- Overall lack of support
  - potential **increased complexity** of the *IFRS for SMEs* Standard
  - **reduced comparability** of financial statements
  - drafting 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

# Other activities



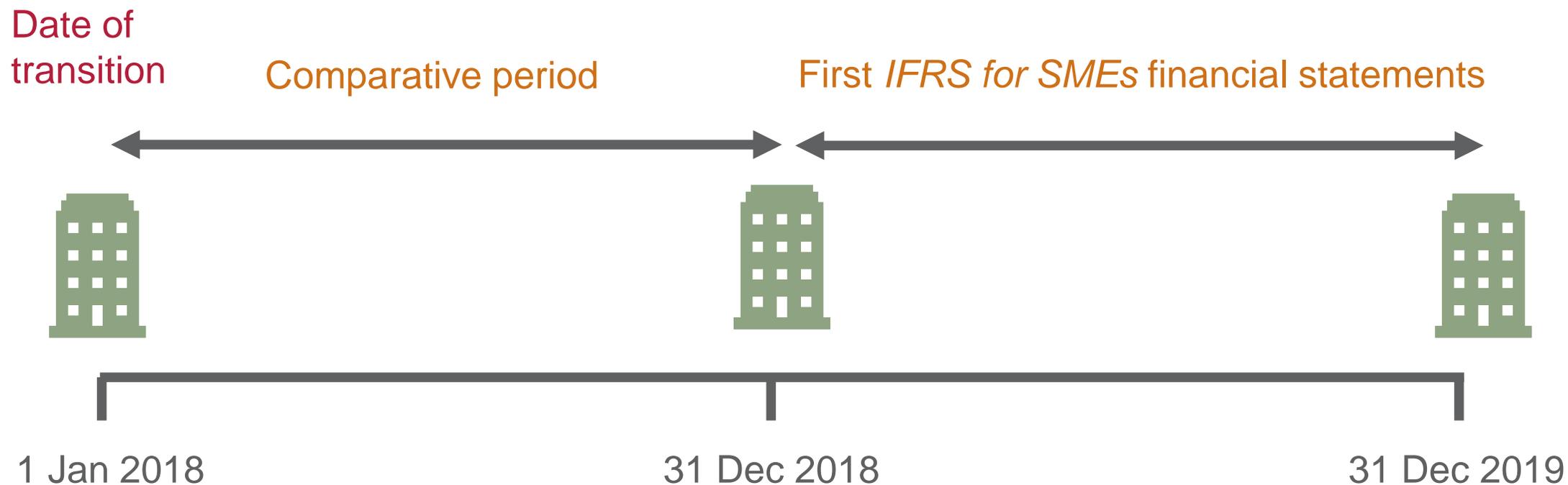
On transition should an entity base its assessment of whether an investment property can be measured reliably at fair value without **undue cost or effort** on information about the costs and benefits at the:

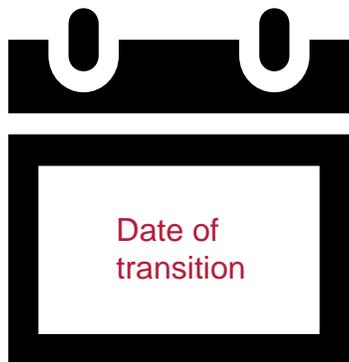
- entity's date of transition; or
- date of preparing the first financial statements?



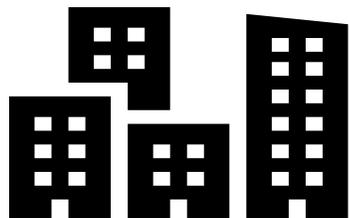
An entity bases its assessment about the costs and benefits **at the entity's date of transition.**

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.



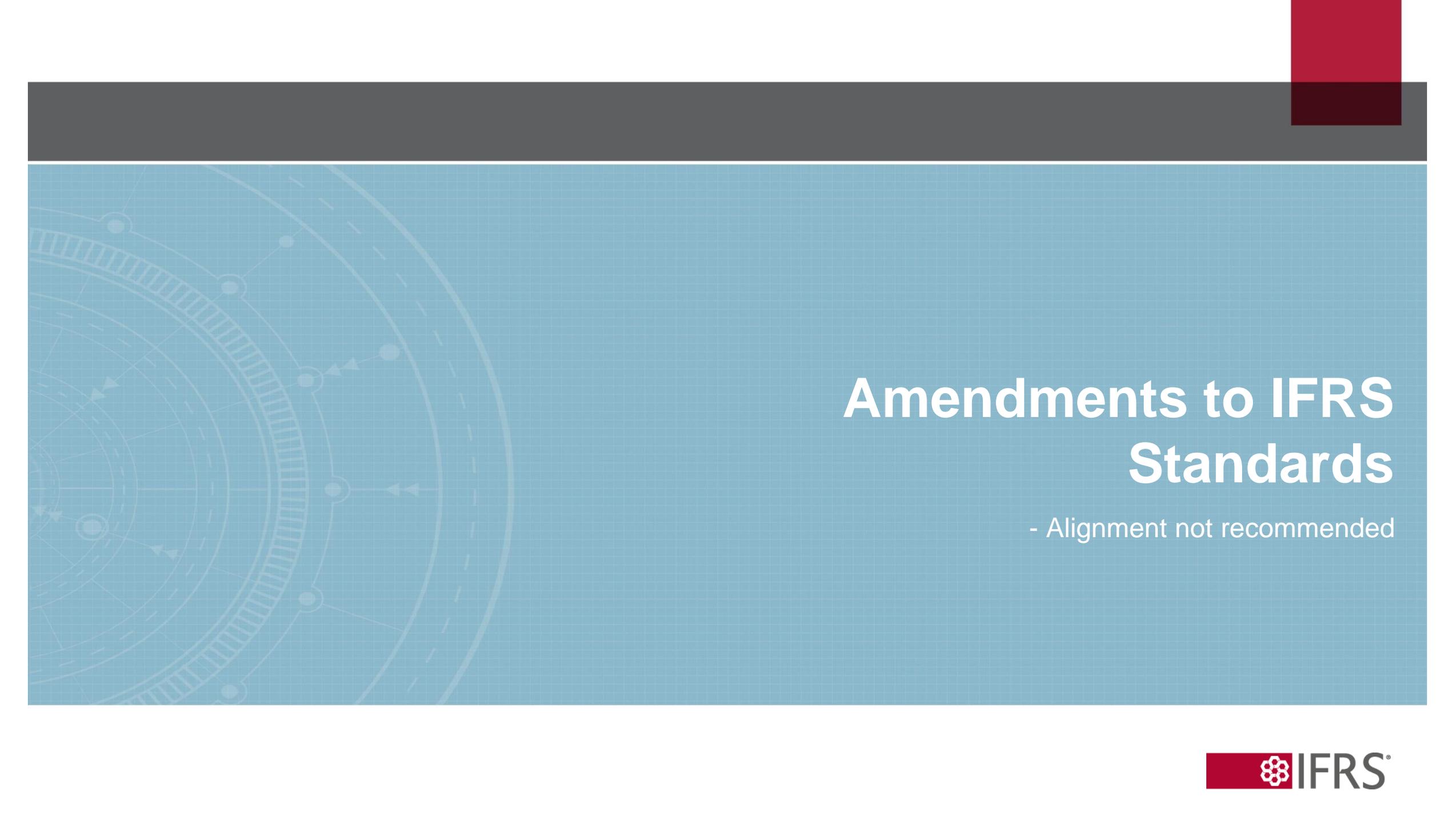
Para 16.7: Investment property whose fair value can be measured reliably **without undue cost or effort** shall be measured at fair value at each reporting date.

# Resources available on our website



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

# Appendix



# Amendments to IFRS Standards

- Alignment not recommended

# Amendments to IFRS Standards

IFRS for SMEs Section	Amendment	Effective Date
No equivalent Section	<i>Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts</i>	January 2018
<b>Section 3 Financial Statement Presentation</b>	<i>Disclosure Initiative (Amendments to IAS 1)</i>	January 2016
<b>Section 9 Consolidated and Separate Financial Statements</b>	<i>Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance (Amendments to IFRS 10, IFRS 11 and IFRS 12)</i>	January 2013
	<i>Annual Improvements to IFRS Standards 2014-2016 Cycle (IFRS 12)</i>	January 2012
<b>Section 11 Basic Financial Instruments; Section 12 Other Financial Instrument Issues</b>	<i>Annual Improvements to IFRS Standards 2012-2014 Cycle (IFRS 7)</i>	January 2016
	<i>Novation of Derivatives and Continuation of Hedge Accounting</i>	June 2013

# Amendments to IFRS Standards

<b>IFRS for SMEs Section</b>	<b>Amendment</b>	<b>Effective Date</b>
<b>Section 14 Investments in Associates</b>	<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
<b>Section 15 Investments in Joint Ventures</b>	<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
<b>Section 18 Intangible Assets other than Goodwill</b>	<i>Annual Improvements to IFRS Standards 2010-2012 Cycle</i> (IAS 38)	July 2014
<b>Section 23 Revenue</b>	<i>Effective Date of IFRS 15</i>	January 2018

# Amendments to IFRS Standards

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

# Join the IFRS Foundation team

43



a mission  
that matters



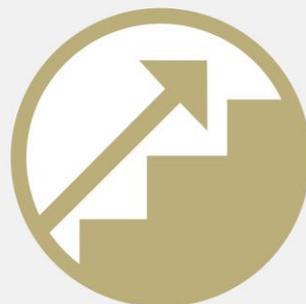
working with global  
accounting experts



access to network of  
influential people



small organisation  
with a big impact



unique development  
opportunities



intellectually  
stimulating



international  
environment

visit [go.ifrs.org/careers](https://go.ifrs.org/careers)

# Get involved

Find out more: [www.ifrs.org](http://www.ifrs.org)

Follow us:  @IFRSFoundation

 IFRS Foundation  
International Accounting Standards Board

 IFRS Foundation

 IFRS Foundation

Join our team: [go.ifrs.org/careers](http://go.ifrs.org/careers)