

## STAFF PAPER

May 2019

IASB<sup>®</sup> Meeting

<b>Project</b>	<b>Comprehensive review of the <i>IFRS for SMEs</i><sup>®</sup> Standard</b>		
<b>Paper topic</b>	<b>Way forward and next steps</b>		
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**Purpose**

1. The objective of this paper is to agree if, and how, the International Accounting Standards Board (Board) should proceed with the 2019 Comprehensive Review of the *IFRS for SMEs* Standard (2019 Review).

**Structure of the paper**

2. This paper is structured as follows:
  - (a) way forward for the 2019 Review (paragraphs 3–22); and
  - (b) next steps (paragraph 23–24).

**Way forward for the 2019 Comprehensive Review of the *IFRS for SMEs* Standard**

3. The staff note that the answer to the question in agenda paper 30A will help determine how the Board decides to proceed with the 2019 Review.

4. In the staff’s view, there are three options for proceeding with the 2019 Review:
- (a) option 1—proceed as planned (paragraphs 5–11);
  - (b) option 2—proceed using a two-step approach (paragraphs 12–18); or
  - (c) option 3—defer the Request for Information (RFI) (paragraphs 19–21).

***Option 1—proceed as planned***

5. If, having considered agenda paper 30A and 30B, the Board agrees with the recommendation that the *IFRS for SMEs* Standard should be aligned with new and amended IFRS Standards using the alignment principles of relevance, simplicity and faithful representation, staff will proceed largely as planned in the February 2019 Board (agenda paper 30).
6. In developing recommendations for the Board, the staff will apply the principles proposed at the March 2019 Board meeting, and summarised in agenda paper 30A of this meeting, for aligning the *IFRS for SMEs* Standard with IFRS Standards and amendments not included in the *IFRS for SMEs* Standard. Having considered the staff recommendations, the Board would decide whether the RFI should include recommendations as to whether and how to align the *IFRS for SMEs* with a particular IFRS Standard.
7. The scope of the 2019 Review would:
- (a) address IFRS Standards and amendments with effective dates up to and including 1 January 2019 that are not currently included in the *IFRS for SMEs* Standard;
  - (b) address other matters related to the *IFRS for SMEs* Standard, including:
    - (i) differences between IFRS Standards and the *IFRS for SMEs* Standard, for example, differences in the capitalisation of development costs; and
    - (ii) matters of interest to SMEs but not covered by IFRS Standards, for example, cryptocurrencies.

8. The staff acknowledges the concern raised in the March 2019 meeting that there is limited implementation experience for IFRS 9 *Financial Instruments*, IFRS 15 *Revenue from Contracts with Customers* and IFRS 16 *Leases*.
9. The staff believes there is sufficient evidence from external sources such as the UK's Financial Reporting Council's Triennial Review and the Asian-Oceanian Standard-Setters Group survey to support making recommendations regarding the alignment of the *IFRS for SMEs* Standard with IFRS 9, 15 and 16 as part of the RFI. Furthermore, at the time the exposure draft is issued there will have been one to two years' implementation experience for each of the IFRS Standards identified.
10. The staff also notes that if the Board decides not to consider aligning the *IFRS for SMEs* Standard with these IFRS Standards as part of the 2019 Review, the next scheduled review of the *IFRS for SMEs* Standard is not expected to commence until 2025. Entities would not receive the potential benefits of applying those Standards until about 2030 (allowing time for the next review to take place and the potential amendments to become effective).
11. Should the Board decide to proceed as planned, the staff will continue the 2019 Review with the aim of issuing an RFI in the fourth quarter of 2019.

***Option 2—proceed using a two-step approach***

12. If, having considered agenda paper 30A and 30B, the Board agrees with the recommendation that the *IFRS for SMEs* Standard continue to be aligned with full IFRS Standards, but it is concerned that there is insufficient implementation experience available during the 2019 Review to decide whether and how to align the *IFRS for SMEs* Standard with IFRS 9, IFRS 15 and IFRS 16 staff would propose a modification to the approach outlined in the February 2019 Board paper.
13. The staff proposes that under this approach, the 2019 Review would consist of two stages. The first stage would be a 2019 RFI that:
  - (a) addresses IFRS Standards and amendments with effective dates up to and including 1 January 2016 that are not currently included in the *IFRS for SMEs* Standard and in relation to which there is at least two years of

implementation experience. This would include IFRS 3 *Business Combinations*, IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements* and IFRS 13 *Fair Value Measurement*.

- (b) addresses other matters related to the *IFRS for SMEs* Standard, including:
  - (i) differences between IFRS Standards and the *IFRS for SMEs* Standard, for example, differences in the capitalisation of development costs; and
  - (ii) matters of interest to SMEs but not covered by IFRS Standards, for example, cryptocurrencies.
- (c) contains a request for views on other matters stakeholders want the Board to examine.

14. The second stage would be a 2022 RFI. This is consistent with the requirement in paragraph P16 that the Standard should not be amended more frequently than once every three years. This RFI would address IFRS Standards and amendments with effective dates up to and including 1 January 2019 and that are not included in the *IFRS for SMEs* Standard (namely IFRS 9, IFRS 15 and IFRS 16).

15. At both stages, when developing recommendations for the Board, the staff will apply the principles proposed at the March 2019 meeting, and summarised in agenda paper 30A of this meeting, for aligning the *IFRS for SMEs* Standard with IFRS Standards and amendments not currently included in the *IFRS for SMEs* Standard. Having considered the staff recommendations, the Board would decide whether the RFI should include recommendations as to whether and how to align the *IFRS for SMEs* with a particular IFRS Standard.

16. The advantages of this approach include:

- (a) allowing the Board to address current issues and some IFRS Standards in the short-term, while entities gain implementation experience of IFRS 9, IFRS 15 and IFRS 16.
- (b) deferring discussions on aligning IFRS 9, IFRS 15, and IFRS 16 by three years. While users would be denied the potential benefits of alignment

with these Standards in the interim, they would receive those benefits within a reasonable amount of time.

- (c) allowing for a slower, more consistent transition to alignment with the new IFRS Standards, which may make each step feel less disruptive to preparers and users.

17. A significant disadvantage of this approach is that two updates to the *IFRS for SMEs* Standard in a short timeframe would potentially be disruptive for preparers and users. It is arguably inconsistent with the Board’s desire that the *IFRS for SMEs* Standard be stable and updated only periodically.
18. Other disadvantages of this option include:
  - (a) stakeholder fatigue over having to engage with the review for an extended period; and
  - (b) increased implementation costs, in terms of both training and translation.

**Option 3—defer RFI**

19. If, having considered agenda papers 30A and 30B, the Board disagrees with the proposal to align the *IFRS for SMEs* Standard with full IFRS Standards, the staff would recommend the Board not proceed with an RFI at this time, but rather develop a strategy that would allow it to come to a consensus on the purpose and role of the *IFRS for SMEs* Standard. Only then should it proceed with an RFI that will allow it to develop the Standard in line with the agreed purpose and role.
20. Deferring the 2019 Review of the *IFRS for SMEs* Standard has the advantage of allowing implementation experience of IFRS 9, IFRS 15 and IFRS 16 to be built, before the Board considers alignment.
21. Deferring the 2019 Review would have the disadvantage that any current issues could not be addressed at this time, and that the misalignment between full IFRS Standards and the *IFRS for SMEs* Standard would continue to grow.

## Recommendation

22. On balance, if the Board has agreed to the staff recommendation in agenda paper 30A that the *IFRS for SMEs* Standard continue to be aligned with full IFRS Standards, the staff recommends that the Board selects option 1 and proceeds as planned. Option 1 is in line with the previous and current expectations the Board has set for the development of the *IFRS for SMEs* Standard. It provides a clear, pragmatic plan for a review that will enhance the *IFRS for SMEs* Standard while implementing change only where there is obvious benefit at an appropriate cost.

### Question 1

Does the Board agree with the recommendation in paragraph 22 that the 2019 Review should proceed as outlined in option 1?

## Next steps

23. If the Board agrees with option 1 above as the approach to the 2019 Review, the staff will present papers to the Board on whether and how to align the *IFRS for SMEs* Standard with IFRS Standards and amendments not currently incorporated.
24. The Board will then be asked to consider other matters related to the *IFRS for SMEs* Standard, including:
- (a) the differences between IFRS Standards and the *IFRS for SMEs* Standard, for example, differences in the capitalisation of development costs; and
  - (b) matters that are of interest to SMEs but not covered by IFRS Standards, for example, cryptocurrencies.