

STAFF PAPER

December 2021

IASB[®] meeting

Project	Second Comprehensive Review of the <i>IFRS for SMEs</i> [®] Standard	
Paper topic	Cover paper	
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This paper has been prepared for discussion at a public meeting of the International Accounting Standards Board (IASB) and does not represent the views of the IASB or any individual member of the IASB. 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*.

Introduction

1. At its March 2021 meeting, the International Accounting Standards Board (IASB) tentatively decided to develop an exposure draft of amendments to the *IFRS for SMEs* Standard using the alignment approach the IASB consulted on in the Request for Information *Comprehensive Review of the IFRS for SMEs Standard*, published in January 2020.
2. At its May 2021 meeting, the IASB started deliberating specific sections of the *IFRS for SMEs* Standard that could be aligned with new requirements in IFRS Standards in the scope of the review. The appendix to this paper summarises the IASB's tentative decisions to date.

Purpose of this meeting

3. At this meeting the IASB will continue to deliberate specific sections of the *IFRS for SMEs* Standard that could be aligned with IFRS Standards, amendments to IFRS Standards and IFRIC Interpretations in the scope of the second comprehensive review of the *IFRS for SMEs* Standard.

4. Agenda papers for discussion at this meeting are the following:
- (a) Agenda Paper 30A: *Towards an Exposure Draft—IFRS 3 Business Combinations*;
 - (b) Agenda Paper 30B: *Towards an Exposure Draft—IFRS 10 Consolidated Financial Statements*;
 - (c) Agenda Paper 30C: *Towards an Exposure Draft—IFRS 11 Joint Arrangements*;
 - (d) Agenda Paper 30D: *Towards an Exposure Draft—IFRS 9 Financial Instruments (impairment of financial assets)*;
 - (e) Agenda Paper 30E: *Towards an Exposure Draft—IFRS 9 Financial Instruments (issued financial guarantee contracts)*;
 - (f) Agenda Paper 30F: *Towards an Exposure Draft—amendments to IFRS Standards and IFRIC Interpretations (overview)*;
 - (g) Agenda Paper 30G: *Towards an Exposure Draft—amendments to IFRS Standards and IFRIC Interpretations (Agriculture: Bearer Plants)*;
 - (h) Agenda Paper 30H: *Towards an Exposure Draft—amendments to IFRS Standards and IFRIC Interpretations (Package of amendments to IAS 1)*;
 - (i) Agenda Paper 30I: *Towards an Exposure Draft—amendments to IFRS Standards and IFRIC Interpretations (topics with amendments recommended)*;
 - (j) Agenda Paper 30J: *Towards an Exposure Draft—amendments to IFRS Standards and IFRIC Interpretations (topics with no amendments recommended)*; and
 - (k) Agenda Paper 30K: *Towards an Exposure Draft—other topics with amendments recommended.*
5. In discussing Agenda Paper 30A, the staff note that there are potential consequential amendments that would arise from the cross-cutting issues between IFRS 3 *Business Combinations* and IFRS 10 *Consolidated Financial Statements*. As such, if the IASB agree with the staff recommendations in Agenda Paper 30A, the staff will bring a paper to the IASB at a future meeting on whether and, if so, how to propose amendments to the *IFRS for SMEs* Standard to align with IFRS Standards for the potential consequential amendments.

The IASB's alignment approach

6. The IASB's alignment approach is to continue to develop the *IFRS for SMEs* Standard based on principles of IFRS Standards. At its March 2021 meeting, the IASB agreed to apply the alignment approach on which the IASB consulted in the Requestion for Information.¹ The alignment approach treats alignment with IFRS Standards as the starting point for developing the *IFRS for SMEs* Standard, and applies the principles of relevance to SMEs, simplicity and faithful representation, including the assessment of costs and benefits, in determining whether and how that alignment should take place. The approach applies these principles as follows:
- (a) relevance to SMEs is determined by assessing whether the problem addressed by the full IFRS requirements would make a difference in the decisions of users of financial statements prepared applying the *IFRS for SMEs* Standard. If the relevance condition is met, the IASB would then consider the principle of simplicity for those IFRS requirements. If the relevance condition is not met, analysis of the other two alignment principles 'simplicity' and 'faithful representation' is not necessary because alignment of the *IFRS for SMEs* Standard with those IFRS requirements would not be appropriate.
 - (b) applying the principle of simplicity involves looking at the IFRS requirements that have satisfied the relevance condition and then assessing what simplifications are appropriate. For any simplifications made, the IASB would then consider the principle of faithful representation.
 - (c) the principle of faithful representation is intended to help the IASB assess whether financial statements prepared applying the *IFRS for SMEs* Standard would faithfully represent the substance of economic phenomena in words and numbers. Simplifications that would result in financial statements that do not meet this criterion could damage the quality of information reported to users.

¹ See paragraphs 32–37 of the [Request for Information Comprehensive review of the IFRS for SMEs Standard](#) published by the IASB in January 2020.

Next steps

7. At future IASB meetings, the staff will continue to bring to the IASB's attention papers for:
 - (a) remaining topics and sections of the *IFRS for SMEs* Standard that could be aligned with IFRS Standards, and other topics on which the IASB has received feedback; and
 - (b) possible simplifications to the disclosures of IFRS Standards in the scope of the review, considering the stakeholders' feedback on the Exposure Draft *Subsidiaries without Public Accountability: Disclosures* published in July 2021.

Appendix—summary of the IASB’s tentative decisions

Staff condensed summary of the IASB’s tentative decisions	Corresponding IFRS Standard	IASB meeting	Does the IASB decision result in proposed changes to the IFRS for SMEs Standard?
<p><i>A full record of the IASB’s tentative decisions on the Second Comprehensive Review of the IFRS for SMEs Standard are available from IASB Updates. All drafting in this summary is illustrative only and subject to change.</i></p>			
Project plan for the second phase of the review			
<p>1. The IASB tentatively decided:</p> <ul style="list-style-type: none"> • to move the project from its research programme to its standard-setting work plan. • to confirm that the scope of the review is as set out in the Request for Information. • to work towards publishing an exposure draft, proposing amendments to the <i>IFRS for SMEs</i> Standard for new requirements that are in the scope of the Review. • to develop proposed amendments to the <i>IFRS for SMEs</i> Standard using the approach on which the IASB consulted in the Request for Information. This approach treats alignment with IFRS Standards as the starting point, and applies the principles of relevance to SMEs, simplicity and faithful representation, including the assessment of costs and benefits, in determining whether and how that alignment should take place. 	-	March 2021	-
Deliberation for specific sections of the IFRS for SMEs Standard			
Concepts and Pervasive Principles			
<p>2. The IASB tentatively decided to propose:</p> <ul style="list-style-type: none"> • retaining Section 2 <i>Concepts and Pervasive Principles</i> as part of the <i>IFRS for SMEs</i> Standard; • aligning Section 2 with the 2018 <i>Conceptual Framework</i> and to emphasise that the requirements in the other sections of the <i>IFRS for SMEs</i> Standard take precedence over what Section 2 would otherwise require; • undertaking a review for potential inconsistencies between a revised Section 2 and other sections of the <i>IFRS for SMEs</i> Standard when the IASB has completed its deliberations on proposed amendments to the <i>IFRS for SMEs</i> Standard; and 	2018 <i>Conceptual Framework</i>	May 2021	YES

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<ul style="list-style-type: none"> retaining the concept of 'undue cost or effort'. 			
Financial Instruments			
3. The IASB tentatively decided to propose an amendment to the <i>IFRS for SMEs</i> Standard, subject to the wording of the amendment, to supplement the examples in Section 11 <i>Basic Financial Instruments</i> with a principle for classifying financial assets based on their contractual cash flow characteristics.	IFRS 9 <i>Financial Instruments</i>	May 2021	YES
4. The IASB tentatively decided to propose an amendment to the <i>IFRS for SMEs</i> Standard to remove an entity's option to apply the recognition and measurement requirements for financial instruments in full IFRS Standards.	IFRS 9 <i>Financial Instruments</i>	October 2021	YES
5. The IASB tentatively decided to retain unchanged the hedge accounting requirements in Section 12 <i>Other Financial Instrument Issues</i> of the <i>IFRS for SMEs</i> Standard.	IFRS 9 <i>Financial Instruments</i>	October 2021	NO
Fair Value Measurement			
6. The IASB tentatively decided: <ul style="list-style-type: none"> to align the definition of fair value in the <i>IFRS for SMEs</i> Standard with that in IFRS 13 <i>Fair Value Measurement</i>; to align the guidance on fair value measurement in the <i>IFRS for SMEs</i> Standard with that in IFRS 13 by including the principles of the fair value hierarchy set out in IFRS 13; to include examples relevant to SMEs that illustrate how to apply the hierarchy; and to move the guidance and related disclosure requirements for fair value to a new section of the <i>IFRS for SMEs</i> Standard. 	IFRS 13 <i>Fair Value Measurement</i>	October 2021	YES
Regulatory Deferral Accounts			
7. The IASB tentatively decided to consider amending the <i>IFRS for SMEs</i> Standard to include requirements for regulatory assets and regulatory liabilities in a future review of the <i>IFRS for SMEs</i> Standard.	IFRS 14 <i>Regulatory Deferral Accounts</i>	October 2021	NO

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Revenue			
<p>8. The IASB tentatively decided:</p> <ul style="list-style-type: none"> • to develop amendments to the <i>IFRS for SMEs</i> Standard to align it with IFRS 15 <i>Revenue from Contracts with Customers</i> by rewriting Section 23 <i>Revenue</i> of the <i>IFRS for SMEs</i> Standard to reflect the principles and language used in IFRS 15; and • to consider providing transition relief by permitting an entity to continue its current revenue recognition policy for any contracts already in progress at the transition date or scheduled to be completed within a set time after the transition date. 	IFRS 15 <i>Revenue from Contracts with Customers</i>	October 2021	YES
Lease			
<p>9. The IASB tentatively decided:</p> <ul style="list-style-type: none"> • to retain Section 20 <i>Leases</i> of the <i>IFRS for SMEs</i> Standard unchanged; • to consider amending the <i>IFRS for SMEs</i> Standard to align with IFRS 16 <i>Leases</i> in a future review of the Standard; and • not to pursue improving disclosure requirements for operating leases without changing the recognition and measurement requirements in Section 20 <i>Leases</i> of the <i>IFRS for SMEs</i> Standard. 	IFRS 16 <i>Leases</i>	November 2021	NO
Employee benefits			
<p>10. The IASB tentatively decided to propose amendments to the <i>IFRS for SMEs</i> Standard to align the recognition requirements for termination benefits in Section 28 <i>Employee Benefits</i> of the <i>IFRS for SMEs</i> Standard with the 2011 amendments to IAS 19 <i>Employee Benefits</i>.</p>	IAS 19 <i>Employee Benefits</i>	November 2021	YES
<p>11. The IASB tentatively decided to retain the accounting policy option in paragraph 28.24 of the <i>IFRS for SMEs</i> Standard.</p>	-	November 2021	NO
<p>12. The IASB tentatively decided:</p> <ul style="list-style-type: none"> • to propose removing paragraph 28.19 of the <i>IFRS for SMEs</i> Standard. 	-	November 2021	YES

Staff condensed summary of the IASB’s tentative decisions	Corresponding IFRS Standard	IASB meeting	Does the IASB decision result in proposed changes to the <i>IFRS for SMEs</i> Standard?
<ul style="list-style-type: none"> to include in the Invitation to Comment an alternative proposal clarifying how to apply paragraph 28.19 of the <i>IFRS for SMEs</i> Standard, if stakeholders do not agree to remove paragraph 28.19. 			
Other topics			
<p>13. The IASB tentatively decided to retain unchanged the <i>IFRS for SMEs</i> Standard for the topics identified in Agenda Paper 30E <i>Towards an exposure draft—other topics with no amendments recommended</i> of the November 2021 IASB meeting, considering the feedback on the Request for Information, except for the recognition and measurement of developments costs.²</p> <p>14. The IASB decided to explore possible changes to the recognition and measurement of development costs in the <i>IFRS for SMEs</i> Standard at a future meeting.</p>	-	November 2021	NO

² Agenda Paper 30E of the November 2021 IASB meeting discusses feedback on topics not addressed by the *IFRS for SMEs* Standard and topics respondents have brought to the IASB’s attention relating to the *IFRS for SMEs* Standard.