

STAFF PAPER

December 2021

IASB® meeting

Project	Second Comprehensive Review of the <i>IFRS for SMEs</i> ® Standard	
Paper topic	Towards an Exposure Draft—Amendments to IFRS Standards and IFRIC Interpretations (topics with amendments recommended)	
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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. This paper discusses whether and, if so, how to propose amendments to the *IFRS for SMEs* Standard to align with some amendments to IFRS Standards and some IFRIC Interpretations.
2. The amendments to the IFRS Standards and IFRIC Interpretations discussed in this paper introduce minor new requirements in full IFRS Standards. Aligning the *IFRS for SMEs* Standard with these new requirements would introduce simplifications and clarifications to the *IFRS for SMEs* Standards that would not significantly change the existing requirements in the Standard.
3. In this paper, the term SMEs refers to small and medium-sized entities that are eligible to apply the *IFRS for SMEs* Standard.

Purpose of the paper

4. The purpose of this paper is to ask the International Accounting Standards Board (IASB) to:

- (a) consider feedback on the Request for Information *Comprehensive Review of the IFRS for SMEs Standard*, published in January 2020, and the recommendations of the SME Implementation Group (SMEIG) on the alignment of the *IFRS for SMEs Standard* with some amendments to IFRS Standards and some IFRIC Interpretations; and
- (b) decide whether and, if so, how to propose amendments to the *IFRS for SMEs Standard* to align with these amendments to IFRS Standards and IFRIC Interpretations.

Staff recommendations

5. The staff recommend the IASB propose amendments to the *IFRS for SMEs Standard* to align the Standard with the amendments to IFRS Standards and IFRIC Interpretations listed in Appendix A to this paper.¹

Structure of the paper

6. This paper is structured as follows:
 - (a) question in the Request for Information (paragraph 9 of this paper);
 - (b) feedback and SMEIG recommendation (paragraphs 10–18 of this paper);
 - (c) staff analysis (paragraphs 19–22 of this paper); and
 - (d) staff recommendations and question for the IASB (paragraph 23 of this paper).
7. Appendix A to this paper provides more details on the amendments to IFRS Standards and IFRIC interpretations that the staff recommend the IASB propose to align the *IFRS for SMEs Standard* with.

¹ For items 7–10 in Appendix A to this paper, the Request for Information requested further information on whether to align the *IFRS for SMEs Standard* with these items. Applying the staff recommendations, these items move from the category ‘request further information’ into the category ‘alignment’.

8. The background to this paper is set out in paragraphs 10–13 of Agenda Paper 30F of this meeting.

Question in the Request for Information

9. Question S10 of the Request for Information asked for views on:

- (a) aligning the *IFRS for SMEs* Standard with the amendments to IFRS Standards, items 1–6 in Appendix A to this paper; and
- (b) whether to align the *IFRS for SMEs* Standard with the following amendments to IFRS Standards and IFRIC Interpretations:
 - (i) the amendments to IAS 40 *Investment Property* from the *Annual Improvements to IFRSs 2011–2013 Cycle* (item 7 in Appendix A to this paper);
 - (ii) the amendments to IAS 12 *Income Taxes* for the recognition of deferred tax assets for unrealised losses (item 8 in Appendix A to this paper);
 - (iii) IFRIC 22 *Foreign Currency Transactions and Advance Consideration* (item 9 in Appendix A to this paper); and
 - (iv) IFRIC 23 *Uncertainty over Income Tax Treatments* (item 10 in Appendix A to this paper).

Feedback and SMEIG recommendation

Methods for obtaining feedback

10. Feedback on aligning the *IFRS for SMEs* Standard with these amendments to IFRS Standards and IFRIC Interpretations was gathered from comment letters and online survey.
11. The SMEIG met on 9 September 2021 to discuss the feedback on the Request for Information and develop recommendations to enable the IASB to decide on whether

and, if so, how to align the *IFRS for SMEs* Standard with amendments to IFRS Standards and IFRIC Interpretations.

Feedback

12. Many respondents to the Request for Information via comment letters and online survey supported aligning the *IFRS for SMEs* Standard with the new requirements listed in Appendix A to this paper. Many of these respondents agreed with aligning the *IFRS for SMEs* Standard with the new requirements in the table on an overall basis and did not provide detailed comments on each new requirement.
13. According to these respondents:
 - (a) these new requirements:
 - (i) are relevant to SMEs;
 - (ii) provide helpful guidance and make it easy to train accountants; and
 - (iii) are not difficult for SMEs to implement; and
 - (b) aligning the *IFRS for SMEs* Standard with these new requirements:
 - (i) will not detract from the principle of simplicity;
 - (ii) can enhance comparability between SMEs and other entities applying full IFRS Standards; and
 - (iii) would improve the quality of information provided to users.
14. For items 1–6 in Appendix A to this paper, a small number of respondents via comment letters expressed concerns about introducing complexity to the *IFRS for SMEs* Standard by aligning the Standard with these items.
15. In particular, for the *Disclosure Initiative* (Amendments to IAS 7) (item 1 in Appendix A to this paper), a small number of respondents via comment letters expressed concerns about the costs of applying the disclosure requirement introduced by this amendment. This amendment to IAS 7 *Statement of Cash Flows* has an objective that entities must determine how to fulfil. One respondent said this

amendment could be simplified in the *IFRS for SMEs* Standard by prescribing the disclosures that would meet the objective.

16. For items 7–10 in Appendix A to this paper, some respondents via comment letters are of the view that the *IFRS for SMEs* Standard should not be aligned with these items because:
 - (a) transactions to which these items apply are not common for SMEs or there is no diversity in practice;
 - (b) alignment would detract from the principle of simplicity; and
 - (c) alignment is not necessary on cost-benefit grounds.

SMEIG recommendation

17. SMEIG members generally agreed to propose aligning the *IFRS for SMEs* Standard with the new requirements discussed in this paper. However, one SMEIG member disagreed with aligning the *IFRS for SMEs* Standard with *Disclosure Initiative* (Amendments to IAS 7). The member said that the potential benefit of the disclosure introduced by the amendments would not outweigh the costs of preparing the disclosure.

Staff analysis

18. Following the IASB's decision to apply the alignment approach with IFRS Standards as the starting point in developing an exposure draft of proposed amendments to the *IFRS for SMEs* Standard (refer to Agenda Paper 30 of this meeting), the staff apply the principles of relevance to SMEs, simplicity and faithful representation, including the assessment of costs and benefits, in determining whether and how that alignment with amendments to IFRS Standards and IFRIC Interpretations discussed in this paper should take place.
19. Relevance to SMEs requires consideration of whether SMEs have related transactions and, if they do, whether alignment with the new requirements would make a difference in the decisions of users of financial statements prepared applying the *IFRS*

for SMEs Standard. Some sections of the *IFRS for SMEs* Standard already include related requirements and aligning with these new requirements would enhance the clarification of these existing requirements and assist application. Therefore, the staff think the new requirements listed in Appendix A to this paper are relevant to SMEs.

20. As discussed in paragraph 2 of this paper, these amendments to the IFRS Standards and IFRIC Interpretations discussed in this paper are minor new requirements in full IFRS Standards. The staff think aligning the *IFRS for SMEs* Standard with these new requirements:
- (a) would not significantly change the existing requirements in the Standard;
 - (b) would not introduce extra complexity for SMEs; and
 - (c) would introduce clarification to assist in faithfully representing the substance of economic phenomena in words and numbers.
21. If the IASB agrees with the staff recommendation to align the *IFRS for SMEs* Standard with these new requirements, the staff would consider:
- (a) further simplifying the amendments to IFRS Standards and IFRIC Interpretations without impeding the faithful representation of the substance of the economic phenomena when aligning the *IFRS for SMEs* Standard.
 - (b) stakeholders' feedback on the Exposure Draft *Subsidiaries without Public Accountability: Disclosures*. This Exposure Draft was published in July 2021 and includes proposals for simplifying the disclosure requirements, some of which may be relevant when aligning the *IFRS for SMEs* Standard with these new requirements.

Disclosure Initiative (*Amendments to IAS 7*)

22. As discussed in paragraph 14 of this paper, some respondents and SMEIG members expressed concerns on the difficulty that would be introduced in the *IFRS for SMEs* Standard if the Standard is aligned with *Disclosure Initiative* (*Amendments to IAS 7*). The staff think the IASB could consider introducing a simplification to the disclosure requirement introduced by the *Amendments to IAS 7* when aligning the Standard with these amendments. Similar to the proposals in the Exposure Draft *Subsidiaries*

without Public Accountability: Disclosures, the staff think the IASB could propose amending the *IFRS for SMEs* Standard to require an entity to disclose a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities, and that this requirement could be put in place without specifying the objective of the disclosure the entity should meet. Including the objective of the disclosure might result in SMEs being compelled to provide the same disclosures as if they had applied the amendments to IAS 7, which would be contrary to the simplification.

Staff recommendations and question for the IASB

23. In the light of the staff analysis in this paper, the staff recommend the IASB propose amendments to the *IFRS for SMEs* Standard to align with the amendments to IFRS Standards and IFRIC Interpretations listed in Appendix A to this paper.

Question for the IASB

Does the IASB agree with the staff recommendation to propose amendments to the *IFRS for SMEs* Standard to align with the amendments to IFRS Standards and IFRIC Interpretations listed in Appendix A to this paper?

Appendix A—Amendments to IFRS Standards and IFRIC Interpretations

A1. The staff recommend the IASB propose amendments to the *IFRS for SMEs* Standard to align with the new requirements listed in this table.

Ref.	Standard section and new requirement	Overview of the new requirement	Overall feedback and SMEIG recommendation	Staff analysis
1	<p>Section 7 <i>Statement of Cash Flows</i></p> <p>Disclosure Initiative (Amendments to IAS 7)</p>	Requires disclosure about changes in liabilities arising from financing activities, including changes arising from cash flows and non-cash flows.	<p>Many respondents supported alignment with this amendment because it provides useful information to users.</p> <p>However, a small number of respondents expressed concerns that it requires significant effort (see paragraph 14 of this paper).</p> <p>The SMEIG recommend the IASB propose alignment, with the simplification discussed in paragraph 22 of this paper.</p>	Users of SMEs' financial statements are particularly interested in information about liquidity and solvency. The disclosure provides users with an improved understanding of an entity's financing cash flows.
2	<p>Section 16 <i>Investment Property</i></p> <p>Transfers of Investment Property (Amendments to IAS 40)</p>	Clarifies that an 'entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use'. A change in use occurs if property meets, or ceases to meet, the definition of 'investment property'.	<p>Most respondents supported alignment with this amendment. One respondent suggested including the examples in paragraph 57 of IAS 40 <i>Investment Property</i> to assist consistent application.</p> <p>The SMEIG recommend the IASB propose alignment.</p>	<p>This amendment is relevant to SMEs.</p> <p>The clarification would assist an SME applying the <i>IFRS for SMEs</i> Standard.</p>

Ref.	Standard section and new requirement	Overview of the new requirement	Overall feedback and SMEIG recommendation	Staff analysis
3	<p>Section 17 <i>Property, Plant and Equipment</i></p> <p>Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38)</p>	<p>Clarifies that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate, because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset.</p>	<p>Most respondents supported alignment with this amendment. One respondent suggests providing example of when the presumption might be rebutted and transitional provisions.</p> <p>However, a small number of respondents expressed concerns that aligning with this amendment would introduce extra complexity as revenue-based methods are less relevant for SMEs.</p> <p>The SMEIG recommend the IASB propose alignment.</p>	<p>This amendment is relevant to SMEs.</p> <p>The clarification would assist an SME in applying the <i>IFRS for SMEs</i> Standard.</p>
4	<p>Section 18 <i>Intangible Assets other than Goodwill</i></p> <p>Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38)</p>	<p>Clarifies that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. This presumption, however, can be rebutted in certain limited circumstances.</p>	<p>Most respondents supported alignment with this amendment.</p> <p>However, a small number of respondents expressed concerns that aligning with this amendment would introduce extra complexity as revenue-based methods are less relevant for SMEs.</p> <p>The SMEIG recommend the IASB propose alignment.</p>	<p>This amendment is relevant to SMEs.</p> <p>The clarification would assist an SME applying the <i>IFRS for SMEs</i> Standard.</p>

Ref.	Standard section and new requirement	Overview of the new requirement	Overall feedback and SMEIG recommendation	Staff analysis
5	<p>Section 26 <i>Share-based Payment</i></p> <p>Annual Improvements to IFRSs 2010–2012 Cycle (IFRS 2)</p>	<p>Amends the definitions of ‘vesting condition’ and ‘market condition’ and adds definitions for ‘performance condition’ and ‘service condition’ (which were previously part of the definition of ‘vesting condition’).</p> <p>The IASB decided to separate the definitions of ‘performance condition’ and ‘service condition’ from the definition of ‘vesting condition’ to make the description of each condition clearer.</p>	<p>Most respondents supported alignment with this amendment.</p> <p>However, one respondent expressed concerns that aligning with this amendment would introduce extra complexity.</p> <p>The SMEIG recommend the IASB propose alignment.</p>	<p>This amendment is relevant to SMEs.</p> <p>The amendments would assist an SME applying the <i>IFRS for SMEs</i> Standard.</p>

Ref.	Standard section and new requirement	Overview of the new requirement	Overall feedback and SMEIG recommendation	Staff analysis
6	<p>Section 26 <i>Share-based Payment</i></p> <p>Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2)</p>	<p>Clarifies and changes:</p> <ul style="list-style-type: none"> (a) the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; (b) share-based payment transactions with a net settlement feature for withholding tax obligations; and (c) a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. 	<p>Most respondents supported alignment with this amendment.</p> <p>However, a small number of respondents expressed concerns that alignment would introduce extra complexity. One respondent said alignment is not necessary because there is not diversity in practice in its jurisdiction.</p> <p>The SMEIG recommend the IASB propose alignment.</p>	<p>This amendment is relevant to SMEs.</p> <p>The clarifications in paragraphs (a) and (b) of the overview would assist an SME applying the <i>IFRS for SMEs</i> Standard because they:</p> <ul style="list-style-type: none"> (a) allow some vesting conditions not to be recognised at fair value, which would simplify the accounting for an SME applying the <i>IFRS for SMEs</i> Standard; and (b) provide relief on cost-benefit grounds.²

² The IASB did not seek views on aligning the clarification described in paragraph (c) of the overview because the *IFRS for SMEs* Standard does not include guidance on this topic.

Ref.	Standard section and new requirement	Overview of the new requirement	Overall feedback and SMEIG recommendation	Staff analysis
7	<p>Section 16 <i>Investment Property</i></p> <p>Annual Improvements to IFRSs 2011–2013 Cycle (IAS 40)</p>	<p>Clarifies that determining whether a specific transaction meets the definition of both a ‘business combination’, as defined in IFRS 3 <i>Business Combinations</i>, and ‘investment property’, as defined in IAS 40 <i>Investment Property</i>, requires the separate application of both IFRS Standards independently of each other.</p>	<p>Many respondents supported alignment with this amendment because the amendment:</p> <ul style="list-style-type: none"> (a) is relevant to SMEs; (b) could provide useful information to the users; and (c) could assist consistent application in areas where doubts and uncertainty exist to improve comparability. <p>However, a small number of respondents expressed concerns on aligning with the amendment:</p> <ul style="list-style-type: none"> (a) the issue is not common for SMEs; (b) there is no diversity in practice; and (c) aligning with this amendment would add unnecessary complexity to the Standard. <p>The SMEIG recommend the IASB propose alignment.</p>	<p>This amendment is relevant to SMEs and could provide helpful guidance for the application of requirements.</p> <p>Alignment will not detract from the principle of simplicity, but would improve the quality of information provided to users.</p>

8	<p>Section 29 <i>Income Tax</i></p> <p>Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12)</p>	<p>Clarifies that:</p> <ul style="list-style-type: none"> (a) unrealised losses on debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use. (b) the carrying amount of an asset does not limit the estimation of probable future taxable profits. (c) estimates for future taxable profits exclude tax deductions resulting from the reversal of deductible temporary differences. (d) an entity is required to assess a deferred tax asset in combination with other deferred tax assets. When tax law restricts the utilisation of tax losses, the entity would be required to assess a deferred tax asset in combination with other deferred tax assets of the same type. 	<p>Many respondents supported with aligning with the amendment because they think this amendment is relevant to SMEs.</p> <p>However, some respondents did not support alignment because:</p> <ul style="list-style-type: none"> (a) the issue is not common for SMEs; (b) there is no diversity in practice; (c) aligning with this amendment would potentially add a significant amount of detail on this topic and detract from the alignment principle of simplicity; and (d) it is not necessary to amend the existing standard on cost-benefit ground. <p>The SMEIG recommend the IASB propose alignment.</p>	<p>This amendment is relevant to SMEs.</p> <p>Alignment will not detract from the principle of simplicity, but would improve the quality of information provided to users.</p>
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Ref.	Standard section and new requirement	Overview of the new requirement	Overall feedback and SMEIG recommendation	Staff analysis
9	<p>Section 30 <i>Foreign Currency Translation</i></p> <p>IFRIC 22 <i>Foreign Currency Transactions and Advance Consideration</i></p>	<p>Addresses the exchange rate to use in transactions that involve advance consideration paid or received in a foreign currency.</p>	<p>Most respondents agreed with aligning with IFRIC 22:</p> <ul style="list-style-type: none"> (a) it is relevant for SMEs, because many SMEs make and receive payment in foreign currencies; and (b) it will help SMEs applying the Standard consistently. <p>However, some respondents did not agree with aligning with IFRIC 22:</p> <ul style="list-style-type: none"> (a) the issue is not common for SMEs; (b) it is difficult for SMEs to comply with the IFRIC 22; and (c) it is not necessary for cost-benefit consideration. <p>The SMEIG recommend the IASB propose alignment.</p>	<p>This amendment is relevant to SMEs.</p> <p>Alignment will not detract from the principle of simplicity, but would improve the quality of information provided to users.</p>

Ref.	Standard section and new requirement	Overview of the new requirement	Overall feedback and SMEIG recommendation	Staff analysis
10	<p>Section 29 <i>Income Tax</i></p> <p>IFRIC 23 <i>Uncertainty over Income Tax Treatments</i></p>	<p>Adds to the requirements in IAS 12 <i>Income Taxes</i> by specifying how to reflect the effects of uncertainty in the accounting for income taxes.</p>	<p>Many respondents supported with aligning with IFRIC 23:</p> <ul style="list-style-type: none"> (a) it is relevant to SMEs, and tax uncertainty is an issue for SMEs; (b) it assists consistency of application. <p>One respondent also suggested the IASB consider providing an undue cost or effort relief for measuring an uncertain tax position.</p> <p>However, some respondents did not agree with aligning with IFRIC 23:</p> <ul style="list-style-type: none"> (a) the issue is not common for SMEs; (b) it is difficult for SMEs to comply with the IFRIC 23; and (c) it is not necessary for cost-benefit consideration. <p>The SMEIG recommend the IASB propose alignment.</p>	<p>This amendment is relevant to SMEs.</p> <p>Alignment will not detract from the principle of simplicity, but would improve the quality of information provided to users.</p>