

REPORT ON THE SME IMPLEMENTATION GROUP MEETING

4–5 FEBRUARY 2021

About the SME Implementation Group

1. The Trustees of the IFRS Foundation have charged the SME Implementation Group (SMEIG) with two main responsibilities:
 - (a) to consider questions on the implementation and application of the *IFRS for SMEs* Standard, decide which questions merit published educational material based on set criteria and develop Q&As, which are educational materials, that are publicly available on a timely basis.
 - (b) to consider the need to amend the *IFRS for SMEs* Standard and make recommendations to the International Accounting Standards Board (Board) on:
 - (i) issues on the implementation and application of the *IFRS for SMEs* Standard that cannot be addressed by Q&As; and
 - (ii) new and amended IFRS Standards that have been approved since the *IFRS for SMEs* Standard was issued or last amended.

About this document

2. This Report provides a summary of the SMEIG meeting, held via remote participation, on 4–5 February 2021.
3. The SMEIG meeting was chaired by Jianqiao Lu, a member of the Board and chair of the SMEIG.

SMEIG meeting

4. Agenda topics included:
 - [Alignment approach and principles](#);
 - [When to consider alignment](#);
 - [Alignment with the 2018 Conceptual Framework for Financial Reporting](#) (2018 *Conceptual Framework*);
 - [Alignment with IFRS 13 Fair Value Measurement](#);
 - [Alignment with IFRS 3 Business Combinations](#);
 - [Alignment with IFRS 10 Consolidated Financial Statements](#);
 - [Alignment with IFRS 11 Joint Arrangements](#);
 - [Alignment with IFRS 9 Financial Instruments](#);
 - [Alignment with IFRS 16 Leases](#); and
 - [Alignment with IFRS 15 Revenue from Contracts with Customers](#).
5. The agenda papers for the meeting are available on the IFRS Foundation website: <https://www.ifrs.org/groups/sme-implementation-group/#meetings>.

6. The objective of the meeting was to review the feedback on the Request for Information *Second Comprehensive Review of the IFRS for SMEs Standard* published in January 2020.¹ For each agenda topic, the SMEIG received an overview of:
 - (a) the feedback from comment letters, outreach events, the online survey, the user survey and user interviews; and
 - (b) the staff's preliminary thoughts in the agenda papers for the meeting.

Alignment approach and principles

7. The aim of this session was for SMEIG members to discuss three strategic and general questions from the Request for Information:
 - (a) whether the *IFRS for SMEs Standard* should continue to be based on full IFRS Standards (the alignment approach);
 - (b) what extent of alignment is considered most useful: (i) alignment of principles only; (ii) alignment of principles and important definitions; or (iii) alignment of principles, important definitions and the precise wording of requirements; and
 - (c) whether the principles of relevance to SMEs, simplicity and faithful representation provide a framework to assist the Board in determining whether and how the *IFRS for SMEs Standard* should be aligned with full IFRS Standards.
8. Most SMEIG members agreed with the staff's preliminary thoughts that the feedback provides evidence for the Board:
 - (a) to continue to base the *IFRS for SMEs Standard* on full IFRS Standards;
 - (b) to consider the costs and benefits of aligning the *IFRS for SMEs Standard* with a new IFRS Standard, amendment to an IFRS Standard and IFRIC Interpretation (new requirement);
 - (c) to develop any proposed amendments to the *IFRS for SMEs Standard* to reflect principles and important definitions in a new requirement; and
 - (d) to determine whether and how the *IFRS for SMEs Standard* should be aligned with full IFRS Standards using the principles of relevance to SMEs, simplicity and faithful representation and including cost–benefit considerations when applying those principles.
9. Some SMEIG members said:
 - (a) the Board should consider defining 'alignment':
 - (i) to clarify that the review is not intended to change the original objective of the *IFRS for SMEs Standard*; and
 - (ii) to avoid referring to the *IFRS for SMEs Standard* as a condensed version of full IFRS Standards; and
 - (b) migration to full IFRS Standards is not a good justification for aligning the *IFRS for SMEs Standard* with IFRS Standards because, in SMEIG members' experience, only a small number of entities apply the *IFRS for SMEs Standard* before migrating to full IFRS Standards.

¹ The Request for Information *Second Comprehensive Review of the IFRS for SMEs Standard* is available [here](#).

10. One SMEIG member expressed the view that the *IFRS for SMEs* Standard should be an independent Standard, that is, it should be updated only for known application questions. This member:
 - (a) did not agree with the Board's approach to the review; and
 - (b) suggested the Board obtain additional feedback from preparers about the need to continue to base the *IFRS for SMEs* Standard on full IFRS Standards.

When to consider alignment

11. The aim of this session was for SMEIG members to discuss how soon after issuing a new requirement the Board should consider making related changes to the *IFRS for SMEs* Standard.
12. SMEIG members generally agreed that a policy determining when to consider a new requirement for alignment would provide certainty and stability. However, some SMEIG members suggested that:
 - (a) the Board adopt a flexible approach. For example, if the time-sensitivity of a new requirement justifies swift consideration for alignment with the *IFRS for SMEs* Standard, the Board should be able to propose timely amendments to the *IFRS for SMEs* Standard.
 - (b) the Board state that future reviews of the *IFRS for SMEs* Standard will not reconsider an IFRS Standard, amendment to an IFRS Standard or an IFRIC Interpretation that was considered as part of the second comprehensive review unless a specific matter is brought to its attention.

Alignment with the 2018 Conceptual Framework for Financial Reporting

13. The aim of this session was for SMEIG members to discuss aligning the *IFRS for SMEs* Standard with the 2018 *Conceptual Framework* and retaining the concept of undue cost or effort.
14. SMEIG members generally agreed with the staff's preliminary thoughts that the feedback provides evidence for the Board to align Section 2 *Concepts and Pervasive Principles* of the *IFRS for SMEs* Standard with the 2018 *Conceptual Framework* and retain the concept of undue cost or effort. However, some SMEIG members said:
 - (a) there could be inconsistencies between the 2018 *Conceptual Framework* and other sections of the *IFRS for SMEs* Standard;
 - (b) more clarity is required on how the concept of undue cost or effort is applied, for example, an understanding of how entities use the exemption and the frequency of the usage; and
 - (c) the Board could provide simpler options in specific cases, instead of requiring entities to assess undue cost or effort, or application guidance and examples in the *IFRS for SMEs* Standard on the use of the concept of undue cost or effort.
15. One SMEIG member said that:
 - (a) the status of the 2018 *Conceptual Framework* is different from that of Section 2 of the *IFRS for SMEs* Standard, which has the authority of a Standard whereas the 2018 *Conceptual Framework* does not. The member suggested moving Section 2 to a separate document.
 - (b) the Board could consider deferring alignment with the 2018 *Conceptual Framework* to the next comprehensive review.

Alignment with IFRS 13 *Fair Value Measurement*

16. The aim of this session was for SMEIG members to discuss whether:
 - (a) the *IFRS for SMEs* Standard should be aligned with the definition of fair value in IFRS 13;
 - (b) the guidance on fair value measurement in the *IFRS for SMEs* Standard should be aligned with IFRS 13 so the fair value hierarchy incorporates the principles of the fair value hierarchy set out in IFRS 13;
 - (c) the *IFRS for SMEs* Standard should include examples that illustrate how to apply the hierarchy; and
 - (d) the guidance and related disclosure requirements should be moved to Section 2 of the *IFRS for SMEs* Standard.
17. Most SMEIG members agreed with the staff's preliminary thoughts that the feedback provides evidence for the Board to:
 - (a) align the definition of fair value with IFRS 13;
 - (b) include the guidance on fair value measurement from IFRS 13;
 - (c) include examples on how to apply the fair value hierarchy; and
 - (d) move the guidance to Section 2 of the *IFRS for SMEs* Standard.
18. Some SMEIG members said it may not be appropriate to include the guidance and disclosure requirements relating to fair value with the concepts and principles in Section 2 of the *IFRS for SMEs* Standard. These members suggested that the requirements should be moved to a subsection of Section 2, or to another section.

Alignment with IFRS 3 *Business Combinations*

19. The aim of this session was for SMEIG members to discuss the alignment of Section 19 *Business Combinations and Goodwill* with IFRS 3 (2008), particularly whether:
 - (a) Section 19 of the *IFRS for SMEs* Standard should include requirements for accounting for step acquisitions;
 - (b) these requirements should be aligned with IFRS 3 (2008);
 - (c) an entity should:
 - (i) recognise acquisition-related costs as an expense at the time of the acquisition;
 - (ii) recognise contingent consideration at fair value and subsequently account for it as a financial instrument with changes in fair value recognised in profit or loss, and whether an entity should be permitted to use the undue cost or effort exemption and provide the related disclosures if measuring contingent consideration at fair value would involve undue cost or effort; and
 - (d) the *IFRS for SMEs* Standard should include the amended definition of a business issued in 2018.
20. SMEIG members provided mixed views on including in Section 19 of the *IFRS for SMEs* Standard the requirements for accounting for step acquisitions:

- (a) some members expressed the view that the requirements should not be introduced into the Standard because step acquisitions are not common for SMEs; and
 - (b) other members expressed the view that the requirements should be introduced because requirements would be useful if SMEs entered into such transactions.
21. One SMEIG member said the Board should conduct further outreach before proposing amendments to the *IFRS for SMEs* Standard to align Section 19 with IFRS 3 (2008).

Alignment with IFRS 10 Consolidated Financial Statements

22. The aim of this session was for SMEIG members to discuss the alignment of Section 9 *Consolidated and Separate Financial Statements* of the *IFRS for SMEs* Standard with IFRS 10, particularly:
- (a) aligning the definition of control in Section 9 with IFRS 10;
 - (b) retaining and updating paragraph 9.5 of the *IFRS for SMEs* Standard; and
 - (c) not introducing the requirement that investment entities measure investments in subsidiaries at fair value through profit or loss.
23. SMEIG members generally agreed with the staff's preliminary thoughts that the feedback provides evidence for the Board to align the definition of control in Section 9 with IFRS 10 and retain and update paragraph 9.5 of the *IFRS for SMEs* Standard.
24. Regarding not introducing the requirement that investment entities measure investments in subsidiaries at fair value through profit or loss, for which the feedback on the Request for Information was mixed, SMEIG members said:
- (a) some private equity entities that are not publicly accountable apply the *IFRS for SMEs* Standard. These entities would prefer the Board to introduce the requirement that investment entities measure investments in subsidiaries at fair value through profit or loss.
 - (b) many SMEs would not meet the definition of an investment entity and the accounting requirements for investment entities would therefore not be relevant.
 - (c) not introducing the investment entity requirements would maintain the simplicity of the *IFRS for SMEs* Standard.
25. A small number of SMEIG members said that the Board should conduct further outreach, including consideration of the feedback from the post-implementation review of IFRS 10, IFRS 11 and IFRS 12.

Alignment with IFRS 11 Joint Arrangements

26. The aim of this session was for SMEIG members to discuss the alignment of Section 15 *Investments in Joint Ventures* of the *IFRS for SMEs* Standard with IFRS 11, particularly:
- (a) aligning the definition of joint control in Section 15 with IFRS 11;
 - (b) retaining the categories of joint arrangements—jointly controlled operations, jointly controlled assets and jointly controlled entities; and
 - (c) retaining the accounting requirements of Section 15, including the accounting policy election for jointly controlled entities in Section 15.

27. SMEIG members generally agreed with the staff's preliminary thoughts that the feedback provides evidence for the Board to:
- (a) align the definition of joint control with IFRS 11 and retain the accounting requirements of Section 15; and
 - (b) retain the accounting policy election for jointly controlled entities.

Alignment with IFRS 9 *Financial Instruments*

28. The aim of this session was to discuss the alignment of Section 11 *Basic Financial Instruments* and Section 12 *Other Financial Instrument Issues* of the *IFRS for SMEs* Standard with IFRS 9, particularly:
- (a) supplementing the list of examples in Section 11 with a principle for classifying financial assets based on their contractual cash flow characteristics;
 - (b) aligning Section 11 with the simplified expected credit loss approach to the impairment of financial assets in IFRS 9;
 - (c) removing, retaining or aligning with IFRS 9 the accounting requirements on hedge accounting in Section 12;
 - (d) changing the 'fall back' to IAS 39 in Section 11 for the recognition and measurement of financial instruments to a 'fall back' to IFRS 9; and
 - (e) adding the definition of a financial guarantee contract from IFRS 9 to the *IFRS for SMEs* Standard and aligning the requirements in the Standard for issued financial guarantee contracts with IFRS 9.

Classification and measurement of financial assets

29. SMEIG members generally agreed with the staff's preliminary thoughts that the feedback provides evidence for the Board to supplement the list of examples in Section 11 with a principle for classifying financial assets based on their contractual cash flow characteristics. SMEIG members said:
- (a) such a principle would provide a clear rationale for the classification of financial assets and would assist entities in the circumstance in which a financial asset does not match the characteristics in any of the examples in Section 11;
 - (b) it is easier for preparers of financial statements to understand the principles of IFRS 9; and
 - (c) introducing the contractual cash flow characteristics principle will be a significant help to users of financial statements in understanding the financial instruments in the statement of financial position.
30. Other views expressed by a few SMEIG members included:
- (a) concerns from one SMEIG member about the complexity of introducing contractual cash flow characteristics because, in his view, this would result in greater use of fair value than Section 11 requires for some financial assets that SMEs generally hold.
 - (b) a suggestion from another SMEIG member to introduce an option (that is, permit but not require) to use the fair value through profit or loss classification for basic financial instruments subject to a simplified business model test when this classification is more representative of the entity's business model. For example,

if an entity holds a debt instrument for the purpose of trading that debt, it should be permitted to use the fair value through profit or loss classification.

- (c) another SMEIG member said the Board should wait until the post-implementation review of IFRS 9 is completed before considering alignment.

Impairment of financial assets

- 31. SMEIG members generally agreed with the staff's preliminary thoughts that the Board should undertake additional work to understand the practical challenges entities face in implementing or applying the simplified expected credit loss approach to decide on whether to propose amendments to the *IFRS for SMEs* Standard to align with IFRS 9.
- 32. One SMEIG member said the incurred loss model in the *IFRS for SMEs* Standard should be retained because the simplified expected credit loss approach would be difficult for SMEs to apply.
- 33. Some SMEIG members suggested considering further simplifications of the simplified approach (for example, using the 'best estimate' to calculate the lifetime expected loss instead of using a probability of a 'range of possible outcomes' approach).

Hedge accounting

- 34. SMEIG members expressed no particular preference for any of the alternatives about hedge accounting requirements for SMEs (that is, removing, retaining or aligning with IFRS 9 the accounting requirements on hedge accounting in Section 12).

'Fall back' to IAS 39

- 35. SMEIG members generally agreed with the staff's preliminary thoughts that the feedback provides evidence for the Board to change the fall back to IAS 39 in Section 11 of the *IFRS for SMEs* Standard for the recognition and measurement of financial instruments to a fall back to IFRS 9.
- 36. One SMEIG member asked whether the Board would consider removing the 'fall back' given the reasons for which the fall back to IAS 39 was included in the Standard.

Financial guarantee contracts

- 37. Most SMEIG members said the feedback provided evidence for the Board to introduce the definition of a financial guarantee contract from IFRS 9 to the *IFRS for SMEs* Standard.
- 38. Some SMEIG members said entities should apply Section 21 *Provisions and Contingencies* of the *IFRS for SMEs* Standard to account for issued financial guarantee contracts because the requirements in Section 21 are simpler for SMEs.
- 39. One SMEIG member suggested aligning the requirements in the *IFRS for SMEs* Standard for issued financial guarantee contracts with IFRS 9.

Alignment with IFRS 16 Leases

- 40. The aim of this session was to discuss the alignment of Section 20 *Leases* of the *IFRS for SMEs* Standard with IFRS 16 *Leases*, in particular:
 - (a) simplifying the recognition and measurement requirements in respect of matters such as variable lease payments, determining the discount rate and the term of the lease;
 - (b) retaining the disclosure requirements of Section 20; and
 - (c) simplifying the language.

41. Most SMEIG members agreed with the staff's preliminary thoughts that the Board should undertake additional work to understand the practical challenges entities faced or are facing in implementing or applying IFRS 16 before deciding whether to align the *IFRS for SMEs* Standard with IFRS 16.
42. One SMEIG member suggested, as a relief for SMEs, requiring or permitting a later effective date for Section 20 if that section is aligned with IFRS 16.
43. Two SMEIG members expressed concerns about simplifying the definition of 'lease term' to 'the non-cancellable period for which an entity is required to comply with the lease'. In their view, this simplification could lead to structuring opportunities in drafting lease contracts and would not result in faithful representation.

Alignment with IFRS 15 *Revenue from Contracts with Customers*

44. The aim of this session was to discuss the best approach to aligning Section 23 *Revenue* of the *IFRS for SMEs* Standard with IFRS 15, while considering cost–benefit implications. In particular, SMEIG members discussed whether Alternative 1 (proposing amendments to align the outcomes from applying Section 23 with the outcomes from applying IFRS 15) or Alternative 2 (rewriting Section 23 to align it with IFRS 15) would be the better approach.
45. Most SMEIG members supported Alternative 2 because:
 - (a) aligning Section 23 with a transfer of control model would result in better alignment with the outcomes from applying IFRS 15;
 - (b) Alternative 2 would address areas requiring additional guidance, such as considerations about principals and agents;
 - (c) the IFRS 15 framework for recognising revenue—that is, the five-step model—is a clear approach; and
 - (d) IFRS 15 addresses inconsistencies and weaknesses in the previous revenue Standards by specifying a comprehensive and robust framework for the recognition, measurement and disclosure of revenue.

Next steps

46. The staff plan to seek recommendations from the SMEIG on the other points discussed in the Request for Information at a future SMEIG meeting.
47. The staff plan to discuss the next steps in the second comprehensive review with the Board in March 2021.

Disclaimer: this note is prepared by the staff of the International Accounting Standards Board (Board) and summarises the discussion that took place at the February 2021 meeting of the SME Implementation Group. The views expressed are not necessarily those of the Board or of the IFRS Foundation.