

A world map in shades of gray is the background. Overlaid on the map are several curved lines: a thick red line, a thick dark gray line, and several dotted lines in white, orange, and blue. The lines are curved from the bottom left towards the top right.

IFRS® Foundation

Second Comprehensive Review of the *IFRS for SMEs* Standard

Emerging Economies Group Meeting

EEG Agenda Paper 6
May 2021

Objective of the session

Agenda ref 6

Project

Second Comprehensive Review of the *IFRS for SMEs* Standard

Objective

Provide an update on the project (slides 5–9) and ask EEG members for advice on selected topics (slides 11–14)

Input
requested

Questions for EEG members are set out on slide 15

Project objective and timeline

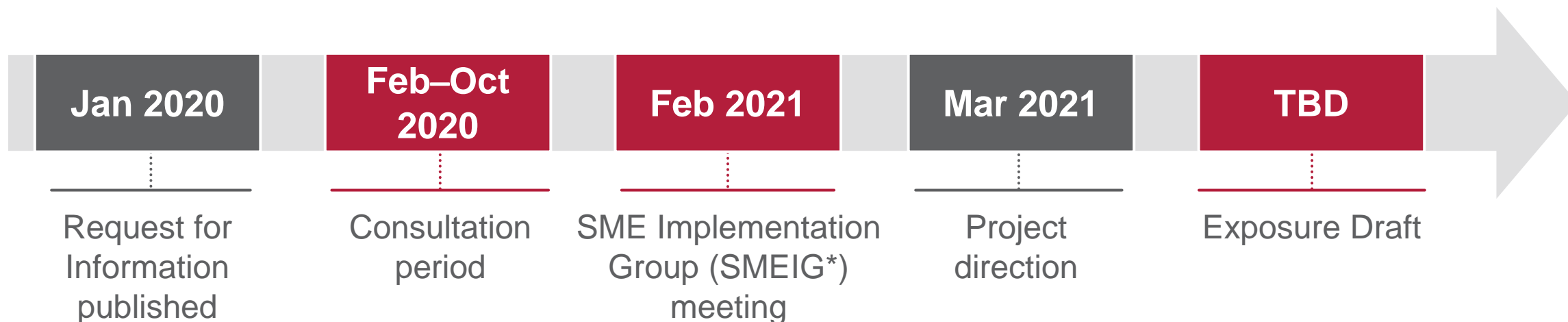
Agenda ref 6



objective

Update the *IFRS for SMEs* Standard

- Apply alignment approach to decide how to update the Standard
- The alignment approach uses the principles of relevance, simplicity and faithful representation, including the assessment of costs and benefits, to identify possible amendments



*The SME Implementation Group (SMEIG) has the aim of supporting the international adoption of the *IFRS for SMEs* Standard and of monitoring its implementation. Find out more about the SMEIG [here](#)

A grayscale world map is the background for the slide. Overlaid on the map are several thick, light gray curved lines that sweep across the frame from the bottom left towards the top right. Additionally, there are several dotted white lines that form a grid-like pattern across the map, representing latitude and longitude.

Feedback on the framework of the review

Alignment is continuing to base the *IFRS for SMEs* Standard on IFRS Standards



Feedback on Request for Information



Comment letters



Online survey



Outreach events

User survey, both users and non-users

Overall respondents expressed support for the *IFRS for SMEs* Standard continuing to be based on full IFRS Standards

Expressed mixed views

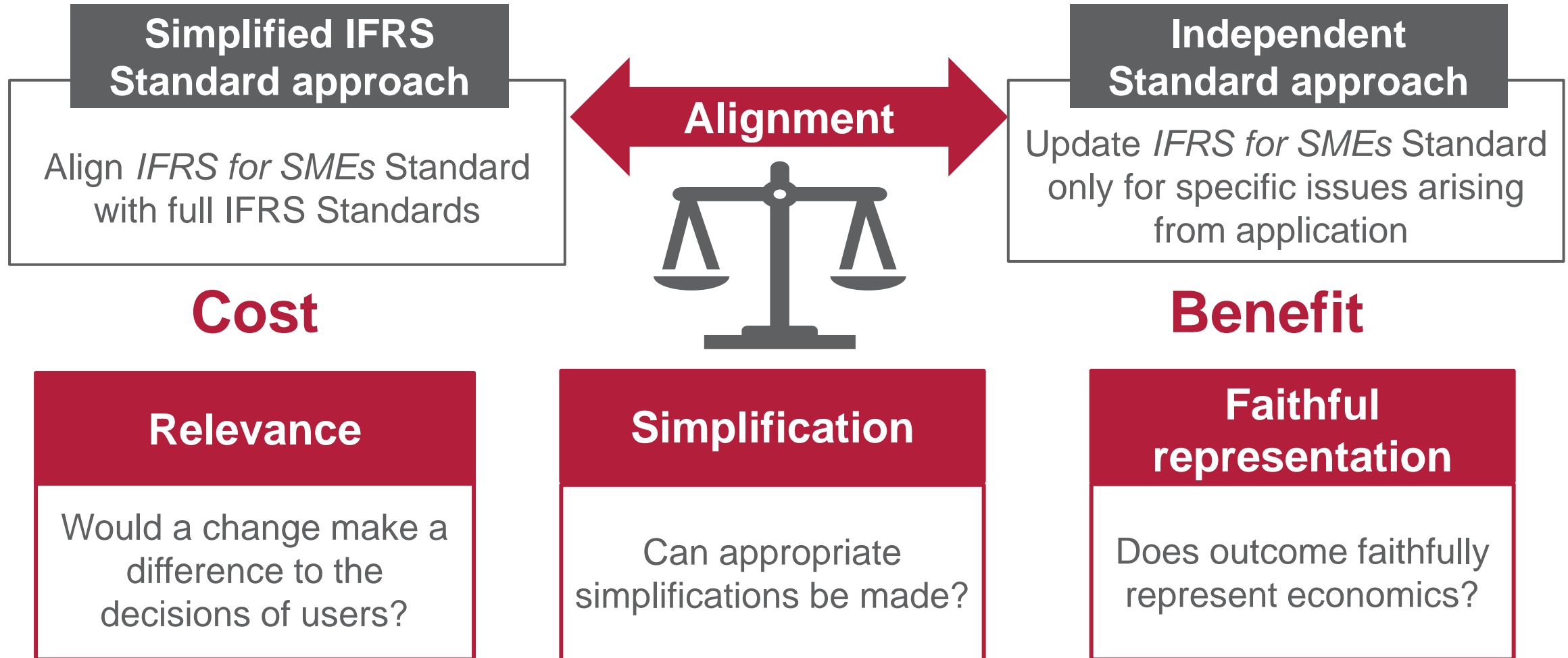


Overall the SMEIG supported continuing to base the *IFRS for SMEs* Standard on IFRS Standards

The Board will develop an exposure draft applying the alignment approach

Alignment approach

Agenda ref 6



Extent of alignment

Agenda ref 6

Request for Information

The Request for Information asked what **extent of the alignment** of the *IFRS for SMEs* Standard with full IFRS Standards is considered most useful



Principles

or

Principles and
important definitions

or

Principles, important
definitions, precise wording



Feedback

Strong support for the alignment of principles and important definitions



Overall the SMEIG supported developing proposed amendments to the *IFRS for SMEs* Standard to reflect principles and important definitions in a new requirement

Alignment principles

Agenda ref 6

Request for Information

The Request for Information asked whether three alignment principles provide a framework to assist in determining whether and how the *IFRS for SMEs* Standard should be aligned with full IFRS Standards

relevance

simplicity

faithful representation



Feedback

- Overall support for the alignment principles
- Many stakeholders recommended including ‘cost and benefits’ in the alignment principles and said simplifications should be achieved without affecting faithful representation



Overall the SMEIG supported the three alignment principles, including cost–benefit considerations when applying them

The Board will develop an exposure draft applying the alignment principles, including cost-benefit considerations

IFRS Standards in scope of the review

Agenda ref 6

Seeking views on alignment

Leave unchanged

2018 *Conceptual Framework for Financial Reporting*

IFRS 14

IFRS 13

IFRS 3

IFRIC Interpretations

IFRS 10

IFRS 9

Amendments to IFRS Standards

IFRS 15

IFRS 16

IFRS 11

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Selected topics

1 Alignment with IFRS 10 *Consolidated Financial Statements*

Agenda ref 6



Request for Information

Views on not introducing the requirement that investment entities measure investments in subsidiaries at fair value through profit and loss (FVTPL)



Feedback

Mixed views on introducing a requirement for investment entities to measure investments in subsidiaries at FVTPL

Preliminary staff thoughts

The staff think that the Board should further investigate the relevance of the requirement that investment entities measure investments in subsidiaries at FVTPL, in the light of the mixed feedback

SMEIG recommendation

SMEIG members said some private equity entities apply the *IFRS for SMEs* Standard. These entities would prefer the Board to introduce the requirement that investment entities measure investments in subsidiaries at FVTPL



Request for Information

Views on aligning the *IFRS for SMEs* Standard with the simplified approach to the impairment of financial assets in IFRS 9



Feedback

- Concerns about introducing the IFRS 9 simplified approach for impairment of financial assets in the *IFRS for SMEs* Standard
- Suggestions to further simplify the simplified approach

Preliminary staff thoughts

The staff think the Board should undertake additional work to understand the experience of entities that apply the simplified expected credit loss approach in IFRS 9 to decide on whether to propose amendments to the *IFRS for SMEs* Standard to align with the simplified approach. The staff are organising meetings with preparers with practical experience of applying IFRS 9 (see slide 17)

SMEIG recommendation

Overall agreement with preliminary staff thoughts



Request for Information

Views on the following alternatives about hedge accounting for SMEs:

- removing the requirements on hedge accounting in Section 12 *Other Financial Instrument Issues* of the *IFRS for SMEs Standard*
- retaining the requirements on hedge accounting in Section 12
- aligning the requirements on hedge accounting in Section 12 with IFRS 9



Feedback

General agreement on retaining existing hedge accounting requirements in Section 12 of the Standard

Preliminary staff thoughts

The staff think that the feedback provides evidence for the Board to retain the hedge accounting requirements in Section 12. Should the Board propose to change to IFRS 9 the ‘fallback’ to IAS 39 in Section 11, an SME could choose to apply either Sections 11 and 12 or the hedge accounting requirements in IFRS 9, applying paragraph 11.2 of the *IFRS for SMEs Standard*

SMEIG recommendation

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



Request for Information

Views on:

- adding the definition of a financial guarantee contract from IFRS 9 to the *IFRS for SMEs* Standard
- aligning the requirements in the *IFRS for SMEs* Standard for issued financial guarantee contracts with IFRS 9



Feedback

Mixed views on aligning the accounting for issued financial guarantee contracts with IFRS 9

Preliminary staff thoughts

The staff think that the feedback:

- provides evidence to propose introducing the definition of a financial guarantee contract from IFRS 9 to the Standard
- indicates the need to research problems SMEs encounter when accounting for issued financial guarantee contracts and explore accounting such contracts applying Section 21 of the Standard as an alternative to aligning the requirements with IFRS 9

SMEIG recommendation

Overall agreement with preliminary staff thoughts



Do EEG members have comments on:

- 1 aligning the *IFRS for SMEs* Standard with the requirement that investment entities measure investments in subsidiaries at fair value through profit and loss?
- 2 aligning the *IFRS for SMEs* Standard with the simplified approach to the impairment of financial assets in IFRS 9?
- 3 retaining the hedge accounting requirements in Section 12?
- 4 the problems that SMEs encounter when accounting for issued financial guarantee contracts?

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Outreach after
comment period
closed

Purpose

Additional feedback from preparers to help the Board decide on proposed amendments to the *IFRS for SMEs* Standard for new requirements that are in the scope of the review



SME preparers

- Experience of applying the *IFRS for SMEs* Standard based on IFRS Standards
- Information they are regularly asked to provide to lenders and other users of their financial statements

GPF members

- Understand from members of the Global Preparers Forum (GPF) the practical experience applying:
- the simplified expected credit loss approach of IFRS 9
 - IFRS 16

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