

STAFF PAPER

November 2021

IASB[®] meeting

Project	Second Comprehensive Review of the <i>IFRS for SMEs</i> [®] Standard	
Paper topic	Cover paper	
CONTACT(S)	Michelle Sansom	msansom@ifrs.org
	Roberta Ravelli	rravelli@ifrs.org
	Mostafa Mouit	mmouit@ifrs.org
	Zhen Xu	zxu@ifrs.org
	Hazirah Hasni	hhasni@ifrs.org

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Introduction

1. At its March 2021 meeting, the International Accounting Standards Board (Board) tentatively decided to develop an exposure draft of amendments to the *IFRS for SMEs* Standard using the alignment approach the Board consulted on in the Request for Information *Comprehensive Review of the IFRS for SMEs Standard*, published in January 2020. At its May 2021 meeting, the Board 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.
2. The appendix to this paper summarises the Board's tentative decisions to date.

Purpose of this meeting

3. At this meeting the Board 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 16 Leases*;
 - (b) Agenda Paper 30B: *Summary of feedback on aligning the IFRS for SMEs Standard with IFRS 16 Leases*;
 - (c) Agenda Paper 30C: *Towards an Exposure Draft—IAS 19 Employee Benefits (2011)*;
 - (d) Agenda Paper 30D: *Towards an Exposure Draft—Simplifications permitted by paragraph 28.19*; and
 - (e) Agenda Paper 30E: *Towards an Exposure Draft—Other topics with no amendments recommended*.

The Board’s alignment approach

5. The Board’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 Board agreed to apply the alignment approach on which the Board 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 would apply 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 Board 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.

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

- (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 Board would then consider the principle of faithful representation.
- (c) the principle of faithful representation is intended to help the Board 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.

Next steps

- 6. At future Board meetings, the staff will continue to bring to the Board's attention papers for:
 - (a) possible simplifications to the requirements of IFRS 15 *Revenue from Contracts with Customers* and possible transition reliefs for SMEs applying Section 23 *Revenue* of the *IFRS for SMEs* Standard aligned with IFRS 15;
 - (b) remaining topics and sections of the *IFRS for SMEs* Standard that could be aligned with IFRS Standards, including remaining topics for IFRS 9 *Financial Instruments*, and other topics on which the Board has received feedback; and
 - (c) 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 Board’s tentative decisions

Staff condensed summary of the Board’s tentative decisions	Corresponding IFRS Standard	Board meeting
<p><i>A full record of the Board’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 Board 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 Board 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 <i>IFRS for SMEs</i> Standard		
Concepts and Pervasive Principles		
<p>2. The Board 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 Board has completed its deliberations on proposed amendments to the <i>IFRS for SMEs</i> Standard; and • retaining the concept of ‘undue cost or effort’. 	2018 <i>Conceptual Framework</i>	May 2021
Financial Instruments		
<p>3. The Board 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.</p>	<i>IFRS 9 Financial Instruments</i>	May 2021

Staff condensed summary of the Board's tentative decisions	Corresponding IFRS Standard	Board meeting
Financial Instruments (continued)		
<p>4. The Board tentatively decided:</p> <ul style="list-style-type: none"> • 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; and • to retain unchanged the hedge accounting requirements in Section 12 <i>Other Financial Instrument Issues</i> of the <i>IFRS for SMEs</i> Standard. 	<p>IFRS 9 <i>Financial Instruments</i></p>	<p>October 2021</p>
Fair Value Measurement		
<p>5. The Board tentatively decided:</p> <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. 	<p>IFRS 13 <i>Fair Value Measurement</i></p>	<p>October 2021</p>
Regulatory Deferral Accounts		
<p>6. The Board 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.</p>	<p>IFRS 14 <i>Regulatory Deferral Accounts</i></p>	<p>October 2021</p>
Revenue		
<p>7. The Board 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. • 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. 	<p>IFRS 15 <i>Revenue from Contracts with Customers</i></p>	<p>October 2021</p>