

STAFF PAPER

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IASB® meeting

Project	Second Comprehensive Review of the IFRS for SMEs® Standard	
Paper topic	Towards an Exposure Draft—Other topics with no amendments recommended	
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This paper has been prepared for discussion at a public meeting of the International Accounting Standards Board (Board) and does not represent the views of the Board or any individual member of the Board. 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 topics raised in questions N4 and N5 of the Request for Information *Comprehensive review of the IFRS for SMEs Standard*, published in January 2020, for which the staff recommend no amendments to the *IFRS for SMEs Standard*.
2. At a future meeting, the staff will present to the Board other topics raised in questions N4 and N5 of the Request for Information for which the staff recommend amendments to the *IFRS for SMEs 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 (Board) to:
 - (a) consider feedback on the Request for Information on topics for which the staff do not recommend proposing amendments to the *IFRS for SMEs Standard*;

- (b) consider recommendations of the SME Implementation Group (SMEIG) on topics for which the staff do not recommend proposing amendments to the *IFRS for SMEs* Standard; and
- (c) decide whether the Board agree with the staff recommendation not to propose amendments to the *IFRS for SMEs* Standard on the topics as discussed in this paper.

Structure of the paper

- 5. This paper is structured as follows:
 - (a) questions in the Request for Information (paragraphs 7–9 of this paper);
 - (b) methods for obtaining feedback (paragraphs 10–13 of this paper);
 - (c) overall feedback and staff analysis (paragraphs 14–110 of this paper); and
 - (d) staff recommendations and questions for the Board (paragraph 111 of this paper).
- 6. The Appendix to this paper includes an index which lists the topics discussed and their corresponding paragraphs within this agenda paper.

Questions in the Request for Information

- 7. Question N4 of the Request for Information asked whether there are any topics the *IFRS for SMEs* Standard does not address that respondents think should be the subject of specific requirements (for example, topics not addressed by the Standard for which the general guidance in paragraphs 10.4–10.6 of the *IFRS for SMEs* Standard is insufficient).
- 8. Question N5 of the Request for Information asked respondents to describe any additional issues that they would like to bring to the Board’s attention relating to the *IFRS for SMEs* Standard.

9. This paper considers and discusses feedback on questions N4 and N5 together as ‘other topics’ because the staff noted that:
- (a) some respondents provided general comments on other topics; and
 - (b) in some cases, different respondents regarded the same topic as a topic not addressed by the *IFRS for SMEs* Standard or as an additional issue.

Methods for obtaining feedback

10. Feedback on questions N4 and N5 of the Request for Information were gathered from comment letters and an online survey. Respondents to Questions N4 and N5 of the Request for Information commented on over 50 different topics.
11. On 9 September 2021, the SMEIG discussed the staff’s preliminary thoughts for topics raised in questions N4 and N5 of the Request for Information in three categories:
- (a) topics for which the staff think further action is needed;
 - (b) topics for which the staff think no further action is needed; and
 - (c) topics for which the staff is asking for SMEIG’s advice.
12. SMEIG members provided their feedback during the meeting and shared written comments in advance of the SMEIG meeting.¹
13. Based on the feedback to the Request for Information and recommendations from the SMEIG, this paper lists topics the staff are recommending no further action and thus no amendments to the *IFRS for SMEs* Standard.

Overall feedback and staff analysis

14. This section of the paper describes the feedback on the Request for Information, staff analysis and feedback from SMEIG members on the topics raised in questions N4 and N5 of the Request for Information for which the staff recommend no amendments to the *IFRS for SMEs* Standard.

¹ See [Agenda Paper 8](#) of the September 2021 SMEIG meeting and the [SMEIG meeting report September 2021](#).

15. The topics in this agenda paper are grouped into the following categories:
- (a) suggestions for new accounting requirements in the *IFRS for SMEs* Standard (paragraphs 16–46 of this paper);
 - (b) suggestions relating to existing accounting requirements in the *IFRS for SMEs* Standard (paragraphs 47–59 of this paper);
 - (c) suggestions pertaining to disclosures (paragraphs 60–68 of this paper);
 - (d) suggestions to include guidance and clarification (paragraphs 69–79 of this paper);
 - (e) suggestions to allow accounting policy options (paragraphs 80–99 of this paper); and
 - (f) suggestions to consider topics within the Board’s work plan or Third Agenda Consultation (paragraphs 100–110 of this paper).

Suggestions for new accounting requirements in the IFRS for SMEs Standard

16. Respondents to the Request for Information suggested the Board consider incorporating in the *IFRS for SMEs* Standard:
- (a) requirements for financial instruments in relation to the Interbank Offered Rate (IBOR) reform (paragraphs 17–22 of this paper);
 - (b) requirements for not-for-profit entities (paragraphs 23–25 of this paper);
 - (c) requirements for earnings per share and operating segments (paragraphs 26–29 of this paper);
 - (d) requirements for the consensus of IFRIC 2 *Members’ Shares in Co-operative Entities and Similar Instruments* (paragraphs 30–32 of this paper);
 - (e) requirements for non-governmental grants (paragraphs 33–35 of this paper);
 - (f) requirements for interim financial reporting (paragraph 36–38 of this paper); and
 - (g) requirements for assets held for sale and discontinued operations (paragraphs 39–46 of this paper).

Requirements for financial instruments in relation to the Interbank offered rate (IBOR) reform

17. A small number of respondents suggested the Board keep the progress of IBOR reform under review and where necessary provide similar reliefs to those in full IFRS Standards. These respondents are referring to the effects of the interest rate benchmark reform on a company's financial statements that arise when, for example, an interest rate benchmark used to calculate interest on a financial asset is replaced with an alternative benchmark rate. The Board issued amendments to IFRS Standards in 2019 and 2020 to address the effects of interest rate benchmark reform.²
18. In February 2020 the SMEIG were asked for advice on whether:
- (a) IBOR reform is relevant to entities applying the *IFRS for SMEs* Standard; and
 - (b) the Board should consider amending the *IFRS for SMEs* Standard for IBOR reform.
19. Seven SMEIG members provided views of which four members considered IBOR reform relevant to SMEs; the other three members did not consider the matter relevant to SMEs.
20. As to whether to amend the *IFRS for SMEs* Standard, only one SMEIG member said the *IFRS for SMEs* Standard should provide an equivalent relief to the IBOR reform that is provided in full IFRS Standards.
21. Based on the previous advice of SMEIG members the staff think that no further action should be taken during this review for the amendments to IFRS Standards relating to the IBOR reform because:
- (a) in many jurisdictions the IBOR reform is likely to be completed before any amendments to the *IFRS for SMEs* Standard from the second comprehensive review are issued. These timings mean any reliefs are unlikely to be helpful for many entities applying the *IFRS for SMEs* Standard; and
 - (b) the amendments to IFRS Standards assist entities to address issues that might affect financial reporting during the reform, including the effects of changes to contractual cash flows arising from the replacement of an interest rate benchmark with an alternative benchmark. The *IFRS for SMEs* Standard does not include

² See [IBOR Reform and its Effects on Financial Reporting—Phase 1 \(Amendments to IFRS 9, IAS 39 and IFRS 7\)](#) and [IBOR Reform and its Effects on Financial Reporting—Phase 2 \(Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16\)](#).

detailed requirements for contract modifications.³ Introducing changes to such requirements could lead to complexity.

22. **Feedback from SMEIG members:** Most SMEIG members agreed with staff's preliminary thought to recommend the Board take no further action for this topic.

Requirements for not-for-profit entities

23. A small number of respondents suggested the Board consider issuing a new standalone Standard or incorporating requirements into the *IFRS for SMEs* Standard for not-for-profit entities.
24. The staff think no further action should be taken as work is being undertaken to address this demand through the International Financial Reporting for Non-Profit Organisations (IFR4NPO) project; a joint initiative coordinated by Humentum and the Chartered Institute for Public Finance and Accountancy (CIPFA).⁴
25. **Feedback from SMEIG members:** Most SMEIG members agreed with staff's preliminary thought to recommend the Board take no further action for this topic.

Requirements for earnings per share and operating segments

26. A small number of respondents expressed the view that all topics addressed in full IFRS Standards should also be addressed in the *IFRS for SMEs* Standard, to minimise the differences between the two frameworks including requirements for earning per share and operating segments within the *IFRS for SMEs* Standard.
27. The staff think no further action should be taken because entities applying the *IFRS for SMEs* Standard are non-publicly accountable entities. As such, these entities are not required to apply the requirements in IAS 33 *Earnings per Share* or IFRS 8 *Operating Segments*, as these Standards apply only to publicly accountable entities.⁵ Therefore, given the scope of IAS 33 and IFRS 8, the staff think the topics addressed by these Standards would not be relevant to SMEs.

³ Paragraphs 11.19–11.20 of the *IFRS for SMEs* Standard include requirements about changes in market rates of interest and revision to estimated cash flows for financial assets and liabilities.

⁴ See the [Chartered Institute of Public Finance and Accountancy \(CIPFA\)'s policy and guidance](#).

⁵ See paragraph BC43 of the Basis for Conclusions on the *IFRS for SMEs* Standard.

28. Additionally, to retain the simplicity of the *IFRS for SMEs* Standard, the staff think these requirements should not be included in the Standard.
29. **Feedback from SMEIG members:** Most SMEIG members agreed with staff's preliminary thought to recommend the Board take no further action for this topic.

Requirements for the consensus of IFRIC 2 Members' Shares in Co-operative Entities and Similar Instruments

30. A respondent expressed the view that Section 22 *Liabilities and Equity* should be amended to incorporate the consensus of IFRIC 2.
31. The staff think no further action is necessary as the consensus from IFRIC 2 has been considered and incorporated in Section 22 of the *IFRS for SMEs* Standard (for example, in paragraph 22.6).⁶
32. **Feedback from SMEIG members:** Most SMEIG members agreed with staff's preliminary thought to recommend the Board take no further action for this topic.

Requirements for non-governmental grants

33. A small number of respondents suggested the Board consider expanding Section 24 *Government Grants* of the *IFRS for SMEs* Standard to include non-governmental grants.
34. The staff think no further action should be taken because the Board would have no basis to expand Section 24 to include requirements for non-governmental grants as the scope of IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* is limited to government grants and assistance. To feasibly develop accounting requirements for non-governmental grants, the Board would need to conduct necessary research and outreach to identify the demand to address requirements for non-governmental grants first. This could result in the Board undertaking standard-setting on a topic not specifically addressed in full IFRS Standards. This would not be consistent with the alignment approach agreed by the Board; to treat alignment with full IFRS Standards as the starting point for developing amendments to the *IFRS for SMEs* Standard.

⁶ See paragraph BC34(hh) of the Basis for Conclusions on the *IFRS for SMEs* Standard.

35. **Feedback from SMEIG members:** Most SMEIG members agreed with staff's preliminary thought to recommend the Board take no further action for this topic.

Requirements for interim financial reporting

36. A respondent commented that the *IFRS for SMEs* Standard does not include any requirements for interim financial reporting, including requirements for special purpose financial statements prepared to meet the specific needs of some users (for example, liquidation statements).
37. To assess the relevance of the request, the staff asked SMEIG members to share views on how often interim financial reports or special purpose reports are prepared for SMEs.
38. **Feedback from SMEIG members:** Most SMEIG members suggested the Board take no further action as interim financial reports and special purpose financial reports are not common among SMEs.

Requirements for assets held for sale and discontinued operations

39. A small number of respondents to the Request for Information suggested the Board consider including in the *IFRS for SMEs* Standard a section aligned with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, but with simplifications to the extent necessary for SMEs. In contrast some respondents said the recognition, measurement and disclosure requirements in IFRS 5 may be complex for SMEs.
40. Applying IFRS 5, an entity classifies a non-current asset (or disposal group) as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. A non-current asset (or a disposal group) classified as held for sale is measured at the lower of its carrying amount and fair value less costs to sell.
41. The *IFRS for SMEs* Standard already aims to provide similar information to IFRS 5 through a simplified approach. In particular, the *IFRS for SMEs* Standard currently requires:
- (a) specific disclosures if the SME has a binding sale agreement for a major disposal of assets, or a group of assets and liabilities (paragraph 4.14 of Section 4 *Statement of Financial Position*). However, it does not require separate measurement of assets held for sale.

- (b) presentation of discontinued operations (paragraph 5.5(e) of Section 5 *Statement of Comprehensive Income and Income Statement*).
- (c) the impairment requirements in the *IFRS for SMEs* Standard ensure that assets are not overstated in the financial statements (paragraph 27.9(f) of Section 27 *Impairment of Assets* states that a plan to dispose of an asset before the previously expected date is an indicator of impairment).

42. The staff presented to the SMEIG arguments for further aligning the *IFRS for SMEs* Standard with IFRS 5, which are:

- (a) a simplified IFRS 5 within the Standard would assist entities to report these types of transaction. A small number of respondents, such as the South African Institute of Chartered Accountants, mentioned that questions on assets held for sale and discontinued operations, which are dealt under IFRS 5, are common in some jurisdictions when applying the *IFRS for SMEs* Standard.
- (b) although complex, separate measurement of assets held for sale applying the requirements in IFRS 5 would be relevant to SMEs and of interest to users of SME financial statements as they relate to information on cash flows, liquidity and solvency, which is aligned to the principles used to develop the disclosure requirements in the *IFRS for SMEs* Standard discussed in paragraph BC157 of the Basis for Conclusions.

43. The staff also presented arguments for not further aligning *IFRS for SMEs* Standard with IFRS 5, which are:

- (a) the *IFRS for SMEs* Standard already requires disclosure of assets held for sale if there is a binding sale agreement and presentation of discontinued operations. Adding the measurement requirements of IFRS 5 to the *IFRS for SMEs* Standard would add complexity to the Standard.
- (b) the sale of assets in SMEs are often relatively quick transactions compared to similar sales in publicly accountable entities, thus SMEs tend to only hold assets intended for sale for a short period of time and are therefore proportionally less likely to have any assets classified as held for sale at their reporting date.

- (c) the Exposure Draft of the *IFRS for SMEs* Standard published in 2007 initially proposed nearly identical requirements to IFRS 5 but these requirements were subsequently retracted as respondents to the Exposure Draft commented that the *IFRS for SMEs* Standard should not have a separate held-for-sale classification for cost-benefit reasons (see paragraph BC119 of the Basis for Conclusions on the *IFRS for SMEs* Standard).
44. The staff note that although the *IFRS for SMEs* Standard already requires SMEs to disclose some similar information to IFRS 5 (see paragraph 41 of this paper), this may not have been obvious to some respondents to the Request for Information. As such, should the Board agree with the staff's recommendation, the staff think the Basis for Conclusions on the *IFRS for SMEs* Standard should identify the requirements in the *IFRS for SMEs* Standard (in paragraph 41 of this paper) which intends to provide similar information to IFRS 5 as well as the Board's rational for not aligning the *IFRS for SMEs* Standard with IFRS 5.
45. To assess the relevance of this request, the staff asked SMEIG members to share views on the relevance of proposing amendments to further align the *IFRS for SMEs* Standard with IFRS 5 to SMEs.
46. **Feedback from SMEIG members:** Most SMEIG members supported staff's arguments to not further align *IFRS for SMEs* with IFRS 5 as discussed in paragraph 43. Some SMEIG members also noted that the disclosures required by the Standard are sufficient, thus no further action is required for this topic.

Suggestions relating to existing requirements in the IFRS for SMEs Standard

47. Respondents to the Request for Information suggested the Board considers expanding or amending existing requirements in the *IFRS for SMEs* Standard for:
- (a) the existing consolidation exemption (paragraphs 48–50 of this paper);
 - (b) useful life of intangible assets (paragraphs 51–53 of this paper); and
 - (c) simplification of accounting treatment—director loans (paragraphs 54–59 of this paper).

The existing consolidation exemption

48. A small number of respondents suggested the Board could expand the existing consolidation exemption in paragraph 9.3 of the *IFRS for SMEs* Standard, for example by:
- (a) extending the exemption to subsidiaries of entities preparing consolidated financial statements applying other recognised GAAPs in addition to full IFRS Standards and the *IFRS for SMEs* Standard; and
 - (b) permitting a free choice of whether to prepare consolidated financial statements because, according to these respondents, SMEs prefer to prepare only individual financial statements as their stakeholders do not often use their consolidated financial statements.
49. The staff think no further action should be taken because:
- (a) expanding the existing consolidation exemption would be inconsistent with IFRS 10 *Consolidated Financial Statements*, which only exempts subsidiaries from preparing consolidated financial statements when their parent entity prepares consolidated financial statements that comply with IFRS Standards (see paragraph 4 of IFRS 10); and
 - (b) continuing to allow the consolidation exemption only for subsidiaries with parents preparing consolidated financial statements complying with IFRS Standards or the *IFRS for SMEs* Standard is consistent with the Board’s decision in developing the Exposure Draft *Subsidiaries without Public Accountability: Disclosures*.⁷
50. **Feedback from SMEIG members:** Most SMEIG members agreed with staff’s preliminary thought to recommend the Board take no further action for this topic.

Useful life of intangible assets

51. One respondent suggested the Board adds to the *IFRS for SMEs* Standard a fall-back option to IAS 38 *Intangible Assets* in respect of the subsequent measurement of intangible assets instead of having a finite useful life not exceeding 10 years. The *IFRS*

⁷ See paragraphs BC20–BC21 of the Basis for Conclusions on the Exposure Draft *Subsidiaries without Public Accountability: Disclosures*.

for *SMEs* Standard initially prescribed that if a reliable estimate could not be made, the useful life is presumed to be 10 years. The Standard was subsequently amended during the first comprehensive review to introduce a limit of 10 years instead of a presumed life of 10 years.

52. The staff think no further action should be taken because:
- (a) the Board concluded that placing a 10-year limit on intangible assets with a useful life that cannot be established reliably would retain the simple application of the Standard and would provide users of financial statements with information about the period over which the intangible asset is expected to be available for use;⁸
 - (b) adding a fall-back option to IAS 38 would also introduce an accounting policy choice that involves substantial judgement, adding complexity to the Standard; and
 - (c) not allowing or adding a fall-back option to IFRS Standards would be consistent with the Board's decision to propose an amendment to the *IFRS for SMEs* Standard to remove an entity's option to apply the recognition and measurement requirements for financial instruments in full IFRS Standards.⁹
53. **Feedback from SMEIG members:** Most SMEIG members agreed with staff's preliminary thought to recommend the Board take no further action for this topic.

Simplification of accounting treatment—director loans

54. A respondent commented that Section 11 *Basic Financial Instruments* of the *IFRS for SMEs* Standard could be simplified to permit 'small' SMEs to measure loans from a director (or their group of close family members when that group contains at least one shareholder) at transaction price, rather than at present value as currently required by the *IFRS for SMEs* Standard.
55. The respondent referenced the requirements of FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*, which is derived from the *IFRS*

⁸ See paragraph BC247 of the Basis for Conclusions on the *IFRS for SMEs* Standard.

⁹ See [AP30A of the October 2021 Board Meeting](#) and the [IASB Update October 2021](#).

for *SMEs* Standard but with significant modifications. In FRS 102, this simplification is only available to those entities eligible for the ‘small entities regime’.

56. The staff think the suggestion to permit SMEs to measure some loans from a director at transaction price, rather than at present value, would not be appropriate for the *IFRS for SMEs* Standard. To permit such an exemption, the Board would either need to consider the scope of the exemption by introducing exemption criteria or make the exemption more widely available. Introducing a quantified size of entities eligible to apply the exemption would be inconsistent with the Board’s general principle-based approach to standard setting.¹⁰ Making the exemption more widely available for all SMEs would conflict with the current accepted accounting for these loans as required by Section 11 of the *IFRS for SMEs* Standard.
57. To assess the relevance of the request, the staff asked SMEIG members whether they would suggest the simplification of Section 11 to allow loans from a director to be initially measured at transaction price rather than present value.
58. **Feedback from SMEIG members:** A small number of SMEIG members supported the simplification to allow loans from a director to be initially measured at transaction price rather than present value because it is consistent with the principles of simplification and would benefit smaller sized SMEs such as partnerships where loans from directors are common transactions. However, most SMEIG members suggested that the Board take no further action because:
- (a) the exemption would not be appropriate for all entities applying the *IFRS for SMEs* Standard;
 - (b) retaining the measurement at present value would be consistent with financial asset measurement; and
 - (c) many loans from directors are call loans (that are repayable on demand), where the present value is equal to the undiscounted cash amount payable.
59. Based on the staff analysis and feedback from the SMEIG, the staff classified this topic as a topic which would not require amendments to the *IFRS for SMEs* Standard.

¹⁰ See paragraphs BC69–BC70 of the Basis for Conclusions on the *IFRS for SMEs* Standard.

Suggestions pertaining to disclosures

60. Respondents to the Request for Information suggested the Board consider:
- (a) introducing specific disclosures in the *IFRS for SMEs* Standard for tax authorities and lenders (paragraphs 61–64 of this paper); and
 - (b) amending disclosures in the *IFRS for SMEs* Standard for related party transactions (paragraphs 65–68 of this paper).

Introducing specific disclosures in the IFRS for SMEs Standard for tax authorities and lenders

61. A respondent suggested the Board conduct further research to identify other disclosures that can be introduced in the *IFRS for SMEs* Standard to better address the specific information needs of tax authorities and lenders.
62. The staff note that the *IFRS for SMEs* Standard is intended for non-publicly accountable entities that publish general purpose financial statements for external users. In developing the Standard, the main groups of external users identified and considered include lenders but not tax authorities.¹¹ However, the staff think no further action should be taken because paragraph 1.10 of the *Conceptual Framework for Financial Reporting* sets out that general purpose financial statements published are not primarily directed to regulators such as tax authorities. Additionally, the staff think introducing specific disclosure requirements for tax authorities would be difficult to implement as taxation requirements vary between jurisdictions.
63. The staff also think no further action should be taken to introduce disclosures specific to lenders because:
- (a) lenders were identified as one of the main groups of external users in developing the *IFRS for SMEs* Standard, therefore the information needs of lenders have been considered in developing the disclosure requirements of the *IFRS for SMEs* Standard.¹² Feedback from the user survey and user interviews conducted in August 2020 to October 2020 confirmed that the principles listed in paragraph BC157 of the Basis for Conclusions appropriately identify the needs of users of

¹¹ See paragraph BC80 of the Basis for Conclusions on the *IFRS for SMEs* Standard.

¹² See paragraph BC157 of the Basis for Conclusions on the *IFRS for SMEs* Standard.

SMEs financial statements, including lenders, and hence provide them with adequate information.¹³

- (b) the Board will consider aligning the *IFRS for SMEs* Standard with the amendments to IAS 1 *Presentation of Financial Statements* to improve the disclosure requirements of the Standard as part of the second comprehensive review of the *IFRS for SMEs* Standard.

64. **Feedback from SMEIG members:** Most SMEIG members agreed with staff’s preliminary thought to recommend the Board take no further action for this topic.

Amending disclosures in the IFRS for SMEs Standard for related party transactions

65. A respondent expressed the view that disclosures for related party transactions require further simplification and suggested the Board amend the *IFRS for SMEs* Standard to only require related party transaction disclosures if transactions are not at arm’s-length prices. According to this respondent:

- (a) the primary users of SME financial statements are already aware of related party transactions as these transactions are frequent for SMEs; and
- (b) disclosures for related party transactions do not add value to users of the financial statements.

66. The staff think no further action should be taken regarding this topic because:

- (a) related party transactions are material by nature; and
- (b) the suggestion from this respondent is inconsistent with the feedback obtained from the user survey and user interviews conducted in August 2020 to October 2020.¹⁴

67. Feedback from both users and non-users cited the importance of related party disclosures, as opposed to simplification and reduced disclosures for related party transactions.¹⁵

68. **Feedback from SMEIG members:** Most SMEIG members agreed with staff’s preliminary thought to recommend the Board take no further action for this topic.

¹³ See [Agenda Paper 5](#) of the February 2021 SMEIG meeting.

¹⁴ See [Agenda Paper 5](#) of the February 2021 SMEIG meeting.

¹⁵ See [Agenda Paper 5](#) of the February 2021 SMEIG meeting.

Suggestions to include guidance and clarification

69. Respondents to the Request for Information suggested the Board consider including guidance and clarification for the following topics:
- (a) applying a new IFRS Standard (paragraphs 70–73 of this paper);
 - (b) uncertainty (paragraphs 74–76 of this paper); and
 - (c) agriculture—biological assets (paragraphs 77–79 of this paper)

Applying a new IFRS Standard

70. A small number of respondents questioned whether a new IFRS Standard (such as IFRS 16 *Leases*) can be applied by an entity that applies the *IFRS for SMEs* Standard and suggested the Board clarify the possibility of this application. For example:
- (a) one respondent suggested the Board consider amending the Standard to permit entities to apply a new or amended IFRS Standard; and
 - (b) another respondent suggested the Board develop transition requirements, should the Board permit the application of a new or amended IFRS Standard.
71. The staff think no further action should be taken because:
- (a) paragraph BC154 of the Basis for Conclusions on the *IFRS for SMEs* Standard explains that an entity chooses to apply either the complete set of full IFRS Standards or the *IFRS for SMEs* Standard.
 - (b) the Board has considered the broader topic of aligning the *IFRS for SMEs* Standard with a new requirement in IFRS Standards as part of the strategic questions in the Request for Information (Questions G1–G3).
 - (c) feedback on these strategic questions were discussed by the SMEIG at its February 2021 meeting.¹⁶
 - (d) in the light of the feedback and the SMEIG recommendations, the Board tentatively decided to:

¹⁶ See [Agenda Paper 2](#) of the February 2021 SMEIG meeting.

- (i) develop proposed amendments to the *IFRS for SMEs* 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.¹⁷
- (ii) confirm that the scope of the review is as set out in the Request for Information and considers only new requirements effective on or before 1 January 2020.

72. Accordingly, an entity applying the *IFRS for SMEs* Standard cannot apply a new IFRS Standard if the *IFRS for SMEs* Standard contains a section /specific requirements addressing the relevant topic. In the absence of a requirement in the *IFRS for SMEs* Standard, paragraphs 10.4–10.5 of the *IFRS for SMEs* Standard outline the approach required.

73. **Feedback from SMEIG members:** Most SMEIG members agreed with staff’s preliminary thought to recommend the Board take no further action for this topic.

Uncertainty

74. A respondent suggested the Board include guidance for the application of present value techniques under conditions of uncertainty, particularly the expected value technique.

75. The staff think no further action should be taken because, in the staff’s view, the education material already available for the *IFRS for SMEs* Standard, such as Module 02—*Concepts and Pervasive Principles*, Module 21—*Provisions and Contingencies* and Module 27—*Impairment of Assets*, are sufficient to address the respondent’s concern on the application of present value techniques under conditions of uncertainty.

76. **Feedback from SMEIG members:** Most SMEIG members agreed with staff’s preliminary thought to recommend the Board take no further action for this topic.

¹⁷ See [IASB Update March 2021](#).

Agriculture—biological assets

77. A respondent suggested the Board consider providing clear guidance in the *IFRS for SMEs* Standard that would simplify and ensure consistent application of the requirements relating to subsequent measurement of biological assets measured at fair value less costs to sell. This request was made following the IFRS Interpretations Committee (Committee)¹⁸ conclusion that an entity can either capitalise or expense subsequent expenditure on biological assets applying IAS 41 *Agriculture*.
78. To assess the relevance of the request, the staff asked SMEIG members to share views on whether SMEIG members are aware of inconsistent application in accounting for biological assets.
79. **Feedback from SMEIG members:** Most SMEIG members suggested the Board take no further action as SMEIG members are not aware of any inconsistencies in the accounting for biological assets. A few SMEIG members who noted inconsistencies in accounting for biological assets referenced inconsistencies in the fair value measurement of biological assets rather than the subsequent measurement of biological assets.

Suggestions to allow accounting policy options

80. Respondents to the Request for Information suggested the Board consider allowing accounting policy options for:
- (a) capitalisation of development costs and borrowing costs (paragraphs 81–91 of this paper);
 - (b) subsequent measurement of investment property (paragraphs 92–95 of this paper); and
 - (c) recognition requirements for government grants (paragraphs 96–99 of this paper).

Capitalisation of development costs and borrowing costs

81. Some respondents suggested the Board allow an accounting policy option to capitalise:
- (a) development costs on a similar basis to IAS 38 *Intangible Assets*; and

¹⁸ See the Subsequent Expenditure on Biological Assets (IAS 41 Agriculture)—Agenda Paper 6 [IFRIC Update September 2019](#).

- (b) borrowing costs on a similar basis to IAS 23 *Borrowing Costs*.
82. The staff note that the *IFRS for SMEs* Standard requires research and development costs to be expensed when incurred, as many preparers and auditors said that SMEs do not have the resources to assess whether a project is commercially viable on an ongoing basis.¹⁹ Similarly, the Standard requires borrowing costs to be expensed when incurred based on cost-benefit reasons.²⁰ Full IFRS Standards require the capitalisation of development and borrowing costs meeting specified criteria. Costs that do not meet those criteria are recognised as expenses. The *IFRS for SMEs* Standard simplifies the requirements in full IFRS Standards, rather than removing an option permitted in full IFRS Standards. Adding a complex option would add complexity to the Standard and reduce comparability between SMEs.
83. The Board discussed this topic during the first comprehensive review of the *IFRS for SMEs* Standard in 2013. In 2013, the SMEIG members had mixed views on the capitalisation of development costs: some members recommended allowing SMEs an option to either expense or capitalise development costs, some members recommended requiring capitalisation of such costs but with an undue cost or effort exemption, other members recommended to retain the Standard unchanged for cost-benefit reasons.²¹
84. The staff think that no further action should be taken as the Board and the SMEIG discussed this topic during the first comprehensive review where no further action was taken.²²
85. The staff were also of the view that retaining the requirement to expense development costs and borrowing costs would maintain the simple application of the *IFRS for SMEs* Standard.
86. **Feedback from SMEIG members:** The staff recommended to the SMEIG that the Board take no further action on the suggestion to allow capitalisation of development costs and borrowing costs. However a small number of SMEIG members raised concerns over the

¹⁹ See paragraphs BC113–BC114 of the Basis for Conclusions on the *IFRS for SMEs* Standard

²⁰ See paragraph BC120 of the Basis for Conclusions on the *IFRS for SMEs* Standard

²¹ See [Agenda Paper 2](#) of the February 2013 SMEIG meeting and [Agenda Paper 4](#) for the March 2013 SMEIG meeting report.

²² See [AP8D of the April 2013 Board Meeting](#) and the [IASB Update April 2013](#)

recommendation that the Board take no further action because according to these SMEIG members:

- (a) some entities such as software developers, start-ups and entrepreneurs have the resources to assess whether development costs or borrowing costs meet the criteria in full IFRS Standards to be capitalised;
- (b) some entities will not be within the scope of the Board's Exposure Draft *Subsidiaries without Public Accountability: Disclosures* and thus would not be able to benefit from applying IFRS Standards recognition and measurement with fewer disclosures as an alternative to the *IFRS for SMEs* Standard; and
- (c) introducing the option to allow capitalisation of development costs and borrowing costs (rather than a requirement) would not add complexity to the Standard.

87. The staff note the points raised by SMEIG members, however the staff think allowing the capitalisation of development costs and borrowing costs as an accounting policy option (rather than a requirement) would not be consistent with the Board's previous decisions not to allow other accounting policy options in the *IFRS for SMEs* Standard. Furthermore, as noted in BC 214 of the Basis for Conclusions on the *IFRS for SMEs* Standard, the Board has observed that permitting accounting policy options to capitalise development costs and borrowing costs that meet criteria for capitalisation in addition to the current approach, would result in more accounting policy options than full IFRS. Accounting policy options increase the complexity of the Standard, reduce comparability between SMEs, and generally increase costs for both preparers and users of financial statements.

88. In drafting the Request for Information, the Board considered whether it should reconsider the capitalisation of borrowing costs by seeking views on whether and how to align the *IFRS for SMEs* Standard with IAS 23. In September 2019, the Board decided not to seek views on aligning the *IFRS for SMEs* Standard with IAS 23 as part of the Request for Information.²³ As such, respondents to the Request for Information raised

²³ See [AP30D of the September 2019 Board Meeting](#) and the [IASB Update September 2019](#).

concerns surrounding the treatment of borrowing costs (and development costs) in the *IFRS for SMEs Standard* through questions N4 and N5.

89. Feedback on questions N4 and N5 of the Request for Information included over 20 comments suggesting the Board allow the capitalisation of borrowing costs and development costs for entities applying the *IFRS for SMEs Standard*. Respondents indicated that borrowing costs and development costs are significant costs for start-up entities in certain industries. Respondents also said not allowing the capitalisation of these costs has affected the users' evaluation on the liquidity of SMEs.
90. The staff are of the view that amendments to the *IFRS for SMEs Standard* should not be proposed unless the Board has sufficient evidence or new information to support the Board's reconsideration of its previous decision reached on this topic during the first comprehensive review of the *IFRS for SMEs Standard* in 2013, where no further action was taken.²⁴
91. In light of the feedback on the Request for Information and recommendations from the SMEIG members, the staff recommend that the Board do not propose amendments to the *IFRS for SMEs Standard* for this topic, rather the Board should seek views to help decide whether there is any new information that would warrant the Board to revisit this topic. The staff note the potential for new information to have emerged since this topic was previously considered in 2013. The staff believe that seeking views in the Exposure Draft will assist the Board in obtaining evidence and deciding whether to allow the capitalisation of development costs and borrowing costs in the *IFRS for SMEs Standard*.

Subsequent measurement of investment property

92. A small number of respondents suggested the Board explicitly allows the application of the cost model for investment properties as an accounting policy choice in paragraph 16.7 of Section 16 *Investment Property* of the *IFRS for SMEs Standard* in the same way as is permitted in IAS 40 *Investment Property*.
93. The staff note that the requirements of the *IFRS for SMEs Standard* reflect some simplifications to the requirements of IAS 40. Paragraph BC133 of the Basis for Conclusions on the *IFRS for SMEs Standard* explains that IAS 40 allows an accounting

²⁴ See [AP8D of the April 2013 Board Meeting](#) and the [IASB Update April 2013](#).

policy choice of either fair value through profit or loss or a cost-depreciation-impairment model (with some limited exceptions). An entity following the cost-depreciation-impairment model is required to provide supplemental disclosure of the fair value of its investment property. The *IFRS for SMEs* Standard does not have an accounting policy choice but, rather, the accounting for investment property is driven by circumstances. If an entity knows or can measure the fair value of an item of investment property without undue cost or effort, it must use the fair value through profit or loss model for that investment property. It must use the cost-depreciation-impairment model for other investment property. Unlike IAS 40, the *IFRS for SMEs* Standard does not require disclosure of the fair values of investment property measured on a cost basis.

94. This topic was also discussed with the SMEIG during the first comprehensive review of the *IFRS for SMEs* Standard in 2013. In 2013, the majority of SMEIG members recommended no change to the requirements in the *IFRS for SMEs* Standard as the model was said to be working in practice.²⁵ As such, the staff think no further action should be taken in the light of the feedback on the first comprehensive review of the *IFRS for SMEs* Standard in 2013.
95. **Feedback from SMEIG members:** Most SMEIG members agreed with staff's preliminary thought to recommend the Board take no further action for this topic.

Recognition requirements for government grants

96. A small number of respondents suggested that Section 24 *Government Grants* should be revised to align with IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*. A respondent suggested that Section 24 be revised to allow an accounting policy option of either the performance model or accrual model in the recognition of government grants. The respondent said that:
- (a) in their view, Section 24 is a departure from IAS 20 as the accrual model is not permitted in the *IFRS for SMEs* Standard; and
 - (b) an accounting policy choice exists under FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.

²⁵ See [Agenda Paper 2](#) of the February 2013 SMEIG meeting and [Agenda Paper 4](#) for the March 2013 SMEIG meeting report.

97. The staff think no further action should be taken for the suggestion to align Section 24 with IAS 20 to retain simple application of the Standard, which does not include an accounting policy options.
98. In developing a Standard consistent with its principle of simplification, the Board requires a single, simplified method of accounting for all government grants. All grants are recognised in income when the performance conditions are met or earlier if there are no performance conditions. All grants are measured at the fair value of the asset received or receivable. IAS 20 permits a range of other methods that are not allowed by the *IFRS for SMEs* Standard.²⁶
99. **Feedback from SMEIG members:** Most SMEIG members agreed with staff’s preliminary thought to recommend the Board take no further action for this topic.

Suggestions to consider topics within the Board’s work plan or Third Agenda Consultation

100. Respondents to the Request for Information suggested the Board considers certain topics which the staff note are:
- (a) topics that are part of the Board’s work plan (paragraphs 101–104 of this paper); or
 - (b) topics that are part of the Third Agenda Consultation (paragraphs 105–110 of this paper).

Topics that are part of the Board’s work plan

101. A small number of respondents suggested the Board considers incorporating amendments and final guidance from the Exposure Draft *General Presentation and Disclosures* and the Discussion Paper *Business Combinations under Common Control* into the *IFRS for SMEs* Standard.
102. In addition, a respondent raised concerns over the accounting for goodwill prescribed by Section 27 *Impairment of Assets* of the *IFRS for SMEs* Standard, which this respondent said is complex, costly and requires significant judgement.

²⁶ See paragraph BC134 of the Basis for Conclusions on the *IFRS for SMEs* Standard.

103. The staff agree that requirements about general presentation and disclosure and about reporting of business combinations under common control could be relevant for SMEs. However, the staff think the Board should consider these projects and any amendments to the accounting for goodwill in Section 27 as part of a future comprehensive review. Question G3 of the Request for Information consulted on how soon after an IFRS Standard was issued the Board should consider that change for incorporation in the *IFRS for SMEs* Standard. Although respondents suggested the Board retain some flexibility, they generally supported considering only requirements that are effective and for which there is enough implementation experience. Consequently, the Board has decided not to amend the scope of the second comprehensive review to include consideration of possible future changes from projects in the Board’s work plan.
104. **Feedback from SMEIG members:** Most SMEIG members agreed with staff’s preliminary thought to recommend the Board take no further action for this topic.

Topics that are part of the Third Agenda Consultation

105. A small number of respondents suggested the Board considers topics which, the staff note, are being considered as potential projects as part of the Third Agenda Consultation.²⁷ These topics include:
- (a) going concern; and
 - (b) hyperinflation.
106. Respondents suggested the Board provides further guidance on the preparation of financial statements when the going concern assumption is no longer appropriate for an entity.
107. The staff note that IFRS Standards are silent on the basis on which financial statements should be prepared when the going concern assumption is inappropriate. The Board is considering going concern as a potential project in its Third Agenda Consultation. The staff think the Board should consider the feedback on going concern from its Third Agenda Consultation before considering adding any potential changes to the *IFRS for SMEs* Standard.

²⁷ See the [Third Agenda Consultation Request for Information](#).

108. A respondent suggested the Board considers studying the effects of hyperinflation on reported financial information. By conducting a study, the respondent was of the view that the Board could assess if the scope of IAS 29 *Financial Reporting in Hyperinflationary Economies* should be changed and subsequently Section 31 *Hyperinflation* of the *IFRS for SMEs* Standard.
109. The Board is considering inflation as a potential project in its Third Agenda Consultation. Similar to going concern, the staff think the Board should consider the feedback on inflation from its Third Agenda Consultation before considering any potential changes for hyperinflation to the *IFRS for SMEs* Standard.
110. **Feedback from SMEIG members:** Most SMEIG members agreed with staff’s preliminary thought to recommend the Board take no further action for this topic.

Staff recommendations and questions for the Board

111. Based on the staff analysis and feedback from SMEIG members in paragraphs 14–110 of this paper, the staff recommend that the Board:
- (a) does not propose amendments to the *IFRS for SMEs* Standard for the topics discussed in this paper; and
 - (b) asks a question in the Exposure Draft on whether there is any new information since the first comprehensive review of the *IFRS for SMEs* Standard that might warrant the Board to reconsider the simplified accounting model for development and borrowing costs.

Questions for the Board

1. Does the Board agree with staff recommendation to not propose amendments to the *IFRS for SMEs Standard* for the topics discussed in this paper?
2. Does the Board agree with staff recommendation to ask for views in the Exposure Draft on whether there is any new information since the first comprehensive review of the *IFRS for SMEs* Standard that might warrant the Board to reconsider the simplified accounting model for development and borrowing costs?

Appendix—Index of topics for which the staff recommend no amendments to the IFRS for SMEs Standard

Topic	Paragraphs of this paper discussing the topic
Requirements for financial instruments in relation to IBOR reform	Paragraphs 17–22
Requirements for not-for-profit entities	Paragraphs 23–25
Requirements for earnings per share and operating segments	Paragraphs 26–29
Requirements for the consensus of IFRIC 2	Paragraphs 30–32
Requirements for non-governmental grants	Paragraphs 33–35
Requirements for interim financial reporting	Paragraphs 36–38
Requirements for assets held for sale and discontinued operations	Paragraphs 39–46
The existing consolidation exemption	Paragraphs 48–50
Useful life of intangible assets	Paragraphs 51–53
Simplification of accounting treatment—director loans	Paragraphs 54–59
Introducing specific disclosures in the <i>IFRS for SMEs</i> Standard for tax authorities and lenders	Paragraphs 61–64
Amending disclosures in the <i>IFRS for SMEs</i> Standard for related party transactions	Paragraphs 65–68
Applying a new IFRS Standard	Paragraphs 70–73
Uncertainty	Paragraphs 74–76
Agriculture—biological assets	Paragraphs 77–79
Capitalisation of development costs and borrowing costs	Paragraphs 81–91
Subsequent measurement of investment property	Paragraphs 92–95
Recognition requirements for government grants	Paragraphs 96–99
Primary Financial Statement project (General Presentation and Disclosure)	Paragraphs 101–104
Business Combinations Under Common Control project	
Goodwill and Impairment project	
Going concern	Paragraphs 105–110
Hyperinflation	