IFRS

STAFF PAPER

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Project	**Second Comprehensive Review of the *IFRS for SMEs*® Standard**
Paper topic	Towards an Exposure Draft—IFRS 15 *Revenue from Contracts with Customers*
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Introduction

1. This paper discusses whether and how to propose amending the *IFRS for SMEs* Standard to align with IFRS 15 *Revenue from Contracts with Customers.*

2. 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

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

   (a) consider feedback on the Request for Information *Comprehensive Review of the* IFRS for SMEs *Standard*, published in January 2020, and the recommendations of the SME Implementation Group (SMEIG) on three alternatives for amending Section 23 *Revenue* of the *IFRS for SMEs* Standard to align with IFRS 15; and

   (b) decide whether to propose amending the *IFRS for SMEs* Standard to align with IFRS 15, and the form of any transitional provisions.

Summary of staff recommendations

4. The staff recommend the Board:

   (a) develop amendments to the *IFRS for SMEs* Standard to align with IFRS 15 by rewriting Section 23 to reflect the principles and language used in IFRS 15; and

   (b) provide transition relief as described in paragraph 17(a) of this paper.

Structure of the paper

5. This paper is structured as follows:

   (a) background (paragraphs 7–14 of this paper);

   (b) question in the Request for Information (paragraphs 15–17 of this paper);

   (c) feedback and SMEIG recommendations (paragraphs 18–53 of this paper)

   (d) staff analysis applying the alignment principles:

      (i) relevance to SMEs (paragraphs 55–58 of this paper);

      (ii) simplicity (paragraphs 59–65 of this paper);

      (iii) faithful representation (paragraphs 66–68 of this paper);

      (iv) costs and benefits consideration (paragraphs 69–72 of this paper); and

      (v) the content of the revised Section 23 if the Board were to decide to amend Section 23 to align with IFRS 15 (paragraphs 73–78 of this paper).

   (e) staff recommendations and question for the Board (paragraph 79 of this paper); and

   (f) next steps (paragraph 80 of this paper).

6. Appendix A to this paper is an extract from the Request for Information on aligning the *IFRS for SMEs* Standard with IFRS 15.

Background

Requirements in the IFRS for SMEs *Standard*

7. Section 23 (and the examples in the Appendix to Section 23) of the *IFRS for SMEs* Standard is largely based on the principles of IAS 11 *Construction Contracts* and IAS 18 *Revenue*.[1]

8. The requirements of Section 23 prescribe when to recognise and how to measure revenue, and what to disclose about revenue. In addition, they prescribe how an entity should recognise costs arising on construction contracts.

9. Section 23 provides additional information on accounting for specific categories of revenue and includes further conditions that must be satisfied before revenue can be recognised. The categories of revenue identified are:

   (a) the sale of goods;

   (b) the rendering of services;

   (c) construction contracts in which the entity is the contractor; and

   (d) the receipt of interest, royalties or dividends arising from the use by others of entity assets.

10. The Appendix to Section 23 includes 26 examples that illustrate how to apply the requirements of Section 23. Almost all these examples are taken from IAS 18. Given that the examples have such a broad coverage, many SMEs are likely in practice to decide how to recognise revenue based on the examples without performing an analysis based on the requirements of the Standard. This approach is not endorsed by the Standard, as the examples are explicitly described as 'guidance for applying the Standard' rather than as a replacement for analysing transactions based on the requirements of the Standard.

[1] The Appendix accompanies, but is not part of, Section 23. It provides guidance for applying the requirements of Section 23 in recognising revenue.

11. IFRS 15 became effective on 1 January 2018 and introduced a single comprehensive model for recognising revenue that applies consistently to all contracts for goods or services, including construction contracts.

12. IFRS 15 replaced the previous IFRS Standards, IAS 11 and IAS 18, and the related IFRIC Interpretations on revenue recognition, namely IFRIC 13 *Customer Loyalty Programmes*, IFRIC 15 *Agreements for the Construction of Real Estate*, IFRIC 18 *Transfers of Assets from Customers* and SIC-31 *Revenue—Barter Transactions Involving Advertising Services*.

13. IFRS 15 was issued after the first comprehensive review of the *IFRS for SMEs* Standard was completed. The Board has not previously had the opportunity to consider aligning the *IFRS for SMEs* Standard with IFRS 15.

14. The core principle of IFRS 15 is that an entity recognises revenue from the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with that core principle by applying the following steps:[2]

    (a) Step 1: Identify the contract(s) with a customer;

    (b) Step 2: Identify the performance obligations in the contract;

    (c) Step 3: Determine the transaction price;

    (d) Step 4: Allocate the transaction price to the performance obligations in the contract;

    (e) Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation.

[2] Paragraph IN7 of the Introduction that accompanied the issue of IFRS 15 in May 2014.

Question in the Request for Information

15. Question S7 of the Request for Information asked respondents which of the three alternatives for amending Section 23 they preferred, and why they preferred that alternative. The alternatives were as follows:

    (a) Alternative 1—modifying Section 23 only to remove the clear differences in outcome from applying Section 23 or IFRS 15, without wholly reworking Section 23 (modifying Section 23);

    (b) Alternative 2—fully rewriting Section 23 to reflect the principles and language used in IFRS 15 (fully rewriting); and

    (c) Alternative 3—deciding not to make amendments to Section 23 as part of the second comprehensive review (do not make amendments).

16. The Board's reasoning for seeking views on all three alternatives and the changes that would be made to Section 23 for Alternative 1 are set out in paragraphs B73–B74 of the Request for Information and reproduced in Appendix A to this paper.

17. Question S7 also asked whether and how transitional relief should be available if amendments are made to Section 23. Respondents were asked if transitional relief should be provided:

    (a) 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;

    (b) by some other method; or

    (c) not at all.

Feedback and SMEIG recommendations

Methods for obtaining feedback

18. Stakeholders provided feedback on Question S7 of the Request for Information in several ways, including comment letters, an online survey and outreach events.

19. The SMEIG met on 4–5 February 2021 to discuss the feedback from stakeholders on the Request for Information and develop recommendations to enable the Board to decide on whether, and if so how, to align the *IFRS for SMEs* Standard with IFRS 15.

Overall feedback

20. Respondents were generally in support of aligning Section 23 of the *IFRS for SMEs* Standard with IFRS 15. There was no clear alternative for amending Section 23 that was preferred by respondents, although Alternative 3 (do not make amendments) was the least preferred. Respondents were generally in support of providing the transitional relief set out in the Request for Information.

Feedback from comment letters

21. Most respondents submitting comment letters supported aligning Section 23 with IFRS 15. Many of the respondents who supported alignment supported Alternative 2 (fully rewriting). Consistent with the overall feedback, Alternative 3 (do not make amendments) was the least preferred alternative.

Distribution of support for Alternative 1 and Alternative 2

22. Alternative 2 has a narrow majority of support based on a simple count of responses. The type of respondents that supported Alternative 2 largely matched the overall profile of respondents to the Request for Information. Most auditors and accounting firms who commented on the three alternatives expressed support for Alternative 2. In contrast, many respondents who supported Alternative 1 (modifying Section 23) were accountancy bodies.

Feedback on Alternative 1 (modifying Section 23)

23. Respondents who supported Alternative 1 expressed mixed views about the potential benefits of Alternative 1.

24. Some respondents said that Alternative 1 would minimise the implementation costs for SMEs as it would result in fewer changes to Section 23 compared to Alternative 2. Other respondents supporting Alternative 1 said it would avoid the introduction of complexity into the Standard compared to Alternative 2.

25. A small number of respondents that did not support Alternative 1 had conceptual concerns regarding this alternative. In the view of these respondents, modifying Section 23 to remove the clear differences in outcomes between Section 23 and IFRS 15 could:

    (a) lead to unintended consequences;

    (b) introduce complexity and confusion; and

    (c) result in inconsistencies which could potentially lead to different outcomes from IFRS 15.

26. For example, the Japanese Institute of Certified Public Accountants commented:

> …we wonder how it is possible to comprehensively modify Section 23 to remove differences in outcome from applying the *IFRS for SMEs* Standard or IFRS 15. Based on IAS 18, Section 23 takes into consideration the transfer of risks and rewards, which may lead to different outcomes between the Standards. For example, when a customer has a right of return, it may result in different outcomes by taking different approaches between the transfer of risks and rewards approach and the transfer of control approach. Further, if the IASB is seeking an alignment with full IFRS Standards going forward, we doubt whether patchwork type of modifications would be sufficient from that perspective, too.

Feedback supporting Alternative 2 (fully rewriting)

27. Many respondents supported Alternative 2 because, in their view:

(a) alignment of the principles for revenue recognition will make it easier for users to understand and compare the revenue reported by SMEs with that reported by entities applying full IFRS Standards; and

(b) IFRS 15 introduces improvements to financial reporting that should be replicated in the *IFRS for SMEs* Standard.

28. For example, the Accounting Standards Council Singapore said:

> Revenue is a crucial number to users of financial statements, and an important parameter in common financial performance ratios. Therefore, we believe that it is important to align Section 23 with the principles in IFRS 15, which would help users of financial statements to better understand, analyse and compare revenue across financial statements prepared using the [*IFRS for SMEs*] Standard and IFRS Standards.

29. The Brazilian Committee for Accounting Pronouncements commented:

> ...the aligned Section 23 (with IFRS 15), mainly the 5 steps that an entity applies when recognising revenue, would faithfully represent an entity's assets, liabilities and profit or loss in a better way and would provide more useful and relevant information to the users.

30. A small number of respondents who supported Alternative 2 were of the view that alignment with the principles of IFRS 15 is necessary so that, for types of revenue transactions not addressed by Section 23, there is consistency between the amount of revenue recognised by entities applying the *IFRS for SMEs* Standard and that recognised by those applying IFRS 15. For example, KPMG IFRG Limited said:

> The key reason for preferring to align with the control model in full IFRS is to ensure that when applying the underlying framework to types of revenue streams not specifically discussed in Section 23, an answer similar to that would be obtained under full IFRS Standards results.

Feedback on possible simplifications for Alternative 2 (fully rewriting)

31. Some respondents who supported Alternative 2 made suggestions for the Board to consider when applying the alignment principle of 'simplicity', for example:

(a) simplify the language of IFRS 15;

(b) reduce the disclosure requirements of IFRS 15;

(c) structure Section 23 around the five-step model for recognising revenue in IFRS 15;

(d) update the examples in the Appendix to Section 23;

(e) provide additional application guidance;

(f) introduce practical expedients and rules for SMEs to follow when applying the principles of IFRS 15; and

(g) simplify the requirements of IFRS 15 that are difficult to apply, that involve a greater level of subjectivity and that address issues which are less relevant to SMEs.

32. Some respondents suggested simplifying specific requirements of the five-step model in IFRS 15. The table below summarises these suggestions:

Step	Simplification of requirements mentioned by respondents
1 Identify the contract(s) with a customer	Contract modifications
2 Identify the performance obligations in the contract	Determining when a good or service is distinct
3 Determine the transaction price	Variable consideration Significant financing components
4 Allocate the transaction price to the performance obligations in the contract	Allocating discounts
5 Recognise revenue when (or as) the entity satisfies a performance obligation	Determining the transfer of control Methods for measuring progress

33. A small number of respondents also suggested simplifying the requirements of IFRS 15 on contract costs.

Feedback supporting Alternative 3 (do not make amendments)

34. A small number of respondents were in favour of Alternative 3 because, in their view:

    (a) there is little implementation experience available as the Post-implementation Review of IFRS 15 has not started;

    (b) IFRS 15 is a complex Standard for SMEs to apply;

    (c) there is no urgent need to address revenue recognition for SMEs; and

    (d) the benefits would not outweigh the costs of aligning Section 23 with IFRS 15.

35. In contrast, those who do not support Alternative 3 were of the view that this alternative would widen the difference in requirements between the IFRS Standards and the *IFRS for SMEs* Standard.

Feedback on transitional relief

36. If the Board chooses Alternative 1 or Alternative 2, most respondents were in support of providing transitional 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, as set out in the Request for Information.

37. Some respondents were of the view that transitional relief should be provided by some other method, while a small number of respondents were in support of no transitional relief being provided at all.

38. Although most respondents supported the transitional relief set out in the Request for Information, some nonetheless expressed concerns that it could result in reported revenue that does not faithfully represent the entity's financial performance and result

in a lack of comparability between entities. These concerns were also shared by some respondents who did not support the relief. Many of the respondents suggested that the Board address these concerns through disclosures. Examples of disclosure requirements suggested by respondents include:

(a) the amount of revenue recognised using the entity's previous accounting policy and major differences;

(b) the effect of applying the transitional relief; and

(c) information about significant contracts that are expected to be completed over a long period of time.

39. For example, the Accounting Standards Council Singapore suggested:

> ...the [*IFRS for SMEs*] Standard could require separate disclosure of the amount of revenue that is recognised using the current revenue recognition policies, together with:
>
> (i) a description of those policies;
>
> (ii) the significant judgements made in applying those policies; and
>
> (iii) the reasons why applying the general transition provisions to such contracts would involve undue cost or effort.

40. Some respondents who supported the transitional relief set out in the Request for Information proposed a time limit on the relief, for example:

(a) contracts due to be completed within 24 months after the effective date of the amended *IFRS for SMEs* Standard;

(b) contracts due to be completed within 12 months after the transition date; and

(c) contracts due to be completed within 12 months.

41. Some respondents who were of the view that transitional relief should be provided by some other method suggested either the 'cumulative catch-up' transition method in IFRS 15, or a variation of this method.

Feedback from outreach events and online survey

42. During the comment period, Board members and the staff undertook outreach including round-table meetings and discussion forums. The events were attended by nearly 2,000 participants and were organised in conjunction with national standard-setters, accountancy bodies, auditors and SMEIG members.

43. Participants in outreach events generally supported aligning Section 23 with IFRS 15. Of the participants who commented on the three alternatives for amending Section 23 to align with IFRS 15, most participants supported Alternative 1 (modifying Section 23). Participants said that the revenue recognition model should be changed from being focused on the transfer of the risks and rewards of ownership (Section 23) to being based on the transfer of control (IFRS 15).

44. Some participants expressed concerns about Alternative 2 (fully rewriting), including:

    (a) the five-step model in IFRS 15 may be costly for SMEs in some industries to apply; and

    (b) it will be difficult to amend Section 23 to reflect the principles of IFRS 15.

45. Some participants expressed support for simplifications to the requirements of IFRS 15.

46. An online survey addressed to all stakeholders was also made available during the comment period. The online survey replicated the questions of the Request for Information. Thirty online surveys were completed, of which 21 were from individuals and nine from organisations.

47. Respondents to the online survey expressed broadly similar views to those that submitted comment letters. Most respondents to the online survey supported aligning Section 23 with IFRS 15. Many of the respondents who supported alignment supported Alternative 2 (fully rewriting). The main reason provided by respondents is that Alternative 2 would be more efficient given the fundamentally different approach to revenue recognition introduced by IFRS 15. For example, one respondent said:

    > Since the impact of the new IFRS 15 Standard has been minimal in most cases, the Board is better off making the heavier investment of

rewriting the section [23] during this review…

48. Some respondents to the online survey supported Alternative 1 (modifying Section 23) because, in their view, it would minimise the amount of work required by SMEs in making the transition to an approach that reflects the principles of IFRS 15.

49. Some respondents to the online survey suggested that the Board include illustrative examples in the *IFRS for SMEs* Standard if the Board were to align Section 23 with IFRS 15.

50. All respondents to the online survey were in support of providing the transitional relief set out in the Request for Information.

SMEIG recommendations[3]

51. Most SMEIG members supported Alternative 2 (fully rewriting). SMEIG members said Alternative 2 would be a better approach 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 identified as requiring additional guidance, such as the agent-principal distinction;

    (c) the five-step model in IFRS 15 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 which would be desirable to replicate in the *IFRS for SMEs* Standard.

[3] The Report on the SMEIG meeting held on 4–5 February 2021 can be accessed here.

Feedback from SME preparer interviews

52. The staff held 18 outreach meetings with SME preparers[4] to obtain additional feedback about:
    (a) their experience of applying the *IFRS for SMEs* Standard based on IFRS Standards; and
    (b) the information they are regularly asked to provide to lenders and other users of their financial statements to better understand users' information need.

53. Some SME preparers commented on the three alternatives for amending Section 23 to align with IFRS 15. In their view, SMEs would welcome a simplified version of the IFRS 15 five-step model.

Staff analysis applying the alignment principles

54. In considering whether and how to align the *IFRS for SMEs* Standard with new and amended IFRS Standards, the Board has agreed to apply three 'alignment principles' (relevance to SMEs, simplicity and faithful representation). The staff analysis of the feedback on the Request for Information and the SMEIG recommendations applies these principles and supports the staff recommendation in paragraph 79 of this paper to align with IFRS 15 by rewriting Section 23 to reflect the principles and language used in IFRS 15.

Relevance to SMEs

55. The recognition, measurement and disclosure of revenue are areas on which most, if not all, SMEs need requirements. In considering the relevance of information reported applying IFRS 15, an important question is whether applying the principles in IFRS 15 results in information that is more relevant than that obtained applying Section 23 of the *IFRS for SMEs* Standard.

[4] Preparers include SME accountants and external accountants preparing general purpose financial statements.

56. Feedback on the Request for Information indicates that IFRS 15 improves the financial reporting of revenue compared to IAS 11 and IAS 18 by providing more useful and relevant information in an area that is critical for users of financial statements (see paragraphs 27–29 of this paper). Aligning the *IFRS for SMEs* Standard with IFRS 15 would allow these improvements to be replicated in the Standard and in SME financial statements.

57. Informal feedback on IFRS 15 is that, for many entities, the timing and amount of revenue recognised did not change significantly on implementing the Standard. However, the timing and amount of revenue recognised did change for entities with particular types of revenue contracts (for instance some long-term contracts and licences). These types of contracts can be entered into by all entities, regardless of whether they are an SME. Therefore, the staff would also expect these changes to be relevant for SMEs if the *IFRS for SMEs* Standard was aligned with IFRS 15.

58. The Post-implementation Review of IFRS 15 will provide more information about preparers' experience of applying the Standard. However, waiting until this review is completed before considering alignment would delay potential improvements to the *IFRS for SMEs* Standard. It would also maintain the current difference between the principles for revenue recognition in the *IFRS for SMEs* Standard and full IFRS Standards. This could embed two separate approaches to accounting for revenue and reduce the comparability of financial statements of SMEs and entities applying full IFRS Standards. Doing nothing would also be inconsistent with the feedback on the Request for Information, with stakeholders generally supporting alignment with IFRS 15.

Simplicity

59. Alternative 1 (modifying Section 23) has an apparent simplicity in that it would result in Section 23 being amended rather than fully rewritten. However, the principles and structure of IAS 18 and IFRS 15 are different. Therefore, Alternative 1 would involve bridging two substantively different frameworks for revenue recognition and resolving the conceptual differences that exist between them. This process would be

difficult and require significant changes to the wording of Section 23, with the potential for unintended consequences, for example inconsistencies between the outcomes of applying Section 23 and IFRS 15.

60. In addition, Alternative 1 may create difficulties for SMEs on transition. Modifying Section 23 only to remove the clear differences in outcome from applying Section 23 and IFRS 15 could make it difficult for SMEs to determine how the underlying principles have changed and the consequence of applying these new principles. Modifying Section 23, rather than wholly reworking it, also risks downplaying the changes made to the Section. This could reduce SMEs' engagement in, and assessment of, the potential impact of these changes. The ability of SMEs to benefit from the experience of entities in similar industries who have implemented IFRS 15 could also be reduced by introducing a framework for revenue recognition that does not clearly reflect the principles in IFRS 15.

61. The staff recommend the Board fully rewrite Section 23 to align with IFRS 15 (Alternative 2). Of the three alternatives, Alternative 2 provides the most straightforward approach to ensure the fundamental principles for revenue recognition in IFRS 15 are reflected in the *IFRS for SMEs* Standard. Fully rewriting Section 23 to reflect the principles in IFRS 15 will also ensure that the new principles are clearly signposted. This will avoid the difficulties described in paragraph 60 of this paper that could arise if a more subtle approach to alignment were to be taken.

62. Alternative 2 will require the Board to assess what simplifications are appropriate for SMEs. IFRS 15 introduced requirements that address revenue transactions that had not been specifically addressed in IAS 18. It will not be possible to maintain the current simplicity of Section 23 if it includes requirements relating to each of the areas covered in IFRS 15. Therefore, the staff believe significant simplifications will be required to the depth and coverage of the requirements of IFRS 15.

63. Paragraphs 31–33 of this paper summarise the simplifications to the requirements of IFRS 15 suggested by respondents who supported Alternative 2. The staff plan to work through each suggestion to assess whether it simplifies the requirements of IFRS 15 and does not impede faithful representation.

Transition relief

64. Informal feedback suggests that for many entities the costs of transitioning to IFRS 15 have been significant due to the need to review existing contracts with customers. Feedback from preparers of SME financial statements indicates the need for the *IFRS for SMEs* Standard to be simple to take account of the limited resources available to SMEs.[5]

65. Simplifying how an entity initially applies the revised Section 23 will help minimise the implementation cost for SMEs on transition. Therefore, the staff recommend introducing the transitional relief set out in the Request for Information: permitting SMEs to continue their 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. Doing so would be consistent with feedback, with respondents generally supporting this relief.

Faithful representation

66. The staff do not foresee substantive issues relating to faithful representation arising from fully rewriting Section 23 to reflect the principles and language of IFRS 15 (Alternative 2), as this would align the *IFRS for SMEs* Standard with IFRS 15. As discussed in paragraph 63 of this paper, potential simplifications will be assessed to determine whether they impede faithful representation.

67. As discussed in paragraph 59 of this paper, Alternative 1 (modifying Section 23) could create the potential for inconsistencies between the outcomes of applying Section 23 and IFRS 15 to arise. In such instances, the resulting financial statements would not more faithfully represent an SME's performance compared to the application of IFRS 15.

[5] See Agenda Paper 30A of the May 2021 Board meeting.

68. If Section 23 was not amended for alignment with IFRS 15 (Alternative 3), users would not benefit from the new approach that the Board has concluded results in better information that more faithfully represents a reporting entity's performance.

Costs and benefit consideration

69. Informal feedback suggests that for many entities the timing and amount of revenue recognised did not change significantly on implementing IFRS 15. This was particularly the case for straightforward revenue contracts that IFRS 15 had little, if any, impact on. Feedback on the Request for Information indicates that most SMEs are considered to have straightforward revenue contracts. Consequently, although initial application of the revised Section 23 will result in additional costs for SMEs, the staff expect these costs to be limited for most entities applying the *IFRS for SMEs* Standard.

70. The staff believe that simplifying the requirements of IFRS 15 will reduce the costs of implementing the revised Section 23 and the ongoing costs of application. For example, many SMEs currently decide how to recognise revenue based on the examples in the Appendix to Section 23 without performing an analysis based on the principles in the Standard, as described paragraph 10 of this paper. Therefore, the costs associated with analysing contracts based of the principles of IFRS 15 would be minimised by updating the examples in the Appendix to Section 23 to demonstrate how the principles are applied.

71. The benefits to users of fully rewriting Section 23 to align with IFRS 15 include more consistent and comparable information that more faithfully represents an entity's performance. For preparers, IFRS 15 specifies a robust framework for addressing revenue recognition issues on which the previous revenue Standards had been silent. As well filling these gaps, the principles in IFRS 15 are reflected in a five-step model that provides preparers with a clear process to follow when accounting for revenue. In the staff's view, updating Section 23 in a similar manner will give similar benefits to SME preparers. For example, the framework will assist SMEs that have more complex contracts not covered by the examples in the Appendix to Section 23.

72. As discussed in paragraphs 69–70 of this paper, the staff expect the costs for most SMEs applying the revised Section 23 to be limited and able to be reduced through simplifications and appropriate transitional relief. Consequently, the staff believe the benefits to preparers and users of SME financial statements would outweigh the costs of applying a fully rewritten Section 23 to reflect the principles and language used in IFRS 15.

The content of the revised Section 23 if the Board were to decide to amend Section 23 to align with IFRS 15

73. The staff recommend fully rewriting Section 23 to reflect the principles and language of IFRS 15 (Alternative 2). To do so, the key steps of the model in IFRS 15 that capture the principles of the Standard would be retained and used to define the structure of Section 23. Requirements on each step comparable to the guidance in IFRS 15 would be included to help SMEs apply the principles consistently.

74. To ensure that Section 23 remains simple for SMEs to apply, simplifications would be required. The requirements of IFRS 15 would need to be simplified so they are easier and less costly for SMEs to understand and apply, including by:

    (a) replacing the requirements of IFRS 15 with guidance that captures the Standard's underlying principles; and

    (b) simplifying the language.

75. The requirements of IFRS 15 that cover topics not relevant to typical SMEs would not be included in Section 23.

76. The Exposure Draft *Subsidiaries without Public Accountability: Disclosures* published in July 2021 includes a proposal to simplify the disclosure requirements of IFRS 15.[6] The staff would consider the stakeholders' feedback on the Exposure Draft when aligning the *IFRS for SMEs* Standard with IFRS 15 disclosure requirements.

[6] Paragraphs 89–99 of the Exposure Draft *Subsidiaries without Public Accountability: Disclosures.*

77. The staff will bring a paper on the simplifications to the requirements of IFRS 15 to a future Board meeting.

78. The staff recommend the rewrite of Section 23 also considers the following aspects:

(a) feedback on the Request for Information suggests the examples in the Appendix to Section 23 are useful, and supports those examples being updated. Therefore, the Appendix could be retained and updated to reflect the requirements of the revised Section 23.

(b) the examples in the Appendix to Section 23 cover the agent-principal distinction. Feedback on the Request for Information indicates the guidance on this area is not sufficiently clear. This area is addressed in the application guidance in IFRS 15. Therefore, Section 23 could cover this area in the Standard itself.

(c) contracts that meet the definition of a construction contract under Section 23 would not be accounted for on a percentage of completion basis unless the enforceable contractual rights and obligations they include satisfy specified criteria in IFRS 15. Consequently, the guidance on construction contracts would need to be removed from Section 23. Guidance on these contracts could be addressed in the examples in the Appendix to Section 23.

(d) the recognition of dividends and interest income are not within the scope of IFRS 15 as they do not arise from customer contracts. Consequently, the guidance on the recognition of these types of income would need to be removed from Section 23 and inserted elsewhere in the *IFRS for SMEs* Standard.

Staff recommendations and question for the Board

79. In the light of the feedback from comment letters, the online survey, outreach events and the advice of the SMEIG, the staff recommend the Board:

    (a) develop amendments to the *IFRS for SMEs* Standard to align with IFRS 15 by rewriting Section 23 to reflect the principles and language used in IFRS 15; and

    (b) provide transition relief as described in paragraph 17(a) of this paper.

Question for the Board
Does the Board agree with the staff recommendations in paragraph 79 of this paper to: (a) develop amendments to the *IFRS for SMEs* Standard to align with IFRS 15 by rewriting Section 23 to reflect the principles and language used in IFRS 15; and (b) provide transition relief as described in paragraph 17(a) of this paper?

Next steps

80. If the Board approves the staff recommendations, the staff will continue to work towards an Exposure Draft. The staff will bring a paper to the Board recommending simplifications to the requirements of IFRS 15 to be proposed in an Exposure Draft.

Appendix A—Extract from the Request for Information on aligning the *IFRS for SMEs* Standard with IFRS 15

A1. Question S7A asks respondents to comment on one of three possible approaches to aligning Section 23 Revenue of the *IFRS for SMEs* Standard with IFRS 15 *Revenue from Contracts with Customers*. When the Board considered the possible outcomes of aligning Section 23 with IFRS 15, its initial view was there could be limited changes in the amount and timing of revenue recognised. However, the Board also noted the importance of revenue to financial statements, and the potential negative impacts of not aligning Section 23 with IFRS 15. On the basis that these arguments were finely balanced, the Board decided to seek views on all three approaches. One of these approaches (Alternative 1) involves modifying Section 23 to remove clear differences in the outcomes of applying Section 23 and IFRS 15, without wholly reworking Section 23.

A2. Alternative 1 would involve making at least the following changes to Section 23:

(a) adding a 'principles' heading and subsection near the beginning of the Section, providing new guidance defining performance obligations and distinguishing between performance over time and performance at a point in time. This subsection would include a requirement for preparers to consider the examples in the Appendix to Section 23 and, if a suitable example is not available to follow, requiring an entity to apply the principles.

(b) rewording some of the current guidance so it relates to the timing of the satisfaction of performance obligations and the distinction between performance over time and at a point in time.

(c) removing the guidance that relates specifically to construction contracts.

(d) elevating the status of the examples in the Appendix to Section 23 by describing them as an integral part of the Section.

(e) amending the examples addressing construction contracts and any other areas for which there would otherwise be clear differences in outcome if IFRS 15 were applied.

(f) adding new examples in areas where it appears necessary (for instance on the agent–principal distinction which, at present, is addressed in the examples to Section 23).