

STAFF PAPER

April 2022

IASB[®] meeting

Project	Second Comprehensive Review of the <i>IFRS for SMEs</i> [®] Accounting Standard	
Paper topic	Cover paper	
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This paper has been prepared for discussion at a public meeting of the International Accounting Standards Board (IASB). This paper does not represent the views of the IASB or any individual IASB member. Any comments in the paper do not purport to set out what would be an acceptable or unacceptable application of IFRS[®] Accounting Standards or the *IFRS for SMEs*[®] Accounting Standard. The IASB's technical decisions are made in public and reported in the IASB[®] *Update*.

Introduction

1. At its March 2021 meeting, the International Accounting Standards Board (IASB) tentatively decided to develop an exposure draft of amendments to the *IFRS for SMEs* Accounting Standard using the alignment approach it consulted on in the Request for Information *Comprehensive Review of the IFRS for SMEs Standard*, published in January 2020.
2. At its May 2021 meeting, the IASB started deliberating specific sections of the *IFRS for SMEs* Accounting Standard that could be aligned with new requirements in IFRS Accounting Standards in the scope of the review. The appendix to this paper summarises the IASB's tentative decisions to date.

Purpose of this meeting

3. At its March 2022 meeting, the IASB decided on an approach to develop proposed amendments to the disclosure requirements in the *IFRS for SMEs* Accounting Standard that would result in consistency between these disclosure requirements and the Exposure Draft *Subsidiaries without Public Accountability: Disclosures*.¹ At this

¹ See [AP30A of the March 2022 meeting](#) and the [IASB Update March 2022](#).

meeting the IASB will deliberate the exceptions to that approach. The staff analysis is included in Agenda Paper 30A *Towards an exposure draft—disclosures* of this meeting.

The IASB's alignment approach

4. The IASB's alignment approach is to continue to develop the *IFRS for SMEs* Accounting Standard based on principles of IFRS Accounting Standards. At its March 2021 meeting, the IASB agreed to apply the alignment approach on which the IASB consulted in the Request for Information.² The alignment approach treats alignment with IFRS Accounting Standards as the starting point for developing the *IFRS for SMEs* Accounting 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 applies these principles as follows:
- (a) relevance to SMEs is determined by assessing whether the problem addressed by the IFRS Accounting Standards requirements would make a difference in the decisions of users of financial statements prepared applying the *IFRS for SMEs* Accounting Standard. If the relevance condition is met, the IASB would then consider the principle of simplicity for those IFRS Accounting Standards 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* Accounting Standard with those IFRS Accounting Standards requirements would not be appropriate.
 - (b) applying the principle of simplicity involves looking at the IFRS Accounting Standards requirements that have satisfied the relevance condition and then assessing what simplifications are appropriate. For any simplifications made, the IASB would then consider the principle of faithful representation.
 - (c) the principle of faithful representation is intended to help the IASB assess whether financial statements prepared applying the *IFRS for SMEs* Accounting

² See paragraphs 32–37 of the [Request for Information Comprehensive review of the IFRS for SMEs Standard](#) published by the IASB in January 2020.

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

5. At future IASB meetings, the staff will bring to the IASB’s attention papers for:
 - (a) feedback on the scope and title of the *IFRS for SMEs* Accounting Standard;
 - (b) transition requirements for SMEs applying the amendments to the *IFRS for SMEs* Accounting Standard;
 - (c) any potential inconsistencies arising between Section 2 *Concepts and Pervasive Principles* of the *IFRS for SMEs* Accounting Standard and other Sections of the Standard when aligning Section 2 with the 2018 *Conceptual Framework for Financial Reporting*;³ and
 - (d) any sweep issues arising when drafting the proposed amendments to the *IFRS for SMEs* Accounting Standard.

³ At its May 2021 meeting, the IASB tentatively decided to propose (a) aligning Section 2 with the 2018 *Conceptual Framework* and to emphasise that the requirements in the other sections of the *IFRS for SMEs* Accounting Standard take precedence over what Section 2 would otherwise require; (b) undertaking a review for potential inconsistencies between a revised Section 2 and other sections of the *IFRS for SMEs* Accounting Standard when the IASB has completed its deliberations on proposed amendments to the Standard.

Appendix—summary of the IASB’s tentative decisions

Staff condensed summary of the IASB’s tentative decisions	Corresponding IFRS Accounting Standard	IASB meeting	Does the IASB decision result in proposed changes to the IFRS for SMEs Accounting Standard?
<p><i>A full record of the IASB’s tentative decisions on the Second Comprehensive Review of the IFRS for SMEs Accounting 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 IASB 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> Accounting Standard for new requirements that are in the scope of the Review. • to develop proposed amendments to the <i>IFRS for SMEs</i> Accounting Standard using the approach on which the IASB consulted in the Request for Information. This approach treats alignment with IFRS Accounting 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 IFRS for SMEs Accounting Standard			
Concepts and Pervasive Principles			
<p>2. The IASB 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> Accounting Standard; • aligning Section 2 with the 2018 <i>Conceptual Framework</i> and to emphasise that the requirements in the other sections of the 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 Standard when the IASB has completed its deliberations on proposed amendments to the Standard; and 	2018 <i>Conceptual Framework</i>	May 2021	YES

Staff condensed summary of the IASB's tentative decisions	Corresponding IFRS Accounting Standard	IASB meeting	Does the IASB decision result in proposed changes to the IFRS for SMEs Accounting Standard?
<ul style="list-style-type: none"> retaining the concept of 'undue cost or effort'. 			
Business Combinations			
<p>3. The IASB tentatively decided to propose amendments to Section 19 <i>Business Combinations and Goodwill</i> of the <i>IFRS for SMEs</i> Standard. The proposals would:</p> <ul style="list-style-type: none"> align the definition of a business in the <i>IFRS for SMEs</i> Standard with the amended definition of a business issued in the amendments to IFRS 3 <i>Business Combinations</i> in October 2018 by reproducing, in a new appendix to Section 19, application guidance that includes: <ul style="list-style-type: none"> the optional concentration test set out in paragraphs B7A–B7B of IFRS 3; a decision tree to assess whether an acquired process is substantive; and the application guidance for the assessment set out in paragraphs B8–B12D of IFRS 3, alongside some illustrative examples. partially align Section 19 with the requirements for acquisition-related costs and contingent consideration, as set out in IFRS 3, requiring an entity: <ul style="list-style-type: none"> to recognise acquisition-related costs as an expense at the time of the acquisition. to recognise contingent consideration at fair value and subsequently measure it at fair value at each reporting date, with changes in fair value recognised in profit or loss (except for the subsequent measurement of any contingent consideration that meets the definition of an equity instrument). If measuring contingent consideration at fair value would involve undue cost or effort, an entity would be required to measure the contingent consideration using a 'best estimate' (the most likely outcome)—with changes in the subsequent measurement being recognised in profit or loss—and provide the related disclosures. add the requirements set out in IFRS 3 on accounting for an acquisition achieved in stages (step acquisitions). introduce guidance (in the new appendix to Section 19) for a new entity formed in a business combination, as set out in paragraph B18 of IFRS 3 and the application guidance set out in paragraphs B13–B17 of IFRS 3. 	<p>IFRS 3 <i>Business Combinations</i></p>	<p>December 2021</p>	<p>YES</p>
<p>4. The IASB tentatively decided to retain unchanged the requirement in Section 19 that an entity measure any non-controlling interest in the acquiree at the non-controlling interest's proportionate share of the recognised amounts of the acquiree's identifiable net assets.</p>	<p>IFRS 3 <i>Business Combinations</i></p>	<p>December 2021</p>	<p>NO</p>

Staff condensed summary of the IASB's tentative decisions	Corresponding IFRS Accounting Standard	IASB meeting	Does the IASB decision result in proposed changes to the IFRS for SMEs Accounting Standard?
5. The IASB tentatively decided to retain unchanged Section 19 without reflecting the requirements in IFRS 3 that provided additional guidance on reacquired rights.	IFRS 3 <i>Business Combinations</i>	February 2022	NO
Financial Instruments			
6. The IASB tentatively decided to propose an amendment to the <i>IFRS for SMEs</i> Accounting 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.	IFRS 9 <i>Financial Instruments</i>	May 2021	YES
7. The IASB tentatively decided to propose an amendment to the <i>IFRS for SMEs</i> Accounting Standard to remove an entity's option to apply the recognition and measurement requirements for financial instruments in full IFRS Accounting Standards.	IFRS 9 <i>Financial Instruments</i>	October 2021	YES
8. The IASB tentatively decided to retain unchanged the hedge accounting requirements in Section 12 <i>Other Financial Instrument Issues</i> of the <i>IFRS for SMEs</i> Accounting Standard.	IFRS 9 <i>Financial Instruments</i>	October 2021	NO
9. The IASB tentatively decided to propose amendments to the <i>IFRS for SMEs</i> Accounting Standard <ul style="list-style-type: none"> • to add the definition of a 'financial guarantee contract' from IFRS 9; and • to require the issuer of a financial guarantee contract to initially measure the contract at the premium received (plus the present value of any future premium payments receivable) and subsequently measure it at the higher of: <ul style="list-style-type: none"> • the expected credit losses; and • the amount initially recognised, if any, amortised on a straight-line basis over the life of the guarantee 	IFRS 9 <i>Financial Instruments</i>	December 2021 March 2022	YES

Staff condensed summary of the IASB's tentative decisions	Corresponding IFRS Accounting Standard	IASB meeting	Does the IASB decision result in proposed changes to the IFRS for SMEs Accounting Standard?
10. The IASB tentatively decided to retain: <ul style="list-style-type: none"> • the incurred loss model in Section 11 for trade receivables and contract assets within the scope of Section 23 <i>Revenue</i> of the <i>IFRS for SMEs</i> Accounting Standard; and • the requirements in Section 11 for impairment of equity instruments measured at cost. 	IFRS 9 <i>Financial Instruments</i>	February 2022	NO
11. The IASB tentatively decided to propose amendments to Section 11 to require an SME to use an expected credit loss model for all other financial assets measured at amortised cost.	IFRS 9 <i>Financial Instruments</i>	February 2022	YES
Consolidated Financial Statements			
12. The IASB tentatively decided to propose amendments to Section 9 <i>Consolidated and Separate Financial Statements</i> of the <i>IFRS for SMEs</i> Accounting Standard to align partially with IFRS 10 <i>Consolidated Financial Statements</i> , by: <ul style="list-style-type: none"> • aligning the definition of control in Section 9 with that in IFRS 10; and • retaining and updating the rebuttable presumption in paragraph 9.5 of the <i>IFRS for SMEs</i> Accounting Standard relating to the assessment of control. 	IFRS 10 <i>Consolidated Financial Statements</i>	December 2021	YES
13. The IASB tentatively decided not to introduce in the <i>IFRS for SMEs</i> Accounting Standard the requirement that an investment entity measures its investments in subsidiaries at fair value through profit and loss.	IFRS 10 <i>Consolidated Financial Statements</i>	December 2021	NO
14. The IASB tentatively decided to propose amendments to Section 9 to align it with the requirements: <ul style="list-style-type: none"> • for step-disposals that result in loss of control, as set out in paragraph 25(b) of IFRS 10—an SME would measure any retained interest at fair value when control is lost; and • for changes in a parent's ownership interests in a subsidiary without losing control, as set out in paragraph 23 of IFRS 10—such changes are equity transactions. 	IFRS 10 <i>Consolidated Financial Statements</i>	February 2022	YES

Staff condensed summary of the IASB's tentative decisions	Corresponding IFRS Accounting Standard	IASB meeting	Does the IASB decision result in proposed changes to the IFRS for SMEs Accounting Standard?
Joint Arrangements			
15. The IASB tentatively decided to propose amendments to Section 15 <i>Investments in Joint Ventures</i> of the IFRS for SMEs Accounting Standard to align partially with IFRS 11 <i>Joint Arrangements</i> , by aligning the definition of joint control in Section 15 with that in IFRS 11.	IFRS 11 <i>Joint Arrangements</i>	December 2021	YES
16. The IASB tentatively decided to retain: <ul style="list-style-type: none"> • the classifications of joint arrangements: 'jointly controlled operations', 'jointly controlled assets' and 'jointly controlled entities'; and • the accounting requirements of Section 15, including the accounting policy election for jointly controlled entities. 	IFRS 11 <i>Joint Arrangements</i>	December 2021	NO
17. The IASB tentatively decided: <ul style="list-style-type: none"> • to propose amendments to Section 15 to align it with the requirements of paragraph 23 of IFRS 11, so that a party that does not have joint control of a jointly controlled operation or a jointly controlled asset would account for its interest according to the classification of that jointly controlled operation or the jointly controlled asset; and • to ask for further views on this proposal in the invitation to comment. 	IFRS 11 <i>Joint Arrangements</i>	February 2022	YES
Fair Value Measurement			
18. The IASB tentatively decided: <ul style="list-style-type: none"> • to align the definition of fair value in the IFRS for SMEs Accounting Standard with that in IFRS 13 <i>Fair Value Measurement</i>; • to align the guidance on fair value measurement in the IFRS for SMEs Accounting 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 IFRS for SMEs Accounting Standard. 	IFRS 13 <i>Fair Value Measurement</i>	October 2021	YES

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Regulatory Deferral Accounts			
19. The IASB tentatively decided to consider amending the <i>IFRS for SMEs</i> Accounting Standard to include requirements for regulatory assets and regulatory liabilities in a future review of the Standard.	IFRS 14 <i>Regulatory Deferral Accounts</i>	October 2021	NO
Revenue			
20. The IASB tentatively decided: <ul style="list-style-type: none"> • to develop amendments to the <i>IFRS for SMEs</i> Accounting 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> Accounting Standard to reflect the principles and language used in IFRS 15; and • 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. 	IFRS 15 <i>Revenue from Contracts with Customers</i>	October 2021	YES
21. The IASB tentatively decided to propose amendments to the <i>IFRS for SMEs</i> Accounting Standard to align Section 23 with IFRS 15 with simplifications for: <ul style="list-style-type: none"> • contract modifications—an SME would be required to account for a contract modification either on a prospective basis, following a single approach, or on a cumulative catch-up basis. • series of distinct goods or services—an SME would be permitted to account for the promise to transfer a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer as separate performance obligations, if the amount of consideration varies in a way that corresponds with the value of the distinct goods or services transferred to the customer. • performance obligation terminology—the <i>IFRS for SMEs</i> Accounting Standard would require an SME to identify each 'promise to transfer a distinct good or service, or bundle of goods or services'. • constraining estimates of variable consideration—an SME would be required to recognise variable consideration only to the extent that it is highly probable that the variable amount will be recovered. • significant financing components—an SME would be required to recognise the effects of any financing implicit in deferred payment by applying the requirements in Section 11 <i>Basic Financial Instruments</i> of the <i>IFRS for SMEs</i> Accounting Standard. An SME may not apply these requirements 	IFRS 15 <i>Revenue from Contracts with Customers</i>	February 2022	YES

Staff condensed summary of the IASB’s tentative decisions	Corresponding IFRS Accounting Standard	IASB meeting	Does the IASB decision result in proposed changes to the IFRS for SMEs Accounting Standard?
<p>if the SME expects, at contract inception, that the period between when the entity transfers a promised good or service to a customer, and when the customer pays for that good or service, will be one year or less.</p> <ul style="list-style-type: none"> allocating discounts and variable consideration—an SME would be required to allocate discounts and variable consideration to the performance obligations in the contract on a relative stand-alone selling price basis, unless an alternative method more faithfully depicts the amount of consideration to which the entity expects to be entitled in exchange for satisfying each separate performance obligation. selecting a method for measuring progress towards complete satisfaction of a performance obligation—the <i>IFRS for SMEs</i> Accounting Standard would include a list of methods frequently used by entities to measure progress and describe circumstances where those methods may be appropriate. incremental costs of obtaining a contract—an SME would be required to recognise as an asset the incremental costs of obtaining a contract with a customer if the SME expects to recover those costs, only when these costs can be identified and assessed as recoverable without undue cost or effort; otherwise the SME would recognise these costs as expenses. 			
<p>22. The IASB tentatively decided:</p> <ul style="list-style-type: none"> to propose amendments to the <i>IFRS for SMEs</i> Accounting Standard to include the factors in paragraphs 29(a)–(c) of IFRS 15 to help an SME determine whether a promised good or service is separately identifiable; and ask for further views on this proposal in the invitation to comment. 	<p>IFRS 15 <i>Revenue from Contracts with Customers</i></p>	<p>February 2022</p>	<p>YES</p>

Staff condensed summary of the IASB's tentative decisions	Corresponding IFRS Accounting Standard	IASB meeting	Does the IASB decision result in proposed changes to the IFRS for SMEs Accounting Standard?
Leases			
23. The IASB tentatively decided: <ul style="list-style-type: none"> • to retain Section 20 <i>Leases</i> of the <i>IFRS for SMEs</i> Accounting Standard unchanged; • to consider amending the <i>IFRS for SMEs</i> Accounting Standard to align with IFRS 16 <i>Leases</i> in a future review of the Standard; and • not to pursue improving disclosure requirements for operating leases without changing the recognition and measurement requirements in Section 20 <i>Leases</i> of the Standard. 	IFRS 16 <i>Leases</i>	November 2021	NO
Employee benefits			
24. The IASB tentatively decided: <ul style="list-style-type: none"> • to propose amendments to the <i>IFRS for SMEs</i> Accounting Standard to align the recognition requirements for termination benefits in Section 28 of the Standard with the 2011 amendments to IAS 19 <i>Employee Benefits</i>; and • to retain the accounting policy option in paragraph 28.24 of the Standard. 	IAS 19 <i>Employee Benefits</i>	November 2021	YES
25. The IASB tentatively decided: <ul style="list-style-type: none"> • to propose removing paragraph 28.19 of the <i>IFRS for SMEs</i> Accounting Standard. • to include in the Invitation to Comment an alternative proposal clarifying how to apply paragraph 28.19 of the Standard, if stakeholders do not agree to remove paragraph 28.19. 	-	November 2021	YES
Narrow scope amendments to IFRS Accounting Standards and IFRIC Interpretations			
26. The IASB tentatively decided to propose amendments to the <i>IFRS for SMEs</i> Accounting Standard to align it with <i>Agriculture: Bearer Plants</i> (Amendments to IAS 16 and IAS 41), with an exemption so that if, at initial recognition, separation of the bearer plants from the produce growing on bearer plants would involve undue cost or effort, an entity would not be required to separate bearer plants from the produce growing on bearer plants.	IAS 16 <i>Property, Plant and Equipment</i> , IAS 41 <i>Agriculture</i>	December 2021	YES

Staff condensed summary of the IASB's tentative decisions	Corresponding IFRS Accounting Standard	IASB meeting	Does the IASB decision result in proposed changes to the IFRS for SMEs Accounting Standard?
<p>27. The IASB tentatively decided to propose amendments to the <i>IFRS for SMEs</i> Accounting Standard to align it with a package of amendments to IAS 1:</p> <ul style="list-style-type: none"> • <i>Definition of Material</i> (Amendments to IAS 1 and IAS 8); • <i>Disclosure Initiative</i> (Amendments to IAS 1); and • <i>Disclosure of Accounting Policies</i> (Amendments to IAS 1 and IFRS Practice Statement 2). 	IAS 1 <i>Presentation of Financial Statements</i>	December 2021	YES
<p>28. The IASB tentatively decided to propose amendments to the <i>IFRS for SMEs</i> Accounting Standard to align it with the amendments discussed in Agenda Paper 30I <i>Amendments to IFRS Standards and IFRIC Interpretations (topics with amendments recommended)</i> of the December 2021 IASB meeting.</p>	Various IFRS Accounting Standards and IFRIC Interpretations	December 2021	YES
<p>29. The IASB tentatively decided to retain the <i>IFRS for SMEs</i> Accounting Standard unchanged for the amendments discussed in Agenda Paper 30J <i>Amendments to IFRS Standards and IFRIC Interpretations (topics with no amendments recommended)</i> of the December 2021 IASB meeting.</p>	Various IFRS Accounting Standards and IFRIC Interpretations	December 2021	NO
Other topics			
<p>30. The IASB tentatively decided to retain unchanged the <i>IFRS for SMEs</i> Accounting Standard for the topics identified in Agenda Paper 30E <i>Towards an exposure draft—other topics with no amendments recommended</i> of the November 2021 IASB meeting, considering the feedback on the Request for Information, except for the recognition and measurement of development costs.⁴</p>	Various IFRS Accounting Standards	November 2021	NO

⁴ Agenda Paper 30E of the November 2021 IASB meeting discusses feedback on topics not addressed by the *IFRS for SMEs* Standard and topics respondents have brought to the IASB's attention relating to the *IFRS for SMEs* Standard.

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31. The IASB tentatively decided to seek views, in the Exposure Draft proposing amendments to the <i>IFRS for SMEs</i> Accounting Standard, on introducing an accounting policy option permitting an SME to recognise intangible assets arising from development costs meeting the criteria in paragraphs 57(a)–(f) of IAS 38 <i>Intangible Assets</i> .	IAS 38 <i>Intangible Assets</i>	February 2022	NO
32. The IASB tentatively decided to propose amendments to Section 26 <i>Share-based Payment</i> of the <i>IFRS for SMEs</i> Accounting Standard to include scope exclusions similar to those in paragraph 5 of IFRS 2 <i>Share-based Payment</i> .	IFRS 2 <i>Share-based Payment</i>	December 2021	YES
33. The IASB tentatively decided to retain the requirements in Section 26 on share-based payments with settlement options unchanged.	IFRS 2 <i>Share-based Payment</i>	December 2021	NO
34. The IASB tentatively decided to retain paragraph 22.7(a) of the <i>IFRS for SMEs</i> Accounting Standard unchanged.	-	December 2021	NO
35. The IASB tentatively decided to retain unchanged the <i>IFRS for SMEs</i> Accounting Standard for cryptocurrency as part of this comprehensive review and revisit the topic in the next comprehensive review of the Standard.	-	February 2022	NO
Disclosures			
36. The IASB decided on an approach to develop proposed amendments to the disclosure requirements in the <i>IFRS for SMEs</i> Accounting Standard that would result in consistency between these disclosure requirements and the Exposure Draft <i>Subsidiaries without Public Accountability: Disclosures</i> .	-	March 2022	YES