

## STAFF PAPER

April 2022

IASB<sup>®</sup> meeting

Project	Second Comprehensive Review of the <i>IFRS for SMEs</i> Accounting Standard	
Paper topic	Towards an exposure draft—disclosures	
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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<sup>®</sup> Accounting Standards or the *IFRS for SMEs*<sup>®</sup> Accounting Standard. The IASB's technical decisions are made in public and are reported in the IASB<sup>®</sup> *Update*.

## Introduction

1. This paper discusses the application of the approach to aligning the disclosure requirements of the *IFRS for SMEs* Accounting Standard with IFRS Accounting Standards.
2. In this paper:
  - (a) the term SMEs refers to small and medium-sized entities that are eligible to apply the *IFRS for SMEs* Accounting Standard; and
  - (b) the term Exposure Draft refers to the Exposure Draft *Subsidiaries without Public Accountability: Disclosures* issued in July 2021.

## Purpose of the paper

3. The purpose of this paper is:
  - (a) to inform the International Accounting Standards Board (IASB) of how the principles agreed at the March 2022 IASB meeting have been applied when proposing amendments to the disclosure requirements in the *IFRS for SMEs* Accounting Standard; and

- (b) to ask for the IASB’s approval of the small number of exceptions and additional disclosures recommended.

### **Staff recommendation**

- 4. The staff recommend the IASB propose amendments to the disclosure requirements in the *IFRS for SMEs* Accounting Standard as detailed in Appendices A to C of this paper, including in the following areas where judgement was needed:
  - (a) financial instruments; and
  - (b) exploration for and evaluation of mineral resources.

### **Structure of the paper**

- 5. The paper is structured as follows:
  - (a) background (paragraphs 6–9 of this paper);
  - (b) staff analysis (paragraphs 10–16 of this paper);
  - (c) question for the IASB;
  - (d) next steps (paragraph 17 of this paper);
  - (e) Appendix A—Sections of the *IFRS for SMEs* Accounting Standard where no amendments to disclosure requirements are recommended to align with those in the Exposure Draft;
  - (f) Appendix B—Sections of the *IFRS for SMEs* Accounting Standard where amendments to disclosure requirements are recommended to align with the Exposure Draft; and
  - (g) Appendix C—Sections of the *IFRS for SMEs* Accounting Standard where amendments to disclosure requirements are recommended with adaptation from the Exposure Draft.

## Background

6. At its March 2022 meeting, the IASB decided on an approach to developing proposed amendments to the disclosure requirements in the *IFRS for SMEs Accounting Standard* that would result in consistency between these disclosure requirements and those included in the Exposure Draft *Subsidiaries without Public Accountability: Disclosures* (Exposure Draft).<sup>1</sup>
7. The agreed approach was based on the following principles:
- (a) **retain unchanged** the disclosure requirements in the sections of the *IFRS for SMEs Accounting Standard* for which the IASB has tentatively decided not to propose amendments to the recognition and measurement requirements.
  - (b) **align** disclosure requirements with the proposals in the Exposure Draft in the sections of the *IFRS for SMEs Accounting Standard* for which the IASB has tentatively decided to propose alignment of recognition and measurement requirements with IFRS Accounting Standards.
  - (c) **partially align** disclosure requirements with the proposals in the Exposure Draft in the sections of the *IFRS for SMEs Accounting Standard* for which the IASB has tentatively decided to propose partial alignment of recognition and measurement requirements with IFRS Accounting Standards. Partial alignment means the IASB would:
    - (i) retain unchanged those disclosure requirements within the section of the *IFRS for SMEs Accounting Standard* for which the IASB has tentatively decided not to align the recognition and measurement requirements with IFRS Accounting Standards.
    - (ii) align with the proposals in the Exposure Draft those disclosure requirements for which the IASB has tentatively decided to align the recognition and measurement requirements with IFRS Accounting Standards.

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<sup>1</sup> See [AP30A Towards an exposure draft—aligning disclosure requirements with IFRS Accounting Standards of the March 2022 IASB meeting](#) and the [IASB Update March 2022](#).

- (iii) simplify those disclosure requirements in IFRS Accounting Standards applying paragraph BC157 of the Basis for Conclusions on the *IFRS for SMEs* Accounting Standard, within the section of the *IFRS for SMEs* Accounting Standard for which the IASB has tentatively decided to simplify the recognition and measurement requirements in IFRS Accounting Standards.
8. It was noted in the IASB’s March 2022 discussions that subsidiaries are a subset of SMEs, and that the disclosure requirements in the Exposure Draft should not be automatically reproduced in the *IFRS for SMEs* Accounting Standard. Moreover, the expectation is that, if finalised, the *Subsidiaries without Public Accountability: Disclosures* Standard will be updated as IFRS Accounting Standards are issued or amended, while there is no intention to move to more frequent updates of the *IFRS for SMEs* Accounting Standard. For these reasons, the disclosures in the two standards will not be identical. Instead, amendments made to the *Subsidiaries without Public Accountability: Disclosures* Standard will be assessed in each review cycle of the *IFRS for SMEs* Accounting Standard for their applicability to SMEs and used or adapted as appropriate.
  9. While comparing disclosures in the Exposure Draft to those in the *IFRS for SMEs* Accounting Standard, some areas for improvement were identified beyond those that would be included applying the approach agreed at the March 2022 IASB meeting. Adjusting disclosures in these areas does not fall within the scope of the approach agreed by the IASB, because they relate to areas where there have not been recognition and measurement changes to be proposed to the *IFRS for SMEs* Accounting Standard and therefore an update of disclosures should not have been triggered. In the staff’s view, however, there are good reasons to update the disclosures as part of this second comprehensive review.

## Staff analysis

10. In 18 sections of the *IFRS for SMEs* Accounting Standard, there are no recognition and measurement changes to be proposed so in accordance with the principle in paragraph 7(a) of this paper there are also no recommendations to amend the disclosure requirements. These sections are listed in Appendix A to this paper.
11. In a further 14 sections of the *IFRS for SMEs* Accounting Standard, applying the principle in paragraph 7(b) of this paper will lead to changes to the disclosure requirements for alignment with those proposed in the Exposure Draft. These are listed in Appendix B to this paper with brief explanatory notes.
12. The final category in this analysis is broader than amendments where there is partial alignment and therefore the principle in paragraph 7(c) of this paper is applied. It includes all amendments where more judgement is needed on how disclosure requirements are drafted: each of these is discussed in more detail below.  
Amendments in this category include:
  - (a) those amendments arising from a simple application of the principle in paragraph 7(c) of this paper where the recognition and measurement in the section has been partially aligned and therefore the disclosures have been supplemented with those from the Exposure Draft.
  - (b) exceptions to the principle in paragraph 7(c) of this paper as discussed in Agenda Paper 30A *Towards an exposure draft—aligning disclosure requirements with IFRS Accounting Standards* of the March 2022 IASB meeting, where there has been partial alignment but more nuance is needed in adapting the disclosures from the Exposure Draft, or where an amendment to disclosure requirements in the *IFRS for SMEs* Accounting Standard is recommended even where the recognition and measurement requirements in a section have not been changed so reviewing disclosures is technically outside the approach. These sections are listed in Appendix C to this paper.

## **Financial instruments**

13. The IASB has tentatively decided to propose amendments to Section 11 *Basic Financial Instruments* of the *IFRS for SMEs Accounting Standard* in respect of recognition and measurement for:
- (a) impairment losses on financial assets measured at amortised cost (other than trade receivables and contract assets in the scope of Section 23 *Revenue*), using an expected credit loss model aligned with the simplified approach in *IFRS 9 Financial Instruments*. The Exposure Draft includes disclosure requirements reduced from IFRS Accounting Standards, however, for the *IFRS for SMEs Accounting Standard* the staff are recommending a further reduction. This further reduction (from those included in the Exposure Draft) reflects the fact that the amendments to the *IFRS for SMEs Accounting Standard* that the IASB has tentatively decided to propose are aligned with the simplified approach in *IFRS 9* and do not incorporate the general approach in *IFRS 9*.
  - (b) issued financial guarantee contracts—staff are recommending the IASB proposes requiring separate disclosure of the carrying amount, changes in the provision for expected credit losses and amounts of income and expenses recognised for issued financial guarantee contracts to be consistent with the current requirements in the *IFRS for SMEs Accounting Standard* and disclosures under paragraph 13(a) of this paper for the expected credit loss model.
14. Amendments to the disclosure requirements in Section 11 are not being recommended (except for some minor editorial amendments) where no recognition and measurement changes have been made, even where this leaves a difference in disclosure requirements between the *IFRS for SMEs Accounting Standard* and the Exposure Draft. This is a result of applying the principle that in general disclosure changes will not be proposed where there have not been modifications to recognition and measurement. It applies to two areas:
- (a) hedge accounting; and
  - (b) IBOR reform.

### **Exploration and evaluation expenditure**

15. The *IFRS for SMEs* Accounting Standard includes no specific disclosure requirements in respect of exploration and evaluation assets. These disclosures were an exception in the Exposure Draft so that entities are explicitly referred to the relevant IFRS Accounting Standards whether exploration and evaluation assets are classified as intangible assets or property, plant and equipment.
16. The staff recommend that the disclosures in the *IFRS for SMEs* Accounting Standard are aligned with the Exposure Draft, referring preparers to the relevant sections for disclosure requirements. This is considered to be an improvement because it gives more relevant information to users without being onerous.

### **Question for the IASB**

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Does the IASB agree with the staff recommendation to propose amendments to the disclosure requirements in the *IFRS for SMEs* Accounting Standard as summarised in paragraph 4 and detailed in the Appendices to this paper?

### **Next steps**

17. If the IASB agrees with the staff recommendation, the recommended amendments will be included in the drafting process. The staff recommendations on one section are still outstanding. The staff are currently considering possible amendments to the disclosure requirements in Section 33 *Related Party Disclosures* and will consider bringing recommendations to a future IASB meeting.

**Appendix A—Sections of the *IFRS for SMEs Accounting Standards* where no amendments to disclosure requirements are recommended to align with those in the Exposure Draft**

Ref.	Section of the <i>IFRS for SMEs Accounting Standard</i>	Comments
1	Section 1 <i>Small and medium-sized entities</i>	Section contains no disclosure requirements
2	Section 2 <i>Concepts and Pervasive Principles</i>	Section contains no disclosure requirements
3	Section 4 <i>Statement of Financial Position</i>	No recognition and measurement changes therefore no updates to disclosure requirements
4	Section 5 <i>Statement of Comprehensive Income and Income Statement</i>	No recognition and measurement changes therefore no updates to disclosure requirements
5	Section 10 <i>Accounting policies, Estimates and Errors</i>	No recognition and measurement changes; differences from Exposure Draft arise from legacy differences from IAS 8 <i>Accounting Policies, Changes in Accounting Estimates and Errors</i> but there is no change to trigger amending disclosures.
6	Section 13 <i>Inventories</i>	No recognition and measurement changes therefore no updates to disclosure requirements
7	Section 18 <i>Intangible Assets other than Goodwill</i>	No amendments to be proposed: the disclosure requirements are not aligned with the Exposure Draft, because of recognition and measurement differences between IAS 38 <i>Intangible Assets</i> and the <i>IFRS for SMEs Accounting Standard</i> .
8	Section 20 <i>Leases</i>	No recognition and measurement changes therefore no updates to disclosure requirements
9	Section 21 <i>Provisions and Contingencies</i>	No recognition and measurement changes therefore no updates to disclosure requirements
10	Section 22 <i>Liabilities and Equity</i>	No recognition and measurement changes therefore no updates to disclosure requirements
11	Section 24 <i>Government Grants</i>	No recognition and measurement changes therefore no updates to disclosure requirements

<b>Ref.</b>	<b>Section of the <i>IFRS for SMEs Accounting Standard</i></b>	<b>Comments</b>
12	Section 25 <i>Borrowing Costs</i>	No recognition and measurement changes therefore no updates to disclosure requirements
13	Section 26 <i>Share-based Payment</i>	Changes to be proposed do not affect disclosure requirements—no change recommended
14	Section 29 <i>Income Tax</i>	Changes to be proposed do not affect disclosure requirements—no change recommended
15	Section 30 <i>Foreign Currency Translation</i>	Changes to be proposed do not affect disclosure requirements—no change recommended
16	Section 31 <i>Hyperinflation</i>	No recognition and measurement changes therefore no updates to disclosure requirements
17	Section 32 <i>Events after the End of the Reporting Period</i>	No recognition and measurement changes therefore no updates to disclosure requirements
18	Section 35 <i>Transition to the IFRS for SMEs</i>	Transition to the <i>IFRS for SMEs Accounting Standard</i> will be discussed in a paper for a future IASB meeting

**Appendix B—Sections of the *IFRS for SMEs Accounting Standard* where amendments to disclosure requirements are recommended to align with the Exposure Draft**

Ref.	Section of the <i>IFRS for SMEs Accounting Standard</i>	Staff recommendation
1	Section 3 <i>Financial Statement Presentation</i>	Amendments to be proposed are to align with changes arising from the <i>Disclosure Initiative</i> , primarily to refer to “material accounting policy information” rather than “significant accounting policies”.
2	Section 6 <i>Statement of Changes in Equity and Statement of Income and Retained Earnings</i>	Propose a requirement to disclose dividends by class of share, based on comparable disclosure in the Exposure Draft.
3	Section 7 <i>Statement of Cash Flows</i>	The Exposure Draft added a requirement to reconcile opening and closing liabilities from financing activities; it is recommended the <i>IFRS for SMEs Accounting Standard</i> is also updated to reflect this. The IASB agreed this at its December 2021 meeting. Refer to <a href="#">AP30I Towards an Exposure Draft—Amendments to IFRS Standards and IFRIC Interpretations (topics with amendments recommended)</a> of the December 2021 IASB meeting.
4	Section 8 <i>Notes to the Financial Statements</i>	Amendments are to reflect the <i>Disclosure Initiative</i> description of ‘material accounting policy information’ rather than ‘significant accounting policies’.
5	Section 9 <i>Consolidated and Separate Financial Statements</i>	<p>The IASB tentatively decided to propose amendments to Section 9 to align the definition of control with that in IFRS 10 <i>Consolidated Financial Statements</i>: this did not give rise to new disclosure requirements.</p> <p>Recognition and measurement changes will be proposed for step disposals, where there is a loss of control of subsidiary but the holder retains an investment. As a consequence the staff recommend proposing the disclosures based on comparable disclosures in the Exposure Draft, along with minor editorial changes.</p>

Ref.	Section of the <i>IFRS for SMEs</i> Accounting Standard	Staff recommendation
6	New Section <i>Fair Value Measurement</i>	In this new section on fair value measurement the staff recommend aligning with the disclosure requirements from the Exposure Draft relating to IFRS 13 <i>Fair Value Measurement</i> , excluding any that relate to accounting policy options that are not available in the <i>IFRS for SMEs</i> Accounting Standard.
7	Section 14 <i>Investments in Associates</i>	Minor editorial changes
8	Section 15 <i>Interests in joint arrangements</i>	Minor editorial changes; revised requirement relating to disclosure of an entity’s commitments relating to jointly controlled entities for closer alignment with the Exposure Draft.
9	Section 16 <i>Investment Property</i>	Amendment needed to delete paragraph 16.10(a) on methods and assumptions applied in estimating fair values, as this will be in the new Section <i>Fair Value Measurement</i> .
10	Section 17 <i>Property, Plant and Equipment</i>	Amendment needed to delete paragraph 17.33(c) on methods and assumptions applied in estimating fair values, as this will be in the new Section <i>Fair Value Measurement</i> .
11	Section 19 <i>Business Combinations and Goodwill</i>	<p>Additional disclosures are recommended relating to contingent consideration (recognition and measurement change) based on those in the Exposure Draft.</p> <p>Additional disclosures are also recommended on use of the undue cost or effort, consistent with other sections of the <i>IFRS for SMEs</i> Accounting Standard. An undue cost or effort exemption is not available in IFRS Accounting Standards.</p> <p>No additional disclosures in the following areas where amendments will be proposed, as no disclosures are proposed in the Exposure Draft:</p> <ul style="list-style-type: none"> <li>(a) the new concentration test and decision tree;</li> <li>(b) the requirement to expense acquisition related costs;</li> <li>(c) requirements concerning step acquisitions; and</li> <li>(d) requirements where a new entity is formed as part of a business combination.</li> </ul>

Ref.	Section of the IFRS for SMEs Accounting Standard	Staff recommendation
12	Section 23 <i>Revenue</i>	Section 23 will be aligned with IFRS 15 <i>Revenue from Contracts with Customers</i> therefore the staff aim is to align with the Exposure Draft and, if necessary, add disclosures where the simplifications in Section 23 affect the disclosures.
13	Section 27 <i>Impairment of Assets</i>	Amend disclosure requirements in respect of inventories as they appear in Section 13, and to align language in respect of jointly controlled entities.
14	Section 28 <i>Employee Benefits</i>	<p>Widespread editorial amendments to disclosure requirements for closer alignment with the Exposure Draft.</p> <p>The IASB has tentatively decided to propose to remove the simplifications for measurement of a defined benefit obligation (paragraph 28.19 of the <i>IFRS for SMEs Accounting Standard</i>) and it is recommended to remove the corresponding disclosures.</p> <p>It is recommended that the IASB propose more disaggregated disclosure of the reconciliation of the defined benefit obligation to align with the Exposure Draft.</p> <p>It is recommended that the IASB propose removal of the disclosure of total cost relating to defined benefit plans in the period, split between amounts recognised as an expense and those included in the cost of an asset. This has already been removed from IAS 19 <i>Employee Benefits</i> and does not appear in the Exposure Draft.</p> <p>Minor amendments are recommended to disclosures relating to group plans, including adding permission to cross refer to group financial statements in which the information is included. This text will be based on the Exposure Draft.</p> <p>It is recommended that a requirement be added based on the Exposure Draft to disclose information about contingent liabilities arising from post-employment benefit obligations if required by Section 21.</p> <p>As a consequence of the changes in the recognition of termination benefits, it is recommended that the disclosure requirements about termination benefits previously included in paragraph 28.44 be removed.</p>

**Appendix C—Sections of the *IFRS for SMEs Accounting Standards* where amendments to disclosure requirements are recommended with adaptation from the Exposure Draft**

Ref.	Section of the <i>IFRS for SMEs Accounting Standard</i>	Comments on amendments to disclosure requirements
1	Section 11 <i>Financial Instruments</i>	Recommended amendments are outlined in paragraphs 13–14 of this paper
2	Section 33 <i>Related Party Disclosures</i>	The staff will consider bringing recommendations to a future IASB meeting
3	Section 34 <i>Specialised Activities</i>	Recommended amendments are outlined in paragraphs 15–16 of this paper