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STAFF PAPER

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

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Introduction

1. This paper discusses possible simplifications to the requirements of IFRS 15 *Revenue from Contracts with Customers* to align Section 23 *Revenue* of the *IFRS for SMEs* Standard with IFRS 15.

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 (IASB) to decide how to simplify the requirements of IFRS 15 when proposing amendments to Section 23 of the *IFRS for SMEs* Standard to align with IFRS 15.

Summary of staff recommendations

4. The staff recommend the IASB propose amendments to the *IFRS for SMEs* Standard to align Section 23 of the *IFRS for SMEs* Standard with IFRS 15, with simplifications for:

   (a) *Contract modifications*—an SME would be required to account for a contract modification as if it were a termination of the existing contract and the creation of a new contract, unless the promised goods or services not yet transferred at the date of the contract modification are not distinct.

   (b) *Series of distinct goods or services*—an SME would be permitted to account for a 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 customers 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.

   (c) *Performance obligation terminology*—the *IFRS for SMEs* Standard would require an SME to identify each '*promise to transfer a distinct good or service, or bundle of goods or services*'. The Standard would not include the term performance obligation.

   (d) *Determining if a promise to transfer a good or service is separately identifiable*—the *IFRS for SMEs* Standard would include only the factors in paragraphs 29(a)–(b) of IFRS 15 to help an SME determine whether a promised good or service is separately identifiable.

   (e) *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.

   (f) *Significant financing component*—an SME would be required to recognise the effects of the financing implicit in deferred payment by applying the requirements covering financing transactions in Section 11 *Basic Financial Instruments* of the *IFRS for SMEs* Standard. An SME would be exempt from accounting for the effects of financing if the period between when the entity transfers a promised good or services to the customer, and when the customer pays for those goods or services, is one year or less.

(g) *Allocating discounts and variable consideration*—an SME would be required to allocate discounts and variable consideration 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.

(h) *Selection of methods for measuring progress towards complete satisfaction of a performance obligation*—the *IFRS for SMEs* Standard would include a list of methods frequently used by entities to measure progress and describe circumstances where they may be appropriate.

(i) *Incremental costs of obtaining a contract*—an SME would be required to recognise the incremental costs of obtaining a contract as an asset if the SME expects to recover those costs, only when these costs can be identified and assessed as recoverable without undue cost or effort. If an SME cannot identify and assess the incremental costs of obtaining a contract as recoverable without undue cost or effort, the SME will recognise these costs as expenses.

Structure of the paper

5. The paper is structured as follows:

   (a) background (paragraphs 6–11 of this paper);

   (b) SMEIG recommendations (paragraph 12 of this paper);

   (c) staff analysis on possible simplifications for the following topics in IFRS 15:

      (i) Step 1—Contract modifications (paragraphs 14–16 of this paper);

      (ii) Step 2—Series of distinct goods or services (paragraphs 17–22 of this paper);

      (iii) Step 2—Performance obligation terminology (paragraphs 23–27 of this paper);

(iv) Step 2—Determining if a promise to transfer a good or service is separately identifiable (paragraphs 28–31 of this paper);

(v) Step 3—Constraining estimates of variable consideration (paragraphs 32–36 of this paper);

(vi) Step 3—Significant financing component (paragraphs 37–43 of this paper);

(vii) Step 4—Allocating discounts and variable consideration (paragraphs 44–48 of this paper);

(viii) Step 5—Selection of methods for measuring progress towards complete satisfaction of a performance obligation (paragraphs 49–54 of this paper); and

(ix) Contract costs—Incremental costs of obtaining a contract (paragraphs 55–59 of this paper).

(d) possible simplifications to the structure and language of IFRS 15 (paragraphs 60–64 of this paper);

(e) possible simplifications to the disclosure requirements of IFRS 15 (paragraph 65 of this paper);

(f) transition (paragraphs 66–67 of this paper);

(g) staff recommendation and question for the IASB (paragraph 68 of this paper); and

(h) next steps (paragraph 69 of this paper).

Background

6. In considering whether and, if so, how to align the *IFRS for SMEs* Standard with new and amended IFRS Accounting Standards, the IASB tentatively decided to apply three ‘alignment principles’—relevance to SMEs, simplicity and faithful representation.

7. At its October 2021 meeting, the IASB considered the feedback on possible approaches to aligning Section 23 of the *IFRS for SMEs* Standard with IFRS 15 and

the staff analysis of the three 'alignment principles'. The IASB tentatively decided to develop amendments to the *IFRS for SMEs* Standard to align it with IFRS 15 by rewriting Section 23 of the *IFRS for SMEs* Standard to reflect the principles and language used in IFRS 15. In reaching this tentative decision, the IASB considered that the relevance principle is met because applying the principles in IFRS 15 would result in information that is more relevant compared to applying Section 23 of the *IFRS for SMEs* Standard.

8. The principle of simplicity requires the IASB to consider possible simplifications to the requirements of IFRS 15 and whether the principles in the Standard can be applied in a simpler way. The principle of faithful representation then helps the IASB assess whether applying these simplifications would result in financial statements that faithfully represent the substance of economic phenomena in words and numbers.[1]

9. The staff analysis in this paper discusses possible simplifications to the requirements of IFRS 15 to make it more suitable for SMEs, including the staff's assessment of whether these simplifications would lead to faithful representation.

10. These simplifications have been identified based on an analysis of IFRS 15 and incorporate:

    (a) feedback on the Request for Information *Comprehensive Review of the* IFRS for SMEs *Standard*, published in January 2020;

    (b) the discussions of the Joint Transition Resource Group (TRG) for Revenue Recognition and IFRS Interpretations Committee regarding the application of IFRS 15; and

    (c) the views of members of the SME Implementation Group (SMEIG) (see paragraph 12 of this paper).

[1] Paragraph 36 of the *Request for Information* Comprehensive Review of the *IFRS for SMEs* Standard, published in January 2020.

11. The simplifications also incorporate additional feedback from outreach meetings with advisors who support:

    (a) larger entities implementing and applying IFRS 15; and

    (b) SMEs applying the *IFRS for SMEs* Standard.

SMEIG recommendations

12. The SMEIG met on 21 January 2022 to discuss possible simplifications to the requirements of IFRS 15. SMEIG members provided feedback on each simplification to IFRS 15 discussed in the staff analysis in this paper, except for the simplification to Step 1 of the five-step model in IFRS 15 discussed in paragraphs 14–16 of this paper. The simplification to Step 1 was identified after the SMEIG meeting. SMEIG members generally agreed with all of the other simplifications discussed in this paper.

Possible simplifications to topics in IFRS 15

13. The staff analysis on the possible simplifications to the requirements of IFRS 15 is structured around the five-step model for recognising revenue.

Step 1—Contract modifications

14. IFRS 15 specifies three different approaches for accounting for contract modifications. Each approach is subject to conditions that relate to whether the goods or services that arise from the contract modification are distinct. The approaches result in modifications being accounted for either prospectively or on a cumulative catch-up basis, as summarised in the following table:

Conclusion on approach	Basis	Paragraph of IFRS 15
Treat as a separate contract	Prospective	Paragraph 20
Terminate existing contract and treat as a new contract		Paragraph 21(a)
Form part of existing contract	Cumulative catch-up	Paragraph 21(b)

15. As the approaches in paragraphs 20 and 21(a) of IFRS 15 require contract modifications to be accounted for prospectively they result in a similar outcome. The only significant difference is that paragraph 20 of IFRS 15 results in the continuation of the existing contract, whereas paragraph 21(a) of IFRS 15 requires the existing contract to be treated as if it had been terminated.

16. To simplify the accounting for contract modifications in the *IFRS for SMEs* Standard, the staff recommend introducing a single approach to account for contract modifications that are required to be accounted for prospectively: an SME would be required to account for a contract modification as if it were a termination of the existing contract and the creation of a new contract, unless the promised goods or services not yet transferred at the date of the contract modification are not distinct. This approach is aligned with paragraph 21(a) of IFRS 15. The staff think this approach is simpler for SMEs to apply compared with the approach in paragraph 20 of IFRS 15 because this approach results in entities accounting for one contract rather than two. As the recommended approach would result in a similar overall outcome as and be applied in the same circumstances as paragraph 20 of IFRS 15, it is not considered to impact on faithful representation.

Step 2—Series of distinct goods or services

17. IFRS 15 defines a performance obligation as:

> A promise in a contract with a customer to transfer to the customer either:
>
> (a) a good or service (or a bundle of goods or services) that is distinct; or
>
> (b) a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer.

18. Paragraph (b) of the definition of a performance obligation enables some entities providing a series of goods or services to identify a single performance obligation and recognise revenue by applying a single measure of progress to that performance obligation.

19. Feedback the staff received from advisors supporting entities applying IFRS 15 indicates that paragraph (b) of the definition can result in multi-year contracts being

accounted for in a way that does not reflect the economics of the contract, for which the amount of consideration per period varies over the contract term (for example, the consideration varies each year in line with a specified inflation index or anticipated increases in costs). By accounting for these contracts as a single performance obligation, entities are required to estimate the consideration for the entire contract and recognise this amount evenly over the contract term. This may not reflect the economics of a contract for which the amount of consideration has been agreed to increase each year to reflect the value of the goods or services transferred to the customer.

20. The staff have considered possible simplifications to the requirements of IFRS 15 to require SMEs to recognise revenue in a way that reflects the economics of a contract in each period and provide useful information to users of SME financial statements. The staff recommend the IASB introduce an option for SMEs to recognise revenue for a 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 customers, 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. This would permit an SME to recognise revenue for each year of a multi-year contract as described in paragraph 19 of this paper as a separate performance obligation, instead of a single performance obligation.

21. Recognising revenue based on the value to the customer is consistent with using an output method to measure progress. Output methods are identified as appropriate methods for measuring progress towards complete satisfaction of a performance obligation in IFRS 15.[2] Therefore, if an SME chose the option described in paragraph 20 of this paper, the staff believe that the value of the revenue recognised would still faithfully depict the consideration to which the entity will be entitled in exchange for the goods or services transferred to the customer.

22. The staff note that a similar simplification was made when drafting Section 20 *Leases* of the *IFRS for SMEs* Standard, which is based on IAS 17 *Leases*. The *IFRS for SMEs* Standard does not require a lessor to recognise lease income from operating leases on

[2] Paragraph 41 of IFRS 15.

a straight-line basis if the payments to the lessor are structured to increase in line with expected general inflation.[3] IAS 17 did not include this exception to the straight-line basis.

Step 2—Performance obligation terminology

23. The recommendation in paragraph 20 of this paper would amend paragraph (b) of the definition of a performance obligation in IFRS 15 (see paragraph 17 of this paper), resulting in a different definition of a performance obligation in the *IFRS for SMEs* Standard compared to that in IFRS 15. This would create a risk that any guidance and interpretations of the requirements of IFRS 15, which are based on the definition of a performance obligation and are included in the *IFRS for SMEs* Standard unchanged, are inappropriately applied by SMEs.

24. The staff think that using a term that focuses on paragraph (a) of the definition of a performance obligation in IFRS 15, rather than 'performance obligation', would avoid having two definitions for the same term. The staff recommend that Section 23 require an SME to identify each '*promise to transfer a distinct good or service, or bundle of goods or services*', instead of including the term performance obligations.

25. The staff believe this recommendation would reduce the risk that guidance and interpretations of the requirements could be inappropriately read as being applicable to SMEs. Furthermore, it would simplify the language of IFRS 15 by limiting the introduction of new terminology and allow scope to use different language to express other requirements in IFRS 15.

26. SMEIG members expressed mixed views on referring to '*a promise to transfer a distinct good or service, or bundle of goods or services*' rather than 'performance obligation' in the *IFRS for SMEs* Standard. Some SMEIG members said the term performance obligation is technical and difficult for SMEs to understand. They considered the term promise to be simpler and more consistent with the language used

[3] Paragraph 20.25 of the *IFRS for SMEs* Standard.

by SMEs. In contrast, a small number of SMEIG members expressed concerns about removing the term as it is:

(a) used elsewhere in IFRS 15; and

(b) well understood in practice.

27. Although entities applying IFRS Accounting Standards are likely to be familiar with the term ‘performance obligation’, the staff do not believe this is true for SMEs. For this reason, the staff do not think replacing the term would result in significant loss of understanding amongst SMEs.

Step 2—Determining if a promise to transfer a good or service is separately identifiable

28. IFRS 15 uses the principle of ‘distinct goods or services’ to identify the performance obligations in a contract. To determine if a good or service promised in a contract is distinct, an entity considers whether the promise to transfer that good or service is separately identifiable from other promises in the contract.[4] Paragraph 29 of IFRS 15 includes three factors that help entities determine whether a promised good or service is separately identifiable.

29. The factor in paragraph 29(c) of IFRS 15 relates to whether ‘*the goods or services are highly interdependent or highly interrelated in such a way that the customer could not choose to purchase one good or service without significantly affecting the other promised goods or services in the contract*’. Paragraph 29(c) of IFRS 15 was developed to address situations where it was unclear if paragraph 29(a) or paragraph 29(b) of IFRS 15 applied (that is, it is unclear whether the entity is providing an integration service or whether the goods or services are significantly modified or customised by another good or service in the contract).[5] Informed by the TRG’s discussions, the IASB amended IFRS 15 in 2016 to address potential diversity in stakeholders' understanding of these factors.[6] The staff believe, following the

[4] Paragraph 27(b) of IFRS 15.
[5] Paragraph BC111 of the Basis for Conclusions on IFRS 15.
[6] Paragraph BC116F of the Basis for Conclusions on IFRS 15.

amendments, it is clear if the factors in paragraph 29(a) or paragraph 29(b) of IFRS 15 apply. Therefore, it is not necessary for an SME to consider the factor in paragraph 29(c) of IFRS 15 when assessing whether a promised good or service is separately identifiable.

30. The staff recommend omitting the factor in paragraph 29(c) of IFRS 15 when drafting Section 23 of the *IFRS for SMEs* Standard to align with IFRS 15. This would simplify the process of determining if a good or service promised in a contract is distinct by requiring SMEs to consider only those factors necessary to determine whether a promised good or service is separately identifiable.

31. The staff note the factors in paragraph 29 of IFRS 15 are all based the same underlying principle and are not mutually exclusive.[7] Therefore, there is limited risk that an entity that has considered the factor in paragraph 29(c) of IFRS 15 arrives at an answer that is different from an entity that has not considered this factor.

Step 3—Constraining estimates of variable consideration

32. If the consideration promised in a contract includes a variable amount, IFRS 15 requires an entity first to estimate the amount of consideration it will be entitled to, and then to constrain this estimate.[8] As set out in paragraph 56 of IFRS 15, estimates of variable consideration are included in the transaction price

> … only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

33. Feedback the staff received from advisors supporting entities applying IFRS 15 indicates that the variable consideration requirements can be challenging because:

[7] Paragraph BC106 of the Basis for Conclusions on IFRS 15.
[8] Paragraphs 50 and 56 of IFRS 15.

(a) entities are required to follow a two-step process that requires them to consider different factors to predict the outcome of the same transaction; and

(b) paragraph 56 of IFRS 15 is framed in the negative— '*a significant reversal in the amount of cumulative revenue recognised will not occur*'.

34. When aligning the *IFRS for SMEs* Standard, the staff recommend that the requirement to constrain estimates of variable consideration in paragraph 56 of IFRS 15 is included as part of the general principle for estimating variable consideration in the *IFRS for SMEs* Standard, with SMEs considering the probability of revenue reversal when estimating variable consideration.

35. To constrain estimates of variable consideration, IFRS 15 requires an entity to assess whether a significant revenue reversal will not occur by considering what adjustments will be required in subsequent accounting periods. This is potentially challenging for SMEs, who are likely to view variable consideration as changing the amount of consideration they expect to recover instead of possible future accounting adjustments. The staff believe the language of paragraph 56 of IFRS 15 could be simplified for SMEs by:

(a) expressing the requirement in terms of recoverability; and

(b) drafting the requirement in the positive.

Therefore, the staff recommend an SME is required to recognise variable consideration only to the extent that it is highly probable that the variable amount will be recovered.

36. The staff believe that the recommended simplification in paragraph 35 of this paper does not significantly change the underlying principle for measuring variable consideration in IFRS 15 and is not considered to impact on faithful representation.

Step 3—Significant financing component

37. IFRS 15 requires an entity to adjust the promised amount of consideration for the time value of money if a contract contains a significant financing component.[9]

38. Paragraph 61 of IFRS 15 sets out an objective for the time value of money adjustments, and the factors that an entity should consider when assessing whether a contract contains a significant financing component. IFRS 15 also includes a practical expedient that relieves entities from accounting for the effects of a significant financing component if the period between when the entity transfers a promised good or services to the customer, and when the customer pays for those goods or services, is one year or less.[10]

Advance payments

39. Although IFRS 15 requires entities to account for the effects of a significant financing component arising from both advance and deferred payments, IAS 18 *Revenue* (and consequently Section 23 of the *IFRS for SMEs* Standard) did not address advance payments. In considering the relevance of both types of payments, the staff refer to research on SME payments conditions that found that two thirds of SMEs would offer customers extended payment terms, compared to only two fifths of SMEs who use advance payments.[11] Consequently, the staff recommend that requirements for advance payments should not be included in Section 23 of the *IFRS for SMEs* Standard.

Interaction with Section 11 of the IFRS for SMEs *Standard*

40. Section 11 *Basic Financial Instruments* of the *IFRS for SMEs* Standard requires SMEs to recognise the effects of the time value of money when an arrangement

[9] Paragraph 60 of IFRS 15.
[10] Paragraph 63 of IFRS 15.
[11] SME Panel Consultation on Late Payments (August-November 2021) Preliminary Results, *European Commission*, 2021, p. 4–5, https://ec.europa.eu/docsroom/documents/47995?locale=e.

constitutes a financing transaction. An arrangement constitutes a financing transaction if payment is deferred beyond normal business terms.[12]

41. To simplify the requirements for accounting for deferred payments in the *IFRS for SMEs* Standard, the staff recommend requiring an SME to account for deferred payments in accordance with Section 11 of the Standard. This would require an SME to apply requirements that are currently understood and accepted by preparers and users of SME financial statements. It would also avoid introducing requirements that contain different criteria and terminology based on the requirements of IFRS 15.

42. The staff think that accounting for a financing transaction applying Section 11 of the *IFRS for SMEs* Standard would result in a similar outcome compared with accounting for a significant financing component in IFRS 15. Therefore, the simplification described in paragraph 41 of this paper is not considered to impact faithful representation.

Practical expedient

43. The practical expedient described in paragraph 38 of this paper was included in IFRS 15 to simplify the application of the Standard. As IFRS 15 and the *IFRS for SMEs* Standard require entities to follow similar requirements to recognise the effects of financing, the staff recommend the IASB retain this expedient when aligning the *IFRS for SMEs* Standard with IFRS 15.

Step 4—Allocating discounts and variable consideration

44. IFRS 15 requires the contract's transaction price to be allocated on a relative stand-alone selling price basis.[13] This method is used to allocate discounts and variable consideration to all the performance obligations in a contract unless specific criteria are met.

45. The criteria in IFRS 15 specify circumstances where an entity is required to allocate a discount or variable consideration entirely to one or more, but not all, performance

[12] Paragraph 11.13 of the *IFRS for SMEs* Standard.
[13] Paragraph 74 of IFRS 15.

obligations in the contract.[14] This is restricted to instances where allocating the transaction price on a relative stand-alone price basis would not faithfully depict the amount of consideration to which an entity is entitled upon satisfying a particular performance obligation (that is, where applying the default method would be inconsistent with the allocation objective in paragraph 73 of IFRS 15).

46. Feedback the staff received from advisors supporting entities applying IFRS 15 indicates that there are limited instances where an entity is required to depart from the default method specified in the Standard. In these instances, it is typically clear that allocating a discount or variable consideration proportionately to all the performance obligations would be inappropriate.

47. To simplify the requirements for allocating discounts and variable consideration in the *IFRS for SMEs* Standard, the staff recommend an SME is required to allocate discounts and variable consideration on a relative stand-alone selling price basis (the default method), 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. This requirement would provide SMEs with a clear and straight-forward starting point and remove the need for entities to consider additional criteria to depart from the default method.

48. The simplification described in paragraph 47 of this paper would require an SME to apply judgement if it were to depart from the default method for allocating discounts and variable consideration. This introduces a risk that SMEs allocate discounts and variable consideration on a relative stand-alone price basis even in instances where this method would be inappropriate. However, the staff believe that it would be sufficiently clear in instances where this method would not faithfully represent the economics of the transaction and an alternative method should be used. In addition, feedback the staff received from advisors supporting entities applying IFRS 15 indicates that there are limited instances where it is necessary for an entity to depart from the default method. Therefore, where an SME does apply this method in all instances, the risk that this would result in inappropriate outcomes is considered to be small.

[14] Paragraphs 82 and 85 of IFRS 15.

Step 5—Selection of methods for measuring progress towards complete satisfaction of a performance obligation

49. When a performance obligation is satisfied over time, IFRS 15 requires an entity to measure its progress towards complete satisfaction of the performance obligation to determine how much revenue to recognise in each reporting period.[15] To do so, an entity is required to select a method for measuring progress.

50. IFRS 15 requires an entity to select a method that is consistent with the objective of depicting the entity's performance in transferring control of goods or services to the customer. Making this choice can involve substantial judgement.

51. IFRS 15 identifies two appropriate measurement methods (the output and input method) and includes application guidance on each.[16] The guidance provides examples of different output and input methods but does not prescribe when an entity should use a particular method.

52. The staff have considered how to make the selection of methods for measuring progress simple for SMEs. One possible approach would be to introduce a framework or criteria for SMEs to follow when determining whether a specific method is appropriate. However, doing so is unlikely to capture the variety of contracts with customers that SMEs may enter into. It also potentially inconsistent with the approach in IFRS 15, where an entity's performance in transferring control of goods or services to the customer may be depicted by more than one method.

53. For the reasons in paragraph 52 of this paper, the staff believe it necessary to require SMEs to exercise judgement by selecting a method for measuring progress towards satisfying the performance obligation. However, to assist SMEs in selecting a method, the staff recommend the *IFRS for SMEs* Standard includes a list of methods frequently used by entities to measure progress and describe circumstances where they may be appropriate (for example, time elapsed in circumstances where control of the goods or services is transferred evenly over time). As the list of methods would be described as not exhaustive, an SME could choose an alternative method.

[15] Paragraph 39 of IFRS 15.
[16] Paragraphs B14–B19 of IFRS 15.

54. Highlighting frequently used methods would provide SMEs with a useful starting point for selecting a method for measuring progress. Similar to IFRS 15, an SME would be required to select a method that depicts its performance in transferring control of goods or services to the customer. This would result in a similar outcome as IFRS 15 and is not considered to impact on faithful representation.

Contract costs—Incremental costs of obtaining a contract

55. IFRS 15 requires an entity to recognise the incremental costs of obtaining a contract with a customer as an asset if the entity expects to recover those costs.[17] The *IFRS for SMEs* Standard does not include requirements for the costs of obtaining a contract.

56. For entities operating in some industries, such as the construction industry, the costs of obtaining a contract may be significant. In these instances, entities would be expected to separately identify these costs. However, for entities operating in other industries the costs of obtaining a contract relative to the costs of fulfilling the contract may be small, and not reflected in management's assessment of a contract's profit margin or a contract's pricing. As a result, entities operating in these industries would not be expected to separately identify the incremental costs of obtaining a contract or assess them as recoverable at contract inception.

57. SMEs operate in a variety of industries, including the construction industry. To ensure an appropriate outcome for SMEs, the staff recommend requiring an SME to recognise the incremental costs of obtaining a contract as an asset if the SME expects to recover these costs, only when these costs can be identified and assessed as recoverable without undue cost or effort. If an SME cannot identify and assess the incremental costs of obtaining a contract as recoverable without undue cost or effort, the SME will recognise these costs as expenses.

58. It is observed that by having an undue cost or effort exemption, an SME may apply the exemption and recognise as an expense the incremental costs of obtaining a contract even if the costs meet the definition of an asset. The staff note that this is similar to the approach for accounting for borrowing and development costs in the

[17] Paragraph 91 of IFRS 15.

IFRS for SMEs Standard: an SME is required to expense all borrowing and all development costs even if these meet the criteria for recognition in IAS 23 *Borrowing Costs* and IAS 38 *Intangible Assets*. The staff also note the IASB is discussing whether to proposing amending the *IFRS for SMEs* Standard in respect of development costs so that eligible costs are required to be recognised, subject to an undue cost or effort exemption.[18]

59. IFRS 15 also includes a practical expedient that allows an entity to recognise the incremental costs of obtaining a contract as expenses when incurred for contracts in which the amortisation period for the asset that the entity otherwise would have recognised is one year or less.[19] The IASB included the practical expedient to acknowledge that, in some circumstances, an entity's efforts to recognise an asset from incremental acquisition costs might exceed the financial reporting benefits.[20] In the circumstances that the expedient applies, the staff expect that an SME's effort to provide the information would exceed the financial reporting benefits. Therefore, the staff recommend the IASB propose the same practical expedient when an SME recognises the incremental costs of obtaining a contract as an asset.

Possible simplifications to the structure and language of IFRS 15

Structure

60. The requirements in IFRS 15 are included in the following order: recognition, measurement, presentation, and disclosure. This is consistent with the structure of other IFRS Accounting Standards.

61. In developing the exposure draft of proposed amendments to the *IFRS for SMEs* Standard, the staff intend to use the five-step model in IFRS 15 to define the structure of Section 23 of the *IFRS for SMEs* Standard. By doing so, the structure of Section 23 would reflect the order in which SMEs would be expected to apply the requirements.

[18] See Agenda Paper 30D *Towards an Exposure Draft—Other topics (Recognition and measurement of development costs)* of this meeting.
[19] Paragraph 94 of IFRS 15.
[20] Paragraph BC297 of the Basis for Conclusions on IFRS 15.

This structure also provides scope to signpost SMEs to the relevant steps of the model where they have a contract that contains a single promise to transfer a distinct good or service. This would enable SMEs with simple transactions to follow a straightforward route, simplifying their application of the model.

Language

62. In developing the exposure draft, the staff intend to:

    (a) using simple language to express the requirements of IFRS 15; and

    (b) set out the requirements of IFRS 15 more concisely, where possible.

63. This will result in different words being used in Section 23 to arrive at similar outcomes to those arising from applying IFRS 15. However, the staff acknowledge that this will not result in the same outcomes in all circumstances.

64. It is observed that the approach of using different language minimises the risk that SMEs look to IFRS Accounting Standards to understand the requirements of the *IFRS for SMEs* Standard and reinforces the status of the *IFRS for SMEs* Standard as a stand-alone document. For example, simplifying the language used to express the criteria for assessing when control transfers over time in paragraph 35 of IFRS 15 reduces the risk that an SME looks to the application guidance in IFRS 15 that clarifies how these criteria should be applied and related illustrative examples.

Possible simplifications to the disclosure requirements of IFRS 15

65. The Exposure Draft *Subsidiaries without Public Accountability: Disclosures* published in July 2021 includes a proposal to simplify the disclosure requirements of IFRS 15.[21] The staff will consider the stakeholders' feedback on the Exposure Draft when aligning the *IFRS for SMEs* Standard with IFRS 15 disclosure requirements. The staff will bring a paper on possible simplifications to the disclosure requirements of IFRS 15 to a future IASB meeting.

[21] See paragraphs 89–99 of the Exposure Draft *Subsidiaries without Public Accountability: Disclosures*.

Transition

66. The Request for Information asked whether and how transitional relief should be available if amendments are proposed to align the *IFRS for SMEs* Standard with IFRS 15.[22] Respondents to the Request for Information were generally in support of providing the transitional relief as 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.

67. At its October 2021 meeting, the IASB tentatively decided to consider providing transition relief as set out in the Request for Information. The staff will bring a paper on possible transition requirements for SMEs applying the amendments to the *IFRS for SMEs* Standard for the first time to a future IASB meeting.

Staff recommendation and question for the IASB

68. In the light of the staff analysis in this paper, the staff recommend the IASB propose amendments to Section 23 of the *IFRS for SMEs* Standard to align with IFRS 15, with simplifications as described in paragraph 4 of this paper.

Question for the IASB
Does the IASB agree to propose amendments to Section 23 of the *IFRS for SMEs* Standard to align with IFRS 15, with simplifications for the requirements of IFRS 15 as described in paragraph 4 of this paper?

Next steps

69. If the IASB agree with the staff recommendation, the staff will continue to work towards an Exposure Draft. The staff will bring a paper to the IASB on transition requirements and possible simplifications to the disclosure requirements in IFRS 15 at a future meeting.

[22] See Question S7B of the Request for Information.