

STAFF PAPER

June 2022

IASB[®] meeting

Project	Second Comprehensive Review of the <i>IFRS for SMEs</i> [®] Accounting Standard	
Paper topic	Due process and permission to begin the balloting process	
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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*.

Purpose of this paper

1. This paper:
 - (a) summarises the due process steps taken to date;
 - (b) recommends the length of the comment period for the Exposure Draft proposing amendments to the *IFRS for SMEs* Accounting Standard (Standard);
 - (c) requests permission for the staff to begin the balloting process for the Exposure Draft; and
 - (d) asks if any International Accounting Standards Board (IASB) member plans to dissent from the proposals in the Exposure Draft.
2. In this paper, the term SMEs refers to entities that are eligible to apply the *IFRS for SMEs* Accounting Standard.

Structure of this paper

3. This paper is structured as follows:
 - (a) project background including previous due process stages (paragraphs 4–9 of this paper);
 - (b) summary of due process steps for publication of an Exposure Draft (paragraphs 10–19 of this paper);
 - (c) comment period (paragraphs 20–22 of this paper);
 - (d) confirmation of due process steps, permission to begin the balloting process and intention to dissent (paragraphs 23–24 of this paper);
 - (e) Appendix A—due process steps taken in the development of the Exposure Draft; and
 - (f) Appendix B—public meetings with consultative bodies.

Project background including previous due process stages

4. In 2009, the IASB issued the first edition of the *IFRS for SMEs* Accounting Standard. The IASB maintains the Standard through periodic review and proposes amendments to the Standard by publishing an omnibus exposure draft. In 2015, the IASB completed its first comprehensive review of the Standard. It issued *2015 Amendments to the IFRS for SMEs* and a second edition of the Standard, incorporating the 2015 amendments, which became effective in 2017.
5. In 2019, the IASB commenced its second comprehensive review of the Standard, in line with the objective of commencing a comprehensive review approximately two years after the effective date of the amendments to the Standard resulting from a previous comprehensive review.¹

¹ Paragraph BC264(a) of the Basis for Conclusions on the Standard.

6. In January 2020, the IASB published the Request for Information *Comprehensive Review of the IFRS for SMEs Standard*. At its March 2021 meeting, the IASB decided to move the project from the research programme to its standard-setting work plan and work towards publishing an exposure draft.
7. The Appendix to Agenda Paper 30 *Cover paper* summarises the IASB's tentative decisions to date.

Project approach and analysis of the expected effects

8. At its March 2021 meeting, the IASB agreed to apply the alignment approach which is to continue to develop the *IFRS for SMEs* Accounting Standard based on principles of full IFRS Accounting Standards. The alignment approach treats alignment with full 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.
9. The IASB considered the likely costs and benefits of aligning the Standard with a new requirement separately for each requirement in full IFRS Accounting Standard in the scope of the review.

Summary of due process steps for publication of an Exposure Draft

10. Paragraph 6.6 of the *Due Process Handbook* states that:

When the Board [IASB] has reached general agreement on the technical matters in the project and has considered the likely effects of the proposals (see paragraphs 3.76–3.81 [of the *Due Process Handbook*]), the technical staff presents a paper to the Board [IASB]:

- (a) summarising the steps that the Board [IASB] has taken in developing the proposals, including a summary of when the Board discussed the project in public meetings, public hearings held, outreach activities and meetings of consultative groups;

- (b) if applicable, reaffirming why the Board [IASB] has decided that it was not necessary to have a consultative group or to have conducted fieldwork; and
- (c) recommending a comment period for the exposure draft.

11. Paragraphs 12–19 of this paper discuss the due process steps undertaken during the project. Appendix A to this paper provides a more detailed account of the due process steps undertaken. Paragraphs 20–22 of this paper discuss the recommendation for the comment period and paragraphs 23–24 of this paper ask the IASB’s permission to begin the balloting process and whether any IASB member intends to dissent from the proposals in the Exposure Draft.

IASB meetings

12. The IASB is required to debate all proposals in public meetings. 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 full IFRS Accounting Standards in the scope of the review.
13. The IASB discussed the project at 12 public meetings between December 2020 and June 2022. The papers and recordings of these public meetings are available on the IFRS Foundation’s [website](#).

Reporting to the Due Process Oversight Committee and IFRS Advisory Council

14. The IASB is required to update the IFRS Advisory Council on its technical programme and major projects as part of its due process (paragraph 3.54 of the *Due Process Handbook*).
15. The Due Process Oversight Committee and the IFRS Advisory Council received regular update on the status and progress of the project as part of the discussion of the IASB’s activities.

Meeting with consultative bodies

16. The project was discussed at meetings of the IASB's consultative bodies, including the SME Implementation Group (SMEIG) and the Emerging Economies Group (EEG). Appendix B to this paper provides a list of these meetings and topics discussed.
17. The role of the SMEIG is to support the international adoption, implementation and application of the the *IFRS for SMEs* Accounting Standard. It has been providing recommendations to the IASB throughout this comprehensive review of the Standard.
18. The SMEIG met in February 2021, September 2021 and January 2022 to discuss feedback on the Request for Information and possible ways forward for the topics in the scope of the review. Advice received at those meetings was reported to and considered by the IASB when discussing proposals for each topic in the scope of the review.

Other outreach activities and consultations

19. In developing the proposals in the Exposure Draft, IASB members and the staff have undertaken outreach and consultation:
 - (a) discussions with lenders to SMEs, to understand feedback from the user survey undertaken as part of the outreach activities on the Request for Information.
 - (b) discussions with global preparers on experience of applying IFRS 16 *Leases* and IFRS 9 *Financial Instruments*.
 - (c) discussion with advisors focused on experience of implementing and applying IFRS 15 *Revenue from Contracts with Customers*.

Comment period

20. Paragraph 6.7 of the *Due Process Handbook* states that the IASB normally allows a minimum period of 120 days for comment on an exposure draft. If a topic is narrow in

scope and urgent, the IASB may set a comment period shorter than 120 days, but no less than 30 days, after consulting and obtaining approval from the Due Process Oversight Committee.

21. In developing their recommendation for the length of the comment period, the staff have considered:
 - (a) the IASB had tentatively decided to propose a wide range of amendments to the Standard. In addition to proposing amendments to align the Standard with several amendments to IFRS Accounting Standards, the Exposure Draft is proposing significant amendments to the Standard to align with major IFRS Accounting Standards the following sections of the Standard:
 - (i) Section 9 *Consolidated and Separate Financial Statements*;
 - (ii) Section 11 *Basic Financial Instruments*;
 - (iii) a new section on *Fair Value Measurement*;
 - (iv) Section 15 *Investments in Joint Ventures*;
 - (v) Section 19 *Business Combinations and Goodwill*; and
 - (vi) Section 23 *Revenue*;
 - (b) given the extensive scope of this comprehensive review, the staff believe an extended comment period is needed to allow stakeholders, including SMEs and their advisors, the opportunity to review and evaluate the proposals and to solicit and consolidate the views in their jurisdiction.
 - (c) the Exposure Draft is expected to be published in September 2022, with outreach taking place in October–November 2022 and in February 2023.
22. For the reasons set out in the paragraph 21 of this paper, the staff recommend a comment period of 150 days for the Exposure Draft.

Confirmation of due process steps, permission to begin the balloting process and intention to dissent

23. This paper demonstrates that the IASB has completed all the steps necessary for the balloting of the Exposure Draft. Consequently, the staff are requesting permission to begin the balloting process.
24. In accordance with paragraph 6.9 of the *Due Process Handbook*, the staff would like to ask if any IASB member intends to dissent from the proposals in the Exposure Draft.

Questions for the IASB

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1. **Comment period**—does the IASB agree with the staff recommendation to set a comment period of 150 days for the Exposure Draft?
2. **Permission to ballot**—is the IASB satisfied that it has complied with the applicable due process steps and that it should begin the balloting process for the Exposure Draft?
3. **Dissents**—does any IASB member intend to dissent from the proposals in the Exposure Draft?

Appendix A—Due process steps taken in the development of the Exposure Draft

Step	Required /Optional	Actions
IASB meetings held in public, with papers available for observers. All decisions are made in public session.	Required	<p>The IASB has discussed the project in 12 public meetings between December 2020 and June 2022.</p> <p>The project page on the IFRS Foundation website contains a full description with up-to-date information.</p> <p>Papers for the meetings were posted before each meeting and a summary of each meeting was included in <i>IASB Update</i>.</p>
Consultation with the Trustees of the IFRS Foundation (Trustees) and the IFRS Advisory Council.	Required	<p>The Trustees and the IFRS Advisory Council have received regular updates on the progress of the project as part of the discussion of the IASB’s activities.</p>
Consultative groups used, if formed.	Optional	<p>The SME Implementation Group (SMEIG) is a consultative group that support the international adoption, implementation and application of the <i>IFRS for SMEs</i> Accounting Standard. The SMEIG made recommendations to the IASB for the development of the proposals in the Exposure Draft.</p>
Webcasts and podcasts to provide interested parties with high-level updates or other useful information about specific projects.	Optional	<p>Updates about the project were provided in some of the IASB podcasts produced by the IFRS Foundation after each IASB meeting.</p> <p>Webcasts in English, Spanish and Portuguese were published between January and September 2020 to solicit comments on the Request for Information. Webcasts are not considered necessary during the development of the Exposure Draft, but would be considered during the comment period of the Exposure Draft.</p>

Step	Required /Optional	Actions
Online survey to generate evidence in support of or against a particular approach.	Optional	Not considered necessary at the stage of developing the Exposure Draft, but would be considered during the comment period of the Exposure Draft.
Fieldwork is undertaken to analyse proposals.	Optional	<p>Outreach and consultation were undertaken with preparers (18) and users (13) of SME financial statements. The users were primarily banks and financial institutions that are engaged in lending to SMEs.</p> <p>Outreach also was undertaken with advisors on implementing and applying IFRS 15.</p> <p>The project was also discussed at public meetings with the IASB’s consultative bodies, including the SMEIG and the EEG. Appendix B to this paper provides a list of these meetings and topics discussed.</p> <p>Further outreach and research will be performed during the comment period.</p>
Outreach meetings with a broad range of stakeholders, with special effort to consult investors.	Optional	
Public discussions with representative groups.	Optional	
The IASB hosts regional discussion forums, where possible, with national standard-setters.	Optional	
Round-table meetings between external participants and members of the IASB.	Optional	
Analysis of the likely effects of the forthcoming Standard or major amendment, for example, initial costs or ongoing associated costs.	Required	

Step	Required /Optional	Actions
Finalisation		
Due process steps reviewed by the IASB.	Required	This paper asks the IASB to review the due process steps taken and whether the IASB is satisfied that it has complied with all the applicable requirements.
The exposure draft has an appropriate comment period.	Required	This paper seeks the IASB’s approval for a comment period of 150 days. Accordingly, no special approval is required from the Due Process Oversight Committee.
Drafting		
Drafting quality assurance steps are adequate: <ul style="list-style-type: none"> • Translations Adoption and Copyright team has been involved in the review process; 	Required	The project team plans to ask the Translations Adoption and Copyright team to review a draft of the Exposure Draft.
<ul style="list-style-type: none"> • IFRS Taxonomy team has been included in the review process; 	Required	Discussions with the IFRS Taxonomy team have taken place. In addition, the project team plans to ask the IFRS Taxonomy team to review a draft of the Exposure Draft.
<ul style="list-style-type: none"> • Editorial team has been included in the review process; 	Optional	The editorial team will be involved throughout the drafting of the Exposure Draft.
<ul style="list-style-type: none"> • external reviewers are used to review drafts for editorial review and the comments collected are considered by the IASB; 	Optional	The project team plans to ask SMEIG members to perform an editorial review of the draft Exposure Draft during the balloting process.
<ul style="list-style-type: none"> • drafts for editorial review have been made available to members of the 	Optional	There is no plan to make available on the IFASS SharePoint a draft of the Exposure Draft for editorial review. The staff provided an update on

Step	Required /Optional	Actions
International Forum of Accounting Standard-Setters (IFASS) and the comments have been collected and considered by the IASB; and		the project to members of the IFASS at the March 2021 IFASS meeting. All stakeholders, including members of the IFASS, will have the opportunity to provide feedback on the Exposure Draft during the comment period.
<ul style="list-style-type: none"> reviewed draft of the Exposure Draft has been posted on the project website. 	Optional	There is no plan to post a reviewed draft of the Exposure Draft on the project website.
Publication		
Exposure Draft published.	Required	The Exposure Draft will be published on the IFRS Foundation’s website and in hardcopy.
Press release to announce publication of the Exposure Draft.	Required	A press release accompanying the publication of the Exposure Draft will be issued.
Snapshot document to explain the rationale and basic concepts included in the Exposure Draft.	Optional	A snapshot explaining key elements of the Exposure Draft will be published.

Appendix B—Public meetings with consultative bodies

Date	Topic
<i>SME Implementation Group</i>	
February 2021	<ul style="list-style-type: none"> • Alignment approach and principles; • When to consider alignment; • Alignment with the 2018 <i>Conceptual Framework for Financial Reporting</i>; • Alignment with IFRS 13 <i>Fair Value Measurement</i>; • Alignment with IFRS 3 <i>Business Combinations</i>; • Alignment with IFRS 10 <i>Consolidated Financial Statements</i>; • Alignment with IFRS 11 <i>Joint Arrangements</i>; • Alignment with IFRS 9 <i>Financial Instruments</i>; • Alignment with IFRS 16 <i>Leases</i>; and • Alignment with IFRS 15 <i>Revenue from Contracts with Customers</i>.
September 2021	<ul style="list-style-type: none"> • Update on work completed—outreach with preparers; • Update on topics—the Conceptual Framework and financial instruments; • Alignment with IFRS 16 <i>Leases</i>; • Alignment with IAS <i>Employee Benefits</i> and simplification to measurement of defined benefit obligations; • Update to multiple sections of the <i>IFRS for SMEs Accounting Standard</i> for amendments to IFRS Accounting Standards and IFRIC Interpretations; • Alignment with IFRS 14 <i>Regulatory Deferral Accounts</i>; and • Other topics.
January 2022	<ul style="list-style-type: none"> • Definition of a business and reacquired rights in IFRS 3 <i>Business Combinations</i>; • Simplifications to IFRS 15 <i>Revenue from Contracts with Customers</i>; • Cryptocurrency; and • Recognition and measurement of development costs.
<i>Emerging Economies Group</i>	
May 2021	<ul style="list-style-type: none"> • Update on project and feedback