IFRS

STAFF PAPER

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IASB® Meeting

Project	**Second Comprehensive Review of the *IFRS for SMEs*® Accounting Standard**
Paper topic	Towards an exposure draft—scope and name of the *IFRS for SMEs* Accounting Standard
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Introduction

1. This paper discusses whether to propose amendments to the scope and name of the *IFRS for SMEs* Accounting Standard.[1]

2. In this paper, the term SMEs refers to entities that are eligible to apply the *IFRS for SMEs* Accounting Standard—entities that do not have public accountability (as defined in paragraph 6 of this paper) and that publish general purpose financial statements for external users.

[1] In 2009, the International Accounting Standards Board (IASB) issued the International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs), which is now referred to as '*IFRS for SMEs* Accounting Standard'. In November 2021, the Trustees of the IFRS Foundation amended the Constitution of the IFRS Foundation to facilitate the creation of the International Sustainability Standards Board (ISSB) and specify that the IASB is responsible for developing a set of accounting standards referred to as 'IFRS Accounting Standards' and the ISSB is responsible for developing a set of sustainability disclosure standards referred to as 'IFRS Sustainability Disclosure Standards'.

Purpose of the paper

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

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

   (b) consider whether the scope and name of the *IFRS for SMEs* Accounting Standard remain appropriate.

   Agenda Paper 30B *Towards an exposure draft—definition of public accountability* of this meeting discusses whether the definition of public accountability used in the scope of the *IFRS for SMEs* Accounting Standard needs further clarification.

Staff recommendation

4. The staff recommend the IASB does not amend the scope of and the name of the *IFRS for SMEs* Accounting Standard.

Structure of the paper

5. This paper is structured as follows:

   (a) Scope of the *IFRS for SMEs* Accounting Standard:

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

      (ii) feedback on the Request for Information (paragraph 12 of this paper);

      (iii) staff analysis (paragraphs 13–18 of this paper); and

      (iv) staff recommendation and question for the IASB (paragraph 19 of this paper);

(b) Name of the *IFRS for SMEs* Accounting Standard:

(i) background (paragraphs 20–26 of this paper);

(ii) feedback on the Request for Information (paragraphs 27–28 of this paper);

(iii) staff analysis (paragraphs 29–32 of this paper); and

(iv) staff recommendation and question for the IASB (paragraph 33 of this paper).

Scope of the *IFRS for SMEs* Accounting Standard

Background[2]

6. The *IFRS for SMEs* Accounting Standard is intended for entities that do not have public accountability and prepare general purpose financial statements. An entity has public accountability if:[3]

(a) its debt or equity instruments are traded in a public market or it is in the process of issuing such instruments for trading in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets); or

(b) it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses (most banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks would meet this second criterion).

7. During the first comprehensive review of the *IFRS for SMEs* Accounting Standard, the IASB asked stakeholders whether the scope of the Standard was too restrictive. In concluding the first comprehensive review, the IASB decided not to amend the scope. The IASB decided that if it widened the scope of the Standard to include some publicly accountable entities, other changes to the *IFRS for SMEs*

[2] Incorporates paragraphs B7–B13 of the Request for Information.

[3] See paragraph 1.3 of the *IFRS for SMEs* Accounting Standard.

Accounting Standard might be required to address issues relevant to this wider group of entities, which could increase the complexity of the Standard.

8. At the start of this second comprehensive review, the IASB conducted outreach with its consultative groups and national standard-setters on whether to amend the scope of the *IFRS for SMEs* Accounting Standard to allow some publicly accountable entities to apply the Standard by permitting exceptions to the definition of public accountability. Responses to outreach supported the IASB's view that changes to the scope of the *IFRS for SMEs* Accounting Standard might require other changes that would increase the complexity of the Standard. Furthermore, concerns were raised about the difficulty in clearly defining the group of entities with public accountability that would be permitted to apply the *IFRS for SMEs* Accounting Standard. At the March 2019 International Forum of Accounting Standard Setters (IFASS) meeting, IFASS members did not support suggestions to provide exceptions to the definition of public accountability and expressed concerns about the difficulty of drafting such exceptions.[4]

9. The IASB concluded it should not ask a question in the Request for Information on amending the scope of the *IFRS for SMEs* Accounting Standard to permit exceptions to the definition of public accountability. In reaching this conclusion the IASB took into consideration that:

   (a) paragraph BC55 of the Basis for Conclusions on the *IFRS for SMEs* Accounting Standard explains the importance of a clear definition of the class of entity for which the *IFRS for SMEs* Accounting Standard is intended, to facilitate:

      (i) the IASB deciding what requirements are appropriate for that class of entity; and

      (ii) national regulatory authorities, standard-setters, reporting entities and their auditors understanding the intended scope of applicability of the *IFRS for SMEs* Accounting Standard.

[4] See paragraphs 29–30 of Agenda Paper 30A of the September 2019 IASB meeting.

(b) in response to the feedback on the first comprehensive review, the IASB decided not to amend the scope of the Standard (see paragraph 7 of this paper).

10. The IASB decided that in view of the feedback from both the first comprehensive review and from outreach during this second comprehensive review, it was unlikely that responses to the Request for Information would lead the IASB to change its previous conclusions.

11. Agenda Paper 30A *Scope of the IFRS for SMEs Standard* of the September 2019 IASB meeting provides further detail on the IASB's previous discussions, including the reasons for not including a question in the Request for Information and feedback received on the scope of the *IFRS for SMEs* Accounting Standard during the first comprehensive review.[5]

Feedback on the Request for Information

12. Although the IASB did not ask a question on the scope of the *IFRS for SMEs* Accounting Standard in the Request for Information, a small number of respondents raised the scope as an additional issue they would like to bring to the IASB's attention. These respondents suggested that the scope of the Standard be widened by relaxing or removing the second criteria for public accountability (see paragraph 6(b) of this paper) to improve the financial reporting of credit unions and smaller financial institutions, especially in developing economies. The respondents said that the *IFRS for SMEs* Accounting Standard would be more appropriate than full IFRS Accounting Standards for these entities because they are often small, less complex and have limited resources. The respondents also said that some jurisdictions, such as the UK, have widened the scope of their local standard for SMEs (which in the UK is based on the *IFRS for SMEs* Accounting

[5] See paragraphs 13–17 of Agenda Paper 30A of the September 2019 IASB meeting.

Standard) to include some financial institutions without adding significant complexity to that standard.

Staff analysis

13. The IASB discussed the scope of the *IFRS for SMEs* Accounting Standard at length—during development of the Standard, during the first comprehensive review of the Standard and during development of the Request for Information as part of this second comprehensive review. Only a small number of respondents to the Request for Information suggested relaxing or removing the second criteria for public accountability (see paragraph 12 of this paper).

14. In the 2012 Request for Information for the first comprehensive review, the IASB asked a specific question on whether the scope requirements of the *IFRS for SMEs* Accounting Standard are too restrictive for financial institutions such as credit unions and micro-sized banks. Whilst most respondents expressed support for the current scope, some supported allowing certain publicly accountable entities to use the *IFRS for SMEs* Accounting Standard. Some of the reasons given for why the *IFRS for SMEs* Accounting Standard may improve financial reporting for those entities were similar to the comments in paragraph 12 of this paper:[6]

    (a) some credit unions and micro-sized banks are very small, their shares are not publicly traded and the primary users of their financial statements (depositors) do not require the level of detail that is required in financial statements prepared in accordance with full IFRS Accounting Standards.

    (b) some jurisdictions have not adopted full IFRS Accounting Standards for all publicly accountable entities because of the perceived complexity or lack of resources in the jurisdiction. Currently, those entities may be

[6] Paragraph BC18 of the Basis for Conclusions on the 2013 Exposure Draft *Proposed amendments to the IFRS for SMEs*.

applying local standards that are inferior to the *IFRS for SMEs* Accounting Standard.

The staff note that the comments raised in paragraph 12 of this paper do not provide new information and that the IASB considered these comments during the first comprehensive review when deciding not to extend the scope of the *IFRS for SMEs* Accounting Standard.

15. The *IFRS for SMEs* Accounting Standard was specifically designed for entities without public accountability and users of their financial statements and so it may not appropriately cater for a wider group of entities. If the scope of the Standard was widened to include some entities that have public accountability, the IASB would need to reconsider its decisions made throughout the Standard based on cost-benefit considerations for this wider group, including the needs of their users. Furthermore, if the scope was widened to include some publicly accountable entities, it may lead to pressure to make changes to the *IFRS for SMEs* Accounting Standard to accommodate that wider group, which would increase its complexity.

16. The staff continue to believe that widening the scope would add complexity to the Standard should the second criteria for public accountability be removed. In particular, if the scope was widened to include some financial institutions the staff think there would be pressure to include additional requirements from the newer full IFRS Accounting Standards that are being considered during this review such as IFRS 9 *Financial Instruments* and IFRS 13 *Fair Value Measurement* to cater for a wider range of instruments held by financial institutions and incorporate additional disclosures from IFRS 7, including the risk disclosures. For example, the staff think there would be pressure to incorporate additional complexity and disclosure requirements for hedge accounting, and align with the general model in IFRS 9 to calculate expected credit losses and disclose credit risk management practices.

17. The staff also think it would be difficult to define a wider scope that includes only ‘small’ financial institutions. Paragraph BC69 of the Basis for Conclusions on the *IFRS for SMEs* Accounting Standard explains why the definition of SMEs does not include quantified size criteria for determining what is a small or medium-sized entity. In particular, the IASB noted that it is not feasible to develop

quantified size tests that would be applicable and long-lasting in all of the jurisdictions that might apply the *IFRS for SMEs* Accounting Standard. Furthermore, as noted in paragraph 8 of this paper, IFASS members did not support exceptions to the definition of public accountability to allow some publicly accountable entities to apply the Standard and expressed concerns about the difficulty of drafting such an exception.

18. For the reasons above, the staff do not recommend widening the scope. Nevertheless, feedback on the Exposure Draft *Subsidiaries without Public Accountability: Disclosures*, published in July 2021, indicates there are some concerns about application of the definition of public accountability. In particular, some respondents disagreed with the statement in paragraph 1.3 of the *IFRS for SMEs* Accounting Standard that 'most' banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks hold assets in a fiduciary capacity for a broad group of outsiders as a primary business, and hence have public accountability. Therefore, Agenda Paper 30B of this meeting considers whether the IASB should add further guidance to clarify the definition of public accountability.

Staff recommendation and question for the IASB

19. The staff recommend the scope of the *IFRS for SMEs* Accounting Standard is not amended, that is the scope should remain as entities that do not have public accountability and prepare general purpose financial statements.

Question 1 for the IASB
Does the IASB agree with the staff recommendation not to amend the scope of the *IFRS for SMEs* Accounting Standard?

Name of the *IFRS for SMEs* Accounting Standard

Background[7]

20. The IASB discussed the name of the Standard 'IFRS for SMEs' and the use of the term 'small and medium-sized entities' (SMEs) on several occasions during development of the Standard. After soliciting views in the 2004 Discussion Paper *Preliminary Views on Accounting Standards for Small and Medium-sized Entities*, the IASB chose the term 'small and medium-sized entities (SMEs)' to describe the entities eligible to apply the Standard, primarily because SME is recognised globally. However, many respondents said that 'SME' is not appropriate because:

    (a) 'small' and 'medium' imply a size test; and

    (b) the term SME already has precise, and differing, quantified definitions in many jurisdictions and two definitions for the same term would lead to confusion.

21. In May 2008, the IASB tentatively decided that the name of the Standard should be changed to 'IFRS for Private Entities'. However, some of the IASB's stakeholders felt changing the name to 'private entities' indicated a move away from small and medium-sized entities toward those at the larger-size end of the spectrum of entities without public accountability. Additionally, like 'SME', the term 'private entity' has particular meaning in some jurisdictions.

22. In January 2009, the IASB tentatively decided to change the name to 'IFRS for Non-publicly Accountable Entities'. The reaction to this name was unfavourable because:

[7] Incorporates Issue 9 of Agenda Paper 8C *Additional issues raised by respondents* of the May 2013 IASB meeting.

(a) it is expressed in the negative;

(b) all entities have some accountability to the public; and

(c) 'non-publicly accountable entity' is a complicated phrase to say and to translate.

23. The IASB considered but rejected suggestions such as 'Simplified IFRSs', 'Abridged IFRSs' and 'Concise IFRSs' because many stakeholders were concerned that these names could be perceived as implying that the Standard is second class to full IFRS Accounting Standards and more in the nature of training materials than a separate standard.

24. Finally in March 2009 after raising the issue with representatives of the national standard-setters, the IASB decided that the name of the Standard should be '*IFRS for SMEs*'. The *IFRS for SMEs* Accounting Standard was published in July 2009.

25. During the first comprehensive review of the *IFRS for SMEs* Accounting Standard (2012–2015), some respondents said the name of the Standard should be changed to focus on entities within its scope. In 2013, the IASB consulted the SME Implementation Group (SMEIG) and the SMEIG recommended that the name of the Standard should not be changed, noting that the name of the Standard is well established as a brand. Furthermore, some SMEIG members noted it has been incorporated in the national law in many jurisdictions and changing the law would cause problems. The IASB considered the name of the Standard at both its May 2013 and November 2014 meetings and decided not to change the name of the Standard.

26. Paragraphs BC78–BC79 in the Basis for Conclusions on the *IFRS for SMEs* Accounting Standard further explain the IASB's reasoning for deciding that the name of the Standard should be 'IFRS for SMEs'.

Feedback on the Request for Information

27. The IASB did not ask a question about amending the name of the *IFRS for SMEs* Accounting Standard in the Request for Information. However, some respondents raised the name as an additional issue they would like to bring to the IASB's

attention. These respondents think the name of the Standard is misleading because the Standard does not prescribe size criteria. Some said that the name is confusing because large non-publicly accountable entities are eligible to use the Standard. Suggestions for an alternative name include IFRS for Non-Public Interest Entities, IFRS for Private Entities and IFRS for non-publicly accountable entities. Furthermore, one of these respondents (in their response to the Exposure Draft *Subsidiaries without Public Accountability: Disclosures*) recommended that the IASB should address the lack of consistency between the title of that Exposure Draft and the title of the *IFRS for SMEs* Accounting Standard in order to make their scope and applicability clear, given that both standards are applicable to entities without public accountability.

28. One respondent said that one of the reasons given for using the term ‘SMEs’ in the Basis for Conclusions on the *IFRS for SMEs* Accounting Standard was this term is used in the objectives of the IASC Foundation[8] and the IASB. This respondent noted that the objectives of the IASB and IFRS Foundation no longer include this term, and so this justification should be reconsidered.

Staff analysis

29. The objectives of the IFRS Foundation in the current IFRS Foundation Constitution include ‘to take account of, as appropriate, the needs of a range of sizes and types of entities in diverse economic settings’.[9] Previously, as noted in paragraph BC79(a) of the Basis for Conclusions on the *IFRS for SMEs* Accounting Standard, the objectives of the IASC Foundation and the IASB as set out in the Foundation’s Constitution included the wording ‘to take account of, as appropriate, the special needs of small and medium-sized entities and emerging economies’. The staff note that reference to SMEs has been removed, however,

[8] The IFRS Foundation was previously called the IASC Foundation.

[9] Paragraph 2(c) of the IFRS Foundation Constitution.

the staff do not think this change should influence the name of the *IFRS for SMEs* Accounting Standard.

30. The IASB decided that the best alternative for the name of the Standard was 'IFRS for SMEs' after several rounds of discussions, which included considering all of the alternatives suggested by respondents in paragraph 27 of this paper. The name 'IFRS for SMEs' is now well established as a recognised brand and changes to the name risk weakening this brand. The Standard is commonly recognised and adopted by jurisdictions as the alternative to local GAAP for the middle tier of entities, ie those entities that do not have public accountability and are not covered by a local Standard for micro-sized entities. Furthermore, as noted in paragraph 25 of this paper, changing the name might cause problems for local laws or regulations.

31. The IASB's primary aim when developing the *IFRS for SMEs* Standard was to provide a stand-alone, simplified set of accounting principles for entities that do not have public accountability and that typically have less complex transactions, limited resources to apply full IFRS Accounting Standards and that operate in circumstances in which comparability with their listed peers is not an important consideration (see paragraph BC187 of the Basis for Conclusions on the *IFRS for SMEs* Standard). The staff think the term 'SME' helps to convey that the *IFRS for SMEs* Accounting Standard is primarily aimed at those entities with less complex transactions and limited resources. Paragraph 17 of this paper explains why the IASB did not try to develop quantified size criteria when defining a small or medium-sized entity.

32. To justify a name change, the staff think there would either need to be significant new information in support of a better alternative or a change in the scope of the Standard. The staff do not think there is new information that might support a

name change. The staff also think that changing the name of the Standard could be confusing without a change in the scope of the Standard.

Staff recommendation and question for the IASB

33. The staff recommend that the name of the *IFRS for SMEs* Accounting Standard is not changed.

Question 2 for the IASB
Does the IASB agree with the staff recommendation not to change the name of the *IFRS for SMEs* Accounting Standard?