
SME Implementation Group meeting

Date	July 2023
Project	Second Comprehensive Review of the <i>IFRS for SMEs</i>[®] Accounting Standard
Topic	Cover Paper
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This paper has been prepared for discussion at a public meeting of the SME Implementation Group. This paper does not represent the views of the International Accounting Standard Board (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 are reported in the IASB[®] *Update*.

Purpose of this meeting

1. In September 2022, the International Accounting Standards Board (IASB) published Exposure Draft *Third edition of the IFRS for SMEs Accounting Standard* (the Exposure Draft). The Exposure Draft was open for comment for 180 days, which ended on 7 March 2023.
2. The purpose of this meeting is for the SME Implementation Group (SMEIG) is to discuss the feedback from comment letters, outreach events and field-testing on the Exposure Draft and provide advice to the IASB, particularly on the questions set out in the appendix to this paper. SMEIG members will also be asked if they have any comments on the urgent amendment to Section 29 *Income Taxes for International Tax Reform—Pillar Two Model Rules*.

Structure of this paper

3. This paper is structured as follows:
 - (a) overview of agenda papers for this meeting (paragraphs 4–6);
 - (b) terms used in the analysis of feedback on the Exposure Draft (paragraphs 7–9);

- (c) background to the second comprehensive review and obtaining feedback during this review (paragraphs 10–16);
- (d) next step (paragraphs 17); and
- (e) Appendix: Questions for the SMEIG on Agenda Papers 2–4.

Overview of agenda papers for this meeting

4. The agenda papers for this meeting are:
- (a) Agenda Paper 2 *Feedback from comment letters on Exposure Draft—Proposed amendments to the IFRS for SMEs Accounting Standard*. Agenda Paper 2 summarises the feedback from comment letters on questions 1–11 and 15 of the Invitation to Comment (ITC) in the Exposure Draft, which ask about the proposed amendments to the *IFRS for SMEs Accounting Standard*.
 - (b) Agenda Paper 3 *Feedback from comment letters on Exposure Draft—Topics for which amendments were not proposed*. Agenda Paper 3 summarises the feedback from comments letters on questions 12–14 of the ITC, which ask about topics that the IASB considered but for which amendments were not proposed.
 - (c) Agenda Paper 4 *Outreach feedback summary*. Agenda Paper 4 summarises the feedback gathered from outreach events undertaken by IASB members and staff on the Exposure Draft.
 - (d) Agenda Paper 5 *Proposed revised Section 23 Revenue from Contracts with Customers—Fieldwork methodology*. Agenda Paper 5 describes the methodology used for the fieldwork on the revised requirements for revenue proposed in the Exposure Draft.
 - (e) Agenda Paper 6 *Proposed revised Section 23 Revenue from Contracts with Customers—Findings from fieldwork*. Agenda Paper 6 sets out the findings from the fieldwork on the revised requirements for revenue proposed in the Exposure Draft.

- (f) *Agenda Paper 7 International Tax Reform—Pillar Two Model Rules—Amendments to the IFRS for SMEs Accounting Standard.* Agenda Paper 7 summarises the IASB’s proposals for an urgent amendment.
5. Agenda Papers 2–4 for this meeting provide a summary of the feedback from comment letters and outreach events. They do not provide a comprehensive list of all issues raised and suggestions made by comment letter respondents and outreach participants. The staff will present detailed analyses of the issues and recommendations at future IASB meetings during the IASB’s redeliberations, when the IASB would be asked for decisions.
6. The appendix to this paper contains questions for the SMEIG to consider in preparation for this meeting for Agenda Papers 2–4. There are also questions in Agenda Papers 6–7.

Terms used in the analysis of feedback on the Exposure Draft

7. Agenda papers 2–4 use the following terms to give a broad indication of the views in the comment letters and from outreach events.

Term	Extent of response among respondents
Almost all	all except a very small minority
Most	a large majority, with more than a few exceptions
Many	a small majority or large minority
Some	a small minority, but more than a few
A few	a very small minority

8. In determining which term to use, the staff considered not just the number of responses, but also other factors, such as whether a response reports the views of a single individual or the views of a broader group.
9. In addition, the staff assessed whether comments appeared to be concentrated in specific geographical areas or among particular types of respondents.

Background to the second comprehensive review and obtaining feedback during this review

10. The IASB:
 - (a) issued the *IFRS for SMEs Accounting Standard* (the Standard) in 2009, with immediate effect;
 - (b) completed its first comprehensive review of the Standard in 2015 by issuing an amended Standard, which became effective in 2017; and
 - (c) commenced its second comprehensive review of the Standard in 2019— paragraph BC264 of the Basis for Conclusions on the Standard explains that a comprehensive review of the *IFRS for SMEs Accounting Standard* should commence approximately two years after the effective date of the amendments to the Standard resulting from a previous comprehensive review.
11. In January 2020, the IASB published Request for Information *Comprehensive Review of the IFRS for SMEs Standard* (Request for Information) as a first step in its second comprehensive review. The objective of the Request for Information was to seek views on whether and how the IASB should amend the *IFRS for SMEs Accounting Standard*.
12. The Request for Information had three parts:
 - (a) Part A set out the framework the Board developed for approaching this review and asked for comments on the Board's alignment approach;

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- (b) Part B contained questions on sections of the *IFRS for SMEs* Accounting Standard that could be aligned with IFRS Accounting Standards, amendments to IFRS Accounting Standards and IFRIC Interpretations in the scope of this review; and
 - (c) Part C asked for views on topics that are not addressed in the *IFRS for SMEs* Accounting Standard and topics on which the Board has received feedback.
13. The Request for Information was open for comment for 270 days (extended from 180 days because of the Covid-19 pandemic). During the comment period on the Request for Information, IASB members and staff gathered feedback from stakeholders across different jurisdictions:
- (a) IASB members and staff met remotely with more than 2,000 stakeholders in approximately 15 individual and group meetings in more than 90 jurisdictions across the world;
 - (b) the IASB also obtained feedback from:
 - (i) 66 comment letters;
 - (ii) 30 completed online surveys—the online survey replicated the questions in the Request for Information;
 - (iii) 54 completed user surveys—the user survey included 13 questions focused on the needs of users of SMEs’ financial statements; and
 - (iv) 12 interviews with users of SMEs’ financial statements
14. Overall, stakeholders who provided feedback on the alignment approach agreed with continuing to base the Standard on full IFRS Accounting Standards. Some respondents queried whether the alignment principles appropriately assessed the costs and benefits of any possible amendment to the Standard, considering the limited resources and capabilities of SMEs, and the IASB used this feedback to refine the alignment approach.¹

¹ See paragraph BC33-BC37 of the Basis for Conclusions on the Exposure Draft.

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15. In September 2022, the IASB published the Exposure Draft using the alignment approach. 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.
 16. The Request for Information asked questions about the IASB's approach to this review and how to align the *IFRS or SMEs* Accounting Standard with individual IFRS Accounting Standards. The IASB received comprehensive feedback on these questions through extensive outreach during the comment period on the Request for Information (see paragraph 13). This enabled a more targeted approach to obtaining feedback on the Exposure Draft. In particular, the Invitation to Comment (ITC) in the Exposure Draft asked specific questions about the issues that had been more contentious during developing the Exposure Draft. For example, for the proposed amendments to Section 19 *Business Combinations*, the ITC asked whether respondents agree that the IASB's proposals appropriately simplify the measurement requirements for non-controlling interests, rather than asking for views on aligning requirements with IFRS 3 (2008) *Business Combinations*. The staff also carried out field testing on Section 23 *Revenue from Contracts with Customers* following advice from SMEIG members.

Next step

17. After the SMEIG meeting, the staff will prepare a project plan for the IASB to redeliberate the proposals in the Exposure Draft. The feedback from SMEIG members at this meeting will be considered by the IASB during its redeliberations.

Appendix: Preliminary questions for SMEIG on Agenda Papers 2–4

SMEIG Question number	Questions for SMEIG members:	Related question in Invitation to Comment in Exposure Draft
<p>Question 1 Guidance in Standard versus educational modules</p>	<p>Advice on the following topics:</p> <ul style="list-style-type: none"> (a) some respondents have commented on the level of guidance in sections such as Sections 9, 12 and 23 of the Exposure Draft (eg adding more guidance in some areas or reducing the amount of guidance). What factors should the IASB take into consideration in determining which guidance and examples should be in the Standard/appendices to the Standard versus which guidance and examples should be in separate educational material (the IFRS for SMEs educational modules on our website)? (b) whether you have any comments on the <i>IFRS for SMEs</i> educational modules on our website (eg how they could be made more user-friendly/accessible). 	
<p>Question 2 Impairment of financial assets</p>	<p>Advice on the following topics:</p> <ul style="list-style-type: none"> (a) how the IASB should address the feedback on the IASB’s proposal to introduce an expected credit loss (ECL) model for only some financial assets, for example: <ul style="list-style-type: none"> (i) retain an incurred model for all financial assets during this comprehensive review; or (ii) amend the scope of financial assets subject to the ECL model; or (iii) retain the proposal in the Exposure Draft. (b) if an ECL model is not introduced for any financial assets during this comprehensive review, what alternative approaches the IASB should consider for accounting for financial guarantee contracts. 	<p>Question 4— Proposed amendments to the impairment of financial assets in Section 11 <i>Basic Financial Instruments</i> (to be renamed <i>Financial Instruments</i>)</p>
<p>Question 3 Revenue from contracts with customers</p>	<p>Advice on the following topics:</p> <ul style="list-style-type: none"> (a) some respondents said that some requirements or terminology in the proposed revised Section 23 should be the same as IFRS 15 <i>Revenue from Contracts with Customers</i>, and not simplified (see paragraph 59–60 of Agenda Paper 2). 	<p>Question 8— Proposed revised Section 23 <i>Revenue</i> (to be renamed <i>Revenue from</i></p>

SMEIG Question number	Questions for SMEIG members:	Related question in Invitation to Comment in Exposure Draft
	<p>What are your views on the requirements in the revised Section 23 being the same as those in IFRS 15 for:</p> <ul style="list-style-type: none"> (i) principal versus agent; and (ii) determining whether a promise is satisfied over time? <p>(b) what are your views on retaining in the revised Section 23:</p> <ul style="list-style-type: none"> (i) the term 'promise' to identify the unit of account for goods and services promised in a contract with a customer, instead of 'performance obligation' (the term used in IFRS 15); and (ii) the requirements for constraining estimates of variable consideration (see paragraphs 23.46 and BC191(f) of the Exposure Draft)? <p>(c) some respondents said the proposed simplifications to the requirements in IFRS 15 for warranties and material rights in the proposed revised Section 23 would involve substantial judgement and introduce complexity (see paragraph 60(b) of Agenda Paper 2). Do you have any suggestions of alternative ways of simplifying the requirements in IFRS 15 for warranties and customer options for additional goods and services to those proposed in the Exposure Draft?</p> <p>(d) some respondents suggested that instead of an undue cost or effort exemption, SMEs should have an accounting policy choice to recognise costs to obtain a contract that meet certain conditions as either an asset or an expense (see paragraph 60(d) of Agenda Paper 2). What are your views on this suggestion?</p>	<p><i>Contracts with Customers)</i></p>
<p>Question 4 Control model</p>	<p>Many respondents conditionally agreed with the proposal to retain the rebuttable presumption provided paragraph 9.5 is amended to specify that the rebuttable presumption is only applicable when voting rights are the main factor in determining control. What are your views on amending paragraph 9.5 to specify that the rebuttable presumption is</p>	<p>Question 3— Proposed amendments to the definition of control in Section 9 <i>Consolidated and Separate</i></p>

SMEIG Question number	Questions for SMEIG members:	Related question in Invitation to Comment in Exposure Draft
	only applicable when voting rights are the main factor in determining control?	<i>Financial Statements</i>
Question 5 Joint Arrangements	Some respondents disagreed with the retention of the existing three classifications of joint arrangements in Section 15. What challenges might arise in practice with the proposal to align the definition of joint control with IFRS 11 <i>Joint Arrangements</i> but retain the three classifications of joint arrangements in Section 15?	Question 6— Proposed amendments to Section 15 <i>Investments in Joint Ventures</i> (to be renamed <i>Joint Arrangements</i>)
Question 6 Requirement to offset equity instruments	Most respondents supported the removal of paragraph 22.7(a) of the Standard. Are you aware of any unintended consequences if paragraph 22.7(a) is removed from the <i>IFRS for SMEs Accounting Standard</i> ?	Question 14— Requirement to offset equity instruments