
SME Implementation Group

Date **13 July 2023**
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This document summarises a meeting of the SME Implementation Group.

SME Implementation Group members who attended the meeting

Region	Members
Africa	Noluthando Bobani*
Africa	Blaise Colyvas
Africa	Ernest Muriu*
Africa	Peter Mwambuja*
Africa	Kwabena Situ
Africa	Leana Van Der Merwe*
Asia-Oceania	Fridrich Housa*
Asia-Oceania	Pramod Jain
Asia-Oceania	Eng Kian Lee
Asia-Oceania	Danny Tan
Asia-Oceania	Lei Yan
Europe	Jenny Carter
Europe	Úna Curtis*
Europe	José M. Hinojal*
Europe	Eva Sundberg*
The Americas	Nancy Aragón Granja*
The Americas	Wilfred Au*
The Americas	Omar Alberto Benítez Aníbal
The Americas	Gabriel Gaitán León*
The Americas	Cecilia Geron*

Region	Members
The Americas	Martin Nazzarro*
The Americas	Andrea St Rose*
Others	Hironori Okada
Observer	Karen Sanderson

* Remote participation via videoconference

Purpose of this meeting

1. This document summarises the hybrid SME Implementation Group (SMEIG) meeting held on 13 July 2023, which was chaired by Jianqiao Lu, International Accounting Standards Board (IASB) member and Chair of the SMEIG. More information about the SMEIG can be found on the [IFRS Foundation's website](#).
2. The SMEIG discussed the feedback on the Exposure Draft *Third edition of the IFRS for SMEs Accounting Standard* (the Exposure Draft) and provided advice to the IASB on the following topics:
 - (a) guidance in the *IFRS for SMEs Accounting Standard* (Standard) versus in educational material;
 - (b) impairment of financial assets;
 - (c) revenue from contracts with customers;
 - (d) control model;
 - (e) joint arrangements;
 - (f) requirement to offset equity instruments;
 - (g) international tax reform—Pillar Two model rules; and
 - (h) other issues on the feedback on the Exposure Draft.
3. The agenda papers for the meeting are available on the [IFRS Foundation's website](#).

Guidance in the Standard versus in educational material

Factors to consider in determining which guidance belongs in the Standard

4. SMEIG members were asked for advice on the factors the IASB should consider when deciding which guidance and examples belong in the Standard and which belong in educational material. SMEIG members suggested indicators to use in making this decision, including:
 - (a) pervasiveness—it affects many or most entities and/or is requested by many or most stakeholders; and
 - (b) operability—it is needed to apply the principles in the Standard. For example, high-level principles in the Standard might necessitate requirements that set boundaries and help an entity to apply judgement. However, guidance that relates to specific fact patterns should be in educational material.
5. Some SMEIG members said that non-mandatory guidance should be included in separate educational material, not in the Standard.

Suggestions for the *IFRS for SMEs* educational modules

6. SMEIG members were asked for advice on how to make the *IFRS for SMEs* educational modules more user-friendly and accessible. Some SMEIG members said awareness of the *IFRS for SMEs* educational modules should be improved. Additionally, SMEIG members made the following suggestions to help improve accessibility of the modules:
 - (a) developing an annotated version of the Standard that links to the educational modules;
 - (b) providing translations of the educational modules;
 - (c) working with partners to develop and promote educational modules, including identifying champions in various regions, working with a range of partners and holding train-the-trainer sessions; and
 - (d) considering new ways to make educational material more user-friendly and interactive, for example using an e-learning style or setting up a learning platform.

Impairment of financial assets

7. SMEIG members were asked for advice on how the IASB should respond to feedback on the IASB's proposal to introduce an expected credit loss (ECL) model for some financial assets.
8. Some SMEIG members suggested retaining the incurred loss model for all financial assets for cost-benefit reasons. Other SMEIG members suggested widening the scope of the incurred loss model proposed in the Exposure Draft to include intercompany financial assets. However, these SMEIG members said SMEs with more complex lending arrangements should apply an ECL model.
9. SMEIG members made the following suggestions for how the IASB could respond to the feedback:
 - (a) requiring an SME to apply an ECL model if provision of finance is a primary or major business activity;
 - (b) permitting an accounting policy option to apply the ECL model or the incurred loss model;
 - (c) requiring an SME to apply an ECL model unless doing so causes undue cost or effort; and
 - (d) supplementing the incurred loss model with disclosures, for example for an SME that provides financing as a primary or major business activity.

10. SMEIG members were also asked 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 issued financial guarantee contracts. Two SMEIG members suggested that SMEs account for issued intercompany financial guarantee contracts applying Section 21 *Provisions and Contingencies*, with appropriate disclosures.

Revenue from contracts with customers

Findings from fieldwork

11. SMEIG members were asked for their views on the findings from the fieldwork carried out by IASB staff with accounting practitioners on the revised revenue requirements proposed in the Exposure Draft. SMEIG members said the findings were consistent with their expectations.

Comment letter feedback

Alignment with IFRS 15

12. SMEIG members were asked for their views on whether the IASB should further align specific areas of the requirements for revenue proposed in the Exposure Draft with IFRS 15 *Revenue from Contracts with Customers*.
13. SMEIG members generally agreed that the IASB should retain the requirements for constraining estimates of variable consideration proposed in the Exposure Draft.
14. SMEIG members had mixed views on whether the terminology and requirements in the *IFRS for SMEs* Accounting Standard should be aligned with IFRS 15 for:
- (a) identifying the unit of account for goods and services promised in a contract with a customer (that is, using the term 'promise' in the *IFRS for SMEs* Accounting Standard, rather than the term 'performance obligation' used in IFRS 15);
 - (b) determining whether an entity is acting as a principal or an agent; and
 - (c) determining whether a promise is satisfied over time.
15. One SMEIG member supported further aligning the *IFRS for SMEs* Accounting Standard with IFRS 15 for the topics in paragraph 14(b)–(c) of this report, to allow SMEs to follow industry-specific guidance written for entities applying IFRS 15.
16. Some SMEIG members said the requirements in the *IFRS for SMEs* Accounting Standard for determining whether an entity is acting as a principal or an agent should be the same as IFRS 15 because of the significance of this assessment. These SMEIG members also said:
- (a) this assessment will be more difficult for entities if elements of the requirements in IFRS 15 are omitted or expressed differently.
 - (b) the requirements in the *IFRS for SMEs* Accounting Standard could result in SMEs and entities applying IFRS 15 reporting revenue on different bases in similar situations (that is, gross and net). In the view of one SMEIG member, it is more important to achieve consistent accounting when applying IFRS 15 and the *IFRS for SMEs* Accounting Standard for this area compared with other areas, where any differences in accounting would be resolved once the contract is completed.

Alternative simplifications to the requirements in IFRS 15

17. SMEIG members were asked for suggestions of alternative ways to simplify the requirements in IFRS 15 for warranties and customer options for additional goods and services to those proposed in the Exposure Draft.
18. SMEIG members did not suggest alternatives and generally supported the IASB retaining the requirements proposed in the Exposure Draft for both topics. Some SMEIG members recommended that the IASB provide guidance to help SMEs make the judgements needed to apply the proposed requirements.

Costs to obtain a contract

19. SMEIG members were asked for their views on whether the IASB should introduce an accounting policy option permitting an SME to recognise costs to obtain a contract that meet specific conditions as either an asset or an expense. SMEIG members had mixed views about introducing an accounting policy option as an alternative to the undue cost or effort exemption proposed in the Exposure Draft.
20. Some SMEIG members raised concerns about introducing an accounting policy option, including that:
 - (a) an accounting policy option would mean SMEs would choose how to account for costs to obtain a contract without considering user needs and cost-benefits; and
 - (b) an accounting policy option would reduce comparability between entities.
21. One SMEIG member concluded that the proposed undue cost or effort exemption would require SMEs to distinguish costs to obtain a contract from other costs, which would add complexity.

Control model

22. SMEIG members were asked for their views on amending paragraph 9.5 of the Exposure Draft to specify that the rebuttable presumption is applicable only when voting rights are the main factor in determining control.
23. SMEIG members generally supported the retention of the rebuttable presumption because it simplifies application of the definition of control. However, some SMEIG members advised clarifying how the rebuttable presumption fits into the control model and provided suggestions on how to do so, including suggestions on how to link and reorder paragraphs 9.4—9.5 of the Exposure Draft.
24. One SMEIG member disagreed with amending paragraph 9.5 because the concept of 'main factor' is judgemental.

Joint arrangements

25. SMEIG members were asked for their views on the practical challenges of the proposal to align the definition of joint control with IFRS 11 *Joint Arrangements* while retaining the three classifications in Section 15 *Joint Arrangements* of the Exposure Draft.
26. Some SMEIG members said they would have preferred full alignment with IFRS 11, with simplifications, rather than retaining the three classifications. However, they concluded that the outcome of the proposal will not result in materially different outcomes and suggested that the IASB reassess the decision in the next comprehensive review of the Standard.
27. Some SMEIG members supported the proposal to retain the three classifications as an appropriate simplification for SMEs.

Requirement to offset equity instruments

28. SMEIG members were asked whether they are aware of any unintended consequences if paragraph 22.7(a) is removed from the *IFRS for SMEs Accounting Standard*.
29. Some SMEIG members supported the removal of paragraph 22.7(a) and said:
- (a) jurisdictions have various legal requirements for unpaid issued equity instruments and removing the paragraph would enable consistency with these requirements;
 - (b) presenting the amount receivable (financial asset) within equity does not faithfully represent the transaction; and
 - (c) removing the paragraph would allow entities to recognise and present the transaction based on the contractual terms and conditions (that is, an entity should recognise a receivable if a contractual right to receive cash or another financial asset exists at the reporting date).
30. Some SMEIG members disagreed with removing paragraph 22.7(a) and said:
- (a) the paragraph is consistent with local legislation, for example in Colombia.
 - (b) removal of the paragraph will result in the amount receivable being recognised as a financial asset, requiring the application of the proposed ECL model for SMEs, which would create complexities.
31. One SMEIG member suggested adding a disclosure requirement for jurisdictions that require the amount receivable from unpaid issued equity instruments to be presented as an offset to equity.

International tax reform—Pillar Two model rules

32. SMEIG members were asked if they have any comments on the proposals in the Exposure Draft *International Tax Reform—Pillar Two Model Rules—Proposed Amendments to the IFRS for SMEs Standard*.
33. SMEIG members suggested clarifying that the proposed disclosure requirement in proposed new paragraph 29.42 is not applicable to SMEs that are unaffected by Pillar Two legislation.
34. SMEIG members said the proposed amendment to paragraph 29.38 of the Standard, which clarifies that ‘other events’ includes enacted or substantively enacted Pillar Two legislation, might not work as intended because it:
- (a) appears to contradict the proposed exception from recognising and disclosing deferred taxes arising from the Pillar Two legislation; and
 - (b) could cause confusion about what else might be ‘other events’ applying paragraph 29.38.
35. These SMEIG members suggested it would be better not to amend paragraph 29.38. One SMEIG member suggested using similar wording to the amendment to IAS 12 *International Tax Reform—Pillar Two Model Rules*.

Other issues

36. Some SMEIG members asked for clarification about the IASB's June 2023 decision not to further clarify the definition of 'public accountability' in the Standard. These SMEIG members provided suggestions on when guidance on applying that definition would be helpful.
37. Some SMEIG members suggested ways to improve the operation of the SMEIG, which will be considered by the IASB staff together with the feedback from the SMEIG on the post meeting questionnaire.