
IASB[®] meeting

Date	October 2023
Project	Second Comprehensive Review of the <i>IFRS for SMEs</i>[®] Accounting Standard
Topic	Proposed revised Section 23 <i>Revenue from Contracts with Customers</i>
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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 are reported in the IASB[®] *Update*.

Introduction

1. This paper provides a summary of the feedback on the revised requirements for revenue proposed by the International Accounting Standards Board (IASB) in its Exposure Draft *Third edition of the IFRS for SMEs Accounting Standard* (Exposure Draft). The paper then provides:
 - (a) staff analysis of respondents' concerns about the proposals in the Exposure Draft;
 - (b) staff suggestions for responding to the issues raised by respondents; and
 - (c) a staff recommendation on whether to proceed with the overall proposal in the Exposure Draft.
2. In this paper, the term SMEs refers to small and medium-sized entities that are eligible to apply the *IFRS for SMEs* Accounting Standard.

Purpose of the paper

3. The purpose of this paper is to ask the IASB to:
 - (a) consider feedback on the proposals in the Exposure Draft to revise Section 23 *Revenue* to align it with IFRS 15 *Revenue from Contracts with Customers*;
 - (b) provide views on suggestions for responding to the issues raised by respondents on the proposed revised Section 23, including the topics that the IASB will redeliberate at its future meetings; and
 - (c) decide whether to revise Section 23 of the *IFRS for SMEs* Accounting Standard to reflect the principles in IFRS 15 (that is, whether to proceed with the overall proposal in the Exposure Draft).

Staff recommendation

4. The staff recommend the IASB revise Section 23 of the *IFRS for SMEs* Accounting Standard to reflect the principles in IFRS 15.

Structure of the paper

5. This paper is structured as follows:
 - (a) development of the proposed revised Section 23 (paragraphs 6–12);
 - (b) feedback on the proposed revised Section 23 (paragraphs 13–33);
 - (c) SME Implementation Group (SMEIG) discussion (paragraphs 34–39);
 - (d) staff analysis of respondents' concerns about the proposed revised Section 23, applying the alignment approach:
 - (i) relevance to SMEs (paragraphs 43–50);
 - (ii) simplicity and faithful representation (paragraphs 51–75);
 - (iii) costs and benefits (paragraphs 76–86); and

- (iv) when to consider alignment (paragraphs 87–98);
- (e) staff recommendation and question for the IASB (paragraphs 99–101);
- (f) next steps (paragraph 102);
- (g) Appendix—Summary of the simplifications to IFRS 15 and feedback on the proposed revised Section 23.

Development of the proposed revised Section 23

Current requirements for revenue

6. Section 23 of the *IFRS for SMEs* Accounting Standard sets out the requirements for accounting for revenue and is based on IAS 11 *Construction Contracts* and IAS 18 *Revenue*. The Section requires revenue to be recognised for goods when risks and rewards are transferred and, for services, as the service is performed.
7. In 2014, the IASB issued IFRS 15, which replaced IAS 11 and IAS 18. IFRS 15 was developed to improve the accounting for revenue arising from contracts with customers by eliminating the inconsistencies and gaps in previous revenue Standards. IFRS 15 introduced a single framework for recognising revenue for both goods and services, which requires revenue to be recognised when the customer obtains control of the good or service.

Feedback on the 2020 Request for Information

8. In January 2020, the IASB published Request for Information *Comprehensive Review of the IFRS for SMEs Standard* (2020 Request for Information) as a first step in its second comprehensive review. When developing the 2020 Request for Information, the IASB considered that if Section 23 was aligned with IFRS 15, the effect for most SMEs would be minimal in terms of the timing and measurement of revenue. However, the IASB also noted the importance of revenue to financial statements, and the potential negative impacts of not aligning Section 23 with IFRS 15.

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9. In the 2020 Request for Information, the IASB asked for views on three alternative approaches to aligning Section 23 with IFRS 15:
- (a) modifying Section 23 only to remove the clear differences in outcome from applying Section 23 or IFRS 15, without wholly reworking Section 23;
 - (b) fully rewriting (revising) Section 23 to reflect the principles and language used in IFRS 15; and
 - (c) not making amendments to Section 23 as part of the second comprehensive review.
10. Respondents to the 2020 Request for Information generally supported aligning Section 23 with IFRS 15. However, respondents had mixed views on whether to align Section 23 by modifying or revising the Section (the alternatives in paragraphs 9(a)–(b) of this paper).

Proposals in the Exposure Draft

11. In considering the feedback to the 2020 Request for Information, the IASB rejected the alternative of modifying Section 23 only to remove the clear differences in outcome from applying Section 23 or IFRS 15 (the alternative in paragraph 9(a) of this paper). The alternative was considered to result in a hybrid model for revenue recognition that would be complex to apply. It would also require two conceptually different frameworks for revenue recognition to be brought together, which could result in potential inconsistencies between the requirements. Therefore, the IASB concluded that revising Section 23 provided a more straightforward approach to ensure the fundamental principles in IFRS 15 are reflected in the Standard.
12. The IASB applied its alignment approach when it developed the revised Section 23 (see paragraph 41 of this paper). The approach involved assessing what simplifications to the requirements in IFRS 15 would be appropriate. The simplifications aimed to reduce the costs of applying the requirements in IFRS 15 for SMEs. Therefore, in the Exposure Draft, the IASB proposed to revise Section 23 to

align it with the principles and language used in IFRS 15, with simplifications to the requirements in IFRS 15.

Feedback on the proposed revised Section 23

13. Feedback was provided on the proposed revised Section 23 through comment letters, outreach events and fieldwork.

Overall feedback

14. Feedback generally supported the IASB's proposals to revise Section 23 to align it with IFRS 15. Comment letter respondents and fieldwork participants identified topics where they would like the language or requirements in the proposed revised Section 23 to be:
- (a) simplified further; or
 - (b) the same as IFRS 15 (that is, not simplified).

Feedback from comment letters

15. The Invitation to Comment (ITC) in the Exposure Draft included two questions about the proposed revised Section 23. The questions are reproduced in the boxes below.

Question 8(i) of the ITC

Do you agree that the revised Section 23 would be appropriate for SMEs and users of their financial statements? If not, what modifications—for example, further simplifications or additional guidance—do you suggest and why?

16. Most respondents who commented on Question 8(i) of the ITC supported aligning Section 23 with IFRS 15. Most of these respondents agreed that the proposed revised Section 23 was appropriate. Some respondents who agreed that the proposed revised

Section 23 was appropriate said the revised Section will improve the revenue recognition requirements for SMEs.

17. All respondents that disagreed with aligning Section 23 with IFRS 15 commented on the cost of implementing the proposed revised Section 23. Many of these respondents said that the costs and efforts for SMEs to apply the proposed revised Section 23 would not be justified by the benefits to users.
18. A few respondents recommended that the IASB should complete its post-implementation review of IFRS 15 before it aligns Section 23 with IFRS 15.
19. Respondents expressed different views about the nature of SMEs' revenue contracts. A few respondents said SMEs' revenue contracts are less complex compared with entities applying full IFRS Accounting Standards. Of the respondents that held this view:
 - (a) respondents who supported aligning Section 23 with IFRS 15 said the proposed revised Section 23 will be straightforward for SMEs to apply.
 - (b) respondents who disagreed with aligning Section 23 with IFRS 15 said the proposed revised Section 23 would make accounting for revenue complex for SMEs.
20. A few respondents said that the comprehensive revenue recognition model in the proposed revised Section 23 will benefit SMEs that have more complex revenue contracts.
21. Most respondents who supported aligning Section 23 with IFRS 15 suggested changes to the proposed revised Section 23. Many of these respondents identified requirements and language in the proposed revised Section 23 that they would prefer to be the same as IFRS 15 (that is, not simplified).

22. A few respondents who suggested changes to the proposed revised Section 23 recommended the IASB make additional simplifications to the requirements in IFRS 15 for SMEs. Generally, the recommendations were for the IASB to:
 - (a) introduce accounting policy choices for certain recognition and measurement principles; or
 - (b) make the requirements in Section 23 more permissive compared to IFRS 15.
23. Some respondents who suggested changes to the proposed revised Section 23 were of the view that the Section could be shorter.
24. Some respondents who commented on Question 8(i) of the ITC stressed the need for application guidance to help SMEs apply the proposed revised Section 23.

Question 8(ii) of the ITC

Do you believe the guidance is appropriate and adequate for entities to make the assessment of whether a good or service is distinct? If not, is there any guidance that could be removed or additional guidance that is needed?

25. Most respondents who commented on Question 8(ii) of the ITC agreed that the guidance in the proposed revised Section 23 on determining whether goods or services are distinct is appropriate and adequate for SMEs to make this assessment. Of the respondents that commented, some suggested changes to the guidance. Many of these suggestions were for additional guidance by way of additional or enhanced examples.

Feedback from outreach events

26. IASB members and staff participated in 31 outreach events on the Exposure Draft, including round-table meetings and discussion forums. The events were organised in conjunction with national standard-setters, accountancy bodies, auditors and SMEIG members.

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27. Participants in outreach events generally supported the revised Section 23. Participants said the revenue recognition model in the proposed revised Section 23 is an improvement compared with the model in the current Section 23. Participants also said the simplifications to the requirements in IFRS 15 proposed in the revised Section 23 would reduce complexity for SMEs.
28. Participants in outreach events suggested the proposed revised Section 23 should include more illustrative examples. Participants also expressed concerns that the requirements in IFRS 15 are too technical for SMEs.

Fieldwork¹

29. Staff carried out fieldwork on the proposed revised Section 23 with accounting practitioners involved in the preparation of SMEs' financial statements. The fieldwork involved 31 accounting practitioners from 26 organisations in 12 jurisdictions. The fieldwork focused on the judgements that an SME would be required to make when applying the proposed revised Section 23.
30. Most fieldwork participants said they were able to make most of the judgements required to apply the proposed revised Section 23. Participants familiar with IFRS 15 were more likely to be able to make the judgements compared to with participants unfamiliar with IFRS 15. Among participants unfamiliar with IFRS 15, there were equal numbers that:
- (a) were able to make most of the judgements required to apply the proposed revised Section 23; and
 - (b) were unable to make many or most of the judgement required to apply the proposed revised Section 23.

¹ The fieldwork was discussed by the IASB at its September 2023 meeting. The fieldwork methodology and findings are included in [AP30D Proposed revised Section 23—Fieldwork methodology](#) and [AP30E Proposed revised Section 23—Findings from fieldwork](#).

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31. Fieldwork participants were generally unable to make a judgement because:
- (a) the information needed to make the judgement could not be obtained from the participants' clients.
 - (b) the requirements in the proposed revised Section 23 were unclear.
 - (c) the amount of judgement needed to apply the proposed requirements is too great.
32. Some fieldwork participants thought the proposed revised Section 23 would be inappropriate for SMEs. Most of these participants suggested that the Section could be made more appropriate by providing educational materials, however, many of these participants suggested the IASB leave the current Section 23 unchanged (that is, not align Section 23 with the *IFRS for SMEs* Accounting Standard).
33. Fieldwork participants also had concerns that the language used in the proposed revised Section 23 was complex and the Section was too long.

SMEIG discussion

34. The SMEIG met on 13 July 2023 to discuss the feedback on the Exposure Draft. At that meeting, SMEIG members were asked how the IASB should address feedback from comment letter respondents on specific topics in IFRS 15 that had been simplified in the proposed revised Section 23.
35. In addition to comments on specific topics, SMEIG members made the following comments:
- (a) simplifying the requirements in IFRS 15:
 - (i) prevents SMEs from following guidance written for entities applying IFRS 15; and
 - (ii) makes it more difficult for preparers familiar with IFRS 15 to determine the differences between the proposed revised Section 23 and IFRS 15; and

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- (b) simplifications to the requirements in IFRS 15 should be evaluated based on whether the requirements can be applied by preparers unfamiliar with IFRS 15.
36. One SMEIG member said that they were less concerned about simplifications to the requirements in IFRS 15 that could result in slight differences between the amount of revenue recognised in different reporting periods by SMEs and entities applying full IFRS Accounting Standards. This was because the cumulative amount of revenue recognised by SMEs and entities applying IFRS 15 would be the same once the contract is completed. The member compared these simplifications with other simplifications that could result in SMEs recognising cumulative amounts of revenue that were different to entities applying full IFRS Accounting Standards (for example, the proposed simplification to the requirements that determine whether an entity is acting as a principal or agent).
37. SMEIG members were also asked for their views on the findings from the fieldwork. SMEIG members said the findings were consistent with their expectations.
38. One SMEIG member said the findings from the fieldwork illustrate the significant learning process that will be required of SMEs implementing the proposed revised Section 23. The member said educational materials would be needed to help SMEs with this process.
39. One SMEIG member said that fieldwork participants' concerns about being unable to obtain the necessary information from their clients to apply the proposed revised Section 23 was consistent with the challenges experienced by entities implementing IFRS 15.

Staff analysis

40. Overall, respondents were supportive of the IASB's proposals to revise Section 23 to align it with IFRS 15. However, respondents also had concerns about the proposals. The analysis of respondents' concerns is structured using the IASB's alignment approach that it applied when it developed the proposals.
41. The IASB's alignment approach treats alignment with full IFRS Accounting Standards as the starting point for developing the *IFRS for SMEs* Accounting Standard. The approach 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. New full IFRS Accounting Standards that were effective on or before 1 January 2020 were considered for alignment. The IASB considered it generally not necessary to wait until the completion of the post-implementation reviews of these standards before they were considered for alignment. The IASB confirmed its alignment approach and the scope of the review at its meeting in September 2023.²
42. The analysis includes suggestions of how to respond to the issues raised by respondents. Should the IASB decide to proceed with revising Section 23 to align it with IFRS 15, the staff will take forward the suggestions as they continue to work on the Section.

Relevance to SMEs

43. IFRS 15 introduced a comprehensive framework for revenue recognition that could be applied to complex revenue transactions. The framework was expected to improve the consistency of revenue accounting among entities applying full IFRS Accounting Standards. The IASB considered this improvement to be relevant to SMEs when it proposed to align the *IFRS for SMEs* Accounting Standard with IFRS 15. This is because all entities can enter into complex revenue transactions, including SMEs.

² See [IASB Update](#) of the September 2023 IASB meeting.

Respondents' concerns

44. A few comment letter respondents said the proposed revised Section 23 would make accounting for revenue complex for SMEs. The respondents suggested that SMEs' revenue transactions are more straightforward compared with entities applying full IFRS Accounting Standards. The respondents were concerned that requirements that could be applied easily to complex revenue transactions would be difficult to apply to straightforward revenue transactions.

Staff analysis

45. The proposed revised Section 23 includes:
- (a) judgements that SMEs are required to make when accounting for revenue from all contracts with customers ('common judgements'); and
 - (b) judgements that SMEs are required to make when accounting for revenue from contracts with customers that contain features that are specific to certain types of contracts ('other judgements').
46. The current Section 23 requires SMEs to make judgements that are similar to the common judgements described in paragraph 45(a) of this paper. However, compared with the current Section 23, the proposed revised Section 23 includes more guidance to help SMEs make the judgements. The structure of the proposed revised Section 23 also helps SMEs make the judgements in a logical sequence.
47. SMEs must assess if the requirements on the judgements described in paragraph 45 of this paper are applicable to their contracts with customers when they apply the proposed revised Section 23. The terms and conditions of a contract will determine what requirements are applicable. The requirements on the other judgements described in paragraph 45(b) are unlikely to be applicable to contracts with simple terms and conditions. For these more straightforward contracts, assessing if the requirements on the other judgements are applicable has the potential to add complexity for SMEs applying the proposed revised Section 23.

Responding to the issues raised

48. The staff suggest exploring how SMEs could be provided with a clear pathway for accounting for straightforward revenue contracts in the proposed revised Section 23. Suggested approaches include:
- (a) placing requirements on other judgements in a separate appendix to Section 23 if an SME's conclusion when making the judgement would not be expected to frequently change (for example, principal versus agent considerations and licensing);
 - (b) moving non-mandatory guidance from the proposed revised Section 23 into educational material (for example, examples of suitable estimation methods for estimating the stand-alone selling price); and
 - (c) inserting requirements that act as 'screening tests' that indicate if requirements do not apply to certain types of contracts (for example, requirements that do not apply if a contract begins and ends within the same reporting period).
49. The approach in paragraph 48(c) is similar to a comment letter respondent's suggestion to have a screening test in the proposed revised Section 23 like the concentration test in IFRS 3 *Business Combinations*.³ The concentration test in IFRS 3 permits entities to make a simplified assessment of whether a transaction is an asset acquisition and not a business. The test is an alternative to performing the more detailed assessment otherwise required by IFRS 3.⁴
50. Having a screening test on the proposed revised Section 23 like the concentration test in IFRS 3 would mean SMEs would be permitted to apply optional simplifications when accounting for revenue. Simplifications that are optional have the potential to add complexity for preparers and users of SMEs' financial statements. The staff also think that if simplifications to the requirements in IFRS 15 are considered appropriate for

³ Paragraphs B7A– B7B of IFRS 3 *Business Combinations*.

⁴ In the Exposure Draft *Third edition of the IFRS for SMEs Accounting Standard*, the IASB proposed to include a similar concentration test in an appendix to Section 19 *Business Combinations and Goodwill* of the *IFRS for SMEs Accounting Standard*.

SMEs, the simplifications should be required for all SMEs and not optional. For these reasons, the staff do not suggest introducing screening tests similar to the concentration test in IFRS 3 into the proposed revised Section 23.

Simplicity and faithful representation

51. Table 1 sets out five ways the requirements in full IFRS Accounting Standards can be simplified in the *IFRS for SMEs* Accounting Standard.

Table 1—Ways full IFRS Accounting Standards can be simplified in the *IFRS for SMEs* Accounting Standard

Simplification	Reference in the <i>IFRS for SMEs</i> Accounting Standard
Omitting some topics	Paragraph BC16(a)
Permitting only the simplest option when an IFRS Accounting Standard permits options	Paragraph BC16(b)
Simplifying recognition and measurement requirements	Paragraph BC16(c)
Reducing disclosures	Paragraph BC16(d)
Simplifying language	Paragraph BC16(e)

52. The appendix to this paper summaries the simplifications in the proposed revised Section 23 used to simplify the requirements in IFRS 15. In addition to these simplifications, the requirements in IFRS 15 were expressed in simpler, more concise language when possible.
53. The IASB viewed the simplifications used in the proposed revised Section 23 as not substantially changing the underlying principles in IFRS 15 and not affecting faithful representation.

Respondents' concerns

54. The appendix to this paper summarises the feedback on the simplifications used in the proposed revised Section 23. It excludes matters raised by one or two respondents, which include several suggestions for additional or alternative simplifications to the requirements in IFRS 15.
55. The summary in the appendix to this paper identifies several topics where comment letter respondents would like the requirements in the proposed revised Section 23 to be the same as IFRS 15. Generally, these respondents wanted the requirements in the proposed revised Section 23 to be the same as IFRS 15 because they wanted SMEs to account for revenue in the same way as entities applying IFRS 15. The respondents also wanted practitioners to be able to use their knowledge of, and guidance on, IFRS 15 when applying the proposed revised Section 23.
56. The summary also identifies topics where fieldwork participants could not make the judgements required to apply the proposed revised Section 23. The summary focuses on the views of fieldwork participants unfamiliar with IFRS 15, rather than those familiar with IFRS 15. This is because participants unfamiliar with IFRS 15 are believed to be typical of those applying the *IFRS for SMEs* Accounting Standard.
57. In addition to the feedback summarised in the appendix to this paper, respondents also had concerns about the length of and language used in the proposed revised Section 23. Generally, respondents said:
- (a) the Section was too long and difficult to follow; and
 - (b) the requirements in the Section should be expressed in simpler language.

Staff analysis

58. Feedback from practitioners suggests that further simplifications are needed to make the proposed revised Section 23 suitable for practitioners unfamiliar with IFRS 15 to understand and apply. In contrast, comments indicate that stakeholders familiar with

IFRS 15 would prefer the proposed revised Section 23 to be more closely aligned with IFRS 15 for several topics. Paragraphs 59–68 of this paper analyse the issues and suggestions raised by both groups of respondents.

Differences in outcomes

59. The proposed revised Section 23 is based on the principles of IFRS 15. Therefore, SMEs are expected to account for revenue in a similar way to entities applying IFRS 15. However, because the requirements in IFRS 15 have been changed by simplifying them in the proposed revised Section 23, outcomes may occur that are different from the outcomes of applying IFRS 15. For SMEs to account for revenue in the same way as entities applying IFRS 15, the requirements in the proposed revised Section 23 would need to be a word-for-word copy of IFRS 15. This would conflict with the IASB’s primary aim of developing a simplified set of accounting principles for SMEs.⁵

Preparers’ knowledge of IFRS 15

60. The objective of the simplifications in the proposed revised Section 23 is to reduce the costs for SMEs by making the requirements in IFRS 15 easier to understand and apply. Without the simplifications, the requirements in IFRS 15 would be too complex and costly for SMEs.
61. The simplifications will mean that practitioners familiar with IFRS 15 will have to determine the differences between IFRS 15 and the proposed revised Section 23 prior to applying their knowledge of IFRS 15. However, practitioners unfamiliar with IFRS 15 are believed to be typical of those applying the *IFRS for SMEs Accounting Standard*. For this reason, the issue described is expected to affect a minority of practitioners. Consequently, the staff consider the benefits of the simplifications to outweigh any potential costs to those practitioners familiar with IFRS 15.

⁵ Paragraphs BC187 of the *IFRS for SMEs Accounting Standard*.

Guidance on IFRS 15

62. There is a large amount of material on IFRS 15 issued by the IASB and others. This includes authoritative and non-authoritative guidance. Keeping up with material about full IFRS Accounting Standards places an additional burden on SMEs. The simplifications made to the language and requirements in IFRS 15 were intended to reduce any risk that SMEs look to material on IFRS 15 to understand the requirements in the proposed revised Section 23. This is consistent with the IASB's intention for the *IFRS for SMEs* Accounting Standard to be a stand-alone document.

Extent of alignment

63. There are limited differences between the requirements for accounting for revenue in the current Section 23 and those in IAS 11 and IAS 18. Therefore, stakeholders are not expected to have encountered challenges that may have arisen had there been different requirements in the *IFRS for SMEs* Accounting Standard compared with full IFRS Accounting Standards.
64. IFRS 15 is a more comprehensive standard than IAS 11 and IAS 18. Simplifications were made to the requirements in IFRS 15 to make them easier for SMEs to understand and apply. These simplifications have resulted in differences between the requirements in the proposed revised Section 23 and IFRS 15. Consequently, some respondents' objections to differences between the requirements in the proposed revised Section 23 and IFRS 15 may be because no similar differences exist in the current *IFRS for SMEs* Accounting Standard.

Length

65. IFRS 15 introduced a more comprehensive framework for revenue recognition that could be applied to complex revenue transactions. Consequently, the requirements for accounting for revenue in IFRS 15 are longer compared to the previous requirements in IFRS Accounting Standards.

66. In proposing to align the *IFRS for SMEs* Accounting Standard with IFRS 15, the IASB considered the improvement described in paragraph 65 of this paper relevant to SMEs. Therefore, a challenge of responding to requests for the proposed revised Section 23 to be shorter is not to undermine the benefits of this improvement for SMEs.

Simplifications suggested by respondents

67. Many of the additional or alternative simplifications suggested by respondents would introduce accounting policy options in the proposed revised Section 23. The IASB has generally restricted accounting policy options in the *IFRS for SMEs* Accounting Standard because including more complex options generally increases complexity and reduces comparability. Options in the Standard are also typically based on options provided in full IFRS Accounting Standards.
68. A few of the suggested simplifications are based on the application of materiality (for example, permitting SMEs to account for contract modifications using any of the three approaches in the proposed revised Section 23 if the additional goods or services are immaterial to the existing contract). In the proposed revised Section 2 *Concepts and Pervasive Principles*, materiality is a pervasive concept underlying SMEs' financial statements. Therefore, the concept applies through the *IFRS for SMEs* Accounting Standard without having to be mentioned explicitly.

Responding to the issues raised

69. The feedback on the simplifications in the proposed revised Section 23 will have to be separately analysed to respond to the issues raised by respondents. The topics that the staff suggest the IASB redeliberate are set out in the appendix to this paper. They are:
- (a) topics where comment letter respondents would like the language or requirements to be:
 - (i) simplified further; or
 - (ii) the same as IFRS 15 (that is, not simplified);

- (b) topics where comment letter respondents indicated the requirements would be difficult to apply in practice; and
- (c) topics where most fieldwork participants unfamiliar with IFRS 15 were unable to make the judgements required to apply the requirements.

Therefore, the staff suggest the IASB redeliberate topics where respondents requested changes or raised concerns about the application of the proposed requirements.

70. There was overall support for the principle and practical aspects of the proposed revised Section 23. Consequently, the staff do not suggest the IASB redeliberate topics that:

- (a) were generally accepted by comment letter respondents; and
- (b) most fieldwork participants unfamiliar with IFRS 15 were able to make the judgements required to apply the requirements (where relevant).

Length and language

71. To respond to concerns about the length of and language used in the proposed revised Section 23, the staff will explore ways of:

- (a) reducing the length of the proposed revised Section 23, and
- (b) using plainer language to express the requirements in the proposed revised Section 23.

72. The staff believe the suggested approaches in paragraph 48 of this paper to respond to concerns about the complexity of the proposed revised Section 23 will also help respond to concerns about the Section's length.

73. One reason the length of the *IFRS for SMEs* Accounting Standard is substantially shorter compared with full IFRS Accounting Standards is because some topics covered in full IFRS Accounting Standards are omitted from the *IFRS for SMEs* Accounting Standard. Fieldwork participants provided feedback on how SMEs currently account for topics covered in the proposed revised Section 23 in the absence of specific requirements in the *IFRS for SMEs* Accounting Standard (for example,

accounting for customers' unexercised rights (breakage)). To reduce the length of the Section, the staff suggest reassessing the relevance of the requirements for these topics to determine whether the improvements in financial reporting justify the additional costs of application for SMEs. If the improvements are not justified by the costs, the staff think the topics should be omitted from the proposed revised Section 23.

74. The staff will present changes to the length and language that involve substantially editing or deleting the requirements in the proposed revised Section 23 for discussion by the IASB.

Simplifications suggested by respondents

75. In addition to the suggested topics for redeliberation, the staff will separately analyse the additional and alternative simplifications suggested by respondents for discussion by the IASB. As explained in paragraphs 67–68 of this paper, the *IFRS for SMEs* Accounting Standard:
- (a) includes limited accounting policy options; and
 - (b) does not include any simplification based on the application of materiality.

Consequently, the staff suggest applying a 'high hurdle' when analysing the simplifications suggested by respondents that propose accounting policy options or are based on the application of materiality.

Costs and benefits

76. The IASB expected the benefits of the proposed revised Section 23 to justify the costs of implementing the Section. The costs for SMEs were reduced through simplifications to the requirements in IFRS 15 and permitting SMEs to apply the Section prospectively.

Respondents' concerns

77. Many comment letter respondents who disagreed with aligning Section 23 with IFRS 15 said the costs of applying the proposed revised Section 23 would exceed any potential benefits of the Section. Some fieldwork participants shared similar views. Of these participants, most were unfamiliar with IFRS 15.
78. Respondents' comments on the costs of applying the proposed revised Section 23 generally focus on the costs of initially applying the Section during the transition period, rather than the ongoing costs of applying the Section. A few comment letter respondents mentioned the costs incurred by entities implementing IFRS 15 when commenting on the expected costs for SMEs of applying the Section..
79. A few comment letter respondents described the benefits for SMEs and users of their financial statements of the proposed revised Section 23. These included more comparable information and comprehensive requirements for measuring revenue. Some fieldwork participants also noted similar benefits.

Staff analysis

80. As with any new requirements, SMEs will have to incur costs to implement the proposed revised Section 23. The staff continue to believe the benefits of the improved revenue information and more comprehensive framework provided by the Section outweigh these costs. It is also considered that costs of implementing the Section will reduce as SMEs become familiar with the Section's requirements and how they apply to their contracts with customers.
81. A few respondents' concerns about the costs for SMEs of applying the proposed revised Section 23 were based on the experience of entities implementing IFRS 15. Typically, entities that apply IFRS 15:
- (a) earn revenue through a range of activities;
 - (b) sell large quantities of goods and services;

- (c) have a variety of different types of contracts with customers, and
- (d) have integrated systems and processes that gather information for financial reporting.

These characteristics will have affected the costs incurred by entities implementing IFRS 15.

82. The characteristics described in paragraph 81 of this paper are expected to be less common among SMEs. Therefore, the relative costs of implementing the proposed revised Section 23 are expected to be lower compared with the costs incurred by entities implementing IFRS 15.

Responding to the issues raised

83. Feedback suggests that further simplifications are needed to the proposed revised Section 23 to make the Section simpler and less costly to apply (see paragraph 58 of this paper). Paragraphs 69–74 of this paper outline the staff’s suggestions for responding to this feedback.
84. Feedback also identified concerns about the costs for SMEs of implementing the proposed revised Section 23. The staff think these costs could be lowered by issuing education material that help SMEs with this process.
85. There are currently 35 *IFRS for SMEs* educational modules that together provide detailed guidance on each section of the *IFRS for SMEs* Accounting Standard.⁶ At its September 2023 meeting, the IASB decided to update the current modules or provide similar comprehensive educational material on the third edition of the Standard.⁷ Therefore the IASB will provide educational material on the proposed revised Section 23.

⁶ The *IFRS for SMEs* educational modules are available at: www.ifrs.org/supporting-implementation/supporting-materials-for-the-ifrs-for-smes/modules/

⁷ See *IASB Update* of the September 2023 IASB meeting.

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86. The current *IFRS for SMEs* educational module, *Module 23—Revenue* does not include guidance about the transition to Section 23. To respond to concerns about the costs of initially applying the revised requirements for revenue, the staff suggests that the planned educational material include guidance about the transition from the current revenue requirements in Section 23 to the proposed revised Section 23. For example, the guidance could list characteristics of contracts where the amount or timing of revenue recognised would be expected to change on transition.

When to consider alignment

87. The IASB decided it would generally not be necessary to wait until post-implementation reviews of IFRS Accounting Standards have been completed before considering whether to align the *IFRS for SMEs* Accounting Standard with full IFRS Accounting Standards in its second comprehensive review.⁸
88. In proposing to align the *IFRS for SMEs* Accounting Standard with IFRS 15, the IASB decided not to wait until its post-implementation review (PIR) of IFRS 15 had been completed. Feedback on the 2020 Request for Information indicated that IFRS 15 had improved the financial reporting of revenue accounting. Waiting until the PIR of IFRS 15 had been completed would delay similar improvements for SMEs.
89. The IASB began its PIR of IFRS 15 in September 2022. In June 2023, the IASB published [Request for Information Post-implementation Review of IFRS 15 Revenue from Contracts with Customers](#) (2023 Request for Information). The 2023 Request for Information seeks information on matters identified in Phase 1 of the PIR. The comment period for the 2023 Request for Information ends on 27 October 2023. Feedback received during phase 1 of the PIR suggested that IFRS 15 has achieved its objective and is working well.⁹

⁸ Paragraph 39 of [Request for Information Comprehensive Review of the IFRS for SMEs Standard](#).

⁹ See page 11 of [Request for Information Post-implementation Review of IFRS 15 Revenue from Contracts with Customers](#) (Request for Information).

Respondents' concerns

90. A few respondents recommended that the IASB should complete its PIR of IFRS 15 before it aligns Section 23 with IFRS 15. The respondents provided the following reasons for their views:
- (a) addressing revenue recognition for SMEs is not urgent enough that it must be done before the completion of the PIR;
 - (b) waiting until the PIR has been completed will prevent any inconsistencies between the proposed revised Section 23 and IFRS 15; and
 - (c) the PIR will provide additional insights into the appropriateness of the proposed revised Section 23.

Staff analysis

91. Staff continue to believe that waiting until the PIR of IFRS 15 is complete before aligning the *IFRS for SMEs* Accounting Standard with IFRS 15 would delay improvements in financial reporting for SMEs and the users of their financial statements. It would also embed two separate approaches for accounting for revenue in the *IFRS for SMEs* Accounting Standard and full IFRS Accounting Standards. This could make aligning with IFRS 15 more difficult in the future
92. Deferring alignment of the *IFRS for SMEs* Accounting Standard with IFRS 15 will increase the scope of the next comprehensive review of the Standard and the resource required to undertake that review. This introduces a risk that the changes to the *IFRS for SMEs* Accounting Standard arising from the next review will be too great for SMEs.
93. A PIR identifies matters where future action by the IASB is needed. Action the IASB takes may lead to a standard-setting project. Therefore, completion of a standard-

setting project arising from a PIR may amend a IFRS Accounting Standard, but not the PIR itself.¹⁰

94. The IASB's PIR process means that no inconsistencies between the proposed revised Section 23 and IFRS 15 will occur when the PIR of IFRS 15 is completed. However, such inconsistencies may occur if the IASB decides to undertake standard-setting and amend IFRS 15 in the future. The IASB would consider whether to align Section 23 with amendments to IFRS 15 in a future review of the *IFRS for SMEs* Accounting Standard.

Responding to the issues raised

95. The IASB will discuss the feedback from the 2023 Request for Information in Q1 2024. The IASB's redeliberation of the proposals in the Exposure Draft is planned to be completed in H1 2024.
96. The staff have identified specific areas that the 2023 Request for Information is seeking views on which may be relevant to IASB's future discussions on the proposed revised Section 23:
- (a) matters identified as areas of interest in the 2023 Request for Information that are also topics that the IASB will redeliberate (for example, principal versus agent considerations and disclosure requirements)¹¹; and
 - (b) the understandability and accessibility of IFRS 15¹².
97. The staff suggest the IASB draw on relevant feedback from the 2023 Request for Information in its future discussions on the proposed revised Section 23. This will provide the IASB with additional information to help it make decisions about improvements to the Section. It will also address concerns that insights from the PIR

¹⁰ See the IASB's process for post-implementation reviews: <https://www.ifrs.org/projects/post-implementation-reviews/>

¹¹ See Sections 5 and 7 of the [Request for Information](#).

¹² See Question 1(b) of the [Request for Information](#).

are not being considered by the IASB when it aligns the *IFRS for SMEs* Accounting Standard with IFRS 15.

98. There are differences between the requirements in IFRS 15 and the proposed revised Section 23 of the *IFRS for SMEs* Accounting Standard, as discussed in this paper. There are also differences between the entities that apply both standards and the users of their financial statements. The staff will be mindful of these differences when reviewing the feedback from the 2023 Request for Information.

Staff recommendation and question for the IASB

99. The feedback generally supported the IASB's proposals to revise Section 23 of the *IFRS for SMEs* Accounting Standard to align it with IFRS 15. Most fieldwork participants were also able to make most of the judgements required to apply the proposed revised Section 23. Therefore, there was overall support for the principle and practical aspects of the IASB's proposals. However, respondents also had concerns about the proposed revised Section 23. The analysis in paragraphs 40–98 of this paper provides suggestions about how to respond to the issues raised by respondents.
100. Responding to the issues raised by respondents will result in changes to the proposed revised Section 23. Even with these future changes, the intention continues to be that the Section will reflect the principles in IFRS 15. However, changes to the Section may result in simpler language being used to describe the principles. Using simpler language that is different compared to the language used in IFRS 15 is necessary for the *IFRS for SMEs* Accounting Standard to remain a stand-alone document that can be understood by SMEs and the users of their accounts. Therefore, although the Section will be aligned with the principles of IFRS 15, the language used in the Section may be different to the language used in IFRS 15.
101. Consequently, the staff recommend the IASB proceed with revising Section 23 of the *IFRS for SMEs* Accounting Standard to reflect the principles in IFRS 15. For the

reasons in paragraph 100 of this paper, the recommendation differs from the IASB's original proposal to revise Section 23 to align it with the principles and language used in IFRS 15.

Question for the IASB

Does the IASB agree with the staff recommendation in paragraph 101 of this paper to revise Section 23 of the *IFRS for SMEs* Accounting Standard to reflect the principles in IFRS 15?

Next steps

102. If the IASB agrees with the staff recommendation, the staff will continue to analyse feedback on the Exposure Draft. The staff will bring papers to the IASB on:
- (a) the suggested topics for redeliberation in the appendix to this paper; and
 - (b) the additional and alternative simplifications to the requirements in IFRS 15 suggested by respondents.

Appendix— Summary of the simplifications to IFRS 15 and feedback on the proposed revised Section 23

Topic	Simplification (see Table 1)	Feedback from comment letter respondents ¹³	Findings from fieldwork participants unfamiliar with IFRS 15 ¹³	Suggested for redeliberation
Step 1—Identify the contract(s) with a customer				
Criteria for identifying a contract			-	
Combination of contracts			Most participants were able to make the judgement	
Contract modifications	BC16(c)		The number of participants who were able to make the judgement was comparable with the number of participants who were unable to do so	✓
Step 2—Identify the promises in the contract				
Promise terminology	BC16(e)	Many who commented would like the terminology to be the same as IFRS 15	-	✓
Series of distinct goods or services			-	
Distinct goods or services	BC16(e)		Most participants were able to make the judgement	
Warranties	BC16(c)	Most who commented felt the proposed simplification would involve substantial judgement and introduce complexity	Most participants were able to make the judgement	✓
Non-refundable upfront fees			Most participants were able to make the judgement	
Customer options for additional goods or services	BC16(c)	Most who commented felt the proposed simplification would involve substantial judgement and introduce complexity	Many participants were able to make the judgement	✓

¹³ The summary is based on feedback from comment letter respondents and fieldwork participants that commented on the topic. Matters raised by one or two respondents have been excluded.

Topic	Simplification (see Table 1)	Feedback from comment letter respondents ¹³	Findings from fieldwork participants unfamiliar with IFRS 15 ¹³	Suggested for redeliberation
Principal versus agent considerations	BC16(c)	All who commented would like the proposed requirement to be the same as IFRS 15	All participants were able to make the judgement	✓
Step 3—Determine the transaction price				
Variable consideration	BC16(e)	Many who commented would like the proposed language to be the same as IFRS 15	Most participants were unable to make the judgement	✓
Sales-based or usage-based royalties			-	
Refund liabilities	BC16(e)		Many participants were able to make the judgement	
Sale with a right of return	BC16(e)		Most participants were able to make the judgement	
Time value of money	BC16(c)		Most participants were able to make the judgement	
Non-cash consideration			There were equal numbers of participants that were able to make the judgement and who were unable to make the judgement	✓
Step 4—Allocate the transaction price to the promises in the contract				
Allocation based on stand-alone selling prices			The number of participants who were able to make the judgement was comparable with the number of participants who were unable to do so.	✓
Allocation of a discount	BC16(c)		Most participants were able to make the judgement	
Allocation of variable consideration	BC16(c)		Most participants were unable to make the judgement	✓
Changes in the transaction price			Most participants were able to make the judgement	

Topic	Simplification (see Table 1)	Feedback from comment letter respondents ¹³	Findings from fieldwork participants unfamiliar with IFRS 15 ¹³	Suggested for redeliberation
Step 5—Recognise revenue when (or as) the entity satisfies a promise				
Promises satisfied over time	BC16(e)	Many who commented would like the proposed language to be the same as IFRS 15	Most participants were able to make the judgement	✓
Promises satisfied at a point in time			Most participants were able to make the judgement	
Customer acceptance			-	
Measuring progress towards complete satisfaction of a promise	BC16(e)		Most participants were able to make the judgement	
Licensing	BC16(c)		Most participants were able to make the judgement	
Contract costs				
Costs to obtain a contract		Many who commented would like an accounting policy choice instead of the proposed undue cost or effort exemption	Most participants were able to make the judgement	✓
Costs of fulfilling a contract			Many participants were able to make the judgement	
Measurement after recognition			-	
Presentation				
Contract balances			The number of participants who were able to make the judgement was comparable with the number of participants who were unable to do so.	✓
Customers' unexercised rights			The number of participants who were able to make the judgement was comparable with the number of participants who were unable to do so.	✓

Topic	Simplification (see Table 1)	Feedback from comment letter respondents ¹³	Findings from fieldwork participants unfamiliar with IFRS 15 ¹³	Suggested for redeliberation
Disclosures				
Disclosures	BC16(d)	Most who commented would like the proposed disclosure requirements to be reduced	-	✓
Omitted topics				
Consideration payable to a customer	BC16(a)		-	
Repurchase agreements	BC16(a)	All who commented would like the topic to be covered in the proposed revised Section 23	-	✓
Bill-and-hold arrangements	BC16(a)		-	