
IASB[®] meeting

Date	September 2023
Project	Second Comprehensive Review of the <i>IFRS for SMEs</i>[®] Accounting Standard
Topic	Project plan
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Purpose of this paper

1. The purpose of this paper is for the International Accounting Standard Board (IASB) to discuss the project plan and confirm the project direction for the second comprehensive review of the *IFRS for SMEs* Accounting Standard, following the feedback on the Exposure Draft *Third edition of the IFRS for SMEs Accounting Standard* (the Exposure Draft)

Structure of this paper

2. This paper is structured as follows:
 - (a) background to the second comprehensive review (paragraphs 3–4);
 - (b) project direction (paragraphs 5–14);
 - (i) the IASB's alignment approach;
 - (ii) the scope of the review;
 - (c) plan for redeliberations of the proposals in the Exposure Draft (paragraphs 15–16); and
 - (d) staff recommendation and questions for the IASB (paragraph 17).

Background to the second comprehensive review

3. 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 *IFRS for SMEs* Accounting Standard resulting from a previous comprehensive review.
4. In January 2020, the IASB published Request for Information *Comprehensive Review of the IFRS for SMEs Standard*. The objective of the Request for Information was to seek views on whether and how the IASB should amend the Standard. Therefore, the Request for Information asked questions about the IASB's approach to the second comprehensive review and whether, and if so how, to align the Standard with individual IFRS Accounting Standards. After considering the feedback on the Request for Information, the IASB developed the Exposure Draft, which was issued in September 2022. The Exposure Draft was open for comment for 180 days, which ended on 7 March 2023.

Project direction

The IASB's alignment approach

5. The Request for Information asked for views on the framework that the IASB had developed for approaching the second comprehensive review (the IASB's alignment approach). Overall, stakeholders who provided feedback on the IASB's 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

6. 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 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:
- (a) the IASB determines relevance to SMEs by assessing whether the problem addressed by a new requirement in full IFRS Accounting Standards (in the scope of the review) would make a difference in the decisions of users of financial statements prepared applying the Standard.
 - (b) applying the principle of simplicity involves looking at the new requirements in the full IFRS Accounting Standards that have satisfied the relevance condition and then assessing what simplifications are appropriate.
 - (c) the principle of faithful representation is intended to help the IASB assess whether financial statements prepared applying the Standard would faithfully represent the substance of economic phenomena in words and numbers. Simplifications that would result in financial statements that do not meet this criterion could damage the quality of information reported to users.

Staff view on the IASB's alignment approach

7. There was overall support for most of the proposed amendments in the Exposure Draft with a few exceptions. The main exceptions are the proposals for impairment of

¹ See paragraph BC33-BC37 of the Basis for Conclusions on the 2022 Exposure Draft.

financial assets, clarification of the definition of public accountability (see Appendix to Agenda Paper 30 *Cover paper*), recognition of development costs and the removal of the measurement simplifications for defined benefit obligations. The staff think this feedback supports the IASB:

- (a) continuing to use the alignment approach for updating the Standard,
- (b) revisiting how the alignment approach was applied in those areas where respondents have significant concerns. For example, many respondents had concerns that the benefits of introducing an expected credit loss (ECL) model, even with the simplifications proposed in the Exposure Draft, are unlikely to outweigh the costs to SMEs. Consequently, the staff will ask the IASB to reconsider how the alignment approach was applied to the impairment of financial assets—for example whether feedback indicates we should revisit the relevance principle or consider further simplifications to the ECL model, and also the overall cost-benefits of introducing an ECL model during this review (see Agenda Paper 30F *Impairment of financial assets*).

The scope of the review

8. The Request for Information also asked how soon after issuing new and amended IFRS Accounting Standards the Board should consider making related changes to the Standard. Based on the feedback on the Request for Information, the IASB decided to confirm that the scope of the review would be as set out in the Request for Information, which was to consider alignment for full IFRS requirements that are effective at the publication date of the Request for Information (ie, effective on or before 1 January 2020) regardless of whether the post-implementation review of the related IFRS Accounting Standards has taken place.
9. The second comprehensive review includes many IFRS Accounting Standards in its scope, in part, because it re-examines some IFRS Accounting Standards from the

scope of the first comprehensive review.² IFRS Accounting Standards in the scope of this second comprehensive review are:

- (a) the *Conceptual Framework for Financial Reporting* (2018);
- (b) IFRS 3 *Business Combinations*;
- (c) IFRS 9 *Financial Instruments*;
- (d) IFRS 10 *Consolidated Financial Statements*;
- (e) IFRS 11 *Joint Arrangements*;
- (f) IFRS 13 *Fair Value Measurement*;
- (g) IFRS 14 *Regulatory Deferral Accounts*;
- (h) IFRS 15 *Revenue from Contracts with Customers*;
- (i) IFRS 16 *Leases*; and
- (j) IAS 19 *Employee Benefits* (revised in 2011).

10. There are also many amendments to IFRS Accounting Standards and IFRIC Interpretations in the scope of this review (listed in Tables A1–A2 accompanying the Basis for Conclusions on the Exposure Draft).

11. During development of the Exposure Draft, the IASB considered alignment with the IFRS Accounting Standards, Amendments to IFRS Accounting Standards and IFRIC Interpretations in the scope of this review. Nevertheless, the IASB decided:

- (a) the feedback on the Request for Information did not provide evidence to propose aligning the Standard with IFRS 14 as part of this comprehensive review. The IASB decided to consider including requirements for regulatory assets and regulatory liabilities in a future review of the Standard, after considering the outcome of its project on rate-regulated activities.

²The IASB decided not to incorporate changes to align with some new and revised IFRS Accounting Standards during the first comprehensive review due to the greater need for stability during that initial review period than in future reviews. Therefore, those IFRS Accounting Standards were re-examined during this second comprehensive review.

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- (b) the feedback on the Request for Information on aligning Section 20 *Leases* of the Standard with IFRS 16 was mixed. The IASB weighed the costs and benefits of aligning Section 20 with IFRS 16 and decided:
- (i) not to propose amendments to Section 20 at this time; and
 - (ii) to consider amending the Standard to align with IFRS 16 during a future review of the Standard.
- (c) not to consider ongoing projects on the IASB's agenda that it expects will result in changes to full IFRS Accounting Standards. Until the IASB issues an IFRS Accounting Standard, an amendment to an IFRS Accounting Standard or an IFRIC Interpretation its views are tentative and subject to change.
12. There was overall support for most of the proposed amendments in the Exposure Draft with a few exceptions. Most respondents agreed with the proposal to consider alignment with IFRS 16 in a future review of the Standard and respondents did not raise concerns about alignment with IFRS 14. A few respondents said the IASB should consider incorporating amendments to IFRS Accounting Standards that are not in the scope of the review, for example the recent amendments made to IAS 1 *Presentation of Financial Statements in Classification of Liabilities as Current or Non-Current* (January 2020) and *Non-current Liabilities with Covenants* (October 2022).

Staff view on project direction

13. The staff think the feedback on the Exposure Draft supports the IASB confirming that the scope of the review is to consider alignment for requirements that are effective at the publication date of the Request for Information (ie, effective on or before 1 January 2020) except as noted in paragraph 11(a)-(b). Nevertheless, the staff will bring the papers to the IASB covering the following topics:
- (a) analysis of the feedback on Question 12 of the Invitation to Comment on the Exposure Draft, which asked if respondents agree with the IASB's decision to

consider amending the Standard to align it with IFRS 16 in a future review of the Standard;

- (b) a paper detailing all amendments to full IFRS Accounting Standards with an effective date after 1 January 2020 that were not considered in developing the Exposure Draft. The staff will ask the IASB to assess whether any of these amendments address an urgent need for SMEs or users of their financial statements. If the IASB makes fundamental changes to the proposals in an Exposure Draft, on which respondents have not had the opportunity to comment, this may result in the need to re-expose the proposals (see BC206 of the Basis for Conclusions on the 2015 *IFRS for SMEs* Accounting Standard). Therefore, incorporating amendments to full IFRS Accounting Standards post publication of the Exposure Draft *Third edition of the IFRS for SMEs Accounting Standard* (the Exposure Draft) would be a high hurdle.

14. The staff recommend that the IASB aim to decide how to apply the alignment approach to each new or revised IFRS Accounting Standard within the scope of the review and does not defer these decisions to a future review of the Standard (apart from the decisions already made to defer consideration of IFRS 14 and IFRS 16—see paragraphs 11(a)-(b)). Deferring the decision to align with an IFRS Accounting Standard to a future review increases the number of IFRS Accounting Standards in the scope of the future review and consequently, the resource required to undertake that review. For similar reasons, in future reviews the staff think the IASB should not plan to re-examine those new and revised IFRS Accounting Standards in the scope of a previous review unless significant implementation issues arise or changes have been made the related requirements in full IFRS Accounting Standards.

Plan for redeliberations of the proposals in the Exposure Draft

15. The staff have grouped the topics requiring discussion based on the overall feedback received and whether the staff think significant changes may be needed to the

proposals in the Exposure Draft. The staff would ask the IASB to discuss those issues where significant changes may be needed first:

Classification based on staff preliminary views	Topics to be discussed by the IASB	Expected timing of initial discussion by the IASB
<p>1) Respondents disagreed with proposals in the ED. Significant changes may be needed.</p>	<ul style="list-style-type: none"> - <i>Definition of public accountability</i> (Question 1 in the Invitation to Comment (ITC) on the Exposure Draft)—many respondents disagreed with the proposal to clarify the definition of public accountability. Many respondents said further clarification was important to reduce implementation difficulties. - <i>Impairment of financial assets</i> (Question 4 in the ITC)—most respondents to this question disagreed with the proposal to introduce an ECL model for some financial assets. - <i>Recognition and measurement of development costs</i> (Question 13 in the ITC)—most respondents to this question supported an accounting policy option that permits recognition of intangible assets arising from development costs that meet specified criteria. 	<p>Remaining topics will be discussed at the September – November 2023 IASB meetings (<i>the definition of public accountability was discussed in June 2023</i>).</p>
<p>2) Respondents disagreed with proposals in the ED. Significant changes may be need but would</p>	<ul style="list-style-type: none"> - <i>Measurement of defined benefit obligation</i> (Question 9 in the ITC)—many respondents (a small majority) to this question disagreed with the proposal to delete paragraph 28.19 of the Standard. Most of these respondents supported the 	<p>November and December 2023 IASB meetings.</p>

Classification based on staff preliminary views	Topics to be discussed by the IASB	Expected timing of initial discussion by the IASB
likely only affect one paragraph of the Standard.	<p>IASB’s alternative proposal to clarify paragraph 28.19.</p> <ul style="list-style-type: none"> - <i>Accounting for issued financial guarantee contracts</i>—most respondents disagreed with the proposal to introduce an ECL model for some financial assets. The accounting treatment for issued financial guarantee contracts will depend on the IASB’s decision on impairment of financial assets. - <i>Requirement to offset equity instruments</i> (Question 14 in the ITC)—most of the respondents on this question supported the removal of paragraph 22.7(a) of the Standard. 	
3) Respondents generally agreed with overall proposals, but significant refinement is possible.	<ul style="list-style-type: none"> - Proposed amendments to the definition of control in <i>Section 9 Consolidated and Separate Financial Statements</i> (Question 3 in the ITC) - Proposed amendments to Section 15 <i>Joint Arrangements</i> (Question 6 in ITC) - Proposed revised Section 23 <i>Revenue from Contracts with Customers</i> (Question 8 in ITC) 	October – December 2023 IASB meetings
4) Respondents generally agreed with overall	<ul style="list-style-type: none"> - Proposed revised Section 2 <i>Concepts and Pervasive Principles</i> (Question 2 in the ITC) 	December 2023 – March 2024

Classification based on staff preliminary views	Topics to be discussed by the IASB	Expected timing of initial discussion by the IASB
<p>proposals. Significant changes are not expected other than to reflect the IASB's discussion on the balance of guidance in the Standard (see Agenda Paper 30C of this meeting).</p>	<ul style="list-style-type: none"> - Proposed new Section 12 <i>Fair Value Measurement</i> (Question 5 in the ITC) - Proposed amendments to Section 19 <i>Business Combinations and Goodwill</i> (Question 7 in ITC) - Proposed transition requirements (Question 10 in ITC) - Section 20 Leases and IFRS 16 Leases (Question 12 in ITC) - Updating the paragraph numbers of the <i>IFRS for SMEs Accounting Standard</i> (Question 15 in ITC) 	<p>IASB meetings</p>
<p>4) Other issues raised by respondents /SMEIG members</p>	<p>Some respondents raised the following issues:</p> <ul style="list-style-type: none"> - Cost-benefit considerations of the proposed new paragraph 7.19A, reconciliation for liabilities arising from financing activities. - Introduce either a requirement or an accounting policy option for SMEs to capitalise borrowing costs (meeting criteria in IAS 23). <p>Other issues:</p> <ul style="list-style-type: none"> - Application issues raised by a few respondents on some sections (eg, bearer plants and advance consideration in a foreign currency). 	<p>October 2023 – March 2024 IASB meetings</p>

Classification based on staff preliminary views	Topics to be discussed by the IASB	Expected timing of initial discussion by the IASB
	<ul style="list-style-type: none"> - Recent amendment to full IFRS Accounting Standards (see paragraph 13 of this paper). - Incorporating or deleting SMEIG Q&As. 	

16. The timeline will depend on available resource and the time needed to complete the discussions on the topics in the table above. However, based on the project plan above the staff anticipate that the IASB’s main redeliberations will be completed in the first half of 2024 and the third edition of the *IFRS for SMEs* Accounting Standard will be published in the fourth quarter of 2024.

Staff recommendations and questions for the IASB.

17. The staff recommend the IASB finalise the draft Standard as set out in the Exposure Draft by:
- (a) continuing to use the alignment approach (described in paragraph 6): and
 - (b) confirming that the scope of the review is to consider alignment for requirements that are effective at the publication date of the Request for Information (ie, effective on or before 1 January 2020) except as noted in paragraph 11(a)-(b).

Question for the IASB

Does the IASB agree with the staff recommendation in paragraph 17 of this paper?
 Does the IASB have any comments on the plan for redeliberations in paragraph 15 of this paper?