
IASB[®] meeting

Date	April 2024
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 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*.

Purpose of this meeting

1. The purpose of this meeting is for the IASB to continue its redeliberations of the proposals in the Exposure Draft *Third edition of the IFRS for SMEs Accounting Standard* (the Exposure Draft).
2. In this paper, the term SMEs refers to entities that are eligible to apply the *IFRS for SMEs* Accounting Standard (the Standard).

Overview of agenda papers for this meeting

3. The agenda papers for this meeting are:
 - (a) Agenda Paper 30A *Proposed revised Section 23 Revenue from Contracts with Customers—Disclosure requirements*
 - (b) Agenda Paper 30B *Proposed new Section 12 Fair Value Measurement—use of plainer language*
 - (c) Agenda Paper 30C *Intragroup issued financial guarantee contracts*

For the topics in these papers, the IASB is asked to consider the feedback received and decide whether to amend the proposals in the Exposure Draft.

Applying the alignment approach to problems addressed in IFRS Accounting Standards

4. 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. The approach applies these principles as follows:
- (a) relevance to SMEs is determined by assessing whether the problem addressed by an IFRS Accounting Standard or amendment to an IFRS Accounting Standard would make a difference in the decisions of users of financial statements prepared applying the *IFRS for SMEs* Accounting Standard.
 - (b) applying the principle of simplicity involves looking at the IFRS accounting requirements that have satisfied the relevance condition and then assessing what simplifications are appropriate. For any simplifications made, the IASB would then consider the principle of faithful representation.
 - (c) the principle of faithful representation is intended to help the IASB assess whether financial statements prepared applying the *IFRS for SMEs* Accounting 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.

Possible factors to determine when guidance should be in the Standard

5. At its September 2023 meeting, the IASB discussed factors that would help determine when guidance belongs in the Standard versus in educational material. At that meeting, the staff observed that if the Standard includes guidance for all possible transactions that an SME might encounter, then it would likely end up nearly the same

size as full IFRS Accounting Standards. Consequently, based on the advice from the SME Implementation Group, the staff suggested guidance should only be in the Standard (that is, it would form part of the mandatory requirements) if it meets both of the following factors:

- (a) the guidance is necessary to operationalise principles in the Standard; and
 - (b) applying the IASB's alignment approach, the guidance is relevant to many SMEs.
6. The IASB did not opine on these suggested factors. However, the staff think they are helpful factors to consider in deciding whether additional guidance should be added to Standard. Nevertheless, the staff observe in rare cases the IASB may need to make an exception to these factors. For example, when excluding guidance for a topic could have a significant effect on some SMEs or users of their financial statements, yet the guidance would not add complexity for most SMEs.
7. The *IFRS for SMEs* Accounting Standard is a standalone Standard. There is no requirement for SMEs to look to the requirements in full IFRS Accounting Standards. In the absence of specific guidance on a topic in the Standard (for example, for topics omitted because they are not relevant to most SMEs), in the rare cases an SME encounters those topics it would apply paragraphs 10.4–10.6 of the Standard.
8. We further note that the educational modules supporting the Standard will provide guidance on how to apply paragraphs 10.4–10.6 of the Standard if an SME encounters a complex transaction that is not specifically addressed by the Standard. The educational material for individual sections of the Standard could also provide guidance on how the principles in the Standard could be applied to less common transactions encountered by SMEs and explain when an SME may consider the guidance in full IFRS Accounting Standards dealing with similar issues.

Background to this comprehensive review

9. 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 Standard, including views on the IASB's proposed alignment approach (see paragraph 4 of this paper).
10. 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.
11. In September 2022, the IASB published the Exposure Draft using the alignment approach. The Exposure Draft was open for comment for 180 days, which ended on 7 March 2023. The IASB received comprehensive feedback on the IASB's approach to this review and how to align the Standard with individual IFRS Accounting Standards through extensive outreach during the comment period on the Request for Information. This enabled a more targeted approach to obtaining feedback on the Exposure Draft. In particular, the Exposure Draft asked specific questions about the issues that had been more contentious in developing the Exposure Draft.
12. At its June 2023 meeting, the IASB discussed the feedback on the Exposure Draft and redeliberated the proposed clarification to the definition of public accountability, which would be used to determine which entities are in the scope of the Standard.
13. The SME Implementation Group (SMEIG) met on 13 July 2023 to discuss the feedback on the Exposure Draft and provide advice to the IASB. The [minutes from the SMEIG meeting](#) are available on the IFRS Foundation website. The staff present the advice from the SMEIG when the IASB redeliberates the related topics in the Exposure Draft.

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14. At its September 2023 meeting, the IASB discussed, among other topics, its project plan, staff research on the characteristics of SMEs and its approach to updating the *IFRS for SMEs* educational modules. At its October 2023 to March 2024 meetings, the IASB continued to redeliberate the proposals in the Exposure Draft. The IASB's tentative decisions to date on the proposals in the Exposure Draft are set out in the appendix to this paper.
15. In March 2024, the IASB published the Addendum to the Exposure Draft *Third Edition of the IFRS for SMEs Accounting Standard*. The addendum was developed following the IASB's October 2023 decision to propose amendments to the Standard to align with the requirements in full IFRS Accounting Standards on supplier finance arrangements and lack of exchangeability. The IASB aims to complete its redeliberations on the proposals in the addendum before it issues the third edition of the Standard. The [Addendum to the Exposure Draft Third edition of the IFRS for SMEs Accounting Standard](#) is a separate project on the IASB's workplan.

Next steps

16. The IASB will redeliberate the proposals in the Exposure Draft for the remaining topics in its project plan. Furthermore:
- (a) the staff are working with IFRS Foundation editorial staff to consider how the language proposed in new and revised sections of the Standard might be simplified or expressed more clearly. The staff have provided examples of how such plainer language might be used in Section 12 *Fair Value Measurement* of the Exposure Draft (see Agenda Paper 30B for this meeting). If the IASB is supportive of the suggestions for Section 12, the staff will work on other revised sections of the Exposure Draft.
 - (b) following its tentative decision in January 2024 to require SMEs that provide financing to customers as one of their primary businesses to apply an expected credit loss model, at a future meeting the IASB will consider fieldwork

performed by the staff to assess possible implications of incorporating this model in the Standard.

17. To allow for the additional work that was not envisaged when the IASB discussed the project plan in September 2023 (including the Addendum to the Exposure Draft, fieldwork on the expected credit loss model and plain English drafting—see paragraphs 15-16 of this paper), the expected issue date of the third edition of the Standard has been moved to the first half of 2025.

Appendix—IASB tentative decisions to date on redeliberating the proposals in the Exposure Draft

Month	Decision:
June 2023	<p><i>Definition of public accountability</i></p> <p>The IASB tentatively decided:</p> <ul style="list-style-type: none"> (a) to confirm the proposed amendment to paragraph 1.3(b) of the <i>IFRS for SMEs Accounting Standard</i> (the Standard) to list banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks as examples of entities that often meet the second criterion of public accountability. (b) to withdraw paragraph 1.3A of the Exposure Draft from the Standard, and not include it in the educational modules for the Standard and Basis for Conclusions on the Standard. (c) to explain in the Basis for Conclusions on the Standard its reasoning for deciding against further clarifying the role of local legislative and regulatory authorities in jurisdictions in the Preface to the Standard. (d) to consider whether other suggestions for guidance on the definition of public accountability should be covered in the educational modules supporting the Standard.
September 2023	<p><i>Project plan</i></p> <p>The IASB discussed the project plan for the third phase of the second comprehensive review in the light of feedback on the Exposure Draft. The IASB tentatively decided:</p> <ul style="list-style-type: none"> (a) to confirm the scope of the review and alignment approach as set out in the Exposure Draft. This approach treats alignment with IFRS Accounting Standards as the starting point, 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. (b) to continue to develop amendments to the <i>IFRS for SMEs Accounting Standard</i> by applying the alignment approach to IFRS Accounting Standards.

Month	Decision:
September 2023	<p><i>Approach to providing educational material on the Standard</i></p> <p>The IASB decided to either update the <i>IFRS for SMEs</i> educational modules that support the second edition of the Standard, or provide similar comprehensive educational material on the third edition.</p> <p><i>Impairment of financial assets</i></p> <p>The IASB tentatively decided that the problem it addressed in introducing the expected credit loss model in IFRS 9 does not meet its principle of relevance to SMEs because the population of entities eligible to apply the <i>IFRS for SMEs Accounting</i> Standard that have significant exposure to credit risk is expected to be small.</p> <p>IASB members acknowledged that a small sub-group of SMEs, such as non-bank lenders, might have significant exposure to credit risk. The IASB asked the staff to research alternatives that would seek to recognise expected credit losses for this sub-group of entities.</p>
October 2023	<p><i>Revenue from Contracts with Customers</i></p> <p>The IASB tentatively decided to revise Section 23 of the Standard to reflect the principles in IFRS 15 <i>Revenue from Contracts with Customers</i>.</p> <p><i>Simplification of the control model in Section 9 Consolidated and Separate Financial Statements</i></p> <p>The IASB tentatively decided to clarify how an entity applies the rebuttable presumption in paragraph 9.5 of the Standard.</p> <p><i>Recognition of development costs</i></p> <p>The IASB tentatively decided to retain the requirements in the Standard for recognising development costs.</p> <p><i>Recognition of borrowing costs</i></p> <p>The IASB tentatively decided to retain the requirements in the Standard for recognising borrowing costs.</p>

Month	Decision:
October 2023	<p><i>Recent amendments to full IFRS Accounting Standards</i></p> <p>The IASB tentatively decided to expose for public comment a proposal to align the Standard with:</p> <ul style="list-style-type: none"> (a) Supplier Finance Arrangements, which amended IAS 7 <i>Statement of Cash Flows</i> and IFRS 7 <i>Financial Instruments: Disclosures</i>; and (b) Lack of Exchangeability, which amended IAS 21 <i>The Effects of Changes in Foreign Exchange Rates</i>.
November 2023	<p><i>Investments in Joint Arrangements</i></p> <p>The IASB tentatively decided:</p> <ul style="list-style-type: none"> (a) to align the definition of ‘joint control’ in Section 15 of the Standard with the definition in IFRS 11 <i>Joint Arrangements</i>. (b) to retain the classification and measurement requirements for jointly controlled assets, jointly controlled operations and jointly controlled entities in Section 15. (c) to align Section 15 with the requirements of paragraph 23 of IFRS 11, so that a party to a jointly controlled operation or a jointly controlled asset that does not have joint control of those arrangements would account for its interest according to the classification of that jointly controlled operation or jointly controlled asset. <p><i>Simplification in paragraph 28.19</i></p> <p>The IASB tentatively decided:</p> <ul style="list-style-type: none"> (a) to retain paragraph 28.19 of the Standard. (b) to clarify that an entity applying paragraph 28.19 measures its obligation from the defined benefit plan at the current termination amount, assuming all the entity’s employees terminate their employment at the reporting date. (c) to specify that an entity applying paragraph 28.19 measures the current termination amount of its obligation from the defined benefit plan on an undiscounted basis. (d) to require that an entity applying paragraph 28.19 discloses its basis for determining the current termination amount of its obligation from the defined benefit plan.

Month	Decision:
December 2023	<p><i>Fair value measurement</i></p> <p>The IASB tentatively decided:</p> <ul style="list-style-type: none"> (a) to finalise the proposals in the Exposure Draft to introduce a new Section 12 <i>Fair Value Measurement</i> without significant changes to the overall content proposed for that section; (b) to consider respondents' drafting suggestions and whether plainer language can be used to express requirements in Section 12; (c) to omit the proposed appendix to Section 12, and instead to include its examples in separate educational material; and (d) to consider respondents' suggestions for additional guidance and illustrative examples when updating the separate educational material. <p><i>Investment entities</i></p> <p>The IASB tentatively decided not to add requirements for investment entities to Section 9 <i>Consolidated and Separate Financial Statements</i> of the Standard.</p> <p><i>Requirement to offset equity instruments</i></p> <p>Paragraph 22.7(a) of the Standard requires that if equity instruments are issued before an entity receives the cash or other resources, the entity shall present the amount receivable as an offset to equity in its statement of financial position, not as an asset. The IASB tentatively decided to retain this paragraph in the Standard but to provide relief from applying this requirement if it conflicts with legislation in an entity's jurisdiction.</p>
January 2024	<p><i>Reconciliation for liabilities arising from financing activities</i></p> <p>The IASB tentatively decided to finalise the proposal in the Exposure Draft to require SMEs to disclose a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities.</p>

Month	Decision:
January 2024	<p><i>Agriculture Bearer Plants</i></p> <p>The IASB tentatively decided to finalise the proposals for bearer plants in the Exposure Draft. However, the IASB tentatively decided to clarify that Section 34 <i>Specialised Activities</i> of the <i>IFRS for SMEs Accounting Standard</i> does not apply to bearer plants that can be measured separately, on initial recognition and on an ongoing basis, from the produce on them without undue cost or effort.</p> <p><i>Impairment of financial assets</i></p> <p>The IASB tentatively decided that, for a small population of SMEs with significant exposure to credit risk:</p> <ul style="list-style-type: none"> (a) the relevance principle of the IASB’s alignment approach is satisfied. (b) the population be defined as SMEs that provide financing to customers as one of their primary businesses. (c) the population be required to apply an expected credit loss model. <p>Given these three tentative decisions, the IASB also tentatively decided:</p> <ul style="list-style-type: none"> (a) to require SMEs that do not provide financing to customers as one of their primary businesses to continue to use the incurred loss model to measure the impairment of their financial assets. (b) to require SMEs that provide financing to customers as one of their primary businesses to apply an expected credit loss model, aligned with the simplified approach in IFRS 9 <i>Financial Instruments</i>, to measure the impairment of their financial assets. <p><i>Leases</i></p> <p>The IASB tentatively decided to consider aligning the <i>IFRS for SMEs Accounting Standard</i> with IFRS 16 <i>Leases</i> at the next comprehensive review of the <i>IFRS for SMEs Accounting Standard</i>.</p>

Month	Decision:
February 2024	<p><i>Consolidated and Separate Financial Statements</i></p> <p>The IASB tentatively decided:</p> <ul style="list-style-type: none"> (a) to delete paragraph 9.23(b) of the Standard, which requires an SME to disclose the basis for concluding that control exists when the parent does not own more than half of the voting power in the other entity; and (b) to add to paragraph 8.6 of the Standard examples of the types of judgements that management might make in the process of applying the SME’s accounting policies and that have the most significant effect on the amounts recognised in the financial statements. <p><i>Business Combinations and Goodwill</i></p> <p>The IASB tentatively decided to proceed with the amendments to Section 19 of the Standard proposed in the Exposure Draft, including:</p> <ul style="list-style-type: none"> (a) introducing requirements for an acquisition achieved in stages (step acquisition) as set out in IFRS 3 <i>Business Combinations</i>; (b) not introducing the fair value option for measuring non-controlling interests in the acquiree; and (c) not including the application guidance in paragraphs B36 and B53 of IFRS 3 on reacquired rights arising from pre-existing relationships. <p>The IASB also tentatively decided:</p> <ul style="list-style-type: none"> (a) to relocate the Illustrative Examples in Appendix B of Section 19 proposed in the Exposure Draft to separate educational modules; and (b) to consider suggestions for additional guidance and illustrative examples when updating the separate educational modules.

Month	Decision:
February 2024	<p data-bbox="379 412 1136 443"><i>Revenue from Contracts with Customers—Redeliberation topics</i></p> <p data-bbox="379 465 727 497">The IASB tentatively decided:</p> <ul style="list-style-type: none"> <li data-bbox="379 519 1396 936">(a) to withdraw the proposed option for an SME to account for a contract modification as a separate contract if: <ul style="list-style-type: none"> <li data-bbox="437 622 1396 743">(i) the modification increases the scope of the existing contract because of additional goods or services promised that are distinct from those in the existing contract; and <li data-bbox="437 766 1396 936">(ii) the modification increases the price of the existing contract by an amount of consideration that reflects the entity’s stand-alone selling price of the additional goods or services and any appropriate adjustments to that price to reflect the circumstances of that contract; <li data-bbox="379 958 1396 1079">(b) to withdraw the proposal to require an SME to account for an option as a separate promise if it provides a material right to the customer and the effect of doing so is significant to the individual contract; and <li data-bbox="379 1102 1396 1223">(c) to withdraw the proposal to require an SME to recognise as an asset the incremental costs of obtaining a contract with a customer if the SME expects to recover those costs. <p data-bbox="379 1281 1046 1312">Instead, the IASB tentatively decided to require an SME:</p> <ul style="list-style-type: none"> <li data-bbox="379 1348 1396 1715">(a) to account for a contract modification as a separate contract if: <ul style="list-style-type: none"> <li data-bbox="437 1406 1396 1527">(i) the modification increases the scope of the existing contract because of additional goods or services promised that are distinct from those in the existing contract; and <li data-bbox="437 1550 1396 1715">(ii) the modification increases the price of the existing contract by an amount of consideration that reflects the entity’s stand-alone selling price of the additional goods or services and any appropriate adjustments to that price to reflect the circumstances of that contract; <li data-bbox="379 1738 1396 1859">(b) to account for an option that provides a material right to the customer as a separate performance obligation if the SME can do so without undue cost or effort; and <li data-bbox="379 1881 1396 1957">(c) to recognise the costs of obtaining a contract with a customer as an expense when incurred.

Month	Decision:
<p>February 2024</p>	<p>The IASB tentatively decided to confirm its proposals to require an SME:</p> <ul style="list-style-type: none"> (a) to identify each promise to transfer a distinct good or service, or bundle of goods or services; and (b) to include an amount of variable consideration in the transaction price only to the extent that it is highly probable that this amount will become due when the uncertainty associated with the variable consideration is resolved. <p>The IASB tentatively decided:</p> <ul style="list-style-type: none"> (a) to include the term 'barter' in the description of non-cash consideration in the Standard; (b) to include separately in the Standard: <ul style="list-style-type: none"> (i) the requirement for an SME to measure the fair value of non-cash consideration; and (ii) the exemption from the requirement to measure the fair value of non-cash consideration; (c) not to include guidance on methods for estimating stand-alone selling prices in the Standard, but to include this guidance in educational material on the Standard; and (d) to combine the requirement for an SME to allocate variable consideration with the requirement for an SME to allocate discounts in the Standard.
<p>March 2024</p>	<p><i>Revenue from Contracts with Customers—Redeliberation topics</i></p> <p>The IASB tentatively decided:</p> <ul style="list-style-type: none"> (a) to withdraw the proposal that if any of the circumstances in paragraph 23.38(a)–(c) of the Exposure Draft apply, the SME is a principal; and (b) to withdraw the proposal to require an SME to account for a warranty as a separate promise if: <ul style="list-style-type: none"> (i) the customer has the option to purchase the warranty separately; or (ii) the warranty, or part of the warranty, provides the customer with a service in addition to the assurance that the product complies with agreed-upon specifications.

Month	Decision:
March 2024	<p>Instead, the IASB tentatively decided to require an SME:</p> <ul style="list-style-type: none"> (a) to apply the requirements based on the principle and indicators of control in IFRS 15 <i>Revenue from Contracts with Customers</i> to determine whether the SME is a principal or agent; and (b) to account for a warranty as a separate promise only if the customer has the option to purchase the warranty separately. <p>The IASB tentatively decided:</p> <ul style="list-style-type: none"> (a) to require an SME that is evaluating whether a customer obtains control of an asset to consider any agreement to repurchase the asset; (b) to specify in the <i>IFRS for SMEs Accounting Standard</i> that a customer does not obtain control of an asset if an SME has an obligation or a right to repurchase the asset; (c) to include no requirements specifying how an SME accounts for repurchase agreements that arise from contracts with customers in the <i>IFRS for SMEs Accounting Standard</i>; (d) to withdraw the proposed requirements for accounting for unexercised rights in paragraphs 23.119–23.120 of the Exposure Draft; (e) to confirm its proposal to require an SME to present contract assets and receivables separately; and (f) to confirm its proposal to require an SME to apply the criteria in paragraph 23.78(a), (c) and (d) of the Exposure Draft to determine whether the SME satisfies a promise over time or at a point in time. <p><i>Revenue from Contracts with Customers—Additional and alternative simplifications</i></p> <p>The IASB tentatively decided to use the term ‘collectability’, instead of ‘customer’s credit risk’, to describe the requirement for an SME to estimate the recoverable amount of assets recognised from the costs incurred to fulfil a contract with a customer.</p>

Month	Decision:
March 2024	<p><i>Other issues raised by respondents to the Exposure Draft (Question 11 of the Exposure Draft)</i></p> <p>The IASB tentatively decided:</p> <ul style="list-style-type: none"> (a) to finalise paragraph 30.8A in the Exposure Draft, which clarifies the requirements for transactions that include payment or receipt of advance consideration in a foreign currency, and to clarify in this paragraph that: <ul style="list-style-type: none"> (i) an SME generally recognises a non-monetary asset or non-monetary liability; and (ii) an SME that makes multiple payments or receipts in advance is required to determine a date of the transaction for each payment or receipt. (b) to align the requirements for offsetting income tax assets and liabilities in Section 29 <i>Income Tax</i> of the <i>IFRS for SMEs Accounting Standard</i> with those in paragraphs 71 and 74 of IAS 12 <i>Income Taxes</i>. (c) to clarify in paragraph 28.17 of the <i>IFRS for SMEs Accounting Standard</i> that an SME is required to assess the depth of the market for high-quality corporate bonds at a currency level. (d) to clarify the requirement in proposed paragraph 26.14A of the Exposure Draft by explaining that the cumulative amount ultimately recognised for goods or services received as consideration for cash-settled share-based payments equals the amount of cash paid. <p><i>Concepts and Pervasive Principles</i></p> <p>The IASB tentatively decided to proceed with the proposals in Section 2 <i>Concepts and Pervasive Principles</i> of the Exposure Draft and to make changes to these proposals only to improve drafting.</p> <p><i>Updating the paragraph numbers of the IFRS for SMEs Accounting Standard</i></p> <p>The IASB tentatively decided to renumber paragraphs for sections that will be revised and to retain the original paragraph numbers for sections with few amendments.</p>