
IASB[®] meeting

Date	February 2024
Project	Second Comprehensive Review of the <i>IFRS for SMEs</i>[®] Accounting Standard
Topic	Proposed amendments to Section 9 <i>Consolidated and Separate Financial Statements</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*.

Purpose of the paper

1. The purpose of this paper is for the International Accounting Standards Board (IASB) to:
 - (a) consider feedback on its proposals in Section 9 *Consolidated and Separate Financial Statements* of the Exposure Draft *Third edition of the IFRS for SMEs Accounting Standard* (Exposure Draft) on:
 - (i) guidance on application of the control model; and
 - (ii) disclosure requirements for the rebuttable presumption that control exists when the investor owns directly or indirectly through subsidiaries a majority of the voting rights of an investee.
 - (b) decide whether to amend Section 9 of the *IFRS for SMEs Accounting Standard* (the Standard).
2. In this paper, the term SMEs refers to small and medium-sized entities that are eligible to apply the Standard.

Staff recommendation

3. The staff recommend the IASB:
 - (a) deletes 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, directly or indirectly through subsidiaries, a majority of the voting rights of the other entity); and
 - (b) updates paragraph 8.6 of Section 8 *Notes to the Financial Statements* of the Standard to include examples of the types of judgements that management might have made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

Structure of this paper

4. This paper is structured as follows:
 - (a) background (paragraphs 5–10);
 - (b) staff analysis (paragraphs 11–33);
 - (c) staff recommendation and question for the IASB (paragraph 34); and
 - (d) Appendix—Requirements in Section 9 of the Exposure Draft.

Background

5. In the Exposure Draft the IASB proposed to align the definition of 'control' with the definition in IFRS 10—using that definition as the single basis for consolidation (control model). In addition, the IASB proposed to retain the rebuttable presumption on the existence of control as a simplification of the control model.

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6. At its October 2023 meeting, the IASB redeliberated its proposals on the control model in Section 9 of the Exposure Draft to align with IFRS 10.¹
 7. At that meeting the IASB tentatively decided to retain the rebuttable presumption (with clarifications) in paragraph 9.5 of the Standard. This paper is a follow-up to the IASB's discussion in October 2023.

Feedback from comment letters

Guidance on application of the control model

8. A few respondents to the Exposure Draft commented on the proposed guidance to support application of the proposed control model in Section 9.² The respondents said:
 - (a) further guidance from Appendix B of IFRS 10 should be simplified and included in educational material to assist preparers in applying the control model.
 - (b) the Standard is aligned with the principles in IFRS 10 without incorporating the full guidance in IFRS 10, including the application guidance in Appendix B. Where an SME requires further guidance, it is not clear if preparers are required to refer to full IFRS Accounting Standards.

Disclosure requirement for the rebuttable presumption

9. A few respondents to the Exposure Draft suggested that an SME disclose that it has applied the rebuttable presumption that it has control over an investee when it owns, directly or indirectly through subsidiaries, a majority of the voting rights of an investee.

¹ See [Agenda paper 30B Simplification of the control model in Section 9 Consolidated and Separate Financial Statements](#) of the October 2023 IASB meeting and [IASB update](#)

² See [Agenda paper 30A Feedback from comment letters on Exposure Draft—Proposed amendments to the IFRS for SMEs Accounting Standard](#) of the June 2023 IASB meeting and [IASB update](#)

10. At its October 2023 meeting, the IASB asked the staff to consider what disclosures from IFRS 12 are needed, if any, to support application of the control model, including the use of the rebuttable presumption.

Staff analysis

11. The staff analysis is set out as follows:
 - (a) guidance on application of the control model (paragraphs 12–21); and
 - (b) disclosure requirement for the rebuttable presumption (paragraphs 22–33).

Guidance on application of the control model

12. In analysing the feedback on including guidance from IFRS 10 in Section 9 of the Standard, the staff took into consideration the primary aim for the Standard to provide a stand-alone, simplified set of accounting principles for entities that do not have public accountability and that typically have less complex transactions.³ As the Standard is stand-alone, there is no requirement for SMEs to look to the requirements in full IFRS Accounting Standards. Therefore, the Standard should include sufficient guidance for SMEs to apply the requirements in Section 9 of the Standard, without having to refer to IFRS 10.
13. The staff also took into consideration the IASB discussion at its September 2023 meeting on factors that would help determine when guidance belongs in the Standard or in educational material.⁴ 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.
14. At that meeting, the staff suggested the IASB uses the following factors when including guidance in the Standard or educational material:

³ Paragraph BC187 of the Basis of Conclusions on the Standard

⁴ See [Agenda paper 30C Educational material](#) of the September 2023 IASB meeting and [IASB update](#)

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- (a) in general, guidance should be included in the Standard (and form part of the mandatory requirements) if it meets both the following factors:
 - (i) it is relevant to many SMEs; and
 - (ii) it is necessary to operationalise principles in the Standard.
 - (b) in general, guidance should be included in separate educational material if it is:
 - (i) non-mandatory; or
 - (ii) about specific fact patterns; or
 - (iii) is not relevant to many SMEs.
15. At the October 2023 IASB meeting the staff recommended that some of the guidance from:
- (a) the body of IFRS 10 should be included in the Standard; and
 - (b) Appendix B of IFRS 10 should be included in the educational modules supporting the application of the Standard.
16. Guidance in Appendix B of IFRS 10 expands on the underlying principles in IFRS 10 and provides illustrative examples to support application of IFRS 10.

Proposed requirements in the Exposure Draft

17. In responding to the feedback (see paragraphs 8 of this paper), the staff compared the proposed requirements in Section 9 of the Exposure Draft with the requirements in IFRS 10 to assess if SMEs will have sufficient requirements to apply the control model.
18. In the Exposure Draft the IASB proposed to update Section 9 of the Standard for:
- (a) the requirements to present consolidated financial statements, addressing:
 - (i) the definition of control, including guidance on each of the elements of the definition of control; and

- (ii) the rebuttable presumption.
 - (b) consolidation procedures, addressing:
 - (i) acquisition and disposal of subsidiaries; and
 - (ii) non-controlling interests in subsidiaries.
 - (c) disclosures.
19. Appendix A to this paper sets out the proposed requirements in Section 9 of the Exposure Draft compared to IFRS 10, except for the proposed disclosure requirements.

Requirements in IFRS 10 not proposed in the Exposure Draft

Table 1—Requirements in IFRS 10 (on presentation of consolidated financial statements) not proposed in the Exposure Draft

IFRS 10 paragraphs	Staff view on whether these requirements should be added to the Standard
Control	
Paragraph 9: Two or more investors collectively control an investee when they must act together to direct the relevant activities. In such cases, because no investor can direct the activities without the co-operation of the others, no investor individually controls the investee. Each investor would account for its interest in the investee in accordance with relevant IFRSs such as IFRS 11 <i>Joint Arrangements</i> , IAS 28 <i>Investments in Associates and Joint Ventures</i> or IFRS 9 <i>Financial Instruments</i>	Section 11 <i>Financial Instruments</i> , Section 14 <i>Investments in Associates</i> and Section 15 <i>Joint Arrangements</i> of the Standard include requirements for SMEs to assess if they have financial instrument(s), joint control or significant influence, therefore we do not recommend adding paragraph 9 to the Standard. The staff will consider whether further guidance is needed when updating the educational material.

IFRS 10 paragraphs	Staff view on whether these requirements should be added to the Standard
Power	
<p>Paragraph 11: Power arises from rights. Sometimes assessing power is straightforward, such as when power over an investee is obtained directly and solely from voting rights granted by equity instruments such as shares, and can be assessed by considering the voting rights from those shareholdings. In other cases, the assessment will be more complex and require more than one factor to be considered, for example when power results from one or more contractual arrangements.</p>	<p>The staff think that this requirement should not be added to the Standard because the IASB has tentatively decided to retain the rebuttable presumption in paragraph 9.5 of the Standard and also to provide further clarification on how the presumption is applied. Such clarification of the rebuttable presumption will guide SMEs when to apply the rebuttable presumption (for straightforward cases) and when the definition of control can be applied (when the presumption is rebutted or not applicable).</p>
<p>Paragraph 14: An investor can have power over an investee even if other entities have existing rights that give them the current ability to participate in the direction of the relevant activities, for example when another entity has significant influence. However, an investor that holds protective rights does not have power over an investee.</p>	<p>The staff think that this requirement should not be added because it is not likely to be relevant to many SMEs (see paragraph 14(b) of this paper). Feedback during this comprehensive review indicated that most SMEs rarely engage in complex group transactions. The staff will consider whether further guidance is needed when updating the educational material.</p>
Returns	
<p>Paragraph 16: Although only one investor can control an investee, more than one party can share in the returns of an investee. For example, holders of non-controlling interests can share in the returns of an investee.</p>	<p>The staff think that this requirement should not be added because it is not likely to be relevant to many SMEs (see paragraph 14(b) of this paper). Feedback during this comprehensive review indicated that most SMEs rarely engage in complex group transactions. The staff will consider whether further guidance is needed when updating the educational material.</p>

Requirements in Appendix B of IFRS 10

20. At the September 2023 IASB meeting, the IASB decided to either update the *IFRS for SMEs* educational modules or provide similar comprehensive educational material on the third edition. The staff think that guidance and examples in Appendix B of IFRS 10 should be considered when updating the educational material supporting the Standard (see paragraph 15 of this paper). For example, the educational material could provide guidance on how the principles in the Standard could be applied to less common transactions encountered by SMEs (see paragraph 14(b) of this paper). When updating the educational material, any guidance and illustrative examples from Appendix B of IFRS 10 that are incorporated would be tailored for SMEs.

Staff view

21. The staff think that the proposals in the Exposure Draft will provide sufficient requirements for SMEs to apply the control model.

Disclosure requirement for the rebuttable presumption*Proposed disclosure requirement—significant judgements and assumptions*

22. Paragraph 9.23(b) of the Exposure Draft proposes an SME disclose the basis for concluding that ***control exists when the parent does not own, directly or indirectly through subsidiaries, a majority of the voting rights of the other entity***. This disclosure requirement is based on paragraph 9(b) of IFRS 12, which requires an entity to disclose significant judgement and assumptions made in determining that it controls another entity even though it holds less than half of the voting rights of the other entity.

Disclosure requirements in IFRS 12—significant judgements and assumptions

23. Paragraph 7(a) of IFRS 12 requires an entity to disclose information about significant judgements and assumptions it has made (and changes to those judgements and assumptions) in determining that it has control of another entity.
24. Paragraph 9(a) of IFRS 12 requires an entity to disclose significant judgements and assumptions made in determining that ***it does not control another entity even though it holds more than half of the voting rights of the other entity.***

Disclosure requirements in the Standard

25. The IASB uses the disclosure requirements in full IFRS Accounting Standards as the starting point for disclosures in the Standard. The IASB applies the principles in paragraph BC157 of the Basis for Conclusions on the Standard to reduce the disclosure requirements in full IFRS Accounting Standards. The principles are:
 - (a) information about short term cash flows and obligations, commitments and contingencies whether or not they are recognised as liabilities;
 - (b) information about liquidity and solvency;
 - (c) information on measurement uncertainties;
 - (d) information about accounting policy choices; and
 - (e) disaggregation of amounts presented in the financial statements.
26. In addition to respondents' requests to add a disclosure requirement when an SME applies the rebuttable presumption (see paragraph 9 of this paper), at its October 2023 meeting some IASB members suggested adding paragraph 9(a) of IFRS 12.

Staff view

27. The disclosure requirements in paragraphs 7(a) and 9(a) of IFRS 12, in the staff view, do not meet any of the principles in paragraph BC157 of the Basis of Conclusions on the Standard (see paragraph 25 of this paper). That said, the staff think that the disclosures in paragraphs 7(a), 9(a) and 9(b) of IFRS 12 could provide useful information about significant judgements and assumptions made when the SME has determined that:
- (a) it controls another entity;
 - (b) it does not control another entity even through it holds more than half of the voting rights; and
 - (c) it controls another entity even though it holds less than half of the voting rights of the other entity.
28. Feedback on the Post-Implementation Review of IFRS 10 identified that assessing control requires the exercise of judgement.⁵ The extent of judgement required depends on the complexity of the transaction and can, sometimes, be significant. However, some respondents to the [Request for Information Comprehensive Review of the IFRS for SMEs Standard](#) said SMEs that apply the Standard rarely engage in such complex transactions. Nevertheless, the staff notes that the assessment of whether an SME controls another entity might in some circumstances require judgement.
29. Paragraph 8.6 of the Exposure Draft requires an SME to disclose, along with material accounting policy information or other notes, the judgements, apart from those involving estimations, that management has made in the process of applying the entity's accounting policies that have the most significant effect in the amounts recognised in the financial statements. The staff think that this paragraph would require disclosure of any significant judgements and assumptions under paragraphs

⁵ Paragraph BC57 of the Basis of Conclusions on the Exposure Draft

- 7(a), 9(a) and 9(b) of IFRS 12. To assist application of paragraph 8.6, the staff suggest that the IASB update paragraph 8.6 of the Standard to include examples of the judgments that SMEs might need to disclose. These examples should include judgements made when applying the control model, that is, judgements made by the SMEs in determining that it controls or does not control another entity. If paragraph 8.6 is updated this way, the staff think paragraph 9.23(b) should be deleted.
30. The staff think that including examples of the types of judgements that should be disclosed under paragraph 8.6 of the Standard will facilitate easier application by SMEs. We think that SMEs would find it easier to apply a single requirement in paragraph 8.6, together with examples, rather than having specific requirements to disclose judgements within different sections of the Standard. The requirement will be applied for judgements that have the most significant effects for the amounts recognised in the financial statements. Therefore, for many sections of the Standard, an SME that does not encounter complex transactions may not apply significant judgement or assumptions and will not be required to make the disclosure in paragraph 8.6 of the Standard.
31. The staff note that having the requirement to disclose judgements by SMEs in one paragraph of the Standard will also facilitate consistency when developing the educational material to support Section 8 of the Standard, as further guidance on judgements will be linked to this specific section.
32. In responding to the request from respondents to add a disclosure requirement when an SME has applied the rebuttable presumption, we have applied the principles in paragraph BC157 of the Basis for Conclusions on the Standard. In the staff view, disclosing that the rebuttable presumption has been applied does not meet any of the principles considering users' needs (see paragraph 25 of this paper).
33. The staff think that the control model is the single basis for assessing control in the Standard, either applying the rebuttable presumption (which is a simplification) or the definition of control. Consequently, the staff think this disclosure will not provide any useful information to the users of SMEs' financial statements. Nevertheless, SMEs

will need to disclose significant judgements made in assessing control applying paragraph 8.6 of the Standard.

Staff recommendation and question for the IASB

34. The staff recommend the IASB:
- (a) deletes 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, directly or indirectly through subsidiaries, a majority of the voting rights of the other entity); and
 - (b) updates paragraph 8.6 of Section 8 *Notes to the Financial Statements* of the Standard to include examples of the types of judgements that management might have made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

Question for the IASB

1. Does the IASB agree with the staff recommendation in paragraph 34 of this paper?

Appendix—Requirements in Section 9 of the Exposure Draft

A1. The tables in this Appendix reflect the requirements (except the disclosure requirements) in Section 9 of the Exposure Draft, which have been updated in aligning Section 9 of the Standard with IFRS 10.

Table 1—Guidance in Section 9 on the requirement to present consolidated financial statements (the definition of control)

Paragraph 9.4B (based on paragraph 6 and 7 of IFRS 10): An investor controls and investee if, and only if, the investor has all of the following:	Related paragraph in the Exposure Draft
a) power over the investee	<ul style="list-style-type: none"> ▪ 9.4D. An investor has power over an investee when the investor has existing rights that give it the current ability to direct the relevant activities, that is the activities that significantly affect the investee's returns. Relevant activities include, but are not limited to: (a) selling and purchasing of goods or services; (b) selecting, acquiring or disposing of assets; (c) researching and developing new products or processes; and (d) determining a funding structure or obtaining funding. (Based on paragraph 10 and B11 of IFRS 10) ▪ 9.4E. An investor with the current ability to direct the relevant activities has power even if its rights to direct have yet to be exercised. Evidence that the investor has been directing relevant activities can help determine whether the investor has power, but is not, in itself, conclusive in determining whether the investor has power over an investee. (Based on paragraph 12 of IFRS 10) ▪ 9.4F. If two or more investors each have existing rights that give them the unilateral ability to direct different relevant activities, the investor that has the current ability to direct the activities that most significantly affect the returns of the investee has

Paragraph 9.4B (based on paragraph 6 and 7 of IFRS 10): An investor controls and investee if, and only if, the investor has all of the following:	Related paragraph in the Exposure Draft
	<p>power over the investee. (Based on paragraph 13 of IFRS 10)</p> <ul style="list-style-type: none"> ▪ 9.6. When assessing control, an investor considers its potential voting rights as well as potential voting rights held by other parties, to determine whether it has power. Potential voting rights are usually currently exercisable rights to obtain voting rights of an investee, such as those arising from convertible instruments or options, including forward contracts. Those potential voting rights are considered only if the holder of the right has the practical ability to exercise that right. (Based on paragraph B47 of IFRS 10) ▪ 9.6A. If an investor also has voting or other decision-making rights relating to the investee's relevant activities, the investor assesses whether those rights, in combination with potential voting rights, give the investor power. (Based on paragraph B49 of IFRS 10)
b) exposure, or rights, to variables returns from its involvement with the investee, and	9.4G. An investor is exposed, or has rights, to variable returns from its involvement with the investee when the investor's returns from its involvement have the potential to vary as a result of the investee's performance. The investor's returns can be only positive, only negative or both positive and negative. (Based on paragraph 15 of IFRS 10)
c) the ability to use its power over the investee to affect the amount of the investor's returns.	9.4H. For an investor to control an investee, the investor must have not only power over the investee and exposure or rights to variable returns from its involvement with the investee, but also the ability to use its power to affect the investor's returns from its

Paragraph 9.4B (based on paragraph 6 and 7 of IFRS 10): An investor controls and investee if, and only if, the investor has all of the following:	Related paragraph in the Exposure Draft
	involvement with the investee. (Based on paragraph 17 of IFRS 10)

Table 2—Additional guidance in Section 9 of the Exposure Draft on the requirement to present consolidated financial statements (assessment of control)

Topic	Related paragraph in the Exposure Draft
Consideration for all facts and circumstances	9.4C. An investor shall consider all the facts and circumstances when assessing whether it controls an investee. The investor shall reassess whether it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed in paragraph 9.4B. (Based on paragraph 8 of IFRS 10)
Agent/Principal considerations	9.4I. When an investor with decision-making rights (a decision-maker) assesses whether it controls an investee, it shall determine whether it is a principal or an agent. An investor shall also determine whether another entity with decision-making rights is acting as an agent for the investor. An agent is a party primarily engaged to act on behalf and for the benefit of another party or parties (the principal(s)) and therefore does not control the investee when it exercises its decision-making authority. Thus, sometimes a principal's power may be held and exercisable by an agent, but on behalf of the principal. A decision-maker is not an agent simply because other parties can benefit from the decisions that it makes. (Based on paragraph 18 and B58 of IFRS 10)
Rebuttable presumption	<ul style="list-style-type: none"> ▪ 9.5 Control is presumed to exist when the investor owns, directly or indirectly through subsidiaries, a majority of the voting rights of an investee. That

Topic	Related paragraph in the Exposure Draft
	<p>presumption can be overcome if it can be clearly demonstrated that the investor does not have one or more of the elements of control listed in paragraph 9.4B.</p> <ul style="list-style-type: none"> ▪ 9.5A. An investor can have power even if it holds less than a majority of the voting rights of an investee, for example, through: <ul style="list-style-type: none"> (a) a contractual arrangement between the investor and other vote holders; (b) rights arising from other contractual arrangements; (c) the investor's voting rights; (d) potential voting rights (see paragraph 9.6); or (e) a combination of (a)-(d)

Table 3—Guidance in Section 9 of the Exposure Draft on consolidation procedures

Topic	Related paragraph in the Exposure Draft
Acquisition and disposal of subsidiaries	<ul style="list-style-type: none"> ▪ 9.18. The income and expenses of a subsidiary are included in the consolidated financial statements from the acquisition date until the date on which the parent loses control of a subsidiary. ▪ 9.18A If a parent loses control of a subsidiary, the parent: <ul style="list-style-type: none"> (a) derecognises: <ul style="list-style-type: none"> (i) the assets (including any goodwill) and liabilities at their carrying amounts at the date control is lost in the former subsidiary from the consolidated statement of financial position; and (ii) the carrying amount of any non-controlling interests in the former subsidiary at the date when control is lost (including any components of other comprehensive income attributable to them); (b) recognises:

Topic	Related paragraph in the Exposure Draft
	<p>(i) the fair value of the consideration received, if any, from the transaction or event that resulted in the loss of control; and</p> <p>(ii) any investment retained in the former subsidiary at its fair value on the date control is lost; and (c) recognises the gain or loss associated with the loss of control attributable to the former controlling interest.</p> <p>(Based on paragraphs 25 and B98 of IFRS 10)</p> <ul style="list-style-type: none"> ▪ 9.18B. If a parent loses control of a subsidiary, the parent shall account for all amounts previously recognised in other comprehensive income for that subsidiary, except for the cumulative amount of any exchange differences that relate to a foreign subsidiary, on the same basis as would be required if the parent had directly disposed of the related assets or liabilities. The cumulative amount of any exchange differences that relate to a foreign subsidiary recognised in other comprehensive income in accordance with Section 30 Foreign Currency Translation is not reclassified to profit or loss on disposal of the subsidiary. <p>(Based on paragraph B99 of IFRS 10)</p> <ul style="list-style-type: none"> ▪ 9.19. If a parent loses control of an entity a subsidiary but continues to hold an investment in the former subsidiary, that investment shall be accounted for in accordance with other sections of this Standard. If the retained interest is a financial asset Section 11 Financial Instruments applies; if it is an associate Section 14 Investments in Associates applies; if it is or a jointly controlled entity Section 15 Joint Arrangements applies. The fair value on the date control is lost shall be regarded as the fair value on initial recognition of a financial asset or the cost on initial recognition of

Topic	Related paragraph in the Exposure Draft
	<p>an investment in an associate or jointly controlled entity, if applicable.</p>
<p>Non-controlling interests in subsidiaries</p>	<ul style="list-style-type: none"> ▪ 9.20A. An entity shall treat changes in a parent's controlling interest in a subsidiary that do not result in a loss of control as transactions with owners in their capacity as owners. Accordingly, the carrying amount of the non-controlling interest shall be adjusted to reflect the change in the parent's interest in the subsidiary's net assets. Any difference between the amount by which the noncontrolling interest is so adjusted and the fair value of the consideration paid or received, if any, shall be recognised directly in equity and attributed to owners of the parent. An entity shall not recognise any gain or loss on these changes. Also, an entity shall not recognise any change in the carrying amounts of assets (including goodwill) or liabilities as a result of such transactions. (Based on paragraphs 23 and B96 of IFRS 10)