IFRS Accounting

Staff paper

Agenda reference: 30

IASB® meeting

Date	**January 2024**
Project	**Second Comprehensive Review of the *IFRS for SMEs®* Accounting Standard**
Topic	**Cover Paper**
Contacts	Michelle Fisher (mfisher@ifrs.org)

Purpose of this meeting

1. In September 2022, the International Accounting Standards Board (IASB) published Exposure Draft *Third edition of the* IFRS for SMEs *Accounting Standard* (the Exposure Draft). The purpose of this meeting is for the IASB to continue its redeliberations of the proposals in 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 *Reconciliation for liabilities arising from financing activities*

   (b) Agenda Paper 30B *Agriculture: bearer plants*

   (c) Agenda Paper 30C *Impairment of financial assets*

   (d) Agenda Paper 30D *Section 20 Leases and IFRS 16 Leases*

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

Background to this comprehensive review

4. 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 6 of this paper).

5. 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.

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. The Exposure Draft was open for comment for 180 days, which ended on 7 March 2023.

7. 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.

8. 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.

9. 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 will present the advice from the SMEIG when the IASB redeliberates the related topics in the Exposure Draft.

10. 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, November and December 2023 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.

11. At its October 2023 meeting, the IASB also discussed recent amendments to full IFRS Accounting Standards. The IASB tentatively decided to publish an addendum to the Exposure Draft *Third Edition of the* IFRS for SMEs *Accounting Standard*. The addendum will 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 the 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

12. The IASB will continue to redeliberate the proposals in the Exposure Draft as set out in its project plan. The third edition of the Standard is expected to be issued in H2 2024.

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

Month	Decision:
June 2023	*Definition of public accountability* The IASB tentatively decided: (a) to confirm the proposed amendment to paragraph 1.3(b) of the *IFRS for SMEs* Accounting Standard (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	*Project plan* 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: (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 *IFRS for SMEs* Accounting Standard by applying the alignment approach to IFRS Accounting Standards.

Month	Decision:
September 2023	*Approach to providing educational material on the Standard* The IASB decided to either update the *IFRS for SMEs* educational modules that support the second edition of the Standard, or provide similar comprehensive educational material on the third edition. *Impairment of financial assets* 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 *IFRS for SMEs* Accounting Standard that have significant exposure to credit risk is expected to be small. 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.
October 2023	*Proposed revised Section 23 Revenue from Contracts with Customers* The IASB tentatively decided to revise Section 23 of the Standard to reflect the principles in IFRS 15 *Revenue from Contracts with Customers.* *Simplification of the control model in Section 9 Consolidated and Separate Financial Statements* The IASB tentatively decided to clarify how an entity applies the rebuttable presumption in paragraph 9.5 of the Standard. *Recognition of development costs* The IASB tentatively decided to retain the requirements in the Standard for recognising development costs. *Recognition of borrowing costs* The IASB tentatively decided to retain the requirements in the Standard for recognising borrowing costs.

Month	Decision:
October 2023	*Recent amendments to full IFRS Accounting Standards* The IASB tentatively decided to expose for public comment a proposal to align the Standard with: (a) Supplier Finance Arrangements, which amended IAS 7 *Statement of Cash Flows* and IFRS 7 *Financial Instruments: Disclosures*; and (b) Lack of Exchangeability, which amended IAS 21 *The Effects of Changes in Foreign Exchange Rates.*
November 2023	*Proposed amendments to Section 15 Investments in Joint Ventures (to be renamed Joint Arrangements)* The IASB tentatively decided: (a) to align the definition of 'joint control' in Section 15 of the Standard with the definition in IFRS 11 *Joint Arrangements*. (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. *Simplification in paragraph 28.19* The IASB tentatively decided: (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.

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<tr><th>Month</th><th>Decision:</th></tr>
<tr><td>December 2023</td><td>
Fair value measurement
The IASB tentatively decided:
(a) to finalise the proposals in the Exposure Draft to introduce a new Section 12 Fair Value Measurement 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.
Investment entities
The IASB tentatively decided not to add requirements for investment entities to Section 9 Consolidated and Separate Financial Statements of the Standard.
Requirement to offset equity instruments
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.
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