IFRS® Accounting

Staff paper

Agenda reference: 4

Emerging Economies Group meeting

Date	**May 2025**
Project	**Second comprehensive review of the *IFRS for SMEs* Accounting Standard**
Topic	***IFRS for SMEs* Accounting Standard**
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This paper has been prepared for discussion at a public meeting of the Emerging Economies Group (EEG). This paper does not represent the views of the International Accounting Standards Board (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. The IASB's technical decisions are made in public and are reported in the IASB® *Update*.

Purpose of this session

This session aims to provide EEG members with an overview of the second comprehensive review of the *IFRS for SMEs* Accounting Standard, including the major changes to the Standard.

Question for EEG members:

Do EEG members have any comments/questions?

Agenda

Introducing the *IFRS for SMEs* Accounting Standard

Background to the second comprehensive review

Third edition of the *IFRS for SMEs* Accounting Standard

Supporting implementation

IFRS Accounting

IFRS for SMEs®

Accounting Standard

Introducing the *IFRS for SMEs* Accounting Standard

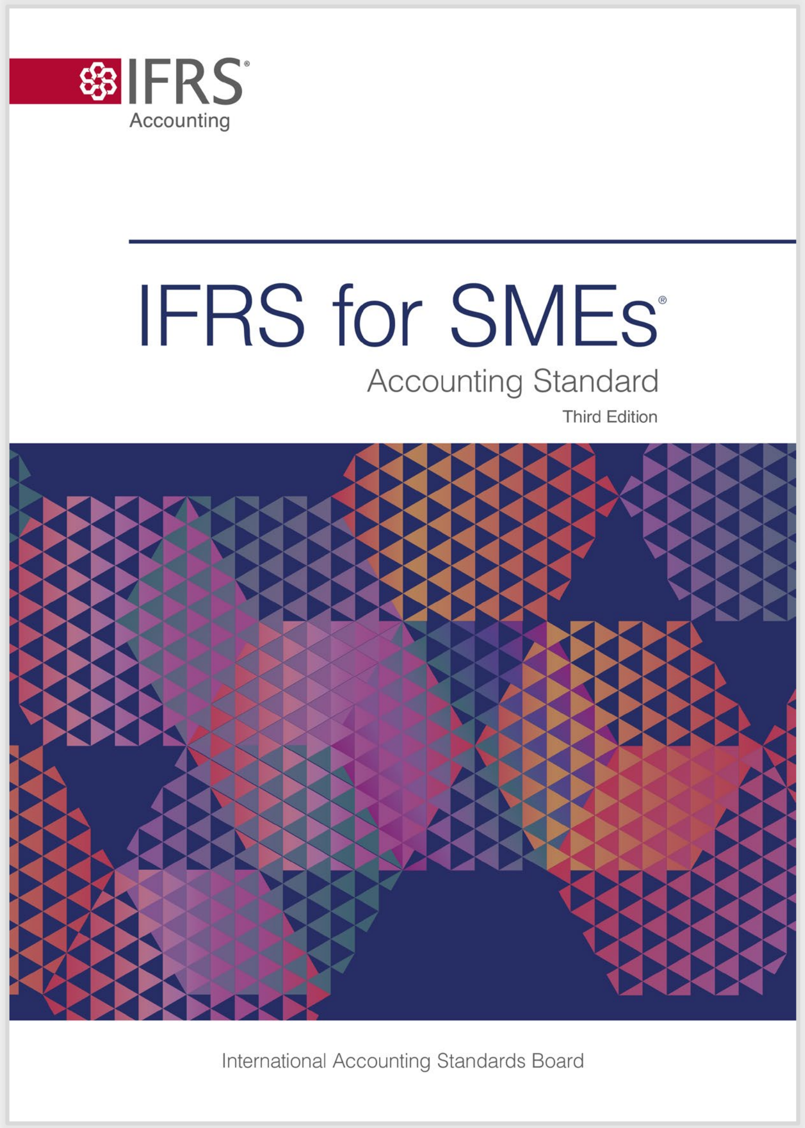
Introduction

The *IFRS for SMEs* Accounting Standard

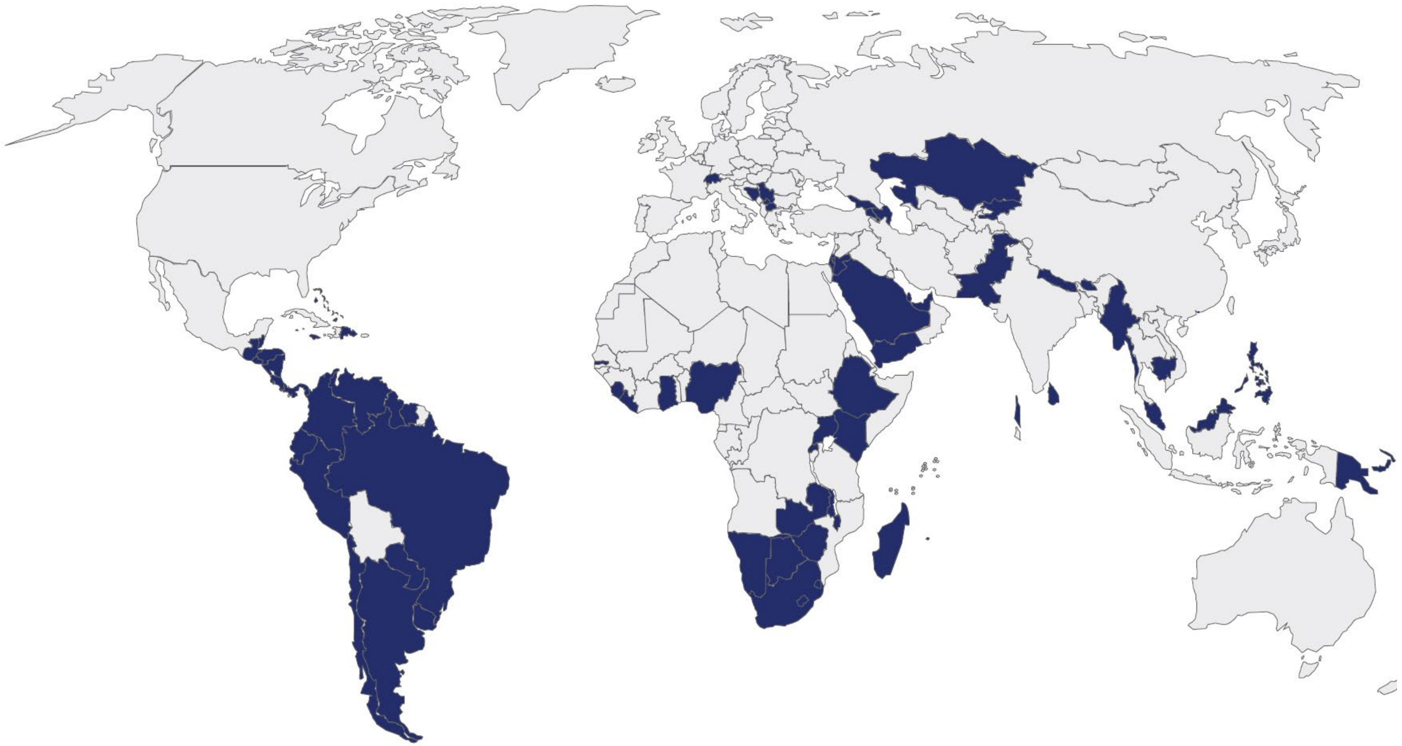
Adoption of the *IFRS for SMEs* Accounting Standard

The *IFRS for SMEs* Accounting Standard

- A single Standard based on **full IFRS** Accounting Standards
- **Tailored** for entities **without public accountability** that publish general purpose financial statements
- Focuses on the **information needs of lenders and other users** of SMEs' financial statements
- In assessing the **costs and benefits** of amending the Standard, the IASB **balances** the **limited resources of SMEs** with the **information needs of users** of SMEs' financial statements (mainly lenders)



Adoption of the *IFRS for SMEs* Accounting Standard



85 of 168 jurisdictions require or permit use of the *IFRS for SMEs* Accounting Standard (August 2024)

■ *IFRS for SMEs* Accounting Standard is required or permitted

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Background to the second comprehensive review

Background to the second comprehensive review

Framework for the second comprehensive review

Scope of the second comprehensive review

Framework for the second comprehensive review

Relevance to SMEs	Is the topic relevant to SMEs?
Simplicity	Can the requirements of full IFRS Accounting Standards be simplified?
Faithful representation	Do the outcomes faithfully represent the substance of the transaction?

Scope of the second comprehensive review

Scope	
	A Requirements in full IFRS Accounting Standards issued: ▪ since the first review that had an effective date on or before 1 January 2019 ▪ before the first review that did not result in amendments to the Standard in 2015
	B Other topics brought to the IASB's attention relating to the Standard

Scope of the second comprehensive review (continued)

Standards in scope	The *Conceptual Framework*	IFRS 13 *Fair value measurement*	Other amendments to IFRS Accounting Standards and IFRIC Interpretations
	IFRS 3 *Business Combinations*	IFRS 14 *Regulatory Deferral Accounts*	
	IFRS 9 *Financial Instruments*	IFRS 15 *Revenue from Contracts with Customers*	
	IFRS 10 *Consolidated Financial Statements*		
	IFRS 11 *Joint Arrangements*	IFRS 16 *Leases*	

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Third edition of the *IFRS for SMEs* Accounting Standard

Third edition of the *IFRS for SMEs* Accounting Standard

Changes in the third edition of the *IFRS for SMEs* Accounting Standard

Transition to the third edition of the *IFRS for SMEs* Accounting Standard

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Changes in the third edition of the *IFRS for SMEs* Accounting Standard—Section 2 *Concepts and Pervasive Principles*

Section 2 *Concepts and Pervasive Principles*

Reflecting improvements from the 2018 *Conceptual Framework for Financial Reporting*

- **introduce new concepts** relating to measurement, presentation, disclosure, and guidance on derecognition
- **update definitions** and recognition criteria for assets and liabilities
- **clarify the concepts** of prudence, stewardship, measurement uncertainty and substance over form
- **add an overriding principle** that the requirements in other sections of the Standard take precedence over Section 2
- **retain the concept of ‘undue cost or effort’**

Updated definition of an asset and a liability

Asset	Liability
Present economic resource	Present obligation
Controlled by the entity	As a result of past events
As a result of past events	Transfer of an economic resource
A right	No practical ability to avoid the transfer
Potential to produce economic benefits	

Section 2 interactions with other sections

Section 2 has the same status as all other sections in the Standard

- **apply the concepts** in developing accounting policies
- **use the hierarchy** in Section 10
- **use the more detailed requirements** first; if an individual section specifies a treatment of a transaction then follow this instead of developing a policy directly from Section 2

The requirements in other sections of the Standard take precedence over Section 2

Example of another section taking precedence

An entity is considering developing an accounting policy under which its brand name has an indefinite useful life and therefore the intangible asset would not be amortised. Management believe that this satisfies the principle of faithful representation because they anticipate the brand will hold its value.

Section 18 *Intangible Assets other than Goodwill* requires that all intangible assets are considered to have a finite useful life. Management's proposed approach is therefore not permissible.

Undue cost or effort

Not a general exemption—available only in specified situations

- **Section 11**—measurement of some investments
- **Sections 14 and 15**—fair value model for investments in associates and jointly controlled entities
- **Section 16**—fair value for investment properties
- **Section 18**—fair value of intangible assets acquired in a business combination
- **Section 19**—fair value of contingent consideration in a business combination
- **Section 21**—contingent asset disclosures
- **Section 22**—extinguishing liabilities by issuing equity, non-cash distributions
- **Section 23**—options to acquire additional goods or services
- **Section 28**—actuarial valuation method
- **Section 34**—biological assets

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Changes in the third edition of the *IFRS for SMEs* Accounting Standard—Section 9 *Consolidated and Separate Financial Statements*

Section 9 *Consolidated and Separate Financial Statements*

Reflecting improvements from IFRS 10 Consolidated *Financial Statements*

- **update the definition** of ‘control’ in Section 9 to align with that in IFRS 10
- **control** becomes the single basis for consolidation
- **introduce requirements** when a parent loses control of a subsidiary

- **retain the rebuttable presumption** that control exists when an investor owns a majority of the voting rights of an investee

Definition of control

An investor controls an investee if it has all of the following:

1	2	3
power over the investee	exposure, or rights, to variable returns from its involvement with the investee	the ability to use its power over the investee to affect the amount of the investor’s returns

Single consolidation model for all entities based on control

Control explained

Power	Investor has existing rights that give it the current ability to direct the relevant activities
Returns	Investor's returns have the potential to vary as a result of the investee's performance
Link between power and returns	Investor has the ability to use its power to affect its returns from involvement with investee

Simplification	Control is presumed to exist when the investor owns a majority of the voting rights of the investee

Losing control of a subsidiary

Recognition and measurement requirements

If a parent loses control of a subsidiary	
Derecognise	carrying amounts of assets, liabilities and non-controlling interests
Recognise	fair value of consideration received and interest retained in former subsidiary
= Gain or loss	recognised in profit or loss

New disclosure requirements

Changes to the disclosure requirements in Section 9

Information about judgements

Disclosure of judgements made in the process of applying accounting policies, including judgements made in determining that the entity has control of another entity (paragraph 8.6)

Losing control of a subsidiary

Disclosure for the gain or loss from losing control of a subsidiary:

- the portion of that gain or loss attributable to measuring any interest retained in the former subsidiary at its fair value; and
- line items in profit or loss in which the gain or loss is recognised

Transition requirements

Apply the amendments in Section 9 retrospectively

? What if there is a change for the investees being consolidated by the entity?

Consolidating an investee not previously consolidated	No longer consolidating an investee previously consolidated
Measure the assets, liabilities and NCI (including goodwill) as if the investee had been consolidated from the date control is obtained	Measure its interests in the investee applying other requirements in the Standard retrospectively (for example, as an investment in associates)
If impracticable, make adjustments from the earliest period practicable	

Transition requirements (continued)

Apply the amendments in Section 9 retrospectively

If there is <u>no</u> change for the investee being consolidated by the entity An entity is not required to make adjustments for previous accounting periods	Paragraph 10.13(b) of the Standard Disclose amount of adjustment for each line item affected for the period immediately preceding the date of initial application

For an investment in a former subsidiary where the entity's control is lost before the date of initial application, the entity:

- shall not restate the carrying amount of the investment
- shall not remeasure any gain or loss on the loss of control
- is not required to apply the disclosure requirements in paragraph 9.23B to comparative information provided

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Changes in the third edition of the *IFRS for SMEs* Accounting Standard—Section 11 *Financial Instruments*

Section 11 *Financial Instruments*

Reflecting some improvements from IFRS 9 *Financial Instruments*

- **remove the option** to apply the recognition and measurement requirements in IAS 39 *Financial Instruments*: *Recognition and Measurement*
- **supplement the classification requirements, by adding a principle** for classification and measurement of financial instruments based on contractual cash flow characteristics
- **add the definition of** 'financial guarantee contract'
- **simplify** the requirements for intragroup financial guarantee contracts issued for nil consideration
- **require disclosure of** an analysis of the age of financial assets

- **retain** incurred loss model for the impairment of financial assets measured at amortised cost
- **retain** hedge accounting and derecognition requirements

Supplementary principle to classify debt instruments

Is the debt instrument within the scope of Section 11?

No → **Apply other sections of the Standard.**

Yes ↓

Does the debt instrument satisfy the conditions in paragraph 11.9 (see examples in paragraphs 11.9A–11.10)?

Yes → **Apply Part I of Section 11 (amortised cost).**

No ↓

Are contractual cash flows solely principal and interest, applying paragraph 11.9ZA?

Yes → **Apply Part I of Section 11 (amortised cost).**

No ↓

Apply Part II of Section 11 (fair value through profit or loss).

Issued financial guarantee contracts

Definition	A 'financial guarantee contract' is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument
Simplification to IFRS 9	Section 21 *Provisions and Contingencies*: financial guarantee contracts issued at nil consideration when the specified debtor is another entity within the group (intra-group guarantees). Part II of Section 11: all other financial guarantee contracts

New disclosure requirements

Changes to the disclosure requirements in Section 11

Financial assets

New disclosure for analysis of the age of trade receivables and other financial assets

Financial liabilities

New disclosure for maturity analysis for financial liabilities

New disclosure requirements—analysis of the age of trade receivables

11. Analysis of the age of trade receivables

The table analyses the age of the Group's trade receivables by reference to their due date.

	Not yet due	Less than 1 month	1–3 months	3 months –1 year	1–5 years	More than 5 years	Total
	CU	CU	CU	CU	CU	CU	CU
20X2							
Amortised cost before impairment	190,000	130,000	245,000	115,000	85,000	15,000	780,000
Impairment	–	(10,000)	(68,000)	(80,000)	(78,654)	(14,558)	(251,212)
	190,000	120,000	177,000	35,000	6,346	442	528,788
20X1							
Amortised cost before impairment	175,000	160,000	251,000	116,500	91,000	21,000	814,500
Impairment	–	(13,212)	(72,100)	(90,000)	(90,014)	(20,790)	(286,116)
	175,000	146,788	178,900	26,500	986	210	528,384

New disclosure requirements—maturity analysis of financial liabilities

20. Maturity analysis of financial liabilities

The table analyses the Group's financial liabilities based on their remaining contractual maturities. The amounts are the contractual undiscounted cash flows, including interest payments.

	Total	Less than 1 month	1–3 months	3 months –1 year	1–5 years
	CU	CU	CU	CU	CU
20X2					
Bank overdraft	83,600	83,600	–	–	–
Trade payables	454,858	174,858	250,000	30,000	–
Interest payable	2,000	1,200	800	–	–
Bank loan	55,000	–	625	1,875	52,500
20X1					
Bank overdraft	115,507	115,507	–	–	–
Trade payables	420,520	170,520	200,000	50,000	–
Interest payable	1,200	–	1,200	–	–
Bank loan	172,500	–	1,875	5,625	165,000

Transition requirements

Apply the amendments in Section 11 retrospectively

? How about for entities that previously applied the recognition and measurement requirements in IAS 39?

☑ Apply the recognition and measurement requirements in Section 11 retrospectively but some reliefs for:

- financial assets and liabilities derecognised applying IAS 39
- assessing whether a financial asset meets the conditions in paragraphs 11.9–11.9ZA
- applying the effective interest method if retrospectively is impracticable
- applying hedge accounting

Changes in the third edition of the *IFRS for SMEs* Accounting Standard—Section 12 *Fair Value Measurement*

New Section 12 *Fair Value Measurement*

Reflecting improvements from IFRS 13 *Fair Value Measurement.*

- **bring together** the guidance for measuring assets and labilities at fair value
- **update the definition** of fair value to align with that in IFRS 13
- **update the requirements** relating to fair value measurement with the principles of the fair value hierarchy in IFRS 13
- **update the disclosure requirements** relating to fair value with those in IFRS 13

The requirements for 'when' to use fair value measurement remain unchanged

Fair value

Definition the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date.

Fair value hierarchy categorises inputs to valuation techniques into three levels:	
Level 1	Quoted prices in active markets for identical assets and liabilities. Level 1 inputs must be used without adjustment whenever available.
Level 2	Inputs not included within Level 1 that are observable for the asset or liability, either directly or indirectly.
Level 3	Unobservable inputs, including the entity's own data, which are adjusted if necessary to reflect market participants' assumptions.

Simplifications to requirements in IFRS 13

Guidance only included if meets principle of 'relevance to SMEs'	For example, specific fair value measurement guidance on liabilities and own equity instruments in IFRS 13 was excluded as unlikely to be relevant to many SMEs
Drafted in plain English	The language used has been be simplified and expressed more clearly for SMEs
Reduced disclosures	For example, for changes in valuation techniques and fair value measurements categorised within Level 3
Illustrative examples included in educational material	Enables greater flexibility in providing examples focused on SMEs

New disclosure requirements

Changes to the disclosure requirements in Section 12

For each class of assets and liabilities measured at fair value

Retains requirement to disclose carrying amounts and valuation techniques. New requirements for disaggregation
(previously in individual sections e.g. Section 11,16,34)

Requires disclosure of inputs to valuation techniques (previously significant assumptions)

New requirement to disclose level of fair value hierarchy in which measurement is categorised

Level 3 recurring fair value measurement

New requirement to show total gains or losses in profit or loss/other comprehensive income (and corresponding line item)

Transition requirements

Apply the new Section 12 prospectively

Prior year	Current year
Fair value measurements not restated	Fair value measurements apply new Section 12

An entity is not required to apply the disclosure requirements in the new Section 12 to comparative information provided for periods before the date of initial application

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Changes in the third edition of the *IFRS for SMEs* Accounting Standard—Section 19 *Business Combinations and Goodwill*

Section 19 *Business Combinations and Goodwill*

Reflecting improvements from IFRS 3 *Business Combinations*

- **update the definition** of ‘business’ to align with that in IFRS 3
- **introduce new requirements:**
  - to recognise contingent consideration at fair value
  - for step acquisitions
  - to recognise acquisition-related costs in profit or loss
- **introduce new guidance** if a new entity is formed in a business combination
- **clarify** that an acquirer cannot recognise a contingent liability that is not a liability
- **update references** to the definitions of ‘asset’ and ‘liability’ consistent with the revised Section 2

Simplifications to requirements in IFRS 3 (2008)

Intangible assets acquired in a business combination	Only recognise if fair value can be measured reliably without undue cost or effort
Reacquired rights	No specific guidance, as not prevalent among SMEs (‘relevance to SMEs’ principle)
Non-controlling interests	No option to measure at fair value
Contingent consideration	Exemption from fair value through profit or loss measurement, if undue cost or effort (determined at the acquisition date)
Reduced disclosures	Limited changes to the existing disclosures in Section 19 (see next slide)

New disclosure requirements

Changes to the disclosure requirements in Section 19

Business combinations during the period	All business combinations	Reporting periods after acquisition date
Retains requirement to disclose specific information about each business combination	Retains requirement to disclose useful lives and reconciliation for goodwill	New disclosures for outstanding contingent consideration arrangements (changes in amounts, valuation techniques and key inputs)
New disclosures for contingent consideration arrangements (amount, description, basis for determining payment) and unrecognised contingent liabilities		

Transition requirements

Leave unadjusted on date of initial application:

- assets and liabilities from business combinations
- any contingent consideration balances arising from business combinations

If a business combination agreement provided for adjustment to cost:

- contingent on future events
- probable and measured reliably

= include in cost of business combination at acquisition date

date of initial application (e.g. 1 January 2027)

Prospectively apply revised Section 19 to:

- business combinations for which acquisition date is on or after the date of initial application
- asset acquisitions that occur on or after the date of initial application

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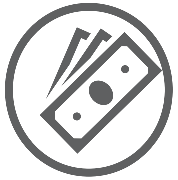
Changes in the third edition of the *IFRS for SMEs* Accounting Standard—Section 23 *Revenue from Contracts with Customers*

Section 23 *Revenue from Contracts with Customers*

Reflecting improvements from IFRS 15 *Revenue from Contracts with Customers*

- **structure**—Section 23 is structured around the 5-steps of the revenue recognition model in IFRS 15
- **language**—Section 23 uses simple concise language which is different from the language in IFRS 15
- **recognition and measurement**—Section 23 simplifies the requirements in IFRS 15 to limit the amount of judgement and information SMEs need to apply the requirements



- **disclosures**—Section 23 includes simplifications of the disclosure requirements in IFRS 15
- **transition**—SMEs are permitted to apply Section 23 prospectively

The five-step revenue recognition model

Step 1	Identify the contract(s) with a customer
Step 2	Identify the promises in the contract
Step 3	Determine the transaction price
Step 4	Allocate the transaction price to the promises in the contract
Step 5	Recognise revenue when (or as) the entity fulfils a promise

Simplifications to recognition and measurement requirements in IFRS 15

Step 2	**‘Performance obligation’ terminology**	Replaced with ‘promise’
	Determining if a good or service is distinct	Included examples and simplified language
	Warranties	Treatment based on whether the customer has the option to buy the product with or without the warranty
	Customer options for additional goods or services	Permitted an undue cost or effort exemption for separately accounting for customer options
Step 3	**Variable consideration**	Simplified language
	Time value of money	Adjustment required for deferred payment arrangements that constitute a financing transaction

Simplifications to recognition and measurement requirements in IFRS 15

Step 4	**Allocation of a discount/ variable consideration**	Allocation based on a principle instead of criteria
Step 5	**Determining timing of revenue recognition**	Included examples and simplified language
	Licencing	Timing of revenue recognition based on a single set of criteria
Contract costs	**Costs to obtain a contract**	Expensed as incurred

Disclosure requirements

Revenue	Contracts	Significant judgements
Disaggregation of revenue	Information about contract balances	Methods for recognising revenue
	Information about promises in contracts with customers	Determining the transaction price
		Allocating the transaction price to promises in the contract

Transition requirements

<table>
<tr><th></th><th>Prior year</th><th colspan="2">Current year</th></tr>
<tr><td>Retrospective</td><td>Contracts restated</td><td colspan="2">Contracts under the revised Section 23</td></tr>
<tr><td rowspan="2">Prospective</td><td rowspan="2">Contracts <u>not</u> restated</td><td colspan="2">Contracts that begin in the</td></tr>
<tr><td>prior year
under the current Section 23</td><td>current year
under the revised Section 23</td></tr>
</table>

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Changes in the third edition of the *IFRS for SMEs* Accounting Standard—Other amendments

Other amendments

Section 7 *Statement of Cash Flows* Reflecting improvements to IAS 7 *Statement of Cash Flows*	• disclose a reconciliation of **changes in liabilities** arising from financing activities • disclose information about an SMEs’ **supplier finance arrangements**

Other amendments (continued)

Illustration—disclosing a reconciliation of changes in liabilities arising from financing activities

	Interest payable	Bank loan	Finance leases	Total
	CU	CU	CU	CU
1 January 20X1	–	(150,000)	(82,931)	(232,931)
Cash payments	–	6,300	25,000	31,300
Interest	–	(7,500)	(6,577)	(14,077)
Non-cash finance costs	(1,200)	1,200	–	–
31 December 20X1	(1,200)	(150,000)	(64,508)	(215,708)
Cash payments	–	106,700	31,000	137,700
Interest	–	(7,500)	(6,870)	(14,370)
Non-cash finance costs	(800)	800	–	–
Finance leases entered into	–	–	(60,000)	(60,000)
31 December 20X2	(2,000)	(50,000)	(100,378)	(152,378)

Other amendments (continued)

Illustration—disclosing information about supplier finance arrangements

Note X—Supplier Finance Arrangements

The entity entered into arrangements with the following terms and conditions:

- Type A...
- Type B...

Carrying amount of liabilities	Reporting date 20X2	Reporting date 20X1
Presented within trade and other payables	CU1,500	CU1,000
– of which suppliers have received payment	CU1,050	CU800
Presented within finance payables	CU1,000	CU750
– of which suppliers have received payment	CU900	CU650
Range of payment due dates		
Liabilities that are part of the arrangement	85–90 days after invoice date	80–90 days after invoice date
Comparable trade payables that are not part of an arrangement	60–70 days after invoice date	60–65 days after invoice date

Non-cash changes

There were no material business combinations or foreign exchange differences in either period. There were non-cash transfers from trade payables to finance payables of CU1,200 and CU900 in 20X2 and 20X1.

Other amendments (continued)

Section 30 *Foreign Currency Translation*
Reflecting improvements to:
IAS 21 *The Effects of Changes from Foreign Exchange Rates* on lack of exchangeability
IFRIC 22 *Foreign Currency Transactions and Advance Consideration*
	• require a consistent approach in:
	  • assessing whether a **currency can be exchanged** into another currency; and
	  • **estimating the exchange rate** to use (and the disclosures to provide) when a currency cannot be exchanged into another currency
	• **provide guidance on advance consideration** in a foreign currency

Other amendments (continued)

Assessing whether a currency is exchangeable

Step I: Assessing whether a currency is exchangeable	Is the currency exchangeable into the other currency at the measurement date for the specified purpose?	Yes →	Apply the applicable requirements in Section 30.
	No ↓		
Step II: Estimating the spot exchange rate when a currency is not exchangeable	At the measurement date, estimate the spot exchange rate that meets the objective in paragraph 30.5A by using either: (a) an observable exchange rate without adjustment; or (b) another estimation technique.		

Other amendments (continued)

Section 3 *Financial Statement Presentation* ***Section 10 Accounting Policies, Estimates and Error***	• update definitions of '**material**' and '**accounting estimates**'
Section 3 *Financial Statement Presentation* **Section 4 *Statement of Financial Position***	• clarify **how an SME aggregates information** in financial statements • require the **disaggregation of line items** in the statement of financial position when such presentation is relevant

Other amendments (continued)

Section 8 *Notes to the Financial Statements*	• **examples of judgements** an SME is required to disclose - classes of assets and liabilities for which disclosure on fair value measurements are provided; - that an entity controls another entity; and - that an entity has joint control of an arrangement or significant influence over another entity
Section 17 *Property, Plant and Equipment* Accounting for bearer plants	• at initial recognition **bearer plants** can be measured separately from the produce on them, without undue cost or effort (initially or on an ongoing basis) they are accounted for as property, plant and equipment

Other amendments (continued)

Section 22 *Liabilities and equity*	• **relief from offsetting amounts** unpaid for equity instruments from equity
Section 28 *Employee Benefits*	• **clarify the measurement simplification** for defined benefit obligations in paragraph 28.19 • **disclosure of assumptions** for measuring defined benefit plans when paragraph 28.10 is applied
Section 29 *Income Taxes*	• amend the **offsetting requirements** to align with IAS 12
Section 33 *Related Party Disclosures*	• disclosure of amounts incurred for key management personnel services **provided by a separate management entity** • **clarify the requirement** to disclose information about commitments between an SME and its related parties

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Transition to the third edition of the *IFRS for SMEs* Accounting Standard

Effective date and transition requirements

Effective date

The third edition of the *IFRS for SMEs* Accounting Standard is effective for annual periods beginning on or after 1 January 2027. Earlier application is permitted.

Transition requirements

SMEs are required to apply the amended and revised sections in the third edition of the Standard retrospectively.

Some relief from retrospective application is available, for example:

- Section 9 *Consolidated and Separate Financial Statements*;
- Section 12 *Fair Value Measurement*;
- Section 19 *Business Combinations and Goodwill*; and
- Section 23 *Revenue from Contracts with Customers*.

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Supporting implementation

Resources available on the IFRS Foundation's website

https://www.ifrs.org/supporting-implementation/supporting-materials-for-the-ifrs-for-smes

- Project summary
- Feedback Statement
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