IFRS Accounting

Staff paper

Agenda reference: 1

SME Implementation Group meeting

Date	**February 2026**
Project	**Second Comprehensive Review of the *IFRS for SMEs*® Accounting Standard**
Topic	**Application question on paragraph 9.3 of the *IFRS for SMEs* Accounting Standard**
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Introduction

1. The IFRS for SMEs project team received a question about the application of paragraph 9.3 of the third edition of the *IFRS for SMEs* Accounting Standard.

2. The objective of this paper is:

   (a) to provide the SME Implementation group (SMEIG) members with a summary of the issue;

   (b) to present the staff analysis; and

   (c) to ask SMEIG members whether, and if so how, they think this issue should be addressed.

3. In this paper, the term SMEs refers to small and medium-sized entities that are eligible to apply the *IFRS for SMEs* Accounting Standard.

Structure of this paper

4. This paper includes:

(a) summary of the question received (paragraphs 5–12);

(b) summary of the issue to be addressed (paragraphs 13–14);

(c) staff analysis on whether to address the issue (paragraphs 18–36); and

(d) staff analysis on how to address this issue (paragraphs 37–47).

Summary of question received and issue to be addressed

Question received

5. The question asks if the exemption in paragraph 9.3 of the *IFRS for SMEs* Accounting Standard from preparing consolidated financial statements (the 'consolidation exemption'), applies to an intermediate parent if its ultimate (or intermediary) parent is an investment entity that does not produce consolidated financial statements but instead produces separate financial statements in which the subsidiary is measured at fair value through profit or loss.

6. The submission noted that an equivalent exemption exists in full IFRS Accounting Standards.

Staff analysis of question

7. Paragraph 9.3 of both the second edition and the third edition of the *IFRS for SMEs* Accounting Standard states:

> A parent need not present consolidated financial statements if both of the following conditions are met:
>
> (a) the parent itself is a subsidiary; and
>
> (b) its ultimate parent (or any intermediate parent) produces consolidated general purpose financial statements that comply with full IFRS Accounting Standards or with this Standard.

8. In accordance with IFRS 10 *Consolidated Financial Statements*, a parent that is an investment entity measures its subsidiaries at fair value through profit or loss. Such parents are exempt from preparing consolidated financial statements if they measure all their subsidiaries at fair value through profit or loss.[1]

9. The consolidation exemption in paragraph 9.3 of the *IFRS for SMEs* Accounting Standard applies only to an intermediate parent whose ultimate parent (or any intermediate parent) produces consolidated general purpose financial statements. The consolidation exemption would not apply to an intermediate parent whose ultimate parent (or any intermediate parent) is an investment entity and is exempt from preparing consolidated financial statements in accordance with IFRS 10.

Requirements in full IFRS Accounting Standards

10. Paragraph 4(a)(iv) of IFRS 10 states:

> (a) a parent need not present consolidated financial statements if it meets all of the following conditions:
>
> …
>
> (iv) its ultimate parent or any intermediate parent produces financial statements that are available for public use and comply with IFRSs, in which subsidiaries are consolidated or are measured at fair value through profit or loss in accordance with this IFRS.

11. The consolidation exemption for subsidiaries of an investment entity that are themselves parent entities was introduced into IFRS 10 by *Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)*. These amendments were issued in 2012 and effective for annual periods beginning on or after 1 January 2014. The IASB later clarified the exemption in *Investment Entities: Applying the Consolidation*

[1] See paragraph 4B of IFRS 10 *Consolidated Financial Statements*.

Exception (Amendments to IFRS 10, IFRS 12 and IAS 28). These amendments were issued in 2014 and effective for annual periods beginning on or after 1 January 2016.

12. Both amendments described in paragraph 11 of this paper were in the scope of the second comprehensive review of the *IFRS for SMEs* Accounting Standard. The IASB did not consider the requirements for investment entities to be relevant to SMEs because few entities eligible to apply the Standard would meet the definition of an 'investment entity' in IFRS 10.[2] However, the IASB did not explicitly consider the relevance of requirements for subsidiaries of an investment entity that are SMEs.

Issue to be addressed

13. Because paragraph 9.3 of the *IFRS for SMEs* Accounting Standard does not include an exemption similar to paragraph 4(a)(iv) of IFRS 10:

    (a) an intermediary parent applying full IFRS Accounting Standards whose ultimate (or intermediary) parent is an investment entity that produces financial statements in which subsidiaries are measured through profit or loss need not prepare consolidated financial statements; whereas

    (b) an intermediary parent applying the *IFRS for SMEs* Accounting Standard whose ultimate (or intermediary) parent is an investment entity that produces financial statements in which subsidiaries are measured through profit or loss must prepare consolidated financial statements.

14. In summary, the implications in paragraph 13 of this paper result in the *IFRS for SMEs* Accounting Standard's requirements being more onerous than full IFRS Accounting Standards.

[2] See paragraph BC9.9 of the *Basis for Conclusions and Illustrative Financial Statements of the* IFRS for SMEs *Accounting Standard*.

Addressing the issue

15. In accordance with the Terms of Reference and Operating procedures of the SMEIG (Terms of Reference), questions received about the implementation and application of the *IFRS for SMEs* Accounting Standard will be reviewed against the criteria in paragraphs 20−22 of the Terms of Reference.

16. The staff analysis covers:

    (a) whether to address the issue (paragraph 20 of the Terms of Reference); and

    (b) how to address the issue (paragraphs 22–23 of the Terms of Reference).

Whether to address the issue in a Q&A

17. Paragraph 20 of the Terms of Reference states that:

> In deciding whether to address an issue in a Q&A, the SMEIG shall consider: (a) whether the issue is pervasive, that is, whether the issue has arisen or is likely to arise in financial reporting by a broad group of SMEs in various jurisdictions;
>
> (b) whether owing to a lack of clarity in the *IFRS for SMEs* [Accounting] Standard, unintended or inconsistent application has occurred or is likely to occur in the absence of a Q&A; and
>
> (c) whether the SMEIG can reach a consensus on the appropriate treatment on a timely basis.

Pervasiveness—paragraph 20(a) of the Terms of Reference

18. The criterion in paragraph 20(a) of the Terms of Reference asks:

> whether the issue is pervasive, that is, whether the issue has arisen or is likely to arise in financial reporting by a broad group of SMEs in various jurisdictions.

Staff analysis

19. The issue will arise for an SME that is an intermediary parent and whose ultimate (or intermediary) parent is an investment entity that produces financial statements in which subsidiaries are measured at fair value through profit or loss.

20. The IASB did not include requirements for investment entities in the third edition of the *IFRS for SMEs* Accounting Standard because in their view few entities eligible to apply the Standard would meet the definition of an 'investment entity' in IFRS 10. Although an SME is unlikely to be an investment entity, its ultimate (or intermediate) parent could be. Scenarios could exist where an investment entity holds subsidiaries that do not have public accountability, for example private entities held by private equity investors.

21. The issue would affect the subsidiaries described in paragraph 20 of this paper if they are themselves parent entities (that is intermediate parent entities).

22. The necessity of preparing consolidated financial statements is often governed by local laws and regulation. Consequently, the pervasiveness of the issue might be affected by a jurisdiction's laws and regulations. For example, consolidation exemptions in the *IFRS for SMEs* Accounting Standard might not be applicable if local laws and regulations:

    (a) require SMEs to prepare consolidated financial statements in specific circumstances; or

    (b) exempt SMEs from preparing consolidated financial statements in specific circumstances.

Unintended or inconsistent application—paragraph 20(b) of the Terms of Reference

23. The criterion in paragraph 20(b) of the Terms of Reference asks:

whether owing to a lack of clarity in the *IFRS for SMEs* Accounting Standard, unintended or inconsistent application has occurred or is likely to occur in the absence of the Q&A.

Staff analysis

24. If the identified issue is not addressed, affected SMEs will:

    (a) continue to prepare consolidated financial statements in accordance with Section 9 of the *IFRS for SMEs* Accounting Standard; or

    (b) try to analogise to the consolidation exemption in paragraph 4(a)(iv) of IFRS 10 by:

        (i) preparing separate financial statements in accordance with full IFRS Accounting Standards; or

        (ii) preparing separate financial statements in accordance with the *IFRS for SMEs* Accounting Standard, but analogising with IFRS 10 on the basis that its investment entity parent prepares *separate* financial statements that comply with full IFRS Accounting Standards (albeit not *consolidated* financial statements).

25. The scenarios described in paragraph 24 of this paper could result in unintended or inconsistent application of the *IFRS for SMEs* Accounting Standard.

26. The scenario described in paragraph 24(a) results in SMEs applying requirements that are more onerous than full IFRS Accounting Standards. This outcome is inconsistent with the IASB's general aim of the *IFRS for SMEs* Accounting Standard, which is to provide SMEs with a set of accounting principles that is simplified compared with full IFRS Accounting Standards.[3]

27. The scenario described in paragraph 24(b)(i) might result in SMEs deciding to move to full IFRS Accounting Standards to achieve less burdensome group reporting

[3] See paragraph BC1 of the *Basis for Conclusions and Illustrative Financial Statements of the* IFRS for SMEs *Accounting Standard*.

requirements. Prompting SMEs to transition to full IFRS Accounting Standards for this reason would be an unintended consequence.

28. The scenario described in paragraph 24(b)(ii) would result in SMEs attempting to apply an exemption in full IFRS Accounting Standards while applying the *IFRS for SMEs* Accounting Standard. This outcome is inconsistent with the requirements of the Standard, as well as the IASB's intention for the Standard to be a self-contained, stand-alone set of accounting principles.

29. The IASB amended IFRS 10 in 2012 (see paragraph 11 of this paper). The first opportunity to reflect the amendments in the Standard was the second comprehensive review but staff are not aware of this being raised as an issue during that review.

Consensus on the appropriate treatment—paragraph 20(c) of the Terms of Reference

30. The criterion in paragraph 20(c) of the Terms of Reference asks:

> whether the SMEIG can reach a consensus on the appropriate treatment on a timely basis.

Staff analysis

31. The options to address the issue are:

    (a) retain paragraph 9.3 of the *IFRS for SMEs* Accounting Standard without amendment; or

    (b) consult on amending the *IFRS for SMEs* Accounting Standard based on paragraph 4(a)(iv) of IFRS 10 (that is, provide a similar consolidation exemption for a subsidiary of an investment entity that is itself a parent entity).

32. The IASB's decision to exempt subsidiaries of investment entities from preparing consolidated financial statements in IFRS 10 was for cost-benefit reasons: the IASB

decided that requiring these entities to prepare consolidated financial statements could result in significant costs without commensurate benefit.[4]

33. In making the decision, the IASB considered the loss of information for the users of intermediate parent's financial statements. The information lost by not requiring these entities to prepare consolidated financial statements was justified by the combination of information available in:

(a) the entity's separate financial statements; and

(b) the consolidated financial statements of the higher level parent (including the disclosures required by IFRS 12 *Disclosure of Interests in Other Entities*, supplemented by those required in IFRS 7 *Financial Instruments: Disclosures* and IFRS 13 *Fair Value Measurement*).[5]

34. The IASB also considered that the additional costs of requiring an intermediate parent to prepare consolidated financial statements would be 'contrary to its intention in requiring investment entities to measure investments at fair value, which was to provide more relevant information at a reduced cost'.[6]

35. A similar consolidation exemption in the *IFRS for SMEs* Accounting Standard would apply only to subsidiaries of entities applying IFRS 10. Therefore, the IASB's reasons for the exemption in IFRS 10 also hold when considered in the context of the *IFRS for SMEs* Accounting Standard.

Staff recommendation

36. Based on the analysis in paragraphs 18−35 of this paper, the staff think the identified issue is likely to arise and to result in an outcome for some SMEs that is inconsistent with the aim of the *IFRS for SMEs* Accounting Standard. The staff also think the IASB's reasoning for providing the consolidation exemption in paragraph 4(a)(iv) of

[4] See paragraph BC28D of the Basis for Conclusions to IFRS 10.
[5] See paragraph BC28C of the Basis for Conclusions to IFRS 10.
[6] See paragraph BC28D of the Basis for Conclusions to IFRS 10.

IFRS 10 equally applies to the *IFRS for SMEs* Accounting Standard. Consequently, the staff think the issue should be addressed by amending the *IFRS for SMEs* Accounting Standard based on paragraph 4(a)(iv) of IFRS 10.

Question for the SMEIG
1. Do you agree the issue should be addressed?

How to address the issue

Publishing a Q&A—paragraph 22 of the Terms of Reference

37. Q&As explain how the existing requirements in the *IFRS for SMEs* Accounting Standard apply and cannot introduce new requirements. Consequently, paragraph 22 of the Terms of Reference states:

> the SMEIG cannot publish a Q&A that changes or conflicts with the *IFRS for SMEs* [Accounting] Standard.

Staff analysis

38. The consolidation exemption in paragraph 9.3 of the *IFRS for SMEs* Accounting Standard does not apply to an intermediate parent whose ultimate parent (or any intermediate parent) is an investment entity and is exempt from preparing consolidated financial statements in accordance with IFRS 10. For these entities to be exempt from preparing consolidated financial statements, the Standard would require amendment. Therefore, it would not be possible to address the issue by amending the *IFRS for SMEs* Accounting Standard based on paragraph 4(a)(iv) of IFRS 10 by publishing a Q&A.

Amending the IFRS for SMEs *Accounting Standard—paragraph 23 of the Terms of Reference*

39. Paragraph 23 of the Terms of Reference states:

the SMEIG may decide that the requirements of the *IFRS for SMEs* [Accounting] Standard should be amended. If it does decide so, the SMEIG should make a recommendation to the Board to be considered during the Board's periodic review of the *IFRS for SMEs* [Accounting] Standard or, in rare cases, considered as an urgent amendment to the *IFRS for SMEs* [Accounting] Standard.

40. Therefore, if the SMEIG agree the issue should be addressed by amending the *IFRS for SMEs* Accounting Standard based on paragraph 4(a)(iv) of IFRS 10, it must recommend if the IASB should consider amending the *IFRS for SMEs* Accounting Standard:

    (a) during the IASB's next periodic review of the Standard; or

    (b) as an urgent amendment to the Standard.

41. The IASB previously decided on a tentative approach of commencing a comprehensive review of the *IFRS for SMEs* Accounting Standard approximately two years after the effective date of the amendments to the Standard resulting from the previous comprehensive review.[7] The effective date of the amendments resulting from the second comprehensive review is 1 January 2027. Consequently, the next comprehensive review of the Standard would not be expected to commence before 2029. The second comprehensive review began in 2019 and the third edition of the Standard was issued in 2025.

42. The timeline for the next comprehensive review will depend on the scope and resources available to the IASB. The IASB completed the first comprehensive review in approximately three years. The amendments arising from the first review were effective two years from issue. The IASB completed the second comprehensive review in approximately six years The amendments arising from the second review were effective two years from issue.

[7] See paragraph BC77 of the *Basis for Conclusions and Illustrative Financial Statements of the* IFRS for SMEs *Accounting Standard*.

43. The IASB has previously amended the Standard outside the periodic review process once: when it issued *International Tax Reform—Pillar Two Model Rules—Amendments to the* IFRS for SMEs *Standard*. The subject of that amendment was identified as urgent because of jurisdiction's expected timeframes for enacting Pillar Two legislation. Work began on this narrow-scope amendment in April 2023, and it was issued in September 2023, following a shortened comment period of 45 days.

Staff analysis

44. Urgently amending the *IFRS for SMEs* Accounting Standard to align it with paragraph 4(a)(iv) of IFRS 10 would potentially allow SMEs to apply the consolidation exemption at the same time as applying the amendments resulting from the second comprehensive review (annual periods beginning on or after 1 January 2027). This would minimise the level of change for those SMEs affected by the issue. However, matters for which an urgent amendment is necessary are expected to be rare.

45. The IASB's aim in updating the Standard periodically, is to ensure a level of stability for SMEs who have less resources to implement changes in accounting requirements compared with entities applying full IFRS Accounting Standards. The Standard's stability also benefits the jurisdictions who adopt it. Because the Standard changes so infrequently, these jurisdictions can spend less resources monitoring it and maintaining their local accounting framework.

46. Amending the Standard for the identified issue soon after issuing the third edition of the Standard arguably undermines some of the benefits described in paragraph 45 of the paper. Doing so might also create an expectation that the IASB will update the Standard regularly in response to implementation issues.

47. In contrast to the views in paragraphs 45 and 46, the staff think that this concern is mitigated by:

(a) the narrow-scope nature of the change;

(b) the relief to SMEs that would otherwise not be available; and

(c) the fact that third edition of the *IFRS for SMEs* Accounting Standard is not yet effective.

Question for the SMEIG
2. If you agree that the issue should be addressed by amending the *IFRS for SMEs* Accounting Standard based on paragraph 4(a)(iv) of IFRS 10, do you recommend the IASB should amend the *IFRS for SMEs* Accounting Standard: a. during its next periodic review of the Standard; or b. as an urgent amendment to the Standard?