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## IASB® meeting

Date	<b>March 2026</b>
Project	<b>IFRS for SMEs® Accounting Standard</b>
Topic	<b>Application question on paragraph 9.3 of the IFRS for SMEs Accounting Standard</b>
Contacts	Easton Bilsborough ( <a href="mailto:ebilsborough@ifrs.org">ebilsborough@ifrs.org</a> ) Helen Lloyd ( <a href="mailto:hlloyd@ifrs.org">hlloyd@ifrs.org</a> )

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## Introduction

1. The International Accounting Standards Board (IASB) issued the third edition of the *IFRS for SMEs* Accounting Standard (the Standard) in February 2025. It is effective for annual reporting periods beginning on or after 1 January 2027.
2. The SME Implementation Group (SMEIG) received a question about the application of the Standard. The SMEIG has considered the issue identified by the question and recommend the IASB address it by urgently amending the Standard.
3. This paper discusses the issue and whether and how the IASB should address it.
4. In this paper, the term SMEs refers to small and medium-sized entities that are eligible to apply the Standard.

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## Purpose of this paper

5. The paper:
- (a) describes the issue identified by the application question;
  - (b) describes the SMEIG recommendations and discussion;
  - (c) analyses the SMEIG recommendations; and
  - (d) asks the IASB to decide whether to address the issue by amending the Standard.

## Staff recommendation

6. We recommend the IASB:
- (a) add a narrow-scope standard-setting project to its workplan to introduce a consolidation exemption for intermediate parents with an investment entity parent (or ultimate parent) that do not produce consolidated financial statements, and
  - (b) start the project immediately by publishing an exposure draft.

## Structure of this paper

7. This paper is structured as follows:
- (a) background (see paragraphs 8–23);
  - (b) SMEIG recommendations and discussion (see paragraphs 24–34);
  - (c) staff analysis (see paragraphs 35–73);
  - (d) staff recommendation and question for the IASB (see paragraphs 74–79);  
and
  - (e) Appendix—Figures summarising requirements for preparing consolidated and separate financial statements by an investment entity and its subsidiary.

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## Background

### ***Summary of application question received***

8. The application question asks if the exemption in paragraph 9.3 of the *IFRS for SMEs Accounting Standard* from preparing consolidated financial statements 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.
9. The submission noted that IFRS 10 *Consolidated Financial Statements* provides a consolidation exemption for intermediate parents in the scenario described.

### ***Requirements in the IFRS for SMEs Accounting Standard***

10. Paragraph 9.3 of both the second and 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.
11. In accordance with IFRS 10, a parent that is an investment entity measures its subsidiaries at fair value through profit or loss.<sup>1</sup> Such parents are exempt from

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<sup>1</sup> See paragraph 31 of IFRS 10 *Consolidated Financial Statements*.

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preparing consolidated financial statements if they measure all their subsidiaries at fair value through profit or loss.<sup>2</sup>

12. 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 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***

13. 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* [emphasis added].
14. 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 clarified the exemption in [Investment Entities: Applying the Consolidation Exception \(Amendments to IFRS 10, IFRS 12 and IAS 28\)](#). These amendments

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<sup>2</sup> See paragraph 4B of IFRS 10.

were issued in 2014 and effective for annual periods beginning on or after 1 January 2016.

15. The IASB's decision to introduce the consolidation exemption was for cost-benefit reasons. The information lost for users of an intermediate parent's financial statements was justified by the combination of information available in:
- (a) the entity's separate financial statements; and
  - (b) the financial statements of the higher level parent (the investment entity), which include 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*.<sup>3</sup>
16. The IASB was also of the view 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'.<sup>4</sup>

### ***Issue identified by the application question***

17. Both amendments described in paragraph 14 of this paper were in the scope of the second comprehensive review of the Standard. The IASB decided the requirements for investment entities were not relevant to SMEs because few entities eligible to apply the Standard would meet the definition of an 'investment entity' in IFRS 10.<sup>5</sup> However, the IASB did not explicitly consider the relevance of consolidation requirements for SMEs that are subsidiaries of investment entities. Consequently, the *IFRS for SMEs Accounting Standard* was not aligned with the consolidation exemption in paragraph 4(a)(iv) of IFRS 10.

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<sup>3</sup> See paragraph BC28D of the Basis for Conclusions on IFRS 10.

<sup>4</sup> See paragraph BC28D of the Basis for Conclusions on IFRS 10.

<sup>5</sup> See paragraph BC9.9 of the *Basis for Conclusions and Illustrative Financial Statements of the IFRS for SMEs Accounting Standard*.

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18. Because paragraph 9.3 of the *IFRS for SMEs* Accounting Standard does not include a consolidation 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 at fair value 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 at fair value through profit or loss is required to prepare consolidated financial statements.

The appendix to this paper illustrates this difference.

19. In summary, the difference described in paragraph 18 of this paper results in the requirements in the *IFRS for SMEs* Accounting Standard being more onerous than those of full IFRS Accounting Standards.

### ***Process for responding to application questions***

20. Application and implementation questions on the *IFRS for SMEs* Accounting Standard are referred to the SMEIG. The SMEIG consider whether it should address the issue identified by the question by publishing education material. Educational material published by the SMEIG cannot change or conflict with the Standard.<sup>6</sup>

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<sup>6</sup> See paragraph 22 of the [Terms of Reference and Operating Procedures for the SME Implementation Group](#).

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21. If the SMEIG decide an issue should be addressed, but it cannot do so by publishing educational material, then it recommends the IASB amend the Standard either:
- (a) during the next periodic review of the Standard; or
  - (b) in rare cases, as an urgent amendment to the Standard.<sup>7</sup>
22. The IASB previously decided on a tentative approach of commencing a comprehensive review of the Standard approximately two years after the effective date of the amendments to the Standard resulting from the previous comprehensive review. 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.
23. The IASB has only 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 IASB made the amendment urgently because of jurisdictions’ expected timeframes for enacting Pillar Two legislation. Work began on the amendment in April 2023, and it was issued in September 2023, following a shortened comment period of 45 days.

## SMEIG recommendations and discussion

24. The SMEIG met to discuss the application question in February 2026—see [Agenda Paper 1](#) and [summary](#) of that meeting.
25. Following its meeting, the SMEIG voted on whether and how the issue identified by the question should be addressed. Votes were received from 21 of the 29 SMEIG members.

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<sup>7</sup> See paragraph 23 of the [Terms of Reference and Operating Procedures for the SME Implementation Group](#).

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***SMEIG recommendations***

26. All but two of the SMEIG members that voted recommend that the IASB address the issue by amending the Standard to introduce a consolidation exemption similar to paragraph 4(a)(iv) of IFRS 10.
27. Of the SMEIG members that recommend the IASB amend the Standard, all but three recommend the IASB do so urgently, instead of as part of the next periodic review of the Standard.
28. Consequently, the majority of SMEIG members recommend the IASB address the issue by urgently amending the Standard.

***Summary of SMEIG discussion***

29. Many SMEIG members agreed that the IASB should address the issue by amending the Standard said it should do so to avoid the Standard being more onerous to apply than full IFRS Accounting Standards.
30. SMEIG members had mixed views on whether the identified issue was pervasive. Two SMEIG members said the issue was likely to become pervasive because of the growth in private equity investment and investment entities acquiring SMEs. Some SMEIG members expressed doubt about the issue's pervasiveness based on:
  - (a) informal outreach in one SMEIG member's region (Asia–Oceania).
  - (b) the length of time the issue has existed without being raised with the IASB.
  - (c) the known pervasiveness of the issue. The only instance of the issue being encountered was by the SMEIG member who asked the application question.
31. The two SMEIG members that did not agree the issue should be addressed were from the same jurisdiction, where local and regulations require parent entities to prepare consolidated financial statements. Consequently, the consolidation exemption in the Standard is not used by SMEs in this jurisdiction.

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32. One SMEIG member who did not agree the issue should be addressed disagreed with the consolidation exemption in IFRS 10.
33. Most SMEIG members that agreed the IASB should amend the Standard urgently recommended they do so before the effective date of the third edition of the Standard (1 January 2027). The SMEIG members who recommended the IASB amend the Standard before this date mentioned:
- (a) the issue's timing and the opportunity it gives the IASB to amend the Standard before the effective date;
  - (b) the issue's increasing pervasiveness; and
  - (c) the length of time until the next comprehensive review of the Standard.
34. Two SMEIG members raised concerns about potential consequences of the IASB amending the Standard urgently in response to the issue. Specifically:
- (a) one SMEIG member said amending the Standard urgently could create a precedent that the IASB will only urgently address issues that arise before the effective date; and
  - (b) another SMEIG member said the IASB should avoid amending the Standard urgently if it creates a perception that the IASB will do so again if similar issues arise.

## Staff analysis

### ***Should the IFRS for SMEs Accounting Standard be amended?***

35. The aim when developing the *IFRS for SMEs Accounting Standard* was to provide a simplified set of accounting principles for SMEs.<sup>8</sup> Generally, the requirements in the Standard are either the same or simplified compared with those in full IFRS

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<sup>8</sup> See paragraph BC1 of the *Basis for Conclusions and Illustrative Financial Statements of the IFRS for SMEs Accounting Standard*.

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Accounting Standards. Having requirements in the Standard that are more onerous than those in full IFRS Accounting Standards is inconsistent with this aim.

36. It is not possible to issue education material to correct the current discrepancy where SMEs apply more onerous consolidation requirements than entities applying full IFRS Accounting Standards. The only way to correct the discrepancy is to amend the Standard to introduce a consolidation exemption similar to paragraph 4(a)(iv) of IFRS 10 ('the consolidation exemption'). Introducing the consolidation exemption would affect SMEs and the users of their financial statements.

#### *Effect on SMEs*

37. Introducing the consolidation exemption would provide affected SMEs with an option not to prepare consolidated financial statements, and present separate financial statements as their only financial statements. This could significantly reduce the costs of preparing financial statements for SMEs applying the exemption. This cost saving could also benefit investors in the SME (including the investment entity parent) if it is passed on through higher dividends.
38. The consolidation exemption could also benefit an affected SME's subsidiaries. These subsidiaries will no longer need to submit information for the purpose of preparing consolidated financial statements that is consistent with the accounting policies used in those statements. This would remove the costs of preparing this information and might give the subsidiaries an option to use accounting policies, or apply a financial reporting framework, that is not the same as the affected SME. For example, a subsidiary may choose to apply a local GAAP that is less complex than the *IFRS for SMEs* Accounting Standard.
39. Requirements to prepare consolidated financial statements can be governed by local laws and regulations. As discussed by the SMEIG, the exemption may not be used by SMEs in some jurisdictions if local laws and regulations require them to prepare consolidated financial statements (for example, for taxation purposes). Although the

exemption is unlikely to be used by SMEs in all jurisdictions, we would expect it to be used in some jurisdictions (see paragraph 54 of this paper). This would be similar to the equivalent consolidation exemption in IFRS 10 and the current consolidation exemption in paragraph 9.3 of the *IFRS for SMEs Accounting Standard*.

### *Effect on users*

40. Introducing the consolidation exemption would reduce the information for users of SMEs' financial statements. Most obviously, users would no longer have consolidated financial information about an SME and its subsidiaries if the SME applied the exemption.

### **Comparison with full IFRS Accounting Standards**

41. In IFRS 10, the loss of consolidated financial information about an entity and its subsidiaries was justified by the combination of information in:
- (a) the entity's separate financial statements; and
  - (b) the financial statements of the higher level parent (the investment entity), which include 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*.<sup>9</sup>
42. The consolidation exemption would be available only to SMEs with a higher level parent applying full IFRS Accounting Standards. Consequently, compared with an entity applying the exemption in IFRS 10, the information in:
- (a) the entity's separate financial statements would be reduced because they would be prepared in accordance with the *IFRS for SMEs Accounting Standard*, instead of full IFRS Accounting Standards; and

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<sup>9</sup> See paragraphs BC28C–BC28D of the Basis for Conclusions on IFRS 10.

- (b) the financial statements of the higher level parent (the investment entity) would be the same because they are prepared in accordance with full IFRS Accounting Standards.

The appendix to this paper illustrates this difference.

43. The reduction in information described in paragraph 42(a) of this paper arises because the disclosure requirements in the *IFRS for SMEs* Accounting Standard are substantially reduced when compared with the disclosure requirements in full IFRS Accounting Standards.<sup>10</sup> This means a user would have less information about SMEs that apply the exemption compared with entities currently applying the exemption, who prepare separate financial statements in accordance with full IFRS Accounting Standards.
44. In particular, a user would have less information about an SME's investments because the SME would not be required to disclose the information required by paragraph 16(b) of IAS 27 *Separate Financial Statements*. That paragraph requires:
- (b) a list of significant investments in subsidiaries, joint ventures and associates, including:
    - (i) the name of those investees.
    - (ii) the principal place of business (and country of incorporation, if different) of those investees.
    - (iii) its proportion of the ownership interest (and its proportion of the voting rights, if different) held in those investees.
45. Although an SME would be expected to be able to disclose this information easily and inexpensively, we do not think SMEs applying the consolidation exemption should be required to do so. This is because users of SMEs' financial statements

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<sup>10</sup> See paragraph BCZ30 of the *Basis for Conclusions and Illustrative Financial Statements of the IFRS for SMEs Accounting Standard*.

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often have existing knowledge of SMEs' group structures and significant investments because they have closer access to management or an ongoing relationship with the SME. In addition, similar information is often available in:

- (a) SMEs' financial statements or other filings because it is required by local laws or regulations; or
- (b) public registries because government authorities and other regulators require SMEs to register any interests they have in entities they control.

***Usefulness of consolidated financial information***

- 46. We note that private equity investors may not use consolidated financial statements to monitor the performance, and measure the fair value, of their investments. Therefore, the usefulness of an SME's consolidated financial statements may be limited for such users.
- 47. The resources needed for SMEs to prepare and audit consolidated financial statements can be significant. In situations where consolidated financial statements are of limited use to private equity investors, the benefits of preparing these financial statements are unlikely to justify the costs required to do so.
- 48. Based on the analysis in paragraphs 35–46 of this paper, we think there are conceptual and operational arguments to support amending the *IFRS for SMEs* Accounting Standard to introduce the consolidation exemption.

***Should the amendment be made urgently?***

- 49. To amend the *IFRS for SMEs* Accounting Standard urgently, the IASB would need to add a standard-setting project to its work plan and prioritise that project.

50. The IASB prioritisation framework helps the IASB consistently prioritise technical projects on its work plan.<sup>11</sup> The framework has been used to assess the potential project.

Prioritisation framework—technical considerations	Potential project: Introducing a consolidation exemption
<p><b>Pervasiveness</b>—a large number of entities are affected or expected to be affected by the matter</p>	<ul style="list-style-type: none"> <li>Evidence about pervasiveness from SMEIG members was mixed (see paragraph 30 of this paper).</li> </ul>
<p><b>Effects (expected financial reporting benefits exceed costs)</b></p>	<ul style="list-style-type: none"> <li>Addressing the issue would result in intermediate parents no longer have to prepare an additional set of financial statements, which would:               <ul style="list-style-type: none"> <li>reduce costs for intermediate parents; but</li> <li>reduce the information for users of their financial statements.</li> </ul> </li> <li>Based on our analysis in paragraphs 35–45 of this paper, we think the reduction in costs for SMEs outweighs the loss of information to users.</li> </ul>
<p><b>Feasibility of standard-setting, given standard-setting investment required</b></p>	<ul style="list-style-type: none"> <li>Because a similar exemption already exists in IFRS 10, the standard-setting investment required would be minimal.</li> <li>Because the potential project would relate to a single, specific issue, the project would be narrow in scope.</li> <li>Because the exemption is optional and relates to a specific group structure, the risk of unintended consequences is considered to be low.</li> <li>The IASB decided the requirements for investment entities were not relevant to SMEs during its second comprehensive of the <i>IFRS for SMEs Accounting Standard</i>. However, it did not consider the relevance of requirements for SMEs that are subsidiaries of investment entities. Consequently, the potential project would not revisit this decision. Similarly, the potential project would consider the relevance of the exemption in IFRS 10 for SMEs but not the exemption in IFRS 10 itself. Consequently, the potential project would not revisit the decision for the exemption in IFRS 10.</li> </ul>

<sup>11</sup> Information about the IASB prioritisation framework is available on the IFRS Foundation website: <https://www.ifrs.org/projects/iasb-prioritisation-framework/>.

Prioritisation framework—technical considerations	<b>Potential project:</b> Introducing a consolidation exemption
<p><b>Strategic priority</b>—such as facilitating connectivity with the ISSB, maintaining convergence where previously achieved with US GAAP, or improving understandability of IFRS Accounting Standards.</p>	<ul style="list-style-type: none"> <li>The IASB has committed to developing and maintaining the <i>IFRS for SMEs</i> Accounting Standard, including responding to emerging issues such as the one described in this paper.</li> </ul>
Prioritisation framework—operational considerations	<b>Potential project:</b> Introducing a consolidation exemption for intermediate parents with an investment entity parent (or ultimate parent) that does not produce consolidated financial statements
<p><b>Time-sensitivity</b> of the need for a solution. Urgent projects are started immediately. The time-sensitivity of a matter may be related to technical considerations such as pervasiveness and effect.</p>	<ul style="list-style-type: none"> <li>The issue could be considered time sensitive because there is an opportunity for the IASB to begin the project and issue the final amendment before the third edition is effective (reporting periods beginning on or after 1 January 2027). Doing so would mean the consolidation exemption would be available for SMEs to apply alongside the third edition.</li> <li>The alternative would be to introduce the consolidation exemption as part of the next periodic review of the Standard.</li> </ul>
<p><b>Synergies with other projects,</b> sensitivity of the need for a including relevant research being performed by other standard-setters.</p>	<ul style="list-style-type: none"> <li>The potential project has no synergies with any projects on the IASB’s current work plan. This is expected because the Standard is developed using full IFRS Accounting Standards as the starting point.</li> <li>The potential project covers the same scenario and exemption as the IASB’s previous project on clarifying the consolidation exemption in IFRS 10. That project led to the issue of <a href="#">Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28)</a>.</li> </ul>
<p>Whether <b>capacity (internal and stakeholder)</b> is available to meet project needs. If capacity is not available, relative prioritisation decisions will need to be made to source capacity from active projects.</p>	<p><i>Internal capacity</i></p> <ul style="list-style-type: none"> <li>The potential project is narrow scope and will not require significant staff resource. Capacity can be sourced from reallocating staff from active projects.</li> </ul> <p><i>Stakeholder capacity</i></p> <ul style="list-style-type: none"> <li>Stakeholders interested in the Standard typically have more limited resources to engage in its</li> </ul>

<p>Prioritisation framework—operational considerations</p>	<p><b>Potential project:</b> Introducing a consolidation exemption for intermediate parents with an investment entity parent (or ultimate parent) that does not produce consolidated financial statements</p>
	<p>development compared with stakeholders interested in full IFRS Accounting Standards.</p> <ul style="list-style-type: none"> <li>Amending the Standard urgently might reduce the level of engagement stakeholders have in a potential project. This is because the amendment would be made outside of the periodic review process. Periodic reviews consider a greater number of changes to the Standard compared with narrow-scope amendments. Therefore, the number of stakeholders effected by, and interested in, a periodic review would be expected to be much greater than an amendment made outside of the periodic review process. For example, when the IASB previously amended the Standard outside of its periodic review process, the number of comment letters it received was less than half of those received on the exposure draft of the third edition.<sup>12</sup></li> <li>Stakeholders are already preparing for the implementation of the third edition of the Standard. Because implementation is ongoing, they may have less resources to engage in a potential project. Conversely, because they are preparing for implementation, they may be more actively engaged in the Standard and be ready to respond to proposals to change it.</li> </ul>
<p>If a project is paused, the <b>effort to restart</b> the project.</p>	<p><i>Not applicable</i></p>

51. Based on the above assessment, the staff think the decision to prioritise the potential project depends on the:

- (a) pervasiveness of the issue—a *technical consideration*; and
- (b) time-sensitivity of the need for a solution—an *operational consideration*.

<sup>12</sup> In September 2022, the IASB published [Exposure Draft Third edition of the IFRS for SMEs Accounting Standard](#) with a 180-day comment period. The IASB received 70 comment letters. In June 2023, the IASB published [Exposure Draft International Tax Reform—Pillar Two Model Rules—Proposed Amendments to the IFRS for SMEs Standard](#) with a 45-day comment period. The IASB received 27 comments letters.

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*Pervasiveness of the issue*

52. The IASB prioritisation framework describes pervasiveness as how many entities are affected or expected to be affected by the matter. In assessing pervasiveness, the IASB also considers the jurisdictions, entities and industries affected.
53. The original application question arose in a scenario where a private equity investor held an interest in an SME that was itself a parent (see paragraph 30(c) of this paper). Although views from SMEIG members about the pervasiveness of the issue were mixed, we expect that similar group structures exist among other private equity investors. We also expect the scenario will continue to occur and increase because of the growth in private equity investment.<sup>13</sup> This growth has been seen in both developed and also emerging and developing economies.<sup>14</sup>
54. Given the recent growth in private equity investment, it is unclear why the issue has not been raised before. This is particularly unclear because of the significant resources for SMEs to prepare and audit consolidated financial statements. One reason could be that local laws and regulations govern whether consolidated financial statements must be prepared, regardless of the consolidation exemptions in the Standard (see paragraph 39 of this paper). Such laws and regulations are common in developed economies, where laws and regulations covering the preparation of financial statements existed before the adoption of the *IFRS for SMEs* Accounting Standard. However, such laws and regulations are less common in emerging and developing economies. The majority of jurisdictions that permit or require the use of the *IFRS for SMEs* Accounting Standard are emerging and developing economies.

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<sup>13</sup> Between 2000 and 2023, total global private equity assets under management increased almost 20-fold. McKinsey & Company, *Global Private Markets Review 2025*, McKinsey & Company, page 65, 2025, <https://www.mckinsey.com/~media/mckinsey/industries/private%20equity%20and%20principal%20investors/our%20insights/mckinseys%20global%20private%20markets%20report/2025/global-private-markets-report-2025-vf.pdf?shouldIndex=false>

<sup>14</sup> The number of firms that have received funding from private equity investors grew by about 150% between 2014–2024 in both emerging markets and developing economies and the rest of the world. Moelders, F., & Salgado, E. (2025, February 20). *Beyond the numbers: Understanding private equity returns in emerging markets*. World Bank Blogs, <https://blogs.worldbank.org/en/developmenttalk/beyond-the-numbers--understanding-private-equity-returns-in-emer>

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55. The jurisdictions in which the Standard is typically applied might also explain why the issue has not been raised before. For an SME to realise that the consolidation requirements they apply are more onerous than full IFRS Accounting Standards, it must be familiar with full IFRS Accounting Standards. We expect most preparers of SMEs' financial statements to be unfamiliar with full IFRS Accounting Standards. We expect this to be particularly true in jurisdictions where few companies are listed. Therefore, in emerging and developing economies, where no laws or regulation that prevent entities from applying the consolidation exemption in paragraph 4(a)(iv) of IFRS 10, SMEs' limited knowledge of full IFRS Accounting Standards might mean they are unaware of this exemption and the discrepancy that exists.
56. Another reason why the issue has not been raised before could be because preparers are using the existing consolidation exemption in the Standard and inappropriately analogising it with the consolidation exemption in IFRS 10 for investment entities. This practice was mentioned in the original submission. The practice could have emerged because until the most recent comprehensive review of the Standard, the IASB had not yet considered alignment with the requirements for investment entities in IFRS 10.
57. In theory, scenarios where the issue could arise would be expected to become more common as private equity investment increases. However, local laws and regulations might prevent the issue arising in certain jurisdictions. Therefore, the issue is likely to only affect SMEs in jurisdictions where private equity investment is growing, and there are no laws and regulations that govern when SMEs must prepare consolidated financial statements. We note that the original application issue arose in such a jurisdiction.

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*Time-sensitivity of the need for a solution*

58. In accordance with the SMEIG's terms of reference, SMEIG members voted on whether the IASB should amend the Standard:

- (a) during the next periodic review of the Standard; or
- (b) as an urgent amendment (see paragraph 21 of this paper).

SMEIG members were offered these options because the IASB maintains the Standard by carrying out periodic reviews.

59. The IASB's aim in carrying out periodic reviews 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. Amendments outside of the periodic review process for urgent matters are expected to be rare.<sup>15</sup> Therefore, the time sensitivity of the issue needs to be viewed in the context of the periodic review process, which is different to how the IASB maintains full IFRS Accounting Standards.

*Source of time-sensitivity—effective date of third edition*

60. The main reason SMEIG members gave for recommending that the IASB amend the Standard urgently was so the amendment is issued before the effective date of the third edition (see paragraph 33 of this paper).

61. From a cost perspective, amending the Standard before the effective date would avoid affected SMEs having to prepare consolidated financial statements in the reporting period in which they first apply the third edition. This cost saving could partially offset the temporary increase in resources needed to transition to the third edition.

62. From a technical perspective, amending the Standard before the effective date would avoid affected SMEs having to assess how the amended and revised sections

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<sup>15</sup> Paragraph P16 of the Standard.

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in the third edition affect the preparation of consolidated financial statements. This would reduce the complexity for affected SMEs when they first apply the third edition. Key changes in the third edition these SMEs would avoid would be:

- (a) the new consolidation model in Section 9 *Consolidated and Separate Financial Statements* of the Standard, based on an updated definition of control in IFRS 10. The new model could change which investees an SMEs consolidates. However, we expect SMEs with simple structures not to be affected by the new model.<sup>16</sup>
  - (b) the new revenue recognition model in Section 23 of the Standard, based on IFRS 15 *Revenue from Contracts with Customers*. The new model could affect SMEs that have subsidiaries that prepare individual financial statements that comply with a local GAAP instead of the *IFRS for SMEs Accounting Standard*. In such group structures, the adjustments needed to ensure the SME's consolidated financial statements use uniform revenue recognition accounting policies that are consistent with the principles and requirements in the Standard might be more extensive than they would have been before the introduction of the model.
63. Amending the Standard before the effective date could also affect subsidiaries of SMEs that apply the exemption from a cost and technical perspective. For subsidiaries that choose to apply a local GAAP, instead of continuing to apply the *IFRS for SMEs Accounting Standard* (as described in paragraph 38 of this paper), amending the Standard before the effective date would avoid these subsidiaries having to transition to the third edition. Therefore, these subsidiaries would not have to assess how to transition to the third edition or incur any costs doing so.
64. From an operational perspective, applying the consolidation exemption and the third edition of the Standard at the same time would reduce the frequency of changes to the Standard and allow preparers to consider both changes at the same

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<sup>16</sup> See page 31 of [Feedback Statement and Effects Analysis: third edition of the IFRS for SMEs Accounting Standard](#).

time. Therefore, amending the Standard before the effective date would make the exemption easier to implement and cause less disruption for preparers than amending the Standard after this date. However, amending the third edition shortly after it was issued, and before it is effective, could confuse preparers. For example, the amendment could create confusion about which version of the Standard applies and what version of the Standard the amendment changes. However, we think any risk of confusion is minimal because the amendment would be narrow in scope.

***Source of time-sensitivity—time until the next comprehensive review***

65. SMEIG members that recommended that the IASB amend the Standard urgently mentioned the length of time until the next comprehensive review of the Standard (see paragraph 33(c) of this paper). Because the IASB recently concluded its second comprehensive review of the Standard, the earliest it would be expected to commence its next comprehensive review would be 2029. Therefore, unless the IASB amends the Standard outside of its periodic review process, the consolidation exemption would not be available to SMEs until the conclusion of its next comprehensive review. This would result in SMEs having to wait a significant length of time to benefit from simpler accounting requirements.
66. Although the IASB has only amended the Standard outside the periodic review process once (see paragraphs 23 and 67 of this paper), it has previously had to act quickly to avoid SMEs waiting until the next comprehensive review to apply accounting requirements that were considered relevant to SMEs. In 2024, the IASB issued [\*Addendum to the Exposure Draft Third edition of the IFRS for SMEs Accounting Standard\*](#). The exposure draft proposed amending the Standard as part of the second comprehensive review to align it with changes in full IFRS Accounting Standard for supplier finance arrangements and lack of exchangeability. Without doing so, the IASB would have only considered these changes in its next comprehensive review.

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***Comparison with previous amendment made outside the periodic review process***

67. The only amendment the IASB has made to the Standard outside of its periodic review process was in response to the Pillar Two legislation (see paragraph 23 of this paper). Those amendments were necessary to provide a subset of SMEs (SMEs that are subsidiaries) with relief from complex accounting caused by that legislation.
68. The potential project would amend the Standard by introducing a consolidation exemption that provides SMEs with relief from preparing consolidated financial statements. Compared with the amendments made in response to the Pillar Two legislation, the consolidation exemption:
- (a) removes current costs, instead of preventing future costs; and
  - (b) does not arise from an external event.

For these reasons, we think the potential project is less time sensitive than the previous instance where the Standard was amended outside of the periodic review process.

***Consequences of amending the Standard outside the periodic review process***

69. SMEIG members raised concerns about potential consequences of amending the Standard urgently (see paragraph 34 of this paper). These concerns had different timescales:
- (a) *short-term*—implementation issues arise in the future about the third edition of the Standard. The due process followed when amending the Standard means it is unlikely that the IASB could address any issues that require the Standard to be amended before the effective date of the third edition (see paragraphs 70–71 of this paper).
  - (b) *long-term*—instances arise in the future where the Standard is more onerous than full IFRS Accounting Standards. Such instances could arise because of amendments to full IFRS Accounting Standards (for example, the

introduction of exemptions or reliefs). The IASB's decision to amend the Standard to introduce the consolidation exemption outside of its periodic review process could create an expectation that it would do so again to correct any similar discrepancies, instead of waiting until the next periodic review (see paragraph 72 of this paper).

70. It is difficult to predict what implementation issues will arise as SMEs read and consider how to apply the third edition of the Standard. If an implementation issue did arise in next 18–24 months, we would expect the IASB's threshold for amending the Standard would be higher as any amendments would change the Standard after it is effective. Such amendments could disrupt, rather than help, the implementation process. Therefore, it is likely that any such issues would be considered by the IASB in its next periodic review.
71. It is observed that a similar threshold exists for amending full IFRS Accounting Standards: implementation issues that arise after a standard is effective are often carried forward to the post implementation review of that standard. Therefore, the threshold created for amending the *IFRS for SMEs* Accounting Standard described in paragraph 70 of this paper would not be unique.
72. It is also difficult to predict what amendments will be made which could result in the Standard being more onerous than full IFRS Accounting Standards. Amending the Standard each time such instances arise would undermine the benefits of updating it periodically, as described in paragraph 59 of this paper. Emphasising the unique timing and predicted prevalence of the application issue could help to avoid creating any expectation that the IASB would immediately amend the Standard if similar instances arise in the future.
73. Another potential consequence of amending the Standard outside of the periodic review process is that stakeholder engagement in the potential project would be reduced compared with if the amendment was considered as part of the next comprehensive review. This consequence could be especially acute if the IASB consult over the next 12 months when SMEs are preparing to implement the third

edition of the Standard and may have reduced capacity. However, allowing 120 days for comments on the proposed amendments and carrying out targeted outreach could help ensure a strong level of stakeholder engagement (for example, in jurisdictions with a substantial private equity presence and where the requirements to prepare consolidated financial statements are not governed by local laws and regulations).

### Staff recommendation and question for the IASB

74. Based on our assessment of the prioritisation of the potential project, we think the project aligns with the IASB's priorities and that its expected financial reporting benefits exceed the costs of amending the Standard. Because of the project's narrow scope, we think the resources required to complete the project would be limited and could be sourced from other active projects.
75. Based on our analysis in paragraphs 52–57 of this paper, the project would address an issue that we expect to arise in jurisdictions where private equity investment is growing, and there are no laws and regulations that govern the preparation of consolidated financial statements by SMEs (that is, accounting standards are relied upon to specify when consolidated financial statements must be prepared). We think such features are more likely to exist in emerging and developing economies. This is significant because the majority of jurisdictions that permit or require the *IFRS for SMEs* Accounting Standard are emerging and developing economies. For this reason, we believe the issue is pervasive in jurisdictions where the Standard is applied.
76. If a consolidation exemption similar to paragraph 4(a)(iv) of IFRS 10 is not included in the *IFRS for SMEs* Accounting Standard, SMEs will continue to be disadvantaged compared to entities applying full IFRS Accounting Standards. Jurisdictions could remove this discrepancy by introducing laws and regulations that govern the preparation of consolidated financial statements. However, doing so

would undermine the benefits for these jurisdictions of adopting an internationally maintained accounting standard.

77. Based on our analysis in paragraphs 58–73 of this paper, we think the consolidation exemption would be of most benefit to SMEs if it was available to be used when applying the third edition of the Standard for the first time. Waiting until the next comprehensive review would mean SMEs would miss this opportunity and continue to be disadvantaged compared to entities applying full IFRS Accounting Standards for a significant length of time. For this reason, we think the project is time sensitive.
78. To amend the Standard before the effective date of the third edition, the IASB would need to do so outside of its periodic review process. Doing so would create risks about stakeholders’ capacity to engage in the project and their perceptions about how the Standard will be maintained in the future. However, we think these risks are similar to those the IASB has previously accepted when maintaining its standards and can be managed by clear messaging about the amendment.
79. Consequently, for the reasons in paragraphs 74–78 of this paper we think the IASB should add the potential project to its work plan and start the project immediately by publishing an exposure draft.

#### Question for the IASB

1. Does the IASB agree with our recommendation:
  - a. to add a narrow-scope standard-setting project to its workplan to introduce a consolidation exemption for intermediate parents with an investment entity parent (or ultimate parent) that do not produce consolidated financial statements; and
  - b. to start the project immediately by publishing an exposure draft?

## Appendix—Figures summarising requirements for preparing consolidated and separate financial statements by an investment entity and its subsidiary

Figure 1—Investment entity applies full IFRS Accounting Standards and its subsidiary applies the *IFRS for SMEs* Accounting Standard

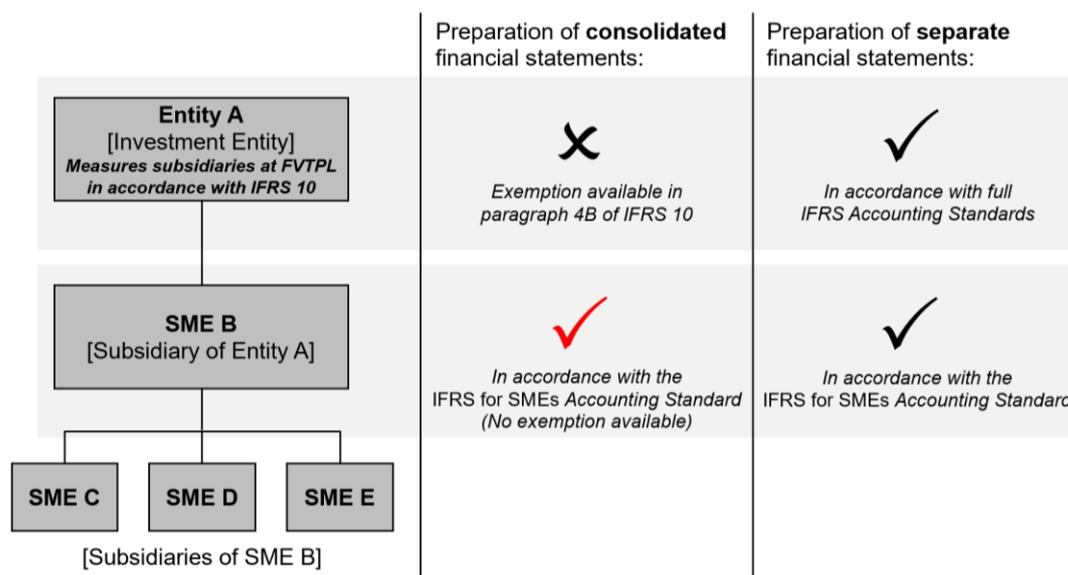


Figure 2— Investment entity and its subsidiary apply full IFRS Accounting Standards

