IFRS® Accounting

Exposure Draft | Consolidation Exception

IFRS for SMEs®

Accounting Standard

Proposed amendments | May 2026

Comments to be received by 9 September 2026

International Accounting Standards Board

Exposure Draft

Consolidation Exception

Proposed amendments to the *IFRS for SMEs* Accounting Standard

Comments to be received by 9 September 2026

The Exposure Draft *Consolidation Exception*—Proposed amendments to the *IFRS for SMEs* Accounting Standard is published by the International Accounting Standards Board (IASB) for comment only. Comments need to be received by **9 September 2026** and should be submitted by email to commentletters@ifrs.org or online at https://www.ifrs.org/projects/open-for-comment/.

All comments will be on the public record and posted on our website at www.ifrs.org unless the respondent requests confidentiality. Such requests will not normally be granted unless supported by a good reason, for example, commercial confidence. Please see our website for details on this policy and on how we use your personal data.

CONTENTS

Introduction

Why is the IASB publishing this Exposure Draft?

IN1 The SME Implementation Group (SMEIG) received a question about applying the exception from presenting consolidated financial statements set out in paragraph 9.3 of the *IFRS for SMEs* Accounting Standard (Standard). The question asked whether small and medium-sized entities (SMEs) could apply the exception if their ultimate (or intermediate) parent is an investment entity that does not present consolidated financial statements.[1] Instead, the parent presents financial statements in which its subsidiaries are measured at fair value through profit or loss in accordance with IFRS 10 *Consolidated Financial Statements*.

IN2 The exception in paragraph 9.3 of the Standard applies to an SME whose parent presents consolidated financial statements. Therefore, in the scenario described in the question, the exception would not apply and the SMEs would be required to present consolidated financial statements. This outcome differs from the outcome that would result from applying full IFRS Accounting Standards because paragraph 4(a) of IFRS 10 provides an exception from presenting consolidated financial statements. The condition in paragraph 4(a)(iv) of IFRS 10 means that exception is available to an entity whose ultimate (or intermediate) parent produces financial statements that are available for public use and comply with IFRS Accounting Standards, in which subsidiaries are consolidated or measured at fair value through profit or loss in accordance with IFRS 10.

IN3 The SMEIG recommended that the IASB amend the Standard so the exception in paragraph 9.3 of the Standard would also apply in the scenario described in the question. The SMEIG considered the matter to be a rare case in which an urgent amendment to the Standard was warranted so that SMEs could apply the amendment at the same time as they apply the third edition of the Standard.

IN4 The IASB agreed with the SMEIG's recommendations and added a narrow-scope standard-setting project to its work plan to propose amendments to the Standard.

1 An investment entity is defined in IFRS 10 *Consolidated Financial Statements* as an entity that:

(a) obtains funds from one or more investors for the purpose of providing those investor(s) with investment management services;

(b) commits to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and

(c) measures and evaluates the performance of substantially all of its investments on a fair value basis.

Proposals in this Exposure Draft

IN5 The IASB is proposing amendments to the Standard to introduce an exception from presenting consolidated financial statements. The exception would apply to a parent whose ultimate (or intermediate) parent produces financial statements that comply with full IFRS Accounting Standards, in which subsidiaries are measured at fair value through profit or loss in accordance with IFRS 10.

Who would be affected by the proposals?

IN6 The proposed amendments would affect any SME that is an intermediate parent and whose ultimate parent (or any intermediate parent) presents financial statements that comply with full IFRS Accounting Standards, in which all its subsidiaries are measured at fair value through profit or loss. Those SMEs would be permitted but not required to apply the exception.

Next steps

IN7 The IASB will consider the comments it receives on the proposals in this Exposure Draft and decide whether and how to proceed with the proposed amendments.

IN8 If the IASB agrees to proceed with the proposed amendments, they will be effective for periods beginning on or after 1 January 2027, at the same time as the effective date of the third edition of the Standard. Earlier application will be permitted for entities that apply the third edition of the Standard early.

Invitation to comment

The IASB invites comments on the proposals in this Exposure Draft, particularly on Questions 1 and 2. Comments are most helpful if they:

(a) respond to the questions as stated;

(b) specify the paragraph(s) to which they relate;

(c) contain a clear rationale;

(d) identify any wording in the proposals that is difficult to translate; and

(e) include any alternative approach the IASB should consider, if applicable.

The IASB requests that comments are confined to the proposals in this Exposure Draft. Respondents are not required to answer all questions.

Questions for respondents

Question 1—Proposed amendments to paragraph 9.3 of the *IFRS for SMEs* Accounting Standard
Paragraph 9.3 of the *IFRS for SMEs* Accounting Standard (Standard) permits a parent not to present consolidated financial statements if its ultimate parent (or any intermediate parent) produces consolidated general purpose financial statements that comply with full IFRS Accounting Standards or the Standard. The IASB is proposing to extend the exception from presenting consolidated financial statements. Under the proposed extension, a parent need not present consolidated financial statements if its ultimate parent (or any intermediate parent) produces financial statements that comply with full IFRS Accounting Standards, in which investments in subsidiaries are measured at fair value through profit or loss in accordance with IFRS 10 *Consolidated Financial Statements*. Paragraphs BC6–BC16 explain the IASB's rationale for this proposal. Do you agree with this proposal? Why or why not? If you disagree, please state whether you suggest the IASB consider this amendment in the next periodic review of the Standard, or not at all.

Question 2—Effective date and transition
The IASB is proposing that an entity apply the amendments to paragraph 9.3 of the Standard at the same time and on the same basis as it applies the third edition of the Standard. Paragraph BC17 explains the IASB's rationale for this proposal. Do you agree with this proposal? Why or why not? If you disagree, please explain what you would suggest instead and why.

Deadline

The IASB will consider all comments received in writing by 9 September 2026.

How to comment

Please submit your comments electronically:

Online	https://www.ifrs.org/projects/open-for-comment/
By email	commentletters@ifrs.org

Your comments will be on the public record and posted on our website unless you request confidentiality and we grant your request. We normally grant such requests only if they are supported by a good reason, for example, commercial confidence. Please see our website for details on this policy and on how we use your personal data. If you would like to request confidentiality, please contact us at commentletters@ifrs.org before submitting your letter.

[Draft] Amendments to the *IFRS for SMEs* Accounting Standard

Paragraphs 9.3 and A1 are amended. New text is underlined and deleted text is struck through.

Section 9
Consolidated and Separate Financial Statements

...

Requirement to present consolidated financial statements

...

9.3 A parent need not present consolidated financial statements if both of the following conditions are met:

(a) the parent is itself a subsidiary; and

<u>(b)</u> <u>its ultimate parent (or any intermediate parent) produces:</u>

<u>(i)</u> <u>consolidated **general purpose financial statements** that comply with this Standard; or</u>

<u>(ii)</u> <u>general purpose financial statements that comply with full IFRS Accounting Standards, in which subsidiaries are consolidated or are measured at fair value through profit or loss, in accordance with IFRS 10 *Consolidated Financial Statements*.</u>

~~(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.~~

...

Appendix A
Effective date and transition

This Appendix is an integral part of the Standard.

Effective date

A1 The third edition of the *IFRS for SMEs* Accounting Standard issued in February 2025 amended and revised sections of the *IFRS for SMEs* Accounting Standard. <u>*Consolidation Exception*, issued in [month] 2026, amended paragraph 9.3 of Section 9 *Consolidated and Separate Financial Statements*.</u> An entity shall apply the amended and revised sections for annual periods beginning on or after 1 January 2027. Earlier application <u>of the third edition of the *IFRS for SMEs* Accounting Standard, including the amendments made by *Consolidation Exception*,</u> is permitted. If an entity applies the third edition of the *IFRS for SMEs* Accounting Standard, <u>including the amendments made by *Consolidation Exception*,</u> for an earlier period, the entity shall disclose that fact.

Approval by the IASB of Exposure Draft *Consolidation Exception* published in May 2026

The Exposure Draft *Consolidation Exception*, which proposes amendments to the *IFRS for SMEs* Accounting Standard, was approved for publication by 11 of the 13 members of the International Accounting Standards Board. Mr Cendon voted against its publication. His alternative view is set out after the Basis for Conclusions. Ms Chen abstained in view of her recent appointment to the IASB.

Andreas Barckow	Chair
Linda Mezon-Hutter	Vice-Chair
Nick Anderson	
Patrina Buchanan	
Tadeu Cendon	
Yu Chen	
Florian Esterer	
Zach Gast	
Hagit Keren	
Bruce Mackenzie	
Bertrand Perrin	
Rika Suzuki	
Robert Uhl	

Basis for Conclusions on Exposure Draft *Consolidation Exception*

This Basis for Conclusions accompanies, but is not part of, the Exposure Draft Consolidation Exception *(Exposure Draft). It summarises the considerations of the International Accounting Standards Board (IASB) in developing the Exposure Draft. Individual IASB members gave greater weight to some factors than to others.*

Background

BC1 Paragraph 9.3 of the *IFRS for SMEs* Accounting Standard (Standard) provides an exception from the requirement for a parent entity to present consolidated financial statements if:

(a) the parent entity is itself 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 the Standard.

BC2 The SME Implementation Group (SMEIG) received an application question that asked whether small and medium-sized entities (SMEs) could apply the exception in paragraph 9.3 of the Standard if their ultimate (or intermediate) parent is an investment entity that presents financial statements that comply with full IFRS Accounting Standards, in which its subsidiaries are measured at fair value through profit or loss in accordance with paragraph 31 of IFRS 10 *Consolidated Financial Statements*.

BC3 The exception in paragraph 9.3 of the Standard applies to an SME whose ultimate (or intermediate) parent produces consolidated financial statements that comply with full IFRS Accounting Standards or the Standard. Therefore, in the scenario described in the question, SMEs would be required to present consolidated financial statements. This outcome differs from the outcome that would result from applying full IFRS Accounting Standards because paragraph 4(a) of IFRS 10 provides an exception from presenting consolidated financial statements. Paragraph 4(a)(iv) of IFRS 10 contains a condition that also makes the exception available to an entity whose ultimate (or intermediate) parent produces financial statements that are available for public use and comply with full IFRS Accounting Standards, in which subsidiaries are consolidated or are measured at fair value through profit or loss in accordance with IFRS 10. This difference in outcomes means that, in this instance, the requirements in the *IFRS for SMEs* Accounting Standard could be more onerous than those in full IFRS Accounting Standards.

BC4 The SMEIG recommended that the IASB amend the Standard to extend the exception in paragraph 9.3 of the Standard in a way that is similar to the exception in paragraph 4(a) of IFRS 10. The proposed amendment would allow SMEs to benefit from the same cost savings as comparable entities applying full IFRS Accounting Standards.

BC5 The IASB issued the third edition of the Standard in February 2025 as the outcome of its second comprehensive review. During that review, the IASB decided not to introduce requirements for investment entities into the Standard because few entities eligible to apply the Standard would meet the definition of an ‘investment entity’ set out in IFRS 10. Because the Standard did not include a definition of investment entities or any requirements for them, the IASB did not consider the exception in IFRS 10 from the requirement to present consolidated financial statements for entities with an investment-entity parent. Consequently, when the IASB developed the third edition of the Standard it did not consult on whether to include an exception from presenting consolidated financial statements for an SME whose ultimate (or intermediate) parent entity is an investment entity.

Proposed amendments

BC6 The IASB decided to propose amendments to paragraph 9.3 of the Standard. The proposed amendments introduce an exception from presenting consolidated financial statements for an SME whose ultimate (or intermediate) parent is an investment entity that produces financial statements that comply with full IFRS Accounting Standards, in which its subsidiaries are measured at fair value through profit or loss in accordance with IFRS 10.

Timing

BC7 The IASB reviews the Standard periodically to consider whether and how to align it with any new and amended full IFRS Accounting Standards. Paragraph P16 of the Standard states that the IASB may identify urgent matters for which amendments may need to be considered outside the periodic reviews of the Standard. However, such occasions are expected to be rare.

BC8 The IASB had decided on a tentative approach of starting a comprehensive review of the Standard approximately two years after the effective date of the amendments resulting from the previous review. The third edition of the Standard is effective for annual reporting periods beginning on or after 1 January 2027. Consequently, the next comprehensive review would not be expected to start until 2029, with an effective date a number of years after that.

BC9 If the IASB were to defer consideration of the exception from presenting consolidated financial statements for SMEs with an investment-entity parent until the next periodic review, SMEs would continue to apply requirements in Section 9 of the Standard that could be more onerous than those in full IFRS Accounting Standards until that review was complete. Consequently, these SMEs would face an extended delay before they could potentially stop presenting consolidated financial statements.

BC10 The timing of the question also meant that the IASB had an opportunity to amend the third edition of the Standard before its effective date. If the IASB were to issue amendments before the effective date, SMEs could apply the amendments at the same time as they apply the third edition, which would minimise disruption and ease implementation. In view of these considerations, and taking into account the unusual factors described in paragraph BC16, the IASB decided to propose urgent amendments to the Standard.

Effects of the exception

BC11 The proposed amendments would allow an SME that chooses to apply the exception to stop presenting consolidated financial statements, which could result in considerable cost savings. However, users of the SME's financial statements would no longer have consolidated financial information about the SME and its subsidiaries. Instead, users would have to rely on the SME's separate financial statements and its parent's financial statements if they are available.

BC12 The IASB concluded that the benefits of the cost savings provided by the proposed amendments would outweigh the resultant loss of information to users. The IASB decided against proposing that SMEs applying the exception be required to disclose additional information to compensate for the loss of information. It did so on the basis that the information already disclosed in these SMEs' or their parents' financial statements would be enough for users. This was similar to the IASB's reasoning when it amended IFRS 10 to include the exception for entities with an investment-entity parent. In developing the amendments to IFRS 10, the IASB observed that when an investment entity measures its investment in a subsidiary at fair value through profit or loss, the disclosures required by IFRS 12 *Disclosure of Interests in Other Entities* are supplemented by those required by IFRS 7 *Financial Instruments: Disclosures* and IFRS 13 *Fair Value Measurement*. The Standard includes disclosure requirements that are reduced from those in full IFRS Accounting Standards and, therefore, it does not include all of the disclosure requirements from IFRS 7, IFRS 12 and IFRS 13. SMEs are also not required to disclose the information required by paragraph 16(b) of IAS 27 *Separate Financial Statements* about significant investments in subsidiaries, joint ventures and associates. However, in the IASB's view, this information difference was not enough to lead to a different cost–benefit assessment from that relating to IFRS 10.

Pervasiveness

BC13 In considering whether to propose amending the Standard, the IASB considered the pervasiveness of the issue—that is, whether the issue has arisen or is likely to arise in financial reporting by a broad group of SMEs in various jurisdictions.

BC14 An SME would be able to apply the exception if its ultimate (or intermediate) parent is an investment entity that does not present consolidated financial statements. Instead, the parent presents financial statements in which its subsidiaries are measured at fair value through profit or loss, in accordance with IFRS 10. The IASB expects the exception to affect SMEs whose parents are private equity investors, venture capital organisations or similar entities that meet the definition of an investment entity in IFRS 10. This expectation applies if those SMEs are in jurisdictions without local laws or regulations specifying the circumstances in which SMEs are required to present consolidated financial statements.

BC15 The IASB received information from the SMEIG suggesting that the issue was likely to be, or become, pervasive in jurisdictions that require or permit the use of the Standard. Most of these jurisdictions are emerging or developing economies in which:

(a) private equity investment activity has grown and is expected to continue growing; and

(b) accounting standards, not local laws or regulations, generally specify the circumstances in which SMEs are required to prepare consolidated financial statements.

BC16 The IASB, taking into account the recommendation from the SMEIG, proposed the amendments because they are narrow in scope, can be processed on a timely basis before the effective date of the Standard, and would affect only those SMEs that are eligible, and choose, to apply the exception. The IASB was also of the view that even if only a relatively small number of SMEs are affected, the issue for these SMEs is acute.

Effective date and transition

BC17 The IASB concluded that the amendments should be effective at the same time as the third edition of the Standard. Aligning the effective date of the amendments with the effective date of the third edition allows an SME to apply the exception at the same time as it applies the requirements in the third edition (see paragraph BC10), but not before. The IASB also decided to require SMEs to apply the amendments using the same transition requirements as for the third edition of the Standard.

Alternative view on Exposure Draft *Consolidation Exception*

Alternative view of Mr Cendon

AV1 Mr Cendon voted against the publication of the Exposure Draft because he disagrees with both the timing of the proposal and the proposed amendments to introduce an exception from preparing consolidated financial statements for an intermediate parent whose parent or ultimate parent is an investment entity that does not prepare consolidated financial statements.

The proposal does not meet the criteria to be considered outside the periodic review process

AV2 In Mr Cendon's view, the issue does not meet the threshold of pervasiveness and time sensitivity necessary to justify an amendment to the *IFRS for SMEs* Accounting Standard (Standard) outside the periodic review process. The exception in IFRS 10 *Consolidated Financial Statements* was introduced in 2014, yet no corresponding need for an amendment was identified by stakeholders during the second comprehensive review of the Standard. In December 2025, a stakeholder asked whether paragraph 9.3 applies if the ultimate parent (or an intermediate parent) is an investment entity, and a majority of SME Implementation Group members supported urgent action. However, views were mixed on whether the issue is pervasive. Mr Cendon also notes that the only previous amendment made outside the periodic review process responded to Pillar Two legislation—an external event that created clear urgency. In his view, those circumstances do not exist in this case.

AV3 Mr Cendon also disagrees with the assertion that the amendments are urgent because, without the proposed exception, the Standard is more onerous than full IFRS Accounting Standards. In his view, the absence of the exception should not be regarded as a mere oversight. The requirements in the Standard differ from those in full IFRS Accounting Standards, and the users of SMEs' financial statements differ from the users of financial statements prepared in accordance with full IFRS Accounting Standards. Furthermore, the third edition of the Standard did not introduce a new cost that the proposed exception would now remove. Parent entities applying the Standard have always been required to prepare consolidated financial statements, and many would continue to prepare consolidated information for internal purposes even if the exception were to be introduced.

AV4 As noted in paragraph BC14, the IASB expects the exemption to affect SMEs in jurisdictions where there are no local laws or regulations specifying when SMEs must present consolidated financial statements. Therefore, the matter is even less pervasive, because not all jurisdictions applying the Standard will be affected. It is precisely in these affected jurisdictions, however, that users will experience a significant loss of information, as explained in the following paragraphs.

The proposal would lead to loss of information for users of SMEs' financial statements

AV5 In Mr Cendon's view, the loss of information for users of SMEs' financial statements resulting from the proposed amendments outweighs the cost savings they provide and, therefore, the proposed new requirements will not ultimately improve financial reporting.

AV6 In developing the amendment to IFRS 10, the IASB concluded that users would not lose relevant information on application of the exception, because the combined disclosure requirements in IFRS 7 *Financial Instruments: Disclosures*, IFRS 12 *Disclosure of Interests in Other Entities* and IFRS 13 *Fair Value Measurement* would compensate for it. However, Mr Cendon is of the view that the basis for that conclusion, although considered appropriate in the context of full IFRS Accounting Standards, might not be appropriate in the context of an entity applying the Standard, even if the information provided in separate financial statements is taken into account. In support of this view, Mr Cendon notes that:

(a) the exception in paragraph 4(a)(iv) of IFRS 10 when an entity has a parent that presents consolidated financial statements is more detailed and restrictive than the equivalent exemption in the Standard. For example, the Standard would not require the ultimate parent (or any intermediate parent) to make its financial statements available for public use.

(b) most entities applying the Standard are small and medium-sized entities. As a result, information about those entities is likely to be diluted in the financial statements of the parent, particularly because the investment-entity parent applies materiality at its own reporting level.

(c) the disclosure requirements in IFRS 12 for an investment-entity parent differ from those for a parent that is not an investment entity. For example, an investment-entity parent is not required to provide summarised financial information about its subsidiaries. In Mr Cendon's view, that information could be particularly important for the typical users of SMEs' financial statements.

(d) the proposed exception could permit an ultimate parent (or intermediate parent) that applies the Standard to rely on an investment entity-related exception, even though the IASB decided, in the second comprehensive review, that requirements for investment entities were not relevant to SMEs and, therefore, omitted them from the Standard. In Mr Cendon's view, a lack of specific guidance on this matter could create uncertainty about how such an entity is required to apply the Standard, including the disclosures it is required to provide. Because the Standard does not include the broader investment-entity requirements that were omitted in the second comprehensive review, some may view this cross-reference as creating interpretive dependence on requirements from full IFRS Accounting Standards that are not otherwise included in the Standard.

(e) a parent that is excepted from preparing consolidated financial statements as a result of the proposed amendments could present separate financial statements as its only financial statements. That parent could also elect to measure its investments in subsidiaries at cost less impairment in those financial statements, with only limited information provided to users about those investees.

AV7 Finally, Mr Cendon notes that the typical users of SMEs' financial statements —including lenders, suppliers, customers and employees—might have a greater need for information about the SME itself than for fair value information reported by an investment-entity parent. In his view, introducing the proposed exception would reduce the information available to those users, with the detriment to users outweighing any cost savings for intermediate parents.

AV8 For these reasons, Mr Cendon disagrees with the proposed amendments.

IFRS® Foundation

Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD, UK

Tel **+44 (0) 20 7246 6410**
Email **customerservices@ifrs.org**

ifrs.org