



STAFF PAPER

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IASB® meeting

Project	2019 Comprehensive Review of the <i>IFRS for SMEs</i> ® Standard
Paper topic	The relationship between the <i>IFRS for SMEs</i> Standard and full IFRS Standards

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Purpose

1. At this meeting we are asking the Board to:
 - (a) reaffirm the relationship between the *IFRS for SMEs* Standard and full IFRS Standards;
 - (b) agree that the Request for Information recommends aligning Section 2 *Concepts and Pervasive Principles* of the *IFRS for SMEs* Standard with the 2018 *Conceptual Framework for Financial Reporting (2018 Conceptual Framework)*; and
 - (c) agree the principles for aligning the *IFRS for SMEs* Standard with new and amended IFRS Standards.

Structure of the paper

2. This paper is structured as follows:
 - (a) Background (paragraph 4).

- (b) Staff analysis on:
 - (i) the relationship between the *IFRS for SMEs* Standard and full IFRS Standards (paragraphs 5–12);
 - (ii) the 2018 *Conceptual Framework for Financial Reporting* (paragraphs 13–19); and
 - (iii) principles for incorporating new and amended IFRS Standards into the *IFRS for SMEs* Standard (paragraphs 20–42).
 - (c) Next steps for the 2019 Comprehensive Review of the IFRS for SMEs Standard (paragraphs 43–48).
 - (d) Appendix 1—Extracts from the *IFRS for SMEs* Standard and the Basis for Conclusions on the *IFRS for SMEs Standard*.
3. All references to BC paragraphs are to paragraphs from the Basis for Conclusions on the 2015 *IFRS for SMEs* Standard.

Background

4. As agreed at its February 2019 meeting, the Board is undertaking a comprehensive review of the *IFRS for SMEs* Standard. The first phase of the review is to develop a Request for Information that will seek views on whether and, if so, how the *IFRS for SMEs* Standard should be aligned with new and amended IFRS Standards not currently incorporated into the *IFRS for SMEs* Standard.

The relationship between the *IFRS for SMEs* Standard and full IFRS Standards

5. The Preface to the *IFRS for SMEs* Standard states that:

The IFRS for SMEs is based on full IFRS with modifications to reflect the needs of users of SMEs’ financial statements and cost-benefit considerations.¹

6. This is reinforced in paragraph BC95(a) which states that the *IFRS for SMEs* Standard was developed by:

... extracting the fundamental concepts from the *Framework* and the principles

¹ Preface to the *IFRS for SMEs* Standard paragraph P9.

and related mandatory guidance from IFRSs (including Interpretations).

7. Paragraph BC96 states that:

... this approach is appropriate because the needs of users of financial statements of SMEs are similar in many ways to the needs of users of financial statements of publicly accountable entities. Therefore, full IFRSs are the logical starting point for developing an *IFRS for SMEs*.

8. The staff believes using full IFRS Standards as the basis for the *IFRS for SMEs* Standard brings benefits in addition to those identified in paragraph BC96, including:

- (a) efficiencies in knowledge for preparers, auditors, regulators and users of financial statements prepared in accordance with either full IFRS Standards or the *IFRS for SMEs* Standard; and
- (b) a consistent accounting framework which supports efficiency in the education of accountants and users.

9. The Board considered an alternative approach, the ‘fresh start’ approach, which would have involved developing a standard independent of full IFRS Standards along with a separate conceptual framework. This was rejected because the Board believed the approach could result in different:²

- (a) objectives of financial reports;
- (b) qualitative characteristics of financial information; and
- (c) concepts of recognition and measurement.

10. Given the Board believed there was significant congruence in users’ needs relative to the general purpose financial statements of entities with or without public accountability, the Board concluded that a fresh start approach would be:

- (a) costly;
- (b) time-consuming; and

² Paragraph BC97.

(c) ultimately futile.

11. The staff believes the Board’s rationale remains valid. Further, the need to continue aligning the *IFRS for SMEs* Standard with full IFRS Standards is reinforced by the increased adoption of full IFRS Standards and because jurisdictions often use both the *IFRS for SMEs* Standard and full IFRS Standards.
12. The staff recommends the *IFRS for SMEs* Standard should continue to be aligned with full IFRS Standards.

Question 1

Does the Board agree with the staff recommendation in paragraph 12?

The 2018 Conceptual Framework for Financial Reporting

13. In developing the *IFRS for SMEs* Standard the Board stated that the fundamental concepts from the *Conceptual Framework* provide the foundation of the *IFRS for SMEs* Standard as well as IFRS Standards themselves.³
14. Section 2 *Concepts and Pervasive Principles* of the *IFRS for SMEs* Standard is currently aligned with the 1989 *Framework for the Preparation and Presentation of Financial Statements*.
15. The staff believes that if the Board agrees the *IFRS for SMEs* Standard should continue to be aligned with full IFRS Standards then Section 2 should be aligned with the 2018 *Conceptual Framework*.
16. Aligning Section 2 with the 2018 *Conceptual Framework* will require consequential amendments to other sections of the *IFRS for SMEs* Standard. For example, Section 17 *Property, Plant and Equipment* paragraph 17.4 uses the definition of an asset from Section 2.

³ Paragraph BC95(a).

17. The staff recommends that the Request for Information includes a recommendation to align Section 2 of the *IFRS for SMEs* Standard with the 2018 *Conceptual Framework* and to make appropriate consequential amendments to other sections of the *IFRS for SMEs* Standard.

Question 2

Does the Board agree with the staff recommendation in paragraph 17?

18. Section 2 also includes the concept of ‘undue cost or effort’, an exemption available to SMEs using the *IFRS for SMEs* Standard in specified circumstances.⁴ This provides additional relief in certain circumstances where the cost of providing specific information may outweigh the benefits to users of having that information. There is no equivalent concept in the 2018 *Conceptual Framework*.
19. The staff recommends that the concept of ‘undue cost and effort’ should be retained. It provides an additional mechanism the Board can use to balance the costs and benefits of the requirements of the *IFRS for SMEs* Standard.

Question 3

Does the Board agree with the staff recommendation in paragraph 19?

Principles for incorporating new and amended IFRS Standards into the *IFRS for SMEs* Standard

20. Should the Board reaffirm that the *IFRS for SMEs* Standard continues to be aligned with full IFRS Standards, the next step is to identify whether, and how, to align the *IFRS for SMEs* Standard with new and amended IFRS Standards that are not currently incorporated into the Standard.

⁴ Paragraphs 2.14A–2.14D of Section 2.

21. At a future meeting the Board will discuss whether the Request for Information should recommend a change in the scope of the IFRS for SMEs Standard to permit more entities to apply the Standard. The staff believes the three principles set out in paragraphs 30–42 would continue to apply if the scope of the *IFRS for SMEs* Standard is amended. However the extent and nature of any simplifications would need to be reassessed against the needs of different groups of users and preparers.
22. In developing the *IFRS for SMEs* Standard the Board aimed to:⁵
- ... provide a simplified, self-contained set of accounting principles that are appropriate for smaller, non-listed entities and are based on full IFRSs.
23. The Board has previously noted that entities using the *IFRS for SMEs* Standard ‘do not have public accountability and typically have less complex transactions’ and are likely to have limited resources.⁶
24. The Board also acknowledged that users of SMEs’ financial statements are interested in different information than those using the financial statements of entities with public accountability.⁷ Users of SMEs’ financial statements tend to be focussed on solvency and liquidity more than on profitability.
25. The Board considered both users’ needs and costs and benefits specific to SMEs in developing the *IFRS for SMEs* Standard. The *IFRS for SMEs* Standard contains simplified requirements and language based on the requirements in full IFRS Standards.
26. In the 2012 Comprehensive Review of the *IFRS for SMEs* Standard (2012 Review) the Board developed a framework to address new and amended IFRS Standards that it believed would also be appropriate for future reviews. The Board stated that:⁸
- (a) each new and revised full IFRS Standard should be considered individually on a case-by-case basis to decide if, and how, its requirements should be incorporated into the IFRS for SMEs.
- (b) new and revised full IFRS Standards should not be considered until they

⁵ Paragraph BC15.
⁶ Paragraph BC187.
⁷ Paragraph BC45.
⁸ Paragraph BC188.

have been issued. However, it would generally not be necessary to wait until their Post-implementation Reviews (PIRs) have been completed.

- (c) minor changes/annual improvements to full IFRS should also be considered on a case-by-case basis.

27. The staff believes that this framework remains the appropriate basis on which to develop the 2019 Request for Information.
28. The staff also believes that in assessing whether and how to align the *IFRS for SMEs* Standard with individual IFRS Standards it would be helpful to develop a set of principles that includes the Board’s previous approach. This structured approach would be applied in future Board papers that review the possible alignment of the *IFRS for SMEs* Standard with individual IFRS Standards.
29. The staff proposes that when assessing each new and amended IFRS Standard for incorporation into the *IFRS for SMEs* Standard the following principles should be applied:
 - (a) Relevance to SMEs—Is there a need for change?
 - (b) Simplification—How can the requirements be simplified?
 - (c) Proportionality—Is the outcome proportional?

Principle 1—Relevance to SMEs—Is there a need for change?

30. The staff thinks the first step in assessing whether the *IFRS for SMEs* Standard should be aligned with a new or amended IFRS Standard is to consider the problem that the full IFRS Standard seeks to address.
31. The staff recommends evaluating whether the problem the IFRS Standard seeks to address is relevant to SMEs and whether aligning the *IFRS for SMEs* Standard with the IFRS Standard would provide relevant information to users of SMEs’ financial statements.
32. The staff plans to consider each of the following questions to assess if the problem the IFRS Standard seeks to address is relevant to SMEs:
 - (a) Does the problem affect SMEs and how pervasive is it?
 - (b) Does the *IFRS for SMEs* Standard already address the problem, and if so, what is the extent of change required?

(c) How would incorporating the IFRS Standard increase the relevance of information to users?

33. This principle assesses whether aligning with a new or amended IFRS Standard would make a difference in the decisions of users of financial statements. The staff believes this principle addresses the qualitative characteristic of relevance.⁹
34. If the Board decides that principle 1 is satisfied by aligning the *IFRS for SMEs* Standard with the full Standard, the Board would then apply principle 2.

Principle 2—Simplification—How can the requirements be simplified?

35. The *IFRS for SMEs* Standard provides simplified accounting requirements that are appropriate for SMEs. In so doing, the Standard addresses the needs of users of SMEs’ financial statements and reduces the cost of preparing financial statements for SMEs (that generally have limited resources).
36. In assessing whether the *IFRS for SMEs* Standard can be aligned with an IFRS Standard the staff believes it is important to identify how to simplify the requirements of the IFRS Standard. This includes simplifying, where appropriate, recognition, measurement and/or disclosure requirements as well as the language in the IFRS Standard.
37. Paragraph BC16 sets out five ways in which the requirements of full IFRS Standards can be simplified in the *IFRS for SMEs* Standard:
 - (a) by omitting some topics;¹⁰
 - (b) where an IFRS Standard permits options, permitting only the simpler option;¹¹
 - (c) by simplifying recognition and measurement requirements;¹²
 - (d) by reducing disclosures; and

⁹ Paragraph 2.7 of the 2018 *Conceptual Framework*.

¹⁰ For example, in the context of complex hedging arrangements—paragraph BC104(b)–(c).

¹¹ For example, in the context of investment property—paragraph BC133.

¹² For example, in the context of amortisation and impairment of goodwill—paragraph BC112.

(e) by simplifying language.

38. Given the options listed in paragraph 37, the staff believes that there will only be rare circumstances when simplification cannot be achieved. In these rare circumstances when simplification of an IFRS Standard cannot be achieved and when principle 1 has been satisfied, staff will consider whether entities should be permitted to apply the full IFRS Standard.
39. If the Board finds that principle 2 would be satisfied by aligning the *IFRS for SMEs* Standard with the full Standard, the Board would then apply principle 3.

Principle 3—Proportionality—Is the outcome proportional?

40. While simplification reduces the cost of applying the *IFRS for SMEs* Standard, the financial statements of SMEs must still provide information that is useful for decision-making by a broad range of users who are not in a position to demand reports tailored to meet their particular information needs. Principle 3 seeks to ensure that the requirements of the *IFRS for SMEs* Standard continue to provide information that is useful for economic decision-making.
41. Financial statements prepared applying the *IFRS for SMEs* Standard must provide information that faithfully represents the substance of the phenomena that it purports to represent. The staff believes this aspect of the principle addresses the qualitative characteristic of faithful representation.¹³
42. The proportionality principle seeks to ensure that the information entities provide when applying the simplified requirements faithfully represents the underlying economic phenomena, and that the benefits derived from providing that information exceed the costs of providing it.

¹³ Paragraph 2.12 of the 2018 *Conceptual Framework*.

Question 4

Does the Board agree that when assessing whether and how to align the *IFRS for SMEs* Standard with each new and amended IFRS Standard the following principles should be applied:

- (a) Relevance to SMEs—Is there a need for change?
- (b) Simplification—How can the requirements be simplified?
- (c) Proportionality—Is the outcome proportional?

Next steps for the 2019 Comprehensive Review of the *IFRS for SMEs* Standard

43. At the April 2019 meeting we will ask the Board to consider:
- (a) the scope of the *IFRS for SMEs* Standard (Section 1 *Small and Medium-sized Entities*); and
 - (b) whether, and how, the *IFRS for SMEs* Standard can be aligned with new and amended IFRS Standards.
44. When the 2012 Review commenced, the 2009 *IFRS for SMEs* Standard had only been applied for three years and many jurisdictions were still in the process of adopting or transitioning to the Standard. The Board recognised the need to provide stability to SMEs and decided against aligning the Standard with any full IFRS Standards issued after the issue of the 2009 *IFRS for SMEs* Standard.¹⁴
45. Specifically, the Board did not incorporate: 2008 IFRS 3 *Business Combinations*, IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements*, IFRS 13 *Fair Value Measurement* and 2011 IAS 19 *Employee Benefits*.
46. The Board did, however, make twelve ‘relatively minor’ changes to the *IFRS for SMEs* Standard based on amendments to existing Standards.¹⁵

¹⁴ Paragraphs BC197–BC200.

¹⁵ Paragraphs BC201–BC207 and BC237.

47. Almost 10 years have elapsed since the *IFRS for SMEs* Standard was first issued, and a number of new and amended IFRS Standards have been issued. The staff acknowledges the importance to SMEs of maintaining stability. However, this consideration must be balanced against the risk that applying the *IFRS for SMEs* Standard will produce different outcomes than applying full IFRS Standards.
48. The staff will, therefore, as discussed in the February Board meeting, include in the Request for Information all new and amended IFRS Standards effective as at 1 January 2019 and not currently incorporated in the *IFRS for SMEs* Standard.

Appendix 1—Extracts from the *IFRS for SMEs* Standard and the Basis for Conclusions on the *IFRS for SMEs* Standard

Preface to the *IFRS for SMEs* Standard:

The *IFRS for SMEs*

P9 The IASB develops and issues a separate Standard intended to apply to the general purpose financial statements of, and other financial reporting by, entities that in many countries are referred to by a variety of terms, including small and medium-sized entities (SMEs), private entities and non-publicly accountable entities. That Standard is the *International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs)*. The *IFRS for SMEs* is based on full IFRS with modifications to reflect the needs of users of SMEs' financial statements and cost-benefit considerations.

The Basis for Conclusions on the *IFRS for SMEs* Standard

Exposure draft (February 2007)

- BC15 In February 2007 the IASB published for public comment an exposure draft of a proposed *IFRS for SMEs*. The aim of the proposed standard was to provide a simplified, self-contained set of accounting principles that are appropriate for smaller, non-listed entities and are based on full IFRSs, which are developed to meet the needs of entities whose securities trade in public capital markets.
- BC16 The proposed standard was based on full IFRSs with modifications to reflect the needs of users of SMEs' financial statements and cost-benefit considerations. The exposure draft proposed five types of simplifications of full IFRSs:
- (a) some topics in IFRSs were not included because they are not relevant to typical SMEs. However, for some of those omitted topics, the exposure draft proposed that if SMEs encountered circumstances or a transaction that is addressed in full IFRSs but not in the *IFRS for SMEs*, then they would be required to follow the relevant full IFRS.
 - (b) where an IFRS allows an accounting policy choice, the exposure draft included only the simpler option but proposed that SMEs should be permitted to choose the more complex option by reverting to the relevant full IFRS.
 - (c) simplification of many of the principles for recognising and measuring assets, liabilities, income, and expenses that are in full IFRSs.
 - (d) substantially fewer disclosures.
 - (e) simplified redrafting.

Primarily because of (a) and (b) above, the proposed *IFRS for SMEs* would not be a stand-alone document.

as an alternative to the public capital markets, SMEs often obtain capital from shareholders, directors and suppliers, and shareholders and directors often pledge personal assets so that the SMEs can obtain bank financing.

- BC46 In the Board's judgement, the nature and degree of the differences between full IFRSs and an *IFRS for SMEs* must be determined on the basis of users' needs and cost-benefit analyses. In practice, the benefits of applying accounting standards differ across reporting entities, depending primarily on the nature, number and information needs of the users of their financial statements. The related costs may not differ significantly. Therefore, consistently with the *Framework*, the Board concluded that the cost-benefit trade-off should be assessed in relation to the information needs of the users of an entity's financial statements.
- BC47 The Board faced a dilemma in deciding whether to develop an *IFRS for SMEs*. On the one hand, it believed that the same concepts of financial reporting are appropriate for all entities regardless of public accountability—particularly the concepts for recognising and measuring assets, liabilities, income and expenses. This suggested that a single set of accounting standards should be suitable for all entities, although it would not rule out disclosure differences based on users' needs and cost-benefit considerations. On the other hand, the Board acknowledged that differences in the types and needs of users of SMEs' financial statements, as well as limitations in, and the cost of, the accounting expertise available to SMEs, suggested that a separate standard for SMEs is appropriate. That separate standard could include constraints such as consistent definitions of elements of financial statements and focus on the needs of users of financial statements of SMEs. On balance, the Board concluded that the latter approach (separate standard) was appropriate.

Why the *Framework* and principles and mandatory guidance in existing IFRSs are the appropriate starting point for developing the *IFRS for SMEs*

- BC95 The *IFRS for SMEs* was developed by:
- (a) extracting the fundamental concepts from the *Framework* and the principles and related mandatory guidance from IFRSs (including Interpretations), and
 - (b) considering the modifications that are appropriate in the light of users' needs and cost-benefit considerations.
- BC96 The Board judged that this approach is appropriate because the needs of users of financial statements of SMEs are similar in many ways to the needs of users of financial statements of publicly accountable entities. Therefore, full IFRSs are the logical starting point for developing an *IFRS for SMEs*.
- BC97 The Board rejected the alternative 'fresh start' approach because that approach could have resulted in different objectives of financial reports, different qualitative characteristics of financial information, different definitions of the elements of financial statements, and different concepts of recognition and measurement. The Board concluded that a 'fresh start' approach would be costly and time-consuming and ultimately futile. This is because, in the Board's view, there is sufficient convergence of users' needs relative to the general purpose financial statements of entities with and without public accountability.

Disclosure simplifications

- BC156 The disclosure requirements in the *IFRS for SMEs* are substantially reduced when compared with the disclosure requirements in full IFRSs. The reasons for the reductions are of four principal types:
- (a) Some disclosures are not included because they relate to topics covered in IFRSs that are omitted from the *IFRS for SMEs* (see paragraph BC88).
 - (b) Some disclosures are not included because they relate to recognition and measurement principles in full IFRSs that have been replaced by simplifications in the *IFRS for SMEs* (see paragraphs BC98–BC136).
 - (c) Some disclosures are not included because they relate to options in full IFRSs that are not included in the *IFRS for SMEs* (see paragraphs BC84–BC86).
 - (d) Some disclosures are not included on the basis of users' needs or cost-benefit considerations (see paragraphs BC44–BC47, BC157 and BC158).
- BC157 Assessing disclosures on the basis of users' needs was not easy, because users of financial statements tend to favour more, rather than fewer, disclosures. The Board was guided by the following broad principles:
- (a) Users of the financial statements of SMEs are particularly interested in information about short-term cash flows and about obligations, commitments or contingencies, whether or not recognised as liabilities. Disclosures in full IFRSs that provide this sort of information are necessary for SMEs as well.
 - (b) Users of the financial statements of SMEs are particularly interested in information about liquidity and solvency. Disclosures in full IFRSs that provide this sort of information are necessary for SMEs as well.
 - (c) Information on measurement uncertainties is important for SMEs.
 - (d) Information about an entity's accounting policy choices is important for SMEs.
 - (e) Disaggregations of amounts presented in SMEs' financial statements are important for an understanding of those statements.
 - (f) Some disclosures in full IFRSs are more relevant to investment decisions in public capital markets than to the transactions and other events and conditions encountered by typical SMEs.

The IASB's principles for dealing with new and revised full IFRS Standards

- BC187 The IASB observed that the primary aim when developing the *IFRS for SMEs* was to provide a stand-alone, simplified set of accounting principles for entities that do not have public accountability and that typically have less complex transactions, limited resources to apply full IFRS and that operate in circumstances in which comparability with their listed peers is not an important consideration. The IASB also noted its decision not to extend the scope of the *IFRS for SMEs* to permit publicly accountable entities to use it.
- BC188 With this primary aim in mind the IASB considered a framework for how to deal with new and revised full IFRS Standards during this comprehensive review and future reviews of the *IFRS for SMEs*. The IASB developed the following principles:
- (a) each new and revised full IFRS Standard should be considered individually on a case-by-case basis to decide if, and how, its requirements should be incorporated into the *IFRS for SMEs*.
 - (b) new and revised full IFRS Standards should not be considered until they have been issued. However, it would generally not be necessary to wait until their Post-implementation Reviews (PIRs) have been completed.
 - (c) minor changes/annual improvements to full IFRS should also be considered on a case-by-case basis.

- (d) changes to the *IFRS for SMEs* could be considered at the same time that new and revised full IFRS Standards are issued. However, the *IFRS for SMEs* would only be updated for those changes at the next periodic review of the *IFRS for SMEs*, in order to provide a stable platform for SMEs.

- BC189 The IASB further observed that, when applying the principles in paragraph BC188, decisions both on which changes to incorporate into the *IFRS for SMEs* and the appropriate timing for incorporating those changes should be weighed against the need to provide SMEs with a stable platform and the suitability of such changes for SMEs and users of their financial statements. The IASB noted that it may decide only to incorporate changes from a complex new or revised full IFRS Standard after implementation experience has been assessed. However, the IASB will make this assessment at the periodic review following the issue of a new or revised full IFRS Standard instead of automatically waiting until there is substantial experience from entities who have applied it or until a PIR of that full IFRS Standard has taken place.
- BC190 The IASB decided that new and revised full IFRS Standards should not be considered until they have been issued. This is because, until a final full IFRS Standard is issued, the IASB's views are always tentative and subject to change.

Individual new and revised full IFRS Standards during the current review

- BC197 The IASB considered how to deal with individual new and revised full IFRS Standards during this comprehensive review in the light of the principles in paragraph BC188. The IASB observed that this comprehensive review is subject to additional considerations compared to future reviews, because it is the first review since the initial publication of the *IFRS for SMEs*. Although the *IFRS for SMEs* was issued in 2009, in many of the jurisdictions that have adopted it, it has been effective for a shorter period of time. In addition, in jurisdictions that permit, instead of require, the *IFRS for SMEs*, many SMEs have only started the transition to it. As a result, for the majority of SMEs using, or about to use, the *IFRS for SMEs*, it is still a new Standard. For these reasons, the IASB decided that there is a greater need for stability during this initial review than there may be in future reviews. A majority of IFRS Advisory Council members also recommended prioritising the need to provide SMEs with a stable, independent and stand-alone Standard over maximising alignment with full IFRS.