

Second Comprehensive Review of the *IFRS for SMEs* Standard

Agenda Paper 30A
SME preparer interview feedback summary

Board meeting
May 2021

Disclaimer

Agenda ref 30A

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Project	Second Comprehensive Review of the <i>IFRS for SMEs</i> Standard		
Paper topic	SME preparer interview feedback summary		
Contacts	Yousouf Hansye	ykhansye@ifrs.org	+44 (0) 20 7246 6470
	Michelle Sansom	msansom@ifrs.org	+44 (0) 20 7246 6963

Purpose of this paper

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- The International Accounting Standards Board (Board) published a Request for Information on the second comprehensive review of the *IFRS for SMEs* Standard in January 2020
- The Request for Information was open for comment for 270 days
- At its March 2021 meeting the Board decided to work towards publishing an exposure draft, proposing amendments to the *IFRS for SMEs* Standard for new requirements that are in the scope of the review
- The Board and the SMEIG recommended additional outreach be undertaken with preparers applying the *IFRS for SMEs* Standard (or a standard based on the *IFRS for SMEs* Standard)
- The purpose of this paper is to summarise the feedback from this additional outreach to help the Board to decide on proposed amendments to the *IFRS for SMEs* Standard

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SME preparer interviews – overview

Interview process and objective

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18 interviews
with multiple
preparers*



from 8 jurisdictions



Objective

gather insight from SME preparers on the Board's **approach to developing** and **updating** the *IFRS for SMEs* Standard

Questions on

- A** experience of applying the *IFRS for SMEs* Standard based on IFRS Standards and views on topics not covered by the Standard
- B** the information SME preparers are regularly asked to provide lenders and other users of their financial statements (to better understand users' information need)

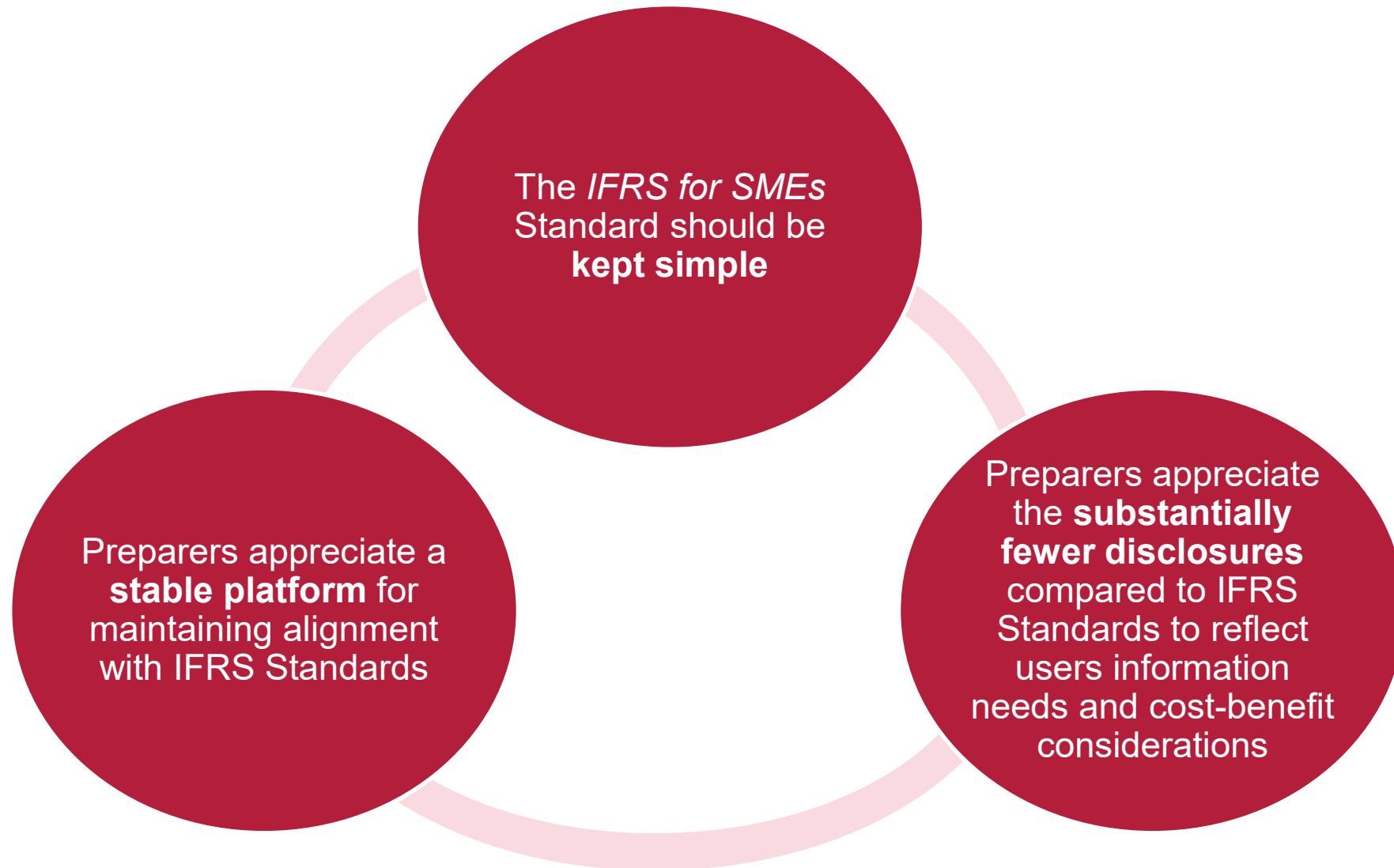
Interview process

- The staff identified preparers of SME financial statements:
 - with the help of SMEIG members; and
 - social media posts to inviting preparers applying the *IFRS for SMEs* Standard to join the interviews
- The staff provided interviewees with a list of questions in advance of the interview

* Preparers include SME accountants and external accountants preparing general purpose financial statements

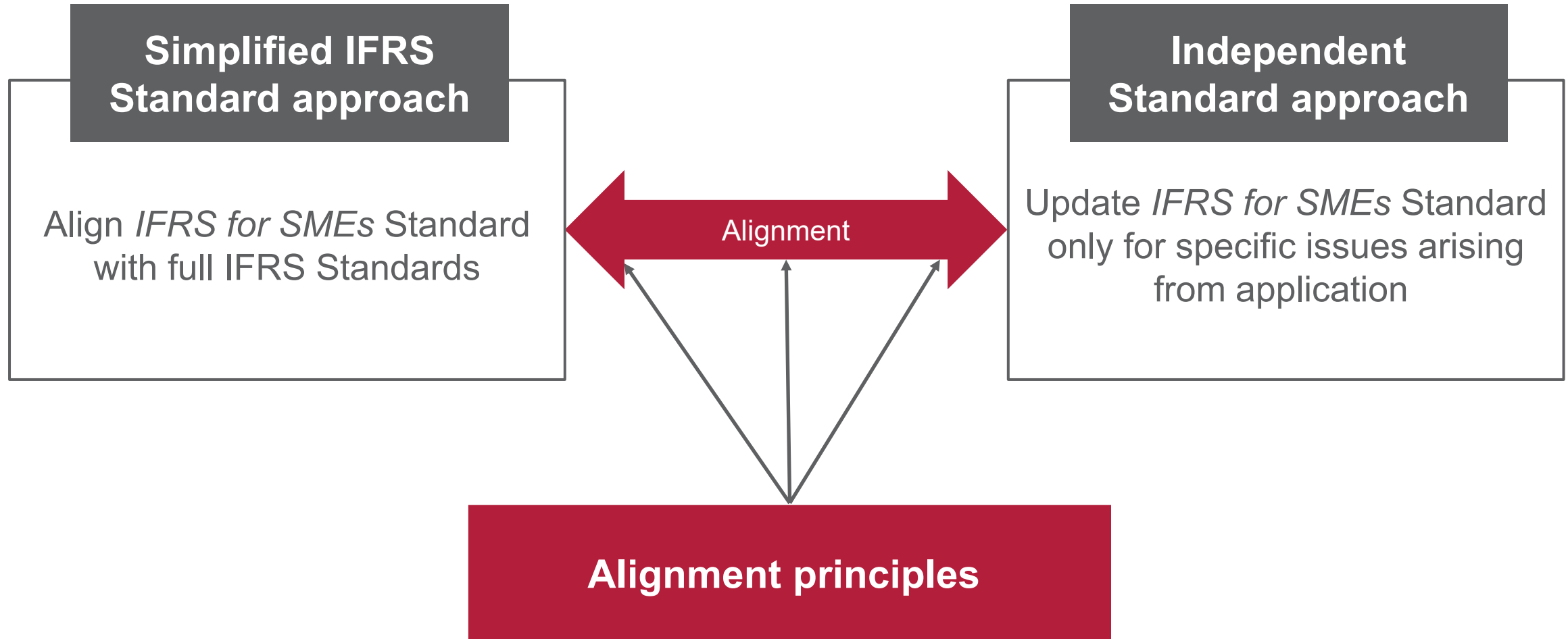
Overriding message from preparers

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Framework for the Second Comprehensive Review

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Implications for developing the exposure draft

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Relevance

be sure the change will benefit SMEs

Simplicity

take into consideration limited resources to SMEs

Timeliness

benefits of a single framework

A grayscale world map is centered in the background. Overlaid on the map are several thick, light gray curved lines that sweep across the frame from the bottom left towards the top right. A network of thin, dotted white lines is also visible, connecting various points across the map, suggesting a global or interconnected theme.

Accounting standards for SMEs

Challenges preparing SME financial statements

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Limited **resources** and lack of **knowledge** of accounting standards. Compliance with accounting standards is a **significant cost** to SMEs



Areas SMEs find challenging: impairment test, finance lease accounting, government grants



SMEs may not always **understand** the benefits of financial statements ie they see it as merely a compliance exercise completed once a year



Disclosure a big challenge for SMEs—the *IFRS for SMEs* **disclosure simplifications** are a **huge benefit**



Obtaining data from management to prepare financial statements is often a challenge for SME accountants



‘... we are happier with the disclosures when they are fit for purpose...’

Key messages on alignment approach

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Alignment is continuing to develop the *IFRS for SMEs* Standard based on the principles of IFRS Standards



Key messages from SME preparers



The *IFRS for SMEs* Standard is helpful for SMEs because it is short, easy to understand and, unlike full IFRS Standards, is not amended every year. A stable platform is welcome, as well as the fact that the Standard is based on IFRS Standards

Having a consistent framework eases the migration from SME to bigger companies ie through an IPO

The Board should continue to develop the *IFRS for SMEs* Standard based on the principles and requirements of IFRS Standards

Alignment with IFRS Standards is not essential but justified where it is helpful for SMEs. However, if the *IFRS for SMEs* Standard becomes a mirror of IFRS Standards, this will be a concern

Feedback on areas of possible alignment

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Request for Information

What SME preparers said...

A Views on aligning the *IFRS for SMEs* Standard with the simplified approach to the impairment of financial assets in IFRS 9



Introducing the ECL model would be burdensome for SMEs—cost of obtaining variables would outweigh benefit

B Views on aligning Section 20 with IFRS 16, with simplifications



Aligning with IFRS 16 will be challenging for SMEs. Simplifications to IFRS 16 model may not lead to faithful representation

C Views on three alternatives for amending Section 23 to align with IFRS 15



IFRS 15 model of revenue recognition is more directional and would help preparers



If IFRS 15 five step model is simplified it would be welcome by SMEs

Topics not addressed by the *IFRS for SMEs* Standard

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Question



Are there any topics the *IFRS for SMEs* Standard does not address that you think should be the subject of specific requirements?

Overview

- Most preparers interviewed said the *IFRS for SMEs* Standard includes adequate requirements for SMEs



'... if a specific matter is not covered in the IFRS for SMEs Standard it is very helpful to refer to requirements in full IFRS Standards. This flexibility is useful...'



'...I would just hope that the IFRS for SMEs Standard does not get too complicated in accounting requirements and disclosures...'

- One preparer said there are significant benefits when the *IFRS for SMEs* Standard uses the same terminology as IFRS Standards if the meaning is intended to be the same (eg challenge identified for inventories: IFRS Standards refers to net realisable value whereas the *IFRS for SMEs* Standard refers to estimated selling price less costs to complete and sell)

Summary of other comments

- Significant reliance on software system for accounts preparation—i.e accountants implement IT bookkeeping for clients so that data flows between the SME and accountant simultaneously; this resolves the problem of getting information
- Most preparers said the majority of SMEs in their jurisdictions are small and micro sized entities—there is a need for a separate Standard for this category of SMEs
- A single quantified size criteria applied across jurisdictions for determining what is an SME would be helpful
- Transitioning to the *IFRS for SMEs* Standard was an improvement for users in a small jurisdiction where most entities are SMEs and micro entities
- Many preparers said the scope of the *IFRS for SMEs* Standard should be amended to allow some entities that are publicly accountable to apply the Standard such as small credit unions and small private banks

A grayscale world map is the background for the slide. Overlaid on the map are several thick, light gray curved lines that sweep across the continents. Additionally, there are several dotted lines that form a grid-like pattern across the map, suggesting a global network or data flow.

Users' information needs

Question



1

What additional information on your financial statements do you regularly get asked for by users/lenders?

2

Do you get asked about the basis of preparation of your financial statements?

3

Do you have any comments on the sources of finance to SMEs and their implications for financial reporting?

Key messages from SME preparers



Feedback consistent with SME user interview findings; important information includes ability to repay, going concern, items disclosed as 'other'¹

User information need



- Financial Statements are historical information—users look at latest information ie management report
- Some 'non-sophisticated' preparers question relevance when users ask for updated revaluation of assets



'...Cash flows projections based on management information is the essential information for users..'

General comments



- Some preparers said they don't get many requests from users for additional information because of the nature and the size of the entity ie less complex environment

¹ See: [AP5: User survey and user interview feedback summary \(ifrs.org\)](https://www.ifrs.org/publications-and-reports/ap5-user-survey-and-user-interview-feedback-summary/)

Thank you

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- The Board appreciates the engagement by SME preparers interviewed about their experience of applying the *IFRS for SMEs* Standard in preparing financial statements.
- The Board would also like to thank SMEIG members for establishing contact with preparers for the interviews.

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