

## REPORT ON THE SME IMPLEMENTATION GROUP MEETING

21 JANUARY 2022

### About the SME Implementation Group

1. The Trustees of the IFRS Foundation have charged the SME Implementation Group (SMEIG) with two main responsibilities:
  - (a) to consider questions on the implementation and application of the *IFRS for SMEs* Standard, decide which questions merit published educational material based on set criteria and develop Q&As, which are educational materials, that are publicly available on a timely basis; and
  - (b) to consider the need to amend the *IFRS for SMEs* Standard and make recommendations to the International Accounting Standards Board (IASB) on:
    - (i) issues on the implementation and application of the *IFRS for SMEs* Standard that cannot be addressed by Q&As; and
    - (ii) new and amended IFRS Standards that have been approved since the *IFRS for SMEs* Standard was issued or last amended.

### Purpose of this Report

2. This Report summarises the remote SMEIG meeting held on 21 January 2022 and chaired by Jianqiao Lu, a member of the IASB and Chair of the SMEIG.

### SMEIG meeting

3. The topics discussed were:
  - [definition of a business and reacquired rights in IFRS 3 \*Business Combinations\*](#);
  - [simplifications to IFRS 15 \*Revenue from Contracts with Customers\*](#);
  - [cryptocurrency](#);
  - [recognition and measurement of development costs](#); and
  - [update on recent IASB decisions on the project to review the \*IFRS for SMEs\* Standard](#).
4. The agenda papers for the meeting are available on the [IFRS Foundation's website](#).
5. The objectives of the meeting were:
  - (a) to discuss the feedback on topics in the scope of the second comprehensive review of the *IFRS for SMEs* Standard that were not discussed at the SMEIG meetings in 2021, and discuss ways forward for specific topics following the IASB's tentative decisions;
  - (b) to ask SMEIG members to develop recommendations that will enable the IASB to decide the direction of these topics; and
  - (c) to update SMEIG members about the developments in the second comprehensive review project since the September 2021 SMEIG meeting.

## Definition of a business and reacquired rights in IFRS 3 *Business Combinations*

6. The objective of this session was to ask for SMEIG members' advice on whether the IASB should propose amendments to Section 19 *Business Combinations and Goodwill* of the *IFRS for SMEs* Standard:
  - (a) to introduce a rebuttable presumption for the assessment of a business, so that if an acquired set of activities and assets has outputs, there is a rebuttable presumption that the set of activities and assets qualifies as a business at the acquisition date; and
  - (b) to provide additional guidance on reacquired rights as set out in paragraphs B36 and B53 of IFRS 3.

### Rebuttable presumption

7. Many SMEIG members said the IASB should not introduce the rebuttable presumption in paragraph 6(a) of this report because:
  - (a) introducing such a presumption:
    - (i) could introduce unnecessary complexities for SMEs—it could complicate the assessment of whether an acquisition transaction is a business rather than simplify that assessment.
    - (ii) could impose excessive costs on SMEs—for example, to rebut the presumption, an SME would be required to perform the same thorough assessment as set out in paragraphs B12B and B12C of IFRS 3.
  - (b) applying such a presumption could lead to inappropriate conclusions in several situations—in which case:
    - (i) it could raise implementation and application questions; and
    - (ii) it could lead to two different outcomes for the same fact pattern.
  - (c) applying such a presumption would be inconsistent with the 'minimum requirements to be a business' as set out in paragraph BC21F of the Basis for Conclusions on IFRS 3.
8. One SMEIG member, who did not support introducing the rebuttable presumption, suggested the IASB require (rather than permit) an SME to perform the concentration test set out in paragraphs B7A–B7B of IFRS 3 instead, with simplifications where possible.
9. Two SMEIG members, who did not support introducing the rebuttable presumption, outlined that the definition of a business issued by the IASB in 2018 is more precise and is simpler for SMEs to apply than the rebuttable presumption would be—that is, applying the 2018 definition of a business is straightforward in most cases.
10. One SMEIG member expressed concern about whether introducing the rebuttable presumption as a simplification might result in improper classification of some acquisitions, which would reduce the quality of information reported to users of SMEs financial statements.
11. Some SMEIG members said the IASB should introduce the rebuttable presumption for the assessment of a business because introducing such a presumption:
  - (a) would provide cost relief and maintain the *IFRS for SMEs* Standard's simplicity for SMEs; and
  - (b) would help SMEs bypass some of the assessment steps.

12. One SMEIG member who supported introducing the rebuttable presumption, expressed concern that applying the presumption in circumstances that leads to an incorrect outcome requires the SME to rebut it. However, this member said the IASB should consider providing a list of indicators that SMEs can use in some situations if such a rebuttable presumption is introduced.

### **Reacquired rights**

13. Regarding providing additional guidance on reacquired rights as set out in paragraphs B36 and B53 of IFRS 3, overall, SMEIG members recommended the IASB not introduce such guidance in the *IFRS for SMEs* Standard.
14. Many SMEIG members said reacquired rights are not common for SMEs. In contrast, some SMEIG members said reacquired rights are relevant to SMEs, but a small number of these SMEIG members expressed concern that accounting for such rights might introduce unnecessary complexities for SMEs if the guidance is not simplified.

### **Simplifications to IFRS 15 Revenue from Contracts with Customers**

15. SMEIG members discussed possible simplifications to the requirements of IFRS 15 for the IASB to consider when aligning Section 23 *Revenue* of the *IFRS for SMEs* Standard with IFRS 15.
16. SMEIG members generally agreed with the staff's suggested simplifications to IFRS 15.
17. A small number of SMEIG members expressed concern over the suggestion to simplify the description of the term 'performance obligation'. In their view, the suggested description would not be simpler because the term is used elsewhere in IFRS 15 and is well understood in practice. In contrast, some SMEIG members agreed the description of 'performance obligation' should be simpler. In their view, the term 'performance obligation' would be difficult for SMEs to understand, whereas describing the term as a 'promise' would be more consistent with the language used by SMEs.
18. Two SMEIG members expressed concerns over the suggestion to exclude requirements for contract modifications in Section 23 of the *IFRS for SMEs* Standard. In their view, contract modifications are relevant to SMEs.
19. SMEIG members also recommended the IASB consider simplifying the following requirements of IFRS 15 when aligning Section 23 of the *IFRS for SMEs* Standard with IFRS 15:
  - (a) sale with a right of return;
  - (b) warranties; and
  - (c) requirements to allocate amounts to performance obligations.
20. Some SMEIG members also expressed support for providing transitional relief for the proposed amendments to the *IFRS for SMEs* Standard to align with IFRS 15 as set out in the Request for Information *Second Comprehensive Review of the IFRS for SMEs Standard*, published in January 2020.

### **Cryptocurrency**

21. SMEIG members discussed whether the *IFRS for SMEs* Standard should include any specific requirements on cryptocurrency.
22. SMEIG members generally agreed with the staff analysis and agreed that the IASB not amend the *IFRS for SMEs* Standard to include requirements for cryptocurrency as part

of this comprehensive review, and revisit the topic in the next comprehensive review of the *IFRS for SMEs* Standard.

23. Most SMEIG members agreed that the IASB should undertake research and standard-setting on cryptocurrency in IFRS Accounting Standards (Accounting Standards) before considering introducing requirements in the *IFRS for SMEs* Standard. These SMEIG members said:
  - (a) Accounting Standards are the basis for developing the *IFRS for SMEs* Standard;
  - (b) developing requirements for cryptocurrency in the *IFRS for SMEs* Standard, which differs from Accounting Standards, would confuse users of financial statements; and
  - (c) the experience gained from standard-setting in Accounting Standards would help in developing requirements for cryptocurrency in the *IFRS for SMEs* Standard.
24. SMEIG members also said:
  - (a) the holding of cryptocurrency is not common in their jurisdiction.
  - (b) cryptocurrency is an evolving area and holding cryptocurrency may become prevalent for SMEs.
  - (c) many investment entities eligible to apply the *IFRS for SMEs* Standard are holding cryptocurrencies in India.
25. Some SMEIG members suggested:
  - (a) the IASB include the guidance on cryptocurrency in the Accounting Standards in the *IFRS for SMEs* Standard. These members said the Agenda Decision [Holding of Cryptocurrencies](#) published by the IFRS Interpretations Committee on this topic could be a starting point for developing requirements for cryptocurrency in the *IFRS for SMEs* Standard. The staff explained that Section 18 *Intangible Asset other than Goodwill* of the *IFRS for SMEs* Standard does not permit SMEs to apply a revaluation model for intangible assets and, therefore, SMEs applying the Agenda Decision might reach different conclusions, compared to entities applying Accounting Standards, if the Agenda Decision is included in the *IFRS for SMEs* Standard.
  - (b) the IASB try to reach the same conclusion in Accounting Standards and in the *IFRS for SMEs* Standard if it decides to develop requirements for cryptocurrency.
  - (c) the SMEIG consider issuing a Q&A on cryptocurrency, if the IASB issues requirements before the next comprehensive review of the *IFRS for SMEs* Standard and cryptocurrency becomes prevalent for SMEs, rather than waiting for the next comprehensive review.

## Recognition and measurement of development costs

26. SMEIG members discussed possible changes to the recognition and measurement of development costs in the *IFRS for SMEs* Standard applying the principles of relevance to SMEs, simplicity and faithful representation.
27. SMEIG members generally agreed with the staff analysis and agreed that the IASB should propose amendments to the recognition and measurement requirements of development costs in the *IFRS for SMEs* Standard to permit, but not require, SMEs to recognise development costs as intangible assets. The SMEIG discussed two possible approaches:
  - (a) permitting an SME to recognise as intangible assets the development costs meeting similar criteria to those in IAS 38 *Intangible Assets*, applying an accounting policy option; and

- (b) requiring an SME to recognise as intangible assets the development costs meeting similar criteria to those in IAS 38, with an undue cost or effort exemption.
28. The majority of SMEIG members agreed that the IASB should permit an SME to recognise as intangible assets development costs meeting similar criteria to those in IAS 38, as an accounting policy option. These SMEIG members said:
- (a) an accounting policy option would be easier to apply in practice because it would require less judgement than requiring recognition of development costs as intangible assets with an undue cost or effort exemption. Therefore, it would be consistent with the objective of keeping the *IFRS for SMEs* Standard simple.
  - (b) intangible assets arising from development costs represent a significant asset class for some SMEs. Such SMEs should, therefore, be given the option to recognise some development costs as intangible assets to ensure they are faithfully represented.
29. One SMEIG member, who supported introducing an accounting policy option for development costs, suggested the staff consider:
- (a) the likelihood of SMEs to utilise the accounting policy option, if provided, as in some jurisdictions there may be tax benefits in treating development costs as expenses; and
  - (b) possible simplifications to the criteria in IAS 38 for recognising development costs as intangible assets, because these criteria may be complex for SMEs to apply.
30. One SMEIG member said requiring an SME to recognise as intangible assets the development costs meeting similar criteria to those in IAS 38 with an undue cost or effort exemption would best ensure faithful representation. This member opposed introducing an accounting policy option permitting an SME to recognise development costs as intangible assets, because such an option may lead to unfaithful representation (if SMEs have development costs meeting the criteria as per IAS 38 and opt not to exercise the accounting policy option) and may be used as a tax-manipulation tool.
31. Similarly, another SMEIG member said that, although requiring an SME to recognise intangible assets arising from development costs that meet similar criteria to those in IAS 38 with an undue cost or effort exemption is a sound approach theoretically, applying an undue cost or effort exemption would, in practice, require judgement.

### **Update on recent IASB decisions on the project to review the *IFRS for SMEs* Standard**

32. SMEIG members were provided with an update on the developments of the Comprehensive Review of the *IFRS for SMEs* Standard project since the September 2021 SMEIG meeting.
33. Two SMEIG members raised concerns about the IASB's tentative decision to retain the classifications of joint arrangements in the *IFRS for SMEs* Standard using the terms 'jointly controlled operations', 'jointly controlled assets' and 'jointly controlled entities', which are inconsistent with the terms used in Accounting Standards. These SMEIG members said using a term that is inconsistent with Accounting Standards would confuse users of SMEs financial statements, especially those familiar with Accounting Standards.
34. In response to a question from a SMEIG member, the staff said feedback on the Exposure Draft *Subsidiaries without Public Accountability: Disclosures* will be

considered in analysing possible amendments to the disclosure requirements of the *IFRS for SMEs* Standard.<sup>1</sup>

### Next steps

35. The staff plan to include the recommendations from SMEIG members into the agenda papers for discussion at future IASB meetings.
36. It is envisaged an exposure draft of proposed amendments to the *IFRS for SMEs* Standard will be published in the second half of 2022.

Disclaimer: this note is prepared by the staff of the International Accounting Standards Board (IASB) and summarises the discussion that took place at the January 2022 meeting of the SME Implementation Group. The views expressed are not necessarily those of the IASB or of the IFRS Foundation.

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<sup>1</sup> In developing the proposed disclosure requirements in the Exposure Draft *Subsidiaries without Public Accountability: Disclosures*, the IASB started with the disclosure requirements in the *IFRS for SMEs* Standard and tailored those disclosure requirements when the recognition and measurement requirements in the *IFRS for SMEs* Standard differed from those in IFRS Accounting Standards.