
IASB® meeting

Date	May 2024
Project	Second Comprehensive Review of the <i>IFRS for SMEs</i>® Accounting Standard
Topic	Transition to the Third edition of the <i>IFRS for SMEs</i> Accounting Standard
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Purpose of this paper

1. The purpose of this paper is for the International Accounting Standards Board (IASB) to:
 - (a) consider feedback on the proposed transition requirements in the Exposure Draft *Third edition of the IFRS for SMEs Accounting Standard* (Exposure Draft); and
 - (b) decide whether to make any changes to the proposed transition requirements.
2. In this paper, the term SMEs refers to entities that are eligible to apply the *IFRS for SMEs* Accounting Standard (the Standard).

Staff recommendation

3. The staff recommend the IASB:
 - (a) proceed with the proposed transition requirements in the Exposure Draft; and

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- (b) add relief from retrospective application for SMEs applying the amended paragraph 28.19 of the Standard, such that an SME would not need to adjust the carrying amount of assets in other Sections of the Standard for changes in employee benefit costs that were included in the carrying amount before the date of initial application.

Structure of this paper

- 4. This paper is structured as follows:
 - (a) background (paragraphs 5–8);
 - (b) feedback from comment letters (paragraphs 9–12);
 - (c) approach to addressing the feedback on the proposed transition requirements (paragraphs 13–14);
 - (d) staff analysis (paragraphs 15–58); and
 - (e) staff recommendation and question for the IASB (paragraph 59).

Background

- 5. The requirements for applying changes in accounting policies are set out in Section 10 *Accounting Policies, Estimates and Errors* of the Standard:
 - (a) paragraph 10.11(a) requires an entity to account for a change in accounting policy resulting from a change in the requirements of the Standard in accordance with the transitional provisions, if any, specified in that amendment.
 - (b) paragraph 10.11(c) requires an entity to account for all other changes in accounting policy retrospectively.

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- (c) paragraph 10.12 states that:
- (i) when a change in accounting policy is applied retrospectively in accordance with paragraph 10.11, the entity shall apply the new accounting policy to comparative information for prior periods to the earliest date for which it is practicable, as if the new accounting policy had always been applied; and
 - (ii) when it is impracticable to determine the individual-period effects of a change in accounting policy on comparative information for one or more prior periods presented, the entity shall apply the new accounting policy to the carrying amounts of assets and liabilities as at the beginning of the earliest period for which retrospective application is practicable, which may be the current period, and shall make a corresponding adjustment to the opening balance of each affected component of equity for that period.
6. The Standard therefore requires retrospective application of new and amended requirements, subject to paragraph 10.12 of the Standard.
7. In proposing transition requirements in the Exposure Draft, the IASB proposed some relief to retrospective application. The reliefs were generally to reflect the comparable transition requirements in new or amended IFRS Accounting Standards and IFRIC Interpretations, with simplifications when they were considered appropriate for SMEs.
8. Paragraphs A2–A39 of the Exposure Draft sets out the proposed transition requirements.

Feedback from comment letters

9. In the Exposure Draft the IASB asked:

Question 10 of the Invitation to Comment

Do you agree with the proposed transition requirements for the amendments to the *IFRS for SMEs Accounting Standard*? Why or why not? If not, please explain what you suggest instead and why.

10. Most respondents who commented agreed with the proposed transition requirements for the amendments to the Standard. Of those who agreed, many commented that the requirements would reduce the implementation costs for SMEs on transition.
11. Some respondents who commented disagreed with the proposed transition requirements for the amendments to the Standard. Of those who disagreed:
- (a) many said that permitting relief from retrospective application was confusing; and
 - (b) almost all suggested alternative transition requirements.
12. Most respondents who suggested alternative transition requirements suggested that SMEs be permitted to apply all the proposed amendments to the Standard prospectively. Many respondents who made this suggestion:
- (a) were national standard-setters, most of which operate in jurisdictions where the Standard is required or permitted; and
 - (b) also provided suggestions about how the IASB could provide additional relief from retrospective application. Suggestions included introducing:
 - (i) an undue cost or effort exemption; or

- (ii) an option to recognise the cumulative effect of initially applying an amendment in the current period (similar to the ‘cumulative catch-up’ approach in IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers*).

Approach to addressing the feedback on the proposed transition requirements

13. The staff analysis in this paper does not discuss all of the IASB’s proposals in the Exposure Draft on the transition requirements. Instead, it focuses on the proposed transition requirements on which respondents raised concerns or provided alternative suggestions:

Section of the Exposure Draft	Paragraphs of this paper
Section 9 <i>Consolidated and Separate Financial Instruments</i>	18–27
Section 15 <i>Joint Arrangements</i>	28–33
Section 23 <i>Revenue from Contracts with Customers</i>	34–45
Section 34 <i>Specialised Activities</i>	46–52

14. The staff has also analysed the IASB tentative decisions on redeliberating the proposals in the Exposure Draft (see Appendix in Agenda Paper 30 *Cover paper* to this meeting) to identify if changes to the proposed transition requirements are needed. From this analysis the staff think the IASB needs to consider transition requirements for its tentative decision on the simplification for the measurement of defined benefit obligations in paragraph 28.19 of the Standard. The staff analysis is set out in paragraphs 53–58 of this paper.

Staff analysis

Providing relief from retrospective application

15. As explained in paragraphs 5–6 of this paper, the Standard requires retrospective application of new and amended requirements. In developing the proposed transition requirements in the Exposure Draft the IASB used the transition requirements in full IFRS Accounting Standards including reliefs from retrospective application. This approach is consistent with the IASB’s alignment approach (see paragraph 4 of Agenda Paper 30 *Cover paper* to this meeting) and ensures that an SME has at least the same transition reliefs as entities that transitioned to the related new or amended IFRS Accounting Standard. The IASB then considered whether additional transition relief and/or transition disclosures were needed to simplify the requirements considering the costs and benefits for SMEs.¹
16. The staff acknowledges the feedback in paragraph 11 of this paper, that permitting relief from retrospective application creates complexity because it results in different transitional requirements for different Sections of the Standard. However, the staff note that requiring retrospective application (with no relief) for all Sections would result in transition requirements that are more complex than full IFRS Accounting Standards; alternatively requiring prospective application for all Sections would result in limited benefits for users of SMEs financial statements as information presented would not be comparable. The staff therefore think a single transition requirement for all of the amendments to the Standard may not achieve an appropriate balance between costs and benefits.

¹ See [Agenda Paper 30E Towards an exposure draft—IFRS for SMEs Accounting Standard transition requirements for alignment with new IFRS Accounting Standards](#) of the May 2022 IASB meeting and [Agenda Paper 30C Towards an exposure draft—Transition to the third edition of the IFRS for SMEs Accounting Standard](#) of the June 2022 IASB meeting.

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17. Given that most respondents who commented on the proposed transition requirements in the Exposure Draft agreed with the proposals, the staff think the approach described in paragraph 15 of this paper strikes the right balance between costs and benefits and therefore the IASB should not change its approach. Consequentially, in this agenda paper the staff has considered only the proposed transition requirements on which respondents raised specific concerns or provided alternative suggestions.

Section 9 Consolidated and Separate Financial Instruments

Proposals in the Exposure Draft

18. The IASB proposed to align Section 9 *Consolidated and Separate Financial Statements* of the Standard with IFRS 10 *Consolidated Financial Statements* by:
- (a) introducing the control model as a single basis for consolidation;
 - (b) retaining the simplification that control is presumed to exist when the investor owns more than a majority of the voting rights of an investee; and
 - (c) requiring a parent that loses control of a subsidiary to measure any retained interest in a former subsidiary at its fair value at the date control is lost.

Section 9 proposed transition requirements

19. The IASB proposed the same transition requirements and relief that were provided in IFRS 10 which include:
- (a) paragraph A3 of the Exposure Draft states that an SME would not be required to adjust previous accounting periods for its involvement in:
 - (i) entities that would be consolidated both before and after the initial application of the amended requirements in Section 9; and
 - (ii) entities that would not be consolidated both before and after the initial application of the amended requirements in Section 9.

- (b) paragraph A4 of the Exposure Draft states that if initial application of the amended requirements in Section 9 requires consolidation of an investee not previously consolidated, an SME shall:
 - (i) measure the assets, liabilities and non-controlling interests (including goodwill, if the investee is a business) as if the investees had been consolidated from the date control was obtained; and
 - (ii) if the application of the requirements in paragraph 19(b)(i) of this paper is impracticable, make adjustments from the earliest period doing such adjustments is practicable, which may be the year of initial application.
- (c) paragraph A5 of the Exposure Draft states that if initial application of the amended requirements in Section 9 results in no longer consolidating an investee previously consolidated, an SME shall:
 - (i) apply the applicable requirements in the Standard retrospectively with the difference in carrying amounts adjusted in equity; and
 - (ii) if the application of the requirements in paragraph 19(c)(i) of this paper is impracticable, make adjustments from the earliest period doing such adjustments is practicable, which may be the year of initial application.
- (d) paragraph A7 of the Exposure Draft states that an SME shall disclose the quantitative impact for each financial statement line item affected for the annual period immediately preceding the date of initial application and not the current or earlier comparative periods as required by paragraph 10.13(b) of the Standard.

IASB's tentative decisions on redeliberating the proposals in the Exposure Draft

20. The IASB tentatively decided to proceed with the proposal to align Section 9 with IFRS 10.² The IASB's tentative decisions to date on redeliberating the proposals are set out in the appendix to Agenda Paper 30 *Cover paper* to this meeting.

Feedback on Section 9 proposed transition requirements

21. The feedback in paragraphs 10–11 of this paper indicates that most respondents agreed with the proposed transition requirements. However, a few respondents disagreed with the proposed transition requirements for Section 9:
- (a) a few respondents said SMEs should be permitted to apply the proposed amended requirements in Section 9 prospectively as retrospective application could result in significant cost and effort for SMEs while the impact on the financial statements would be very minimal; and
 - (b) one respondent questioned the usefulness of the disclosure described in paragraph 19(d) of this paper and noted that requiring an SME to disclose quantitative information without the qualitative information may result in information that appears disconnected and not useful to users of SMEs' financial statements.

Staff analysis—control model

22. The staff acknowledge the respondents' view in paragraph 21(a) of this paper that retrospective application could result in significant cost for SMEs, however, retrospective application results in the most useful information to users of financial statements because the information presented for all periods is comparable.

² See [Agenda Paper 30B Simplification of the control model in Section 9 Consolidated and Separate Financial Statements](#) of the October 2023 IASB meeting and [Agenda Paper 30A Proposed amendments to Section 9 Consolidated and Separate Financial Statements](#) of the February 2024 IASB meeting.

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23. To balance the costs and benefits the IASB proposed the same transition reliefs from retrospective application as IFRS 10. In proposing the transition requirements for SMEs, the IASB noted that the arguments supporting the transitional reliefs in IFRS 10 apply to the amendments proposed in Section 9 to align with the control model in IFRS 10.³
24. The staff further note that prospective application of the amended requirements could result in an SME never consolidating a subsidiary that was acquired before date of initial application of the Third edition of the *IFRS for SMEs Accounting Standard*. Consequently, the staff do not support this suggestion.

Staff analysis—disclosures

25. In response to the feedback in paragraph 21(b) of this paper, the staff note that when an amendment to the Standard has an effect on the current period or any prior period or might have an effect on future periods, paragraph 10.13 of the Standard requires an SME to disclose (among other information):
- (a) the nature of the change in accounting policy; and
 - (b) for the current period and each prior period presented, to the extent practicable, the amount of the adjustment for each financial statement line item affected.
26. The aim of the disclosure described in paragraph 19(d) of this paper is to provide some relief from the requirement in paragraph 10.13(b) of the Standard, that is to require disclosure of the quantitative impact only for the annual period immediately preceding the date of initial application. Applying paragraph 10.13(a) of the Standard, SMEs would disclose the nature of the change in accounting policy which provides some qualitative information therefore enabling users to understand the nature of the impact of the proposed amendment on the financial statements.

³ See analysis in [Agenda Paper 30E Towards an exposure draft—IFRS for SMEs Accounting Standard transition requirements for alignment with new IFRS Accounting Standards](#) of the May 2022 IASB meeting.

Consequently, the staff think the quantitative and qualitative information will be disclosed.

Staff recommendation

27. The staff recommend the IASB finalises its proposals for initial application of the amended requirements in Section 9.

Section 15 Joint Arrangements

Proposals in the Exposure Draft

28. The IASB proposed in the Exposure Draft:
- (a) to align the definition of joint control with IFRS 11 *Joint Arrangements*;
 - (b) to retain:
 - (i) the three classifications of joint arrangements in Section 15 *Investments in Joint Ventures* (renamed *Joint Arrangements*) (jointly controlled operations, jointly controlled assets and jointly controlled entities); and
 - (ii) the classification and measurement requirements of Section 15 of the Standard.
 - (c) to align the requirements in Section 15 of the Standard with the requirements of paragraph 23 of IFRS 11, so that a party to a jointly controlled operation or a jointly controlled asset that does not have joint control of those arrangements would account for its interest according to the classification of that jointly controlled operation or the jointly controlled asset.

Section 15 proposed transition requirements

29. The IASB proposed that an SME applying the amended requirements in Section 15 of the Standard disclose the amount of the adjustment for each financial statement

line item affected in accordance with paragraph 10.13(b) of the Standard for the annual period immediately preceding the date of initial application and need not disclose this impact for earlier comparative periods (see paragraph A12 of the Exposure Draft).

30. In developing the Exposure Draft the IASB noted that most of the transition reliefs in IFRS 11 were not needed for SMEs because the amendments to Section 15 are unlikely to result in SMEs being required to change the accounting policy applied to their interests in joint venturers.⁴

IASB's tentative decisions on redeliberating the proposals in the Exposure Draft

31. At its November 2023 meeting, the IASB tentatively decided to confirm its proposed amendments to Section 15 of the Standard.

Feedback on Section 15 proposed transition requirements

32. One respondent raised the same concern as that described in paragraph 21(b) of this paper.

Staff recommendation

33. For the same reasons set out in paragraph 26 of this paper, the staff recommend the IASB finalises its proposals for initial application of the amended requirements in Section 15.

⁴ See paragraph 39 of [Agenda Paper 30E Towards an exposure draft—IFRS for SMEs Accounting Standard transition requirements for alignment with new IFRS Accounting Standards](#) of the May 2022 IASB meeting.

Section 23 Revenue from Contracts with Customers

Proposals in the Exposure Draft

34. The IASB proposed amendments to the Standard to align it with IFRS 15. To do so, the IASB proposed revising Section 23 *Revenue* of the Standard to reflect the principles and language used in IFRS 15, with simplifications.

IASB's tentative decisions on redeliberating the proposals in the Exposure Draft

35. At its October 2023 meeting, the IASB tentatively decided to proceed with revising Section 23 of the Standard to reflect the principles in IFRS 15. At subsequent meetings, the IASB has redeliberated proposals in the Section that respondents requested changes to. The IASB's tentative decisions to date on redeliberating the proposals are set out in the appendix to Agenda Paper 30 *Cover paper* to this meeting.

Section 23 proposed transition requirements

36. Based on feedback from the Request for Information *Comprehensive Review of the IFRS for SMEs Standard* (2020 Request for Information) and the transition requirements available in IFRS 15, the Exposure Draft proposed SMEs apply the revised Section 23 either:
- (a) retrospectively to each prior period presented, using the same practical expedients in IFRS 15 (see paragraphs A23–A26 of the Exposure Draft); or
 - (b) prospectively to contracts that begin after the date of initial application (that is, continue with their current revenue recognition policy for contracts in progress at that date) (see paragraphs A27–A29 of the Exposure Draft).

37. Paragraph A28 of the Exposure Draft proposed that SMEs applying the revised Section 23 prospectively disclose:

- (a) the nature of the change in accounting policy; and
- (b) the amount of the adjustment to the profit or loss for the effect of applying the revised Section 23 for the current period.

SMEs would disclose this information in the reporting period in which they initially apply the revised Section 23. The disclosure requirement was based on paragraph 10.13 of the Standard.

38. Paragraph A29 of the Exposure Draft also proposed that SMEs applying the revised Section 23 prospectively disclose:

- (a) their previous revenue recognition policy, including the methods adopted to determine the stage of completion of transactions involving the rendering of services; and
- (b) the amount of revenue recognised in the period using that policy.

SMEs would disclose this information in each reporting period they apply their previous revenue recognition policy. The disclosure requirement was proposed to enable users to understand the effect on trend information if SMEs apply the revised Section 23 prospectively.

Feedback on Section 23 proposed transition requirements

39. The feedback in paragraph 10–11 of this paper indicates that most respondents who commented agreed with the proposed transition requirements. However, some respondents disagreed with the proposed transition requirements for Section 23. Each of the following comments were made by a few respondents:

- (a) the transition requirements should be the same as IFRS 15;
- (b) retrospective application would involve significant cost and effort with minimal benefit; and

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- (c) for SMEs applying the revised Section 23 prospectively, applying two different revenue recognition policies would impair the comparability of revenue between periods and entities, and would introduce complexity for users of financial statements.
40. One respondent suggested that the IASB clarify that an SME applies the transition method it selects to all contracts with customers and not on a contract-by-contract basis. The staff will consider this suggestion in drafting.

Staff analysis

41. In response to the feedback in paragraph 39(a) of this paper, the staff note that the Exposure Draft proposed one of the transition methods available in IFRS 15—as described in paragraph 36(a) of this paper. The Exposure Draft did not propose the ‘cumulative catch-up’ transition method available in IFRS 15. Instead, the Exposure Draft included an option for SMEs to apply the revised Section 23 prospectively.
42. The Exposure Draft proposed that SMEs may apply the revised Section 23 prospectively to reduce the costs of initially applying the Section. The staff note that prospective application provides SMEs with more transitional relief than the ‘cumulative catch-up’ method in IFRS 15. Feedback on the Exposure Draft identified concerns about the costs of requiring SMEs to apply the proposed revised Section 23. Stakeholders’ concerns generally focused on the costs of applying the Section during the transition period, rather than the ongoing costs of applying the Section. Therefore, the staff think having transition methods in the revised Section 23 that are different compared with IFRS 15 is necessary to help reduce the initial costs of applying the Section and that it addresses stakeholders’ concerns. The staff also think the tentative decisions made by the IASB when redeliberating the proposals in this Section do not change this conclusion.

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43. In response to the feedback in paragraph 39(b) of this paper, the staff note that SMEs would be able to apply the revised Section 23 prospectively in instances when the cost and effort of retrospective application exceed the benefits.
44. In response to the feedback in paragraph 39(c) of this paper, the staff acknowledge that prospective application may impair the comparability of revenue between periods and entities. However, the disclosure requirements described in paragraph 38 of this paper were proposed in the Exposure Draft to help users understand and quantify the effect on SMEs' revenue of applying the revised Section 23 prospectively.⁵

Staff recommendation

45. The staff recommend the IASB finalises its proposals for initial application of the revised requirements in Section 23.

Section 34 Specialised Activities

Proposals in the Exposure Draft

46. The IASB proposed minor amendments to Section 34 *Specialised Activities* including amendments to require SMEs to account for bearer plants that at initial recognition can be measured separately without undue cost or effort, in accordance with Section 17 *Property, Plant and Equipment* (see paragraphs 17.3 and 34.2–34.2B of the Exposure Draft).

Section 34 proposed transition requirements

47. The IASB proposed the same transition requirements as in full IFRS Accounting Standards.⁶ That is, an SME would apply the amended requirements for bearer

⁵ See paragraph 53 of [Agenda Paper 30E Towards an exposure draft—IFRS for SMEs Accounting Standard transition requirements for alignment with new IFRS Accounting Standards](#) of the May 2022 IASB meeting.

⁶ See [Agriculture: Bearer Plants \(Amendments to IAS 16 and IAS 41\)](#).

plants retrospectively except as specified in paragraph 48 of this paper. In the reporting period in which these amended requirements are initially applied an entity would not need to disclose the amount of the adjustment for each financial statement line item affected in accordance with paragraph 10.13(b) for the current period.

48. The IASB proposed that an SME may elect to measure an item of bearer plants at its fair value at the beginning of the earliest period presented in the financial statements for the reporting period in which the entity initially applies the amended requirements and use that fair value as its deemed cost at that date. Any difference between the previous carrying amount and fair value shall be recognised in opening retained earnings at the beginning of the earliest period presented.

Feedback on Section 34 proposed transition requirements

49. Two respondents asked the IASB to consider an undue cost or effort exemption from retrospective application of the proposed requirements for bearer plants. The respondents noted that retrospective application is costly and might potentially compromise the reliability of the information given the resource constraints faced by most SMEs.

Staff analysis

50. The proposed requirements in paragraphs 17.3 and 34.2–34.2B of the Exposure Draft include an undue cost or effort exemption from separating the bearer plant from the produce. SMEs applying the exemption will have no changes to their accounting treatment and thus need no transition requirement.
51. The staff acknowledge that if an entity currently measures its bearer plants at fair value less costs to sell and has not previously collected cost information, collecting the information to measure the cost of those bearer plants applying Section 17 retrospectively may be costly. However, the IASB has proposed transition relief from retrospective application (see paragraphs 47–48 of this paper), including

enabling an SME to use fair value as the deemed cost of the bearer plant. The SME will already be measuring the combined bearer plant and produce at fair value under its existing accounting policy. Therefore, the staff think that an SME that is able to separately measure the bearer plant and produce without undue cost or effort will be able to determine the fair value of the bearer plant at the beginning of the earliest period presented in the financial statements to use as deemed cost.

Staff recommendation

52. The staff does not think an additional undue cost or effort exemption for transition is necessary and recommend the IASB finalises its proposals for initial application of the amended requirements in Section 34.

Simplification in paragraph 28.19

Proposals in the Exposure Draft

53. Paragraph 28.19 of the Standard provides measurement simplifications for defined benefit obligations. The IASB in its 2020 Request for Information asked for views on applying paragraph 28.19 of the Standard. The feedback identified challenges when applying the paragraph, resulting in diversity of application. However, the feedback also provided evidence that only a few entities applied the paragraph. Therefore, in the Exposure Draft the IASB proposed to delete paragraph 28.19 of the Standard.

IASB's tentative decisions on redeliberating the proposals in the Exposure Draft

54. At its November 2023 meeting, the IASB tentatively decided:
- (a) to retain paragraph 28.19 of the Standard;

- (b) to clarify that an entity applying paragraph 28.19 measures its defined benefit obligation at the current termination amount, assuming all the entity's employees terminate their employment at the reporting date;
- (c) to specify that an entity applying paragraph 28.19 measures the current termination amount of its defined benefit obligation on an undiscounted basis; and
- (d) to require that an entity applying paragraph 28.19 discloses its basis for determining the current termination amount of its defined benefit obligation.

Staff analysis

55. Feedback from the Exposure Draft identified that some SMEs already measure the defined benefit obligation on an undiscounted basis. If so, the IASB's tentative decision would not result in a change in accounting policy for these SMEs. However, if an SME has measured the defined benefit obligation on a discounted basis, retrospective application would require an SME to measure the obligation on an undiscounted basis for prior periods.
56. When IAS 19 *Employee Benefits* (amended 2011) was issued, the IASB required entities to apply IAS 19 (amended 2011) retrospectively except that an entity need not adjust the carrying amount of assets outside the scope of IAS 19 for changes in employee benefit costs that were included in the carrying amount before the date of initial application. The staff think the IASB should provide the same transition relief as IAS 19 for the amendments to paragraph 28.19 of the Standard for assets in other Sections of the Standard.
57. The staff does not think retrospective application with the relief in paragraph 56 of this paper would be costly for SMEs because information to measure the defined benefit obligation on an undiscounted basis should be readily available.

Staff recommendation

58. The staff recommend the IASB require that an SME apply paragraph 28.19 retrospectively except that an SME need not adjust the carrying amount of assets outside the scope of Section 28 *Employee Benefits* for changes in employee benefit costs that were included in the carrying amount before the date of initial application.

Staff recommendation and question for the IASB

59. The staff recommend the IASB:
- (a) proceed with the proposed transition requirements in the Exposure Draft; and
 - (b) add relief from retrospective application for SMEs applying the amended paragraph 28.19 of the Standard, such that an SME would not need to adjust the carrying amount of assets in other Sections of the Standard for changes in employee benefit costs that were included in the carrying amount before the date of initial application.

Question for the IASB

Does the IASB agree with the staff recommendation in paragraph 59 of this paper?