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Foundation

World Standard-setters Conference 2024

**Third edition of the
IFRS for SMEs
Accounting Standard**

#WSS2024



Presenters



Jianqiao Lu
IASB Member



Michelle Fisher
IASB Technical Staff



Carlo Pereras
IASB Technical Staff



Helen Lloyd
IASB Technical Staff



Easton Bilsborough
IASB Technical Staff



Tinyiko Denhere
IASB Technical Staff

Agenda

- 1 Introducing the *IFRS for SMEs* Accounting Standard
- 2 Background to the Second Comprehensive Review
- 3 Third edition of the *IFRS for SMEs* Accounting Standard
- 4 Questions for discussion
- 5 Supporting materials

Introducing the *IFRS for
SMEs Accounting Standard*



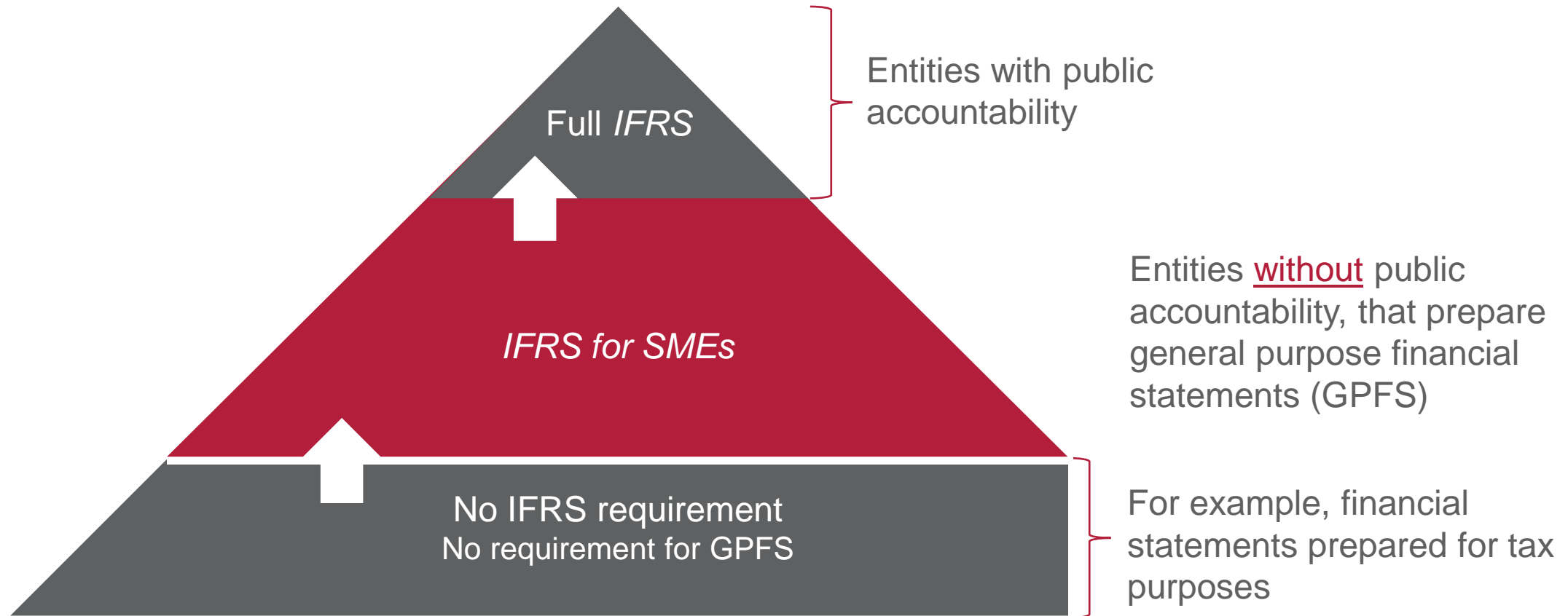
Introducing the *IFRS for SMEs* Accounting Standard

- 1 The *IFRS for SMEs* Accounting Standard
- 2 Scope of the *IFRS for SMEs* Accounting Standard
- 3 Adoption of the *IFRS for SMEs* Accounting Standard
- 4 Timeline—Editions of the *IFRS for SMEs* Accounting Standard

The *IFRS for SMEs* Accounting Standard

- A single Standard based on **full IFRS** Accounting Standards
- **Tailored** for small and medium-sized entities (SMEs), which are entities without public accountability that publish general purpose financial statements
- Focuses on the **information needs of lenders and other users** of SMEs' financial statements

Scope of the *IFRS for SMEs* Accounting Standard

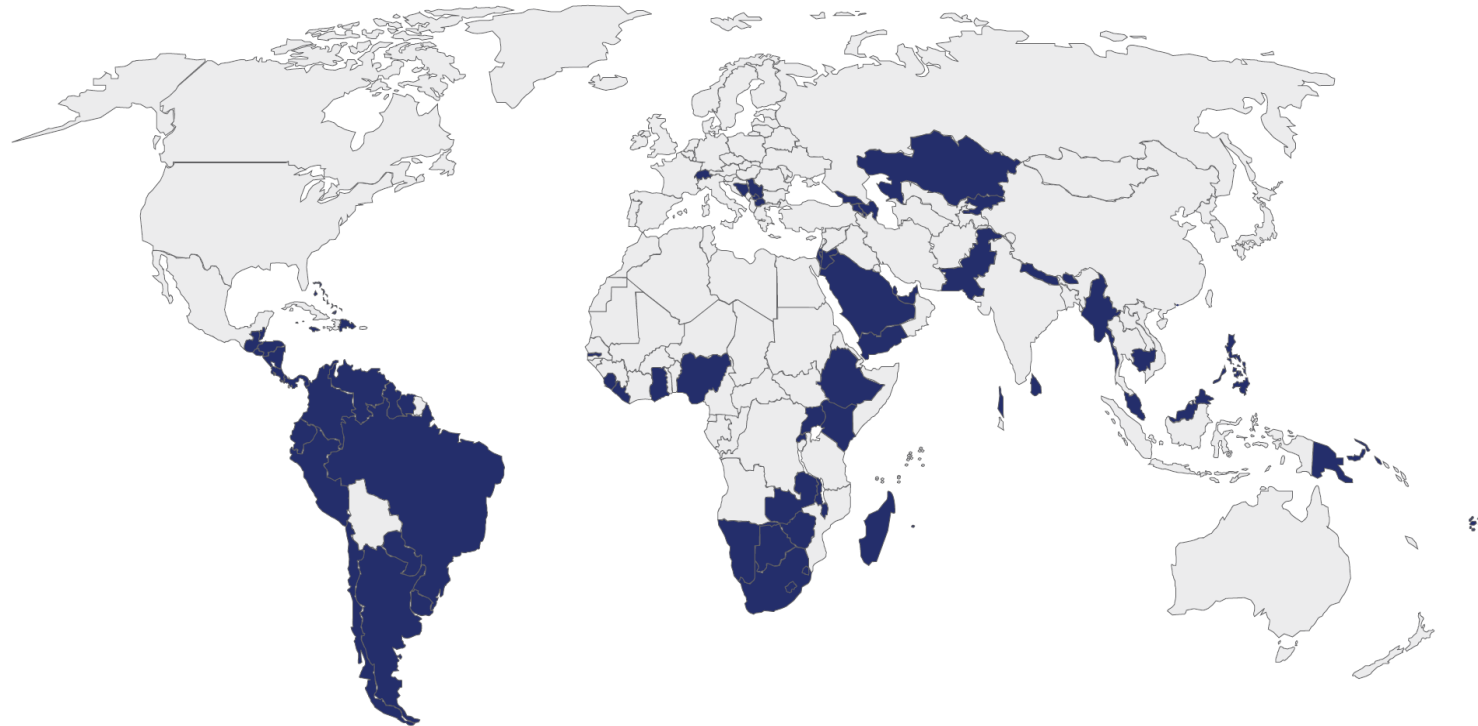


Scope of the *IFRS for SMEs* Accounting Standard

An entity has public accountability if:

- a) its **debt or equity instruments** are **traded in a public market** or it is in the process of issuing such instruments for trading in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets); or
- b) it **holds assets in a fiduciary capacity** for a broad group of outsiders as one of its primary businesses (for example, banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks often meet this criterion).

Adoption of the *IFRS for SMEs* Accounting Standard



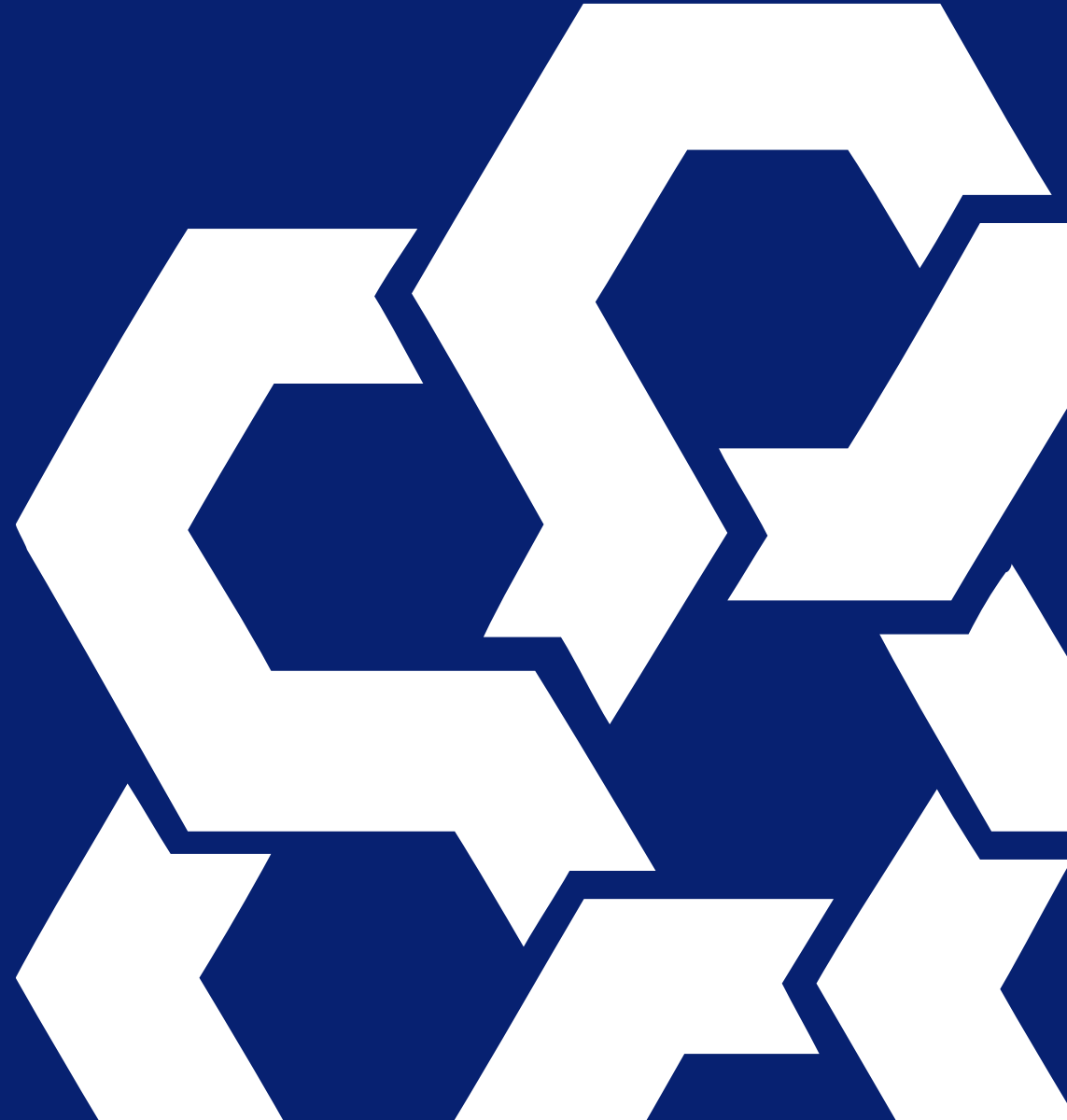
85 of 168 jurisdictions
require or permit use of the
IFRS for SMEs Accounting
Standard (August 2024)

 *IFRS for SMEs* Accounting Standard is required or permitted

Timeline—Editions of the *IFRS for SMEs* Accounting Standard

First edition	2009	<i>IFRS for SMEs</i> Accounting Standard issued and immediately effective	
Second edition	2015	Amendments from the first review issued	2017
			Amendments from the first review effective
Third edition: IASB tentative decision	2025	Third edition of the <i>IFRS for SMEs</i> Accounting Standard	
			2027
			Amendments from the second review effective

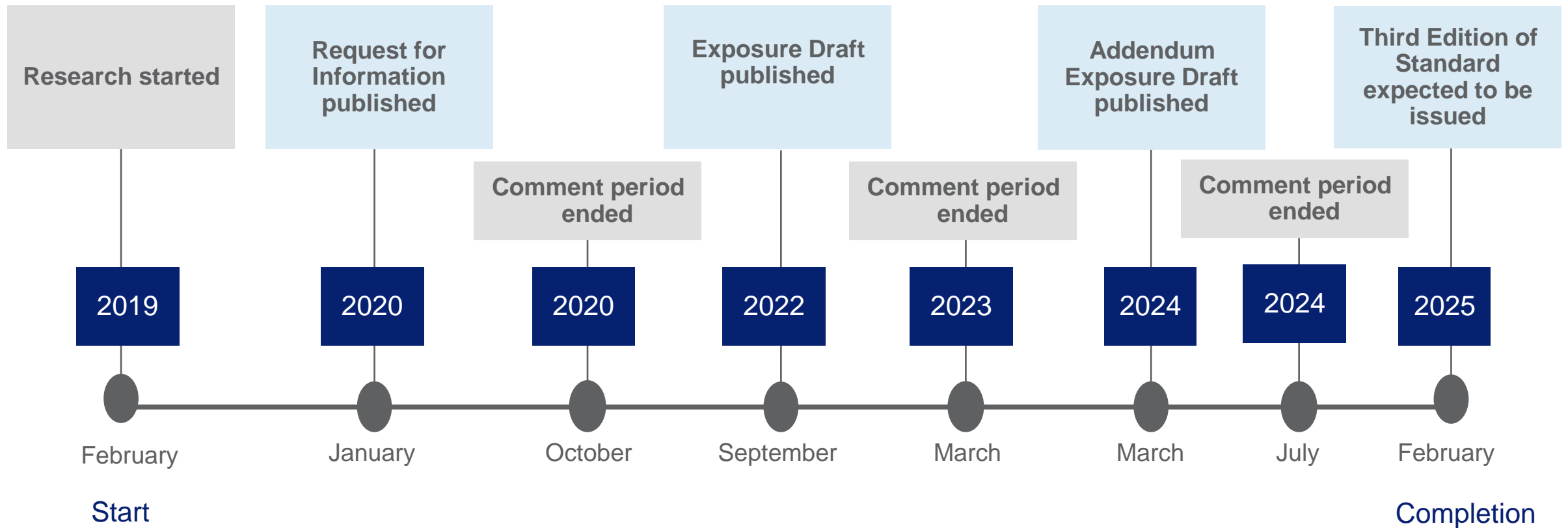
Background to the Second Comprehensive Review



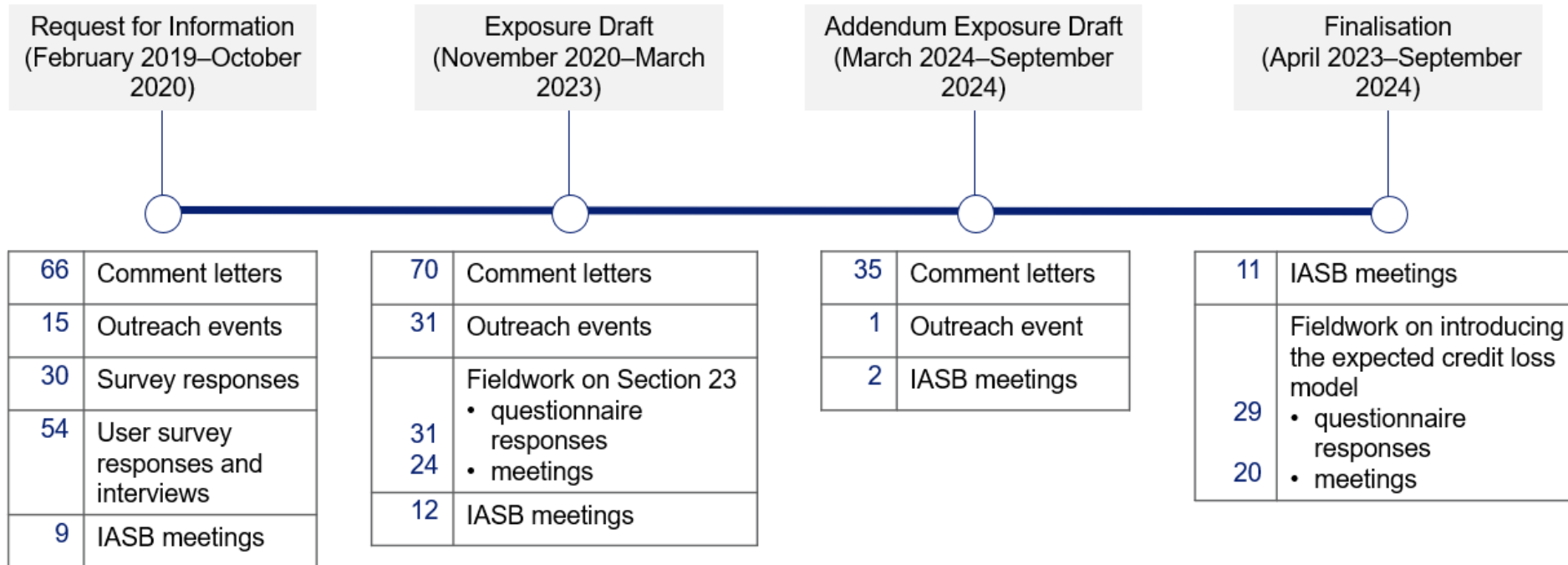
Background to the Second Comprehensive Review

- 1 Timeline of the Second Comprehensive Review
- 2 Stakeholder feedback and IASB discussions
- 3 Framework for the Second Comprehensive Review
- 4 Scope of the Second Comprehensive Review

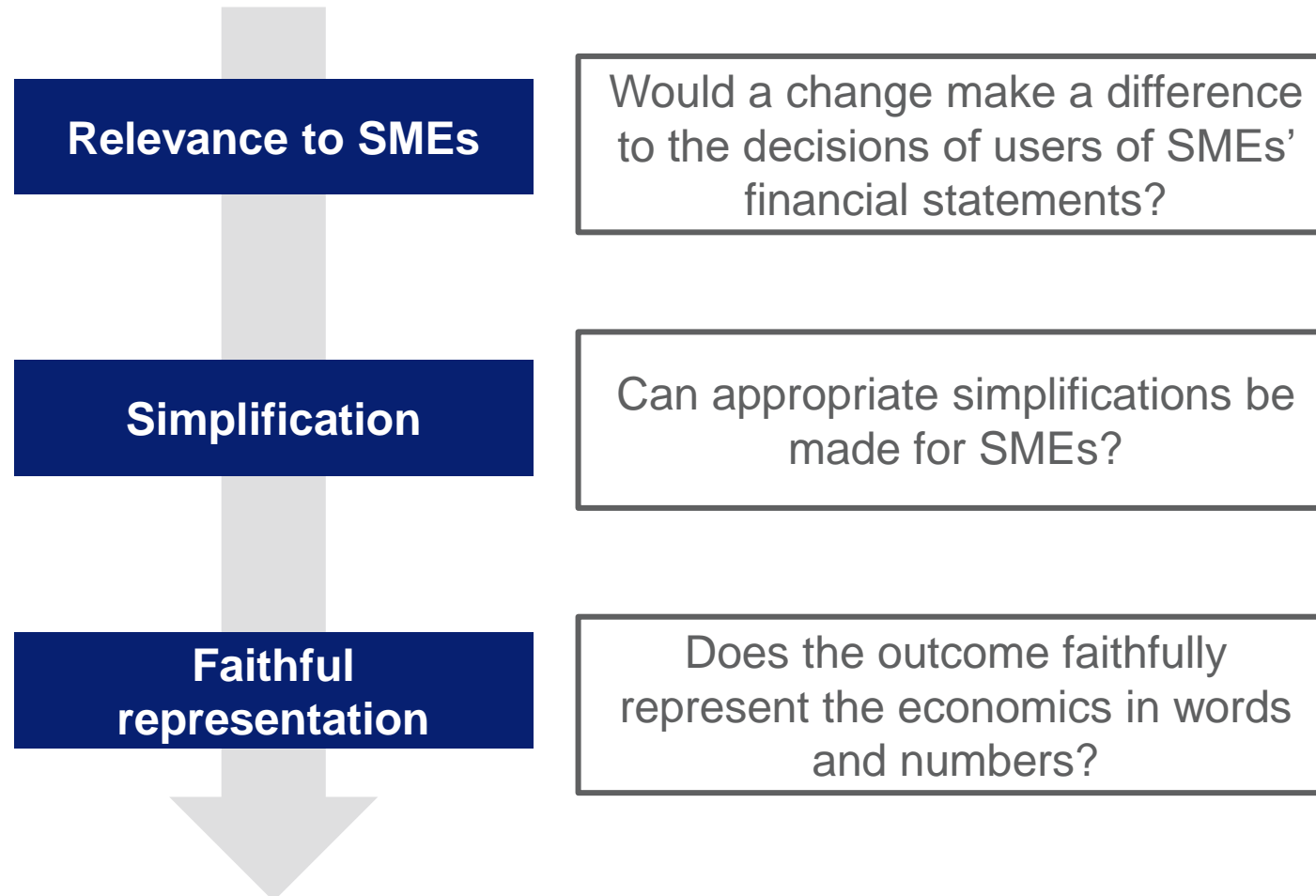
Timeline of the Second Comprehensive Review



Stakeholder feedback and IASB discussions



Framework for the Second Comprehensive Review



Framework for the Second Comprehensive Review

Keeping the Standard simple for SMEs and useful to users of SMEs' financial statements

In assessing the costs and benefits of amending the Standard, the IASB considers:

The limited resources
of SMEs



Preparers



The information needs of users
of SMEs' financial statements
(mainly lenders)



Users

Scope of the Second Comprehensive Review

Scope	<p>A Requirements in full IFRS Accounting Standards issued:</p> <ul style="list-style-type: none"> ▪ since the first review that had an effective date on or before 1 January 2019 ▪ before the first review that did not result in amendments to the Standard in 2015
	<p>B Other topics brought to the IASB’s attention relating to the Standard</p>

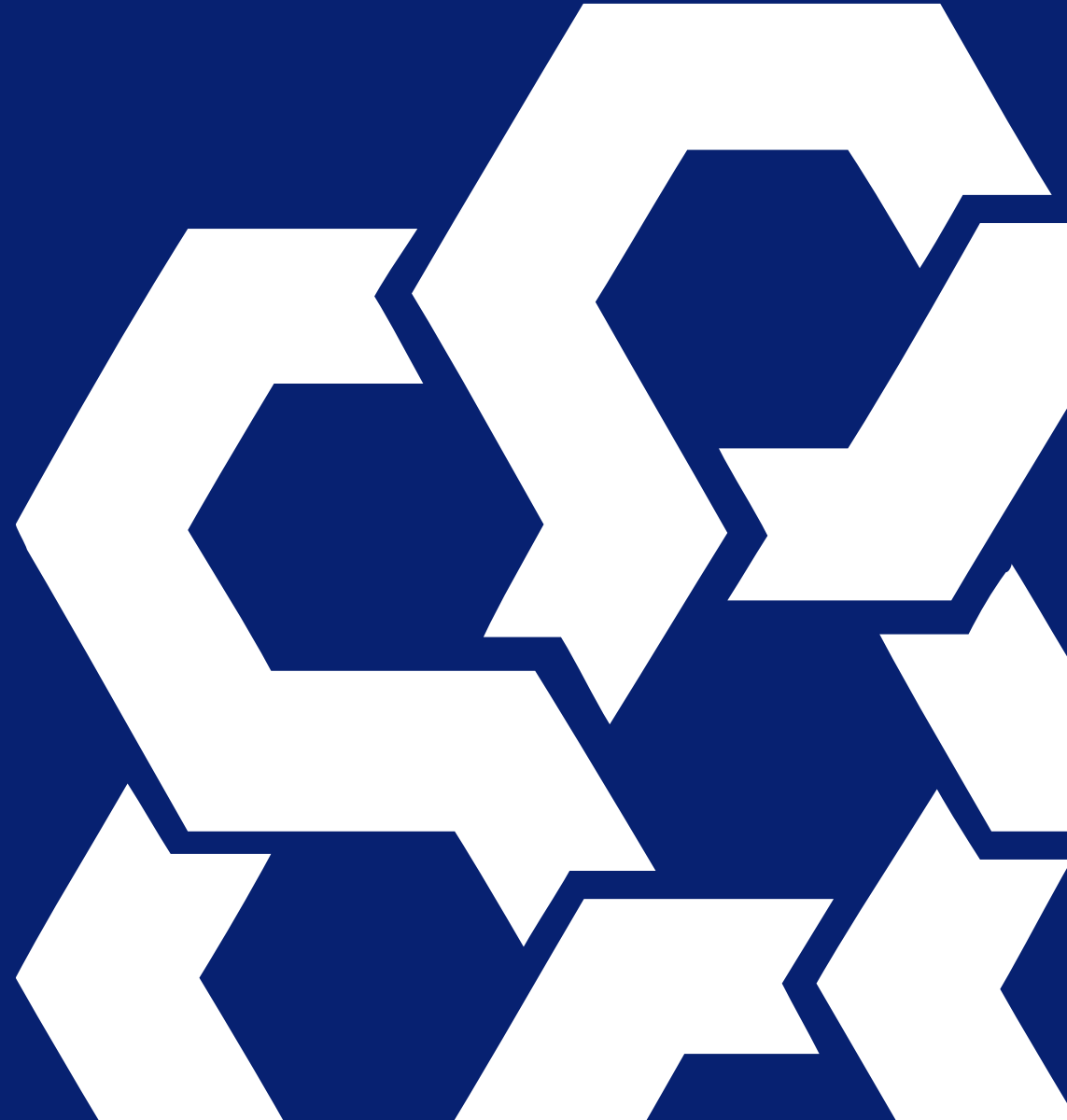
Considered alignment with	The <i>Conceptual Framework</i>	IFRS 13 <i>Fair value measurement</i>	Other amendments to IFRS Accounting Standards and IFRIC Interpretations
	IFRS 3 <i>Business Combinations</i>	IFRS 14 <i>Regulatory Deferral Accounts</i>	
	IFRS 9 <i>Financial Instruments</i>	IFRS 15 <i>Revenue from Contracts with Customers</i>	
	IFRS 10 <i>Consolidated Financial Statements</i>		
	IFRS 11 <i>Joint Arrangements</i>	IFRS 16 <i>Leases</i>	

Question



Do you have any questions about the approach followed for the second comprehensive review of the *IFRS for SMEs Accounting Standard*?

Third edition of the *IFRS for SMEs Accounting Standard*



Third edition of the *IFRS for SMEs Accounting Standard*

- 1 Changes in the Third edition of the *IFRS for SMEs Accounting Standard*
- 2 User needs—Improving disclosures
- 3 Transition to the Third edition of the *IFRS for SMEs Accounting Standard*
- 4 Examples of differences between the *IFRS for SMEs Accounting Standard* and full IFRS Accounting Standards
- 5 Topics that will be considered by the IASB in a future review

Changes in the Third edition of the *IFRS for SMEs Accounting Standard*

Section 2 *Concepts and Pervasive Principles*



Reflecting improvements from the 2018 *Conceptual Framework for Financial Reporting*

The outcome of applying the alignment approach is that the IASB will base Section 2 on the 2018 *Conceptual Framework for Financial Reporting* by:

- **introducing new concepts** relating to measurement, presentation, disclosure, and guidance on derecognition;
- **updating definitions** and recognition criteria for assets and liabilities;
- **clarifying the concepts** of prudence, stewardship, measurement uncertainty and substance over form; and
- **adding an overriding principle** that the requirements in other sections of the Standard take precedence over Section 2.

The IASB will retain the concept of 'undue cost or effort'.

Section 9 *Consolidated and Separate Financial Statements*



Reflecting some of the improvements from IFRS 10 *Consolidated Financial Statements*

The outcome of applying the alignment approach to IFRS 10 is that the IASB will:

- **update the definition** of ‘control’ in Section 9 to align with that in IFRS 10—control becomes the single basis for consolidation; and
- **introduce requirements** when a parent loses control of a subsidiary.

The IASB will retain the rebuttable presumption that control exists when an investor owns a majority of the voting rights of an investee.

Section 11 *Financial Instruments*



Reflecting some of the improvements from IFRS 9 *Financial Instruments*

The outcome of applying the alignment approach to IFRS 9 is that the IASB will:

- **remove the option** to apply the recognition and measurement requirements in IAS 39 *Financial Instruments: Recognition and Measurement*;
- **supplement the classification requirements, adding a principle** for classification and measurement of financial instruments based on contractual cash flow characteristics;
- **require disclosure of** an analysis of financial assets by due date; and
- **add the definition of** ‘financial guarantee contract’ and add simplified requirements for intragroup issued financial guarantee contracts.

The IASB will retain:

- the incurred loss model for the impairment of financial assets measured at amortised cost; and
- the hedge accounting and derecognition requirements.

Section 7 *Statement of Cash Flows*



Reflecting improvements to disclosure requirements in IAS 7 *Statement of Cash Flows*

The outcome of applying the alignment approach to amendments to IAS 7 is that the IASB will:

- **require an SME to disclose a reconciliation** of changes in liabilities arising from financing activities; and
- **require an SME to disclose information about** its supplier finance arrangements.

New Section 12 *Fair Value Measurement*



Reflecting improvements from IFRS 13 *Fair Value Measurement*. The IASB will bring the fair value measurement and disclosure requirements in other sections of the Standard into a new Section 12 (renamed *Fair Value Measurement*).

The outcome of applying the alignment approach to IFRS 13 is that the IASB will:

- **update the definition** of ‘fair value’ to align with that in IFRS 13;
- **update the requirements** relating to fair value measurement with the principles of the fair value hierarchy in IFRS 13; and
- **update the disclosure requirements** relating to fair value with those in IFRS 13.

The requirements in the Standard for ‘when’ to use fair value measurement will remain unchanged.

Section 19 *Business Combinations and Goodwill*



Reflecting improvements from IFRS 3 *Business Combinations*

The outcome of applying the alignment approach to IFRS 3 is that the IASB will:

- **update the definition** of ‘business’ to align with that in IFRS 3;
- **introduce new requirements:**
 - to recognise contingent consideration at fair value;
 - for step acquisitions; and
 - to recognise acquisition-related costs in profit or loss;
- **introduce new guidance** if a new entity is formed in a business combination;
- **clarify** that an acquirer cannot recognise a contingent liability that is not a liability; and
- **update references** to the definitions of ‘asset’ and ‘liability’ consistent with the revised Section 2.

Section 23 *Revenue from Contracts with Customers*



Reflecting improvements from IFRS 15 *Revenue from Contracts with Customers*

The outcome of applying the alignment approach is that the IASB will revise Section 23 to be based on IFRS 15 with simplifications for:

- **language**—Section 23 uses simple concise language which is different from the language in IFRS 15;
- **recognition and measurement**, including simplifications for:
 - warranties—no assessment required as to whether a warranty provides a customer with a service in addition to the assurance;
 - customer options—material rights arising from a contract with a customer are accounted for separately only if an entity can do so without undue cost or effort; and
 - contract costs—costs to obtain a contract are recognised as expenses when incurred; and
- **disclosure**—Section 23 includes simplifications of the disclosure requirements in IFRS 15.

Other amendments—Responding to feedback



Responding to feedback during this comprehensive review

In response to feedback the IASB will amend other sections of the Standard. The IASB will:

- **clarify the measurement simplification** for defined benefit obligations in paragraph 28.19 of Section 28 *Employee Benefits*;
- **provide relief from presenting** the amount receivable as an offset to equity when an equity instrument is issued before receipt of cash or other resource and legislation prohibits presentation in accordance with Section 22 *Liabilities and Equity*; and
- **amend the offsetting requirements** in Section 29 *Income Taxes* with IAS 12.

Section 30 *Foreign Currency Translation*



Reflecting amendments to IAS 21 *The Effects of Changes in Foreign Exchange Rates* about lack of exchangeability and IFRIC 22 *Foreign Currency Transactions and Advance Consideration*

The outcome of applying the alignment approach to amendments to IAS 21 and IFRIC 22 is that the IASB will:

- **require an SME to apply** a consistent approach in:
 - assessing whether a currency can be exchanged into another currency; and
 - estimating the exchange rate to use (and the disclosures to provide) when a currency cannot be exchanged into another currency; and
- **provide guidance on advance consideration** in a foreign currency.

Other amendments—IFRS Accounting Standards



To reflect improvements in IFRS Accounting Standards

The IASB will amend the Standard by:

- **updating the definition of ‘materiality’** in Section 3 *Financial Statement Presentation* and accounting estimates in Section 10 *Accounting Policies, Estimates and Errors*; and
- **updating the accounting for bearer plants** that at initial recognition can be measured separately from the produce on them, without undue cost or effort (initially or on an ongoing basis), so that they are accounted for as property, plant and equipment in Section 17 *Property, Plant and Equipment*.

User needs—Improving disclosures

User needs—Improving disclosures

User feedback:

The disaggregation of:

- other payables;
- other receivables; and
- loans from related parties

would improve the information an SME provides

Further detail on an SME's significant operating expenses is necessary

The IASB will amend the Standard to:

- require the disaggregation of line items in the statement of financial position when such presentation is relevant to an understanding of the financial position (Section 4);
- require disclosure of amounts an SME incurred for key management personnel services provided by a separate management entity (Section 33); and
- clarify the requirement to disclose information about commitments between an SME and its related parties (Section 33).

- clarify how an SME aggregates information in financial statements and add guidance on materiality (Section 3).

User needs—Improving disclosures

User feedback:

Liquidity information is important, including about an SME's ability to repay debt

Cash flow information is important

The IASB will amend the Standard to:

- require disclosure of changes in liabilities arising from financing activities (Section 7); and
 - require disclosure of a maturity analysis for financial liabilities (Section 11).
-
- improve disclosure of supplier finance arrangements to address liquidity and cash flow information needs (Section 7).
-
- require disclosure of an analysis of the age of trade receivables and other financial assets (Section 11).

User needs—Improving disclosures

User feedback:

Information on revenue is important for understanding of an SME's business

Improved information on assumptions would be helpful

The IASB will amend the Standard to:

- require disclosures that help users understand the nature, timing and uncertainty of revenue and cash flows from contracts with customers (Section 23).

- require disclosure of assumptions for measuring defined benefit plans in Section 28; and
- add examples of judgements that an SME is required to disclose in (Section 8).

Transition to the Third edition
of the *IFRS for SMEs*
Accounting Standard

Transition to the Third Edition of the *IFRS for SMEs* Accounting Standard

SMEs will be required to apply the new and amended requirements retrospectively in accordance with Section 10. The IASB will provide relief from the retrospective application on the following new and amended requirements in the Standard:

- Materiality in Section 3 *Financial Statement Presentation*;
- Definition of control in Section 9 *Consolidated and Separate Financial Statements*;
- Section 11 *Financial Instruments* for entities that previously used the option to apply IAS 39;
- New Section 12 *Fair Value Measurement*;
- Amendments to Section 15 *Joint Arrangements*;
- Amendments to Section 16 *Investment Property*;
- Amendments to Section 17 *Property, Plant and Equipment*;
- Amendments to Section 18 *Intangible Assets other than Goodwill*;
- Amendments to Section 19 *Business Combinations and Goodwill*;
- Revised Section 23 *Revenue from Contracts with Customers*;
- Amendments to Section 26 *Share-based Payments*;
- Amendments to Section 28 *Employee Benefits*;
- Amendments to Section 29 *Income Tax*;
- Amendments to Section 30 *Foreign Currency Translation*; and
- Amendments to Section 34 *Specialised Activities*.

Question



Do you have any questions about the changes in the third edition of the *IFRS for SMEs Accounting Standard*?

Examples of differences between the
IFRS for SMEs Accounting Standard
and full IFRS Accounting Standards

Examples of differences between the Standard and full IFRS Accounting Standards



The *IFRS for SMEs* Accounting Standard is intended to be a stand-alone set of accounting principles for entities without public accountability

Topic	Third edition of <i>the IFRS for SMEs</i> Accounting Standard	Full IFRS Accounting Standards
Investment entities	Section 9 does not have requirements for investment entities	IFRS 10 requires an investment entity to measure its investments in a subsidiary at fair value instead of consolidating them
Impairment of financial assets measured at amortised cost	Section 11 requires SMEs to apply the incurred loss model to impair financial assets measured at amortised cost	IFRS 9 requires entities to apply the expected credit loss model to impair financial assets measured at amortised cost

Examples of differences between the Standard and full IFRS Accounting Standards (continued)

Topic	Third edition of <i>the IFRS for SMEs Accounting Standard</i>	Full IFRS Accounting Standards
Classification of joint arrangements	Section 15 <i>Joint Arrangements</i> classifies a joint arrangement as jointly controlled asset, jointly controlled operation or jointly controlled entity based on the form of the arrangement	IFRS 11 classifies joint arrangements as either joint operations or joint ventures based on the parties' rights and obligations
Development costs	Section 18 <i>Intangible Assets other than Goodwill</i> requires SMEs to recognise expenditure incurred on research and development activities as an expense	IAS 38 <i>Intangible Assets</i> requires the recognition of intangible assets arising from development costs that meet specified criteria
Measurement of intangible assets	Section 18 does not include the option to use the revaluation model for the subsequent measurement of intangible assets	IAS 38 includes an option to use the revaluation model for the subsequent measurement of intangible assets

Examples of differences between the Standard and full IFRS Accounting Standards (continued)

Topic	Third edition of <i>the IFRS for SMEs Accounting Standard</i>	Full IFRS Accounting Standards
Goodwill	Applying Section 19, after initial recognition, goodwill is measured at cost less accumulated amortisation and any accumulated impairment losses	Goodwill is not amortised applying IAS 38
Business combinations	Section 19 requires an acquirer to measure at the acquisition date any non-controlling interest (NCI) in the acquiree at the NCI's proportionate share of the acquiree's identifiable net assets	IFRS 3 permits an acquirer to measure at the acquisition date any NCI in the acquiree either at fair value or at the NCI's proportionate share of the acquiree's identifiable net assets
Borrowing costs	Section 25 <i>Borrowing Costs</i> requires SMEs to recognise all borrowing costs as an expense in profit and loss in the period in which they are incurred	IAS 23 <i>Borrowing Costs</i> requires borrowing costs directly attributable to acquisition, construction or production of a qualifying asset to be recognised as part of the cost of the asset

Topics that will be considered
by the IASB in a future review

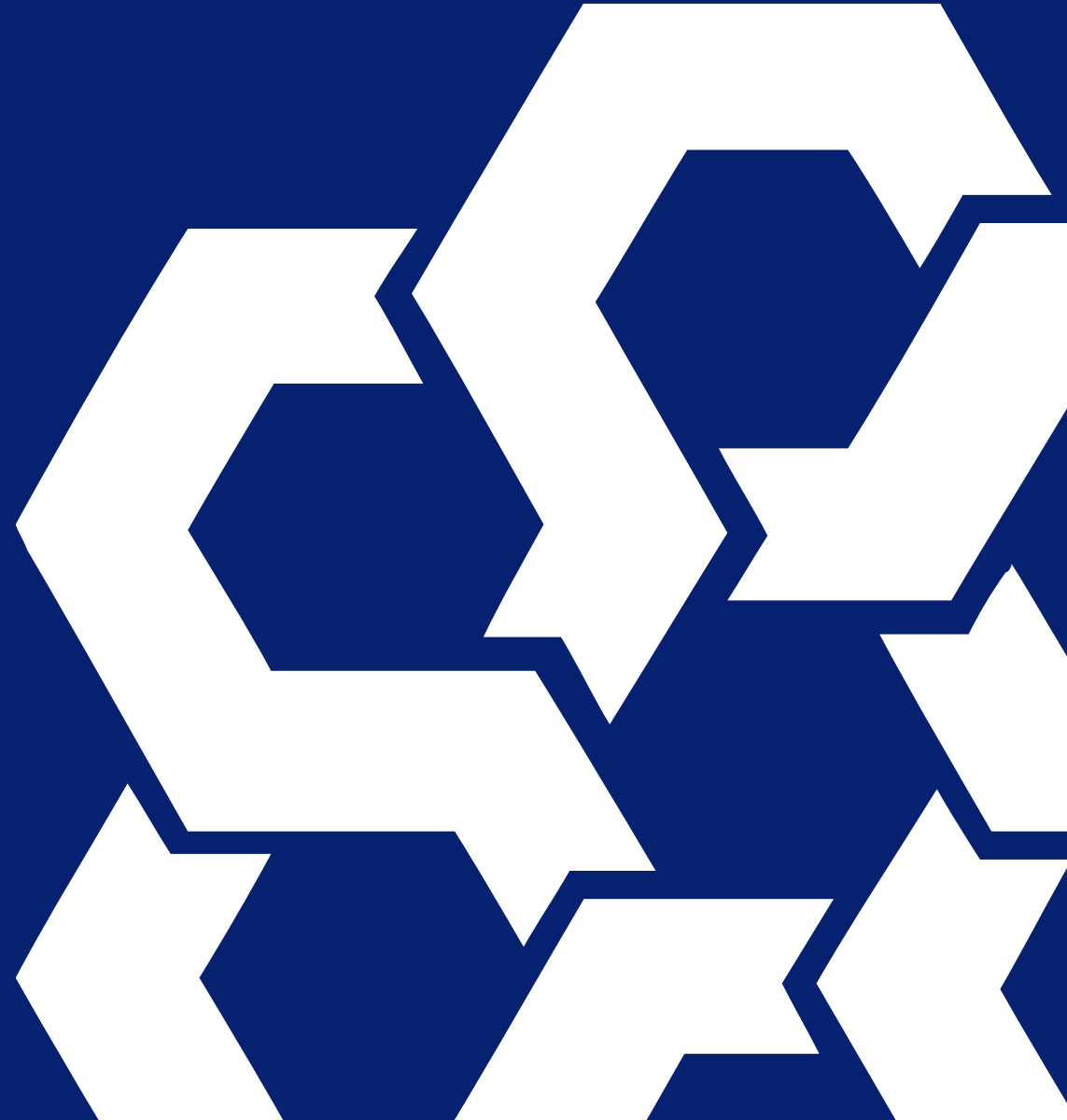
Topics that will be considered by the IASB in a future review

Topic	Rationale
IFRS 14 <i>Regulatory Deferral Accounts</i>	The IASB’s project on <i>Rate Regulated Activities</i> will replace IFRS 14 when it is completed. Therefore, the IASB decided not to amend the Standard as part of this review.
IFRS 16 <i>Leases</i>	The IASB decided not to amend the Standard to align with IFRS 16 at this time and to consider this topic in the next comprehensive review.



The third edition of the *IFRS for SMEs Accounting Standard* has not been amended for these topics.

Questions for discussion

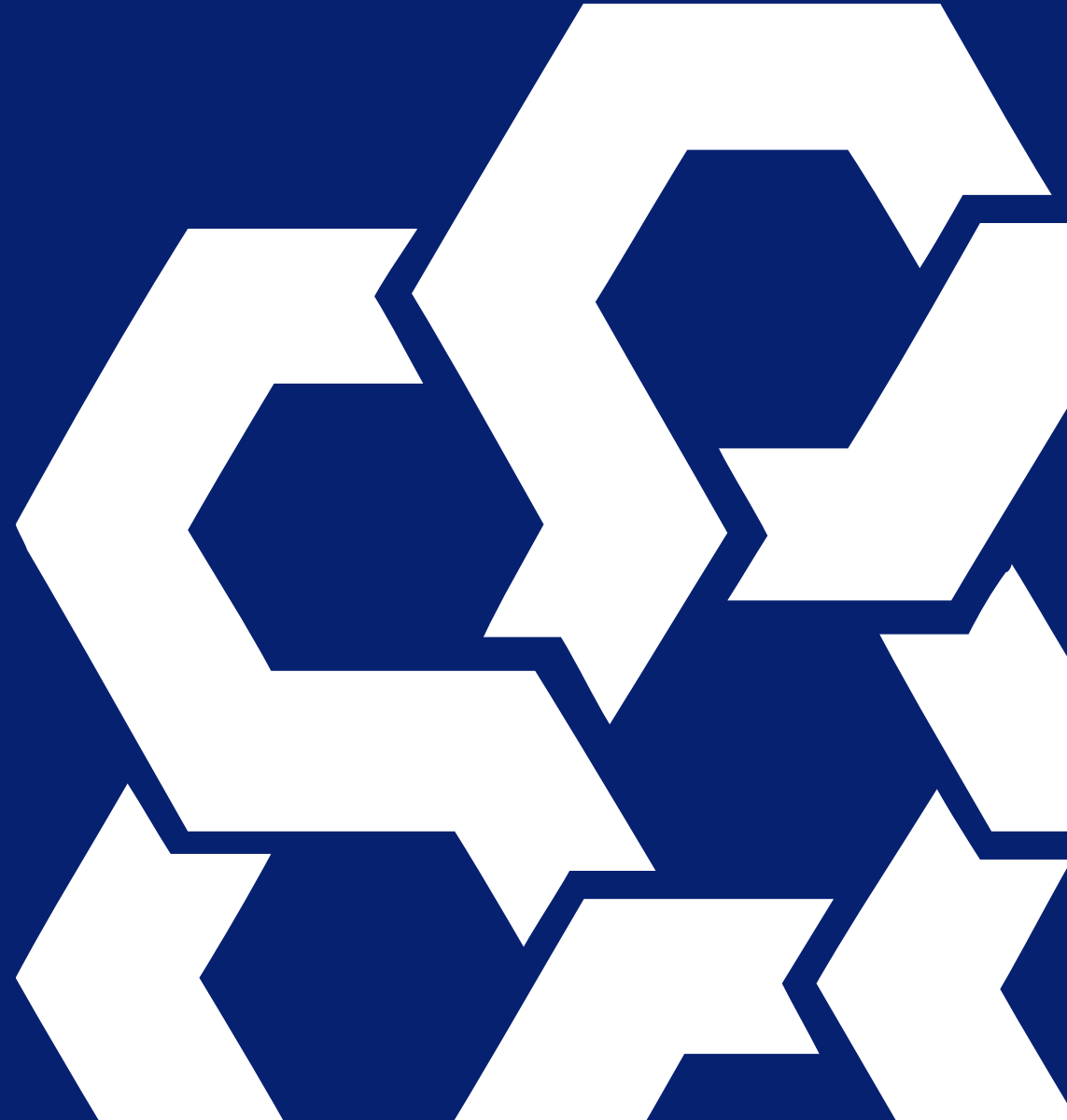


Questions for discussion



1. How do you plan to support the implementation of the Third edition of the Standard in your jurisdiction?
2. Do you have other comments?

Supporting materials



Resources available on the IFRS Foundation's website



<https://www.ifrs.org/issued-standards/ifrs-for-smes/>

The *IFRS for SMEs* Standard

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Standard

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