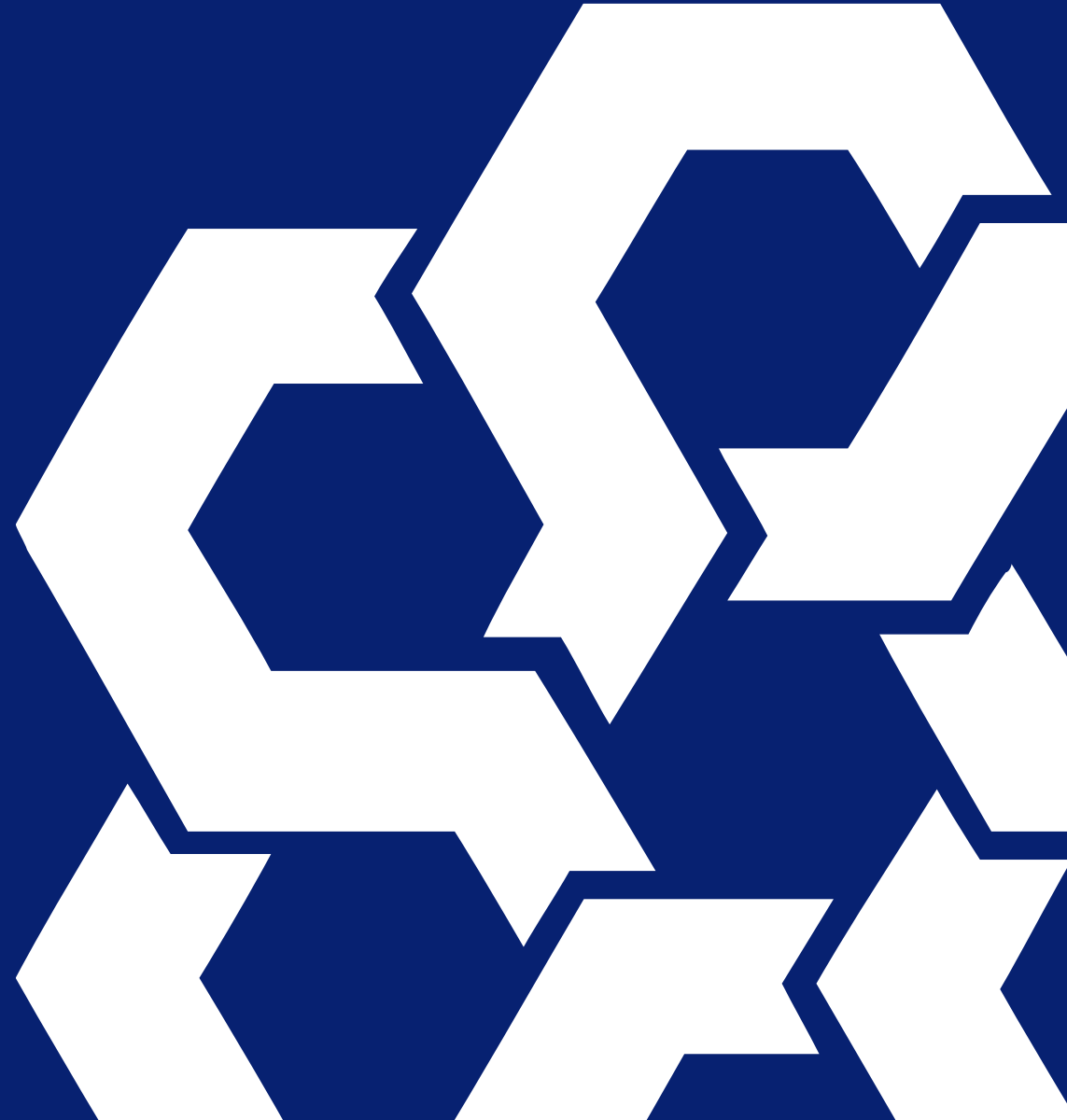

SME Implementation Group

Date	03 September 2024
Project	Second Comprehensive Review of the <i>IFRS for SMEs</i> Accounting Standard
Topic	Overview of the amendments in the third edition of the <i>IFRS for SMEs</i> Accounting Standard
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This paper has been prepared for discussion at a public meeting of the SME Implementation Group (SMEIG). This paper does not represent the views of the International Accounting Standards Board (IASB) or any individual IASB member. Any comments in the paper do not purport to set out what would be an acceptable or unacceptable application of IFRS[®] Accounting Standards or the *IFRS for SMEs*[®] Accounting Standard. The IASB's technical decisions are made in public and are reported in the IASB *Update*.

Second Comprehensive
Review of the *IFRS for
SMEs* Accounting Standard



Agenda

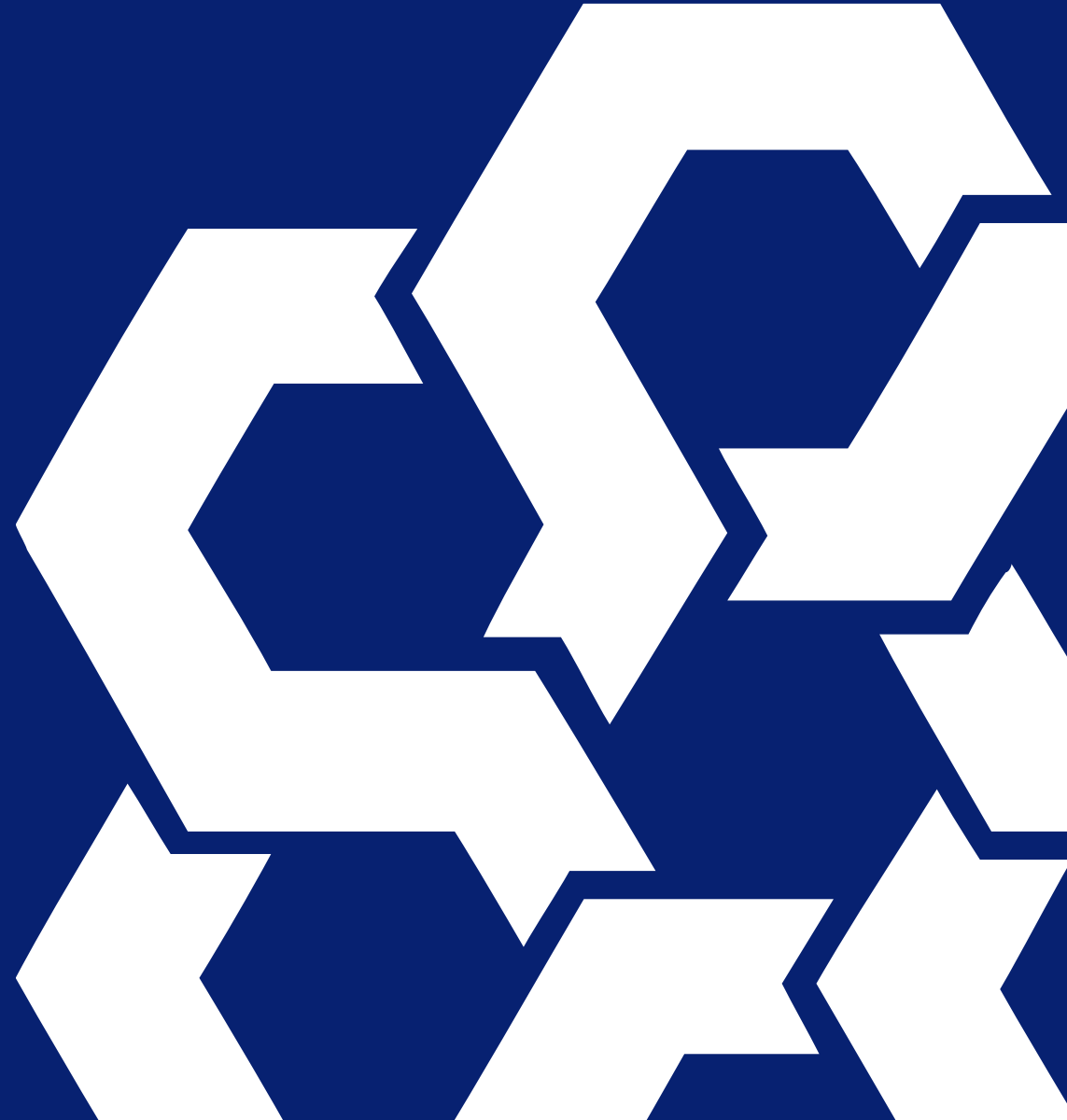
Background to the Second Comprehensive Review

Third edition of the *IFRS for SMEs Accounting Standard*

Questions for discussion

Supporting materials

Background to the Second Comprehensive Review



Second Comprehensive Review

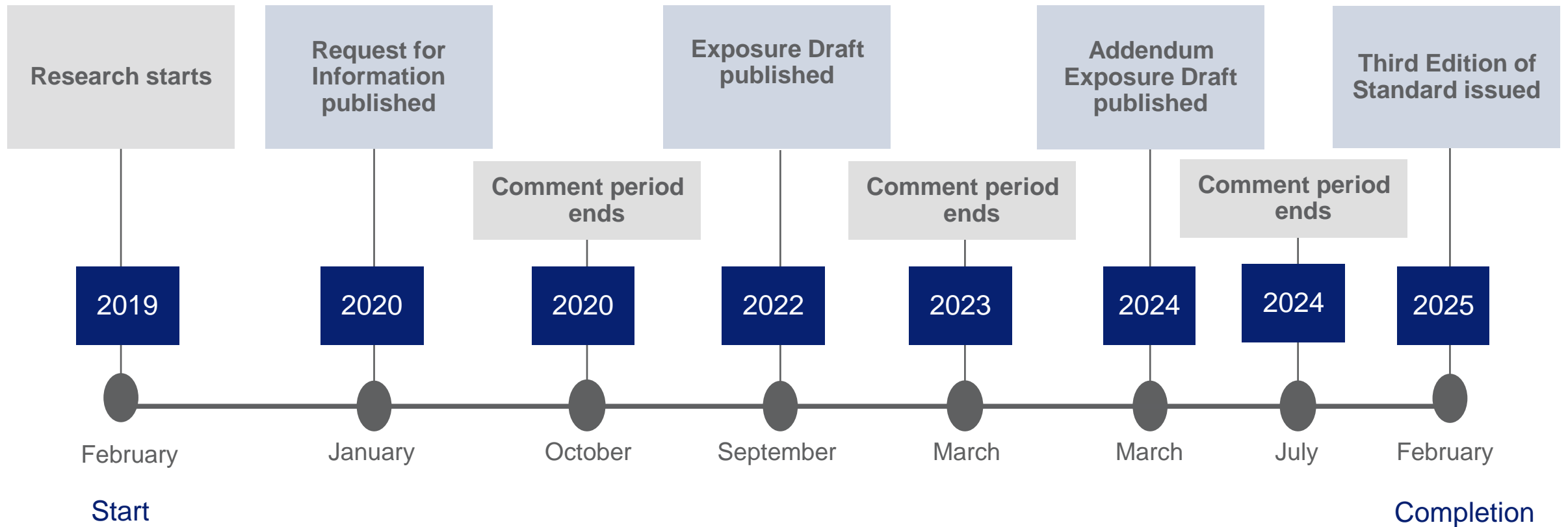
Timeline of the Second Comprehensive Review

Stakeholder feedback and IASB discussions

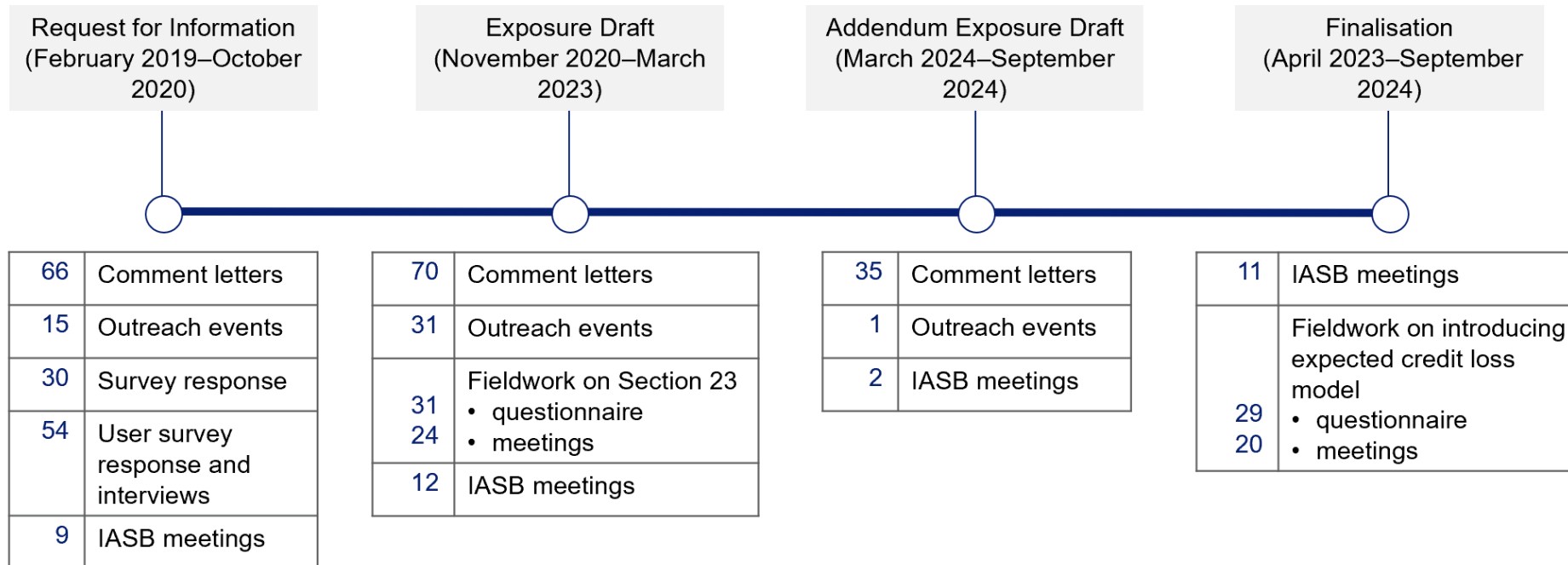
Framework for the Second Comprehensive Review

Scope of the Second Comprehensive Review

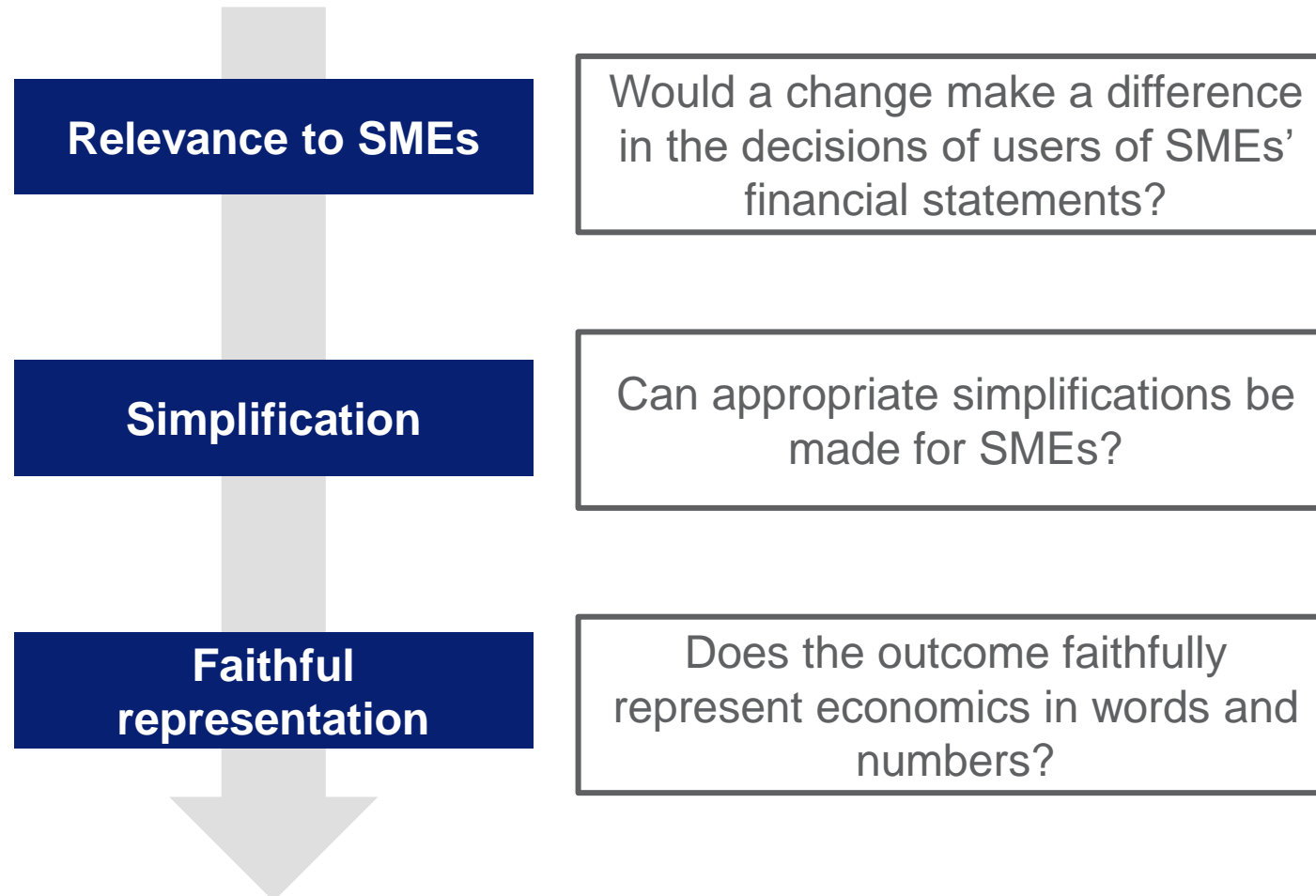
Timeline of the Second Comprehensive Review



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 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.



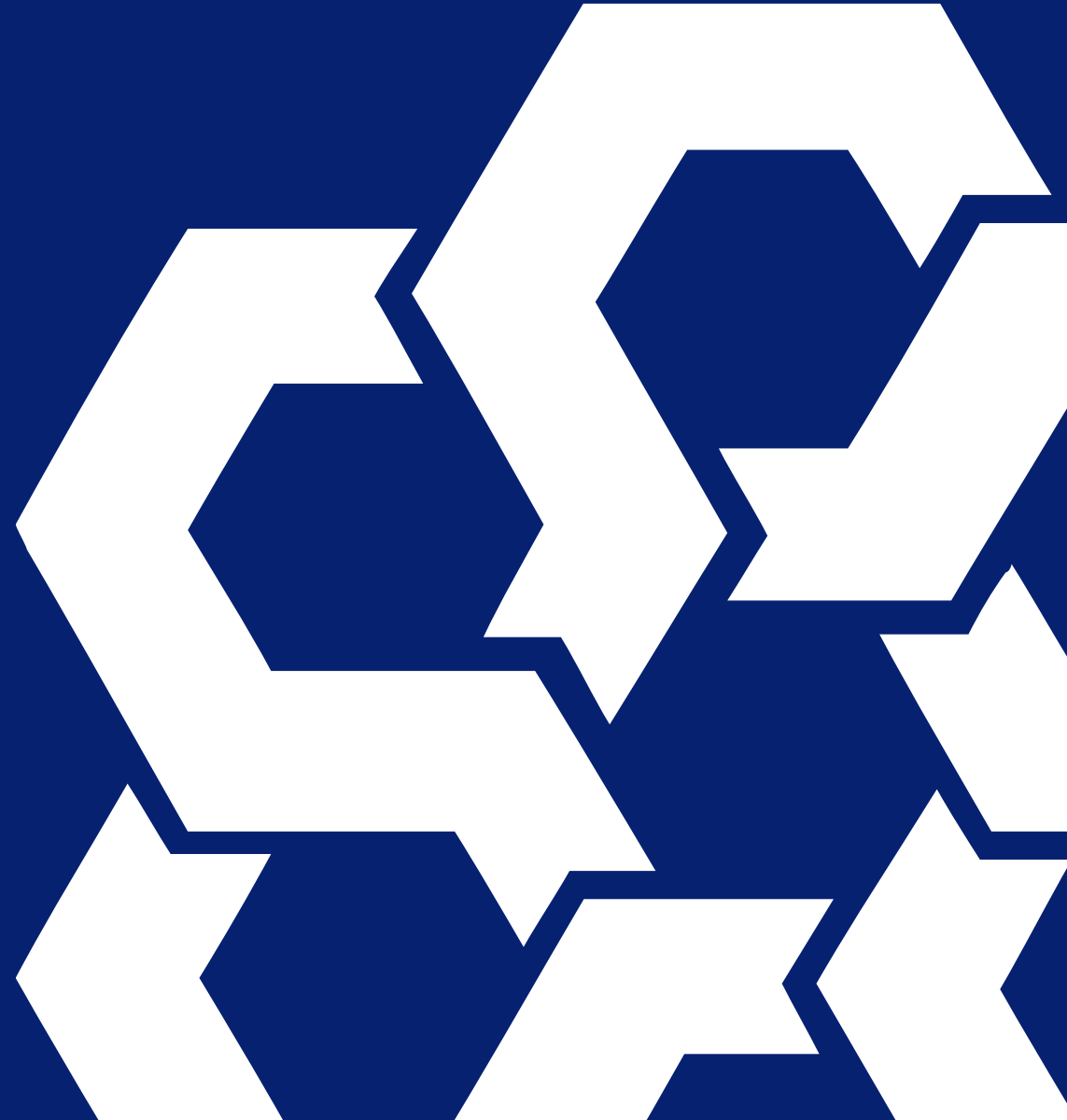
Users

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; and ▪ 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>

Alignment with IFRS Accounting Standard considered	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>	

Third edition of the *IFRS for SMEs* Accounting Standard



Third edition of the *IFRS for SMEs* Accounting Standard

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

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*



Reflect 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** on 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 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 the age of financial assets by due date; and
- **add the definition of a** financial guarantee contracts 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.

New Section 12 *Fair Value Measurement*



Reflecting improvements from IFRS 13 *Fair Value Measurement*. The IASB will bring together 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 with that in IFRS 13;
- **update the requirements** on 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 for ‘when’ to use fair value measurement in the Standard will remain unchanged.

Section 19 *Business Combinations*



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 a business with that in IFRS 3;
- **introduce new requirements:**
 - if a new entity is formed in a business combination;
 - for step-acquisitions; and
 - to recognise acquisition-related costs in profit or loss;
- **clarify** that an acquirer cannot recognise a contingency that is not a liability; and
- **update references** to the definitions of an 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 to the language in IFRS 15;
- **recognition and measurement**, including simplifications for:
 - warranties—no assessment required 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 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 in Section 28 *Employee Benefits*;
- **provide relief from offsetting** receivable in equity when an equity instrument is issued before receipt of cash 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.

Other amendments—IFRS Accounting Standards



To reflect improvements in IFRS Accounting Standards

The IASB will amend the Standard by:

- **requiring an SME to disclose** a reconciliation of changes in liabilities arising from financing activities (Section 7 *Statement of Cash Flows*);
- **updating the definition of materiality** in Section 3 *Financial Statement Presentation* and accounting estimates in Section 10 *Accounting Policies, Estimates and Errors*;
- **updating the accounting for bearer plants** that at initial recognition can be measured separately without undue cost or effort, to be accounted for as property, plant and equipment in Section 17 *Property Plant and Equipment*; and
- **providing guidance on advance consideration in a foreign currency** in Section 30 *Foreign Currency Translation* based on **IFRIC 22**.

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

	Third edition of <i>the IFRS for SMEs</i> Accounting Standard	Full IFRS Accounting Standards
Topic		
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)

	Third edition of the IFRS for SMEs Accounting Standard	Full IFRS Accounting Standards
Topic		
Classification of joint arrangements	Section 15 <i>Joint Arrangements</i> classifies joint arrangements 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 have an option for the use of the revaluation model for the subsequent measurement of intangible assets	IAS 38 has 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)

	Third edition of <i>the IFRS for SMEs Accounting Standard</i>	Full IFRS Accounting Standards
Topic		
Goodwill	After initial recognition, goodwill is measured at cost less accumulated amortisation and any accumulated impairment losses in Section 19	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 capitalised as part of the cost of the asset

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

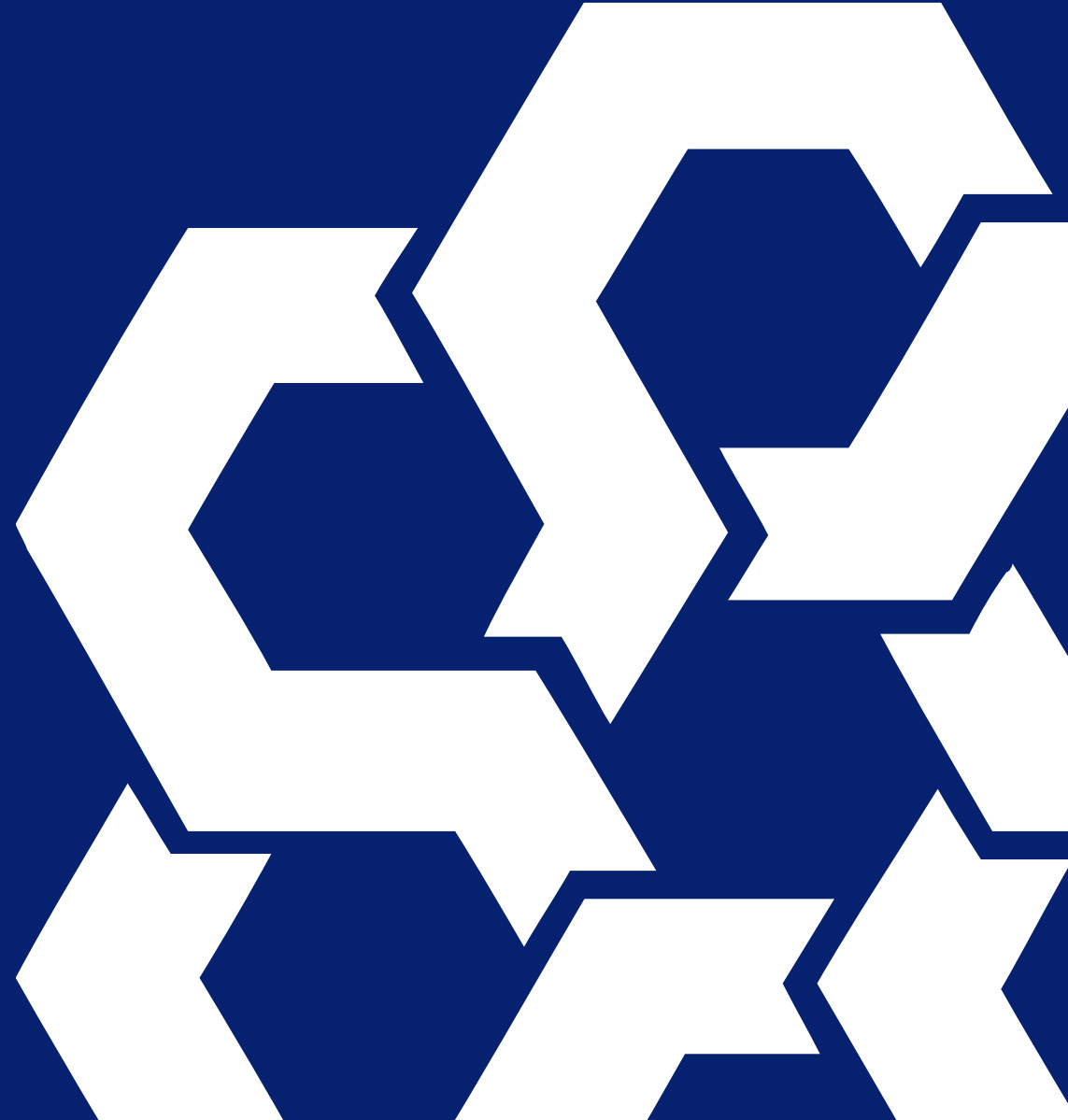
Topics that will be considered by the IASB in a future review

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.
Cryptocurrency	Research indicates that the holdings of cryptocurrency and issuance of cryptoassets are uncommon among SMEs at this time. The IASB is monitoring the use of cryptocurrencies.



The third edition of *IFRS for SMEs Accounting Standard* has not been amended for these topics. The IASB will consider these topics in a future review of the Standard.

Questions for discussion

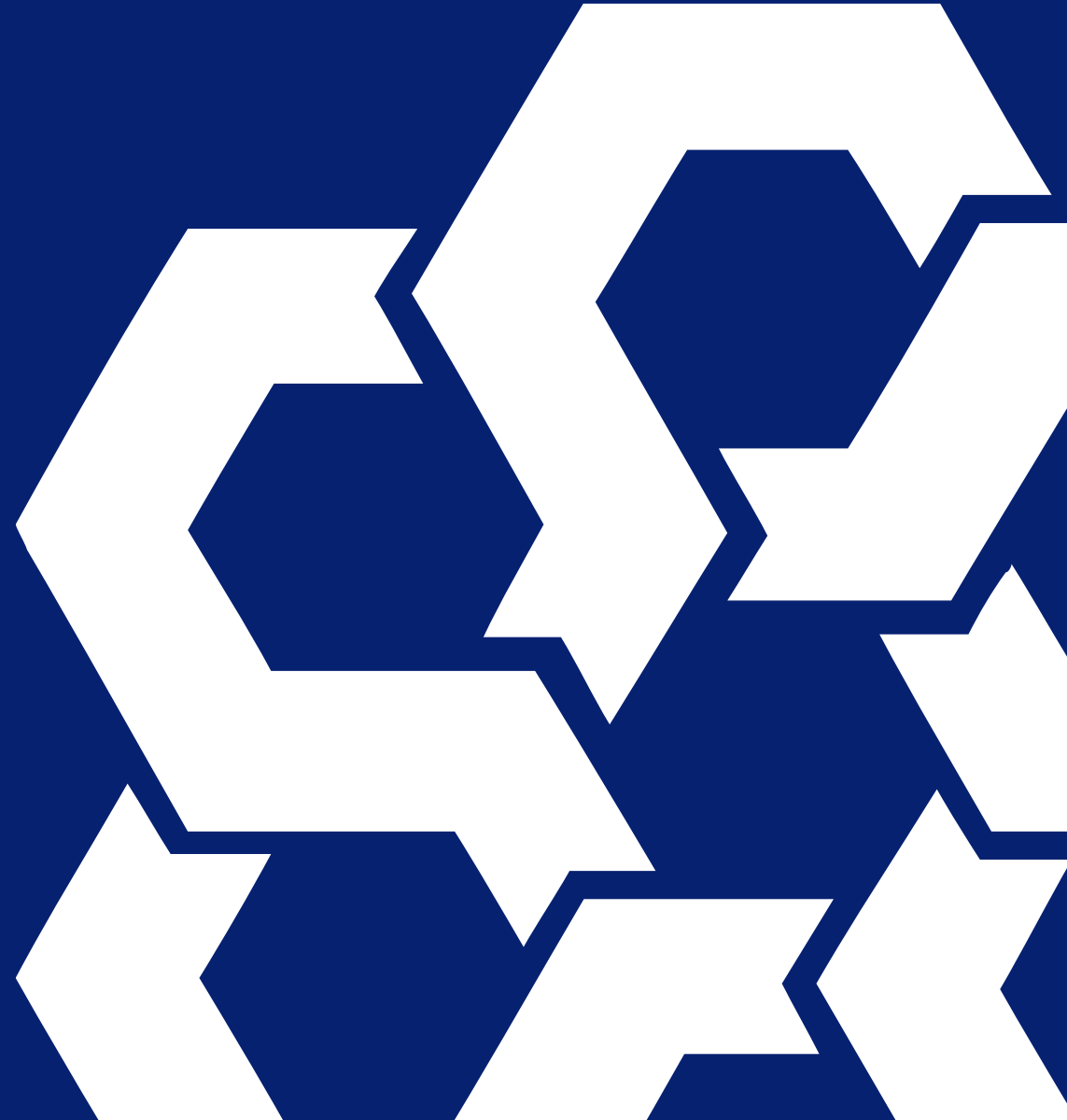


Questions for discussion



- | | |
|--|---|
| | <p>Can you identify any areas that might result in</p> <ol style="list-style-type: none">1. implementation issues/might cause difficulty in transitioning to third edition? |
| | <ol style="list-style-type: none">2. How do you plan to support implementation of the third edition of the Standard in your jurisdiction? |
| | <ol style="list-style-type: none">3. Do you have other comments? |

Supporting materials



Resources available on the IASB website



Dedicated pages on the IFRS Foundation website - www.ifrs.org

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

<https://www.ifrs.org/supporting-implementation/supporting-materials-for-the-ifrs-for-smes>

The *IFRS for SMEs* Standard



Supporting materials for the *IFRS for SMEs* Standard

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