IFRS®
Accounting

Feedback Statement and Effects Analysis

# IFRS for SMEs®

## Accounting Standard

Third Edition | February 2025

## Contents

# 1—Introduction

# Introduction to the Feedback Statement and Effects Analysis

## Purpose of this document

This Feedback Statement and Effects Analysis outlines the most important matters stakeholders raised in the comment letters and in other feedback during the second comprehensive review of the *IFRS for SMEs* Accounting Standard (the Standard).

The Feedback Statement and Effects Analysis summarises:

- the questions asked in the Request for Information *Comprehensive Review of the* IFRS for SMEs *Standard*;
- the proposals in the exposure drafts:
  - *Third edition of the* IFRS for SMEs *Accounting Standard*; and
  - *Addendum to the Exposure Draft* Third edition of the *IFRS for SMEs* Accounting Standard;
- the feedback gathered through the consultations;
- the responses of the International Accounting Standards Board (IASB) to the feedback; and
- the expected effects of the amendments to the Standard.

## What is an effects analysis?

The IASB has assessed the likely costs and benefits for SMEs and the users of their financial statements of implementing the amendments to the Standard. These costs and benefits are referred to as 'effects'.

## How did the IASB compile the Effects Analysis?

The IASB gathered insights into the likely effects of the amendments through research and by analysing stakeholder feedback on its proposals, including feedback from its fieldwork.

In developing the third edition of the *IFRS for SMEs* Accounting Standard the IASB consulted extensively with stakeholders in accordance with its due process and completed three formal public consultations (see page 8 of this document). The IASB was also informed by the evidence gathered from the fieldwork it performed on the proposed revised Section 23 *Revenue from Contracts with Customers* and on the question of whether to retain the incurred loss model in Section 11 *Financial Instruments*.

The IASB was also informed by its consultative group, the SME Implementation Group (SMEIG), about the likely effects of the proposals.

# Framework for the second comprehensive review

**The IASB is committed to maintaining the Standard through periodic reviews. The purpose of the second comprehensive review was to update the Standard to reflect improvements that have been made to full IFRS Accounting Standards while keeping the Standard simple.**

## The alignment approach

The IASB updated the Standard using the alignment approach. The alignment approach uses full IFRS Accounting Standards as the starting point for updating the Standard.

During the second comprehensive review, the IASB developed the alignment principles to formalise how the alignment approach is applied. The alignment principles assist the IASB in deciding whether, and if so how, the Standard should be aligned with full IFRS Accounting Standards. The alignment principles are relevance to SMEs, simplicity and faithful representation.

| | |
|---|---|
| Relevance to SMEs | Is the topic **relevant** to SMEs? |
| Simplicity | Can the requirements of full IFRS Accounting Standards be **simplified**? |
| Faithful representation | Do the outcomes **faithfully represent** the substance of transactions? |

## Assessment of costs and benefits

As part of the framework for the second comprehensive review, the IASB assesses separately the costs and benefits of aligning the Standard with each new or amended requirement in IFRS Accounting Standards.

| Keeping the Standard useful to users of SMEs' financial statements and simple for SMEs to apply | |
|---|---|
| Using the alignment approach, the IASB amends the Standard only if a new requirement in full IFRS Accounting Standards is relevant to SMEs (that is, if the requirement would make a difference to the decisions of users of SMEs' financial statements). | In assessing the costs and benefits of amending the Standard, the IASB considers the limited resources of SMEs and the information needs of users of SMEs' financial statements, mainly lenders. |

# 2—Gathering the evidence

# Overall feedback

## Overall feedback

Respondents to the Request for Information agreed with the IASB's approach to the review (see page 5 of this document) including the IASB's view that the Standard should continue to be based on full IFRS Accounting Standards.

The IASB developed the proposals in the exposure drafts, applying the alignment approach together with the feedback on the Request for Information:

- on whether and how the Standard should be amended to reflect new and amended IFRS Accounting Standards; and
- on topics not included in the Standard and other matters related to the Standard.

In developing the third edition of the Standard, the IASB considered the feedback on the exposure drafts, together with research from its fieldwork and stakeholder engagement activities.

## The SME Implementation Group

The IASB consulted extensively with the SME Implementation Group (SMEIG) throughout the project. The SMEIG provides advice to the IASB on updating the Standard and supports international adoption and implementation of the Standard.

Seven meetings were held with the SMEIG as part of the review.

## How the IASB engaged with stakeholders

The IASB engaged with stakeholders in various ways, such as:

| | | |
|---|---|---|
| **Outreach events** | **Fieldwork** | **User interviews** |
| **Comment letters** | **Online surveys** | **Webcasts** |

# Feedback and IASB discussions—the numbers

## Request for Information

| | |
|---|---|
| **66** | Comment letters |
| **14** | Stakeholder engagement events |
| **6** | Consultative group meetings (including SMEIG) |
| **54** | Survey responses |
| **13** | User interviews |
| **9** | IASB meetings |

## Exposure Draft

| | |
|---|---|
| **70** | Comment letters |
| **28** | Stakeholder engagement events |
| **6** | Consultative group meetings (including SMEIG) |
| | Fieldwork on new Section 23 *Revenue from Contracts with Customers* |
| **31** | • questionnaire responses |
| **24** | • meetings |
| **12** | IASB meetings |

## Addendum Exposure Draft[1]

| | |
|---|---|
| **35** | Comment letters |
| **2** | Consultative group meetings (including SMEIG) |
| **2** | IASB meetings |

## Finalisation

| | |
|---|---|
| **1** | SMEIG meeting |
| | Fieldwork on introducing expected credit loss model |
| **29** | • questionnaire responses |
| **20** | • meetings |
| **13** | IASB meetings |

1 The IASB extended the scope of the second comprehensive review for two amendments to full IFRS Accounting Standards and published the Addendum Exposure Draft to consult on these amendments. The IASB considered one amendment relevant to users of SMEs' financial statements *(Supplier Finance Arrangements)* and believed the other would ease application of the Standard *(Lack of Exchangeability)*.

# 3—Understanding the information needs of users of SMEs' financial statements

# How the IASB consulted with users of SMEs' financial statements

**Having applied the alignment approach, the IASB is satisfied that the benefits of the improved information provided to users of SMEs' financial statements will outweigh the costs for SMEs of applying the amendments.**

## Objective of consulting with users of SMEs' financial statements

The IASB consulted with users of SMEs' financial statements during the second comprehensive review to understand whether the Standard continues to meet their information needs.

## How the IASB gathered information to understand information needs of users of SMEs' financial statements

Table 1 outlines the work undertaken to understand the information needs of users and thereby the effects on users of amending the Standard.

**Table 1—Research to understand information needs of users of SMEs' financial statements**

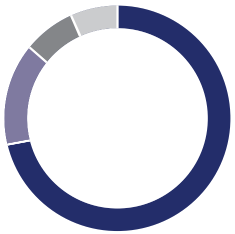
| | How the IASB consulted users of SMEs' financial statements | Information sought from users of SMEs' financial statements |
|---|---|---|
| **Request for Information** | As part of the outreach on the Request for Information the IASB:<br>• carried out a user survey; and<br>• interviewed users of SMEs' financial statements. | Users were asked questions covering:<br>• the alignment approach;<br>• their information needs; and<br>• any additional matters, including what questions they ask SMEs when making lending decisions. |
| **Developing the Standard** | The IASB performed fieldwork on introducing an expected credit loss model for SMEs that provide financing to customers. | The IASB asked users about the effects of introducing an expected credit loss model for some SMEs. |

## Who responded to the IASB survey?

The IASB received 54 responses to the online user survey from various jurisdictions, with 14 responses from users and 40 from non-users.

Respondents to the survey represented the Americas (**57%**), Asia-Oceania (**22%**), Europe (**11%**) and Africa (**10%**). Figure 1 sets out the demographics of the respondents by type of respondent.

**Figure 1—User responses to the IASB survey**



| | Completed surveys | |
|---|---|---|
| **User respondent type** | **Number** | **Percentage** |
| Financial institution lending to SMEs | 10 | 72% |
| Investor in SMEs | 2 | 14% |
| Supplier selling to SMEs on credit | 1 | 7% |
| Analyst | 1 | 7% |
| **Total** | **14** | **100%** |

## Who the IASB interviewed

### 13 users from seven jurisdictions were interviewed

Users of SME financial statements were identified with the help of SMEIG members. A list of questions was sent to interviewees in advance of the interview.

# Feedback from users of SMEs' financial statements

## Alignment approach and the principles

Users of SMEs' financial statements were asked:

- whether the Standard should continue to be based on full IFRS Accounting Standards; and
- whether the alignment principles provide a framework for helping the IASB decide whether, and if so how, to align the Standard with full IFRS Accounting Standards.

## What users of SMEs' financial statements said about the alignment approach and the principles

Users of SMEs' financial statements had mixed views on the alignment approach. Some users thought it was important that SMEs grow in harmony with full IFRS Accounting Standards. In contrast others were concerned that the principles did not take SMEs' typically limited resources into account.

Most users supported the alignment principles and agreed the principles provide a framework to assist the IASB in determining whether and how the Standard should be aligned with full IFRS Accounting Standards.

## Users' information needs (principles for reducing disclosures)

The IASB has developed a set of principles for reducing disclosure requirements in full IFRS Accounting Standards to reflect the needs of users of SMEs' financial statements.

Users of SMEs' financial statements were asked if principles would provide them with information for decision making. Table 2 sets out the principles for reducing disclosure requirements.

The IASB's aim in asking users about the principles for reducing disclosure requirements was:

- to gain further insight into the information needs of those users of SMEs' financial statements; and
- to understand whether their information needs are being met.

**Table 2—Principles for reducing disclosure requirements**

| | |
|---|---|
| Short-term cash flows, obligations, commitments and contingencies | Information about the SME's ability to meet its obligations |
| Liquidity and solvency | Information about the SME's ability to generate cash flows and continue as a going concern |
| Measurement uncertainty | Information about how amounts in the financial statements are measured, including inputs (for example, significant judgements and estimates) used in those calculations |
| Accounting policy choices | Information about the accounting policy applied by the SME especially when more than one accounting policy option is allowed |
| Disaggregation of amounts | Information about separation of amounts presented in the financial statements into component parts |

## What users of SMEs' financial statements said about the principles for reducing disclosure requirements

Most users agreed with the principles for reducing disclosure requirements and highlighted information that is important including:

- the entity's ability to repay debt—that is, liquidity information;
- accounting policy choices; and
- information about risks, including contingent liabilities.

Users noted that disclosures should be simple to understand.

*'Disclosure principles are right for credit analysis and should be maintained'*

*'Cash flow is always the key factor to analyse the "health" of a company. We are interested to know the sources of funds, i.e. from shareholders, business activities, and banking facilities, in order to make sound investment decisions'*

*'…information about liquidity and solvency is crucial for the survival of SMEs'*

## Additional matters—questions users ask about SMEs' financial statements

Users of SMEs' financial statements were asked about the information they most often request when reviewing SMEs' financial statements.

The information most often requested was additional information about SMEs' other liabilities and other assets. Information that is sometimes requested includes information about SMEs':

- business model;
- post-balance sheet events; and
- environmental/sustainability-related financial information.

Some lenders noted changes in technology have changed or will change the information used for lending decisions.

## Other feedback from users of SMEs' financial statements

Users also agreed that it is necessary to balance:

- the costs to SMEs of preparing financial statements; and
- the benefits of information to users of those SMEs' financial statements.

## Fieldwork on the expected credit loss model

Following the feedback of the Exposure Draft the IASB researched an approach to introducing an expected credit loss model for SMEs that provide financing to customers as one of their primary businesses.

Six responses were received from users from five jurisdictions.

Users of SMEs' financial statements had mixed feedback on the usefulness of information provided by the expected credit loss model for SMEs that provide financing to customers as one of their primary businesses.

A few users said that they request additional information from SMEs, such as an analysis of receivables to understand the concentration and collectability of receivables.

# How the IASB responded to what users of SMEs' financial statements said

| What users said | In response, the IASB amended the Standard: |
| --- | --- |
| The disaggregation of other payables, other receivables and loans from related parties would improve the information an SME provides. | • to require the disaggregation of line items in the statement of financial position when such presentation is relevant (Section 4 *Statement of Financial Position*);<br>• to require disclosure of amounts an SME incurred for key management personnel services provided by a separate management entity (Section 33 *Related Party Disclosures*); and<br>• to clarify the requirement to disclose information about commitments between an SME and its related parties (Section 33). |
| Further detail on an SME's significant operating expenses is necessary. | • to clarify how an SME aggregates information in financial statements and to add guidance on materiality (Section 3 *Financial Statement Presentation*). |
| Information about cash flow and liquidity is important, including about an SME's ability to repay debts. | • to require disclosure of changes in liabilities arising from financing activities (Section 7 *Statement of Cash Flows*);<br>• to improve disclosure of supplier finance arrangements (Section 7);<br>• to require disclosure of a maturity analysis for financial liabilities (Section 11 *Financial Instruments*); and<br>• to require disclosure of an analysis of the age of trade receivables and other financial assets (Section 11). |
| Information on revenue is important for understanding an SME's business. | • to require disclosures that help users understand the nature, timing and uncertainty of revenue and cash flows from contracts with customers (Section 23 *Revenue from Contracts with Customers*). |
| Improved information on assumptions would be helpful. | • to require an SME that applies the measurement simplifications for defined benefit obligations to disclose its assumptions for measuring those obligations (Section 28 *Employee Benefits*); and<br>• to add examples of judgements that an SME is required to disclose (Section 8 *Notes to the Financial Statements*). |

# 4—Understanding SMEs

# How the IASB consulted with SMEs

## Objective of consulting with SMEs

The IASB consulted with SMEs and practitioners during the second comprehensive review to monitor whether the Standard remains fit for purpose and sufficiently simple to apply, taking into account the resources available to SMEs.

SMEIG members recommended the IASB undertake additional outreach with preparers applying the *IFRS for SMEs* Accounting Standard (or a standard based on it), following feedback on the Request for Information.

## How the IASB gathered information to understand the effects on SMEs of amending the Standard

Table 3 outlines the research undertaken to understand the effects on SMEs of amending the Standard. This research supplemented stakeholder engagement events (see page 8 of this document).

**Table 3—Research to understand the effects on SMEs of amending the Standard**

| | How the IASB consulted SMEs |
|---|---|
| Request for Information | The IASB received six comment letters from SMEs. |
| Exposure Draft | The IASB:<br>• interviewed preparers of SMEs' financial statements;<br>• undertook fieldwork on the proposed revised Section 23 *Revenue from Contracts with Customers* (formerly named 'Section 23 *Revenue*'); and<br>• received six comment letters from preparers. |
| Developing the Standard | The IASB undertook:<br>• research to understand the characteristics of SMEs; and<br>• fieldwork to determine whether to introduce an expected credit loss model—17 accounting practitioners and six preparers completed the survey and 15 meetings were held. |

# Interviews with preparers of SMEs’ financial statements

## Information sought from SMEs

In its interviews with SMEs, the IASB asked about:

- their experience of applying the Standard;
- views on topics not covered by the Standard (or a standard based on full IFRS Accounting Standards); and
- the information SMEs are regularly asked to provide to lenders and other users of their financial statements.

## Who the IASB interviewed

**18 interviews with preparers from eight jurisdictions**

SMEs were identified with the help of SMEIG members and from social media posts inviting SMEs to join the interviews. A list of questions was sent to interviewees in advance of the interview.

## What SMEs said about preparing financial statements

*‘Challenges include limited resources and lack of knowledge of accounting standards. Compliance with accounting standards is a significant cost to SMEs’*

*‘Disclosure is a big challenge for SMEs—the disclosure simplifications are a huge benefit’*

*‘Challenging areas include the impairment test, finance lease accounting and government grants’*

## What SMEs said about topics not covered by the Standard

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

*'If a specific matter is not covered in the 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 disclosure'*

*'There are significant benefits when the Standard uses the same terminology as IFRS Accounting Standards'*

## What information SMEs are asked to provide lenders and other users of financial statements

*Consistent with SME user interview findings, preparers said important information includes ability to repay, going concern and items disclosed as 'other' amounts*

*'Cash flow projections based on management information are the essential information for users'*

*'Financial statements are historical information—users look at [the] latest information, i.e. management reports'*

SMEs appreciated a stable platform for maintaining alignment with full IFRS Accounting Standards and the simplicity of the Standard which is tailored to them.

# Fieldwork with SMEs

## Objective of the fieldwork

### Section 23 *Revenue from Contracts with Customers*

The aim of the fieldwork was to understand whether an SME would be able to make the judgements that would be required when applying Section 23 of the Exposure Draft.

### Introducing the expected credit loss model

The fieldwork on introducing an expected credit loss model aimed to understand:

- whether SMEs would be able to determine if they provide financing to customers as one of their primary businesses and how costly it is to make this determination; and
- what the costs and benefits of applying an expected credit loss model would be for SMEs that provide financing to customers as one of their primary businesses.

## Gathering the information

Participants to the fieldwork were gathered from:

- an invitation to participate on the IFRS Foundation's website;
- an invitation to participate in the *IFRS for SMEs Accounting Standard Update*;
- social media posts;
- SMEIG members; and
- respondents who had participated in stakeholder engagement activities related to the Request for Information.

## Findings from the fieldwork

### Section 23 *Revenue from Contracts with Customers*

Most participants were able to make most of the judgements required to apply the proposed revised revenue section in the Exposure Draft. Participants or their SME clients who were unable to make a judgement generally cited one of these reasons:

- the information needed to make the judgement could not be obtained—in most cases because the information was not documented by the client.
- the requirements in the proposed revised Section 23 about the judgement were unclear.
- the amount of judgement needed to apply the proposed requirements was too great.

### Introducing the expected credit loss model

Most accounting practitioners and almost all preparers said that they could determine whether an SME (or SMEs they work with) provides financing to customers as one of its primary businesses but requested additional guidance.

Many accounting practitioners and most preparers said that there would be costs to determine whether an SME provides financing to customers as one of its primary businesses.

SMEs said it would be difficult and costly to gather the information needed to apply an expected credit loss model.

# Understanding the characteristics of SMEs

The way SMEs conduct business has evolved since the first edition of the Standard was issued in 2009

## Objective

To help consider the effects of amending the Standard on SMEs the IASB sought to understand:

- how jurisdictions have applied the definition of publicly accountable entities; and
- how business has evolved since the Standard was issued in 2009.

## How jurisdictions apply the definition of public accountability

The decision to adopt IFRS Accounting Standards is a sovereign choice that each jurisdiction will make. The IASB sought to understand whether jurisdictions define SMEs consistently with how the IASB defines public accountability. The research findings identified:

- jurisdictions have various criteria to define SMEs. The criteria include quantitative measures, such as number of employees, revenue and total assets.
- some jurisdictions have additional criteria for defining SMEs or criteria that vary depending on the industry or sector in which the entity operates.

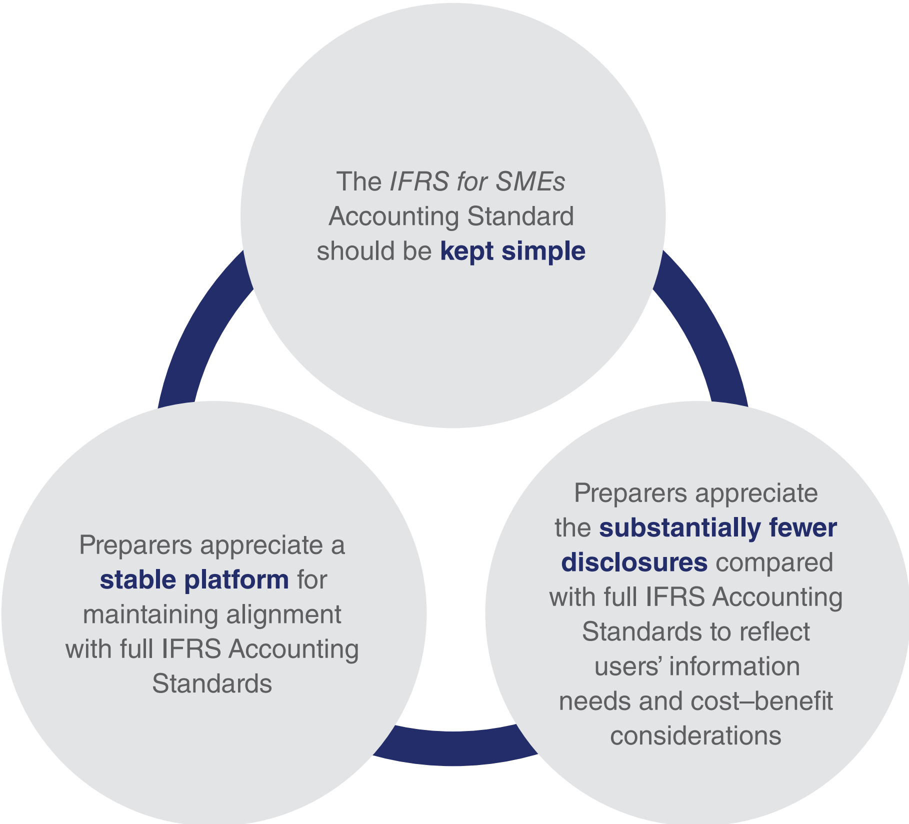
## Developments affecting SMEs' businesses

Since the first edition of the Standard was issued in 2009, globalisation and new technologies have affected SMEs.

| Areas of SMEs' business: | Developments |
|---|---|
| Products and services | New technologies have allowed SMEs to develop new products and services and operate in industries that have traditionally been dominated by larger entities. |
| Distribution channels | SMEs are using e-commerce platforms to grow their businesses. |
| Finance systems and processes | SMEs have access to accounting software packages that integrate processing of transactions and preparation of financial reports. |
| Communication with users | Users have the ability to perform analysis across data from many entities at once. |

# How the IASB responded to feedback from SMEs

## Overriding messages from SMEs




## Examples of how the IASB responded to what SMEs said

| SMEs' feedback | The IASB: |
|---|---|
| Keep the Standard simple | • undertook 'plain English' reviews to ensure the drafting of new and amended sections of the Standard is understandable. |
| | • retained the incurred loss model in Section 11 because SMEs said it would be difficult and costly to gather the information needed to determine expected credit losses (aligned with the simplified approach in IFRS 9 *Financial Instruments*). |
| | • improved accessibility of the Standard by bringing together the requirements and guidance on fair value measurement in one section. |
| Align the Standard with full IFRS Accounting Standards | • aligned Section 2 *Concepts and Pervasive Principles* with the 2018 *Conceptual Framework for Financial Reporting*.<br>• restructured the requirements on revenue to align with IFRS 15 *Revenue from Contracts with Customers* but with simplifications for SMEs. |
| Require substantially fewer disclosures | • improved disclosures while keeping the disclosure burden lower than that in full IFRS Accounting Standards. |

# 5—Feedback Statement and Effects Analysis

# Feedback Statement and Effects Analysis

<table>
<tr><th colspan="2">Section 1 Small and Medium-sized Entities</th></tr>
<tr><th colspan="2">Definition of public accountability</th></tr>
<tr><td>1. Views sought in the Request for Information<br><br>The IASB did not seek views on the definition of public accountability.</td><td>2. Feedback on the Request for Information<br><br>A small number of respondents to the Request for Information commented on the definition of public accountability despite the lack of a specific question. The IASB received additional feedback on the Exposure Draft Subsidiaries without Public Accountability: Disclosures (which uses the same description of public accountability) noting that specifying how often entities hold assets in a fiduciary capacity is unhelpful within the definition of public accountability.</td></tr>
<tr><td>3. Proposal in the Exposure Draft<br><br>The IASB proposed to clarify the definition of public accountability in Section 1 Small and Medium-sized Entities by:<br>• amending paragraph 1.3(b) by replacing ‘most banks’ with ‘for example banks ... often meet the second criterion of public accountability’; and<br>• adding a new paragraph describing characteristics of entities that would usually have public accountability.</td><td>4. Feedback on the Exposure Draft<br><br>Amendments to paragraph 1.3(b)<br><br>Most respondents agreed with the proposal to amend paragraph 1.3(b) to provide a list of examples of entities that often meet the second criterion of public accountability.<br><br>Characteristics of entities with public accountability<br><br>Feedback was mixed on the proposal to add the new paragraph. The respondents who disagreed suggested that the IASB clarify its proposal or withdraw it altogether. Others suggested that the new paragraph be added to the Basis for Conclusions or to educational material supporting the Standard. Respondents raised concerns that the proposed paragraph would introduce additional criteria to the definition of public accountability. These respondents said that the definition is well understood and the proposed paragraph would add unnecessary complexity because it uses subjective terminology.<br><br>continued ...</td></tr>
</table>

| Section 1 *Small and Medium-sized Entities* | |
|---|---|
| **Definition of public accountability** | |
| **5. IASB's response**<br>***Amendments to paragraph 1.3(b)***<br>The IASB agreed with the feedback and confirmed the proposed amendment to paragraph 1.3(b).<br>***Characteristics of entities with public accountability***<br>The IASB did not proceed with the proposed new paragraph. The IASB agreed with the feedback that the definition of public accountability is well understood. The IASB observed that regulatory authorities and national standard-setters might be best placed to identify the kinds of entities in their jurisdictions that meet the second criterion of public accountability. | **6. Expected effects**<br>The IASB does not anticipate the clarifications will change the scope of entities eligible to apply the Standard. However, the amendment to paragraph 1.3(b) will:<br>• make the Standard easier for SMEs to apply; and<br>• help jurisdictions to better understand the types of entities the Standard is designed for. |

| Revised Section 2 *Concepts and Pervasive Principles* | |
|---|---|
| **Status of Section 2 and aligning with the 2018 *Conceptual Framework*** | |
| **1. Views sought in the Request for Information**<br>The IASB sought views on whether it should:<br>• revise Section 2 *Concepts and Pervasive Principles* to align with 2018 *Conceptual Framework for Financial Reporting* (2018 *Conceptual Framework*); and<br>• retain the concept of 'undue cost or effort'. | **2. Feedback on the Request for Information**<br>Almost all respondents to the Request for Information agreed with revising Section 2 to align with the 2018 *Conceptual Framework* and retaining the concept of 'undue cost or effort'.<br>Some respondents acknowledged the distinction between the status of Section 2 in the Standard and the status of the 2018 *Conceptual Framework* in full IFRS Accounting Standards. |
| **3. Proposal in the Exposure Draft**<br>The IASB proposed to revise Section 2 to align with the 2018 *Conceptual Framework*. The proposal introduced new concepts related to measurement, presentation and disclosure, and guidance on derecognition. It also proposed to clarify the concepts of prudence, stewardship, measurement uncertainty and substance over form.<br>The IASB proposed that the requirements in the other sections take precedence over the concepts and pervasive principles in the revised Section 2. | **4. Feedback on the Exposure Draft**<br>Almost all respondents agreed with the proposal to align Section 2 with the 2018 *Conceptual Framework*.<br>Most respondents agreed with retaining the 'undue cost or effort' concept because it balances the costs and benefits in specified circumstances for SMEs, which helps to keep the Standard simple.<br>A few respondents said the proposed revised Section 2 was long and the language was difficult to understand. |
| **5. IASB's response**<br>The IASB observed that Section 2 is already much shorter than the 2018 *Conceptual Framework* and further reductions in length would remove crucial content. The IASB also concluded that due to the pervasiveness of Section 2, technical language is unavoidable in some cases. The IASB confirmed its proposal to revise Section 2 and confirmed that the only changes to these proposals would be to improve drafting. | **6. Expected effects**<br>The new concepts and clarifications in the revised Section 2 will help SMEs when applying judgement in developing accounting policies when the Standard does not specify requirements.<br>Retaining the concept of 'undue cost or effort' helps the IASB to balance the costs and benefits of the requirements in the Standard.<br>Users will benefit indirectly from the revised Section 2. The new and clarified concepts should help SMEs apply the Standard, improving the quality of information in their financial statements. |

| Revised Section 2 *Concepts and Pervasive Principles* | |
|---|---|
| **Definition of an asset and a liability in Section 18 and Section 21** | |
| **1. Proposal in the Exposure Draft**<br><br>The IASB observed that the revision of Section 2 would change the definition of assets and liabilities. To avoid inconsistency, the IASB proposed that Section 18 *Intangible Assets other than Goodwill* and Section 21 *Provisions and Contingencies* retain the definitions of an asset and a liability from the previous version of Section 2, which was based on the 1989 *Framework for the Preparation and Presentation of Financial Statements*. Retaining these definitions:<br><br>• would be consistent with requirements in full IFRS Accounting Standards; and<br>• would avoid any unintended consequences that might arise as a result of revising the definitions of an asset and a liability. | **2. Feedback on the Exposure Draft**<br><br>Most respondents agreed with the proposal because it was consistent with full IFRS Accounting Standards. Some respondents disagreed with the proposal saying that it was confusing and that because Section 2 affects the whole Standard, its concepts and principles should be reflected consistently in all sections of the Standard. |
| **3. IASB's response**<br><br>The IASB decided that the Standard should not move ahead of full IFRS Accounting Standards. Consequently, the IASB confirmed its proposal that Section 18 and Section 21 retain the definitions of an asset and a liability from the previous version of Section 2. | **4. Expected effects**<br><br>None. The definitions remain unchanged. |

| Section 7 *Statement of Cash Flows* | |
|---|---|
| **Reconciliation for liabilities arising from financing activities** | |
| **1. Views sought in the Request for Information**<br><br>The IASB sought views on aligning the Standard with other amendments to full IFRS Accounting Standards, including the amendment introduced by *Disclosure Initiative*, which amended IAS 7 *Statement of Cash Flows*. The amendment requires disclosure about changes in liabilities arising from financing activities, including changes arising from cash flows and non-cash flows. | **2. Feedback on the Request for Information**<br><br>A few respondents expressed concerns about the costs of applying the disclosure requirement. |
| **3. Proposal in the Exposure Draft**<br><br>The IASB proposed that an SME be required to disclose a reconciliation between the opening and closing balances in its statement of financial position for liabilities arising from financing activities. The IASB simplified the requirements in IAS 7 in developing the proposals in the Exposure Draft. | **4. Feedback on the Exposure Draft**<br><br>Some respondents said the requirement for a reconciliation would result in unnecessary costs for SMEs and would provide limited benefits for users. However, users agreed with requiring a reconciliation because the disclosure would improve their understanding of an SME's financing activities. |
| **5. IASB's response**<br><br>The IASB confirmed its proposal based on user feedback that users of SMEs' financial statements are interested in information about liquidity and solvency. The IASB concluded that the benefit of the information in this disclosure outweighs the cost of providing it. | **6. Expected effects**<br><br>The reconciliation will provide information about changes in liabilities and cash and non-cash flows, which users of SMEs' financial statements find particularly important. |

## Section 7 *Statement of Cash Flows*

### Supplier finance arrangements (Addendum Exposure Draft)

#### 1. Proposal in the Exposure Draft

The IASB proposed that an SME would be required to disclose in aggregate for its supplier finance arrangements:

- the terms and conditions of the arrangements;
- the carrying amounts of the financial liabilities that are part of the arrangements, disclosing separately the amounts settled by finance providers;
- the range of payment due dates; and
- the type and effect of non-cash changes.

#### 2. Feedback on the Exposure Draft

Respondents (including SMEIG members) generally agreed with the proposed requirements for the reasons set out in the Basis for Conclusions on the Addendum Exposure Draft.

However, some respondents suggested simplifications—for example, to require the disclosure of only *key* terms and conditions of supplier finance arrangements.

Some respondents disagreed with the proposed requirement to separately disclose the amounts settled by finance providers because, in their view, the costs would outweigh the benefits. A few respondents said SMEs might not have the practical ability to obtain the required information.

#### 3. IASB's response

The IASB decided:

- to add examples of arrangements that are *not* supplier finance arrangements;
- to require the disclosure of only *key* terms and conditions of supplier finance arrangements;
- to require the disclosure of amounts settled by finance providers unless it is impracticable to do so; and
- to add examples of non-cash changes in the carrying amounts of financial liabilities.

#### 4. Expected effects

These amendments respond to users' concerns that information about some supplier finance arrangements is not transparent in SMEs' financial statements, hindering users' analysis. The amendments are intended to enable users to obtain the information that they need to understand the effects of supplier finance arrangements on an SME's liabilities and cash flows and to compare one SME with another.

| Section 9 *Consolidated and Separate Financial Statements* | |
|---|---|
| **Definition of control** | |
| **1. Views sought in the Request for Information**<br>The IASB sought views on whether to update Section 9 *Consolidated and Separate Financial Statements* to align with the definition of control in IFRS 10 *Consolidated Financial Statements*. | **2. Feedback on the Request for Information**<br>Respondents to the Request for Information supported updating the Standard with the definition of control in IFRS 10. |
| **3. Proposal in the Exposure Draft**<br>The IASB proposed:<br>• to amend Section 9 by introducing control as the single basis for consolidation (control model); and<br>• to retain the rebuttable presumption in Section 9, which simplifies the control model by presuming that control exists when an investor owns the majority of the voting rights of an investee. | **4. Feedback on the Exposure Draft**<br>***Aligning the definition of control***<br>Respondents agreed with aligning the definition of control with that in IFRS 10. However, some respondents raised concerns that the costs of the proposal would outweigh the benefits. These respondents said the amendments to the definition of control would only affect a small number of SMEs with complex structures or interests in special purpose entities.<br>***Retaining the rebuttable presumption***<br>Most respondents agreed with the proposal to retain the rebuttable presumption. Many respondents sought clarity on the application of the rebuttable presumption and its relationship with the control model. A few respondents suggested that SMEs should be required to disclose whether they have applied the rebuttable presumption.<br>*continued ...* |

| Section 9 *Consolidated and Separate Financial Statements* | |
|---|---|
| **Definition of control** | |
| **5. IASB's response**<br>***Aligning the definition of control***<br>The IASB confirmed its proposals to introduce the control model. The IASB responded to concerns that the costs would outweigh the benefits by retaining the rebuttable presumption, which makes the control model easier to apply than before for most SMEs with simple control structures.<br>***Retaining the rebuttable presumption***<br>The IASB agreed with respondents and clarified how the rebuttable presumption is applied. The IASB did not add a disclosure requirement for SMEs that have applied the rebuttable presumption. Instead, the IASB added to paragraph 8.6 of the Standard examples of the types of judgements (such as judgements made in determining control):<br>• that management has made in the process of applying the SME's accounting policies; and<br>• that have the most significant effect on the amounts recognised in the financial statements.<br>This addition means that an explicit requirement to disclose use of the rebuttable presumption is not necessary. | **6. Expected effects**<br>SMEs will have a single basis for assessing control that they will use for all investees. Having a single basis removes the uncertainty about which requirements in Section 9 apply to various SMEs (including special purpose entities). SMEs with simple group structures will not be affected by the single model for assessing control. Furthermore, the rebuttable presumption will make this control model easier to apply.<br>Users will benefit from more comparable, consistent and useful information as a result of the single model for control. |

| Section 9 *Consolidated and Separate Financial Statements* | |
|---|---|
| **Investment entities** | |
| **1. Views sought in the Request for Information**<br><br>The IASB sought views on not introducing the requirement for investment entities to measure their investments in subsidiaries at fair value through profit and loss into the Standard. | **2. Feedback on the Request for Information**<br><br>Respondents expressed mixed views on whether to introduce the requirement for an investment entity to measure its investments in subsidiaries at fair value through profit and loss into the Standard. |
| **3. Proposal in the Exposure Draft**<br><br>The IASB did not propose requirements for investment entities to measure their investments in subsidiaries at fair value through profit or loss because few SMEs (that prepare financial statements in accordance with the Standard) would meet the definition of an investment entity in IFRS 10. Therefore, the principle of relevance to SMEs is not met. | **4. Feedback on the Exposure Draft**<br><br>A few respondents suggested that the IASB introduce an accounting policy option that permits investment entities to measure their investments in subsidiaries at fair value through profit or loss. |
| **5. IASB's response**<br><br>The IASB considered the scope of the Standard and confirmed its view that few SMEs (that prepare financial statements in accordance with the Standard) would meet the definition of an investment entity in IFRS 10. Furthermore, the IASB noted that in most jurisdictions investment entities can apply full IFRS Accounting Standards and use the requirements in IFRS 10. Therefore, the IASB retained its view that the relevance to SMEs principle is not met. | **6. Expected effects**<br><br>None. No changes have been made to the Standard. |

| Section 11 *Financial Instruments* (previously titled *Basic Financial Instruments*) | |
|---|---|
| **Classifying financial assets** | |
| **1. Views sought in the Request for Information**<br>The IASB sought views on introducing a principle for classifying financial instruments based on contractual cash flow characteristics to supplement the list of examples in Section 11 *Basic Financial Instruments* (renamed *Financial Instruments*). The principle is based on the requirements in IFRS 9 *Financial Instruments* but simplified. | **2. Feedback on the Request for Information**<br>Respondents to the Request for Information agreed with introducing the principle and said it would provide helpful guidance. Respondents said the principle would be helpful in circumstances in which an asset does not match the characteristics described in the examples in the second edition of the Standard. |
| **3. Proposal in the Exposure Draft**<br>The IASB proposed introducing a principle for classifying financial instruments based on contractual cash flow characteristics because it provides a clear rationale for SMEs classifying such financial assets. | **4. Feedback on the Exposure Draft**<br>None. No specific question was asked in the Exposure Draft because of the feedback on the Request for Information. |
| **5. IASB's response**<br>The IASB added a principle for classifying financial instruments based on contractual cash flow characteristics. | **6. Expected effects**<br>Supplementing the list of examples in Section 11 with a principle for classifying financial instruments provides a clear rationale for SMEs to classify financial instruments and measure them at either amortised cost or fair value. The principle makes the Standard easier to apply if an SME holds a financial instrument that does not match the characteristics in the examples. |

| **Section 11 *Financial Instruments* (previously titled *Basic Financial Instruments*)** | |
|---|---|
| **Using requirements from IAS 39 *Financial Instruments: Recognition and Measurement* (fallback to IAS 39)** | |
| **1. Views sought in the Request for Information**<br><br>The IASB asked whether respondents were aware of entities that take advantage of the accounting policy option to apply the recognition and measurement requirements in IAS 39 *Financial Instruments: Recognition and Measurement* with the disclosure requirements in Section 11 and Section 12 *Other Financial Instrument Issues*.<br><br>The IASB also sought views on whether it should replace the fallback to IAS 39 with a fallback to IFRS 9. | **2. Feedback on the Request for Information**<br><br>Most respondents said they were not aware of SMEs that use the fallback to IAS 39, while some respondents noted that SMEs that opt to use the fallback are subsidiaries of entities that apply full IFRS Accounting Standards. Many respondents agreed with replacing the reference to IAS 39 with a reference to IFRS 9 because IFRS 9 improved the requirements in IAS 39. |
| **3. Proposal in the Exposure Draft**<br><br>The IASB proposed to remove the accounting policy option to apply the recognition and measurement requirements in IAS 39 because the IASB:<br><br>• intends for the Standard to be a self-contained, stand-alone set of accounting principles and has not identified a good reason for retaining a single exception in the Standard; and<br>• aims to restrict accounting policy options in the Standard. | **4. Feedback on the Exposure Draft**<br><br>None. No specific question was asked in the Exposure Draft because of the feedback on the Request for Information. |
| **5. IASB's response**<br><br>The IASB removed the option to apply the recognition and measurement requirements in IAS 39, without replacing it with a fallback to IFRS 9. | **6. Expected effects**<br><br>The removal of the fallback to IAS 39 will result in all SMEs applying consistent and simplified requirements. This will reduce costs for users of SMEs' financial statements. |

| Section 11 *Financial Instruments* (previously titled *Basic Financial Instruments*) | |
|---|---|
| **Impairment of financial assets** | |
| **1. Views sought in the Request for Information** | **2. Feedback on the Request for Information** |
| The IASB sought views on whether it should introduce a simplified expected credit loss model based on the approach in IFRS 9. | Respondents expressed mixed views on updating the Standard to require an expected credit loss model based on the simplified approach in IFRS 9. Some respondents expressed concerns about the complexity of the simplified approach in IFRS 9 and suggested the IASB consider further simplifications.<br><br>Some respondents said the simplified approach would be suitable for measuring impairment of financial assets held by SMEs with simple structures.<br><br>The IASB consulted global preparers to understand their experience of implementing and applying the expected credit loss model in IFRS 9.<br><br>*continued ...* |

| **Section 11 *Financial Instruments* (previously titled *Basic Financial Instruments*)** | |
|---|---|
| **Impairment of financial assets** | |
| **3. Proposal in the Exposure Draft**<br>The IASB proposed:<br>• to retain the incurred loss model for trade receivables and contract assets in the scope of the revised Section 23 *Revenue from Contracts with Customers*;<br>• to require an expected credit loss model for all other financial assets measured at amortised cost, based on the simplified approach in IFRS 9; and<br>• to retain the requirements in Section 11 for impairment of equity instruments measured at cost. | **4. Feedback on the Exposure Draft**<br>For cost–benefit reasons, most respondents disagreed with the proposal to introduce an expected credit loss model based on the simplified approach in IFRS 9 for some financial assets. These respondents suggested that the incurred loss model be retained for all financial assets measured at amortised cost. Stakeholders said SMEs generally hold short-term financial assets and:<br>• the availability of two impairment models in the Standard would add complexity; and<br>• the costs to SMEs of applying the proposed expected credit loss model might outweigh the benefits to users.<br>The IASB published an online survey for national standard-setters to better understand the relevance of an expected credit loss model to SMEs. Respondents to the survey said it was difficult to estimate the number of SMEs that could have significant exposure to credit risk in a jurisdiction. Consequently, it was difficult for the IASB to decide whether introducing an expected credit loss model would be relevant to SMEs.<br>Therefore, the IASB carried out further fieldwork with SMEs (including their advisers) and users to understand the effects of introducing an expected credit loss model in the Standard.<br>Feedback from the fieldwork was mixed on how useful information provided by an expected credit loss model would be to users of SMEs' financial statements. Some users said they request an ageing analysis of receivables from SMEs when making their investing or lending decisions.<br>*continued ...* |

| Section 11 *Financial Instruments* (previously titled *Basic Financial Instruments*) | |
|---|---|
| **Impairment of financial assets** | |
| **5. IASB's response**<br><br>The IASB reasoned that the expected credit loss model is not relevant to many entities in the scope of the Standard, and that retaining the incurred loss model balances the costs to SMEs and the benefits to users of SMEs' financial statements.<br><br>The IASB:<br><br>• retained the incurred loss model for the impairment of all SMEs' financial assets measured at amortised cost; and<br><br>• added a requirement for SMEs to disclose an analysis of the age of financial assets (ageing analysis). | **6. Expected effects**<br><br>The ageing analysis disclosure will provide users of SMEs' financial statements with an age profile of financial assets, enabling users to assess an SME's exposure to credit risk and information about future cash flows. The IASB does not expect the analysis to be costly for SMEs to prepare because a similar analysis would be expected to be provided by most SMEs' reporting systems for the purpose of managing receivables. |

## Section 11 *Financial Instruments* (previously titled *Basic Financial Instruments*)

### Issued financial guarantee contracts

#### 1. Views sought in the Request for Information

The IASB sought views on whether it should align the Standard with the requirements in IFRS 9 for issued financial guarantee contracts, instead of using information from Q&A 2017/12.1—*Accounting for financial guarantee contracts in individual or separate financial statements of issuer* in the Standard.

#### 2. Feedback on the Request for Information

Respondents said introducing the definition of financial guarantee contracts into the Standard would be helpful for SMEs. Some respondents agreed with aligning requirements for issued financial guarantee contracts with IFRS 9 because those requirements are less complex than measuring contracts at fair value, as set out in Q&A 2017/12.1. Respondents also said that the fair value of intragroup financial guarantee contracts can be difficult and subjective to measure.

#### 3. Proposal in the Exposure Draft

The IASB proposed to add a definition of a financial guarantee contract from IFRS 9 and to measure those contracts:

- initially at transaction price; and
- subsequently at the higher of the expected credit losses and the amount initially recognised, if any, amortised on a straight-line basis over the life of the guarantee.

The IASB developed the proposed requirements for issued financial guarantee contracts on the basis that all SMEs would apply an expected credit loss model to financial assets measured at amortised cost (other than trade receivables and contract assets).

#### 4. Feedback on the Exposure Draft

Some respondents noted that SMEs commonly issue intragroup financial guarantee contracts at nil consideration. The respondents said an SME applying the proposals would make no entries on day one, but on day two the SME would have to recognise the expected credit loss amount in profit or loss.

Some respondents suggested intragroup guarantees or all financial guarantee contracts should be in the scope of Section 21 *Provisions and Contingencies* or should only be subject to disclosure requirements.

*continued ...*

| Section 11 *Financial Instruments* (previously titled *Basic Financial Instruments*) | |
|---|---|
| **Issued financial guarantee contracts** | |
| **5. IASB's response**<br>The IASB:<br>• added a definition of a financial guarantee contract from IFRS 9;<br>• widened the scope of Section 21 to include intragroup financial guarantee contracts issued at nil consideration;<br>• added disclosure requirements in Section 21 for intragroup financial guarantee contracts to explain their nature and purpose and possible effects on cash flows; and<br>• clarified that other financial guarantee contracts are within the scope of Section 11 and will continue to be measured at fair value as set out in Q&A 2017/12.1. | **6. Expected effects**<br>During the second comprehensive review, respondents said that most financial guarantee contracts issued by SMEs are intragroup contracts. Including these issued financial guarantee contracts in the scope of Section 21 simplifies the requirements for SMEs, removing the complexities of measuring these contracts at fair value. The additional disclosures will provide users of SMEs' financial statements with information about SMEs' exposure to credit risk and the potential effects on future cash flows. |

| Section 12 *Fair Value Measurement* | |
|---|---|
| **Aligning the Standard with IFRS 13 *Fair Value Measurement*** | |
| **1. Views sought in the Request for Information**<br>The IASB sought views on whether to align the Standard with IFRS 13 *Fair Value Measurement*, including:<br>• aligning the definition of fair value in the Standard with IFRS 13;<br>• aligning the guidance on fair value measurement in the Standard with IFRS 13;<br>• including examples that illustrate how to apply the fair value hierarchy; and<br>• moving the guidance and related disclosure requirement to Section 2. | **2. Feedback on the Request for Information**<br>Respondents agreed with aligning the definition of fair value and guidance on fair value measurement in the Standard with IFRS 13. Respondents also agreed with including examples that illustrate how to apply the fair value hierarchy.<br>Respondents expressed mixed views on moving the guidance and related disclosure requirements to Section 2. |
| **3. Proposal in the Exposure Draft**<br>The IASB proposed:<br>• to bring together the requirements on measuring fair value with the related disclosure requirements in the new Section 12 *Fair Value Measurement*; and<br>• to align those requirements with IFRS 13.<br>The requirements in other sections of the Standard for when to use fair value measurement are mostly unchanged. | **4. Feedback on the Exposure Draft**<br>Almost all respondents agreed with the new Section 12. However, some suggested the IASB provide additional guidance and more illustrative examples to help SMEs apply the requirements in the section. Conversely, a few respondents suggested the guidance in the section be further simplified and reduced.<br>A few respondents suggested that the IASB add more disclosure requirements from IFRS 13—for example, requirements for additional information on Level 3 inputs. Conversely, a few respondents said the costs for SMEs of disclosing information by level might outweigh the benefits.<br>*continued ...* |

| Section 12 *Fair Value Measurement* | |
|---|---|
| **Aligning the Standard with IFRS 13 *Fair Value Measurement*** | |
| **5. IASB's response** | **6. Expected effects** |
| The IASB confirmed its proposal to introduce a new Section 12. In response to requests for the section to be simplified, the IASB improved the drafting of the section by using plain language that expressed its concepts and requirements more clearly.<br><br>The IASB will consider the suggestion to provide further application guidance and examples when developing educational material to support the Standard.<br><br>As noted in the proposal, the IASB used the disclosure requirements in IFRS 13 as a starting point when developing the disclosure requirements in the new Section 12. The IASB then assessed users' needs and applied the principles that are set out in paragraph BC31 of the Basis for Conclusions on the Standard and summarised on page 13 of this document (principles for reducing disclosure requirements).<br><br>The IASB applied the principles for reducing disclosure requirements to the additional disclosures suggested by respondents, and decided they did not meet these principles and therefore did not add them to the Standard. | The amendments do not change the requirements for when to measure assets and liabilities at fair value. However, moving all the fair value measurement requirements into a single section improves accessibility of the requirements for SMEs applying the Standard.<br><br>The definition of fair value from IFRS 13 is clearer and more comprehensive than the definition in the second edition of the Standard. The new definition and guidance will lead to greater clarity and consistency when SMEs estimate fair values.<br><br>Users will benefit from greater consistency in the measurement of fair value and improved disclosures on fair value. |

| **Section 15 *Joint Arrangements* (previously titled *Investments in Joint Ventures*)** | |
|---|---|
| **Aligning the Standard with some aspects of IFRS 11 *Joint Arrangements*** | |
| **1. Views sought in the Request for Information**<br>The IASB sought views on whether it should:<br>• align the definition of joint control in Section 15 *Investments in Joint Ventures* with IFRS 11 *Joint Arrangements*; and<br>• retain the classification requirements for joint ventures in the Standard. | **2. Feedback on the Request for Information**<br>Respondents agreed with aligning the definition of joint control in Section 15 with IFRS 11.<br>Respondents expressed mixed views on retaining the classification requirements in the Standard. |
| **3. Proposal in the Exposure Draft**<br>The IASB proposed:<br>• to align the definition of joint control in Section 15 with IFRS 11;<br>• to retain the classification requirements for joint ventures in Section 15; and<br>• to introduce requirements for a party to a jointly controlled operation or jointly controlled asset (without joint control). | **4. Feedback on the Exposure Draft**<br>***Aligning the definition of joint control and retaining the classification requirements in Section 15***<br>Most respondents agreed with the proposals. However, some respondents disagreed with retaining the classification requirements in Section 15 because, in their view, the approach is confusing and would embed an inconsistency with full IFRS Accounting Standards. Instead, they suggested aligning the classification requirements with those in IFRS 11.<br>***Accounting requirements for a party to a jointly controlled operation or jointly controlled asset (without joint control)***<br>Most respondents agreed with the proposal to introduce requirements for a party to a jointly controlled operation or jointly controlled asset (without joint control). A few respondents disagreed with the proposal. These respondents said the proposed requirements (from paragraph 23 of IFRS 11) might be difficult for an SME to apply because an investor without joint control might not know how the investor(s) with joint control classified the joint arrangement.<br>*continued ...* |

| Section 15 *Joint Arrangements* (previously titled *Investments in Joint Ventures*) | |
|---|---|
| **Aligning the Standard with some aspects of IFRS 11 *Joint Arrangements*** | |
| **5. IASB's response**<br><br>***Aligning the definition of joint control and retaining Section 15 classification requirements***<br><br>The IASB confirmed its proposed amendments to Section 15. The IASB observed that aligning the definition of joint control in Section 15 with that in IFRS 11 is a necessary consequence of aligning the definition of control in Section 9 with that in IFRS 10.<br><br>The IASB considered feedback that the classification requirements it proposed to retain were confusing, and that they should instead be aligned with IFRS 11. In response, the IASB noted that the classifications in Section 15 are straightforward because they require an SME to use less judgement than is required in IFRS 11 while still resulting in faithful representation.<br><br>***Accounting requirements for a party to a jointly controlled operation or jointly controlled asset (without joint control)***<br><br>The IASB confirmed its proposed amendments to Section 15. The IASB concluded that the accounting outcome of aligning the requirements for a party to a jointly controlled operation or jointly controlled asset without joint control will faithfully represent the party's rights and obligations arising from the arrangement. | **6. Expected effects**<br><br>SMEs will benefit from using a single basis to assess control of an investee and from applying a principle for joint control aligned with the updated definition of control.<br><br>Applying the classification requirements in Section 15 requires an entity to use less judgement than applying those in IFRS 11. In retaining these requirements, the IASB took into consideration the resources of SMEs. |

| Section 19 *Business Combinations and Goodwill* | |
|---|---|
| **Aligning the Standard with some aspects of IFRS 3 *Business Combinations*** | |
| **1. Views sought in the Request for Information**<br><br>The IASB sought views on aligning Section 19 *Business Combinations and Goodwill* with some topics in IFRS 3 (2008) *Business Combinations*:<br><br>• to introduce requirements for step acquisitions.<br>• to require an SME to recognise acquisition-related costs as an expense at the time of the acquisition.<br>• to require an SME to recognise contingent consideration at fair value and subsequently account for that consideration as a financial instrument and recognise changes in fair value in profit or loss. The IASB asked whether it should simplify these requirements by permitting an undue cost or effort exemption.<br><br>The IASB also sought views on aligning the Standard with the amended definition of a business issued in 2018. | **2. Feedback on the Request for Information**<br><br>SMEIG members and some respondents agreed with including requirements for step acquisitions in the Standard and aligning these requirements with those of IFRS 3 (2008).<br><br>Most respondents also agreed with aligning the Standard with the definition of a business in IFRS 3 (2008) and with requirements for acquisition-related costs and contingent consideration.<br><br>Some respondents suggested introducing requirements in the Standard for when a new entity is formed to effect a business combination.<br><br>*continued ...* |

| **Section 19 *Business Combinations and Goodwill*** | |
|---|---|
| **Aligning the Standard with some aspects of IFRS 3 *Business Combinations*** | |
| **3. Proposal in the Exposure Draft**<br>The IASB proposed to revise Section 19:<br>• to update the definition of a business.<br>• to introduce requirements for when a new entity is formed to effect a business combination.<br>• to update the recognition principle for assets and liabilities acquired in business combinations, but to simplify the requirements from IFRS 3 by:<br>  o retaining the recognition criteria for intangible assets acquired in a business combination.<br>  o not introducing requirements for reacquired rights.<br>  o not permitting an SME a choice of measurement basis for non-controlling interests in an acquiree.<br>• to require an SME to measure contingent consideration at acquisition-date fair value. The IASB also proposed simplifying these requirements by permitting an undue cost or effort exemption.<br>• to require an SME to recognise acquisition-related costs as an expense at the time of the acquisition.<br>• to introduce requirements for step acquisitions. | **4. Feedback on the Exposure Draft**<br>***Measurement of non-controlling interests***<br>Most respondents agreed with the proposal not to permit a choice of measurement basis for non-controlling interests. A few respondents suggested the IASB permit SMEs to measure non-controlling interests at fair value because it would provide a more faithful representation of goodwill and would lead to better quality information for users.<br>***Requirements for step acquisitions***<br>Almost all respondents agreed with the proposal to introduce requirements for step acquisitions into the Standard. However, a few respondents had mixed views on whether step acquisitions are common among SMEs.<br>***Other feedback on the proposals***<br>A few respondents raised other suggestions in response to the proposed amendments to Section 19. For example, they suggested that the IASB:<br>• introduce the guidance on reacquired rights from IFRS 3; and<br>• introduce further application guidance and examples from IFRS 3 on the definition of a business and step acquisitions.<br>*continued ...* |

## Section 19 *Business Combinations and Goodwill*

### Aligning the Standard with some aspects of IFRS 3 *Business Combinations*

#### 5. IASB's response

***Measurement of non-controlling interests***

The IASB aims to restrict accounting policy options in the Standard because including more options generally increases complexity and reduces comparability of information. Therefore, the IASB confirmed its proposal not to allow a choice of measurement basis for non-controlling interests. This decision was consistent with the IASB's objective of keeping the Standard simple.

***Requirements for step acquisitions***

The IASB confirmed its proposal to introduce requirements for step acquisitions. The IASB decided that on balance the feedback provided evidence that the requirements satisfy the relevance to SMEs principle and would improve comparability and lead to better quality information for users of SMEs' financial statements.

***Other feedback on the proposals***

The IASB confirmed its proposal to require an SME to measure contingent consideration at acquisition-date fair value, subject to an undue cost or effort exemption at initial recognition.

Based on advice from SMEIG members that reacquired rights occur infrequently for SMEs, the IASB concluded that this topic does not meet the relevance to SMEs principle. Therefore, the IASB decided not to introduce requirements for reacquired rights.

The IASB will consider the suggestion that it provide further application guidance and examples from IFRS 3 when it develops educational material.

#### 6. Expected effects

The new definition of a business is clearer and simpler and will help SMEs to decide when to apply Section 19. The definition will make the Standard easier to apply and will make comparing information in SMEs' financial statements easier for users.

SMEs will benefit from the requirements for step acquisitions and guidance for a new entity formed in a business combination. The new requirements and guidance will remove the need for SMEs to apply judgement in setting an accounting policy for these events and transactions.

The acquisition method of accounting views a business combination from the perspective of an acquirer. SMEs that apply the acquisition method provide users of financial statements with relevant information to assess the initial investments made and the subsequent performance of those investments.

The new requirements for contingent consideration and acquisition-related costs improve information SMEs provide to users on the cost of the business combination.

The IASB concluded that the costs of applying the amendments are justified and will be outweighed by the benefits for users. Specifically, users will benefit from:

- having more comparable information in SMEs' financial statements than was previously available; and
- gaining an improved understanding of the cost and performance of the business combination.

| Section 20 *Leases* | |
|---|---|
| **Aligning the Standard with IFRS 16 *Leases*** | |
| **1. Views sought in the Request for Information**<br><br>The IASB sought views on whether to align Section 20 *Leases* with IFRS 16 *Leases*. | **2. Feedback on the Request for Information**<br><br>Most respondents said that it was too early to update the Standard and the IASB should delay updating Section 20. |
| **3. Proposal in the Exposure Draft**<br><br>The IASB did not propose amendments to Section 20. However, the IASB asked whether it should consider amending the Standard to align with IFRS 16 in a future review. | **4. Feedback on the Exposure Draft**<br><br>Most respondents agreed with the IASB's decision to consider aligning Section 20 with IFRS 16 in a future review of the Standard. Of these, many suggested the IASB wait until it has completed its Post-implementation Review of IFRS 16.<br><br>Some respondents suggested the IASB consider amending Section 20 to align with IFRS 16 during an interim review of the Standard. These respondents suggested the IASB start the interim review as soon as the Post-implementation Review of IFRS 16 is completed, instead of waiting for the next comprehensive review of the Standard.<br><br>Other respondents suggested the IASB consider aligning Section 20 with IFRS 16 in the second comprehensive review because, in their view, the IASB has gained enough experience since implementing IFRS 16 to do so.<br><br>Finally, some respondents suggested that the Standard should not be aligned with IFRS 16 at any point because, in their view, the costs would outweigh the benefits.<br><br>*continued ...* |

| Section 20 *Leases* | |
|---|---|
| **Aligning the Standard with IFRS 16 *Leases*** | |
| **5. IASB's response** | **6. Expected effects** |
| The IASB will consider aligning the Standard with IFRS 16 during the next comprehensive review. This timing will allow the IASB to complete its Post-implementation Review of IFRS 16, which will provide a more informed understanding of whether, and if so how, to align Section 20 with the requirements in IFRS 16. | None. No changes have been made to Section 20. |

| Section 22 *Liabilities and Equity* | |
|---|---|
| **Requirement to offset equity instruments** | |
| **1. Views sought in the Request for Information**<br><br>The IASB sought views on other matters related to the Standard. | **2. Feedback on the Request for Information**<br><br>Some respondents said that they would like the IASB to revisit paragraph 22.7(a) of Section 22 *Liabilities and Equity*. The paragraph requires an SME to present an amount receivable as an offset to equity in the statement of financial position, instead of as an asset, if equity instruments are issued before the SME receives cash or other resources.<br><br>Respondents noted that such a requirement might be in conflict with local legislation in some jurisdictions, which might regard equity as having been issued and require an SME to present the related receivable as an asset. |
| **3. Proposal in the Exposure Draft**<br><br>The IASB asked whether it should remove paragraph 22.7(a) of the Standard. Removing this paragraph would be consistent with full IFRS Accounting Standards, which do not include a comparable requirement. | **4. Feedback on the Exposure Draft**<br><br>Most respondents agreed with removing paragraph 22.7(a) of the Standard because it might conflict with local legislation. Conversely, some respondents disagreed with removing the paragraph because it is consistent with their local legislation.<br><br>Some other respondents disagreed with removing paragraph 22.7(a) because, in their view, removing the paragraph would create complexities in the Standard. |
| **5. IASB's response**<br><br>The IASB retained paragraph 22.7(a) of the Standard but provided relief from applying this requirement if it conflicts with legislation in an SME's jurisdiction. | **6. Expected effects**<br><br>The relief from applying this requirement will:<br><br>• allow an SME to present amounts receivable for equity instruments consistent with local legislation; and<br><br>• reduce the risk of non-compliance if financial statements prepared in accordance with the Standard conflict with laws and regulations. |

| Section 23 *Revenue from Contracts with Customers* (previously titled *Revenue*) | |
|---|---|
| **Aligning the Standard with IFRS 15 *Revenue from Contracts with Customers*** | |
| **1. Views sought in the Request for Information**<br>The IASB sought views on approaches to aligning Section 23 *Revenue* with IFRS 15 *Revenue from Contracts with Customers*. The IASB explored various approaches to aligning Section 23 with IFRS 15. Possible approaches included modifying Section 23 only to remove clear differences in the outcomes of applying Section 23 and IFRS 15, or fully rewriting (revising) Section 23. | **2. Feedback on the Request for Information**<br>Respondents agreed with aligning Section 23 with IFRS 15. However, respondents expressed mixed views on whether to modify or revise Section 23. |
| **3. Proposal in the Exposure Draft**<br>The IASB proposed to revise Section 23 to align it with the principles and language used in IFRS 15 with simplifications to the requirements. For example, the requirements for warranties, customer options and for costs of obtaining a contract were simplified compared with those in IFRS 15.<br>The proposed Section 23 also expressed the requirements in simple, concise language if possible, and included simplified disclosure requirements. | **4. Feedback on the Exposure Draft**<br>Most respondents agreed with the proposal to align Section 23 with IFRS 15. However, most respondents suggested changes to the proposed requirements to make them easier for SMEs to understand and apply. Respondents said that some of the proposed simplifications to the requirements in IFRS 15 should be withdrawn (for example, the proposed simplifications to the requirements for principal versus agent, performance obligation terminology and customer warranties).<br>Some respondents said the proposed section was too long and that the language used in the section was complex.<br>Most accounting practitioners who took part in the fieldwork on the revised Section 23 were able to make most of the judgements necessary to apply the section. Practitioners who were unable to make the judgements commented on challenges such as the unavailability of information, the need for judgement and the lack of clarity of the requirements.<br>*continued ...* |

| **Section 23 *Revenue from Contracts with Customers* (previously titled *Revenue*)** | |
|---|---|
| **Aligning the Standard with IFRS 15 *Revenue from Contracts with Customers*** | |
| **5. IASB's response** | **6. Expected effects** |
| The IASB confirmed its proposal to revise Section 23 to reflect the principles in IFRS 15 with simplifications.<br><br>Approximately half of the simplifications to the requirements from IFRS 15 proposed in the Exposure Draft were retained. The IASB responded to the feedback from respondents and findings from the fieldwork by changing the other proposed simplifications—either by:<br><br>• simplifying the requirements further (for example, the requirements for accounting for customer warranties and costs to obtain a contract); or<br>• removing the simplification to more closely align the requirements in the revised Section 23 with those in IFRS 15 (for example, the requirements for contract modifications and principal versus agent considerations).<br><br>Most of the requirements that the IASB changed were simplified further.<br><br>The IASB restructured the revised Section 23 to make it easier for SMEs to apply when accounting for straightforward revenue transactions and drafted the requirements using plainer language.<br><br>In making these simplifications, the IASB also took into account the findings of the Post-implementation Review of IFRS 15. | SMEs will benefit from applying a single comprehensive framework in determining when and how much revenue to recognise for goods and services. The revised Section 23 will result in changes to the accounting for only some revenue transactions for some SMEs. Some SMEs will be required to make systems and operational changes to apply the requirements in the revised section.<br><br>The revised Section 23 will benefit users of SMEs' financial statements by improving consistency in accounting for revenue and the revenue disclosures required by the Standard. The resulting disclosures will represent an SME's performance more faithfully, and will allow users:<br><br>• to compare revenue information between SMEs; and<br>• to understand the amount, timing and uncertainty of SMEs' revenue and cash flows from contracts with customers. |

| Section 28 *Employee Benefits* | |
|---|---|
| **Measurement simplification for defined benefit obligations—Paragraph 28.19** | |
| **1. Views sought in the Request for Information**<br><br>Prior to starting the review, the IASB had received an application question on how an SME should apply the simplification for measuring the defined benefit obligation when an entity cannot use the projected unit credit method without undue cost and effort. In the Request for Information, the IASB asked:<br><br>• if respondents were aware of SMEs applying the simplification; and<br>• if so, whether respondents were aware of difficulties arising in applying the simplification. | **2. Feedback on the Request for Information**<br><br>Feedback showed that the simplification was not widely applied by SMEs. Furthermore, when it was applied the application was not consistent. |
| **3. Proposal in the Exposure Draft**<br><br>The IASB proposed to remove the simplification by deleting paragraph 28.19 of the Standard.<br><br>The IASB also asked respondents who did not agree with removing the simplification for their views on how to clarify the simplified requirements in paragraph 28.19 of the Standard. | **4. Feedback on the Exposure Draft**<br><br>Feedback on the proposal to delete the simplification for measuring defined benefit obligations varied according to whether the simplification was applied in the respondent's jurisdiction. Respondents from jurisdictions in which SMEs apply the simplification said it was widely applied and removal would increase actuarial costs. These respondents did not agree with the proposal to remove the simplification.<br><br>This feedback contrasted with feedback from respondents in jurisdictions that either did not apply the simplification or where defined benefit plans are uncommon among SMEs. Respondents in these jurisdictions generally agreed with removing the simplification.<br><br>*continued ...* |

| Section 28 *Employee Benefits* | |
|---|---|
| **Measurement simplification for defined benefit obligations—Paragraph 28.19** | |
| **5. IASB's response** | **6. Expected effects** |
| The IASB retained the simplification in paragraph 28.19 of the Standard and clarified that, when applying paragraph 28.19, an SME measures a defined benefit plan obligation at the current termination amount. Therefore, the SME would assume all its current employees terminate their employment at the reporting date and would not discount its obligations from defined benefit plans. The IASB also decided to require an SME to disclose its assumptions for measuring its obligation.<br><br>The IASB reasoned that retaining the simplification in paragraph 28.19 of the Standard ensures SMEs do not incur increased actuarial costs in accounting for defined benefit schemes. Avoiding increased actuarial costs is important because in some jurisdictions entities are required by law to provide post-employment benefits to employees. | Clarifying how to apply the simplification will reduce diversity in practice and result in consistent information for users of SMEs' financial statements.<br><br>SMEs that do not currently apply the simplification in paragraph 28.19 of the Standard are unaffected. |

| Section 34 *Specialised Activities* | |
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| **Agriculture: Bearer Plants** | |
| **1. Views sought in the Request for Information**<br><br>The IASB sought views on aligning the Standard with other amendments to full IFRS Accounting Standards, including the amendment introduced by *Agriculture: Bearer Plants*, which amended IAS 16 *Property, Plant and Equipment* and IAS 41 *Agriculture*. The amendment requires bearer plants to be accounted for in the same way as property, plant and equipment. | **2. Feedback on the Request for Information**<br><br>A few respondents expressed concerns about aligning Section 34 with the full amendment introduced by *Agriculture: Bearer Plants* because it might introduce complexity into the Standard for bearer plants. |
| **3. Proposal in the Exposure Draft**<br><br>The IASB proposed to align the Standard with *Agriculture: Bearer Plants*, which would require an SME to account for bearer plants as assets in accordance with Section 17 *Property, Plant and Equipment*. The produce growing on those bearer plants would remain within the scope of Section 34 *Specialised Activities*.<br><br>The IASB further proposed to provide an exemption so that an entity would not be required to separate bearer plants from the produce growing on them if, at initial recognition, such separation would involve undue cost or effort. | **4. Feedback on the Exposure Draft**<br><br>Many respondents agreed with the proposals. However, a few respondents expressed concern that the benefits of measuring bearer plants separately from their produce might not justify the costs, even with the undue cost or effort exemption.<br><br>A few other respondents said that bearer plants might not have produce on them at the time of initial recognition and therefore the question of whether produce could be measured separately at that time is hypothetical.<br><br>*continued ...* |

| Section 34 *Specialised Activities* | |
|---|---|
| **Agriculture: Bearer Plants** | |
| **5. IASB's response** | **6. Expected effects** |
| The IASB observed that the proposed undue cost or effort exemption was put forward to respond to respondents' cost–benefit concerns. An SME would not be required to measure bearer plants separately from the produce if the incremental cost or effort of doing so substantially exceeded the benefits for users of its financial statements.<br><br>Therefore, the IASB confirmed its proposal but made further clarifying changes to the requirements. The IASB clarified that an SME will need to assess these costs and benefits at initial recognition of the bearer plant to determine whether to apply Section 34 or Section 17, even if the bearer plant has no produce on it at this time. | As a result of the amendments, users of financial statements will generally receive cost information about bearer plants instead of fair value information, which is consistent with the approach in IAS 41. Users said that information about the fair value of bearer plants is of limited use to them. Separating the produce from the bearer plant is expected to provide users with better information about the fair value of the produce, and hence about the future cash flows from the ultimate sale of the produce. |

| Transition requirements | |
|---|---|
| **1. Views sought in the Request for Information**<br>The IASB did not seek views in the Request for Information on requirements for transition from the second to the third edition of the Standard, with the exception of providing relief to entities making the transition to the revised Section 23 by permitting an entity to continue applying its current revenue recognition policy for any contracts already in progress at the transition date or scheduled to be completed within a set time after the transition date. | **2. Feedback on the Request for Information**<br>Respondents generally supported permitting SMEs to apply the revised Section 23 prospectively.<br>Some respondents expressed concern that prospective application would remove comparability. Many of these respondents suggested addressing the lack of comparability by requiring entities that apply the revised Section 23 to disclose additional information. |
| **3. Proposal in the Exposure Draft**<br>The IASB used the transition requirements in full IFRS Accounting Standards, including reliefs from retrospective application. The IASB proposed additional transition relief to simplify the requirements, considering the costs and benefits for SMEs. | **4. Feedback on the Exposure Draft**<br>Most respondents agreed with the proposed transition requirements. However, some respondents disagreed because in their view permitting different transition requirements for different sections of the Standard would be confusing and would create complexity.<br>Most respondents who suggested alternative transition requirements suggested that SMEs be permitted to apply all the proposed amendments to the Standard prospectively. A few respondents suggested specific alternative transition requirements for some sections of the Standard.<br>*continued ...* |

| Transition requirements | |
|---|---|
| **5. IASB's response**<br>The IASB concluded that most of the alternative transition requirements suggested by respondents did not appropriately balance the costs for SMEs with the benefits to users.<br>However, the IASB decided to provide relief from the disclosure in Section 10 *Accounting Policies, Estimates and Errors* of the Standard of the amount of the adjustment for each financial statement line item affected for the current period. Withdrawing this requirement removes the additional cost to SMEs of maintaining parallel accounting systems in the current period simply to provide this information.<br>Otherwise, the IASB confirmed its proposals. | **6. Expected effects**<br>SMEs will apply the new and amended requirements retrospectively, except when specific transition relief is provided to minimise costs.<br>When SMEs apply the new and amended requirements retrospectively, users will benefit from the comparative information provided. Users will also obtain an explanation of any change in accounting policy and its effect on the financial statements—that is, the amount of the adjustment for each financial statement line item affected for the prior period (or periods if an SME provides more than one year of comparatives). The impracticability exemption remains in place for restating some prior period data so the transition requirements are not expected to lead to a high cost burden. |

| Topics not covered in the Standard | |
|---|---|
| **Recognition and measurement requirements for development costs** | |
| **1. Views sought in the Request for Information**<br>The IASB sought views on topics not covered in the Standard. Specifically, the IASB asked whether any topics not included in the Standard should be the subject of specific requirements. | **2. Feedback on the Request for Information**<br>Respondents suggested that the IASB reconsider the requirements for development costs in the Standard. |
| **3. Proposal in the Exposure Draft**<br>The IASB asked whether it should amend the Standard to partially align with IAS 38 *Intangible Assets* and offer SMEs an accounting policy option to recognise intangible assets arising from development costs if these costs meet specified criteria. | **4. Feedback on the Exposure Draft**<br>Most respondents agreed with the proposal to introduce an accounting policy option for SMEs to recognise intangible assets arising from development costs that meet the specified criteria. These respondents said that SMEs incur higher development costs than they did when the Standard was first issued and can assess whether a project is commercially viable on an ongoing basis.<br>A few respondents suggested that the IASB align the Standard with IAS 38, which requires entities to recognise intangible assets arising from development costs that meet specified criteria.<br>A few other respondents suggested that the IASB make no changes to the requirement in the Standard to recognise development costs as an expense.<br>*continued ...* |

<table>
<tr><th colspan="2">Topics not covered in the Standard</th></tr>
<tr><th colspan="2">Recognition and measurement requirements for development costs</th></tr>
<tr><td>5. IASB’s response<br><br>The IASB decided not to introduce an accounting policy option for SMEs to recognise intangible assets arising from development costs. This decision was consistent with its aim to restrict accounting policy options in the Standard.<br><br>The IASB concluded that permitting an accounting policy choice and permitting an SME to recognise only a portion of the development costs (those that meet the specified criteria):<br>• would make information in SMEs’ financial statements more challenging for users to analyse; and<br>• might not provide useful information to users—investors have other ways of accessing information about development costs incurred by SMEs.</td><td>6. Expected effects<br><br>None. No changes have been made to Section 18. SMEs will continue to benefit from applying the simplified requirements for development costs.</td></tr>
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# Important information

This Feedback Statement and Effects Analysis accompanies, but is not part of, the *IFRS for SMEs* Accounting Standard.

**Other relevant documents**

**Standard**—sets out the requirements in the third edition of the *IFRS for SMEs* Accounting Standard which replaces the previous edition of the Standard.

**Basis for Conclusions**—summarises the considerations of the International Accounting Standards Board in developing the third edition, and previous editions, of the *IFRS for SMEs* Accounting Standard.

**Project Summary**—provides an overview of the second comprehensive review of the *IFRS for SMEs* Accounting Standard.

This document is not part of IFRS Standards and does not add to or otherwise change the requirements in the Standards. It was developed to aid stakeholders' understanding of our Standards. Views expressed in the document do not necessarily reflect those of the International Accounting Standards Board, the International Sustainability Standards Board or the IFRS Foundation. The document should not be relied upon as professional or investment advice.

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