IFRS
Accounting

Project Summary

IFRS for SMEs®

Accounting Standard

Third Edition | February 2025

Contents

At a glance

The second comprehensive review

The International Accounting Standards Board (IASB) has completed its second comprehensive review of the *IFRS for SMEs®* Accounting Standard (Standard).

The IASB aimed to update the Standard to reflect improvements that have been made to full IFRS Accounting Standards while keeping the Standard simple.

The IASB updated the Standard by using the alignment approach described on page 6 of this Project Summary.

The third edition of the Standard is effective on 1 January 2027. Early application is permitted.

The IASB's approach to updating the *IFRS for SMEs* Accounting Standard

The IASB maintains the Standard through periodic reviews, which include publishing an exposure draft of proposed amendments to the Standard.

The IASB developed the Standard based on requirements in full IFRS Accounting Standards, with simplifications to reflect the needs of users of SMEs' financial statements and the resources available to SMEs. The alignment approach applied in this review is consistent with the approach used by the IASB in developing the first edition of the Standard.

The amendments made in this review are summarised on page 11 of this Project Summary.

The IASB updated the *IFRS for SMEs* Accounting Standard to **improve the information** provided to **users of SMEs' financial statements** while **maintaining the simplicity of the Standard**.

The *IFRS for SMEs* Accounting Standard

A global Standard for SMEs

The *IFRS for SMEs* Accounting Standard is a self-contained, globally recognised Standard. The Standard was developed in response to international demand for the IASB to develop global standards for small and medium-sized entities (SMEs). The Standard is a set of high-quality financial reporting principles tailored for SMEs and users of their financial statements.

Who are SMEs?

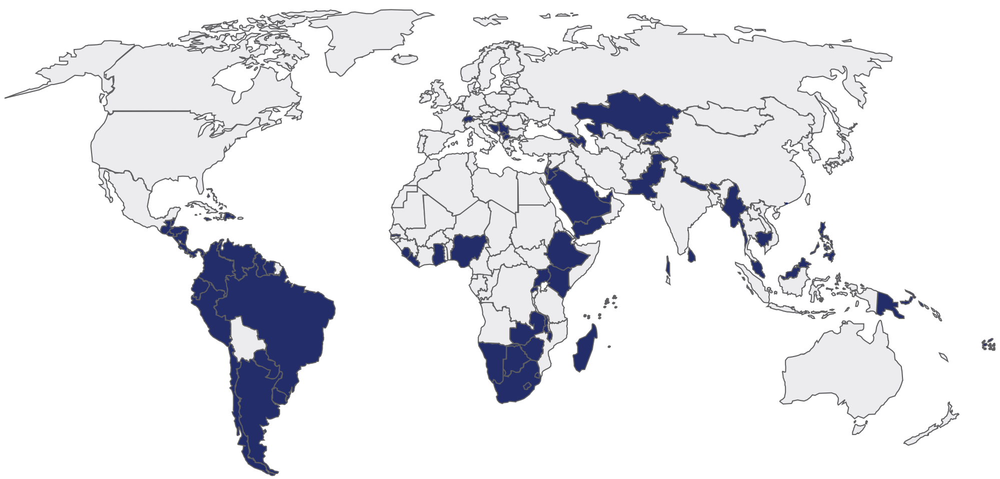
For purposes of the Standard, SMEs are entities without public accountability. An entity has public accountability if its equity or debt instruments are listed in a public market or it holds assets in a fiduciary capacity.

History of the Standard

First edition	2009	*IFRS for SMEs* Accounting Standard issued and immediately effective		
Second edition	2015	Amendments from the first review issued	2017	Amendments from the first review effective
Amendments	2023	Pillar Two Model Rules amendments issued	2023	Pillar Two Model Rules amendments effective
Third edition	2025	Third edition of the *IFRS for SMEs* Accounting Standard issued	2027	Third edition of the *IFRS for SMEs* Accounting Standard effective

Worldwide adoption

As of August 2024, 85 jurisdictions permit or require the application of the Standard.



IFRS for SMEs Accounting Standard is required or permitted

How the IASB develops the *IFRS for SMEs* Accounting Standard

The Standard is based on full IFRS Accounting Standards with simplifications to reflect the information needs of users of SMEs' financial statements and the resources available to SMEs.

Simplifications

The IASB simplifies the Standard by:

- omitting topics that are not relevant to SMEs;
- removing some accounting policy options available in full IFRS Accounting Standards;
- simplifying recognition and measurement requirements;
- reducing disclosures; and
- simplifying language.

Information needs of users of SMEs' financial statements

In assessing disclosures for SMEs the IASB is guided by five principles about the information needs of users:

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

Framework for the second comprehensive review

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.

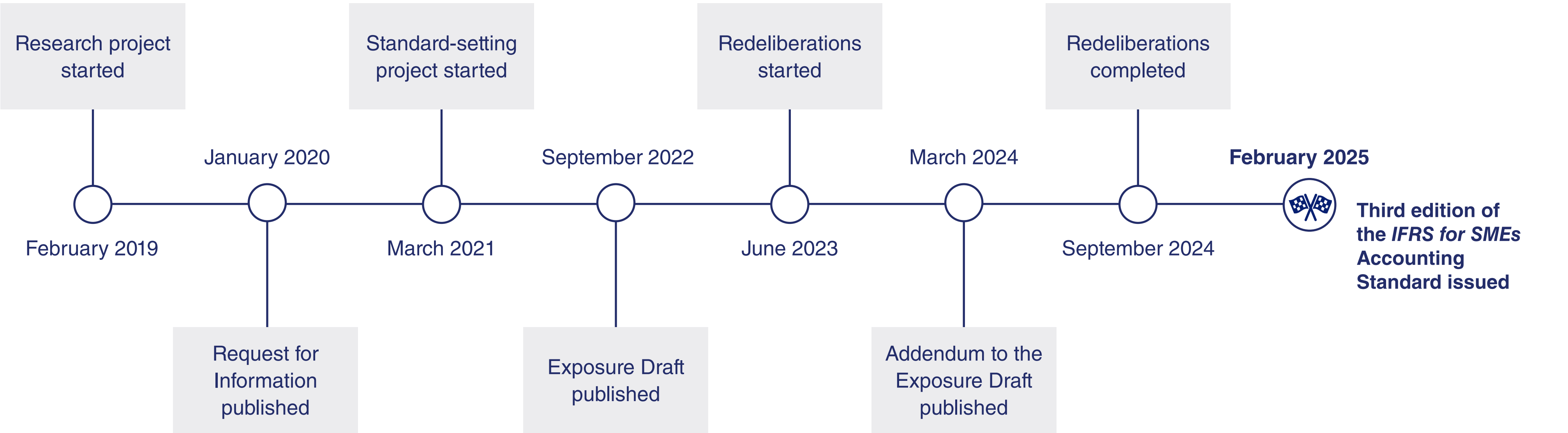
Relevance to SMEs	Is the topic **relevant** to SMEs?
Simplicity	Can the requirements of full IFRS Accounting Standards be **simplified**?
Faithful representation	Do the outcomes **faithfully represent** the substance of transactions?

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 full 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.

Time line of the second comprehensive review



The IASB published three consultation documents during the second comprehensive review:

Request for Information	The IASB sought views on whether and how to update the Standard for changes in full IFRS Accounting Standards that fall within the scope of the review (see pages 8–9 of this Project Summary).
Exposure Draft	The IASB developed proposals based on the feedback from the Request for information (see page 10 of this Project Summary).
Addendum to the Exposure Draft	The IASB developed proposals for two recent amendments to full IFRS Accounting Standards (see page 10 of this Project Summary).

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.

Scope of the second comprehensive review

The IASB included in the scope of the second comprehensive review:

1. requirements in full IFRS Accounting Standards issued:
   - since the first review; and
   - before the end of the first review that did not result in amendments to the Standard; and
2. other issues stakeholders raised, such as recognition of development costs and application of measurement simplifications for defined benefit obligations.

In final scope

9 IFRS Accounting Standards

42 Amendments to IFRS Accounting Standards and IFRIC Interpretations

The review originally included new and amended IFRS Accounting Standards and IFRIC Interpretations with an effective date on or before 1 January 2019, as well as the *Conceptual Framework for Financial Reporting*. The IASB extended the scope of the review to include four amendments to IFRS Accounting Standards that became effective after 1 January 2019, either because waiting until the next review would delay the benefits from those amendments or because the amendments are linked to amendments that were already in scope. Those four amendments are:

- *Definition of Material* (effective 1 January 2020);
- *Definition of a Business* (effective 1 January 2020);
- *Supplier Finance Arrangements* (effective 1 January 2024); and
- *Lack of Exchangeability* (effective 1 January 2025).

The scope of the second comprehensive review included the *Conceptual Framework for Financial Reporting* (issued in 2018) and the following IFRS Accounting Standards:

- IFRS 3 *Business Combinations* (issued in 2008);
- IFRS 9 *Financial Instruments*;
- IFRS 10 *Consolidated Financial Statements*;
- IFRS 11 *Joint Arrangements*;
- IFRS 13 *Fair Value Measurement*;
- IFRS 14 *Regulatory Deferral Accounts*;
- IFRS 15 *Revenue from Contracts with Customers*;
- IFRS 16 *Leases*; and
- IAS 19 *Employee Benefits* (revised in 2011).

Request for Information

In the Request for Information the IASB sought views on:

- the framework for the review, including whether the Standard should continue to be based on full IFRS Accounting Standards;
- ways to align the Standard with new and amended full IFRS Accounting Standards to better serve users of SMEs' financial statements without causing undue cost or effort for SMEs; and
- topics that were not addressed in the Standard and other matters related to the Standard.

Feedback on the alignment approach

The IASB consulted stakeholders on its framework for the second comprehensive review as part of the Request for Information.

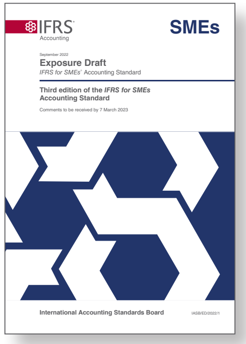
The alignment approach (see page 6 of this Project Summary) helps the IASB decide whether and, if so, how to update the Standard.

Respondents to the Request for Information supported the alignment approach.

Some respondents queried the assessment of costs and benefits that was part of applying the alignment approach. The IASB responded that it would propose an amendment to the Standard only if it determined that the requirement in full IFRS Accounting Standards would benefit users of SMEs' financial statements by affecting their decisions. This determination would be part of the cost–benefit considerations.

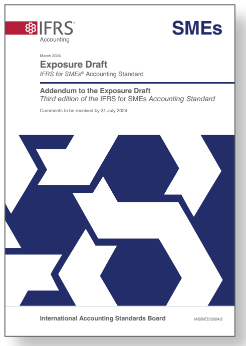
Exposure drafts and fieldwork

The Exposure Draft



The IASB developed the proposals in the Exposure Draft *Third Edition of the* IFRS for SMEs *Accounting Standard* using the framework that it consulted on in the Request for Information. This included proposing to amend the Standard to include *Definition of Material* and *Definition of a Business*.

The Addendum Exposure Draft



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

Fieldwork

Fieldwork on revenue from contracts with customers

The IASB carried out fieldwork on the proposed revised Section 23 *Revenue* (renamed *Revenue from Contracts with Customers*):

- to obtain feedback on whether the proposed requirements in the Exposure Draft were clear and understandable; and
- to understand whether preparers of SMEs' financial statements would be able to make the judgements to apply those proposed requirements.

Fieldwork on the expected credit loss model

The IASB carried out fieldwork to explore whether to introduce an expected credit loss model for financial assets held by SMEs who provide financing to customers as one of their primary businesses. The fieldwork was intended to help the IASB decide:

- if SMEs could determine whether they provide financing to customers as one of their primary businesses, and the cost of making this determination; and
- the costs and benefits of applying an expected credit loss model (based on the simplified approach in IFRS 9 *Financial Instruments*) for this sub-group of SMEs.

Amendments to the *IFRS for SMEs* Accounting Standard

Page	Sections with major amendments
12	Section 2 *Concepts and Pervasive Principles*
13	Section 9 *Consolidated and Separate Financial Statements*
14	Section 11 *Basic Financial Instruments* (renamed *Financial Instruments*)
16	New Section 12 *Fair Value Measurement*
17	Section 19 *Business Combinations and Goodwill*
19	Section 23 *Revenue* (renamed *Revenue from Contracts with Customers*)

Page numbers refer to pages in this Project Summary.

Other amendments to the Standard include:

- addition of requirements to disclose information about supplier finance arrangements;
- addition of a requirement to disclose a reconciliation of changes in liabilities arising from financing activities;
- addition of requirements about the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments;
- clarifications to paragraph 28.19 relating to the measurement simplification for defined benefit obligations and addition of disclosure requirements when applying this paragraph;
- alignment of requirements on the timing of recognition of termination benefits with requirements on recognition of restructuring costs in the scope of Section 21 *Provisions and Contingencies*; and
- addition of requirements for applying consistent approaches to assessing whether a currency is exchangeable into another currency, and to determining the exchange rate to use and the disclosures to provide.

Revised Section 2 *Concepts and Pervasive Principles*

Section 2 describes the objective of SMEs' financial statements and sets out the concepts and basic principles underlying these financial statements. The previous version of Section 2 was based on the 1989 *Framework for the Preparation and Presentation of Financial Statements*. That framework has been superseded by the *Conceptual Framework for Financial Reporting* issued in 2018 (2018 *Conceptual Framework*).

The IASB revised Section 2 to base it on the 2018 *Conceptual Framework*.

Undue cost or effort

The IASB retained the concept of 'undue cost or effort'.

The concept provides the IASB with a tool that helps to balance the costs and benefits of specific requirements in the Standard.

The concept also gives SMEs a way to make the best use of their resources and get relief from specific requirements. SMEs that use the exemption are required to provide disclosures about how and why it has been applied.

Status of Section 2

Section 2 is part of the Standard and therefore has equal authority to other sections of the Standard.

The IASB added an overriding principle that the requirements in other sections of the Standard take precedence over Section 2 in order to resolve any potential inconsistency between Section 2 and other sections of the Standard.

Requirements in other sections take precedence over Section 2

New concepts on measurement, presentation and disclosure

Guidance on derecognition

Revised *Conceptual Framework*

Updated definition and recognition criteria: assets and liabilities

Clarified concepts: prudence, stewardship, measurement uncertainty and substance over form

Amendments to Section 9 *Consolidated and Separate Financial Statements*

The IASB amended Section 9 of the Standard to base the requirements on IFRS 10 *Consolidated Financial Statements*. The IASB:

- updated the definition of control to be the same as that in IFRS 10, which uses the definition as the single basis for consolidation (control model); and
- introduced requirements for a parent that loses control of a subsidiary to measure its retained interest in the former subsidiary at fair value at the date control is lost, with any resulting gain or loss recognised in profit or loss.

The IASB retained the rebuttable presumption in Section 9 that control exists when an investor owns the majority of the voting rights of an investee. The rebuttable presumption simplifies application of the control model.

The IASB did not introduce in the Standard the requirement in IFRS 10 for a parent that is an investment entity to measure its investments in subsidiaries at fair value through profit or loss.

Applying the alignment approach

Relevance to SMEs	The single model will improve comparability between consolidated financial statements prepared applying the Standard. Few SMEs that prepare financial statements in accordance with the Standard would meet the definition of an investment entity in IFRS 10. Therefore, the IASB judged that the principle of relevance to SMEs is not met in relation to requirements for investment entities.
Simplicity	Retaining the rebuttable presumption makes application of the control model easier.
Faithful representation	The IASB observed during its post-implementation review of IFRS 10 that this standard is working as intended, resulting in financial statements that faithfully portray the reporting entity’s financial position and performance, and providing information that helps users to make informed decisions.

Amendments to Section 11 *Financial Instruments*

The IASB combined Section 11 *Basic Financial Instruments* and Section 12 *Other Financial Instrument Issues* into a single section renamed Section 11 *Financial Instruments*. The fair value measurement and disclosure requirements are now located in the new Section 12 *Fair Value Measurement*.

Applying the alignment approach to IFRS 9 *Financial Instruments*, the IASB:

- added a principle that supplements the classification and measurement requirements for financial instruments;
- added new disclosure requirements for financial assets and financial liabilities;
- added the definition of a financial guarantee contract and amended the requirements for issued intragroup financial guarantee contracts; and
- removed the option to apply the recognition and measurement requirements in IAS 39 *Financial Instruments: Recognition and Measurement*.

The IASB retained:

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

Applying the alignment approach

The IASB applied the alignment approach to each main topic in IFRS 9. Two topics were found not to be relevant to SMEs:

	Relevance to SMEs
Financial liabilities and own credit risk	The Standard does not include the option to measure financial liabilities at fair value through profit or loss. Therefore, the requirements do not meet the principle of relevance to SMEs because they would not be applicable to SMEs applying Section 11.
Impairment of financial assets at amortised cost	SMEs applying the Standard are generally not expected to have significant exposure to credit risk because the scope of the Standard excludes any entity that holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses. However, the IASB added a disclosure requirement for the age of financial assets measured at amortised cost to improve information about an SME's exposure to credit risk and expected cash flows.

Two topics met the principle of relevance to SMEs and therefore the principles of simplicity and faithful representation were applied:

	Simplicity	Faithful representation
Classification and measurement	The IASB introduced a principle to help preparers apply the Standard to instruments that they previously found difficult to classify. The principle is based on the IFRS 9 classification requirements but simplified. It requires an entity to classify a financial instrument based on its contractual cash flows, omitting the requirement in IFRS 9 to take into account the entity's business model for managing the financial instrument.	SMEs rarely hold financial assets under more than one business model. Excluding the business model assessment is accordingly unlikely to significantly affect how SMEs classify their financial assets. Therefore, the simplified classification principle will provide a faithful representation of the instrument's characteristics.
Issued financial guarantee contracts	The IASB simplified the requirements for intragroup financial guarantee contracts issued at nil consideration by including these contracts in the scope of Section 21 *Provisions and Contingencies*.	The IASB added a disclosure requirement that will enable users of SMEs' financial statements to understand the possible effects of intragroup financial guarantee contracts on an SME's future cash flows.

New Section 12 *Fair Value Measurement*

Applying the alignment approach to IFRS 13 *Fair Value Measurement*, the IASB:

- combined the fair value measurement requirements in other sections of the Standard into a new Section 12 (renamed *Fair Value Measurement*); and
- updated the fair value measurement requirements for some aspects of IFRS 13. For example, it:
  - amended the definition of fair value to be the same as that in IFRS 13;
  - aligned the requirements on fair value measurement with the principles of the fair value hierarchy in IFRS 13; and
  - aligned the disclosure requirements relating to fair value with those in IFRS 13.

Applying the alignment approach

Relevance to SMEs	Some sections of the Standard already require or permit the use of fair value measurement. The IASB decided aligning the Standard with IFRS 13 would lead to greater clarity and consistency when SMEs use fair value.
Simplicity	The definition of 'fair value' in IFRS 13 is clearer and more comprehensive than the definition in the second edition of the Standard and is therefore simpler to apply.
Faithful representation	The amendments will improve clarity and consistency when SMEs estimate fair value, resulting in faithful representation.

Revised Section 19 *Business Combinations and Goodwill*

IFRS 3 (2008) *Business Combinations* was developed to resolve known deficiencies and respond to application problems in the requirements of IFRS 3 (2004) *Business Combinations*, which the Standard was previously based on. Applying the alignment approach, the IASB revised Section 19 for the following topics:

- *Definition of a business*—updated the definition of a business to align with the updated definition in IFRS 3.
- *Identifying the acquirer*—added new requirements explaining that an entity newly formed to effect a business combination may not be the acquirer in the combination.
- *Recognising and measuring assets acquired and liabilities assumed*—
    - o updated references to the definitions of asset and liability to those in the revised Section 2; and
    - o updated the recognition requirements for contingent liabilities, clarifying that an acquirer cannot recognise a contingent liability that does not meet the definition of a liability.
- *Recognising and measuring goodwill*—
    - o updated the requirement for contingent consideration to be measured at fair value, if it can be measured reliably without undue cost or effort; and
    - o updated the requirement that acquisition costs be recognised as an expense in profit or loss at the time of the acquisition.
- *Business combinations achieved in stages*—added requirements for acquisitions achieved in stages (step acquisitions).

Applying the alignment approach

Relevance to SMEs	The IASB applied the alignment principles to new requirements in IFRS 3, introducing requirements that would ease application of the Standard (for example, amending the definition of a business) or improve information provided to users of SMEs' financial statements.
Simplicity	*Recognising and measuring assets acquired and liabilities assumed*—the IASB simplified the requirements because goodwill is amortised applying the Standard. Therefore, the allocation between goodwill and intangible assets has less effect on faithful representation. Simplifications from the requirements in IFRS 3 include: • retaining the earlier, simpler recognition criteria in the Standard for intangible assets acquired in a business combination; and • omitting the additional guidance on reacquired rights that is in IFRS 3. *Non-controlling interest*—simplified the requirements for measurement by not permitting a choice of measurement basis for non-controlling interests in an acquiree.
Faithful representation	The IASB judged that the requirements introduced provide a balance between simplicity and faithful representation. The revised requirements improve faithful representation of the underlying economics of a business combination, including the amount of goodwill recognised, and provide users of SMEs' financial statements with a better understanding of the costs of a business combination. *Definition of a business*—in response to feedback on the post-implementation review of IFRS 3, the IASB amended IFRS 3 to clarify the definition of a business and how to apply that definition. Because those amendments aim to ease application of IFRS 3, the IASB decided to make them available to SMEs as part of the third edition of the Standard. *Identifying the acquirer*—in response to feedback on the Request for Information, the IASB introduced guidance for identifying the acquirer when a new entity is formed to effect a business combination. *Business combinations achieved in stages*—although feedback on the Request for Information was mixed, the IASB introduced requirements for step acquisitions into the Standard to improve comparability and provide better-quality information for users of SMEs' financial statements.

Revised Section 23 (renamed *Revenue from Contracts with Customers*)

The IASB revised and renamed Section 23 to align with IFRS 15 *Revenue from Contracts with Customers*. The IASB:

- introduced a comprehensive framework for recognising revenue, based on the five-step model in IFRS 15 that requires an entity to recognise revenue when the customer obtains control of goods or services;
- simplified the requirements from IFRS 15 to make the five-step model easier for SMEs to apply; and
- provided transition relief allowing SMEs to apply their current revenue recognition policy to contracts already in progress at the date of initial application.

The five-step model

1	Identify the contract(s) with a customer
2	Identify the promises in the contract
3	Determine the transaction price
4	Allocate the transaction price to the promises in the contract
5	Recognise revenue when (or as) the SME fulfils a promise

The IASB developed simplifications based on feedback from those preparing financial statements in accordance with the Standard and those familiar with IFRS 15 (including the post-implementation review of IFRS 15).

Applying the alignment approach

Relevance to SMEs	The IASB decided that the more comprehensive model for recognising revenue is relevant to SMEs. Therefore, the IASB decided to make similar improvements to the Standard as were made to IFRS 15 so that users would benefit from improved information.
Simplicity	The IASB simplified the five-step model in IFRS 15, considering that SMEs generally have contracts with customers that are simpler than those of companies applying full IFRS Accounting Standards. Simplifications include: • using simple, concise language that is consistent with the language SMEs use when discussing contracts with customers. For example, Section 23 uses the term ‘promise’ for goods and services promised in a contract with a customer, instead of the term ‘performance obligation’ used in IFRS 15. • limiting the amount of judgement and information required from SMEs applying Section 23, for example: o SMEs account for a warranty based on whether a customer can choose to buy a good or service with or without the warranty, whereas IFRS 15 requires an assessment of whether a warranty provides a customer with a service; o customer options for additional goods or services are accounted for only if an SME can do so without undue cost or effort; and o costs to obtain a contract are recognised as an expense when incurred, removing the assessment required by IFRS 15 of whether these costs are an asset. • omitting topics the IASB considered were not relevant to SMEs, for example, consideration payable to a customer. • streamlining the disclosure requirements from IFRS 15, while improving them compared to previous requirements.
Faithful representation	The simplifications do not change the underlying principles in IFRS 15. Therefore, application of the requirements in Section 23 will result in an SME faithfully representing its performance.

Transition requirements and reliefs

SMEs are required to apply new and amended requirements in the Standard retrospectively. However, some relief from retrospective application is available for SMEs applying:

- the amended Section 9 *Consolidated and Separate Financial Statements*;
- the amended Section 11 *Financial Instruments* for SMEs that used the fallback to IAS 39 *Financial Instruments: Recognition and Measurement*;
- the new Section 12 *Fair Value Measurement*;
- the revised Section 19 *Business Combinations and Goodwill*; and
- the revised Section 23 *Revenue from Contracts with Customers*.

Topics for which the IASB did not amend the *IFRS for SMEs* Accounting Standard

Topic	Rationale
IFRS 14 *Regulatory Deferral Accounts*	The IASB's project on rate-regulated activities will replace IFRS 14 when it is completed. Therefore, the IASB decided not to amend the Standard in this review and to reconsider whether to include requirements for regulatory assets and regulatory liabilities in a future review.
IFRS 16 *Leases*	The IASB decided not to amend the Standard in this review. Decisions on whether, and if so how, to amend the Standard to align with IFRS 16 have been deferred until the next comprehensive review of the Standard. The decisions will be informed by the IASB's findings when it completes its post-implementation review of IFRS 16.
Cryptocurrency	Respondents to the Request for Information said that SMEs rarely hold cryptocurrencies or sell cryptoassets. The IASB is monitoring the use of cryptocurrencies and will revisit this topic in the next comprehensive review.

Important information

The Project Summary has been compiled by the staff of the IFRS Foundation for the convenience of interested parties. The views in this document are those of the staff who prepared this document and are not necessarily the views or the opinions of the IASB, and should not be considered authoritative in any way. The content of this Project Summary does not constitute any advice.

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