



THE 14th ANNUAL AOSSG MEETING

Joining hands in regional cooperation and the development of IFRS

November 15-16, 2022, Hybrid Meeting

IASB® Exposure Draft ED/2022/1

Third edition of the IFRS for SMEs® Accounting Standard

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Agenda

- ❑ **Section 1:** Update on the status of adoption of *IFRS for SMEs Accounting Standard* in AOSSG member-jurisdictions
- ❑ **Section 2:** Preliminary views of IASB Exposure Draft ED/2022/1 *Third edition of the IFRS for SMEs Accounting Standard*

Section 1:

**Update on the status of adoption of
IFRS for SMEs Accounting Standard in
AOSSG member-jurisdictions**

AOSSG WG: Specific Topic - IFRS for SMEs

- The IFRS for SMEs WG members comprise:

- Malaysia (Leader)
- Bangladesh
- Cambodia
- Indonesia
- Nepal
- Pakistan
- Sri Lanka
- Syria



Status of adoption of *IFRS for SMEs* Accounting Standard in AOSSG-member jurisdictions

Objective

- To update the status of adoption of *IFRS for SMEs* Accounting Standard in AOSSG member-jurisdictions.
- The update was carried out in September 2022.

Key Findings – details refer to AP04.1

Status of adoption of *IFRS for SMEs Accounting Standard* in AOSSG-member jurisdictions

	No. of AOSSG jurisdictions	
	Oct 2022	July 2017
<i>IFRS for SMEs Accounting Standard with modifications</i>	2 (N1)	1
<i>IFRS for SMEs Accounting Standard permitted</i>	9	9
SMEs not required to use full IFRS Accounting Standards are required to use <i>IFRS for SMEs Accounting Standard</i>	3 (N2)	2
<i>IFRS for SMEs Accounting Standard not used - including not used but under consideration (*)</i>	14 (2*) (N3)	14 (3*)
Total	28	26

N1: Indonesia has issued Indonesian Financial Accounting Standards for Private Entities which is developed based on *IFRS for SMEs Accounting Standard* (2017: Indonesia – not used)

N2: **Maldives in 2017 is not on the list.** AOSSG membership of Maldives will be approved at the 14th AOSSG Annual Meeting, Nov 2022

N3: Brunei and Thailand have issued local GAAP for SMEs; (2017: not used but under consideration) **Bangladesh** is considering *IFRS for SMEs Accounting Standard* (2017: not in the list of Analysis of Status of Adoption of *IFRS for SMEs Accounting Standard*)

Status of adoption of *IFRS for SMEs* Accounting Standard in AOSSG-member jurisdictions (@ October 2022)

<i>IFRS for SMEs</i> Accounting Standard with modifications	<i>IFRS for SMEs</i> Accounting Standard permitted	SMEs not required to use full IFRS Accounting Standards are required to use <i>IFRS for SMEs</i> Accounting Standard	<i>IFRS for SMEs</i> Accounting Standard not used
Indonesia	Cambodia	Pakistan	Australia
Malaysia	Dubai	Saudi Arabia	Bangladesh(*)
	Hong Kong	Maldives	Brunei
	Iraq		China
	Kazakhstan		India
	Nepal		Japan
	Philippines		Korea
	Singapore		Macao
	Sri Lanka		Mongolia(*)
			New Zealand
			Syria
			Thailand
			Uzbekistan
			Vietnam

* In these 2 jurisdictions, *IFRS for SMEs* Accounting Standard though currently not in sure, nonetheless, the Standard is under consideration .

Status of adoption of *IFRS for SMEs Accounting Standard* in AOSSG-member jurisdictions

Recap from the survey in 2017

Among the reasons why *IFRS for SMEs Accounting Standard* is not used (instead jurisdictions are using local GAAP):

- the jurisdictions have introduced a reduced disclosure regime
- reason by other jurisdictions is about the Standard itself, among others,
 - ✓ some sections in *IFRS for SMEs Accounting Standards* are too simple and some are too difficult to adopt without adequate guidance.
 - ✓ some sections, e.g., Financial Instruments, Presentation of Financial Statements in *IFRS for SMEs Accounting Standard* require restructuring.
 - ✓ few sections, e.g., Section 29 Income Tax, Section 27 Impairment of Assets require detailed explanations along with illustrations for better clarity and understanding.

Section 2:

IASB Exposure Draft ED/2022/1
Third edition of the IFRS for
SMEs Accounting Standard

IFRS for SMEs Accounting Standard - Timeline

2009

IFRS for SMEs Accounting Standard issued in July 2009

2010

SME Implementation Group (SMEIG) established

2012

1st Comprehensive Review commenced

2015

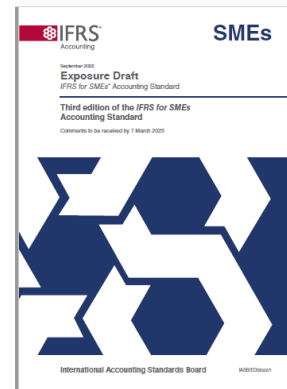
Amendments issued; effective: 1 Jan 2017

2019-2020

2nd Comprehensive Review commenced with a Request for Information published in January 2020

2022

IASB published Exposure Draft ED/2022/1 *Third edition of IFRS for SMEs Accounting Standard*



**IASB deadline:
7 March 2023**

IFRS for SMEs Accounting Standard – Next Step



Overview of the ED/2022/1 *Third edition of IFRS for SMEs Accounting Standard*

Framework for the Second Comprehensive Review

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?

Overview of the ED/2022/1 *Third edition of IFRS for SMEs Accounting Standard*

Alignment with IFRS Accounting Standards considered

- The Conceptual Framework
- IFRS 3 *Business Combinations*
- IFRS 9 *Financial Instruments*
- IFRS 10 *Consolidated Financial Statements*
- IFRS 11 *Joint Arrangements*
- IFRS 13 *Fair value measurement*
- IFRS 15 *Revenue from Contracts with Customers*
- Minor amendments to IFRS Accounting Standards and IFRIC Interpretations

To defer consideration:

- IFRS 14 *Regulatory Deferral Accounts*
- IFRS 16 *Leases*

Section 2:

**Preliminary views on
IASB Exposure Draft ED/2022/1**

Preliminary views

-ED/2022/1 *Third edition of IFRS for SMEs Accounting Standard*

What Have We Heard?

- IASB-AOSSG-MASB Virtual Outreach & MASB Outreach
 - ✓ The Virtual Outreach and MASB Outreach was held on 26 October and 3 November 2022 respectively to seek stakeholders' input on the ED
- AOSSG WG members

WG members are still reviewing the Exposure Draft

– all the comments here are the preliminary views, which may be subject to further change and hence are not the official view of the respective members

Preliminary views

-ED/2022/1 Third edition of IFRS for SMEs Accounting Standard

IASB-AOSSG-MASB Virtual Outreach & MASB Outreach

AOSSG WG members

- Key comments received are summarised in the following slides

Preliminary views

-ED/2022/1 *Third edition of IFRS for SMEs Accounting Standard*

IASB-AOSSG-MASB Virtual Outreach



Comment: General

- ✓ Proposals introduced more requirements involving **significant judgements and estimates** which will certainly **increase the complexity** in applying the *IFRS for SMEs Accounting Standards*. For e.g., in measuring retained interest at fair value when a parent loses control of a subsidiary and ECL for non-trade receivables and contract assets. **Suggestions:**
 - IASB to consider introducing undue cost or effort for the areas involving significant judgements and estimates.
 - IASB to consider not introducing too many measurements requiring significant judgement and estimate due to limited resources and expertise for SMEs as this may pose a risk on how reliable would such information is in the financial statements.

Preliminary views

-ED/2022/1 *Third edition of IFRS for SMEs Accounting Standard*

Financial Instruments: Proposal

- Remove the option to apply the recognition and measurement requirements in IAS 39
- Introduce:
 - a principle supplementary for classification and measurement
 - simplified requirements for issued financial guarantee contracts
 - an expected credit loss model for some financial assets measured at amortised cost
- Retain the incurred loss model for trade receivables and contract assets

Preliminary views

-ED/2022/1 *Third edition of IFRS for SMEs Accounting Standard*

AOSSG member



Financial Instruments: ECL

- Agree with the introduction of ECL for some financial assets
 - ✓ The simplified approach in IFRS 9 will be **too complex** and will **not have a major impact** on SMEs, considering the size of the financial assets of SMEs, cost and time involved in the process

Preliminary views

-ED/2022/1 *Third edition of IFRS for SMEs Accounting Standard*

IASB-AOSSG-MASB Virtual Outreach AOSSG members



Financial Instruments: ECL

Preliminary views :

- ✓ The cost of applying ECL, particularly on **incorporating forward-looking information**, seems to **outweigh the benefits**
 - SMEs rarely have complicated financial instruments
 - Primary users **do not seem to demand for more sophisticated information** provided by the ECL model
 - Does the **proposal align with the overarching principles** of not imposing undue cost or effort on the SMEs

Preliminary views

-ED/2022/1 *Third edition of IFRS for SMEs Accounting Standard*

MASB Outreach



Financial Instruments: ECL

Preliminary views :

- Given the capability and resource constraint of SMEs, the general preference is to keep the current impairment model to - **incurred loss model** – instead of the proposed ECL model which is expected to be complex and costly
- Due to limited resources and expertise for SMEs, such requirements may pose a risk on how reliable would such information be in the financial statements
- IASB to consider introducing undue cost or effort for such areas of significant judgments and estimates – including ECL

Preliminary views

-ED/2022/1 *Third edition of IFRS for SMEs Accounting Standard*

Leases: Proposal

- Decided not to align the Standard with IFRS 16 *Leases* during this review due to cost benefit

Preliminary views

-ED/2022/1 *Third edition of IFRS for SMEs Accounting Standard*

IASB-AOSSG-MASB Virtual Outreach

MASB Outreach

AOSSG Member



Leases

Preliminary views :

- ✓ **Strongly agreed** to postpone aligning the Standard with IFRS 16
 - MASB outreach with users' group – mostly supported with the postponement

Preliminary views

-ED/2022/1 *Third edition of IFRS for SMEs Accounting Standard*

Development cost: Proposal

- The IASB is seeking views on whether it should introduce an accounting policy option that allows recognition of intangible assets arising from development costs due to cost benefit

Preliminary views

-ED/2022/1 *Third edition of IFRS for SMEs Accounting Standard*

AOSSG member

Development cost



Preliminary views :

- ✓ Agree to provide **option** to recognise development cost in accordance with the criteria in IAS 38 as some SMEs might have significant intangible assets

Preliminary views

-ED/2022/1 *Third edition of IFRS for SMEs Accounting Standard*

IASB-AOSSG-MASB Virtual Outreach



Development cost

Preliminary views :

- ✓ IASB to consider postponing the accounting policy option that allows recognition of intangible assets arising from development costs until IASB completed its comprehensive review of IAS 38

Preliminary views

-ED/2022/1 *Third edition of IFRS for SMEs Accounting Standard*

Fair value measurement: Proposal

- Update the definition of fair value
- Update the framework for measuring fair value, including examples relevant to SMEs
- Require improved disclosures about fair value measurements

Preliminary views

-ED/2022/1 *Third edition of IFRS for SMEs Accounting Standard*

AOSSG members

Fair value measurement



Preliminary views :

- ✓ Support the proposals, including the proposed specific section for fair value measurement as compared to now in Sections 11 and 12

Preliminary views

-ED/2022/1 *Third edition of IFRS for SMEs Accounting Standard*

IASB-AOSSG-MASB Virtual Outreach



Fair value measurement

Preliminary views :

- ✓ IASB to consider issuing guidance on fair value measurement specifically for the SMEs

Preliminary views

-ED/2022/1 *Third edition of IFRS for SMEs Accounting Standard*

AOSSG member



Other topics

Preliminary views :

- (i) **Definition of public accountability** – Definition of the ‘public accountability’ can be **more precise** and to include in the definition the **entities having economic significance** (example having turnover, debts, equity, total assets or employee count exceeding certain threshold number).
- (ii) **Concepts and Pervasive Principles** – To regularly evaluate the definition of an asset and a liability in Section 2 once there are amendments in the related accounting standards.
- (iii) **Updating the paragraph numbers** – To renumber paragraphs would be better for each section since a lot of amendments are expected to be incorporated into the Standard.

**THANK
YOU**

