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Navigating the Updates—Third edition of the *IFRS for SMEs* Accounting Standard

PREPARED BY

MASB Secretariat

Six years in the making, the IASB released its third edition of *IFRS for SMEs* Accounting Standard (the Standard) in February 2025. The revised Standard incorporates major updates to align it with the IFRS Accounting Standards. In doing so, the IASB has tried to balance the costs to SMEs of implementing the changes, with the information needs of the readers of SMEs financial statement (mainly lenders).

The Standard is effective for annual reporting periods beginning on or after 1 January 2027. Early application is permitted.

Who is this Article for?

This Article provides an overview of the main changes to the Standard, for directors and senior managers working for entities that apply the Standard.

Key Updates at a Glance

The IASB made significant changes to align the Standard with IFRS Accounting Standards that were not reflected in the previous edition (published in 2015). These include:

- Section 2 Concepts and Pervasive Principles
- Section 9 Consolidated and Separate Financial Statements
- Section 11 Financial Instruments
- Section 12 Fair Value Measurement — NEW
- Section 19 Business Combinations and Goodwill
- Section 23 Revenue from Contracts with Customers
- Section 28 Employee Benefits

The main changes

This section introduces the key areas where the Standard has changed.

Section 2, Concepts and Pervasive Principles

Section 2 describes the purpose of an SME's financial statements and sets out the concepts and basic principles underlying these financial statements. The IASB revised this section to reflect the *Conceptual Framework for Financial Reporting*, issued in 2018 (2018 Conceptual Framework). The previous version of Section 2 was based on the 1989 *Framework for the Preparation and Presentation of Financial Statements*, which has been superseded by the 2018 Conceptual Framework.

Key changes
▪ New concepts on measurement, presentation and disclosure ▪ Updated definitions and recognition criteria for assets and liabilities ▪ Guidance on derecognition ▪ Clarified concepts of prudence, stewardship, measurement uncertainty and substance over form

Section 9, Consolidated and Separate Financial Statements

The IASB amended this section to base the requirements on IFRS 10 *Consolidated Financial Statements*. Section 9 retains the rebuttable presumption that control exists when an investor owns the majority of the voting rights of an investee.

Key changes
▪ Amended definition of control ▪ New requirements relating to the loss of control of a subsidiary

Section 11, Financial Instruments

The requirements from two sections – section 11 *Basic Financial Instruments* and section 12 *Other Financial Instruments* – are now combined into one section, section 11 *Financial Instruments*. This section aligns with IFRS 9 *Financial Instruments*.

Alongside these changes, the IASB decided to exclude IFRS 9's expected credit loss model for impairment of financial assets (see the Remaining Differences section below). The incurred loss model for the impairment of financial assets measured at amortised cost was also retained.

Key changes
▪ Removed the option to apply the recognition and measurement requirements in IAS 39 *Financial Instruments: Recognition and Measurement* ▪ New supplementary principle for the classification and measurement requirements for financial instruments ▪ New disclosure requirements for financial assets and financial liabilities ▪ Added the definition of a financial guarantee contract and amended requirements for issued intragroup financial guarantee contracts

Section 12, Fair Value Measurement

This is a new section, based on IFRS 13 *Fair Value Measurement*. The fair value measurement requirements that had previously featured in other sections of the Standard are now combined into Section 12.

Key changes
▪ Amended definition of fair value ▪ Aligned the requirements on fair value measurement with the principles of the fair value hierarchy in IFRS 13 ▪ Aligned disclosure requirements

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Section 19, Business Combinations and Goodwill

The IASB revised this section to align with IFRS 3 *Business Combinations*. Nevertheless, the IASB retained the amortisation of goodwill.

Key changes
▪ Revised definition of a business ▪ Updated recognition requirements for contingent liabilities ▪ Updated requirement for contingent consideration to be recognised at fair value ▪ New requirements for business combinations achieved in stages

Section 23, Revenue

This section was renamed to *Revenue from Contracts with Customers* and revised to align with IFRS 15 *Revenue from Contracts with Customers*. Changes to revenue recognition requirements affect all SMEs applying the Standard. Accordingly, the IASB conducted fieldwork obtain feedback about proposed changes. This informed the simplified five-step revenue recognition model.

Key changes
▪ New revenue recognition model, based on IFRS 15’s five-step model ▪ Transition relief allowing SMEs to apply their current revenue recognition policy to contracts already in progress at the date of initial application

Section 28, Employee Benefits

This has been improvised for better clarity.

Key changes
▪ Clarified the measurement simplification for defined benefit obligations ▪ Aligned the requirements on the timing of the recognition of termination benefits with the requirements on the recognition of restructuring costs in the scope of section 21 *Provisions and Contingencies* ▪ New requirement for a more detailed reconciliation of the opening and closing balances of a defined benefit obligation, plan assets and any recognised reimbursement rights

Remaining differences with full IFRS Accounting Standards

The IASB considered several other topic areas for potential alignment but decided not to make changes. These include, notably:

- **The expected credit loss model from IFRS 9 *Financial Instruments*:** After conducting fieldwork with SMEs that provide financing to customers, the IASB determined that the costs of applying the model outweighed the benefits for this sub-group of SMEs.

- **IFRS 16 *Leases*:** To avoid undue burden on SMEs, the IASB decided to defer decisions about potential alignment until the next Comprehensive Review of the Standard. This will be informed by the post-implementation review of IFRS 16.

- **IFRS 14 *Regulatory Deferral Accounts*:** The IASB's project on rate-regulated activities will replace IFRS 14 when it is completed.

Transitional requirements and reliefs

Entities are required to apply the changes to *IFRS for SMEs* retrospectively. However, transitional reliefs are available. These cover all the areas of key changes discussed above except for concepts and pervasive principles, and employee benefits.

Interactions with IFRS 19 *Subsidiaries without Public Accountability: Disclosures*

IFRS 19, issued in May 2024, provides eligible subsidiaries, applying full IFRS Accounting Standards, with the option of applying reduced disclosure requirements. A subset of SMEs are eligible to apply IFRS 19, if they:

- are subsidiaries;
- do not have public accountability; and
- have an ultimate or intermediate parent that produces consolidated financial statements available for public use that comply with IFRS Accounting Standards.

However, IFRS 19 is a disclosure-only standard, while *IFRS for SMEs* is a stand-alone standard that includes simplified recognition, measurement, presentation and disclosure requirements. Entities that apply IFRS 19 must therefore also apply the recognition and measurement requirements of other full IFRS Accounting Standards.

In deciding whether to transition to full IFRS Accounting Standards, therefore, it's important to consider the differences between the recognition and measurement requirements in *IFRS for SMEs*, and those in full IFRS – as outlined above – and weigh the costs and benefits that they bring.

Conclusion

This is a major overhaul of *IFRS for SMEs*. In approaching the update, the IASB has been mindful to weigh the costs to SMEs of the changes, against the decision-making benefits to the users of financial statements.

To prepare for the changes, companies applying *IFRS for SMEs* would be well-advised to:

- Assess the impacts of the changes on the financial statement;
- Consider whether any changes are needed to business or reporting systems;
- Make plans for communicating with stakeholders about the impact of the changes on the company's financial statements; and
- Where possible, learn from preparers applying full IFRS Accounting Standards, who have implemented the 'new' IFRS Accounting Standards in previous years.

END