



## Questions and Answers (Q&A)

### Exposure Draft *Third edition of the IFRS for SMEs<sup>®</sup> Accounting Standard*

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## Background

### Objective of the project

The objective of the project is to consider whether and how aligning the *IFRS for SMEs Accounting Standard* with full IFRS Accounting Standards would benefit users of financial statements prepared applying the *IFRS for SMEs Accounting Standard* without causing undue cost for entities applying the Standard.

The objective of the Exposure Draft *Third edition of the IFRS for SMEs Accounting Standard* is to update the *IFRS for SMEs Accounting Standard* to reflect improvements that have been made in full IFRS Accounting Standards (in the scope of the second comprehensive review) while keeping the Standard simple.

### Why is the IASB undertaking this project?

Based on feedback during development of the *IFRS for SMEs Accounting Standard* the IASB decided to update the Standard periodically.

The IASB issued the *IFRS for SMEs Accounting Standard* in 2009 and completed its first comprehensive review of the Standard in 2015.

After concluding the first comprehensive review the IASB supported future comprehensive reviews of the *IFRS for SMEs Accounting Standard* commencing no sooner than two years after the effective date of the amendments to the *IFRS for SMEs Accounting Standard* resulting from a previous comprehensive review.

The IASB commenced its second comprehensive review of the *IFRS for SMEs Accounting Standard* in 2019. As a first step, in January 2020 the IASB published the Request for Information *Comprehensive Review of the IFRS for SMEs Accounting Standard*. The objective of the Request for Information was to seek views on whether and how the IASB should amend the *IFRS for SMEs Accounting Standard*.

The Exposure Draft *Third edition of the IFRS for SMEs Accounting Standard* was published in September 2022.

## The IASB's approach to developing the proposals in the Exposure Draft

### Q1. What is the IASB's alignment approach, which was used to develop the proposed amendments to the *IFRS for SMEs Accounting Standard*?

- The IASB developed the *IFRS for SMEs Accounting Standard* from full IFRS Accounting Standards. The first and second editions of the *IFRS for SMEs Accounting Standard* were based on the 1989 *Framework for the Preparation and Presentation of Financial Statements* (1989 *Framework*) together with the principles and requirements in full IFRS Accounting Standards, but simplified for users' needs and cost–benefit considerations.
- After considering feedback on the Request for Information, the IASB decided to continue with this approach (the IASB's alignment approach). Therefore, when the IASB refers to aligning requirements of the *IFRS for SMEs Accounting Standard* with new or revised IFRS Accounting Standards, it is referring to applying its alignment approach to decide whether and how to develop proposed amendments to those requirements.
- The IASB's alignment approach treats alignment with full IFRS Accounting Standards as the starting point for developing the *IFRS for SMEs Accounting Standard*. To help the IASB apply judgement in deciding whether and, if so, how the Standard should be aligned with full IFRS Accounting Standards in the scope of the second comprehensive review the IASB applied the three alignment principles—of relevance to SMEs, simplicity and faithful representation—and an overall assessment of costs and benefits. The IASB's alignment approach applies these three alignment principles as follows:
  - relevance to SMEs is determined by assessing whether the problem addressed by requirements of full IFRS Accounting Standards would make a difference in the decisions of users of financial statements prepared applying the *IFRS for SMEs Accounting Standard*. If the relevance condition:
    - is met, the IASB would then consider the principle of simplicity for those requirements of full IFRS Accounting Standards.
    - is not met, analysis of the other two alignment principles 'simplicity' and 'faithful representation' is not necessary because alignment of the *IFRS for SMEs Accounting Standard* with those requirements of full IFRS Accounting Standards would not make a difference to users of financial statements.
  - applying the principle of simplicity involves looking at the requirements of full IFRS Accounting Standards that have satisfied the relevance condition and then assessing what simplifications are appropriate. For any simplifications made, the IASB would then consider the principle of faithful representation.
  - the principle of faithful representation is intended to help the IASB assess whether financial statements prepared applying the *IFRS for SMEs Accounting Standard* would faithfully represent the substance of economic phenomena in words and numbers. Simplifications that would result in financial statements that do not meet this criterion could damage the quality of information reported to users.

- In applying the principle of relevance to SMEs, the IASB would only propose amendments to the *IFRS for SMEs* Accounting Standard if it assessed that a new requirement in full IFRS Accounting Standards would make a difference to users of SMEs' financial statements. This assessment would, itself, be part of the cost–benefit considerations. Acknowledging the limited resources of entities applying the *IFRS for SMEs* Accounting Standard, the IASB decided it would consider the costs and benefits of aligning the Standard separately with each new requirement in full IFRS Accounting Standards in the scope of the review.

**Q2. How do the proposals relate to the Request for Information issued in January 2020?**

- The Request for Information was the first step in the IASB's second comprehensive review of the *IFRS for SMEs* Accounting Standard.
- The Request for Information asked for views on the framework for the second comprehensive review. Respondents were also asked for their views whether and, if so, how to align the *IFRS for SMEs* Accounting Standard with IFRS Accounting Standards in the scope of the review.
- The IASB considered the feedback on the Request for Information, alongside feedback from other stakeholders, including financial statement users, during outreach events, and the advice of the SME Implementation Group, when developing the proposals for amendments to the *IFRS for SMEs* Accounting Standard set out in the Exposure Draft.
- The Exposure Draft is the second step in the IASB's second comprehensive review of the *IFRS for SMEs* Accounting Standard.

**Q3. Why have some sections of the *IFRS for SMEs* Accounting Standard been rewritten and presented clean in the Exposure Draft, while other sections show proposed changes marked up?**

- The proposed amendments involve the addition of new paragraphs and the deletion of existing paragraphs. Sometimes, the addition or deletion of paragraphs within a section may complicate the readability of the *IFRS for SMEs* Accounting Standard. Therefore, some sections (for example Section 2 *Concepts and Pervasive Principles* and Section 23 *Revenue from Contracts with Customers*) have been revised. The previous requirements of Section 2 and Section 23 have been removed and replaced with new requirements.
- The Invitation to Comment in the Exposure Draft asks for views on the approach taken to retain or amend paragraph numbers in each section of the Exposure Draft.

**Q4. Are there any transition reliefs provided for SMEs applying the proposed amendments for the first time?**

- Yes, these are included in Appendix A to the Exposure Draft.
- The IASB used transition requirements and reliefs in IFRS Accounting Standards as the starting point and then considered appropriate simplifications.
- The IASB is proposing that if no transition requirements are specified for a proposed amendment, an SME would be required to apply the amendment retrospectively, unless impracticable.

#### Q5. When will the proposals become effective?

- The Exposure Draft proposes that the effective date of the amended Standard is at least two years from the date that the third edition of the *IFRS for SMEs Accounting Standard* is issued.
- Early adoption of the third edition of the *IFRS for SMEs Accounting Standard* in its entirety would be permitted.

#### Q6. How can stakeholders best contribute to the Exposure Draft?

- The IASB invites comments on Exposure Draft *Third edition of the IFRS for SMEs Accounting Standard*, particularly on the questions set out in the Invitation to Comment in the Exposure Draft.
- Comment letters play a pivotal role in collecting feedback on consultation documents such as exposure drafts, because the letters provide considered, public responses to that formal consultation.
- Comment letters are particularly effective in contributing to the development of Standards if they:
  - respond to the questions as stated;
  - specify the paragraph(s) to which they relate;
  - contain a clear rationale;
  - identify any wording in the proposals that is difficult to translate; and
  - include any alternative approach the IASB should consider, if applicable.
- Q1 explains how the IASB applied its three alignment principles to develop the proposals in the Exposure Draft. Comments and suggestions in response to the questions in the Invitation to Comment will be most helpful if they refer to the alignment principles and explain how any suggested changes would give better application of these principles.
- Comment letters need not answer all the questions in the Invitation to Comment to provide helpful input.
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#### Q7. How long is the comment period and what happens after the comment period ends?

- The comment period is 180 days. It ends on 7 March 2023.
- Soon after the comment period ends, the comment letters are initially summarised in comment letter summaries that are discussed in public meetings and published online.
- The IASB will deliberate the feedback it receives on the proposals in the Exposure Draft, following the due process requirements of the IFRS Foundation. The IASB expects to begin deliberating the proposals in Q2 of 2023.

**Q8. What is the role of the SME Implementation Group in this comprehensive review?**

- The SME Implementation Group is providing advice to the IASB throughout this comprehensive review on whether and how to amend the *IFRS for SMEs* Accounting Standard.
- Responsibility for publishing formal proposals for amendments to the *IFRS for SMEs* Accounting Standard and approving the final amendments rests with the IASB.

**Scope of the second comprehensive review of the *IFRS for SMEs* Accounting Standard**

**Q9. Which IFRS Accounting Standards fall within the scope of this review?**

- The *Conceptual Framework for Financial Reporting* (issued in 2018);
- IFRS 3 *Business Combinations*;
- 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).

(this list excludes minor amendments to IFRS Accounting Standards)

**Q10. Why is the IASB reconsidering some IFRS Accounting Standards that were considered as part of the first comprehensive review of the *IFRS for SMEs* Accounting Standard?**

- When the IASB performed its first comprehensive review of the *IFRS for SMEs* Accounting Standard, it decided not to amend the *IFRS for SMEs* Accounting Standard to take account of some IFRS Accounting Standards and amendments to IFRS Accounting Standards in the scope of the review.
- The IASB made these decisions, in part, to minimise changes to what was then a newly issued Standard, but also because many entities that had adopted the *IFRS for SMEs* Accounting Standard had done so very recently.
- This comprehensive review re-examines those IFRS Accounting Standards.

**Q11. Is the IASB considering any of its current projects relating to full IFRS Accounting Standards as part of this review?**

- Ongoing projects are not considered as part of this review—they are at various stages of completion and the public nature of the IASB's deliberations means the IASB's latest views are available to the public.
- Until an IFRS Accounting Standard, amendment to an IFRS Accounting Standard or IFRIC Interpretation is issued, those views are tentative and subject to change.

**Q12. How has the IASB determined which IFRS Accounting Standards should be within the scope of the review?**

- The IASB has reaffirmed its decision from the first comprehensive review, whereby the review includes IFRS Accounting Standards that are effective at commencement of the review, that is, IFRS Accounting Standards effective as at January 2019.
- The IASB has made two exceptions—*Definition of Material* and *Definition of a Business* are both effective from 1 January 2020, but are included in the review. The IASB is of the view that these amendments provide clarification and therefore would ease application of the *IFRS for SMEs Accounting Standard*.

**Q13. Where can I get an overview of the changes being proposed?**

- Table T1, which is provided in an appendix following the Introduction to the Exposure Draft, lists the proposed amendments by section of the *IFRS for SMEs Accounting Standard*. Table T1 can be found near the beginning of the Exposure Draft.

**Interaction with the proposed IFRS Accounting Standard *Subsidiaries without Public Accountability: Disclosures***

In July 2021, the IASB published [Exposure Draft ED/2021/7 \*Subsidiaries without Public Accountability: Disclosures \(ED/2021/7\)\*](#), which sets out the IASB’s proposed new IFRS Accounting Standard that would permit an eligible subsidiary to apply reduced disclosure requirements when applying full IFRS Accounting Standards.

**Q14. Which entities are within the scope of the proposed IFRS Accounting Standard *Subsidiaries without Public Accountability: Disclosures*? (Eligibility Criteria)**

- The scope of the proposed IFRS Accounting Standard *Subsidiaries without Public Accountability: Disclosures* is limited to the following subset of SMEs: An entity that at the end of the reporting period:
  - is a subsidiary;
  - does not have public accountability; and
  - has a parent that produces consolidated financial statements available for public use that comply with full IFRS Accounting Standards.
- The description of ‘public accountability’ in the proposed IFRS Accounting Standard is based on the definition in the *IFRS for SMEs Accounting Standard*.
- The IASB undertook the *Disclosure Initiative—Subsidiaries without Public Accountability: Disclosures* project following suggestions, received in response to the *Request for Views—2015 Agenda Consultation*, that the IASB permits subsidiaries to apply IFRS Accounting Standards with reduced disclosure requirements. Respondents to the *Request for Views—2015 Agenda Consultation* said that applying the *IFRS for SMEs Accounting Standard* is unattractive to subsidiaries because there are recognition and measurement differences



between the *IFRS for SMEs* Accounting Standard and full IFRS Accounting Standards. Subsidiaries reporting to their parent, for consolidation purposes, applying full IFRS Accounting Standards would prefer for their own financial statements to also use full IFRS Accounting Standards but with reduced disclosure requirements.

**Q15. How does the *IFRS for SMEs* Accounting Standard interact with the proposed IFRS Accounting Standard *Subsidiaries without Public Accountability: Disclosures*?**

- The IASB’s proposed new IFRS Accounting Standard *Subsidiaries without Public Accountability: Disclosures* would be part of full IFRS Accounting Standards and so would be part of a different set of Standards than the *IFRS for SMEs* Accounting Standard.
- However, in developing the disclosure requirements in Exposure Draft ED/2021/7 *Subsidiaries without Public Accountability: Disclosures*, the IASB used the *IFRS for SMEs* Accounting Standard as the starting point. This approach is appropriate because:
  - eligible subsidiaries meet the definition of SMEs and so can apply the *IFRS for SMEs* Accounting Standard; and
  - the disclosure requirements in the *IFRS for SMEs* Accounting Standard are reduced from IFRS Accounting Standards.
- The IASB developed the disclosure requirements proposed in ED/2021/7 using the following approach:
  - when there is no recognition and measurement difference between the *IFRS for SMEs* Accounting Standard and full IFRS Accounting Standards, the IASB used the disclosure requirements in the *IFRS for SMEs* Accounting Standard but updated them to align terms and language with full IFRS Accounting Standards; and
  - when recognition and measurement requirements differ, the IASB used the disclosure requirements in full IFRS Accounting Standards but tailored them by applying the principles it used in considering the needs of users of SMEs’ financial statements—set out in paragraph BC157 of the Basis for Conclusions on the *IFRS for SMEs* Accounting Standard.
- Applying this approach, the IASB:
  - could be satisfied that the disclosure requirements in ED/2021/7 would be sufficient to meet the needs of users of SMEs’ financial statements, which include users of eligible subsidiaries’ financial statements.
  - was able to save time and resources by leveraging the work it had already completed in developing the disclosure requirements in the *IFRS for SMEs* Accounting Standard.
- Furthermore, this approach would be expected to provide the same outcome as if the IASB had developed the disclosure requirements in ED/2021/7 using the disclosure requirements in full IFRS Accounting Standards as the only starting point, and then assessing users’ needs and applying the principles set out in paragraph BC157 of the Basis for Conclusions on the *IFRS for SMEs* Accounting Standard.



**Q16. Why is the interaction of the *IFRS for SMEs* Accounting Standard with Exposure Draft ED/2021/7 *Subsidiaries without Public Accountability: Disclosures* relevant to this second comprehensive review of the *IFRS for SMEs* Accounting Standard?**

- The IASB developed the disclosure requirements in the *IFRS for SMEs* Accounting Standard using the disclosure requirements in full IFRS Accounting Standards as a starting point, and then assessing users' needs and applying the principles set out in paragraph BC157 of the Basis for Conclusions on the *IFRS for SMEs* Accounting Standard. As part of the stakeholder engagement on the Request for Information, interviews were held with users of SMEs' financial statements and feedback was also obtained via an online user survey. Most users who provided feedback agreed that the principles in paragraph BC157 continue to be appropriate for setting disclosure requirements in the *IFRS for SMEs* Accounting Standard.
- Because of the approach used to develop the disclosure requirements proposed in ED/2021/7, as explained in Q15, the IASB is generally proposing to include the related disclosures from ED/2021/7 in the *IFRS for SMEs* Accounting Standard where requirements in the *IFRS for SMEs* Accounting Standard are proposed to be aligned with full IFRS Accounting Standards during this review (that is, when recognition and measurement differences are removed).