

September 2022

Exposure Draft—Snapshot *IFRS for SMEs[®] Accounting Standard*

Third edition of the *IFRS for SMEs* Accounting Standard

The IASB's objective

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.

Proposals

The International Accounting Standards Board (IASB) sought views, via a request for information, on a framework for deciding whether, how and when to amend the Standard for requirements in full IFRS Accounting Standards.

Applying that framework and taking into consideration the feedback on the request for information, the IASB is now proposing improvements to the *IFRS for SMEs* Accounting Standard.

Next steps

The IASB will consider feedback on the Exposure Draft in finalising the Third edition of the *IFRS for SMEs* Accounting Standard.

Comment deadline

7 March 2023

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

Why is the IASB proposing to amend the *IFRS for SMEs* Accounting Standard?

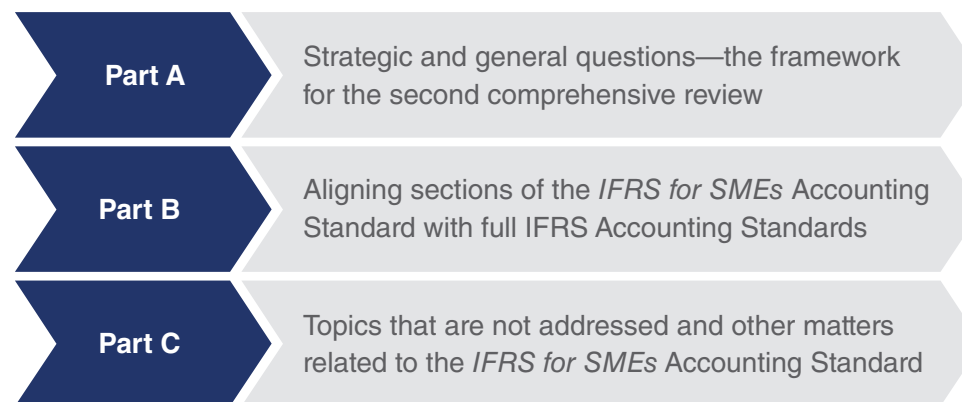
In **2009**, the IASB issued the first edition of the *IFRS for SMEs* Accounting Standard in response to strong international support for an accounting standard for entities without public accountability (referred to as small and medium-sized entities or SMEs in the Standard).

The IASB developed the *IFRS for SMEs* Accounting Standard based on requirements in full IFRS Accounting Standards, with simplifications to reflect the needs of SMEs and users of their financial statements.

The IASB is committed to maintaining the *IFRS for SMEs* Accounting Standard through periodic reviews and by publishing an omnibus exposure draft.

In **2015**, the IASB completed its **first review** of the *IFRS for SMEs* Accounting Standard by issuing the second edition of the Standard. There were limited amendments to the Standard resulting from the first review.

In **2019**, the IASB commenced its **second review** of the *IFRS for SMEs* Accounting Standard, publishing a request for information in January 2020. The request for information asked for views on:



In response to the feedback from stakeholders and the advice of the SME Implementation Group (SMEIG), the IASB has developed the Exposure Draft of proposed amendments.

Scope of the second comprehensive review

- 1 Requirements in full IFRS Accounting Standards issued:
 - since the first review; and
 - before the first review that did not result in amendments to the *IFRS for SMEs* Accounting Standard in 2015.
- 2 Other topics brought to the IASB's attention on the *IFRS for SMEs* Accounting Standard, such as the application of the measurement simplifications for employee benefits and the recognition and measurement of development costs.

In scope

9+

IFRS Accounting Standards

29+

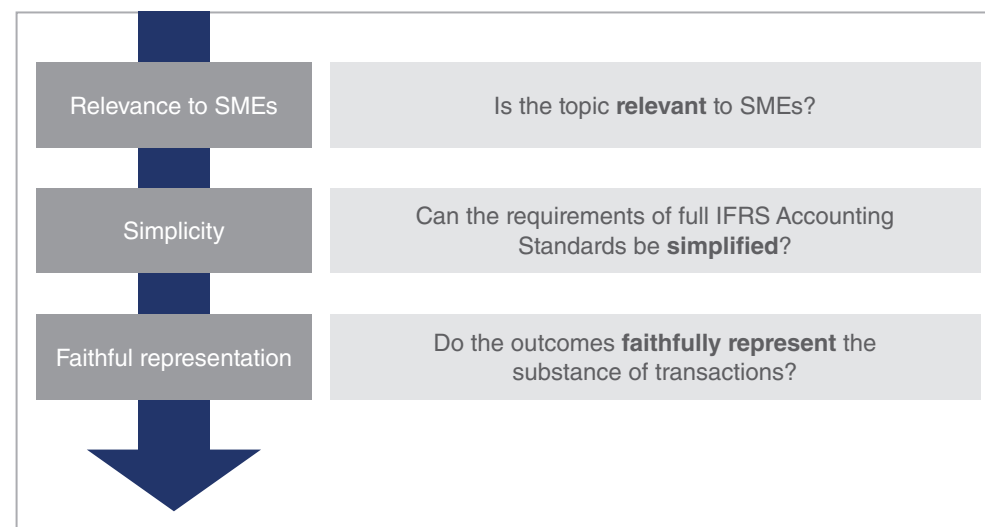
Minor amendments to IFRS Accounting Standards and IFRIC Interpretations

How did the IASB develop the proposed amendments?

The IASB has developed the proposed amendments using the framework on which the IASB consulted in the request for information.

This approach treats alignment with requirements in full IFRS Accounting Standards as the starting point. The IASB applies the principles of relevance to SMEs, simplicity and faithful representation, including the assessment of costs and benefits, to determine whether and how that alignment should take place.

The alignment principles



Outcome of the IASB's discussions



The IASB is proposing amendments to the *IFRS for SMEs* Accounting Standard to align it with some, but not all, requirements in full IFRS Accounting Standards in the scope of the second comprehensive review

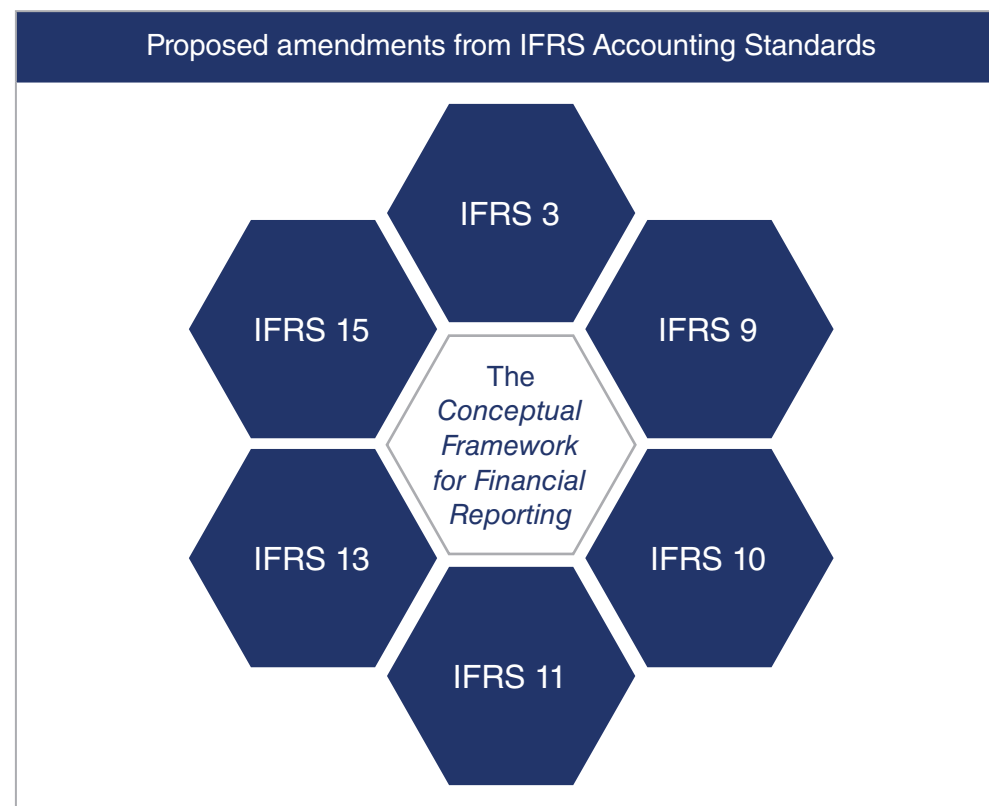
Topics to which the IASB has applied the alignment approach and is proposing amendments

This diagram sets out the major IFRS Accounting Standards to which the IASB has applied the framework and is proposing amendments to the *IFRS for SMEs* Accounting Standard.

Topics to which the IASB has applied the alignment approach and is not proposing amendments

The IASB will consider whether to align the *IFRS for SMEs* Accounting Standard with IFRS requirements for regulatory assets and regulatory liabilities and IFRS 16 *Leases* in a future review.

To prepare for future reviews, the IASB is seeking feedback on cost–benefit considerations of aligning the Standard with IFRS 16.



Proposed amendments

1 Concepts and basic principles

Section 2 Concepts and Pervasive Principles

Section 2 of the *IFRS for SMEs Accounting Standard* sets out the concepts and basic principles underlying the financial statements of SMEs. It is based on the 1989 *Framework for the Preparation and Presentation of Financial Statements*.

The IASB has applied the alignment approach and is proposing to revise Section 2 to align it with the *Conceptual Framework for Financial Reporting* issued in 2018.

The IASB is proposing ...

- **to introduce new concepts** on measurement, presentation and disclosure, and guidance on derecognition
- **to update definitions** and recognition criteria for assets and liabilities
- **to clarify the concepts** of prudence, stewardship, measurement uncertainty and substance over form
- **to add an overriding principle** that the requirements in other sections of the Standard take precedence over Section 2
- **to retain the concept of ‘undue cost or effort’**

? What would this mean for SMEs?

- Improvements will help SMEs when applying judgement in developing accounting policies when the *IFRS for SMEs Accounting Standard* does not specify requirements
- Retaining the concept of ‘undue cost or effort’ enables the IASB to continue providing relief to SMEs in specified circumstances

? What would this mean for users?

- An improved framework enhances information in the financial statements of SMEs—this has the potential of improving users’ understanding of information

2 Business combinations

Section 19 *Business Combinations and Goodwill*

Section 19 of the *IFRS for SMEs Accounting Standard* sets out requirements for SMEs undertaking a business combination. It is based on IFRS 3 *Business Combinations* issued in 2004.

The IASB has applied the alignment approach and is proposing to amend Section 19 to align it with the current version of IFRS 3.

The IASB is proposing ...

- **to update the definition** of a business, including application guidance and illustrative examples
- **to require the acquisition method of accounting:**
 - application guidance on identifying the acquirer and forming a new entity;
 - updating the recognition principle to refer to the definitions of assets and liabilities in the revised Section 2;
 - recognising contingent consideration at fair value, unless to do so involves undue cost or effort, and subsequent changes in the measurement of contingent consideration in profit or loss;
 - new requirements for acquisitions achieved in stages (step acquisitions); and
 - recognising acquisition-related costs as an expense in profit or loss.

? What would this mean for SMEs?

- A clearer and simpler definition of a business will help SMEs to decide when to apply Section 19
- Providing requirements for step acquisitions would remove the need for SMEs to decide on an accounting policy
- For future business combinations, the cost of a business combination and the amount of goodwill recognised could change for:
 - recognising a liability for contingent consideration on acquisition; and
 - expensing acquisition-related costs.

? What would this mean for users?

- Improved consistency on what is a business combination
- Reduced diversity in how SMEs account for step acquisitions
- Enhanced information to assess the initial investment and performance of business combinations

3 Financial instruments

Section 11

Basic Financial Instruments

Section 12

Other Financial Instrument Issues

Sections 11 and 12 of the *IFRS for SMEs Accounting Standard* set out requirements for financial instruments.

The IASB has applied the alignment approach to IFRS 9 *Financial Instruments* and is proposing limited changes to Sections 11 and 12.

The IASB is proposing ...

- **to remove the option** to apply the recognition and measurement requirements in IAS 39 *Financial Instruments: Recognition and Measurement*
- **to retain the incurred loss model** for trade receivables and contract assets
- **to introduce:**
 - **an expected credit loss model** for some financial assets measured at amortised cost;
 - **a principle for classification and measurement** of financial instruments based on their contractual cash flow characteristics; and
 - **simplified requirements for issued financial guarantee contracts** including a definition of a financial guarantee contract and measurement requirements—recognition at premium received and receivable.

? What would this mean for SMEs?

- Simplified recognition and measurement requirements for issued financial guarantee contracts because such contracts are currently measured at fair value
- No change for SMEs with simple trade receivables or payables

? What would this mean for users?

- Enhanced comparability by removing the option to apply IAS 39
- Better information from earlier recognition of impairment losses for *some* financial assets measured at amortised cost

4 The 'consolidation package'

Section 9
*Consolidated and Separate
Financial Statements*

Section 14
Investments in Associates

Section 15
Investments in Joint Ventures

Sections 9, 14 and 15 of the *IFRS for SMEs* Accounting Standard set out requirements for SMEs for investments in subsidiaries, associates and joint ventures. The requirements are based on requirements in IFRS Accounting Standards in place in 2009.

The IASB has applied the alignment approach to IFRS 10 *Consolidated Financial Statements* and IFRS 11 *Joint Arrangements* and is proposing changes to Sections 9, 14 and 15.

? What would this mean for SMEs?

- A single basis to assess control of an investee
- A principle for joint control aligned with the updated definition of control

? What would this mean for users?

- Increased comparability, usefulness and consistency of information from the proposed single basis for consolidation

The IASB is proposing ...

- **to update the definition of control** to align with IFRS 10
- **to retain the rebuttable presumption** that an SME controls an entity if the SME owns a majority of the voting rights of the entity
- **to add new requirements** for partial disposals that result in loss of control—an SME would measure any retained interest at fair value when control is lost
- **to update the definition of joint control** to align with IFRS 11
- **to retain the classifications of joint arrangements** as:
 - jointly controlled operations
 - jointly controlled assets
 - jointly controlled entities
- **to add requirements for when an entity participates but does not have joint control**

5 Fair value measurement

New section
Fair Value Measurement

Section 11 of the *IFRS for SMEs Accounting Standard* sets out requirements for measuring fair value of financial instruments and refers to those requirements in other sections of the Standard that require or permit the use of fair value.

The IASB has applied the alignment approach to IFRS 13 *Fair Value Measurement* and is proposing to consolidate the fair value measurement requirements in a new section.

The IASB is proposing ...

- **to update the definition of fair value**
- **to update the framework** for measuring fair value, including examples relevant to SMEs
- **to require improved disclosures** about fair value measurements

? What would this mean for SMEs?

- No changes to when SMEs are permitted or required to measure an item at fair value
- Clearer guidance on how to measure fair value

? What would this mean for users?

- Improved disclosures on fair value
- Improved comparability across entities

6 Revenue

Section 23 Revenue

Section 23 of the *IFRS for SMEs Accounting Standard* sets out requirements for SMEs to recognise revenue. It is based on IAS 11 *Construction Contracts* and IAS 18 *Revenue*.

The IASB has applied the alignment approach to IFRS 15 *Revenue from Contracts with Customers* and is proposing to revise Section 23 by introducing a single framework for recognising revenue for goods and services.

The IASB is proposing ...

- **to introduce a framework for recognising revenue** for goods and services, which requires revenue to be recognised when the customer obtains control of the good or service, based on the five-step model in IFRS 15
- **to simplify requirements of IFRS 15** to make the five-step model easier for SMEs to apply
- **to provide transition relief** to allow SMEs to apply their current revenue recognition policy to contracts already in progress

Framework for recognising revenue

Identify the contract(s) with a customer



Identify the promises in the contract



Determine the transaction price



Allocate the transaction price to the promises in the contract



Recognise revenue when (or as) the entity satisfies a promise

? What would this mean for SMEs?

- A comprehensive framework for determining when and how much revenue to recognise for goods and services
- For many contracts, the revised Section 23 is expected to have little, if any, effect on the amount and timing of revenue recognition

? What would this mean for users?

- Improved consistency in revenue reported for economically similar transactions
- Improved comparability across entities
- Improved disclosures to help understand the amount, timing and uncertainty of revenue and cash flows from contracts with customers

Topics to which the IASB has applied the alignment approach and is not proposing amendments

	IFRS 14	IFRS 16	Cryptocurrency
The IASB decided ...	<ul style="list-style-type: none"> to defer consideration of alignment of the <i>IFRS for SMEs Accounting Standard</i> with IFRS 14 <i>Regulatory Deferral Accounts</i>. 	<ul style="list-style-type: none"> to defer consideration of alignment of the <i>IFRS for SMEs Accounting Standard</i> with IFRS 16 <i>Leases</i>. 	<ul style="list-style-type: none"> not to include requirements in the <i>IFRS for SMEs Accounting Standard</i> for holdings of cryptocurrency and issues of cryptoassets.
Why?	<ul style="list-style-type: none"> IFRS 14 may be replaced when the IASB's project on rate-regulated activities is completed. 	<ul style="list-style-type: none"> Aligning the <i>IFRS for SMEs Accounting Standard</i> with IFRS 16 at this time imposes a workload on SMEs disproportionate to the benefit to users of their financial statements. Findings from the post-implementation review of IFRS 16 and application questions may provide additional information about the costs and benefits of aligning with IFRS 16. 	<ul style="list-style-type: none"> The use of cryptocurrency is not prevalent amongst SMEs. The IASB awaits the outcome of future research and standard-setting projects to develop requirements for cryptocurrency for entities applying full IFRS Accounting Standards.

The IASB plans to revisit these topics in a future review of the *IFRS for SMEs Accounting Standard*

At a glance

The table below summarises the extent of proposed amendments to each section of the *IFRS for SMEs Accounting Standard*

Section 1 <i>Small and Medium-sized Entities</i>	Minor	Section 18 <i>Intangible Assets other than Goodwill</i>	Minor
Section 2 <i>Concepts and Pervasive Principles</i>	Major	Section 19 <i>Business Combinations and Goodwill</i>	Major
Section 3 <i>Financial Statement Presentation</i>	Minor	Section 20 <i>Leases</i>	Editorial
Section 4 <i>Statement of Financial Position</i>	Editorial	Section 21 <i>Provisions and Contingencies</i>	Editorial
Section 5 <i>Statement of Comprehensive Income and Income Statement</i>	Editorial	Section 22 <i>Liabilities and Equity</i>	Editorial
Section 6 <i>Statement of Changes in Equity and Statement of Income and Retained Earnings</i>	Editorial	Section 23 <i>Revenue (renamed Revenue from Contracts with Customers)</i>	Major
Section 7 <i>Statement of Cash Flows</i>	Minor	Section 24 <i>Government Grants</i>	Editorial
Section 8 <i>Notes to the Financial Statements</i>	Minor	Section 25 <i>Borrowing Costs</i>	Editorial
Section 9 <i>Consolidated and Separate Financial Statements</i>	Major	Section 26 <i>Share-based Payment</i>	Minor
Section 10 <i>Accounting Policies, Estimates and Errors</i>	Minor	Section 27 <i>Impairment of Assets</i>	Editorial
Section 11 <i>Basic Financial Instruments</i> and Section 12 <i>Other Financial Instrument Issues</i> (combined and renamed Section 11 <i>Financial Instruments</i>)	Minor	Section 28 <i>Employee Benefits</i>	Minor
		Section 29 <i>Income Tax</i>	Minor
New Section 12 <i>Fair Value Measurement</i>	New section	Section 30 <i>Foreign Currency Translation</i>	Minor
Section 13 <i>Inventories</i>	Minor	Section 31 <i>Hyperinflation</i>	Editorial
Section 14 <i>Investments in Associates</i>	Minor	Section 32 <i>Events after the End of the Reporting Period</i>	No changes
Section 15 <i>Investments in Joint Ventures (renamed Joint Arrangements)</i>	Minor	Section 33 <i>Related Party Disclosures</i>	Minor
Section 16 <i>Investment Property</i>	Minor	Section 34 <i>Specialised Activities</i>	Minor
Section 17 <i>Property, Plant and Equipment</i>	Minor	Section 35 <i>Transition to the IFRS for SMEs (renamed Transition to the IFRS for SMEs Accounting Standard)</i>	Minor

Major Substantial changes to requirements are proposed	Minor Changes to requirements are proposed	Editorial No changes to recognition, measurement, presentation or disclosure requirements
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Information for respondents to the consultation

Submit your comments

Please submit your comments electronically by 7 March 2023:

- **Online:** <https://www.ifrs.org/projects/open-for-comment/>
- **By email:** commentletters@ifrs.org

Stay informed

To stay up to date with the latest developments on this project and to sign up for email alerts, please visit <https://www.ifrs.org/projects/work-plan/2019-comprehensive-review-of-the-ifrs-for-smes-standard/>

Get in touch

If you would like to discuss the information in this Snapshot, please contact the SME team at sme@ifrs.org.

Other relevant documents

The **Exposure Draft** includes:

- an introduction explaining how to read the Exposure Draft and providing an overview of the IASB's proposals in a tabular format
- questions for respondents
- the IASB's proposed amendments to the second edition of the *IFRS for SMEs* Accounting Standard

The **Basis for Conclusions** on the Exposure Draft includes:

- the IASB's considerations in developing its proposals
- the potential effects of the proposals

The proposed updates to the **Illustrative Financial Statements** in the second edition of the *IFRS for SMEs* Accounting Standard

This document

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- Official pronouncements of the IASB are available in electronic format to IFRS Digital subscribers. Publications are available at www.ifrs.org.

Glossary

This list of terms used in this document is for educational purposes only.

Full IFRS Accounting Standards

Standards and Interpretations issued by the IASB. They comprise:

- International Financial Reporting Standards;
- International Accounting Standards;
- IFRIC Interpretations; and
- SIC Interpretations.

They do not include the *IFRS for SMEs* Accounting Standard.

Small and medium-sized entities

Entities that:

- do not have public accountability; and
- publish general purpose financial statements for external users.

An entity has public accountability if:

- its debt or equity instruments are traded in a public market or it is in the process of issuing such instruments for trading in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets); or
- it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses (for example, banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks often meet this second criterion).

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