Comprehensive review of the IFRS for SMEs Standard

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The views expressed in this presentation are those of the presenter, not necessarily those of the International Accounting Standards Board or the IFRS Foundation.
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Background to the *IFRS for SMEs* Standard
Adoption of the *IFRS for SMEs* Standard

86 of 166 jurisdictions require or permit use of the *IFRS for SMEs* Standard

= *IFRS for SMEs* Standard is required or permitted
**IFRS for SMEs Standard—timeline**

- **2009**: *IFRS for SMEs Standard* issued in July 2009
- **2010**: SME Implementation Group established
- **2012**: 1st Comprehensive Review commenced
- **2015**: Amendments issued—effective 1 January 2017
- **2019**: 2nd Comprehensive Review commenced
Overview of the *IFRS for SMEs* Standard

- 250 pages
- Tailored for small and medium-sized entities (SMEs) that are not publicly accountable
- Based on principles from full IFRS Standards
- Focuses on information needs of lenders and other users of SMEs’ financial statements
IFRS for SMEs Standard
Resources available on our website

Website
www.ifrs.org

Modules
Supporting the IFRS for SMEs Standard

The IFRS for SMEs Standard

Guidance for micro entities

SME Implementation Group

Fact sheet

Presentations

SMEIG Q&As

News and events

https://www.ifrs.org/issued-standards/ifrs-for-smes/
Overview of the second comprehensive review
Emerging Economies Group and others discussed background to the IFRS for SMEs Standard

2019 Comprehensive Review commenced

Request for Information published (January 2020)

Survey published (April 2020)

Comment deadline*

Start of redeliberations

Meeting with SMEIG Consultative Group

*Extended from 27 July due to covid-19 pandemic.
Overview of the second comprehensive review

Phase I – Request for Information
Request for Information seeks feedback on whether and how to align the *IFRS for SMEs* Standard with IFRS Standards

Phase II – Feedback analysis
Decide whether to propose amendments to the *IFRS for SMEs* Standard
## Structure of the Request for Information

### Questions on ...

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<th>… strategy and the general framework for the review</th>
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<td>Part C</td>
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Part A: Strategy and the general framework for the review
Two possible approaches to the second comprehensive review

**Simplified IFRS Standard approach**
- Align IFRS for SMEs Standard with full IFRS Standards

**Independent Standard approach**
- Update IFRS for SMEs Standard only for specific issues arising from the application of the Standard

**Alignment Principles**
- Relevance
- Simplification
- Faithful representation
Alignment principles
When

The options are to incorporate changes:

1. Issued before the publication date of Request for Information
2. Effective before the publication date of Request for Information
3. Effective and Post-implementation Review completed before publication date of Request for Information
4. Based on some other date
Part B: Aligning with IFRS Standards
IFRS Standards in scope of the review

Issued before the first comprehensive review:
- IFRS 3
- IFRS 10
- IFRS 11
- IFRS 13
- IAS 19

Issued since the first comprehensive review:
- Concepts
- IFRS 9
- IFRS 14
- IFRS 15
- IFRS 16
IFRS Standards in scope of the review

Seeking views on alignment

- IFRS 13
- IFRS 10
- IFRS 15
- IFRS 3
- IFRS 9
- IFRS 16
- IFRIC Interpretations
- Amendments to IFRS Standards
- IFRS 14
- IFRS 11

Leaving unchanged
2018 Conceptual Framework for Financial Reporting

- Align Section 2 with the 2018 Conceptual Framework for Financial Reporting
- Consequential amendments to other Sections
- Retain the concept of ‘undue cost and effort’
Alignment—Fair Value Measurement

IFRS 13 Fair Value Measurement

- Align definition of **fair value**
- Align fair value hierarchy to provide clearer guidance
- Include examples illustrating application of hierarchy
- Move guidance and related disclosure requirements to Section 2
Alignment—Business Combinations and Consolidation

**IFRS 3 Business Combinations**

- Request information on introducing requirements for step acquisitions?
- Align: recognition of **acquisition costs**; measurement of **contingent consideration—fair value**, subject to undue cost or effort exemption; **definition of a business**
- Retain requirements for **recognition of intangibles**

**IFRS 10 Consolidated Financial Statements**

- Align definition of **control**
- Retain presumption that control exists if investor has direct power over an investee solely from voting rights
- Do not introduce requirement that investment entities account for investments at fair value through profit or loss
Alignment—Joint Arrangements and Revenue

**IFRS 11 Joint Arrangements**
- Align definition of **joint control**
- Retain:
  - the three categories of joint arrangements
  - the accounting requirements for each category of joint arrangement
  - policy election for jointly controlled entities

**IFRS 15 Revenue from Contracts with Customers**
- **Views sought** on alternative approaches:
  - Approach 1—update Section 23 to align outcomes with IFRS 15
  - Approach 2—rewrite Section 23 to align with IFRS 15
  - Approach 3—wait until the next review
Alignment—Financial Instruments

- Add a **classification principle** for financial assets based on contractual cash flow characteristics
- **Align simplified approach** to impairment of financial assets
- **Align** definition and requirements of *issued financial guarantee contracts*
- **Request information** on:
  - need for requirements on **hedge accounting**—if so, retain current requirements
  - need for a **fall-back**—if so, update to IFRS 9
Alignment—Leases

- Align to a single model for the accounting for leases
- Exempt entities from requirement to separate lease components from non-lease components
- Simplify recognition and measurement requirements for variable lease payments and optional payments relating to extension options
- Additional simplifications for: threshold for low-value assets, discount rate, determining and reassessing term of lease, subsequent (reassessment) of lease liability
- Retain finance lease disclosures
Part C: New topics and other related matters
## New topics and other related matters

### IFRS 14 Regulatory Deferral Accounts

Not aligning with IFRS 14 because it may be replaced by an active standard-setting project

### Other topics not addressed by the IFRS for SMEs Standard

Topics which stakeholder think should be the subject of specific requirements

### Simplifications when measuring a defined benefit obligation

Section 28 of the *IFRS for SMEs* Standard simplifies measurement of a defined benefit obligation if an entity is unable, without undue cost or effort, to use the projected unit credit method.

The Board is seeking information on how often the simplifications are applied and whether stakeholders experience difficulties in applying them.

### Cryptocurrency

Are holdings of cryptocurrency and issues of cryptoassets prevalent among entities eligible to apply the *IFRS for SMEs* Standard?

### Additional matters

Other questions relating to the *IFRS for SMEs* Standard
Responding to the Request for Information
Challenges

- Resources available to SMEs, preparers and auditors
- Identifying and engaging with investors in SMEs
Responding to the Request for Information

**How should I respond to the Request for Information?**

1. **Do you have an existing process for submitting comment letters?**
   - **Yes**: Submit a comment letter
   - **No**: **Do you have sufficient capacity or resources to submit a comment letter?**
     - **Yes**: Submit a comment letter using the optional response document
     - **No**: Complete the survey

**Deadline**
27 October 2020
Engaging with investors of SMEs

Investor survey

To provide insight into the information needs of users of SMEs financial statements

Disclosure requirements of the *IFRS for SMEs* Standard

Broad principles set out in paragraph BC157 of the *IFRS for SMEs* Standard

The user outreach seek feedback on these broad principles

Survey available on request

Deadline for consultation
27 October 2020
Resources supporting the second comprehensive review
Second comprehensive review—resources

Website: www.ifrs.org

Snapshot
Press release
Webinars
IFRS for SMEs Update

How to comment

Electronically: ‘Open for comment documents’ @:
http://go.ifrs.org/open-for-comment

Email: commentletters@ifrs.org

Post: IFRS Foundation,
Columbus Building,
7 Westferry Circus,
Canary Wharf, London E14 4HD
United Kingdom

https://www.ifrs.org/issued-standards/ifrs-for-smes/
Appendix
Amendments to IFRS Standards (1 of 3)

Board is seeking views on aligning the *IFRS for SMEs* Standard with …

- **Definition of Material** (Amendments to IAS 1 and IAS 8)
- **Disclosure Initiative** (Amendments to IAS 7)
- **Transfers of Investment Property** (Amendments to IAS 40)
- **Clarification of Acceptable Methods of Depreciation and Amortisation** (Amendments to IAS 16 and IAS 38)
- **Annual Improvements to IFRSs 2010–2012 Cycle** (IFRS 2)
- **Classification and Measurement of Share-based Payment Transactions** (Amendments to IFRS 2)
- **Agriculture: Bearer Plants** (Amendments to IAS 16 and IAS 41)
Board is seeking views on leaving the *IFRS for SMEs* Standard unchanged with regard to ...

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<td>to IAS 36)</td>
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<td>Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts</td>
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<td>Consolidated Financial Statements, Joint Arrangements and Disclosure</td>
<td>Transition Guidance (Amendments to IFRS 10, IFRS 11 and IFRS 12)</td>
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<td>ments to IAS 39)</td>
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<td>Sale or Contribution of Assets between an Investor and its Associate</td>
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<td>or Joint Venture</td>
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Amendments to IFRS Standards and IFRIC Interpretations

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