

## Snapshot: *Comprehensive Review of the IFRS for SMEs Standard*

This Snapshot provides an overview of the Request for Information on the second comprehensive review of the *IFRS for SMEs* Standard.

<b>The Board's objective:</b>	The Request for Information is seeking views on whether and how aligning the <i>IFRS for SMEs</i> Standard with full IFRS Standards would benefit users of financial statements prepared applying the <i>IFRS for SMEs</i> Standard without causing undue cost for entities applying the Standard.
<b>Project stage:</b>	<p>The Request for Information is the first step in the Board's second comprehensive review of the <i>IFRS for SMEs</i> Standard. This review will not necessarily lead to amendments to the <i>IFRS for SMEs</i> Standard.</p> <p>If the Board identifies possible amendments to the <i>IFRS for SMEs</i> Standard after reviewing feedback on the Request for Information, it will issue an exposure draft inviting comments on its proposals.</p>
<b>Next steps:</b>	Comment letters on the Request for Information will be published on the IFRS Foundation's website. The Board will discuss the feedback at public Board meetings in the second half of 2020.
<b>Comment deadline:</b>	27 July 2020

# Content and scope of the second comprehensive review

## Why is the Board undertaking a second comprehensive review of the *IFRS for SMEs* Standard?

The Board issued the *IFRS for SMEs* Standard in July 2009 in response to strong international support for a Standard for small and medium-sized entities.

After considering feedback received during the development of the *IFRS for SMEs* Standard, the Board decided to review the Standard periodically.

The first comprehensive review of the *IFRS for SMEs* Standard commenced in 2012; an amended Standard was issued in 2015 and became effective on 1 January 2017.

Based on feedback from the first review, the Board expressed support for a comprehensive review of the *IFRS for SMEs* Standard commencing no sooner than two years after the effective date of the amendments to the *IFRS for SMEs* Standard from a previous comprehensive review.

## How did the Board identify which issues to address during the second comprehensive review?

In considering which IFRS Standards to include in the scope of the second comprehensive review, the Board:

- noted that stakeholders hold different views on whether the *IFRS for SMEs* Standard should continue to be aligned with IFRS Standards; and
- decided not to amend the *IFRS for SMEs* Standard to take account of some of the IFRS Standards considered as part of the first comprehensive review.

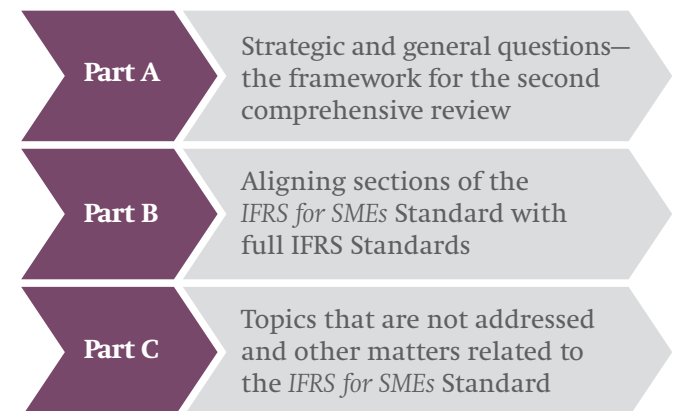
## What does the second comprehensive review address?

The Board decided the second comprehensive review would address:

- the framework for the review, including whether the *IFRS for SMEs* Standard should continue to be aligned with IFRS Standards;

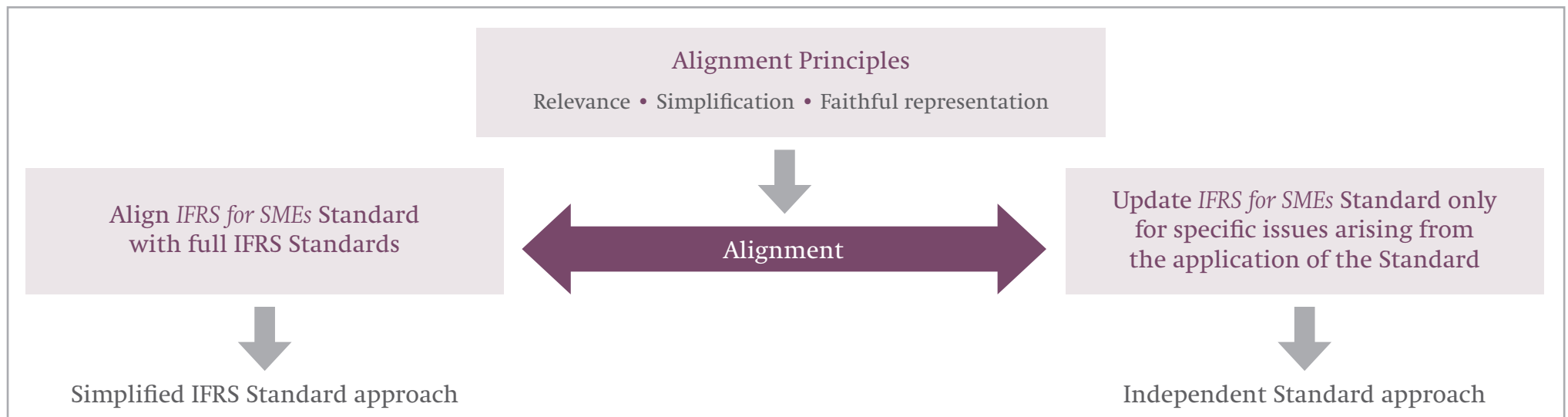
- IFRS Standards, amendments to IFRS Standards and IFRIC Interpretations issued since the first comprehensive review;
- IFRS Standards, amendments to IFRS Standards and IFRIC Interpretations issued before the first comprehensive review, but that did not result in amendments to the *IFRS for SMEs* Standard; and
- topics that are not addressed and other matters related to the *IFRS for SMEs* Standard.

## Structure of the Request for Information



# Part A—Strategic and general questions

## Two possible approaches to the second comprehensive review



Proponents of the simplified IFRS Standard approach say:

- it allows the experience gained from developing full IFRS Standards to be used efficiently;
- it is consistent with the expectation that the *IFRS for SMEs* Standard reflects the same principles as full IFRS Standards; and
- it is sufficiently flexible to allow the specific requirements and characteristics of SMEs to be considered.

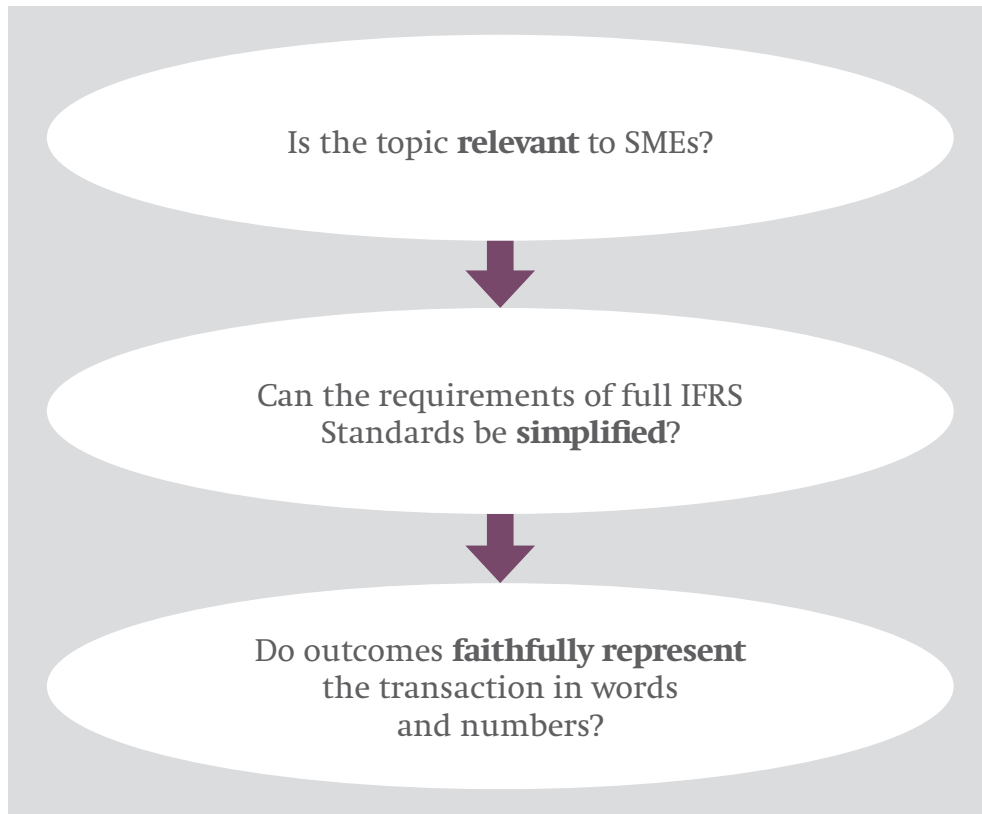
Proponents of the independent Standard approach say the *IFRS for SMEs* Standard should be developed and amended considering only the explicit and specific requirements of SMEs.

**The Request for Information follows the simplified IFRS Standard approach.**

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# Part A—Strategic and general questions

The Board is requesting feedback on the principles it applied in considering whether to seek views on alignment



## When should the Board consider alignment?

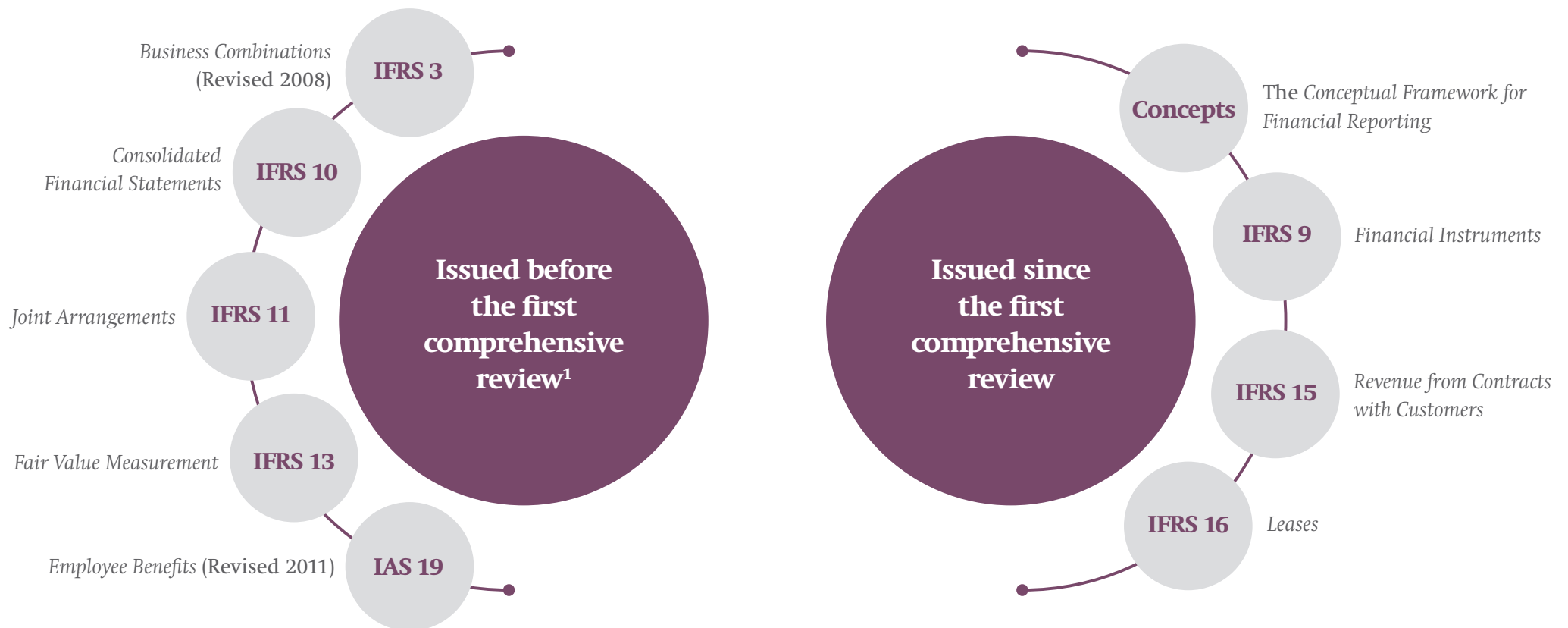
The Board is seeking views on how soon after the introduction of an IFRS Standard, an amendment to an IFRS Standard or an IFRIC Interpretation the Board should incorporate that change into the *IFRS for SMEs* Standard.

The options are to incorporate changes:

- issued before the publication date of the Request for Information;
- effective before the publication date of the Request for Information;
- effective and on which the post-implementation review was completed before the publication date of the Request for Information; or
- based on some other date.

# Part B—Aligning specific sections of the *IFRS for SMEs* Standard with IFRS Standards

Overview of IFRS Standards in the scope of the second comprehensive review



<sup>1</sup> In the first comprehensive review, the Board decided not to amend the *IFRS for SMEs* Standard to take account of these new or amended Standards.

# Part B—On which topics is the Board seeking views?

## IFRS 3 Business Combinations (2008)

The Board is requesting information on whether the *IFRS for SMEs* Standard should include requirements for step acquisitions and if so, whether these requirements should be aligned with IFRS 3.

The Board is seeking views on aligning Section 19 of the *IFRS for SMEs* Standard with some of the improvements introduced by IFRS 3 (2008) so that it requires entities:

- to recognise acquisition-related costs as an expense at the time of the acquisition.
- to measure contingent consideration at fair value. If this would involve undue cost or effort, entities would be permitted to apply the undue cost or effort exemption.

The Board is seeking views on aligning the definition of a business with the amendment to IFRS 3 issued in October 2018.

## IFRS 11 Joint Arrangements

The Board is seeking views on aligning the definition of joint control with the IFRS 11 definition.

The Board is seeking views on leaving Section 15 of the *IFRS for SMEs* Standard unchanged, that is, retaining:

- three categories of joint arrangements:
  - jointly controlled operations;
  - jointly controlled assets; and
  - jointly controlled entities.
- the accounting requirements for each of the three categories of joint arrangements.
- the accounting policy election for jointly controlled entities.

## IFRS 10 Consolidated Financial Statements

The Board is seeking views on aligning the definition of control with the IFRS 10 definition.

The Board is seeking views on leaving Section 9 of the *IFRS for SMEs* Standard unchanged, that is:

- retaining and updating the simplification in the *IFRS for SMEs* Standard whereby control is presumed to exist when the parent entity owns, directly or indirectly through subsidiaries, more than half the voting power of the entity; and
- not introducing the requirement in IFRS 10 that investment entities account for investments in subsidiaries at fair value through profit and loss.

# Part B—On which topics is the Board seeking views?

## IFRS 13 *Fair Value Measurement*

The Board is seeking views on:

- aligning the definition of fair value with the IFRS 13 definition;
- aligning the guidance on fair value measurement in the *IFRS for SMEs* Standard with IFRS 13 to incorporate the principles of the fair value hierarchy set out in IFRS 13;
- including examples that illustrate how to apply the hierarchy; and
- moving the definition, guidance and disclosure requirements to Section 2 of the *IFRS for SMEs* Standard.

## IAS 19 *Employee Benefits* (2011)

The Board is seeking views on aligning the recognition requirements for termination benefits in Section 28 of the *IFRS for SMEs* Standard with those in IAS 19.

## *Conceptual Framework for Financial Reporting*

The Board is seeking views on:

- aligning Section 2 of the *IFRS for SMEs* Standard with the *Conceptual Framework for Financial Reporting*;
- making consequential amendments to other sections of the *IFRS for SMEs* Standard; and
- retaining the concept of ‘undue cost or effort’.

## IFRS 9 *Financial Instruments*

The Board is seeking views on aligning Sections 11 and 12 of the *IFRS for SMEs* Standard with IFRS 9 by:

- supplementing the list of examples in Section 11 with a principle based on the contractual cash flow characteristics of financial assets;
- introducing the simplified approach for the impairment of financial assets, replacing the incurred loss model in Section 11; and
- adding the IFRS 9 definition of and requirements for issued financial guarantee contracts.

The Board is requesting further information on:

- whether Section 12 should include requirements on hedge accounting, and if so, whether to retain the current hedging requirements; and
- whether entities opt to apply the fallback to IAS 39 *Financial Instruments: Recognition and Measurement* and, if so, whether to update the optional fallback so entities apply IFRS 9 instead.

The Board is not seeking views on aligning the *IFRS for SMEs* Standard with IFRS 9 with regard to any other topics.

# Part B—On which topics is the Board seeking views?

## IFRS 15 *Revenue from Contracts with Customers*

The Board is requesting further information on three possible alternatives for aligning Section 23 of the *IFRS for SMEs* Standard with IFRS 15:

- Alternative 1—modifying Section 23 to remove the clear differences in outcomes, without wholly reworking Section 23;
- Alternative 2—fully rewriting Section 23 to reflect the principles and language used in IFRS 15; or
- Alternative 3—deciding not to amend Section 23 as part of the second comprehensive review.

The Board is seeking views on whether to, if it proceeds with Alternative 1 or Alternative 2:

- permit an entity to continue its current revenue recognition policy for contracts already in progress at the transition date or scheduled to be completed within a set time after the transition date;
- provide transitional relief by some other method; or
- make no provision for transitional relief.

## IFRS 16 *Leases*

The Board is seeking views on aligning Section 20 of the *IFRS for SMEs* Standard with IFRS 16 and:

- simplifying the requirements for measuring variable lease payments;
- simplifying how an entity determines the discount rate;
- simplifying how an entity determines and reassesses the term of the lease;
- simplifying subsequent measurement (reassessment) of a lease liability; and
- retaining the existing disclosures for finance leases.

## Aligning multiple sections of the *IFRS for SMEs* Standard to take account of amendments to IFRS Standards and IFRIC Interpretations

The Board is seeking views on whether and how to align the *IFRS for SMEs* Standard with the amendments to IFRS Standards and IFRIC Interpretations set out in Appendix A of the Request for Information.



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## Part C—Topics not addressed in the *IFRS for SMEs* Standard

Part C seeks views on topics that are not addressed in the *IFRS for SMEs* Standard and on whether, in relation to these topics, the Standard should be aligned with full IFRS Standards. It also asks about specific topics on which the Board has received feedback. The questions cover the following areas:

### ? IFRS 14 *Regulatory Deferral Accounts*

The Board is seeking views on not aligning the *IFRS for SMEs* Standard with IFRS 14 because IFRS 14 may be replaced by an active standard-setting project.

### ? Cryptocurrency

The Board is seeking further information on whether holdings of cryptocurrency and issues of cryptoassets are prevalent among entities eligible to apply the *IFRS for SMEs* Standard.

### ? Simplifications when measuring a defined benefit obligation

Section 28 of the *IFRS for SMEs* Standard allows an entity to apply simplifications when measuring a defined benefit obligation if the 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 constituents experience difficulties in applying them.

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

The Board is asking about any topics the *IFRS for SMEs* Standard does not address that constituents think should be the subject of specific requirements.

### ? Additional matters

The final question in Part C offers respondents the opportunity to raise other questions relating to the *IFRS for SMEs* Standard.

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# Information for respondents

## **The deadline for comments on the Request for Information is 27 July 2020**

The Board invites comments on the questions set out in Parts A, B and C of the Request for Information.

Respondents need not comment on all of the questions.

The Board has published a separate *Optional Response Document* that respondents can use to submit their comments if they so wish.

Comments can be sent to the Board by email or by post using the addresses provided in the Request for Information, or electronically, on the 'Open for comment' page at: [www.ifrs.org/projects/open-for-comment/](http://www.ifrs.org/projects/open-for-comment/).

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/>.

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