

STAFF PAPER

December 2021

IASB[®] meeting

Project	Second Comprehensive Review of the <i>IFRS for SMEs</i> [®] Standard	
Paper topic	Towards an Exposure Draft—Amendments to IFRS Standards and IFRIC Interpretations (Package of amendments to IAS 1)	
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This paper has been prepared for discussion at a public meeting of the International Accounting Standards Board (IASB) and does not represent the views of the IASB or any individual member of the IASB. Comments on the application of IFRS[®] Standards or the *IFRS for SMEs*[®] Standard do not purport to set out acceptable or unacceptable application of IFRS Standards or the *IFRS for SMEs*[®] Standard. Technical decisions are made in public and reported in IASB[®] *Update*.

Introduction

1. This paper discusses whether and, if so, how to propose amendments to the *IFRS for SMEs* Standard to align Section 3 *Financial Statement Presentation* of the *IFRS for SMEs* Standard with the amendments to IAS 1 *Presentation of Financial Statements* resulting from different disclosure initiative projects.
2. These amendments to the IFRS Standards are minor amendments to full IFRS Standards. Aligning with these amendments is to introduce clarification to the *IFRS for SMEs* Standards which would not significantly change the existing requirements in the Standard.
3. In this paper, the term SMEs refers to small and medium-sized entities that are eligible to apply the *IFRS for SMEs* Standard.

Purpose of the paper

4. The purpose of this paper is to ask the International Accounting Standards Board (IASB) to:
 - (a) consider feedback on the Request for Information *Comprehensive Review of the IFRS for SMEs Standard*, published in January 2020, and the recommendations of the SME Implementation Group (SMEIG) on the alignment of the *IFRS for SMEs Standard* with amendments to IFRS Standards; and
 - (b) decide whether and, if so, how to propose amendments to align the *IFRS for SMEs Standard* with these amendments to IAS 1.

Staff recommendations

5. The staff recommend the IASB propose amendments to the *IFRS for SMEs Standard* to align Section 3 of the Standard with:
 - (a) *Definition of Material* (Amendments to IAS 1 and IAS 8);
 - (b) *Disclosure Initiative* (Amendments to IAS 1); and
 - (c) *Disclosure of Accounting Policies* (Amendments to IAS 1 and IFRS Practice Statement 2).¹

Structure of the paper

6. This paper is structured as follows:
 - (a) question in the Request for Information (paragraphs 7–8 of this paper);
 - (b) feedback and SMEIG recommendations (paragraphs 9–17 of this paper);
 - (c) staff analysis (paragraphs 18–37 of this paper); and

¹ The staff recommendation for *Disclosure Initiative* (Amendments to IAS 1) is different from the position in the Request for Information and move from the amendment from the category ‘no alignment’ into the category ‘alignment’.

- (d) staff recommendation and question for the IASB (paragraph 38 of this paper).

Question in the Request for Information

7. The Request for Information included two of the amendments discussed in this paper that asked for views on whether to align the *IFRS for SMEs* Standard with multiple amendments to IFRS Standards (Question S10 of the Request for Information):
 - (a) the amendment *Definition of Material* (Amendments to IAS 1 and IAS 8) was included in the table asking for views on aligning the *IFRS for SMEs* Standard (Table A1 of Appendix A to the Request for Information); and
 - (b) the amendment *Disclosure Initiative* (Amendments to IAS 1) was included in the table asking for views on leaving the *IFRS for SMEs* Standard unchanged (Table A2 of Appendix A to the Request for Information).
8. The Request for Information did not seek views on aligning the *IFRS for SMEs* Standard with the amendment *Disclosure of Accounting Policies* (Amendments to IAS 1 and IFRS Practice Statement 2) because this amendment was issued after the IASB published the Request for Information.

Feedback and SMEIG recommendations

Methods for obtaining feedback

9. Feedback on aligning the *IFRS for SMEs* Standard with these amendments was gathered from comment letters and online survey.
10. The SMEIG met on 9 September 2021 to discuss the feedback on the Request for Information and develop recommendations to enable the IASB to decide on whether and, if so, how to align the *IFRS for SMEs* Standard with amendments to IFRS Standards.

Feedback

11. For the two amendments discussed in the Request for Information, many respondents via comment letters and online survey agreed with the rationale set out in the Request for Information without explicit reasons. Many of these respondents agreed with the position in Table A1 and Table A2 of Appendix A to the Request for Information on an overall basis and did not provide detailed comments on each amendment. Therefore, it is not clear whether their support of these amendments was based on specific agreement or lack of detailed objection.

Definition of Material (*Amendments to IAS 1 and IAS 8*)

12. Most respondents via comment letters and online survey supported aligning Section 3 of the *IFRS for SMEs* Standard with the amendment *Definition of Material* (Amendments to IAS 1 and IAS 8) because this amendment clarifies the definition of ‘material’.
13. One respondent expressed concerns that referring to the term ‘obscuring’ in the revised definition of ‘material’ would increase judgement, thereby creating complexity for SMEs.

Disclosure Initiative (*Amendments to IAS 1*)

14. Many respondents via comment letters and online survey agreed not to align Section 3 of the *IFRS for SMEs* Standard with the amendment *Disclosure Initiative* (Amendments to IAS 1).
15. In contrast, a small number of respondents via comment letters supported aligning the *IFRS for SMEs* Standard with this amendment which clarified, rather than significantly changed, the requirements in IAS 1. These respondents said there is no justification for waiting until the Primary Financial Statements project (PFS project) is completed because:
- (a) those amendments either do not contradict the proposed amendments in Exposure Draft *General Presentation and Disclosures* published in July 2019

or are proposed to be carried forward with only limited changes to the wording; and

- (b) aligning with the amendments would improve the quality and relevance of the information presented in the SME financial statements.

Disclosure of Accounting Policies (*Amendments to IAS 1 and IFRS Practice Statement 2*)

- 16. No feedback was obtained on these amendments as the IASB did not explicitly seek views on this amendment to IAS 1 as it was outside the scope of the review.

SMEIG recommendations

- 17. SMEIG members:
 - (a) generally agreed with aligning the *IFRS for SMEs* Standard with the amendment *Definition of Material* (Amendments to IAS 1 and IAS 8); and
 - (b) agreed to undertake further analysis on the possible alignment of the *IFRS for SMEs* Standard with the amendment *Disclosure Initiative* (Amendments to IAS 1).

Staff analysis

- 18. Following a recommendation by the SMEIG, the staff undertook analysis on whether and, if so, how to align Section 3 of the *IFRS for SMEs* Standard with the amendments to IAS 1 resulting from different disclosure initiative projects as a package.
- 19. Following the IASB’s decision to apply the alignment approach with IFRS Standards as the starting point in developing an exposure draft of proposed amendments to the *IFRS for SMEs* Standard (refer to Agenda Paper 30 of this meeting), the staff applied the principles of relevance to SMEs, simplicity and faithful representation, including the assessment of costs and benefits, in determining whether and how that alignment with the amendments discussed in this paper should take place.

20. Relevance to SMEs requires consideration of whether alignment with the package of amendments to IAS 1 would make a difference in the decisions of users of financial statements prepared applying the *IFRS for SMEs* Standard.

Definition of Material (*Amendments to IAS 1 and IAS 8*)

21. The amendment *Definition of Material* (*Amendments to IAS 1 and IAS 8*), issued in October 2018, clarifies the definition of ‘material’ and how it should be applied.²
22. The staff think that this amendment is relevant to SMEs. The amendment:
- (a) clarifies the definition of material and its application by aligning the wording of the definition of material with that in the *Conceptual Framework for Financial Reporting*; and
 - (b) will help entities make materiality judgements without substantively changing existing requirements.
23. The staff think aligning Section 3 of the *IFRS for SMEs* Standard with this amendment would:
- (a) improve the wording of the definition of material;
 - (b) clarify the definition of the ‘material’ and assist a preparer applying the *IFRS for SMEs* Standard;
 - (c) be consistent with the proposed updated Section 2 *Concepts and Pervasive Principles* of the *IFRS for SMEs* Standard; and
 - (d) help faithful representation of the information in the financial statements without introducing extra complexity for preparers.

² Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

Disclosure Initiative (Amendments to IAS 1)

24. The amendment *Disclosure Initiative* (Amendments to IAS 1), issued in December 2014, clarifies the requirements of IAS 1 relating to materiality, order of the notes, subtotals, accounting policies and disaggregation.
25. The IASB's rationale, set out in the Request for Information, for leaving the *IFRS for SMEs* Standard unchanged for this amendment was that:
- (a) the *IFRS for SMEs* Standard includes simplified drafting and simplified language and does not require an entity to provide as much detail as do full IFRS Standards; and
 - (b) the IASB had at the time of issue of the Request for Information recently published proposals in the Exposure Draft *General Presentation and Disclosures* that:
 - (i) would result in a new IFRS Standard setting out general presentation and disclosure requirements relevant for all entities; and
 - (ii) would replace IAS 1.
26. The staff think that it is reasonable to maintain a stable platform by avoiding changing the same sections of the *IFRS for SMEs* Standard repeatedly. When this new IFRS Standard is released, it will be necessary to review the relevant parts of the *IFRS for SMEs* Standard for potential alignment, meaning there is already another expected set of changes.
27. The staff compared the proposals in the Exposure Draft *General Presentation and Disclosures* with existing IAS 1 requirements and with these amendments and note that the proposals carry forward into any new IFRS Standard the requirements as amended by the amendment *Disclosure Initiative* (Amendments to IAS 1).
28. The staff think that this amendment is relevant to SMEs. It clarifies some of the presentation and disclosure requirements in IAS 1. The amendment helps entities apply judgement when aggregating information. By including the amendment in the *IFRS for SMEs* Standard, the IASB would be responding to user feedback that disclosure in the notes to the financial statements requires greater disaggregation, for

example other debtors and other creditors. The amendment would also support faithful representation of the information.

29. The staff think aligning the *IFRS for SMEs* Standard with this amendment:
 - (a) could increase the cost for SMEs to prepare additional disclosure in the notes. However, the cost would not be significant because the amendment does not substantively change existing requirements.
 - (b) would balance costs to preparers whilst improving information for users.
30. On balance, the staff recommend the IASB propose amendments to the *IFRS for SMEs* Standard to align the Standard with this amendment.

Disclosure of Accounting Policies (*Amendments to IAS 1 and IFRS Practice Statement 2*)

31. The amendment *Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2)*, issued in February 2021, requires entities to disclose their material accounting policy information rather than their significant accounting policies. This amendment complements other amendments to IAS 1.
32. Because this amendment was issued after the IASB published the Request for Information, the IASB did not seek views on aligning the *IFRS for SMEs* Standard and therefore there is no feedback to consider.
33. Reasons to support alignment of the *IFRS for SMEs* Standard with this amendment include:
 - (a) the amendment is relevant to SMEs;
 - (b) aligning the *IFRS for SMEs* Standard with this amendment:
 - (i) would introduce only limited wording changes to paragraph 10 of Section 3 of the *IFRS for SMEs* Standard—that is replacing the reference to ‘significant’ with a requirement to disclose ‘material’ accounting policies to clarify the threshold for disclosing information; and
 - (ii) would improve faithful representation of the accounting polies information.

34. The staff are concerned that SMEs may not readily be able to identify any differences between ‘significant accounting policies’ and ‘material accounting policy information’ and may find challenges in assessing which accounting policies are material. There may therefore be an increased cost for SMEs in making judgements. However, the staff think that the amendment would assist entities in determining which accounting policies to disclose and should improve accounting policy disclosures for users of financial statements.
35. The staff note that the amendment is outside the scope of the second comprehensive review because its effective date is 1 January 2023. The IASB tentatively decided that the amendments to IFRS Standards in the scope of the review are those with an effective date on or before 1 January 2019. However, the IASB would also consider amendments that provide clarification and would assist application of the *IFRS for SMEs* Standard, but are outside the scope of review—the IASB decided to include in the scope of the review two amendments effective on 1 January 2020 (*Definition of Material* (Amendments to IAS 1 and IAS 8) and *Definition of a Business* (Amendments to IFRS 3)).³
36. Taking into consideration some feedback received, the staff think that the scope of the review should be flexible to consider aligning the *IFRS for SMEs* Standard with *Disclosure of Accounting Policies* (Amendments to IAS 1 and IFRS Practice Statement 2) because the amendment is interrelated with other amendments to IAS 1 and SMEs could benefit from the improvements brought by the amendment without delay.
37. On balance, the staff recommend the IASB propose amendments to the *IFRS for SMEs* Standard to align the Standard with this amendment.

³ Paragraph 18 of Request for Information *Comprehensive Review of the IFRS for SMEs Standard*

Staff recommendation and question for the IASB

38. The staff recommend the IASB propose amendments to the *IFRS for SMEs* Standard to align with the package of amendments discussed in this paper, considering that the amendments clarify requirements of IAS 1 and are interrelated.

Question for the IASB

Does the IASB agree with the staff recommendation to propose amendments to the *IFRS for SMEs* Standard to align Section 3 of the Standard with:

- (a) *Definition of Material* (Amendments to IAS 1 and IAS 8);
- (b) *Disclosure Initiative* (Amendments to IAS 1); and
- (c) *Disclosure of Accounting Policies* (Amendments to IAS 1 and IFRS Practice Statement 2)?