

Second Comprehensive Review of the *IFRS for SMEs* Standard

Agenda Paper 4
Outreach feedback summary

SME Implementation Group meeting
February 2021

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Project	Second Comprehensive Review of the <i>IFRS for SMEs</i> Standard		
Paper topic	Outreach feedback summary		
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- The Request for Information on the second comprehensive review of the *IFRS for SMEs* Standard was published by the International Accounting Standards Board (Board) in January 2020
- The Request for Information (RFI) was open for comments for 270 days
- To obtain feedback, Board members and staff conducted outreach in various jurisdictions
- The purpose of this paper is to summarise the feedback gathered from outreach events on the comprehensive review of the *IFRS for SMEs* Standard to help the SME Implementation Group (SMEIG) to develop recommendations that will enable the Board to decide the project's direction.

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Background

- Outreach is an important part of the Board's due process because it enables Board members and staff to hear the views of stakeholders directly
- Although the *IFRS for SMEs* Standard is widely applied, the pool of stakeholders with the capacity to participate in the Board's due process is small
- During the covid-19 pandemic, Board members and staff have used technology to bring stakeholders together, for example, by conducting virtual conferences and engagement sessions on the Request for Information to assist stakeholders during this difficult time and enable them to provide their feedback
- Some outreach events took the form of round-table meetings or discussion forums with many participants and were organised in conjunction with national standard-setters and SMEIG members

Communication activities and materials

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Members of the Emerging Economies Group (EEG) provided their initial views on the RFI at the May 2020 EEG meeting

You Tube views as at 16 November 2020
 Website hits as at 27 October 2020



2,667 views of webcasts / webinars

¹ In August 2020, '[what does alignment mean](#)' was published on the IFRS Foundation website to provide context for discussions on the alignment with IFRS Standards

- Some stakeholders emphasised the importance of the comprehensive review because the vast majority of businesses in their jurisdictions are SMEs
- Many jurisdictions, including the UK and Turkey, use the *IFRS for SMEs* Standard to develop their local accounting standard for SMEs or modify the Standard for use in their jurisdiction
- These jurisdictions participated actively in outreach activities to express their views on the second comprehensive review because it will influence future developments of their local accounting standards

A grayscale world map is the background for the slide. Overlaid on the map are several thick, light gray curved lines that sweep across the continents. Additionally, there are several dotted lines that form a grid-like pattern across the map, intersecting the curved lines.

Who we talked to

Staff and Board members participated in outreach events hosted by...

National standard-setters

Malaysian Accounting Standards Board (MASB)

Financial Reporting Council, UK

Ministry of Finance, China

Group of Latin American Accounting Standard Setters (GLASS)

Hong Kong Institute of Certified Public Accountants (HKICPA)

Comitê de Pronunciamentos Contábeis (CPC), Brazilian National Standard Setter

Professional bodies

Pan African Federation of Accountants (PAFA)

Japanese Institute of Certified Public Accountants (JICPA) & International Federation of Accountants (IFAC)

Institute of Chartered Accountants in England and Wales (ICAEW) Financial Reporting Committee

Association of Chartered Certified Accountants (ACCA)

Institute of Chartered Accountants of the Caribbean (ICAC)

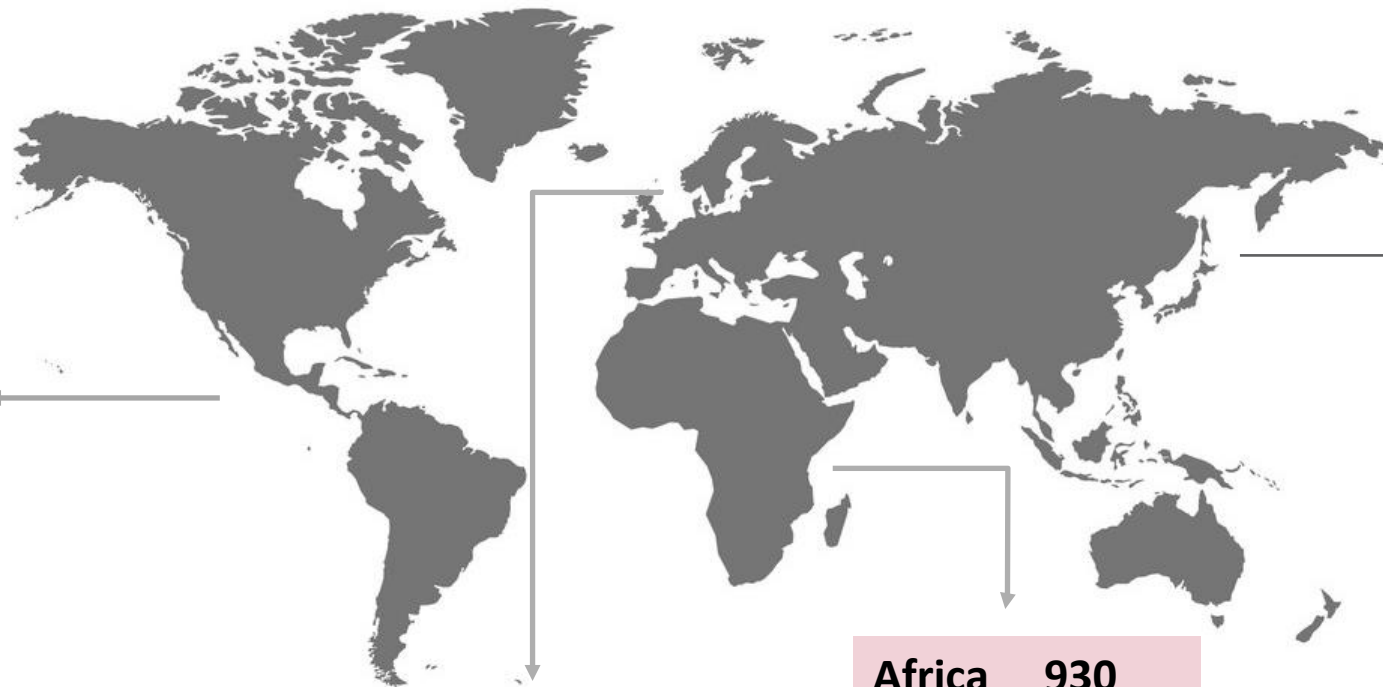
Attended mainly by preparers and practitioners and auditors

Practitioner/auditor

IFRS Experts Forum Nigeria

Nearly 2,000 participants attended outreach events

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Americas 173

Ecuador	3
Barbados	10
Guatemala	1
Trinidad and Tobago	14
Peru	12
United State	5
Brazil	22
Canada	1
Argentina	9
Bolivia	2
Colombia	2
Costa Rica	5
Honduras	1
Mexico	1
Panama	1
Uruguay	3
Dominica Republic	1
Venezuela	4
Saint Lucia	1
Guyana	8
Barbados	24
Belize	5
Bahamas	6
Other - Carribean	32

Asia-Oceania 777

Vietnam	1	Indonesia	18
Hong Kong	2	Pakistan	2
445		Singapore	10
Philippines	24	Sri Lanka	24
25		Myanmar	10
Malaysia	137	Japan	26
United Arab	6	Fiji	6
Emirates	1	Kazakhstan	1
Thailand	8	Korea	8
Pakistan	1	Kygrzstan	1
China	14	Afghanistan	1
Australia	5	Samoa	5
Brunei	6	Nepal	6
Cambodia	4	Papua New	
India	4	Guinea	1

Africa 930

Ghana	153	Mozambique	1
South Africa	36	Namibia	1
Zimbabwe	23	Tunisia	1
Nigeria	353	Uganda	3
Botswana	28	Zambia	35
Ivory Coast	3	Angola	1
Lesotho	5	DRC	1
Malawi	23	Ethiopia	40
Mauritius	94	Kenya	83
Morocco	4	Tanzania	42

Europe 71

Ukraine	2	Jersey	2
UK	41	Romania	1
Spain	1	Switzerland	1
Ireland	1	Albania	4
Bulgaria	1	Bosnia &	
Sweden	2	Herzogovina	1
Ukraine	3	Macedonia	7
Germany	1	Montenegro	1
Guernsey	1	Russia	1

Criteria used to summarise feedback

- This paper describes the proportion of participants sharing feedback using these terms:

Term	Extent of response among participants
Most	A large majority
Many	A majority
Some	A minority
A small number	A small minority




Overall feedback

- Most stakeholders participating in outreach events **expressed support for aligning** the *IFRS for SMEs* Standard with full IFRS Standards
- Stakeholders said a global Standard for SMEs **improves comparability**. These stakeholders support a global standard that is robust and can accommodate the needs of various economies
- Many stakeholders **support a stable platform** for the *IFRS for SMEs* Standard with changes between periodic reviews only for narrow scope issues and urgent amendments
- One participant said:



“...Amendments cannot be as regular as in full IFRS Standards. An average of three years for an amendment will be manageable for SMEs, considering how often economies are changing.”

A grayscale world map is the background for the slide. Overlaid on the map are several thick, light gray curved lines that sweep across the continents. Additionally, there are several dotted lines that form a grid-like pattern across the map, suggesting latitude and longitude lines.

Strategic and general questions

G1—Alignment approach (1/3)

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Alignment is continuing to develop the *IFRS for SMEs* Standard based on the principles and requirements of IFRS Standards

Arguments supporting alignment

- ✓ Most stakeholders agreed with alignment—for example, because alignment would make migration to IFRS Standards easier for SMEs
- ✓ Some stakeholders agreed with alignment of key definitions such as control and fair value
- ✓ A small number of stakeholders expressed concerns about non-alignment:
 - affects comparability with full IFRS Standards
 - a step backwards in creating a global Standard for SMEs
 - complicated for entities to follow
 - an independent Standard might become less attractive for jurisdictions to adopt

Alignment is continuing to develop the *IFRS for SMEs* Standard based on the principles and requirements of IFRS Standards

Concerns

We heard the following concerns on alignment of the *IFRS for SMEs* Standard with full IFRS Standards from some stakeholders

- × Alignment should only be considered for areas with fundamental weaknesses in the *IFRS for SMEs* Standard
- × SMEs do not have the resources to implement and the apply the requirements if the Standard is aligned with IFRS 9 *Financial Instruments*, IFRS 15 *Revenue from Contracts with Customers* and IFRS 16 *Leases*
- × A comprehensive review of the *IFRS for SMEs* Standard involves cost and resources for the Board
- × Implementation costs for SMEs, such as staff training, would be significant
- × SMEs in developed economies differ in size from SMEs in emerging and developing economies, therefore the cost/benefit considerations are different

Some expressed general concerns on alignment

- × the *IFRS for SMEs* Standard should be simple to apply
- × balancing alignment of the *IFRS for SMEs* Standard with new IFRS Standards while avoiding complexity and increased costs for preparers will be a challenge
- × need for significant disclosure simplifications
- × need to leverage implementation experience from IFRS Standards through Post-implementation Reviews
- × the term ‘alignment’ is misleading given the significant time lag between *IFRS for SMEs* Standard and full IFRS Standard
- × SMEs do not have the resource to comply with complex requirements of full IFRS Standards
- × delay amendments until economies have recovered from the impact of covid-19 particularly as SMEs are the most affected

Most stakeholders agree with the alignment principles

Relevance

Simplification

Faithful representation



*One standard-setter expressed the following concern
‘..simplification is achieved simply through deletion of text
from IFRS Standards... preparers find it difficult to apply the
IFRS for SMEs Standard without reference to IFRS
Standards*

Some stakeholders suggested the Board consider reflecting cost / benefit considerations as part of the alignment principles

G3—When to consider alignment?

Most stakeholders agreed with considering alignment for IFRS Standards, amendments to IFRS Standards or IFRIC Interpretations issued up to the date of publication of the Request for Information

Alternative suggestions



1 Consider IFRS Standards which have been effective for two years before the publication date of RFI

2 Assess IFRS Standards which are effective but only consider for alignment after one to two years of implementation experience

3 Consider IFRS Standards separately from the comprehensive review



Consider amendments to IFRS Standards and IFRIC Interpretations effective before publication date of RFI



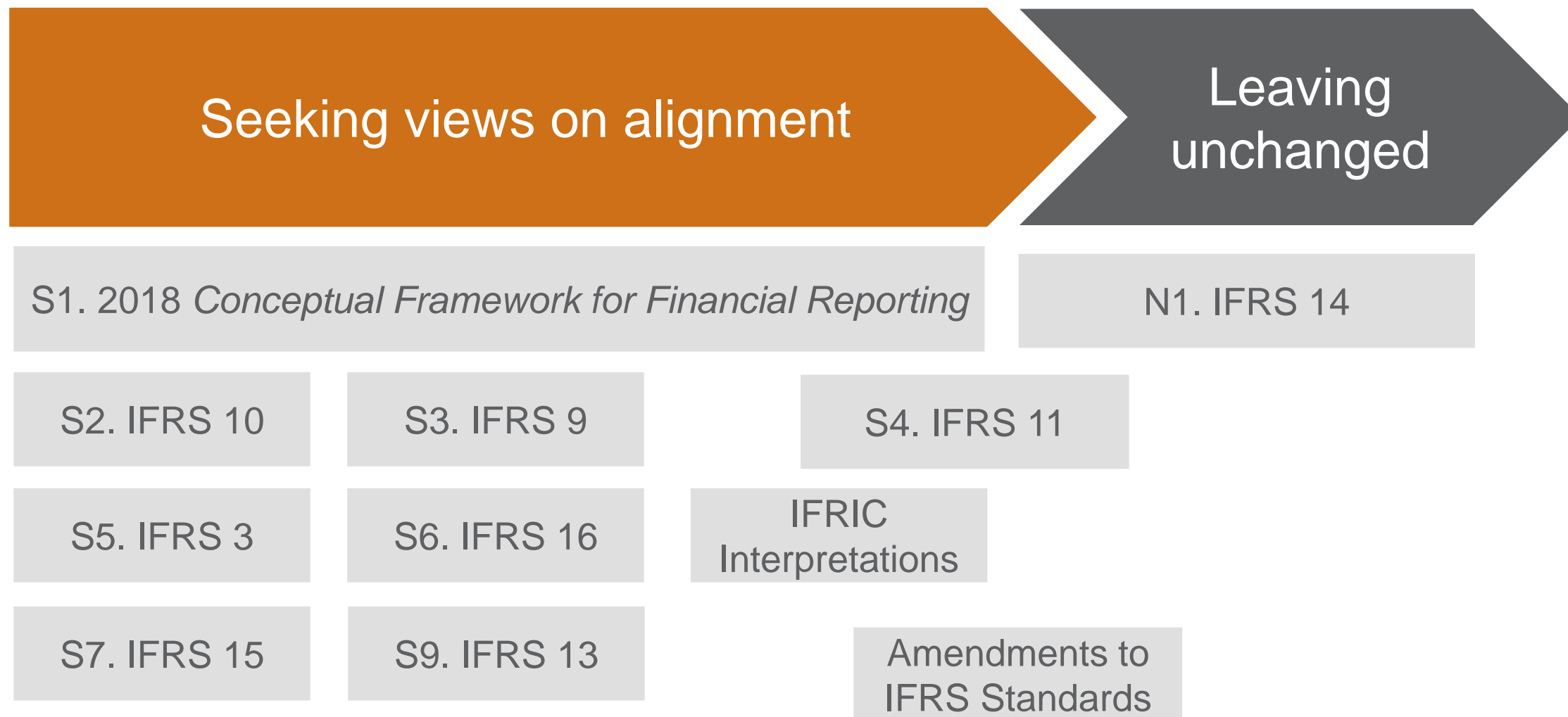
Consider amendments to IFRS Standards and IFRIC Interpretations issued before the publication date of RFI, if relevant



Questions on aligning
specific sections of the *IFRS*
for SMEs Standard

IFRS Standards in the scope of the review

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S1—Alignment with 2018 *Conceptual Framework*

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Aligning the Conceptual Framework

- Most stakeholders agreed with alignment with 2018 *Conceptual Framework*
- A small number of stakeholders expressed the following concerns:
 - alignment will require **changes to various sections** of the *IFRS for SMEs Standard*
 - Section 2 should not be part of the *IFRS for SMEs Standard*



“From an education point of view, having a conceptual basis that is at least close to full IFRS Standards make it easier to train future accountants.”

‘undue cost or effort’ concept

Many stakeholders expressed concerns including:

- more guidance is required to help preparers
- the concept is unclear and requires judgement
- the concept should be removed because of the challenges to preparers
- the concept could be replaced with simpler options

S2—Alignment with IFRS 10 *Consolidated Financial Statements*

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Overall feedback

- Most stakeholders agreed with aligning the definition of control and **not** introducing a requirement that investment entities account for investments at fair value through profit or loss.
- Feedback includes:
 - ✓ aligning the definition of control will be helpful to understand control relationship
 - ✓ investment entities may need to apply full IFRS Standard

Concern



‘.....retaining the presumption that control exist when the parent entity owns, directly or indirectly through subsidiaries, more than half the voting power of the entity might conflict with IFRS 10 definition of control..’

S3—Alignment with IFRS 9 *Financial Instruments* (1/2)

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Classification and measurement of financial assets

- Most stakeholders supported supplementing the list of examples with a principle based on the introduction of the contractual cash flow characteristics
- A small number of stakeholders were concerned about the implementation costs

Hedge accounting and fallback to IAS 39

- Some stakeholders commented on these topics, wishing to retain the current requirements in Section 12 and updating the fall-back to IFRS 9

S3—Alignment with IFRS 9 *Financial Instruments* (2/2)

SMEIG Agenda ref 4

Financial guarantee contracts

Most agreed with adding the definition of a financial guarantee contract from IFRS 9

Some said requirements should be simpler

Impairment of financial assets simplified expected credit loss approach

Complexity ie the provision metric difficult to apply

Challenging for inter-company loans and balances

Need for additional simplification

Burden on SMEs – even large companies find the simplified approach challenging

High implementation cost i.e. might need to involve expert for ECL calculations

Need for guidance on forward looking information

S4—Alignment with IFRS 11 *Joint Arrangements*

Definition of joint control

Most stakeholders agreed with aligning the definition of joint control with IFRS 11

Categories of joint arrangements

- Some stakeholders did not support retaining the existing three categories of joint arrangements in Section 15 for the following reasons:

Retaining the existing three categories will require judgement

Aligning the classification of joint arrangements with IFRS 11 will reduce the differences between categories of joint arrangements and increase comparability

S5—Alignment with IFRS 3 *Business Combinations*

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Overall feedback

- During outreach a small number of stakeholders commented on aligning Section 19 *Business Combinations* and Goodwill of the *IFRS for SMEs* Standard with IFRS 3 (2008) *Business Combinations*
- One standard-setter said that given the *IFRS for SMEs* Standard requires the amortisation method, alignment is unnecessary

Other suggestions

- Guidance on group re-organisations should be included

Mixed views

Arguments supporting alignment

Less challenging because the terms and conditions of most SME leases do not include complex features such as variable lease payments

Simplifications will reduce complexity

Non-alignment will delay benefits of IFRS 16



Concerns

Need to balance benefits to users with cost and effort for preparers

Complexity of IFRS 16 single model for the accounting of leases for SMEs

Need to clarify the difficult areas

Consider implementation experience

S7—Alignment with IFRS 15

Alternative

1

Update Section 23 to align outcomes with IFRS 15

2

Rewrite Section 23 to align with IFRS 15

3

Wait until the next review

- Most stakeholders favoured Alternative 1—modifying Section 23 to remove the clear differences in outcome from applying Section 23 or IFRS 15

Stakeholders said:

- Revenue recognition model should be changed from being focused on the transfer of the risks and rewards of ownership (Section 23) to being based on the transfer of control (IFRS 15)
- Five-step model in IFRS 15 to recognise revenue will be costly for SMEs in some industries
- Simplifications to IFRS 15 are critical for alignment
- Alignment for IFRS 15 will result in SMEs reporting losses

S9—Alignment with IFRS 13 *Fair Value Measurement*

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Overall feedback

- Most stakeholders agree with:
 - aligning the definition of fair value
 - aligning the fair value hierarchy to provide clearer guidance
 - including examples illustrating application of the hierarchy
 - moving guidance and related disclosure requirements to Section 2

Alternative suggestions

- 1 Separate Section will be easier to understand
- 2 Sub-section of Section 2
- 3 Simplify level 2 and 3 or replace with cost



N2

Cryptocurrency

- Most said:
 - few SMEs hold cryptocurrencies, requirements are not needed
 - cryptocurrencies are not legal or not regulated in their jurisdictions
- A small number supported including requirements on this topic.



One participant said '*..small companies applying the IFRS for SMEs Standard sometimes enter into complex transactions..*'

N3

Defined benefit obligation simplification

A small number of stakeholders expressed views on this topic



Other feedback

Overview of other feedback

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1

Title of the Standard

- Many expressed concerns the title is confusing, misleading, gives the impression it is a less important standard. Non-public accountability is a concept not at all well understood
- Many recommended using the term 'non-publicly accountable' in the title

2

Scope

- Scope was frequently raised during outreach. Many said that some publicly accountable entities, especially small credit unions, should be able to apply the *IFRS for SMEs* Standard

3

Complexity & length

- The *IFRS for SMEs* Standard includes complex requirements. SMEs need a simpler and shorter Standard to reduce compliance burden
- Preparers have fewer resources, and find the language of the Standard complicated and difficult to understand

4

Micro-sized entities

- Some stakeholders asked whether the *IFRS for SMEs* Standard is suitable for micro-sized entities, and whether the Board intends to develop a third level of Standard

Overview of other feedback

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5 Exposure Draft General Presentation and Disclosures	<p>The Exposure Draft issued in December 2019 should be included in the scope of this review because:</p> <ul style="list-style-type: none">• both projects are ongoing at the same time• a consistent approach for presentation of financial statements is desirable
6 Interim financial reporting	<ul style="list-style-type: none">• Guidance on this topic should be included in <i>IFRS for SMEs</i> Standard
7 Illustrative financial statements	<ul style="list-style-type: none">• The complete set of financial statements that accompanies but is not part of the <i>IFRS for SMEs</i> Standard should be updated as part of this review• Illustrative financial statements would help first-time adopters
8 Adoption & modification	<ul style="list-style-type: none">• One jurisdiction questioned whether the financial statements can be described as complying with the <i>IFRS for SMEs</i> Standard if the Standard is modified to add illustrative financial statements for not-for-profit organisations

Overview of other feedback

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9

Covid-19

- Some asked whether the Board will publish guidance on the *IFRS for SMEs* Standard similar to the guidance published on full IFRS Standards for covid-19

10

Agenda Decisions

- A small number of stakeholders questioned whether entities applying the *IFRS for SMEs* Standard should apply IFRIC Agenda Decisions

11

Urgent amendments

- Many stakeholders were unaware about the process for making urgent changes to the *IFRS for SMEs* standard

12

Not-for-profit organisations

- The need for guidance for not-for-profit organisations applying the *IFRS for SMEs* Standard was a recurrent theme during outreach

13

Disclosure Initiative— Subsidiaries that are SMEs

- Many stakeholders asked about the link between the Disclosure Initiative—Subsidiaries that are SMEs project and the Second Comprehensive Review of the *IFRS for SMEs* Standard

14

Will the Board consider transition relief?

- Transition is the biggest challenge for SMEs
- Prospective application of amendments to the Standard would be helpful

15

Relevance

- *IFRSs for SMEs* Standard includes requirements that are not applicable to a small business, such as requirements for recognition and measurement of financial assets. The inclusion of such requirements increases complexity and led some stakeholders to question whether the Standard is suitable for SMEs

16

Accounting policy choice

- The Standard should include an accounting policy choice to use full IFRS Standards, for example allow a start-up entity to apply IAS 38 to capitalise development costs incurred after a project is deemed to be commercially viable
- Include more options and allow jurisdictions to decide whether to eliminate them

Thank you

- The Board appreciates the engagement by stakeholders who participated in outreach events
- The Board would also like to thank the SMEIG members for establishing contact to arrange outreach events and for attending these events

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