

STAFF PAPER

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Project	Second Comprehensive Review of the <i>IFRS for SMEs</i> ® Standard		
Paper topic	Towards an Exposure Draft—2018 <i>Conceptual Framework</i>		
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Introduction

1. This paper discusses whether and how to propose amending the *IFRS for SMEs* Standard for the 2018 *Conceptual Framework for Financial Reporting* (2018 *Conceptual Framework*).

Purpose of the paper

2. The purpose of this paper is to ask the International Accounting Standards Board (Board) to:
 - (a) consider feedback on the Request for Information and the recommendations of the SME Implementation Group (SMEIG) on the alignment of Section 2 *Concepts and Pervasive Principles* of the *IFRS for SMEs* Standard with the 2018 *Conceptual Framework*; and
 - (b) decide whether to develop amendments to the *IFRS for SMEs* Standard to align with the 2018 *Conceptual Framework*.

Summary of staff recommendations

3. The staff recommend the Board:
- (a) retain the status of Section 2 of the *IFRS for SMEs* Standard unchanged (paragraph 31 of this paper);
 - (b) develop amendments to the *IFRS for SMEs* Standard to:
 - (i) align Section 2 with the 2018 *Conceptual Framework* (paragraph 39 of this paper); and
 - (ii) introduce an override paragraph in Section 2 to emphasise that the specific requirements of the other Sections of the *IFRS for SMEs* Standard take precedence over the requirements in Section 2 (introduce an override paragraph in Section 2 to emphasise that the specific requirements of the other Sections of the *IFRS for SMEs* Standard take precedence over the requirements in Section 2 as outlined in paragraph 48 of this paper).
 - (c) review for potential inconsistencies between a revised Section 2 and other Sections of the *IFRS for SMEs* Standard when the Board has completed its deliberations on proposed amendments to the *IFRS for SMEs* Standard (paragraph 51 of this paper); and
 - (d) retain the concept of ‘undue cost or effort’ (paragraph 55 of this paper).

Structure of the paper

4. This paper is structured as follows:
 - (a) background (paragraphs 6–12 of this paper);
 - (b) question in the Request for Information (paragraph 13 of this paper);
 - (c) feedback and SMEIG recommendations (paragraphs 14–23 of this paper);
 - (d) staff analysis:
 - (i) the status of Section 2 of the *IFRS for SMEs* Standard (paragraphs 26–34 of this paper);
 - (ii) the content of the revised Section 2 if the Board were to decide to align Section 2 with the 2018 *Conceptual Framework* (paragraphs 35–39 of this paper);
 - (iii) potential inconsistencies of aligning Section 2 with the 2018 *Conceptual Framework* (paragraphs 40–48 of this paper);
 - (iv) differences between the *IFRS for SMEs* Standard and full IFRS Standards (paragraphs 49–51 of this paper); and
 - (v) the concept of ‘undue cost or effort’ (paragraphs 52–55 of this paper).
 - (e) staff recommendations and questions for the Board (paragraph 56 of this paper).

5. Appendix A to this paper presents staff research on the potential inconsistencies between the revised Section 2 and other Sections of the *IFRS for SMEs* Standard if Section 2 is aligned with the 2018 *Conceptual Framework*.

Background

6. In developing the *IFRS for SMEs* Standard the Board stated that the 1989 *Framework for the Preparation and Presentation of Financial Statements* (1989 *Framework*) provides the foundation for the *IFRS for SMEs* Standard. This is reinforced in

paragraph BC95(a) of the Basis for Conclusions on the *IFRS for SMEs* Standard which states that the *IFRS for SMEs* Standard was developed by:

... extracting the fundamental concepts from the Framework and the principles and related mandatory guidance from IFRSs (including Interpretations).

7. During the first comprehensive review of the *IFRS for SMEs* Standard the Board did not consider amending the *IFRS for SMEs* Standard for changes resulting from the project to revise the *Conceptual Framework*. However, it amended Section 2 to:
- (a) add clarifying guidance on the undue cost or effort exemption used in several Sections of the *IFRS for SMEs* Standard—based on Q&A 2012/01 *Application of ‘undue cost or effort’*, as well as a new requirement within relevant sections for entities to disclose their reasoning for using such an exemption (see paragraphs 2.14A–2.14D of the *IFRS for SMEs* Standard); and
 - (b) reflect minor consequential amendments and editorial changes related to amendments made to other sections of the *IFRS for SMEs* Standard.

IFRS for SMEs Standard

8. Section 2 of the *IFRS for SMEs* Standard, which is currently based on the *1989 Framework*, sets out:
- (a) the objective of financial statements of SMEs;
 - (b) the qualitative characteristics of information in SMEs financial statements (understandability, relevance, materiality, reliability, substance over form, prudence, completeness, comparability, timeliness, balance between benefit and cost, undue cost or effort);
 - (c) the definition of elements of the financial statements (assets, liabilities, equity, income and expenses); and
 - (d) some basic principles for the recognition, measurement and presentation of the elements in the financial statements.

9. Section 2 has equal authority in the Standard. Section 10 *Accounting Policies, Estimates and Errors* of the *IFRS for SMEs* Standard addresses the selection and application of accounting policies. Specifically, paragraph 10.5 states:

In making the judgement described in paragraph 10.4, management shall refer to, and consider the applicability of, the following sources in descending order:

- (a) the requirements and guidance in this Standard dealing with similar and related issues; and
- (b) the definitions, recognition criteria and measurement concepts for assets, liabilities, income and expenses and the pervasive principles in Section 2 *Concepts and Pervasive Principles*.

2018 Conceptual Framework

10. The Board revised the 1989 *Framework* in phases and renamed it the *Conceptual Framework for Financial Reporting*. The Board:
- (a) completed the first phase issuing the 2010 version of the *Conceptual Framework*; and
 - (b) completed the second phase by publishing a revised comprehensive set of concepts for financial reporting in 2018.
11. The 2010 *Conceptual Framework*:
- (a) amended the objective of general-purpose financial reporting to clarify that its purpose is to help users to make decisions about providing resources to an entity, which includes decisions about the accountability of the entity's management;
 - (b) clarified in the chapters that financial reports are directed to meet the common information needs of those who provide resources to an entity but cannot compel the entity to provide information to enable them make decisions about the entity; and

- (c) categorised the qualitative characteristics as either fundamental or enhancing characteristics. This clarifies how the qualitative characteristics relate to each other. There is one constraint upon providing useful information—cost.

12. The 2018 *Conceptual Framework*:

- (a) has introduced:
 - (i) new concepts on measurement, including factors to be considered when selecting a measurement basis;
 - (ii) new concepts on presentation and disclosure, including when to classify income and expenses in other comprehensive income; and
 - (iii) new guidance on when assets and liabilities are removed from financial statements.
- (b) has updated:
 - (i) the definitions of an asset and a liability; and
 - (ii) the criteria for including assets and liabilities in financial statements.
- (c) has clarified the concepts of prudence, stewardship, measurement uncertainty and substance over form.

Question in the Request for Information

13. Question S1 of the Request for Information asked the views on:

- (a) aligning Section 2 with the 2018 *Conceptual Framework*.
- (b) making appropriate amendments to other Sections of the *IFRS for SMEs* Standard, as a result of aligning Section 2 with the 2018 *Conceptual Framework* (for example, Section 17 *Property, Plant and Equipment* of the *IFRS for SMEs* Standard uses the definition of an asset from Section 2; the definition of an asset has been updated by the 2018 *Conceptual Framework*).

- (c) retaining the concept of ‘undue cost or effort’ currently included in Section 2. This concept is made available to an entity applying the *IFRS for SMEs* Standard in specified circumstances. The 2018 *Conceptual Framework* has no direct equivalent concept. However, the Request for Information asked for views on retaining the concept of ‘undue cost or effort’ because it provides a mechanism the Board can use to balance the costs and benefits of the requirements of the *IFRS for SMEs* Standard.

Feedback and SMEIG recommendations

Methods for obtaining feedback

- 14. Stakeholders provided feedback on Question S1 of the Request for Information in several ways, including:
 - (a) comment letters;
 - (b) an online survey; and
 - (c) outreach events.
- 15. The SMEIG met on 4–5 February 2021 to discuss the feedback from stakeholders on the Request for Information and develop recommendations to enable the Board to decide on whether to:
 - (a) develop amendments to the *IFRS for SMEs* Standard to align Section 2 of *IFRS for SMEs* Standard with the 2018 *Conceptual Framework*; and
 - (b) retain the concept of ‘undue cost or effort’.

Overall feedback

- 16. Overall feedback on the Request for Information supported:
 - (a) aligning Section 2 with the 2018 *Conceptual Framework*;
 - (b) making appropriate amendments to other Sections of the *IFRS for SMEs* Standard; and
 - (c) retaining the concept of ‘undue cost or effort’.

Feedback on aligning Section 2 with the 2018 Conceptual Framework

17. Stakeholders via comment letters, online survey and outreach events who commented on the alignment of Section 2 with the 2018 *Conceptual Framework* and SMEIG members generally supported that Section 2 should be aligned with the 2018 *Conceptual Framework*. The main reason respondents via comment letters provided in support of alignment is that the *IFRS for SMEs* Standard should use the same conceptual framework as that of full IFRS Standards. The respondents to the online survey supported alignment as it would avoid creating gaps between concepts and principles in the *IFRS for SMEs* Standard and full IFRS Standards. One stakeholder engaging during outreach said:

“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.”

18. However, some respondents via comment letters and SMEIG members expressed concerns that:

- (a) there could be inconsistencies between the 2018 *Conceptual Framework* and the *IFRS for SMEs* Standard; and
- (b) aligning Section 2 with the 2018 *Conceptual Framework* might introduce those inconsistencies in the *IFRS for SMEs* Standard.

19. A small number of respondents via comment letters and one SMEIG member said that:

- (a) the status of the 2018 *Conceptual Framework* is different from that of Section 2 of the *IFRS for SMEs* Standard, which has the authority of a Standard whereas the 2018 *Conceptual Framework* does not. They suggested moving Section 2 to a separate document.
- (b) the Board could consider deferring alignment with the 2018 *Conceptual Framework* to the next comprehensive review.

Feedback on making appropriate amendments to other Sections of the IFRS for SMEs Standard

20. Most stakeholders and SMEIG members supported that, if Section 2 is aligned with the 2018 *Conceptual Framework*, appropriate amendments to other Sections of the Standard should be made. The respondents via comment letters said this will ensure that the definitions in Section 2 correspond with those of other Sections. However, a small number of stakeholders expressed concerns that alignment would require changes to various Sections of the *IFRS for SMEs* Standard and therefore would be disruptive.

Feedback on retaining the concept of ‘undue cost or effort’

21. With regards to retaining the concept of ‘undue cost or effort’, stakeholders via comment letters, online survey and outreach events and SMEIG members generally supported retaining the concept. Many respondents via comment letters said the concept:
- (a) provides additional relief for SMEs;
 - (b) facilitates the application of the principle of simplicity; and
 - (c) provides a useful mechanism to balance the costs and benefits for SMEs.
22. Respondents to the online survey said the concept of ‘undue cost or effort’ provides a useful mechanism to balance the costs and benefits of the requirements in the *IFRS for SMEs* Standard. SMEIG members generally supported retaining the concept due to the additional relief that it provides to those applying the Standard.
23. However, some stakeholders engaging during outreach events and SMEIG members said:
- (a) more clarity is required on how the concept of undue cost or effort is applied, for example, an understanding of how entities use the exemption and the frequency of the usage;
 - (b) application guidance and examples are needed in the *IFRS for SMEs* Standard on how to apply the concept of ‘undue cost or effort’;

- (b) the concept should be removed because of the challenges to preparers; and
- (c) the Board could provide simpler options in specific cases, instead of requiring entities to assess undue cost or effort.

Staff analysis

24. The staff analysis in this paper discusses:
- (a) the status of Section 2 of the *IFRS for SMEs* Standard;
 - (b) the content of the revised Section 2 if the Board were to decide to align Section 2 with the 2018 *Conceptual Framework*;
 - (c) potential inconsistencies of aligning Section 2 with the 2018 *Conceptual Framework*; and
 - (d) the concept of ‘undue cost or effort’.
25. The staff note that the principles of relevance to SMEs, simplicity and faithful representation, which the Board has decided to use in determining whether and how alignment with new requirements in IFRS Standards should take place, are not directly applicable to Section 2. Accordingly, the staff analysis in this paper does not discuss those principles but considers the overall assessment of costs and benefits of developing amendments to the *IFRS for SMEs* Standard to align with the 2018 *Conceptual Framework*.

The status of Section 2 of the IFRS for SMEs Standard

26. Prior to discussing alignment of Section 2 with the 2018 *Conceptual Framework* the staff highlight the difference in status between Section 2 and the 2018 *Conceptual Framework*.
27. Section 2 is part of the *IFRS for SMEs* Standard and the concepts and basic principles in Section 2 have equal authority in the Standard. However, in full IFRS Standards,

the *Conceptual Framework* is not a Standard. Nothing in the *Conceptual Framework* overrides any IFRS Standard or any requirement in a Standard.¹

28. Consequently, Section 2 plays an important role in the *IFRS for SMEs* Standard in circumstances in which the Standard does not specifically address a transaction, other event or condition. As discussed in paragraph 9 of this paper, Section 10 of the *IFRS for SMEs* Standard requires an entity’s management to refer to Section 2 in exercising judgement in developing and applying an accounting policy. The staff think the frequency of such circumstances is greater for entities applying the *IFRS for SMEs* Standard than entities applying full IFRS Standard because the *IFRS for SMEs* Standard is less prescriptive than IFRS Standards.
29. A small number of stakeholders, including one SMEIG member, expressed concerns on the status of Section 2. These stakeholders were of the views that potential inconsistencies would arise if Section 2 was aligned with the 2018 *Conceptual Framework*. This matter is discussed in paragraphs 40–48 of this paper.
30. During the comment period on the Request for Information the staff have not widely heard concern about the status of Section 2—this indicates having Section 2 as part of the *IFRS for SMEs* Standard works well in practice.
31. The staff have considered changing the status of Section 2 to align with IFRS Standards and concluded that there are clear benefits in leaving the status unchanged.
32. Changing the status of Section 2 to non-authoritative would lead to different status for requirements within a stand-alone document and could potentially create confusion for entities applying the *IFRS for SMEs* Standard.
33. Outreach activities have identified that simplicity is important to preparers applying the Standard. Retaining Section 2 as part of the Standard with equal authority with other Sections retains the current accessibility of the Standard and does not impose unnecessary change.
34. Given the reference in Section 10 to Section 2, the staff recommend the Board leave the status of Section 2 unchanged.

¹ See paragraph SP1.2 of the 2018 *Conceptual Framework for Financial Reporting*.

The content of the revised Section 2 if the Board were to decide to align Section 2 with the 2018 Conceptual Framework

35. The staff consider that if the Board were to decide to align Section 2 with the 2018 *Conceptual Framework* it would replace Section 2 in its entirety. Paragraphs 11–12 of this paper explain the main changes introduced in the 2018 *Conceptual Framework*.
36. In aligning Section 2 the staff plan to condense the 2018 *Conceptual Framework* focusing on those paragraphs that will assist SME preparers in exercising judgement in developing and applying an accounting policy if the Standard does not specifically address a transaction, other event or condition.
37. The staff recommend the revised Section 2 include the following from the 2018 *Conceptual Framework*:
- (a) scope of Section 2—the purpose is to assist the Board to develop the *IFRS for SMEs* Standard, assist preparers to develop consistent accounting policies when applying the *IFRS for SMEs* Standard and assist all parties to understand and interpret the Standard.
 - (b) objective of general purpose financial reporting for small and medium-size entities:
 - (i) objective of general purpose financial reporting; and
 - (ii) information about a reporting entity’s economic resources, claims against the entity and changes in resources and claims is economic resources and claims, financial reporting reflected by accrual accounting, financial performance reflected by past cash flows.
 - (c) qualitative characteristics of useful financial information:
 - (i) fundamental qualitative characteristics and enhancing qualitative characteristics;
 - (ii) cost constraint on useful financial reporting; and
 - (iii) undue cost and effort.
 - (d) financial statements and the reporting entity:

- (i) objective and scope of financial statements;
 - (ii) reporting period;
 - (iii) perspective adopted in financial statements;
 - (iv) going concern assumption; and
 - (v) the reporting entity.
- (e) the elements of financial statements—definition of:
- (i) assets, liabilities and equity; and
 - (ii) income and expenses.
- (d) recognition and derecognition:
- (i) the recognition process;
 - (ii) recognition criteria; and
 - (iii) derecognition.
- (e) measurement:
- (i) measurement bases—historical cost and current value;
 - (ii) information provided by particular measurement bases;
 - (iii) factors to consider when selecting a measurement basis; and
 - (iv) measurement of equity.
- (f) presentation and disclosure:
- (i) presentation and disclosure as communication tools;
 - (ii) classification;
 - (iii) offsetting;
 - (iv) classification of equity; and
 - (v) aggregation.

38. The staff note the following about aligning Section 2 with the 2018 *Conceptual Framework*:
- (a) the paragraphs in Section 2 addressing scope will need to be updated to explain the role of Section 2. These paragraphs currently describe the objective of financial statements and the qualities that make financial statements useful.
 - (b) the paragraphs in Section 2 explaining the objective of financial statements for SMEs will need to be updated to focus on general purpose financial reporting for SMEs.
 - (c) paragraphs 2.14A–2.14D of the current Section 2 on undue cost and effort, subject to Board approval, will be carried forward to the revised Section 2.
 - (d) paragraphs BC156–BC158 of the Basis for Conclusions on the *IFRS for SMEs* Standard explain how the Board reduces disclosure in developing and maintaining the *IFRS for SMEs* Standard. Consequently, the staff think the paragraphs in Chapter 7 *Presentation and Disclosure* of the 2018 *Conceptual Framework* which address presentation and disclosure objectives and principles should be omitted from Section 2.
 - (e) consistent with the current Section 2, the staff do not recommend updating Section 2 for Chapter 8 *Concepts of Capital and Capital Maintenance*, which was carried forward from the 2010 *Conceptual Framework* and originally appeared in the 1989 *Framework*.
39. Based on the feedback on the Request for Information and SMEIG recommendations the staff recommend the Board develop proposed amendments to update Section 2 to align with the 2018 *Conceptual Framework*.

Potential inconsistencies of aligning Section 2 with the 2018 Conceptual Framework

40. The staff have analysed the concern raised by a small number of stakeholders, including one SMEIG member, about potential inconsistencies that may arise between

Section 2 and other Sections of the *IFRS for SMEs* Standard if Section 2 is aligned with the 2018 *Conceptual Framework* (see paragraph 18 of this paper).

41. These stakeholders said that the Board did not apply the 2018 *Conceptual Framework* when developing recent major IFRS Standards that are in the scope of the second comprehensive review (ie IFRS 9 *Financial Instruments*, IFRS 5 *Revenue from Contracts with Customers* and IFRS 16 *Leases*).
42. At its February 2017 meeting the Board discussed a review of potential inconsistencies between IFRS Standards and the then forthcoming 2018 *Conceptual Framework*.² As discussed in Agenda Paper 10C of the February 2017 Board meeting, the staff did not identify substantive inconsistencies in addition to those discussed in the Exposure Draft for the 2018 *Conceptual Framework* and concluded that recent major IFRS Standards are not inconsistent with the 2018 *Conceptual Framework*.
43. Appendix A to this paper outlines the main and minor inconsistencies discussed in the Exposure Draft for the 2018 *Conceptual Framework* which have equivalent requirements in the *IFRS for SMEs* Standard. These inconsistencies include:
 - (a) main inconsistencies:
 - (i) some of the classification requirements of IAS 32 *Financial Instruments: Presentation* are inconsistent with both the 2010 *Conceptual Framework*'s definitions and the 2018 *Conceptual Framework*'s definitions of liability and equity; and
 - (ii) the requirements of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* as interpreted in IFRIC 21 *Levies* are inconsistent with the proposed new concepts for identifying liabilities.
 - (b) minor inconsistencies:
 - (i) quotes of existing definitions;
 - (ii) presentation and disclosure objective;
 - (iii) faithful representation vs reliability; and

² See [February 2017 Agenda Paper 10C](#).

(iv) IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* rely directly on the guidance in the *Conceptual Framework* and act as a direct link between the Standards and the *Conceptual Framework*.

44. The staff think that these inconsistencies could transpose in the *IFRS for SMEs* Standard if Section 2 is aligned with the 2018 *Conceptual Framework*. The staff note that for some of the inconsistencies outlined in Appendix A to this paper the Board has ongoing projects exploring possible amendments to IFRS Standards, for example, the Board is exploring making clarifying amendments to IAS 32 as part of the *Financial Instruments with Characteristics of Equity* project (Section 22 *Liabilities and Equity* of the *IFRS for SMEs* Standard has equivalent requirements).
45. The staff note that when the Board issued the 2018 *Conceptual Framework*, it said:
- ... changes to the *Conceptual Framework* will not automatically lead to changes in existing Standards... Any changes to the *Conceptual Framework* that highlight inconsistencies in the Standards must be considered by the Board in the light of other priorities when developing its work plan...³
46. The Board could therefore adopt the approach it adopted to IFRS Standards when it issued the 2018 *Conceptual Framework* and not update other Sections of the *IFRS for SMEs* Standard. However, whilst inconsistencies can coexist between IFRS Standards and the 2018 *Conceptual Framework* because of the status of Section 2, a tension is created if there are inconsistencies between Section 2 and other Sections of the *IFRS for SMEs* Standard.
47. To address this tension the Board could add a paragraph emphasising that the specific requirements of the other Sections of the *IFRS for SMEs* Standard take precedence over the requirements in Section 2. For example, the UK Financial Reporting Council has included an override paragraph in Section 2 *Concepts and Pervasive Principles* of FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of*

³ See paragraphs BC0.25 and BC0.28 of the Basis for Conclusions on the 2018 *Conceptual Framework for Financial Reporting*.

Ireland (which is based on the *IFRS for SMEs* Standard) which has worked well in practice.

48. The staff recommend the Board add the following paragraph to Section 2:⁴

Section 2 sets out the concepts and pervasive principles underlying financial statements. In some circumstances there may be inconsistencies between the concepts and principles in this Section of the Standard and specific requirements in another Section of the Standard. In these circumstances the specific requirements of the Section within the Standard take precedence over Section 2.

Differences between the IFRS for SMEs Standard and full IFRS Standards

49. Although the *IFRS for SMEs* Standard is based on full IFRS Standards, there are differences in requirements between the *IFRS for SMEs* Standard and IFRS Standards.
50. At its March 2021 meeting the Board tentatively decided to confirm that the scope of the second comprehensive review is as set out in the Request for Information and to work towards the development of an exposure draft. Consequently, the Board is developing proposed amendments to the *IFRS for SMEs* Standard for new requirements that are in the scope of the review at future Board meetings.
51. In the light of the Board tentative decision, the staff think it would be more effective to undertake a review of other Sections of the *IFRS for SMEs* Standard to identify any inconsistency after aligning Section 2 with the 2018 *Conceptual Framework* and when the Board has completed its deliberations on proposed amendments to the *IFRS for SMEs* Standard. The staff will bring back this topic in a future paper.

⁴ Similar to paragraph 2.1A of FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.

The concept of ‘undue cost or effort’

52. Some stakeholders, including some SMEIG members, have suggested the Board consider the concept of ‘undue cost or effort’ currently included in Section 2. They said:
- (a) application guidance and examples are needed in the *IFRS for SMEs* Standard on how to apply the concept of ‘undue cost or effort’;
 - (b) the concept should be removed because of the challenges to preparers; and
 - (c) the Board could introduce simpler options in specific cases, as an alternative to entities assessing undue cost or effort.
53. In the first comprehensive review, the Board concluded that it was not appropriate to provide further guidance on the concept because, ultimately, application of an undue cost or effort exemption depends on an SME’s specific circumstances and on management’s judgement. The Board also noted that the terms ‘undue cost’ and ‘undue cost or effort’ are used in full IFRS Standards and it would not be appropriate to define a term under the *IFRS for SMEs* Standard that is used, but not defined, in full IFRS Standards. This is because it may be used to interpret requirements in full IFRS Standards. The Board also observed that the application of an undue cost or effort exemption necessitates consideration of how those that are expected to use the financial statements would be affected if that exemption is taken. Consequently, undue cost or effort would generally be easier to meet for SMEs than for entities with public accountability, because the notion is applied relative to the benefits to users and SMEs are not accountable to public stakeholders.⁵
54. The staff believe these arguments remain valid in the second comprehensive review. In addition, in the first comprehensive review the Board incorporated the Q&A clarifying guidance on the undue cost or effort exemption that is used in several sections of the *IFRS for SMEs* Standard (taken from Q&A 2012/01).
55. Accordingly, the staff recommend the Board:

⁵ Paragraph BC233 of the Basis for Conclusions on the *IFRS for SMEs* Standard.

- (a) retain the concept of ‘undue cost or effort’—the concept is an important tool in the *IFRS for SMEs* Standard to alleviate the burden for SMEs applying the Standard and most stakeholders supported retaining the concept;
- (b) consider adding further explanatory notes and examples in Module 2—*Concepts and Pervasive Principles* on the concept of ‘undue cost or effort’ if the Board decides to update the *IFRS for SMEs* modules (education materials for the *IFRS for SMEs* Standard); and
- (c) not replace the concept of ‘undue cost or effort’ with simpler options—this approach is outside the scope of this review and would require a fundamental review.

Staff recommendations and questions for the Board

56. In the light of the staff analysis in paragraphs 24–55 of this paper, the staff recommend the Board:
- (a) retain the status of Section 2 of the *IFRS for SMEs* Standard unchanged (paragraph 31 of this paper);
 - (b) develop amendments to the *IFRS for SMEs* Standard to:
 - (i) align Section 2 with the 2018 *Conceptual Framework* (paragraph 39 of this paper); and
 - (ii) introduce an override paragraph in Section 2 to emphasise that the specific requirements of the other Sections of the *IFRS for SMEs* Standard take precedence over the requirements in Section 2 (paragraph 48 of this paper).
 - (c) review for potential inconsistencies between a revised Section 2 and other Sections of the *IFRS for SMEs* Standard when the Board has completed its deliberations on proposed amendments to the *IFRS for SMEs* Standard (paragraph 51 of this paper); and
 - (d) retain the concept of ‘undue cost or effort’ (paragraph 55 of this paper).

Questions for the Board

Does the Board agree with staff recommendations in paragraph 56 of this paper to:

- (a) retain the status of Section 2 unchanged;
- (b) develop amendments to the *IFRS for SMEs* Standard to align Section 2 with the 2018 *Conceptual Framework* and introduce an override paragraph in Section 2 to emphasise that the specific requirements of the other Sections of the *IFRS for SMEs* Standard take precedence over the requirements in Section 2;
- (c) review for potential inconsistencies between a revised Section 2 and other Sections of the *IFRS for SMEs* Standard when the Board has completed its deliberations on proposed amendments to the *IFRS for SMEs* Standard; and
- (d) retain the concept of 'undue cost or effort'?

Appendix A—Potential inconsistencies between revised Section 2 and other Sections of *IFRS for SMEs* Standard

- A1. This appendix sets out potential inconsistencies between the revised Section 2 and other Sections of the *IFRS for SMEs* Standard if Section 2 is aligned with the 2018 *Conceptual Framework*.
- A2. The table below is based on the Basis for Conclusions on the Exposure Draft *Conceptual Framework for Financial Reporting* published in May 2015 that discussed inconsistencies with IFRS Standards (see paragraph BCE.2—BCE.24 of the Exposure Draft). At its February 2017 meeting, the Board considered a paper discussing potential inconsistencies between IFRS Standards and the then forthcoming 2018 *Conceptual Framework*, and did not identify any substantive inconsistencies in addition to those discussed in the Exposure Draft for the 2018 *Conceptual Framework*.

Potential inconsistencies with...	IFRS Standards	<i>IFRS for SMEs</i> Standard	Staff response
Main inconsistencies			
IAS 32 <i>Financial Instrument: Presentation</i>	Definition of financial liability – clauses on a contract that will or may be settled in the entity’s own equity instruments result in classification as liabilities but do not meet the definition of a liability in the 2018 <i>Conceptual Framework</i>	Definition of financial liability in the <i>IFRS for SMEs</i> Standard Appendix B, Glossary of terms is same as IAS 32 definition.	The Board has a major project on the way (FICE) that is exploring how to distinguish liabilities from equity claims
IAS 32	The exceptions for puttable instruments in paragraphs 16A–16D of IAS 32 result in some financial instruments being classified as equity, even though they meet the definition of liability in the 2018 <i>Conceptual Framework</i>	Equivalent requirements for puttable instruments in paragraph 22.4 of the <i>IFRS for SMEs</i> Standard.	The Board has a major project on the way (FICE) – that is exploring how to distinguish liabilities from equity claims

Potential inconsistencies with...	IFRS Standards	<i>IFRS for SMEs</i> Standard	Staff response
<p>IAS 37 <i>Provisions, Contingent Liabilities and Contingent Assets</i> and IFRIC 21 <i>Levies</i></p>	<p>The requirements of IAS 37 as interpreted in IFRIC 21 are inconsistent with the concepts for identifying liabilities in the 2018 <i>Conceptual Framework</i>.</p>	<p>Section 21 <i>Provisions and Contingencies</i> is aligned with IAS 37. IFRIC 21 is not included in the <i>IFRS for SMEs</i> Standard.</p>	<p>The override paragraph will address the difference between the definition of liability in Section 2 and Section 21. staff will address the IFRIC 21 inconsistency when consider the feedback on the Request for Information.</p>
<p>IFRS 3 <i>Business Combination</i></p>	<p>IFRS 3 uses the definitions of an asset and a liability in the 1989 <i>Framework</i> when deciding whether to recognise assets and liabilities as part of a business combination. In some cases, applying the 2018 <i>Conceptual Framework</i> definitions could change which assets and liabilities qualify for recognition in a business combination.</p>	<p>Section 19 <i>Business Combinations and Goodwill</i> is aligned with IFRS 3 (2004).</p>	<p>The staff will address the IFRS 3 inconsistencies when considering the feedback on the Request for Information.</p>

Potential inconsistencies with...	IFRS Standards	<i>IFRS for SMEs</i> Standard	Staff response
Minor inconsistencies			
IAS 37	IAS 37 quotes the <i>1989 Framework</i> definition of a liability (paragraph 10 of IAS 37). The definition of a liability in IAS 37 was not revised following the revision of the definition of a liability in the 2018 <i>Conceptual Framework</i> .	The <i>IFRS for SMEs</i> Standard does not quote the definition of a liability in Section 21, but paragraph 21.4 of the Standard refers to the Section 2 liability recognition criteria.	The staff will add the <i>1989 Framework</i> definition of liability to Section 21.
IAS 38 <i>Impairment of Assets</i>	IAS 38 quotes the <i>1989 Framework</i> definition of an asset (paragraph 8 of IAS 38). The definition of an asset in IAS 38 was not revised following the revision of the definition of an asset in the 2018 <i>Conceptual Framework</i> .	The <i>IFRS for SMEs</i> Standard does not quote the definition of an asset in Section 18 <i>Intangible Assets Other than Goodwill</i> , but paragraph 18.4 of the Standard refers to the asset recognition criteria.	The staff will add the <i>1989 Framework</i> definition of an asset to Section 18.
Presentation and disclosure (IAS 19 <i>Employee Benefits</i>)	IAS 19 requires disclosure of expected contributions (paragraphs 147–148 of IAS 19) and is inconsistent with the forward-looking information approach in the 2018 <i>Conceptual framework</i> .	The <i>IFRS for SMEs</i> Standard does not require disclosure of expected contributions.	No action needed.
Faithful representation vs reliability	Existing IFRS Standards include the term ‘reliability’ which is not reinstated as a qualitative characteristic in the 2018 <i>Conceptual Framework</i> .	Reliability is a qualitative characteristic in Section 2 but it is not mentioned in other Sections.	The term ‘faithful representation’, which was used in the 2010 <i>Conceptual Framework</i> and is also used in the 2018 <i>Conceptual Framework</i> , encompasses the main characteristics that the <i>Framework</i> called ‘reliability’.

Potential inconsistencies with...	IFRS Standards	<i>IFRS for SMEs</i> Standard	Staff response
<p>IAS 1 <i>Presentation of Financial Statements</i>; and IAS 8 <i>Accounting Policies, Changes in Accounting Estimates and Errors</i></p>	<p>Guidance in these Standards is based on the qualitative characteristics described in the <i>1989 Framework</i>. Amendments to IAS 1 and IAS 8 only updated the references to the previous versions of the <i>Conceptual Framework</i> so that they refer to the <i>2018 Conceptual Framework</i>.⁶</p>	<p>The <i>IFRS for SMEs</i> Standards is based on IAS 1 and IAS 8.</p>	<p>The override paragraph will address the difference between the Section 2 and other Sections. The staff will address the inconsistencies when considering the feedback on the Request for Information.</p>

⁶ See *Amendments to References to the Conceptual Framework in IFRS Standards—Amendments to IFRS Standards* issued in March 2018.