

STAFF PAPER

October 2021

IASB[®] meeting

Project	Second Comprehensive Review of the <i>IFRS for SMEs</i> [®] Standard	
Paper topic	Cover paper	
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This paper has been prepared for discussion at a public meeting of the International Accounting Standards Board (Board) and does not represent the views of the Board or any individual member of the Board. 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. At its March 2021 meeting, the International Accounting Standards Board (Board) tentatively decided to develop an exposure draft of amendments to the *IFRS for SMEs* Standard using the alignment approach the Board consulted on in the Request for Information *Comprehensive Review of the IFRS for SMEs Standard*, published in January 2020. At its May 2021 meeting, the Board started deliberating specific sections of the *IFRS for SMEs* Standard that could be aligned with new requirements in IFRS Standards in the scope of the review.
2. The appendix to this paper summarises the Board's tentative decisions to date.

Purpose of this meeting

3. At this meeting the Board will continue to deliberate specific sections of the *IFRS for SMEs* Standard that could be aligned with IFRS Standards, amendments to IFRS Standards and IFRIC Interpretations in the scope of the second comprehensive review of the *IFRS for SMEs* Standard.

4. Agenda papers for discussion at this meeting are the following:
- (a) Agenda Paper 30A: *Towards an Exposure Draft—IFRS 9 Financial Instruments ('fallback' to full IFRS recognition and measurement requirements);*
 - (b) Agenda Paper 30B: *Towards an Exposure Draft—IFRS 9 Financial Instruments (hedge accounting);*
 - (c) Agenda Paper 30C: *Towards an Exposure Draft—IFRS 13 Fair Value Measurement;*
 - (d) Agenda Paper 30D: *Towards an Exposure Draft—IFRS 14 Regulatory Deferral Accounts; and*
 - (e) Agenda Paper 30E: *Towards an Exposure Draft—IFRS 15 Revenue from Contracts with Customers.*

The Board's alignment approach

5. The Board's alignment approach is to continue to develop the *IFRS for SMEs* Standard based on principles of IFRS Standards. At its March 2021 meeting, the Board agreed to apply the alignment approach on which the Board consulted in the Requestion for Information.¹ The alignment approach treats alignment with IFRS Standards as the starting point for developing the *IFRS for SMEs* Standard, and applies the principles of relevance to SMEs, simplicity and faithful representation, including the assessment of costs and benefits, in determining whether and how that alignment should take place. The approach would apply these principles as follows:
- (a) relevance to SMEs is determined by assessing whether the problem addressed by the full IFRS requirements would make a difference in the decisions of users of financial statements prepared applying the *IFRS for SMEs* Standard. If the relevance condition is met, the Board would then consider the principle of simplicity for those IFRS requirements. If the relevance condition is not met, analysis of the other two alignment principles 'simplicity' and 'faithful

¹ See paragraphs 32–37 of the [Request for Information Comprehensive review of the IFRS for SMEs Standard](#) published by the Board in January 2020.

representation' is not necessary because alignment of the *IFRS for SMEs* Standard with those IFRS requirements would not be appropriate.

- (b) applying the principle of simplicity involves looking at the IFRS requirements that have satisfied the relevance condition and then assessing what simplifications are appropriate. For any simplifications made, the Board would then consider the principle of faithful representation.
- (c) the principle of faithful representation is intended to help the Board assess whether financial statements prepared applying the *IFRS for SMEs* Standard would faithfully represent the substance of economic phenomena in words and numbers. Simplifications that would result in financial statements that do not meet this criterion could damage the quality of information reported to users.

Next steps

- 6. At future Board meetings, the staff will continue to bring to the Board's attention papers for:
 - (a) whether and how the Board should propose amending the *IFRS for SMEs* Standard for other topics of IFRS 9;
 - (b) other specific sections of the *IFRS for SMEs* Standard that could be aligned with IFRS Standards, amendments to IFRS Standards and IFRIC Interpretations; and
 - (c) other topics that are not addressed in the *IFRS for SMEs* Standard for which the Standard could be aligned with IFRS Standards and topics on which the Board has received feedback.

Appendix—summary of the Board’s tentative decisions

Staff condensed summary of the Board’s tentative decisions	Board meeting
<p><i>A full record of the Board’s tentative decisions on the Second Comprehensive Review of the IFRS for SMEs Standard are available from IASB Updates. All drafting in this summary is illustrative only and subject to change.</i></p>	
<p>Project plan for the second phase of the review</p>	
<p>1. The Board tentatively decided to:</p> <ul style="list-style-type: none"> • move the project from its research programme to its standard-setting work plan. • confirm that the scope of the review is as set out in the Request for Information. • work towards publishing an exposure draft, proposing amendments to the <i>IFRS for SMEs</i> Standard for new requirements that are in the scope of the Review. • develop proposed amendments to the <i>IFRS for SMEs</i> Standard using the approach on which the Board consulted in the Request for Information. This approach treats alignment with IFRS Standards as the starting point, and applies the principles of relevance to SMEs, simplicity and faithful representation, including the assessment of costs and benefits, in determining whether and how that alignment should take place. 	<p>March 2021</p>
<p>Deliberation for specific sections of the <i>IFRS for SMEs</i> Standard</p>	
<p>2. The Board tentatively decided to propose:</p> <ul style="list-style-type: none"> • retaining Section 2 <i>Concepts and Pervasive Principles</i> as part of the <i>IFRS for SMEs</i> Standard. • aligning Section 2 with the 2018 <i>Conceptual Framework</i> and to emphasise that the requirements in the other sections of the <i>IFRS for SMEs</i> Standard take precedence over what Section 2 would otherwise require; • undertaking a review for potential inconsistencies between a revised Section 2 and other sections of the <i>IFRS for SMEs</i> Standard when the Board has completed its deliberations on proposed amendments to the <i>IFRS for SMEs</i> Standard; and • retaining the concept of ‘undue cost or effort’. 	<p>May 2021</p>
<p>3. The Board tentatively decided to propose an amendment to the <i>IFRS for SMEs</i> Standard, subject to the wording of the amendment, to supplement the examples in Section 11 <i>Basic Financial Instruments</i> with a principle for classifying financial assets based on their contractual cash flow characteristics.</p>	<p>May 2021</p>