REPORT ON THE SME IMPLEMENTATION GROUP MEETING

9 SEPTEMBER 2021

About the SME Implementation Group

1. The Trustees of the IFRS Foundation have charged the SME Implementation Group (SMEIG) with two main responsibilities:
   (a) to consider questions on the implementation and application of the *IFRS for SMEs* Standard, decide which questions merit published educational material based on set criteria and develop Q&As, which are educational materials, that are publicly available on a timely basis; and
   (b) to consider the need to amend the *IFRS for SMEs* Standard and make recommendations to the International Accounting Standards Board (Board) on:
      (i) issues on the implementation and application of the *IFRS for SMEs* Standard that cannot be addressed by Q&As; and
      (ii) new and amended IFRS Standards that have been approved since the *IFRS for SMEs* Standard was issued or last amended.

Purpose of this Report

2. This Report summarises the SMEIG meeting held via remote participation on 9 September 2021 and chaired by Jianqiao Lu, a member of the Board and Chair of the SMEIG.

SMEIG meeting

3. The topics for discussion were:
   - update on work completed;
   - proposals relating to the *Conceptual Framework* and to financial instruments;
   - alignment with IFRS 16 *Leases*;
   - Section 28 *Employee Benefits*;
   - update to multiple sections of the *IFRS for SMEs* Standard for amendments to IFRS Standards and IFRIC Interpretations;
   - alignment with IFRS 14 *Regulatory Deferral Accounts*;
   - other topics; and
   - subsidiaries without public accountability.
4. The agenda papers for the meeting are available on the IFRS Foundation's website.

5. The objectives of the meeting were:

   (a) to update SMEIG members on the developments, since the February 2021 SMEIG meeting, relating to the Second Comprehensive Review of the *IFRS for SMEs* Standard;

   (b) to review the feedback on the topics from the Request for Information *Second Comprehensive Review of the* IFRS for SMEs *Standard* published in January 2020 that were not discussed at the February 2021 SMEIG meeting;[1]

   (c) to develop recommendations to help the Board decide the next steps on these topics, in the light of the Board's tentative decision to work towards publishing an exposure draft proposing amendments to the *IFRS for SMEs* Standard; and

   (d) to provide an overview of and discuss the Exposure Draft *Subsidiaries without Public Accountability: Disclosures*.

Update on work completed

6. The staff provided an update on meetings in March–April 2021 with preparers of SMEs' financial statements. The findings from these meetings were intended to supplement the feedback from comment letters on the Request for Information.

Proposals relating to the *Conceptual Framework* and to financial instruments

7. The staff provided an update on the Board's tentative decisions to propose amendments to the *IFRS for SMEs* Standard:

   (a) to align Section 2 *Concepts and Pervasive Principles* of the *IFRS for SMEs* Standard with the 2018 *Conceptual Framework for Financial Reporting,* with added clarification on the relationship between the updated Section 2 and the remainder of the content of the *IFRS for SMEs* Standard; and

   (b) to supplement the examples in Section 11 *Basic Financial Instruments* of the *IFRS for SMEs* Standard with a principle for classifying financial assets based on whether contractual cash flows are solely payments of principal and interest.

Alignment with IFRS 16 *Leases*

8. SMEIG members discussed possible approaches to aligning Section 20 *Leases* of the *IFRS for SMEs* Standard with IFRS 16 *Leases*, considering all forms of feedback on the Request for Information and from supplementary meetings. The three approaches they discussed were:

   (a) Approach 1—aligning Section 20 with IFRS 16 with possible simplifications (as described in the Request for Information);

   (b) Approach 2—aligning Section 20 with the main principle of IFRS 16 by extending the existing accounting for finance leases in the *IFRS for SMEs* Standard to all leases; and

   (c) Approach 3—improving disclosure requirements for operating leases without changing the recognition and measurement requirements in the *IFRS for SMEs* Standard.

9. There was no consensus on which approach would be best—support was split between Approach 1 and Approach 3.

[1] The Request for Information *Second Comprehensive Review of the* IFRS for SMEs *Standard* is available here.

10. Some SMEIG members supported aligning Section 20 with IFRS 16 with possible simplifications (Approach 1) because:

    (a) in developing IFRS 16 the Board agreed that a lessee obtains an asset and a liability. These members say this position applies equally to an entity applying the *IFRS for SMEs* Standard and an entity applying IFRS 16.

    (b) leases are an important source of finance for SMEs. Recognising all leases in the statement of financial position results in greater transparency.

    (c) most leases to which SMEs are parties do not include complex terms and conditions and IFRS 16 already includes some recognition exemptions for leases of low value assets and short-term leases. Applying the accounting required by IFRS 16 to these leases would therefore not impose excessive costs on SMEs.

11. Two SMEIG members supporting Approach 1 expressed concerns about simplifying the definition of 'lease term' to 'the non-cancellable period for which an entity is required to comply with the lease'. These members said such a simplification could lead to lease contracts being structured to obtain a specific accounting outcome.

12. Some SMEIG members supported improving the disclosure requirements for operating leases without changing the recognition and measurement requirements in the *IFRS for SMEs* Standard (Approach 3) because:

    (a) this approach would meet the information needs of users of SMEs' financial statements, which focus on future cash flows and an entity's ability to repay debt and continue as a going concern. Approach 3 would also maintain the Standard's simplicity for SMEs that typically have limited resources and would avoid any tax implications that could arise from a change in the accounting requirements for operating leases.

    (b) for some SMEs, the assets and liabilities arising from leases are not significant. For example, one SMEIG member said that in his jurisdiction the average lease term is between three and five years.

13. A small number of SMEIG members supported Approach 2 as a second choice. One SMEIG member recommended the staff analyse the differences in outcome between Approach 1 and Approach 2 to help the Board decide which approach to propose.

Section 28 *Employee Benefits*

14. SMEIG members discussed:

    (a) the potential alignment of Section 28 *Employee Benefits* with the 2011 amendments to IAS 19 *Employee Benefits*; and

    (b) how paragraph 28.19 of the *IFRS for SMEs* Standard is applied and whether there is diversity in practice.

15. SMEIG members generally agreed with the staff's view, based on feedback, to propose aligning Section 28 with only the recognition requirements for termination benefits from the 2011 amendments to IAS 19.

16. Some SMEIG members supported eliminating the option to present actuarial gains and losses either in profit or loss or in other comprehensive income. One of these SMEIG members supported the elimination because the actuarial gains and losses would be beyond an entity's control.

17. Regarding how frequently entities applying the *IFRS for SMEs* Standard need to apply the requirements for defined benefit plans:

    (a) many SMEIG members said that SMEs in their jurisdictions rarely have defined benefit plans and that there is a trend for entities to move from defined benefit plans to defined contribution plans;

    (b) two SMEIG members said defined benefit plans are common in their jurisdictions; and

    (c) two SMEIG members said defined benefit plans exist in their jurisdictions, but that defined contribution plans are more common.

18. Two SMEIG members said the simplifications permitted by paragraph 28.19 of the *IFRS for SMEs* Standard are rarely applied because entities use third party experts to estimate the defined benefit liability. These experts make that estimation based on the requirements of IAS 19. One SMEIG member said the simplifications are not available in the UK and the Republic of Ireland.

19. SMEIG members generally agreed with the staff's view that applying paragraph 28.19 of the *IFRS for SMEs* Standard requires the defined benefit obligation to be discounted. However, two members said the Board should provide more clarity. One SMEIG member disagreed with the staff's view.

Update to multiple sections of the *IFRS for SMEs* Standard for amendments to IFRS Standards and IFRIC Interpretations

20. SMEIG members discussed aligning the *IFRS for SMEs* Standard with amendments to IFRS Standards and IFRIC Interpretations. The Request for Information sought views on:

    (a) whether to align the *IFRS for SMEs* Standard with the amendments to IFRS Standards outlined in Table A1 of Appendix A to the Request for Information;

    (b) whether to leave the *IFRS for SMEs* Standard unchanged for the amendments to IFRS Standards listed in Table A2 of Appendix A to the Request for Information; and

    (c) what, if any, action to take regarding the items from Table A3 of Appendix A to the Request for Information, namely:

        (i) the amendments to IAS 40 *Investment Property* from the *Annual Improvements to IFRSs 2011–2013 Cycle*;

        (ii) the amendments to IAS 12 *Income Taxes* for the recognition of deferred tax assets for unrealised losses;

        (iii) IFRIC 21 *Levies*;

        (iv) IFRIC 22 *Foreign Currency Transactions and Advance Consideration*; and

        (v) IFRIC 23 *Uncertainty over Income Tax Treatments*.

Amendments to the IFRS Standards listed in Table A1

21. SMEIG members generally agreed with the staff's preliminary thoughts to propose aligning the *IFRS for SMEs* Standard with the amendments to the IFRS Standards listed in Table A1, including a simplification to the *Disclosure Initiative* (Amendments to IAS 7) for financing activities. However, one SMEIG member disagreed with aligning the *IFRS for SMEs* Standard with this amendment. In the view of this member, the potential benefit of the disclosure introduced by the amendments would not outweigh the costs of preparing the disclosure.

22. Some SMEIG members did not support aligning Section 34 *Specialised Activities* of the *IFRS for SMEs* Standard with *Agriculture: Bearer Plants* (Amendments to IAS 16 and IAS 41). In their view, the amendments would be difficult for SMEs to apply. The amendments require IAS 16 *Property, Plant and Equipment* to be applied to bearer plants. These SMEIG members said:

    (a) aligning with the requirement to measure bearer plants separately from the produce from those plants would introduce unnecessary complexities for SMEs and conflict with the simplicity principle. These members also said alignment might bring little benefit to SMEs.

    (b) aligning with the requirement would require additional resources to determine the fair value of the produce separately from the bearer plant. However, one SMEIG member said that many entities that apply the *IFRS for SMEs* Standard and have bearer plants are large entities. These entities might already have procedures to account separately for bearer plants and the produce from those plants.

    (c) further simplification would be needed if the Standard is aligned with these amendments. For example, the 'entire' bearer plant could be treated as a single asset.

Amendments to the IFRS Standards listed in Table A2

23. SMEIG members generally agreed with the staff's preliminary thoughts not to propose aligning the *IFRS for SMEs* Standard with the amendments to the IFRS Standards listed in Table A2 and that further analysis is required on the possible alignment with the *Disclosure Initiative* (Amendments to IAS 1).

24. One SMEIG member said Section 11 *Basic Financial Instruments* and Section 12 *Other Financial Instrument Issues* of the *IFRS for SMEs* Standard should be aligned with the amendments to IFRS 7 from the *Annual Improvements to IFRSs 2012–2014 Cycle*. In the view of this member, if an SME has continuing involvement in a transferred asset, the SME should provide the disclosures required by IFRS 7.

Amendments to the IFRS Standards and IFRIC Interpretations listed in Table A3

25. Most SMEIG members agreed with the staff's preliminary thoughts on the items listed in Table A3 of the Request for Information. The SMEIG members agreed with:

    (a) proposing to align the *IFRS for SMEs* Standard with:

        (i) the amendments to IAS 40;

        (ii) the amendments to IAS 12;

        (iii) IFRIC 22; and

        (iv) IFRIC 23.

    (b) proposing not to align the *IFRS for SMEs* Standard with IFRIC 21.

26. One SMEIG member expressed concern that alignment with the amendments in paragraph 25(a) might introduce complexity to the *IFRS for SMEs* Standard. The member also said the *IFRS for SMEs* Standard should use 'plain English'.

27. A small number of SMEIG members expressed other views on aligning the Standard with the amendments to IFRS Standards and IFRIC Interpretations listed in Table A3 of the Request for Information. One SMEIG member disagreed with aligning the *IFRS for SMEs* Standard with the amendments to IAS 12 to recognise deferred tax assets for unrealised losses, because doing so could introduce complexity to the *IFRS for SMEs* Standard, which would conflict with the principle of simplicity. Another SMEIG member disagreed with aligning the *IFRS for SMEs* Standard with IFRIC 23 because doing so could add difficulty for an SME trying to comply with the Standard without improving the usefulness of the information the SME would provide.

Alignment with IFRS 14 *Regulatory Deferral Accounts*

28. SMEIG members discussed whether to align the *IFRS for SMEs* Standard with IFRS 14 *Regulatory Deferral Accounts*.

29. SMEIG members agreed with the staff's preliminary thoughts that the feedback provides evidence that the Board should not align the *IFRS for SMEs* Standard with IFRS 14. They also agreed that the Board should wait until the project on Rate-regulated Activities is complete before considering alignment with the *IFRS for SMEs* Standard.

30. One SMEIG member suggested that this topic be addressed in a future review of the *IFRS for SMEs* Standard, once the new Standard on rate-regulated activities is issued and the scope of regulatory assets and regulatory liabilities is clear.

Other topics

31. SMEIG members considered the feedback on questions N4 and N5 from the Request for Information. They discussed the staff's preliminary thoughts on whether the Board should take further action on specified topics and stated the topics on which they thought further action was required.

32. Most SMEIG members agreed that the Board should:

    (a) simplify the requirements on share-based payment; and

    (b) take no further action on the 22 other topics discussed in paragraphs 13–72 of Agenda Paper 8 *Other Topics*.

33. A small number of SMEIG members said the Board should consider action on:

    (a) providing guidance for a new entity formed in a business combination. Two SMEIG members said there are many questions in practice regarding introducing a new entity in group reorganisations and that such transactions are common for entities within the scope of the *IFRS for SME* Standard. Their view was that the Board should take further action without waiting for the outcome of the Business Combinations under Common Control project.

    (b) the capitalisation of development costs and borrowing costs. Four SMEIG members expressed concerns over the prohibition on recognising development costs and borrowing costs in the *IFRS for SMEs* Standard. These SMEIG members said some entities (such as software developers, start-ups and entrepreneurs) have the resources to assess whether development costs or borrowing costs should be recognised as assets, and should be allowed to do so.

34. The staff asked for SMEIG members' views on whether the Board should take further action on interim financial reporting, assets held for sale and discontinued operations, accounting for biological assets, loans from directors and the default treatment of share-based payments with settlement options

35. Most SMEIG members expressed the view that no further action is needed for interim financial reporting and assets held for sale and discontinued operations.

36. There were mixed views among SMEIG members on whether action is required on the accounting for biological assets, loans from directors and the default treatment of share-based payments with settlement options.

37. The staff requested that SMEIG members inform the staff after the meeting whether the requirement in paragraph 22.7(a) of the *IFRS for SMEs* Standard conflicts with a legal position in any jurisdiction. Having this information would enable the Board to decide if further action is needed on this requirement.

Subsidiaries without public accountability

38. SMEIG members heard an overview relating to the Exposure Draft *Subsidiaries without Public Accountability: Disclosures* published by the Board in July 2021.

39. SMEIG members shared views on the scope of the Exposure Draft and the intended benefits for subsidiaries of applying the draft Standard.

Next steps

40. The staff plan to incorporate the recommendations from SMEIG members into the agenda papers for discussion at future Board meetings.

41. The staff plan to seek recommendations from the SMEIG on additional topics in the scope of the review when needed. Specifically, for impairment and issued financial guarantees, the staff plan to consult with SMEIG members with practical experience or expertise in applying the expected loss model or accounting for issued financial guarantees. These SMEIG members could help the staff understand the issues for SMEs and provide advice as the staff develops possible amendments to the *IFRS for SMEs* Standard for discussion by the Board.