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# SME Implementation Group meeting

Date	July 2023
Project	Second Comprehensive Review of the <i>IFRS for SMEs</i> Accounting Standard
Topic	Outreach feedback summary
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## Agenda

Objective

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Who we talked to

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Project educational activity

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Feedback on the Exposure Draft—Proposed amendments to the Standard

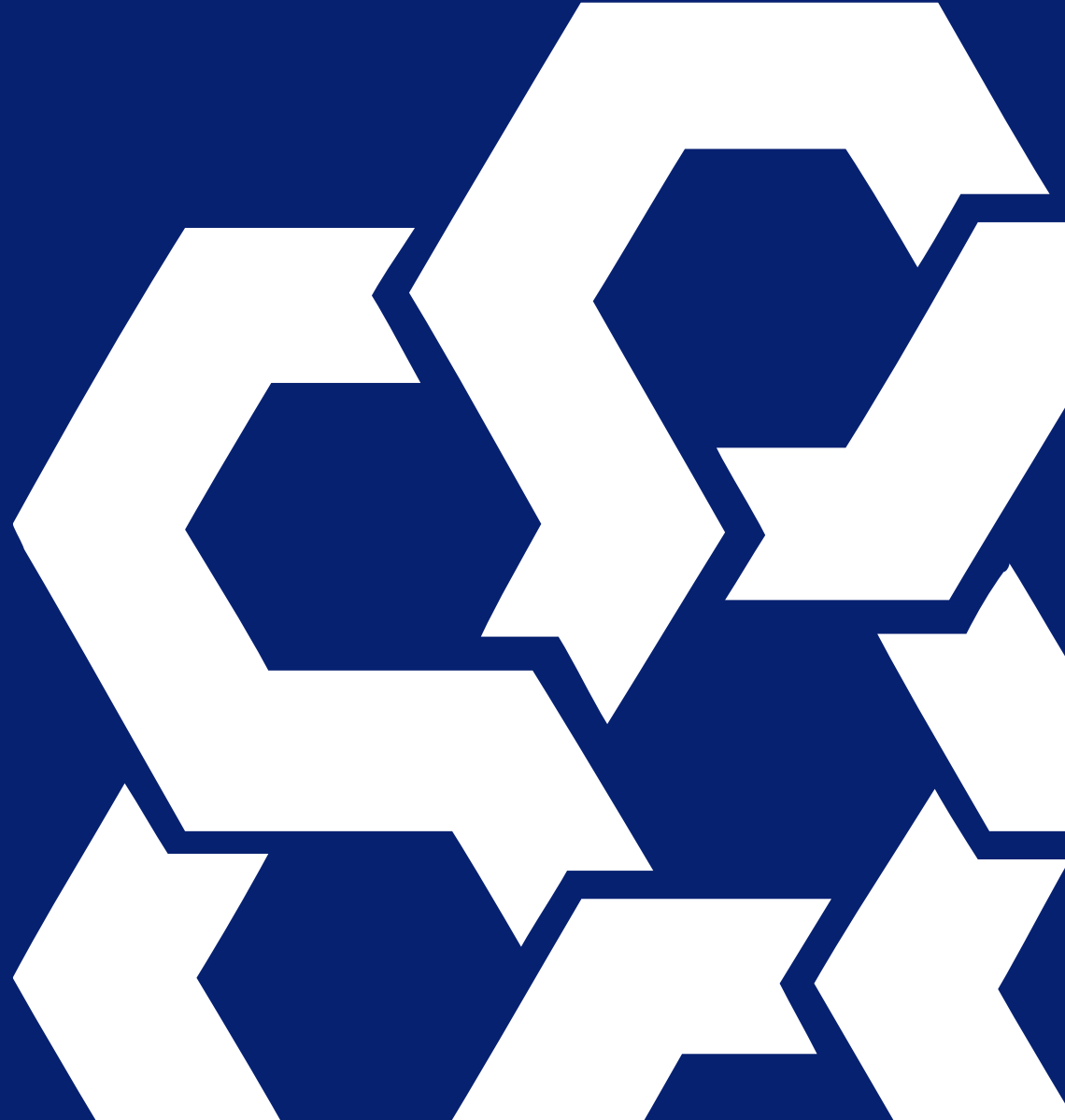
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Feedback on the Exposure Draft—Topics for which amendments were not proposed

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# Objective



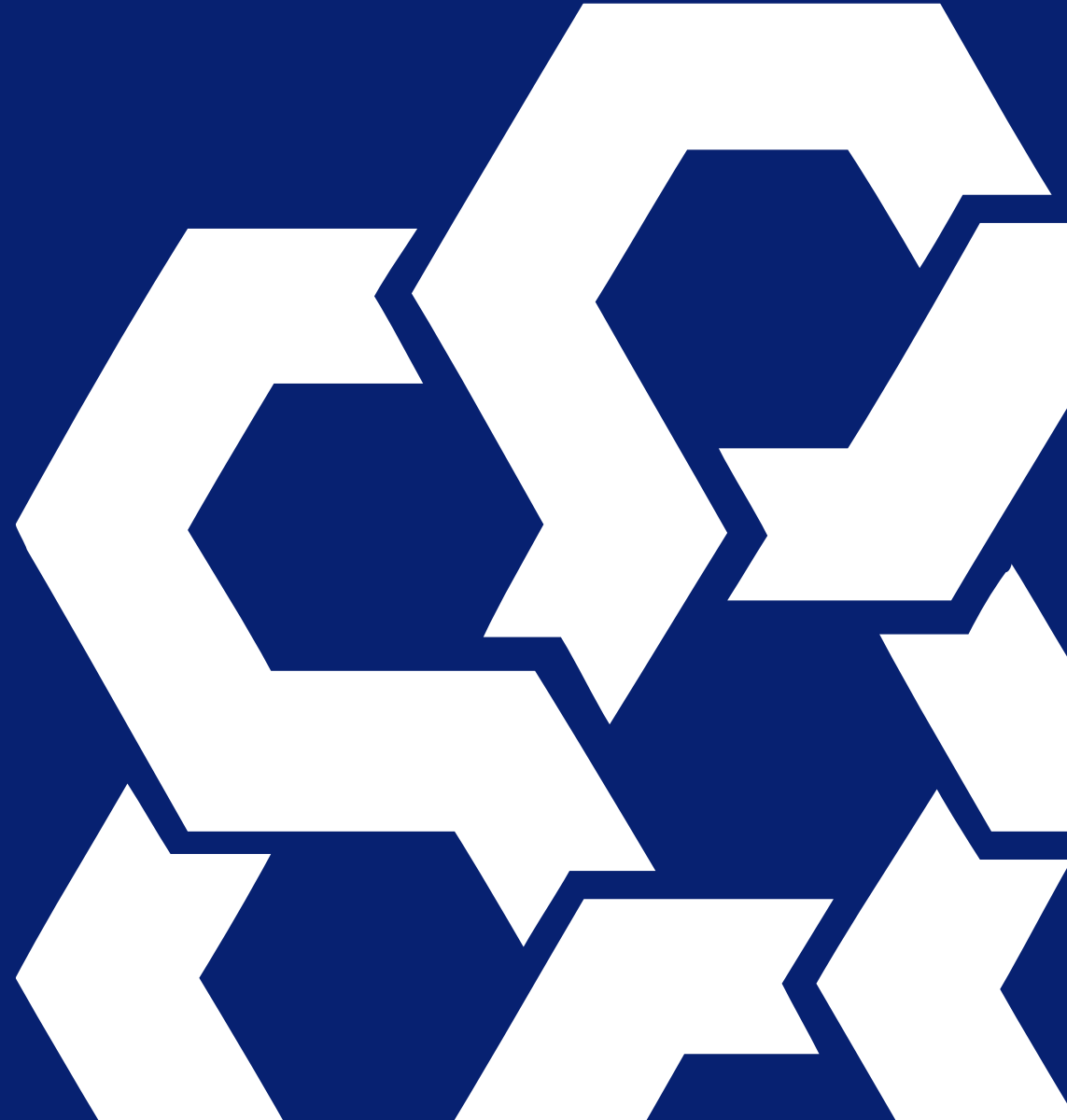
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## Objective

This presentation summarises the feedback from outreach events (undertaken by staff and IASB members) on the Exposure Draft *Third edition of the IFRS for SMEs Accounting Standard* (Exposure Draft).

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## Who we talked to



## Analysis of outreach events by region and constituent type



Geographical Region	Events	
	Number	Percentage
Asia and Oceania	9	29%
Global	8	26%
Americas	7	23%
Africa	5	16%
Europe	2	6%
<b>Total</b>	<b>31</b>	<b>100%</b>



Main Constituent Type	Events	
	Number	Percentage
Standard-setting body	15	49%
Mixed stakeholders	12	38%
Accountancy body	4	13%
<b>Total</b>	<b>31</b>	<b>100%</b>

Staff and IASB members participated in outreach events with the following organisations/groups

July 2022	September 2022	October 2022	October 2022 cont.	November 2022	November 2022 cont.
Accounting Standards Advisory Forum (ASAF)	World Standard Setters (WSS)	Pan-African Federation of Accountants (PAFA)	Brazilian Concrete Institute (IBRACON)	Islamic Finance Consultative Group (IFCG)	Asian-Oceanian Standard-Setters Group (AOSSG)
	International Forum of Accounting Standard Setters (IFASS)	SME Implementation Group (SMEIG)		Malaysian Accounting Standards Board (MASB)	World Congress of Accountants (WCOA)
		South African Institute of Chartered Accountants (SAICA)		Group of Latin American Accounting Standard Setters (GLASS)	World Bank
		Asian-Oceanian Standard-Setters Group (AOSSG)		China Accounting Standards Committee (CASC)	<ul style="list-style-type: none"> <li>• China, Korea and Japan Accounting Standard Setters</li> <li>• Hong Kong Institute of Certified Public Accountants (HKICPA)</li> <li>• Professional Committee of Accountants of Macau</li> </ul>

Staff and IASB members participated in outreach events with the following organisations/groups

December 2022	January 2023	February 2023	March 2023
Association of Chartered Certified Accountants (ACCA)	ASEAN Federation of Accountants (AFA)	Financial Accounting Standards Board (FASB)	Brazilian Accounting Pronouncements Committee (CPC)
Emerging Economies Group (EEG)	International Federation of Accountants (IFAC)	South African Institute of Chartered Accountants (SAICA)	Group of Latin American Accounting Standard Setters (GLASS)
Brazilian Accounting Pronouncements Committee (CPC)	BDO China		
African Accounting and Finance Association (AAFA)	The Union of Accountants, Auditors and Financial Workers of Federation of Bosnia and Herzegovina (the Union)		

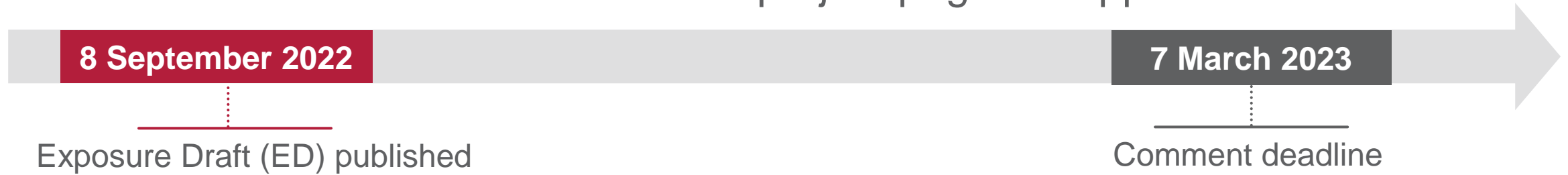


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## Project educational activity

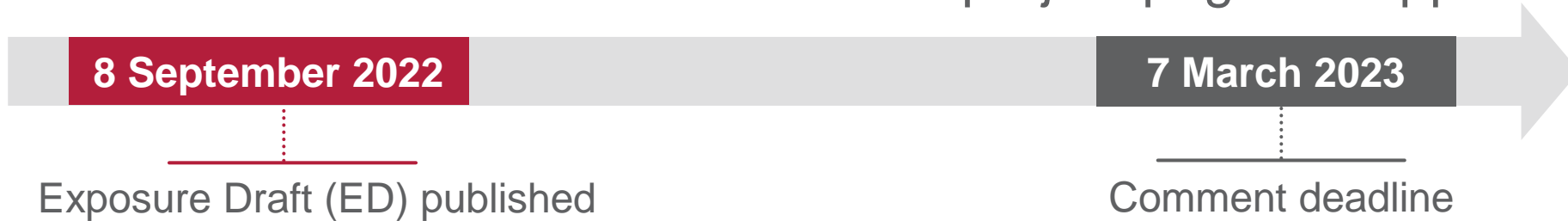


## Educational activities—materials on the project page to support outreach



8 Sep 2022	14 Sep 2022	23 Sep 2022	23 Sep 2022	4 Oct 2022	26 Oct 2022	9 Nov 2022
Exposure Draft—Snapshot	First webcast—Introducing the ED	Introduction of the ED at WSS Conference	September 2022 Newsletter	Overview of the ED to the SMEIG	Overview of the ED to the Islamic Finance Consultative Group	November 2022 Article—User feedback
1,175 downloads	760 views (website and YouTube)	146 document downloads	2,818 views	362 document downloads	75 document downloads	1,856 views

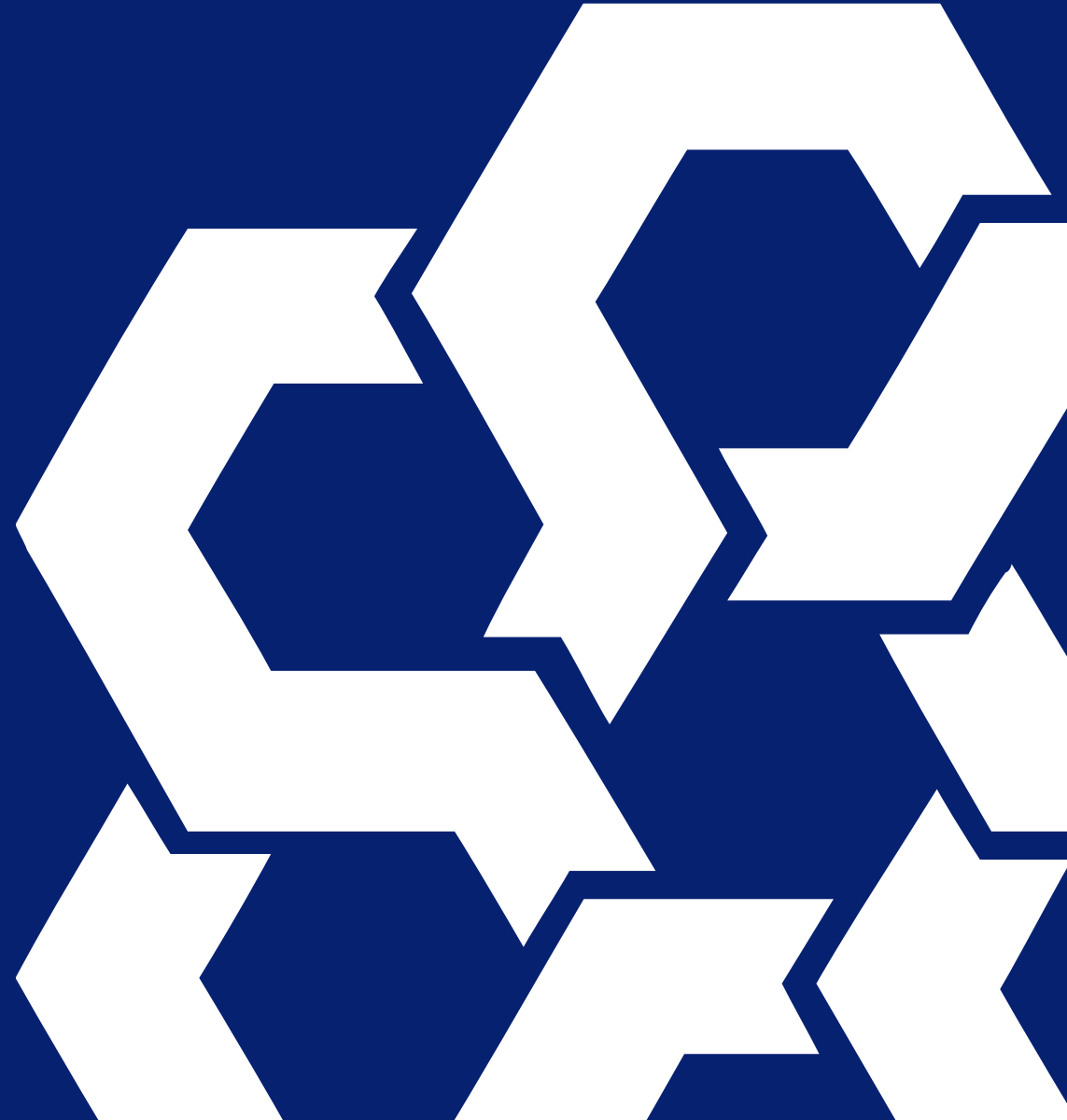
## Educational activities—materials on the project page to support outreach



5 Dec 2022	12 Dec 2022	20 Dec 2022	5 Jan 2023	19 Jan 2023
Second webcast— Introducing the ED	Presentation of the ED at WSS Conference	December 2022 Newsletter	Overview of the ED to the Emerging Economies Group	Third webcast— Financial instruments proposals
944 views (website and YouTube)	695 views (website and YouTube)	4,708 views	75 document downloads	834 views (website and YouTube)

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## Feedback on the Exposure Draft—Proposed amendments to the Standard



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## Overall feedback on the Exposure Draft



Some stakeholders agreed the proposals in the Exposure Draft would provide more useful information for users of SMEs' financial statements.



*“The IFRS for SMEs Accounting Standard is important as the financial statements of SMEs are a good source of information for investors.”*



Some stakeholders expressed concerns about the proposals in the Exposure Draft:

- there are many complex changes, including areas of significant judgement.
- SMEs have limited resources to implement the changes.



*“The ED proposed more requirements involving significant judgements and estimates, such additional requirements would increase complexity in applying the Standard.”*

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## Question 1—Definition of public accountability



Some stakeholders agreed the proposal:

- would add clarity without changing the intended scope of the Standard.
- clarifies the definition of public accountability.



Some stakeholders had concerns about the subjectivity of ‘high degree of interest’ and ‘broad group of outsiders’ and the judgement that would be required.

Some respondents said the IASB should:

- provide further clarification in educational materials.
- provide a definition of fiduciary capacity.

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## Question 2— Revised Section 2 *Concepts and Pervasive Principles*



Stakeholders generally supported the alignment of Section 2 with the 2018 *Conceptual Framework*.



On the proposal to use the definition of an asset and of a liability from the previous version of Section 2 for Section 18 *Intangible Assets and Goodwill* and Section 21 *Provisions and Contingencies*:

- some stakeholders supported this proposal because it is consistent with full IFRS Accounting Standards.
- some stakeholders said this proposal will be confusing for preparers and users of SME financial statements.

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## Question 3—Proposed amendments to the definition of control in Section 9 *Consolidated and Separate Financial Statements*



Stakeholders expressed general support for the proposal to retain the rebuttable presumption that control exists when an investor owns more than majority of voting rights.



*“No significant concerns based on past practice. The rebuttable presumption is easy to apply and understand”.*



## Question 4—Impairment of financial assets in Section 11 *Financial Instruments*



### Feedback

Expected Credit Loss (ECL) model is complex

### Mixed views on the proposals

- **There were mixed views on the introduction of ECL model for only some financial assets**
  - Some stakeholders **agreed** with the proposal.
  - Some stakeholders **conditionally agreed** with the proposal, they suggested that ECL model should be introduced as an option, or dependent on the industry of the SME, or dependent on the expected life cycle (long or short term) of the financial asset.
  - Some stakeholders **disagreed** with the proposal and favoured the incurred loss model, which is less complex and is sufficient for users and preparers of SMEs' financial statements.

### Concerns raised on ECL model

- ECL model is complex.
- Costs of ECL model would outweigh the benefits.
- SMEs have limited resources to apply ECL.
- Users of SMEs financial statements do not need the information provided by ECL.

## Question 5—Proposal for a new Section 12 *Fair Value Measurement*



- Stakeholders expressed general support for the proposal for a new Section 12 without further comments.
- Some stakeholders said SMEs do not have many items measured on a fair value basis.



*“We appreciate the new structure of having financial instruments in Section 11 and the introduction of Section 12 and the illustrative examples.”*

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## Question 6—Proposed amendments to Section 15 *Investments in Joint Ventures*



Stakeholders generally supported alignment of the definition of joint control and retention of the three classifications of joint arrangements in Section 15.



*“The retention of the Section 15 categories will relieve SMEs from exercising judgements required under IFRS 11.”*



Some stakeholders:

- disagreed with the proposal and said they support full alignment with IFRS 11.
- said the proposal is confusing for users and preparers.

## Question 7—Proposed amendments to Section 19 *Business Combinations and Goodwill*



### Feedback

Mixed views on the relevance of step acquisitions for SMEs

### Step acquisitions

**Stakeholders generally supported the introduction of the requirements for step acquisitions, although:**

- some stakeholders said step acquisitions are not common for SMEs.
- some stakeholders said step acquisitions are becoming more common for SMEs.

### Measurement of non-controlling interests (NCI)

**Some of the stakeholders suggested that the fair value option is introduced to measure NCI because fair value:**

- provides better quality information.
- SMEs can benefit from having the option.

## Question 8—Revised Section 23 *Revenue*



Feedback

General support for revised Section 23

### Supporting comments

The five-step model for recognising revenue is an improvement.

Simplifications will reduce complexity.



### Concerns and suggestions

IFRS 15 is too technical.

More illustrative examples needed.

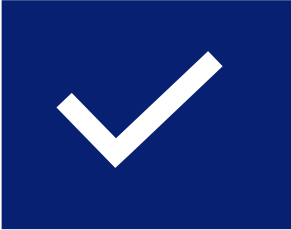
More guidance needed: principal vs agent.



*“We agree with the alignment with the five-step model of IFRS 15 as well as the simplifications made.”*

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## Question 9—Proposed amendments to Section 28 *Employee Benefits*



Some stakeholders agreed with the proposal to delete paragraph 28.19 because defined benefits are not common for SMEs.



Some respondents disagreed with the proposal, they said the paragraph should be retained because it provides guidance and a simplification.



*“Although defined benefit plan are not common in our jurisdiction, deleting this requirement would result in SMEs incurring higher actuarial costs.”*

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## Question 10—Transition



Stakeholders agreed with the proposed transition requirements for the amendments to the *IFRS for SMEs Accounting Standard*.



*“The transition requirements would provide comparable information to the users of SMEs financial statements.”*

## Question 11—Other proposed amendments



**Capitalisation of borrowing costs**

Some stakeholders requested the IASB to consider the introduction of requirements for SMEs to capitalise borrowing costs.

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## Question 15—Updating the paragraph numbers of the *IFRS for SMEs* Accounting Standard



Stakeholders generally agreed with the approach taken in the Exposure Draft to retain or amend paragraph numbers because it facilitates understanding of the proposed amendments to the Standard.



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Feedback on the Exposure  
Draft—Topics for which  
amendments were not  
proposed



## Question 12—Section 20 *Leases* and IFRS 16 *Leases*



### Feedback

Stakeholders generally agreed with the IASB's decision on alignment of Section 20 with IFRS 16

### Supporting comments

Focus of users of SME financial statements is on cash flows.

Wait for post-implementation review of IFRS 16.

Do not align for cost-benefit considerations.



### Concerns and suggestions

IFRS 16 is an improvement.

Waiting until a future review would delay the potential improvements for SMEs.

Creates a wider gap in the accounting between *IFRS for SMEs* and IFRS Accounting Standards.

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## Question 13—Recognition and measurement requirements for development costs



Stakeholders generally supported the introduction of an accounting policy option that permits an SME to recognise intangible assets arising from development costs.

Some stakeholders suggested the IASB wait for the conclusion of the research pipeline project on intangible assets.

## Question 14—Requirement to offset equity instruments

Mixed views on retaining or removing paragraph 22.7(a) of the Standard:

- Some stakeholders said the requirement in paragraph 22.7(a) results in faithful representation and should therefore be retained.
- Some stakeholders said they support the removal of paragraph 22.7(a) to avoid conflict with local legislation.



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