
IASB[®] meeting

Date	June 2023
Project	Second Comprehensive Review of the <i>IFRS for SMEs</i>[®] Accounting Standard
Topic	Cover Paper
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This paper has been prepared for discussion at a public meeting of the International Accounting Standards Board (IASB). This paper does not represent the views of the IASB or any individual IASB member. Any comments in the paper do not purport to set out what would be an acceptable or unacceptable application of IFRS[®] Accounting Standards. The IASB's technical decisions are made in public and are reported in the IASB[®] *Update*.

Purpose of this meeting

1. In September 2022, the International Accounting Standards Board (IASB) published Exposure Draft *Third edition of the IFRS for SMEs Accounting Standard* (the Exposure Draft). The Exposure Draft was open for comment for 180 days, which ended on 7 March 2023.
2. The purpose of this meeting is for the IASB to:
 - (a) discuss the feedback from comment letters and outreach events on the Exposure Draft and provide views on which issues to seek advice from the SME Implementation Group (SMEIG) (see Agenda Papers 30A–30C); and
 - (b) decide whether to make changes to the proposed amendments in the Exposure Draft for the clarification of the definition of public accountability (see Agenda Paper 30D).

The IASB's decisions on the clarification of the definition of public accountability have the potential to affect requirements in the forthcoming Standard *Subsidiaries without Public Accountability: Disclosures* (see paragraphs 17–19).

Structure of this paper

3. This paper is structured as follows:
 - (a) overview of agenda papers for this meeting (paragraphs 4–6);
 - (b) terms used in the analysis of feedback on the Exposure Draft (paragraphs 7–9);
 - (c) background to the second comprehensive review and obtaining feedback during this review (paragraphs 10–16);
 - (d) interaction with the forthcoming Standard *Subsidiaries without Public Accountability: Disclosures* (paragraphs 17–19); and
 - (e) next steps (paragraphs 20–21); and
 - (f) Appendix: Summary of suggested questions to ask the SMEIG.

Overview of agenda papers for this meeting

4. The agenda papers for this meeting are:
 - (a) Agenda Paper 30A *Feedback from comment letters on Exposure Draft—Proposed amendments to the IFRS for SMEs Accounting Standard*. Agenda Paper 30A summarises the feedback from comment letters on questions 1–11 and 15 of the Invitation to Comment (ITC) in the Exposure Draft, which ask about the proposed amendments to the *IFRS for SMEs Accounting Standard*.
 - (b) Agenda Paper 30B *Feedback from comment letters on Exposure Draft—Topics for which amendments were not proposed*. Agenda Paper 30B summarises the feedback from comments letters on questions 12–14 of the ITC, which ask about topics that the IASB considered but for which amendments were not proposed.
 - (c) Agenda Paper 30C *Outreach feedback summary*. Agenda Paper 30C summarises the feedback gathered from outreach events undertaken by IASB members and staff on the Exposure Draft.

- (d) Agenda Paper 30D *Definition of public accountability*. Agenda Paper 30D asks the IASB to decide whether to amend the proposals for the clarification of the definition of public accountability.
5. Agenda Papers 30A–30C for this meeting provide a summary of the feedback from comment letters and outreach events. They do not provide a comprehensive list of all issues raised and suggestions made by comment letter respondents and outreach participants. The staff will present detailed analyses of the issues and recommendations at future meetings during the IASB’s redeliberations, when the IASB would be asked for decisions.
6. The IASB is not asked to make any decisions on Agenda Papers 30A–30C at this meeting. However, the staff ask for IASB members’ views on which issues to ask advice from the SMEIG. The staff have suggested questions to ask the SMEIG to consider in preparation for the next meeting of the SMEIG, which is scheduled on 13 July 2023.

Terms used in the analysis of feedback on the Exposure Draft

7. Agenda papers 30A–30D use the following terms to give a broad indication of the views in the comment letters and from outreach events.

Term	Extent of response among respondents
Almost all	all except a very small minority
Most	a large majority, with more than a few exceptions
Many	a small majority or large minority
Some	a small minority, but more than a few
A few	a very small minority

8. In determining which term to use, the staff considered not just the number of responses, but also other factors, such as whether a response reports the views of a single individual or the views of a broader group.
9. In addition, the staff assessed whether comments appeared to be concentrated in specific geographical areas or among particular types of respondents.

Background to the second comprehensive review and obtaining feedback during this review

10. The IASB:
 - (a) issued the *IFRS for SMEs Accounting Standard* (the Standard) in 2009, with immediate effect;
 - (b) completed its first comprehensive review of the Standard in 2015 by issuing an amended Standard, which became effective in 2017; and
 - (c) commenced its second comprehensive review of the Standard in 2019— paragraph BC264 of the Basis for Conclusions on the Standard explains that a comprehensive review of the *IFRS for SMEs Accounting Standard* should commence approximately two years after the effective date of the amendments to the Standard resulting from a previous comprehensive review.
11. In January 2020, the IASB published Request for Information *Comprehensive Review of the IFRS for SMEs Standard* (Request for Information) as a first step in its second comprehensive review. The objective of the Request for Information was to seek views on whether and how the IASB should amend the *IFRS for SMEs Accounting Standard*.

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12. The Request for Information had three parts:
- (a) Part A set out the framework the Board developed for approaching this review and asked for comments on the Board's alignment approach;
 - (b) Part B contained questions on sections of the *IFRS for SMEs* Accounting Standard that could be aligned with IFRS Accounting Standards, amendments to IFRS Accounting Standards and IFRIC Interpretations in the scope of this review.
 - (c) Part C asked for views on topics that are not addressed in the *IFRS for SMEs* Accounting Standard and topics on which the Board has received feedback.
13. The Request for Information was open for comment for 270 days (extended from 180 days because of the Covid-19 pandemic). During the comment period on the Request for Information, IASB members and staff gathered feedback from stakeholders across different jurisdictions:
- (a) IASB members and staff met remotely with more than 2,000 stakeholders in approximately 15 individual and group meetings in more than 90 jurisdictions across the world;
 - (b) the IASB also obtained feedback from:
 - (i) 66 comment letters;
 - (ii) 30 completed online surveys—the online survey replicated the questions in the Request for Information;
 - (iii) 54 completed user surveys—the user survey included 13 questions focused on the needs of users of SMEs' financial statements; and
 - (iv) 12 interviews with users of SMEs' financial statements
14. Overall, stakeholders who provided feedback on the alignment approach agreed with continuing to base the Standard on full IFRS Accounting Standards. Some respondents queried whether the alignment principles appropriately assessed the costs and benefits of any possible amendment to the Standard, considering the limited

resources and capabilities of SMEs, and the IASB used this feedback to refine the alignment approach.¹

15. In September 2022, the IASB published the Exposure Draft using the alignment approach. The alignment approach treats alignment with full IFRS Accounting Standards as the starting point for developing the *IFRS for SMEs* Accounting 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.
16. The Request for Information asked questions about the IASB's approach to this review and how to align the *IFRS for SMEs* Accounting Standard with individual IFRS Accounting Standards. The IASB received comprehensive feedback on these questions through extensive outreach during the comment period on the Request for Information (see paragraph 13). This enabled a more targeted approach to obtaining feedback on the Exposure Draft. In particular, the Invitation to Comment (ITC) in the Exposure Draft asked specific questions about the issues that had been more contentious during developing the Exposure Draft. For example, for the proposed amendments to Section 19 *Business Combinations*, the ITC asked whether respondents agree that the IASB's proposals appropriately simplify the measurement requirements for non-controlling interests, rather than asking for views on aligning requirements with IFRS 3 (2008) *Business Combinations*.

Interaction with the forthcoming Standard *Subsidiaries without Public Accountability: Disclosures*

17. In July 2021, the IASB published an exposure draft of a draft Standard *Subsidiaries without Public Accountability: Disclosures*. This draft Standard set out the IASB's proposals for a new IFRS Accounting Standard that would permit eligible subsidiaries

¹ See paragraph BC33-BC37 of the Basis for Conclusions on the Exposure Draft.

to apply full IFRS Accounting Standards with reduced disclosure requirements in their financial statements.

18. The IASB is reaching the end of its redeliberations on the draft Standard and is planning to publish a final Standard *Subsidiaries without Public Accountability: Disclosures* next year. At this meeting, the staff will ask the IASB to decide whether to make any changes to the proposals in the Exposure Draft *Third edition of the IFRS for SMEs Accounting Standard* (the Exposure Draft) for the clarification of the definition of public accountability, which could also affect requirements in that final Standard (see Agenda Paper 30D).
19. The description of public accountability in the draft Standard *Subsidiaries without Public Accountability: Disclosures* is the definition and supporting guidance from paragraphs 1.3 and 1.4 of the *IFRS for SMEs Accounting Standard*. Consequently, any decisions made to clarify the definition of public accountability and supporting guidance during the IASB's redeliberations on the Exposure Draft would need to be reflected in the forthcoming Standard *Subsidiaries without Public Accountability: Disclosures*.

Next steps

20. On 13 July 2023, the staff will present the feedback from comment letters and outreach events to the SMEIG and seek SMEIG member views on specific issues, which will be discussed at this IASB meeting.
21. After the SMEIG meeting, the staff will prepare a project plan for the IASB to redeliberate the proposals in the Exposure Draft.

Appendix: Summary of suggested questions to ask the SMEIG

(extracted from Agenda Papers 30A and 30B for easy reference)

Question in Invitation to Comment	The staff recommend the IASB ask SMEIG members:
Question 2— Proposed revised Section 2 <i>Concepts and Pervasive Principles</i>	whether they have any comments on the feedback from some respondents that there might be confusion or unintended consequences from having two separate definitions for an asset and for a liability (because Sections 18 and 21 continue to use the definitions of an asset and of a liability from the previous version of Section 2).
Question 3— Proposed amendments to the definition of control in Section 9 <i>Consolidated and Separate Financial Statements</i>	advice on the following topics: <ul style="list-style-type: none"> (a) whether to amend paragraph 9.5 to specify that the rebuttable presumption is only applicable when voting rights are the main factor in determining control; and (b) whether to add more guidance on the determination of control and, if so, what guidance would be most useful.
Question 4— Proposed amendments to the impairment of financial assets in Section 11 <i>Basic Financial Instruments</i> (to be renamed <i>Financial Instruments</i>)	advice on the following topics: <ul style="list-style-type: none"> (a) how the IASB should address the feedback on the IASB’s proposal to introduce an expected credit loss model for only some financial assets, for example: <ul style="list-style-type: none"> (i) retain an incurred model for all financial assets during this comprehensive review; or (ii) amend the scope of financial assets subject to the ECL model; or (iii) other suggestions. (b) if an ECL model is not introduced for any financial assets during this comprehensive review, what alternative approaches the IASB should consider for accounting for financial guarantee contracts.
Question 5— Proposed new Section 12 <i>Fair Value Measurement</i>	advice on possible simplifications to, or reduction of guidance in, Section 12.
Question 6— Proposed amendments to Section 15 <i>Investments in Joint</i>	advice on the following topics: <ul style="list-style-type: none"> (a) whether there are any perceived inconsistencies that might result from partial alignment of Section 15 with IFRS 11; and (b) adding further guidance from Appendix B of IFRS 11.

Question in Invitation to Comment	The staff recommend the IASB ask SMEIG members:
<i>Ventures</i> (to be renamed <i>Joint Arrangements</i>)	
Question 8— Proposed revised Section 23 <i>Revenue</i> (to be renamed <i>Revenue from Contracts with Customers</i>)	advice on the following topics: <ul style="list-style-type: none"> (a) aligning the language and requirements in the revised Section 23 with IFRS 15 in respect of the following topics: <ul style="list-style-type: none"> (i) principal versus agent; (ii) performance obligation terminology; (iii) requirements for constraining estimates of variable consideration; (iv) criteria for determining whether a promise is satisfied over time; and (b) alternative approaches to simplify the requirements in IFRS 15 for warranties and customer options for additional goods and services to those proposed in the Exposure Draft; and (c) introducing an accounting policy choice for SMEs to recognise costs to obtain a contract that meet certain conditions as either an asset or an expense.
Question 9— Proposed amendments to Section 28 <i>Employee Benefits</i>	if they are aware of entities applying the simplifications permitted by paragraph 28.19 of the <i>IFRS for SMEs Accounting Standard</i> .
Question 10— Transition	whether they have any comments on the feedback received on the proposed transition requirements for the amendments to the <i>IFRS for SMEs Accounting Standard</i> .
Question 11— Other proposed amendments	advice on: <ul style="list-style-type: none"> (a) how to strike the right balance as to which guidance and examples should be in the Standard/appendices to the Standard versus which guidance and examples should be in separate educational material (the <i>IFRS for SMEs</i> educational modules on our website); and (b) any other comments on the topics in paragraph 80 of Agenda Paper 30A of this meeting.
Question 12— Section 20 <i>Leases</i> and IFRS 16 <i>Leases</i>	whether they have any comments on the feedback on the IASB's decision to consider amending Section 20 to align with IFRS 16 in a future review of the Standard.

Question in Invitation to Comment	The staff recommend the IASB ask SMEIG members:
Question 13— Recognition and measurement requirements for development costs	advice on cost-benefit considerations of introducing an accounting policy option that permits the recognition of intangible assets arising from development costs (that meet the criteria in paragraphs 57(a)–(f) of IAS 38).
Question 14— Requirement to offset equity instruments	advice on whether there might be any unintended consequences if paragraph 22.7(a) is removed from the <i>IFRS for SMEs</i> Accounting Standard.
Question 15— Updating the paragraph numbers of the <i>IFRS for SMEs</i> Accounting Standard	advice on the following topics: <ul style="list-style-type: none"> (a) whether they agree with the approach taken to retain or amend paragraph numbers in each section of this Exposure Draft; and (b) specifically, whether they agree with the approach taken to retain paragraph numbers in Section 19.