Comprehensive review of the *IFRS for SMEs* Standard

Bruce Mackenzie: IASB Board Member
Background to the IFRS for SMEs Standard
Adoption of the *IFRS for SMEs* Standard

86 of 166 jurisdictions require or permit use of the *IFRS for SMEs* Standard

= *IFRS for SMEs* Standard is required or permitted
IFRS for SMEs Standard—timeline

2009
- *IFRS for SMEs Standard issued in July 2009*

2010
- SME Implementation Group established

2012
- 1st Comprehensive Review commenced

2015
- Amendments issued—effective 1 January 2017

2019
- 2nd Comprehensive Review commenced
Overview of the *IFRS for SMEs* Standard

- 250 pages
- Tailored for small and medium-sized entities (SMEs) that are not publicly accountable
- Based on principles from full IFRS Standards
- Focuses on information needs of lenders and other users of SMEs’ financial statements
IFRS for SMEs Standard
Resources available on our website

Website
www.ifrs.org

Modules
Supporting the IFRS for SMEs Standard

The IFRS for SMEs Standard

News and events

Guidance for micro entities

SME Implementation Group

Fact sheet

Presentations

SMEIG Q&As

https://www.ifrs.org/issued-standards/ifrs-for-smes/
Overview of the second comprehensive review
Emerging Economies Group and others discussed background to the IFRS for SMEs Standard

2019 Comprehensive Review commenced

Request for Information published (January 2020)

Survey published (April 2020)

Comment deadline*

Start of redeliberations

Meeting with SMEIG Consultative Group

*Extended from 27 July due to covid-19 pandemic.
### Structure of the Request for Information

#### Questions on …

<table>
<thead>
<tr>
<th>Part A</th>
<th>… strategy and the general framework for the review</th>
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<tbody>
<tr>
<td>Part B</td>
<td>… sections of the <em>IFRS for SMEs</em> Standard that could be aligned with IFRS Standards</td>
</tr>
<tr>
<td>Part C</td>
<td>… new topics and other matters related to the <em>IFRS for SMEs</em> Standard</td>
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</table>
Part A: Strategy and the general framework for the review
Two possible approaches to the second comprehensive review

**Simplified IFRS Standard approach**
- Align *IFRS for SMEs* Standard with full IFRS Standards

**Independent Standard approach**
- Update *IFRS for SMEs* Standard only for specific issues arising from the application of the Standard

**Alignment Principles**
- Relevance
- Simplification
- Faithful representation
Alignment principles

When

The options are to incorporate changes:

1. Issued before the publication date of Request for Information
2. Effective before the publication date of Request for Information
3. Effective and Post-implementation Review completed before publication date of Request for Information
4. Based on some other date
Part B: Aligning with IFRS Standards
IFRS Standards in scope of the review

Issued **before** the first comprehensive review:
- IFRS 3
- IFRS 10
- IFRS 11
- IFRS 13
- IAS 19

Issued **since** the first comprehensive review:
- Concepts
- IFRS 9
- IFRS 14
- IFRS 15
- IFRS 16
IFRS Standards in scope of the review

Seeking views on alignment

Leaving unchanged

2018 Conceptual Framework for Financial Reporting

IFRS 13

IFRS 3

IFRIC Interpretations

IFRS 10

IFRS 9

Amendments to IFRS Standards

IFRS 15

IFRS 16

IFRS 14

IFRS 11
• Align Section 2 with the 2018 Conceptual Framework for Financial Reporting
• Consequential amendments to other Sections
• Retain the concept of ‘undue cost and effort’
Alignment—Fair Value Measurement

- Align definition of **fair value**
- Align fair value hierarchy to provide clearer guidance
- Include examples illustrating application of hierarchy
- Move guidance and related disclosure requirements to Section 2
### Alignment—Business Combinations and Consolidation

**IFRS 3 Business Combinations**
- Request information on introducing requirements for step acquisitions?
- **Align**: recognition of *acquisition costs*; measurement of *contingent consideration—fair value*, subject to undue cost or effort exemption; **definition of a business**
- Retain requirements for *recognition of intangibles*

**IFRS 10 Consolidated Financial Statements**
- **Align** definition of *control*
- Retain presumption that control exists if investor has direct power over an investee solely from voting rights
- **Do not** introduce requirement that investment entities account for investments at fair value through profit or loss
## Alignment—Joint Arrangements and Revenue

<table>
<thead>
<tr>
<th>IFRS 11</th>
<th>Joint Arrangements</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Align</strong> definition of <strong>joint control</strong></td>
<td></td>
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<tr>
<td><strong>Retain:</strong></td>
<td></td>
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<tr>
<td>– the three categories of joint arrangements</td>
<td></td>
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<tr>
<td>– the accounting requirements for each category of joint arrangement</td>
<td></td>
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<tr>
<td>– policy election for jointly controlled entities</td>
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<table>
<thead>
<tr>
<th>IFRS 15</th>
<th>Revenue from Contracts with Customers</th>
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<tbody>
<tr>
<td><strong>Views sought</strong> on alternative approaches:</td>
<td></td>
</tr>
<tr>
<td>– Approach 1—update Section 23 to align outcomes with IFRS 15</td>
<td></td>
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<tr>
<td>– Approach 2—rewrite Section 23 to align with IFRS 15</td>
<td></td>
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<tr>
<td>– Approach 3—wait until the next review</td>
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</table>
Alignment—Financial Instruments

- Add a *classification principle* for financial assets based on contractual cash flow characteristics
- Align *simplified approach* to impairment of financial assets
- Align definition and requirements of *issued financial guarantee contracts*
- Request information on:
  - need for requirements on *hedge accounting*—if so, retain current requirements
  - need for a *fall-back*—if so, update to IFRS 9
Alignment—Leases

IFRS 16
Leases

- Align to a single model for the accounting for leases
- Exempt entities from requirement to separate lease components from non-lease components
- Simplify recognition and measurement requirements for variable lease payments and optional payments relating to extension options
- Additional simplifications for: threshold for low-value assets, discount rate, determining and reassessing term of lease, subsequent (reassessment) of lease liability
- Retain finance lease disclosures
Part C: New topics and other related matters
# New topics and other related matters

<table>
<thead>
<tr>
<th>IFRS 14 Regulatory Deferral Accounts</th>
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<tbody>
<tr>
<td>Not aligning with IFRS 14 because it may be replaced by an active standard-setting project</td>
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<table>
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<tr>
<th>Other topics not addressed by the IFRS for SMEs Standard</th>
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<td>Topics which stakeholder think should be the subject of specific requirements</td>
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<th>Simplifications when measuring a defined benefit obligation</th>
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<tr>
<td>Section 28 of the IFRS for SMEs Standard simplifies measurement of a defined benefit obligation if an entity is unable, without undue cost or effort, to use the projected unit credit method.</td>
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The Board is seeking information on how often the simplifications are applied and whether stakeholders experience difficulties in applying them.

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<th>Cryptocurrency</th>
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<td>Are holdings of cryptocurrency and issues of cryptoassets prevalent among entities eligible to apply the IFRS for SMEs Standard?</td>
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<td>Other questions relating to the IFRS for SMEs Standard</td>
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Responding to the Request for Information
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How should I respond to the Request for Information?

- Do you have an existing process for submitting comment letters?
  - Yes: Submit a comment letter
  - No: Do you have sufficient capacity or resources to submit a comment letter?
    - Yes: Submit a comment letter using the optional response document
    - No: Complete the survey

Deadline: 27 October 2020
Engaging with investors of SMEs

**Investor survey**
To provide insight into the information needs of users of SMEs financial statements

**Disclosure requirements of the *IFRS for SMEs* Standard**
Broad principles set out in paragraph BC157 of the *IFRS for SMEs* Standard
The user outreach seek feedback on these broad principles

Survey available on request

**Deadline for consultation**
27 October 2020
Resources supporting the second comprehensive review
Second comprehensive review—resources

Website: www.ifrs.org

Snapshot

Press release

Webinars

IFRS for SMEs Update

How to comment

Electronically: ‘Open for comment documents’ @:
http://go.ifrs.org/open-for-comment

Email: commentletters@ifrs.org

Post: IFRS Foundation, Columbus Building, 7 Westferry Circus, Canary Wharf, London E14 4HD United Kingdom

https://www.ifrs.org/issued-standards/ifrs-for-smes/