

IFRS in Focus

IASB seeks views on the comprehensive review of its *IFRS for SMEs* Standard

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This *IFRS in Focus* addresses the International Accounting Standard Board's (IASB's) recent Request for Information (RFI) titled *Comprehensive Review of the IFRS for SMEs Standard*. The focus of the RFI is to obtain views on whether and how to incorporate new IFRS Standards and amendments to IFRS Standards that are not incorporated in the *IFRS for SMEs* Standard.

Background

In 2009, the IASB issued the *IFRS for SMEs* Standard, which represents a set of international accounting requirements developed specifically for small and medium-sized entities (SMEs). It has been prepared on the foundations of the full set of IFRS Standards, but has simplifications that reflect the needs of users of SMEs' financial statements and cost-benefit considerations.

The *IFRS for SMEs* Standard is reviewed periodically. The first comprehensive review commenced in 2012 and resulted in amendments to the Standard that were effective for periods beginning on or after 1 January 2017. The next comprehensive review is now underway with the publication of the RFI.

Questions for respondents

Strategic and general questions

The objective of the RFI is to seek views on whether and how aligning the *IFRS for SMEs* Standard with full IFRS Standards could better serve the users of financial statements prepared applying the *IFRS for SMEs* Standard without causing undue cost and effort for SMEs.

The IASB also seeks views on whether the principles of 'relevance to SMEs', 'simplicity' and 'faithful representation' provide a useful framework to assist the IASB in determining whether and how the *IFRS for SMEs* Standard should be aligned with full IFRS Standards.

As regards which IFRS Standards, amendments to IFRS Standards and IFRIC Interpretations to consider for the alignment, the IASB is seeking views as to whether it should be those issued before the RFI was published, those that are already effective, or only those for which a post-implementation review has been completed. Respondents who believe that a fourth alternative should be considered are asked to specify how the cut-off date should be defined.

For more information please see the following websites:

www.iasplus.com

www.deloitte.com

Observation

The IASB decided not to ask a question about amending the scope of the *IFRS for SMEs* Standard. It thereby clarifies that it intends to retain the current scope of the Standard, i.e. entities that prepare general purpose financial statements and are not publicly accountable. In the first comprehensive review, the IASB had asked the question and subsequently decided not to amend the scope. This is because changes to the scope might require changes to the accounting requirements, with unintended consequences for the complexity of the Standard.

Questions on aligning specific sections of the *IFRS for SMEs* Standard

Section 2 *Concepts and Pervasive Principles of the IFRS for SMEs Standard*

This section is currently aligned with the 1989 version of the *Framework for the Preparation and Presentation of Financial Statements*. The IASB is seeking views on whether it should be aligned with the updated 2018 version of the *Conceptual Framework* and whether any amendments to other sections of the *IFRS for SMEs* Standard are required. The IASB also asks for respondents' views on whether the concept of 'undue cost or effort' available to an entity applying the *IFRS for SMEs* Standard in certain circumstances should be retained.

Section 9 *Consolidated and Separate Financial Statements*

Section 9 uses the control concept from the superseded IAS 27 *Consolidated and Separate Financial Statements* as the basis for determining which entities are included in the consolidated financial statements. The IASB is seeking views on whether the definition of control should be aligned with that in IFRS 10 *Consolidated Financial Statements*. The IASB is also seeking views on whether this section should continue to include the presumption that control exists when the parent entity owns more than half the voting power in the entity, either directly or indirectly.

Section 11 *Basic Financial Instruments* and Section 12 *Other Financial Instrument Issues*

Section 11 contains a list of examples of basic financial instruments and a list of conditions a debt instrument must satisfy to be classified as a basic financial instrument and therefore measured at amortised cost. The IASB is seeking views on whether those lists should be supplemented with a principle for classifying financial assets based on their contractual cash flows characteristics, similar to the classification criterion in IFRS 9 *Financial Instruments*.

The impairment model in Section 11 is based on the incurred loss model from the superseded IAS 39 *Financial Instruments: Recognition and Measurement*. The IASB is seeking views on whether the section should be aligned with the simplified impairment approach of IFRS 9 that requires providing for lifetime expected credit losses for certain financial assets (such as trade receivables).

Section 12 sets out requirements for the types of hedging activities an SME is likely to use to manage risks. The IASB is seeking views as to whether the *IFRS for SMEs* Standard needs to include hedge accounting requirements and, if yes, whether they should be retained as currently effective or aligned with IFRS 9.

For recognition and measurement of financial instruments, entities currently have a choice to apply Sections 11 and 12 of the *IFRS for SMEs* Standard or to instead apply IAS 39 in the version that immediately preceded the publication of IFRS 9. The IASB is seeking views on whether there are any entities that opt to apply IAS 39 in these cases and what respondents' thoughts are on changing the reference to IFRS 9.

Since the last comprehensive review, the SME Implementation Group (SMEIG) has issued a Q&A on *Accounting for financial guarantee contracts in individual or separate financial statements of the issuer*. As following the guidance of this Q&A is more burdensome than following the requirements of IFRS 9 on financial guarantees, the IASB is seeking views on whether it should align Section 12 with the requirements on financial guarantees in IFRS 9 instead.

Observation

The IASB does not seek views on aligning the disclosure requirements in Section 11 and 12 with those in IFRS 7 *Financial Instruments: Disclosures* as many of the disclosure requirements in IFRS 7 are designed for financial institutions or for entities whose securities are traded in public capital markets. Such entities cannot apply the *IFRS for SMEs* Standard.

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Section 15 *Investments in Joint Ventures*

This section is based on the superseded IAS 31 *Interests in Joint Ventures*, requiring entities that are jointly controlled to be classified as either jointly controlled operations, jointly controlled assets or jointly controlled entities. The IASB is seeking views on whether these three categories and their corresponding accounting requirements should be retained. This includes an accounting policy choice for jointly controlled entities to either apply the cost model, the equity method or the fair value model. The IASB is also asking for views on whether the definition of joint control should be aligned with that of IFRS 11 *Joint Arrangements*.

Section 19 *Business Combinations and Goodwill*

Section 19 is based on the 2004 version of IFRS 3 *Business Combinations*. The IASB is seeking views on whether this section should be aligned with the 2008 version of IFRS 3 in the area of step acquisitions, acquisition-related costs and contingent consideration.

The IASB also asks for respondents' views on whether the recent amendment to the definition of a business in IFRS 3 should be incorporated in Section 19.

Observation

The IASB decided not to align the requirements of Section 19 with the 2008 version of IFRS 3 during the first comprehensive review of the *IFRS for SMEs* Standard because the requirements of Section 19 were working well in practice and adding new fair value measurement requirements would have introduced unnecessary complexity. However, the IASB is reconsidering alignment as part of this comprehensive review as, in the meanwhile, it has completed the post-implementation review of the 2008 version of IFRS 3 and therefore has access to additional implementation experience.

Section 20 *Leases*

This section of the *IFRS for SMEs* Standard is based on IAS 17 *Leases*, which was superseded by IFRS 16 *Leases*. The IASB is therefore asking whether this section should be aligned with IFRS 16 that generally results in a lessee recognising a right to use the leased asset and a lease obligation for all leases, including simplifications with regard to variable lease payments, determining the discount rate and the term of the lease. Retaining the disclosure requirements of Section 20 could provide an additional simplification.

Section 23 *Revenue*

This section is based on IAS 18 *Revenue*, which has been superseded by IFRS 15 *Revenue from Contracts with Customers*. IFRS 15 provides a more structured framework for the recognition of revenue. However, the IASB considered that the effect of the new requirements in practice might be limited for most SMEs. The IASB is therefore seeking views on which of the following three alternatives it should pursue to reviewing this section:

1. Modify Section 23 only to remove clear differences between the section and IFRS 15.
2. Fully rewrite Section 23 to align with IFRS 15.
3. Retain Section 23 as currently in effect.

The IASB also asks for views on whether for Alternatives 1 and 2, it should provide a transitional relief.

Section 28 *Employee Benefits*

IAS 19 *Employee Benefits* was amended in 2011 to clarify that termination benefits should be recognised at the earlier of when the entity can no longer withdraw those benefits and when any related restructuring costs are recognised. The IASB is seeking views on aligning the recognition requirements for termination benefits in Section 28 with this amendment.

The 2011 amendments to IAS 19 also included changes to the presentation of actuarial gains and losses relating to defined benefits. The IASB believes that the accounting policy choice for presentation of such gains and losses in Section 28 is appropriate and is therefore not proposing to align Section 28 with IAS 19 in that respect.

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Fair value measurement

Section 11 sets out requirements for estimating fair value when another section requires the use of fair value (as defined in the *IFRS for SMEs* Standard). The definition of fair value and the requirements to estimate fair value are not aligned with IFRS 13 *Fair Value Measurement*.

The IASB is seeking views on aligning the *IFRS for SMEs* Standard with IFRS 13 and including illustrative examples. This change would not add new requirements for when fair value measurement is required.

Other amendments to IFRS Standards and new IFRIC Interpretations

The IASB is seeking views on whether and how to align the *IFRS for SMEs* Standard with amendments to IFRS Standards (other than those mentioned above) and new IFRIC Interpretations that have been published since the last comprehensive review.

Questions on new topics and other matters related to the *IFRS for SMEs* Standard

Regulatory deferral accounts

In 2014, the IASB issued IFRS 14 *Regulatory Deferral Accounts* which addresses regulatory deferral account balances that arise when an entity is subject to rate regulation. The IASB is asking for views on not aligning the *IFRS for SMEs* Standard with IFRS 14, as it currently has a project on rate-regulated activities that might replace IFRS 14.

Cryptocurrency

The IASB would like to gather information about the prevalence of holdings of cryptocurrency and issues of cryptoassets among SMEs to decide whether accounting for those should be addressed in the *IFRS for SMEs* Standard.

Defined benefit plans

Section 28 of the *IFRS for SMEs* Standard allows some simplifications in measuring a defined benefit obligation. The IASB has received feedback from preparers that they are uncertain about how those simplifications are applied. The IASB is therefore asking whether respondents are aware of entities applying those simplifications and, if yes, whether they are aware of any difficulties arising in applying the simplifications.

Other topics

The IASB is asking whether there are any topics that the *IFRS for SMEs* Standard does not address and that should be included. They also ask whether respondents think that there are areas of the *IFRS for SMEs* Standard for which additional guidance is required.

Comment period

The comment period for the RFI ends on 27 July 2020. After the comment period ends, the IASB will analyse the feedback from the RFI and issue an Exposure Draft that proposes amendments to the *IFRS for SMEs* Standard.

Further information

If you have any questions about the RFI please speak to your usual Deloitte contact or get in touch with a contact identified in this *IFRS in Focus*.

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