

IFRS Developments

IASB proposes to update the IFRS for SMEs Accounting Standard

What you need to know

- ▶ The IASB is proposing amendments to *the IFRS for SMEs Accounting Standard*
- ▶ The proposed amendments are part of the *Second Comprehensive Review of the Standard* and will align with recent improvements to full IFRS Accounting Standards
- ▶ Comments are due by 7 March 2023

Highlights

On 8 September 2022, the International Accounting Standards Board (the IASB or Board) issued an Exposure Draft Third edition of the *IFRS for SMEs Accounting Standard* (the ED). The Board is proposing amendments to align with improvements made to full IFRS Accounting Standards since the second edition of the *IFRS for SMEs Accounting Standard* (the Standard) was published in 2015, while keeping the requirements simple and cost effective for small and medium-sized entities.

The proposals reflect feedback on the *Request for Information* published in 2020 as part of the *Second Comprehensive Review* of the Standard and advice from the IASB's SME Implementation Group.

The IASB welcomes comments from stakeholders. Comments are due by 7 March 2023.

Background

The IASB issued the first edition of the *IFRS for SMEs Accounting Standard* in 2009, to address the need for an accounting standard for entities without public accountability (small and medium-sized entities or SMEs). The Standard is based on the requirements in full IFRS Accounting Standards, with simplifications to reflect the needs of SMEs and users of their financial statements. The IASB maintains the Standard through periodic reviews and this ED has arisen from the *Second Comprehensive Review of the Standard*.

Proposed amendments to *IFRS for SMEs*

Development

The proposed amendments are developed by first considering alignment with requirements in full IFRS Accounting Standards. The IASB has applied the principles of relevance to SMEs, simplicity and faithful representation, including the assessment of costs and benefits, to determine whether an amendment should be proposed.

Proposed significant amendments

- ▶ **Concepts and basic principles of financial statements of SMEs** - alignment with the *Conceptual Framework for Financial Reporting* issued in 2018
- ▶ **Business combinations and goodwill** - alignment with the parts of the current version of IFRS 3 *Business Combinations* by updating the definition of a business and making some amendments to the acquisition method of accounting
- ▶ **Financial instruments** - limited amendments to align with some elements of IFRS 9 *Financial Instruments* including: removing the option to apply the recognition and measurement requirements in IAS 39 *Financial Instruments: Recognition and Measurement*; introducing an expected credit loss impairment model for all financial assets measured at amortised cost; retaining the incurred loss model for trade receivables; and simplified requirements for issued financial guarantee contracts
- ▶ **Investments in subsidiaries, associates and joint ventures** - alignment with elements of IFRS 10 *Consolidated Financial Statements* and IFRS 11 *Joint Arrangements*, including amendment to the definitions of control and joint control. However, the classification of joint arrangements as jointly controlled assets, jointly controlled operations and jointly controlled entities would be retained
- ▶ **Fair value measurement** - a new section will be added based on the requirements in IFRS 13 *Fair Value Measurement*, that sets out the requirements for measuring fair value and disclosing information about fair value measurement
- ▶ **Revenue** - alignment with IFRS 15 *Revenue from Contracts with Customers*, including a new revenue recognition model, a single framework for recognising revenue from goods and services

The IASB has deferred consideration of amendments to align with IFRS 16 *Leases* to a later review.

Next steps

Comments are due by 7 March 2023. We encourage stakeholders to provide feedback to the IASB on the proposed amendments.

How we see it

We support the IASBs commitment to maintain the *IFRS for SMEs* Accounting Standard and align with full IFRS Accounting Standards, to the extent they are relevant to SMEs.

EY | Building a better working world

EY exists to build a better working world, helping to create long-term value for clients, people and society and build trust in the capital markets.

Enabled by data and technology, diverse EY teams in over 150 countries provide trust through assurance and help clients grow, transform and operate.

Working across assurance, consulting, law, strategy, tax and transactions, EY teams ask better questions to find new answers for the complex issues facing our world today.

EY refers to the global organization and may refer to one or more of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit ey.com.

About EY's International Financial Reporting Standards Group

A global set of accounting standards provides the global economy with one measure to assess and compare the performance of companies. For companies applying or transitioning to International Financial Reporting Standards (IFRS), authoritative and timely guidance is essential as the standards continue to change. The impact stretches beyond accounting and reporting, to key business decisions you make. We have developed extensive global resources – people and knowledge – to support our clients applying IFRS and to help our client teams. Because we understand that you need a tailored service as much as consistent methodologies, we work to give you the benefit of our deep subject matter knowledge, our broad sector experience and the latest insights from our work worldwide.

© 2022 EYGM Limited.
All Rights Reserved.

This publication contains copyright material of the IFRS® Foundation in respect of which all rights are reserved. Reproduced by EY with the permission of the IFRS Foundation. No permission granted to third parties to reproduce or distribute. For full access to IFRS Standards and the work of the IFRS Foundation please visit <http://eifrs.ifrs.org>

EYG No. 007942-22GbI

ED None

In line with EY's commitment to minimize its impact on the environment, this document has been printed on paper with a high recycled content.

This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax, or other professional advice. Please refer to your advisors for specific advice.