

Report

To: Charities SORP Committee

From: Sarah Sheen, CIPFA, Secretary

Date: 26 July 2022

Subject: Matters considered by the SME Implementation Group (SMEIG) for implementation and adaptation of the *IFRS for SMEs*

Purpose

The purpose of this report is to consider the matters reviewed by the SMEIG and the tentative decisions made by the IASB on the amendments to IFRS for SMEs and whether these require consideration by the SORP Committee

Report

1. Introduction

- 1.1 The SORP-making body is interested in understanding the work of the IASB SME Implementation Group (SMEIG). The SMEIG makes recommendations to the IASB on the need to amend the IFRS for SMEs. The requirements in FRS 102 are based on the IASB's International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs), with some significant amendments made for application in the UK and Republic of Ireland. The second comprehensive review of IFRS for SMEs is cited as a key source of potential amendments to FRS 102. The SORP-making body's interest in the work of SMEIG emanates from the developments to this key source and the potential impact that this might have on FRS 102.
- 1.2 An exposure draft of the proposed amendments is anticipated in the second half of 2022.
- 1.3 Following the Comprehensive Review of IFRS for SMEs, the SMEIG has considered several topics; these are outlined in Annex A. The proposals outlined in Annex A could, if reflected in IFRS for SMEs and subsequently in FRS 102, lead to significant changes to financial reporting for SMEs. The Charities SORP Committee may wish to consider the potential implications of these proposals for the drafting of the SORP.
- 1.4 At its February 2021 meeting the SMEIG debate considered alignment with full IFRS standards. Their preliminary thoughts were:

- to continue to base the IFRS for SMEs on full IFRS Standards
- to consider the costs and benefits of aligning the IFRS for SMEs with a new IFRS Standard, amendment to an IFRS Standard and International Financial Reporting Interpretations Committee (IFRIC) Interpretation (new requirement)
- to develop any proposed amendments to the IFRS for SMEs to reflect principles and important definitions in a new requirement; and
- to determine whether and how the IFRS for SMEs should be aligned with full IFRS Standards using the relevant principles (simplicity and faithful representation) and cost–benefit considerations.

1.5 The issues most recently considered are:

- definition of a business and acquired rights in IFRS 3 *Business Combinations*;
- simplifications to IFRS 15 *Revenue from Contracts with Customers*;
- cryptocurrency;
- recognition and measurement of development costs; and
- update on recent IASB decisions on the project to review the *IFRS for SMEs standard*

1.6 Feedback on the exposure draft *Subsidiaries without public accountability: Disclosures* will be considered for any possible amendments to the *IFRS for SMEs*.

1.7 The joint SORP-making body and the Charities SORP Committee sought to understand the work of SMEIG and therefore this report has included the most recent SMEIG decisions, but the Committee will be aware that the IASB takes the decisions on the changes to standards and therefore the report outlines the tentative decisions taken by the IASB on IFRS for SMEs. This is likely to present the direction of travel for changes to IFRS 102. Annex A also provides the IASB tentative decisions. A high-level summary is presented below.

Table 1: High Level Summary of the Tentative Decisions Made by the IASB on IFRS for SMEs

Approach to Changes	Relevant Standard
Major changes/ significant updating	<ul style="list-style-type: none"> • Alignment with the 2018 Conceptual Framework for Financial Reporting • IFRS 3 <i>Business Combinations</i> • IFRS 13 <i>Fair Value Measurement</i> • IFRS 15 <i>Revenue from Contracts with Customers</i>
Amend current Sections of IFRS for SMEs standard	<ul style="list-style-type: none"> • IFRS 10 <i>Consolidated Financial Statements</i> • IFRS 11 <i>Joint Arrangements</i> (though note the classifications of jointly controlled operations' 'jointly controlled assets' and 'jointly controlled entities' will remain) • IFRS 9 <i>Financial Instruments</i> (Expected Credit Losses)

	<ul style="list-style-type: none">• IAS 1 Presentation of Financial Statements
No Significant Changes Proposed for the IFRS for SMEs standard	<ul style="list-style-type: none">• IAS 19 <i>Employee Benefits</i> – 2011 Amendments• IFRS 14 <i>Regulatory Deferral Accounts</i>• IFRS 16 <i>Leases</i>

The Charities SORP Committee is invited to consider the report and the Annex and whether there are areas for particular interest for the Charities SORP.

Disclaimer

These Charities SORP Committee papers have been developed to assist in the development and drafting of the Charities SORP. Readers should not treat the information contained in these papers as being definitive for the production of the Charities SORP FRS 102 (Third Edition) which will be subject to due process including a detailed consultation.



Annex A

Summary of Commentary Made by SMEIG and under Tentative Decisions Made by IASB on IFRS for SMEs

(Note that this table largely focuses on major standards)

IFRS Standard/Topic	SMEIG Commentary/Determinations	IASB Determination
<p>Alignment with the 2018 Conceptual Framework for Financial Reporting</p>	<p>SMEIG members generally agreed with the staff's preliminary thoughts that the feedback provides evidence for the Board to align Section 2 Concepts and Pervasive Principles of the IFRS for SMEs Standard with the 2018 Conceptual Framework and retain the concept of undue cost or effort.</p> <p>February 2021</p>	<p>The IASB tentatively decided to propose:</p> <ul style="list-style-type: none"> retaining Section 2 Concepts and Pervasive Principles as part of the IFRS for SMEs Accounting Standard aligning Section 2 with the 2018 Conceptual Framework and to emphasise that the requirements in the other sections of the IFRS for SMEs Accounting Standard take precedence over what Section 2 would otherwise require; undertaking a review for potential inconsistencies between a revised Section 2 and other sections of the IFRS for SMEs Accounting Standard when the IASB has completed its deliberations on proposed amendments to the IFRS for SMEs Accounting Standard; and retaining the concept of 'undue cost or effort'. <p>May 2021</p>

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Alignment with IFRS 13 Fair Value Measurement	<p>Most SMEIG members agreed with the staff's preliminary thoughts that the feedback provides evidence for the Board to:</p> <ul style="list-style-type: none"> • align the definition of fair value with IFRS 13; • include the guidance on fair value measurement from IFRS 13; • include examples on how to apply the fair value hierarchy; and • move the guidance to Section 2 of the IFRS for SMEs Standard <p>February 2021</p>	<p>The IASB has tentatively decided:</p> <ul style="list-style-type: none"> • to align the definition of fair value in the IFRS for SMEs Accounting Standard with that in IFRS 13 Fair Value Measurement; and • to align the guidance on fair value measurement in the IFRS for SMEs Accounting Standard with that in IFRS 13 by including the principles of the fair value hierarchy set out in IFRS 13. <p>October 2021</p>
Definition of a business and reacquired rights in IFRS 3 Business Combinations	<p>SMEIG members were asked whether the IASB should propose amendments to Section 19 of the standard;</p> <ul style="list-style-type: none"> • To introduce a rebuttable presumption that if an acquired set of assets and activities has outputs, then there is a rebuttable assumption that that acquisition is a business at the acquisition date, and • To provide additional guidance on the meaning of reacquired rights <p>Objections were raised to the rebuttable assumption for the following reasons;</p> <ul style="list-style-type: none"> • The assumption would introduce additional complexity and costs for SME's when assessing whether an acquisition is a business or an asset. • The assumption may serve little purpose as it would arrive at the same conclusions of the tests within B12B and B12 C of IFRS 3. 	<p>The IASB has tentatively decided to propose amendments to Section 19 to</p> <ul style="list-style-type: none"> • align the definition of a business in the IFRS for SMEs with the amended definition of a business issued in the amendments to IFRS 3 in October 2018; • partially align Section 19 with the requirements for acquisition-related costs and contingent consideration, as set out in IFRS 3, requiring an entity: <ul style="list-style-type: none"> - to recognise acquisition-related costs as an expense at the time of the acquisition. - to recognise contingent consideration at fair value and subsequently measure it at fair value at each reporting date, with changes in fair value recognised in profit or loss (except for the subsequent measurement of any contingent consideration that meets the definition of an equity instrument). If measuring contingent consideration at fair value would involve undue

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	<ul style="list-style-type: none"> • The assumption could arrive at inappropriate conclusions and that this could provide improper classification of information • Applying the presumption would conflict with the 'minimum requirements of a business' as set out in paragraph BC21F of IFRS 3. • In the event of a wrong classification the emphasis falls to the SME to rebut it. <p>Alternative suggestions to the assumption were;</p> <ul style="list-style-type: none"> • To adopt the concentration test of paragraphs B7A and B7B of IFRS 3 • Apply the definition of a business issued by the ISAB in 2018 • A list of indicators of a business to be provided by the IASB if the assumption is introduced. <p>Support was given to the proposal for the following reasons;</p> <ul style="list-style-type: none"> • The introduction of a rebuttable assumption removes costs and introduces simplicity for SME's • It helps SME's bypass some of the assessment steps. <p>January 2022</p> <p>Reacquired rights</p> <p>Many SMEIG Members suggested that these are not introduced to the IFRS for SME's. They are not common for SME's and where they are accounting for</p>	<p>cost or effort, an entity would be required to measure the contingent consideration using a 'best estimate' (the most likely outcome) - with changes in the subsequent measurement being recognised in profit or loss and provide the related disclosures.</p> <ul style="list-style-type: none"> - add the requirements set out in IFRS 3 on accounting for an acquisition achieved in stages (step acquisitions). - introduce guidance (in the new appendix to Section 19) for a new entity formed in a business - combination, as set out in paragraph B18 of IFRS 3 and the application guidance set out in paragraphs B13–B17 of IFRS 3. <p>The IASB tentatively decided to retain unchanged the requirement in Section 19 that an entity measure any non-controlling interest in the acquiree at the non-controlling interest's proportionate share of the recognised amounts of the acquiree's identifiable net assets.</p> <p>December 2021</p> <p>The IASB tentatively decided to retain unchanged Section 19 without reflecting the requirements in IFRS 3 that provided additional guidance on reacquired rights.</p> <p>February 2022</p>

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	<p>such rights would introduce unnecessary complexity for SME's.</p> <p>January 2022</p>	
<p>Simplifications to IFRS 15 Revenue from Contracts with Customers</p>	<p>The SMEIG agreed with the staff's proposals to simplify IFRS 15 with the following exceptions;</p> <ul style="list-style-type: none"> • There was some disagreement as to whether simplification of the description of a 'performance obligation' would or would not make matters simpler for SMEs • Two members objected to the removal of the requirements for contract modifications in Section 23 of the standard, as they considered this relevant to SMEs <p>January 2022</p>	<p>The IASB tentatively decided:</p> <p>to develop amendments to the IFRS for SMEs Accounting Standard to align it with IFRS 15 <i>Revenue from Contracts with Customers</i> by rewriting Section 23 Revenue of the IFRS for SMEs Accounting Standard to reflect the principles and language used in IFRS 15; and</p> <p>to consider providing transition relief by permitting an entity to continue its current revenue recognition policy for any contracts already in progress at the transition date or scheduled to be completed within a set time after the transition date.</p> <p>October 2021</p> <p>The IASB tentatively decided to propose amendments to the IFRS for SMEs Accounting Standard to align Section 23 with IFRS 15 with simplifications for:</p> <ul style="list-style-type: none"> • contract modifications • series of distinct goods or services • performance obligation terminology • constraining estimates of variable consideration • significant financing components. • allocating discounts and variable consideration • selecting a method for measuring progress towards complete satisfaction of a performance obligation • incremental costs of obtaining a contract. <p>February 2022</p>

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		<p>The IASB tentatively decided:</p> <ul style="list-style-type: none"> to propose amendments to the IFRS for SMEs Accounting Standard to include the factors in paragraphs 29(a)–(c) of IFRS 15 to help an SME determine whether a promised good or service is separately identifiable; and to ask for further views on this proposal in the invitation to comment. <p>February 2022</p>
<p>IFRS 10 Consolidated Financial Statements</p>	<p>SMEIG members discussed the alignment of Section 9 Consolidated and Separate Financial Statements of the IFRS for SMEs Standard with IFRS 10, particularly:</p> <ul style="list-style-type: none"> aligning the definition of control in Section 9 with IFRS 10; retaining and updating paragraph 9.5 of the IFRS for SMEs Standard; and not introducing the requirement that investment entities measure investments in subsidiaries at fair value through profit or loss. <p>SMEIG members generally agreed with the staff's preliminary thoughts that the feedback provides evidence for the Board to align the definition of control in Section 9 with IFRS 10 and retain and update paragraph 9.5 of the IFRS for SMEs Standard.</p> <p>February 2021</p>	<p>The IASB has tentatively decided to propose amendments to Section 9 of the IFRS for SMEs to align with IFRS 10 by:</p> <ul style="list-style-type: none"> aligning the control model as a single basis of control retaining the simplification in paragraph 9.5 of the IFRS for SMEs Accounting Standard that control is presumed to exist when the parent entity owns (directly or indirectly) more than half of the voting power of an entity; and requiring a parent that loses control of a subsidiary to remeasure any retained interest in the former subsidiary at fair value. for changes in a parent's ownership interests in a subsidiary without losing control, as set out in paragraph 23 of IFRS 10—such changes are equity transactions. <p>December 2021 and February 2022</p>
<p>IFRS 11 Joint Arrangements</p>	<p>Concerns were raised about the ISAB's proposal to retain the classification of joint arrangements using the</p>	<p>The IASB has tentatively decided:</p>

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	<p>following terms which are considered inconsistent with terms used in the Accounting Standards.</p> <ul style="list-style-type: none"> Jointly controlled operations Jointly controlled assets Jointly controlled entities <p>SMEIG members generally agreed with the staff's preliminary thoughts that the feedback provides evidence for the Board to:</p> <ul style="list-style-type: none"> align the definition of joint control with IFRS 11 and retain the accounting requirements of Section 15; and retain the accounting policy election for jointly controlled entities. <p>February 2021</p>	<ul style="list-style-type: none"> to propose amendments to Section 15 of the IFRS for SMEs to partially align the definition of joint control in Section 15 with that in IFRS 11. to retain: <ul style="list-style-type: none"> the classifications of joint arrangements: 'jointly controlled operations', 'jointly controlled assets' and 'jointly controlled entities'; and the accounting requirements of Section 15, including the accounting policy election for jointly controlled entities. <p>December 2021</p> <ul style="list-style-type: none"> to propose amendments to Section 15 of the IFRS for SMEs to align the requirements of Section 15 with the requirements of paragraph 23 of IFRS 11 so that a party that does not have joint control of a jointly controlled operation or a jointly controlled asset would account for its interest according to the classification of that jointly controlled operation or the jointly controlled asset. <p>February 2022</p>
<p>IFRS 9 Financial Instruments</p>	<p>Classification and Measurement</p> <p>SMEIG members generally agreed with the staff's preliminary thoughts that the feedback provides evidence for the Board to supplement the list of examples in Section 11 with a principle for classifying financial assets based on their contractual cash flow characteristics.</p> <p>Impairment of Financial Assets</p> <p>SMEIG members generally agreed with the staff's preliminary thoughts that the Board should undertake</p>	<p>The IASB has tentatively decided to propose amendments to Section 11 of the IFRS for SMEs:</p> <ul style="list-style-type: none"> to remove the option to apply the recognition and measurement requirements for financial instruments in IFRS Accounting Standards to supplement the examples in Section 11 with a principle for classifying financial assets based on their contractual cash flow characteristics (supplementary principle)

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	<p>additional work to understand the practical challenges entities face in implementing or applying the simplified expected credit loss approach to decide on whether to propose amendments to the IFRS for SMEs Standard to align with IFRS 9.</p> <p>Hedge Accounting</p> <p>SMEIG members expressed no particular preference for any of the alternatives about hedge accounting requirements for SMEs (that is, removing, retaining or aligning with IFRS 9 the accounting requirements on hedge accounting in Section 12).</p> <p>Financial Guarantee Contracts</p> <p>Most SMEIG members said the feedback provided evidence for the Board to introduce the definition of a financial guarantee contract from IFRS 9 to the IFRS for SMEs Standard.</p> <p>February 2021</p>	<ul style="list-style-type: none"> • to define ‘financial guarantee contract’ using the definition in IFRS 9 and require the issuer to initially measure the contract at the premium received (plus the present value of any future <ul style="list-style-type: none"> - premium payments receivable) and subsequently measure it at the higher of: <ul style="list-style-type: none"> (i) expected credit losses; and (ii) amount initially recognised, if any, amortised on a straight-line basis over the life of the guarantee. • to require SMEs to use an expected credit loss model for financial assets measured at amortised cost except for trade receivables and contract assets within the scope of Section 23 Revenue. <p>IASB May 2022 (Decisions made from May 2021 to March 2022)</p>
<p>IFRS 16 Leases</p>	<p>Most SMEIG members agreed with the staff’s preliminary thoughts that the Board should undertake additional work to understand the practical challenges entities faced or are facing in implementing or applying IFRS 16 before deciding whether to align the IFRS for SMEs with IFRS 16.</p> <p>February 2021</p> <p>SMEIG members discussed possible approaches to aligning Section 20 Leases of the IFRS for SMEs Standard with IFRS 16 Leases, considering all forms of feedback on the Request for Information and from supplementary meetings. The three approaches they discussed were:</p>	<p>The IASB tentatively decided:</p> <ul style="list-style-type: none"> • to retain Section 20 Leases of the IFRS for SMEs Accounting Standard unchanged • to consider amending the IFRS for SMEs Accounting Standard to align with IFRS 16 Leases in a future review of the Standard; and • not to pursue improving disclosure requirements for operating leases without changing the recognition and measurement requirements in Section 20. <p>November 2021</p>

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	<ul style="list-style-type: none"> • Approach 1—aligning Section 20 with IFRS 16 with possible simplifications (as described in the Request for Information); • Approach 2—aligning Section 20 with the main principle of IFRS 16 by extending the existing accounting for finance leases in the IFRS for SMEs Standard to all leases; and • Approach 3—improving disclosure requirements for operating leases without changing the recognition and measurement requirements in the IFRS for SMEs Standard. <p>There was no consensus on which approach would be best—support was split between Approach 1 and Approach 3.</p> <p>September 2021</p>	
<p>IAS 19 Employee Benefits</p>	<p>SMEIG members discussed:</p> <ul style="list-style-type: none"> • the potential alignment of Section 28 Employee Benefits with the 2011 amendments to IAS 19 Employee Benefits; and • how paragraph 28.19 of the IFRS for SMEs Standard is applied and whether there is diversity in practice. <p>SMEIG members generally agreed with the staff's view, based on feedback, to propose aligning Section 28 with only the recognition requirements for termination benefits from the 2011 amendments to IAS 19.</p> <p>SMEIG members generally agreed with the staff's view that applying paragraph 28.19 of the IFRS for SMEs Standard requires the defined benefit obligation to be discounted.</p>	<p>The IASB tentatively decided:</p> <ul style="list-style-type: none"> • to propose amendments to the IFRS for SMEs to align the recognition requirements for termination benefits in Section 28 of the IFRS for SMEs Accounting Standard with the 2011 amendments to IAS 19 Employee Benefits; and • to retain the accounting policy option in paragraph 28.24 of the IFRS for SMEs Accounting Standard. <p>The IASB tentatively decided:</p> <ul style="list-style-type: none"> • to propose removing paragraph 28.19 of the IFRS for SMEs Accounting Standard. • to include in the invitation to comment an alternative proposal clarifying how to apply paragraph 28.19 of the IFRS for SMEs Accounting Standard, if stakeholders do not agree to remove paragraph 28.19.

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	September 2021	November 2021
IAS 1 <i>Presentation of Financial Statements</i>	SMEIG members have not yet discussed these proposals.	<p>The IASB tentatively decided to propose amendments to the IFRS for SMEs to align it with a package of amendments to IAS 1:</p> <ul style="list-style-type: none"> • Definition of Material (Amendments to IAS 1 and IAS 8) • Disclosure Initiative (Amendments to IAS 1), and • Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2). <p>December 2021</p>
Cryptocurrency	<p>The SMEIG members considered whether there should be any adaptations to consider cryptocurrency.</p> <p>SMEIG agreed with the proposal not to amend the <i>IFRS for SMEs</i> for cryptocurrency. The holding of cryptocurrencies is not common for SMEs. It was proposed that the topic of cryptocurrency be revisited in the next comprehensive review following research and Standard setting in Accounting Standards before considering adaptation to the <i>IFRS for SMEs</i>.</p> <p>The SMEIG will consider introducing a Q&A on the topic if the IASB issues requirements before the next comprehensive review of the IFRS for SMEs.</p> <p>January 2022</p>	<p>The IFRS Interpretations Committee discussed the following matter and tentatively decided not to add it to its standard-setting agenda.</p> <p>Link to full decision on cryptocurrency</p> <p>June 2019</p>