IFRS for SME's Accounting Update

Presenter: **Caryn Maitland CA(SA)**

20 JUNE 2022

Consulting with clients

2nd Comprehensive Review Project

A chronological journey through the development of the 3rd Edition of IFRS for SMEs

Presenters

Caryn Maitland

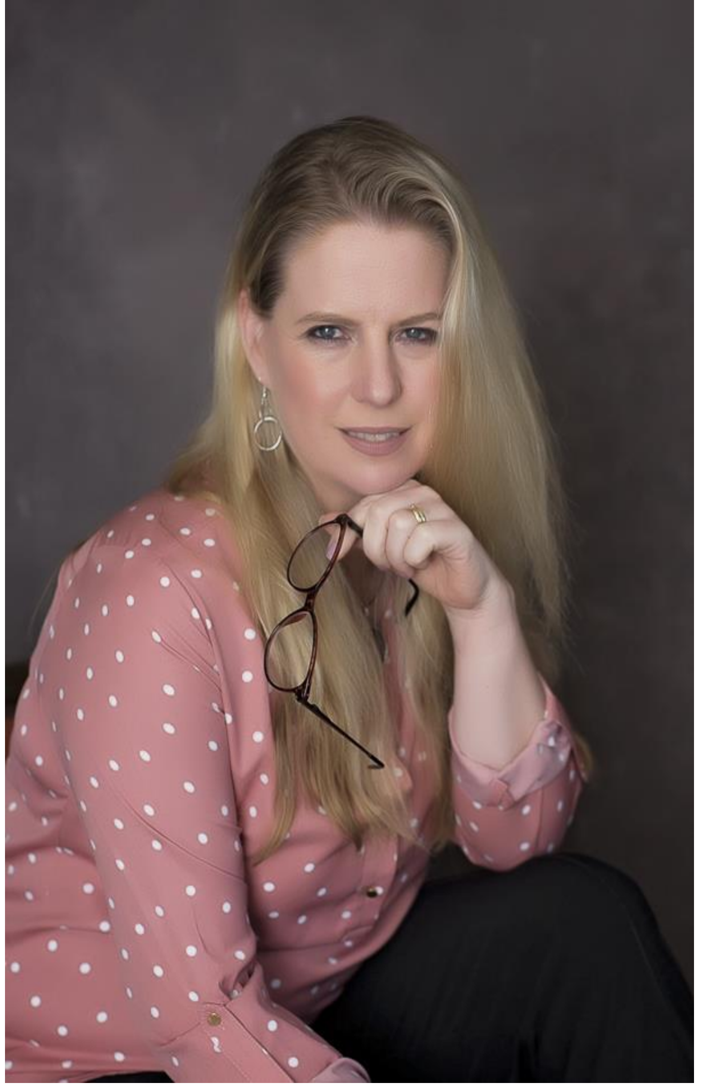
Caryn is a qualified CA(SA and RA, who has lectured extensively at UKZN (and other institutes) where she lectured Advanced Financial Accounting up until 2011 as well as co-ordinating the module on the Pietermaritzburg campus and was appointed Section Head of Financial Accounting and Deputy Head of the School of Accounting (managing the Pietermaritzburg campus) prior to leaving UKZN.

She has conducted independent workshops and seminars for professional accountants since 2006 on various topics and has consulted on a number of technical issues. Since January 2011, she has focused on her own business as technical freelance consultant and trainer to those working within the accounting profession. Caryn is a technical advisor to the SAICA Eastern Region Midlands District, Northern District and Southern District Associations, as well as the Small Practice Interest Group in Durban – specialising in financial reporting (IFRS, IFRS for SME's and general accounting), assurance, legislation and ethics. Caryn has a passion for Corporate Governance, which together with her Companies Act specialism and Financial Management for Non Financial Management lecturing background, has served her well in consulting and advising various Boards of Directors in recent years.

Caryn is also a platform presenter for various institutes as well as many small to medium accounting practices across the country and into Southern Africa. Maitland was appointed as a visiting Associate Professor to the University of Limpopo tasked with mentoring their Financial Accounting staff (Aug 2011 to Dec 2013).

Maitland's passion is IFRS and IFRS for SME's and was delighted at the opportunity granted in 2013 to serve on the APC subcommittee constituted to investigate the need for Micro GAAP and the role of IFRS for SME's for small and medium sized practitioners. Caryn, also serves on the Joint Accountants, Auditors and Attorneys Committee of SAICA, and is part of the School Governing Body project initiated by SAICA in KwaZulu-Natal, and has been appointed as an alternative member to the APC in June 2020

Caryn was elected as the first woman Chairperson for the Midlands District Association for SAICA in 2018 and also serves on the Eastern Region SMP Committee as well as the Local Subvention Committee for SAICA. In 2019 Caryn was appointed to the SAICA Eastern Region Council. As someone who is committed to environmental affairs, Caryn serves as a non-executive director for the Institute of Natural Resources, a Non Profit Company focusing on research. Since 2018 Caryn has worked extensively with commerce and industry, assisting analysts, directors and other users of financials to interpret, prepare, analyse and forecast based on the results of financial statements.



Why is POPI important?

A Refresher of what happened up to June 2021

- Request for information 2020 (Comment deadline 27 Oct 2020)
  Alignment to IFRS is the big question
    - Faithful representation
    - Simplicity
    - Relevance to SMEs
- Simplicity per the Basis of Conclusions to IFRS for SME's states
  - omitting some topics;
  - when an IFRS Standard permits options, permitting only the simplest option;
  - simplifying recognition and measurement requirements;
  - reducing disclosures; and
  - simplifying language.

Topics raised

- Alignment
  - Principles and definitions
- Updating conceptual framework
  - Faithful representation
  - Substance over form
  - Undue cost or effort principle (extend)
- Fair value measurement (IFRS 13)
  - Align with examples
  - Move to S2
- Business Combinations
  - Definition of business
  - At acquisition costs?

Topics raised

- Consolidation – IFRS 10
  - Definition of Control
- Alignment with IFRS 11 Joint Arrangements
  - Control definition
  - Retain categories and accounting election
- IFRS 9 Financial Instruments
  - Defining clearer instruments that can use amortised cost
  - ECL
  - Fall back to IAS39
  - Hedging?
  - Financial Guarantees

Topics raised

- Updating to IFRS 16 Leases
  - Lease payments, term and discount rate
  - Retaining disclosure
  - Simplifying language
- Alignment with IFRS 15 Contracts with Customers
  - Suggestion to rewrite whole section

Subsequent developments

- Status
  - Comments collects from Request for Information
  - awaiting Exposure Draft – expected 3rd Quarter 2022 (July – Sept)

- October 2021 to May 2022 meeting and decisions
- June 2022 agenda (meeting happening as we speak)

IASB October 2021 meeting

- Discussions and decisions taken towards an Exposure Draft
  - Financial Instruments (fall back and hedging)
  - Fair value accounting
  - Regulatory Deferral Accounts
  - IFRS 15 Contracts with Customers

IFRS 9 Financial Instruments *(fallback to full IFRS recognition and measurement requirements)*

- The Board tentatively decided to propose an amendment to the *IFRS for SMEs* Standard to remove an entity's option to apply the recognition and measurement requirements for financial instruments in full IFRS Standards.
- All 12 Board members agreed with this decision.

- Practically what does this mean?

IFRS 9 Financial Instruments *(hedge accounting)*

- The Board tentatively decided to retain unchanged the hedge accounting requirements in Section 12 *Other Financial Instrument Issues* of the *IFRS for SMEs* Standard.
- All 12 Board members agreed with this decision.

IFRS 13 Fair Value Measurement

The Board tentatively decided to propose amendments to the *IFRS for SMEs* Standard:

a. to align the definition of fair value in the *IFRS for SMEs* Standard with that in IFRS 13 *Fair Value Measurement*;

b. to align the guidance on fair value measurement in the *IFRS for SMEs* Standard with that in IFRS 13 by including in the *IFRS for SMEs* Standard the principles of the fair value hierarchy set out in IFRS 13;

c. to include examples relevant to SMEs that illustrate how to apply the hierarchy; and

d. to move the guidance and related disclosure requirements for fair value to a new section of the *IFRS for SMEs* Standard.

- All 12 Board members agreed with these decisions.
- Practically what does this mean?

IFRS 14 Regulatory Deferral Accounts

- The Board tentatively decided to consider amending the *IFRS for SMEs* Standard to include requirements for regulatory assets and regulatory liabilities in a future review of the *IFRS for SMEs* Standard.
- All 12 Board members agreed with this decision.

IFRS 15 Revenue from Contracts with Customers

- The Board tentatively decided:

a. to develop amendments to the *IFRS for SMEs* Standard to align it with IFRS 15 *Revenue from Contracts with Customers* by rewriting Section 23 *Revenue* of the *IFRS for SMEs* Standard to reflect the principles and language used in IFRS 15; and

b. 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.

- All 12 Board members agreed with these decisions.
- Practically, what does this mean?

IASB November 2021 meeting

- Discussions and decisions taken towards an Exposure Draft
  - IFRS 16 Leases
  - Employee Benefits
  - Sundry issues including development costs

IFRS 16 Leases

- The IASB tentatively decided:

a. to retain Section 20 *Leases* of the *IFRS for SMEs* Standard unchanged; and

b. to consider amending the *IFRS for SMEs* Standard to align with IFRS 16 *Leases* in a future review of the Standard.

Seven of 12 IASB members agreed with these decisions.

a. not to pursue improving disclosure requirements for operating leases without changing the recognition and measurement requirements in Section 20 *Leases* of the *IFRS for SMEs* Standard.

All 12 IASB members agreed with this decision.

IAS 19 Employee Benefits *(2011)*

The IASB tentatively decided:

a. to propose amendments to the *IFRS for SMEs* Standard to align the recognition requirements for termination benefits in Section 28 of the *IFRS for SMEs* Standard with the 2011 amendments to IAS 19 *Employee Benefits.*
All 12 IASB members agreed with this decision.

b. to retain the accounting policy option in paragraph 28.24 of the *IFRS for SMEs* Standard.
Ten of 12 IASB members agreed with this decision.

- Practically, what does this mean?
- Recognition requirements of termination benefits (IAS19 2011)

A termination benefit liability is recognised at the earlier of the following dates: [IAS 19.165-168]

- when the entity can no longer withdraw the offer of those benefits - additional guidance is provided on when this date occurs in relation to an employee's decision to accept an offer of benefits on termination, and as a result of an entity's decision to terminate an employee's employment
- when the entity recognises costs for a restructuring under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* which involves the payment of termination benefits.
- Termination benefits are measured in accordance with the nature of employee benefit, i.e. as an enhancement of other post-employment benefits, or otherwise as a short-term employee benefit or other long-term employee benefit. [IAS 19(2011).169]

- Practically, what does this mean?
- Section 28 para 24 Accounting policy selection

  An entity is required to recognise all actuarial gains and losses in the period in which they occur. An entity shall:

  (a) recognise all actuarial gains and losses in profit or loss; or

  (b) recognise all actuarial gains and losses in other comprehensive income. as an accounting policy election.

  The entity shall apply its chosen accounting policy consistently to all of its defined benefit plans and all of its actuarial gains and losses. Actuarial gains and losses recognised in other comprehensive income shall be presented in the statement of comprehensive income

Simplifications permitted by paragraph 28.19

The IASB tentatively decided:

a. to propose removing paragraph 28.19 of the *IFRS for SMEs* Standard.
All 12 IASB members agreed with this decision.

b. to include in the Invitation to Comment an alternative proposal clarifying how to apply paragraph 28.19 of the *IFRS for SMEs* Standard, if stakeholders do not agree to remove paragraph 28.19.
Ten of 12 IASB members agreed with this decision.

What does para 28.19 say? Relates to Actuarial Valuation method

If an entity is not able, without undue cost or effort, to use the projected unit credit method to measure its obligation and cost under defined benefit plans, the entity is permitted to make the following simplifications in measuring its defined benefit obligation with respect to current employees:

(a) ignore estimated future salary increases (ie assume current salaries continue until current employees are expected to begin receiving post-employment benefits).

(b) ignore future service of current employees (ie assume closure of the plan for existing as well as any new employees).

(c) ignore possible in-service mortality of current employees between the reporting date and the date employees are expected to begin receiving post-employment benefits (ie assume all current employees will receive the post-employment benefits). However, mortality after service (ie life expectancy) will still need to be considered.

Other topics with no amendments recommended

- **(Agenda Paper 30E)**
- The IASB tentatively decided to retain unchanged the *IFRS for SMEs* Standard for the topics identified in Agenda Paper 30E, considering the feedback on the Request for Information *Comprehensive Review of the* IFRS for SMEs *Standard*, except for the recognition and measurement of developments costs. Agenda Paper 30E discusses feedback on topics not addressed by the *IFRS for SMEs* Standard and topics respondents have brought to the IASB's attention relating to the *IFRS for SMEs* Standard.
- All 12 IASB members agreed with this decision.
- The IASB decided to explore possible changes to the recognition and measurement of developments costs in the *IFRS for SMEs* Standard at a future meeting.
- Eight of 12 IASB members agreed with this decision.

- Topics to remain unchanged:

Topic
Requirements for financial instruments in relation to IBOR reform
Requirements for not-for-profit entities
Requirements for earnings per share and operating segments
Requirements for the consensus of IFRIC 2
Requirements for non-governmental grants
Requirements for interim financial reporting
Requirements for assets held for sale and discontinued operations
The existing consolidation exemption
Useful life of intangible assets
Simplification of accounting treatment—director loans
Introducing specific disclosures in the *IFRS for SMEs* Standard for tax authorities and lenders
Amending disclosures in the *IFRS for SMEs* Standard for related party transactions

Topic
Applying a new IFRS Standard
Uncertainty
Agriculture—biological assets
Capitalisation of development costs and borrowing costs
Subsequent measurement of investment property
Recognition requirements for government grants
Primary Financial Statement project (General Presentation and Disclosure)
Business Combinations Under Common Control project
Goodwill and Impairment project
Going concern
Hyperinflation

IASB December 2021 meeting

- Discussions and decisions taken towards an Exposure Draft
  - IFRS 3 Business Combinations
  - IFRS 10 Consolidated Financial Statements
  - IFRS 11 Joint Arrangements
  - IFRS 9 Financial Instruments – Financial Guarantees
  - Amendments to IFRS Standards and Amendments
  - Other matters

IFRS 3 Business Combinations

The IASB tentatively decided to propose amendments to Section 19 *Business Combinations and Goodwill* of the *IFRS for SMEs* Standard.

- The proposals would align the definition of a business in the *IFRS for SMEs* Standard with the amended definition of a business issued in the amendments to IFRS 3 *Business Combinations* in October 2018 by reproducing, in a new appendix to Section 19, application guidance that includes:

a. the optional concentration test set out in paragraphs B7A–B7B of IFRS 3;

b. a decision tree to assess whether an acquired process is substantive; and

c. the application guidance for the assessment set out in paragraphs B8–B12D of IFRS 3, alongside some illustrative examples.

Eleven of 12 IASB members agreed with this decision.

What is this new definition?

'An integrated set of activities and assets

- that is capable of being conducted and managed
- for the purpose of providing
- goods or services to customers,
- generating investment income (such as dividends or interest) or
- generating other income from ordinary activities.

IFRS 3 Para 7A and 7B

•Business combinations can be structured in various ways to satisfy legal, taxation or other objectives, including one entity becoming a subsidiary of another, the transfer of net assets from one entity to another or to a new entity [IFRS 3.B6]

The business combination must involve the acquisition of a business, which generally has three elements: [IFRS 3.B7]

- *Inputs* – an economic resource (e.g. non-current assets, intellectual property) that creates outputs when one or more processes are applied to it
- *Process* – a system, standard, protocol, convention or rule that when applied to an input or inputs, creates outputs (e.g. strategic management, operational processes, resource management)
- *Output* – the result of inputs and processes applied to those inputs.

IFRS 3 Business Combinations

The proposals would also partially align Section 19 with the requirements for acquisition-related costs and contingent consideration, as set out in IFRS 3, requiring an entity:

a. to recognise acquisition-related costs as an expense at the time of the acquisition. (Ten of 12 IASB members agreed with this decision.)

b. 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 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. Eight of 12 IASB members agreed with this decision.

- The proposals would also add the requirements set out in IFRS 3 on accounting for an acquisition achieved in stages (step acquisitions). The IASB also tentatively decided to ask for further views on these requirements in the invitation to comment. All 12 IASB members agreed with these decisions.
- The proposals would as well 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. All 12 IASB members agreed with this decision.
- Finally, 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. Seven of 12 IASB members agreed with this decision.

IFRS 3 Business Combinations

The proposals would also partially align Section 19 with the requirements for acquisition-related costs and contingent consideration, as set out in IFRS 3, requiring an entity:

a. to recognise acquisition-related costs as an expense at the time of the acquisition. (Ten of 12 IASB members agreed with this decision.)

b. 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 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.

   Eight of 12 IASB members agreed with this decision.

IFRS 10 Consolidated Financial Statements

- The IASB tentatively decided to propose amendments to Section 9 *Consolidated and Separate Financial Statements* of the *IFRS for SMEs* Standard to align partially with IFRS 10 *Consolidated Financial Statements*, by:

a. aligning the definition of control in Section 9 with that in IFRS 10;

b. retaining and updating the rebuttable presumption in paragraph 9.5 of the *IFRS for SMEs* Standard relating to the assessment of control; and

c. not introducing in the *IFRS for SMEs* Standard the requirement that an investment entity measures its investments in subsidiaries at fair value through profit and loss.

- All 12 IASB members agreed with these decisions.

Definition of Control in IFRS 10

- Control =
  - Power
  - + Exposure to variability in returns
  - + Link between power & returns
- Power
  - Need existing rights that give the investor the **current ability** to direct
  - the activities that significantly affect
  - The investors returns
  - Focus on RELEVANT ACTIVITIES
- Control assessed on a continuous basis

IFRS 10 Single control model

1. Identify the investee (legal entity or silo)
2. Identify the relevant activities of the investee
3. *Indentify how decisions about the relevant activities are made*
4. Assess whether the investor has power over the relevant activities
5. Assess whether the investor is exposed to variability in returns
6. Assess whether there is a link between power & returns

REFER HANDOUT

Rebuttable Presumption para 9.5

Para 9.5 currently: Control is presumed to exist when the parent owns, directly or indirectly through subsidiaries, more than half of the voting power of an entity.

That presumption may be overcome in exceptional circumstances if it can be clearly demonstrated that such ownership does not constitute control.

Control also exists when the parent owns half or less of the voting power of an entity but it has:

(a) power over more than half of the voting rights by virtue of an agreement with other investors;

(b) power to govern the financial and operating policies of the entity under a statute or an agreement;

(c) power to appoint or remove the majority of the members of the board of directors or equivalent governing body and control of the entity is by that board or body; or

(d) power to cast the majority of votes at meetings of the board of directors or equivalent governing body and control of the entity is by that board or body

IFRS 11 Joint Arrangements

- The IASB tentatively decided to propose amendments to Section 15 *Investments in Joint Ventures* of the *IFRS for SMEs* Standard to align partially with IFRS 11 *Joint Arrangements*, by:

a. aligning the definition of joint control in Section 15 with that in IFRS 11. All 12 IASB members agreed with this decision.

b. retaining the classifications of joint arrangements: 'jointly controlled operations', 'jointly controlled assets' and 'jointly controlled entities'. Eleven of 12 IASB members agreed with this decision.

c. retaining the accounting requirements of Section 15, including the accounting policy election for jointly controlled entities. All 12 IASB members agreed with this decision.

What does this mean practically?

IFRS 9 Financial Instruments

The IASB tentatively decided to propose amendments to Section 11 *Basic Financial Instruments* of the *IFRS for SMEs* Standard by adding the definition of a ‘financial guarantee contract’ from IFRS 9. All 12 IASB members agreed with this decision.

- At the meeting, the IASB also provided direction to the staff for developing an expected credit loss model in Section 11. This model will be considered at a future meeting, together with the measurement requirements for issued financial guarantee contracts.

Definition of Financial Guarantee IFRS 9

IFRS 9 Financial Instruments defines the financial guarantee as a

- contract
- that requires the issuer to make specified payments
- to reimburse the holder for a loss it incurs
- because a specified debtor fails to make payments
- when due in accordance with the terms of a debt instrument.

Amendments to IFRS Standards and IFRIC Interpretations

The IASB tentatively decided:

a. to propose amendments to the *IFRS for SMEs* Standard to align it with:

   a. *Agriculture: Bearer Plants* (Amendments to IAS 16 and IAS 41), with an exemption so that if, at initial recognition, separation of the bearer plants from the produce growing on bearer plants would involve undue cost or effort, an entity would not be required to separate bearer plants from the produce growing on bearer plants. Ten of 12 IASB members agreed with this decision.
   b. a package of amendments to IAS 1:
      a. *Definition of Material* (Amendments to IAS 1 and IAS 8);
      b. *Disclosure Initiative* (Amendments to IAS 1); and
      c. *Disclosure of Accounting Policies* (Amendments to IAS 1 and IFRS Practice Statement 2). All 12 IASB members agreed with this decision.
   c. the amendments discussed in Agenda Paper 30I and listed as items 2–7, 9–12 in the table in Appendix A to Agenda Paper 30F. All 12 IASB members agreed with this decision.

b. to retain the *IFRS for SMEs* Standard unchanged for the amendments discussed in Agenda Paper 30J and listed as items 15–30 in the table in Appendix A to Agenda Paper 30F. All 12 IASB members agreed with this decision.

Amendments to IFRS Standards and IFRIC Interpretations

The IASB tentatively decided:

a. to propose amendments to the *IFRS for SMEs* Standard to align it with:

   a. *Agriculture: Bearer Plants* (Amendments to IAS 16 and IAS 41), with an exemption so that if, at initial recognition, separation of the bearer plants from the produce growing on bearer plants would involve undue cost or effort, an entity would not be required to separate bearer plants from the produce growing on bearer plants. Ten of 12 IASB members agreed with this decision.
   b. a package of amendments to IAS 1:
      a. *Definition of Material* (Amendments to IAS 1 and IAS 8);
      b. *Disclosure Initiative* (Amendments to IAS 1); and
      c. *Disclosure of Accounting Policies* (Amendments to IAS 1 and IFRS Practice Statement 2). All 12 IASB members agreed with this decision.
   c. the amendments discussed in Agenda Paper 30I and listed as items 2–7, 9–12 in the table in Appendix A to Agenda Paper 30F. All 12 IASB members agreed with this decision.

Amended definition of material

- Information is material if
  - omitting, misstating or obscuring it
  - could reasonably be expected
  - to influence the decisions that the primary users of general purpose financial statements make
  - on the basis of those financial statements,
  - which provide financial information about a specific reporting entity.

Paper 30I (points 2 – 7) to amend

2	Section 16 *Investment Property* ***Transfers of Investment Property* (Amendments to IAS 40)**	Clarifies that an 'entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use'. A change in use occurs if property meets, or ceases to meet, the definition of 'investment property'.
3	Section 17 *Property, Plant and Equipment* ***Clarification of Acceptable Methods of Depreciation and Amortisation* (Amendments to IAS 16 and IAS 38)**	Clarifies that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate, because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset.
4	Section 18 *Intangible Assets other than Goodwill* ***Clarification of Acceptable Methods of Depreciation and Amortisation* (Amendments to IAS 16 and IAS 38)**	Clarifies that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. This presumption, however, can be rebutted in certain limited circumstances.
5	Section 26 *Share-based Payment* ***Annual Improvements to IFRSs 2010–2012 Cycle* (IFRS 2)**	Amends the definitions of 'vesting condition' and 'market condition' and adds definitions for 'performance condition' and 'service condition' (which were previously part of the definition of 'vesting condition'). The IASB decided to separate the definitions of 'performance condition' and 'service condition' from the definition of 'vesting condition' to make the description of each condition clearer.
6	Section 26 *Share-based Payment* ***Classification and Measurement of Share-based Payment Transactions* (Amendments to IFRS 2)**	Clarifies and changes: (a) the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; (b) share-based payment transactions with a net settlement feature for withholding tax obligations; and (c) a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.
7	Section 16 *Investment Property* ***Annual Improvements to IFRSs 2011–2013 Cycle* (IAS 40)**	Clarifies that determining whether a specific transaction meets the definition of both a 'business combination', as defined in IFRS 3 *Business Combinations*, and 'investment property', as defined in IAS 40 *Investment Property*, requires the separate application of both IFRS Standards independently of each other.

Paper 30F (points 9 to 12) don't amend

9	Section 18 *Intangible Assets other than Goodwill* ***Annual Improvements to IFRSs 2010–2012 Cycle* (IAS 38)**	Clarifies that when an intangible asset is revalued, the gross carrying amount is required to be adjusted in a manner that is consistent with the revaluation of the carrying amount.
10	Section 23 *Revenue* ***Effective Date of IFRS 15***	Deferred the effective date from 1 January 2017 to 1 January 2018.
11	Section 28 *Employee Benefits* ***Defined Benefit Plans: Employee Contributions* (Amendments to IAS 19)**	Simplifies the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary.
12	Section 28 *Employee Benefits* ***Plan Amendment, Curtailment or Settlement* (Amendments to IAS 19)**	Provides that if a plan amendment, curtailment or settlement occurs, it is mandatory that the current service cost and the net interest for the period after the remeasurement are determined using the assumptions used for the remeasurement.

Other topics with amendments recommended

The IASB tentatively decided:

a. to retain paragraph 22.7(a) of the *IFRS for SMEs* Standard unchanged. Seven of 12 IASB members agreed with this decision.

b. to propose amendments to Section 26 *Share-based Payment* of the *IFRS for SMEs* Standard to include scope exclusions similar to those in paragraph 5 of IFRS 2 *Share-based Payment*. All 12 IASB members agreed with this decision.

c. to retain the requirements in Section 26 on share-based payments with settlement options unchanged. All 12 IASB members agreed with this decision.

IFRS for SMEs para 22.7 a

- Original issue of share or other equity instrument

Para 22.7 An entity shall recognise the issue of shares or other equity instruments as equity when it issues those instruments and another party is obliged to provide cash or other resources to the entity in exchange for the instruments:

(a) if the equity instruments are issued before the entity receives the cash or other resources, the entity shall present the amount receivable as an offset to equity in its statement of financial position, not as an asset;

IFRS 2 SBP para 5

- This IFRS applies to share-based payment transactions in which an entity acquires or receives goods or services.
- Goods includes inventories, consumables, property, plant and equipment, intangible assets and other non-financial assets.
- However, an entity shall not apply this IFRS to transactions in which the entity acquires goods as part of the net assets acquired in a business combination as defined by IFRS 3 Business Combinations (as revised in 2008), in a combination of entities or businesses under common control as described in paragraphs B1–B4 of IFRS 3, or the contribution of a business on the formation of a joint venture as defined by IFRS 11 Joint Arrangements.
- Hence, equity instruments issued in a business combination in exchange for control of the acquiree are not within the scope of this IFRS.
- However, equity instruments granted to employees of the acquiree in their capacity as employees (eg in return for continued service) are within the scope of this IFRS.
- Similarly, the cancellation, replacement or other modification of share-based payment arrangements because of a business combination or other equity restructuring shall be accounted for in accordance with this IFRS.
- IFRS 3 provides guidance on determining whether equity instruments issued in a business combination are part of the consideration transferred in exchange for control of the acquiree (and therefore within the scope of IFRS 3) or are in return for continued service to be recognised in the post-combination period (and therefore within the scope of this IFRS).

IASB Feb 2022 meeting

- Discussions and decisions taken towards an Exposure Draft
  - IFRS 9 ECL
  - Simplification of IFRS 15
  - Cryptocurrency
  - Recognition of Development costs
  - Business combinations and reacquired rights
  - IFRS 10, IFRS 11 and IFRS 3

IFRS 9 Financial Instruments *(Impairment of Financial Assets)*

The IASB tentatively decided:

a. to retain unchanged the incurred loss model in Section 11 *Basic Financial Instruments* of the *IFRS for SMEs* Standard for trade receivables and contract assets within the scope of Section 23 *Revenue* of the *IFRS for SMEs* Standard;

b. to propose amendments to Section 11 to require an SME to use an expected credit loss model for all other financial assets measured at amortised cost; and

c. to retain unchanged the requirements in Section 11 for impairment of equity instruments measured at cost.

- Seven of 12 IASB members agreed with this decision.

IFRS 9 Financial Instruments *(Impairment of Financial Assets)*

The IASB tentatively decided to propose amendments to the *IFRS for SMEs* Standard to align Section 23 of the *IFRS for SMEs* Standard with IFRS 15 *Revenue from Contracts with Customers*, with simplifications for:

a. contract modifications—an SME would be required to account for a contract modification either on a prospective basis, following a single approach, or on a cumulative catch-up basis. All 12 IASB members agreed with this decision.

b. series of distinct goods or services—an SME would be permitted to account for the promise to transfer a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer as separate performance obligations, if the amount of consideration varies in a way that corresponds with the value of the distinct goods or services transferred to the customer. All 12 IASB members agreed with this decision.

c. performance obligation terminology—the *IFRS for SMEs* Standard would require an SME to identify each 'promise to transfer a distinct good or service, or bundle of goods or services'. Nine of 12 IASB members agreed with this decision.

d. constraining estimates of variable consideration—an SME would be required to recognise variable consideration only to the extent that it is highly probable that the variable amount will be recovered. All 12 IASB members agreed with this decision.

IFRS 9 Financial Instruments *(Impairment of Financial Assets)*

e. significant financing components—an SME would be required to recognise the effects of any financing implicit in deferred payment by applying the requirements in Section 11 of the *IFRS for SMEs* Standard. An SME may not apply these requirements if the SME expects, at contract inception, that the period between when the entity transfers a promised good or service to a customer, and when the customer pays for that good or service, will be one year or less. Seven of 12 IASB members agreed with this decision.

f. allocating discounts and variable consideration—an SME would be required to allocate discounts and variable consideration to the performance obligations in the contract on a relative stand-alone selling price basis, unless an alternative method more faithfully depicts the amount of consideration to which the entity expects to be entitled in exchange for satisfying each separate performance obligation. All 12 IASB members agreed with this decision.

g. selecting a method for measuring progress towards complete satisfaction of a performance obligation—the *IFRS for SMEs* Standard would include a list of methods frequently used by entities to measure progress and describe circumstances where those methods may be appropriate. All 12 IASB members agreed with this decision.

h. incremental costs of obtaining a contract—an SME would be required to recognise as an asset the incremental costs of obtaining a contract with a customer if the SME expects to recover those costs, only when these costs can be identified and assessed as recoverable without undue cost or effort; otherwise the SME would recognise these costs as expenses. All 12 IASB members agreed with this decision.

The IASB tentatively decided to propose amendments to the *IFRS for SMEs* 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. The IASB also tentatively decided to ask for further views on this proposal in the invitation to comment. Six of 12 IASB members agreed with these decisions. The Chair used his additional casting vote, making the vote seven–six in favour of the decisions.

Cryptocurrency

- The IASB tentatively decided to retain unchanged the *IFRS for SMEs* Standard for cryptocurrency as part of this comprehensive review and revisit the topic in the next comprehensive review of the *IFRS for SMEs* Standard.
- All 12 IASB members agreed with this decision.

Other topics (Recognition and measurement of development costs)

- The IASB tentatively decided to seek views, in the Exposure Draft proposing amendments to the *IFRS for SMEs* Standard, on introducing an accounting policy option permitting an SME to recognise intangible assets arising from development costs meeting the criteria in paragraphs 57(a)–(f) of IAS 38 *Intangible Assets*.
- Ten of 12 IASB members agreed with this decision.

Development cost criteria

- Can capitalise if **<u>all</u>** of the following met:
  - ***Technically feasible*** to complete and use or sell
  - ***Intention*** to complete to use or sell
  - ***Ability*** to use or sell
  - ***How*** the intangible asset will generate future economic benefits (markets, usefulness)
  - ***Availability of adequate resources*** (technical, financial etc) to complete.
  - ***Ability to measure reliably*** directly attributable ***costs***

IFRS 3 Business Combinations (*Definition of a Business and Reacquired rights*

The IASB tentatively decided:

a. to propose aligning the definition of a business in the *IFRS for SMEs* Standard with the amended definition of a business issued in 2018, without introducing any rebuttable presumption; and

b. to retain unchanged Section 19 *Business Combinations and Goodwill* of the *IFRS for SMEs* Standard without reflecting the requirements in IFRS 3 *Business Combinations* that provided additional guidance on reacquired rights.

- All 12 IASB members agreed with these decisions.

Other issues (due to the alignment with IFRS 3, IFRS 10 and IFRS 11)

The IASB tentatively decided:

a. to propose amendments to Section 9 *Consolidated and Separate Financial Statements* of the *IFRS for SMEs* Standard to align it with the requirements:
   a. for step-disposals that result in loss of control, as set out in paragraph 25(b) of IFRS 10 *Consolidated Financial Statements*—an SME would measure any retained interest at fair value when control is lost; and
   b. 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.

b. to propose amendments to Section 15 *Investments in Joint Ventures* of the *IFRS for SMEs* Standard to align it with the requirements of paragraph 23 of IFRS 11 *Joint Arrangements*, 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. The IASB also tentatively decided to ask for further views on this proposal in the invitation to comment.

- All 12 IASB members agreed with these decisions.

IFRS 11 para 23 states

- A party that participates in, but does not have joint control of, a joint venture accounts for its interest in the arrangement in accordance with IFRS 9 *Financial Instruments* unless it has significant influence over the joint venture, in which case it accounts for it in accordance with IAS 28 (as amended in 2011). [IFRS 11:25]
- IAS 28 Investment in Associates and JVs

IASB March 2022 meeting

- Discussions and decisions taken towards an Exposure Draft
    - Disclosure requirements of IFRS
    - Back to Financial Guarantees

Aligning disclosure requirements with IFRS Accounting Standards

- The IASB tentatively decided on an approach to develop proposed amendments to the disclosure requirements in the *IFRS for SMEs* Accounting Standard that would result in consistency between these disclosure requirements and the Exposure Draft *Subsidiaries without Public Accountability: Disclosures*.
- All 11 IASB members agreed with this decision.

IFRS 9 Financial Instruments *(Issued financial guarantee contracts)*

The IASB tentatively decided to propose amendments to the *IFRS for SMEs* Accounting Standard to require

- the issuer of a financial guarantee contract
- to initially measure the contract at the premium received
- (plus the present value of any future premium payments receivable) and
- subsequently measure it at the higher of:
  a. the expected credit losses; and
  b. The amount initially recognised, if any, amortised on a straight-line basis over the life of the guarantee.
- Ten of 11 IASB members agreed with this decision.

IASB April 2022 meeting

- Discussions and decisions taken towards an Exposure Draft

Main feedback topics

- The IASB discussed the two main topics raised in the feedback—contractually linked instruments and financial assets with ESG-linked features. The IASB was not asked to make any decisions.
- At the May 2022 meeting, the IASB will continue its discussion and decide whether to take action in response to the feedback on these two topics

Other feedback topics

The IASB also considered six application questions raised in the feedback:

- Question A—whether a financial asset has non-recourse features (ie features that limit an entity's claim to specified assets of the debtor), and under what circumstances an entity is required to assess the cash flows from the specified assets;
- Question B—whether an entity needs to consider cash flows arising from bail-in legislation when the relevant legal requirements are reproduced or referred to in a contract;
- Question C—whether interest rates that are contractually adjusted for inflation introduce leverage;
- Question D—whether interest rates that include a government-imposed leverage factor are regulated interest rates as described in IFRS 9;
- Question E—whether a prepayment feature includes reasonable compensation for early termination of a contract; and
- Question F—whether particular types of interest rates include a modified time value of money element.

Other feedback topics

The IASB decided to:

- consider Question A with its analysis of contractually linked instruments;
- consider Question B after its *Financial Instruments with Characteristics of Equity* project has developed further;
- perform outreach with members of ASAF and the IFRS Interpretations Committee to gather further information about Question C and Question D; and
- take no further action on Question E and Question F.
- All 10 IASB members agreed with this decision.

IASB May 2022 meeting

- Discussions and decisions taken towards an Exposure Draft
  - Scoping and name of Standard
  - Definition of Public Accountability
  - Review of inconsistencies with Section 2 and IFRS for SMEs
  - Sweep issues
  - Aligning with new IFRS Standards and IFRICs

Scope and name of the IFRS for SMEs *Accounting Standard*

The IASB tentatively decided to retain:

a. the scope of the Standard—the Standard is intended for entities that do not have public accountability and prepare general purpose financial statements for external users; and

b. the name of the Standard as the '*IFRS for SMEs* Accounting Standard'.

- All 10 IASB members agreed with this decision.

Definition of public accountability

To improve the understandability of the definition of ‘public accountability’ in the *IFRS for SMEs* Accounting Standard, the IASB tentatively decided to propose:

a. removing the reference to how often the entities listed in paragraph 1.3(b) of the *IFRS for SMEs* Accounting Standard hold assets in a fiduciary capacity for a broad group of outsiders as one of their primary businesses; and

b. including clarifying guidance.

- The IASB also tentatively decided to make the same amendments to the description of public accountability as set out in the draft Standard *Subsidiaries without Public Accountability: Disclosures*, if the draft Standard is finalised.
- Nine of 10 IASB members agreed with these decisions.

Definition of public accountability

Further, in relation to the draft Standard *Subsidiaries without Public Accountability: Disclosures*, the IASB tentatively decided, if the draft Standard is finalised:

- to consider how best to make the guidance on public accountability in Module 1 *Small and Medium-sized Entities* (the educational material on Section 1 Small and Medium-sized Entities of the *IFRS for SMEs* Accounting Standard) available to entities applying the Standard.
  - All 10 IASB members agreed with this decision.
- to clarify, by using similar wording to that of paragraph 1.7 of the *IFRS for SMEs* Accounting Standard, that an intermediate parent is required to assess its eligibility to apply the Standard in its individual or separate financial statements on the basis of its own status. That is, the intermediate parent would be required to make its assessment without considering whether other group entities have public accountability or whether the group as a whole has it.
  - Eight of 10 IASB members agreed with this decision.

Review for inconsistencies between Section 2 and other sections of the **IFRS for SMEs** *Accounting Standard*

- The IASB tentatively decided:

a. to include the definitions of an 'asset' and of a 'liability', as they are defined in the *Framework for the Preparation and Presentation of Financial Statements* issued in 1989, in Section 21 *Provisions and Contingencies* of the Standard and Section 18 *Intangible Assets other than Goodwill* of the Standard, respectively; and

b. to remove the references to the recognition criteria in Section 2 *Concepts and Pervasive Principles* of the Standard from Section 17 *Property, Plant and Equipment* of the Standard and from Section 18 of the Standard.

- All 10 IASB members agreed with these decisions.

Framework for the Preparation and Presentation of Financial Statements (1989)

- Asset:
  - The future economic benefit embodied in an asset is the potential to contribute, directly or indirectly, to the flow of cash and cash equivalents to the enterprise.
  - The potential may be a productive one that is part of the operating activities of the enterprise.
  - It may also take the form of convertibility into cash or cash equivalents or a capability to reduce cash outflows, such as when an alternative manufacturing process lowers the costs of production.

Framework for the Preparation and Presentation of Financial Statements (1989)

- Liability:
  - An essential characteristic of a liability is that the enterprise has a present obligation.
  - An obligation is a duty or responsibility to act or perform in a certain way.
  - Obligations may be legally enforceable as a consequence of a binding contract or statutory requirement.
  - This is normally the case, for example, with amounts payable for goods and services received.
  - Obligations also arise, however, from normal business practice, custom and a desire to maintain good business relations or act in an equitable manner.

Conceptual Framework 2018 definitions

Previous definition of an asset	Revised definition of an asset
A resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity	A present economic resource controlled by the entity as a result of past events An economic resource is a right that has the potential to produce economic benefits

Main changes in the definition of an asset

- separate definition of an economic resource—to clarify that an asset is the economic resource, not the ultimate inflow of economic benefits
- deletion of 'expected flow'—it does not need to be certain, or even likely, that economic benefits will arise
- a low probability of economic benefits might affect recognition decisions and the measurement of the asset

Conceptual Framework 2018 definitions

Previous definition of a liability	Revised definition of a liability
A present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits	A present obligation of the entity to transfer an economic resource as a result of past events An obligation is a duty or responsibility that the entity has no practical ability to avoid

Main changes in the definition of a liability

- separate definition of an economic resource—to clarify that a liability is the obligation to transfer the economic resource, not the ultimate outflow of economic benefits
- deletion of 'expected flow'—with the same implications as set out above for an asset
- introduction of the 'no practical ability to avoid' criterion to the definition of obligation

Sweep issues

The IASB tentatively decided to propose amendments to Section 19 *Business Combinations and Goodwill* of the Standard:

a. to align it with *Reference to the Conceptual Framework* issued in May 2020—so that:
   a. to qualify for recognition, the identifiable assets acquired and liabilities assumed must meet, at the acquisition date, the definitions of assets and liabilities in Section 2 of the Standard—which the IASB has tentatively decided to align with the 2018 *Conceptual Framework for Financial Reporting*; and
   b. for liabilities and contingent liabilities that would be within the scope of Section 21 of the Standard if they were incurred separately rather than assumed in a business combination, an acquirer would be required to apply paragraph 21.6 of the *IFRS for SMEs* Accounting Standard to determine whether at the acquisition date a present obligation exists as a result of past events for a provision or contingent liability.

b. to align it with the requirement in IFRS 3 *Business Combinations* that an acquirer cannot recognise a contingency that is not a liability.

- All 10 IASB members agreed with these decisions.

Sweep issues

The IASB also tentatively decided to propose amendments to Section 10 *Accounting Policies, Estimates and Errors* of the Standard

- to align it with the definition of 'accounting estimates' as set out in IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* (as amended in February 2021).
- The amendments to be proposed would include the application guidance relevant to entities applying the *IFRS for SMEs* Accounting Standard set out in IAS 8.
- All 10 IASB members agreed with this decision.

Para 21.6 if IFRS for SMEs

- The condition in paragraph 21.4(a) (obligation at the reporting date as a result of a past event) means that the entity has no realistic alternative to settling the obligation.
- This can happen when the entity has a legal obligation that can be enforced by law or when the entity has a constructive obligation because the past event (which may be an action of the entity) has created valid expectations in other parties that the entity will discharge the obligation. Obligations that will arise from the entity's future actions (ie the future conduct of its business) do not satisfy the condition in paragraph 21.4(a), no matter how likely they are to occur and even if they are contractual.
- To illustrate, because of commercial pressures or legal requirements, an entity may intend or need to carry out expenditure to operate in a particular way in the future (for example, by fitting smoke filters in a particular type of factory). Because the entity can avoid the future expenditure by its future actions, for example by changing its method of operation or selling the factory, it has no present obligation for that future expenditure and no provision is recognised.

New definition of Accounting Estimate

- Accounting estimates are. defined as “**monetary amounts in financial statements that are subject to measurement uncertainty**”.

Sweep issues

- The IASB also tentatively decided to propose amendments to Section 11 *Financial Instruments* of the Standard to reflect the amendments to IFRS 9, *Prepayment Features with Negative Compensation* issued in 2017, to enable SMEs to measure, at amortised cost, debt instruments that have prepayment features with negative compensation.
- All 10 IASB members agreed with this decision.
- Negative compensation **arises where the contractual terms permit the borrower to prepay the instrument before its contractual maturity, but the prepayment amount could be less than unpaid amounts of principal and interest**.

Sweep issues

- The IASB also tentatively decided to propose amendments to Section 14 *Investments in Associates* of the Standard to reflect the 2017 amendments to IAS 28 *Long-term Interests in Associates and Joint Ventures* and to clarify how to treat financial instruments that form part of an entity's net investment in an associate or jointly controlled entity.
  - All 10 IASB members agreed with this decision.
- The IASB also tentatively decided to propose amendments to Section 33 *Related Party Disclosures* of the Standard to align it with IAS 24 *Related Party Disclosures*, with simplifications.
  - All 10 IASB members agreed with this decision.

IFRS for SMEs *Accounting Standard transition requirements for alignment with new IFRS Accounting Standards*

The IASB tentatively decided to propose transition requirements for entities applying new requirements that the IASB has tentatively decided to propose. The transition requirements to be proposed relate to the following six sections of the *IFRS for SMEs* Accounting Standard:

a. Section 9 *Consolidated and Separate Financial Statements*;

b. Section 11 *Basic Financial Instruments*;

c. a new section on *Fair Value Measurement*;

d. Section 15 *Investments in Joint Ventures*;

e. Section 19 *Business Combinations and Goodwill*; and

f. Section 23 *Revenue*.

The transition requirements to be proposed are simplified from the transition requirements in full IFRS Accounting Standards.

- All 10 IASB members agreed with this decision.

Effective date

- The IASB tentatively decided to propose that the effective date of the third edition of the *IFRS for SMEs* Accounting Standard be a minimum of two years from the date when the third edition of the Standard is issued, with early application permitted.
- All 10 IASB members agreed with this decision.

IASB June 2022 Meeting - Agenda

- Guidance on Public Accountability
- Simplifications to IFRS 15 Revenue from Contracts to Customers
  - Licensing
  - Warranties
  - Agent vs principal
  - Customer option for addition goods and services
- Transition to 3rd Edition of IFRS for SME's
- Permission to begin balloting process

Proposed next steps

- Exposure Draft expected September 2022
- Outreach by IASB Oct to Nov 2022 and Feb 2023
- Development team are requesting 150 days comment period
  - March/April 2023

Disclaimer

This seminar is presented for information purposes only and does not constitute tax advice. Please contact your tax practitioner for advice tailored to your specific circumstance.