Institute of Chartered Accountants of India – Dubai Chapter

Session on New IFRS Accounting Standards

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Topic of Deliberation -

Setting the Context
IFRS 18 - Presentation and Disclosure in Financial Statements
IFRS 19 - Subsidiaries Without Public Accountability:Disclosures
Second Comprehensive Review of IFRS for SMEs Accounting Standard

IFRS Structure

Due Process for IFRS :

The “due process” has six stages to ensure compliance at various points throughout:

Agenda Consultation

- Setting the agenda
- Planning the project

Research Programme

- Developing and publishing the discussion paper

Standard Setting Programme

- Developing and publishing the exposure drat
- Developing and publishing the standard

Maintenance Programme

- Amendment after the standard is issued

IFRS 18
Presentation and Disclosure in Financial Statements

Applicable: Periods beginning on or after 1 January 2027, earlier application is permitted.

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What led to emergence of IFRS 18

In 2016, the IASB initiated its primary financial statements project in response to investors' concerns about the comparability and transparency of entities' performance reporting.

Feedback during the research phase -

Statements of profit or loss **vary in content and structure** between companies.

Investors find measures defined by management useful in analyzing performance and making forecasts about future performance, **but they are concerned about the lack of transparency** of how these measures are calculated

Some companies **don't provide enough detailed information**

- IFRS Accounting Standards do not have detailed requirements on:
  - where to classify income and expenses
  - how to group the information to be presented in the primary financial statements or in the notes
- Lack of detailed requirements leads to diversity in practice.
- Companies define their own subtotals and performance measures and group items in their own ways.
- Difficult to analyze and compare companies' performance

Overview of IFRS 18

IFRS 18 response to the feedback received the research phase

1	Presentation of new defined subtotals in the statement of profit or loss—operating profit and profit before financing and income taxes—and consistent classification of income and expenses in categories to provide useful information and improve comparability
2	Disclosure of information about management-defined performance measures (MPMs) to promote transparency and discipline
3	Enhanced requirements for grouping (aggregation and disaggregation) of information to help a company provide useful information

IFRS 18 is aimed at improving how companies communicate in their financial statements.

It responds to investor demands for better information about companies' financial performance

Financial Statements

No change to the definition of Complete Set of Financials Statements

- Statement of Financial Position
- Statement of Financial Performance ★
- Statement of Changes in Equity
- Statement of Cash Flows
- Notes to financial statements ★

Primary Financial Statements

★ **IFRS 18 Brings Major Changes**

Categories in Statement of Profit & Loss

IFRS 18 requires an entity to classify income and expenses included in profit or loss into one of the following categories

- Operating
- Investing
- Financing
- Income taxes
- Discontinued operations

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Categories in Statement of Profit & Loss

Categorization	Statement of Profit & Loss
Operating	Revenue
	Cost of Sales
	Gross Profit
	Other Operating Income
	Selling Expense
	General Administrative Expense
	Other Operating Expense
	Operating Profit
Investing	Share of profit and gains on disposal of associates and join ventures
	Profit before financing and income taxes
Financing	Interest expense on borrowings and lease liabilities
	Profit before income taxes
Income Taxes	Income tax expense
	Profit from continuing operations
Discontinued Operations	Loss from discontinued operations
	Profit

Subtotals provide a consistent structure for the statement of profit or loss, thereby improving comparability.

IFRS 18 will not affect how companies measure their financial performance and the overall profit figure.

Exception –
Specified Main Business

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Investing Category

Investing category income and expenses: Income and Expenses emanating from -

- Investments in associates, joint ventures and unconsolidated Subsidiaries
- Cash and cash equivalents
- Other assets if they generate a return individually and largely independently of the entity's other resources

Assets that generate a return individually and largely independently of the entity's other resources include:

- debt or equity investments
- investment properties, and receivables for rent generated by those properties

Income and expenses from such assets typically include:

- Interest
- Dividends
- Rental income
- Depreciation
- Impairment losses and reversals of impairment losses
- Fair value gains and losses
- Income and expenses from the derecognition of the asset, or its classification and remeasurement as held for sale

Financing Category

The financing category comprises income and expenses from liabilities arising from transactions that involve raising of finance, whether the transaction involves only raising of finance or not.

Liabilities that arise from transactions that involve only raising of finance includes:

- debt instruments settled in cash
- bonds that will be settled through the delivery of an entity’s own shares.

Liabilities arising from transactions that do not involve only raising of finance includes:

- payables for goods or services
- lease liabilities
- defined benefit pension liabilities.

‘Income and expenses’ classified in the financing category comprises:

- income and expenses that arise from the initial and subsequent measurement of the liabilities, including on derecognition of the liabilities
- incremental expenses directly attributable to the issue and extinguishment of the liabilities, for example transaction costs.

Financing Category

Determine the nature of transaction by which liabilities have arisen

Involve only the raising of finance

Classify in the Financing Category

- Income & expenses that arise from the initial and subsequent measurement of the liabilities
- the incremental expenses directly attributable to the issue and extinguishment of the liabilities

Do not Involve only the raising of finance

if the entity identifies such income and expenses for the purpose of applying other requirements in IFRS Accounting Standard

Classify in the Financing Category

- interest income and expenses
- income and expenses arising from changes in interest rates

Operating Category

IFRS 18 requires an entity shall classify in the operating category all income and expenses included in the statement of profit or loss that are not classified in

- Investing category
- Financing category
- Income Taxes category
- Discontinued Operations category

The operating category is the default category and:

includes all income and expenses arising from a company's operations, regardless of whether they are volatile or unusual in some way. Operating profit provides a complete picture of a company's operations for the period. It is not meant to measure only 'persistent' or 'recurring' operating performance.

includes, but is not limited to, income and expenses from a company's main business activities. Income and expenses from other business activities, such as income and expenses from additional activities, are also classified in the operating category if those income and expenses do not meet the requirements to be classified in any of the other categories.

Specified Main Business

To classify income and expenses in the operating, investing and financing categories, an entity shall assess whether it has a specified main business activity—that is a main business activity of

- Investing in Assets
  - Insurance
  - Investment Entities
  - Investment Property Cos
- Financing to Customers
  - Banks
  - Lending Cos
  - Lease – Finance Lease

Investing Category

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Operating Category

Financing Category

↓

Operating Category

Income & Expense Categorization - Banks

Categorization	Statement of Profit & Loss
Operating	Interest Revenue (EIRR Method)
Operating	Interest Expense
Operating	Net Interest Income
Operating	Fee & Commission Income
Operating	Fee & Commission Expense
Operating	Net Fee & Commission Income
Operating	Net Investment Income
Operating	Allowance for Credit Impairment
Operating	Employee Benefit Expenses
Operating	Depreciation and Amortization Expense
Operating	Other Operating Expense
	Operating Profits
Investing	Share of Profits in Associates
	Profit before financing and income taxes
Financing	Interest expense on lease liabilities etc
	Profit before income taxes

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Classification of specific income and expenses

Foreign exchange differences

Foreign exchange differences are classified in the same category as the income and expenses from the items that gave rise to those differences. For example, foreign exchange differences on a foreign-currency denominated receivable for a sale of goods are classified in the operating category (the same category as the sale of goods).

Fair value gains and losses on derivatives

The classification of fair value gains and losses on derivatives depends on whether the derivatives are used to manage exposure to identified risks and whether they are designated as hedging instruments.

Income and expenses from hybrid contracts

The classification of income and expenses from hybrid contracts comprising host liabilities and embedded derivatives depends on whether the embedded derivative is separated from the host liability and the nature of the hybrid contract.

MPMs & Related Disclosure

Management-defined Performance Measures (MPMs) are alternative or non-GAAP performance measures (that is, measures that are not defined by IFRS Accounting Standards) that are related to the statement of profit or loss.

MPMs are defined as -

subtotals of income and expenses	
uses in public communications outside FS	uses to communicate to users of FS management's view of an aspect of the financial performance
Not listed by IFRS 18	Not specifically required to be presented or disclosed by another standard

Subtotals of income and expenses that are not MPMs are

- gross profit or loss (revenue minus cost of sales) and similar subtotals
- operating profit or loss before depreciation, amortization and impairments within the scope of IAS 36
- operating profit or loss and income and expenses from all investments accounted for using the equity method
- a subtotal comprising operating profit or loss, and all income and expenses classified in the investing category
- profit or loss before income taxes
- profit or loss from continuing operations.

MPMs & Related Disclosure

What does Public communications outside the financial statements general constitutes -

- An MPMs is a subtotal of income and expenses that a company uses in public communications outside financial statements.

- Public communications include management commentary, press releases and investor presentations. for identifying MPMs, public communications do not include oral communications, written transcripts of oral communications or social media posts.

Management's view -

- IFRS 18 presumes a subtotal of income and expenses included in a company's public communications outside financial statements represents management's view of an aspect of the financial performance of the company.

- A company can assert that a subtotal does not communicate management's view (and therefore it cannot be an MPMs), but only if it has reasonable and supportable information for the assertion.

- For example, regulation might require a company to include an adjusted profit or loss measure in its public communications, but if the measure is not used internally by management to make decisions and does not represent management's view of performance, it cannot be an MPMs

MPMs & Related Disclosure

Glance at the possible Performance Measures

Performance Measures		
Subtotals of income and expenses		Other performance measures
MPMs	IFRS-specified	
▪ Adjusted profit ▪ Adjusted operating profit ▪ Adjusted earnings before interest, tax, depreciation and amortization	▪ Operating profit ▪ Operating profit before depreciation, amortization and impairments within the scope of IAS 36	▪ Free cash flow ▪ Return on equity ▪ Net debt ▪ Number of customers

MPMs & Related Disclosure

Disclosure Requirements

Reconciliation between **the measure** and **the most directly comparable subtotal listed in IFRS 18** or total or subtotal specifically required by IFRS Accounting Standards, including the income tax effect and the effect on non-controlling interests for each item disclosed in the reconciliation

Description of **how the measure communicates** management's view and how the measure is **calculated**

Explanation of any **changes in the company's MPMs** or in how it calculates its MPMs

Statement that the measure reflects **management's view of an aspect of financial performance** of the company as a whole and is not necessarily comparable to measures sharing similar labels or descriptions provided by other companies

Aggregation & Disaggregation

Principles laid down by the Standard -

- classify and aggregate assets, liabilities, equity, income, expenses or cash flows into items based on **shared characteristics**
- disaggregate items based on characteristics that are **not shared**
- aggregate or disaggregate items to present line items in the primary financial statements that fulfil the **role of the primary financial statements** in providing useful structured summaries
- aggregate or disaggregate items to disclose information in the notes that fulfils the **role of the notes** in providing material information
- ensure that aggregation and disaggregation in the financial statements **do not obscure material information**

Operating Category – Aggregation & Disaggregation

Presentation of operating expenses

IFRS 18 requires entities to classify and present operating expenses in a way that provides the most useful structured summary of its expenses *using one or both* of these the characteristics of:

- the nature of the expense (for example, raw material expenses and employee benefit expenses)
- the function of the expenses within the entity (for example, cost of sales)

In deciding how to present operating expenses, an entity is required to consider factors such as what line items provide the most useful information about the main components or drivers of the entity's profitability and industry practice.

An entity that presents one or more-line items for operating expenses classified by function is required to disclose amounts for specified expenses by nature in a single note to the financial statements.

Operating Category – Aggregation & Disaggregation

IFRS requires an entity that that present expenses classified by function to disclose the following included in each line item in the operating category of the statement of profit or loss:

- Depreciation
- Amortization
- Employee Benefits
- impairment losses and reversals
- write-downs and reversals of write-downs of inventories

This information is disclosed in the notes and provides investors with additional information about operating expenses to help them forecast future cash flows in changing economic conditions.

Impact on Other Standards

IFRS 18 replaces IAS 1

Requirements in IAS 1 have been:

- replaced by new requirements in IFRS 18
- transferred to IFRS 18 with only limited wording changes
- moved to IAS 8 Basis of Preparation of Financial Statements or IFRS 7 Financial Instruments: Disclosures with only limited wording changes.

Earnings Per Share

- In addition to reporting basic and diluted earnings per share, companies were permitted under IAS 33 Earnings per Share to disclose earnings per share calculated based on any component of the statement of comprehensive income.
- The amendments to IAS 33 permit a company to disclose these additional earnings per share only if the numerator is either a total or subtotal identified in IFRS 18 or an MPM

Impact on Other Standards

Statement of cash flows

The IASB has made limited changes to the statement of cash flows as defined in IAS 7 Statement of Cash Flows, notably:

- requiring companies to use the operating profit subtotal as the starting point for reporting cash flows from operating activities using the indirect method

- removing the presentation alternatives for interest and dividend cash flows for most companies—dividends and interest paid are generally classified in cash flows from financing activities, and dividends and interest received are generally classified in cash flows from investing activities.

IASB expects these changes will simplify practice and reduce diversity in presentation.

Interim Financial Reporting

IAS 34 Interim Financial Reporting was amended to require companies to disclose information about MPMs in interim financial statements. Some of the other changes (including those about subtotals) also apply to condensed financial statements in interim reports

Impact – Companies & Accountant

Companies will have to take care the implementation through –

- changes in internal processes for preparing the financial statements
- changes to information systems including accounting systems
- training for staff and management
- communicating changes to reported information to internal and external parties

Companies will have one time implementation cost

How can professional accountants can contribute –

- Knowledge transfer to entities on requirements of the Standard
- Providing advisory on the requisite system modifications
- Enabling entities to carry modifications to information system and accounting systems
- Providing training to resources at the entities

IFRS 19
Subsidiaries Without Public Accountability: Disclosures

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Development of the Standard

IFRS 19 is response to stakeholder feedback on the 2015 Agenda Consultation.

Stakeholders said that some subsidiaries should be permitted to apply IFRS Accounting Standards with reduced disclosure requirements.

68 Comment Letter	**24** Outreach events with wide geographical spread
300+ Comments on individual proposed disclosure requirements	**12** IASB meetings redeliberating the proposals in the ED

November 2016	Agenda Consultation feedback
March 2019	Research project active
January 2020	Standard-setting project active
July 2021	Exposure Draft published
April 2022	Redeliberation started
July 2023	Redeliberation completed
May 2024	IFRS 19 issued
January 2027	Standard becomes effective

Early Application Permitted

Need for IFRS 19

Problem Statement

Parent

Parent prepares consolidated financial statements by applying IFRS

Subsidiary submits consolidation pack by applying IFRS

Subsidiary's Financial Statements

Apply local GAAP or the IFRS for SMEs Accounting Standard? BUT requires Additional accounting records

Apply IFRS Accounting Standards? BUT disclosures may be disproportionate for these subsidiaries

Subsidiary

Solution

Parent

Parent prepares consolidated financial statements by applying IFRS

Subsidiary submits consolidation pack by applying IFRS

Subsidiary's Financial Statements

Subsidiary applies
IFRS 19 Subsidiaries without Public Accountability: Disclosures
(with reduced disclosure requirements)

Subsidiary

Requirements

- IFRS 19 is just a disclosure standard. Does not prescribe any recognition and measurement principles
- Entities applying IFRS 19 need not apply the disclosure requirements in other IFRS Accounting Standards nor apply any statements about, or references to, those disclosure requirements.
- If an entity applying IFRS 19 applies IFRS 8 Operating Segments, IFRS 17 Insurance Contracts or IAS 33 Earnings per Share, it shall apply all the disclosure requirements in those Standards.
- Permits avoiding of disclosures not being Material.
- New or Amended IFRS Accounting Standard – Relief will be set out in the new or amended IFRS Accounting Standard itself

Eligible Entities

An entity may elect to apply this Standard in its consolidated, separate or individual financial statements if, and only if, at the end of the reporting Period –

- it is a subsidiary
- it does not have public accountability
- it has an ultimate or intermediate parent that produces consolidated financial statements available for public use that comply with IFRS Accounting Standards

Approach for Intermediate Parent Entities –

An intermediate parent that does not have public accountability and meets the other eligibility conditions may apply this Standard in its separate financial statements even if it does not apply this Standard in its consolidated financial statements.

Election & Revocation of Application of the Standard

- IFRS 19 permits entity to revoke the election to apply this Standard
- IFRS 19 also permits an entity to elect the application this Standard more than once
- Reporting of Comparatives -
  - An entity that applies this Standard in the current reporting period but not in the immediately preceding period shall provide comparative information (that is, information for the preceding period) for all amounts reported in the current period’s financial statements, unless this Standard or another IFRS Accounting Standard permits or requires otherwise
  - An entity that applied this Standard in the preceding reporting period—but elects not to (or is no longer eligible to) apply it in the current period and continues applying IFRS Accounting Standards—shall provide comparative information with respect to the preceding period for all amounts reported in the current period’s financial statements, unless another IFRS Accounting Standard permits or requires otherwise
  - The fact that this Standard did not require the disclosure of amounts in the preceding period for some items that are disclosed in the current period is not a reason to omit comparative information for these items.

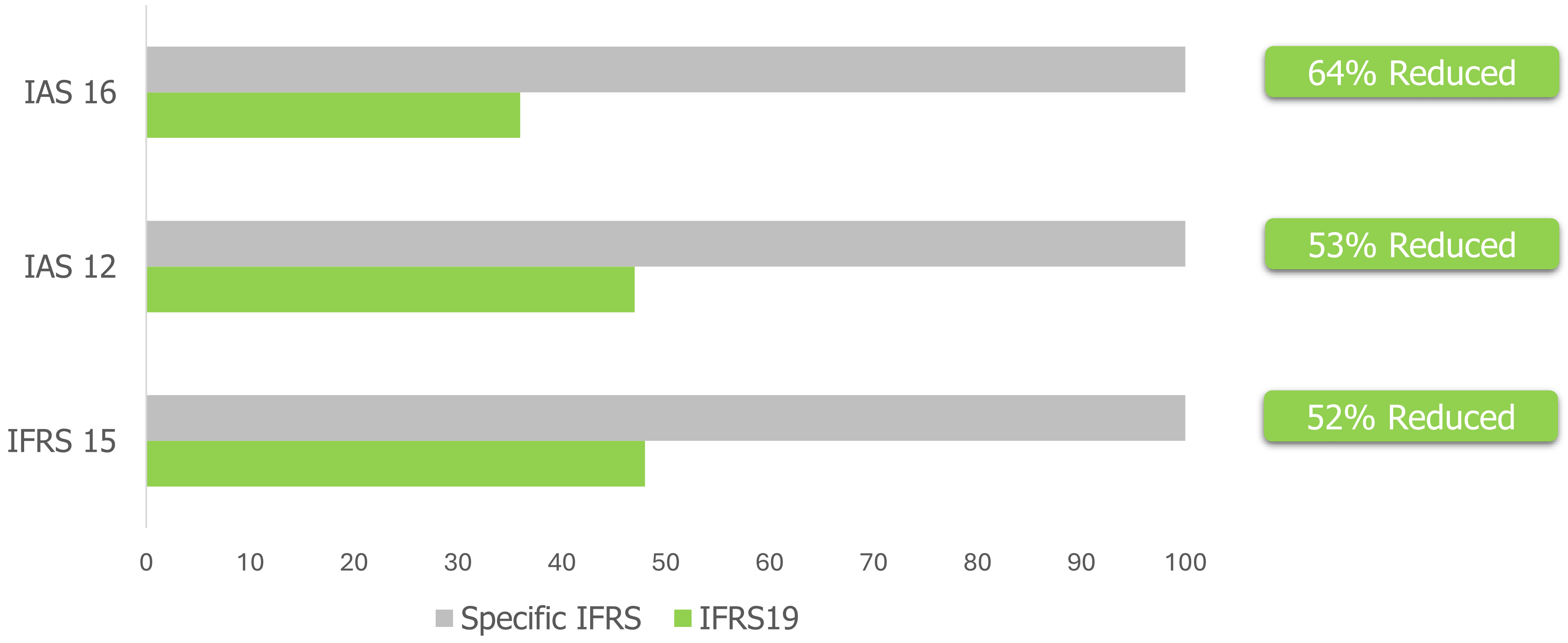
Principles

Principles for reducing disclosure requirements - Same as IFRS for SMEs

Liquidity and solvency	Information about the entity's ability to generate cash flows and continue as a going concern
Short-term cash flows, obligations, commitments and contingencies	Information about the entity's ability to meet its obligations
Measurement uncertainty	Information about how amounts in the financial statements are measured, including inputs (for example, significant judgements and estimates) used in those calculations
Disaggregation of amounts	Information about separation of amounts presented in the financial statements into component parts
Accounting policy choices	Information about the accounting policy applied by the entity especially when more than one accounting policy option is allowed

Glance at the Reduction in Disclosure

IASB Effect Analysis- Percentage reduction in disclosure requirements



Example : Comparison – IFRS 19 vs IFRS 2

Paragraph	Description of Disclosure Requirements of IFRS 2	IFRS 19
45(a)	a description of each type of share-based payment arrangement that existed at any time during the period, including the general terms and conditions of each arrangement, such as vesting requirements, the maximum term of options granted, and the method of settlement (eg whether in cash or equity)	✓
45(b)	the number and weighted average exercise prices of share options in each of these groups of options: (i) outstanding at the beginning of the reporting period; (ii) granted during the period; (iii) forfeited during the period; (iv) exercised during the period; (v) expired during the period; (vi) outstanding at the end of the period; and (vii) exercisable at the end of the period.	✓
45(c)	for share options exercised during the period, the weighted average share price at the date of exercise. If options were exercised on a regular basis throughout the period, the entity may instead disclose the weighted average share price during the period.	✗
45(d)	for share options outstanding at the end of the period, the range of exercise prices and weighted average remaining contractual life. If the range of exercise prices is wide, the outstanding options shall be divided into ranges that are meaningful for assessing the number and timing of additional shares that may be issued and the cash that may be received upon exercise of those options.	✗
46	An entity shall disclose information that enables users of the financial statements to understand how the fair value of the goods or services received, or the fair value of the equity instruments granted, during the period was determined	✓

Example : Comparison – IFRS 19 vs IFRS 2

Paragraph	Description of Disclosure Requirements of IFRS 2	IFRS 19
If the entity has measured the fair value of goods or services received as consideration for equity instruments of the entity indirectly, by reference to the fair value of the equity instruments granted, to give effect to the principle in paragraph 46, the entity shall disclose -		
47(a)	for share options granted during the period, the weighted average fair value of those options at the measurement date and information on how that fair value was measured	✗
47(b)	for other equity instruments granted during the period (ie other than share options), the number and weighted average fair value of those equity instruments at the measurement date, and information on how that fair value was measured	✗
47(c)	or share-based payment arrangements that were modified during the period an explanation of those modifications; the incremental fair value granted (as a result of those modifications) and information on how the incremental fair value granted was measured, consistently with the requirements set out in above, where applicable	Partially Removed
48	If the entity has measured directly the fair value of goods or services received during the period, the entity shall disclose how that fair value was determined, eg whether fair value was measured at a market price for those goods or services.	✗

Example : Comparison – IFRS 19 vs IFRS 2

Paragraph	Description of Disclosure Requirements of IFRS 2	IFRS 19
49	If the entity has rebutted the presumption in paragraph 13, it shall disclose that fact, and give an explanation of why the presumption was rebutted	✕
51(a)	the total expense recognised for the period arising from share-based payment transactions in which the goods or services received did not qualify for recognition as assets and hence were recognised immediately as an expense, including separate disclosure of that portion of the total expense that arises from transactions accounted for as equity-settled share-based payment transactions	Partially Removed
51(b)	for liabilities arising from share-based payment transactions – (i) the total carrying amount at the end of the period and (ii) the total intrinsic value at the end of the period of liabilities for which the counterparty's right to cash or other assets had vested by the end of the period (e.g vested share appreciation rights)	Partially Removed
52	If the information required to be disclosed by this Standard does not satisfy the principles in paragraphs 44, 46 and 50, the entity shall disclose such additional information as is necessary to satisfy them	✕

Maintaining of IFRS 19

IASB plans to amend IFRS 19 as necessary to ensure it remains up to date and consistent with any new or amended disclosure requirements in other IFRS Accounting Standards.

IASB Project Summary Plan to maintain IFRS 19 -

Proposed amendments to IFRS 19 to be included in the exposure draft of a new or amended IFRS Accounting Standard

Apply the principles for reducing disclosure requirements and assess costs and benefits for eligible subsidiaries

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Obtain feedback and issue a new or amended IFRS Accounting Standard, and consequential amendments to IFRS 19

Expected Benefits

How applying entities derive the Benefits -

IFRS 19 presents an opportunity for entities to benefit from cost savings and reporting simplifications without compromising the usefulness of eligible subsidiaries' financial statements for their users.

IASB project Summary and Effect Analysis shows that these cost savings will extend from subsidiaries to their group and ultimately benefit their owners.

The benefits will vary depending on the circumstance of the entity, including:

- the accounting requirements currently applied by an eligible subsidiary
- the set-up of the reporting systems and processes within the group
- other factors, such as applicable laws and regulations.

Benefits for jurisdictions –

Jurisdictions that endorse or adopt IFRS 19 or otherwise enable its application will reduce reporting burdens and costs of doing business without compromising the information needs of users of the financial statements of eligible subsidiaries, making the jurisdiction more appealing to investors and businesses.

Enabling eligible subsidiaries to apply IFRS Accounting Standards with reduced disclosures is also expected:

- to improve application of those Standards, which should improve the quality of the subsidiary's financial statements and therefore the information provided to users;

- to reduce the need for specialized knowledge of local GAAP, reducing associated training and education costs in the reporting ecosystem and improving workforce mobility.

Impact – Companies & Accountants

For subsidiaries applying IFRS Accounting Standards -

- Identifying the disclosure requirements that no longer apply
- Identifying that no longer needs to be gathered and disclosed
- Performing Cost – Benefit Analysis
- Re-calibrating the system and process

Transition cost are not expected to be significant

For subsidiaries applying the IFRS for SMEs Accounting Standard or local GAAP, the transition costs on initial application of IFRS 19 could be more significant than the costs on making the transition from the disclosure requirements in other IFRS Accounting Standards.

How can professional accountants can contribute –

- Making managements understand on how the current disclosure requirements can be reduced considering the set-up of the reporting systems and processes within the group
- Understanding the accounting systems and providing advisory on the what all accounting system changes are required
- Facilitating management to carryout the cost – benefit analysis
- Supporting entities to carry modifications to accounting systems

Second Comprehensive Review of IFRS for SMEs Accounting Standard

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Need for SMEs Accounting Standard

In its transition report of December 2000 to the newly formed IASB, the outgoing International Accounting Standards Committee said,

A demand exists for a special version of International Accounting Standards for Small Enterprises

Emerging economies or smaller countries, **IFRSs were used as national GAAP for all or many unlisted entities**.

Several instances **deviation from requirements of IFRSs**,

IFRSs were applied **without rigorous enforcement or quality** control.

Excessive Costs in application of Full IFRSs

IASB commenced the project of Financial Reporting standards for SMEs

- provide high quality, understandable and enforceable **accounting standards suitable for SMEs globally**
- focus on **meeting the needs of users of SME** financial statements
- be based on the **same conceptual framework** as IFRSs
- **reduce the financial reporting burden** on SMEs that want to use global standards
- **allow easy transition** to full IFRSs for those SMEs that become publicly accountable or choose to switch to full IFRSs

IFRS for SMEs Accounting Standard

July 2009, IASB issued the IFRS for SMEs Standard with immediate effect, subject to jurisdictional adoption.

The IFRS for SMEs Accounting Standard reflects five types of simplifications from full IFRS Accounting Standards:

- some topics in full IFRS Accounting Standards are **omitted** because they are not relevant to typical SMEs;
- some **accounting policy options** in full IFRS Accounting Standards **are not allowed** because a more simplified method is available to SMEs;
- many of the **recognition and measurement principles** that are in full IFRS Accounting Standards have been **simplified;**
- substantially **fewer disclosures** are required; and
- the text of full IFRS Accounting Standards has been redrafted in **'plain English'** for easier understandability and translation.

40 member Working Group of SME experts advised the IASB on the structure and content

translated into **5** languages to assist SMEs in responding to the proposals

50 round-table meetings and seminars were held to receive direct feedback

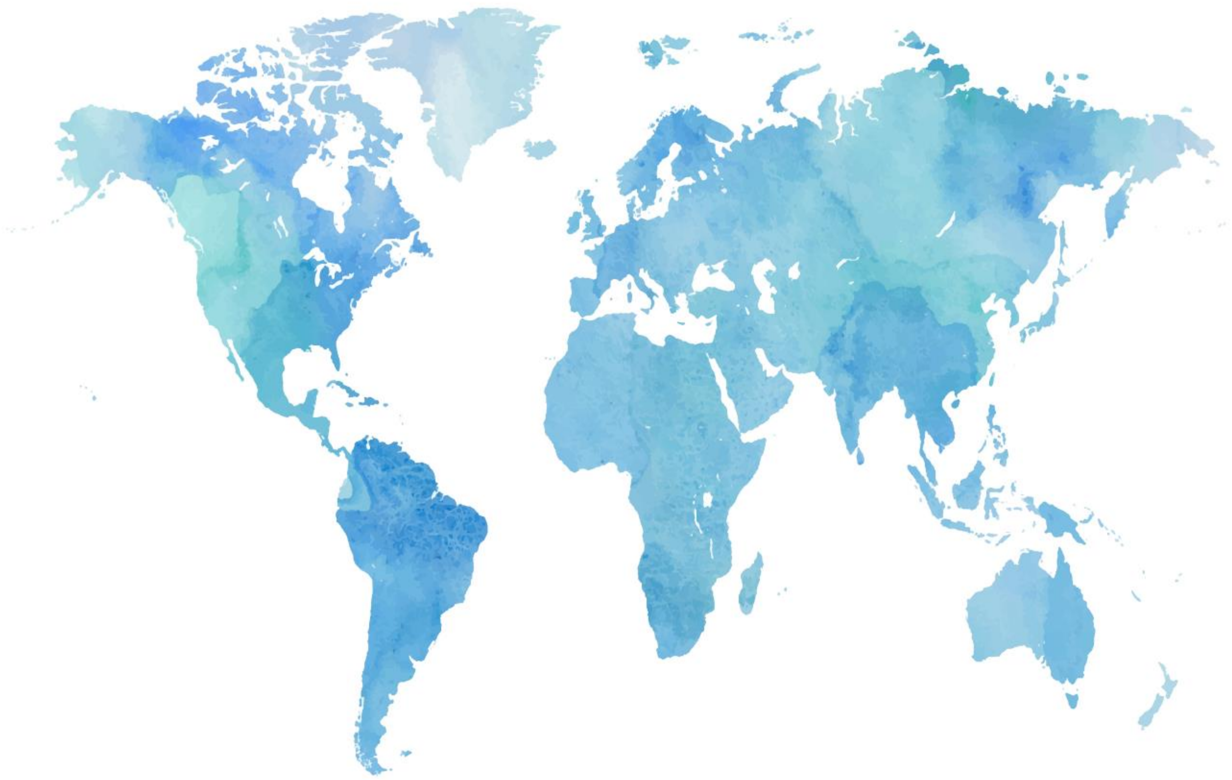
100 small companies from 20 countries were involved in Draft IFRS field-testing

Application of SME Standard

Decisions on which entities are required or permitted to use the IASB's standards rest with –

legislative and regulatory authorities

standard-setters in individual jurisdictions



Definition of SME

Regional definitions include quantified criteria based on revenue, assets, employees or other factors.

Generally , the term SMEs is used to mean or to include very small entities without regard to whether they publish general purpose financial statements for external users

SME Definition - IFRS

Small and medium-sized entities are entities that:

- do not have public accountability and
- Publish general purpose financial statements for external users.

Examples of external users include owners who are not involved in managing the business, existing and potential creditors, and credit rating agencies

If a publicly accountable entity uses this IFRS, its financial statements shall not be described as conforming to the IFRS for SMEs, even if law or regulation in its jurisdiction permits or requires this IFRS to be used by publicly accountable entities

An entity has public accountability if:

- its debt or equity instruments are traded in a public market, or it is in the process of issuing such instruments for trading in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets), or
- it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses. This is typically the case for banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks

The Second Review

- 2015, IASB completed its first review of the IFRS for SMEs Accounting Standard by issuing the second edition of the Standard - Limited amendments to the Standard
- 2019, IASB commenced its Second Review of the IFRS for SMEs Accounting Standard, published a request for information in January 2020
- 2022, Exposure Draft of the Third Edition of the Standard were published
- 2024, Addendum to Exposure Draft of the Third Edition of the Standard were published
- 2025, Expected Issuance of Third Edition of the Standard

Framework for the Second Comprehensive Review –

- Relevance to SMEs
- Simplification
- Faithful Representation
- Assessment of Cost and Benefits of the Amendment
- Limited resources of SMEs
- Needs of users of SMEs' financial statements

Scope of the Second Review

- Requirements in full IFRS Accounting Standards issued:
  - since the first review that had an effective date on or before 1 January 2019; and
  - before the first review that did not result in amendments to the Standard in 2015
- Other topics brought to the IASB's attention relating to the Standard

Alignment with IFRS Accounting Standard
The Conceptual Framework
IFRS 3 Business Combinations
IFRS 9 Financial Instruments
IFRS 10 Consolidated Financial Statements
IFRS 11 Joint Arrangements
IFRS 13 Fair value measurement
IFRS 14 Regulatory Deferral Accounts
IFRS 15 Revenue from Contracts with Customers
IFRS 16 Leases
Other amendments to IFRS Accounting Standards
Other amendments to IFRIC Interpretations

Changes in the Third edition of the IFRS for SMEs Accounting Standard

Section 9 Consolidated and Separate Financial Statements

Reflecting some of the improvements from IFRS 10 Consolidated Financial Statements

- Update the definition of control
- Introduce requirements when a parent loses control of a subsidiary

IASB to retain the rebuttable presumption that control exists when an investor owns a majority of the voting rights of an investee.

Section 12 Fair Value Measurement

Reflecting improvements from IFRS 13 Fair Value Measurement. The IASB to bring together the fair value measurement and disclosure requirements in other sections of the Standard into a new Section 12

- update the definition of fair value with that in IFRS 13
- update the requirements on fair value measurement with the principles of the fair value hierarchy in IFRS 13
- update the disclosure requirements relating to fair value with those in IFRS 13

IASB to retain the requirements for 'when' to use fair value measurement in the Standard

Changes in the Third edition of the IFRS for SMEs Accounting Standard

Section 11 Financial Instruments

Reflecting some of the improvements from IFRS 9 Financial Instruments

- Remove the option to apply the recognition and measurement requirements in IAS 39 Financial Instruments: Recognition and Measurement
- Supplement the classification requirements, adding a principle for classification and measurement of financial instruments based on contractual cash flow characteristics
- Require disclosure of an analysis of the age of financial assets by due date
- Add the definition of a financial guarantee contracts and add simplified requirements for intragroup issued financial guarantee contracts

IASB to retain the incurred loss model for the impairment of financial assets measured at amortized cost;

IASB to retain the hedge accounting and derecognition requirements

Changes in the Third edition of the IFRS for SMEs Accounting Standard

Section 19 Business Combinations

Reflecting improvements from IFRS 3 Business Combinations

- Update the definition of a business with that in IFRS 3
- Introduce new requirements
  - if a new entity is formed in a business combination
  - for step-acquisitions
  - to recognize acquisition-related costs in profit or loss
- Clarify that an acquirer cannot recognize a contingency that is not a liability
- Update references to the definitions of an asset and liability consistent with the revised Section 2

Changes in the Third edition of the IFRS for SMEs Accounting Standard

Section 23 Revenue from Contracts with Customers

IASB to revise Section 23 to based on IFRS 15 with simplifications for -

- Language - Section 23 uses simple concise language which is different to the language in IFRS 15
- Recognition and Measurement, including simplifications for:
  - warranties—no assessment required whether a warranty provides a customer with a service in addition to the assurance
  - customer options—material rights arising from a contract with a customer are accounted for separately only if an entity can do so without undue cost or effort
  - contract costs—costs to obtain a contract recognised as expenses when incurred
- Disclosure - Section 23 includes simplifications of the disclosure requirements in IFRS 15

SME Standard vs Full IFRS – Select Differences

Topic	SME Accounting Standard	Full IFRS Accounting Standard
Investment entities	Section 9 does not have requirements for investment entities	IFRS 10 requires an investment entity to measure its investments in a subsidiary at fair value instead of consolidating them
Impairment of financial assets measured at amortised cost	Section 11 requires SMEs to apply the incurred loss model to impair financial assets measured at amortised cost	IFRS 9 requires entities to apply the expected credit loss model to impair financial assets measured at amortised cost
Classification of joint arrangements	Section 15 Joint Arrangements classifies joint arrangements as jointly controlled asset, jointly controlled operation or jointly controlled entity based on the form of the arrangement	IFRS 11 classifies joint arrangements as either joint operations or joint ventures based on the parties' rights and obligations
Development costs	Section 18 Intangible Assets other than Goodwill requires SMEs to recognize expenditure incurred on research and development activities as an expense	IAS 38 Intangible Assets requires the recognition of intangible assets arising from development costs that meet specified criteria

SME Standard vs Full IFRS – Select Differences

Topic	SME Accounting Standard	Full IFRS Accounting Standard
Measurement of intangible assets	Section 18 does not have an option for the use of the revaluation model for the subsequent measurement of intangible assets	IAS 38 has an option to use the revaluation model for the subsequent measurement of intangible assets
Goodwill	After initial recognition, goodwill is measured at cost less accumulated amortization and any accumulated impairment losses in Section 19	Goodwill is not amortised applying IAS 38
Borrowing costs	Section 25 Borrowing Costs requires SMEs to recognize all borrowing costs as an expense in profit and loss in the period in which they are incurred	IAS 23 Borrowing Costs requires borrowing costs directly attributable to acquisition, construction or production of a qualifying asset to be capitalized as part of the cost of the asset

Future Review – IASB Consideration

Topic	Rationale
IFRS 14 Regulatory Deferral Accounts	IASB's project on Rate Regulated Activities will replace IFRS 14 when it is completed. Therefore, the IASB decided not to amend the Standard as part of second comprehensive review
IFRS 16 Leases	IASB decided not to amend the Standard to align with IFRS 16 currently and to consider this topic in the next comprehensive review.
Cryptocurrency	Research indicates that the holdings of cryptocurrency and issuance of crypto assets are uncommon among SMEs currently. The IASB is monitoring the use of cryptocurrencies.

Quick Recap…

Setting the Context
IFRS 18 - Presentation and Disclosure in Financial Statements
IFRS 19 - Subsidiaries Without Public Accountability:Disclosures
Second Comprehensive Review of IFRS for SMEs Accounting Standard

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Thank You

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