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IFRS Developments

IASB issues third edition of IFRS for SMEs accounting standard

What you need to know

- The *IFRS for SMEs* accounting standard is a self-contained accounting standard available to entities which do not have public accountability that publish general-purpose financial statements.
- The third edition of the *IFRS for SMEs* accounting standard has been issued following the Board's second comprehensive review.
- The amendments and new requirements reflect alignment with IFRS accounting standards where considered relevant to SMEs, with simplifications to serve the needs of users without creating undue cost or effort for preparers.
- The third edition of the Standard is effective for periods beginning on or after 1 January 2027, with earlier application permitted.

Highlights

On 27 February 2025 the International Accounting Standards Board (the Board) issued the third edition of the *IFRS for SMEs* accounting standard (the Standard). The Standard is a self-contained accounting standard and can be applied by entities that do not have public accountability (small and medium-sized entities or SMEs).

The third edition of the Standard has been issued following the completion of the Board's second comprehensive review. The Standard reflects enhanced alignment with IFRS accounting standards while incorporating targeted simplifications to ensure that it remains relevant and simplified, based on users' needs and cost-benefit considerations.

One of the most significant updates is the revision of Section 23 *Revenue* which has been renamed *Revenue from Contracts with Customers* and now aligns with IFRS 15 *Revenue from Contracts with Customers*, with simplified requirements.

Other notable updates include:

- Introduction of Section 12 *Fair Value Measurement* which aligns with the principles of IFRS 13 *Fair Value Measurement*
- Alignment with the 2018 *Conceptual Framework*
- Alignment of the definition of control with IFRS 10 *Consolidated Financial Statements*
- Removal of the option to apply IAS 39 *Financial Instruments: Recognition and Measurement* for the recognition and measurement of financial instruments

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Shape the future with confidence

The Standard is maintained by the Board through periodic review, the latest of which was performed in 2020, resulting in the third edition of the Standard.

Background

The Board issued the first edition of the IFRS for SMEs accounting standard in 2009. The Standard is based on the requirements in IFRS accounting standards, with simplifications to reflect the needs of SMEs and users of their financial statements. The Board maintains the Standard through periodic reviews.

In the 2020 comprehensive review, the Board issued a request for information to seek views on whether and, if so, how aligning the Standard with new and amended full IFRS accounting standards should be followed. Following this engagement, the Board decided on three principles to follow in considering alignment of the standard with full IFRS accounting standards:

- Relevance to SMEs
- Whether it can be made simpler
- Whether it will give a faithful representation of the transaction/event

The scope of the review included new and amended IFRS accounting standards and IFRIC Interpretations with an effective date on or before 1 January 2019, the 2018 *Conceptual Framework* as well as four more recent amendments to IFRS accounting standards that became effective after 1 January 2019. These were included either because waiting until the next review would delay the benefits from those amendments or because the amendments are linked to amendments to accounting standards that were already in scope.

An exposure draft of the third edition was issued in 2022 and redeliberations were completed in 2024, leading to the issue of the third edition of the Standard.

Key amendments to the Standard

Section 7 Statement of Cash Flows

Section 7 has been updated to align with IAS 7 *Statement of Cash Flows* to require disclosure of a reconciliation of changes in liabilities arising from financing activities, including changes arising from cash flows and non-cash flows. There is also a new requirement to disclose information about supplier finance arrangements.

Section 9 Consolidated and Separate Financial Statements

The definition of control has been aligned with IFRS 10. The section is further aligned with IFRS 10 by the addition of the requirement for a parent entity that loses control of a subsidiary to measure its retained interest in the former subsidiary at fair value at the date control is lost, with any resulting gain or loss recognised in profit of loss.

Section 11 Financial Instruments

Although Section 11 has been aligned with some IFRS 9 principles, it retains the incurred loss model for all instruments measured at amortised cost.

The previous Section 11 *Basic Financial Instruments* and Section 12 *Other Financial Instruments* have been combined into a single Section 11 which has been renamed Financial Instruments. Section 11 reflects certain alignments of principles with IFRS 9 *Financial Instruments* and no longer allows SMEs the option to apply the recognition and measurement requirements of IAS 39. Section 11 retains the second edition’s incurred loss model for the impairment of financial assets measured at amortised cost, hedge accounting requirements and derecognition requirements.

Section 11 also includes a requirement for SMEs to disclose a maturity analysis for financial liabilities, which aligns with IFRS 7 *Financial Instruments: Disclosures*.

Section 12 Fair value measurement

Section 12 is a new section which combines the fair value measurement requirements in other sections of the second edition of the Standard into a single section. Section 12 includes a definition of fair value which aligns with IFRS 13 and overall aligns with IFRS 13's principles of fair value measurement and disclosure.

Section 19 Business Combinations and Goodwill

Section 19's definition of a business has been updated to align with IFRS 3 *Business Combinations*. The revised section also includes a requirement for contingent consideration to be measured at fair value if it can be measured without undue cost or effort. The treatment of acquisition costs is now also aligned with IFRS 3 in that these costs are recognised in profit or loss at the time of the acquisition.

Section 23 Revenue from Contracts with Customers

Section 23 aligns with the principles of IFRS 15 and applies a simplified five-step model for revenue recognition.

Section 23 has been revised and renamed to align with IFRS 15. IFRS 15's five-step model has been simplified on the basis that SMEs generally have contracts with customers that are simpler than those of entities applying full IFRS accounting standards. Simplifications include the use of simple, concise language consistent with the language used by SMEs, limiting the amount of judgement required in the application of the model and omission of topics considered not relevant to SMEs. The disclosure requirements are also simplified in comparison to IFRS 15.

Topics not amended or updated in the third edition of the Standard

The Standard has not been updated for IFRS *14 Regulatory Deferral Accounts*, IFRS 16 *Leases* and cryptocurrency. These topics will be considered as part of the Board's next comprehensive review of the Standard.

How we see it

While the amedments more closely align the Standard with the principles of IFRS accounting standards, preparers will need to ensure that the remaining differences in recognition and measurement requirements are fully understood, especially in group reporting situations where an SME is part of a wider group that applies IFRS accounting standards.

Transition

The third edition of the Standard is effective for reporting periods beginning on or after 1 January 2027, but earlier application is permitted and must be disclosed. SMEs are required to apply the new and amended requirements in the Standard retrospectively. However, some relief from retrospective application is available for SMEs, including:

- Section 12 *Fair Value Measurement* will be applied prospectively
- Section 19 *Business Combinations* and Goodwill will be applied prospectively to business combinations for which the acquisition date is on or after the date of initial application
- SMEs applying Section 23 *Revenue from Contracts with Customers* can apply their current revenue recognition policy to contracts already in progress at the date of initial application
- Simplifications are available for entities that previously applied the recognition and measurement requirements of IAS 39 for financial instruments
- If the transition to the new definition of control in Section 9 *Consolidated and Separate Financial Statements*' results in previously consolidated entities no longer being controlled (or vice versa for entities which previously had not been consolidated) and retrospective application is impracticable, preparers can make the adjustments from the earliest period practicable, which might be the year of adoption

How we see it

SMEs are encouraged to start analysing the new requirements of the Standard as well as the transition requirements. Many entities may need to identify and collect information to comply with the new requirements.

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